



LANKA
Sathosa

ලංකා සතොස ලங்கා சதோச

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2017

வார्षிக வார்தாவ
வருடாந்த அறிக்கை

ANNUAL REPORT



අන්තර් විලාස, ආහාර සුරක්ෂිතතාවය හා පාරිභෝගික සුබසාධන අමාත්‍යාංශය
உள்நாட்டு வர்த்தகம், உணவுப் பாதுகாப்பு மற்றும் நுகர்வோர் நலன்புரி அமைச்சு
MINISTRY OF INTERNAL TRADE, FOOD SECURITY AND CONSUMER WELFARE

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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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Lanka Sathosa Limited, take pleasure in presenting the Annual Report for the year ended 31st December 2017.

PRICIPLE ACTIVITIES OF THE COMPANY

The Company is primarily involved in Retail and Wholesale of Consumer Products.

FINANCIAL STATEMENT AND AUDITOR'S REPORT

The completed Financial Statements duly signed by the Deputy General Manager-Finance, the Directors and the Auditor's Report thereon for the year ended 31st December 2017 are attached to this report.

TURNOVER

The turnover of the company amounted to LKR 29,611 Mn. (2016- LKR 29,983 Mn.).

RESERVES

The Reserve of the Company stand at debit balance LKR 11,824 Mn. (2016-debit balance LKR 9,041 Mn.)

STATED CAPITAL

The Stated Capital of the Company amounts to LKR 894 Mn. (2016- LKR 894 Mn.).

CAPITAL EXPENDITURE

The Capital Expenditure of the Company during the year on Property, Plant and Equipment amounted to LKR 910 Mn. (2016- LKR 351 Mn.)

CORPORATE DONATION

The Company has made donations of LKR 0.465 Mn (2016- LKR 1.831 Mn.).

STATUTORY PAYMENT

The Company has been exempted from Income Tax under the section 07(h) of Income Tax Act No.10 of 2016 (Amended) from year 2011. All statutory payments due to the Government of Sri Lanka and on behalf of employees have been made or accrued for the reporting date.

SHARE INFORMATION

Share information as at 31st December 2017 is as follow.

Share Holders	No. of Share	% of holding
Don Mahinda Gammampila	1	0%
Roshanic Rathnayake	1	0%
Sajith Ruchika Attygala	1	0%
Hettiarachchige Leslie Tissera	1	0%
Siripala Wirithamulla	1	0%
Nihal Jayawardena	1	0%
Corporate Wholesale Establishment	2,279,884	3%
Secretary to the Treasury	87,095,382	97%



RELATED PARTY TRANSACTION

Related party transactions are disclosed in Note 27 in the Financial Statements.

THE BOARD OF DIRECTORS

The directors listed below have been directors of the Company throughout the year under review.

Rohantha Neville Anthony Athukorala -Chairman/Marketer

Ahamed Ussan Mohamed Yasir- Working Director Corporate Whole Sale Establishment

Mohomed Hamza Mohamed Shafraz- Attorney at Law

Mohamed Rizwan Hameem-Chairman-Corporate Whole Sale Establishment

Aruna Priyadarshana Kurumbalapitiya-Director –State Accounts/Treasury

Rajalingam Rushandan-Director –Department of Public Enterprise /Treasury

Ranathunga Arachchige Indika Irani Ranathunga
Director –Corporations and Statutory Boards/Ministry of Industry and Commerce.

Abdul Hameed Mohamed Anwer
Chairman- CWE constructions & Engineering Private Limited

Tennekoon Mudiyansele Kumudu Bandara Tennekoon
Attorney at Law

Segu Fareed Mohamed Rameez-Business Executive

Suleiman Lebbe Naseer-Commissioner of Corporative Development

DIRECTOR'S INTERESTS IN CONTRACT

The directors have had no direct or indirect interest in any contracts or proposed contracts in relation to the business of the Company

AUDITORS

Messrs. Amerasekera & Co. Chartered Accountants have been appointed as Auditors for the year 2017 under the supervision of the National Audit Office.

GOING CONCERN

The company has incurred a net Loss of Rs.2,773,680,592/- during the year under review, the accumulated losses amounting to Rs.11,823,696,122/- and, company's current liabilities has exceeded its current assets by Rs.11,290,858,189/-. 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.

Signed for and on behalf of the Board

Corporate Affairs (Private) Limited

Secretaries

M/S Corporate Affairs (Pvt) Ltd
Company Secretary



CORPORATE GOVERNANCE

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

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

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

- Review strategic and operational issues.
- Review Profit and working capital and monthly management accounts.
- Provide advice and guidelines to Senior Managers through the Chairman / Chief executive officer.
- Provide and circulate timely and periodic reports to stakeholders.
- Sanction major investments.
- Approve interim and annual reports.

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

FINANCIAL HIGHLIGHTS

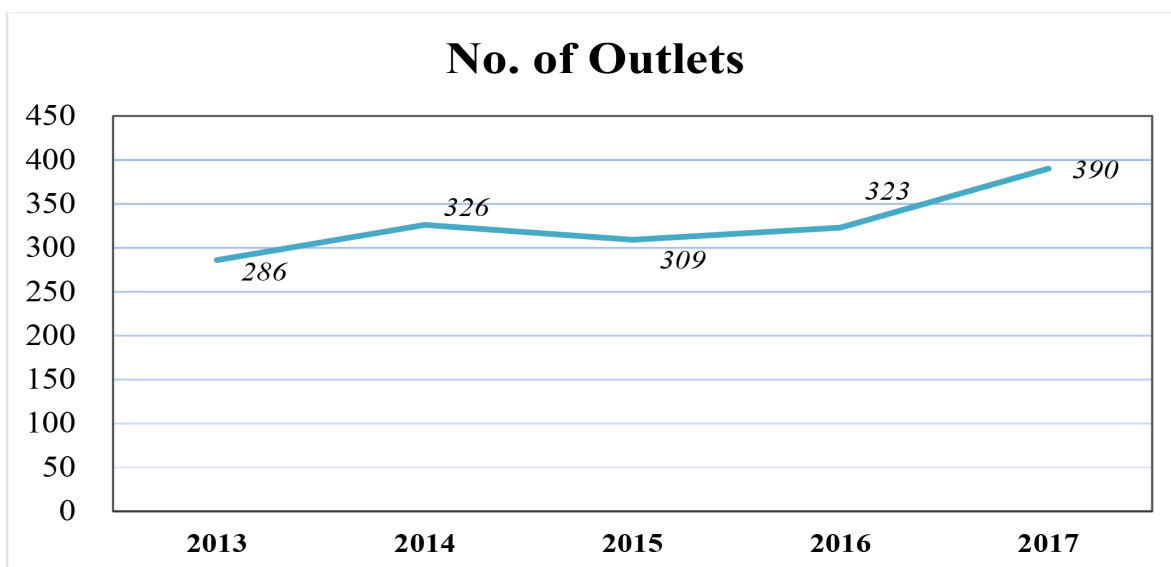
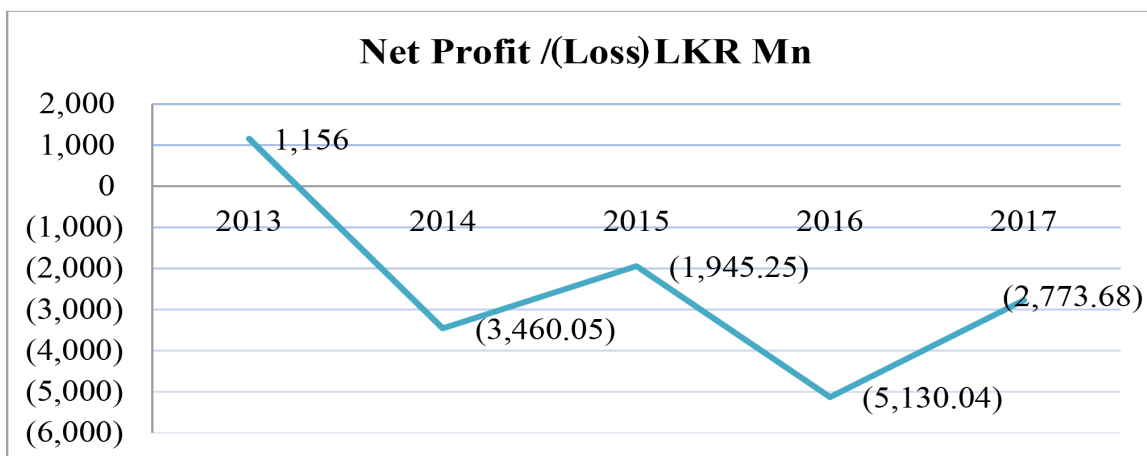
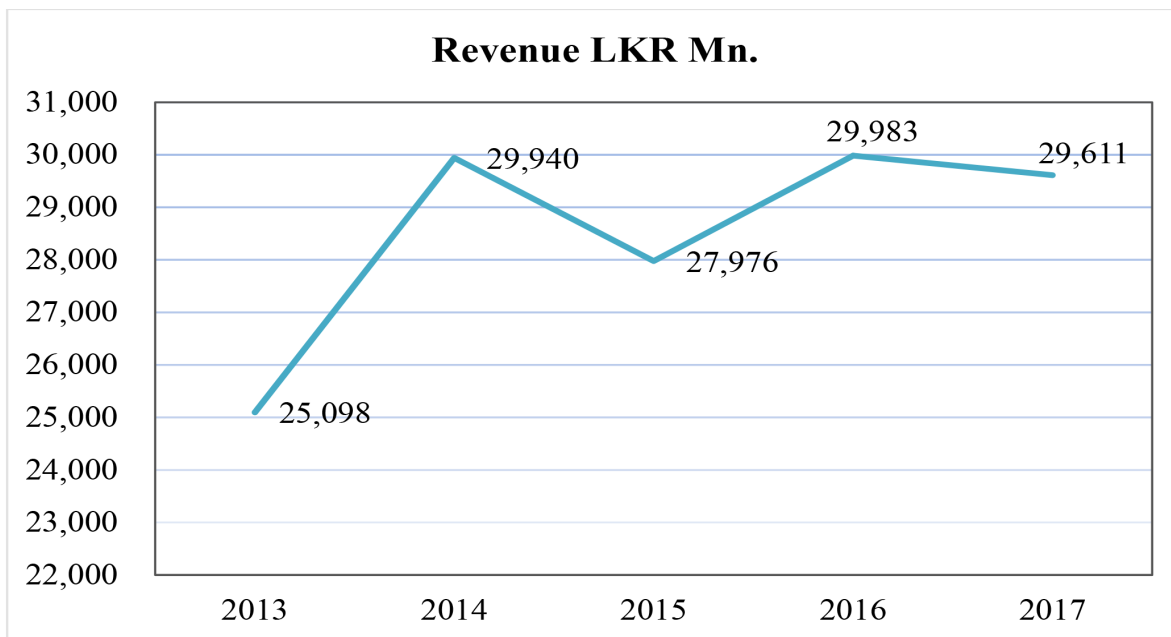
	2017	2016
<u>Financial</u>		
Revenue	29,611,412,280	29,982,884,877
Cost of Sales	(27,049,608,154)	(28,991,483,747)
Other Income	721,184,115	355,790,933
Operating Expenses	(4,712,989,609)	(5,135,966,199)
Finance Income	80,853,524	23,112,527
Finance Expenses	(1,424,532,747)	(1,364,376,909)
Net Loss For the year	(2,773,680,591)	(5,130,038,519)
Total Assets	9,033,648,058	9,156,885,994

