Sri Lanka Institute of Nanotechnology (Pvt) Limited - 2024/2025

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Nanotechnology (Pvt) Limited "Company" for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 and the statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities (SLFRS for SMEs).

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities (SLFRS for SMEs), and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibilities for the Audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard for Small and Medium Sized Entities (SLFRS for SMEs).

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Although the net vale of error adjustment amounting to Rs.17,179,872 were made to the accumulated retained earnings as deductions of Rs..21,226,486 and additions of Rs.4,046,614 for prior year adjustments, in accordance with paragraph 10.21 of Sri Lanka Accounting standards for small and medium sized entities (SLFRS for SMEs), comparative figures had not been restated. Further required disclosures had not been made in the financial statement in accordance with paragraph 10.23 of the standard.	The Company acknowledges the observation regarding prior period errors under Paragraphs 10.21 and 10.23 of SLFRS for SMEs. Adjustments of Rs.17,179,872 to administrative expenses and a revenue reversal for 2023/2024 were recorded in the current period.	Comparative figures of adjustments on prior period errors should be restated and the required disclosures for prior period errors should be made in accordance with the Sri Lanka Accounting Standard for SMEs.
(b)	In accordance with section 17.19 of Sri Lanka accounting standard for small and medium sized entities, an action had not been	Management wishes to highlight that fully depreciated assets cannot be reassessed in the ERP	Action should be taken to review and record the useful life and residual value of fully

	taken to review the useful life and residual value of assets and record accordingly which were totally depreciated by 31 March 2025 but are still in use amounting to Rs.1,021,841,413.	system, as the reassessment of useful life is expected to be performed within the originally estimated useful life of the asset. Performing a reassessment of fully depreciated assets solely for reporting purposes would require significant resources and may result in an unnecessary financial burden.	depreciated assets in accordance with the Sri Lanka Accounting Standard for SMEs.
(c)	A building with a cost of Rs.3,441,163,367 is depreciated at the rate of 3.33 percent, while capital allowances at the rate of 5 percent had been claimed for income tax. However, due to non-consideration of taxable temporary difference when computing deferred tax, an understatement of the deferred tax liability by Rs.8,635,114, had been observed. Further, the financial statements were not in compliance with Section 29 of Sri Lanka Accounting Standards for small and medium sized entities.	The Company acknowledges the observation regarding the deferred tax liability on Building 1B. The deferred tax liability will be adjusted, and the related deferred tax expense will be reflected in the financial statements.	Differed tax liability or asset should be calculated by considering capital allowances and accounted in compliance with Section 29 of the Sri Lanka Accounting Standard for SMEs.
(d)	According to Paragraph 27.2, of the Sri Lanka Accounting Standard for small and medium sized entities (SLFRS for SMEs) an entity shall assess each reporting date whether any inventories are impaired. However the provisions had not been made for obsolete inventory, which were in financial statements as work in progress amounting to Rs.2,310,960 and finished goods amounting to Rs.1,412,601 related to the Nano fertilizer project, abandoned in 2022, general	The Company agrees with the observation. Management will assess the carrying value of all inventories at each reporting date and make appropriate provisions for slow-moving or obsolete items, including the Nano fertilizer project and the general chemical library, in accordance with Paragraph 27.2 of SLFRS for SMEs.	Assessments should be made for impairments of inventories and provisions should be made in accordance with the Sri Lanka Accounting Standards for SMEs.

	chemical library balance of Rs.2,726,697, remained almost non-moving since 2018.		
(e)	According to Paragraph 33.7 and 33.9 of the Sri Lanka Accounting Standard for Small and Medium Sized Entities, disclosure of key management personal compensation, the Company had not been disclosed the salary and allowances amounting to Rs.13,636,041 paid to the Directors, the loan obtained from the Company shareholders at a concessionary annual interest rate of 5 percent, and the details and terms of this transaction in the financial statements.	With regard to the disclosure of key management personnel compensation, the Company notes that the former CEO has submitted a letter of resignation from the Board, which can be verified with the Company Secretary. Accordingly, his salary and allowances are not required to be disclosed in the financial statements. Regarding the related party loan, management will take the necessary steps to disclose the loan obtained from MAS Capital (Pvt) Ltd., including the terms and conditions, in accordance with Paragraph 33.9 of SLFRS for SMEs.	Key management personnel compensation should be disclosed in accordance with the Sri Lanka Accounting Standards for SMEs, irrespective of any subsequent resignation or change in position during or after the reporting period.

