

LANKA SATHOSA LTD



ANNUAL REPORT-2020

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LANKA SATHOSA லங்கா சதொச



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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 2020, the number of Lanka Sathosa retail outlets was 415 and by 2022 that number has increased to 440. 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

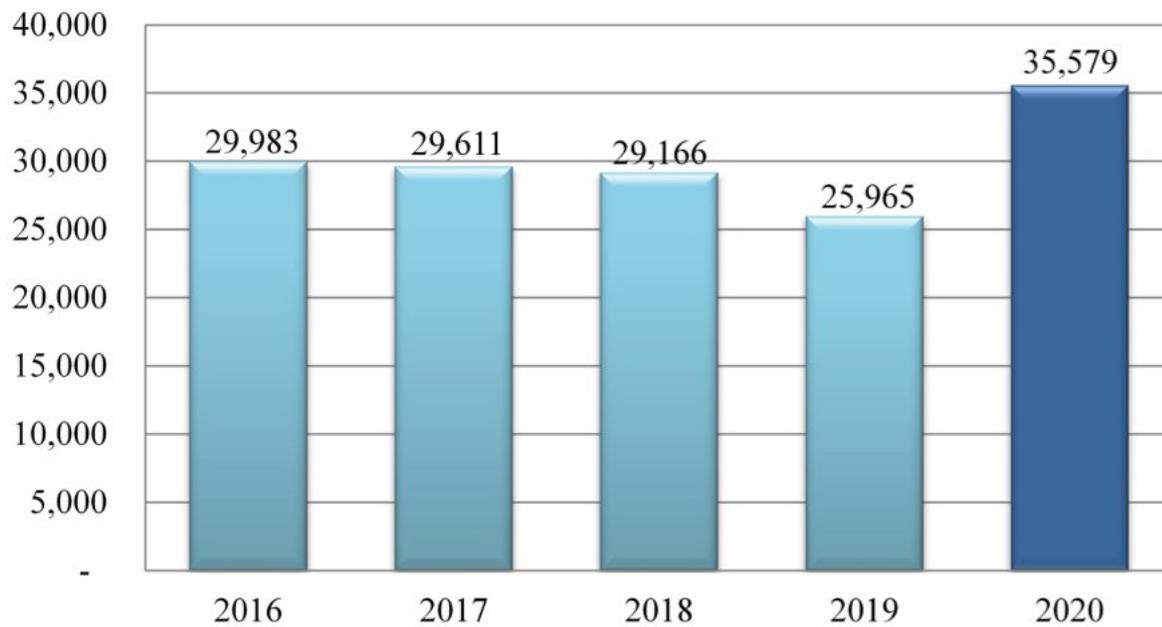
FINANCIAL & NON-FINANCIAL HIGHLIGHTS

KEY PERFORMANCE INDICATORS

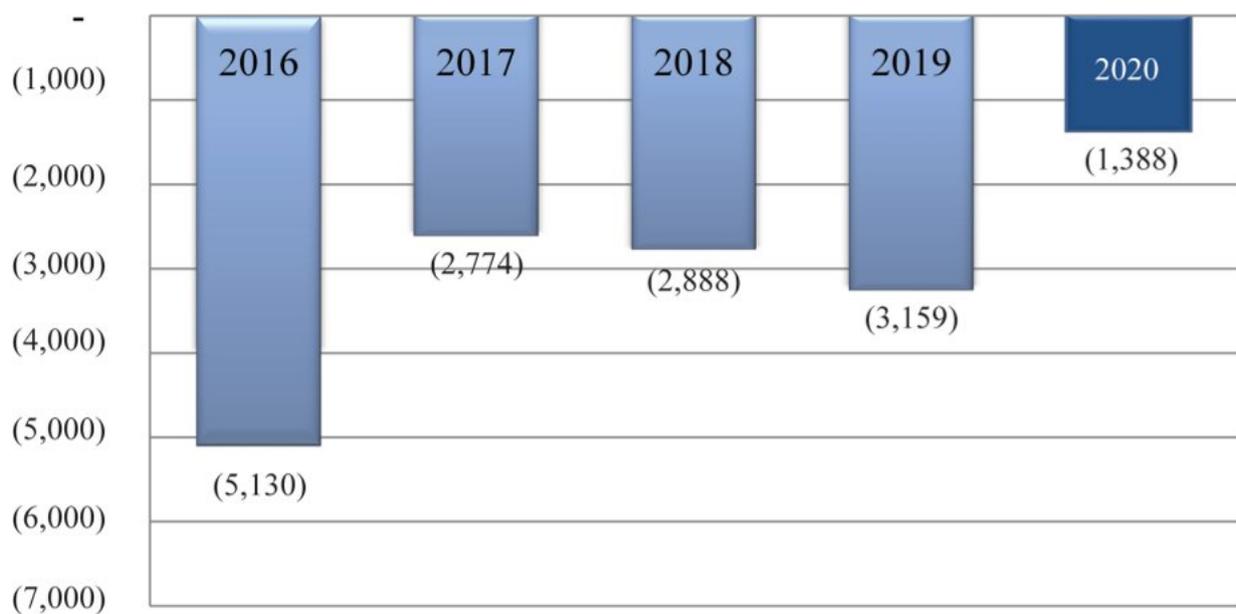
2020

Key Indicators		2019	2020
Operating Results			
Revenue	Rs. Mn	25,965	35,579
Revenue Growth	%	-10.98%	37.03%
Gross Profit	%	10.81%	10.60%
EBIT	%	-6.91%	-2.71%
Net Profit/(Loss)	%	-12.16%	-3.90%
Expenses as % of Sales			
Other Income	%	4.01%	3.20%
Administrative Expenses	%	7.56%	5.48%
Selling and Distribution Expenses	%	14.17%	11.03%
Net Finance Cost	%	5.25%	1.19%
Employee Benefits (Per Month)			
Salaries & Wages	Rs.	156,912,137	175,551,180
Over Time	Rs.	23,824,294	21,732,056
Total Cost	Rs.	180,736,431	197,283,236
No.of Employees		3,656	3,568
Per Employee Cost	Rs.	49,436	55,292
Key Ratios			
Current Ratio	Times	0.52	0.61
Inventory Turn Over Period	Days	66	51
Debtor Collection Period	Days	35	61
Credit Settlement Period	Days	108	69
Operating Cycle	Days	(7)	43

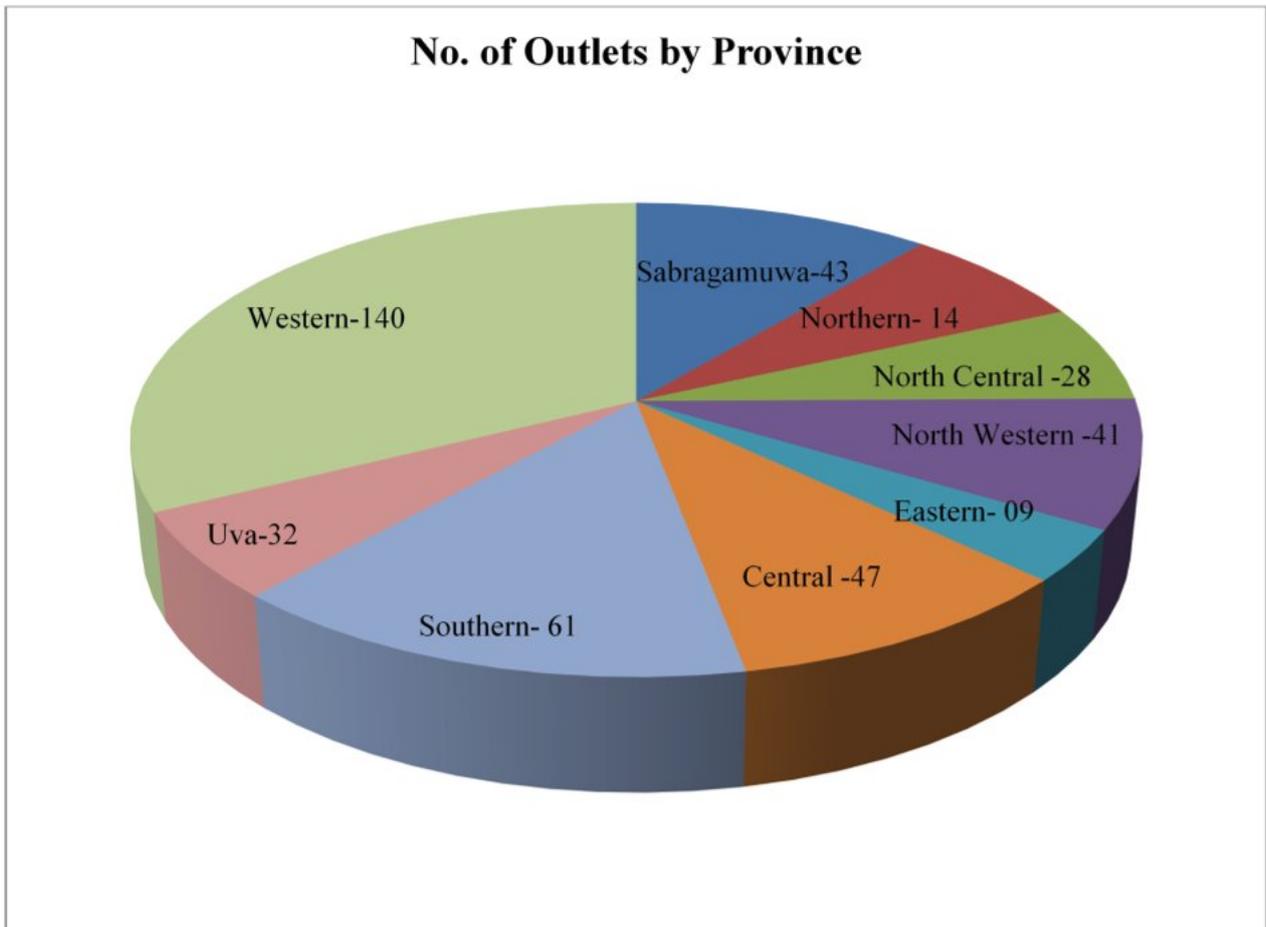
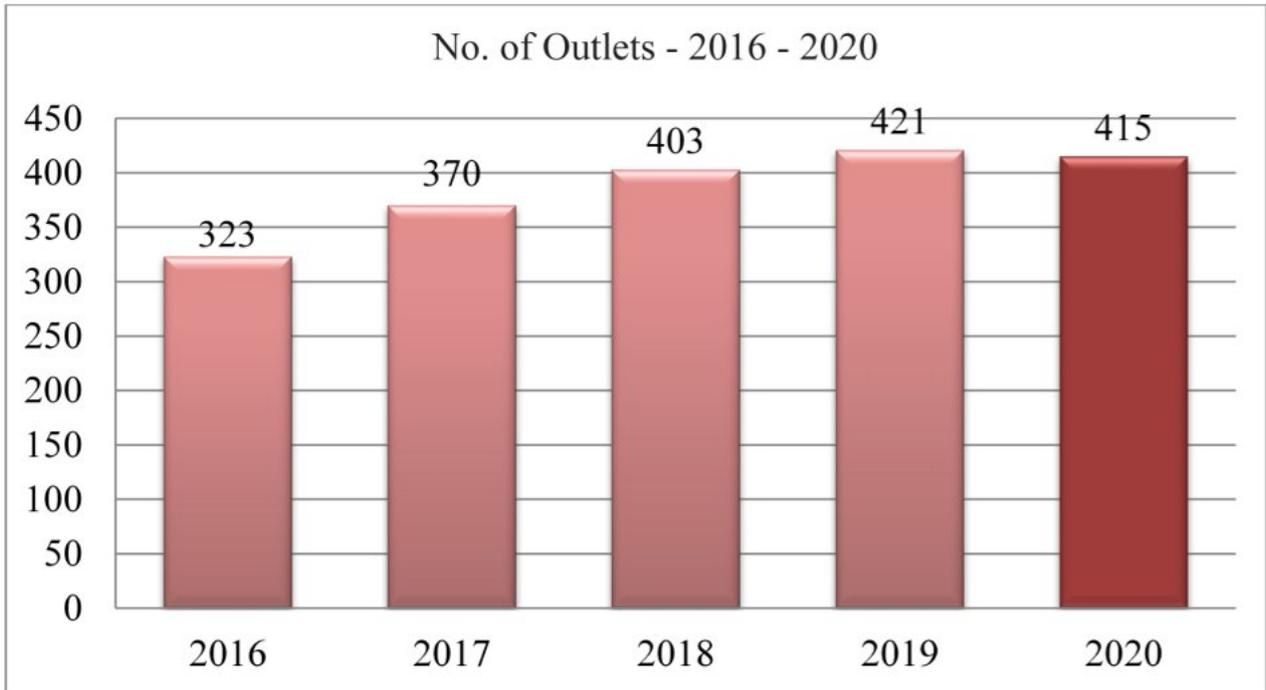
Turnover 2016-2020 LKR Mn.



