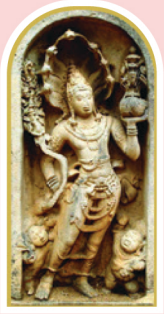


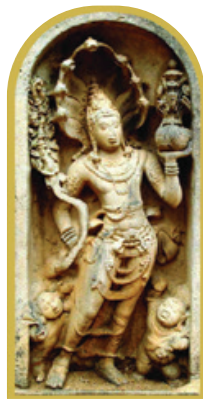
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வருடாந்த அறிக்கை
Annual Report

2005 / 2006



**LANKA
SATHOSA**

GRACEFULLY FORWARD



**LANKA
SATHOSA**

GRACEFULLY FORWARD

Lanka Sathosa Limited

Annual General Meeting 2005 / 2006



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Message of the Minister

It is with great pleasure I wish to convey my sincere good wishes to Lanka Sathosa Limited on its first Annual General Meeting.

Lanka Sathosa Ltd. was born out of a far sighted political decision to ease the burden of soaring cost of living by providing essential commodities to the consumer public at a reasonable price.

The employees who had lost their employment after the cessation of the "Sathosa Retail Limited" have been absorbed to the cadre of Lanka Sathosa Limited, fulfilling one of the primary objectives of setting up of the Lanka Sathosa Limited. Further it has set up retail outlets throughout the island to market essential food commodities at affordable prices. Thus it has won the confidence of the consumer public which has helped Lanka Sathosa to grow from strength to strength within a short period of time. Lanka Sathosa has not restricted itself only to serve the urban population as most private supermarkets do, therefore it has reached the masses in the remote villages. In addressing the burning issue of rising milk powder prices, Lanka Sathosa Limited has introduced two brands of milk powder products by the name of "Lak Sathosa" and "Candy milk powder" which has compelled the private sector milk powder suppliers to rethink to their pricing strategy.

A company which came into being as a brainchild of His Excellency Mahinda Rajapaksa, the President of Democratic, Socialist, Republic of Sri Lanka, I thank the Chairman and the Board of Directors of Lanka Sathosa Ltd. For their commitment and contribution in fulfilling the objectives spelled out in the "Mahinda Chintanaya" for a better Sri Lanka.

I wish them success in their future endeavours.

Bandula Gunawardane

Minister - Trade, Marketing Development, Co-operatives & Consumer Services
Colombo.

23rd June 2008





Chairman's Review 05 / 06

I as the chairman of Lanka Sathosa Limited have the pleasure and privilege to deliver this message and review the performance at this special event Annual General Meeting 2005 – 2006, which is the first Annual General Meeting of Lanka Sathosa Limited.

Lanka Sathosa Limited was incorporated in October 2005 to carry on the business of sale and distribution of essential goods of every description and other commodities to the consumer public at an affordable price prices, Lanka Sathosa Ltd has played a vital role in reducing the burden of inflation on common people and has secured jobs of Sathosa Retail employees which has relieved government of the financial and political stigma. It is not denied by the public that our outlets have contributed to their needs as a state entity as promised by "Mahinda Chinthaya" such as opening food supply outlets in each village or province, as relevant either by a Lanka Sathosa outlet or a cooperative. Lanka Sathosa will strive to become the largest retail network in Sri Lanka and become the most powerful and effective arm of the government in curbing inflation in order to make life's of people happy and prosperous.

The first Lanka Sathosa outlet was opened in December 2005 in Negambo and subsequently another 8 outlets were opened bringing the total number of outlets to 9 by the end of the financial year 31 March 2006.

During the period under review we recorded a turnover of Rs.30.8Mn, which is less the break-even level of Rs. 53 Mn. but has now exceeded upon achieved improvements thereafter. The Company had to undergo numerous difficulties in sourcing commodities due to previous bad experiences the suppliers had a with Cooperative Wholesale Establishment, which led to the non-availability of certain products thus contributing to the lower turnover recorded. I emphasise on the reports given by the Heads of Departments specially the statements and graphs made by the Finance Division which shows that our organization shall excel in near future. Records show a clear improvement during the calendar year 2007 and upto now.

At present we have 80 outlets as a result of the efforts and commitment of the staff against all the challenges and limits envisaged as a state owned organization.

Our mission is to create a competitive Retail Body in the country to provide quality goods at lowest prices. I believe Lanka Sathosa Limited as a self managed public company will definitely grow in its performance as placed in this book as endorsed by the staff.

Therefore I am of the view that Lanka Sathosa Limited and its future is bright upon its recorded performances.



Nalin Fernando
Chairman
24th May 2008



Board of Directors of Lanka Sathosa Limited



Standing from L to R – Mr. Errol M. A. Weerasinghe, Mr. D. Widnagamachchi & Mr. A. P. G. Kithsiri
Seated from L to R – Mrs. D. S. C. T. Roshanie D. Rathnayaka, Mr. Nalin R. Fernando (Chairman),
Dr. R. M. K. Rathnayeke & Mr. Sajith Ruchika Attygalle.



Lanka Sathosa Limited

Review of the Human Resources Division for the Annual General Meeting

The Past

Lanka Sathosa Limited, assumed its operations in late December 2005 with a staff of 27 employees having the first sales outlet in Negombo. Since then the Company initiated opening of other outlets to maximize the steady growth of its Business. The staff taken at the initial stage was the employees who didn't opt for the VRS scheme offered by the Sathosa retail Limited, at the time of their closure. Accordingly, we recruited the man power only for the need of a particular unit considering the required quality and the number. By this we controlled the minimum staff to man each profit centres. Over staffing at our outlets were never allowed.

We initiated a comprehensive performance appraisal scheme that would eliminate the underperformers and to keep the best staff from the cadre. The evaluation process covers the initial period of first 3 months and after the probationary period of 6 months. At all these stages the evaluation process gives the wide opportunity for the employee to communicate and discuss their weak areas and to correct them.

During the first year of our operation we managed to open 47 outlets employing a total of 453 employees and on 12th of June 2006, we managed to open 10 retail shops covering the area of Chilaw to Moratuwa.

In year 2007, we managed to have a total of 68 shops employing 605 employees. During the second year of our operation we had to introduce fresh employees from outside as the number of staff needed for our rapid expansion was not merely enough. However, we maintained the total manpower of the Company to averaged around 9.10 employees per unit. This number was healthier to maintain as a new business entity which commenced with a zero business.

The Present

By the end of March 2008, we managed to open 74 shops and presently we have a total staff of 716 having opened 80 outlets. We currently run to distribution centers in Weerawila and Ratnapura and 2 Ware House operations that are located in Colombo.

We initiated Staff Training programmer that covered a total segment of staff especially, the leaders. These programmes were designed to deliver subject areas such and team work, attitude development, selling skills etc. Many in-house programmes were also conducted in a regional level by our unit Managers such as Finance, Operations, Procurement and Human Resources. Our emphasis at these sessions was to establish discipline within our staff and the other related operational strategies. These programmes benefited and changed most of our staff but we believe in continues training that would bring about a successful operation in the future.

The Future

Since the Human Resources factor of our Company will definitely be the success of its future we have embarked on various strategies that would benefit the employees too. One of the future plans will be to have an employee welfare fund that would be beneficial for the staff, Further, in early January 2008, we started the annual staff get-together for the benefit of the total employees in all levels and categories. This was a highly successful event that brought the relationship bond and the team spirit of our staff. Having a happy staff will no doubt bring success to its business of Lanka Sathosa in the future.

