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1. ABOUT LANKA SATHOSA LIMITED

Lanka Sathosa Limited was incorporated on 25th October 2005 with the objective of offering essential consumer goods at a fair price and ensuring food Security to the Nation.

Lanka Sathosa Limited is incorporated as a limited company under Companies Act No.07 of 2007 and the registered office is located at No.27, CWE Secretariat Building, Vauxhall Street, Colombo 02 and outlets are dispersed across the country. Outlet count by the end of 2022 was 442.

OUR VISION
BE THE PRICE SETTER
TO
THE NATION
THAT REFLECTS THE REAL COST OF
LIVING IN SRI LANKA.

OUR MISSION

Reduce the Cost of living, Link the corporate community to the masses of the country, Grant an opportunity for the SMEs to link to the demand chain of the country and Offer efficient high quality customer service through expanding the island wide retail network.

2. OVERVIEW OF FINANCIAL PERFORMANCE DURING THE YEAR 2022

Lanka Sathosa Limited which was incorporated in 2005, was a profitable entity but turned in to losses since 2014 owing to import of rice.

But LSL has been able to minimize the loss and move towards profitability. This is evident through minimizing the loss up to Rs.35 Mn in the year 2022 compared to the loss of Rs.840Mn for the year 2021.

A key factor that contributed for improved financial performance in the year 2022 was the initiative taken to expand only to financially viable locations whilst closing down the outlets, the existence of which jeopardizes overall financial performance of the organization due to incurrence of continuous losses.

LSL was able to minimize the loss during the year 2022, despite highest interest rates that led to incurrence of a thumping interest during the year which was a growth of 195% YoY.

Power and fuel crisis along with inflationary pressure resulted in a considerable increase in key overheads compared to 2021. Growth in expense of fuel due to excessive use of generators was 388% YoY. Growth in expense on Grocery Bags was 82% compared to 2021 whilst Transport expense grew by 39%. Printing expenses which relates to cost of thermal paper and other printed documents increased by 3 folds by 325% compared to 2021.

Despite the challenges that were persistent during the year 2022, which resulted in considerable increase in overheads, LSL was still capable of reducing the loss to the minimal level during the year 2022. It is noteworthy that no form of financial assistance was provided by the General Treasury on recurrent expenses during the year.

Key contributor for improved financial performance during 2022 despite above challenges was, growth in Turnover by 40% YoY and growth in GP ratio up to 12.8% compared to 12% in 2022. Furthermore, LSL had to make the tough decision of non-payment of bonus and any incentive to employees during the year which made a positive impact on the bottom line.



3. CHAIRMAN'S MESSAGE

On behalf of the Board of Directors of Lanka Sathosa Ltd, it is my pleasure to present you with the Annual Report and Audited Financial Statements of the company for the year ending 31st December 2022.

Overcoming Challenges

The 2022 financial year was full of surprises on all fronts. The domestic economy was struggling to recover from the economic impacts of the COVID 19 pandemic, political unrest, rising cost of consumable goods, escalating domestic inflation and depreciation of rupee challenged most industries including the super market chains.

Towards the last quarter of the financial year, 2022 the country also faced gas and fuel shortages. Most of these affected Lanka Sathosa Ltd (LSL) as well as other companies, our strategic approach for those challenges helped to convert them into opportunities.

Investments

Despite challenges on the external front, LSL took a strategic decision to move forward with our investment and expansion plans. The management endeavors to further drive volume growth and market share expansion, through selective investments and improved assets utilization.

Performance

The 2022 financial year, was a progressive year for the company. The company reported a gross revenue of Rs.57.2 Bn during the year under review, a 40% growth over last year. According, net loss also decreased by 96% up to Rs.35.4 Mn. Operating expenses were at Rs.56.3Bn slightly high due to increased cost of sales arising out of micro economic conditions.

Strategy

The management has taken a collective decision to not to pass any cost increase to the customers who have been significantly affected by inflation and other macro-economic factors. The management focus has been to curtail any price increases, grow volumes and improve profitability. We are pleased to note that, during the difficult period under purview, our teams have been able to deliver on all three outcomes. In the modertrade business, our teams worked proactively to provide better prices for consumers on price market products, while we continued to deepen our professional engagement with suppliers to reduce the prices of perishables and commodities for the customers.

Future Outlook

The management is optimistic too about the future opportunity for the company, particularly in the light of the improving macro-economic environment in the country which support a recovery in consumer spending, with declining price levels of essential goods, reducing market interest rates, electricity, fuel and a resurgence in the SME sector. Moving forward, we continue to be cost conscious and implement cost management and cost efficiency improvement strategies throughout the company.

Acknowledgment

I extend my sincere appreciation to the Board for their visionary guidance and support during the tough time and also my gratitude to the LSL staff for their commitment, hard work and for their indomitable spirit.

A sincere appreciation to our suppliers, banks, customers and other stakeholders for their continued trust and confidence in LSL for patronizing our products.

I wish to record my gratitude to our shareholders for the patience and faith in the Board of Directors and our teams, and I assure you that we would continue to create value for your investment in the coming years.

Pasanda Yapa Abeywardana
Chairman
Lanka Sathosa Limited



4. MESSAGE FROM CEO

Dear Shareholders, Customers, and Team Members,

With immense pride and gratitude, I present to you our annual report for the fiscal year 2022. This past year has been one of significant achievement and growth for our company, as we navigated the ever-evolving retail landscape with resilience and innovation.

Our Achievements

In 2022, we reached several key milestones that have strengthened our position as a leader in the retail industry. We expanded our footprint with the opening of new stores, introduced over 1,000 new products, and improved our online shopping experience with a revamped website and mobile app. Our efforts to integrate sustainable practices into our operations have also paid off, resulting in a reduction in our carbon footprint and increased use of recyclable materials in our packaging.

Financial Performance

Our financial performance this year has been robust, reflecting our strategic investments and operational efficiencies. We achieved a record revenue of Rs.57 Bn, an increase of 40% from the previous year. These results are a testament to our dedicated team, innovative strategies, and loyal customers who trust us to deliver value and quality.

Innovation and Customer Focus

Innovation remains at the heart of our strategy. This year, we launched several initiatives aimed at enhancing the customer experience, including AI-driven personalized shopping recommendations and a new loyalty programme that has seen tremendous uptake. We are committed to understanding and exceeding our customers' expectations, ensuring that every interaction with our brand is positive and rewarding.

Commitment to Sustainability

Sustainability is not just a buzzword for us; it is a core component of our business strategy. Our commitment to environmental stewardship is reflected in our ongoing initiatives to reduce waste, increase energy efficiency, and support communities through various corporate social responsibility programs. We are proud of the progress we have made and remain dedicated to making a positive impact on the environment and society.

Way Forward

The future holds exciting opportunities. We will continue to invest in technology, expand our product offerings, and explore new markets to drive growth. Our focus will remain on delivering exceptional value to our customers, creating long-term value for our shareholders, and fostering a culture of innovation and inclusivity within our organization.

Gratitude

I would like to extend my deepest gratitude to our employees for their unwavering dedication and hard work, to our customers for their continued loyalty and trust, and to our shareholders for their support and confidence in our vision. Together, we have built a strong foundation, and together, we will continue to achieve amazing things.

Thank you for being a part of our journey.

Sincerely,

S S Senawatte
Chief Executive Officer
Lanka Sathosa Limited

05. FINANCIAL & NON - FINANCIAL HIGHLIGHTS

5.1 KEY PERFORMANCE INDICATORS

<u>Metric</u>		2021-YTD	2022-YTD
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Operating Results

Revenue	Rs. Mn	40,851	57,165
Gross Profit	%	11.97%	12.8%
EBIT	%	-1.17%	1.97%
Net Profit/(Loss)	%	-2.06%	-0.06%

Expenses as % of Sales

Other Income	%	1.42%	0.62%
Administrative Expenses	%	4.64%	3.58%
Selling and Distribution Expenses	%	9.92%	7.87%
Net Finance Cost	%	0.88%	1.91%

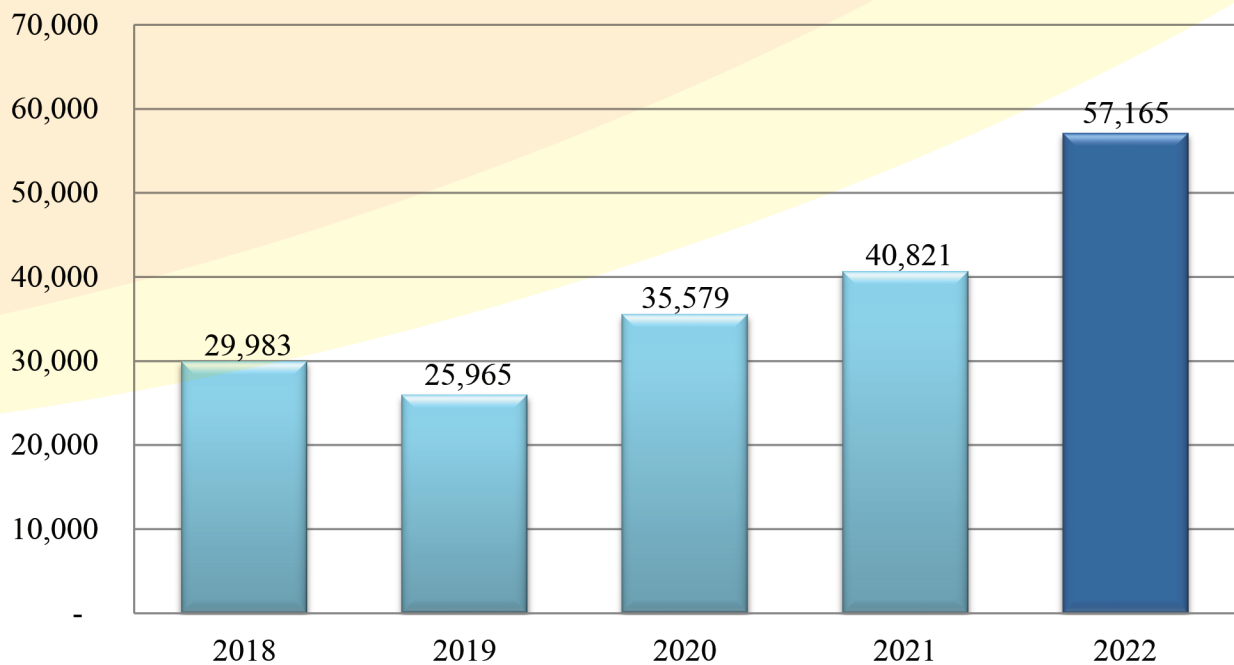
Employee Benefits

Salaries & Wages	Rs.	168,315,884	184,426,374
Over Time & Other Allowances	Rs.	29,178,707	27,146,482
Total Cost	Rs.	197,494,591	211,572,857
No.of Employees		3,414	3,213
Per Employee Cost	Rs.	57,848	65,849

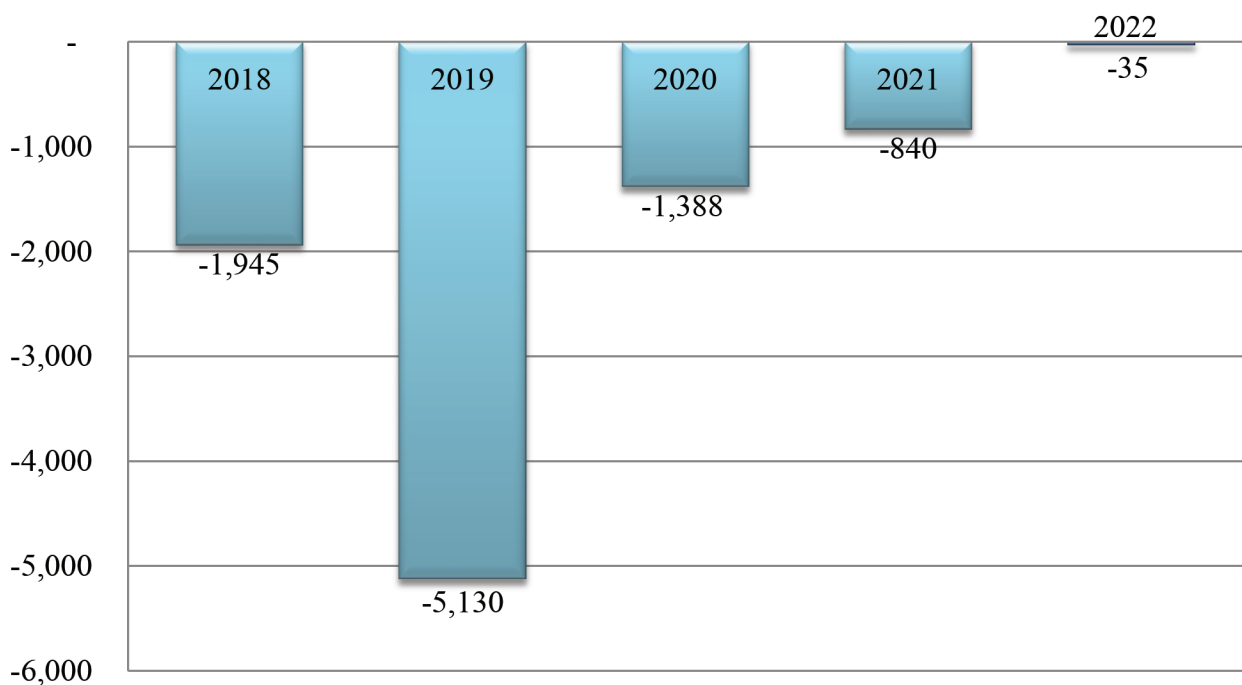
Working Capital Management

Current Ratio	Times	0.52	0.61
Inventory Turn Over Period	Days	49	57
Debtor Collection Period	Days	42	25
Credit Settlement Period	Days	71	57
Operating Cycle	Days	20	25

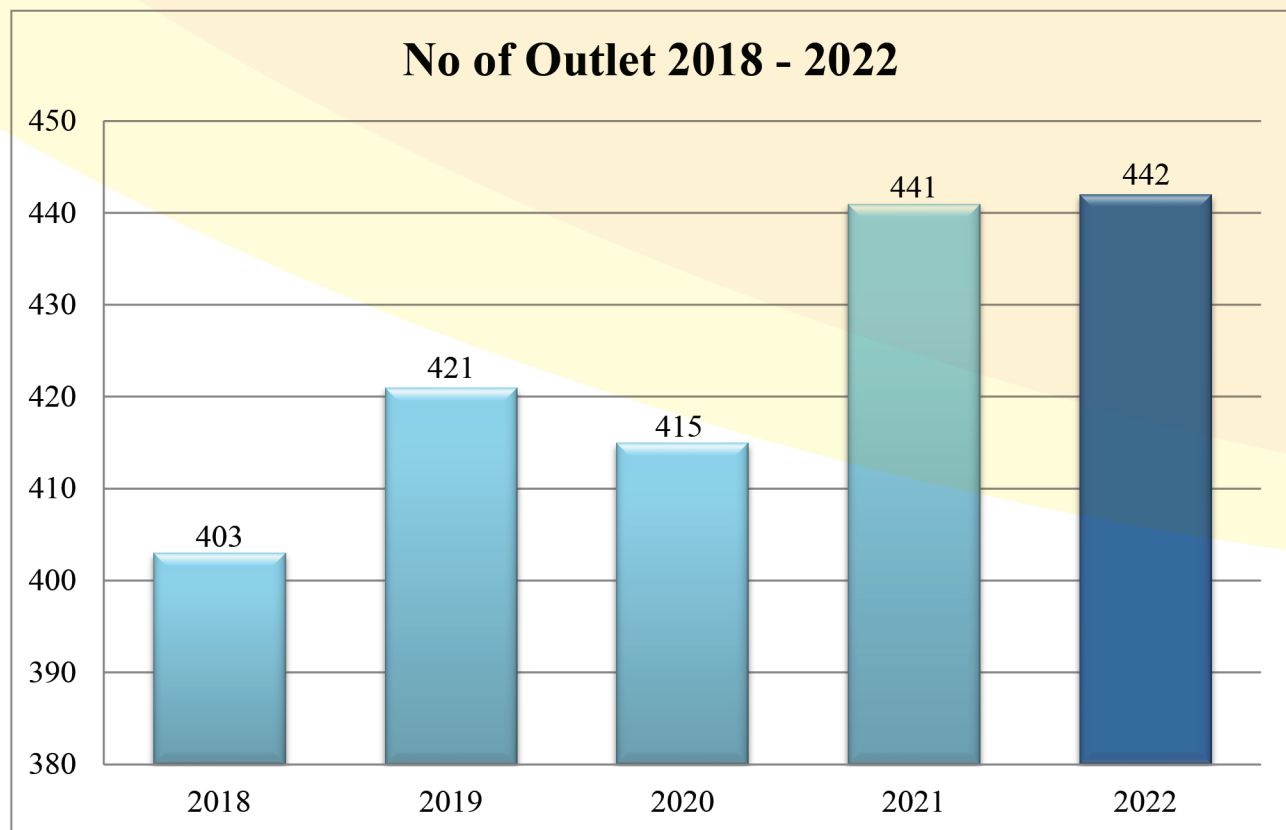
Turnover 2022-2018 LKR Mn.