Net Profit / (Loss) - 2016-2020 LKR Mn.



BRANCH NETWORK



BRANCH DETAILS

Western	Western (Contd...)	Western (Contd...)	Southern	Southern (Contd.)	Central	Eastern	North Central	North Western	Northern	Sahragamuwa	Uva
Adiambalama	Kesbewa-02	Pahathagama	A-pelessa	Rathgama	Agarapathana	Akkarepaththu	Anuradhapura 1	Abanpola	Achchuveli	Ayagama	Ampara
Alubomulla	Kiribitigoda	Panadura 2	Ahangama	Sooriyawewa	Alawathugoda	Eravur	Anuradhapura 2	Alawwa	Adampan	Balangoda	Ampara 2
Aluthagama	Kirillawala	Panadura 3	Akressa	Tangalle	Aluwihare	Kalmunai	Anuradhapura 3	Anamadawa	Chavakachcheriya	Balangoda 2	Badakumbura
Athurangiriya	Kirindiwela	Panadura 4	Ambalangoda	Thalgaswala	Ambathenna	Kuniya	Arahaganwila	Bingiriya	Chunnagam	Bulathkohupitiya	Badulla
Athiyya	Kivlavatte	Panagoda	Ambalanthota	Thelipwila	Ankumbura	Oddamawadi	Bakumna	Chillaw	Jaffna	Dehiwita	Bandarawela
Avissawella	Kochchikade	Pannipitiya 2	Ambalanthota 2	Thihagoda	Bokkawa	Pothuvil	Bulnewa	Dankotuwa	Kilinochchi Mega	Deraniyagala	Bandarawela 2
Badureliya	Kohwala 2	Pannipitiya 3	Baddegama	Uduyama	Dambulla	Samanthurai	Dehiathakandiya	Elabudagama	Madu	Ehiyagoda 2	Bibila
Balumhahara	Kosgama	Prayala	Balapitiya	Uragasmanhandiya	Digana	Thirkowil	Eppawala	Ganewatte	Mancholai	Ehiyagoda 3	Boralanda
Bembalapitiya	Koswaththa	Payyala	Borawakubuka	Urala	Ethgala	Tricomalee	Galenbindumuwewa	Girulla	Mannar	Embilipitiya 1	Buttala 2
Bandaragama	Kotadeniyawa	Piliyandala 1	Beliatte	Urubokka	Galgodara		Galgamuwa	Hetipola	Nelukulam	Embilipitiya 2	Central Camp
Battaramulla	Kotahena	Piliyandala 2	Bogahagoda	Walasmulla	Galewala		Gallala	Hiripitiya	Pessala	Godakawela	Dambagalla
Bollegala	Kottawa 2	Pitakotte	Debarawewa	Weerakefiya	Galewela 2		Habarana	Ibbagamuiwa	Poimpeduru	Gonagaldeniya	Ehiliwewa
Boralesgamuwa 1	Kottawa 3	Pitipana	Deniyaya	Welligama	Gampola		Higiragoda	Kalpiya	Silawathurai	Gurugalla	Haliela
Borella	Macculum	Poddaramulla	Devanuwara	Yatiyana	Gampola 3		Hingurangoda-02	Katuneriya	Vavuniya	Hemmathagama	Hingurana
Dalugama	Madapatha	Poigasowita	Dickwella		Geliya		Horawapothana	Kampotha		Kahawatta	Kandekeiya
Dehiwala	Madapatha Express	Pugoda	Dikkubura	Haguranketha	Haguranketha		Kabithigolawa	Kosgashandiya		Kahawatta 2	Kataragama
Delgoda	Magona	Puwakpitiya	Elpitiya	Hapugasthalawa	Hapugasthalawa		Kahatagasdiptiya	Kuliyapitiya		Kalawana	Lunugala
Deikanda	Maharagama 1	Raddiologama	Galle 1	Haathariyadda	Kekirawa		Kekirawa	Kumbukgate		Kannathota	Medagama
Dematagoda	Maharagama 2	Ragama	Galle Bus-Stand	Hatton	Medavachchiya		Medavachchiya	Kurunegala 2		Karawanalla	Meegahakiwila
Divlapitiya	Makola	Raigama	Habaraduwa	Hatton 2	Medirigiriya		Medirigiriya	Maturankuli		Kegalla	Monaragala 2
Dodangoda	Makubura	Ranmuthgala	Hakmana	Hewabeta	Nochchiyagama		Nochchiyagama	Maho		Kiriella	Monaragala 3
Edyeramulla	Malabe	Rathmalana 1	Hambantota	Kaduggannawa	Polonnaruwa 1		Polonnaruwa 1	Mallawapitiya		Kithulgala	Passara
Ekala	Malgawatta	Rathmalana Mega	Hikkaduwa	Kandy	Polonnaruwa 2		Polonnaruwa 2	Maravila		Kolonna	Pelwaththa
Gampaha 1	Maradahaagalamulla	Rawathawatte	Hungama	Katugasthota Mega	Katugasthota Mega		Sewanapitiya	Maspotha		Kuruwita	Potwaga Colony
Ganemulla	Mathugama 2	Simali Lyana	Imaduwa	Katugastota	Katugastota		Thalawa	Mawaramandiya		Mawanella	Sewanagala
Godagama	Maitigoda	Seetawa 1	Kalegana	Kotagala	Thambuthegama		Thambuthegama	Mawathagama		Molagoda	Siyabalanduwa
Habarakada	Megoda	Seetawa 2	Kamburupitiya	Kundasale	Vilachchiya		Vilachchiya	Melsiripura		Nivithigala	Thanamalwila
Hanwella	Megoda 2	Seethseripaya	Karapitiya	Kurunthuwaththa	Wellikanda		Wellikanda	Narammala		Opanayaka	Tissamaharame
Henamulla	Mepe	Siddamulla	Katuwana	Madawala Bazaar	Madawala Bazaar		Nikaweratiya	Nikaweratiya		Pabahinna	Uhana
Hokandara	Mesrigama	Siyabalape	Kokanadura	Matale	Matale		Pannala	Pallebadda		Pallebadda	Varpabhanchennai
Homasgama	Minuwangoda	Thalawathugoda	Kotapola	Matale 2	Matale 2		Pideruwella	Pideruwella		Pelmadulla	Wellimada
Horagasmabada	Mirihana 2	Thewattha	Kumarakanda	Menkithina	Menkithina		Polgatawela	Polgatawela		Pothupitiya	Wellawaya 3
Horana	Moranathuduwa	Uduwana	Kurudugathapama	Nawalapitiya	Nawalapitiya		Polgatawela 2	Polgatawela 2		Rakwana	
Hunupitiya	Moratumulla	Urapola 1	Lunugamwehera	Nidandahinna	Nidandahinna		Polpithigama	Polpithigama		Rathnapura 1	
Ingiriya	Moratuwa	Urapola 2	Makandura	Nuwaraeliya	Nuwaraeliya		Pobuhera	Pobuhera		Rathnapura 2	
Ja-ela	Mt.Lavinia 2	Veyangoda 2	Malimboda	Peradeniya	Peradeniya		Puttalam	Puttalam		Rathnapura 3	
Kadawatha	Mulleriyawa	Wadduwa	Mataru Mega	Pihimthalawa	Pihimthalawa		Wanathawilluwa	Wanathawilluwa		Ruwanwella	
Kaduwela	Mulleriyawa 2	Waja	Mataru 2	Poopathiya	Poopathiya		Thalduduwa	Thalduduwa		Thalduduwa	
Kaluthara 2 (North)	Nabada	Walana	Middeniya	Pundaluoya	Pundaluoya		Wehara	Wehara		Thunkama	
Kaluthara South	Nagoda	Wathupitwala	Morawaka	Pussellawa	Pussellawa		Wellawa	Wellawa		Udawalawa	
Kandana	Nariwala	Wajipillewa	Nagoda - Galle	Ragala	Ragala		Yanthampalawa	Yanthampalawa		Warakapola	
Katuwa	Narahenpita	Welsara Mega	Neluwa	Raththota	Raththota		Riththota	Riththota		Welliya	
Katunayake 1	Nawagamuiwa	Welleriya	Pinnaduwa	Rikilagakada	Rikilagakada		Thalawakale	Thalawakale		Yatyanthota	
Katunayake 2	Negombo 2	Wellampitiya	Pitabedara	Thamewakale	Thamewakale		Thamewakale	Thamewakale			
Katuwawala	Negris	Yakkala	Pitigala	Thamkumbura	Thamkumbura		Walapane	Walapane			
Kelaniya	Nittabuwu	Yakkala 2	Poddala	Welligala	Welligala						
Kesbewa	Padukka	Ranna	Ranna								

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 2020 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 2020 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 28 -63 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 2020 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 - 27 in the Annual Report.

ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are given in the annual report on pages 32 -43 .

GOING CONCERN

The company has incurred a net Loss of Rs.1,387,666,643/- during the year under review, the accumulated losses amounting to Rs.19,005,490,370.00 /- and, company's current liabilities has exceeded its current assets by Rs.5,179,539,408 /- .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 2020 the company made Rs. 328,100 /- as donations

RESERVE

The movement in reserves during the year is set out in the Statement of the Changes in Equity Statement on pages 30 .

