



Strategic Plan (2014-2019)

Cinnamon Training Academy PLC (CTA)

09th April, 2014

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Abbreviations

BOD – Board of Directors

CTA – Cinnamon Training Academy

CPIS – Compulsory Pre Inspection Scheme

DEA – Department of Export Agriculture

EDB – Export Development Board

EU – European Union

GAP – Good Agricultural Practices

GI – Geographical Indication

GMP – Good Manufacturing Practices

HR – Human Resource

ISO – International Organization for Standardization

KPIs- Key Performance Indicators

NERD – National Engineering & Research Development Centre

NAITA- National Industrial Training Authority

R & D- Research and Development

SBU- Strategic Business Unit

SLSI – Sri Lanka Standards Institution

TOT- Training of Trainers

TVEC – Tertiary and Vocational Education Commission

TSC- The Spice Council

TRIPS – Trade Related Aspects of Intellectual Property Rights

UNIDO- United Nation Industrial Development Organization

VTA- Vocational Training Government

WTO – World Trade Organization

Acknowledgement

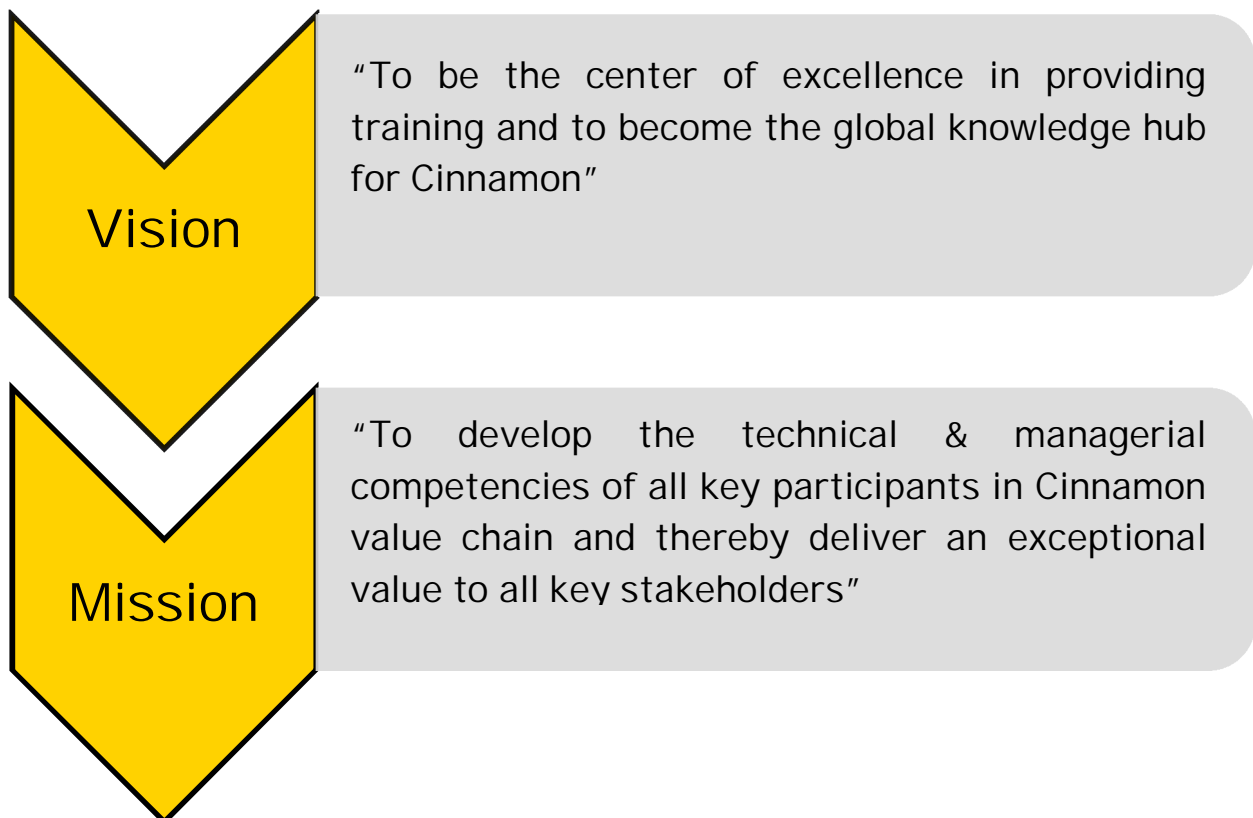
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01. Introduction

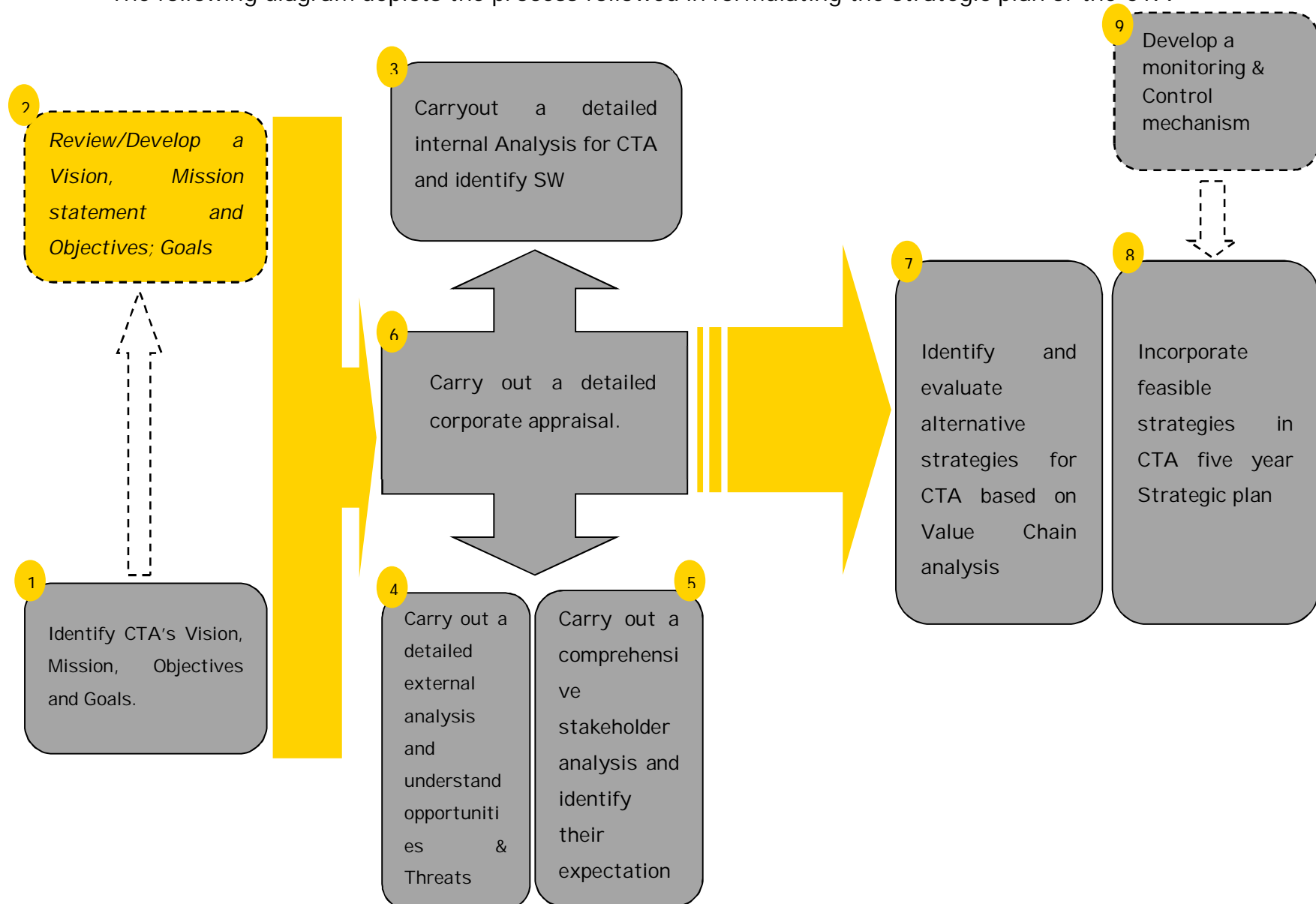
This Strategic Plan is considered as a fundamental document which will form the basis to develop long term organizational goals and provides the roadmap to achieve organizations' vision and mission. This plan may be revisited on an annual basis and revised appropriately to ensure internal & external business environment changes and developments are addressed in the plan going forward.

The following Vision & Mission statements were formulated and agreed with the BOD of CTA. This will provide the key directions for CTA to effectively operate in the future.



02. Framework to formulate Strategic Plan for CTA

The following diagram depicts the process followed in formulating the strategic plan of the CTA



As per the above framework, a detailed analysis was carried out on the existing object clauses of CTA and agreed on a new vision & a mission statement with the BOD.

Series of discussions were held with key stakeholders of CTA and the stakeholder map was drawn in order to identify the influential power and the interest level of each stakeholder.

Further, in order to develop suitable strategic options for CTA we carried out a detailed analysis of internal & external environmental factors and thereby identified Strengths, Weaknesses, Opportunities & Threats (SWOT).

Having carried out the SWOT and Stakeholder analysis, alternative strategic options were identified and presented to the BOD for their evaluation. Upon the receipt of the confirmation for the finalized strategic option selected by the BOD, the five year strategic plan was developed and short term & long term key initiatives and KPIs were incorporated to each of the key initiative.

03. Situation Analysis

3.1 Cinnamon Industry in Sri Lanka- Overview

Sri Lanka is the largest producer of Ceylon Cinnamon*¹ (*Cinnamomum zeylanicum Blume*), also known as "True Cinnamon" and is an indigenous crop. It brings in considerable foreign exchange earnings to the country from the export of cinnamon products. Sri Lanka supplies 90% of true cinnamon to the world.

Ceylon cinnamon is exported to about 70 countries in the world with Mexico, Peru, Colombia, Honduras, USA and Europe being the major buyers of true cinnamon.

Most of the cinnamon is produced in the southern coastal belt of Sri Lanka, mainly in Galle and Matara districts and to lesser extents in Hambantota, Kalutara and Rathnapura districts. Cinnamon being a hardy plant; can grow well in almost all types of soils under different tropical climatic conditions. The tropical sunshine (temperatures between 20^o – 30^o C) and rain fall in the region of 1,250 – 2,500 mm are needed for the cinnamon to grow well and the quality of the cinnamon bark depends on the soil and ecological conditions. Cinnamon plant has a gestation period of two years and a life span of 40 – 50 years, which gives economic yields. Cinnamon is normally harvested immediately after each of two main rainy seasons, semiannually, after the new flush of leaves have hardened.

Ceylon Cinnamon quills are broadly divided into two grades, namely 'fine' and 'coarse'. The fine grades are thinner and coarse grades are thicker in diameter. The diameter of fine grade cinnamon range from 6 mm to 16 mm. while that for coarse cinnamon range from 16 mm to 38 mm. The extent of foxing is also higher for coarse cinnamon. Fine grades of cinnamon fetch higher prices than the coarse grades. According to the SLSI and ISO standards Ceylon Cinnamon in quill form has been classified into 14 grades and qualities, the main categories being Alba,

Continental, Mexico and Hamburg. Grading is primarily done by visual means by experienced graders. There are by-products such as quillings, featherings and chips, which are mainly used for bark oil extraction. There are also value added products such as ground cinnamon, cut cinnamon, cinnamon leaf oil and bark oil.

The labour component in the cinnamon production is over 70% of the production process out of which the peelers play a critical role in the cinnamon value chain since the quality of cinnamon depends on how good the Cinnamon is peeled. It is estimated that at present about 350,000 families are actively involved with Cinnamon throughout the value chain contributing either in harvesting, processing or exporting.

Performance of the cinnamon industry during the recent past

According to trade statistics, in 2012 the value of cinnamon exports was US\$ 130 Million with a 55% share of the total spice exports from Sri Lanka. The share of true Cinnamon in the global cinnamon market in 2012 accounts for 46% by value and 21% by volume (Source ITC Trade Map).