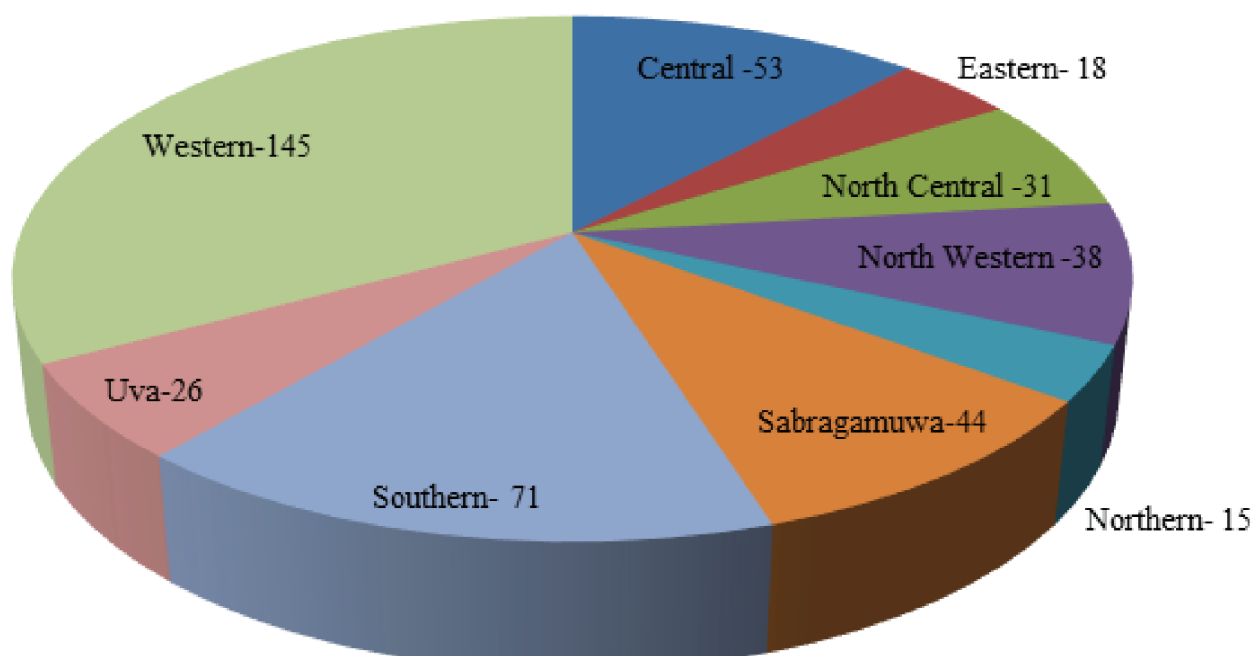
NET PROFIT / (LOSS) 2022-2018 LKR Mn.



5.2 BRANCH NETWORK



No. of Outlets by Province



BRANCH DETAILS

Western	Western (Contd...)	Western (Contd...)	Southern	Southern (Contd...)	Central	Central (Contd...)	Eastern	North Central	North Western	Northern	Sabragamuwa	Uva
Adambalama	Kiribagoda	Panadura 2	Apelessa	Pitigala	Agarapathana	Thalawakale	Akkareipathu	Anuradhapura 1	Abanpola	Achchuveli	Ayagama	Badakumbura
Alubomulla	Kirillawala	Panadura 3	Ahangama	Poddala	Alawathugoda	Thennekumbura	Ampara 01	Anuradhapura 2	Alawwa	Adampan	Balangoda 2	Badulla
Aluthgama	Kirindiwela	Panadura 4	Akuressa	Rajgama	Aluwihare	Walapane	Ampara 02	Anuradhapura 3	Anamaduwuwa	Chavakachcheriya	Bulathkohupitiya	Bandarawela
Athurugiriya	Kiriwaththuduwa	Panagoda Express	Ambalangoda	Ranna	Ambathenna	Welligalla	Batticaloa (retail)	Anuradhapura 4	Bingiriya	Chunnagam	Dehiowila	Bandarawela 2
Attidiya	Kiwalawatte	Pannipitiya 2	Ambalanthota	Rathgama	Ankumbura		Dehiaththakandiya	Bakamuna	Chillaw	Jaffna	Deraniyagala	Bibila
Avissawella	Kohuwala 02	Pannipitiya 3	Ambalanthota 2	Sooriyawewa	Beliyankada		Eravur	Buhewa	Dankotuwa	Kilinochchi Mega	Eheliyagoda 3	Boralanda
Badureliya	Korallim	Paswala	Baddagama	Tangalle	Bokkawala		Higurana	Eppawala	Giriulla	Madu	Embilipitiya 1	Buttala 2
Balumamahara	Kosgama	Payagala	Balapitiya	Thalgaswala	Dambulla		Kalmunai	Galenbindunuwewa	Hetiipola	Manchola	Embilipitiya 2	Central Camp
Bambalapitiya	Koswaththa	Piliyandala 1	Barawakubuka	Thangalle 02	Dambure		Kinniya	Galgamuwa	Hiriipitiya	Mannar	Godakawela	Dambagalla
Bandaragama	Koladeniyawa	Piliyandala 2	Bellatte	Thawalama	Delhota		Manampitiya	Gallala	Ibbagamuwa	Muthur	Gonagaldeniya	Ella
Battaramulla	Kotahena	Pitakotte	Bogahagoda	Thelwatta	Digana		Oddamawadi	Habarana	Kalpiya	Nelukdam	Gurugalla	Ethiliwewa
Bokundara	Kottawa 02	Pitipana	Deniyaya	Thelijawila	Ethgala		Powaga Colany	Higurakgoda	Katuneriya	Pesala	Hambegamuwa	Haliele
Bollegala	Kottawa 3	Poddaramulla	Deviyandara	Thihagoda	Galagedara		Pothuwl	Horawapothana	Katupotha	Pointpeduru	Hemmathagama	Kandekeitiya
Boralesgamuwa 1	Maculum	Pogassowita	Debarawa	Tissamaharane	Galawela		Samanthurai	Kabithigolawa	Kosgashandiya	Silawathurai	Kahawatta	Katagama
Borella	Madapatha	Pugoda	Devinuwa	Udugama	Galwela 2		Thirikkonil	Kahatagasdigiliya	Kuliyapitiya	Vavuniya	Kalawana	Lunugala
Bulathsinghala	Madapatha Express	Puwakpitiya	Dickwella	Uragasmahanhandiya	Campola 01		Triscomalee	Kekirawa	Kumbukgate		Kannalota	Medagama
Dalugama	Maggona	Raddolugama	Dikkubura	Urala	Campola 02		Umana	Medavachchiya	Kurunegala 2		Karandupana	Meegahakiwila
Delgoda	Maharagama 1	Ragama	Elipitiya	Urubokka	Geliya		Varipathanchennai	Medirigiriya	Madurankuli		Karawanalla	Monaragala 2
Delkanda	Maharagama 2	Raigama	Galle 1	Walasmulla	Haguranketha			Minneriya	Maho		Kegalla	Monaragala Mega
Dematagoda	Makola	Rannathugala	Galle Bus-Stand	Weerakethiya	Hapugasthalawa			Nochchiyagama	Mallawapitiya		Kiriella	Passara
Delpitiya	Makubura	Rathmalana 1	Habaraduwa	Welligama	Haragama			Padiya	Maravila		Kithulgala	Pelwaththa
Dodangoda	Malabe	Rathmalana Mega	Hakmana	Yatiyana	Hatharaliyadda			Pussalugodella	Maspotha		Kolonna	Sewanagala
Ekala	Malapolla	Rawathawatte	Hambantota		Hatton			Polonnaruwa 1	Mawathagama		Kuruwila	Thanamalwila
Enderamulla	Maligawatta	Salmal Uyana	Hapugala		Hatton 2			Polonnaruwa 2	Melsiripura		Madumpey	Wellimada
Campaha 1	Maradadagahamulla	Seeduwa 1	Hikkaduwa		Hewaheta			Rambewa	Narammala		Mawanella	Wellawaya 03
Ganemulla	Mathugama 2	Seeduwa 2	Hungama		Kadugannawa			Sewanapitiya	Nattandiya		Nivithigala	Wellawaya New
Godagama	Mattegoduwa	Sethseripaya	Imaduwa		Kandy			Thabuththegama 02	Nikaweratiya		Opanayaka	
Habarakada	Mawaramudiyana	Siddamulla	Kalegana		Katugasthota Mega			Thalawa	Pannala		Pabhinna	
Hanwella	Meegoda	Siyabalape	Kamburupitiya		Katugastota			Thambuththegama	Piduruwella		Pallebedda	
Hokandara	Meegoda 2	Thalawathugoda	Karapitiya		Korpeipola			Vilachchiya	Polgahawela		Pelmadulla	
Homagama	Meepe	Uduwana	Katuwana		Kotagala			Wellikanda	Polgahawela 2		Pelmadulla -02	
Horagasmankada	Meerigama	Urapola 1	Kekanadura		Kundasale				Polpithigama		Pothupitiya	
Horana 02	Minuwangoda	Urapola 2	Kotapola		Kurunduwaththa				Pothuhera		Rakwana	
Hunupitiya	Mithana 2	Vauxell	Kumarakanda		Madawala Bazaar				Puttalam		Rathnapura 04	
Ingiriya	Monanthuduwa	Veyangoda 2	Kurudugastapana		Marassana				Wanathawilluwa		Rathnapura 1	
Jaela Mega	Moratumulla	Wadduwa	Lunugamwehera		Matale				Wariyapola		Rathnapura 2	
Jaela	Moratuwa	Waga	Makandura		Matale 2				Wellawa		Rathnapura 3	
Kadawatha	Mt.Lavinia 2	Waga 2	Malimboda		Menikhinna				Yanthampalawa		Ruwanwella	
Kaduwa	Mulleriyawa	Walana	Matara Mega		Nawalapitiya						Thalduwa	
Kaluthara 2 (North)	Mulleriyawa 2	Wathupitiwala	Matara 2		Nildandahinna						Thunkama	
Kaluthara South	Nabada	Wehera	Mawadella		Nuwareliya						Udawalawa	
Kandana	Nagoda	Wellipillewa	Middeniya		Pendeniya						Warakapola	
Kattuwa	Naiwala	Wellisara Mega	Mirisawata		Pilmathalawa						Wealiya	
Katunayake 1	Narahenpita	Welleriya	Morawaka		Poojipitiya						Yatiyanthota	
Katunayake 2	Nawagamuwa	Wellampitiya	Nagoda - Galle		Pundaloya							
Katuwawala	Negombo 2	Yakkala	Neluwa		Pussellawa							
Kelaniya	Negris	Yakkala 2	Pinkanda		Ragala							
Kesbewa	Padukka		Pinnaduwa		Raththota							
Kesbewa-02	Phathigama		Pitabeddara		Rikillagaskada							

06. CORPORATE GOVERNANCE

Company has been firm in its resolve that the members of the Board, the senior management team and staff are all committed towards adoption and implementation of transparent and effective corporate governance practices within the Company. The Company holds itself accountable to the highest standards of corporate governance. Corporate governance lays the basis for responsible performance – oriented management and control which is geared towards sustainable value creation. Corporate Governance has been institutionalised at all levels in the company through a strong set of corporate values which have been adhered to by the senior management and Board of Directors in the performance of their official duties and in other situations which could affect the image of the company. The Company is committed to the highest standards of integrity, ethical values and professionalism in all its activities.

The business of the Company is conducted by its managers, officers and employees under the direction of the Chairman/Chief Executive Officer and the oversight of the Board to enhance the long term value of the Company for its stakeholders. The Board aims at fulfilling its responsibilities by creating value for all stakeholders that is sustainable and beneficial. The Board of Directors are well equipped to realize the Company's corporate business.

The Board meets monthly and gives full consideration to the following:-

- Review strategic and operational issues.
- Review Profit and working capital and monthly management accounts.
- Provide advice and guidance to senior managers through the Chairman /Chief Executive Officer.
- Provide and circulate timely and periodic reports to stakeholders.
- Sanction major investments.
- Approve interim and annual reports.

The Board recognizes the rights of all stakeholders which encourages active cooperation between the Company and the stakeholders.

07. FINANCIAL REPORTS

7.1 ANNUAL REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY

GENERAL

The Board of Directors of the Company has pleasure in presenting their Annual Report to the members together with the audited financial statements for the year ended 31st December 2022 of the Company and the Auditor's Report on those financial statements confirming the requirements of the Companies Act No. 07 of 2007 and Sri Lanka Accounting & Auditing Standards Act No. 15 of 1995 and amendments made thereon and best practices of corporate governance.

PRINCIPLE ACTIVITIES OF THE COMPANY

The Company is primarily involved in retail trade of consumer products with the objective of selling essential consumer goods at a fair price whilst ensuring product quality and ensuring food security in the country.

DIRECTOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for preparation and presentation of financial statements of the Company to reflect true and fair view of its affairs. The Directors' responsibilities include designing, implementing, maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements whether due to fraud or error, selecting and adopting accounting policies and making accounting estimates that are reasonable in the circumstances. The Directors are of the view that the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and notes thereto in the Annual Report have been prepared in conformity with the Sri Lanka Financial Reporting Standards & Sri Lanka Accounting Standards and Companies Act No. 07 of 2007.

FINANCIAL STATEMENT AND AUDITOR'S REPORT

The financial statements for the year ended 31st December 2022 is prepared based on the Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (SLAS) issued by the Institute of Chartered Accountants of Sri Lanka. The financial statements of the Company signed by the Deputy General Manager-Finance and the Directors are given on pages 17-80 in the Annual Report. These financial statements and notes provide a true and fair view of the Company's financial position as at 31st December 2022 and of its performance for the year ended on that date.

AUDITOR'S REPORT

The Auditor General was appointed as the External Auditor in terms of article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Auditor's report on financial statements which form an integral part of the report of the Board of Directors is given on pages 17-27 in the Annual Report.

ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are given in the annual report on pages 34-52

GOING CONCERN

The company has incurred a net Loss of Rs.35,424,512/- during the year under review, the accumulated losses amounting to Rs. 19,801,830,058/- and, company's current liabilities has exceeded its current assets by Rs. 6,947,893,304/-. Despite this, the Financial Statements of the Company have been prepared on a going concern basis on the assumption that the General Treasury will extend financial assistance to meet its obligations.

DONATION

During the year 2022 the company made Rs. 966,680/- as donations

RESERVES

The movement in reserves during the year is set out in the Statement of the Changes in Equity Statement on pages 31

PROPERTY, PLANT & EQUIPMENT

The details of Property, Plant and Equipment are given on page 58-59 in the Annual Report.

EVENTS AFTER THE REPORTING PERIOD

There have not been any material events that occurred subsequent to the reporting date which require adjustments to or disclosure in the financial statements, other than disclosed in notes to the financial statements.

RELATED PARTY TRANSACTIONS

Related Party transactions as per the Sri Lanka Accounting standards (LKAS) 24, Related Party Disclosures, which is adopted in the preparation of the financial statements are given on pages 50 in this annual Report.

DIRECTOR'S INTEREST IN CONTRACT WITH THE COMPANY

The Directors' interests in contracts are disclosed in the financial Statements. These interests have been duly disclosed at the meeting of Directors. Directors do not hold any shareholding of the Company.

STATED CAPITAL

The Stated Capital of the Company as at 31st December 2022 was Rs. 893.7 Mn, in Compliance with the Companies Act No. 07 of 2007. As at 31.12.2022, 97.45% shares were vested with the Secretary to the Treasury on behalf of the Government of Sri Lanka

INTANGIBLE ASSETS

Intangible Assets as at 31.12.2022 have been recorded in the financial statements of the Company on pages 60

COMPLIANCE WITH LAWS AND REGULATION

The Company has complied with all applicable laws and regulations during the financial year as otherwise disclosed in the Independent Auditors' Report. The compliance department monitors the compliance functions of the company and reports to the Audit and Compliance Committee.

APPROVAL OF THE FINANCIAL STATEMENTS

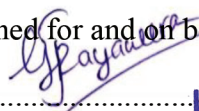
The audited financial statements were approved by the Board of Directors on 25th October 2023. The Directors below have been the Board of Directors of the Company during the year under review

R.M.D.K.G.N.Bandara Ranathunga	Resigned during the year
P.H.A.S.Wijayarathne	Resigned during the year
N.A.Wimalarathne	
K.P.D.Prabath Sirisena	
D.Jeevanadan	
Rear Admiral B.Ananda Jayalal Gurukula Peiris	Resigned during the year
Venura Gunawardena	Resigned during the year
Prof.Harendra Kariyawasam	
Ranjith G Rubasinghe	Resigned during the year
Gamani N.Liyanarachchi	
Thushara Sanjeeva Dissanayake	
J.D.Kotinkaduwa	
P.R.K.Senanayake	
Vijitha Sabhanath Wijemanne	
Keerthi Gamage	
Pasanda Yapa Abeywardena	
D.S.Priyanka Dissanayake	
Newton Kumarasiri Jayawardhana	
Wasantha Polwattage	

ACKNOWLEDGMENT OF THE CONTENTS OF THE REPORT

As required by section 168 (1) (k) of the Companies Act, No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this report.

Signed for and on behalf of the board


Company Secretary
Lanka Sathosa Limited

7.2 DEPUTY GENERAL MANAGER-FINANCE'S STATEMENT OF RESPONSIBILITY

The Financial Statements of Lanka Sathosa Limited as at 31st December 2022 were prepared and presented in compliance with the requirements of the following.

- i. Sri Lanka Financial Reporting Standards (SLFRS/LKASs) issued by the ICASL
- ii. The Companies Act No. 07 of 2007

The formats used in the preparation of the Financial Statements and disclosures made therein comply with the formats prescribed by the relevant regulators, which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standards.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies, and other financial information included in this Annual Report, fairly represents, in all material respects, the financial condition, and results of the operations and the cash flow of the Company during the year under review. In addition, we confirm that the Company has adequate support from its shareholders (Treasury) to continue its operations and has applied the going concern basis in preparing these Financial Statements.

The Board of Directors are responsible for ensuring that management fulfills its financial reporting responsibilities. As the Deputy General Manager-Finance, I am responsible for having established and maintaining adequate accounting policies, procedures, and internal controls over financial reporting. Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that the financial records are reliable and form a proper basis for preparing the Financial Statements, and that the assets are properly accounted for and safeguarded.

The Financial Statements have been audited, on behalf of the shareholders, by the Auditor General, in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka. The Independent Auditor has full and free access to the Audit and Compliance Committee and may meet with or without the presence of the Management.

We confirm to the best of our knowledge that –

- i. The Company has complied with all applicable laws, rules and regulations and guidelines as otherwise expressed in the Notes to the Financial Statements.
- ii. There is no material non-compliance as otherwise expressed in the Notes to the Financial Statements.

Deputy General Manager-Finance

7.3 INDEPENDENCE AUDITOR'S REPORT

TAC/D/LSL/FA/22/25

Chairman
Lanka Sathosa Limited

Report of the Auditor General on the Financial Statements and Other Legal Regulatory Requirements of the Lanka Sathosa Limited for the year ended 31st December of 2022 in terms of Section 12 of the National Audit Act.19 of 2018

1. Financial Statements

1.1 Disclaimer Opinion

The audit of the financial statements of the Sri Lanka Sathosa for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the Statement of financial performance, Statement of changes in equity and Cash flow statement for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies, 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. In pursuance of Article 154(6), my report will be tabled in Parliament in due course.

I do not express an opinion on the financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

- (a) At the end of the year under review, the Company had a deficit of Rs.35,424,512 and current assets and current liabilities indicate as Rs.10,832,852,647 and Rs.17,780,745,951 respectively, and the current liabilities over current assets was Rs.6,947,893,304. Further the total assets and total liabilities were Rs.12,175,345,725 and Rs.24,785,185,491 respectively and the total liabilities exceeding total assets were Rs.12,609,839,766. Consequently, the Company's ability to meet and maintain its liabilities through assets and continue without the provision of Treasury provisions is uncertain. Further, it was not observed that the Board of Directors has taken necessary measures in order to protect the existence of the company by paying attention to the existing situation in accordance with section 220 of the Companies Act.
- (b) In accordance with decision No. 19/1659/108/147 dated 25th of June 2019 of the Cabinet of Ministers, approval had been given that the provision should be made as equity investment in state-owned enterprises by the Treasury to settle the capital value of the loan obtained by the company for the importation of rice, for a period of 05 years from the year 2020. Accordingly, no equity had been transferred for the cumulative amount of Rs. 5,739,364,265 of the loan settled related to the period of 03 years from the year 2020 to the year under review until expiration of the year under review.
- (c) According to paragraph 32 of Sri Lanka Accounting Standards 01, assets, liabilities, income and expenditure should not be set off, but, as the credit balance of Rs.75,385,840 receivable balances to the company and the debit balance of Rs.1,728,194 from the balances payable were set off, amounts receivable and balances payable have been under accounted in the financial statements.
- (d) As per the paragraph 38 of Sri Lanka Accounting Standard 01, except when permitted or otherwise required by the Standard, the comparative information relating to previous period should be submitted by an establishment. The company has submitted information in respect of stock damage under notes No. 5 in the financial statements of the year 2021, thus, in the year under review, as the information regarding the stock damage had not been submitted in the financial statements, issues with respect to the consistency of the financial statements arose. Further, in terms of paragraph 34 of Sri Lanka Accounting Standard No. 02, all the stock damages during the period should be identified as expenditure and the stock deficiency had been identified constantly as an expenditure in previous years, thus, stock deficiency of Rs.342,327,235 identified during stock verification in the year under review had been stated under other receivables in the statement of financial position. The non-recognition of this stock damage value as an expenditure in the financial statements had mainly caused in the reduction of loss in the year under review compared to the previous year and consequently, the said amount had been reduced from the loss before tax.

- (e) In accordance with Sri Lanka Accounting Standard No.07, in preparation of the statement of cash flows, the correction of errors during the preceding periods should not be adjusted to the profit, thus, an amount of Rs. 13,513,020 related to correction of errors during the preceding periods had been added to the profit. Further, the installment payments for the leased assets for the year under review was Rs.21, 459,517 and the said amount was indicated in the cash flow statement as Rs.34, 972,537, hence, the difference was Rs.13,513,020.
- (f) The quantitative errors in the prior period should be corrected retrospectively in the financial statements of the year under review in accordance with paragraph 42 of Sri Lanka Accounting Standard 08. However,
 - (i) The generators purchased in the years 2017 and 2018 at an amount of Rs.27,660,154 had not been accounted during the respective years and had been accounted in the year under review and the depreciation value of the said assets related to the period from the year 2018 to year 2021 Rs.14,755,413 had not been accounted.
 - (ii) An amount of Rs.7,475,223 which had been over-recorded as Gondola income in the year 2021, had been deducted from other income in the financial statements instead of being adjusted to the statement of change of equity.
 - (iii) The amount of Rs.4,747,174 recovered by the company in the year under review for stock losses in previous years had been indicated under other income in the financial statements instead of being adjusted to the statement of change of equity.
- (g) The residual value and the effective life of assets shall be reviewed at least at the end of each financial year in accordance with the Paragraph 51 of Sri Lanka Accounting Standard 16, and if the expectations differ from previous estimates, the carrying amount shall be accounted as a change in an accounting statement correcting the errors of estimates as per the Sri Lanka Accounting Standard No. 08, thus, effective life of 07 items of property, plant and equipment fully depreciated at the beginning of the year under review, thus, being used amounting to Rs.630,979,043, had not been reviewed after the year 2019.
- (h) If there is not a reasonable assurance that the government grant is received in accordance with Paragraph 08 of the according to Accounting Standard 20, though it is not recognized as government grant and a sum of RS 51,531,803 had been stated in the financial statements as government grant (Capital), only an amount of Rs.5, 000,000 had been actually received in cash in the year under review.
- (i) An annual impairment estimate shall be done with regard to the impairment losses in accordance with Paragraph 09 of the according to Accounting Standard 36, thus, such impairment estimate had not been done with regard to impairment losses amounting to Rs.618,991,224 accumulated up to the year under review.

- (j) Although the amount due to Cooperative Wholesale Corporation, a related party of the company, had been indicated as Rs.10, 083,353 as per the Statements of Accounts, the balance confirmed by Cooperative Wholesale Corporation was Rs. 89,228,613, the difference of Rs. 79,145,260 was observed.
- (k) The amount to be paid to the stake holders by the company was Rs. 1,736,524,122 and of the said amount, Rs. 1,688,336,236, i.e 97% had been the balances to paid to the Wholesale Corporation. As per the books of the Cooperative Wholesale Corporation, the amount to be received from the company Rs. 2,151,533,977 and a difference of Rs.463,197,741 was observed.
- (l) Measures had not been taken to adjust and rectify the unidentified balance of Rs. 3,498,678 in the rent advance account bringing forward since the year 2015, until the year under review.
- (m) Motor vehicles amounting to Rs.18,821,440, communication equipment amounting to Rs.3,642,843 and other assets amounting to Rs.22,798,843 taken over from the Cooperative Wholesale Corporation had not been included in the fixed assets register and the related schedules had not been submitted for the audit.
- (n) There had been a difference of Rs.791,293,907 between the balance of property, plant and equipment stated in the financial statements and the balance in the fixed assets register. In this difference, the difference which had remained from 2013 was Rs.398, 243,078.
- (o) There had been a difference of Rs.67,188,313 between the depreciation expense stated in the financial statements for the year under review and the depreciation expense calculated as per the audit with regard to 6 items of property, plant and equipment.
- (p) As per the financial statements, the balance of trade payable accounts was Rs.10,651,299,359 and the balance stated in the schedule was Rs.10,802,541,289, a difference of Rs.151,241,930 was observed.
- (q) An amount of Rs.273,398,387 had been stated under the balance of trade receivables in the financial statement and as per the schedule submitted for the audit, it was an amount of Rs.256,691,516. Hence, a difference of Rs.16, 706,871 was observed.
- (r) As a physical verification had not been done with regard to the stock of consumer goods amounting to Rs.78,546,486 as at 31 December 2022, it was unable to obtain a confirmation of the existence of the stock.

- (s) In the year under review Manual Outlet did not function and the adjustments to be made for Manual Outlet in the year 2021 had been made through the sales cost account of the Manual Outlet in the year 2022. Hence, the cost of the sales had been overestimated by Rs.915, 763,857.
- (t) The company had stated only Rs.1,082,405 of the compensation received from the insurance company for damage to the assets, under other income in the financial statements without making adjustments with insurance cover received.
- (u) As the capital expenditure of Rs.5, 162,373 paid for the generators purchased for the head office of the company in the year under review had been recorded as surcharge expenditure in the financial statements, the property, plant and equipment and profit in the financial statements had been under-calculated by the said amount and the value of depreciation expenditure and depreciation allocation had been under-accounted by an amount of Rs.774,356.
- (v) The written evidence had not been submitted for audit in order to verify the correctness of the balances of 12 accounts with a value of Rs. 4,978,210,221.

As set out above I have not been able to confirm or verify by alternative methods for the quantitative items included in the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows as described above. Consequently, it was unable to determine whether any adjustments required to be made with regard to the processing amounts of Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows or the recorded or unrecorded amounts or transactions of the items.

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

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, 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 Responsibility for the Audit of the Financial Statements

My responsibility is to issue the Auditor's Report on the financial statements of the company based on the audit conducted in accordance with Sri Lanka Auditing Standards. However, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements because of the matters discussed in the Basis for Disclaimer of Opinion section.

2. Report on Other Legal and Regulatory Requirements

- 2.1 National Audit Act No.19 of 2018 and Companies Act, No.7 of 2007 include specifies provisions for the following requirements.
 - 2.1.1 I have not obtained all the information and explanation that required for the audit and I was unable to determine whether the proper accounting records have been kept as per the requirements of the section 163(2) of the Companies Act, No.7 of 2007 and the section 12(a) of the National Audit Act, No.19 of 2018
 - 2.1.2 The financial statements submitted is consistent with the preceding year as per the requirement of section 6(1) (d) (iii) of the National Audit Act, No.19 of 2018.
 - 2.1.3 Except the observation includes in Para (a), (f), (i), (j), (l),(n) and (o) of the basis for disclaimer of opinion section of my report, the financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6(1) (d) (iv) of the national Audit Act, No. 19 of 2018.
- 2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;
 - 2.2.1 To state that the any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal cause of the business as per the requirement of section 12(d) of the National Audit Act, No.19 of 2018.

2.2.2 To state that the any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal cause of the business as per the requirement of section 12(d) of the National Audit Act, No.19 of 2018.

- (t) The company had stated only Rs.1,082,405 of the compensation received from the insurance company for damage to the assets, under other income in the financial statements without making adjustments with insurance cover received.

Reference to Laws,
rules Regulations

Reference to Laws,
rules Regulations

- (a)
Section 17 of Social Security
Contribution levy Act No.25
of 2022

Even though Social Security Contribution must be remitted to the Department of Inland Revenue before 20th of ensuing month, out of the Social Security Contribution of Rs. 83,261,488 related to last quarter of the year 2022, a sum of 37,977,368 had been remitted with a delay of 10 months and the remaining balance of Rs.45, 284,120 had not been remitted by 16th of January 2024.