PROPERTY PLANT & EQUIPMENT

The details of Property, Plant and Equipment are given on page 48 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 page 58 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 2020 was Rs. 893.7 Mn, in Compliance with the Companies Act No. 07 of 2007. As at 31.12.2020, 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 31.12.2020 have been recorded in the financial statements of the Company on pages 49

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 audited financial statements were approved by the Board of Directors on 23rd February 2022.

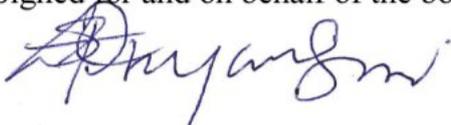
The Directors below have been the Board of Directors of the Company through of the year under review

Mr.J.A.Nushad Mario Perera
Mr.J.M.S.Nandana Jayasinghe
Mr.R.M.D.K.G.N.Bandara Ranathunga
Mr. P.H.A.S.Wijayarathne
Mr. I.U.Mahesh Wijerathne
Mr. B.R.C.Jude Fonseka
Mr.N.A.Wimalarathne
Mr. K.P.D.Prabath Sirisena
Mr. S.S.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 February 2022

Company Secretary
Lanka Sathosa Limited

DEPUTY GENERAL MANAGER-FINANCE'S STATEMENT OF RESPONSIBILITY

The Financial Statements of Lanka Sathosa Limited as at 31st December 2020 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.

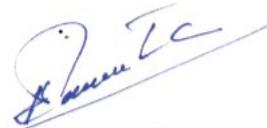
We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies, and other financial information included in this Annual Report, fairly represents, in all material respects, the financial condition, and results of the operations and the cash flow of the Company 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



Channa Kevitiyagala
Deputy General Manager-Finance
23rd February 2022

INDEPENDENCE AUDITOR'S REPORT

TAC/D/LSL/FA/20/55

15th August 2022

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 31st December 2020 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 2020 comprising the statement of financial position as at 31st December 2020 and the statement of comprehensive income, 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

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 31st December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Furthermore, the statement of cash flows included in the financial statements for the year under review was not prepared in accordance with Sri Lanka Accounting Standard 7 due to the fixed deposit interest receivable as on 31 December 2020 amounting to Rs.49,095,302 has been shown under cash and cash equivalents in the cash flow statement, government grants receivable of Rs.34,959,767 related to the year 2019, which had been adjusted to the retained earnings account as non-receipt of government grants.

- (e) Although the effective life of property, plant and equipment, depreciation methods, etc. should be reviewed annually in accordance with paragraph 51 of Sri Lanka Accounting Standards No.16, company had not done so. As a result, the net book value is zero as at 31 December of the year under review currently in use which is not revalued property, plant and equipment cost was Rs.227,380,036.
- (f) From the year 2010 to 2019, the amount of balance due from external parties of the company was impaired during the period of 2015 – 2018 for Rs.604,664,264 and was not reviewed annually in accordance with the section 114 of Sri Lanka Accounting Standards No.36.
- (g) According to the revaluation conducted in the year 2019, 2371 items of property, plant and equipment were reported to exist, but they were not accounted for due to the fact that the revaluation value was not recognized. Rs.5,133,896 had been paid as valuation fees without inquiring the valuer concerned about this.
- (h) The effective life of the assets which were revalued in the year 2019, had not been reviewed. Furthermore, the depreciation expense of Rs.186,285,902 had been accounted as at 31 December 2020 less than the depreciation expense calculated by the auditor.
- (i) The difference between the opening balance of property, plant and equipment accounts and the opening balance of the fixed assets register was Rs.675,434,885. In this difference, there was a balance of Rs.529,010,712 which was present in the ledger from the year 2013 but was not recognized in the fixed assets register. Motor vehicles amounting to Rs.18,821,440, communication equipment amounting to Rs.3,642,602 and the assets taken over from the Corporative Wholesale Corporation amounting to Rs.22,798,843 had not been included in the fixed assets register and the related schedules had not been submitted.

- (j) Although the removal of assets amounted to Rs.6,104,439 according to the note 12 for property, plant and equipment in the financial statements, it was not a true removal but the wrong corrections made in recording the cost of the assets. Although these correction should be made from the property, plant and equipment accounts, it had been shown in the note as disposal of assets.
- (k) As on 31 December of the year under review, the amortization provision for intangible assets amounting to Rs.58,881,068 had been under-accounted by Rs.940,589, thus the loss for the year had been understated and the cost of intangible assets was overstated by the same amount.
- (l) Due to accounting of amortization deferred income amounting to Rs.9,908,789 in the year under review relevant for the year 2019 for the developing and implementing Enterprise Resource Planning (ERP) Project, previous year profit had been under stated and profit for the year had been over stated by that amount.
- (m) The stock loss in the previous year was Rs.193,280,144 and the stock loss in the reviewed year was Rs.52,962,079 and there was no written evidence to prove the stock loss. For this stock loss, a sum of Rs.2,655,196 had been collected from the insurance cover and Rs.4,618,885 had been collected from the employees and the net loss of Rs.45,687,998 had not been recognized in the profit and loss account.
- (n) Action had not been taken to settled the unrecognized debit balances of Rs.3,498,678 and Rs.1,484,265 in the rent advance account and rent deposit account respectively prevailed from the year 2013. In the balance of the advance account as on 31 December of the year under review, there is an unrecognized credit balance of Rs.6,057,734 in relation to 59 outlets dating back to the year 2015 and the company had not taken steps to identify and settle the said balance by 15 June, 2022.

- (o) In relation to the trade receivables balance of Rs.816,312,796 shown in the financial statements, balance confirmation letters had been called from the 35 debtors, of which only one debtor had responded. The balance confirmed by the debtor was Rs.97,565,593 and according to the company's accounts Rs.100,408,798 the difference was Rs.2,843,205.
- (p) Due to COVID 19, the sale and distribution of goods had been done through internet and other agencies and at the time of handling over the goods for distribution, it had been accounted as credit sales. Since the debtors had been settled more than the debtor balance, it was observed that sales related to that amount had not been recorded. The company had not taken steps to reveal the reasons for the over amount of Rs.781,728.
- (q) The balance in the schedule to the trade payable accounts was Rs.9,268,228,953 and the balance mentioned in the financial statements was Rs.9,230,562,595, the difference was Rs.37,666,358. Since the total trade payable account balance of Rs.9,230,562,595 as at end of the day of the year under review included in the category of more than 180 days as per creditors' age analysis, the age analysis of creditors could not be correctly identified in the audit. Balance confirmation had been called from 27 creditors amounting to Rs.3,700,111,704 and non of the creditors had not responded.
- (r) Although the amount due to the Cooperative Wholesale Corporation, a related party of the company, had been shown as Rs.1,924,384,456 in the accounts as at 31 December 2020, the balance confirmed by the Cooperative Wholesale Corporation was Rs.2,224,015,697, the difference was Rs.299,631,241.
- (s) A provision of Rs.12,489,577 had been made for payment on invoices submitted by suppliers without written evidence for purchasing of goods in the years 2016 and 2017 and a provision of Rs.25,000,000 had been made for three suppliers on an estimate. The total provision amount of Rs.37,489,577 had been credited to the supplier and debited to the cost of sales in the year 2019. In the year under review, this double entry had been reversed from the accounts and although the adjustment should be made to the accumulated profit due to adjustment was made to the cost of sales, loss for the year decreased by that amount. Since the goods had been purchased and paid subsequently to the suppliers who had been made the provision, an investigation had not been carried out regarding the submission of invoices and omission from the accounts.

It was further observed that there are weakness and frauds in the process from the purchase of goods to payment for suppliers by allocating estimate provision of Rs.25,000,000 on the assumption of receiving invoices without issuing purchase orders and goods receiving notes.

- (t) Although the amount of Rs.2,566,613 as payments for the next year for electricity and water charges was stated under other prepayment, the relevant bills and payment vouchers were not submitted to the audit to confirm the relevant payments.

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 Other information included in the Company's 2020 Annual Report.

The other information comprises the information included in the Company's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Company's 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

1.4 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.

1.5 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 scepticism 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

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

2.1.1 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.

2.1.2 The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.

2.1.3 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.

2.1.4 Except The observation includes in para (a), (d), (f), (g), (j), (o) and (r) of the basis for adverse opinion section of my report, the financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

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

2.2.1 to state that 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.

2.2.2 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 Laws, Rules Regulations etc.	Non-compliance
(a)	Section 8 of the Employees' Provident Fund Act No. 15 of 1958 and Section 15 of the Employees' Trust Fund Act No. 46 of 1980	According to the respective act, 20 percent of the employee's contribution and the employer's contribution from the salary of each employee must be contributed to the employee provident fund and 3 percent of the company's contribution to the employees' trust fund. However, contributions had not been obtained from the Employees' Provident Fund and the Employees' Trust Fund for the casual employees employed by the company. According to the net salary of the casual employees shown in the financial statements of the year under review, Rs.55,821,044 and Rs.8,373,157 had not been contributed to the Employees' Provident Fund and the Employees' Trust Fund respectively. It was observed that due to non-contribution to the fund, surcharges will be levied against the company by those funds and the company will have to bear the 20 percent contribution that has not been paid so far without collecting the contribution from the employee.
(b)	Paragraph 6.5 of the Public Enterprise Circular No. PED 12 dated 02 June 2003	Although annual financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, the company's financial statements had been submitted to the Auditor General on 23 March 2022, 2 years later. Further, the draft annual report of the annual report for the year should also be submitted to the audit along with the financial statements, but the company had not submitted that report.

(c)	State Finance Circular No. 01/2014 dated 17 February 2014	The company had prepared a corporate plan for the period 2020-2023 and it had not been prepared including the matters stated in the circular. Accordingly, a review of the operational results of the last three years, an action plan that clearly identified the responsibilities of the managers regarding the goals and objectives to be achieved in the year under review, and performance indicators were not included in this corporate plan.
(d)	Management Service Circular, No. 05/2017, dated 23 October 2017	Although the monthly professional allowance paid to senior level officers of government-owned companies should be paid based on the service period, contrary to this 6 officers were overpaid Rs.504,000 in the year 2020 and Rs.589,000 to 9 officers in the year 2021.
(e)	Public Enterprise Circular, No.03/2018, dated 07 December 2018	Although the annual bonus to be paid to the company's staff is Rs.3,000, since the company had paid Rs.22,000 each contrary to the circular, the over paid bonus was Rs.63,405,850 to 3444 employees and the treasury approval had not been obtained for this.
(f)	Letter of the Management Services no. DMS/1741 of 16 May 2017	The post of Chief Executive Officer of the company is currently a contract recruitment position and it has not been decided to recruit on a permanent basis. The scheme of recruitment for this post had not been approved and the salary and allowances were approved by the Management Services Department and Cabinet decisions on several occasions. The company had not taken action to obtain approval for a specific salary based on the duties and job description of the position. contrary to the circular, board of directors of the company had approved various salaries and allowances and accordingly, the salaries and allowances paid in the years 2019,2020 and 2021 without formal approval amounted to Rs.6,546,667.

