

ANNUAL REPORT 2011/2012



LLTL

Lanka Logistics & Technologies Ltd.

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Vision and Mission

Vision

- To uphold national security through the exemplary facilitation of procurement and projects.

Mission

- Facilitate procurement of restricted and strategically important military equipment and services for the Sri Lanka armed forces, Police and other state owned institutions, directly from the foreign state owned organizations & manufacturers in an expeditious manner whilst maintaining external secrecy & internal transparency.
- Assist research & development and promote the indigenous defence industry.
- Initiate / undertake / manage projects with national security implications.

Corporate Profile

| | |
|-------------------------|--|
| Name of the Company | : Lanka Logistics and Technologies Limited |
| Legal Status | : Public Limited Liability Company |
| Registered Office | : 4-205, BMICH, Bauddhaloka Mawatha, Colombo 07 |
| Date of Incorporation | : 04 th September 2006 (Re-registered on 01 st September 2010) |
| Company Registration No | : N(PBS) 1331 |
| Board of Directors | : Mr. N Perera - Chairman Mr. L R de Silva - Director Mr. W Ekanayaka - Director Ms. L N de Silva Chandrasena - Director/ Company Secretary Mr. S Senaratne - Director |
| Secretary | : Ms L N de Silva Chandrasena 383, Kotte Road, Rajagiriya Telephone: 011-2868793 |
| Auditors | : B R de Silva and Company (Chartered Accountants) 22/4, Wijaya Kumaranathunga Mawatha, Colombo 05 Telephone : 011-4510368/011-4510268 |
| Bankers | : Bank of Ceylon Independence Square Branch, Torrington Colombo 07 Telephone: 011-2678073 |

CHAIRMAN'S REVIEW

CHAIRMAN'S MESSAGE

I am pleased to present to you the Annual Report and audited Financial Statements of Lanka Logistics & Technologies Ltd., for the **financial year ending 31st March 2012**.

I note that the company's operations and performance continued to grow benefiting society at large during this period.

During the year, the company continued to operate with the primary objective of facilitating procurement of goods and services to the Armed Forces & the Police, in particular for purchases made through bilateral agreements with the Russian, Indian and Chinese Governments. In discharging this responsibility, company assured swift and timely delivery of goods and services while maintaining secrecy and confidentiality. In the process the company was entitled to an administration fee of Rs. 397 Mn. However, considering the financial votes made available to the Armed Forces a sum of Rs. 63.9 Mn was recognized as revenue during the year under review.

The inability to collect the payments due from the Armed Forces & the Police hindered the implementation of the Cabinet approved Private/Public Joint Venture Project for the establishment of a Military Grade Footwear Manufacturing Facility.

Under the circumstances, the Company could make only a net profit after tax of Rs. 6.2 M during the year under review.

In conclusion I express my sincere thanks to my colleagues in the Board for the expertise, guidance and support given. I also take this opportunity to express my sincere appreciation to the management and staff led by Mr. Jayantha Wickramasinghe, Chief Executive Officer, for their dedication, commitment and dynamism which enabled the realisation of the company's corporate objectives.

Senior Management

Mr. Jayantha Wickramasinghe
Mr. Nishantha de Silva
Mr. Srilal Mahindapala
Mr. Dammike Fernando
Eng. Lalith Liyanage
Eng. Upul Gunasekara
Mr. Dhamitha Jayasekara

- Chief Executive Officer
- Head of Projects & Operations
- Head of Procurement Facilitation & Finance
- Head of Procurement Facilitation & Logistics
- Head of Information Technology
- Manager Projects
- Manager Human Recourses & Administration

Financial Highlights

| Description | 2011/12 Rs. Mn | 2010/11 Rs. Mn | Change % |
|---|-------------------|-------------------|----------|
| Revenue | 69.97 | 46.09 | 52 |
| Gross Profit | 66.56 | 33.67 | 98 |
| Operating Profit (Profit Before Interest and Tax) | 10.34 | 11.00 | (6) |
| Profit before Tax | 8.16 | 10.82 | (25) |
| Tax | 1.98 | 3.18 | (38) |
| Profit After Tax | 6.18 | 7.65 | (19) |
| Non Current Assets | 14.98 | 4.03 | 272 |
| Current Assets | 194.46 | 132.62 | 47 |
| Total Assets | 209.44 | 136.65 | 53 |
| Total Equity | 107.33 | 100.95 | 6 |
| Non Current Liabilities | 18.44 | 1.87 | 886 |
| Current Liabilities | 83.67 | 33.83 | 147 |
| Net Assets | 107.32 | 100.95 | 6 |
| Ratios | | | |
| Earning Per Share (No of Shares 205) Rs. | 30,142 | 37,312 | (19) |
| Net Assets Per Share Rs. | 523,556 | 492,425 | 6 |
| Return On Equity (%) | 5.76 | 7.58 | (24) |
| Return On Total Assets (%) | 2.95 | 5.60 | (47) |
| Gross Profit Ratio (%) | 95.12 | 73.06 | 30 |
| Operating Profit Ratio (%) | 14.78 | 23.87 | (38) |
| Net Profit Ratio (%) | 8.83 | 16.60 | (47) |
| Current Ratio (Times) | 2.32 | 3.92 | (41) |