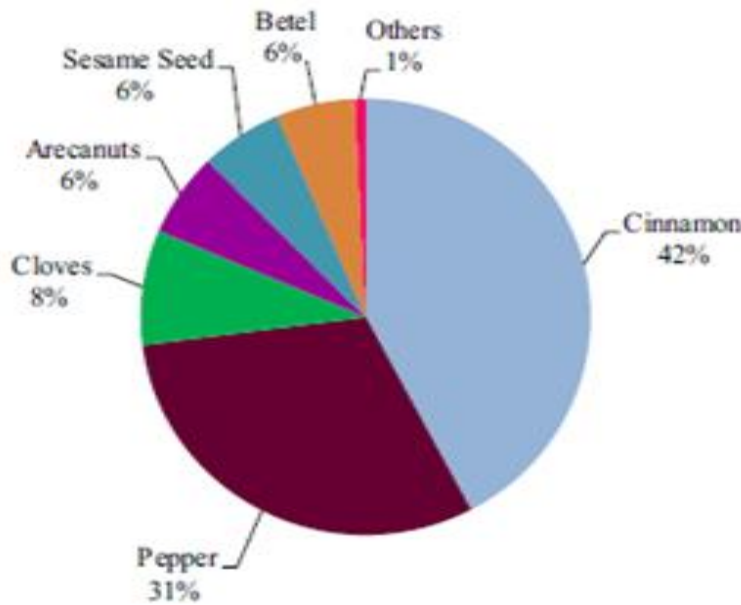
Description	2009	2010	2011	2012
Cultivated Extent (hec.)	28,086	28,864	29,163	30,432
Total Production* (MT.)	14,599	15,792	15,937	16,087
Export Value (Rs 'mn)	8,794	11,057	14,244	17,397
Export Volume (MT.)	12,110	11,779	13,485	14,435

Sources: Sri Lanka Customs and Department of Export Agriculture

During the period between 2009-2012, the cultivation extent has increased by 8% where the total production has only increased by 10%. The export value has

increased by 90% during the years while the export volume has only increased by 17.6%, due to high cinnamon price.

Volume of exports of selected minor export crops- 2012



Single largest nontraditional export crop contributed for 42% of the total non-tradition export crop in 2012.

Pepper is the second largest minor export crop account for 31% to the total nontraditional export crop followed by cloves, arecanuts, sesame seed, betel and others.

Critical success factors of the industry

01. Indigenous

Ceylon Cinnamon is indigenous to Sri Lanka. However, genus cinnamon is also cultivated in Madagascar and Seychelles as well, in lesser extents.

02. Lower Coumarin Content

Cassia (another species of cinnamon, but inferior), which is traded most in the global market; main suppliers being China, Vietnam and Indonesia, contains a significant amount of 'coumarin', which is considered as a carcinogenic chemical substance. However, chemical analysis of Ceylon Cinnamon shows an absence or very insignificant traces of coumarin.

03. Geographical Indications

In view of 'Ceylon Cinnamon', products' high quality, reputation and other characteristics can be determined due to its location, there is a strong case for 'Ceylon Cinnamon' to be registered under 'Geographical Indications' to get maximum protection under the TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement of the World Trade Organization (WTO).

Challenges for Ceylon Cinnamon

Despite the increasing trend in the annual turnover from cinnamon exports, for the past five (05) years, the annual export volumes of cinnamon remained almost constant as per the statistics. Furthermore, statistics indicate that during this time period, there has been a growing trend of increase in cost of production making the industry attractiveness a little lower than it used to be.

Our competitiveness in the global markets is highly threatened by "Cassia", an inferior cinnamon, which is marketed at very much lower prices than that of Ceylon Cinnamon mainly by China, Vietnam and Indonesia in the major spice markets. This low pricing of cassia and the high cost of production of Ceylon Cinnamon are the main reasons for the low competitiveness of the latter in the key markets.

Shortage of skilled peelers due to skill migration into other industries has caused a major issue for the industry to increase production and productivity to meet the international demand. At the same time migrating of peelers from one processing centre to another has resulted in creating idling processing centers due to lack of peelers for a temporary period of time. As per the statistics, cinnamon industry has around 50,000 producers where only around 35,000 skilled peelers are available for approximately 30,000 hectares under cinnamon cultivation in the country.

The lower social status associated with cinnamon peelers in the country due to social stigma, as people believe peeling as a low class job; has discouraged the younger generation from entering into the industry.

The industry attractiveness in the international market especially in EU countries is deteriorating due to the inability to meet international standards expected by those high end markets.

Opportunities for Ceylon Cinnamon

- ▶ There is a favorable export demand for Sri Lankan cinnamon products in the international market mainly from Mexico. However, in the past few years Sri Lanka was unable to meet the export demand due to deficiencies in the production process resulting low quality output. Current and future demand could be met by utilizing modern technology in the production process to improve the productivity while maintaining the expected quality.
- ▶ A recent study conducted by University of Mississippi scientists who analyzed levels of the banned toxic chemical coumarin in cinnamon products, found a high content of coumarin in cassia. Whereas, in Ceylon Cinnamon only negligible traces of the chemical was found resulting in a gold seal of approval being given to Ceylon cinnamon. Coumarin has been banned in the US as a

food additive since 1954 as high doses of this chemical is considered to be carcinogenic and could cause liver and kidney damage.

This development could open up window of opportunities and many possibilities for Sri Lankan cinnamon exporters to promote Ceylon cinnamon in the USA as well as in other North American and European countries.

- ▶ The medicinal aspects of Ceylon cinnamon has to be highlighted to promote the product in the alternate medicine sector within the target markets. Researchers have found that cinnamon has properties that help to control blood sugar variations, a powerful anti- bacterial, helpful in weight loss and cinnamon oil contains chemicals which could fight against cancer. Furthermore, with growing concern on health hazards, there is an increasing preference for natural flavors all over the world. Thus, the demand for cinnamon products is expected to grow steadily in the future with the growing population and expansion and sophistication of the food industry both in the global as well as local markets.
- ▶ With the launch of the Ceylon cinnamon brand by EDB, Sri Lanka could market True Cinnamon (*Cinnamomum zeylanicum Blume*) aggressively in the Cassia (*Cinnamomum Casia*) dominated countries based on the quality despite the price. EDB is currently working on obtaining the GI Certification for Ceylon Cinnamon as for tea to strengthen the industry.
- ▶ In view of Ceylon cinnamon being the largest contributor to the nontraditional export crops sector in Sri Lanka and its contribution to the economy of the country; the Government of Sri Lanka has identified the importance of developing the cinnamon industry. Thus it has provided subsidies, credits, extension, research inputs and assistance for cinnamon based value added products. This enables the producers to reduce the production costs while

increasing the production and will enable to be competitive in the global market.

- ▶ At present, the share of the value added products of cinnamon is limited to 10%, as around 90% of the cinnamon is exported as quills in the bulk form, which had been the tradition. This poses a good opportunity for growth and to be competitive in the global market, particularly by developing products in the form of oils, oleoresins, gift packs, packaging etc.
- ▶ Further, Sri Lanka has a good potential to increase the variety of cinnamon based products by diversifying into different segments. e.g. Beverages both soft and carbonated (cinnamon flavored teas), confectionary (toffees, chewing gum), bakery products (biscuits, buns & cakes), sanitary products (disinfectants, insect repellants) and other products (handicraft, toothpicks from peeled cinnamon sticks) etc.
- ▶ Recently National Development Bank has pioneered national initiative to spice up Cinnamon industry in achieving international brand recognition for Ceylon Cinnamon (*Cinnamomum zeylanicum Blume*). (Cinnamon to the World). This will empower industry stakeholders to work towards achieving the desired objectives.
- ▶ Further Asian Development Bank's (ADB) has approved a \$100 million loan to assist the Sri Lankan government to revamp Technical and Vocational Education and training (TVET) which will equip youth with the required skills for the job market. This in turn will provide CTA access to more capital to promote the brand.

Going Forward

To meet the stiff price competition by Cassia and the quality standards expected by high-end markets like EU and USA; Sri Lanka needs to take a step forward from the traditional methods of peeling by modernizing the production process. More focus should be given on improving the quality standards throughout the value chain from growing the plant to the end product.

Currently, University of Moratuwa, University of Ruhuna and the National Engineering and Research Development Centre (NERD) are in the process of introducing new equipment to improve productivity of the cinnamon processing area to meet the demand.

A proper training has to be given to the existing peelers as well as to the new comers to the industry on best practices such as GAP, GMP to meet the quality standards expected by the high-end markets. Further, there is a need to create awareness among the processors on the applicable food safety regulations and on the proper methods of harvesting, peeling, grading, packaging, supervising to ensure that the products meet the hygienic standards. DEA has an existing training program for peelers and exporters, which is given free of charge, at the regional level through their research center in Matara. However, the curriculums are not developed and carried out as per the NVQ guidelines. There appears to be a very low retention rate of the trained peelers. Therefore, still there is a gap in the industry for skilled peelers, which provides an opportunity for CTA.

The Government of Sri Lanka has introduced a 'Compulsory Pre-inspection Scheme (CPIS) for Cinnamon Exports' through a gazette notification, to assure that the required quality standards for cinnamon are maintained in the international markets & the enforcement is entrusted to the SLSI. The SLS81:2010 certification is specified for Ceylon cinnamon.

Further, it is recommended to introduce cinnamon as a curriculum in the primary and secondary level of education in schools through Ministry of Education in order to provide basic knowledge and awareness about cinnamon, identify the national importance of it.

More importantly a cultural change is required where a factory environment needs to be created like as in the garment factories, rather than the traditional peeling on the floor with dirty clothes under unhygienic conditions. Thus a proper dress code needs to be introduced with gloves and head cover, safety equipment etc. and with better working environment.

Furthermore, on completion of the training course, the trained personnel will be issued a NVQ certificate and it will be recognized as a professional qualification. For example after obtaining the training at CTA these skilled personnel can be called "Cinnamon Technicians" rather than calling them 'Peelers' as referred to in Sinhalese as 'Kurundu Thalanna'.

Branding of cinnamon in the international market will also enable to upgrade the social status of those involved in the industry and will attract more labour to the industry.

The success of the CTA depends on the growth of the industry and how well the industry moves forward. Thus it is important to take initiatives to meet the challenges while making best use of the available opportunities.

3.2 Current State Analysis – Cinnamon Training Academy (CTA)

Cinnamon Training Academy (CTA) was one of the initiatives taken by The Spice Council (TSC) to meet up the required training demand in the cinnamon value chain. CTA was legally incorporated as a public limited company in Sri Lanka in June 2006 and as yet has not commenced any operation.

As per the Articles of Association, the primary objective of Cinnamon Training Academy (CTA) is to provide training facilities to people involved in Cinnamon Industry.

Recent financial performance highlights of CTA are shown in the table below.

	2012/13 (Rs 000')	2011/12 (Rs 000')
Total Assets	38,214	5,019
Equity Capital	38,165	4,995
Total Debt (OD)	25	0
Other Income	337	249
Profit/ Loss	14	228

Note: - Refer “Due Diligence” report for further details of current legal & finance status of CTA (Appendix).

As per the internal analysis carried out for Cinnamon training Academy (CTA), there are number of positive aspects that could be better used to generate a competitive advantage to overcome the competition.

Initial Government support of LKR 28.5 million provided for the construction of the building and UNIDO's financial support for initial capacity building and infrastructure development are significant benefits for CTA to start operations with minimum initial financial burden.

Having a land in the Cinnamon growing area is a distinctive benefit for CTA to attract majority of the target groups from those areas itself. CTA could better utilize the Kosgoda land by creating a model Cinnamon estate that may be used for "On the job" training programmes. This could be used as a core competency that could differentiate the service offered by CTA. The commercial value of the land has already increased almost thirty times compared to the historical value which was originally only about 1 million.

Development of the course curriculums needs to be structured carefully paying close attention to the actual needs that exist in the Cinnamon industry. However, significant amount of work has already been done in developing curriculum for Technical training by industry expert of CTA. This process becomes further easier as CTA's BOD consists of people who possess the technical knowledge and the industry experience. Because of this strength, it will be possible for CTA to develop effective course curriculums covering both technical as well as managerial competencies that are more relevant to the existing training needs in the industry. Right combination of training programmes could easily be marketed and thereby attract the target group.

CTA has already attracted many number of industry experts who may be able to provide their assistance in different areas such as developing the course curriculum, training the trainers and even understanding the hidden opportunities in the industry. This network is particularly important for CTA's future after its official launch.

Bringing in the above said strengths in right proportions may enable CTA to generate a competitive advantage and thereby position the academy in a differentiated manner in the industry.

However, due to lack of effective marketing and awareness programmes CTA brand name is not known to the industry people. Therefore, CTA may need to carry out continuous effective marketing campaigns to overcome this and thereby position the brand name effectively in the industry before commencing training.

The structure of the BOD lacks a balanced combination of expertise and ideas that are essential for the success of a dynamic business. The BOD structure seems to be concentrating only on industry expertise rather than accumulating the varied nature of expertise from diversified areas such as marketing, finance, HR etc. This needs to be immediately looked at and necessary alterations may be incorporated to overcome this weakness.

The government of Sri Lanka through SLSI has made it mandatory to obtain a pre-shipment certificate for all Cinnamon exports especially to ensure that Sri Lanka exports high quality Cinnamon to the global market. This seems to be a positive change as far as industry is concerned. As a result of this mandate, existing ways of doing things throughout the Cinnamon value chain may demand a drastic change to uplift the quality of the final output. This situation is likely to exert a tremendous pressure on the exporters to process Cinnamon at the required quality to obtain SLSI certificate prior to exporting. This eventually brings up an opportunity for CTA to design appropriate training courses targeting the entire cinnamon value chain activities that may address the existing issues in the industry.

Increased demand for conformity of higher standards to entertain the global market requirements is a significant opportunity for CTA to design appropriate courses to enhance the quality standards.