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

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

- (a) Although an annual procurement plan should be prepared as per the National Budget Circular No. 128 dated 24 March 2006, an annual procurement plan had not been prepared by the company.
- (b) According to paragraph 4.2.1 (b) of the procurement guidelines, a master procurement plan should be prepared for the expected procurement activities for a period of at least 3 years, but the company had prepared the procurement plan for only one year. Further, no procurement schedule was prepared as per 4.2.2 of Procurement Guidelines.
- (c) The company had not prepared and approved a total cost estimate as per procurement guidelines 4.3.1 and 4.3.2.
- (d) The departmental procurement committees had been appointed by the secretary to the ministry and the related technical evaluation committee should be appointed by the head of the department according to procurement guidelines 2.8.3, but on the contrary it had been appointed by the chief executive officer and deputy general manager (procurement).

- (e) Preparation of draft bid documents including relevant specifications, review and approval of those documents had not been done by the technical evaluation committee as per procurement guidelines 2.3.2 (c). The technical evaluation committee had not followed the guidelines 2.6.1 (a) and (c) of the Procurement Guidelines. Although the tasks to be done jointly by the procurement committee and technical evaluation committee were mentioned in the procurement guidelines 2.11.1, they had not taken action accordingly.
- (f) Although according to Section 1.3.2 of the Government Procurement Guidelines 2006, all procurements should be operated as per procurement guidelines regardless of the source of funding, procurement process for purchase of the company's fixed assets had been awarded to the CWE Construction Ltd, a subsidiary company of the Cooperative Wholesale Corporation. An administration fee of 3 percent of the cost of the item had been paid in addition to the cost of the procurement item provided by that company. In the years 2019 and 2020, the total amount of fixed assets purchased through that company was Rs.283,172,592 and amount of Rs.8,495,178 had been paid as administrative fees. The company had to incur additional costs due to not following the procurement process.
- (g) Rs.1,080,300 had been spent for the purchase of computer equipment and accessories for the Boossa warehouse of Lanka Sathosa Limited in the year 2020, The procurement plan did not include computers and accessories that were not required to be purchased in 2020. These assets were purchased in contrary to the procurement guidelines 2.5.1(b), (c), (d), 4.3.1, 4.3.2, 8.9.1 (b) and 8.12.3.
- (h) A sum of Rs.1,002,000 had been spent for pylon cladding which was purchased for Jaela's new outlet contrary to procurement guidelines 4.2.3, 5.4.1, 5.4.10, 8.9.1, 8.12.2 and outside the procurement plan of the year 2020, and a sum Rs.4,306,855 had been spent on purchase of air conditioners contrary to procurement guidelines 4.2.3, 5.4.10, 7.8 and 8.7.1.

- (i) In the purchase of 100 cash check tables worth Rs.3,952,000, two bidders who had not completed the basic qualifications had been rejected and the procurement committee had decided to award the procurement to one of them without the recommendation of the technical evaluation committee. Accordingly, the procurement committee had awarded the procurement by acting contrary the procurement procedure.
- (j) 6 pallet jack carts had been rented for 2 months only at a rate of Rs.7,500 each without any procurement process in the year 2019 in order to increase the stocks and the sales of the outlets targeting the Sinhala and Hindu New Year festival 2019. Since the price of this equipment was Rs.55,000, stating that the purchase was not economical it had been decided to rent it and agreement had not been entered into with the company. However, 59 equipment had been rented without approval for the operation of 3 warehouses and the amount spent was Rs.9,230,752 as at 25 June 2022. The company had lost the purchase of 165 equipment from the total rental value due to not taking into account the fact of economic recovery.

2.3 Other Matters

- (a) According to the company's building rent guidelines, advance should not be paid for empty land without buildings on the assumption of opening shops in the future, but according to the 29 agreements entered into as at 31 December 2020, an amount of Rs.34,234,996 had been paid for building constructions as 1 ½ years advance money without obtaining an assessment report. Legal action had been taken to recover an amount of Rs.27,435,000 against 18 of the 29 building owners who had not constructed to be suitable for use and handed over to the company. However, from this no amount had been recovered by the date of 15 June 2022.
- (b) An amount of Rs.2,708,780 had been paid as rent deposit without a formal rent agreement for 10 buildings belonging to the government institutions acquired on rent basis. An amount of Rs.81,652,836 had been paid as advance rent for 52 outlets before reaching the agreements and opening the outlets, out of which 17 shops after the date of entering into the agreement and 35 shops after paying the advance money had been opened 4 years delay.

Due to the delay in starting the operations of those outlets, it was observed that the money of the company remained with the external parties for a period of 2 months to 4 years without earning income for the company as at 31 December of the year under review.

- (c) The company had paid Rs.883,683 to the employee in the case filed by the employee considering the transfer as a senior sales assistant in an informal manner and not allowing him to report to the work, as a suspension of service and he was reinstated at the previous workplace without any severance. Accordingly, due to the failure of the company's management decisions to be taken properly, the amount of compensation and legal fees paid by the company to the employee amounting to Rs.1,183,683 should be recovered from the responsible officers, but it was not recovered.
- (d) According to the decision of the case filed by the officer who held the position of Director (Human Resources) in the Labor Court on **15 June 2017** Regarding the dismissal of the said officer on the basis of failure to prove his qualifications, it was decided that the public administration circulars and establishment code are not applicable and the decision of the Board of Directors should be followed. even though, the board of directors did not pay attention before or after this court decision to the legal background required for the company's administrative activities and had not take the necessary action for it. Dismissal of the officer, non-approval of the scheme of recruitment by the board of directors, non-functioning of the interview panel and non-updated personal files were the reasons which affected the judgment against the company and accordingly the sum of compensation and legal fees had to be paid. **Rs.3,302,480** should be recovered from the relevant responsible parties, but it was not recovered.
- (e) 556 posts i.e. an accountant, a driver and 554 sales assistant posts were recruited in excess of the approved staff of the company and no approval was obtained from the

Department of Management Services for that. 4 new positions were created outside of the cadre approved by the Department of Management Services and 10 employees were recruited for those positions. 184 employees for 09 posts had been recruited without approved recruitment procedure from the Department of Management Services.

- (f) Lanka Sathosa Limited operates the liquor outlets belonging to the Cooperative Wholesale Corporation, and for that, the company pays annual royalty fees and an expense for the renewal of the liquor outlets license to the Cooperative Wholesale Corporation without any agreement between the two parties. Action has been taken to obtain the ownership of these licenses since 2016 but have not been taken over by 25 June 2022. An additional expenditure of Rs.11,320,056 had been incurred in the year under review due to this non acquisition.
- (g) An agreement had been entered into with a private company on 16 November 2016 for a contract amount of Rs.152,902,347 to install CCTV camera systems for 317 outlets in the company's outlet network. According to the contract with this company, the warranty period was 2 years and after its completion, necessary steps had not been taken for maintenance work. There was no system for checking and storing the footage of this camera system. 445 outlets were operational but only 313 outlets had installed CCTV camera systems as at 25 June 2022. Since only 70 CCTV camera system were operated as at 18 April 2022, the objectives of installing the CCTV camera system had not been met.
- (h) The Ministry of Finance had compensated the company for the loss calculated on the cost of Rs.705,620,093 due to the price reduction for the two food items, salmon and dhals, between 18 March 2020 and 29 April 2020 in order to provide relief to the consumers according to the decisions of the Cabinet. The cost between the purchase price and the company was Rs.71,987,819, of which Rs.42,000,000 was approved by the Cabinet decision No.21/0563/313/016 and dated 20 April 2021. The company had requested the Ministry of Finance to reimburse this

amount, but it had not been received by 27 June 2022. Accordingly, the total amount of Rs.71,987,819 was a loss incurred by the company.

- (i) The tax on sugar existed until then had been reduced to 25 cents from 14 October 2020 by the special gazette No. 2197/12 dated 13 October 2020 and a control price on sugar had been introduced by the special gazette No. 2201/8 dated 10 November 2020. After deducting the tax and fixing the control price, the company's purchase price was Rs.80 and the selling price was Rs.85. The stock of sugar held on 14 October 2020 by the company was 919,409 kg and the loss of Rs.37,159,974 calculated on that was compensated by the Ministry of Finance. Although the tax was reduced to 25 cents, the company had procured and purchased at a price higher than Rs.80, so the loss incurred by the company was Rs.42,814,915 as on 08 February 2021, the day when the control price was removed.

W.P.C. Wickramaratne

Auditor General

LANKA SATHOSA LIMITED

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
Revenue	3	35,578,943,527	25,964,875,523
Cost of Sales	4	(31,805,975,758)	(23,158,832,176)
Gross Profit		3,772,967,769	2,806,043,347
		10.6%	10.8%
Other Income	5	1,140,042,845	1,041,730,971
Selling and Distribution Expenses	6	(3,925,306,121)	(3,664,427,468)
Administrative Expenses	7	(1,951,097,044)	(1,963,584,517)
Provisions for Impairment	8	-	(14,326,960)
Profit /(Loss) from Operation Activities (EBIT)		(963,392,551)	(1,794,564,627)
Interest Expenses	9	(503,834,144)	(1,464,871,479)
Interest Income	9	79,560,052	100,892,068
Profit /(Loss) before Taxation		(1,387,666,643)	(3,158,544,037)
Income Tax Expense	10	-	-
Profit /(Loss) for the Year (EAIT)		(1,387,666,643)	(3,158,544,037)
Other Comprehensive Income / (Expense)			
<i>Other Comprehensive Income / (Expense) not to be reclassified to Statement of Profit or Loss</i>			
Actuarial Gain / (Loss) on Retirement Benefits Obligation		11,572,109	16,616,863
Revaluation Gain		-	558,873,306
Total Other Comprehensive Income /(Expense) for the Year		(1,376,094,534)	(2,583,053,869)
Basic Earnings / (Loss) Per Share (Rs.)	11	(15.53)	(35.34)

LANKA SATHOSA LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	12	1,676,338,650	2,057,236,075
Intangible Assets	13	58,881,068	72,545,631
Total Non-Current Assets		1,735,219,718	2,129,781,707
Current Assets			
Inventories	15	4,895,831,936	4,050,649,263
Trade and Other Receivables	16	1,012,584,149	537,164,158
Deposit and Advances	17	152,079,103	173,603,934
Consumable Stocks	18	31,568,739	-
Pre-Paid Expenses and Statutory Receivables	19	21,366,644	14,046,701
Cash and Cash Equivalents	20	1,815,243,162	1,108,284,651
Total Current Assets		7,928,673,733	5,883,748,706
TOTAL ASSETS		9,663,893,451	8,013,530,412
EQUITY AND LIABILITIES			
Equity			
Stated Capital	21	893,752,720	893,752,720
Equity Infusion		1,147,872,853	-
Retained Earnings (at Debit)		(19,005,490,370)	(17,884,556,953)
Revaluation Reserve		558,873,306	558,873,306
Total Equity		(16,404,991,491)	(16,431,930,928)
Non-Current Liabilities			
Retirement Benefits Obligation	23	260,031,442	228,465,814
Government Grants - (Non-Current Portion)	24	424,235,801	719,127,194
Interest bearing Loans and Borrowings	22	12,276,404,557	12,114,676,154
Total Non-Current Liabilities		12,960,671,801	13,062,269,162
Current Liabilities			
Trade and Other Payables	25	9,510,272,025	7,395,365,736
Government Grants - (Current Portion)	24	223,349,977	370,911,417
Interest bearing Loans and Borrowings	22	2,176,928,452	2,363,854,589
Statutory Payables	26	210,907,488	414,905,212
Bank Overdrafts	20	986,755,198	838,155,222
Total Current Liabilities		13,108,213,141	11,383,192,177
TOTAL EQUITY AND LIABILITIES		9,663,893,451	8,013,530,412

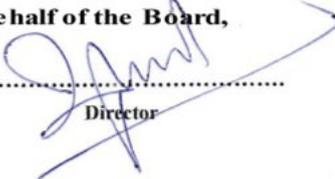
I certify that these Financial Statements of the Company comply with the requirements of the Companies Act No. 07 of 2007.


