

LANKA SATHOSA LTD



ANNUAL REPORT 2019



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வர்த்தக அமைச்சு
Ministry of Trade

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ABOUT LANKA SATHOSA LIMITED

Lanka Sathosa Limited was incorporated on 25th October 2005 with the objective of selling essential consumer goods at a fair price and maintaining quality goods in the market in sufficient quantities without any scarcity.

By the end of 2019, the number of Lanka Sathosa retail outlets was 421 and by 2022 that number has increased to 441. The retailer network is expected to expand more effectively in the future to meet customer needs and promote the company, and the company plans to provide a competitive in service with other private sector supermarkets in the island by enhancing the efficiency of all sectors.

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

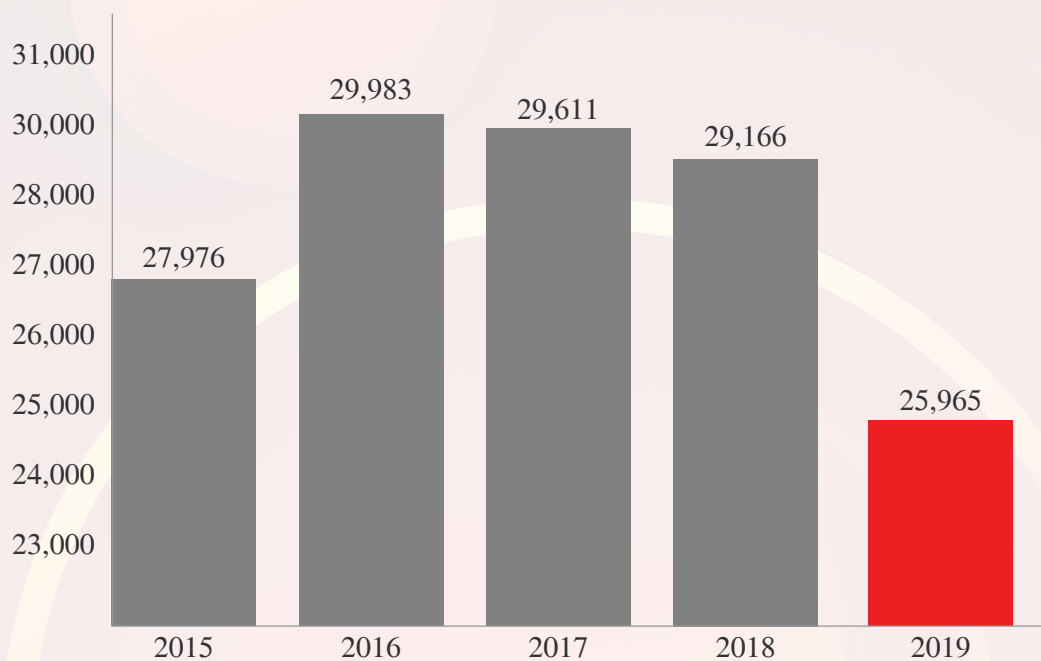
OUR MISSION
Reduce the Cost of living,
Link the corporate community to the
masses of the country,
Grant an opportunity for the
SMEs to link to the demand chain of the
country and Offer efficient high quality
customer service through expanding the
island wide retail network

FINANCIAL & NON-FINANCIAL HIGHLIGHTS

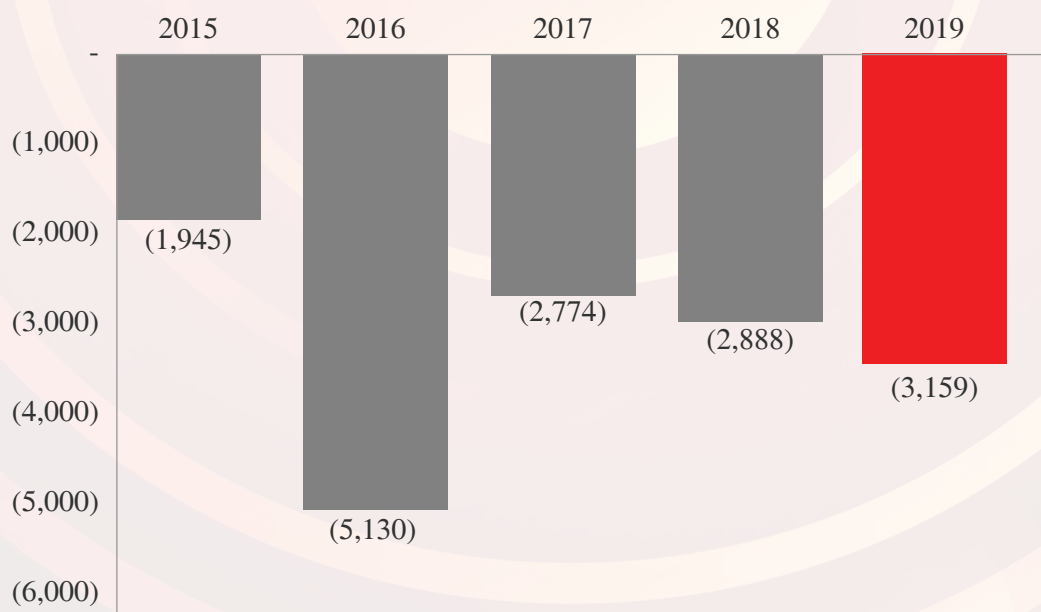
KEY PERFORMANCE INDICATORS 2019

Key Indicators		2019	2018
Operating Results			
Revenue	Rs. Mn	25,965	29,166
Revenue Growth	%	-10.98%	-1.50%
Gross Profit	%	10.81%	11.61%
EBIT	%	-6.91%	-6.67%
Net Profit/(Loss)	%	-12.16%	-9.90%
Expenses as % of Sales			
Other Income	%	4.01%	3.07%
Administrative Expenses	%	7.56%	7.42%
Selling and Distribution Expenses	%	14.17%	12.01%
Net Finance Cost	%	5.25%	3.23%
Employee Benefits (Per Month)			
Salaries & Wages	Rs.	156,912,137	154,003,083
Over Time	Rs.	23,824,294	18,728,723
Total Cost	Rs.	180,736,431	172,731,806
No.of Employees		3,656	3,755
Per Employee Cost	Rs.	49,435	46,000

Turnover 2015-2019 LKR Mn.

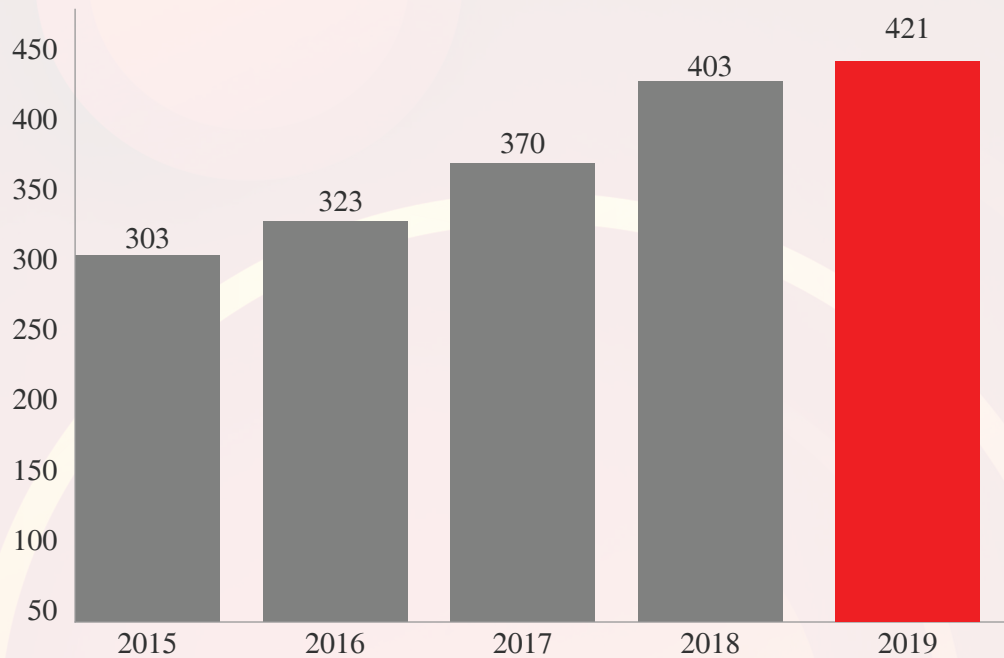


Net Profit / (Loss)-2015-2019 LKR Mn.