Outlet Productivity

Average Strength	390	323
Revenue Per Outlet	75,926,698	92,826,269
Value Added Per Outlet	(7,112,002)	(15,882,472)

Staff Productivity

Average Strength	3,784	3,641
Revenue per Employee	75,926,698	92,826,269
Value Added per Employee	(1,245,505)	(1,410,592)



CORPORATE INFORMATION

NAME OF THE COMPANY
Lanka Sathosa Limited

COMPANY REGISTRATION NO
PB 1326

REGISTERED ADDRESS
No 108, Negris Building, York Street, Colombo-01

LEGAL FORM
Fully government owned company incorporate in Sri Lanka under the Companies Act No.02 of 2007

BANKERS
People's Bank
Bank of Ceylon

AUDITOR
National Audit Office

SECRETARY
M/S Corporate Affairs (Pvt) Ltd



ජාතික විගණන කාර්යාලය

தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය } TCM/E/LSL/2017/FA
எனது இல. }
My No. }

உமது அංකය }
உமது இல. }
Your No. }

දිනය }
திகதி }
Date }

09 October 2019

To the Shareholders of the Lanka Sathosa Ltd.

Report of the Auditor General on the Financial Statements of the Lanka Sathosa Ltd for the year ended 31 December 2017.

The audit of the financial statements of the Lanka Sathosa Ltd (“the Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. In carrying out this audit I was assisted by a firm of Chartered Accountants in public practice.

Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standard and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards. Because of the matters described in the basis for disclaimer of Opinion paragraph; however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.



Basis for Disclaimer of Opinion

- (a) The inventory valuation method followed by the management was not in consistent with the requirements of LKAS 2 “Inventories”. The financial impact arising therewith on cost of sales and current assets in the financial statements could not be determined nor quantified and also a substantial quantity of stocks remaining in the warehouse, said to be stocks returned by the outlets representing stocks returnable to the suppliers and stocks already has expired. However, the company has not quantified nor valued these stocks and has not booked into the accounts at each year-end.
- Further, goods in transit amounting to Rs. 14,729,648,431 had been transferred to the manual outlet control account at the end of the year under review. However, the audit verification did not provide a summary statement showing the amount of the transfer notes, quantities and the value of the stock items transferred to each manual outlet.
- (b) The difference between the credit card control account balance and the bank confirmations at the end of the year under review was Rs. 5,034,310. However, sales outlets, including manual outlets, were not able to examine the change in the year-to-date ledger balance transactions.
- (c) The total of outlet cash in hand at the end of year under review was Rs. 570,772,334. However, schedules had been presented only for Rs. 442,035,688 and the schedules were not submitted for the balance of Rs. 128,736,646.
- (d) At the end of year under review, the company’s accumulated loss was Rs. 11,823,696,122 and current liabilities exceeded the current assets by Rs. 11,290,858,189. Further, the company is running at a serious loss of capital situation as identified in Section 220 (1) of the company’s Act, No. 07 of 2007. These factors raise doubt that, the company’s capacity of meeting its liabilities by the assets of the company and whether the company will be able to continue as a going concern.
- (e) There was no updated fixed assets register for property, plant and equipment amounting to Rs. 1,624,128,342. Further, it is included unidentified and un-reconciled assets values, some of which represent opening balances amounting to Rs. 335,204,308.
- (f) The documentary evidence to substantiate the ownerships / leasehold rights of the lands occupied by the company was not available for audit verification.



- (g) The clearing documentation in relating to the advances paid to the clearing agent on importation of rice purchased during the year 2014 amounting to Rs. 267,600,501 had not been made available for audit.
- (h) No independent confirmation of balances from the related parties as reported in Note 29.2 to the financial statements were received enabling us to examine the accuracy and completeness of the balances stated. Hence the accuracy and the completeness of the balances stated could not be relied.
- (i) Since three-quarters of business transactions are accounted by manual accounting, inventory and purchase of these outlets are included in the general ledger through journals. As a result, this process using spreadsheets has resulted in internal errors such as data skipping, duplication and underestimation of values.
- (j) The difference identified therein amounts to Rs. 59,796,194 arising when compared to the total amount of balances i.e. Rs. 208,555,973 confirmed by the suppliers against the corresponding balances i.e. Rs. 148,759,779 shown as payable to them in the financial statements under trade payables. The total amounts of balances confirmed by the suppliers were in response to the confirmation of balances called on selected samples to a value of Rs. 2,764,648,192. Suppliers to a value of Rs. 2,615,888,413 were not responded.
- (k) The receivable amount stated in the financial statements (Refer Note 20.2 to the financial statements) relating to input VAT payments on purchases amounting to Rs. 18,311,622 had not been claimed as Input Credit against the Output VAT payable in the VAT returned submitted to the Inland Revenue Department by the Company pertaining to the respective quarters during the current financial year. The input VAT amounts so recoverable is time bared and could not been claimed according to the Section 22 sub Section 6 of the VAT Act.
- (l) The company had not paid VAT on certain income classified under other income in the financial statements (Refer Note 07) although those income were not classified as exempt income in the exempt list under First Schedule Part 11 of the VAT Act; and will be liable for the payment of VAT. The amount so payable could not be quantified due to lack of documentary evidence and details.



- (m) The company had entered into an agreement on 10 June **2016**, with a supplier to install a security camera system for a value of Rs. 142,292,252. The project was started in December 2016 and should have been completed in a maximum of four months but had not been completed by the date of audit.
- (n) The Company had been awarded a contract worth Rs.198,175,784 on 18 November 2016, for a private company to provide, install, operate and maintain an Enterprise Resource Planning System (ERP System). The following observations are made in this regard.
- (i) The contract had been awarded contrary to the provision in the Government Procurement Guidelines 1.2, 2.3.2 (c), 2.8.3, 2.5.1, 2.7.4, 2.8.1 (b), 2.11.1, 3.2.2(a), 4.2.1, 4.2.2, 4.2.3, 4.3.1, 4.3.2, 5.3.11, 5.4.1, 8.2.1, 8.3.1, 5.3.15 (b), 6.3.2, 7.7.1 (b) (ii)& (iii)
- (ii) The Company had been entered into agreement with the contractor on 18 November 2016 and the contract period was 18 January 2017 to 20 April 2018. However, the project had not been completed by 30 June 2019 and no extension was made in accordance with the Procurement Guidelines 8.14.1
- (iii) In accordance with section 17.1 of the agreement relating to the Project, the Contractor shall be liable for a loss equal to 1 percent of the contract value in respect of any damages or losses incurred by the contractor or any portion thereof or any other party without the buyer's written consent. According to the performance reports, the project had been delayed due to the contractor having received assistance from some other agency. However, no damages had been charged from the contractor for the delay.
- (iv) As of the date of the audit, 375 days had elapsed since the completion date of the project; it was observed that a delay fee of 1 per cent of the contract amount should be charged according to the number of delayed days in terms of section 22.1 of the relevant agreement.



Disclaimer of Opinion

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

Report on Other Legal and Regulatory Requirements.

As required by Section 163(2) of the Companies Act, No. 07 of 2007, I state the following:

- (a) The basis for disclaimer of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - I have not been able to obtain sufficient and appropriate audit evidence that were required for the audit as stated in paragraphs (a) to (h) of this report and, as far as appears from my examination, no adequate accounting records have been kept by the Company.
 - The financial statements of the company do not comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.