.....
Acting Deputy General Manager - Finance

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


.....
Director
23rd February 2022
Colombo,

Approved and Signed for and on behalf of the Board,


.....
Director

LANKA SATHOSA LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Stated Capital	Revaluation Reserve	Equity Infusion	Retained Earnings (at Debit)	Total
Balance as at 01st January 2019	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 / (Expense)	-	-	-	16,616,863	16,616,863
Revaluation Gain	-	558,873,306	-	-	558,873,306
Balance as at 31st December 2019	893,752,720	558,873,306	-	(17,884,556,953)	(16,431,930,928)
Profit /(Loss) for the year	-	-	-	(1,387,666,643)	(1,387,666,643)
Prior Year Adjustment (NBT Waived Off)	-	-	-	168,141,945	168,141,945
Prior Year Adjustment (VAT Amended)	-	-	-	87,019,172	87,019,172
Equity Infusion	-	-	1,147,872,853	-	1,147,872,853
Other Comprehensive Income / (Expense)	-	-	-	11,572,109	11,572,109
Revaluation Gain	-	-	-	-	-
Balance as at 31st December 2020	893,752,720	558,873,306	1,147,872,853	(19,005,490,370)	(16,404,991,491)

LANKA SATHOSA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	2020	2019
Cash Flows from Operating Activities		
Profit /(Loss) for the Year (EAIT)	(1,387,666,643)	(3,158,544,037)
<i>Adjustments for;</i>		
Depreciation	438,022,943	449,521,657
Amortization of Intangible Assets	24,282,409	23,771,221
Amortization of Government Grant	(407,493,066)	(560,669,096)
Prior Year Adjustment	255,161,117	-
Provision for Gratuity	54,987,411	54,336,765
Interest Income	(79,560,052)	(100,892,068)
Interest Expenses	503,834,144	1,464,871,479
Operating Loss Before Changes in Working Capital	(598,431,737)	(1,827,604,080)
Changes in Working Capital		
Inventories	(845,182,674)	412,026,684
Trade and Other Receivables	(475,419,991)	118,942,571
Deposit and Advances	21,524,830	115,911,807
Consumable Stocks	(31,568,739)	-
Statutory Receivables	(7,319,943)	(7,666,417)
Trade and Other Payables	2,114,906,288	341,274,845
Statutory Payable	(203,997,724)	212,574,210
Cash used in Operations	(25,489,689)	(634,540,379)
Gratuity Paid	(11,849,674)	(8,283,358)
Interest Paid	(438,539,397)	(1,464,871,479)
Net Cash used in Operating Activities	(475,878,760)	(2,107,695,216)
Cash Flows from Investing Activities		
Acquisition of Property, Plant and Equipment / Incurred on CWIP	(57,125,518)	(254,114,938)
Acquisition of Intangible Assets	(10,617,845)	(90,702,846)
Interest Received	79,560,052	100,892,068
Net Cash Flow from / (used in) Investing Activities	11,816,689	(243,925,716)
Cash Flows from Financing Activities		
Repayment of Loans	(90,492,480)	2,077,007,417
Equity Infusion	1,147,872,853	-
Government Grant Received	(34,959,767)	238,987,540
Net Cash Flow from Financing Activities	1,022,420,606	2,315,994,957
Net Changes in Cash and Cash Equivalents During the Period	558,358,534	(35,625,973)
Cash and Cash Equivalents at Beginning of the Period	270,129,429	305,755,402
Cash and Cash Equivalents at End of the Period (Note 20)	828,487,963	270,129,429

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

1. CORPORATE INFORMATION

1.1. General Information

Lanka Sathosa Limited is a state owned largest retail network business in Sri Lanka which 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, the principal activities of the Company were the distribution of fast moving consumable items and general merchandise through a chain of show rooms.

1.3. Number of Employees

The staff strength of the Company as at 31 December 2020 is 3,568.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Financial Statements of the Lanka Sathosa Limited have been prepared in accordance with Sri Lanka Accounting standards comprising SLFRS and LKAS (hereafter “SLFRS”), 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 valued by actuarial valuation method. The preparation and presentation of these Financial Statements is in compliance with the Companies Act No. 07 of 2007.

Financial Statements have been prepared on a historical cost basis, except for Financial Assets at Fair Value through Profit or Loss, Financial Assets at Fair Value through Other Comprehensive Income (FVOCI), Derivative Financial Instruments at fair value, Defined Benefit Obligations actuarially. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.1.1. Comparative information

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020**2.1.2. Date of Authorization for issue**

The Financial Statements of Lanka Sathosa Limited for the year ended 31 December 2020 was authorized for issue in accordance with a resolution of the Board of Directors on 23rd February 2022.

2.2. Significant Accounting Judgments Estimates and Assumptions

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

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

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

2.2.1. Going Concern

The company has incurred a net Loss of Rs. 1,387,666,642/- during the year under review, the accumulated losses amounting to Rs. 19,005,490,370/- and, company's current liabilities has exceeded its current assets by Rs. 5,179,539,408 /- .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.

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:

- 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised 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 recognised in the profit or loss as incurred

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

An item of property, plant and equipment is derecognised 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful economic lives at the rates as specified below;

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

d) De-recognition

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

2.2.8. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

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 amortised 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 amortised 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 amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

b) Subsequent measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020**c) Derecognition**

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

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

Or

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

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

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

d) Impairment

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

Financial liabilities**a) Initial recognition and measurement**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020**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 amortised cost (loans and borrowings)

c) Derecognition

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

Offsetting of financial instruments

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

2.2.12. 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 recognised 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 recognised as an expense under 'Personnel Expenses'.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020**b) Defined Benefit Plan Costs**

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

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 recognised 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 Note 28 to the Financial Statements.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

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 recognised directly in equity is recognised 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 recognised directly in equity is recognised in equity and not in the income statement.

c) Sales Tax

Revenues, expenses and assets are recognised 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020**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 202. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
3 Revenue			
3.1 Revenue in the Automated Outlets			
Grocery Products		4,704,640,366	3,248,671,505
Provision Products		7,409,631,677	4,696,093,981
Liquor		2,302,462,585	2,219,292,568
Promotional Items		386,359,814	442,539,029
Household		568,149,476	402,019,812
Stationery		3,254,287	3,765,184
		15,374,498,206	11,012,382,080
3.2 Revenue in the Manual Outlets	3.2.1	20,309,963,965	15,073,176,416
Gross Revenue		35,684,462,170	26,085,558,496
(Less) Sales Discount		(105,518,644)	(24,049,155)
NBT		-	(96,633,818)
		35,578,943,527	25,964,875,523

3.2.1 The revenue in manual outlets could not be categorized in terms of the items of goods sold. Nevertheless, the entire stream of receipts for goods sold, comprise of cash sales, card sales, gift voucher sales and credit sales have been recognized.

4 Cost of Sales

Opening Inventories		4,050,649,263	4,462,675,947
Purchases during the year		32,910,063,123	23,054,637,478
		36,960,712,386	27,517,313,425
Purchases Return		(304,592,689)	(501,112,131)
Closing Inventories	4.1	(4,895,831,936)	(4,050,649,263)
		31,760,287,760	22,965,552,031
Stock Losses	4.2	45,687,998	193,280,144
		31,805,975,758	23,158,832,176

4.1 Closing Inventories

The physical inventory balance of manual outlets have been originally verified at sales price and adjusted to arrive at the cost values by removing derived weighted average profit margins from automated outlets

4.2 Stock Shortages and Other Stock Variances

Stocks Shortages -Manual & Automated Outlet / Warehouse		52,962,079	193,280,144
Recovered from Employees		(4,618,885)	-
Recovered from Insurance		(2,655,196)	-
		45,687,998	193,280,144

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Sri Lankan Rupees)

FOR THE YEAR ENDED 31ST DECEMBER 2020

	Note	2020	2019
5 Other Income			
Gondola Income		91,195,191	123,788,756
Promotional Income		193,981,801	84,447,127
Commission Income		1,839,932	2,315,256
Sundry Income		27,640,211	13,571,314
Transport Income		351,343,923	179,172,495
Registration and Listing Income		40,783,210	9,432,666
Rent Income		4,978,288	4,171,500
Creditor Write Back		562,158	25,140,468
Penalty Income		2,923,020	11,805,315
Joint Business Plan Income		-	4,830,000
Amortisation of Deferred Income - Capital Grant		407,493,066	560,669,096
Recoveries		17,302,046	22,386,977
		1,140,042,845	1,041,730,971
6 Selling and Distribution Expenses			
Salaries		1,099,156,447	1,003,158,539
COL and Other Allowances		371,130,395	326,178,976
Employees Provident Fund		169,802,135	159,013,942
Employees Trust Fund		42,453,072	39,735,661
Overtime		247,578,441	277,940,786
Risk Allowances-COVID 19		139,553,028	-
Advertising Expenses		96,690,857	28,441,472
Bonus		73,581,726	74,698,075
Consumable Store Charges		16,143,447	20,428,763
Grocery Bags		225,791,373	273,254,936
Packing Charges		274,164	4,759,495
Printing Expenses		47,579,274	42,287,675
Rent		698,380,388	722,120,413
Sales Discount -Gift Voucher		595,070	488,850
Security Charges		210,654,902	243,947,610
Transport Charges		442,933,767	426,332,782
Promotional Expenses		21,160,463	2,726,654
Trade License Fees		19,219,677	18,912,840
Special Operational Expenses		2,627,497	-
		3,925,306,121	3,664,427,468