Board of Directors

Mr. Nimal Perera- Chairman

Ms. Leisha N. de Silva Chandrasena- Director/Company Secretary

Mr. Lalith R. de Silva

Mr. Wasantha Ekanayaka

Mr. Sudarshana Senaratne

Report of the Directors

The directors have pleasure in submitting their report, together with the Audited Accounts for the financial year ended 31st March 2012 and independent Auditors Report thereon.

Review of the Year

The company has facilitated procurement to the value of Rs. 15,892 million accruing administration income of Rs.397 million during the year under review. The company recognised Rs.63.9 million for the year per the votes allocated by the respective Armed Force.

We have recognised Rs.0.4 million as CRD project services fee for this period.

Company was able to record a total turnover of Rs. 69.9 million during the year. The results of the financial year 2011/12 shows a Profit After Tax of Rs. 6.2 million compared to Rs. 7.6 million earned during the previous year.

Principal Activity

The activities of the company have expanded beyond procurement facilitation of military hardware in to the defence related projects with national security implications. The projects undertaken broadly fall in to three categories:

- **Public-Private Partnerships** for Civil Projects
- Government (through LLTL owned company) projects to **develop the indigenous defence related industries**
- **Joint venture companies** between the Government (through LLTL) & overseas strategic / technology partners

Corporate Governance

The Board of Directors of the Company is responsible for the governance of the Company, which includes setting out strategic aims, providing leadership & supervising the management.

Turnover

The turnover for the year was Rs. 69,969,634

Profit & Loss Account

| Financial Summaries | 2011/12 | 2010/11 |
|----------------------------|---------------------|----------------|
| | Rs. | Rs. |
| Revenue | 69,969,634 | 46,091,097 |
| Cost of Sales | (3,412,128) | (12,416,331) |
| Gross Profit | 66,557,506 | 33,674,766 |
| Other Income | 5,522,880 | 9,046,618 |
| Administration Expenses | (61,739,005) | (38,494,455) |
| Operating Profit | 10,341,380 | 11,003,908 |
| Profit After Tax | 6,179,165 | 7,648,946 |

Capital Expenditure

The total capital expenditure incurred on the acquisition of fixed assets during the year amounted to Rs. 13,627,124.84 as against Rs.74, 907.78 in the previous year.

Property, Plant & Equipment

The details of Property, Plant & Equipment of the Company are shown in note 08 to the financial statements.

Reserves

The movements during the year of Capital & Revenue reserves are shown in the statement of changes in equity.

Post Balance Sheet Events

No circumstances have arisen since the balance sheet date, which would require adjustment to or disclosure in the accounts.

Board Committees

The following members of the Board serve in the Audit Committee.

1. Mr. Wasantha Ekanayake (Chairman)
2. Mr. Lalith R de Silva
3. Mr. Sudarshana Senartne

Directors' Interest In contracts

No directors' interest in contracts for the financial year of 2011/12

Directors Fees

Directors fees paid during the year amounted to Rs. 1,550,000 /-

Directors' Share Holding

Directors did not hold shares of the Company during the financial year ended 31st March 2012.

Auditors

Messrs B R De Silva & Company (Chartered Accountants), retire & eligible to offer themselves for re-election. A Resolution to re-appoint them as Auditors & authorizing the Board to fix their remuneration will be proposed at the Annual General Meeting.

The Auditors Messrs B R De Silva & Company was paid Rs. 115,000 as their remuneration for the year ended 31st March 2012.

As far as the Directors are aware, the Auditor does not have any relationship (other than that of an auditor) with the Company other than those disclosed above. The Auditor also does not have any interests in the Company.

For & behalf of the Board,

Nimal Perera
(Chairman)

Corporate Governance Statement

The Board is responsible for the governance of the company whilst the shareholders' role in governance is to appoint Directors and to ensure that an appropriate governance structure is in place.

The Board of Directors of Lanka Logistics & Technologies Ltd is committed to business integrity and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and the development of best practices.

Board of Directors

The prime responsibilities of the Board of Directors are setting up the Company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to the Government Treasury (Department of Public Enterprises)

The Board of Directors is also responsible to create value for its shareholders and stakeholders through actions that are in compliance with laws and regulations, and, to promote a culture that rewards integrity, transparency, fair dealings and accountability.