1.5.2 Accounting Deficiencies

	Audit Observations	**Management Comment**	**Recommendation**
(a)	The Company had not been taken action to issue shares for the capital funds amounting to Rs. 226,058,502 received from the Government budget allocation for the year under review. Instead, this amount had been recorded as an advance received from a related party.	The Board of Directors of SLINTEC will take the necessary steps to issue shares for these capital funds and ensure appropriate disclosure in the financial statements in accordance with Section 33.8 of SLFRS for SMEs.	The company should take necessary action to issue shares for the capital funds.
(b)	The Company had not taken action to issue shares to the Government for grants received amounting to Rs. 2,079,917,175 as capital contributions during the period from 2012 to 2024.	The necessary steps will be taken to issue shares in line with the applicable approvals and requirements.	The company should take necessary action to issue shares in line with the applicable approvals and requirements.

1.5.3 Going Concern of the Organization

Audit Observation	Management Comment	Recommendation
I draw attention to Note 2.6 in the financial statements on going concern of the company. The company has suffered from an accumulated loss of Rs.1,403,743,526 at the end of the year under review and as of that date, the company's total liabilities exceeded its total assets by Rs.41,234,049.	This has been addressed on the EGM (Emergency General Meeting)	The going concern status of the Company should be carefully assessed and given due consideration.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Paragraph 6.6 of the Operational Manual for the State Owned Enterprises introduced by Public Business Circular No. 01/2021 dated 16 November 2021.	The final accounts for the year ended 31 March 2025, were submitted on 29 September 2025, with delay of 03 months and 29 days and draft annual report had not been submitted even at the reporting date. The annual report for the year 2022 and 2023 had not been presented to the parliament up to the date of the audit.	Due to the change in management during the period, there was a delay in board approval. The Company acknowledges the delay in presenting the annual reports to Parliament.	Annual Financial Statement and draft annual report should be handed over to the Auditor General and annual report should be presented to the parliament before the due dates mentioned in the Manual of the State Owned Enterprises.
(b)	Section 11 Public Finance Circular No.01/2020 dated 28 August 2020	The annual physical verification of fixed assets for the financial years ended 31 March 2024 and 2025 had not been conducted.	Annual physical verification of fixed assets was not conducted for the year ended 31 March 2024 due to staff shortages. The physical verification for the year ended 31 March 2025 was carried out.	The annual physical verification of fixed assets should be conducted according to the circular.

1.7 Non -compliance with Tax Regulations

Audit Observation	Management Comment	Recommendation
The company had not remitted the VAT amounting to Rs.32,703,895 and SSCL amounting to Rs.12,793,815 due from August 2023.	Discussions have been initiated with the Inland Revenue Department to obtain a structured payment plan, while Ministry intervention is being sought to facilitate the settlement of the SLIBTEC-related VAT in coordination with the IRD.	Management should take prompt action to remit the outstanding VAT and SSCL amounts in compliance with applicable statutory requirements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.140,834 and the corresponding profit in the preceding year amounted to Rs.10,253,101. Therefore a deterioration amounting to Rs.10,112,267 of the financial result was observed. The main reasons for the deterioration are increase in the impairment of trade receivables by Rs.64,578,381 and research and development costs by Rs.30,484,778, respectively against the increase in revenue by Rs.76,631,726 and the decrease in administration cost by Rs.4,620,953.