Department of Exports Agriculture being the government representative for Cinnamon training has monetary assistance from the government which makes it feasible to provide the training free of charge. CTA has a threat from this competitor since both the institutions cater to the same market and that DEA being a free of charge service provider. However, CTA may need to highly differentiate its service to that of DEA and position its brand as the best training provider. Nevertheless, this may be a healthy competition as both parties serve a national need.

The cultural resistance to enter into Cinnamon industry related occupations due to social stigma prevails among people may be a significant threat for CTA. It is important to carry out awareness programmes across the country to attract as many newcomers as possible to the industry. This may enable CTA to attract new trainees for its courses.

Strengths

- LKR 28.5 million has been allocated by the Government of Sri Lanka for the development of the CTA Building.
- Financial support for capacity building of CTA by UNIDO.
- CTA has already acquired the land in a close proximity of Cinnamon growing area to construct the academic center.
- CTA BOD consists of major players in the Cinnamon Industry who possesses the technical knowledge. Thus development of the curriculum is much easier.
- CTA has a strong and positive relationship with the industry experts such as potential trainers, government agencies, key government officials, corporate sector and financial institutions. Therefore, CTA has the capability to obtain the necessary support for these parties for development of the academy.
- CTA has already obtained the approval for national competency standards from TVEC.

Weaknesses

- Lack of awareness about CTA among the key people in the industry
- Lack of a HR plan (Lack of Recruitment plan, HR policies etc.)
- Lack of an operational plan
- Inability to differentiate the CTA brand
- Negative influence and negative attitudes of some of the key stakeholders
- None availability of a documented strategic / corporate plan
- Key managerial and operational staff has not yet been recruited for CTA operation. Documented HR strategy is not available
- Lack of revenue plan for the future
- Lack of proper marketing plan
- Expertise, such as marketing, finance, HR etc. should ideally be strengthened.
- Restrictions in the articles of association to expand the business
- Lack of up to date statistics, customer/key contacts data base about the market.(Demand and current capacity

Opportunities

- Demand for conformity of higher standards to meet international requirements may potentially create a demand for trained people in Cinnamon industry.
- Increased number of new large Cinnamon producers coming into the industry will create a demand for training.
- Possible support and aid from the government and peers in the industry to CTA.
- CTA will have opportunities for training programmes as the industry grows as a whole.

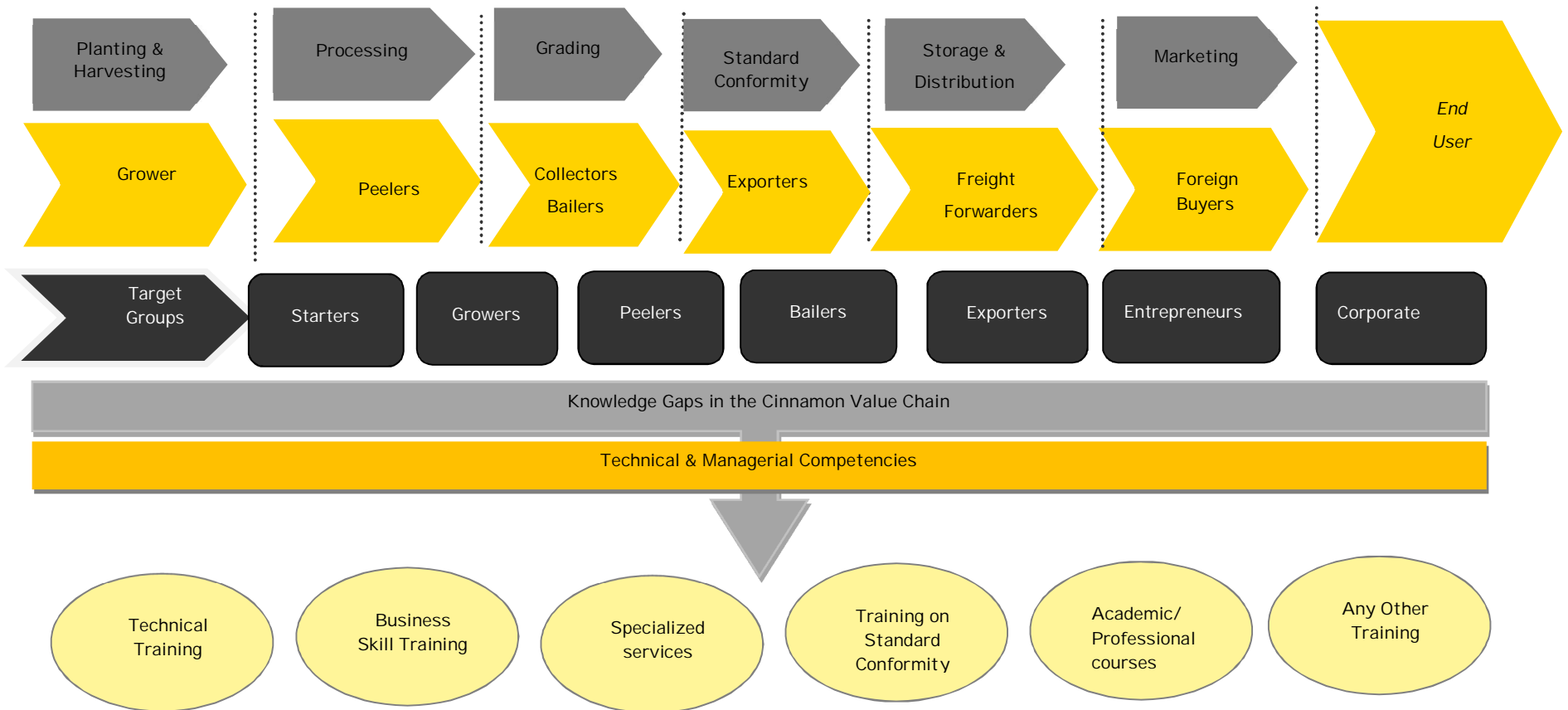
Threats

- DEA provide training Free of Charge for peelers. Industry currently does not recognize the unique value proposition provided by CTA
- The Social Stigma and resistance within the employees of Cinnamon industry may constrain new people entering into the industry.
- Inability to predict the demand for training. Thus the future sustainability is questionable
- Enterprise attitude on training investments/ personnel training

Value Chain System for Cinnamon

A detailed study of the entire value system of cinnamon industry was carried out during the current state analysis and identified the knowledge gaps and all possible training courses CTA could develop curriculums to meet those requirements.

The following diagram shows the framework used to identify the knowledge gaps in the value system.



3.3 Stakeholder Analysis

The following diagram shows the key stakeholders of CTA.



Stakeholder analysis for CTA is carried out to identify the key related parties of the CTA and the nature of them in terms of the influential power and the interest level of the people. Based on that analysis CTA may identify the appropriate strategies that could be implemented to cater different needs of such stakeholders and manage such stakeholders in order to obtain maximum benefits to CTA.

As per the analysis, CTA shareholders, Spice council and Board of Directors have a significant interest on the business and also a considerable influential power in decision making for CTA. The responsibility to decide on the strategic direction and implementing the strategies lies on these members. It is vital to obtain the right level of support, contribution and commitment from those stakeholders to make things happen on right time.

Following the initial financial support for infrastructure building, the government would expect CTA to operate on its own thereafter. Further, it may initially expect CTA to fulfill the training needs in the Cinnamon industry to bridge the gap that exists therein. Secondly, the government may be very particular about the increase in the value of Cinnamon exports thus boosting the foreign income generated through exports, as a direct result of a proper training. In order to meet this expectation government has already imposed a mandatory pre-shipment certification for cinnamon exports and SLSI will be carrying out the quality checks of the Cinnamon exports. Thus CTA should develop curriculum to cater to these needs.

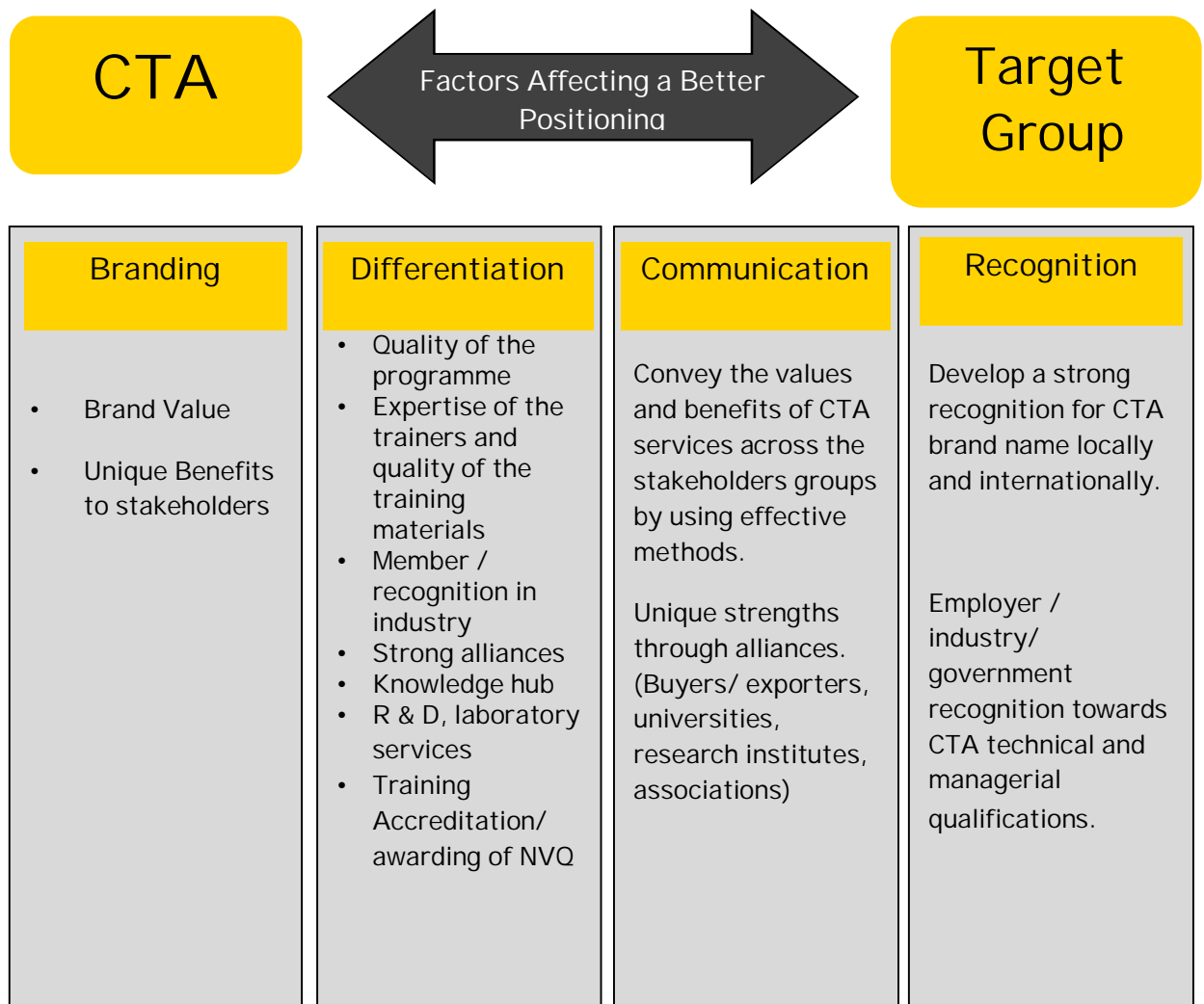
Department of Export Agriculture (DEA) may have a significant interest on the operation of CTA as DEA also provides training to the same target group. Thus CTA will have to look at new ways to differentiate its services to gain a competitive advantage over DEA.

I n f l u e n c e	High	<ul style="list-style-type: none"> • Government • SLSI 	<ul style="list-style-type: none"> • BOD • TSC • EDB • Shareholders
	Low	<ul style="list-style-type: none"> • SGS • Small Peelers • Cinnamon Association 	<ul style="list-style-type: none"> • Trainees • DEA • UNIDO
		Low	High
Interest level			

04. Strategic Intent

In order to be the “center of excellence” in providing training CTA needs to create a strong brand image in the industry. Positioning is the key to the success of CTA. Hence, they need to follow a proper positioning strategy to gain the attraction of the locals as well as the global players in Cinnamon trade.

Following areas need to be focused in positioning CTA when reaching the target group.



The below diagram depicts the fundamentals for strategic direction for the selected strategy that should be in line with positioning:



Goals and Critical Success factors

1. Effective image building campaign

- Conduct a positioning and brand building exercise through an effective advertising & PR campaign

2. Growth market share

- Marketing strategy is to be developed with external expertise to capitalize on market opportunities.

3. Reduce expenses & increase efficiency

- Focus on cost management strategies

4. Human resources - HR policies to support strategy

- Develop the HR strategy in line with business requirements
- Create a performance based compensation structure

5. Extend the reach

- Strategically increase the reach throughout the country by targeting potential group of people.

05. Strategic Option analysis for CTA

5.1 Strategic Options Identified

The following strategic options were identified for CTA based on the detailed analysis carried out during the corporate appraisal.