W.P.C. Wickramaratna

Auditor General

LANKA SATHOSA LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
Revenue	4	29,611,412,280	29,982,884,877
Cost of Sales	5	(27,049,608,154)	(28,991,483,747)
Gross Profit		2,561,804,126	991,401,129
Stock Written-off and Other Stock Losses	6	(396,607,129)	(1,322,824,902)
Other Income	7	721,184,115	355,790,933
Administrative Expenses	8	(2,326,470,029)	(1,922,121,591)
Selling and Distribution Expenses	9	(1,983,150,114)	(1,828,086,762)
Provisions for Impairment	10	(6,762,337)	(62,932,944)
Profit / (Loss) from Operation		(1,430,001,368)	(3,788,774,137)
Interest Expense	11	(1,424,532,747)	(1,364,376,909)
Interest Income	11	80,853,524	23,112,527
Profit / (Loss) Before Taxation		(2,773,680,592)	(5,130,038,518)
Income Tax Expense	12	-	-
Profit / (Loss) for the Year		(2,773,680,592)	(5,130,038,518)
Basic Earnings / (Loss) Per Share (Rs.)	13	(31.03)	(57.40)
Profit / (Loss) for the Year		(2,773,680,592)	(5,130,038,518)
Other Comprehensive Income / (Expense)			
Items that will never be reclassified to profit or loss			
Actuarial Gain / (Loss) on Retirement Benefits Obligation	23	(9,148,330)	16,586,222
Total Other Comprehensive Income / (Expense) for the Year		(2,782,828,922)	(5,113,452,296)

Figures in brackets indicate deductions.

Notes to financial Statements on Pages 20 to 49 form an integral part of these Financial Statements.

LANKA SATHOSA LIMITED **STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER	(Note)	2017	2016
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	14	1,624,128,342	1,010,415,902
Intangible Assets	15	7,793,760	14,464,513
Total Non-Current Assets		1,631,922,102	1,024,880,415
Current Assets			
Inventories	17	4,295,373,354	3,975,959,505
Trade and Other Receivables	18	1,128,358,547	911,427,427
Deposits and Advances	19	589,267,246	695,602,375
Pre-Paid Expenses and Statutory Receivables	20	47,455,994	34,517,023
Fixed Deposits		301,856,496	47,581,810
Cash and Cash Equivalents	21	1,039,414,318	2,466,917,439
Total Current Assets		7,401,725,956	8,132,005,579
TOTAL ASSETS		9,033,648,058	9,156,885,994
EQUITY AND LIABILITIES			
Equity			
Stated Capital	22	893,752,720	893,752,720
Retained Earnings (<i>at Debit</i>)		(11,823,696,122)	(9,040,867,200)
Total Equity		(10,929,943,402)	(8,147,114,480)
Non-Current Liabilities			
Retirement Benefits Obligation	23	130,447,129	93,581,728
Government Grants - (Non - Current Portion)	24	1,140,560,186	852,431,264
Total Non-Current Liabilities		1,271,007,314	946,012,992
Current Liabilities			
Trade and Other Payables	25	5,359,696,027	3,475,825,768
Government Grants - (Current Portion)	24	284,781,616	104,684,499
Short Term Borrowings	26	12,434,229,041	12,061,858,959
Statutory Payables	27	135,223,953	-
Accrued Expenses	28	97,712,079	113,951,131
Bank Overdrafts	21	380,941,429	601,667,126
Total Current Liabilities		18,692,584,145	16,357,987,483
TOTAL EQUITY AND LIABILITIES		9,033,648,058	9,156,885,994

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

Deputy General Manager - Finance

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

Director

LANKA SATHOSA LIMITED
Director

Figures in brackets indicate deductions.

Notes to financial Statements on Pages 20 to 49 form an integral part of these Financial Statements.

(Expressed in Sri Lankan Rupees)

LANKA SATHOSA LIMITED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Stated Capital	Retained Earnings (at Debit)	Total
Balance as at 01 January 2016	893,752,720	(3,927,414,904)	(3,033,662,184)
Profit / (Loss) for the Year	-	(5,130,038,518)	(5,130,038,518)
Other Comprehensive Income	-	16,586,222	16,586,222
Balance as at 31 December 2016	893,752,720	(9,040,867,200)	(8,147,114,480)
Profit / (Loss) for the Year	-	(2,773,680,592)	(2,773,680,592)
Other Comprehensive Income / (Expense)	-	(9,148,330)	(9,148,330)
Balance as at 31 December 2017	893,752,720	(11,823,696,122)	(10,929,943,402)

Figures in brackets indicate deductions.

Notes to financial Statements on Pages 20 to 49 form an integral part of these Financial Statements.


(Expressed in Sri Lankan Rupees)

LANKA SATHOSA LIMITED **STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
Cash Flows from Operating Activities			
Profit / (Loss) for the Year		(2,773,680,592)	(5,130,038,518)
<i>Adjustments for;</i>			
Depreciation	14	295,914,911	231,287,124
Amortization of Intangible Assets	15	10,164,253	6,541,942
Amortization of Government Grant	24	(367,575,495)	(110,664,984)
Provision for Gratuity	23	29,994,556	24,646,179
Interest Income	11	(80,853,524)	(23,112,527)
Interest Expenses	11	1,424,532,747	1,364,376,909
Operating Loss Before Changes in Working Capital		(1,461,503,143)	(3,636,963,876)
Changes in Working Capital			
Inventories		(319,413,849)	3,377,901,485
Trade and Other Receivables		(216,931,121)	(591,868,696)
Deposits and Advances		106,335,129	(140,608,691)
Statutory Receivables		(12,938,971)	1,342,436
Trade and Other Payables		1,883,870,259	1,965,622,508
Statutory Payables		135,223,953	-
Accrued Expenses		(16,239,052)	13,841,931
Cash Generated from / (used in) Operations		98,403,205	989,267,098
Gratuity Paid	23	(2,277,486)	(991,826)
Interest Paid	11	(521,041,300)	(491,978,825)
Net Cash Flow from / (used in) Operating Activities		(424,915,580)	496,296,447
Cash Flows from Investing Activities			
Acquisition of Property, Plant and Equipment / Incurred on CWIP	14	(909,627,351)	(351,414,139)
Acquisition of Intangible Assets	15	(3,493,500)	-
Net Proceeds from / (Investment in) Fixed Deposit (Long Term)		(254,274,686)	(9,837,001)
Interest Received	11	80,853,524	23,112,527
Net Cash used in Investing Activities		(1,086,542,013)	(338,138,614)
Cash Flows from Financing Activities			
Repayment of Import Loans	26	(531,121,366)	(649,667,381)
Government Grants Received	24	835,801,533	839,901,352
Net Cash Flow from Financing Activities		304,680,168	190,233,971
Net Changes in Cash and Cash Equivalents During the Year		(1,206,777,424)	348,391,805
Cash and Cash Equivalents at Beginning of the Year		1,865,250,313	1,516,858,509
Cash and Cash Equivalents at End of the Year	21	658,472,889	1,865,250,313

Figures in brackets indicate deductions.

Notes to financial Statements on Pages 20 to 49 form an integral part of these Financial Statements.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. CORPORATE INFORMATION

1.1 General

Lanka Sathosa Limited is a company incorporated and domiciled in Sri Lanka. The registered office and principal place of the company is located at No. 27, CWE Secretariat Building, Vauxhall Street, Colombo 02.

1.2 Principal Activities and Nature of Operations

The Company is primarily involved in Retail and wholesale of consumer products.

1.3 Number of Employees

The staff strength of the Company as at 31 December 2017 is 3784 (3641 as at 31 December 2016).

1.4 Statement of Compliance

The statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with accounting policies and notes ("financial statements") of the Company as at 31 December 2017 and for the period then ended comply with the Sri Lanka Accounting Standards (SLFRS/LKAS), issued by the Institute of Chartered Accountants of Sri Lanka.

1.5 Date of Authorization for Issue

The financial statements for the year ended 31 December 2017 were authorized for issue by the Board of Directors on 21 May 2019.

1.6 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these financial statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards (SLFRS/LKAS), issued by the Institute of Chartered Accountants of Sri Lanka.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Accounting Policies

2.1.1 Basis of Preparation

The financial statements of Lanka Sathosa Limited have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS). The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRS/LKAS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The financial statements have been prepared on the historical cost basis and apply consistently with no adjustments been made for inflationary factors affecting the financial statements, except for the following material items in the statement of financial position:

- Defined benefit obligations are measured at its present values, based on the projected unit credit method. (Actuarial Valuation Method).



LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2.1.2 Sri Lanka Accounting Standards (SLFRS/LKAS) Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the financial statements are listed below. The company intends to adopt those standards when they become effective.

- a) SLFRS 9 - Financial Instruments: SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial instruments; Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instrument, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also guidance on recognition of financial instrument from LKAS 39. SLFRS 9 is effective for annual reporting period beginning on or after 1 January 2018.
- b) SLFRS 15 - Revenue from contracts with customers: SLFRS 15 establish a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 Revenue and LKAS 11 construction Contracts. SLFRS 15 is effective for annual reporting period beginning on or after 1 January 2018.

The Company is assessing the potential impacts on its financial statements resulting from the application of SLFRS 15 / SLFRS 9.

- c) SLFRS 16 – Leases: SLFRS 16 replaces LKAS 17 Leases and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under LKAS 17. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies SLFRS 15. The standard's transition provisions permit certain reliefs.

In 2018, the Company plans to assess the potential effect of SLFRS 16 on its consolidated Financial Statements.

2.1.3 Changes in Accounting Policies

The changes in accounting policies set out below have been applied consistently to the periods presented in the financial statements unless otherwise indicated.

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

2.1.4 Foreign Currency Translation

a) Functional and Presentation Currency

Transaction and balances included in the financial statements are measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in Sri Lanka Rupees (LKR), which is the company's presentation currency.

b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transaction sand from the translation at year-end exchange rates of monetary assets

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Translation differences related to changes in amortized cost are recognized in the statement of comprehensive income.

2.1.5 Going Concern

The management of Lanka Sathosa Limited has made an assessment of the company's ability to continue as a going concern and is satisfied that the company has the resources to continue in business into a foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements are continued to be prepared on the going concern basis.