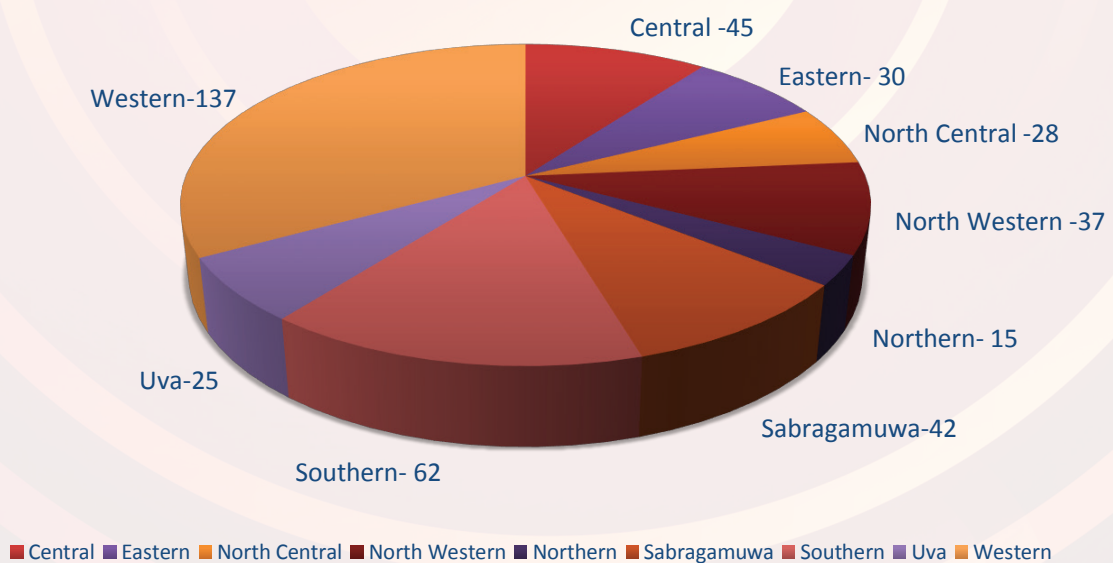


BRANCH NETWORK

No. of Outlets - 2015-2019



No. of Outlets by Province



BRANCH DETAILS

Western	Western (Contd...)	Western (Contd...)	Southern	Southern (Contd...)	Central	Eastern	North Central	North Western	Northern	Sabragamuwa	Uva
Adambalama	Kirindiwela	Panadura 2	A. pellessa	Poddala	Alawathugoda	Addalaichenai	Anuradhapura 1	Alampola	Achchuveli	Ayagama	Badakumbura
Alubomulla	Kiwalatte	Panadura 3	Abangama	Rama	Aluwihare	Akkareipaththu	Anuradhapura 2	Alawwa	Adampun	Balangoda	Badulla
Aluthigama	Kochchikade	Panadura 4	Akuressa	Rathigama	Ambarathema	Ampara	Anuradhapura 3	Ananaduwa	Chavakachcheriya	Balangoda 2	Bandarawela
Aluthidiya	Koluwala	Panagoda	Ambarangoda	Sooriyawewa	Ankumbura	Ampara 2	Aralaganiwala	Bingiriya	Chunnagan	Bulatikohipitiya	Bandarawela 2
Athurugiriya	Koluwala 2	Pannipitiya 2	Ambaranthota	Tangalle	Bokkawa	Central Camp	Bakumuna	Chilaw	Jaffna	Dehiowita	Bibila
Avisawella	Kosgama	Pannipitiya 3	Ambaranthota 2	Thalgaswala	Dambulla	Dehiathakandiya	Bulnewa	Elababadagama	Kilinochchi Mega	Deraniyagala	Boralanda
Balunmahara	Koswaththa	Pasyala	Baddegama	Thelijawila	Digana	Eravur	Eppawala	Ganewatte	Madu	Eheliyagoda 2	Buttala 2
Bambalapitiya	Kotadeniyawa	Balapitiya	Balapitiya	Thihagoda	Ethgala	Hingurana	Galenbindumuwewa	Giriulla	Manchola	Eheliyagoda 3	Dambagalla
Bandaragama	Kotahena	Piliyandala 1	Baravakubuka	Tissamaharane	Galagedara (Kandy)	Kalmunai	Gallala	Hetipola	Mannar	Embilipitiya 1	Ehiliyewwa
Battaramulla	Kottawa 2	Piliyandala 2	Beliatte	Udugama	Galewela	Kathankudy	Ganewalwala	Hiripitiya	Nelukulam	Embilipitiya 2	Haliela
Boralesgamuwa 1	Kottawa 3	Priakotte	Bogahagoda	Uragasmanhandiya	Galewela 2	Kimbiya	Habarana	Ibbagamuwa	Pesala	Godakawela	Kandeketiya
Borella	Maculum	Pitipana	Debarawewa	Urala	Gampola	Kockkadicholai	Higurakgoda	Kalpiya	Pointpeduru	Gonagaldeniya	Katragama
Dalugama	Madapatha	Poddaramulla	Deniyaya	Urubokka	Gampola 3	Marudanunai	Hinguragoda-02	Katumeriya	Puthukkudiyiruppu	Hemmathagama	Lunugala
Dankotuwa	Madapatha Express	Polgasowita	Devimuwara	Walasmulla	Geliya	Mullipothana	Horawapothana	Katupotha	Silawathurai	Kahawatta	Madagama
Dehiwala	Maggona	Pugoda	Dickwella	Weeraketiya	Haguranketha	Munur	Kabithigolawa	Kogashandiya	Vavuniya	Kahawatta 2	Meegahakiwila
Deigoda	Maharagama 1	Puwakpitiya	Dikkubura	Welligama	Hapugasthalawa	Natpitimunai	Kahatagadigiliya	Kuliyapitiya	Kalawana	Kalawana	Monaragala 2
Dematagoda	Maharagama 2	Raddolugama	Elipitiya	Yariyana	Hatharaliyadda	Nindawur	Kekirawa	Kumbukgate	Kamattota	Kamattota	Monaragala 3
Divilapitiya	Malavaskaduwa	Ragama	Galle 1	Yariyana	Hatton	Oddanawadi	Madathugama	Kurungala 2	Karawanalla	Karawanalla	Okkampitiya
Dodangoda	Makola	Raigama	Galle Bus Stand	Yariyana	Hatton 2	Padirippu	Medavachchiya	Madurankuli	Kegalla	Kegalla	Passara
Edveramulla	Makubura	Ramuthugala	Habaraduwa	Welligama	Hewaheta	Palamunai	Medirigiriya	Maho	Kiriella	Kiriella	Pelwathla
Ekala	Malabe	Rathmalana 1	Hakmana	Welligama	Kandy	Pandiruppu	Nochchiyagama	Mallawapitiya	Kithulgala	Kithulgala	Sewanagala
Gampaha 1	Maligawatte	Rathmalana Mega	Hambantota	Welligama	Katugastota	Polwaga Colary	Polonnaruwa 1	Maravila	Koloma	Koloma	Siyabalanduwa
Ganemulla	Maradagahamulla	Ravathawatte	Hikkaduwa	Welligama	Kotagala	Pothuwal	Polonnaruwa 2	Mawathagama	Kuruwita	Kuruwita	Thamamalwila
Godagama	Mathugama 2	Seddula 1	Hungama	Welligama	Kundasale	Pulmudai	Sewanapitiya	Narammala	Mawanelle	Mawanelle	Wellimada
Habarakada	Mattegoda	Seddula 2	Imaduwa	Welligama	Kurunduwaththa	Santhanarudu	Thalawa	Nikaweratiya	Molagoda	Molagoda	Wellawaya 3
Hanwella	Meegoda	Sethseripaya	Kalegama	Welligama	Madawala Bazaar	Samanthurai	Thambuthagama	Pannala	Nivithigala	Nivithigala	
Hokandara	Meegoda 2	Siddamulla	Kamburupitiya	Welligama	Madawala Upatha	Semal Gramam	Vilachchiya	Piduruwella	Opanayaka	Opanayaka	
Homagama	Meepe	Siyabalape	Karapitiya	Welligama	Matale	Thirikkowil	Wellikanda	Polgahawela	Pabhinna	Pabhinna	
Horana	Meerigama	Thalawathugoda	Katuwana	Welligama	Matale 2	Trincomalee	Wellikanda	Polgahawela 2	Pallebedda	Pallebedda	
Hunupitiya	Minuwangoda	Thelwatta	Kekandura	Welligama	Menikima	Uthana	Wellikanda	Polipithigama	Pelmadulla	Pelmadulla	
Ingiriya	Mirihana 2	Uduwana	Kotapola	Welligama	Navalapitiya	Vatipathanchennai	Wellikanda	Pothuhera	Pothupitiya	Pothupitiya	
Ja-ela	Moranthuduwa	Urapola 1	Kumarakanda	Welligama	Nildandahima		Wellikanda	Puttalam	Rakwana	Rakwana	
Kadawatha	Moratumulla	Urapola 2	Kurudugaha Hatapma	Welligama	Nuwaraeliya		Wellikanda	Wanathawilluwa	Rathnapura 1	Rathnapura 1	
Kaduwa	Moratuwa	Veyangoda 2	Lunugamwehera	Welligama	Peradeniya		Wellikanda	Wariyapola	Rathnapura 2	Rathnapura 2	
Kaluthara 2	Mt. Lavinia 2	Wadduwa	Makandura	Welligama	Pilmathalawa		Wellikanda	Wellawa	Rathnapura 3	Rathnapura 3	
Kaluthara South	Mulleriyawa	Waga	Malimboda	Welligama	Poojapitiya		Wellikanda	Wellawa	Ruwanwella	Ruwanwella	
Kandana	Mulleriyawa 2	Walana	Matara 1	Welligama	Pundalduya		Wellikanda	Yanthampalawa	Thalduwa	Thalduwa	
Kattuwa	Nabada	Wathupitiwala	Matara 2	Welligama	Pussellawa		Wellikanda		Thunkama	Thunkama	
Katunayake 1	Nagoda	Wellipillewa	Midduwa	Welligama	Ragala		Wellikanda		Udawalawa	Udawalawa	
Katunayake 2	Naivala	Wellisara Mega	Morawaka	Welligama	Raththota		Wellikanda		Warakapola	Warakapola	
Katuwawala	Narapenpita	Welleriya	Nagoda - Galle	Welligama	Rikilagaskada		Wellikanda		Wealiya	Wealiya	
Kelaniya	Nawagamulla	Wellampitiya	Neluwa	Welligama	Thalawakale		Wellikanda		Yattiyanthota	Yattiyanthota	
Kesbeva	Negombo 2	Yakkala	Primaduwa	Welligama	Themkumbura		Wellikanda				
Kesbeva-02	Negris	Yakkala 2	Pitabeddara	Welligama	Walapane		Wellikanda				
Kiribathgoda	Nittambuwa		Pitigala	Welligama	Welligala		Wellikanda				
Kirillawala	Padukka			Welligama			Wellikanda				

CORPORATE GOVERNANCE

Company has been firm in its resolve that the members of the Board, the senior management team and staff are all committed toward 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 Company image. 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 is 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 guidelines 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.

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 2019 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 and Wholesale of Consumer Products with the objective of selling essential consumer goods at a fair price and maintaining quality goods in the market in sufficient quantities without any scarcity.

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 & 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 2019 are prepared based on the Sri Lanka Financial Reporting Standards and Lanka Accounting Standards 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 22-62 in the Annual Report. These financial statements and notes give a true and fair view of the Company's financial position as at 31st December 2019 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 11-21 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 26- 39.

GOING CONCERN

The company has incurred a net Loss of Rs. 2,583,053,868/- during the year under review, the accumulated losses amounting to Rs. 17,884,556,952/- and, company's current liabilities has exceeded its current assets by Rs. 3,735,588,883/- .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..

DONATION

During the year 2019 the company made Rs. 1,308,726 /- as donations.

RESERVES

The movement in reserves during the year is set out in the Statement of the Changes in Equity Statement on pages 24.

PROPERTY, PLANT & EQUIPMENT

The details of Property, Plant and Equipment are given on pages 43-44 in the Annual Report.

EVENT AFTER 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 TRANSACTION

The 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 53 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 2019 was Rs. 893.7 Mn, in Compliance with the Companies Act No. 07 of 2007. As at 31.12.2019, 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 31.12.2019 have been recorded in the financial statements of the Company on pages 44.

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.

THE APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23rd June 2021.

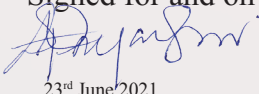
The Director below have been the director of the company through of the year under review

Mr. Mohamed Tariq Kaleel
Mr. Mohamed Rizwan Hameem
Mr. Aruna Priyadarshana Kurumbalapitiya
Mrs. Ranathunga Arachchige Indika Irani Ranathunga
Mr. Abdul Hameed Mohamed Anwer
Mr. Segu Fareed Mohamed Rameez
Mr. Suleima Lebbe Naseer
Mr. Issadeen Riyas
Mr. Seyyadhu Mohideen Mohammed Fairroos
Mr. Abeykoon Kodithuwakku Arachchige Yushan Tharanga
Mr. Suvinda Samarakoon Singappuli

ACKNOWLEDGMENT OF THE CONTENTS OF THE BOARD

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



23rd June 2021

Company Secretary
Lanka Sathosa Limited

DEPUTY GENERAL MANAGER - FINANCE STATEMENT OF RESPONSIBILITY

The Financial Statements of Lanka Sathosa Limited as at 31st December 2019 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 is responsible for ensuring that management fulfils 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 and replace of the Auditor General.

A handwritten signature in blue ink, appearing to read 'Dilantha Perera'.

Dilantha Perera
Act. Deputy General Manager-Finance
23rd June 2021

INDEPENDENCE AUDITOR'S REPORT

TAC/D/LSL/FA/6/19/30

**Chairman
Lanka Sathosa Limited**

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Lanka Sathosa Limited for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No.19 of 2018.

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Lanka Sathosa Limited ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the profit and loss statement, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the significance of the matters discussed in the basis for Adverse Opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for the Basis for Adverse Opinion

- a) At the end of the year under review, the Company had accumulated deficit of Rs.17,884,556,952 as well as current liabilities over current assets of Rs.3,735,588,882 and as a result the Company's ability to meet and maintain its liabilities through assets and continue without the provision of Treasury funds is in doubt. It was observed that the main reasons for this situation are the balance of trade payable and other debt balance outstanding as per the financial statements, Rs.9,248,426,171, recruitment for the post of deputy general manager on contract basis for a period of one and less than two years and remained 912 vacancies in senior, tertiary and secondary level posts.
- b) Although inventory should be measured at the lower of cost and net realizable value according to the Sri Lanka Accounting Standards 2, inventory had been accounted at a cost by the company. Various errors such as inherent errors, data omissions, errors in double entries and over and under value entries were observed due to the manual accounting system in the 2/3 of the island wide outlets network. Accordingly, it could not be determined or qualified the potential financial impact of the inventory value of Rs;4,050,649,263 to the financial statements regarding the cost of sales and the current assets. The final stock of the company as at December for the year under review had not been physically verified and an age analysis of the inventory had not been submitted for audit.