01. Focus the core business and competencies

CTA has an option to continue its operations only by conducting training programmes for the people involved in the cinnamon industry as specified in the Articles of Association. The main income source of this option would be the revenue generated by conducting training programmes.

However, this option is exposed to a higher risk if CTA fails to continuously attract candidates for the training programmes.

02. CTA operates with major alternative sources of income other than training – Form a Strategic Business Unit (SBU) to perform alternative services

CTA, once the core business strategy is in place and in operation, has an option to expand their core business by setting up a separate Strategic Business Unit (SBU) that may focus on generating alternative sources of revenues to CTA.

In this option CTA head office may carry out all activities relating to Cinnamon training programmes and work on maximising the training income whereas, the SBU focuses on the alternative revenue streams. Possible revenue sources could be generated by concentrating on the followings services:

Managed Services

- Generate income by growing Cinnamon in Kosgoda land
- Operate Cinnamon processing centres in different areas
- Manufacture by products such as Cinnamon powder from the low grade quills
- Maintain neglected Cinnamon plantations of other owners on a lease basis

Consulting Services

- Accredited institute – quality/ Lab
- Special assignments – plantations / factories

The SBU will support to leverage the effectiveness of CTA's main objective by generating high earnings.

However, CTA will have few shortfalls that they should pay careful attention and overcome in order to make this option successful. There is a high possibility that the Strategic Business Unit may overtake the main objective of the business and eventually lead to a major deviation of the business direction. CTA should continuously monitor and ensure that the BOD does not deviate from the main objective.

The object clause mentioned in Articles of Association will have to be reviewed and altered accordingly.

03. Strategic Alliance

The third option provides the opportunity for CTA to create a strategic alliance with another institution, government agency, corporate in the industry, or an overseas partnering institute to attract investment and generate a win- win situation for both parties.

Some of the possible alliances are as follows:

3.1 Strategic Alliance with Government agencies such as EDB, DEA, Ministry of Youth Affairs, Ministry of Industry and Commerce, Ministry of Minor Exports etc.

This approach would bring added influence, recognition, resources and expertise required for the core business. This creates an opportunity for both parties to obtain a synergetic effect by concentrating on the entire cinnamon value chain.

Through this alliance CTA will be able to eliminate that risk and to face the competition. CTA will further be able to share resources of the strategic partner which would include buildings, equipment, labs, lands or resource personnel. This will also enable CTA to strengthen the capital base, obtaining further support from financial institutions with the government support.

Further CTA will be able continue with training by accessing to cess collected from spice exports through Public Private Partnership (PPP).

3.2 Strategic Alliance with other training institutes such as NIPM, NAITA, VTA, Aquinas etc.

CTA may find a potential opportunity to set a strategic alliance with other training institutes as they have been in the training business for a long period of time in agricultural sector.

3.3 With corporate sector plantations/ processing centres

CTA may partner with well-established plantation companies who are planning to enter in to Cinnamon trading such as Kahawatta Plantation, Kotagala Plantation, Hayleys Plantation etc. CTA will have a higher potential in this market segment because the plantation companies lack expertise knowledge on Cinnamon business. Hence, they will fund for their trainees for the whole training programme expecting a long term return on investment. CTA may provide specialised & customized service for these companies at a differentiated rate.

CTA may partner with Cinnamon Processing Centre/s to generate additional revenue through the SBU. For example, Bours, Dilmah etc.

3.4 Overseas

This is an option available for CTA to enter in to long term agreements with the foreign buyers to get their suppliers' employees for CTA training to ensure a higher quality end product.

04. CTA operates as the apex body

This option is a viable solution to obtain a monopolistic position in the market to be the only training supplier for Cinnamon industry. This creates a strong position and recognition for CTA and it will be accepted as the sole body that has the right to issue any Cinnamon related certification in Sri Lanka.

However, this recognition has to be given through a legislative statute passed in the parliament of Sri Lanka. However, CTA has to obtain approval from the relevant governing bodies and check whether there is a possibility that CTA's training can be made mandatory for Cinnamon industry people. Conversely, there may be a significant resistance from the other competitive institutions e. This option appears to be impractical given the current level of industry conditions.

05. Combined option

This option is a combination of option 2 & 3 mentioned above. This is where CTA can mainly concentrate on the core business of providing training through a strategic alliance created. Meanwhile, CTA could generate additional revenue through the Strategic Business Unit (SBU) which will mainly focus on other revenue generating business line in managed services or advisory services in Cinnamon encompassing s managing idle Cinnamon lands, consultancy services, testing & laboratory and research services etc.

5.2 Overall Strategic Model under each option

	Option	01	02	03	04	05
	Revenue Model	▶ Training Programmes	✓	✓	✓	✓
• Technical training/ Diplomas/professional Qualifications						
• Affiliate with other universities/training institutions		✓	✓	✓	✓	✓
• Conduct training courses in collaboration with other universities		✓	✓			✓
▶ Managed Services			✓			✓
▶ Consultancy services			✓	✓	✓	✓
▶ Membership Fee		✓	✓	✓	✓	✓
▶ Certification Fee					✓	
	Option	01	02	03	04	05
Operating Model	Infrastructure	✓	✓	✓	✓	✓
	• Operate in own building of CTA in Kosgoda or Space obtained on Rent or Sponsor Location on need basis					
	• Use shared infrastructure with the partnering institute			✓		✓
	Structure	✓	✓	✓	✓	✓
	• BOD (Corporate decisions)	✓	✓	✓	✓	✓
	• CEO	✓	✓	✓	✓	✓
	• OM and Admin Staff	✓	✓	✓	✓	✓
	• SBU Manager		✓			✓

	People	✓	✓	✓	✓	✓
	• Faculty					
	• Key Leadership and admin staff	✓	✓	✓	✓	✓
	Outsource staff	✓	✓	✓	✓	✓
	• Visiting Lecturers					
	• Curriculum development core team	✓	✓	✓	✓	✓
	• Consultants		✓			✓
	• General office services	✓	✓	✓	✓	✓
Strategic Direction	✓	✓	✓	✓	✓	
• Minimize fixed costs						

	Option 01	Option 02	Option 03	Option 04	Option 05
	Shareholder funding	Shareholder funding	Shareholder funding	Shareholder funding	Shareholder funding
	Gov. funding	Gov. funding	Gov. funding	Gov. funding	Gov. funding
	UNIDO funding	UNIDO funding	UNIDO funding	UNIDO funding	UNIDO funding
	FMO	FMO	FMO	FMO	FMO
	Donations	Donations	Donations	Donations	Donations
			Funding from the strategic partner		Funding from the strategic partner

5.3 Evaluation of strategic options

Option	01	02	03	04	05
Risk	High	Moderate	Low	Low	Low
Return	Low	High	Low	High	High
Feasibility	High	High	Moderate	Low	High

6. Strategic Evaluation and Choice

A combination of strategic option 2 and 3 was agreed upon by the CTA BOD and the five year strategic plan was developed accordingly.

Suitability

Considering the opportunities and limitations prevailing in the industry and the internal strengths and weaknesses of CTA, this option appears to be the best choice that goes in line with the suggested vision and the mission of CTA.

A well-structured strategic alliance with one of the leading institutions which is already in existence will enable CTA to obtain distinctive synergetic advantage to become the "Centre of Excellence", by attracting more numbers of interested parties.

Key participants may obtain a value added and differentiated service due to proper blend of skills and experience of different institutions.

Thus this appears to be is the most suitable option for CTA which will capitalize on CTA's growth, core competencies and will be congruent with the cultural environment within CTA.

Feasibility

This strategic option seems to be the most feasible strategy given the fact that CTA brings necessary changes to its Articles of Association to allow a Strategic Business Unit to operate as an additional income generating unit to facilitate its main business in terms of finance.

This will also facilitate long term sustainability of CTA. CTA may provide additional services to generate an income through a separate SBU which eventually be used for the development of the training center.

Further, this is the only option which enables CTA to effectively utilize the available resources with future sustainability.

Acceptability

CTA could expand its horizon and could generate more revenue through its SBU operations while continuing with the core business. This in turn will minimize the risk of concentrate on one business segment and less demand for trainings in future since CTA could generate additional revenue by delivering management services, consultancy services, research and laboratory services.

The synergies with other institutes will enable CTA to provide a differentiated service to all the stakeholders that may be unmatched by any other competitor.

This option will create positive movements within the stakeholder matrix, where the stakeholders who had low interest will be more interested in getting involved with CTA activities and will act positively.

This will further enable them to attract more stakeholders to CTA who will have an interest on their activities.

07. Future Business and Operation model design

The key business & operation model for the agreed strategic direction is presented in the following format.

7.1. Key Business strategies and Initiatives

7.1.1. Revenue Growth

- A. Develop the course curriculums & Conduct training
- B. Strategic Alliance
- C. Commence SBU operations

7.1. 2. Marketing Strategy

7.1.3 Other support strategies

- A. HR
- B. Finance
- C. IT
 - IT managed service
 - Business apps (accounting)
 - E-mail, internet
- D. Setting up of the infrastructure

7.1. Key Business strategies and Initiatives

Explained below are the key business strategies and initiatives that CTA should follow within the next five years under the selected strategic direction (strategic option 5), in achieving the long term vision and mission.

7.1.1. Revenue Growth

Key success and future sustainability of CTA would mainly depend on at what phase CTA continue to obtain a growth in their revenue generation. The following would be the key factors to be considered.

A. Develop Course Curriculums & Conduct Training

The key to generate revenue for CTA is to conduct training programmes for Cinnamon industry people. Therefore, it is a high priority to develop the course curriculum to initiate the training programmes.

CTA has obtained approval for National Competency Standards for Cinnamon factory operations and field operations up to level 4 by the TVEC. Cinnamon Training Academy (CTA) has initially identified two main streams to kick off their training programmes and still awaits accreditation from TVEC. Going forward, CTA plans to issue an NVQ certificate for the trainees.

01. Train the Trainer programme (TOT) – This programme aims to develop the skills & competencies of the trainers who eventually will become the trainers in Cinnamon Training Academy.

02. Beginner Training Programme – These programmes aim to develop the technical skills and competencies of the labour in Cinnamon industry.

The following table illustrates the key programmes planned, current status of those programmes, key activities to be finished with immediate effect and the Key Performance Indicators (KPIs) against which the success of each initiative is measured.

Programme Name	Status	Activities	KPIs
Train the Trainers (TOT)	CTA has already developed the TOT guide that contains the fundamental guidelines that any trainer is supposed to follow in delivering their training.	<p>This should be completed immediately at least before April of 2014 and get the curriculum approved by the relevant parties.</p> <p>It is recommended to start the Train the Trainers programme with immediate effect so that the subsequent training programmes can be started.</p>	<ul style="list-style-type: none"> • Train 8 trainers by end of September 2014 • Achieve breakeven margin for “Train the Trainers” Programme • Retain all 8 trainers in CTA at least for 1 year

Programme Name	Status	Activities	KPIs
Beginner Training	At present CTA has initiated to develop curriculums for four levels of training programmes to develop competency of harvesters, processors, field officers & factory officers.	Finalize the beginner Trainee Guide. Once CTA complete the TOT they should start with the beginner training.	<ul style="list-style-type: none"> • Attract 10 trainees per each of the curriculum for the very first programme • Achieve Break even in the first training • Achieve 5% net profit margin from the next batch onwards and maintain the margin for two years • Achieve 60% of repetitive participation for other courses (All four courses)

Programme Name	Status	Activities	KPIs
Advanced Professional Courses/ Degree Equivalent		<p>A strategic move is recommended to cover both technical and managerial competencies of the whole cinnamon value chain attracting wider range of trainees from both technical and managerial aspects.</p> <p>A strategic move is recommended to expand the curriculums from technical to diploma level up to graduate status (Up to TVEC level 07). Further, CTA may carry out a detailed research to identify other possible training opportunities in other plantation industries such as cardamom, pepper etc.</p>	<ul style="list-style-type: none"> • Develop two more new curriculums covering the cinnamon value chain • Develop one curriculum to cover managerial competencies • Create one affiliation with a university

		<p>Seek possibilities to affiliate with a university who may provide similar type of training courses. For example, a person who has a basic level qualification from a different university may obtain exemptions from CTA for Cinnamon training programmes.</p>	
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Assessment of the trainee before granting the certificate

Currently TVEC does not have assessors to evaluate the Cinnamon trainees. Therefore, CTA may initiate a programme to train the assessors who would eventually assess the trainees for their competency and effective completion of the course. Currently, they are in search of potential assessors who could meet the standards required by TVEC.

KPI

- Train 10 assessors by 2015

The above said assessment can happen in two ways.

Assessors can evaluate the trainees who come through CTA trainings programmes. Secondly, outsiders could also apply to get themselves assessed by paying the assessment fee, if they feel they are competent to obtain the NVQ certificate.

B. Strategic Alliance

CTA should seek for possible alliances to gain synergetic benefits to obtain a future sustainability.