2.1.6 Comparative Information

The accounting policies have been consistently applied by the company and are consistent with those of the previous year. The previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

2.1.7 Use of Estimates and Judgments

The preparation of financial statements requires directors to make adjustments, assumptions and use assumptions in measuring items reported in the financial statements. These statements are based on management's knowledge of current facts and circumstances and assumptions based on such knowledge and exceptions of future events. Actual result may always differ from such estimates.

2.1.8 Materiality and Aggregation

Assets and liabilities are company by their nature and listed in an order that reflects their relative liquidity. The accounting principles are applied consistently other than where specially disclosed with due regard to prudence, materiality and substance over form criteria as explained in Sri Lanka Accounting Standard - Presentation of Financial Statements. Where appropriate, the accounting policies are disclosed in the succeeding notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.2 Assets and Bases of their Valuation

2.2.1 Property, Plant and Equipment

a) Cost

Property, plant and equipment are stated at cost, net of accumulated depreciation and / or accumulated impairment losses, if any, such cost includes the cost of replacing component 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 de-recognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation.

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance is recognized as an expense when incurred.

LANKA SATHOSA LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017****b) Depreciation**

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

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

The useful lives are as follows:

Class of Asset	Rate	No. of Years
Buildings	5%	20
Building Partitioning	10%	10
Name Board and Fittings	20%	5
Computers Equipment	25%	4
Computer Software	25%	4
Equipment	20%	5
Office Equipment	20%	5
Furniture and Fittings	20%	5
Motor Vehicles	20%	5
Communication Equipment	20%	5
Assets Transferred from CWE	17.5%	5-6

Depreciation of assets begins when it is available for use.

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.

c) Restoration Costs

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance is recognized as an expense when incurred.

d) De-recognition

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

e) Impairment of Non-Financial Assets (Excluding Inventories)

The carrying value of the property, plant and equipment, is reviewed for impairment annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indications exist, and where the carrying values exceeded the estimated recoverable amounts, the assets are written down to their recoverable amount. Impairment losses are recognized in the statements of comprehensive income.

f) Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and equipment and system development, awaiting capitalization. These are stated in the Statement of Financial Position at cost. Capital assets which have been completed during the year and put to use have been transferred to Property, plant and equipment.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2.2.2 Intangible Asset

The Company intangible assets include the value of computer software, implementation, networking and POS 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. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are stated in the Statement of Financial Position at cost less any accumulated amortization and any accumulated impairment losses if any.

b) Subsequent Expenditure

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

c) Useful Economic Lives, Amortization and Impairment

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

Class of Asset	Rate	No. of Years
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.

2.2.3 Impairment of Non-Financial Assets

At each end of reporting period, the company reviews the carrying amounts of its property, plant and equipment, to determine whether there is any indication that those assets have impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company determines the cash-generating unit (CGUs) and estimates the recoverable amount of the CGUs to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2.2.4 Financial Instruments - Initial Recognition and Subsequent Measurement

2.2.4.1 Financial Assets

(a) Classification

The company determines the classification of its financial assets at initial recognition and classifies its financial assets as Loans and Receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

(b) Recognition and Initial Measurement

Financial assets classified as loans and receivables are recognized on the date on which the company originates the transaction. Other financial assets are recognized on the trade-date on which the company becomes a party to the contractual provision of the financial instrument.

A financial asset is measured initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or been transferred and the company has transferred substantially all risks and rewards of ownership of the financial assets.

(c) Subsequent Measurement

I. Loans and Receivables.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less provision for impairment.

(d) Impairment of Financial Assets

I. Assets Carried at Amortized Cost

The company assess at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced and the amount of the loss is recognized in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2.2.5 Trade Receivables

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

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

2.2.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalent consist of cash in hand and deposits in banks net of outstanding bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

2.2.7 Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated cost of realization and / or cost of conversion from their existing state to saleable condition. Cost is determined using weighted average cost method.

However, Inventory Values have been determined adjusting a common percentage of profit margin to the sales value of the inventories at the reporting date.

2.3 Stated Capital

Ordinary shares are classified as equity.

2.4 Government Grants

Government grants, including non-monetary grants at fair value, are recognized when there is reasonable assurance that the conditions attached to them will be complied by the company and the grants will be received. Grants related to assets, including non-monetary grants at fair value, are presented in the Statement of Financial Position as deferred income and recognized in the income statement on a systematic and rational basis over the useful life of the asset. Grants related to income are presented as a credit in the income statement, under the heading 'other income' against the incurrence of related expenditure

2.5 Liabilities and Provisions

2.5.1 Liabilities

Liabilities classified as current liabilities on the statement of financial position are those, which fall for payment on demand or within one year from the date of the statement of financial position. Non-current liabilities are those balances that fall due for payment after one year from the date of the statement of financial position.



LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2.5.2 Financial Liabilities

The company classifies financial liabilities into other financial liabilities. The company's other financial liabilities include trade and other payables, interest bearing loans and amounts due to related parties. The other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

2.5.3 Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2.5.4 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due in the normal operating cycle of the business (within one year or less). If not, they are classified as non-current liabilities.

Trade payables are recognized initially at fair value (transaction price) and subsequently measured at the transaction price as they are expected to pay in the normal operating cycle of the business.

2.5.5 Borrowings

The Company's borrowings include term loans and import credit loans. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective interest method. Floating rate borrowings are measured in each subsequent period at amortized cost using floating interest rate (effective interest rate) prevailing in the period. Legal and documentation fees are recognized as transaction costs of the borrowings.

Foreign exchange gains and losses arising from measurement of carrying value of loans at amortized cost at each reporting period end are recognized in the statement of comprehensive income.

2.5.6 Offsetting of Financial Instruments

Financial assets and financial liabilities are off-set and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.6 Taxation

2.6.1 Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income statement, except to the extent that it relates to items recognized in other comprehensive income. In this case, the tax is also recognized in other comprehensive income. The current income tax charge is calculated on the basis of the tax laws enacted at the reporting period end applicable for the company operate and generate taxable income. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates that have been enacted at the reporting period end date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority.

2.6.2 Provisions

Provisions are recognized when the company has a present obligation (legal and constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Initially, a provision is measured at the best estimate of the amount required to settle the obligation at the reporting date.

When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. When the provision arises from a single obligation, best estimate may be the most likely outcome.

When the effect of the time value is material, provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

In subsequent measurement, a provision is charged only against those expenditure for which the provision was originally recognized.

2.6.3 Employee Benefits

The company has both defined benefit and defined contribution plans.

a) Defined Benefit Plans

The company obligation in respect of defined benefit plan is the present value of the defined benefits obligation at the end of the reporting period. The defined benefits obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefits obligation is determined by discounting the estimated future benefit that employee have earned in return for their services in the current and prior period.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The company will remeasure the define benefit obligation when the amounts recognized in the financial statements will differ materially from the amount that would be determine at the end of the reporting period.

Past service costs are recognized immediately in the statement of comprehensive income.

The retirement benefits obligation is not externally funded.

b) Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions. The contributions are recognized as employee benefit expense when they are due.

The company contributes 12% on gross emoluments of employee to Employee Provident Fund (EPF) and 3% on gross emoluments of employee to Employee Trust Fund (ETF).



LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

c) Short-Term Employee Benefit

Short-term employee benefit obligations are measured on an undiscounted amount expected to be paid for related services provided by the employees.

2.7 Statement of Comprehensive Income

2.7.1 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, taking into account contractually defined terms of payment.

a) Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the customer, usually on delivery of the goods.

b) Interest Income

Interest income is recognized in profit or loss as it accrues and is calculated by using the effective interest rate method.

c) Rent Income

Rental income arising from renting out the additional floor space recognized as revenue on a straight-line basis over operating lease terms.

d) Other Income

Other income is recognized on an accrual basis. Net gains and losses on the disposal of Property, Plant and Equipment and other non-current assets including investments have been accounted for in profit or loss, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

2.7.2 Expenditure Recognition

Expenses are recognized in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency have been charged to income in arriving at the profit for the year.

For the purpose of presentation of the statement of comprehensive income the directors are of the opinion that function of expenses method presents fairly the elements of the company's performance and hence such presentation method is adopted.

2.8 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flow', whereby operating activities, investing activities and financing activities are separately recognized. Cash and Cash Equivalents comprise of short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and Cash Equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in note 22.

LANKA SATHOSA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2.9 Related Party Disclosures

Disclosure has been 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 or not. The relevant details are disclosed in the respective notes to the Financial Statements.

2.10 Events After the End of The Reporting Period

All material events occurring after the reporting date have been considered and where necessary, adjustments to or disclosures have been made in the respective notes to the accounts.

2.11 Contingencies and Unrecognized Contractual Commitments

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.

Contingent liabilities are not recognized in the statement of financial position but are disclosed in the respective notes to the financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

3.1. The following are significant judgements in applying the accounting policies that have most significant effect on the financial statements.

a. Useful Life Time of Depreciable Assets

Management reviews its estimate of the useful life time of depreciable assets at each reporting date, based on the expected economic utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

b. Defined Benefit Plan

The present value of the defined benefit plan obligations depends on a number of factors that are determined on actuarial valuation method using a number of assumptions. The assumptions are used in determining the net cost and obligation for defined benefit plan including the discount rate disclosed in the note 23. Any changes in these assumptions will impact the carrying amount of defined benefits obligation.

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

FOR THE YEAR ENDED 31 DECEMBER

(Note)

2017**2016**

4 Revenue

Revenue in the Automated Outlets

Grocery Products	2,830,926,284	2,964,974,120
Provision Products	5,415,908,771	5,164,648,195
Liquor	2,371,277,711	2,275,311,587
Promotional Items	992,474,872	1,028,666,990
Household Items	386,877,705	449,113,710
Stationery	5,173,871	4,883,920

12,002,639,215 **11,887,598,522**

Revenue in the Manual Outlets

4.1

17,660,801,434 **18,095,286,355**

Gross Revenue

29,663,440,649 **29,982,884,877**

Nation Building Tax (NBT)

(52,028,369) **-**
29,611,412,280 **29,982,884,877**

- 4.1 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.