- c) The stock loss had been deducted from the purchases for the year without maintaining a separate account and had not been shown separately in the financial statements as per the paragraph 34 and 36 of the Sri Lanka Accounting Standards 2. The cost of stock loss so deducted during the last year and the year under review were Rs.271,125,743 and Rs.193,280,144 respectively.
- d) The company's cash flows had not been accurately identified in accordance with Sri Lanka Accounting Standards No. 7, as the investment in purchasing property, plant and equipment was understated by Rs.24,182,250 and the government grant was understated by Rs.74,530,408 in the cash flow statement.
- e) The property, plant and equipment had been revalued during the year under review and the revaluation report was not submitted to the audit. Since the schedule for revalued assets was not submitted to the audit, the accuracy of the accumulated depreciation and depreciation for the year shown in the notes of property, plant and equipment to the financial statements could not be ascertained. Further, assets' net book value was zero as at 31 December of the year under review should have been revalued but the property, plant and equipment cost of Rs.159,035,633 had not been revalued.
- f) Revaluation gain amounting to Rs.558,873,306 was reported in the statement of financial position and the comprehensive income statement but it had been reported in the property, plant and equipment notes as a loss amounting to Rs.248,090,171. This difference was due to the adjusting of the value of misplaced assets but recorded in the fixed assets register and the assets removed from the fixed assets register. Accuracy of the cumulative depreciation of Rs.805,423,202 pertaining to these misplaced assets could not be verified.
- g) According to paragraph 36 of the Sri Lanka Accounting Standards No.16, when assets revalued the entire class of property, plant and equipment to which that asset belongs should be revalued, but all assets relating to the building had not been revalued.
- h) The initial balance of the ledger's property, plant and equipment was Rs.1,045,174,713 more than the initial balance of the fixed asset register and in this difference, there was a collection of unidentified initial balances of Rs.529,010,712 from 2013 onwards. Further, the assets of Rs.22,798,843 acquired from the Co-operative Wholesale Corporation were shown in the property, plants and equipment as at 31 December of the year under review but the relevant schedules were not submitted.
- i) The cost of the four commercial buildings constructed in 2014 and 2015 in Kilinochchi, Weligama, Welisara and Kamburupitiya areas was Rs.384,921,862. The company did not have the documents confirming the ownership of the lands on which three buildings were constructed and the land on which the Kilinochchi building constructed was transferred to the company on 19 November 2014 by the relevant divisional secretary. Action had not been taken to account the valuation of the lands belonging to these buildings.

- j) Although a sum of Rs.722,120,413 for building rent and a sum of Rs.312,590,835 for fixed assets purchased had been spent in the year under review, procurement files for checking of relevant purchasing had not been submitted to the audit.
- k) According to the paragraph 14 of the Sri Lanka Accounting Standards No. 24, information of the related parties should be disclosed in the financial statements but the relevant information had not been submitted to the audit.
- l) Total amount of Rs.604,664,264 due from 10 external parties of the company from the year 2010 to the year 2018 had been impaired during the period of 2015 – 2018 and had to be reviewed annually in terms of the paragraph 114 of Sri Lanka Accounting Standards No.36 but had not been done.
- m) According to paragraph 86 and 89 of the Sri Lanka Accounting Standards No.37, the financial impact of each case should be disclosed in the financial statements regarding the cases filed against the Company by external parties and against external parties by the Company, but action had not been taken accordingly.
- n) The intangible assets of the Company amounting to Rs.72,545,632 had not been revalued in accordance with paragraph 75 of the Accounting Standards No. 38 of Sri Lanka and the effective lifetime of the Intangible Assets had not been reviewed and impairment rate had not been revised in accordance with paragraph 109 of the Standard.
- o) The company had paid an advance of Rs.14,108,445 which is 20 percent of total contract value to Sathosa Construction and Engineering Pvt. Ltd. in 2017 for the construction of a commercial building in the Mannar area and an advance security had not been obtained as per section 5.4.4(1) of the procurement guidelines. The contract company had repaid only Rs.2,051,486 as the constructions had been halted due to a court action and the remaining amount Rs.12,056,960 had been detained by the contractor without furnishing the certificate of work completion in terms of para 8.12.2 (a) and (b) of the procurement guidelines and written confirmation of expenses. This amount had been impaired during the year under review without the approval of the board of directors. Although the company had documents confirming the ownership of the 20 perches of land, its valuation amount had not been taken into account.
- p) Since the closing balance of trade payable account was Rs.7,120,341,314 and total balance of credit schedule submitted with the financial statements was Rs.7,077,544,960, there was a difference of Rs.42,796,354 between financial statements and credit schedules. Further, there was a suspense amount of Rs.40,095,291 in the credit schedule.
- q) Since the balance payable as at 31 December of the year under review to a related party, the Corporative Wholesale Corporation, was Rs.2,131,314,280 and the corporation confirmed balance was Rs.2,355,162,418, difference was Rs.223,848,138.

- r) Receivable balance of Rs.2,270,000 due from the Ministry of Industry and Commerce from the year 2016 had been impaired during the year under review without the confirmation and the approval of the board of directors.
- s) The onion control account and the container deposit account of Rs.137,826,385 and Rs.19,507,254 respectively were impaired in 2015 and were deducted from the accounts without proper review and without a note to the financial statements. Treasury approval had not been obtained for that.
- t) Since balance was confirmed by seven suppliers out of 50 suppliers related to the trade payable balance amounting to Rs.5,432,259,534 shown in the financial statements was Rs.748,231,096, the balance not confirmed was Rs.4,684,028,439. Only two creditors of the creditors who responded had confirmed the balance is correct. Accordingly, since confirmed balance was Rs.465,930,051 out of creditors of Rs.443,387,441 the difference was Rs.22,542,610.
- u) Accuracy of the balance in credit and debit control account could not be ascertained as bank confirmation of balances of Bank of Ceylon, Commercial Bank and Nations Trust Bank amounting to Rs.1,184,727, Rs.12,751,147 and Rs.54,361 respectively related to the above account had not been submitted for audit. The current account balance of the Commercial Bank in the credit and debit control account was Rs.11,788,037 which was not specified in the cash and cash equivalents.
- v) Since the debtors confirmation letters for trade receivable balance of Rs.359,189,493 had not been furnished to the audit, there was an uncertainty situation regarding the accuracy of the balances due. Since the closing balance of trade receivable balance as per ledger was Rs.72,138,202 and the balance as per schedules to the financial statements was Rs.72,754,426, difference was Rs.616,224 and as well, the closing balance of credit memo control account was Rs.110,744,744 and the balance as per schedules submitted for the financial statements was Rs.109,820,579, therefore difference was Rs.924,165.
- w) A portion of the daily income of sathosa outlets had not been remitted to the company's head office and had been expended by the outlets since prior to 2016, and this receivable amount of Rs.74,643,497 had been shown in the deposits and advances. The amount was withheld by the 217 outlets ranged from Rs.2,000 to Rs.900,000. However, there is no written evidence to prove this amount and Rs.50,000,000 in 2016 and Rs.6,762,337 in 2017 had been impaired. Further, under remittance of Rs.17,881,160 related to the above daily income of the outlets had been shown under the deposits and advance as per the financial statements since it was Rs.16,237,380 as per the schedules relevant this, difference was Rs.1,343,779.
- x) The interest payable on long term loans from 2015 to 2019 was Rs.3,739,618,700 and that amount was accumulated for long term loans without being accounted for separately.

- y) Since the balance of rent advance account was Rs.209,351,445 as at 01 January of the year under review and balance as per schedules submitted for the financial statements was Rs.212,107,445, difference was Rs.2,756,000. Unidentified rent advances of Rs.3,298,677 were in the schedule paid for the outlets remained at the end of year under review and the reason for that balance was not submitted.
- z) An identified balance of Rs1,484,265 remained in the schedule to the rent deposit account under deposit and advance in the financial statements. The action had not been taken to identify these balances.

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, 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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users

taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- Except for the effect of the matters described in the Basis for Adverse Opinion, I have obtained all the information and explanation that required for the audit and as far as

appears from my examination, proper accounting records have not been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.

- The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.
- The financial statements presented 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.
- The financial statements presented not includes all the recommendations made by me in the previous year my report under the para 1.2 (b), (d), (e), (f), (g), (h), (l), (m), (n), (o), (p), (q), 2(a), (b), (c), (d), (e), (f), 3((a), (b), (d), (f), (g) as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that 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 business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;
- to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for;

Reference to Law/ Direction	Description
(a) Cabinet Decision No. CP/11/135/540/017 dated 28 July 2011	According to the cabinet memorandum of “Improvement and Expansion of Retail Outlets Network of Lanka Sathosa Limited” the shares were to be issued for the full amount, including the value of fixed assets belonging to the Co-operative Wholesale Corporation transferred to Lanka Sathosa Limited, arrears rent for the period up to 31 March 2011 and value of inventory, but this was not done
(b) Public Finance Circular, No. 02/2016, dated 12 February 2016	Although the approval of the Board of Directors in accordance with the circular regarding damaged stocks deduction should have been obtained by the company , no such approval was obtained. There was no proper mechanism to distinguish between the surplus and the deficit balances and the loss due to deficit balances had not been recovered from the responsible officials.
(c) Public Enterprise Circular, No. PED 12, dated 02 June 2003 (i) Section 6.5	Although the financial statements should be submitted to the Auditor General within 60 days after the end of the financial year, the financial statements for the year 2019 were submitted for audit on 19 July 2021, one year and six months later. Further, along with the annual financial statements, the draft annual report for the year should have been submitted for audit, but the report had not been submitted.

(i)	Section 9.7	Without the approval of the Treasury, with the approval of the Board of Directors, the performance allowance paid to the CEO and the seven Deputy General Managers Rs.75,000 each was Rs.4,350,000.
(d)	Public Enterprise Circular, No. No. 1/2015, dated 25 May 2015	Although the officers who are in HMI-1 category or higher level and entitled to use the official vehicles for his official and personal use can be availed an official vehicle or monthly transport allowance, contrary to this and without the approval of the Treasury. Transport allowance of Rs.12,500 per month had been paid to the officers who are not entitled to use the official vehicles. A transportation allowance had been paid to 17 officers in 2018 was Rs.1,885,833 and in the year under review was Rs.1,750,000.
(e)	Public Enterprise Circular, No. 03/2018, dated 07 December 2018	Although the amount to be paid for employees of the company as bonus was Rs.3,000, without treasury approval a sum of Rs.25,000 each had been paid. Although the annual financial statements should have been submitted to the Auditor General in accordance with paragraph 6.5 of Public Enterprise Circular, No. PED 12, dated 02 June 2003 and despite the financial statements was submitted delaying in one year and six months, contrary to the circular the total amount of bonus paid was Rs.74,698,075.
(f)	Management Service Circular, No. 05/2017, dated 25 October 2017	The overpayment was Rs.630,000 exceeding the professional allowance payable to senior level officers in state owned companies.

(g)	Letter of the Director General of Management Services no. DMS/1741 of 16 May 2017	Although The monthly allowance to be paid to the chief executive officer and deputy general managers of Rs.95,000 and Rs.90,000 respectively had been approved by the Department of Management Service, with the approval of the board of directors a monthly allowance of Rs.250,000 paid to the chief executive officer and without the board of directors a monthly allowance of Rs.150,000 paid to the deputy general managers. Accordingly, without the approval of treasury in 2018 the overpayment to 07 officers was Rs.5,100,000 and in 2019 the overpayment to 09 officers was Rs.4,505,163
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- 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.
- 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 the following observation.