Board Meetings

The Board meets monthly. Special Board meetings are also held whenever required. The Board of Directors comprise of non executive directors and is able to bring independent judgment to bear on the decision making process of the company.

There had been eleven Board meetings held during the year under review.

Audit Committee Report

The Audit Committee of the Company consists of Non-Executive Directors viz., Mr. Wasantha Ekanayake (Chairman), Mr. Lalith R de Silva & Mr. Sudarshana Senaratne. The main role and the responsibilities of the Audit Committee includes,

- a) Exercising oversight responsibilities relating to the quality and integrity of the Company's financial statements and financial reporting process including the preparation, presentation and adequacy of disclosures in the financial statements of Company in accordance with the Sri Lanka Accounting Standards;
- b) Exercising oversight responsibilities relating to the Company's compliance with financial reporting and information requirements of the Companies Act No. 07 of 2007 and other relevant financial reporting related regulations;
- c) Exercising responsibilities over processes to ensure that the Company's internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards; and compliance by the Company with legal and statutory requirements;
- d) Assessing the independence and performance of the Company's external auditors;
- e) Making recommendations to the Board pertaining to appointment re-appointment and in appropriate circumstances removal of the external auditors;
- f) Considering (if appropriate) the degree of any work undertaken by the external auditor for the Company other than the statutory audit; and
- g) Approving the remuneration and terms of engagement of the external auditors.

The Audit Committee met quarterly during the financial year ended 31st March 2012. The Audit Committee invited the Chief Executive Officer and the Head of Procurement Facilitation and Finance to attend all its meetings although it reserved the right to request any of the individuals to withdraw.

The Audit Committee inter alia engaged in the following activities during the financial year under review.

- Review of the un-audited monthly financial statements.
- Review of the audited financial statements for the year
- Review of the management letter issued by the external auditors and monitoring follow up action by the Management.
- Discussion with the external auditors of their independence from the Company and the Company's Management.
- Reviewing report on compliance with statutory reporting and payment requirements.
- The Committee reviewed the effectiveness of the external audit and to the Board the re-appointment of Messrs BR De Silva Chartered Accountants as the external auditors of the Company for the ensuing financial year, subject to the approval of the shareholders at the Annual General Meeting.

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the financial statements is set out in the following statement. The responsibility of the auditors, in relation to the financial statements prepared in accordance with the provisions of the Companies Act No 7 of 2007, is set out in the Report of the Auditors.

The financial statements comprise of:

- a. A balance sheet, which presents a true and fair view of the state of affairs of the company as at the end of the financial year, except for the matter of non-receipt of direct confirmation of the Administration fee debtors amounting to Rs. 88,415,704.48 as at 31st March 2012.
- b. An income statement of the company which presents a true and fair view of the profit and loss of the company for the financial year.

The directors are required to confirm that the financial statements have been prepared,

- c. Using appropriate accounting policies which have been selected and applied in a consistent manner, and material departures, if any, have been disclosed and explained; and
- d. Presented in accordance with the Sri Lanka Accounting Standards; and that
- e. Reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and
- f. Provides the information required by the Companies Act.

The directors are also required to ensure that the company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the directors have a responsibility to ensure that the company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the company.

The directors are also responsible for taking reasonable steps to safeguard the assets of the company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities

The directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections that may be considered being appropriate to enable them to give their audit opinion.

The directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the company and all other known statutory dues as were due and payable by the company at the balance sheet date have been paid.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
LANKA LOGISTICS & TECHNOLOGIES LIMITED

1. Report on the Financial Statements

We have audited the accompanying Financial Statements of Lanka Logistics & Technologies Limited, which comprise the Balance Sheet as at 31st March, 2012 and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant Accounting Policies and other explanatory Notes as set out on pages (01) to (16).

2. Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are responsible in the circumstances.

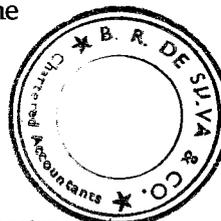
3. Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as, evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit, except for the matters stated in paragraph (4) below.

We, therefore, believe that our audit provides a reasonable basis for our opinion.



4. Direct confirmations were not received to assure the accuracy of the Administration fee debtors amounting to Rs. 88,415,704.48 as at 31st March 2012.

5. Opinion

In our opinion, except for the matters stated in paragraph (4) above and any consequent adjustments that may arise therefrom, so far as appears from our examination, the company maintained proper accounting records for the year ended 31st March, 2012 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31st March, 2012 and its Profit and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

6. Report on other Legal and Regulatory Requirements

These Financial Statements also comply with the requirements of Section 151 (2) of the Companies Act No. 07 of 2007.