Strategic option	Status	Activities	KPIs
Strategic Alliance	CTA is in the process of evaluating possible strategic alliances and merges with potential parties	CTA may alliance with government institute or a suitable organization & leverage its ability to reach the target market easily.	<ul style="list-style-type: none"> • Identify two strategic options for alliance • Achieve a profit margin of 10% through the alliance

C. Commence SBU operations

Once CTA establish a good brand name they could start with SBU operation by mid of 2015 to generate additional revenue and to continuously seek for additional revenue sources.

Programme Name	Status	Activities	KPIs
Start Strategic Business Unit (SBU) Operations	CTA is in the process of evaluating the feasibility of setting up a SBU to carry out alternative businesses which may potentially generate additional income for CTA.	<ul style="list-style-type: none"> • Carry out legal clearance to form a SBU • Set up the SBU and recruit a separate manager to handle operations. (Provide targets to the SBU manager to bring alternative sources of income) • Identify possible revenue sources • Promote the SBU with CTA brand • Commence SBU operations 	<ul style="list-style-type: none"> • Establish two alternative income models under SBU in the first two years • Achieve a profit margin of 20% • Generate self sufficient cash flows to run the training operations

7.1.2 Marketing Strategy

Marketing plays a pivotal role in achieving the given objectives in the Strategic Plan of CTA. Therefore, key marketing initiatives should be developed based on the long term strategic marketing plan and such initiatives should be properly aligned with the long term strategic objectives of CTA.

Gaining recognition for the SBU is also strategically important for CTA's long term sustainability as it would operate as a supporting parallel business to CTA. Therefore, branding and positioning of SBU may be done parallel in order to reflect the bundled benefits of the businesses.

Strategic focus areas: Develop a repository of customer and industry data

Key Initiatives: Survey on the Cinnamon industry/market

Carry out a comprehensive market study to collect all relevant industry statistics in order to make the market segmentation easy and convenient. The following data may be collected.

- Total number of Cinnamon growers in the country
- Total number of peelers available at present across the country
- Total number of small scale, medium scale and large scale processors
- Total number of exporters available at present
- Total number of existing & potential large scale plantation companies who are interested to invest in Cinnamon.
- Total land area that can potentially be harvested across the country, current utilization and idle land area.
- Total number of peelers required if lands are fully utilized (Best case/optimistic scenario)
- Detailed information about the local and foreign buyers
- Training needs in the industry

Action Steps

The following steps could be followed in conducting the marketing survey:

01. Check possibilities to collect the above data through secondary sources if available. For example, government agencies may have collected some of the above data for some other purpose.

If not available,

01. Prepare a questionnaire and distribute among the people associated with the cinnamon industry through Grama Seva Niladhari in each Divisional Secretariat. The questionnaire should cover the following general information.

- Family information
- Age information
- Income information
- Perception about training
- Issues faced by the industry people

Separate questionnaires need to be prepared for growers, peelers, processors, small holders, exporters, corporate based on the position held in the cinnamon value chain.

02. Once raw data is collected CTA should analyze them

03. Evaluate the data and make appropriate decisions depending on the requirement

04. Develop curriculums to cater to the needs and issues identified

Once data is collected CTA could create a database and continuously update it.

Strategic focus areas: Brand and Business Development

Key Initiatives: Identify the target market

Following the market analysis CTA may do the following activities:

- Analyze the entire value chain/ Total market
- Identify the most needed training requirements (Technical & Managerial expertise)
- Identify the CTA's/Joint venture's strengths on offering such training
- Match the competencies to deliver a unique value proposition to the target market

Possible target markets: New entrants, growers, peelers, collectors, exporters, entrepreneurs, corporate, other academic institutions

Key Initiatives: Building a strong identity for CTA brand

- Develop a unique logo for CTA
- Invest on brand building through events, seminars, functions, workshops, research findings, newspaper publications etc. (Continuous marketing campaign is an essential component in the first two years to build the brand awareness for CTA)
- Differentiate the offerings through delivery method, time duration, quality of content etc.
- Invest on heavy marketing campaign collaborating with a strong partner who could potentially attract many different points of views from all around the country. For example, CTA may get NDB to promote CTA and Cinnamon industry as whole across the globe.

CTA may look at the following options:

- CTA may sponsor few Sri Lankan cricket players such as Kumar Sangakkara, Mahela Jayawardana as CTA's brand ambassadors.
- CTA may gain the support of "Tharunyayata Hetak" to promote CTA and attract people to the cinnamon industry
- Sponsor for CSR projects in Cinnamon growing areas

Seek the possibilities to use CTA logo in every Cinnamon product that is being produced in Sri Lanka.

Key Initiatives: Generating and managing a strong brand equity

CTA need to create a strong equity value for the brand where the customers need to have a positive response to the service offerings when they recall the CTA name. Knowing the brand name will not add any value to the brand where CTA need to continuously market the offerings through media and other promotional tools to attract customers to respond to the brand name.

CTA need to periodically audit the brand strengths and identify the need to reposition the brand because of changing customer preferences or new competitors.

Key Initiatives: Positioning of CTA

In positioning the brand, CTA needs to first identify the possible competitive advantages upon which the position needs to carry out.

The appropriate strategy for CTA is to differentiate their offerings rather than compete on the price given the free courses offered by Department of Export Agriculture.

CTA could differentiate their offerings based on the following:

- Quality of the training programmes and course materials
- Expertise of the trainers and quality of the training materials
- Other service offering of CTA (E.g: Managed services, Consultancy services, Project management, R & D, laboratory services)
- Recognition/ benefits the trainees and members will obtain being a part of CTA
- Strong alliances with other institutions and corporate
- Training Accreditation/ awarding of NVQ

CTA can also partner with a bank to provide financial assistance to trainees who are interested to joint CTA and also for people who completed training from the institute and who wants to set up a cinnamon business. For such persons attractive interest rates could be recommended by CTA.

Communicating and delivering the chosen position

Once the differentiation strategies are chosen, CTA needs to take steps to deliver and communicate the desired position to the target market.

A dynamic person needs to be appointed as the Operations Manager who should have the expertise in marketing as well as with a sound knowledge of the cinnamon industry.

CTA could outsource the promotional activities to a well-known marketing agency like Triads, MEC etc., since CTA does not have the expertise to carryout marketing campaigns. However, the Operations Manager should work closely with the marketing agency to get the positioning correct at the first place.

Aggressive marketing campaigns need to be carried out especially in the first two years. Positioning should enable CTA to be recognized as the top of mind brand to recall in the cinnamon industry.

Key Initiatives: Develop Marketing Plan

Once the marketing strategies are identified, a marketing plan need to be developed for the next five years stating the actions to be carried out to achieve the desired strategies and key marketing initiatives & marketing efforts should be executed continuously.

A budget need to be prepared for the marketing activities to be carried out and allocated adequate funds.

Further, it is important for CTA to clearly define what Products/Services they are planning to offer, appropriate pricing strategy and an attractive way of reaching the target group.

Key Initiatives: Develop an attractive website to increase awareness among younger generation

Parallel to the aggressive marketing campaigns during the first year, CTA need to engage with a leading website development company.

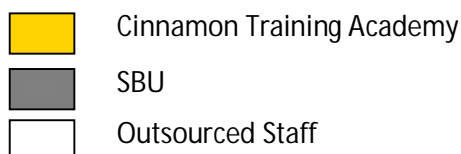
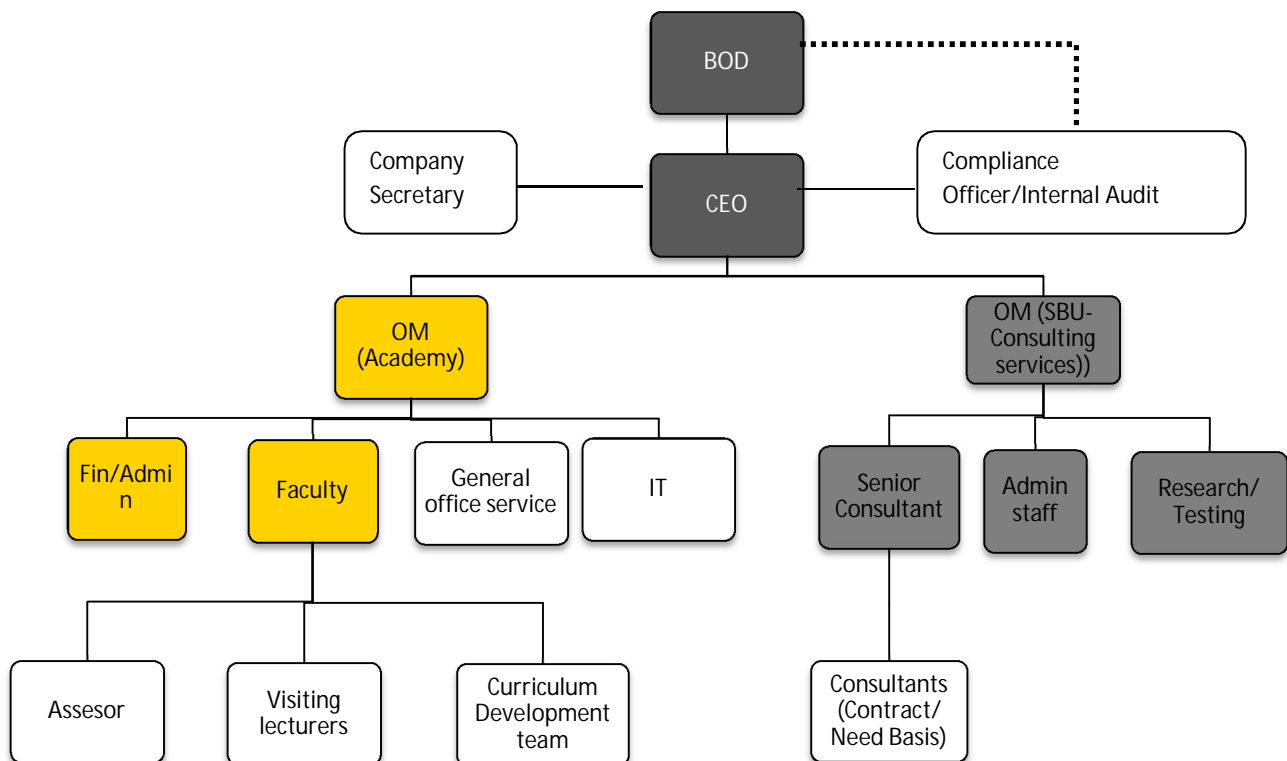
01. Identify a list of companies that develop websites and get their quotations
02. Select a company which matches with the CTA requirements
03. Develop the website and perform trials
04. Published the website and make people aware about the website
05. Arrangements with the website development company to continuously upload the website with news

7.1.3 Supporting Services Strategies

A. Human Resource Strategy

CTA being a knowledge driven organization, human resource is one of the key elements that need to be managed properly to achieve competitive advantage in the long run. Therefore, HR strategy should be developed & implemented in an effective manner enabling CTA to attract right people for right positions at right time.

i. Proposed organizational structure for CTA



ii. Human Resource Strategic Action Plan

Recruitment

The following positions should be filled within the first year:

- CEO- Recruit a full time CEO who will overlook the entire operation of the training centre as well as the SBU.
- Trainers- Recruit TOT trainers for a contract period/temporary period.
- Going forward, the TOT graduates may be made visiting trainers whose service will be utilized on course basis for an agreed price.
- OM - CTA should recruit a dynamic professional who could at least commit 3 years period of continuous service for the company as Operations Manager.

Characteristics of Heads - Well known & respectable person in the industry, a dynamic person who could cope with the industry people at different levels.

- Admin & Finance Staff - Keep at minimum level to minimize the cost
- OM SBU - CTA should recruit a manager to manage SBU operations. However, in the first few years only one OM may overlook the entire operation.
- Efficient utilization of two administrative staff alone with one finance staff to handle book keeping with a temporary Accountant.
- Recruit researchers and laboratory assistance for research center operations
- Negotiate and agree on contracts for external consultants and advisors to carryout consultancy services

HR Policies & Procedures

- ▶ Develop a Policy & Procedure manual for HR covering processes for recruitment, training & development, performance evaluation and retirement etc.
- ▶ Develop a well-structured Code of Conduct for the institute.
- ▶ Develop job descriptions and decide on the salary scales for all employees.
- ▶ Develop standard form of contracts for temporary/outsourced staff.

Training & Development

- ▶ Continuous attention on training and development especially on new training methods and delivery techniques. CTA may send their trainers for foreign training programmes, local programmes to improve the knowledge and skills of the trainers.
- ▶ Encourage innovations to the existing products and services and develop curriculums accordingly.

Culture

- ▶ CTA needs to develop a very attractive distinctive organizational culture in order to attract trainees for the business. Culture can be differentiated through different means such as building design, interior designs, events, communication, behavior etc.
- ▶ It is recommended to organize different types of events and functions at least once in three months to encourage the members.

Supplier Relationship

- ▶ Select set of suppliers based on criteria such as quality, reliability, on time delivery and thereby develop long term supplier relationship.

B. Finance Strategy

Finance also plays a major role in implementing the strategic plan as CTA need to maintain adequate capital in executing the given key initiatives. CTA should have a balance between the cash inflows and outflows and ensure adequate funds are available when required.