5 Cost of Sales

Stock as at 01 January	3,975,959,505	7,353,860,990
Purchases and Others	27,428,581,523	25,703,186,543
	31,404,541,028	33,057,047,533
Purchases Returns	(59,559,520)	(89,604,281)
Stock as at 31 December	(4,295,373,354)	(3,975,959,505)
	27,049,608,154	28,991,483,747

5.1 Closing Inventories

The physical inventory balances have been originally valued at sales price as a control measure to ensure the consistency of valuations for all outlets and adjusted to arrive at the cost by removing average profit margins.

6 Stock Written-off and Other Stock Losses

Net Realizable Value (NRV) Adjustment on Imported Rice Stocks	-	932,128,553
Provisional Stock Losses	75,200,459	379,701,902
Loss / Wastage of Stocks (By Board of Survey)	321,406,670	10,994,447
	396,607,129	1,322,824,902

LANKA SATHOSA LIMITED

(Expressed in Sri Lankan Rupees)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
7 Other Income			
Gondola Income		106,833,500	126,460,500
Sales Promotion		36,371,530	11,173,809
Salvage Income		6,872,693	4,284,168
Commission Income from Vegetables Sales		1,250,046	1,079,444
Insurance Claim		27,988,008	14,006,152
Sundry Income		10,462,067	6,415,471
Transport Income		110,557,365	43,256,106
Registration Fees Income		2,156,417	10,409,500
Penalty Income		10,665,643	5,248,024
Listing Charges Income		1,550,000	801,543
Recovery from Employee		1,338,997	178,225
Lost in Transit		963,817	697,199
Rent Income		2,402,596	1,111,250
Balances Written Back		3,369,267	10,735,872
Joint Business Plan Income	7.1	10,800,000	-
Supplier Discounts		17,644,961	9,268,309
Other Income		2,381,712	377
Amortisation of Deferred Income - Capital Grant		367,575,495	110,664,984
		721,184,115	355,790,933

7.1 The Income derive as a result of an initiative to reward the company by Unilever Sri Lanka Ltd for its contribution made on their products in Grocery / Retail businesses. The incentive was enforced effective from 01 October 2017 till 31 December 2017.

8 Administrative Expenses			
Salaries - Managerial, Executive and Clerical		259,907,514	86,110,109
Employees Provident Fund		22,667,738	18,068,431
Employees Trust Fund		5,745,597	4,421,545
Director Fees		860,000	1,035,000
Annual Leave Payment		37,123,530	25,066,050
COL and Other Allowances		705,569,020	824,082,551
Food Allowance		10,663,515	8,737,758
Audit Fees and Expenses		2,000,000	2,000,000
Building Repair and Maintenance		22,412,038	5,675,703
Equipment Maintenance		27,227,199	17,830,879
Computer and Software Maintenance		3,958,171	15,665,382
Casual Wages		163,691,546	119,983,177
Cleaning Chargers		4,029,495	2,753,962
Depreciation		295,914,911	231,287,124
Amortization of Intangible Assets		10,164,253	6,541,942
Gratuity		29,994,556	24,646,179
Donations		465,000	1,831,733
Electricity		174,002,089	158,930,957
License Fees		17,117,248	17,252,484
Pest Control		1,516,387	1,382,761
Service Agreement Fees		19,098,711	6,953,158
Contract Wages and Courier Charges		2,905,460	1,125,653
Royalty Fees for CWE (Liquor License)		11,320,056	11,320,056
Fuel Charges		5,752,284	4,523,142
Insurance		27,231,973	22,351,344
Mobile Phone Charges		597,261	1,490,690
Measure Charges		151,230	456,508
Fine and Surcharges		22,894	4,914
Medical Expenses		274,863	129,337
Balance C/F		1,862,384,537	1,621,658,530

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

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
Balance B/F		1,862,384,537	1,621,658,530
Office Equipment Repair Charges		814,711	675,530
Other Expenses		911,329	1,363,159
Overtime		122,628,653	119,924,025
Legal Fees		1,379,064	2,437,900
Vehicle Repair and Maintenance		622,101	1,711,158
Water Expenses		10,199,135	9,222,896
Rates and Taxes		561,597	1,139,676
Postage Fees		203,703	195,287
Staff Training		614,072	360,587
Professional Fees		83,276,156	45,121,284
Secretarial Fees		561,565	-
Stationeries		25,435,629	29,560,390
Subsistence		3,572,891	3,265,453
Stamp Fees		273,203	82,806
Telephone and Internet		60,857,182	39,483,910
Penalties		992,284	1,610,576
Meeting Expenses		3,999,191	2,215,248
Vehicle Rental		3,561,033	1,229,000
Tea Expenses		26,252,334	9,455,073
News Papers		26,440	51,250
Bank Charges and Commissions		38,420,959	31,307,855
Dismantling Charges		49,955	-
Disallowable Input Tax on VAT		78,622,306	-
Death and Accident Benevolent Payments		250,000	50,000
		2,326,470,029	1,922,121,591
9 Selling and Distribution Expenses			
Salaries		508,691,129	438,903,048
Employees Provident Fund		99,213,397	85,496,241
Employees Trust Fund		24,725,438	21,374,488
Advertising Expenses		32,333,204	14,283,224
Bonus		62,994,260	37,473,481
Consumable Store Charges		21,255,742	3,035,486
Grocery Bags		129,192,470	221,194,250
Packing Charges		9,592,040	8,563,937
Parking Charges		78,316	127,865
Printing Expenses		43,576,941	28,570,089
Promotional Expenses		1,476,384	-
Rent		515,347,534	478,037,305
Sales Discount		1,801,338	3,677,231
Security Charges		181,498,713	168,096,779
Transport Charges		333,715,983	309,925,579
Travelling		6,141,580	3,902,520
Staff Welfare		5,594,249	111,038
Lorry Seal Expenses		1,454,200	2,652,962
Opening Ceremony Expenses		2,598,507	1,273,629
Decoration Charges		1,119,827	562,094
Trade License Fees		748,862	825,516
		1,983,150,114	1,828,086,762

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

(Expressed in Sri Lankan Rupees)

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
10 Provisions for Impairment			
for Unsettlement Under Remittance	19.5	6,762,337	50,000,000
for Statutory Receivables		-	12,932,944
		6,762,337	62,932,944
11 Net Finance Cost			
Interest Expense			
Interest on Bank Borrowings		1,424,532,747	1,364,376,909
		1,424,532,747	1,364,376,909
Interest Income			
Interest on Fixed Deposits and Savings		(80,853,524)	(23,112,527)
		(80,853,524)	(23,112,527)
		1,343,679,223	1,341,264,382
12 Income Tax Expense			
Income Tax is exempted under Section 07(h) of Income Tax Act No.10 of 2006 (Amended) from the year 2011. Effective from 2018 April 01 the company is liable to pay Income Taxes at 28%.			
13 Basic Earnings / (Loss) Per Share (Rs.)			
<i>Amount used as the Numerator</i>			
Attributable to Equity Holders (Rs.)		(2,773,680,592)	(5,130,038,518)
<i>Number of Ordinary Shares used as the Denominator</i>			
Weighted Average number of Shares in Issue (Nos)		89,375,272	89,375,272
Basic Earnings / (Loss) Per Share (Rs.)		(31.03)	(57.40)

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

14 Property, Plant and Equipment

Cost	Buildings	Name Boards and Fittings	Computer Equipment	Computer Hardware	Equipment	Office Equipment	Furniture and Fittings	Motor Vehicles	Communication Equipment	Assets of CWE	Total
Balance as at 01 January 2016	444,100,663	122,156,531	172,355,337	133,360,886	338,443,298	352,272,093	236,604,176	18,821,440	3,642,602	22,798,843	1,844,555,869
Additions During the Year	-	9,704,909	26,419,803	1,754,280	190,175,543	-	6,789,055	-	-	-	234,843,590
Balance as at 31 December 2016	444,100,663	131,861,440	198,775,140	135,115,166	528,618,841	352,272,093	243,393,231	18,821,440	3,642,602	22,798,843	2,079,399,460
Additions During the Year	-	13,076,319	19,695,030	107,469,850	677,779,583	97,762	32,663,256	-	-	-	850,781,800
Disposal / Transfers	-	-	-	29,985,989	59,312,971	(42,762)	-	-	-	-	89,256,198
Balance as at 31 December 2017	444,100,663	144,937,759	218,470,170	272,571,005	1,265,711,395	352,327,093	276,056,487	18,821,440	3,642,602	22,798,843	3,019,437,457
Depreciation											
Balance as at 01 January 2016	37,301,743	44,898,760	147,999,370	42,439,697	143,235,154	297,122,236	196,185,564	18,687,220	3,642,601	22,798,841	954,311,186
Charge for the Year	22,909,669	22,922,881	31,035,022	27,356,510	72,899,665	16,566,917	37,465,282	131,178	-	-	231,287,124
Balance as at 31 December 2016	60,211,412	67,821,641	179,034,392	69,796,208	216,134,820	313,689,152	233,650,846	18,818,398	3,642,601	22,798,841	1,185,598,311
Charge for the Year	22,909,669	24,503,625	25,160,292	32,155,353	155,626,342	9,295,926	26,263,703	-	-	-	295,914,911
Balance as at 31 December 2017	83,121,081	92,325,266	204,194,685	101,951,561	371,761,162	322,985,078	259,914,550	18,818,398	3,642,601	22,798,841	1,481,513,222
Net Carrying Values									Note		
Buildings										2017	2016
Name Boards and Fittings										360,979,582	383,889,251
Computer Equipment										52,612,493	64,039,799
Computer Hardware										14,275,486	19,740,748
Equipment										170,619,445	65,318,958
Office Equipment										893,950,233	312,484,022
Furniture and Fittings										29,342,015	38,582,941
Motor Vehicles										16,141,937	9,742,385
Communication Equipment										3,042	3,042
Assets of CWE										1	1
										2	2
Work-in-Progress										1,537,924,236	893,801,149
										86,204,106	116,614,753
										14.1	
										1,624,128,342	1,010,415,902