- (b)
The operational manual
as per the Public Enterprises
Circular No.01/2021 dated
16th of November 2021

- (i)Para 6.1

The company shall ensure that that a proper financial management system is operated. Thus, 04 accounts maintained by the company at People's Bank had become overdraft position. In the year under review the total balances of the overdraft were Rs.5,050,282,232. It had increased by Rs. 1,868,683,577 i.e. by 37% compared to the previous year. During the year under review, the interest paid for bank overdrafts was Rs.829,787,908, which had increased by Rs.607,589,920 alias 273 percent compared to the previous year.

(i) Para 6.1

Although the drafted Annual Report and Financial Statements should be submitted to the Auditor General within 60 days after expiration of the financial year. Only the financial statements were submitted to the Auditor General On 2nd of November 2023 with a delay of 245 days.

(c) The Public Enterprises Circular No.1/2015 dated 25th of May 2015

The company had paid transport allowance of Rs.12,500 each per month totally an amount of Rs.1,487,500 to 11 officers who are not entitled to use official vehicles without treasury approval during the year under review.

(d) Letter of Director General of the Management Services No. DMS/1741 of 16th of May 2017

Although the monthly allowance payable to the Chief Executive Officer and Deputy General Managers had been approved as Rs.95,000 and Rs.90,000 respectively, a monthly allowance of Rs.250,000 had been paid to the Chief Executive Officer on approval of the Board of Directors and a monthly allowance of Rs.150,000 had been paid to the Posts of Deputy General Manager without the approval of the Board of Directors. Accordingly, an amount of Rs. 846,666 and Rs. 3,155,000 were paid to the Chief Executive Officer and 8 Deputy General Managers respectively during the year under review.

2.2.3 To state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12(g) of the National Audit Act, No.19 of 2018.

2.2.4 to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12(h) of the national Audit Act, No.19 of 2018 except for ;

- (a) The procurement to purchase air conditioners for the outlet at Dambulla had been awarded to a private company at an amount of Rs.2,424,950 of which 75% i.e. a sum of Rs.1,818,707 had been paid as advance without submitting an advance payment guarantee contrary to the Para 5.4.4 (i) of the Procurement Guidelines. The machines shall be provided within 04 days from the date of submission of order in accordance with Para N of bid conditions and even though orders were submitted on 12th of October 2022 the machines had not been supplied by 24th of November 2023 which was the date of audit.

- (b) The contractor had not submitted a performance guarantee in accordance with Section 5.4.8 of the Procurement Guidelines in the procurement process related to the renovation of the roof of the McCallum outlet at an amount of Rs.6, 452,850.
- (c) A performance guarantee and bid security had not been submitted in terms of 5.3.11 (a) and 5.4.8 (b) of the Procurement Guidelines in the procurement process related to the renovation of Outlet at Angunakolapelessa and the primary cost estimate for this procurement was Rs.5,787,719,thus, the contract was awarded at an amount of Rs.8,000,000.
- (d) A Human Resource Information System had been established by incurring an amount of Rs. 7,650,000 in the year 2018. The data required for this system is uploaded manually by 389 fingerprint machines obtained from a private company and automatically by 68 fingerprint machines obtained from another private company. It was unable to obtain reports of daily attendance by reason of entering the data into the information system by two institutions. A live running of the system had not taken place until 12th of July 2023. Further, currently Mobile Application Module in this system is not used and the ERP Integration process had not been completed up to date.
- (e) The calling for expression of interests which is the primary function of procurement, had been initiated prior to obtaining the approval of the Cabinet of Ministers to acquire fixed assets on lease basis to implement the concept of opening new 100 new outlets. Although the two selected suppliers had not supplied the goods as per the relevant specifications, an amount of Rs.36, 225,245 had been paid only for the goods which had been supplied under the approval of the Secretary, Ministry of Commerce. Further, out of these 42 opened outlets, 18 outlets and 24 outlets had incurred losses in the year 2022 and during the last 4 months ending on 30th of April 2023 respectively.
- (e) Without following any procurement procedure, an amount of Rs 6,300,000 had been paid to a private company as an expenditure for publicity during the year under review.

2.3 Other Matters

- (a) The post of Deputy General Manager (Marketing) had been changed as the Head of Online Trading by the decision No. 108 dated 30th of July 2021 of the Board of Directors. However, there was no such post in the approved Recruitment Procedure and the new designation also had not been approved by the Department of Management Services. Consequently, the salary which was not approved, paid to an unapproved post from the 1st of November 2021 to 31st of May 2023 was Rs. 4,125,000.

- (b) In the year 2022, 193 outlets i.e. 43% out of 452 outlets of the company had incurred losses (after tax and interest). The value of the loss was Rs.287, 762,471, out of which 109 outlets had incurred losses exceeding Rs.1, 000,000.
- (c) 10 approved Posts of Sales Assistant had fallen vacant and 6 out of 7 approved Posts Quality Inspection Officer i.e. 85 percent had also been vacant. The total number of overstaff is 192 including 183 Posts of Sales Assistant. Further, there was no Recruitment Procedure approved by the Department of Management Services for the Posts of Chief Executive Officer and 8 other posts.
- (d) A Human Resource Information System had been established by incurring an amount of Rs. 7,650,000 in the year 2018. The data required for this system is uploaded manually by 389 fingerprint machines obtained from a private company and automatically by 68 fingerprint machines obtained from another private company. It was unable to obtain reports of daily attendance by reason of entering the data into the information system by two institutions. A live running of the system had not taken place until 12th of July 2023. Further, currently Mobile Application Module in this system is not used and the ERP Integration process had not been completed up to date.
- (e) The CCTV camera systems had not been installed in 114 outlets of the company and some of the CCTV camera systems installed in 65 outlets are functioning. At the same time, it was unable to control the outlets directly as the CCTV camera systems in outlets were not connected with the Head office. Stores remained under-stock constantly due to these deficiencies in CCTV camera systems. Further, this CCTV camera system was installed in the year 2016 with a 02-years warranty period of the relevant contracted company and after the expiration of the said period, no any action has been taken for the maintenance work.
- (f) As per paragraph 4.1 of the Company's building rent guidelines, it had been indicated that the advance money given for new buildings should be offset against the rent in equal installments within a period of 12 months. A balance due amounting to Rs. 61,482,959 remained in the rent advance account exceeding 12 months and out of which an amount of Rs.34,164,927 were advance balances which had been more than 5 years old and as per the guidelines, no measures had been taken to settle the said money by the end of the year under review.

- (g) No any amount of stock damages amounting to Rs.342, 327,235 to be received as per the financial statements of the year under review, had been recovered by the date of audit. As per the inspection carried out regarding the stock damages recovery method of the previous years, no any amount had been recovered from the stock deficit of Rs.271,125,743 and Rs.193,280,144 in the years 2018 and 2019 respectively. The stock deficit of the year 2020 and 2021 were an amount of Rs. 55,253,300 and Rs. 194,770,627 respectively and of which only an amount of Rs. 5,032,576 and Rs. 1,151,372 had been recovered respectively. Accordingly, no confirmation had been submitted to the audit as to whether there is a possibility to recover the amount of stock damages.
- (h) The festival advances paid annually should be recovered before the succeeding advance is paid, thus, the amount of advances which had not been collected from 1 and 6 years was Rs.4, 474,277. Further, the officers who received the festival advance amounting to Rs. 1,230,500 included in the said amount, had left the service and the company had not taken measures to recover the said advances.
- (i) Even though the company built a building on a land belonging to Pradeshiyan Sabha, Kamburupitiya at a cost of Rs. 22,748,813 and has been running an outlet since 2014, the had not entered in to a lease agreement to acquire the land on lease basis for the construction of the building or a lease agreement for the legal enjoyment of the building and land after the building was constructed.
- (j) Measures had not been taken to settle travelling charges amounting to Rs.10,440,757 over 5 years and retention amount to be paid to construction contract companies amounting to Rs.24,396,900 as at 31st of December 2022 mentioned under other payable balances until expiration of the year under review.
- (k) Measures had not been taken to settle the warehouse rent amounting to Rs.1,469,104 included in other receivable balances brought forward in the year 2020 until expiration of the year under review.

W.P.C. Wickramaratne
Auditor General

7.4 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

LANKA SATHOSA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	Note	2022	2021
Revenue	3	57,164,922,663	40,850,538,912
Cost of Sales	4	(49,843,377,168)	(35,961,364,850)
Gross Profit		7,321,545,496	4,889,174,063
		12.8%	12.0%
Other Income	5	352,885,123	579,986,285
Selling and Distribution Expenses	6	(4,500,882,520)	(4,051,293,237)
Administrative Expenses	7	(2,044,706,261)	(1,897,384,744)
Profit /(Loss) from Operation Activities (EBIT)		1,128,841,838	(479,517,634)
Interest Income	8	27,847,356	43,076,288
Interest Expenses	9	(1,192,133,707)	(403,839,931)
Profit /(Loss) before Taxation		(35,424,512)	(840,281,278)
Income Tax Expense	10	-	-
Profit /(Loss) for the Period (EAIT)		(35,424,512)	(840,281,278)
Basic Earnings / (Loss) Per Share (Rs.)	11	(0.40)	(9.40)
Other Comprehensive Income / (Expense)			
<i>Other Comprehensive Income not to be reclassified to Statement of Profit or Loss in subsequent periods :</i>			
Actuarial Gain / (Loss) on Retirement Benefits			
Revaluation Gain	23	56,626,291	9,226,791
		-	-
Total Comprehensive Income /(Expense) for the Period		21,201,779	(831,054,487)

7.5 STATEMENT OF FINANCIAL POSITION

LANKA SATHOSA LIMITED

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31st DECEMBER 2022

(Expressed in Sri Lankan Rupees)

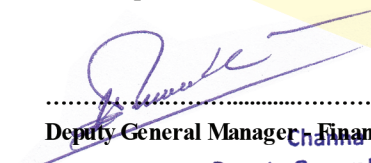
	Note	2022	2021
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	12	938,759,502	1,293,618,311
Lease Assets	12	269,295,879	-
Intangible Assets	13	134,437,696	226,193,829
Total Non-Current Assets		1,342,493,078	1,519,812,140
Current Assets			
Inventories	15	7,954,622,465	4,903,716,133
Trade and Other Receivables	16	1,746,397,807	1,444,606,291
Deposit and Advances	17	152,934,985	209,116,667
Consumable Stocks	18	78,546,486	41,944,485
Pre-Paid Expenses and Statutory Receivables	19	36,433,215	14,007,452
Fixed Deposits		500,000,000	500,000,000
Bank Guarantee	20	10,000,000	-
Cash and Cash Equivalents	21	353,917,688	274,967,368
Total Current Assets		10,832,852,647	7,388,358,396
TOTAL ASSETS		12,175,345,725	8,908,170,536
EQUITY AND LIABILITIES			
Equity			
Stated Capital	22	893,752,720	893,752,720
Equity Infusion		5,739,364,265	3,443,618,559
Retained Earnings (at Debit)		(19,801,830,058)	(19,836,544,857)
Revaluation Reserve		558,873,306	558,873,306
Total Equity		(12,609,839,767)	(14,940,300,272)
Non-Current Liabilities			
Retirement Benefits Obligation	23	288,785,872	287,301,373
Government Grants	28	145,983,614	233,018,809
Finance Lease Liability	25	230,503,574	-
Interest Bearing Loans and Borrowings	26	6,339,166,480	9,234,912,187
Total Non-Current Liabilities		7,004,439,540	9,755,232,370
Current Liabilities			
Trade and Other Payables	24	11,069,605,694	9,134,462,290
Government Grants	28	117,350,571	112,264,578
Finance Lease Liability	25	140,255,718	-
Interest Bearing Loans and Borrowings	26	1,288,779,375	1,347,238,502
Statutory Payables	27	114,472,361	317,674,408
Bank Overdrafts	21	5,050,282,232	3,181,598,660
Total Current Liabilities		17,780,745,951	14,093,238,438
TOTAL EQUITY AND LIABILITIES		12,175,345,725	8,908,170,536

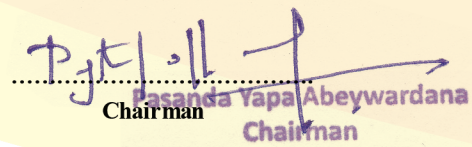
LANKA SATHOSA LIMITED
STATEMENT OF FINANCIAL POSITION
 FOR THE YEAR ENDED 31st DECEMBER 2022

(Expressed in Sri Lankan Rupees)

Note	2022	2021
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I certify that these Financial Statements of the Company comply with the requirements of the Companies Act No. 07 of 2007.


 Deputy General Manager - Finance
 Deputy General Manager - Finance
 Lanka Sathosa Limited


 Chairman
 Pasanda Yapa Abeywardana
 Chairman
 Lanka Sathosa Limited

The Board of Directors is Responsible for Preparation and Presentation of these Financial Statements.

Approved and Signed for and on behalf of the Board,


 Director
 30th October 2023
 Colombo, Director
 Lanka Sathosa Limited

7.6 STATEMENT OF CHANGES IN EQUITY

LANKA SATHOSA LIMITED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31st DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	Stated Capital	Revaluation Reserve	Equity Infusion	Retained Earnings (at Debit)	Total
Balance as at 31st December 2020	893,752,720	558,873,306	1,147,872,853	(19,005,490,370)	(16,404,991,491)
Profit /(Loss) for the year	-	-	-	(840,281,278)	(840,281,278)
Equity Infusion	-	-	2,295,745,706	-	2,295,745,706
Other Comprehensive Income / (Expense)	-	-	-	9,226,791	9,226,791
Revaluation Gain	-	-	-	-	-
Balance as at 31st December 2021	893,752,720	558,873,306	3,443,618,559	(19,836,544,857)	(14,940,300,272)
Profit /(Loss) for the year	-	-	-	(35,424,512)	(35,424,512)
Prior Year Adjustment-Lease	-	-	-	13,513,020	13,513,020
Equity Infusion	-	-	2,295,745,706	-	2,295,745,706
Other Comprehensive Income / (Expense)	-	-	-	56,626,291	56,626,291
Revaluation Gain	-	-	-	-	-
Balance as at 31st December 2022	893,752,720	558,873,306	5,739,364,265	(19,801,830,058)	(12,609,839,767)

7.7 STATEMENT OF CASH FLOWS

LANKA SATHOSA LIMITED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	2022 Year	2021 Year
Cash Flows from Operating Activities		
Profit /(Loss) for the Period (EAIT)	(35,424,512)	(840,281,278)
Adjustments for;		
Depreciation	577,696,132	500,766,342
Amortization of Intangible Assets	64,025,447	65,086,239
Amortization of Government Grant	(133,481,004)	(381,975,212)
Provision for Gratuity	72,289,344	41,774,957
Interest Expence	1,192,113,707	403,839,931
Interest Income	(27,847,356)	(43,076,288)
Prior Year Adjustment-Lease	13,513,020	-
Disposal loss	753,815	31,212,686
Operating Loss/profit Before Changes in Working Capital	1,723,638,592	(222,652,622)
Changes in Working Capital		
Inventories	(3,050,906,332)	(7,884,197)
Trade and Other Receivables	(359,032,018)	(406,922,828)
Deposit and Advances	56,181,682	(57,037,564)
Consumable Stocks	(36,602,002)	(10,375,746)
Prepaid Expences & Statutory Receivables	(22,425,762)	7,359,191
Trade and Other Payables	1,935,143,404	(375,809,735)
Statutory Payable	(203,202,047)	106,766,919
Cash used in Operations	42,795,518	(966,556,581)
Gratuity Paid	(14,178,554)	(5,278,235)
Interest Paid for Over Draft	(829,787,908)	(222,197,988)
Net Cash used in Operating Activities	(801,170,944)	(1,194,032,805)
Cash Flows from Investing Activities		
Acquisition of Property, Plant and Equipment	(133,431,567)	(149,258,689)
Acquisition of Intangible Assets	(3,482,000)	(232,399,000)
Cash Received from Disposal of Assets	6,878,000	
Interest Received	26,652,149	17,976,973
Net Changes in Fixed Deposits	-	364,422,505
Net Cash Flow from / (used in) Investing Activities	(103,383,418)	741,789

7.7 STATEMENT OF CASH FLOWS

LANKA SATHOSA LIMITED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	2022 Year	2021 Year
Cash Flows from Financing Activities		
Repayment of Loan Capital	(2,895,745,706)	(3,532,817,390)
Equity Infusion-Rice Loan	2,295,745,706	2,295,745,706
Repayment of Loan Interest	(1,136,811,745)	(1,558,406,198)
Government Grant Received for Rice Loan	845,073,594	1,038,399,320
Government Grant Received for Capital Projects	51,531,803	79,672,820
Repayment for Lease Assets	(34,972,537)	0
Bank Guarantee	(10,000,000)	-
Net Cash Flow from Financing Activities	(885,178,886)	(1,677,405,742)
Net Changes in Cash and Cash Equivalents During the Period	(1,789,733,252)	(2,870,696,753)
Cash and Cash Equivalents at Beginning of the Period	(2,906,631,293)	(35,934,540)
Cash and Cash Equivalents at End of the Period (Note 21)	(4,696,364,544)	(2,906,631,293)

7.8 NOTES TO THE FINANCIAL STATEMENTS

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31ST DECEMBER 2022**

1. CORPORATE INFORMATION

1.1. General Information

Lanka Sathosa Limited is a state owned largest retail network business in Sri Lanka which is incorporated and domiciled in Sri Lanka. The registered office and the principal place of business of the Company is located at No. 27, CWE Secretariat Building, Vauxhall Street, Colombo 02.