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
7 Administrative Expenses			
Salaries - Managerial, Executive and Clerical		137,177,018	196,896,513
COL and Other Allowances		57,472,560	67,458,356
Employees Provident Fund		19,435,132	25,976,042
Employees Trust Fund		4,862,028	6,495,010
Overtime		13,206,230	7,950,746
Risk Allowances-COVID 19		4,247,685	-
Director Fees		910,000	552,000
Annual Leave Payment		67,337,228	58,032,604
Audit Fees and Expenses		748,494	2,000,000
Repair and Maintenance		83,230,486	77,139,587
Stock Verification Charges		4,049,691	5,311,251
Casual Wages		279,105,219	212,382,220
Courier Charges		4,137,375	4,188,758
Depreciation		479,399,081	449,521,657
Amortization of Intangible Assets		24,282,409	23,771,221
Gratuity		54,987,411	54,336,765
Donations		328,100	1,308,726
Electricity		250,938,210	251,120,307
Fine and Surcharges		747,696	631,342
Pest Control		5,279,258	4,661,940
Service Agreement Fees- AMC		25,236,959	23,679,067
Fuel Charges		10,844,713	13,640,838
Subscription		476,001	273,610
Insurance		35,874,840	36,227,456
Royalty Fees for CWE (Liquor License)		11,320,056	11,320,056
Water Expenses		11,355,665	10,362,053
Legal Fees		2,738,570	2,831,837
Rates and Taxes		991,350	3,051,381
Postage and Stamp Fees		3,162,955	1,921,893
Secretarial Fees		486,550	229,050
Staff Training		513,857	312,630
Professional Fees		13,832,218	67,304,274
Stationeries		17,342,792	17,512,635
Telephone and Internet		90,171,440	84,012,892
Travelling & Subsistence		99,628,509	21,482,598
Unclaimable VAT		25,198,901	133,457,747
Staff Welfare		33,063,736	29,878,512
Vehical Rental		12,441,992	13,424,151
Labour Compensation		3,954,930	-
Bank Charges and Commissions		58,114,275	40,602,087
Miscellaneous		2,465,425	2,324,704
		1,951,097,044	1,963,584,517

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	2020	2019
8 Provisions for Impairment		
For Under Remittance	-	14,326,960
	<u>-</u>	<u>14,326,960</u>
9 Net Finance Cost		
Interest Expenses		
Interest on People's Bank Loan	139,153,137	167,905,661
Interest on BOC Loan	550,686,990	992,902,924
(-) Government Grant Received	(615,981,736)	-
Interest on WCL	307,024,917	243,291,502
Overdraft Interest	122,950,837	60,771,393
	<u>503,834,144</u>	<u>1,464,871,479</u>
Interest Income		
Interest on Fixed Deposits and Savings	(79,560,052)	(100,892,068)
	<u>(79,560,052)</u>	<u>(100,892,068)</u>
	<u>424,274,092</u>	<u>1,363,979,411</u>

10 Income Tax Expense

The major components of income tax expenses for the years ended 31st December are as follow

Current Income Tax	10.1	-	-
Deferred Income Tax		-	-
		<u>-</u>	<u>-</u>

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

Net profit / (loss) as per financial statements	(1,387,666,643)	(3,158,544,037)
Add: Disallowable Expenses	587,682,169	641,643,350
Less: Allowable Expenses	(402,945,192)	(395,579,058)
	<u>(1,202,929,666)</u>	<u>(2,912,479,745)</u>
Business income / (loss) for the year		
Less - Brought forward tax loss	-	-
Business Income	<u>-</u>	<u>-</u>
Statutory Tax Rate	28%	28%
Current Income Tax Expenses	<u>-</u>	<u>-</u>

11 Basic Earnings / (Loss) Per Share (Rs.)

Amount used as the Numerator

Attributable to Equity Holders (Rs.)	(1,387,666,643)	(3,158,544,037)
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Number of Ordinary Shares used as the Denominator

Weighted Average number of Shares in Issue (Nos)	89,375,272	89,375,272
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Basic Earnings / (Loss) Per Share (Rs.)	<u>(15.53)</u>	<u>(35.34)</u>
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Basic Earnings / (Loss) per share is calculated by dividing the profit / (Loss) attributable to the equity holders by the weighted average number of ordinary shares in issue during the reporting period.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

12 PROPERTY, PLANT AND EQUIPMENT

12.1 Gross Carrying Amount	Balance					Balance As At 31.12.2020
	As At 01.01.2020	Additions	Transfer from/To	Transfer to IA	Disposals	
At Cost						
Buildings	452,694,217	6,899,593	-	-	-	459,593,809
Name Board and Fittings	178,033,312	6,011,280	-	-	-	184,044,592
Computers Equipment	234,323,586	24,433,307	-	-	(276,950)	258,479,943
Computer Software	260,461,399	9,198,000	(6,596,500)	(995,000)	(1,795,000)	260,272,899
Equipment	1,743,678,734	55,693,663	6,595,000	-	(4,023,863)	1,801,943,534
Office Equipment	352,379,031	80,290	-	-	-	352,459,321
Furniture and Fittings	274,983,178	3,286,462	-	-	(8,626)	278,261,014
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
	3,541,816,341	105,602,595	(1,500)	(995,000)	(6,104,439)	3,640,317,997
In the Course of Construction						
Capital Work-in-Progress 12.1.1	-	(0)	-	-	-	(0)
	-	(0)	-	-	-	(0)
Total Gross Carrying Amount	3,541,816,341	105,602,595	(1,500)	(995,000)	(6,104,439)	3,640,317,997

12.1.1 Capital Work-in-Progress

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

12.2 Depreciation

Balance As At 01.01.2020	Charge for the Year	Transfer from	Transfer to IA	Disposals	Balance As At 31.12.2020	
Buildings	127,322,833	23,333,723	-	-	-	150,656,556
Name Board and Fittings	51,002,875	30,949,576	-	-	-	81,952,452
Computers Equipment	183,465,734	27,484,330	-	-	-	210,950,064
Computer Software	58,324,343	57,315,904	-	-	-	115,640,247
Equipment	410,160,663	329,771,988	-	-	-	739,932,651
Office Equipment	352,224,192	47,957	-	-	-	352,272,148
Furniture and Fittings	256,816,741	10,495,602	-	-	-	267,312,343
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	1,484,580,266	479,399,081	-	-	-	1,963,979,347

12.3 Net Book Values

	Balance As At 31.12.2020	Balance As At 31.12.2019
Buildings	308,937,254	325,371,383
Name Board and Fittings	102,092,140	127,030,436
Computers Equipment	47,529,879	50,857,853
Computer Software	144,632,652	202,137,056
Equipment	1,062,010,882	1,333,518,072
Office Equipment	187,172	154,839
Furniture and Fittings	10,948,671	18,166,437
Motor Vehicles	-	-
Communication Equipment	-	-
Assets of CWE	-	-
	1,676,338,650	2,057,236,075

In the Course of Construction

Capital Work-in-Progress	-	-
	-	-
Total Carrying Amount of Property, Plant and Equipment	1,676,338,650	2,057,236,075

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
13 Intangible Assets			
Computer Software			
<i>Cost</i>			
Balance as at		139,485,981	48,783,135
Transfers from CWIP		-	40,602,846
Additions During the Year		10,617,845	50,099,999
Balance as at		150,103,826	139,485,981
<i>Amortization</i>			
Balance as at		66,940,349	43,169,129
Charge for the Year		24,282,409	23,771,221
Balance as at		91,222,758	66,940,349
Net Carrying Value		58,881,068	72,545,631
14 Deferred Tax Assets / Liability			
Since the company is generating continues losses, no deferred tax assets have been recognized.			
15 Inventories			
Trading Stocks (Provisional Items)		832,893,807	859,525,910
Trading Stocks (Grocery Items)		3,923,410,799	3,047,217,017
Trading Stocks (Liquor)		139,527,330	143,906,335
		4,895,831,936	4,050,649,263
16 Trade and Other Receivables			
Trade Receivables	16.1	816,312,796	325,100,176
Amounts Due from Related Parties	16.2	-	-
Other Receivables	16.3	196,271,353	212,063,981
		1,012,584,149	537,164,158

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
16.1 Trade Receivables			
Card Control		7,629,228	16,826,673
Trade Receivables		781,480,263	245,842,904
Unsettled Fund		(44,901,340)	-
Provision for Impairment		(62,959,958)	(62,959,958)
		681,248,192	199,709,618
Accounts Receivable		135,156,604	125,482,558
Provision for Impairment		(92,000)	(92,000)
		816,312,796	325,100,176
16.2 Amounts Due from Related Parties			
Co-operative Wholesale Establishment		10,083,353	10,083,353
Provision for Impairment		(10,083,353)	(10,083,353)
		-	-
16.3 Other Receivables			
Receivable From Ministry		98,431,962	214,333,982
Provision for Impairment		(2,270,000)	(2,270,000)
		96,161,962	212,063,982
Receivable From Treasury		99,592,140	-
Sports Ministry		36,453,533	36,453,533
Provision for Impairment		(36,453,533)	(36,453,533)
		195,754,101	212,063,981
Cheques Control		517,252	-
		196,271,353	212,063,981
17 Deposits and Advances			
Rent Advance		88,050,146	138,241,607
Rent Deposit		16,867,420	5,532,120
Rent Prepaid		154,726	154,725
Rent Recoverable		-	-
Festival Advance	17.1	5,202,937	5,355,312
Import Clearing Advances - Liverpool Navigation	19.2	-	-
Advances- Other		38,273,761	3,761,308
Refundable Deposit Receivable		1,996,544	1,754,044
NTB Utility Card Control		1,274,047	-
Travelling Advance		259,523	923,658
Big Onion Control	19.3	-	-
Under Remittance	19.4	-	17,881,160
Refundable Deposit - Container	19.5	-	-
		152,079,103	173,603,934
17.1 Festival Advance			
Advances to Staff		5,648,937	5,801,312
Provision for Impairment		(446,000)	(446,000)
		5,202,937	5,355,312

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
17.2 Import Clearing Advances - Liverpool Navigation			
Import Clearing Advances		267,600,500	267,600,500
Provision for impairment		(267,600,500)	(267,600,500)
		-	-
17.2.1 Above amount represents the amount paid to Liverpool Navigation in the year 2015 and 2016 for clearance of Imported Rice			
17.3 Big Onion Control			
Big Onion Control		137,826,385	137,826,385
Provision for Impairment		(137,826,385)	(137,826,385)
		-	-
17.3.1 The remaining balance of Big Onion Intermediate Account of Rs. 137,826,385/- is the difference between the total amount paid to purchase of big onion to the local farmers and the stock received to the company (the GRN's value). Further, a provision for impairment has been made on the entire amount since, recovery of the amount subsequently proved to be remote. However, this project is under investigation.			
17.4 Under Remittance			
Under Remittance		56,762,337	74,643,497
Provision for Impairment		(56,762,337)	(56,762,337)
		-	17,881,160
17.4.1 The above represent the amount spent out of the sales collection by the Manual outlets.			
17.5 Refundable Deposit - Container			
Refundable Deposit - Container		19,507,254	19,507,254
Provision for Impairment		(19,507,254)	(19,507,254)
		-	-
18 Consumable Stocks			
Grocery Bags		8,521,175	-
Thermal Papers		741,775	-
Stationeries		5,705,458	-
Printer Toners		12,928,783	-
Printed Documents		3,671,548	-
		31,568,739	-
19 Pre-Paid Expenses and Statutory Receivables			
Pre-Paid Expenses	19.1	16,677,266	9,357,323
Statutory Receivables	19.2	4,689,377	4,689,377
		21,366,644	14,046,701
19.1 Pre - Paid Expenses			
Insurance		7,112,716	7,634,559
Liquor Licenses		5,042,501	-
Other Pre-Paid Expenses		4,522,050	1,722,764
		16,677,266	9,357,323
19.2 Statutory Receivables			
Income Taxes		10,927,534	10,927,534
Withholding Tax (Opening)		6,694,788	6,694,788
Provision for write off		(12,932,944)	(12,932,944)
		4,689,377	4,689,377