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
14.1 Capital Work-in-Progress (Buildings / Equipment / Computer Software and Hardware)			
Balance as at 01 January		116,614,753	44,204
Additions During the Year		58,888,313	116,614,753
Adjustment		-	(44,204)
Transferred to Property, Plant and Equipment		(89,298,960)	-
Balance as at 31 December	14.1.1	86,204,106	116,614,753
14.1.1 Closing Balance Comprise of the Followings;			
Development and Implementation of ERP System		49,215,131	39,635,157
Mobilisation Advance - Installation of CCTV System &		22,880,529	76,979,596
Project Advance - Mannar	14.1.1 (a)	14,108,446	-
		86,204,106	116,614,753
14.1.1 (a) Company has paid advance payment to CWE construction (Pvt) Ltd to construct a new outlet in Mannar. Currently the construction has been suspended due to a Government directive.			
15 Intangible Assets			
Computer Software			
<i>Cost</i>			
Balance as at 01 January		41,879,587	41,879,587
Additions During the Year		3,493,500	-
Balance as at 31 December		45,373,087	41,879,587
<i>Amortization</i>			
Balance as at 01 January		27,415,073	20,873,131
Charge for the Year		10,164,253	6,541,942
Balance as at 31 December		37,579,326	27,415,073
Net Carrying Value		7,793,760	14,464,513
16 Deferred Tax Assets / Liability			
Since the company is tax exempted under the current tax law, no deferred tax asset have been recognised as of the reporting date.			
17 Inventories			
Trading Stocks (Provisional Items, Grocery Items, Liquor Etc..)		4,295,373,354	3,243,137,236
Imported Rice Stocks (Adjusted at NRV)		-	148,662,262
Imported Rice Stocks at Port Premises, Container Yard and Warehouses		-	584,160,006
		4,295,373,354	3,975,959,505

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

FOR THE YEAR ENDED 31 DECEMBER		(Note)	2017	2016
18	Trade and Other Receivables			
	Trade Receivables	18.1	437,319,550	202,987,650
	Amounts Due from Related Parties	18.2	-	-
	Other Receivables	18.3	691,038,998	708,439,777
			1,128,358,547	911,427,427
18.1	Trade Receivables			
	Credit / Debit Card Control		41,619,337	25,606,203
	Trade Receivables - Credit Memo Control	18.1.1	327,716,075	127,504,905
	Provision for Impairment		(62,959,958)	(62,959,958)
			306,375,454	90,151,150
	Gondola Income Receivable		61,462,463	112,928,500
	Provision for Impairment		(92,000)	(92,000)
			367,745,917	202,987,650
	Accounts Receivable		69,573,633	-
			437,319,550	202,987,650
18.1.1	This balance includes amount receivable from Co-operative Wholesale Establishment, a Related Party		9,952,513	4,050,000
18.2	Amounts Due from Related Parties			
	Co-operative Wholesale Establishment		10,083,353	10,083,353
	Provision for Impairment		(10,083,353)	(10,083,353)
			-	-
18.3	Other Receivables			
	Ministry of Industry and Commerce		674,392,128	702,546,658
	Sports Ministry		36,453,533	36,453,533
	Provision for Impairment		(36,453,533)	(36,453,533)
			674,392,128	702,546,658
	Other Receivable - Gift Vouchers Issued		3,001,296	5,848,096
	Loan Interest in Advance		13,197,260	-
	Cheques Control / Outlet Control -Other		448,313	44,952
	Shares - Calls in Arrears		-	70
			691,038,998	708,439,777
19	Deposits and Advances			
	Refundable Deposits - Containers		19,507,254	19,633,032
	Refundable Deposit		53,408,191	1,853,575
	Rent Advance		189,117,372	174,062,540
	Rent Deposits		4,193,210	3,736,635
	Rent Prepaid		31,320	211,000
	Festival Advance	19.1	2,079,431	1,501,231
	Advances - Others	19.2	33,931,572	220,192,249
	Import Clearing Advances	19.3	267,600,501	267,600,501
	Local Purchase Advances		63,225	(47,160)
	Travelling Advance		860,661	39,061
	Big Onion Control	19.4	-	-
	Salary Return		-	57,373
	Under Remittance	19.5	18,474,511	6,762,337
			589,267,246	695,602,375
19.1	Festival Advance			
	Advances to Staff		2,525,431	1,947,231
	Provision for Impairment		(446,000)	(446,000)
			2,079,431	1,501,231

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Sri Lankan Rupees)

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
19.2 Advances - Others			
Advances		41,538,640	227,799,317
Provision for Impairment		(7,607,068)	(7,607,068)
		33,931,572	220,192,249
19.3 Import Clearing Advances			
This amount represents part of the advances paid to Liverpool Navigation (Pvt) Ltd (LNL) for clearance of imported rice, the expense of which should be incorporated into the costing of the corresponding rice stocks, to be recognized under inventories. However, the clearing documentation in relation to the advances paid have been not produced by the clearing agent (LNL) enable the company to identify the nature of the expenses against which the amount advanced is claimed in order to book into the respective accounts that relates to the expenditure / stocks. This matter has been referred to the Attorney General's Department by the company to seek advise for further action.			
19.4 Big Onion Control			
Big Onion Control		137,826,385	137,826,385
Provision for Impairment	19.4.1	(137,826,385)	(137,826,385)
		-	-
19.4.1	The remaining balance of the Big Onion Control Account amounting to Rs. 137,826,385/- represents the difference between the total amount paid to purchase of big onions from the local farmers and the big onions stock received by 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.		
19.5 Under Remittance			
Under Remittance	19.5.1	75,236,848	56,762,337
Provision for Impairment		(56,762,337)	(50,000,000)
		18,474,511	6,762,337
19.5.1	The above represents the amount spent out of the sales collection by the Non Automated (Manual) outlets.		
20 Pre-Paid Expenses and Statutory Receivables			
Pre-Paid Expenses	20.1	29,144,372	34,517,023
Statutory Receivables	20.2	18,311,622	-
		47,455,994	34,517,023
20.1 Pre - Paid Expenses			
Insurance		4,001,430	15,394,523
Prepayments (E-wis Service Licence and Maintenance)		25,002,942	-
Liquor Licenses		140,000	19,122,500
		29,144,372	34,517,023
20.2 Statutory Receivables			
Income Taxes		10,927,534	10,927,534
Withholding Tax (WHT)		2,005,410	2,005,410
Provision for Impairment		(12,932,944)	(12,932,944)
		-	-
Value Added Tax Receivable (VAT)	20.2.1	18,311,622	-
		18,311,622	-
20.2.1	VAT registration was obtained during the year under review and the above balance represent input tax recovered to be claimed as input tax credit against out put VAT payables.		



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

(Expressed in Sri Lankan Rupees)

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
21 Cash and Cash Equivalents			
Favourable Balances			
Term Deposits			
Short Term Investment in REPOs		412,652,569	1,658,871,957
		412,652,569	1,658,871,957
Cash at Bank			
People's Bank - Savings Account		25,518,723	227,680,588
People's Bank - Master Card		6,509,761	79,354,353
People's Bank - Petty Cash		8,052,567	18,480,291
People's Bank - Liquor Account		-	21,417,383
Bank of Ceylon - Current Account		1,105,431	1,106,433
People's Bank - Current Account		-	143,079,975
Bank - Mobitel Easy Cash		919,055	1,514
		42,105,537	491,120,538
Cash in Hand			
Petty Cash Advance		849,755	477,745
Floating Cash		3,080,755	2,320,755
Special Petty Cash		2,473,334	-
Petty Cash Float		7,480,034	-
Outlet Cash Control	21.1	570,772,334	314,126,445
		584,656,212	316,924,944
		1,039,414,318	2,466,917,439
Unfavourable Balances			
Bank Overdrafts			
People's Bank - Liquor Account		6,785,470	-
People's Bank - Current Account		1,660,771	-
People's Bank - Current Account		372,495,188	601,667,126
		(380,941,429)	(601,667,126)
Cash and Cash Equivalents for the Purpose of Statement of Cash Flows		658,472,889	1,865,250,313

21.1 This balance represents the un-deposited cash collection by the individual outlets as at the year end.

22 Stated Capital			
Issued and Fully Paid,			
Ordinary Shares		893,752,720	893,752,720
Number of Shares		89,375,272	89,375,272
23 Retirement Benefits Obligation			
Balance as at 01 January		93,581,728	86,513,597
Expenses Recognized in Profit or Loss	23.1	29,994,556	24,646,179
Actuarial (Gain) / Losses Recognized in Other			
- Comprehensive Income		9,148,330	(16,586,222)
Payments Made During the Year		(2,277,486)	(991,826)
Balance as at 31 December		130,447,129	93,581,728

23.1 Expenses Recognized in Profit or Loss

Current Service Cost	20,168,475	15,562,251
Interest Charge for the Year	9,826,081	9,083,928
	29,994,556	24,646,179

23.2 The Principal Actuarial Assumptions used are as follows;

	2017	2016
Discount Rate [%]	12.00	10.50
Salary Escalation Rate [%]	5	2.5
Retirement Age [Yrs]	57	57
Staff Turnover Factor [%] - up to 50 Years	8	8

23.2 The Principal Actuarial Assumptions used are as follows; (Continued;)

The present value of the retirement benefits obligation of the reporting period have been determined using an Actuary.