1.2. Principal Activities and Nature of Operations

The principal activities of the Company are the distribution of fast moving consumable items including liquor and general merchandise through a chain of retail outlets.

1.3. Number of Employees

The staff strength of the Company as at 31 December 2022 is 3,213 (3,414 as at 31 December 2021).

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

2.1.1. Statement of Compliance

The Financial Statements of the Company, as at 31 December 2022 and for the year ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007. These Financial Statements include the following components:

- Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review;
- Statement of Financial Position providing the information on the financial position of the Company as at the year-end;
- Statement of Changes in Equity depicting all changes in shareholder's equity of the Company during the year under review;
- Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents during the year under review; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31ST DECEMBER 2022**

2.1.2. Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of Financial Statements of the Company as per the provision of the Companies Act No. 07 of 2007 and SLFRS and LKAS. The Board of Directors acknowledges their responsibility for Financial Statements as set out in the Annual Report of the Board of Director's, Statement of Directors' Responsibility, and the certification on the Statement of Financial Position.

2.1.3. Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following items in the Statement of Financial Position:

Category	Item	Basis of measurement
Assets	Land and building	Cost/revaluation
Liabilities	Employee benefit liability	Present value of the defined benefit obligation
Assets	Derivatives	FVOCI

2.1.4. Presentation of Financial Statements.

The assets and liabilities of the Company in the Statement of Financial Position are grouped by nature. No adjustments have been made for inflationary factors affecting the Financial Statements.

2.1.5. Approval of the Financial Statements by the Board of Directors.

The Financial Statements of the Company for the year ended 31 December 2022 (including comparatives) were approved and authorised by the Board of Directors for issue on 31st October 2023.

2.1.6. Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Accounting Policies of the Company.

2.1.7. Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (Rs.), which is the Company's functional and presentation currency.

2.1.8. Materiality and Aggregation.

Each material class of similar items is presented as a group in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 "Presentation of Financial Statements

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED 31ST DECEMBER 2022

2.1.9 Comparative Information

Comparative information is reclassified wherever necessary to conform with the current year's presentation.

The presentation and classification of the Financial Statements of the previous years have been amended, where relevant for better presentation and to be comparable with those of the current year.

- FD Interest Receivable have been reclassified & presented under other receivable.
2021- Rs. 25,099,314
2022- Rs. 26,294,521
- Stock shortage / Provision for stock shortage directly identified in Statement of Profit & Loss Statement in 2021 have been presented under Selling & Distribution expense and Recovered amount for shortage have been presented under Other Income.

Stock Shortage recoverable amount in 2022 have been identified & presented under other Receivable.

2022- Rs. 342,327,235

- Casual labour cost mentioned under administrative expenses have been reclassified & presented under Selling & Distribution cost.
2021- Rs. 344,535,200
2022- Rs. 398,883,468
- Amounts due from treasury for repayment of loans were included in loan liabilities have been reclassified and presented under other receivables. Current & Non-Current loan liability reclassified as follows.

Treasury Receivables

2021- Rs. 751,389,967

2022- Rs. 692,954,259

Loan Liability

Non-Current Liability

2021

Rs. 9,234,912,187

2022

Rs. 6,339,166,480

Current Liability

Rs. 1,347,238,502

Rs. 1,288,779,375

- Card control amount were included in Deposit & Advance have been reclassified and presented under Cash & Cash Equivalents.

Card Control

2021 - Rs. 19,659,950

2022 - Rs. 73,382,849

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED 31ST DECEMBER 2022

- Sales discount deducted from revenue have been adjusted as net sales discount cost incurred by company & have been reclassified between revenue & Promotional income account.

	2021 (Rs.)	2022 (Rs.)
Sales Discount	17,175,735	51,236,501
Promotional Income	9,930,926	18,438,997

- Comparative figures have been reclassified in Cash flow statement accordance with Standards & for better presentation.

Account	2021 (Rs.)	2022 (Rs.)
Disposal Loss	31,212,686	753,814
Trade & Other Receivable	(406,922,827)	41,730,925
Acquisition of PPE	(149,258,689)	(104,071,969)
Interest Received	17,976,973	26,652,149
Net changes in FD	364,422,505	-
Interest Paid	(742,204,861)	(1,179,961,771)
Repayment of loan capital	(3,532,817,390)	(2,895,745,706)
Cash & cash Equivalents	(2,906,631,293)	(4,696,364,544)

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements requires management to assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, the management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Company's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2022

2.2.1. Use of Judgements and Estimates

In preparing these Financial Statements, management has made judgements and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

2.2.1.1 Judgements.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following Notes: Deferred tax liabilities: Determination of whether lands should be considered as a business asset or an investment asset.

2.2.1.2 Assumptions

Information about assumptions and estimation uncertainties at 31 December 2022 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following,

- Measurement of defined benefit obligations: key actuarial assumptions;
- Determination of fair value of property plant and equipment: key valuation assumptions;
- Impairment test of intangible assets: key assumptions underlying recoverable amounts; and
- Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resource

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED 31ST DECEMBER 2022

2.2.3. Going Concern

The company has incurred a net Loss of Rs.35,424,512 during the year under review, the accumulated losses amounting to Rs . 19,801,830,058 and, company's current liabilities has exceeded its current assets by Rs. 6,947,893,304. Despite this, the Financial Statements of the Company have been prepared on a Going Concern Basis on the assumption that the Government Treasury will continue to extend finances to enable to meet its obligations as and when they fall due.

Company has taken many steps to continue the company's activities. Among them, closing or replacing loss-making stores, starting new stores based on financial feasibility, introducing new sales promotion programs with the aim of increasing sales, giving sales targets, providing products under the Lanka Sathosa brand, providing training programs to increase employee motivation, giving incentives etc. can be indicated.

Although there was uncertainty regarding the continuity of operations in the previous years, the company has achieved an operating profit at present. Also, as of now, it has been possible to reduce the net loss compared to previous years.

Profit/Loss for Last 4 Year

Year	Loss(Rs)
2019	3,158,544,037
2022	1,387,666,643
2021	840,281,278
2022	35,424,512

2.2.4. Current versus non-current classification

The Company presents assets and liabilities in Statement of Financial Position based on current/non-current classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED 31ST DECEMBER 2022

A liability is considered as current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

2.2.5. Fair value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include model inputs such as volatility for discount rates. The valuation of financial instruments is described in more detail in Note 34.

2.2.6. Impairment Losses on Financial Assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

2.2.7. Revenue from contracts with customers

a) Sale of Goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

Revenue is allocated between the loyalty programme and the other components of the sale. The amount allocated to the loyalty programme is deferred, and is recognized as revenue when the Company has fulfilled its obligations to supply the discounted products under the terms of the programme or when it is no longer probable that the points under the programme or when it is no longer probable that the points under the programme will be redeemed.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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b) Interest Income

Interest income is recognised in the statement of comprehensive Income as it is earned. Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

c) Other Income

Other income is recognized on an accrual basis.

Net Gains and losses of a revenue nature on the disposal of property, plant & equipment and other non-current assets have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

d) Grants

The recognition of non-exchange revenue from grants depends on whether the grant comes with any stipulations imposed on the use of a transferred asset. Stipulations that are 'conditions' specifically require the Company to return the inflow of resources received if they are not used in the way stipulated, resulting in the recognition of a liability that is subsequently recognized as non-exchange revenue as and when the 'conditions' are satisfied. Stipulations that are 'restrictions' do not specifically require the Company to return the inflow of resources received if they are not utilized in the way stipulated, and therefore do not result in the recognition of a no exchange liability, which results in the immediate recognition of non-exchange revenue. The Company receives grant funding from the Line Ministry. The grants are provided [e.g. to cover capital expenditure for the construction of new outlets]. Depending on the stipulations of each grant the Company may or may not have to return unspent funds. If there are conditions attached, revenue in relation to that particular grant is not recognized until the conditions have been fulfilled. For grants with restrictions, the

e) Gifts and Donations

Gifts and donations are voluntary transfers of assets including cash or other monetary assets, goods in-kind and services in-kind that the Company receives which are free from stipulations. Donations are recognised as revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably. For gifts and donations this usually upon receipt of the gift or donation.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED 31ST DECEMBER 2022

2.2.8. Property, Plant and Equipment

a) Cost and Valuation

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the profit or loss as incurred.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

b) Revaluation of Property, Plant and Equipment

When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At date of the revaluation, the asset is treated the following way: The Gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

c) Depreciation

Provision for depreciation is calculated using the straight-line method. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. Land is not depreciated.

If an asset has several components, which can be physically separated from the principal assets and have significantly different useful life, those shall be recognized separately and depreciated based on their respective useful lives. Significant components were identified based on the components which have a significant cost out of the total value of the principal asset and the components which have significantly different useful economic lives.

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED 31ST DECEMBER 2022

The useful lives are as follows:

Class of Asset	Rate	No. of Years
Buildings	5%	20
Building Partitioning	10%	10
Name Board and Fittings	20%	5
Computers Equipment	25%	4
Computer Software	25%	4
Equipment	20%	5
Office Equipment	20%	5
Furniture and Fittings	20%	5
Motor Vehicles	20%	5
Communication Equipment	20%	5

Depreciation of assets begins when it is available for use.

The assets residual values, useful lives, and depreciation methods are reviewed if there is an indication of a significant change since the last annual reporting date

2.2.9. Intangible Assets

The Company intangible assets include the value of implementation of networking and System licence.

a) Basis of Recognition

An intangible asset is recognized only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the company in accordance with the Sri Lanka Accounting Standard- LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are stated in the Statement of Financial Position at costless any accumulated amortization and any accumulated impairment losses if any.

b) Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022
c) Useful Economic Lives, Amortization and Impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful economic lives at the rates as specified below;

Class of Asset	Rate	No. of Year
Computer software	25%	4

d) De-recognition

Intangible assets are de-recognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the profit or loss in the year the asset is de-recognized.

2.2.10. Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of Completion and the estimated costs necessary to make the sale. Costs incurred in bringing each product to its present location and condition are accounted for, as follows :

Merchandising goods - Actual cost on a First in First Out - (FIFO) basis

Other inventories - Actual cost

LANKA SATHOSA LIMITED
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Cost Value

Provision	1,654,749,436.49
Grocery	5,871,831,142.57
Liquor	428,041,886.04
	<u>7,954,622,465.10</u>

NRV

Estimated Selling Prize

Provision	1,840,777,295.02
Grocery	7,066,867,980.75
Liquor	496,686,465.00
	<u>9,404,331,740.77</u>

Estimated Selling Cost*	188,086,634.82
	<u>9,216,245,105.95</u>

*As we don't incur significant cost to sell, the estimated cost of sales is assumed to be 2% of the estimated selling price.

Inventories are valued at cost as the cost is lower than NRV

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2022

2.2.11. Trade and Other Receivables

Trade receivables are amounts due from customers for sale of goods and services rendered in the ordinary course of business. Collection is expected in the normal operating cycle of the business (within one year or less) and the receivables are classified as current assets. Trade receivables are recognized initially at fair value (invoice value) and subsequently measured at the original invoice value less provision for impairment as the dues are expected to receive in the normal operating cycle of the business.

The company assesses at the end of each reporting period whether there is objective evidence that trade receivables are impaired. Objective evidence of impairment for trade receivables include the company's past experience in collecting payments, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default payments. Trade receivables are impaired and impairment losses are incurred, only if there is objective evidence of impairment. Trade receivables are assessed individually for impairment.

2.2.12. Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.2.13. Financial assets

a) Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the companies' business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price. In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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The companies' business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

b) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the company statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

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

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

d) Impairment

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Financial liabilities

a) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Companies financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

b) Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and borrowings)

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.2.14. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the company's cash management.

2.2.15. Cash and short

a) Defined Contribution Plan Costs

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognized as 'a Personnel Expenses' in the Profit or Loss in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Lanka Sathosa Limited contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognized as an expense under 'Personnel Expenses'.

b) Defined Benefit Plan Costs

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the 'Projected Unit Credit Method'. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability. Provision has been made in the financial statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2022

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service. The liability is not externally funded.

2.2.15. Government Grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset. When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

2.2.16. Related Party Transactions

Disclosures have made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

2.2.17. Events after the Reporting Period

All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 29 to the Financial Statements.

2.2.18. Taxation

a) Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

b) Deferred Taxation

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

c) Sales Tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- i) Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- ii) Receivables and payables are stated with the amount of sales tax included
- iii) The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.3. Statement of Cash Flows.

The Statement of Cash Flows has been prepared by using the “Indirect Method” of preparing cash flows in accordance with the Sri Lanka Accounting Standard - LKAS 7 on “Statement of Cash Flows”, whereby operating activities, investing activities and financing activities are separate 10 recognised. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flow are comprised of those items as explained in Note 21

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED 31ST DECEMBER 2022

2.4. Changes in Accounting Policies and Disclosures

2.4.1. Recognition of Assets under Finance lease

In these financial statements, the Company has applied SLFRS 16 - 'Leases'. The nature and effect of the changes as a result of adoption of this new accounting standard are as follows.

Assets which were obtained on operating lease were subsequently converted to a Finance Lease . According to SLFRS 16 , The impact of this change for the year 2021 has been adjusted through a prior year adjustment to Retained Earnings. Accordingly such Assets have been capitalized in the year 2022 and detailed note relating to these asset are depicted under note 12.5 .