Priyal Perera

Director HR & Administration

24th June 2008

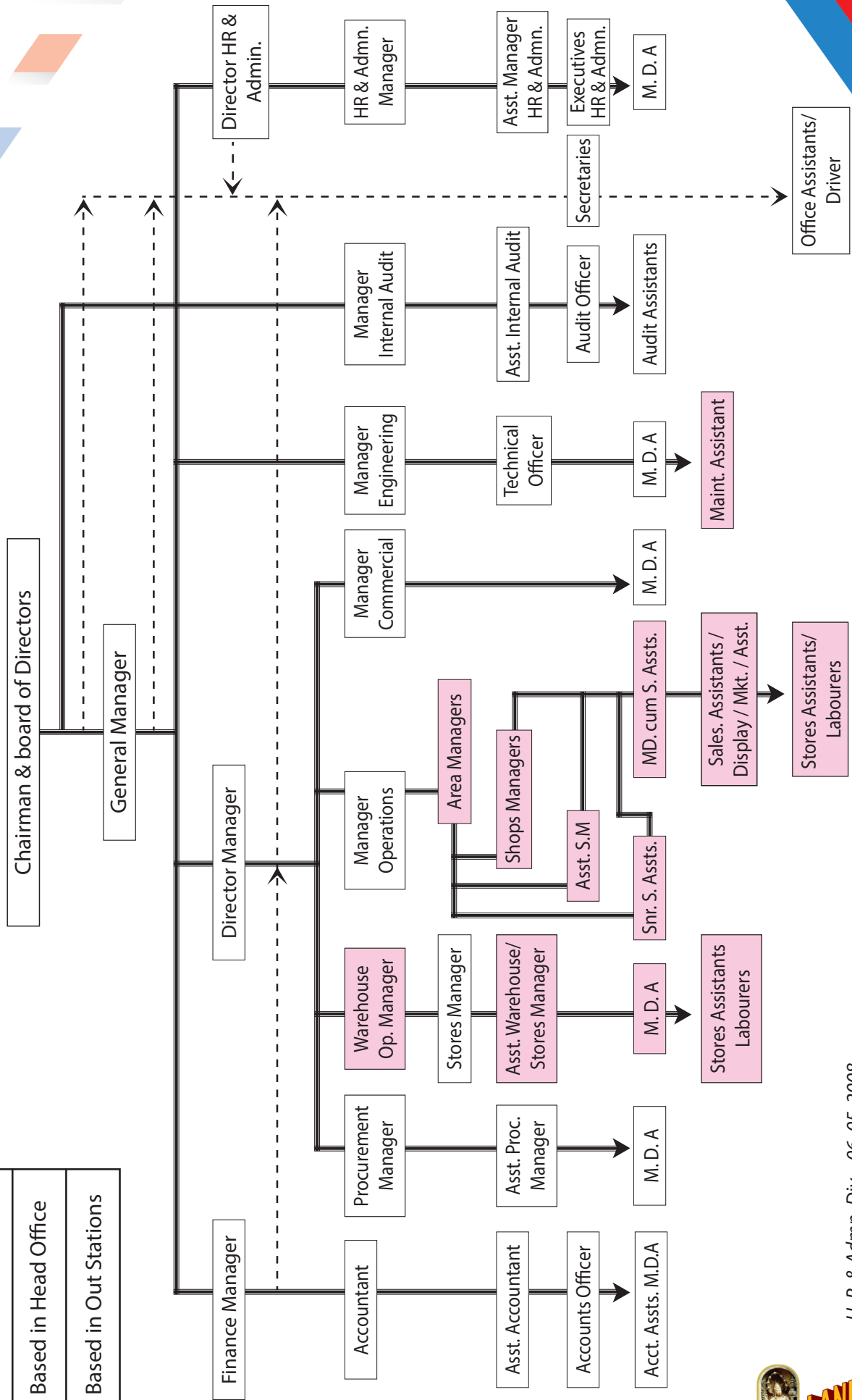
Designations at Present & to be Created

Categories with Positions		No. in the Position	Existing Total Staff
01	General Manager		03
02	Directors		03
	Finance Manager	01	
	Director Operations	01	
	Director HR & Admn	01	
03	Senior Manager		02
	Manager Engineering	01	
	Manager Commercial	01	
	Manager Operations		
04	Middle Manager		03
	Procurement Manager	01	
	Accountant	01	
	Warehouse Operations Manager	01	
	HR & Admn. Manager		
	Internal Auditor		
05	Junior Manager		09
	Manager Internal Audit	01	
	Area Managers	08	
	Stores Managers		
06	Senior Executives		11
	Assistant Accountant		
	Assistant Procurement Manager	01	
	Assistant Manager HR & Admn		
	Shop Managers	06	
	Assistant Internal Auditor	01	
	Technical Officer		
	Asst. Warehouse / Stores Manager	03	
07	Junior Executives		16
	Accounts Officer	01	
	Executive HR & Admn.	03	
	Audit Officer		
	Personal Assistant / Secretary	02	
	Assistant Shop Manager	10	
08	Clerical & Allied Grades		139
	Multi Duty Assistants	51	
	Accounts Assistant	06	
	Audit Assistants	05	
	Senior Sales Assistants	54	
	M/D cum Sales Assistants	23	
09	Sales / Technical Staff		205
	Sales Assistants	203	
	Maintenance Assistants	01	
	Display / Marketing Assistants	01	
10	Stores or Aligned Grades		317
	Stores Assistants	282	
	Office Assistant	02	
	Driver	01	
	Labourers	32	

Total No. of Employees in Service as at date 31st May 2008 705

Organisation Chart based on Reporting Authority - Lanka Sathosa Limited

	Positions to be created
	Based in Head Office
	Based in Out Stations



H. R. & Admn. Div. - 06. 05. 2008





Report on Annual Year 2005/2006

Operation Division

Shops-2006

- During the year 2006 we opened 50 Retail Outlets.
- The Negombo shop and the Wennappuwa shop had to be shifted. The landlords wanted the buildings used during CWE period.
- The Dematagoda shop, Dehiwala shop and Ambalanthota shop were closed. The landlords wanted the buildings. But we couldn't find an alternative place.
- Pugoda was closed due to it was a loss making shop.
- We were requested to open Veyangoda and Dambulla in the Economic Center. But due to our inability to make profit. We have to close them.
- We were requested to open a shop inside the Welisara budget shop complex. This shop also we had to close due to inability to make profit due to price competition.
- We were requested to open a wholesale shop at Weeravila Economic Center and we are using it as a distribution center also.

Shops-2007

- We opened 20 Retail Outlets in 2007.

Purchases & Sales

Period	Total purchases of Provisions, Groceries, Liquor	Total sales
Year 2006	651 M.	591Mn.
Year 2007	2032 Mn.	2204Mn.

Bank Guarantees

- In 2006 we had as Bank Guarantees Rs. 26,050,000Mn.
- In 2007 we increased the Bank guarantee to 28,550,000Mn.
- Supplier confidence has grown and though we have the credit facility for the value of the Bank Guarantee the suppliers unofficially granted us extended credit period. Our cash flow was not achieved as anticipated so there were many days we had to postpone our payments to suppliers and due to this we had to face interruption in the supply of major grocery items in our outlets.
- Our cash flow needs to improve as there were days when we had to postpone payments and due to this our supply of goods by the suppliers were interrupted and there had been out of stock of the major grocery items in the outlets.

Supply of low price items

- The sale of essential items when we sell at the lowest price, we noted that there was a big draw of this specific item. Eg. Milk powder (welfare) packs, Customers come to purchase the lowest priced item only and due to this our shop staff had to impose restrictions and conditions (unofficially). The customers are drawn to our shops only if our essential items prices are low. So we had to endure to source our goods at the lowest possible prices.