In addition to the above, demographic assumptions such as mortality, withdrawal and disability are considered for the actuarial valuation. The mortality table issued by the London Institute of Actuaries (A 67/70 mortality table) has also been used in the valuation.

23.3 The Sensitivity of the Present Value of Retirement Benefits Obligation to Changes in the Weighted Principal Assumptions by 1% are:

Sensitivity	Discount Rate [%]		Salary Escalation Rate [%]	
	Increase in 1%	Decrease 1%	Increase in 1%	Decrease 1%
As a Percentage [%]	(5.28)	5.91	5.29	(4.75)
Value	123,563,373	138,159,103	137,348,344	124,249,279

LANKA SATHOSA LIMITED

(Expressed in Sri Lankan Rupees)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 Project	Total
Balance as at 01 January 2016	10,000,000	217,879,396	-	-	-	-	227,879,396
Fund Received During the Year	40,615,642	675,679,333	27,654,280	95,952,097	-	-	839,901,352
Amortization for the Year	(8,480,485)	(102,184,499)	-	-	-	-	(110,664,984)
Balance as at 31 December 2016	42,135,157	791,374,230	27,654,280	95,952,097	-	-	957,115,764
Current Portion	2,500,000	102,184,499	-	-	-	-	104,684,499
Non-Current Portion	39,635,157	689,189,731	27,654,280	95,952,097	-	-	852,431,264
	42,135,157	791,374,230	27,654,280	95,952,097	-	-	957,115,764
Balance as at 01 January 2017	42,135,157	791,374,230	27,654,280	95,952,097	-	-	957,115,764
Fund Received During the Year	-	445,781,203	60,846,230	51,220,567	156,256,426	121,697,107	835,801,533
Amortization for the Year	(2,500,000)	(294,796,800)	(15,790,892)	(23,236,518)	(31,251,285)	-	(367,575,495)
Balance as at 31 December 2017	39,635,157	942,358,633	72,709,618	123,936,146	125,005,141	121,697,107	1,425,341,802
Current Portion	2,500,000	210,668,159	15,790,892	23,236,518	31,251,285	1,334,762	284,781,616
Non-Current Portion	37,135,157	731,690,474	56,918,726	100,699,628	93,753,856	120,362,345	1,140,560,186
	39,635,157	942,358,633	72,709,618	123,936,146	125,005,141	121,697,107	1,425,341,802

Note 1

As of the Reporting Date "Other Project" Grants has not been utilised by the company.

LANKA SATHOSA LIMITED
NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Sri Lankan Rupees)

FOR THE YEAR ENDED 31 DECEMBER	(Note)	2017	2016
25 Trade and Other Payables			
Trade Payables	25.1	5,128,284,759	3,425,946,303
Other Payables	25.2	231,411,268	49,879,465
		5,359,696,027	3,475,825,768
25.1 Trade Payables			
Supplier Payables, Accrued Expenses and others		5,059,805,627	3,261,665,451
Lanka Sathosa Outlets (Controls)		34,088,348	9,836,651
		5,093,893,974	3,271,502,102
Sales Advances		34,390,785	154,444,200
		5,128,284,759	3,425,946,303
25.1(a) Supplier Payables Comprise of the following Payables to Related Parties;			
Co-operative Wholesale Establishment		508,462,146	224,334,015
C.W.E. Construction and Engineering (Pvt) Ltd		22,033,698	17,852,219
CWE (Milco Agent) (Pvt) Ltd		5,584,530	3,524,090
C.W.E. Economic Center Services (Pvt) Ltd		16,385,139	15,380,281
25.2 Other Payables			
Employee Security Deposits		11,171,750	9,999,250
Retention Money		43,059,222	29,738,262
Gift Voucher Control		5,585,119	(42,156)
Intermediate - Fixed Assets Payable		145,578,196	10,181,210
Vegetable Supplier Commission Payable		16,879,226	-
Accrued Income		140,000	-
Refundable Deposits Payable		4,813,300	-
Printing Expenses Payable		3,745,764	-
Other Payables		433,892	-
Lanka Sathosa Welfare Society		4,799	2,899
		231,411,268	49,879,465
26 Borrowings			
Short Term Borrowing - Import Loan	26.1	9,865,785,205	9,028,226,082
Short Term Borrowing - Working Capital	26.2	2,568,443,836	3,033,632,877
	26.3	12,434,229,041	12,061,858,959
Bank Overdrafts	21	380,941,429	601,667,126
		12,815,170,470	12,663,526,085
26.1 Short Term Borrowing - Import Loan			
Balance as at 01 January		9,028,226,082	8,839,128,257
Loans Obtained During the Year		-	-
Interest Accrued		885,047,612	838,765,207
Repayments During the Year		(47,488,489)	(649,667,381)
Balance as at 31 December		9,865,785,205	9,028,226,082
26.2 Short Term Borrowing - Working Capital			
Balance as at 01 January		3,033,632,877	3,000,000,000
Loans Obtained During the Year		-	-
Interest Accrued		18,443,836	33,632,877
Repayments During the Year		(483,632,877)	-
Balance as at 31 December		2,568,443,836	3,033,632,877



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

(Expressed in Sri Lankan Rupees)

FOR THE YEAR ENDED 31 DECEMBER (Note) **2017** **2016**

26.3 The Carrying Amounts of the Borrowings are Carried at Fixed and Floating Rates are Stated as follows,

Floating Rate:

Carrying Amounts of the Import Loans 12,434,229,041 11,839,128,257

Fixed Rate

Carrying Amounts of the Import Loans - -

12,434,229,041 11,839,128,257

Short-Term Borrowings are secured by capital assets of the company, details of which are disclosed in note 30.

27 Statutory Payables

Value Added Tax (VAT)	83,195,584	-
Nation Building Tax (NBT)	52,028,369	-
	135,223,953	-

28 Accrued Expenses

Salaries Payable	293,114	-
Return Salary	-	-
EPF Payable	27,101,863	22,250,624
ETF Payable	3,807,994	3,032,921
PAYE Payable	16,770	2,567
Provision for Salary Arrears	359,238	29,071,430
Meal Allowances Payable	813,100	709,300
Annual Leave Reimbursement Payable	33,988,307	22,465,215
Audit and Tax Fees	5,500,000	4,772,000
Overtime Payable	15,794,016	9,241,465
Rent Payable	9,806,633	7,657,233
Electricity Payable	-	4,772,013
Water Charges	-	83,922
Mobitel Recharge Payable	27,443	1,450
Mobile Bill Payable	-	290,184
Mcash Bill Payable	123,101	3,397
Others	80,500	9,597,410
	97,712,079	113,951,131

29 Comparative Information

Comparative figures have been re-classified where necessary in line with the presentation requirements for the current year.

29.1 Reclassification

Statement of Financial Position

The Refundable Deposit amounting to Rs. 1,853,575/- now has Re-Classified along with the Deposits and Advances under Current Assets in the financial statements for better presentation.

	As Disclosed 31 Dec. 2016 Rs.	As Reclassified 31 Dec. 2016 Rs.	Adjustment Rs.
Deposits and Advances	693,748,800	695,602,375	1,853,575
Trade and Other Payables	3,473,972,193	3,475,825,768	1,853,575

LANKA SATHOSA LIMITED

(Expressed in Sri Lankan Rupees)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

30 Related Party Disclosures

The Company's related parties includes other related entities in which key management personnel (KMPs) are common Directors and KMPs.

30.1 Transactions with Key Management Personnel

According to the Sri Lanka Accounting Standards LKAS 24 "Related Party disclosures" KMPs are those having responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Board of Directors including executive and non - executive directors have been defined as KMPs.

Key Management Personnel Compensation	2017	2016
Remuneration and Other Short-Term Employee Benefits	860,000	1,035,000

30.2 Transactions with Subsidiaries and Other Related Entities

The Company carried out transactions on normal course of its business on an arms length basis with its related entities.

Name of the Company	Relationship	Nature of the Transaction	Transaction Value (Rs.)	Balance Due from / (to)
Co-operative Wholesale Establishment	Related Company	Building Rent	(103,966,679)	
		Transport	(49,386,502)	
		Royalty Fees	(7,751,718)	
		Electricity & Water	(7,077,056)	
		Packaging & Other	(3,810,131)	
		Purchases	(167,506,743)	
		Auditorium Charges	(360,094)	
		Janitorial	(436,060)	
		Payment Made	366,297,960	(454,506,267)
C.W.E. Construction and Engineering (Pvt) Ltd	Related Company	Services	(1,493,911,712)	
		Payment Made	1,454,025,794	(22,033,698)
C.W.E. Economic Center Services (Pvt) Ltd	Related Company	Services	(206,615,223)	
		Payment Made	205,610,365	(16,385,139)
CWE (Milco Agent) Pvt Ltd	Related Company	Services	(50,840,588)	
		Payment Made	48,780,148	(5,584,530)

31 Assets Pledged as Securities

Assets Pledged as Securities by the company are as follows;

Lending Institution	Type of Loan Facility	Facility Limit	Rate of Interest	Outstanding (Rs.)	Securities
People's Bank	Import Rice Loan	N/A	13% to 14% p.a	1,238,802,212	Fixed Deposits are pledged as of the reporting date
People's Bank	Working Capital Loan	3 Bn	13% to 14% p.a	2,568,443,836	-
Bank of Ceylon	Import Rice Loan	N/A	13% to 14% p.a	7,741,935,382	The letter of comfort by The Treasury

**LANKA SATHOSA LIMITED***(Expressed in Sri Lankan Rupees)***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017****32 Capital and Other Commitments**

There were no material commitments, financial or contracted or consented by the Board of Directors as at the end of the reporting period. Except for the note referred in 32.4.