Without identifying the requirement of procurement items, 12,800 plastic packaging crates had been purchased for Rs.24,382,509 in 2017 contrary to the para 2.3.2 (c), 2.7.5, 2.8.1 (c), 2.8.1 (d), 3.2, 3.4, 4.2.1, 4.2.2, 4.2.3, 4.3.1 (a), 4.3.2, 5.1.1 (a), 5.1.1 (b), 6.3.3 (a), 6.3.6, 7.1.1, 7.11.1, 8.9.1 (b) and 1975 crates amounting to Rs.3,761,348 were idle as at 31 December for the year under review.

3. Other Matters

- A sum of Rs.2,708,780 had been paid as rent advance without entering into a formal rent agreement for 10 buildings owned by the government institute obtained on rent basis. Although a sum of Rs.7,745,000 had been paid to obtain three buildings on rent basis for the outlets in the year under review, two of the relevant outlets had been opened late and one outlets had not been opened by the date of this report.
- without a procurement process and on the recommendation of the deputy general manager (finance), the approval was given by the board of directors on 17 October 2017 to select a private company to revalue the property, plant and equipment of the company during the year under review and the price offered by the audit firm was Rs.3,800,000. Although the amount approve by the board of directors was Rs.4,200,000, the decision of the board of directors did not state the reasons for approving the relevant amount. Further, although the lands and building as per the fixed assets register had not been revalued, contract value had not been revised. It

was observed that as a sum of Rs.5,133,896 had been paid to the audit firm as at 12 March 2020, a sum of Rs.1,333,896 had been paid over the agreed amount. It had been taken two years to complete the revaluation task which was to be completed in three months.

- c) Although no written agreement was entered into with the private audit firm and it was agreed to update the fixed assets register as per the acceptance letter of the private audit firm, the fixed assets had not been updated with the opening balance, purchasing of assets, disposal of assets, revaluations and depreciation for the year. Further, the motor vehicles of Rs.18,821,440, communication equipment of Rs.3,642,602 and land had not been included in the fixed assets register.
- d) Balance of Rs.2,036,750 before 2018 was in the festival advance balance of Rs.5,801,312 as at 31 December for the year under review and the balance was not recovered by the date of 02 December 2021 and a sum of Rs.446,000 of this balance had been impaired.
- f) Instead of the festival advance of Rs.10,000, Rs.20,000 had been paid in excess of that amount during the year under review and the over payment was Rs.20,657,500

W.P.C. Wickramarathna
Auditor General

LANKA SATHOSA LIMITED
STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2019
(Expressed in Sri Lankan Rupees)


	Note	2019	2018
Revenue	3	25,964,875,523	29,165,907,562
Cost of Sales	4	(23,158,832,176)	(26,051,280,966)
Gross Profit / Loss		2,806,043,347	3,114,626,596
Other Income	6	1,041,730,971	895,938,470
Distribution Costs		(3,678,754,428)	(3,791,205,783)
Administrative Expenses		(1,963,584,516)	(2,164,854,453)
Operating Profit		(1,794,564,626)	(1,945,495,171)
Finance Income	7	100,892,068	96,167,991
Finance Cost	8	(1,464,871,479)	(1,039,136,093)
Profit before Tax		(3,158,544,037)	(2,888,463,273)
Income Tax Expense	9	-	-
Profit for the Year		(3,158,544,037)	(2,888,463,273)
Other Comprehensive Income			
Other Comprehensive Income not to be reclassified to Statement of Profit or Loss			
Actuarial Gain/(Loss) on Defined Benefit Plans	19	16,616,863	(30,470,383)
Revaluation Surplus on Property, Plant and Equipment		558,873,306	-
Other Comprehensive Income for the Year - Net of Tax		575,490,169	(30,470,383)
Total Comprehensive Income for the Year		(2,583,053,868)	(2,918,933,656)
Earnings Per Share	23	(35.34)	(32.32)

**LANKA SATHOSA LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2019**

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	10	2,057,236,075	1,693,769,490
Intangible Assets	11	72,545,632	5,614,007
		<u>2,129,781,707</u>	<u>1,699,383,496</u>
Current Assets			
Inventories	12	4,050,649,263	4,462,675,947
Trade and Other Receivables	13	537,164,158	656,106,728
Deposit and Advances	14	173,603,934	289,515,740
Pre-Paid Expenses and Statutory Receivables	15	14,046,701	6,380,284
Cash and Cash Equivalents	16	1,108,284,651	1,182,829,616
		<u>5,883,748,706</u>	<u>6,597,508,315</u>
Total Assets		<u>8,013,530,413</u>	<u>8,296,891,812</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	17	893,752,720	893,752,720
Retained Earnings		(17,884,556,952)	(14,742,629,777)
Revaluation Reserve		558,873,306	-
Total Equity		<u>(16,431,930,927)</u>	<u>(13,848,877,057)</u>
Non-Current Liabilities			
Interest-bearing Loans and Borrowings	18	13,878,530,743	11,786,627,819
Government Grants	20	719,127,194	1,001,747,957
Post-employment Benefit Liabilities	19	228,465,814	199,029,270
		<u>14,826,123,751</u>	<u>12,987,405,046</u>
Current Liabilities			
Trade and Other Payables	21	7,395,365,691	7,052,010,436
Current Portion of Interest-bearing Loans and Borrowings	18	1,438,155,222	1,491,969,720
Government Grants	20	370,911,417	409,972,210
Statutory Payables	22	414,905,258	204,411,457
		<u>9,619,337,588</u>	<u>9,158,363,823</u>
Total Equity and Liabilities		<u>8,013,530,413</u>	<u>8,296,891,811</u>

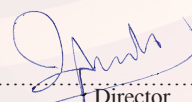
I certify that these Financial Statements of the Company comply with the requirements of the Companies Act No. 07 of 2007.


Deputy General Manager - Finance

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


Director

Date : 23rd June 2021
Colombo,

**LANKA SATHOSA LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2019**

(Expressed in Sri Lankan Rupees)

	Stated Capital	Revaluation Reserve LKR	Retained Earnings (at Debit)	Total
Balance as at 01 January 2018	893,752,720		(11,823,696,123.00)	(10,929,943,403)
Profit/(Loss) for the Year	-	-	(2,888,463,273)	(2,888,463,273)
Other Comprehensive Income for the Year	-	-	(30,470,383)	(30,470,383)
Balance as at 31 December 2018	893,752,720	-	(14,742,629,779)	(13,848,877,059)
Profit/(Loss) for the Year	-	-	(3,158,544,037)	(3,158,544,037)
Other Comprehensive Income for the Year	-	-	16,616,863	16,616,863
Revaluation of Property Plant and Equipment	-	558,873,306	-	558,873,306
Balance as at 31 March 2019	893,752,720	558,873,306	(17,884,556,952)	(16,431,930,927)

LANKA SATHOSA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
Cash Flows From/ (Used in) Operating Activities			
Profit before Tax		(3,158,544,037)	(2,888,463,273)
Adjustments for			
Depreciation	10	449,521,657	358,968,589
Amortization of Intangible Assets	11	23,771,221	5,589,802
Amortization of Government Grant	20	(560,669,096)	(395,241,390)
Employee benefits	19	54,336,765	44,018,365
Finance Income	7	(100,892,068)	(96,167,991)
Finance Expense	8	1,464,871,479	1,029,034,724
Operating Profit before Working Capital Changes		(1,827,604,079)	(1,942,261,174)
(Increase) / decrease in inventories		412,026,684	(167,302,593)
(Increase) / decrease in trade and other receivables		118,942,570	472,251,818
(Increase) / decrease in deposits and advances		115,911,807	299,751,505
(Increase) / decrease in pre-paid expenses & statutory		(7,666,417)	41,075,710
Increase/(Decrease) in trade and other payables		343,355,255	1,596,682,786
Increase/(Decrease) in statutory payables		210,493,801	67,107,049
Cash Generated from Operations		(634,540,379)	367,305,101
Finance Costs Paid	8	(1,464,871,479)	(412,740,439)
Post-employment Benefits Paid	19	(8,283,358)	(5,906,607)
Net Cash From Operating Activities		(2,107,695,216)	(51,341,945)
Cash Flows From/ (Used in) Investing Activities			
Purchase of Property, Plant and Equipment	10	(288,408,585)	(428,609,736)
Purchase of Intangible Assets	11	(50,099,999)	(3,410,049)
Interest Received	7	100,892,068	96,167,991
Investments in fixed deposits	16	(6,309,198)	(568,016,559)
Net Cash Flows Used in Investing Activities		(243,925,715)	(903,868,352)
Cash Flows From/ (Used in) Financing Activities			
Repayment of Interest-bearing Loans and Borrowings	18	2,077,007,417	(649,000,000)
Government Grant Received	20	238,987,540	381,619,756
Net Cash Flows From/ (Used in) Financing Activities		2,315,994,957	(267,380,244)
Net Increase in Cash and Cash Equivalents		(35,625,972)	(1,222,590,542)
Cash and Cash Equivalents at the Beginning of the Year		305,755,402	1,528,345,944
Cash and Cash Equivalents at the End of the Year	23	270,129,430	305,755,402

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. CORPORATE INFORMATION

1.1 General

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

During the year, principal activities of the Company were the distribution of fast moving consumable items and general merchandise through a chain of outlet.

1.3. Number of Employees

The staff strength of the Company as at 31 December 2019 is 3,656 (3755 as at 31 December 2018).

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Financial Statements of the Lanka Sathosa Limited has been prepared in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS as issued by the Institute of Chartered Accountants of Sri Lanka.

The Financial Statements have been prepared on a historical cost basis except for the post-employment benefit liabilities which have been valued as per actuarial valuation method. The preparation and presentation of these Financial Statements is in compliance with the Companies Act No. 07 of 2007.

2.1.1. Comparative information

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.

Notes to the Financial Statements continued

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2.1.2. Date of Authorization for issue

The Financial Statements of Lanka Sathosa Limited for the year ended 31 December 2019 was authorized for issue in accordance with a resolution of the Board of Directors on 23rd June 2021.

2.2. Significant Accounting Judgments Estimates and Assumptions

The preparation of Company's financial statements requires management to make judgements, estimates and 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.

2.2.1. Going Concern

The company has incurred a net Loss of Rs. 2,583,053,868/- during the year under review, the accumulated losses amounting to Rs. 17,884,556,952/- and, company's current liabilities has exceeded its current assets by Rs. 3,735,588,883/- .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 financial assistance to enable to meet its obligations as and when they fall due.

2.2.2. 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:

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

- 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.

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.

2.2.3. 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 29.

2.2.4. 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.

LANKA SATHOSA LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

2.2.5. Revenue from contracts with customers**a) Sale of Goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to buyer; with the Company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

b) Interest

Interest Income is recognized as the interest accrues unless collectability is in doubt.

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.

2.2.6. 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. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the profit or loss as incurred

Notes to the Financial Statements continued

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 de-recognized 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) 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.

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.

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
Assets Transferred from CWE	17.5%	5-6

Depreciation of assets begins when it is available for use.

Notes to the Financial Statements continued

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

2.2.7. Intangible Assets

The Company intangible assets include the value of computer software, implementation of networking and Point of Sale 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 cost less 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.

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;

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

2.2.8. 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

2.2.9. 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.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2.2.10. 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.

2.2.11. 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.

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.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

c) De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognized (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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through 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.

Notes to the Financial Statements continued

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

d) Impairment

The Company recognizes 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 recognized 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)

c) De-recognition

A financial liability is de-recognized 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

LANKA SATHOSA LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

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 recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.2.12. 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.