Promotions

- M/S Unilevers and Fonterra came forward and sponsored many promotions in our outlets. M/S Daintee Marketing Ltd. Provided us with DJ music inside the shops to attract customers. Many suppliers like Hemas Marketing. Rekitt Benkiser, Lanka Canneries, Wattawala Teas provided us branded offers to enable us to attract customers. We have made use of the suppliers to promote our sales inside our outlets.
- We received bottle coolers, Deep freezers, Name Boards, Price Boards etc. as donation from Unilever, Fonterra Brands, Elephant House, maxies chicken etc, Ceylon Grain Elevators have also promised to grant us Deep Freezers.

Sales

- We have arranged training session to our leaders in the shops to motivate them to improve sales in the outlets.
- The product range has been increased to enable customer to have a better choice.
- Area Managers have been given tasks to monitor sales and to ensure shops are kept clean.

Liquor

- We sell liquor in the 14 outlets, DCSL granted us an increase in their credit limits from Rs. 500,000/- to Rs. 750,000/- from Rs. 750,000/- to Rs. 1 Mn. and from 1 Mn. to Rs. 1.5 Mn. they are not agreeable to grant us over 15 days credit due to the past dues.

Increase Turnover

- The turnover has increased due to our increase in the number of shops. Currently Annual Turnover for 2006 Rs. 590 Mn & for 2007 Rs. 2,204 Mn.

Introduction of new Stock Keeping Units

- All new items that are introduced we approved by a committee headed by Chairman. The newly introduced items are shown to Area Managers and on their request only the new items are sent to the shops.

Report on Proposals for Future Developments

1. Shops

- It is proposed to increase the number of shops and to concentrate to open shops in the Western Province.
- The new shops to be Opened to appear like of Super Market types and to get the landlords to do the necessary renovations like floor files and glass paneling etc.
- The main aim is to attract the younger generation and the newly married couples to come to our shops.
- To change the mind concept of younger generation that Lanka Sathosa is equivalent to cargills and that we provide quality goods at a reasonable price.
- To obtain assistance from big organization like Fonterra, Unilivers to improve the outlook and lightings inside our shop with fixing of Gondolas extra.
- Main aim is to introduces the point of sale machines and to give the customers' a detail bill.

2. Sale

- TO improves sale in the outlets to motivate the workers and to train them to give priority for sale and prevent wastages. To negotiate with suppliers to sponsor promotional activities in our shops. Shop employees to be trained to be efficient to provide a clean and friendly environment.

3. Liquer

- We are exploring the possibility to outsource the 14 nos. of liquer outlets. This will provide a better outlook to our retail outlets and the product range of items can be increased, there by attract all levels of customers to our outlets.

4. Increase turnover

- To increase the turnover of the outlets by fixing targets which are achievable and to fix responsibility on the Area Managers to achieve the target to assist the shops by requesting for procurement of fast moving items and to ensure that shops do not go out of stock of essential items. Ensure the distribution of goods is done efficiency.

5. To reduce unnecessary expenditure.

- To Monitor the cost incurred due to overtime and minimize the same.
- Shops to be noteful about their expenditure, by minimizing the use of telephone electricity & water.

Strategies for future Improvements Lanka Sathosa Limited

Operation Strategy

- Widening the product range.
- Efficiency in stock movement.
- Relocate the loss making outlets.
- Modernizing & developing existing outlets.
- Improve the quality and customer service.
- Increase the market share by being a wide spread retail arm.
- Improve in logistics – Supplier, transportation, warehouse & distribution.
- Systems and procedure to be put in place.
- Capturing the high-end market and widening the product range.
- Introducing our own brands.
- Enter into strategic alliance with new business models.

(Mrs.) V. Wijetilleke

Director Operation

24th June 2008

Report on the Financial Performance of Lanka Sathosa Limited

In the year 2007 December Lanka Sathosa Ltd recorded a profit of over Rs. 16 Million which was almost enough to offset the operating loss of Rs.17M made during the year 2006 as per the draft accounts. During the year 2006 we recorded a revenue of Rs 590M and increased the a revenue by more then two folds to achieve a turnover of Rs.2,204M during the which could be a considered excellent by any Standards.

All figures in "000"

Month	2006		2007	
	Sale	Profit/(Loss)	Sale	Profit/(Loss)
January	3,809	(1,489)	102,364	833
February	10,674	(1,580)	100,641	(2,049)
March	15,439	(391)	128,566	(5,051)
April	21,824	(1,573)	205,645	5,642
May	17,182	(2,527)	100,513	(1,785)
June	27,145	(1,774)	152,553	1,291
July	46,092	(1,079)	186,057	2,092
August	56,241	(801)	214,770	1,314
September	73,462	(3,686)	221,028	1,243
October	85,470	(410)	217,611	4,221
November	90,670	(2,649)	261,237	4,112
December	142,574	(334)	313,361	4,996
Total	590,582	(17,625)	2,204,346	16,859

At the commencement of year 2006 Lanka Sthosa Ltd had only five (5)Outlets and during the year 45 new outlets were opened making it 50 by the end of December 06 and another 18 outlets were opened during year of 2007 and another 10 outlets were opened in 2008 bringing the total number of outlets to 78.

The average turnover per outlets has increased from 2.8M in 2006 to 4.6M in 2007 which is a 60% increase over the last year.

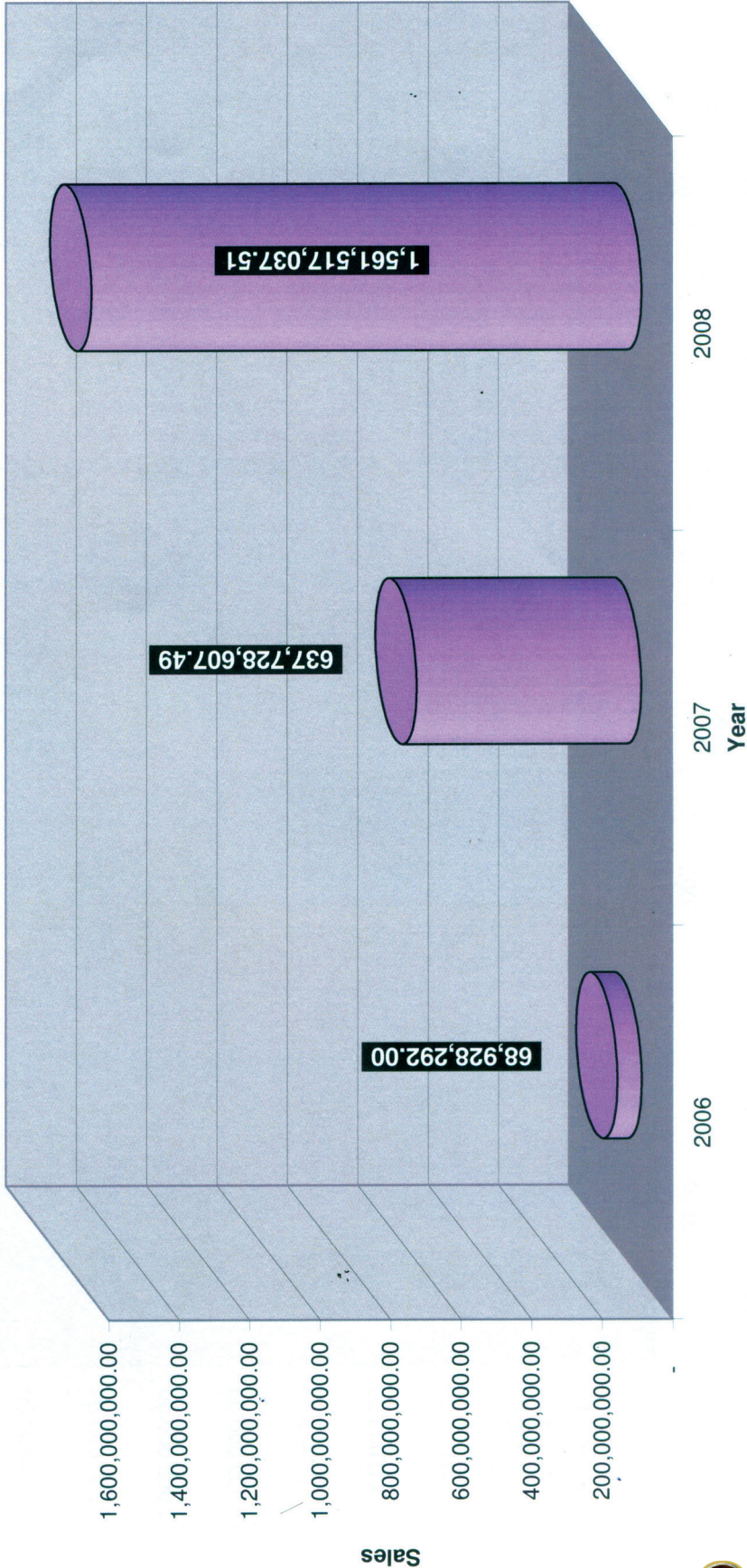
District of Colombo contribute to approximately 30% of sales while Gampha District stands second with 15% and Rathnapura, Badulla, Kaluthara, and Puttalam contribute about 7% each. It is evident from above figures that majority of sales are derived from the Western Province hence more outlets should be opened and the existing outlets should be upgraded to attract more sales.