33 Contingent Liabilities and Litigations

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;

33.1 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.

33.2 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. Karunaratne Lansakkara (Attorney-at-law) claiming for total outstanding amounting to Rs. 54.5 Mn. At the reporting date company layers has confirmed that value of the case 61.1 Mn amount increased due to However, the company is in the process of obtaining legal advice in this regard as the date of authorization of these financial statements.

33.3 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 have 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.

33.4 Trident Champer Limited-Dispute on Liner Demurrage

A letter of Demand dated 27 March 2018 has been received 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 namely “MV Mercy wisdom, MV Dynamic Ocean and MV Vingh Hung for which a liner demurrage amounting to US \$ 152,231/- has been claimed by the supplier local Rupee equivalent to Rs.23,900,267/-.

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

LANKA SATHOSA LIMITED

(Expressed in Sri Lankan Rupees)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

The Party	Description of the Case	Case No.	Court	Status of The Litigation
District Court				
Mr. Nandasena Rathnapala	Money Recovery	M 15392	District Court Matara	Pending
Mr. Gajith Kumara	Damages Claim	L 1661	District Court Nuwaraceliya	Pending
Magistrate Court				
Assistance Commissioner of Labour	Violation of Arbitration Order	10216/18	Magistrate Court Fort.	Pending
Labour Tribunal Matters				
Mr. S. K. Harshajith	Termination of Employment	08/194/2018	Labour Tribunal- Borella	Pending
Mrs. Jayakody	Termination of Employment	24/502/2017	Labour Tribunal- Gampaha	Pending
Mr. M. D. S. Sumudunath	Termination of Employment	01/64/2018	Labour Tribunal- Borella	Pending
Mr. Priyal Perera	Termination of Employment	2/Athi/3724/2014	Labour Tribunal- Battaramulla	Pending
Mr. Samarasiri	Termination of Employment	03/05/2015	Labour Tribunal- Kandy	Finised 25.01.2019 Paid Rs. 155,026/-
Mr. Mullegama and Mr. Sarachandra	Termination of Employment	68, 69/2015	Labour Tribunal- Kandy	Pending
Mr. Sudusinghe	Termination of Employment	27/Anu/2017/2433	Labour Tribunal- Anuradhapura	Pending

LANKA SATHOSA LIMITED

(Expressed in Sri Lankan Rupees)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

34 Events after the Reporting Period

Subsequent to the reporting date, there were no events occurred which could require adjustments to, or disclosure in these Financial Statements except that,

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

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

34.3 At the reporting date, 390 outlets were operated by the company and expanded with 83 new outlets after the reporting date strengthening the company's retail network.

35 Going Concern

The company has incurred a net Loss of Rs. 2,773,680,592/- during the year under review, the accumulated losses amounting to Rs.11,823,696,122/- and, company's current liabilities has exceeded its current assets by Rs. 11,290,858,189/- .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.

36 Financial Instruments and Risk Management

The accounting classification of each category of financial instruments and their carrying amounts reported in the statement of financial position are stated below;

The Carrying Values of Financial Assets and Liabilities			
	Note	2017	2016
Loans and Receivables			
Trade and Other Receivables	18	1,128,358,547	911,427,427
Deposits and Advances	19	589,267,247	695,602,375
Fixed Deposits		301,856,496	47,581,810
Cash and Cash Equivalents	21	1,039,414,318	2,466,917,439
		3,058,896,609	4,121,529,051
TOTAL FINANCIAL ASSETS		2017	2016
FINANCIAL LIABILITIES			
Other Financial Liabilities			
Borrowings	26	12,434,229,041	12,061,858,959
Trade and Other Payables	25	5,359,696,027	3,475,825,768
Bank Overdrafts	21	380,941,429	601,667,126
		18,174,866,496	16,139,351,853
The financial liabilities are stated at amortized cost using the effective interest method.			
TOTAL FINANCIAL LIABILITIES		18,174,866,496	16,139,351,853

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

36.1 Financial Risk Management

The company has exposure to the following risks from its use of financial instruments and the company applies various risk management strategies to mitigate these risks from time to time.

1. Credit Risk
2. Liquidity Risk
3. Market Risk (Currency Risk and Interest Rate Risk)

The accounting classification of each category of financial instruments and their carrying amounts, are given in Note 35 in the financial statements.

The financial instruments of the company comprise of quoted and unquoted equity investments, investments in short-term deposits, interest bearing borrowings and cash and cash equivalents. The company also has trade receivables and payables from its core business activities. The main purpose of investment in short-term deposits and packing credit loans are to maintain liquidity for the operations. The company also has term loans which were borrowed for construction of factories. Investment in quoted and unquoted equity investments are strategic investments.

1. Credit Risk

Credit risk is the risk of financial loss to the company if counterparty fails to meet its contractual obligations. Credit risk arises principally from deposits held with banks, cash and cash equivalents (excluding cash in hand) and receivables from customers and related parties. The maximum risk exposures of financial assets that are subject to credit risk are equal to their carrying amounts.

Following table depicts the maximum risk exposure of financial assets reported as at 31 December 2017.

Risk Exposure to Financial Assets	2017	2016
Cash and Cash Equivalents	42,105,537	491,120,538
Deposits and Advances	589,267,247	695,602,375
Fixed Deposits	301,856,496	47,581,810
Trade and Other Receivables	1,128,358,547	911,427,427
	2,061,587,828	2,145,732,149

1.1 Trade Receivables

The company trades mainly with foreign & local customers and its related parties. The management assesses the credit quality of the customers based on the past experience and their pattern of payments. In addition, outstanding balances are monitored on an on going basis by the Board.

The company establishes policy for provision for impairment (Refer note 2.2.5 to the financial statements) that represents the estimate of incurred losses in respect of trade receivables. According to the impairment policy established, customers are reviewed individually to measure the impairment loss.

1.2 Other Financial Assets

Credit risk arising from other financial assets of the company comprises deposits held with banks, cash and cash equivalents and amounts from related parties. The company's exposure to credit risk arises from default in meeting contractual obligations of contractual parties, with a maximum exposure equal to the carrying amount of these financial instruments. The company manages its credit risks with regard to the bank deposits by mainly placing its fund with state banks and credit rated banks.

2. Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due under both normal and unexpected conditions without incurring unacceptable losses.

The company monitors financial assets and liabilities and prepares forecasted operational cash flows monthly. Annual budget is prepared in each division to monitor the divisional performance. The management monitors the both monthly forecasted operational cash flows, annual budget and liquidity requirements to ensure the company has sufficient cash to meet operational needs.

The following table depicts the company's financial assets and liabilities maturity analysis as at 31 December 2017 based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.



LANKA SATHOSA LIMITED

(Expressed in Sri Lankan Rupees)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Financial Assets and Liabilities	Carrying Amount	6 Months or Less	6-12 Months	More than 1 Year
Financial Assets				
Trade Receivables	911,427,427	911,427,427	-	-
Fixed Deposits	301,856,496	-	301,856,496	-
Cash and Cash Equivalents	1,039,414,318	1,039,414,318	-	-
	2,252,698,241	1,950,841,744	301,856,496	-
Financial Liabilities				
Trade Payables	5,128,284,759	5,128,284,759	-	-
Bank Borrowings	12,434,229,041	12,434,229,041	-	-
Other Payables	231,411,268	231,411,268	-	-
Bank Overdrafts	380,941,429	380,941,429	-	-
	18,174,866,496	18,174,866,496	-	-

3. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates which will affect the company's income or the carrying value of holdings of financial instruments.

3.1 Currency Risk

The company's exposure to currency risk arising from fluctuations in the value of foreign currency against the Sri Lankan Rupee after Central Bank of Sri Lanka allowed the Sri Lanka Rupees to freely float against foreign currency.

3.2 Interest Risk

The company's exposure to interest risk is the changes in market interest rates relate to short-term bank deposits and interest bearing loans.

Please refer note 26 to the financial statements relating to composition of interest bearing loans and borrowings those carried interest at floating rates and fixed rates.

At the reporting date, the Company's interest-bearing financial instruments were as follows;

As at 31 December	Carrying Amount (Rs.)	
	2017	2016
Variable Rate Instruments - Financial Liabilities		
Short Term Borrowing - Import Loan	9,865,785,205	9,028,226,082
Short Term Borrowing - Working Capital	2,568,443,836	3,033,632,877

Cash Flow Sensitivity Analysis for Variable Rate Instruments

The Company is exposed to changes in market interest rates through bank borrowings at variable interest rates.

As at 31 December 2017	Impact on Profit or Loss (Rs.)	
	100 bp Decrease	100 bp Increase
Short Term Borrowing - Import Loan	98,657,852	(98,657,852)
Cash Flow Sensitivity (Net)	98,657,852	(98,657,852)
Short Term Borrowing - Working Capital	25,684,438	(25,684,438)
Cash Flow Sensitivity (Net)	25,684,438	(25,684,438)

The company has bank borrowings and bank balances including term deposits placed with state banks and credit rated banks. The company monitors interest rate risk by actively monitoring interest rate movements.

4. Capital Management

The company manages its capital for safeguarding the company's ability to continue as a going concern in order to provide maximum returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company monitors capital structure on the basis of the gearing ratio. The gearing ratio is calculated as total borrowings by total equity. Total borrowings include non-current and current borrowings as shown in the statement of financial position. Following table depicts the company's total borrowing and equity ratio as at 31 December 2017 and 2016.

Class of Capital	2017	2016
Total Borrowings	12,815,170,470	12,663,526,085
Total Equity	(10,929,943,402)	(8,147,114,480)
Gearing Ratio [%]	(1.2)	(1.6)



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