2.4.2. Transactions with Key Management Persons (KMP)

Board of Directors	Aggregate remuneration (7 Members)	Rs. 1,953,000
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LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	Note	2022	2021
3 Revenue			
Revenue in the Automated Outlets			
Grocery Products		16,816,660,229	13,604,428,666
Provision Products		33,433,699,487	19,470,685,863
Liquor		3,641,780,720	1,741,168,733
Promotional Items		631,023,789	762,043,964
Household		2,680,555,373	1,641,131,139
Stationery		12,439,568	27,247,036
		57,216,159,165	37,246,705,401
Revenue in the Manual Outlets	3.1	-	3,621,009,247
Gross Revenue		57,216,159,165	40,867,714,648
Sales Discount	3.2	(51,236,502)	(17,175,736)
		57,164,922,663	40,850,538,912
3.1	The revenue in manual outlets could not be categorized in terms of the items of goods sold. Nevertheless, the entire stream of receipts for goods sold, comprise of cash sales, card sales, gift voucher sales and credit sales have been recognized. From the year 2022 all outlets are systemized & categorywise sale can be identified.		
3.2	Sales Discount given for the year 2022	382,542,991	176,194,247
	Sales Discount recovered from suppliers	(331,306,490)	(159,018,511)
	Sales Discount cost incurred by the company	51,236,502	17,175,736
4 Cost of Sales			
Stock as at 01.01.2022		4,903,716,133	4,895,831,936
Purchases		53,277,992,318	36,242,818,708
		58,181,708,451	41,138,650,644
Purchases Return		(383,708,818)	(273,569,662)
Stock as at 31.01.2022		(7,954,622,465)	(4,903,716,133)
		49,843,377,168	35,961,364,850

YEAR ENDED 31ST DECEMBER 2022

Note

2022

2021

Gondola Income	59,623,509	62,073,519
Promotional Income	18,438,998	9,930,926
Commission Income	3,113,717	2,792,772
Sundry Income	62,325,241	45,468,820
Registration and Listing Income	25,838,548	56,404,200
Rent Income	6,936,457	5,966,344
Penalty Income	13,197,651	5,082,368
Joint Business Plan Income	18,525,000	-
Amortisation of Deferred Income - Capital Grant	133,481,004	381,975,212
Recoveries	11,405,000	10,292,124

352,885,123	579,986,285
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Salaries	1,020,271,630	1,013,753,812
Cost of living and Other Allowances	464,745,345	292,200,952
Employees Provident Fund	145,838,098	155,495,893
Employees Trust Fund	39,267,549	38,872,073
Overtime	312,716,645	333,602,754
Advertising Expenses	32,166,791	21,276,704
Bonus	-	97,526,998
Incentive	29,645	40,430,262
Consumable Store Charges	24,657,906	20,604,830
Grocery Bags	483,736,997	265,470,806
Packing Charges	598,798	884,879
Printing Expenses	122,573,855	28,863,175
Rent	787,789,747	708,839,645
Sales Discount -Gift Voucher	9,615,500	750,810
Security Charges	254,009,313	230,330,147
Transport Charges	346,572,650	249,686,722
Promotional Expenses	2,862,098	5,653,798
Trade License Fees	25,959,486	18,665,115
Special Operational Expenses	546,984	11,905,188
Rental Expenses	7,093,996	13,953,622
Casual Labor	398,883,468	344,535,200
Social Security Contributuin Levy	20,946,018	-
Stock shortage	-	157,989,851

4,500,882,520	4,051,293,237
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LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED 31ST DECEMBER 2022

	<i>(Expressed in Sri Lankan Rupees)</i>	
Note	2022	2021
7 Administrative Expenses		
Salaries - Managerial, Executive and Clerical	132,005,429	132,671,018
Cost of living and Other Allowances	99,673,465	68,123,486
Employees Provident Fund	32,890,533	19,152,279
Employees Trust Fund	4,975,346	4,790,415
Overtime	13,041,141	16,541,733
Director Fees	1,953,000	1,718,000
Annual Leave Payment	80,182,329	65,713,554
Audit Fees and Expenses	2,086,000	1,792,167
Repair and Maintenance	102,734,920	82,503,310
Stock Verification Charges	107,670	437,365
Courier Charges	5,286,040	6,330,922
Depreciation	577,696,131	500,766,342
Amortization of Intangible Assets	64,025,447	65,086,239
Gratuity	72,289,344	41,774,957
Donations	966,680	833,858
Electricity	248,621,277	257,291,898
Fine and Surcharges	491,228	1,803,346
Pest Control	3,199,600	2,923,628
Service Agreement Fees- AMC	31,122,763	29,088,765
Fuel Charges	74,832,711	15,334,011
Subscription	326,089	332,987
Insurance	22,881,613	29,328,808
Royalty Fees for CWE (Liquor License)	4,920,024	4,920,024
Water Expenses	16,331,023	13,966,179
Legal Fees	6,495,188	4,240,528
Rates and Taxes	1,093,715	662,907
Postage and Stamp Fees	5,484,293	5,019,453
Secretarial Fees	485,000	315,950
Staff Training	180,499	1,538,509
Professional Fees	16,989,682	16,853,838
Stationeries	66,883,349	50,990,190
Telephone and Internet	116,365,270	94,601,338
Travelling & Subsistence	26,250,249	168,708,057
Unclaimable VAT	49,200,333	26,018,273
Staff Welfare	41,602,121	35,132,522
Vehical Rental	11,124,260	13,305,432
Labour Compensation	891,540	-
Bank Charges and Commissions	103,237,519	71,155,079
Disposal Clearing	753,815	31,212,686
Miscellaneous	5,029,624	14,404,691
	2,044,706,261	1,897,384,744

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED 31ST DECEMBER 2022

		<i>(Expressed in Sri Lankan Rupees)</i>	
	Note	2022	2021
8 Interest Income		(27,847,356)	(43,076,288)
Interest on Fixed Deposits and Savings		(27,847,356)	(43,076,288)
9 Interest Expenses			
Interest on People's Bank Loan		82,887,993	110,145,993
Interest on BOC Loan		703,749,891	929,023,918
(-) Government Grant Received		(786,637,884)	(1,038,399,320)
Interest on WCL		291,714,735	180,871,351
Overdraft Interest		829,787,908	222,197,988
		1,121,502,643	403,839,931
Lease Interest		70,611,064	
		1,192,113,707	403,839,931

10 Income Tax Expense

The major components of income tax expenses and the accounting profit multiplied by the statutory tax rates are as follows.

Current Income Tax	10.1	-	-
Deferred Income Tax		-	-

10.1 A reconciliation between current tax expenses and the accounting profit multiplied by the statutory tax rates are as follows.

Net Profit/(loss) as per financial statements.	(35,424,512)	(840,281,278)
Add: Disallowable Expenses	771,164,352	640,523,542
Less: Allowable Expenses	(513,377,263)	(452,682,065)
Business income/(loss) for the year	222,362,576	(652,439,800)
Less: Brought forward tax loss	-	-
Business income	-	-
Statutory Tax Rates	28%	28%
Current Income Tax Expenses	-	-

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

		<i>(Expressed in Sri Lankan Rupees)</i>	
	Note	2022	2021
11 Basic Earnings / (Loss) Per Share (Rs.)			
<i>Amount used as the Numerator</i>			
Attributable to Equity Holders (Rs.)		(35,424,512)	(840,281,278)
<i>Number of Ordinary Shares used as the Denominator</i>			
Weighted Average number of Shares in Issue (Nos)		89,375,272	89,375,272
Basic Earnings / (Loss) Per Share (Rs.)		(0.40)	(9.40)

Basic Earnings / (Loss) per share is calculated by dividing the profit / (Loss) attributable to the equity holders by the weighted average number of ordinary shares in issue during the reporting period.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022*(Expressed in Sri Lankan Rupees)***12 PROPERTY, PLANT AND EQUIPMENT**

12.1 Carrying Amount Cost	Balance As At 01.01.2022	Adjustment	Additions	Transfer from/To	Transfer to IA	Disposals	Balance As At 31.12.2022
Buildings	460,595,809	-	-	-	-	-	460,595,809
Name Board and Fittings	192,846,027	-	2,326,500	-	-	-	195,172,527
Computers Equipment	319,834,653	-	65,451,060	-	-	(4,597,629)	380,688,085
Computer Software	177,039,069	83,233,830	-	-	-	(2,155,620)	258,117,279
Equipment	1,877,390,972	-	62,193,123	-	-	(24,322,280)	1,915,261,814
Office Equipment	352,459,321	-	-	-	-	-	352,459,321
Furniture and Fittings	280,914,120	-	1,761,440	-	-	-	282,675,561
Motor Vehicles	18,821,440	-	-	-	-	-	18,821,440
Communication Equipment	3,642,602	-	-	-	-	-	3,642,602
Assets of CWE	22,798,843	-	-	-	-	-	22,798,843
Total Gross Carrying Amount	3,706,342,856	83,233,830	131,732,123	-	-	(31,075,529)	3,890,233,280

12.1.1 Capital Work-in-Progress

Project Advance - Mannar	12,056,960
Provision for Impairment	(12,056,960)
	-

12.2 Depreciation

	Balance As At 01.01.2022	Adjustment	Charge for the Year	Transfer from	Transfer to IA	Disposals	Balance As At 31.12.2022
Buildings	175,389,710		24,425,323	-	-	-	199,815,032
Name Board and Fittings	114,181,829		29,050,162	-	-	-	143,231,991
Computers Equipment	246,995,353		52,737,074	-	-	(4,070,490)	295,661,937
Computer Software	118,951,212	52,021,144	48,944,935	-	-	(1,003,498)	218,913,793
Equipment	1,081,132,370		345,350,971	-	-	(18,369,726)	1,408,113,615
Office Equipment	352,328,872		55,186	-	-	-	352,384,058
Furniture and Fittings	278,482,314		11,307,596	-	-	-	289,789,910
Motor Vehicles	18,821,440		-	-	-	-	18,821,440
Communication Equipment	3,642,602		-	-	-	-	3,642,602
Assets of CWE	22,798,843		-	-	-	-	22,798,843
Total Depreciation	2,412,724,546	52,021,144	511,871,246	-	-	(23,443,715)	2,953,173,221

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	Note	2022	2021
12.3 Net Book Values		Balance As At 31.12.2022	Balance As At 31.12.2021
Buildings		260,780,777	285,206,100
Name Board and Fittings		51,940,535	78,664,198
Computers Equipment		85,026,147	72,839,300
Computer Software		39,203,487	58,087,857
Equipment		507,148,199	796,258,601
Office Equipment		75,263	130,449
Furniture and Fittings		(7,114,350)	2,431,806
Motor Vehicles		-	-
Communication Equipment		-	-
Assets of CWE		-	-
Total Carrying Amount of Property, Plant and Equipment		937,060,059	1,293,618,311
Fixed Asset Interimmediate Account		1,699,443	-
Total Carrying Amount of Property, Plant and Equipment		938,759,502	1,293,618,311

12.4 Lesaes

The company's Leases consists of Equipment, Furniture & Name Boards. The Leases are depreciated over 5 Years. After 5 Years there is no Lease Liability.

Carrying Amount Cost	Balance as at 01.01.2022	Additions	Disposals	Balance as at 31.12.2022
Equipment	-	315,488,805	-	315,488,805
Name Board	-	11,250,000	-	11,250,000
Furniture	-	8,381,960	-	8,381,960
Total Gross Carrying Amount	-	335,120,765	-	335,120,765

Depreciation

	Balance as at 01.01.2022	Charge for the Year	Disposals	Balance as at 31.12.2022
Equipment	-	61,948,061	-	61,948,061
Name Board	-	2,220,824	-	2,220,824
Furniture	-	1,656,000	-	1,656,000
Total Depreciation	-	65,824,886	-	65,824,886

Net Book Values

	Balance as at 01.01.2022	Balance as at 31.12.2022
Equipment	-	253,540,744
Name Board	-	9,029,176
Furniture	-	6,725,960
Total Carrying Amount of Lease Assets		269,295,879

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	Note	2022	2021
13 Intangible Assets			
<i>Cost</i>			
Balance as at 01.01.2022		382,502,826	150,103,826
Previous Year Adjustment	13.1	(83,233,830)	-
Additions during the year		3,482,000	232,399,000
Balance as at 31.12.2023		302,750,996	382,502,826
<i>Amortization</i>			
Balance as at 01.01.2022		156,308,997	91,222,758
Previous Year Adjustment	13.1	(52,021,144)	-
Charge for the Year		64,025,447	65,086,239
Balance as at 31.12.2022		168,313,300	156,308,997
Net Carrying Value		134,437,696	226,193,829
13.1 The classification error between Computer software & Intangible asset has been corrected in the current year .			
14 Deferred Tax Assets / Liability			
Since the company is generating continues losses, no deferred tax assets have been recognized.			
15 Inventories			
Trading Stocks (Provisional Items)		1,654,749,436	916,654,087
Trading Stocks (Grocery Items)		5,871,831,143	3,815,118,496
Trading Stocks (Liquor)		428,041,886	171,943,550
		7,954,622,465	4,903,716,133
16 Trade and Other Receivables			
Trade Receivables	16.1	592,837,068	443,045,895
Amounts Due from Related Parties	16.2	-	-
Other Receivables	16.3	1,153,560,739	1,001,560,396
		1,746,397,807	1,444,606,291

LANKA SATHOSA LIMITED **NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	Note	2022	2021
16.1 Trade Receivables			
Trade Receivables		273,398,389	369,608,694
Unsettled Fund		(6,080,799)	(6,747,170)
Provision for Impairment		(62,959,958)	(62,959,958)
		204,357,632	299,901,566
Accounts Receivable		388,571,436	143,236,329
Provision for Impairment		(92,000)	(92,000)
		592,837,068	443,045,895
16.2 Amounts Due from Related Parties			
Co-operative Wholesale Establishment		10,083,353	10,083,353
Provision for Impairment		(10,083,353)	(10,083,353)
		-	-
16.3 Other Receivables			
Receivable From Ministry		52,030,563	184,846,992
Provision for Impairment		(2,270,000)	(2,270,000)
		49,760,563	182,576,992
Receivable From Treasury(Claim)		42,224,161	42,224,161
Receivable From Treasury(Rice Loan)		692,954,259	751,389,967
Sports Ministry		36,453,533	36,453,533
Provision for Impairment		(36,453,533)	(36,453,533)
		784,938,983	976,191,121
Stock Loss recoverable		342,327,235	-
Cheques Control			269,962
FD Interest Receivable		26,294,521	25,099,314
		1,153,560,739	1,001,560,396
17 Deposits and Advances			
Rent Advance		69,379,945	86,781,904
Rent Deposit		19,009,724	18,257,054
Rent & Rates Prepaid		842,705	3,370,756
Rent Recoverable		3,456,343	3,169,806
Salary Advance		14,426,409	44,800,789
Festival Advance	17.1	6,409,187	6,053,437
Advances- Other		290,619,372	296,288,622
Import Clearing Advance-Liverpool Navigation	17.2	(267,600,500)	(267,600,500)

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

		<i>(Expressed in Sri Lankan Rupees)</i>	
	Note	2022	2021
Refundable Deposit Receivable		9,971,144	9,971,144
NTB Utility Card Control		6,394,657	7,932,585
Travelling Advance		26,000	91,070
Big Onion Control	17.3	-	-
Under Remittance	17.4	-	-
Refundable Deposit - Container	17.5	-	-
		152,934,985	209,116,667
17.1 Festival Advance			
Advances to Staff		6,855,187	6,499,437
Provision for Impairment		(446,000)	(446,000)
		6,409,187	6,053,437
17.2 Import Clearing Advances - Liverpool Navigation			
Import Clearing Advances		267,600,500	267,600,500
Provision for impairment		(267,600,500)	(267,600,500)
		-	-
17.2.1	Above amount represents the amount paid to Liverpool Navigation in the year 2015 and 2016 for clearance of Imported Rice		
17.3 Big Onion Control			
Big Onion Control		137,826,385	137,826,385
Provision for Impairment		(137,826,385)	(137,826,385)
		-	-
17.3.1	The remaining balance of Big Onion Intermediate Account of Rs. 137,826,385/- is the difference between the total amount paid to purchase of big onion to the local farmers and the stock received to the company (the GRN's value). Further, a provision for impairment has been made on the entire amount since, recovery of the amount subsequently proved to be remote. However, this project is under investigation.		
17.4 Under Remittance			
Under Remittance		56,762,337	56,762,337
Provision for Impairment		(56,762,337)	(56,762,337)
		-	-