3. Operational Review

3.1 Management Inefficiencies

Audit observation	Management Comment	Recommendation
The company had entered into an agreement with an Indian company on 15 March 2012, to transfer Nano fertilizer development technology, and the total value of US$2,250,000 had been scheduled to be recovered in four instalments. However, only a sum of US$1,000,000 had been settled on time as per the agreement, and a sum of US$750,000 was not yet received though the invoice had been sent on 30 June 2013.	Nagarjuna bought the rights to a slow release fertilizer and paid a sum of US$ 1.0 million. They were due to pay a second tranche along with SLINTEC transferring the patent. However, due to financial challenges the client was unable to settle the dues. We also have not released the patents which are in our name and also issued a letter to client indicating that we will proceed to monetize our patent in the event we do not receive the balance amount due	According to the agreement receivable income should be collected.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
The Chairman has been handling the executive functions of the Company since September 2025.	As per the Board paper approved in August 2025, the Chairman had requested to oversee the operations of the Company on an interim basis until the appointment of a Chief Executive Officer. This arrangement was intended as a temporary measure to ensure continuity of operations during the leadership transition period. The Company acknowledges the importance of maintaining a clear separation between governance and executive functions and will regularize the arrangement upon the appointment of the CEO.	Action should be taken to appoint the CEO.

3.3 Idle or underutilized Property, Plant and Equipment

	Audit Observation	Management Comment	Recommendation
(a)	A greenhouse had been established in 2017, by incurring Rs.65,873,148, including a government grant amounting to Rs.32,372,109, the greenhouse has not been utilized to its full capacity and remains mostly inactive. Due to this, the Company had not achieved the intended objectives of greenhouse, as of the reporting date.	The facility has been utilized for internal and collaborative agricultural research activities and the greenhouse facility has been made available for collaborative engagements, including with Codgen and LOLC Advanced Technologies. Further, management is currently engaged in discussions with Lankem (Private) Limited to rent out the greenhouse facility on a long-term basis	Assets should be fully utilized for the intended purposes.
(b)	The Active Pharmaceutical Ingredient (API) Pilot Plant strategic project, which had been initiated in 2017, was intended to support the	Slintec completed the lab scale testing, achieved the necessary killo scals, and obtained the Certificate of Analysis, and our BD team presented the product to Sri Lanka State Phamasuitials,	Assets should be fully utilized for the intended purposes.

	development of pharmaceutical production in Sri Lanka and promote the local manufacture of active ingredients. It was incurred a sum of Rs.89,946,023 to establish the pilot plant through government grants. Despite the successful research conducted at the laboratory level, the project has since been abandoned and has not achieved any of the anticipated economic or social benefits.	who asked to invest individually or collectively in an API pilot project at Hambanthota. The SLPM believed that this should be funded by the private sector rather than the government, so this project was abandoned in accordance with their opinion. Some of these equipment are being used by Mineral Laboratories and Natural Product Laboratories for other R&D projects.	
(c)	Although a plant for the production of Nano fertilizer at a cost of Rs.24,072,287 had been established, the operations of this plant were discontinued and the project was abandoned in 2022. As a result, the entire investment relating to this project remains idle without utilizing the resources effectively.	The project, initiated in 2009, had been progressed from laboratory to pilot scale, gaining local and international recognition, including a technical collaboration with an Indian fertilizer company in 2012. A mini-scale production plant established in 2017 supported scalability and field trials. However, production was suspended due to insufficient policy and financial support for commercialization. Its discontinuation in 2022 was due to external factors beyond management’s control.	Assets should be utilized for the intended purposes, effectively.
(d)	The company had constructed two hostel buildings with 62 rooms to provide in year 2021 and out of that 30 rooms had remained idle at the end of the year under review.	Out of the 30 rooms identified as idle at year-end, 4 belong to SLIBTEC under the tenant agreement. The remaining 26 rooms are in the process of being allocated to employees based on requests and operational needs; therefore, they are not considered permanently idle.	Assets should be utilized for the intended purposes, effectively.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation	Management Comment	Recommendation
A strategic plan had not been prepared by the Company.	This observation is not accepted. An annual Action Plan is duly prepared each year and submitted to the Line Ministry in compliance with the applicable requirements. Further, the Company Management is in the process of preparing the Strategic Plan, which is scheduled to be presented to the Board for review and approval in January 2026.	The Company should be prepared a strategic plan.

4.7 Audit Committee

Audit Observation	Management Comment	Recommendation
The company had not established an audit committee as required by the guidelines of the Corporate Governance.	The Audit Committee was established in August 2025 in compliance with the applicable guidelines. However, the appointed Audit Committee Chairman resigned prior to the end of December 2025, resulting in the committee becoming non-functional.	The Company should be established an Audit Committee in accordance with the Corporate Governance guidelines.