The below key strategic initiatives would help CTA to achieve the given objectives and to be sustainable in future.

i. Strategic focus area: Maintain adequate funds

	Key Initiatives	Activities/ Millstones	Action Plan
01.	Prepare the annual budget & a 5 year budget for CTA	<p>CTA should first prepare a detailed budget for the company covering costs relating to marketing, recruitments, building construction etc., to identify the estimated costs.</p> <p>Once the estimated costs are identified, it should be evaluated with the funds available and identify the fund requirement.</p> <p>CTA could then seek for additional sources of funds to meet the fund requirements.</p> <p>A separate budget could be prepared for the SBU operations starting from year 2016.</p> <p>* The overall budget needs to be reviewed and updated annually.</p>	2014

	Key Initiatives	Activities/ Millstones	Action Plan
02.	<p>Plan for additional funds</p> <p>Target alternative income sources</p>	<p>At present CTA has obtained Rs 28.5 Mn from the Government budget 2013, to carry out the construction work of the building while UNIDO is funding for the capacity building and infrastructure development.</p> <p>However, CTA will require large amount of funds at this stage to proceed with the aggressive marketing campaigns to build a strong brand name for CTA.</p> <p>Possible sources of funds at the initial stage:</p> <ul style="list-style-type: none"> 01. Additional fund from shareholders 02. Through strategic alliance 03. UNIDO or other foreign funds 04. Donations 05. Sponsorships 06. ADB <p>(Eg: Could be possible with NDB since they are already involved in promoting Cinnamon industry)</p> <p>Further, CTA could use the donation (Tsunami Relief) of Rs 1,157,453/= which they have received from International Federation of Essential Oils and Aroma Trades (IFEAT) during the Tsunami; for their promotional activities.</p> <p>Once CTA established a good brand name, they could enhance the capital base by listing in the stock market.</p> <p>CTA should seek to expand their horizons in future by establishing regional training centers in cinnamon growing areas and developing curriculums for professional and other advance courses.</p> <p>Additional revenues could also be generated in future through the SBU once it is established.</p>	2014-2019

- ii. Strategic focus area: Maintain the cost at minimum (minimize fixed cost)

Key initiatives should be taken to maintain the costs at its minimum mainly during years 2014-2016. Given the current funds available with CTA and the tasks to be fulfilled during first two years including the market survey, excessive marketing campaigns, commencing training, recruitments etc; it is required to keep the cost at its minimum for effective utilization of the available funds.

CTA could commence training with the TOT, following the beginner training programs as early as possible to inject money in to the business. Since then, CTA should manage their activities with the funds available.

	Key Initiatives	Activities/ Milestones	Action Plan
01.	Keep the labour at minimum and outsource supporting functions	<p>The trainers should not be permanent employees of the organization thus can be recruit as visiting lecturers.</p> <p>Only two members need to be recruited initially to carry out the administrative work. These will enable them to minimize the costs.</p> <p>Further, CTA could minimize the cost by outsourcing some of the functions like administration, advertising, IT etc.</p>	
02.	Alliance with a third party	<p>As a part of the strategy CTA should seek for synergetic alliances with third party/ies that could bring additional funds to CTA thus minimizes the cost duplications.</p> <p>Further, CTA could save funds through these alliances which can be invested in brand building activities, to commence SBU operations or for further enhancements.</p>	

	Key Initiatives	Activities/ Millstones	Action Plan
03.	Determine the course fees	<p>Prior to commencing training, CTA could finalize the fee structure for TOT and beginner training programmes covering the following costs.</p> <p>01. Tuition fee 02. Venue cost 03. Course material cost 04. Trainer cost 05. Accommodation/ meal/ travelling cost etc.</p> <p>Note: Refer Annexure for the fee structure developed for technical training based on the hypothetical costs which is not yet finalized.</p> <p>Fee structure could be revised annually and the fees for new courses could be design as move forward. Further, CTA should revise the costing sheet as and when managerial & professional curriculums are introduced.</p>	2014

iii. Strategic focus area: Financial Reporting and Maintenance of Accounts

Key Initiatives
<p>An accounting package such as ACCPAC, QuickBook etc, could be hosted and managed by an external party (Managed Service Contractor) for financial accounting purpose and monthly/annual fee may be paid to the service provider. An internal officer may record the financial data in the web based system to ease the financial reporting.</p> <p>CTA may outsource the book keeping and preparation of timely/ adhoc financial and management reports to an accountant on a need basis.</p> <p>Meanwhile, the administrative officer can maintain all the invoices and other supporting documents of CTA as well as SBU separately and give to accountant for updating when required.</p>

All the accounts should be discretely coded for CTA and SBU enabling to generate financial accounts separately. The accounting package should also facilitate to generate consolidated financial statement and annual returns as and when required.

The accounting package should also facilitate to absorb the common costs as well as notional costs using appropriate drivers among CTA as well as SBU.

C. IT Strategy

IT is a key enabler to facilitate day to day operations of the academy as well as the SBU. The IT strategy should be aligned with the overall business strategic direction and shall be focus on making the information environment as productive and cost effective as possible to gain competitive advantages and achieve operational excellence.

The following key IT capabilities shall be implemented by CTA within the next two years. These capabilities comprise of front-end, office system, infrastructure service and IT governance.

IT Capability Blueprint

Front- end Customer Touch point	Website Academy/ SBU	Web Based Learning Interface	Social Media Network (LinkedIn, Twitter, Facebook)		
Office Systems	Ms Office Package	Financial Accounting Applications	Content Management System	Email Marketing Relationship Management System	Student Registration System
Infrastructure Services	E-mail Internet Network Hardware				
IT Governance	Security Policies Procedures Work Instructions				

Front-end Customer Touch Point

These are the browsers directly connected with the end users, customers and stakeholders of the organization. The front-end applications are directly linked with the back-end systems to process the user commands.

Website (Academy/ SBU)	<p>CTA should have a website designed, developed and maintain by an outsource company and should be aligned to the marketing strategy.</p> <p>The developer shall consent to facilitate the following:</p> <ul style="list-style-type: none">• Obtain a domain name for CTA• Optimize the domain name on popular search engines for example, Google, Yahoo etc.• Website shall contain two options enabling the user to select either CTA or the SBU depending on the client's requirement and preference.• Link the website with the other partners, buyers, suppliers and all the stakeholders.
Web Based Learning Interface	<p>Once CTA introduce certificate/ professional/ degree equivalent curriculums, the students can be given access to login to the web based learning system and obtain required learning or to carry out the assessments themselves.</p> <p>This will also facilitate distance learning where CTA will be able to attract overseas students to follow the courses.</p>
Social Media Network	<p>CTA should consider branding and positioning through E- Marketing via social media networks such as Facebook, twitter, LinkedIn etc to make social awareness.</p>

Office System	
<p>These applications are used to facilitate various functions/ tasks and to disseminate, store and retrieve information when required for different purposes.</p>	
Ms Office	The office package including Ms word, excel, power point and email (outlook) need to be installed in computers to facilitate day to day functions of the administrative staff of both academy as well as in the SBU.
Financial Accounting Applications	Accounting package such as ACCPAC, QuickBook etc, could be hosted and managed by an external party (Managed Service Contractor) for financial accounting purposes.
Content Management System	<p>Once CTA develop the course material those can be uploaded into the content management system for the benefiting of students. Further, web based assessment also could be performed.</p> <p>This method is ideally target for students enroll in certificate, professional and degree level courses.</p>
Relationship Management System	<p>This system enables CTA to maintain close relationships with the students as well as with the suppliers and other stakeholders.</p> <p>Once CTA carried out the market analysis and gather information of all key stakeholders, they can enter those data in to the system and stored in a database. When required CTA will be able to share information with selected parties via emails through relationship management system.</p>
Student Registration System	This system will enable CTA to maintain a database of the student information at each level including the general information, the marks received, the current level of study, attendance details etc.

IT Infrastructure Service	IT infrastructure is the backbone of IT operations which facilitate the dissemination, storage and retrieval of information among parties and includes hardware and software which provides platform for IT capabilities.
IT Governance	Security policies, Procedures and the work instructions should also be in place to provide the governing framework for IT system and the usage.

The administrative head or the operations manager will be responsible to provide the direction and the governing framework for the access, use and implementation of the IT applications where the administrative staff can carry out the data entry and IT operational functions. IT services can be outsourced to a managed service contractor such as EWIS, JIT etc, to maintain the cost at minimum.

D. Setting up of the office infrastructure

CTA has acquired a two acre land in Kosgoda to construct of the building of the academy. The government has approved Rs 28.5 Mn from the 2013 budget for the construction, which is to be released through Sri Lanka Export Development Board (SLEDB) as per the below payment structure.

Payment structure

	Disbursement %	Time frame
Advance payment upon the signing of the Bank Guarantee	20%	Two years commencing from 1 st November 2013
On submission of the receipts certified by the site engineer and an officer nominated by the SLEDB	75%	
Upon the satisfactory completion of the entire work and submission of the Work Completion Certificate by the Steering committee	5%	Within six months after completion

The Board has granted approval to retain services of a constructor to carry out the construction work by the Board Paper No: 3516 dated 29.05.2013.

The construction work will be carried out in accordance with the Bill of Quantities (BOQ) and building layout plan.

Period of completion

3 years commencing from 1st November 2013.

Note: Refer memorandum of Agreement between CTA and SLEDB for details of the construction of the building and terms and conditions.

However, CTA should commence training as early as possible once the training curriculums are in place by renting a building or sharing the premises of the strategic partner or in the vocational training center rather waiting until the construction is finished.

Further, CTA could expand its coverage of training in to other regions such as Matara, Galle, Ratnapura etc.

08. High-level Implementation Plan

	Key Initiatives	2014	2015	2016	2017	2018
1	Recruit the CEO and develop the HR plan for the next 5 years	Implement	Implement	Implement	Monitor	Monitor
2	Develop the marketing strategy	Strategize	Implement	Implement	Monitor	Monitor
3	Brand Development & Positioning	Strategize		Implement	Implement	Monitor
4	Negotiations with the government and other sources to generate additional funds	Strategize		Implement	Monitor	Monitor
5	Development of the curriculum and the course material for TOT and beginner trainings	Strategize	Implement	Implement	Monitor	Monitor
6	Develop a panel of visiting lecturers	Strategize	Implement	Implement	Monitor	Monitor
7	Recruit admin staff and outsource other general services	Strategize	Implement	Implement	Implement	Monitor
8	Start TOT and beginner training programmes (Technical)	Strategize	Implement	Implement	Implement	Monitor
9	Implementation of IT Strategy	Strategize		Implement	Implement	Monitor
10	Formation of the SBU (Article of Association)	Strategize		Implement	Implement	Monitor
11	Construction of the building and necessary infrastructure	Strategize	Implement	Implement	Implement	Monitor
12	Expand the training programmes by introducing diploma and professional qualifications	Strategize	Strategize	Implement	Implement	Monitor
13	Affiliate with the other institutes and universities	Strategize	Strategize	Strategize	Implement	Implement
14	Networking with foreign buyers and local players in the industry	Strategize	Strategize	Implement		Implement
15	Commencement of SBU operations (Manage services, Consultancy services)	Strategize	Strategize	Implement		

Strategize
Implement
Monitor

Annexure

Description	Scenario 01 - If accomodation & transport is provided				Scenario 02 - If accomodation & transport is NOT provided			
	Havester course costing	Cinnamon Processor level	Field officer	Factory officer course costing	Processor level	Processor level	Field officer level	Factory officer course
(Only taken the class room hours)								
Maximum class training hours	42	75	96	91	42	75	96	91
Maximum skills training hours	36	113	91	157	36	113	91	157
Total Class hours	78	188	187	248	78	188	187	248
Assumptions								
Expected number of students per course	20	20	20	20	20	20	20	20
	<i>LKR</i>	<i>LKR</i>	<i>LKR</i>	<i>LKR</i>	<i>LKR</i>	<i>LKR</i>	<i>LKR</i>	<i>LKR</i>
Trainer fee per hour	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Venue cost (per day)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Meal cost per day per person	600	600	600	600	n/a	n/a	n/a	n/a
Trainee Accomadation per day per person	500	500	500	500	n/a	n/a	n/a	n/a
Supporting staff cost per person per day	750	750	750	750	750	750	750	750
Number of supporting staff	2	2	2	2	2	2	2	2
Material cost (Entire course) per person	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Per dium for participant (per day)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Trainers accomation per day	500	500	500	500	n/a	n/a	n/a	n/a
Trainers transport for the entire course (Up & Down)	2,000	2,000	2,000	2,000	n/a	n/a	n/a	n/a
Total number of hours per day	8	8	8	8	8	8	8	8
Number of days per course	10	24	23	31	10	24	23	31
Trainer cost	3,900	9,400	9,350	12,400	3,900	9,400	9,350	12,400
Venue Cost	2,925	7,050	7,013	9,300	2,925	7,050	7,013	9,300
Meal cost	5,850	14,100	14,025	18,600	n/a	n/a	n/a	n/a
Trainee accomadation cost	4,875	11,750	11,688	15,500	n/a	n/a	n/a	n/a
Supporting staff cost	731	1,763	1,753	2,325	731	1,763	1,753	2,325
Material cost	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Trainee perdiun	9,750	23,500	23,375	31,000	9,750	23,500	23,375	31,000
Trainers accomation	219	563	559	750	n/a	n/a	n/a	n/a
Trainer transpotation	100	100	100	100	n/a	n/a	n/a	n/a
<i>Total Cost of training programme per person</i>	<i>30,350</i>	<i>70,225</i>	<i>69,863</i>	<i>91,975</i>	<i>19,306</i>	<i>43,713</i>	<i>43,491</i>	<i>57,025</i>
<i>Per person cost per day</i>	<i>3,113</i>	<i>2,988</i>	<i>2,989</i>	<i>2,967</i>	<i>1,980</i>	<i>1,860</i>	<i>1,861</i>	<i>1,840</i>

Appendix:

Due Diligence Report

Due Diligence Report



Cinnamon Training Academy

13th December, 2013

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Introduction to the report

Ernst and Young prepares and submits the Due Diligence report to the UNIDO as per Terms of Reference (TOR), assessing the extent to which the Cinnamon Training Academy Ltd (CTA) comply with the required levels of conformity criteria , in terms of legal and financial aspects since establishment of the CTA.