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

		Note	2022	2021
17.4.1	The above represent the amount spent out of the sales collection by the Manual outlets.			
17.5	Refundable Deposit - Container			
	Refundable Deposit - Container		19,507,254	19,507,254
	Provision for Impairment		(19,507,254)	(19,507,254)
			-	-
18	Consumable Stocks			
	Grocery Bags		13,139,700	4,162,450
	Thermal Papers		20,184,249	5,872,129
	Stationeries		11,164,942	5,314,019
	Printer Toners		28,688,350	21,291,800
	Printed Documents		5,369,245	5,304,087
			78,546,486	41,944,485
18.1	Consumable stocks are valued at lower of cost & NRV			
19	Pre-Paid Expenses and Statutory Receivables			
	Pre-Paid Expenses	19.1	31,743,837	9,318,075
	Statutory Receivables	19.2	4,689,377	4,689,377
			36,433,215	14,007,452
19.1	Pre - Paid Expenses			
	Insurance		5,442,633	4,796,997
	Liquor Licenses		22,305,419	947,001
	Other Pre-Paid Expenses		3,995,786	3,574,077
			31,743,837	9,318,075
19.2	Statutory Receivables			
	Income Taxes		10,927,534	10,927,534
	Withholding Tax (Opening)		6,694,788	6,694,788
	Provision for write off		(12,932,944)	(12,932,944)
			4,689,377	4,689,377

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

		<i>(Expressed in Sri Lankan Rupees)</i>	
	Note	2022	2021
20 Bank Guarantee			
Lanka Sathosa limited has placed a Bank Gurantee of 10 mn for Farms Pride for the period of 1 Year (2022.09.22-2023.09.22)			
21 Cash and Cash Equivalents			
Components of Cash and Cash Equivalents			
21.1 Favourable Cash and Cash Equivalent Balance			
Short Term Investment in REPO's	21.1.1	-	58,200,000
Cash at Bank	21.1.2	150,461,533	81,680,690
Cash in Hand	21.1.3	203,456,155	135,086,677
		<u>353,917,688</u>	<u>274,967,367</u>
21.1.1 Short-Term Investment in REPOs			
This investment included cash balances which invested as REPO's by Lanka Sathosa Limited on every day from excess cash from account no 004-0046-1991855 & 004100641991855			
21.1.2 Cash at Bank			
People's Bank			
Savings Account	- 004-2-002-6-1991855	9,369,303	5,233,282
Master Card Account	- 004-1-001-1-0000044	1,823,388	2,683,943
Petty Cash Account	- 004-1-003-7-1991855	516,585	2,604,564
Liquor Account	- 004-1-002-8-1991855	-	35,490,037
General Account	- 004-1-004-6-1991855	1,393,886	4,549,313
Mobitel Account	- 004-2-006-4-1991855	49,708,219	142,774
Bank of Ceylon			
Current Account 76587128		10,730,575	7,682,666
Nations Trust Bank			
Card Account- 100060011036		1,531,572	886,421
Commercial Bank			
Card Account- 1480045950		2,005,155	2,747,740
		<u>77,078,683</u>	<u>62,020,739</u>
Card Control		73,382,849	19,659,951
21.1.3 Cash in Hand			
Floating Cash		4,302,869	4,252,869
Special Petty Cash		702,060	706,044
Petty Cash Float		24,158,524	9,950,673
Outlet Cash Control	21.1.3.1	174,292,702	120,177,091
		<u>203,456,155</u>	<u>135,086,678</u>
		<u>353,917,688</u>	<u>274,967,367.72</u>

20.1.3.1 Outlet Cash Control

This balance represents the undeposited cash collection by the individual outlets at the year end.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

		<i>(Expressed in Sri Lankan Rupees)</i>	
	Note	2022	2021
21.2 Unfavourable Balances			
21.2.1 Bank Overdrafts			
People's Bank			
Special Provision Account - 004-2-005-5-1991855		2,296,387,834	2,193,997,778
Provision Account - 004-2-007-3-1991855		2,165,083,835	493,398,324
Main Current Account - 004-1-001-9-1991855		548,108,246	494,202,558
Liquor Account - 004-1-002-8-1991855		40,702,317	-
		(5,050,282,232)	(3,181,598,660)
Cash and Cash Equivalents for the Purpose of Statement of Cash Flows		(4,696,364,544)	(2,906,631,293)
22 Stated Capital			
Issued and Fully Paid, Ordinary Shares		893,752,720	893,752,720
No's of Shares		893,752,720	893,752,720
		89,375,272	89,375,272
23 Retirement Benefits Obligation			
Balance as at 01.01.2022		287,301,373	260,031,442
Expenses Recognised in Profit or Loss	23.1	72,289,344	41,774,957
Actuarial (Gain) / Losses Recognised in Other Comprehensive Income		(56,626,291)	(9,226,791)
Payments Made During The Period		(14,178,554)	(5,278,235)
Balance as at 31.12.2022		288,785,872	287,301,373
23.1 Expenses Recognised in Profit or Loss			
Current Service Cost		39,249,686	22,012,567
Interest Charge for the Year		33,039,658	19,762,390
		72,289,344	41,774,957

23.2 Actuarial valuation of the defined benefit plan(Gratuity)was carried out on 31 December 2022 by Actuarial & Management Consultant (Pvt)Ltd.Appropriate and compatible assumptions were used in determining the cost of retirement benefits.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022*(Expressed in Sri Lankan Rupees)*

	Note	2022	2021
23.3	Principal Actuarial Assumptions		
	The Principal assumptions used are as follows;		
	a) Demographic	2022	2021
	Retirement Age:	60 Years	62 Years
	Staff Turnover-up to Age 54	5%	5%
	b) Financial		
	Rate of Discount	18%	11.50%
	Salary Increment	12%	6%

The following table demonstrates the sensitivity to a reasonable possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement, in respect of the year 2021. The sensitivity of the Statement of Total Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increase rate on the Comprehensive Income .

	Effect on Total Comprehensive Income - (Reduction)/ Increase in Results 2022	Effect on Total Comprehensive Income - (Reduction)/ Increase in Results 2021
+1% Change in	269,309,928	265,419,922
-1% Change in Discount Rate	310,993,643	312,708,909

24 Trade and Other Payables

Trade Payables			
Related Party	24.1	1,736,524,123	1,873,466,538
Others	24.2	8,914,775,237	6,878,136,798
Other Payables	24.3	111,670,008	160,202,422
Accrued Expences	24.4	306,636,326	222,656,533
		11,069,605,694	9,134,462,290

23.1 Amount Due to Related Parties-Trade

Name of the Company	Relationship		
Co-operative Wholesale Establishment (CWE)	Related Company	1,688,225,936	1,826,615,862
CWE Economic Center Services (Pvt) Ltd	Related Company	40,799,907	41,575,324
CWE Construction and Engineering (Pvt) Ltd	Related Company	7,018,946	4,795,691
CWE Milco Agent (Pvt) Ltd	Related Company	479,334	479,661
		1,736,524,123	1,873,466,538

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

		<i>(Expressed in Sri Lankan Rupees)</i>	
	Note	2022	2021
24.1 Trade Payables			
Supplier Payables, and others		10,651,299,359	8,751,603,336
		10,651,299,359	8,751,603,336
24.2 Other Payables			
Employee Security Deposits		11,397,120	11,522,620
Retention Money		24,396,901	24,211,234
Refundable Deposit Payable		4,046,392	3,175,685
Gift Voucher Control		9,897,340	14,876,672
Printing Expense Payable		2,148,700	2,582,000
Intermediate - Fixed Assets Payable		-	40,377,522
Incentive Payable		-	28,683,159
Transport Charge Payable		10,440,757	34,773,530
Chairmans Donation control AC		30,000	-
SRL Gratuity Control		49,312,799	-
		111,670,008	160,202,422
24.3 Accrued Expenses			
Salaries Payable		120,721	156,893
Overtime Payable		30,164,516	34,999,825
EPF Payable		9,532,404	10,694,754
ETF Payable		1,372,923	1,547,237
Annual Leave Reimbursement Payable		78,678,460	64,648,963
Audit and Tax Fee Expenses		4,800,000	6,200,000
Rent Payable		80,668,342	54,375,036
Electricity Payable		20,795,123	17,693,325
Telephone Charges Payable		11,699,690	8,673,869
Water Charges		540,683	414,425
Security Charge Payable		15,568,921	15,568,921
Accrued Charges		52,691,004	7,679,745
Mobitel Recharge Payable		3,539	3,539
		306,636,326	222,656,533
25 Finance Lease Liability			
Balance as at 01.01.2022		-	-
Recognition of lease liability		534,582,982	-
Payment made during the year		(34,972,537)	-
Lease liability as at 31.12.2022		499,610,445	-
Interest in suspense		(128,851,153)	-
Total Lease Liability as at 31.12.2022		370,759,292	-
Non Current lease liability		230,503,574	-
Current lease liability		140,255,718	-
		370,759,292	-

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

	Note	2022	2021
26 INTEREST BEARING LOANS AND BORROWINGS			
Current interest bearing Loans and Borrowings			
Import Loan		688,779,375	747,238,502
Working Capital		600,000,000	600,000,000
		<u>1,288,779,375</u>	<u>1,347,238,502</u>
Non -Current interest bearing Loans and Borrowings			
Import Loan		5,739,166,480	8,034,912,186
Working Capital		600,000,000	1,200,000,001
		<u>6,339,166,480</u>	<u>9,234,912,187</u>
26.1 Import Loan			
26.1.1 Import Loan-BOC			
Balance as at 01.01.2022		7,890,412,187	10,790,415,521
Loans Obtained During the Year			
Interest Accrued		703,749,891	929,023,918
Repayments During the Year			
Repayment-Interest		(759,914,100)	(1,269,095,121.61)
Repayments -Capital		(2,047,945,706)	(2,559,932,131)
Balance as at 31.12.2022		<u>5,786,302,271</u>	<u>7,890,412,187</u>
26.1.2 Import Loan-People's Bank			
Balance as at 01.01.2022		887,763,623	1,114,902,212
Loans Obtained During the Year			-
Interest Accrued		85,182,910	108,439,725
Repayments During the Year			
Repayment-Interest		(85,182,910)	(108,439,725)
Repayments -Capital		(247,800,000)	(247,800,000)
Not paid during the year			20,661,411
Balance as at 31.12.2022		<u>639,963,623</u>	<u>887,763,623</u>
Interest Under Recovery		<u>1,679,961</u>	<u>3,974,878</u>
Total		<u>6,427,945,855</u>	<u>8,782,150,687</u>
26.1.3 For the year 2022 the treasury has provided Rs.3.14 Mn for settlement of rice loan .			
26.2 Working Capital			
Balance as at 01.01.2022		1,800,000,000	2,545,746,667
Loans Obtained During the Year		-	-
Interest Accrued		291,714,735	180,871,351
Repayments - Interest		-	-
Repayments - Capital		(291,714,735)	(180,871,351)
Balance as at 31.12.2022		<u>1,800,000,000</u>	<u>1,800,000,001</u>

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

		<i>(Expressed in Sri Lankan Rupees)</i>	
	Note	2022	2021
27 Statutory Payables			
Value Added Tax (VAT) Payable		31,210,872	317,674,408
Social Security Contribution Levy(SSCL)		83,261,489	-
With Holding Tax (WHT) Payable		-	-
		114,472,361	317,674,408

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED 31ST DECEMBER 2022

(Expressed in Sri Lankan Rupees)

28 Government Grants

28.1

	Development and Implementation of ERP System	Outlet Expansion and Refurbishments of Existing Outlets	Installation of CCTV System	Installation of Air Conditioners	Installation of Point of Sales System	Other Projects	Total
Balance as at 01 January 2021	19,817,578	479,129,018	55,223,016	38,266,014	42,923,779	12,226,373	647,585,778
Non receivable from Ministry	-	(16,626,066)	-	-	-	-	(16,626,065,65)
Addition during the year	-	49,181,953	9,345,020	8,275,433	7,874,937	21,621,543	96,298,886
Amortization for the Period	(9,908,789)	(275,507,527)	(28,660,422)	(29,127,821)	(34,440,050)	(4,330,603)	(381,975,212)
Balance as at 31 December 2021	9,908,789	236,177,379	35,907,613	17,413,627	16,358,667	29,517,312	345,283,387
Non Current Portion	(0)	157,430,812	23,038,084	14,193,303	13,169,903	25,186,709	233,018,809
Current Portion	9,908,789	78,746,567	12,869,530	3,220,324	3,188,764	4,330,603	112,264,577
	9,908,789	236,177,379	35,907,613	17,413,627	16,358,667	29,517,312	345,283,387
Balance as at 01 January 2022	9,908,789	236,177,379	35,907,613	17,413,627	16,358,667	29,517,312	345,283,387
Fund receivable/ received from ministry	-	16,813,206	1,586,357	-	5,418,500	27,713,740	51,531,803
Amortization for the Period	(9,908,789)	(88,709,892)	(14,738,534)	(4,875,411)	(5,513,752)	(9,734,627)	(133,481,004)
Balance as at 31 December 2022	(0)	164,280,693	22,755,436	12,538,216	16,263,415	47,496,426	263,334,185
Non Current Portion	0.01	79,871,167	9,395,049	7,690,497	10,499,663	38,527,237	145,983,614
Current Portion	-	84,409,526	13,360,387	4,847,718	5,763,752	8,969,189	117,350,571
	(0)	164,280,693	22,755,436	12,538,216	16,263,415	47,496,426	263,334,185

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Sri Lankan Rupees)

29. EARNING PER SHARE

29.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

29.2 The following reflects the income and share data used in the Basic Earnings Per Share computation.

	2022	2021
Amount Used as the Numerator:		
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	(35,424,512)	(840,281,277)

	2022 Number	2021 Number
Number of Ordinary Shares Used as Denominator:		
Weighted Average Number of Ordinary Shares in Issue	89,375,272	89,375,272

	2022	2021
29.3 Earning Per Share		
Basic Earnings Per Share	(0.40)	(9.40)

30. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events after the reporting date that require adjustment to or disclosure in the Financial Statements except points mentioned below.

30.1 At the reporting date, 441 outlets were operated by the company and expanded with 6 new outlets and closed down 03 outlets after the reporting date strengthening the company's retail network.