B. R. DE SILVA & CO.
Chartered Accountants

Colombo 05.

Date... 5th/11/2012

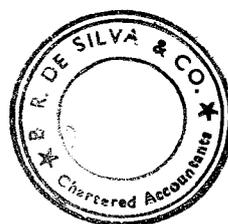
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LANKA LOGISTICS & TECHNOLOGIES LIMITED**INCOME STATEMENT**
FOR THE YEAR ENDED 31ST MARCH, 2012

| | Note | Rs. | Cts. | 2010/2011 Rs. |
|---|------|-----------------|------|------------------|
| Revenue | (3) | 69,969,633.90 | | 46,091,096 |
| Cost of Sales | | (3,412,128.34) | | (12,416,331) |
| Gross Profit | | 66,557,505.56 | | 33,674,765 |
| Other Operating Income | (4) | 5,522,880.33 | | 9,046,618 |
| Prior year over provided project cost | | | - | 6,776,980 |
| | | 72,080,385.89 | | 49,498,363 |
| Administrative Expenses | | (61,739,005.58) | | (38,494,455) |
| Operating Profit | (5) | 10,341,380.31 | | 11,003,908 |
| Finance Cost | (6) | (2,181,655.62) | | (178,743) |
| Profit from Ordinary Activities before Taxation | | 8,159,724.69 | | 10,825,165 |
| Taxation | | (1,980,560) | | (3,176,219) |
| Net Profit after Taxation | | 6,179,164.74 | | 7,648,946 |
| Earnings Per Share - Basic | (7) | 30,142.27 | | 37,311.93 |

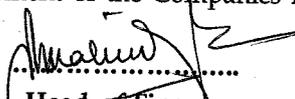
The Notes to the Financial Statements in pages (05) to (16) form an integral part of these Financial Statements.



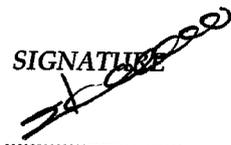
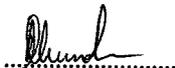
LANKA LOGISTICS & TECHNOLOGIES LIMITED**BALANCE SHEET AS AT 31ST MARCH, 2012**

| | Note | Rs. | Cts. | 2010/2011 Rs. |
|--|------|-----------------------|------|--------------------|
| <u>ASSETS</u> | | | | |
| <u>Non-Current Assets</u> | | | | |
| Property, Plant & Equipment, net | (8) | 12,871,350.43 | | 4,030,340 |
| Work In Progress- ESB System | | 2,104,763.64 | | - |
| | | <u>14,976,114.07</u> | | <u>4,030,340</u> |
| <u>Current Assets</u> | | | | |
| Work In Progress - Para Gear - USA | | 28,823,455.38 | | - |
| Investments | (9) | 40,952,352.86 | | 72,883,768 |
| Trade & Other Receivables | (10) | 120,053,634.19 | | 53,291,716 |
| Income Tax Recoverable A/C | (11) | 4,579,871.17 | | 6,330,076 |
| Cash & Cash Equivalents | (12) | 55,187.73 | | 110,909 |
| | | <u>194,464,501.33</u> | | <u>132,616,468</u> |
| Total Assets | | <u>209,440,615.40</u> | | <u>136,646,809</u> |
| <u>EQUITY & LIABILITIES</u> | | | | |
| <u>Capital & Reserves</u> | | | | |
| Stated Capital | (13) | 2,050.00 | | 2,050 |
| Seed Capital | (14) | 100,000,000.00 | | 100,000,000 |
| Accumulated Profit/(Loss) | | 7,326,905.56 | | 945,171 |
| Total Equity | | <u>107,328,955.56</u> | | <u>100,947,221</u> |
| <u>Non-Current Liabilities</u> | | | | |
| Provisions for Gratuity | (15) | 2,643,837.50 | | 1,870,425 |
| Term Loan | | 15,800,000.00 | | - |
| <u>Current Liabilities</u> | | | | |
| Trade & Other Payables | (16) | 46,089,687.55 | | 22,657,327 |
| Bank of Ceylon C/A -5960696 | | 37,578,134.79 | | 11,171,836 |
| | | <u>83,667,822.34</u> | | <u>33,829,163</u> |
| Total Equity & Liabilities | | <u>209,440,615.40</u> | | <u>136,646,809</u> |

These Financial Statements are in compliance with the requirement of the Companies Act No.07 of 2007.


Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by:

| | NAME | SIGNATURE |
|-----------|---------------------------|---|
| DIRECTORS | 1. Nimal Perera |  |
| | 2. Leigh A Silva Chandana |  |

DATE OF APPROVAL
BY THE BOARD

05.11.2012.