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
20 CASH AND CASH EQUIVALENTS			
Components of Cash and Cash Equivalents			
20.1 Favourable Cash and Cash Equivalent Balance			
Short-Term Investment in REPO's	20.1.1	-	-
Cash at Bank	20.1.2	820,008,183	42,357,184
Cash in Hand	20.1.3	130,812,474	189,745,214
Short Term Deposit		864,422,505	876,182,253
		1,815,243,162	1,108,284,651
20.1.1 Short-Term Investment in REPO's			
This investment included cash balances which invested as REPO's by Lanka Sathosa Limited on every day from excess cash from account no - 004-1-004-6-1991855			
20.1.2 Cash at Bank			
People's Bank			
Savings Account - 004-2-002-6-1991855		5,377,093	7,183,743
Master Card Account - 004-1-001-1-0000044		8,327,062	58,600
Petty Cash Account - 004-1-003-7-1991855		1,973,791	-
Liquor Account - 004-1-002-8-1991855		-	10,782,285
Main Current Account - 004-1-001-9-1991855		728,942,660	-
Trading Account - 004-1-004-6-1991855		71,032,091	7,919,016
Mobitel Account - 004-2-006-4-1991855		379,793	353,198
Dialog Account - 004-2-005-5-1991855		25,405	29,505
Bank of Ceylon			
Current Account 76587128		1,463,134	1,103,894
Nations Trust Bank			
Card Account- 100060011036		910	14,926,942
Commercial Bank			
Card Account- 1480045950		2,486,244	-
		820,008,183	42,357,184
20.1.3 Cash in Hand			
Floating Cash		3,445,755	3,540,755
Special Petty Cash		2,040,346	4,200,331
Petty Cash Float		7,267,052	6,917,559
Outlet Cash Control	20.1.3.1	118,059,321	175,086,569
		130,812,474	189,745,214
20.1.3.1 Outlet Cash Control			
This balance represents the undeposited cash collection by the individual outlets at the year end.			
20.2 Unfavourable Cash and Cash Equivalent Balance			
20.2.1 Bank Overdrafts			
People's Bank			
Petty Cash Account - 004-1-003-7-1991855		-	1,884,406
Liquor Account - 004-1-002-8-1991855		4,462,386	-
Provision Account - 004-2-007-3-1991855		982,292,813	12,172,649
Main Current Account - 004-1-001-9-1991855		-	824,098,167
		(986,755,198)	(838,155,222)
Cash and Cash Equivalents for the Purpose of Statement of Cash Flows		828,487,963	270,129,429

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
21 STATED CAPITAL			
Fully Paid Ordinary Shares			
	Number		
Fully Paid Ordinary Shares	89,375,272	893,752,720	893,752,720
		893,752,720	893,752,720
22 INTEREST-BEARING LOANS AND BORROWINGS			
22.1 Current interest-bearing Loans and Borrowings			
Import Loan	22.2.1	1,574,659,843	1,763,854,589
Working Capital Loan	22.2.2	600,000,000	600,000,000
		2,174,659,843	2,363,854,589
22.2 Non-Current interest-bearing Loans and Borrowings			
Import Loan	22.2.1	10,330,657,890	9,714,676,154
Working Capital Loan	22.2.2	1,945,746,667	2,400,000,000
		12,276,404,557	12,114,676,154
22.2.1 Import Loan			
Import Loan-BOC			
Balance as at		10,239,728,531	9,246,825,607
Loans Obtained During the Year			
Interest Accrued		550,686,990	992,902,924
<u>Repayments During the Year</u>			
Repayment-Grant		(550,686,990)	-
Repayment-Equity Infusion		(1,023,972,853)	-
Not paid during the year		1,574,659,843	-
Balance as at		10,790,415,521	10,239,728,531
Import Loan-People's Bank			
Balance as at		1,238,802,212	1,238,802,212
Loans Obtained During the Year		-	-
Interest Accrued		65,294,747	-
<u>Repayments During the Year</u>			
Repayment-Grant		(65,294,747)	-
Repayment-Equity Infusion		(123,900,000)	-
Balance as at		1,114,902,212	1,238,802,212
Total		11,905,317,733	11,478,530,743
22.2.2 Working Capital Loan			
Balance as at		3,000,000,000	1,915,895,507
Loans Obtained During the Year		-	3,000,000,000
Interest Accrued		-	-
Repayments - Interest		-	(14,895,507)
Repayments -Capital		(454,253,333)	(1,901,000,000)
Balance as at		2,545,746,667	3,000,000,000

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31st DECEMBER 2020

(Expressed in Sri Lankan Rupees)

	Note	2020	2019
23 POST-EMPLOYMENT BENEFIT LIABILITIES			
23.1 Benefits Obligation-Gratuity			
Balance as at		228,465,814	199,029,270
Expenses Recognised in Profit or Loss	23.2	54,987,411	54,336,765
Actuarial (Gain) / Losses Recognised in Other Comprehensive Income		(11,572,109)	(16,616,863)
Payments Made During The Year		(11,849,674)	(8,283,358)
Balance as at		260,031,442	228,465,814
23.2 Expenses Recognised in Profit or Loss			
Current Service Cost		30,998,500	30,453,252
Interest Charge for the Year		23,988,911	23,883,513
		54,987,411	54,336,765

23.2 Actuarial valuation of the defined benefit plan (Gratuity) was carried out on 31 December 2020 by Messrs. Actuarial & Management Consultant (Pvt) Ltd, Actuaries. Appropriate and compatible assumptions were used in determining the cost of retirement benefits.

23.3 Principal Actuarial Assumptions

The principal assumptions used are as follows;

a) Demographic Assumptions	2020	2019
Retirement Age :	60 Years	60 Years
Staff Turnover - up to age 54	5.6%	6%
b) Financial Assumptions		
Salary Increment Rate	5%	5%
Rate of Discount	7.6%	12%

23.4 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 2020. 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 2020	Effect on Total Comprehensive Income - (Reduction)/ Increase in Results 2019
+1% Change in Discount Rate	241,954,298	212,708,793
-1% Change in Discount Rate	280,811,591	246,575,285

24 Government Grants

	Development and Implementation of ERP System	Outlet Expansion and Refurbishments of Existing Outlets	Installation of CCTV System	Installation of Air Conditioners	Installation of Point of Sales System	Other Projects	Total
Balance as at 01 January 2019	39,635,157	938,807,657	103,449,238	102,333,480	93,753,856	133,740,780	1,411,720,167
Addition 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 Period	-	(330,099,329)	(26,675,964)	(23,731,604)	(32,333,848)	(147,828,350)	(560,669,096)
Balance as at 31 December 2019	39,635,157	823,902,227	83,883,438	48,696,985	77,363,829	16,556,976	1,090,038,611
Non Current Portion	39,635,157	540,775,091	57,207,473	24,911,122	44,371,979	12,226,373	719,127,194
Current Portion	-	283,127,136	26,675,964	23,785,864	32,991,850	4,330,603	370,911,417
39,635,157	823,902,227	83,883,438	48,696,985	77,363,829	16,556,976	1,090,038,611	
Balance as at 01 January 2020	39,635,157	823,902,227	83,883,438	48,696,985	77,363,829	16,556,976	1,090,038,611
Addition during the year	-	-	-	-	-	-	-
Non receivable from Ministry	-	(34,959,767)	-	-	-	-	(34,959,767)
Amortization for the Period	(19,817,578)	(296,458,549)	(28,660,422)	(23,785,864)	(34,440,050)	(4,330,603)	(407,493,066)
Balance as at 31 December 2020	19,817,578	492,483,911	55,223,016	24,911,122	42,923,779	12,226,373	647,585,779
Non Current Portion	9,908,789	325,039,381	36,447,190	16,441,340	28,329,694	8,069,406	424,235,801
Current Portion	9,908,789	167,444,530	18,775,825	8,469,781	14,594,085	4,156,967	223,349,977
19,817,578	492,483,911	55,223,016	24,911,122	42,923,779	12,226,373	647,585,779	

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31st DECEMBER 2020

(All Amounts Are In Sri Lanka Rupees)

	Note	2020	2019
25 TRADE AND OTHER PAYABLES			
Trade Payables			
Related Party	25.1	1,954,829,253	2,215,590,994
Others		7,275,233,342	4,904,750,319
Other Payables	25.2	62,549,724	91,385,707
Accrued Expenses	25.3	217,659,705	183,638,716
		9,510,272,025	7,395,365,736
25.1 Amount Due to Related Parties - Trade			
Name of the Company	Relationship		
Co-operative Wholesale Establishment (CWI)	Related Company	1,924,384,456	2,131,314,280
CWE Economic Center Services (Pvt) Ltd	Related Company	3,401,350	46,794,127
CWE Construction and Engineering (Pvt) Ltc	Related Company	27,043,446	37,001,868
CWE Milco Agent (Pvt) Ltd	Related Company	-	480,719
		1,954,829,253	2,215,590,994
25.2 Other Payables			
Employee Security Deposits		11,659,250	11,714,250
Retention Money		28,477,282	31,580,148
Refundable Deposit Payable		2,943,000	2,320,300
Gift Voucher Control		7,196,934	33,404,837
Printing Expense Payable		1,832,501	1,925,415
Lanka Sathosa Welfare Society		-	-
Transport Charge Payable		10,440,757	10,440,757
		62,549,724	91,385,707
25.3 Accrued Expenses			
Salaries Payable		162,211	941,840
EPF Payable		29,461,063	37,008,772
ETF Payable		4,401,854	5,551,301
PAYE Payable		(0)	179,575
Meal Allowances Payable		-	285,200
Annual Leave Reimbursement Payable		65,834,344	52,343,012
Audit and Tax Fee Expenses		5,800,000	5,740,236
Overtime Payable		36,836,254	25,648,157
Rent Payable		37,903,390	11,781,993
Electricity Payable		13,156,088	-
Telephone Charges Payable		7,002,889	-
Water Charges		433,599	-
Security Charges Payable		15,568,921	-
Accrued Charges		1,095,555	43,864,243
Mobitel Recharge Payable		3,539	294,386
		217,659,705	183,638,716
26 STATUTORY PAYABLES			
Economic Service Charges (ESC)		-	-
Value Added Tax (VAT) Payable		210,907,489	227,138,760
National Building Tax (NBT)		(0)	176,109,696
With Holding Tax (WHT) Payable		(0)	11,656,756
		210,907,488	414,905,212

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

FOR THE YEAR ENDED 31st DECEMBER 2020

(All Amounts Are In Sri Lanka Rupees)

	2020	2019
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27 EARNING PER SHARE

27.1 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.