31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities;

Nature of Asset	Nature of Liability	Included under	Carrying amount of the Assets Pledged	Carrying amount of the Assets Pledged
Fixed Deposits	Loan from People's Bank to Import Rice	Cash and Cash Equivalents	500,000,000	500,000,000

LANKA SATHOSA LIMITED
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Details of significant related party disclosures are as follows;

32.1 Transaction with the parent and related entities

Name of the Company	Relationship	Nature of Transactions	2022	2021
a) Co-operative Wholesale Establishment	Related Company	Amounts Receivable as at 31 December	-	-
		Amounts Payable as at 31 December	(1,688,225,936.42)	(1,826,615,862.39)
		Rent	114,009,483.47	138,751,596.11
		Transport	171,461,824.26	116,110,033.50
		Royalty Fees	5,820,028.00	4,920,024.00
		Electricity & Water	8,537,944.54	932,006.66
		Packeting & Other	-	-
		Purchases	-	2,458,532.33
		Auditorium Charges	196,875.00	650,625.00
		Payments Made	438,416,081.24	369,850,365.71
b) CWE Construction and Engineering (Pvt) Ltd	Related Company	Amounts Receivable as at 31 December	-	-
		Amounts Payable as at 31 December	(7,018,945.91)	(4,795,690.91)
		Purchase of Goods/Services	-	-
		Services received	2,223,255	9,067,335.07
		Payments Made	-	7,672,994.16
c) CWE Economic Centre Services (Pvt) Ltd	Related Company	Amounts Receivable as at 31 December	-	-
		Amounts Payable as at 31 December	(40,799,906.69)	(41,575,324.34)
		Services received	253,811,181.60	230,267,147.34
		Payments Made	254,586,599.25	215,735,269
d) CWE Milco Agent Pvt Ltd	Related Company	Amounts Receivable as at 31 December	-	-
		Amounts Payable as at 31 December	(479,333.62)	(479,660.69)
		Purchase of Goods/Services	-	-
		Payments Made	327.76	-

32.2 Transactions with Key Management Personnel of the Company or its Parent

The Key Management Personnel of the Company are the members of its Board of Directors and other KMP's.

a) Key Management Personnel Compensation	2022	2021
Short-term Employee Benefits	1,953,000	1,718,000

b) Other Transactions with key Management Personnel

Lanka Sathosa Limited carries out transactions with Key Management Personnel and their close family members on an arm's length basis except any concessions which have been availed under concessionary schemes uniformly applicable to all staff. This is mainly evident in the Lanka Sathosa sales outlets Island wide.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Sri Lankan Rupees)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial liabilities comprise Bank Overdrafts, Loans and Borrowings and Trade and Other Payables. The main purpose of these financial liabilities is to finance the Company's operations.

33.1 Credit Risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading towards negative effect towards Company profitability. The Company is exposed to credit risk from its operating activities and from its financing activities.

Carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was as follows ;

	2022	2021
Trade and Other Receivables	1,746,397,807.32	1,444,606,290.59
Deposit and Advances	152,934,985.36	209,116,667.33
Pre-Paid Expenses and Statutory Receivables	36,433,214.56	14,007,452.24
Cash and Cash Equivalents	353,917,687.99	274,967,367.72
Total credit risk exposure	2,289,683,695.23	1,942,697,777.88

33.1.1 Trade and Other Receivables

	2022	2021
As at 31 December		
Less Than 3 Months	1,047,838,684.39	866,763,774.35
3 to 12 Months	698,559,122.93	577,842,516.24
2 to 5 Years	-	-
More than 5 Years	-	-
	1,746,397,807.32	1,444,606,290.59

33.1.2 Deposit and Advances

Deposit and Advances balance represents the advances and deposits paid regarding rent , payment of Festival advances to employees and other advances.

33.1.3 Pre-Paid Expenses and Statutory Receivables

Pre-Paid Expenses and Statutory Receivables balance represents pre payments regarding insurance , Software license and liquor license.

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Lanka Sathosa Limited held cash and cash equivalents of Rs. 0.28 Bn at 31 December 2021 (2020 - 0.25 Bn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated AA-(lka), based on Fitch Ratings.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd.)**34.1 Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always maintain sufficient leeway's in the short term facilities and structuring new credit lines for short and long term tenors to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	On Demand	Less than 3 Months	30 to 12 Months	2 to 5 Years	Total
As of 31 December 2022					
Trade and Other Payables	4,427,842,277.64	1,106,960,569.41	1,106,960,569.41	4,427,842,277.64	11,069,605,694
Interest-bearing Borrowings	-	150,000,000	450,000,000	7,027,945,854.59	7,627,945,854
Bank Overdrafts	5,050,282,232.31	-	-	-	5,050,282,232
	9,478,124,509.95	1,256,960,569.41	1,556,960,569.41	11,455,788,132.23	23,747,833,780
As of 31 December 2021					
Trade and Other Payables	3,653,784,916.17	913,446,229.04	913,446,229.04	3,653,784,916.17	9,134,462,290
Interest-bearing Borrowings	-	150,000,000	450,000,000	9,982,150,689	10,582,150,689
Bank Overdrafts	3,181,598,660.34	-	-	-	3,181,598,660
	6,835,383,576.51	1,063,446,229	1,363,446,229	13,635,935,605	22,898,211,639

* Trade and other payables exclude statutory payables.

34.2 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the companies income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Sri Lankan Rupees)

34.2.1 Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the Sri Lankan rupees (LKR). The Company also has no exposure in respect of recognised foreign currency assets and liabilities.

32.2.2 Interest rate risk

The Group is exposed to interest rate risk on borrowings and deposits. The Group's interest rate policy seeks to minimise the cost and volatility of the Group's interest expense by maintaining a diversified portfolio of fixed rate, floating rate and inflation-linked liabilities.

Financial Assets	On Demand LKR	Less than 3 Months LKR	3 to 12 Months LKR	2 to 5 Years LKR	Total LKR
Short term Deposits	-	-	500,000,000	-	500,000,000
	-	-	500,000,000	-	500,000,000
Financial Liabilities	On Demand LKR	Less than 3 Months LKR	3 to 12 Months LKR	2 to 5 Years LKR	Total LKR
Bank Overdraft	5,050,282,232	-	-	-	5,050,282,232
Interest-bearing Loans and Borrowings	-	150,000,000	450,000,000	7,027,945,855	7,027,945,855
	5,050,282,232	150,000,000	450,000,000	7,027,945,855	12,678,228,087

35. FINANCIAL INSTRUMENTS

35.1 Financial Assets and Liabilities by Categories

2022

2021

Debt instruments at amortised cost

Trade and Other Receivables	1,746,397,807.32	1,444,606,291
Deposit and Advances	152,934,985.36	209,116,667
Pre-Paid Expenses and Statutory Receivables	36,433,214.56	14,007,452
Cash and Cash Equivalents	353,917,687.99	274,967,368
	2,289,683,695.23	1,942,697,778

Financial Liabilities by Categories measured at amortised cost

2022

2021

Trade and Other Payables	11,069,605,694.09	9,134,462,290
Interest-bearing Loans and Borrowings	7,627,945,854.59	10,582,150,689
	18,697,551,548.68	19,716,612,979

LANKA SATHOSA LIMITED

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(Expressed in Sri Lankan Rupees)

36 FAIR VALUE

36.1 Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 : Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

During the reporting year ended 31 December 2022, there were no transfers between Level 2 and Level 3 fair value measurements.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes, that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Notes	Carrying Amount		Fair Value	
		2022 LKR	2021 LKR	2022 LKR	2021 LKR
Financial Assets					
Trade and Other Receivables	A	1,746,397,807	1,444,606,291	1,746,397,807	1,444,606,291
Deposit and Advances	A	152,934,985	209,116,667	152,934,985	209,116,667
Short-Term Investment in REPO's	A	-	-	-	-
Short Term Deposits	A	500,000,000	500,000,000	500,000,000	500,000,000
Cash at Bank and in Hand	A	353,917,688	274,967,368	353,917,688	274,967,368
		2,753,250,481	2,428,690,325	2,753,250,481	2,428,690,325
		Carrying Amount 2021 LKR	2020 LKR	Fair Value 2021 LKR	2020 LKR
Financial Liabilities					
Interest Bearing Loans and Borrowings	B	7,027,945,855	9,982,150,689	7,027,945,855	9,982,150,689
Trade and Other Payables	A	11,069,605,694	9,134,462,290	11,069,605,694	9,134,462,290
Bank Overdrafts	A	5,050,282,232	3,181,598,660	5,050,282,232	3,181,598,660
Current Portion of Interest Bearing Loans	B	600,000,000	600,000,000	600,000,000	600,000,000
		23,747,833,781	22,898,211,639	23,747,833,781	22,898,211,639

The following methods and assumptions were used to estimate the fair values;

- A** Cash at bank and in hand, Short Term Deposits, trade and other receivables and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instrument.
- B** Long-term variable/Fixed rate borrowings are evaluated by the Company based on parameters such as interest rates, risk characteristics of the financed project etc. As at the reporting date, the carrying amounts of such borrowings are not materially different from their calculated fair values.

LANKA SATHOSA LIMITED
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37. COMMITMENTS AND CONTINGENCIES

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

There were no material contingent liabilities and litigations as at end of the reporting period which require adjustments to / or disclosures in the Financial Statements except the following:

37.1 The matter of an Industrial Dispute Between Mr. P. H. C. Peiris & 494 of Employees and Lanka Sathosa Limited (The Government Gazette Notifications No. 2023/39 on 14 June 2016)

The matter in dispute between the aforesaid parties are ;

Whether the non amalgamation of the period of earlier service at the Sathosa Retail Limited to the period of service of Lanka Sathosa Limited of the four hundred and ninety five (495) employees including Mr. P. H. C. Peiris at the time of joining them to Lanka Sathosa Limited on the liquidation of the Sathosa Retail Limited is justified and if not justified, to what relief each of them is entitled.

The Award given, with the order that this award to be implemented within 21 days of publication of above Gazette Notification on the above dispute by the Arbitrator Mr. Kapila M. Sarathchandra (appointed under The Industrial Act.. Chapter 131) are;

- (a) Be amalgamate the period of earlier service at Sathosa Retail Limited to the period of service of Lanka Sathosa Limited of the 495 employees.
- (b) Be paid any increments, statutory allowances which were entitled by 495 employees during the period in which the continuity service was denied to them.

However, the management of the company is in the process of Appealing through the court to dismiss the above arbitration award. The financial impact that may arise could not be ascertained nor quantified.

37.2 Waterways International Lanka (Pvt) Ltd - Dispute on Liner Demurrage and Damage Charges

A dispute in returning empty containers to the above shipping agent used for rice importation from India in the year 2015 had been occurred due to disagreements in settling the relevant charges by the company and a letter of demand has been received in this regard on 21 February 2017 through Mr. Karunarathne Lansakkara (Attorney-at-law) claiming for total outstanding amounting to Rs. 54.5 Mn, at the reporting date company lawyer has confirmed that value of the case 61.1 Mn. However, the company is in the process of obtaining legal advice in this regard as the date of authorization of these financial statements.

37.3 Custom and Other Duties - for Rice Importation During the Years of 2014 and 2015

The custom duties and other related charges incurred for the rice importation during the year 2014 and 2015 has not been accounted in these financial statements following certain Cabinet Decisions and other communication had with the Government Treasury for waiver off of the such costs incurred. The balance confirmation obtained from Sri Lanka Customs on 01 December 2016 for the purpose of special audit investigation of Rice Project by the Government's Audit Section shows an aggregated value of Rs. 5.8 Bn outstanding to Sri Lanka Customs. However, no directive has been issued by the treasury or by the Customs in this regard and company awaits for the detail to proceed with the matter.

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35.4 Trident Champer Limited-Dispute on Liner Demurrage

We have received a letter of Demand dated 27th March 2018 From N.G.J.M. W Senanayake –Attorney –at-Law and N.P on behalf of Trident Champer Limited of SY 66 & 67, Miyapur, and Hyderabad, India.

Lanka Sathosa Limited purchased Ponni Rice from the above said supplier and goods were sent from three vessels named “MV Mercy wisdom, MV Dynamic Ocean and MV Vingh Hung for which a liner demurrage amounting to US \$ 152,231 which is claimed by the supplier and the local equivalent is Rs.23, 900,267.

This matter has been referred to Attorney General's Department.

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37.5 Litigations -the employment related disputes for and against the company, which details, are tabulated below.

The Party (Counselor)	Description of the Case	Case No.	Court	Status of The Litigation	Value
<u>Supreme Court</u>					
Mr.Nalinda Indatissa,PC	Filed against us to recover the Damage	SC FR 313/2021	Supreme Court	Pending	
Mr.Shantha Jayawardena,AAL	This is a Liquor License matter- Monaragala Outlet	SC FR 303/2021	Supreme Court	Pending	
<u>Court Of Appeal</u>					
Mr.Shantha Jayawardena,AAL	This is regarding Liquor License matter	CA/Writ 76/2021 CA/Writ 109/2021 CA/Writ 83/2021	Court of Appeal	pending	
<u>Commercial High Court</u>					
Mr.Avindra Rodrigo, PC	To recover the Advance Payment of proposed	CHC 35/2020	Commercial High Court – Colombo	Pending	Rs.59,600,000
Mr.Avindra Rodrigo, PC	Filed against us to recover the Demurrage	CHC 417/18 MR	Commercial High Court – Colombo	Pending	Rs.61,162,893
Mr.Chandaka Jayasundara,PC	Filed against us by Swedeshi Kohomba claiming Intellectual Property Rights.	HC (Civil)41/2021 IP HC(Civil)20/2021/IP	Commercial High Court – Colombo	Pending	Rs.5Mn
Mr.Avindra Rodrigo,PC	Filed By Softwatch (Pvrt)Ltd Claiming damages on ERP system.	CHC 127/2021/MR	Commercial High Court – Colombo	Pending	Rs.112,941,954
<u>High Court</u>					
Mr. Ravi Hettiarachchi	Termination of employment matter. Appealed by the employee to revisethe LT Order.	HCA LT 20/2020	High Court –Gampaha	Pending(LT Order remains)	
Mr.Anura Meddegoda,PC	Filed by us against the Magistrate Courts Order of Gratuity Matter	HCRA/96/2021	High Court		
<u>District Court</u>					
Mr.Rushan Fernandopulle	This is a money recovery matter filed against the Maggona outlet building owner.	DMR 6706/19	District Court of Colombo	Pending	Rs.1,073,548.39
Mr.RushanFernandopulle	An advance payment recovery matter filed against the building owner of Panadura 1 Outlet.	M 5593/19	District Court of Panadura	Pending	
Mr.Rushan Fernandopulle	An advance payment recovery matter filed against the building owner of Rajagiriya Outlet.	DMR 2816/2020	District Court of Colombo	Newly initiated matter	Rs.3,410,000
Mr.Rushan Fernandopulle	Damages recovery matter filed against the LSL by building owner of Pitipana.	DA 18972/19	District Court of Homagama	Pending	
<u>Magistrate Court</u>					
Mr. Anura Maddegoda, PC	An Employee gratuity matter filed against us.	10216/2018	Magistrate Court - Fort	Pending	
	This is a new matter filed by the PHI Godakawela	91970/MC	Magistrate Court - Pelmadulla	Pending	
	Field by the peliyagoda police regarding Garlic Incident	B 2909/21/MC	Megistrate Court	Pending	

LANKA SATHOSA LIMITED
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YEAR ENDED 31ST DECEMBER 2022*(Expressed in Sri Lankan Rupees)***Labour Tribunal**

Mr.Ravi Hettiarachchi	This is a termination of employee matter filled by an employee against us	03/68 & 69/2014	Labour Tribunal –Kandy	Pending	Rs.891,540
Mr.Ravi Hettiarachchi	This is a termination of employee matter filled by an employee against us	23/KU/37/2019	Labour Tribunal –Kurunegala	Pending	
Mr.Ravi Hettiarachchi	This is a termination of employee matter filled by an employee against us	02/919/2019	Labour Tribunal –Borella	Pending	Rs.5,000,000
Attorney General's Department	This is a termination of employee matter filled by an employee against us	02/927/2019	Labour Tribunal –Borella	Pending	
Attorney General's Department	This is a termination of employee matter filled by an employee against us	01/Athi/50/2019	Labour Tribunal –Battaramulla	Pending	

Arbitration Center

Mr.Avindra Rodrigo,PC	Filed By Softwatch (Pvrt)Ltd Claiming damages on ERP system.		IICP Arbitration Center	Pending	Rs.112,941,954
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