Average stock per outlets has increased from Rs. 2M to Rs. 4M yet the average stock turnover days have come down from 81 to 27 which is a greater achievement.

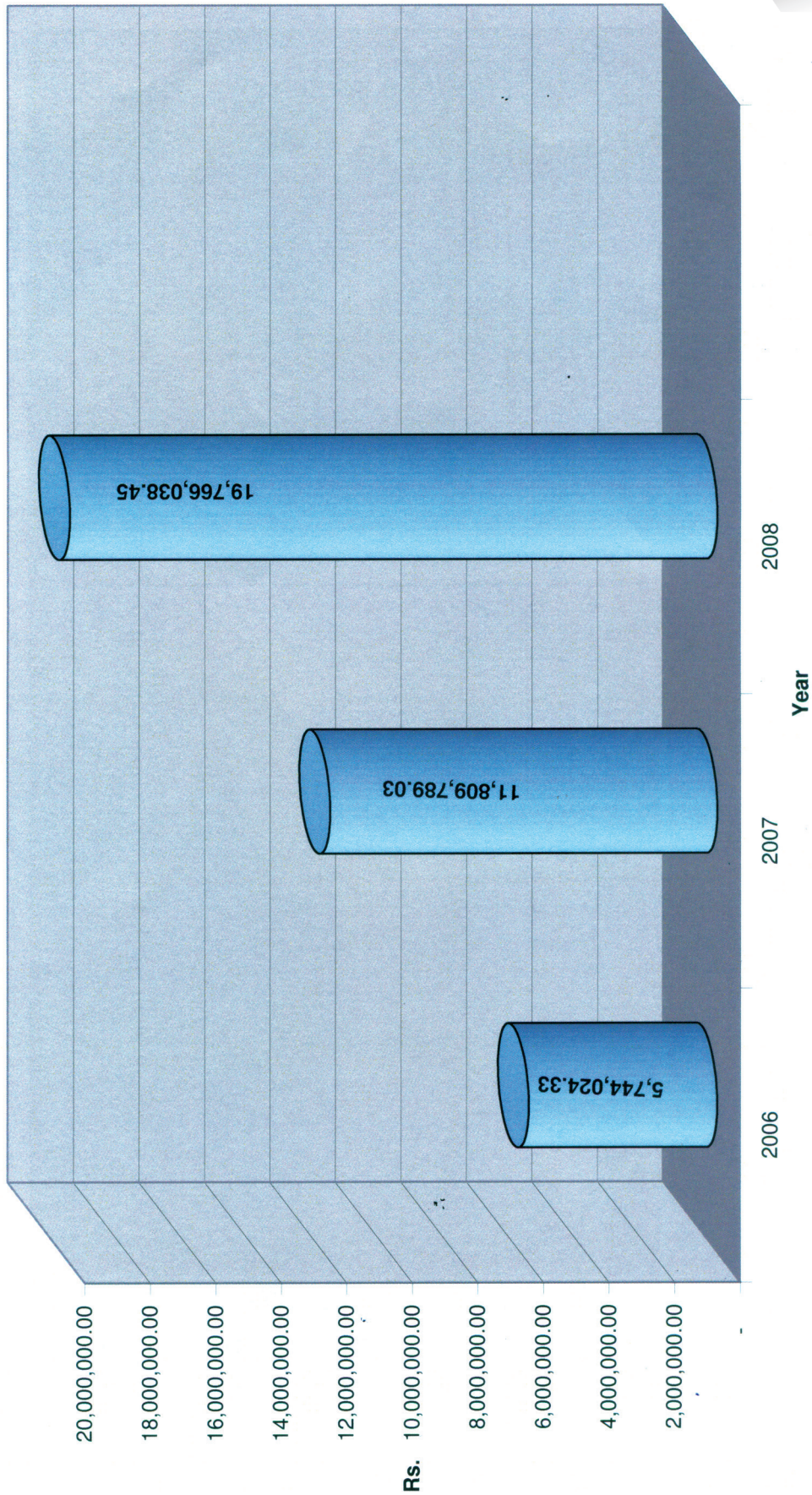
When opening new outlets the company has to spend at least Rs. 5M out of which Rs. 4M for the stock and Rs.1M as capital expenditure. During the year 2007 we received Rs. 64M from the government and opened 18 new outlets thus the company had to pump in the additional funds required leading to difficulties in the cash flow, hence it is recommended that the government facilitate the setting up of new outlets.