The Notes to the Financial Statements in pages (05) to (16) form an integral part of these Financial Statements.



LANKA LOGISTICS & TECHNOLOGIES LIMITED**STATEMENT OF CHANGES IN EQUITY**
FOR THE YEAR ENDED 31ST MARCH, 2012

| | <i>Stated Capital</i> | | <i>Seed Capital</i> | | <i>Accumulated Profit/(Loss)</i> | | <i>Total</i> | |
|--------------------------------------|---------------------------|-------------|-------------------------|-------------|--------------------------------------|-------------|-----------------------|-------------|
| | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> |
| Balance as at 31st March 2011 | 2,050.00 | | 100,000,000.00 | | 945,171.42 | | 100,947,221.42 | |
| Profit for the year | - | | - | | 6,179,164.74 | | 6,179,164.74 | |
| Previous year Adjustment | - | | - | | 202,569.40 | | 202,569.40 | |
| Balance as at 31st March 2012 | 2,050.00 | | 100,000,000.00 | | 7,326,905.56 | | 107,328,955.56 | |

The Notes to the Financial Statements in pages (05) to (16) form an integral part of these Financial Statements.



LANKA LOGISTICS & TECHNOLOGIES LIMITED**CASH FLOW STATEMENT**
FOR THE YEAR ENDED 31ST MARCH, 2012

| | 2010/2011 | |
|--|---------------------|---------------------|
| | Rs. | Rs. |
| <u>Cash Flows from/(Used in) Operating Activities</u> | | |
| Net Profit before Income Tax Expenses | 8,159,725 | 10,825,165 |
| <u>Adjustments for</u> | | |
| Previous year Adjustment | 287,250 | - |
| Depreciation | 4,786,114 | 4,478,215 |
| Finance Costs | 2,181,656 | 188,094 |
| Provision for Defined Benefit Plans | 773,413 | 538,863 |
| Interest Received | (5,521,403) | (9,046,618) |
| Operating Profit/(Loss) before Working Capital Changes | <u>10,666,754</u> | <u>6,983,719</u> |
| (Increase)/Decrease in Trade and Other Receivables | (96,316,710) | 5,949,976 |
| Increase/(Decrease) in Trade and Other Payables | 23,432,360 | (25,396,063) |
| Cash Generated from Operations | <u>(62,217,596)</u> | <u>(12,462,368)</u> |
| Finance Costs Paid | (2,181,656) | (188,094) |
| Income Tax Refund | 464,390 | - |
| Income Tax Paid | (48,088) | - |
| Net Cash From/(Used in) Operating Activities | <u>(63,982,951)</u> | <u>(12,650,462)</u> |
| <u>Cash Flows from/(Used in) Investing Activities</u> | | |
| Acquisition of Property, Plant & Equipment | (15,731,888) | (74,908) |
| Interest Received | 5,521,403 | 9,046,618 |
| Acquisition of investment/Disposal of Investment | 31,931,415 | (4,473,643) |
| Net Cash Flows from/(Used in) Investing Activities | <u>21,720,930</u> | <u>4,498,067</u> |
| <u>Cash Flows from/(Used in) Finance Activities</u> | | |
| Seed Capital | - | - |
| Loan Received | 15,800,000 | - |
| Loan Re Payment | - | - |
| Net Cash Flows from/(Used in) Finance Activities | <u>15,800,000</u> | <u>-</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | (26,462,020) | (8,152,395) |
| Cash and Cash Equivalents at the beginning of the year | <u>(11,060,927)</u> | <u>(2,908,532)</u> |
| Cash and Cash Equivalents at the end of the year | <u>(37,522,947)</u> | <u>(11,060,927)</u> |
| <u>Analysis of Cash & Cash Equivalents</u> | | |
| Cash at Bank - O/D | (37,578,135) | (11,171,836) |
| Cash at Bank-Savings Account-5960160 | 938 | 66,659 |
| Sampath Bank PLC | 24,250 | 24,250 |
| Cash in Hand | 30,000 | 20,000 |
| | <u>(37,522,947)</u> | <u>(11,060,927)</u> |

The Notes to the Financial Statements in pages (05) to (16) form an integral part of these Financial Statements.



LANKA LOGISTICS & TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2012

1. CORPORATE INFORMATION

1.1 General

Lanka Logistics & Technologies Limited ("Company") is a Limited Liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 4 - 205, BMICH, Baudhaloka Mawatha, Colombo 07, and the principal place of business is situated at the same address.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were procurement facilitation of equipment and services for the Army, Navy, Air Force and Police and supplying of goods and services to the Ministry of Defense for research and development purposes.