2.2.13. Employee Retirement Benefits**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

Notes to the Financial Statements continued

LANKA SATHOSA LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

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.

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.

2.2.14. 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.

2.2.15. 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.

2.2.16. 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 the restive note to the Financial Statements.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2.2.17. 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.

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.

Notes to the Financial Statements continued

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

c) Sales Tax

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

- a) 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
- b) Receivables and payables are stated with the amount of sales tax included.
- c) 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. Changes in Accounting Policies and Disclosures

2.3.1. New and amended standards and interpretations

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 described in Notes 2.3.1.1.

2.3.1.1. SLFRS 16 – Leases

SLFRS 16 supersedes LKAS 17- 'Lease' and IFRIC 4 - 'Determining whether an Arrangement contains a Lease' for periods on or after 01st January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the Statement of Financial Position.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
3. REVENUE			
3.1 Revenue in the Automated Outlets			
Grocery Products		3,248,671,505	3,073,912,768
Provision Products		4,696,093,981	5,558,012,954
Liquor		2,219,292,568	529,424,002
Promotional Items		442,539,029	933,020,117
Household		402,019,812	395,484,931
Stationery		3,765,184	3,365,926
		<u>11,012,382,080</u>	<u>10,493,220,698</u>
3.2 Revenue in the Manual Outlets		<u>15,073,176,416</u>	<u>18,769,851,088</u>
Gross Revenue		26,085,558,496	29,263,071,786
(Less) NBT		(96,633,818)	(97,164,224)
Sales Discounts		(24,049,155)	-
Net Revenue		<u>25,964,875,523</u>	<u>29,165,907,562</u>
3.3	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 which have been recognized.		
4. Cost of Sales			
Opening Inventories		4,462,675,947	4,295,373,354
Purchases during the Year		22,861,357,333	26,056,753,039
		<u>27,324,033,280</u>	<u>30,352,126,393</u>
(Less) Purchases Return		(501,112,131)	(109,295,223)
Closing Inventories		(4,050,649,263)	(4,462,675,947)
		<u>22,965,552,031</u>	<u>25,780,155,223</u>
Stock losses (Note 5.)		193,280,144	271,125,743
		<u>23,158,832,176</u>	<u>26,051,280,966</u>
5. Stock Shortages and Other Stock Variances			
Stocks Shortages -Manual & Automated Outlet / Warehouse		193,280,144	271,125,743
		<u>193,280,144</u>	<u>271,125,743</u>
5.1	The stock shortages represent normal losses and abnormal losses. The normal losses represent loss in transit, shoplifting ect.. On the other hand, abnormal losses represent losses from theft and fraud which should be recovered but recovery is remote due to the litigation. LSL is not 100% computerized and 2/3 of the outlets are running on manual basis during the period. Therefore, we are unable to recognize losses as normal or abnormal.		

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
6. OTHER INCOME			
Gondola Income		123,788,756	115,647,117
Sales Promotion		84,447,127	32,764,852
Commission Income		2,315,256	3,100,722
Sundry Income		13,571,314	13,514,111
Transport Income		179,172,495	211,560,469
Registration & Listing Fee Income		9,432,666	86,614,416
Creditor Write Back		25,140,468	-
Rent Income		4,171,500	2,531,374
Penalty Income		11,805,315	5,180,021
Joint Business Plan Income		4,830,000	13,930,000
Amortisation of Deferred Income - Capital Grant		560,669,096	395,241,390
Recovery Income		22,386,977	15,853,998
		1,041,730,971	895,938,470
7. FINANCE INCOME			
Interest Income from Fixed Deposit		100,892,068	96,167,991
		100,892,068	96,167,991
8. FINANCE COST			
Interest Expense on Loans and Borrowings		1,404,100,086	1,029,034,724
Interest Expense on Bank Overdraft		60,771,393	10,101,369
		1,464,871,479	1,039,136,093

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	2019	2018
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9. INCOME TAX

The major components of income tax expense for the years ended 31 March are as follows;

Current Income Tax

Current Income Tax Charge (Note 15.1)	(815,494,328)	(815,311,369)
Over Provision of Taxes in Respect of Prior Years	-	-
	<u>(815,494,328)</u>	<u>(815,311,369)</u>

Deferred Income Tax

Deferred Taxation Charge/(Reversal) in Profit for the Year (Note 15.2)	-	-
Income Tax Expense Reported in the Statement of Profit or Loss	<u>(815,494,328)</u>	<u>(815,311,369)</u>

9.1 A reconciliation between current tax expense & the accounting profit multiplied by the statutory tax rate is as follows;

Accounting Profit/(Loss) before Tax	(3,158,544,037)	(2,888,463,273)
Non-deductible Expenses	641,643,350	752,029,474
Deductible Expenses	<u>(395,579,058)</u>	<u>(775,392,518)</u>
Taxable Profit	<u>(2,912,479,744)</u>	<u>(2,911,826,316)</u>
Statutory Tax Rate	28%	28%
Current Income Tax Expense	<u>(815,494,328)</u>	<u>(815,311,369)</u>

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

10 PROPERTY, PLANT AND EQUIPMENT

10.1	Gross Carrying Amount	Balance As at 2019.01.01	Additions	Transfers From CWIP	Revaluation	Disposals/ Transfers	Balance As at 31.12.2019
	At Cost	444,100,663	20		6,231,285		450,331,968
	Buildings	190,371,871	31,458,917		(43,797,477)		178,033,312
	Name Board and Fittings	228,812,039	25,512,756		(20,001,208)		234,323,586
	Computers Equipment	314,003,281	34,058,763		(87,600,644)		260,461,399
	Computer Software	1,567,752,874	217,216,075	50,393,893	(91,684,108)		1,743,678,734
	Equipment	352,356,749	30,176	-	(7,894)		352,379,031
	Office Equipment	284,261,402	4,314,149	-	(11,230,125)		277,345,426
	Furniture and Fittings	18,821,440		-			18,821,440
	Motor Vehicles	3,642,602	-	-	-	-	3,642,602
	Communication Equipment	22,798,843	-	-	-	-	22,798,843
	Assets of CWE	3,426,921,764	312,590,835	50,393,893	(248,090,171)	-	3,541,816,341
	In the Course of Construction	107,329,535	-	(90,996,739)	-	(16,332,796)	-
	Capital Work-in-Progress	107,329,535	-	(90,996,739)	-	(16,332,796)	-
	Total Gross Carrying Amount	3,534,251,299	312,590,835	(40,602,846)		(16,332,796)	3,541,816,341
10.2	Depreciation	Balance As at 2019.01.01	Charge for the Year	Disposals/ Transfers	Balance As at 31.12.2019		
	At Cost	106,030,749	23,513,338		125,701,059		
	Buildings	121,280,658	40,599,764		51,002,875		
	Name Board and Fittings	223,014,144	22,762,604		152,526,214		
	Computers Equipment	143,051,812	51,725,761		89,260,425		
	Computer Software	580,893,049	300,549,784		410,489,190		
	Equipment	352,284,835	36,674		352,224,192		
	Office Equipment	268,663,679	10,333,733		258,113,426		
	Furniture and Fittings	18,821,440	-		18,821,440		
	Motor Vehicles	3,642,602	-		3,642,602		
	Communication Equipment	22,798,843	-		22,798,843		
	Assets of CWE	1,840,481,811	449,521,657		1,484,580,266		
	Total Depreciation	1,840,481,811	449,521,657	(805,423,202)	1,484,580,266		

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
10. PROPERTY, PLANT AND EQUIPMENT (Contd...)			
10.3 Net Book Values			
At Cost			
Buildings		324,630,910	338,069,914
Name Board and Fittings		127,030,436	69,091,213
Computers Equipment		81,797,372	5,797,895
Computer Software		171,200,974	170,951,469
Equipment		1,333,189,544	986,859,825
Office Equipment		154,839	71,914
Furniture and Fittings		19,232,000	15,597,723
Motor Vehicles		-	-
Communication Equipment		-	-
Assets of CWE		-	-
		2,057,236,075	1,586,439,955
In the Course of Construction			
Capital Work-in-Progress		-	107,329,535
		-	107,329,535
Total Carrying Amount of Property, Plant and Equipment		2,057,236,075	1,693,769,490
10.4	During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of LKR 312,590,835/- (2018 - LKR 850,781,800/-). Cash payments amounting to LKR 288,408,585/- (2018 - LKR 428,609,735/-) were made during the year for purchase of Property, Plant and Equipment.		
11. INTANGIBLE ASSETS		Computer Software	Total
11.1 Cost			
As at 01 January 2019		48,783,135	48,783,135
Acquired/ Incurred during the Year		50,099,999	50,099,999
Transferred From WIP		40,602,846	-
Retired/ Disposed during the Year		-	-
As at 31 December 2019		139,485,981	98,883,135
11.2 Amortization/ Impairment			
As at 01 January 2019		43,169,128	43,169,128
Amortization/ Impairment for the Year		23,771,221	23,771,221
As at 31 December 2019		66,940,349	66,940,349
11.3 Net Book Value			
As at 01 April 2018		5,614,007	5,614,007
As at 31 March 2019		72,545,632	72,545,632
11.4 ERP System			
Intangible assets include the cost of acquiring operating system software's , HR related software's and utility software's which acquired for use of Lanka Sathosa Limited.Those have been amortized evenly over the period of 4 years commencing from the year of acquisition of software's.			

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
12. INVENTORIES			
Trading Stocks (Provisional Items)		859,525,910	722,660,136
Trading Stocks (Grocery Items)		3,047,217,017	3,620,995,483
Trading Stocks (Liquor)		143,906,335	119,020,328
		4,050,649,263	4,462,675,947
13. TRADE AND OTHER RECEIVABLES			
Summary			
Trade Receivables (Note 13.1)		312,964,207	237,624,919
Amounts Due from Related Parties (Note 13.2)		-	-
Other Receivables (Note 13.3)		224,199,951	418,481,809
		537,164,158	656,106,728
13.1 Trade Receivables			
Credit / Debit Card Control		16,826,673	18,750,974
Trade Receivables - Credit Memo Control		245,842,904	153,944,880
Less: Allowances for Impairment		(62,959,958)	(62,959,958)
		199,709,619	109,735,896
Gondola Income Receivable		4,999,231	6,683,193
Less: Allowances for Impairment		(92,000)	(92,000)
		204,616,849	116,327,089
Accounts Receivable		108,347,358	121,297,830
		312,964,207	237,624,919
13.2 Amounts Due from Related Parties	Relationship		
Co-operative Wholesale Establishment	Related Company	10,083,353	10,083,353
		(10,083,353)	(10,083,353)
		-	-
13.3 Other Receivables			
Ministry of Industry and Commerce		214,333,982	407,453,631
Sports Ministry		36,453,533	36,453,533
Less: Allowances for Impairment		(38,723,533)	(36,453,533)
		212,063,981	407,453,631
Other Receivable - Gift Voucher Issued		12,135,969	10,740,016
Cheques Control /Outlet Control		-	288,162
		224,199,951	418,481,809