Finance Team

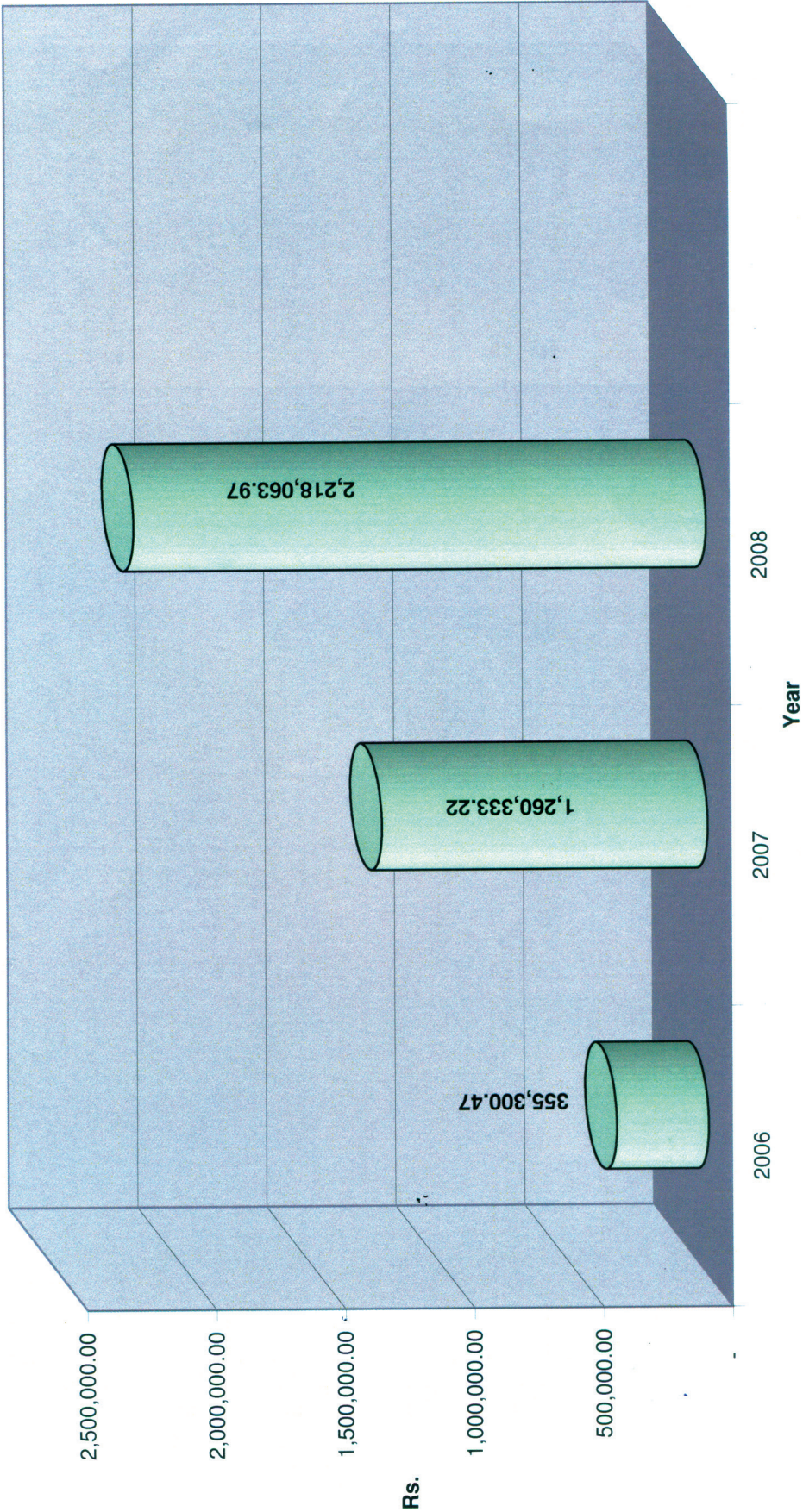
Lanka Sathosa Limited
Gross Turn Over at end of May 2006,
May 2007 May 2008
(For five months period)



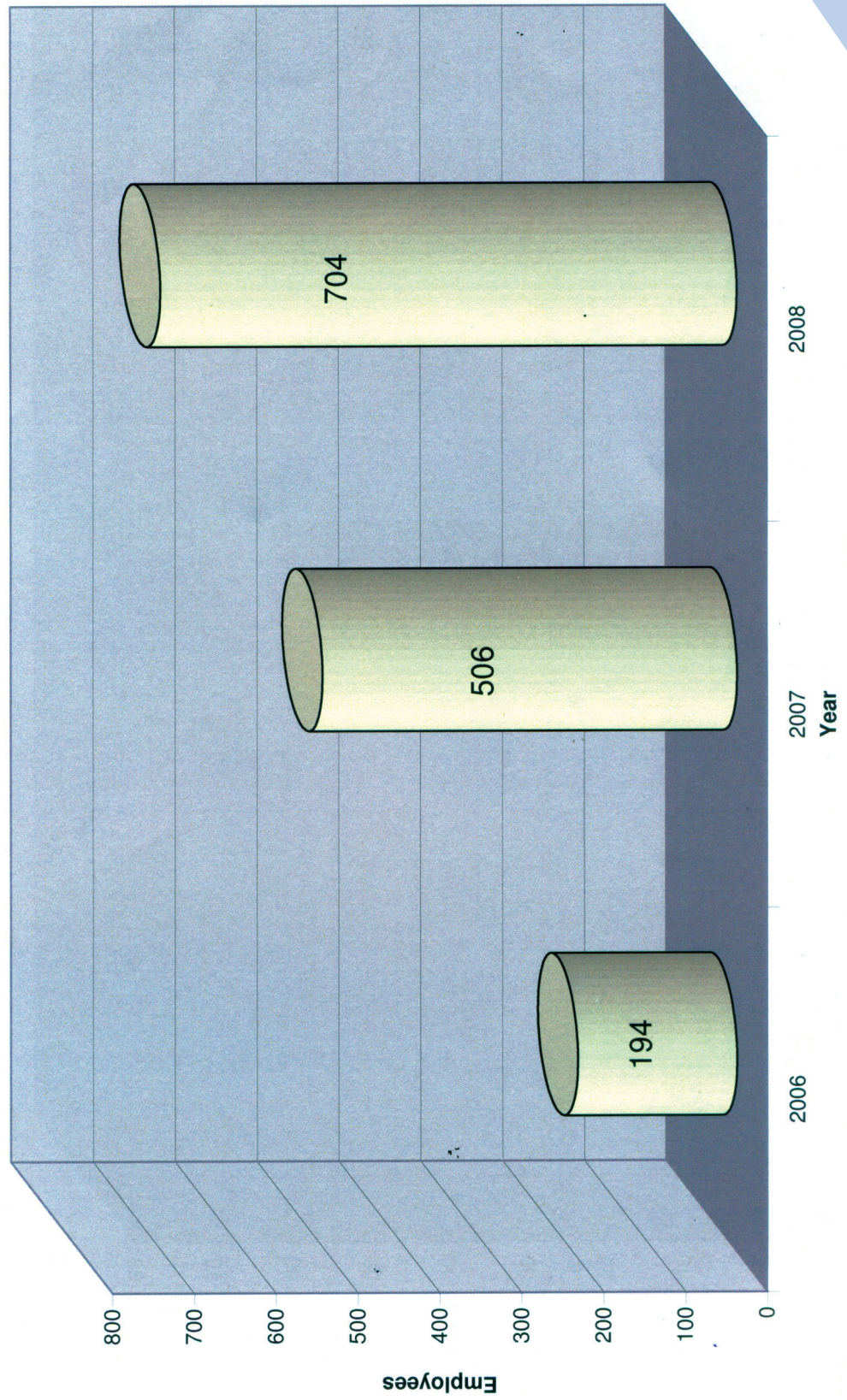
Lanka Sathosa Limited
Average Sales per outlet as at end of
May 2006, May 2007, and May 2008