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

	2020	2019
Amount Used as the Numerator:		
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	<u>(1,387,666,643)</u>	<u>(3,158,544,037)</u>

	2020 Number	2019 Number
Number of Ordinary Shares Used as Denominator:		
Weighted Average Number of Ordinary Shares in Issue	<u>89,375,272</u>	<u>89,375,272</u>

	2020	2019
27.3 Earning Per Share		
Basic Earnings Per Share	<u>(15.53)</u>	<u>(35.34)</u>

28. 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

28.1 At the reporting date, 416 outlets were operated by the company and expanded with 35 new outlets and closed down 05 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 2020

(All Amounts Are In Sri Lanka Rupees)

	2020	2019
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29. ASSETS PLEDGED

The following assets have been pledged as security for liabilities;

Nature of Asset	Nature of Liability	Included under	Carrying amount of the Assets Pledged	
Fixed Deposits	Loan from People's Bank to Import Rice	Cash and Cash Equivalents	864,422,505	876,182,253

30. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows;

30.1 Transaction with the parent and related entities

Name of the Company	Relationship	Nature of Transactions	2020	2019
a) Co-operative Wholesale Establishment	Related Company	<i>Amounts Receivable as at 31 December</i>	-	-
		<i>Amounts Payable as at 31 December</i>	(1,924,384,456)	(2,131,314,280)
		Rent	113,179,566	114,687,278
		Transport	49,121,827	94,144,996
		Royalty Fees	11,320,056	11,320,056
		Electricity & Water	8,322,451	10,079,659
		Packeting & Other	632,022	2,940,875
		Purchases	100,888,027	584,688,306
		Auditorium Charges	-	-
Payments Made	412,304,826	838,072,262		
b) CWE Construction and Engineering (Pvt) Ltd	Related Company	<i>Amounts Receivable as at 31 December</i>	-	-
		<i>Amounts Payable as at 31 December</i>	(3,401,350)	(46,794,127)
		Services received	21,379,901	232,784,440
Payments Made	81,292,896	360,841,337		
c) CWE Economic Centre Services (Pvt) Ltd	Related Company	<i>Amounts Receivable as at 31 December</i>	-	-
		<i>Amounts Payable as at 31 December</i>	(27,043,446)	(37,001,868)
		Services received	194,590,924	265,599,403
Payments Made	188,371,240	250,079,581		
d) CWE Milco Agent Pvt Ltd	Related Company	<i>Amounts Receivable as at 31 December</i>	-	-
		<i>Amounts Payable as at 31 December</i>	-	(480,719)
		Purchase of Goods/Services	-	106
Payments Made	-	64,007		

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.

30.2 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	2020	2019
Short-term Employee Benefits	910,000	552,000

b) Other Transactions with Key Management Personnel

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

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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	2020	2019
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31. 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.

31.1 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 ;

	2020	2019
Trade and Other Receivables	1,012,584,149	537,164,158
Deposit and Advances	152,079,103	173,603,934
Pre-Paid Expenses and Statutory Receivables	21,366,644	14,046,701
Cash and Cash Equivalents	1,815,243,162	1,108,284,651
Total credit risk exposure	3,001,273,057	1,833,099,443

31.1.1 Trade and Other Receivables

	2020	2019
As at 31 December		
Less Than 3 Months	607,550,489	204,616,849
3 to 12 Months	405,033,659	108,347,358
2 to 5	-	224,199,951
More than 5 Years	-	-
	1,012,584,149	537,164,158

31.1.2 Deposit and Advances

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

31.1.3 Pre-Paid Expenses and Statutory Receivables

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

31.1.4 Cash and Cash Equivalents

Lanka Sathosa Limited held cash and cash equivalents of Rs. 1.81 Bn at 31 December 2020 (2019 -1.10 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 (Contd...)
FOR THE YEAR ENDED 31st DECEMBER 2020

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

32.2 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.

32.2 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	2 to 5 Years	Total
As of 31 December 2020					
Trade and Other Payables *	3,804,108,810	951,027,202	951,027,202	3,804,108,810	9,510,272,025
Interest-bearing Borrowings	-	150,000,000	450,000,000	13,853,333,009	14,453,333,009
Bank Overdrafts	986,755,198	-	-	-	986,755,198
	<u>4,790,864,008</u>	<u>1,101,027,202</u>	<u>1,401,027,202</u>	<u>17,657,441,819</u>	<u>24,950,360,232</u>
As of 31 December 2019					
Trade and Other Payables *	2,958,146,295	739,536,574	739,536,574	2,958,146,295	7,395,365,736
Interest-bearing Borrowings	-	150,000,000	450,000,000	13,878,530,743	14,478,530,743
Bank Overdrafts	838,155,222	-	-	-	838,155,222
	<u>3,796,301,516</u>	<u>150,000,000</u>	<u>450,000,000</u>	<u>16,836,677,038</u>	<u>22,712,051,701</u>

* Trade and other payables exclude statutory payables.

32.3 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.

32.3.1 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.

32.3.2 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 LKR	Less than 3 Months LKR	3 to 12 Months LKR	2 to 5 Years LKR	Total LKR
Short term Deposits	-	-	864,422,505	-	864,422,505
	<u>-</u>	<u>-</u>	<u>864,422,505</u>	<u>-</u>	<u>864,422,505</u>
Financial Liabilities	On Demand LKR	Less than 3 Months LKR	3 to 12 Months LKR	2 to 5 Years LKR	Total LKR
Bank Overdarft	986,755,198	-	-	-	986,755,198
Interest-bearing Loans and Borrowing	-	150,000,000	450,000,000	13,878,530,743	14,478,530,743
	<u>986,755,198</u>	<u>150,000,000</u>	<u>450,000,000</u>	<u>13,878,530,743</u>	<u>15,465,285,942</u>

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NOTES TO THE FINANCIAL STATEMENTS (Contd...)
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33. FINANCIAL INSTRUMENTS

33.1 Financial Assets and Liabilities by Categories	2020	2019
Debt instruments at amortised cost		
Trade and Other Receivables	1,012,584,149	537,164,158
Deposit and Advances	152,079,103	173,603,934
Pre-Paid Expenses and Statutory Receivables	21,366,644	14,046,701
Cash and Cash Equivalents	1,815,243,162	1,108,284,651
	3,001,273,057	1,833,099,443
Financial Liabilities by Categories measured at amortised cost		
Trade and Other Payables	9,510,272,025	7,395,365,736
Interest-bearing Loans and Borrowings	14,453,333,009	14,478,530,743
	23,963,605,034	21,873,896,479

34. FAIR VALUE

34.1 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 2020, 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	
		2020 LKR	2019 LKR	2020 LKR	2019 LKR
Financial Assets					
Trade and Other Receivables	A	1,012,584,149	537,164,158	1,012,584,149	537,164,158
Deposit and Advances	A	152,079,103	173,603,934	152,079,103	173,603,934
Short-Term Investment in REPO's	A	-	-	-	-
Short Term Deposits	A	864,422,505	876,182,253	864,422,505	876,182,253
Cash at Bank and in Hand	A	950,820,657	232,102,398	950,820,657	232,102,398
		2,979,906,414	1,819,052,742	2,979,906,414	1,819,052,742
Financial Liabilities					
Interest Bearing Loans and Borrowings	B	13,853,333,009	13,878,530,743	13,853,333,009	13,878,530,743
Trade and Other Payables	A	9,510,272,025	7,395,365,736	9,510,272,025	7,395,365,736
Bank Overdrafts	A	986,755,198	838,155,222	986,755,198	838,155,222
Current Portion of Interest Bearing Loans	B	600,000,000	600,000,000	600,000,000	600,000,000
		24,950,360,232	22,712,051,701	24,950,360,232	22,712,051,701

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.

LANKA SATHOSA LIMITED

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35. 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;

35.1 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.

35.2 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.

35.3 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.

35.4 Trident Champer Limited-Dispute on Liner Demurrage

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Contd...)
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35.5 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
Commercial High Court				
Mr.Avindra Rodrigo, PC	To recover the Advance Payment of proposed	CHC 35/2020	Commercial High Court – Colombo	Pending
Mr.Avindra Rodrigo, PC	Filed against us to recover the Demurrage	CHC 417/18 MR	Commercial High Court – Colombo	Pending
High Court				
Mr. Ravi Hettiarachchi	Termination of Employment matter. Appealed by the employee to revisethe LT Order.	HC APL 20/2020	High Court –Gampaha	Pending
District Court				
Mr.Rushan Fernandopulle	This is a money recovery matter filed against the Maggona outlet building owner.	DMR 6706/19	District Court of Colombo	Pending
Mr.RushanFernandopulle	An advance payment recovery matter filed against the building owner of Panadura 1 Outlet.	M 5593/19	District Court of Panadura	Pending
Mr.Rushan Fernandopulle	An advance payment recovery matter filed against the building owner of Rajagiriya Outlet.	DMR 2816/2020	District Court of Colombo	Newly initiated matter (Pending)
Mr.Rushan Fernandopulle	Damages recovery matter filed against the LSL by building owner of Pitipana.	M 18972/19	District Court of Homagam	Pending
Magistrate Court				
Mr. Anura Maddegoda, PC	An Employee gratuity matter filed against us.	10216/2018	Magistrate Court - Fort	Pending
	This is a new matter filed by the PHI Godakawela	91970	Magistrate Court - Pelmadulla	Newly initiated matter (Pending)
Labour Tribunal				
Mr.Ravi Hettiarachchi	This is a termination of employee matter filled by an employee against us	03/68 & 69/2014	Labour Tribunal –Kandy	Pending
Mr.Ravi Hettiarachchi	This is a termination of employee matter filled by an employee against us	23/KU/37/2019	Labour Tribunal –Kurunega	Pending
Mr.Ravi Hettiarachchi	This is a termination of employee matter filled by an employee against us	02/919/2019	Labour Tribunal –Borella	Pending
Attorney General’s Departmer	This is a termination of employee matter filled by an employee against us	02/927/2019	Labour Tribunal –Borella	Pending
Attorney General’s Departmer	This is a termination of employee matter filled by an employee against us	01/Atthi/50/2019	Labour Tribunal –Battaram	Pending
Mediation Board				
Lanka Sathosa Legal Division	An advance payment recovery matter filed against the building owner of Gurudeniya	16/18220/2020	Mediation Board	Pending
Lanka Sathosa Legal Division	An advance payment recovery matter filed against the building owner of Thirappane	16/18221/2020	Mediation Board	Pending
Lanka Sathosa Legal Division	An advance payment recovery matter filed against the building owner of Paragahadeniya	16/18222/2020	Mediation Board	Pending