1.3 The notes to the Financial Statements on pages (05) to (16) form an integral part of the Financial Statements.

1.4 Number of Employees

The number of employees at the end of the year was 55.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1 Basis of Preparation

The Balance Sheet, Statement of Income, Changes in Equity and Cash Flow, together with Accounting Policies and Notes ("Financial Statements") of the Company as at 31st March, 2012 comply in all material aspects with the applicable Sri Lanka Accounting Standards.

Contd....(06)



LANKA LOGISTICS & TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31ST MARCH, 2012**Basis of Preparation (Contd....)**

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis.

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.2 Comparative Information

The accounting policies have been consistently applied by the Company.

2.1.3 Foreign Currency Conversion

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency at the rates of exchange prevailing at the time, the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are converted to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are converted using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the Income Statement.

2.1.4 Taxation**(a) Current Taxes**

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

2.1.5 Borrowing Costs

Borrowing Costs are recognised as an expense in the period in which they are incurred.

2.1.6 Deferred Expenditure

Expenditure which is deemed to have a benefit or relationship to more than one financial year is classified as deferred expenditure. Such expenditure is written off over the period, to which it relates, on a straight-line basis.

Contd....(07)



LANKA LOGISTICS & TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2012

2.2 Valuation of Assets and their Measurement Basis

2.2.1 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realize net of provisions for bad and doubtful debts.

2.2.2 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 equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investment with short maturities i.e. three months or less from the date of acquisitions are also treated as cash equivalents.

2.2.3 Property, Plant & Equipment

(a) Cost

Property, Plant & Equipment are recorded at cost less accumulated depreciation.

(b) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant & Equipment are subsequently revalued the entire class of such assets is revalued. Revaluations are done with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values, at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less depreciation.

Contd....(08)



LANKA LOGISTICS & TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31ST MARCH, 2012(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) Depreciation

The provision for depreciation is calculated by using a straight line basis on the cost or valuation of all Property, Plant and Equipment. The principal annual rates used are;

| | |
|----------------------------|-----|
| Furniture & Fittings | 20% |
| Office Equipment | 20% |
| Motor Vehicle | 25% |
| IT Equipment & Accessories | 25% |
| Interior Decorations | 50% |

Revised SLAS 18 Depreciation is provided on Property, Plant & Equipment from the available period of usage.

2.2.4 Leases(a) Finance Leases - where the Company is the Lessee

Property, Plant and Equipment on finance leases, which effectively transfers to the Company substantially all of the risk and benefits incidental to ownership of the leased item are capitalised at their cash price and disclosed as Property, Plant and Equipment and depreciated over the period the Company is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability, lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest payable over the period of the lease is transferred to an interest in suspense account. The interest element of the rental obligations applicable to each financial year is charged to the Income Statements over the period of the lease.

Contd....(09)



LANKA LOGISTICS & TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2012

(b) Operating Leases

Leases where the lesser effectively retains substantially all the risk and benefits of ownership over the leased term are classified as operating leases.

Rentals paid under operating leases are recognized as an expense in the Income Statement.

2.2.5 Investments

(a) Current Investments

Current investments are stated at lower of cost and Market Value.

The cost of an investment is the cost of acquisition inclusive of brokerages, fees, duties and bank fees.

(b) Long Term Investments

Long Term Investments are stated at cost OR valuation OR lower of cost and market value on a portfolio basis.

The cost of the investments is the cost of acquisition inclusive of brokerage fees, duties and bank fees.

2.3 Liabilities and Provisions

2.3.1 All known liabilities have been accounted for in preparing the financial statements.

2.3.2 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. In order to meet this liability, a provision is carried forward in the balance sheet, based on a half a month's salary of the last month of the financial year in respect of all employees for each completed year of service, commencing from the first year of service.

The gratuity liability is neither funded nor actuarially valued. This item is grouped under provision and other liabilities in the Balance Sheet.

Contd....(10)



LANKA LOGISTICS & TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2012

(b) Defined Contribution Plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in accordance with the respective Statutes and Regulations.

2.4 Grants and Subsidies

Grants and subsidies are recognised at their fair value where there is reasonable assurance that the grant/subsidy will be received and all attached conditions, if any, will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the period necessary to match them to the costs to which it is intended to compensate on a systematic basis.

Grants and subsidies related to assets, including non-monetary grants at fair value are deducted in arriving at the carrying value of the asset.

2.5 Income Statements

2.5.1 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

(a) Sale of Goods

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

(b) Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

Contd....(11)



LANKA LOGISTICS & TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2012

(c) Interest

Interest Income is recognised on an accrual basis.

(d) Rental Income

Rental income is recognised on an accrual basis.