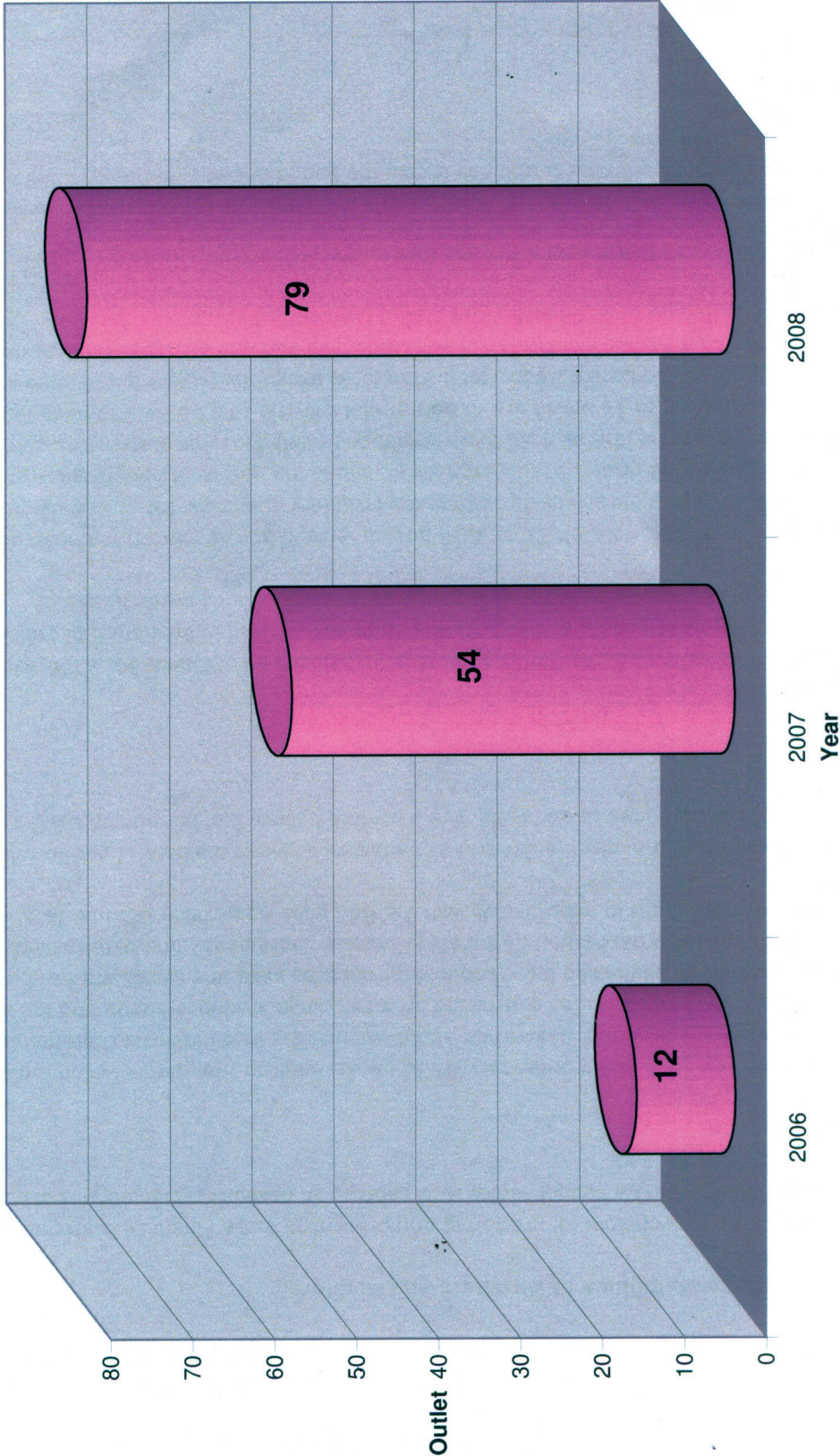
Lanka Sathosa Limited
Average Sales per Employees per period as at end of May 2006,
May 2007, and May 2008
(5 Months Period)



Lanka Sathosa Limited
No of Employees as at end of May 2006,
May 2007 and May 2008



Lanka Sathosa Limited
Outlet Comparison as at end of
May 2006, May 2007 and May 2008





HLB Edirisinghe & Co.

Chartered Accountants

LANKA SATHOSA LIMITED REPORT OF THE AUDITORS.

To the Members of the Board of Lanka Sathosa Limited

We have audited the Balance Sheet of Lanka Sathosa Ltd as at 31st March 2006, and the related statements of Income for the period then ended together with the Accounting Policies and Notes 01 to 14.

Respective Responsibilities of Directors and Auditors,

The Directors are responsible for preparing and presenting these Financial Statements in accordance with Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards, which require that we plan and perform the Audit to obtain reasonable assurance about whether the said Financial Statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and in the said Financial Statements assessing the Accounting Principles used and significant estimates made by the Directors, evaluation the overall presentation of the said Financial Statements, and determining whether the said Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

We did not observe the counting of the physical inventories as of March 31, 2006, since that date was prior to the time we initially engaged as auditors for the company. Owing to the nature of the company's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

In our opinion, except for the effect of such adjustments, if any as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the company maintained proper books of accounts for the period ended 31st March 2006, and to the best of our information and according to the explanations given to us, the said Balance Sheet and related income statements cash flows and the Accounting Policies and Notes 01 to 14 which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards except for Note 1 to the accounts, provide the information required by the Companies Act No. 17 of 1982 and give true and fair view of the state of affairs as at 31st March 2006, and its profit and cash flows for the period then ended.

Directors interest in Contracts with the Company.

According to the information made available to us, the Directors of the company were not directly or indirectly interested in contracts with the Company during the period ended 31st March 2006 except as stated in Note 11 to the Financial Statements.

HLB Edirisinghe & Co.

HLB Edirisinghe & Co.,
Chartered Accountants,
Colombo.

23-Nov-07



45, Braybrooke Street, Colombo 02, Sri Lanka. Telephone: +94 11 2433933 Facsimile: +94 11 2445663, E-mail: info@hibk.com

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Chartered Accountants

LANKA SATHOSA LIMITED

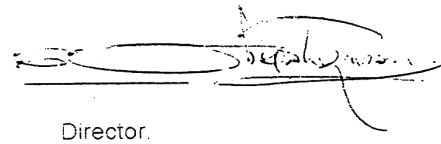
BALANCE SHEET AS AT 31ST MARCH 2006

31.03.06

ASSETS EMPLOYED	<u>NOTE</u>	Rs.Cts.
<u>Non Current Assets</u>		
Property Plant & Equipment	02	556,970.00
Bank Guarantee	03	10,500,000.00
		<u>11,056,970.00</u>
<u>Current Assets</u>		
Inventories		34,854,017.00
Co - Operative Wholesale Establishment		5,923,141.78
Control Accounts	04	230,974.54
ESC		157,565.00
Cash & Bank Account	05	1,940,764.34
		<u>43,106,462.66</u>
TOTAL ASSETS EMPLOYED		<u><u>54,163,432.66</u></u>
EQUITY AND LIABILITIES		
<u>Capital & Reserves</u>		
Share Capital	06	<u>70.00</u>
Retained earning /(Loss)		(3,908,306.51)
Government Fund		<u>46,189,321.00</u>
		<u>42,281,014.49</u>
Total Capital & Reserves		<u>42,281,084.49</u>
<u>Current Liabilities</u>		
Trade Creditors	07	9,227,857.53
Accrued Expenses	08	2,654,490.64
		<u>11,882,348.17</u>
TOTAL EQUITY AND LIABILITIES		<u><u>54,163,432.66</u></u>

The Board of Directors is responsible for the preparation & Presentation of these financial statements
 The Accounting policies and notes to the accounts form an integral part of the financial statements
 Signed for and on behalf of the Board by



 Director


 Director

23-Nov-07



45, Brainerd Street, Colombo 02, Sri Lanka. Telephone: +94 11 2433933 Facsimile: +94 11 2445683, E-mail: info@hibk.com

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HLB Edirisinghe & Co.

Chartered Accountants

**LANKA SATHOSA LIMITED
INCOME STATEMENT
FOR THE PERIOD ENDED 31ST MARCH 2006.**2005/06

	<u>NOTE</u>	<u>Rs. Cts.</u>
Revenue	09	30,802,959.77
Cost of Sales		<u>(25,412,486.14)</u>
Gross Profit		5,390,473.63
Other Income	10	31,026.40
		<u>5,421,500.03</u>
Selling & Distribution Cost		(164,762.90)
Administrative Expenses		(8,860,734.09)
Finance and Other Cost		(304,309.55)
		<u>(9,329,806.54)</u>
Profit / (Loss) before Taxation		(3,908,306.51)
Taxation		0.00
Profit / (Loss) after Taxation		<u><u>(3,908,306.51)</u></u>

23-Nov-07



HLB Edirisinghe & Co.

Chartered Accountants

LANKA SATHOSA LIMITED
 CASH FLOW STATEMENT
 FOR THE PERIOD ENDED 31ST MARCH 2006.