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
14. DEPOSITS AND ADVANCES			
Rent Advance		138,241,607	209,351,445
Rent Deposit		5,532,120	5,532,120
Rent Prepaid		154,725	128,840
Festival Advance (Note 14.1)		5,355,312	3,083,999
Advances- Other		3,761,308	51,602,014
Import Clearing Advances - Liverpool Navigation (Note 14.2)		-	-
Refundable Deposit Receivable		1,754,044	1,898,706
Travelling Advance		923,658	1,093,829
Under Remittance (Note 14.3)		17,881,160	16,824,787
		173,603,934	289,515,740
14.1 Festival Advance			
Balance at the Beginning of the Year		3,529,999	2,079,431
Loans Granted During the Year		54,498,750	2,417,500
Less: Repayments during the year		(52,227,438)	(966,932)
Balance at the End of the Year		5,801,312	3,529,999
Less: Allowances for Impairment		(446,000)	(446,000)
		5,355,312	3,083,999
14.2 Import Clearing Advances - Liverpool Navigation			
Import Clearing Advances		267,600,500	267,600,500
Less: Allowances for Impairment		(267,600,500)	(267,600,500)
		-	-
14.2.1	Above amount represents the amount paid to Liverpool Navigation company in the year 2015 and 2016 for clearance of imported Rice		
14.3 Under Remittance			
Under Remittance (Note 14.4.1)		74,643,497	73,587,125
Provision for Impairment		(56,762,337)	(56,762,337)
		17,881,160	16,824,788

14.3.1 This receivable balance represent the amount spent out of the sales collection by the Manual outlets.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
15. PRE-PAID EXPENSES AND STATUTORY RECEIVABLES			
Pre-Paid Expenses (Note 15.1)		9,357,323	6,380,284
Statutory Receivables (Note 15.2)		4,689,377	-
		14,046,701	6,380,284
15.1 Pre-Paid Expenses			
Insurance		7,634,559	6,217,764
EWIS License & Maintenance		1,722,764	22,520
Liquor Licenses		-	140,000
		9,357,323	6,380,284
15.2 Statutory Receivables			
Income Taxes		8,922,123	10,927,534
Withholding Tax (Opening)		8,700,198	2,005,410
Less: Allowances for Impairment		(12,932,944)	(12,932,944)
		4,689,377	-
16. CASH AND CASH EQUIVALENTS			
Components of Cash and Cash Equivalents			
16.1 Favourable Cash and Cash Equivalent Balance			
Short-Term Investment in REPO's (Note 16.1.1)		-	72,807,479
Cash at Bank (Note 16.1.2)		42,357,184	47,909,008
Cash in hand (Note 16.1.3)		189,745,214	192,240,074
Short Term Deposit		876,182,253	869,873,055
		1,108,284,651	1,182,829,616
16.1.1 Short-Term Investment in REPO's			
This investment included cash balances which invested as REPO's by Lanka Sathosa Limited on daily basis from excess cash from account no - 004-1-004-6-1991855			
16.1.2 Cash at Bank			
People's Bank			
Savings Account	- 004-2-002-6-1991855	7,183,743	13,814,722
Master Card Account	- 004-1-001-1-0000044	58,600	58,600
Liquor Account	- 004-1-002-8-1991855	10,782,285	12,526,840
Utility Account	- 004-2-007-3-1991855	-	3,239
Trading Account	- 004-1-004-6-1991855	7,919,016	5,389,719
Mobitel Account	- 004-2-006-4-1991855	353,198	715,009
Dialog Account	- 004-2-005-5-1991855	29,505	29,505
Bank of Ceylon			
Current Account	76587128	1,103,894	1,103,894
Nations Trust Bank			
Card Account	100060011036	14,926,942	4,715,613
Commercial Bank			
Card Account	1480045950	-	9,551,867
		42,357,184	47,909,008
16.1.3 Cash in hand			
Floating Cash		3,540,755	3,250,755
Special Petty Cash		4,200,331	51,750
Petty Cash Float		6,917,559	6,903,753
Outlet Cash Control (Note 16.1.3.1)		175,086,569	182,033,816
		189,745,214	192,240,074
16.1.3.1 Outlet Cash Control			
This balance represents the undeposited cash collection by the individual outlets as at the year end.			

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
16. CASH AND CASH EQUIVALENTS (Contd...)			
Unfavourable Cash and Cash Equivalent Balance			
Bank Overdrafts (Note 16.1)			
Petty Cash Account	004-1-003-7-1991855	(1,884,406)	(52,910)
Main Current Account	004-1-001-9-1991855	(824,098,167)	(877,021,303)
Utility Account	004-2-007-3-1991855	(12,172,649)	-
		<u>(838,155,222)</u>	<u>(877,074,213)</u>
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement		270,129,429	305,755,403
17. STATED CAPITAL			
Fully Paid Ordinary Shares	2019 Number LKR	2018 Number LKR	
17.1 Fully Paid Ordinary Shares			
	89,375,272 893,752,720	89,375,272 893,752,720	
	<u>89,375,272 893,752,720</u>	<u>89,375,272 893,752,720</u>	
18. INTEREST-BEARING LOANS AND BORROWINGS			
18.1 Current interest-bearing loans and borrowings	Interest Rate		
Import Loan (Note 18.2.1)	Floating Rate	-	-
Working Capital Loan (Note 18.2.2)	Floating Rate	600,000,000	614,895,507
Bank Overdraft	Floating / Fixed	838,155,222	877,074,213
		<u>1,438,155,222</u>	<u>1,491,969,720</u>
18.2 Non-current interest-bearing loans and borrowings			
Import Loan (Note 18.2.1)		11,478,530,743	10,485,627,819
Working Capital Loan (Note 18.2.2)		2,400,000,000	1,301,000,000
		<u>13,878,530,743</u>	<u>11,786,627,819</u>
18.2.1 Import Loan			
Opening balance		10,485,627,819	9,865,785,205
Obtained during the Year		-	-
Interest Accrued		992,902,924	619,842,614
Less: Repayments		-	-
		<u>11,478,530,743</u>	<u>10,485,627,819</u>
18.2.2 Working Capital Loan			
Opening balance		1,915,895,507	2,568,443,836
Obtained during the Year		3,000,000,000	-
Interest Accrued		-	14,895,507
Less: Repayments - Capital		(1,901,000,000)	(18,443,836)
Repayments - Interest		(14,895,507)	(649,000,000)
		<u>3,000,000,000</u>	<u>1,915,895,507</u>

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
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19. POST-EMPLOYMENT BENEFIT LIABILITY

Benefits Obligation - Gratuity			
Balance at the Beginning of the Year		199,029,270	130,447,129
Charge for the Year (Note 19.1)		37,719,902	74,488,748
Payments during the Year		(8,283,358)	(5,906,607)
Balance at the End of the Year		<u>228,465,814</u>	<u>199,029,270</u>

19.1 Expense on Defined Benefit Plan

Current Service Cost		30,453,252	28,364,710
Interest Cost on Benefit Obligation		23,883,513	15,653,655
Recognised in Statement of Profit or Loss		54,336,765	44,018,365
Actuarial (Gain)/Loss for the Year Recognised in Other Comprehensive Income		(16,616,863)	30,470,383
		<u>37,719,902</u>	<u>74,488,748</u>

19.2 Actuarial valuation of the defined benefit plan (Gratuity) was carried out on 31 December 2019 and 2018 by Messrs. Actuarial & Management Consultant (Pvt) Ltd, Actuaries. Appropriate and compatible assumptions were used in determining the cost of retirement benefits.

19.3 Principal Actuarial Assumptions

The principal assumptions used are as follows;

a)	Demographic Assumptions		
	Retirement Age :	60 Years	57 Years
	Staff Turnover - up to age 54	6%	10%
b)	Financial Assumptions		
	Salary Increment Rate	5%	5%
	Rate of Discount	12%	12%

19.4 Sensitivity of Assumptions Employed in Actuarial Valuation

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 2019. 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 .

Change in Assumptions	Effect on Total Comprehensive Income - (Reduction)/ Increase in Results	Effect on Total Comprehensive Income - (Reduction)/ Increase in Results
+1% Change in Discount Rate	212,708,793	189,606,234
-1% Change in Discount Rate	246,575,285	209,475,979
+1% Change in Rate of Salary Increase	245,807,870	208,957,402
-1% Change in Rate of Salary Increase	213,272,293	189,999,890

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

20. GOVERNMENT GRANTS

2018	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
Opening balance	39,635,157	942,358,633	72,709,618	123,936,146	125,005,141	121,697,107	1,425,341,802
Fund Received During the Year	-	319,801,749	47,908,660	1,661,544	-	12,247,803	381,619,756
Non receivable from ministry	-	(323,352,725)	(17,169,039)	(23,264,210)	(31,251,285)	(204,130)	(395,241,390)
Closing balance	39,635,157	938,807,657	103,449,238	102,333,480	93,753,856	133,740,780	1,411,720,167
2019							
Opening balance	39,635,157	938,807,657	103,449,238	102,333,480	93,753,856	133,740,780	1,411,720,167
Fund Received During the Year	-	242,567,216	9,922,288	14,440,076	15,943,821	30,644,546	313,517,948
Non receivable from ministry	-	(27,373,318)	(2,812,124)	(44,344,966)	-	-	(74,530,408)
Amortization for the Year	-	(330,099,329)	(26,675,964)	(23,731,604)	(32,333,848)	(147,828,350)	(560,669,096)
Closing balance	39,635,157	823,902,226	83,883,438	48,696,985	77,363,829	16,556,976	1,090,038,611

20.1 Government Grants
2018

Non Current	39,635,157	612,781,084	76,773,274	78,764,653	62,502,571	131,291,219	1,001,747,957
Current	-	326,026,573	26,675,964	23,568,827	31,251,285	2,449,561	409,972,210
	39,635,157	938,807,657	103,449,238	102,333,480	93,753,856	133,740,780	1,411,720,167

2019

Non Current	39,635,157	527,420,198	57,207,473	38,266,014	44,371,979	12,226,373	719,127,194
Current	-	283,127,136	26,675,964	23,785,864	32,991,850	4,330,603	370,911,417
	39,635,157	810,547,334	83,883,438	62,051,878	77,363,829	16,556,976	1,090,038,611

20.2. Government grants have been received for the purpose of improving quality of service provided , hence Lanka Sathosa Limited only eligible for grants regarding capital projects.
There are no unfulfilled conditions or contingencies attached to these grants.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
21. TRADE AND OTHER PAYABLES			
Summary			
Trade Payables - Related Parties (Note 21.1)		2,215,590,994	2,348,403,062
- Other		4,904,750,319	4,396,303,805
		<u>7,120,341,314</u>	<u>6,744,706,867</u>
Other Payables - Related Parties		-	-
Other Payables (Note 21.2)		91,614,757	147,068,588
Accrued Expenses (Note 21.3)		165,234,784	149,392,279
Accrued Income (Note 21.4)		18,174,837	10,842,702
		<u>7,395,365,691</u>	<u>7,052,010,436</u>
21.1 Amount Due to Related Parties - Trade			
Name of the Company	Relationship		
Co-operative Wholesale Establishment	Related Company	2,131,314,280	2,151,525,372
C.W.E. Economic Center Services (Pvt) Ltd	Related Company	37,001,868	21,482,046
CWE Construction and Engineering (Pvt) Ltd	Related Company	46,794,127	174,851,023
CWE Milco Agent Pvt Ltd	Related Company	480,719	544,620
		<u>2,215,590,994</u>	<u>2,348,403,062</u>
21.2 Other Payables			
Employee Security Deposits		11,714,250	11,785,750
Retention Money		31,580,148	49,138,810
Refundable Deposit Payable		2,320,300	4,809,300
Gift Voucher Control		33,404,837	6,733,000
Printing Expense Payable		1,925,415	2,118,079
Other Payable		229,050	448,252
Intermediate - Fixed Assets Payable		-	1,345,959
Vegetable Supplier Commission Payable		-	5,358,822
Transport Charge Payable		10,440,757	65,330,616
		<u>91,614,757</u>	<u>147,068,588</u>
21.3 Accrued Expenses			
EPF Payable		37,008,772	34,044,827
Salaries Payable		941,840	162,212
ETF Payable		5,551,301	5,096,680
PAYE Payable		179,575	7,625
Meal Allowances Payable		285,200	717,000
Annual Leave Reimbursement Payable		52,343,012	42,532,548
Audit and Tax Fee Expenses		5,740,236	4,784,154
Overtime Payable		25,648,157	23,497,535
Rent Payable		11,781,993	7,544,233
Accrued Charges		25,460,356	30,918,500
Mobitel Recharge Payable		294,341	86,965
		<u>165,234,784</u>	<u>149,392,279</u>
21.4 Other Liabilities			
Accrued Income		18,174,837	10,842,702
		<u>18,174,837</u>	<u>10,842,702</u>
22. STATUTORY PAYABLES			
Economic Service Charges (ESC)		-	10,130,051
Value Added Tax (VAT) Payable		227,138,806	96,469,174
National Building Tax (NBT)		176,109,696	93,850,977
With Holding Tax (WHT) Payable		11,656,756	3,961,255
Total		<u>414,905,258</u>	<u>204,411,457</u>

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	2019	2018
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23. EARNINGS PER SHARE

23.1 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.