(e) Others

Other Income is Recognised on an Accrual Basis

Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments have been accounted for in the Income Statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. [On disposal of revalued property, plant and equipment, amount remaining in the Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit.]

2.5.2 Expenditure Recognition

- (a) Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.
- (b) For the purpose of presentation of the Income Statement the Directors are of the opinion that the function of expenses method, presents fairly the elements of the Company's performance, and hence such presentation method is adopted.



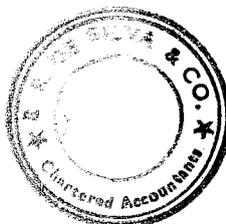
LANKA LOGISTICS & TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31ST MARCH, 2012

| | 2010/2011 | |
|---|----------------------|-------------------|
| | Rs. | Cts. |
| (3) <u>REVENUE</u> | | |
| CRD Project Services fee | 404,217.20 | 13,213,868 |
| Administration Fee | 65,563,114.01 | 31,894,827 |
| Registration Fee - Suppliers | 1,234,085.61 | 982,401 |
| DHQC Project Management Fee | 1,783,217.08 | - |
| DHQC Registration Fee | 985,000.00 | - |
| | 69,969,633.90 | 46,091,096 |
| (4) <u>OTHER OPERATING INCOME</u> | | |
| Interest Income - Fixed Deposits | 5,516,971.13 | 8,666,012 |
| Interest Income - Saving | 4,432.20 | 349,086 |
| Sundry Income | 1,477.00 | 31,520 |
| | 5,522,880.33 | 9,046,618 |
| (5) <u>OPERATING PROFIT IS STATED AFTER CHARGING</u> | | |
| <u>ALL EXPENSES INCLUDING THE FOLLOWING:</u> | | |
| Salaries | 26,023,793.34 | 16,636,502 |
| Auditors Remuneration (Fees and Expenses) | 115,000.00 | 107,100 |
| <i>Staff Cost (including the following Retirement Benefit Plan Costs)</i> | | |
| - Defined Benefit Plan Costs - Gratuity | 773,412.50 | 538,863 |
| - Defined Contribution Plan Costs - EPF & ETF | 3,894,419.00 | 2,503,338 |
| (6) <u>FINANCE COST</u> | | |
| Bank Charges | 18,500.00 | 13,810 |
| Debit Tax | - | 127,677 |
| Overdraft Interest | 2,163,155.62 | 37,256 |
| | 2,181,655.62 | 178,743 |

(7) EARNINGS PER SHARE

Basic Earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of Ordinary Shares outstanding during the year.

| | 2010/2011 | |
|---|------------------|------------------|
| Net Profit attributable to Ordinary Shares (Rs.) | 6,179,164.74 | 7,648,946 |
| Weighted Average number of Shares outstanding during the year | 205 | 205 |
| Earnings per Share (Rs.) | 30,142.27 | 37,311.93 |



LANKA LOGISTICS & TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****AS AT 31ST MARCH, 2012****(8) PROPERTY, PLANT & EQUIPMENT**

| (8.1) <i>Gross Carrying Amounts</i> | <i>Balance as at</i> | | <i>Additions/</i> | | <i>Disposals/</i> | | <i>Balance as at</i> | |
|--|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|
| | <i>01.04.2011</i> | | <i>Transfers</i> | | <i>Transfers</i> | | <i>31.03.2012</i> | |
| | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> |
| Motor Vehicle | 8,778,061.46 | | 6,545,000.00 | | - | | 15,323,061.46 | |
| Interior Décor | 4,355,084.85 | | 2,951,255.34 | | - | | 7,306,340.19 | |
| Computers & Accessories | 3,204,818.39 | | 2,525,659.86 | | - | | 5,730,478.25 | |
| Furniture & Fittings | 2,351,603.15 | | 1,444,248.97 | | - | | 3,795,852.12 | |
| Office Equipment | 1,806,808.99 | | 160,960.00 | | - | | 1,967,768.99 | |
| | <u>20,496,376.84</u> | | <u>13,627,124.17</u> | | <u>-</u> | | <u>34,123,501.01</u> | |
| (8.2) <i>Depreciation</i> | <i>Acc. Dep.</i> | | <i>Dep. for</i> | | <i>Disposals/</i> | | <i>Acc. Dep.</i> | |
| | <i>as at</i> | | <i>the year</i> | | <i>Transfers/</i> | | <i>as at</i> | |
| | <i>01.04.2011</i> | | | | | | <i>31.03.2012</i> | |
| | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> |
| Motor Vehicle | 6,580,940.40 | | 2,157,719.22 | | - | | 8,738,659.62 | |
| Interior Décor | 4,326,181.54 | | 888,785.37 | | - | | 5,214,966.91 | |
| Computers & Accessories | 2,692,630.01 | | 797,728.59 | | - | | 3,490,358.60 | |
| Furniture & Fittings | 1,818,521.62 | | 428,417.99 | | - | | 2,246,939.61 | |
| Office Equipment | 1,047,763.08 | | 513,462.76 | | - | | 1,561,225.84 | |
| | <u>16,466,036.65</u> | | <u>4,786,113.93</u> | | <u>-</u> | | <u>21,252,150.58</u> | |
| (8.3) <i>Net Book Values</i> | | | | | <i>2011/2012</i> | | <i>2010/2011</i> | |
| | | | | | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> |
| At Cost | | | | | 12,871,350.43 | | 4,030,340.19 | |
| Total Carrying amount of Property, Plant & Equipment | | | | | <u>12,871,350.43</u> | | <u>4,030,340.19</u> | |