Therefore, this report covers legal and financial aspects that are fundamentally important in establishment and continuous operations of a public limited organization; identifying the requirements that ensure the sustainability of CTA in terms of legal and finance perspectives.

Each area covered under the due diligence activity summarizes Ernst & Young's observations and remarks if any.

The Due Diligence was conducted in accordance with the Company Act, Inland Revenue Act, applicable Accounting Standards and all other relevant legal and financial standards that are mandatory to comply with by any public limited company.

Our observations and conclusions are derived based on the information provided by CTA and the final draft was prepared based on the agreed upon procedures with UNIDO.

Section 01:

Legal Due Diligence

1.1 Purpose of legal due diligence

Our objective of carrying out legal due diligence for Cinnamon Training Academy (CTA) is to understand and evaluate whether CTA has complied with all necessary legal requirements during its establishment, operations and other business activities.

The following procedure was agreed with the client and has been used to carry out the legal due diligence and to arrive at our final conclusions.

The observations and remarks presented herein are based on the documents given and information gathered by the EY team during the interviews with the company secretary and other relevant parties.

Key focus areas	Our Observation	Remarks, if any
Has Cinnamon Training Academy (CTA) followed the correct procedures mentioned in the Company's Act 2007 during its incorporation?	<p>An application has been duly submitted for the incorporation of CTA to the Registrar in the prescribed form signed by each of the initial shareholders, together with the other required documents. The following documents have been submitted</p> <ol style="list-style-type: none"> 1. A declaration stating that the name of the company is not identical or similar to that of an existing company 2. The articles of association of the company 3. Consent from each of the initial directors 4. Consent from the initial secretary 	
Is the name of Cinnamon Training Academy Ltd there in the company register? Does it have a unique number? Does CTA have certificate of incorporation in the prescribed form?	CTA has obtained the Incorporation Certificate from the Company Registrar and has a unique number.	
Does the certificate of incorporation give a clear idea as to which type of company CTA is? For example, limited company, unlimited company, private company etc.	The incorporation certificate clearly indicates that CTA is a limited liability company.	
Has CTA been registered as a voluntary or nonprofit making organization?	CTA has been registered as a profit making organization.	Generally, service oriented organizations of this nature are registered as nonprofit making organizations.

Key focus areas	Our Observation	Remarks, if any
Has CTA re-registered the Company under the Companies Act No. 7 of 2007 and what is the new Registration No. of CTA after re-registration?	CTA has re-registered under the new Company Act and the new number is PB 635.	
Does Cinnamon Training Academy always use "Limited" at the end of its name to reflect the legal form of the organization?	As per our observation CTA uses its name with "Limited" at the end of the name.	
Has CTA had its company name and number clearly stated in all its business letters of the company, all notices and other official publications, all invoices, receipts and letters of credit, all other documents issued or signed by the company which creates or is evidence of a legal obligation of the company and all bills of exchange, promissory notes, endorsements, cheques and orders for money or goods signed on behalf of the company	As per our observation all documents prepared and issued by the CTA carry its name along with its company number.	
Has CTA its name displayed in its registered office clearly?	The company name is not displayed in the registered office.	The name should be clearly displayed in the registered office.
Does content of the Article clearly show the objects of CTA; rights & obligations of shareholders of CTA; Management & administration of CTA	The article of association comprehensively presents CTA's objects; rights and obligations of shareholders; Management and administration.	
Does Primary Objects authorize CTA to engage in growing or processing of Cinnamon?	There is no Primary Object authorizing growing or processing of Cinnamon by CTA.	Growing or processing of Cinnamon by CTA is outside its scope as per the Articles of Association.

Key focus areas	Our Observation	Remarks, if any
Are there any pre-incorporation contracts that CTA has entered in to?	As per our observation and understanding there is no such previous contracts entered in to by the CTA before incorporation.	
Has CTA given duly notice to the company registrar in the prescribed form of the number of shares, company's stated share capital	They have submitted the relevant documents with the detailed mentioned in a prescribed form and adhered to the provisions of Company Act.	
Has shareholders of CTA passed any Special Resolution and if so, then for what purpose?	No special resolution has been passed as per the meeting minutes.	
Has CTA issued the shares to each shareholder named in the application for incorporation?	They have issued the shares to the shareholders whose names appeared in the application.	
Has CTA given a notice in the prescribed form of the change of registered office to the Registrar?	The change of registered office from Kosgoda to Rosmead Place, Colombo 07 has been informed to company Registrar in writing as per the requirements in Company Act.	
<p data-bbox="174 895 920 975">Does CTA keep the following documents at its registered office?</p> <ul style="list-style-type: none"> <li data-bbox="241 1007 920 1086">a. The certificate of incorporation and the articles of the company <li data-bbox="241 1086 920 1198">b. minutes of all meetings and resolutions of shareholders passed within the last ten years <li data-bbox="241 1198 920 1246">c. an interests register <li data-bbox="241 1246 920 1394">d. minutes of all meetings held and resolutions of directors passed and directors' committees held within the last ten years 	CTA possesses necessary documentation in its registered office.	

Key focus areas	Our Observation	Remarks, if any
<ul style="list-style-type: none"> e. certificates required to be given by the directors as per the company act f. the register of directors and secretaries required to be kept as per the Act g. copies of all written communications to all shareholders during the last ten years, including annual reports h. copies of all financial statements the share register 		
<p>Has CTA made arrangements for inspection of company records by shareholders?</p>	<p>All the company records are available at the registered office for ease access of shareholders and the copies are with company secretary.</p>	
<p>Does CTA maintain a share register which includes the followings</p> <ul style="list-style-type: none"> a. the name and the latest known address of each person who is or has within the last ten years been a shareholder b. the number of shares of each shareholder within the last ten years c. the date of issue of shares, repurchase or redemption of shares, transfer of shares 	<p>The share Register is maintained and updated by the Company Secretary with shareholder details.</p>	

Key focus areas	Our Observation	Remarks, if any
Has CTA delivered to the Registrar an annual return in the prescribed form every year after its incorporation?	Yes, CTA has delivered the annual returns to the company registrar on time.	
Has the CTA board of directors called an annual general meeting of shareholders in each calendar year as per the instructions given in Company's Act?	CTA has had the AGM on time every year along with the AGM of the Spice Council.	
Has CTA appointed its auditor based on the procedures given in the company's act? And is the auditor a member of the Institute of Chartered Accountants of Sri Lanka and is a registered auditor?	CTA has followed the guidelines given in the company's act. The auditor is a member of Chartered Accountants of Sri Lanka and is a registered auditor.	
Has CTA board within six months after the balance sheet date of the company, prepared an annual report on the affairs of the company?	Annual Reports are prepared and kept in place.	
Has the CTA submitted the signed copies of the auditor's reports to the registrar on time?	CTA has submitted the signed auditor's reports to the Company Registrar on time.	
Has CTA fulfilled the minimum number of directors? Does the Articles of Association of CTA stipulate qualifications for a Director? Do the Directors meet the requirements/qualifications given? Is the composition of BOD suitable for CTA?	As per our observation CTA Ltd has the minimum number of directors in the BOD. No qualification is required to become a Director unless so fixed by CTA at a General meeting.	Although CTA BOD consists of minimum number of directors, it lacks a healthy and balanced composition that reflects variety of competencies and capacities that are fundamentally important to make an educational institute viable in the market place.

Key focus areas	Our Observation	Remarks, if any
		For example expertise in finance, marketing, management of academic / professional institution, and a government representation.
Has CTA appointed a secretary who is not disqualified under company's act guidelines?	CTA has appointed a secretary who meets the required qualification under the company's act.	
Are there any pending legal cases or any contingent liability for CTA?	As per our observation there are no pending legal cases or contingency liabilities.	
Has CTA complied with the EPF and ETF regulations imposed by the Sri Lankan labour law?	Currently CTA does not have any employees working under them.	<p>At present, all CTA work is being done by the employees of The Spice Council (TSC) Sri Lanka.</p> <p>At a BOD meeting CTA has agreed to make a nominal fee to TSC for the work done by the TSC. However, a provision has not yet been made and no records found in the final financial reports.</p>

Key focus areas	Our Observation	Remarks, if any
Has CTA entered in to any contract with any outside party which makes CTA binding legally? If yes, is it as per the Company's Act of Sri Lanka?	As per our observation CTA has entered into an agreement with Export Development Board (SLEDB) to obtain the funds from the government for the purpose of construction of the academy. A bank guarantee amounting to Rs. 5.7 Mn has been obtained from National Development Bank to facilitate this transaction.	It is noted that CTA is legally bound to fulfill the conditions mentioned in NDB agreement(Offer letter) CTA is obliged to comply with SLEDB conditions when carrying out the CTA construction work.
Does the Articles of Association of CTA restrict the transfer of shares?	Yes. A member can transfer shares only to (a) A Director, (b) Another member, (c) Spouse or child, or (d) any other person approved by the BOD. Share held by a foreign collaborator can be transferred only to a member of CTA.	
Does the Articles of Association limit Borrowing powers of the BOD?	There is no limit on the borrowing powers of the BOD.	
Has CTA registered any charges on its assets and if so, for purposes?	There are no charges recorded as at 2013/12/13 on its assets in the Charge Register	
Has CTA followed the correct legal procedures during the acquisition of the land for its business purpose? Have the correct documents been submitted to the company secretary?	CTA has followed the correct legal procedure to acquire the land and the ownership of the land has properly passed into CTA.	

Key focus areas	Our Observation	Remarks, if any
Has CTA paid Dividends?	Company has not paid any dividends to the shareholders.	It has been decided to make a dividend of 25% out of total profit and the balance (75%) be retained.
Has CTA made the tax payments based on the procedures mentioned in the laws?	As per our observation CTA has made all tax payments to the inland revenue.	
Has CTA obtained any insurance cover for any of its assets?	CTA has not obtained any insurance cover.	At present CTA does not possess any asset to obtain insurance cover.
Has CTA, as a vocational training institution in Sri Lanka obtained the endorsement from TVEC (Tertiary and Vocational Education Commission)?	CTA has already obtained endorsements for its National Competency Standards for Cinnamon factory and field operations.	At present CTA is in the process of developing course manuals to get it approved by TVEC. CTA is not yet accredited as a training institution by TVEC.

1.2 Legal due diligence Conclusion

As per our study, Cinnamon Training Academy as a public limited company has followed the required procedures during incorporation and there are no significant discrepancies found in the process.

CTA has acquired its land through a correct legal procedure and the legal documents are physically available with the CTA management.

CTA has not yet fully started its operations since incorporation. Therefore no employees have been recruited so far. Hence, legal requirement for EPF (Employee's Provident Fund), ETF (Employee's Trust Fund) deposits has not arisen at this point in time. CTA has duly paid the tax payments to the government and all relevant tax documents are properly documented.

However, CTA is recommended to pay attention to the following areas going forward.

It is observed that the present Board of Directors comprises members who bring in industry expertise to CTA. Limiting of board members only for one or few specific expertise areas might have an adverse impact on CTA's performance due to lack of varied nature of skills and competencies such as Marketing, Finance , academic / professional education etc. The Board of Directors composition should be of well-balanced to support its long term objectives and the purpose of the overall business goal.

CTA's primary objective as per the article of association is to provide required training needs to the people who are engaged in Cinnamon industry. If CTA has any plans to act beyond the primary objectives in order to search for alternative sources of revenues with the intention of ensuring future sustainability, they may consider possible adjustments to the articles of association by passing a special resolution.

Currently CTA operates through the funds received by the government and non-government organizations.

Section 02:

Finance Due Diligence

2.1 Purpose of finance due diligence

Our objective of carrying out the finance due diligence for Cinnamon Training Academy (CTA) is to understand the current financial position and to evaluate the financial sustainability of the company.