2005/06

CASH FLOWS FROM OPERATING ACTIVITIES**Rs. Cts.**

Profit / (Loss) before taxation	(3,908,306.51)
Operating Profit / (Loss) before Working Capital Changes	<u>(3,908,306.51)</u>
Change in Inventories	(34,854,017.00)
Change in Bank Guarantee	(10,500,000.00)
Change in CWE A/C	(5,923,141.78)
Change in Control A/C	(230,974.54)
Change in Trade Creditors	9,227,857.53
Change in Accrued Expenses	2,654,490.64
Change in ESC	<u>(157,565.00)</u>
Cash used in operating activities	(39,783,350.15)
Less: Tax Paid	0.00
<i>Net Cash outflow from Operating Activities</i>	<u>(39,783,350.15)</u>

CASH FLOWS FROM INVESTMENT ACTIVITIES

Purchase of Fixed Assets	(556,970.00)
<i>Net cash outflow from Investing activities</i>	<u>(556,970.00)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Government Fund received	46,189,321.00
Share issue	0.00
<i>Net cash inflow from financing activities</i>	<u>46,189,321.00</u>
Net increase in cash and cash equivalents	1,940,694.34
Cash & Cash equivalents at the beginning of the period	0.00
Cash & Cash equivalents at the end of the period Note "A"	<u>1,940,764.34</u>

NOTE A - CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD

Peoples Bank	1,314,833.69
Petty Cash Advance	32,683.35
Floating Cash	81,500.00
Cash In Hand	<u>511,747.30</u>
	<u>1,940,764.34</u>

23-Nov-07



45, Braybrooke Street, Colombo 02, Sri Lanka. Telephone: +94 11 2433933 Facsimile: +94 11 2445683, E-mail: info@hnlbk.com

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HLB Edirisinghe & Co.

Chartered Accountants

**LANKA SATHOSA LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31ST MARCH 2006.**

	<u>Retained Earning/(Loss)</u>	<u>Fund A/C</u>	<u>Total</u>
	Rs. Cts	Rs. Cts	Rs. Cts
Balance as at 1st April 2005	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Fund Received	0.00	46,189,321.00	46,189,321.00
Profit/ (Loss) for the Period	(3,908,306.51)	0.00	(3,908,306.51)
Balance as at 31st March 2006	<u>(3,908,306.51)</u>	<u>46,189,321.00</u>	<u>42,281,014.49</u>



HLB Edirisinghe & Co.

Chartered Accountants

LANKA SATHOSA LIMITED
NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31ST MARCH 2006.

NOTE 01 ACCOUNTING POLICIES

1.1 CORPORATE INFORMATION

1.1.1 General

Lanka Sathosa Ltd is a limited liability company incorporated and domiciled in Sri Lanka. The registered office and the principle place of the business of the company is located at No. 108, York Street Colombo 01.

1.1.2 Principle activities and nature of activities.

During the period, the principle activities of the company were retail sales of consumable items.

1.1.3 Number of Employees

The number of employees at the end of the period was 126

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.2.1 Basis of Preparation

The Balance Sheet, Statement of Income, Changes in Equity, and Cash Flows together with the accounting policies and notes ("Financial Statements") of the company as at 31.03.2006 and for the Period then ended, comply with the Sri Lanka Accounting Standards

These Financial Statements are presented in Sri Lanka Rupees have been prepared on a historical cost basis.

1.2.2 Taxation

The provision for Income tax is based on the element of income and expenditure as reported in the Financial Statements and computed in accordance with the provision of the Inland Revenue Act.

1.2.3 Inventories

Inventories are valued at the lower of cost and Net Realisable Value, after making due allowances for obsolete and slow moving items.



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LANKA SATHOSA LIMITED
NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31ST MARCH 2006.

NOTE 01 - ACCOUNTING POLICIES CONT....

1.2.4 Trade and Other Receivables

Trade Receivables are estimated at the amounts they are estimated to realise net of provisions for bad and doubtful receivables.

1.2.5 Cash and Cash Equivalents

Cash and Cash Equivalents are defined as cash in hand and Petty Cash advances given to Head Office and Outlets.

1.2.6 Property, Plant & Equipment

All Property Plant and Equipment are stated at historical cost less depreciation. Depreciation is calculated on Straight line method to write-off the cost of property, plant and equipment over their expected useful life. No depreciation is provided in the year of purchase while full year's depreciation is provided in the year of disposal.

The estimated useful life are as follows.

Computer Equipment	25.00%
Office Equipment	20.00%
Computer Software	25.00%
Communication Equipment	20.00%

1.2.7 Liabilities and Provisions

(a) Defined Contribution Plans

All employees of the company are members of the Employees' Provident Fund and Employees' Trust Fund to which their employers contribute 12% and 3% respectively of such employees basic or consolidated salary or wage and all other allowances.



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**LANKA SATHOSA LIMITED
NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31ST MARCH 2006.**

NOTE 01 - ACCOUNTING POLICIES CONT....

1.2.8 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue and associated cost incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received, or receivable, net of trade discounts and sales taxes.

(a) Sale of goods

Revenue from Sale of good is recognised when the significant risk and the rewards of the goods have passed to buyer; with the company retaining neither continuing managerial involve to the degree usually associated with ownership , nor effective control over the goods.

(b) Gondola Income

Gondola Income is recognised on accrual basis.

(c) Rent Income

Rent income is recognised on accrual basis.

(d) Others

Other Income is recognised on actual basis.

1.2.9 Expenditure Recognition

(a) Expenses are recognised in the Income statement on the basis of a direct association between the cost incurred and the earning of the specific items of income. All expenditure incurred in the running of the business and in maintaining the property plant & equipment in a state of efficiency is charged to income in arriving at the profit for the Period.



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LANKA SATHOSA LIMITED
 NOTES TO THE ACCOUNTS
 FOR THE PERIOD ENDED 31ST MARCH 2006.

NOTE 02-PROPERTY , PLANT & EQUIPMENT

	<u>As at</u> <u>01.04.05</u>	<u>Additions</u>	<u>Disposals</u>	<u>As at</u> <u>31.03.06</u>
<u>Cost</u>	<u>Rs.Cts</u>	<u>Rs. Cts</u>	<u>Rs. Cts</u>	<u>Rs. Cts</u>
Computer Equipment	0.00	178,580.00	0.00	178,580.00
Office Equipment	0.00	231,500.00	0.00	231,500.00
Computer Software	0.00	48,500.00	0.00	48,500.00
Communication Equipment	0.00	98,390.00	0.00	98,390.00
	<u>0.00</u>	<u>556,970.00</u>	<u>0.00</u>	<u>556,970.00</u>
 <u>Depreciation</u>				
Computer Equipment	0.00	0.00	0.00	0.00
Office Equipment	0.00	0.00	0.00	0.00
Computer Software	0.00	0.00	0.00	0.00
Communication Equipment	0.00	0.00	0.00	0.00
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
 <u>Written Down Value</u>				
Computer Equipment	0.00			178,580.00
Office Equipment	0.00			231,500.00
Computer Software	0.00			48,500.00
Communication Equipment	0.00			98,390.00
Net Book Value	<u>0.00</u>			<u>556,970.00</u>



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**LANKA SATHOSA LIMITED
NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31ST MARCH 2006.****31.03.06****NOTE 03 - BANK GUARANTEES****Rs. Cts.**

Uniliver Sri Lanka Limited	2,000,000.00
East West Marketing	2,000,000.00
Fontera Brands Lanka (Pvt) Ltd	2,000,000.00
Keels Food Product Limited	1,000,000.00
Maliban Biscuit Ltd	1,500,000.00
Maliban Milk Product Ltd	500,000.00
Munchi Biscuit Ltd	500,000.00
Lanka Canneries Ltd	500,000.00
Hemas Marketing (Pvt) Ltd	500,000.00
	<u>10,500,000.00</u>