(9) INVESTMENTS

| | <i>2011/2012</i> | | <i>2010/2011</i> | |
|------------------------------|----------------------|-------------|-------------------|-------------|
| | <i>Rs.</i> | <i>Cts.</i> | <i>Rs.</i> | <i>Cts.</i> |
| Investment in Treasury Bills | | - | | 25,000,000 |
| Investment in Fixed Deposits | 40,952,352.86 | | 47,883,768 | |
| | <u>40,952,352.86</u> | | <u>72,883,768</u> | |

BOC Time Deposit Certificate No. 7013173 amounting to Rs. 40,952,353.86 held by the bank as security for overdraft facility of Rs. 34,000,000.00.



LANKA LOGISTICS & TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
AS AT 31ST MARCH, 2012

| | Rs. | Cts. | 2010/2011 Rs. |
|--|-----------------------|------|-------------------|
| (10) <u>TRADE & OTHER RECEIVABLES</u> | | | |
| Trade Receivable | 91,089,580.80 | | 18,559,632 |
| Other Debtors | 25,397,313.27 | | 34,707,068 |
| Pre Payments & Deposits | 3,566,740.12 | | 25,016 |
| | <u>120,053,634.19</u> | | <u>53,291,716</u> |
| (11) <u>INCOME TAX RECEIVABLE</u> | | | |
| Balance at the beginning of the year | 6,330,076.00 | | 5,214,783 |
| Provision for the year | (1,980,559.95) | | (3,176,219) |
| | <u>4,349,516.05</u> | | <u>2,038,565</u> |
| Tax Refund Received | (464,390.00) | | - |
| Add : Tax Payments | 48,088.00 | | 40,963 |
| NTC | 80,565.32 | | 283,530 |
| ESC | - | | 1,065,764 |
| Specified Fees | - | | 2,306,219 |
| Deemed Dividend Tax | - | | 6,947 |
| WHT | 650,772.03 | | 588,088 |
| Prior year under provision | (84,680.23) | | - |
| Balance at the end of the year | <u>4,579,871.17</u> | | <u>6,330,076</u> |
| (12) <u>CASH & CASH EQUIVALENTS</u> | | | |
| Bank of Ceylon | 937.73 | | 66,659 |
| Sampath Bank PLC | 24,250.00 | | 24,250 |
| Cash in Hand | 30,000.00 | | 20,000 |
| | <u>55,187.73</u> | | <u>110,909</u> |



LANKA LOGISTICS & TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****AS AT 31ST MARCH, 2012**

| | Rs. | Cts. | 2010/2011 Rs. |
|---|-----------------------|-----------------|--------------------|
| (13) <u>STATED CAPITAL</u> | | | |
| Stated Capital | | 2,050.00 | 2,050 |
| | | <u>2,050.00</u> | <u>2,050</u> |
| (14) <u>SEED CAPITAL</u> | | | |
| Seed Capital | 100,000,000.00 | | 100,000,000 |
| | <u>100,000,000.00</u> | | <u>100,000,000</u> |
| <i>Note : Seed Capital was contributed by Sri Lanka Army, Sri Lanka Navy and Sri Lanka Air force.</i> | | | |
| (15) <u>PROVISIONS FOR GRATUITY</u> | | | |
| Opening Balance | 1,870,425.00 | | 1,331,562 |
| Provision for the year | 773,412.50 | | 538,863 |
| Closing Balance | <u>2,643,837.50</u> | | <u>1,870,425</u> |
| (16) <u>TRADE & OTHER PAYABLES</u> | | | |
| Trade Creditors | 31,591,689.04 | | 14,871,780 |
| Accrued Expenses & Others | 14,497,998.51 | | 7,785,547 |
| | <u>46,089,687.55</u> | | <u>22,657,327</u> |