During the study, necessary checks were performed in terms of financial aspects taking into consideration the audited financial statements from the year of incorporation to the year ended 31st March, 2013. Further, interviews were conducted with the relevant parties to understand the current financial position of CTA.

The following observations and conclusions were identified and presented based on the information provided to the EY team, while adhering to the agreed upon procedures

Key focus areas	Our Observation	Remarks, if any
Funding and Donations		
Has CTA received any donation or funding for the initial activities?		
Fund to be received	<p>UNIDO has agreed to fund US\$ 200K and Standards & Trade Development Facility (STDF) agreed to fund US\$ 630K for the entire project where they will provide funds for the initial capacity building of CTA.</p> <p>Government of Sri Lanka has allocated Rs 28.5 Mn from the 2013 budget for CTA to carry out the construction work.</p> <p>However, these funds are not direct remits from Treasury department, instead released through the Sri Lanka Export development board (SLEDB). In order to release the advance payment of 20% of the amount, EDB has asked for a bank guarantee from CTA and as a result, CTA has obtained a bank guarantee from National Development bank.</p>	
Funds Received	Further, CTA has received a donation (Tsunami Relief) of Rs 1,234,565/= for establishing the academy from International Federation of Essential Oils and Aroma Trades (IFEAT); of which Rs 77,112/= was spent on company formation and the balance of Rs 1,157,453/= has been accounted as a reserve in the balance sheet throughout the years.	CTA land is situated in a Tsunami affected area. Because of this reason, International Federation of Essential Oils and Aroma Trades (IFEAT) have agreed to provide this fund to CTA.

Key focus areas	Our Observation	Remarks, if any
Accounting Policy and Procedure Manual		
Does CTA have a Policy and Procedure manual for accounting?	CTA does not have a Policy and Procedure manual for accounting.	As a general rule, a policy & procedure manual is fundamental for any organization that is in existence.
Audited Financial Statements		
Accounting Policies	Financial Statements are prepared complying with the accounting standards that are generally being used by Sri Lankan companies.	CTA may follow SLFRS for SMEs as they do not have public accountability and do not publish general purpose financial statements to their extreme users.
Has CTA prepared audited financial statements as per the provisions of Company Act since incorporation?	The financial statements have been prepared for every financial year end, i.e.: 01st of April to 31st of March, since incorporation. All financial statements have properly been audited and reflect a true and fair view.	

Key focus areas	Our Observation	Remarks, if any
<p>Is CTA maintaining proper books of accounts?</p>	<p>All the relevant accounting books are maintained and updated manually by the Spice Council staff, where no accounting package is currently being used by CTA to record financial transactions.</p> <p>However vouchers, receipts, cheque books and all other supporting documents are properly filed and kept for preparation of trial balance and financial statements at the end of the year.</p> <p>An accountant is hired on temporary basis in every financial year end to prepare the final financial statements.</p>	<p>A separate person needs to be assigned to carry out book keeping/administration/coordination work for CTA.</p>

Key focus areas	Our Observation	Remarks, if any
Statement of comprehensive income		
Key Drivers of Revenue	<p>Currently, CTA does not have major revenue sources since they have not commenced main operations.</p> <p>The other income is generated from the interest on the fixed deposits in banks.</p> <p>Rs 10,000/= was generated in 2011/12 by selling firewood which is another additional income source for CTA.</p>	
Operating Expenses	<p>Major operating expenses of CTA includes bank charges, annual return fee, Professional fee and audit fee.</p> <p>However in 2012/13 CTA has revalued the land and incurred a valuation charge of Rs 25,000/= and weeding expenses of Rs 83,600/=.</p> <p>Further, Rs 16,000/= was spent on the induction for the cinnamon project. (Source: Notes to the Financial Statement 2012/13)</p>	<p>CTA has not recruited any employee since incorporation. Currently the employees of the Spice Council are being used to carry out the work in relation to CTA.</p> <p>The BOD has decided to pay a nominal fee for TSC employees depending on the work carried out.</p> <p>However, a provision has not yet been made and no records found in the final financial reports.</p>

Key focus areas	Our Observation	Remarks, if any
		<p>The rental charge for the registered office building is being paid by the TSC. Thus, it is not reflected in the CTA's financial statements.</p> <p>The expenses incurred for the bank guarantee is expected to be reflected in the final accounts of the year 2013/14.</p>
Income tax expenses	<p>The company is liable to pay tax in accordance with the provisions of Inland Revenue Act No 10 of 2006 and the amendments thereto.</p> <p>No provision has been made during the year between 2013/12 to 2008/09 for income tax.</p> <p>However in year 2012/13 CTA has incurred a tax expense of Rs 72,981 inclusive of all the tax expenses accrued for previous years which have been presented as an operating expense of the year.</p>	

Key focus areas	Our Observation	Remarks, if any
Revaluation Gain/ loss	A gain of Rs 33,055,840/= was generated from the revaluation of the land in 2012/13.	
Profit	<p>Operating profit shows a significant reduction since 2008 /09 due to the drop in interest income.</p> <p>The total comprehensive income has increased from Rs 227,752/= to Rs 33,169,838/= during years 2012 and 2013 due to the revaluation gain of Rs 33,055,840/= during year 2012/13.</p>	

Key focus areas	Our Observation	Remarks, if any
Statement of Financial position		
Property, Plant and Equipment	<p>During year 2011/12 CTA has acquired a land of 312 perches in Kosgoda worth Rs 1,264,160/=.</p> <p>CTA has not invested in any other fixed asset other than the land.</p> <p>No depreciation is carried out since CTA does not have depreciable assets.</p>	<p>The land was revalued in 2012/13 by chartered re-valuer and fair value is reflected at Rs 34,320,000/=.</p> <p>CTA should have a depreciation policy for future depreciation of fixed assets.</p>
Investment	<p>During the year 2006/07 CTA has opened a FD (A/c No: 00320021748) in Commercial Bank of Ceylon PLC.</p> <p>Another FD was opened in Commercial Bank of Ceylon PLC (A/c No: 003020023913) during the year 2007/08.</p> <p>During the year 2011/12 the above two FDs were closed and a new FD was opened in DFCC bank worth Rs 3,500,000/= which has been subsequently withdrawn and Rs. 2,000,000/= was re-deposited at NDB to fulfilling the requirement for the bank guarantee .The remainder has not yet been invested.</p>	

Key focus areas	Our Observation	Remarks, if any
Trade and other Receivables	<p>Receivables are stated at the amounts they are estimated to realize, net of provision for bad and doubtful debts.</p> <p>CTA does not have trade receivable where receivables comprise of income tax assets, other receivable and cash at bank.</p>	
Cash at Bank	Occasionally the bank account had been in overdraft status. Cash flow forecasting will be a key requirement when the construction project and operation commences.	
WC Arrangements	Currently CTA does not have any working capital issue. Therefore CTA does not have any financial arrangement with a third party.	In future CTA is required to have WC arrangements to maintain the liquidity.
Capital Structure	<p>As per the Article of Association the Authorized Share capital is 500,000 shares (Rs 10/= each.)</p> <p>Cinnamon Trading Academy (CTA) Limited was incorporated on 30/06/2006 with a shareholding of Rs 1,900,000/= and in 20011/12 a new director was appointed and has given shares worth Rs 100,000.</p> <p>The total issued share capital as at 31.03.2013 is Rs 2,000,000.</p>	CTA is an un-g geared company where the capital is fully generated through equity and no debts.
Borrowings	CTA has not obtained any borrowing from external parties.	

Key focus areas	Our Observation	Remarks, if any
Off balance sheet transactions	As we observed in the audited financial statements, CTA does not have any off balance sheet transactions to be recorded in the financial statements.	
Reporting and Regulatory Compliance		
MIS Reports		
01. Preparation of monthly financial statements	At present CTA does not prepare monthly financial statements, where the financial accounts are prepared only at the year end.	Day to day financial transactions of CTA has to be recorded on timely basis, so that the preparation of monthly/annual financial reports would be hazard free. Monthly reports should be prepared and submitted to the board member who is in charge of Finance.
02. Adhoc Reports	There has not been any request either by the board or shareholders for any such adhoc reports.	Adhoc reports can be presented on demand if proper records are maintained.
Reconciliations	Currently, CTA maintains its current account at Commercial Bank of Ceylon PLC and all bank statements relevant for the same are filed separately for future reference.	Reconciliations should be carried out for the bank statements.

Key focus areas	Our Observation	Remarks, if any
	However, as per our observation CTA does not carry out any reconciliation for the bank statement or any other reconciliation at the moment.	
Budget and forecasts based on the strategic plan	Currently CTA does not have a proper budgeting process and no financial projection has been done for the coming years.	CTA does not have strategic and operational plans in place to prepare the budgets and financial projections.
Annual returns	Annual returns are prepared and sent to the Company Registrar on time.	
Tax returns	Tax returns are prepared and send to the Inland revenue.	
Ratio Analysis		
Has CTA carried out an analysis of their financial performance?	Proper analysis of financial performance in terms of profitability, liquidity etc. cannot be carried out since CTA does not have key revenue sources, trade payable/ receivables, borrowings.	

Key focus areas	Our Observation	Remarks, if any
Monitoring & Controls		
Has CTA segregated the work among the finance team members ensuring the smooth finance functioning?	There is no such segregation in place.	It is recommended to implement a proper internal control mechanism immediately after commencement of CTA.
Has any internal control mechanism been implemented in order to mitigate any foreseeable fraud?	There is no proper internal control mechanism to mitigate frauds.	Work should be segregated among finance team members to strengthen internal controls.

2.2 Finance due diligence Conclusion

As per the company auditor's, SJMS Association opinion, Cinnamon Training Academy (CTA) has prepared its Financial Statements in accordance with the Sri Lanka Accounting Standards and as per the requirements of the Company's Act No 07 of 2007 with a true and fair view. CTA as an unquoted public limited company does not have an obligation to publish the financial statements to the public. However the annual returns have been prepared and sent to the Company Registrar on time, since incorporation.

There have been no major transactions occurred since incorporation other than the purchase of land and revaluation of the land. At present CTA does not have major revenue sources and the other income is generated from the interest on fixed deposits on banks. The operating expenses include tax payments, audit fee, professional charges, bank charges and annual return fee.

At present the major funding sources for CTA are as follows:

- United Industrial Development Organization (UNIDO) for the capacity building and infrastructure development
- Sri Lanka Government is funding for the construction of the academy
- Unutilized reserve fund of Rs 1.1 Mn donated by IFEAT during the Tsunami Period

Section 03:

Annexure

Annexure 01- Statement of Comprehensive Income

Rs

	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Income							
Revenue	-	-	-	-	-	-	-
Other Income							
Interest on FD	337,449	239,662	303,416	382,726	720,063	381,469	19,945
Firewood sale	-	10,000	-	-	-	-	-
Total Income	337,449	249,662	303,416	382,726	720,063	381,469	19,945
Less: Operating Expenses	223,451	21,910	78,518	16,958	19,778	15,250	8,502
PBT	113,998	227,752	224,898	365,768	700,285	366,219	11,443
Less: Income tax expense	-	-	-	-	-	57,792	997
Profit for the year	113,998	227,752	224,898	365,768	700,285	308,427	10,446
Other comprehensive income							
Gain on revaluation	33,055,840	-	-	-	-	-	-
Total Comprehensive income	33,169,838	227,752	224,898	365,768	700,285	308,427	10,446
EPS	165.85	1.14	1.12	1.83	3.50	1.54	0.05

Annexure 02- Statement of Financial Position

Rs

	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Assets							
Property, Plant and Equipment	34,320,000	1,264,160	-	-	-	-	-
Investment	3,500,000	3,500,000	4,626,859	4,353,785	3,918,739	3,361,273	2,017,950
Current Assets							
Income tax asset	157,114	135,146	121,961	91,619	43,283	-	-
Cash at bank	-	119,959	39,628	111,966	128,923	145,701	1,054,951
Other receivable	237,230	-	-	-	100,656	-	-
	394,344	255,105	161,589	203,585	272,862	145,701	1,054,951
Total assets	38,214,344	5,019,265	4,788,448	4,557,370	4,191,601	3,506,974	3,072,901
Equity and Liabilities							
Shareholder Equity							
Stated Capital	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	1,900,000
Retain Profit	1,951,566	1,837,568	1,609,815	1,384,917	1,019,148	318,863	10,436
Revaluation Reverse	33,055,840	-	-	-	-	-	-
Tsunami Fund	1,157,453	1,157,453	1,157,453	1,157,453	1,157,453	1,157,453	1,157,453
Total Equity	38,164,859	4,995,021	4,767,268	4,542,370	4,176,601	3,476,316	3,067,889
Current Liabilities							
Accrued Expenses	24,244	24,244	21,180	15,000	15,000	12,000	6,010
Bank Overdraft	25,241	-	-	-	-	-	-
Income tax payable	-	-	-	-	-	18,658	(998)
Total liabilities	49,485	24,244	21,180	15,000	15,000	30,658	5,012
Total equity and liabilities	38,214,344	5,019,265	4,788,448	4,557,370	4,191,601	3,506,974	3,072,901

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