NOTE - 04 CONTROL ACCOUNTS**Rs. Cts.**

Credit Memo Control	19,330.00
Cheque Control	8,400.00
Card Control	203,244.54
	<u>230,974.54</u>

NOTE 05 - CASH & BANK ACCOUNTS**Rs. Cts.**

Peoples Bank	1,314,833.69
Petty Cash Advance	32,683.35
Floating Cash	81,500.00
Cash In Hand	511,747.30
	<u>1,940,764.34</u>



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**LANKA SATHOSA LIMITED
NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31ST MARCH 2006.****31.03.06****NOTE 06 - SHARE CAPITAL****Rs. Cts.**Authorized:

20,000,000 Shares of Rs.10/= each

200,000,000.00Issued & Fully Paid:

07 Ordinary Shares of Rs. 10/= Each

70.00**NOTE 07 - TRADE CREDITORS****Rs. Cts.**

Trade Creditors

9,217,857.53

Gondola Income Prepayment

10,000.00

9,227,857.53**NOTE 08- ACCRUED EXPENSES****Rs. Cts.**

EPF

401,918.00

ETF

54,807.00

PAYE

15,651.00

ESC

157,565.00

Audit Fees and Expenses

0.00

Tax Fees and Expenses

0.00

Rent

1,074,474.43

Communication Equipment

10,630.00

Computer Software

10,000.00

Water

15,704.47

Electricity

503,233.27

Telephone

95,377.47

Turnover Tax

315,130.00

2,654,490.64

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**LANKA SATHOSA LIMITED
NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31ST MARCH 2006.****2005/06****NOTE 09 - INCOME STATEMENT****Rs. Cts.***Operating Profit / (Loss) is arrived as follows*

Revenue	31,114,100.77
Less: TT	(311,141.00)
	<u>30,802,959.77</u>

Expenditure

Cost of Sales	(25,412,486.14)
Salaries	(4,382,149.96)
Audit Fees & Expenses	0.00
Tax Fees & Expenses	0.00
Others	(4,643,347.03)
	<u>(34,437,983.13)</u>

FINANCE COST

Debit Tax	(37,529.74)
Cheque Book Charges	(3,600.00)
Bank charges	(260,075.81)
Other Expenses	(3,104.00)
	<u>(304,309.55)</u>

NOTE - 10 OTHER INCOME

Sundry Income	3,526.40
Shop'N Shop Rent	22,500.00
Gondola Income	5,000.00
	<u>31,026.40</u>



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Chartered Accountants

**LANKA SATHOSA LIMITED
NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 31ST MARCH 2006.**

NOTE 11 - DIRECTORS' INTEREST

No director of the company is either directly or indirectly interested in existing or proposed contracts with the company.

NOTE 12 - EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the Balance Sheet date, no circumstances have arisen which required adjustments to or disclosure in the Accounts

NOTE 13 - CAPITAL COMMITMENTS

There were no capital commitments as at 31.03.2006

NOTE 14 - CONTINGENCIES

There were no contingencies as at 31.03.2006







Message by the Secretary to the Board

"Lanka Sathosa Limited" is a Government oriented company, incorporated in 2005. The first Annual General Meeting of the company for the year 2005/2006 is held on the 24th June 2008.

My observations are made as the Secretary to the Board although my appointment commenced from latter part of February 2008. After few Meetings, we noticed and with the indication given to me by members of the Board the requirement to have the first Annual General Meeting even belated. I also noted that an evaluation meeting by the heads of the departments has to be followed too.

The general idea is that a Board Secretary has the responsibility of co-ordinating, recording , reporting Board Meetings and to complete the tasks under the companies Act. It is vital that when carrying out duties, Board Secretary is the link between "The company "and "Registrar of Companies", "Board of Directors" and "The Management Team" to assure a positive environment for the company to proceed successfully. In other words by monitoring all round functions Board Secretary could pave the way for a smooth surrounding.

I have just entered into this organization knowing my responsibilities, carried by me with my long standing experience both in Legal , Administrative and Secretarial work at a semi government organization which dealt with sales, marketing and productions, has now come to play for a successful operation of my functions, at this organization.

I wish and strongly believe that I could work with dedication and enthusiasm towards this service oriented organization which caters the human need at a most appropriate time to supply commodities at a reasonable price.

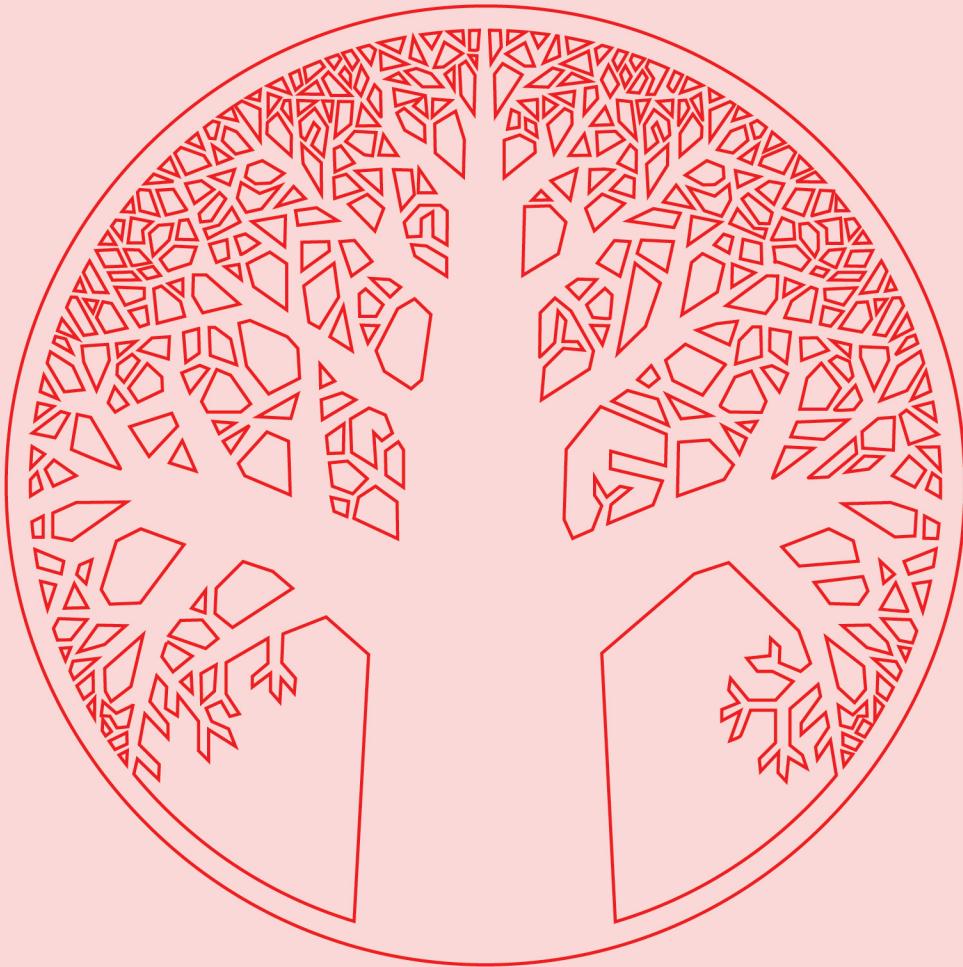
I thank Chairman, Board of Directors, Heads of Departments and staff for the assistance given to me in presenting the book on Annual General Report and reports by the heads of departments . Also organizing the evaluation meeting along with the management team.

GOOD LUCK!

(Mrs.) Seetha Wijewardana (Attorney- at- law)
Secretary to the Board
23rd June 2008



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வருடாந்த அறிக்கை
Annual Report
2005 / 2006



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