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

Amount Used as the Numerator:

Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	(3,158,544,037)	(2,888,463,273)
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Number of Ordinary Shares Used as Denominator:

	Number	Number
Weighted Average Number of Ordinary Shares in Issue	89,375,272	89,375,272

23.3 Earning Per Share

Basic Earnings Per Share	(35.34)	(32.32)
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24. 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

24.1 As per the Joint Memorandum No.16/0454/723/014 dated 11 March 2016 on Restructuring of Lanka Sathosa Limited and the Cabinet decision dated 16 March 2016 therewith, a decision has been taken to undertake settlement of the outstanding balance of rice importation loans amounting to Rs.8.8 Bn, payable to Bank of Ceylon and People's Bank by the Government's Treasury. However, the company is still financing the loan at the date of authorization of these financial statements.

24.2 The interest rates on Rice importation loans and working capital loans obtained from the people's bank and secured by the Government Treasury have been charged on fixed interest rates of 12% and 9.75% respectively. However, due to failure in settling the loan installments, as they fall due, and non renewal of guarantees on timely basis, the bank has re-structured these borrowings at floating interest rates (prevailing market rate as AWPLR+2%) with effect from 02 May 2017.

24.3 Balance of Working Capital Loan (WCL) obtained from People's Bank reported as at the balance sheet date was topped up back to its original capital amount of Rs.3 Bn during 2019, based on a comfort letter provided by the Treasury for the same. Considering the dire need for additional funding on working capital at Lanka Sathosa Limited, cabinet approval was granted to issue a fresh comfort letter to top up the WCL to Rs.3 Bn on 19/07/2019 as per the request forwarded under the cabinet paper no: 19/1887/115/054 dated 01/07/2019.

24.4 Cabinet approval was granted to take over the accrued loan interest on BOC loan by the Treasury. Cabinet approval was granted to take over the accrued interest of Rs.1.6 Bn relating to the period 2018 and 2019 as the previous cabinet decision states taking over of the liability only up to 31/12/2017. As per the cabinet decision dated 04/03/2020, on the cabinet paper no: 20/0560/204/048 dated 26/02/2020, approval has been granted to settle the liability of Rs.1.6 Bn over a period of 5 years.

24.5 At the reporting date, 403 outlets were operated by the company and expanded with 19 new outlets after the reporting date strengthening the company's retail network.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	2019	2018
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25. ASSETS PLEDGED

The following assets have been pledged as security for liabilities;

Nature of Asset	Nature of Liability	Carrying amount of the Assets Pledged	
Fixed Deposits	Loan from People's Bank to Import Rice	876,182,253	869,873,055

26. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows;

26.1 Transaction with the parent and related entities

	Name of the Company	Relationship	Nature of Transactions		
a)	Co-operative Wholesale Establishment	Related Company	Amounts Receivable as at 31 Dec.	-	-
			Amounts Payable as at 31 Dec.	(2,131,314,280)	(2,151,525,372)
			Rent	114,687,278	117,629,249
			Transport	94,144,996	34,716,420
			Royalty Fees	11,320,056	4,383,355
			Electricity & Water	10,079,659	10,601,355
			Packeting & Other	2,940,875	4,154,150
			Purchases	584,688,306	4,355,949,336
			Auditorium Charges		787,031
			Payments Made	838,072,262	2,841,163,305
b)	C.W.E. Construction and Engineering (Pvt) Ltd	Related Company	Amounts Receivable as at 31 Dec.	-	-
			Amounts Payable as at 31 Dec.	(46,794,127)	(174,851,023)
			Services received	232,784,440	569,912,412
			Payments Made	360,841,337	417,095,086
c)	C.W.E. Economic Centre Services (Pvt) Ltd	Related Company	Amounts Receivable as at 31 December	-	-
			Amounts Payable as at 31 December	(37,001,868)	(21,482,046)
			Services received	265,599,403	244,887,716
			Payments Made	250,079,581	239,790,809
d)	CWE Milco Agent Pvt Ltd	Related Company	Amounts Receivable as at 31 December	-	-
			Amounts Payable as at 31 December	(480,719)	(544,620)
			Purchase of Goods/Services	106	36,712,300
			Payments Made	64,007	41,752,209

Transactions with Related parties are carried out in the ordinary course of business. Outstanding balances at the year end are unsecured and net settlement occurs in cash.

26.2 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

Short-term Employee Benefits

552,000	566,000
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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 (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	2019	2018
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27. 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.

27.1 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 ;

Trade and Other Receivables (Note 27.1.1)	537,164,158	656,106,728
Deposit and Advances (Note 27.1.2)	173,603,934	289,515,740
Pre-Paid Expenses and Statutory Receivables (Note 27.1.3)	14,046,701	6,380,284
Cash and Cash Equivalents (Note 27.1.4)	1,108,284,651	1,182,829,616
Total credit risk exposure	1,833,099,443	2,134,832,368

27.1.1 Trade and Other Receivables

As at 31 December

Less Than 3 Months	204,616,849	116,327,089
3 to 12 Months	108,347,358	121,297,830
1 to 5 Years	224,199,951	418,481,809
More than 5 Years	-	-
	537,164,158	656,106,728

27.1.2 Deposit and Advances

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

27.1.3 Pre-Paid Expenses and Statutory Receivables

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

27.1.4 Cash and Cash Equivalents

Lanka Sathosa Limited held cash and cash equivalents of Rs. 1.10 Bn at 31 December 2019 (2018 - 1.18 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.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)

27.2 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.

27.2 Liquidity Risk

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

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total LKR
As of 31 December 2019					
Trade and Other Payables *	2,958,146,277	739,536,569	739,536,569	2,958,146,277	7,395,365,691
Interest-bearing Borrowings		150,000,000	450,000,000	1,438,155,222	2,038,155,222
Bank Overdrafts	838,155,222	-	-	-	838,155,222
	3,796,301,498	150,000,000	450,000,000	4,396,301,498	10,271,676,135
As of 31 December 2018					
Trade and Other Payables *	2,821,636,356	705,409,089	705,409,089	2,821,636,356	7,054,090,891
Interest-bearing Borrowings	-	153,723,877	461,171,630	11,786,627,819	12,401,523,326
Bank Overdrafts	877,074,213	-	-	-	877,074,213
	3,698,710,569	859,132,966	1,166,580,719	14,608,264,176	20,332,688,430

* Trade and other payables exclude statutory payables.

27.3 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.

27.3.1 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.

27.3.2 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	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Short term Deposits	-	-	-	869,873,055	869,873,055
	-	-	-	869,873,055	869,873,055
Financial Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Bank Overdraft	877,074,213	-	-	-	877,074,213
Interest-bearing Loans & Borrowings	-	153,723,877	461,171,630	11,786,627,819	12,401,523,326
	877,074,213	153,723,877	461,171,630	11,786,627,819	13,278,597,539

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	2019	2018
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28. FINANCIAL INSTRUMENTS

28.1 Financial Assets and Liabilities by Categories

Debt instruments at amortised cost

Trade and Other Receivables	537,164,158	656,106,728
Deposit and Advances	-	289,515,740
Pre-Paid Expenses and Statutory Receivables	14,046,701	6,380,284
Cash and Cash Equivalents	232,102,398	1,182,829,616
	<u>783,313,256</u>	<u>2,134,832,368</u>

Financial Liabilities by Categories measured at amortised cost

Trade and Other Payables	7,395,365,691	7,052,010,436
Interest-bearing Loans and Borrowings	15,316,685,965	13,278,597,539
	<u>22,712,051,656</u>	<u>20,330,607,975</u>

29 FAIR VALUE

29.1 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 2019, 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	
		2019	2018	2019	2018
Financial Assets					
Trade and Other Receivables	A	537,164,158	656,106,728	537,164,158	656,106,728
Deposit and Advances	A	173,603,934	289,515,740	173,603,934	289,515,740
Short-Term Investment in REPO's	A	-	72,807,479	-	72,807,479
Short Term Deposits	A	876,182,253	869,873,055	876,182,253	869,873,055
Cash at Bank and in Hand	A	232,102,398	240,149,082	232,102,398	240,149,082
		<u>1,819,052,743</u>	<u>2,128,452,084</u>	<u>1,819,052,743</u>	<u>2,128,452,084</u>
Financial Liabilities					
	Notes	2019	2018	2019	2018
Interest Bearing Loans and Borrowings	B	-	11,786,627,819	-	11,786,627,819
Trade and Other Payables	A	7,395,365,691	7,052,010,436	7,395,365,691	7,052,010,436
Bank Overdrafts	A	838,155,222	877,074,213	838,155,222	877,074,213
Current Portion of Interest Bearing Loans	B	600,000,000	614,895,507	600,000,000	614,895,507
		<u>8,833,520,913</u>	<u>20,330,607,975</u>	<u>8,833,520,913</u>	<u>20,330,607,975</u>

**LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

(Expressed in Sri Lankan Rupees)

29 FAIR VALUE (Contd..)

29.1 Fair Value Hierarchy (Contd..)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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 instruments.
- 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.

30. LEASES - Lanka Sathosa Limited will apply SLFRS 16- Lease Standard from year 2020

Lanka Sathosa Limited as Lessee

The Lanka Sathosa Limited has entered into commercial leases for branch premises. These lease agreements have an average life of between three and five years with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments due under such lease agreements as at 31st December 2019 are as follows:

	2019
Within one year	-
After one year but not more than five years	-
More than five years	-
	<u>-</u>
	<u>-</u>

Right of use assets

Lanka Sathosa Limited recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Assets hold under lease have been recognised as Right-of-Use Assets under SLFRS 16.

	2019
Assets as at 1st January 2019 - Effect of adoption of SLFRS 16	-
Impact of New Leases	-
Amortisation Charge for the Year	-
Assets as at 31st December 2019	<u>-</u>
	<u>-</u>

**LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

(Expressed in Sri Lankan Rupees)

31. 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;

31.1 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.

31.2 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.

31.3 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.

31.4 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.

**LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

(Expressed in Sri Lankan Rupees)

31. COMMITMENTS AND CONTINGENCIES (Contd..)

31.5 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
High Court				
Mr. Ravi Hettiarachchi	Appeal of the LT order	HC ALT 57/2019	High Court - Colombo	Pending
Mr. Jagath Hemantha	Money Recovery Matter(Maggonna)	DMR 06706/19	District Court - Colombo	Pending
Mr. Jagath Hemantha	Advance Payment (Panadura 01)	M-5593/19	District Court - Panadura	Pending
Mr. Jagath Hemantha	Advance Payment (Pitipana)	M-18972/19	District Court - Homagama	Pending
Mr. Ravi Hettiarachchi	Termination of Employment	24/633-2019	Labour Tribunal - Gampaha	Pending
Mr. Ravi Hettiarachchi	Termination of Employment	23/KU/37/2019	Labour Tribunal - Kurunegala	Pending
Mr. Ravi Hettiarachchi	Termination of Employment	02/919/2019	Labour Tribunal - Borella	Pending
Mr. Ravi Hettiarachchi	Termination of Employment	02/927/2019	Labour Tribunal - Borella	Pending

LANKA SATHOSA LIMITED
DETAILS TO THE STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

		2019	2018
Statement			
Revenue		25,964,875,523	29,165,907,562
Cost of Sales		(23,158,832,176)	(26,051,280,966)
Gross Profit		2,806,043,347	3,114,626,596
Other Income		1,041,730,971	895,938,470
Administrative Expenses	I	(1,963,584,516)	(2,164,854,453)
Distribution Costs	II	(3,678,754,428)	(3,791,205,783)
Operating Profit		(1,794,564,626)	(1,945,495,171)
Finance Income		100,892,068	96,167,991
Finance Cost		(1,464,871,479)	(1,039,136,093)
		(3,158,544,037)	(2,888,463,273)

LANKA SATHOSA LIMITED
DETAILS TO THE STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	2019	2018
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STATEMENT I

ADMINISTRATIVE EXPENSES

Employee Salaries - Managerial, Executive and Clerical	196,896,512	376,701,887
Employees Provident Fund	25,976,042	27,087,152
Employees Trust Fund	6,495,010	6,771,789
Overtime	7,950,746	6,757,450
Director Fees	552,000	566,000
Annual Leave Payment	58,032,604	46,916,111
COL and other Allowances	67,458,356	153,232,792
Audit Fees	2,000,000	2,000,000
Repair and Maintenance	77,139,587	79,079,436
Stock Verification Charges	5,311,251	23,155
Casual Wages	216,570,979	226,824,760
Depreciation	449,521,657	358,968,577
Amortization of Intangible Assets	23,771,221	5,589,802
Gratuity	54,336,765	44,018,365
Donations	1,308,726	305,388
Electricity	251,120,307	232,684,139
Penalty Chargers	631,342	1,859,715
Pest Control	4,661,940	5,524,850
Service Agreement Fees	23,679,067	25,546,692
Fuel Charges	13,640,838	10,121,170
Subscription	273,610	174,500
Insurance	36,227,456	29,479,798
Royalty Fees for CWE (Liquor License)	11,320,056	4,383,355
Water Expenses	10,362,053	11,264,102
Sponsorship Expenses	-	6,700,000
Legal Fees	2,831,837	1,456,247
Rates and Taxes	3,051,381	391,667
Postage Fees	184,163	163,094
Secretarial Fees	229,050	269,525
Staff Training	312,630	6,628,738
Professional Fees	67,304,274	87,503,851
Stationeries	17,512,635	24,663,252
Stamp Duty Fee	1,737,730	6,117,886
Telephone and Internet	84,012,892	81,390,077
Travelling & Subsistence	21,482,598	20,156,161
Un-claimable VAT	133,457,747	179,510,895
Staff Welfare	29,878,512	35,415,151
Vehicle rental	13,424,151	12,804,180
Bank charges and commissions	40,602,087	42,789,018
Miscellaneous Expenses	2,324,704	3,013,726
	1,963,584,516	2,164,854,453

LANKA SATHOSA LIMITED
DETAILS TO THE STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	2019	2018
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STATEMENT II

SELLING AND DISTRIBUTION COST

Salaries	1,003,158,539	781,726,310
Employees Provident Fund	159,013,942	139,365,797
Employees Trust Fund	39,735,661	34,811,993
COL and other Allowances	326,178,976	339,984,867
Overtime	277,940,786	217,987,227
Advertising Expenses	28,441,472	82,784,160
Bonus	74,698,075	74,303,651
Consumable Store Charges	20,428,763	22,943,221
Grocery Bags	273,254,936	366,977,381
Packing Charges	4,759,495	8,959,035
Printing Expenses	42,287,675	53,056,679
Rent	722,120,413	592,102,964
Sales Discount	488,850	5,068,601
Security Charges	243,947,610	222,029,149
Transport Charges	426,332,782	530,105,394
Promotional Expenses	2,726,654	13,938,232
Trade License Fees	18,912,840	17,953,369
Impairment Charges for the Year	14,326,960	287,107,754
	3,678,754,428	3,791,205,783

STATEMENT III

ALLOWANCES FOR IMPAIRMENT

Import Clearing from Liverpool Navigation	-	267,600,500
Refundable Container Deposits	-	19,507,254
Impairment of Mannar Project	14,326,960	-
	14,326,960	287,107,754



LANKA SATHOSA LIMITED

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Ministry of Trade / වෙළෙඳ අමාත්‍යාංශය / வர்த்தக அமைச்சு

17.12.2021

EXTRACTS OF THE MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF LANKA SATHOSA LIMITED HOLD ON 02ND OF DECEMBER 2021 (BOARD MEETING NO.112) AT NO.27, VAUXHALL STREET, COLOMBO 02, AT 2.00 PM

1.1/112/2021 FINANCIAL STATEMENTS FOR THE YEAR 2019- CHANGE IN PRESENTATION

It was noted that Annual Audit of Lanka Sathosa Limited for the year 2019 is carried out by Auditor General and the audit is in progress. During the review, it was identified that few changes need to be done on the presentation of financial statements which was handed over to the Auditors which was approved by the board on 23rd June 2021.

Such changes will not make any impact on the figures, but will bring in few changes on the presentation. Following are the changes that will be made on the presentation of notes relating to the Balance Sheet.

1. Note 10 - PROPERTY, PLANT AND EQUIPMENT

Previously movement during the year was shown under one line and now a more detailed presentation has been brought in.

2. Note 11 - INTANGIBLE ASSETS

Classification error has been rectified.

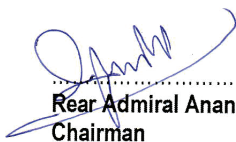
3. Note 14.3 - BIG ONION CONTROL


This note has been mentioned previously has been brought in now. As a result note on "Under Remittance" will be re labelled as 14.4

Considering such changes will not make any change in the figures the Board approved to incorporate the changes mentioned under PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS and BIG ONION CONTROL, the Board approved to re-forward the financial statements to Auditor General with the abovementioned amendments in order to conclude the Audit for the year 2019.

Status: *The Board approved to re-forward the financial statements to Auditor General with the abovementioned amendments in order to conclude the Audit for the year 2019.*

True Extract


Rear Admiral Ananda Peiris
Chairman


Mrs. Amitha Jayatunga
Company Secretary

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

10.1	Gross Carrying Amount								
	At Cost	Balance As at 2019.01.01	Additions	Transfers From	Transfer to IA	Revaluation	Disposals/ Transfers	Balance As at 31.12.2019	
	Buildings	454,345,441	15,055,098			(9,972,766)	(6,733,556)	452,694,217	
	Name Board and Fittings	190,371,871	31,175,994			67,614,296	(111,128,850)	178,033,312	
	Computers Equipment	228,812,039	26,072,678	(237,060)		42,182,345	(62,506,416)	234,323,586	
	Computer Software	314,003,281	124,226,476	227,063	(90,702,846)	55,894,769	(143,187,344)	260,461,399	
	Equipment	1,567,752,874	265,451,754	24,994		388,372,587	(477,923,474)	1,743,678,734	
	Office Equipment	352,356,749	30,170	(15,000)		108,002	(100,890)	352,379,031	
	Furniture and Fittings	274,016,624	4,285,436	3		14,685,122	(18,004,007)	274,983,178	
	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	
		3,426,921,764	451,242,507	-	(90,702,846)	558,884,356	(819,584,538)	3,541,816,341	

Total Gross Carrying Amount **3,426,921,764** **451,242,507** **-** **(90,702,846)** **558,884,356** **(819,584,538)** **3,541,816,341**

10.2	Depreciation	Balance As at 2019.01.01	Charge for the Year	Transfer to IA	Transfer	Disposals	Balance As at 31.12.2019
	At Cost						
	Buildings	109,440,167	24,290,588			(6,407,922)	127,322,833
	Name Board and Fittings	121,280,658	40,599,764			(110,877,546)	51,002,875
	Computers Equipment	223,014,144	22,762,604		(285)	(62,310,729)	183,465,734
	Computer Software	143,051,812	51,725,761		(3,723)	(136,449,507)	58,324,343
	Equipment	580,893,049	300,549,784		(2,510)	(471,279,660)	410,160,663
	Office Equipment	352,284,835	36,674		(927)	(96,390)	352,224,192
	Furniture and Fittings	265,254,261	9,556,482			(17,994,002)	256,816,741
	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	1,840,481,810	449,521,657	-	(7,445)	(805,415,756)	1,484,580,266

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
10. PROPERTY, PLANT AND EQUIPMENT (Contd...)			
10.3 Net Book Values			
At Cost			
Buildings		325,371,383	344,905,274
Name Board and Fittings		127,030,436	69,091,213
Computers Equipment		50,857,853	5,797,895
Computer Software		202,137,056	170,951,469
Equipment		1,333,518,071	986,859,825
Office Equipment		154,839	71,914
Furniture and Fittings		18,166,437	8,762,363
Motor Vehicles		-	-
Communication Equipment		-	-
Assets of CWE		-	-
		<u>2,057,236,075</u>	<u>1,586,439,955</u>
In the Course of Construction			
Capital Work-in-Progress		-	107,329,535
		-	<u>107,329,535</u>
Total Carrying Amount of Property, Plant and Equipment		<u>2,057,236,075</u>	<u>1,693,769,490</u>
10.4	During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of LKR 312,590,835/- (2018 - LKR 850,781,800/-). Cash payments amounting to LKR 288,408,585/- (2018 - LKR 428,609,735/-) were made during the year for purchase of Property, Plant and Equipment.		
10.5	Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,428,787/- (2018 - LKR 89,257/-).		
11. INTANGIBLE ASSETS		Computer Software	Total
11.1 Cost			
As at 01 January 2019		48,783,135	48,783,135
Acquired/ Incurred during the Year		90,702,846	90,702,846
Transferred From WIP		-	-
Retired/ Disposed during the Year		-	-
As at 31 December 2019		<u>139,485,981</u>	<u>139,485,981</u>
11.2 Amortization/ Impairment			
As at 01 January 2019		43,169,128	43,169,128
Amortization/ Impairment for the Year		23,771,221	23,771,221
As at 31 December 2019		<u>66,940,349</u>	<u>66,940,349</u>
11.3 Net Book Value			
As at 01 April 2018		5,614,007	5,614,007
As at 31 March 2019		<u>72,545,632</u>	<u>72,545,632</u>
11.4 ERP System			
Intangible assets include the cost of acquiring operating system software's , HR related software's and utility software's which acquired for use of Lanka Sathosa Limited.Those have been amortized evenly over the period of 4 years commencing from the year of acquisition of software's.			

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST DECEMBER 2019

(Expressed in Sri Lankan Rupees)

	Note	2019	2018
14.3	Big Onion Control		
	Big Onion Control	137,826,385	137,826,385
	Less: Allowances for Impairment	(137,826,385)	(137,826,385)
		<u>-</u>	<u>-</u>
14.3.1	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.		
14.4	Under Remittance	74,643,497	73,587,125
	Under Remittance (Note 14.4.1)	(56,762,337)	(56,762,337)
	Provision for Impairment	<u>17,881,160</u>	<u>16,824,788</u>
14.4.1	This receivable balance represent the amount spent out of the sales collection by the Manual outlets.		
14.5	Refundable Deposit - Container	19,507,254	19,507,254
	Refundable Deposit - Container	(19,507,254)	(19,507,254)
	Provision for Impairment	<u>-</u>	<u>-</u>



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