



state trading organization plc

annual report 2004

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Registered Office

Head Office,  
 Boduthakurufaanu Magu  
 Maafannu  
 Male' 20345  
 Republic of Maldives

STO's main business outlets

- STO Peoples Choice - Construction Materials
- STO Peoples Choice - Electronics
- STO Peoples Choice - Fuel & Lubricants
- STO Peoples Choice - Home Improvement
- STO Peoples Choice - Medicals
- STO Peoples Choice - Supermart
- STO Peoples Choice - Staple Foods

Retail outlets

- STO Shop No. 122, H.A. Hoarafushi
- STO Shop No. 123, S. Feydhoo
- STO Shop No. 132, B. Eydhafushi
- STO Shop No. 134, L. Fonadhoo
- STO Shop No. 136, Gn. Fuamulaku
- STO Shop No. 137, S. Hithadhoo
- STO Shop No. 138, G.Dh. Thinadhoo
- STO Shop No. 141 Gan Oil, S. Gan
- STO Shop No. 154, Oil Shop, S. Hithadhoo
- STO Shop No. 157 Hithadhoo Supermart, S. Hithadhoo
- STO Shop No. 158, Cement, Male'
- STO Shop No. 159, S. Maradhoo-Feydhoo
- STO Shop No. 162, K. Hulhumale'

Subsidiary Companies

Allied Insurance Company of Maldives Pvt Ltd	99.99% share
S.T.O. Maldives Singapore (Pvt) Ltd	99.99% share
STO Lanka Pvt Ltd	99.99% share
Maldives National Oil Company Ltd	99.99% share
Maldivian Gas Pvt Ltd	90% share
Fuel Supplies Maldives Pvt Ltd	66.67% share



STO Peoples Choice - Home Improvement

### Joint Venture Companies

Maldives Structural Products Pvt Ltd                      50% share

### Associate & Other Investments

Lafarge Maldives Cement Pvt Ltd                      25% share  
 Maldives Industrial Fisheries Company Ltd                      10% share  
 Bank of Maldives Plc.                      5% share

### Share Holding

	No. of shares	@ Rf 50.00	%
Government	1,040,000	52,000,000	92.29
Public	<u>86,910</u>	<u>4,345,500</u>	<u>7.71</u>
Total	<u>1,126,910</u>	<u>56,345,500</u>	<u>100.00</u>
Authorized Capital		57,777,750	
Paid-up Capital		56,345,500	
Premium		27,814,500	



Construction Materials - Goods Delivery

### Bankers

- State Bank of India, Male'
- Habib Bank Limited, Male'
- Bank of Maldives Plc, Male'
- Bank of Ceylon, Male'
- Seylan Bank, Colombo
- HSBC, Male'
- Bank Paribas, Singapore

### Auditors

KPMG Ford, Rhodes, Thornton & Co. - Maldives  
 1<sup>st</sup> Floor, Watheenigasdhoshuge  
 Majeedhee Magu  
 Male'  
 Rep. of Maldives



Seated from Left:  
Mr. Hussain Shareef (Chairman), Mr. Mohamed Maniku (Managing Director and Company Secretary),

Standing from Left:  
Mr. Mohamed Ahmed, Mr. Abdullah Jihad, Ms. Aishath Shahuda, Mr. Ibrahim Shiyam





As the Chairman of the Board of Directors of the State Trading Organization (STO), it gives me great pleasure to present to you the 'Directors' Report' and the 'Annual Report-2004'.

While STO has made strides the past year was a difficult year, one of challenges and opportunities. The Company attained important milestones and developments. The Company was presented with some of its most testing challenges, both domestically and internationally.

Among the important projects and programmes of the Company during the year was the overhauling of the two fuel-storage tanks on Male' Atoll Funadhoo. The project, which was undertaken by Sumatec Corporation, Malaysia, was completed in May 2005, and the tanks are now in use.

Looking at the Company's business ventures in the atolls, a new outlet was established in Gn. Fuvahmulah during the year, as part of the ongoing programme to modernize the Company's businesses in the atolls. In addition and under the same programme, warehousing services were also established in Gn. Fuvahmulah.

Last year one of the most important developments of STO was the strengthening of the internal auditing system including the efforts for modernizing and controlling the Company's finances and holdings. A qualified local auditor has

been assigned to undertake the process.

As for the plethora of business interests of the Company, I am happy to note 2004 as the very first year in which Lafarge Maldives Cement Pvt. Ltd. registered profitability after many years of operating at a net loss.

I also note with delight that the construction of the new STO Head Office has been completed, and that STO main office is operating there since 22nd of May 2005.

As you know, 2004 ended with a national tragedy of epic proportions. An audit of the effects of the December 26th tsunami showed that the country's once vibrant economy was set back by over a decade and that tourist arrival numbers also plummeted in the aftermath. The tsunami catastrophe also inflicted damage to property and goods belonging to STO. However, this loss was covered by insurance.

STO was quick to extend a helping hand to the many thousand tsunami victims across the country. In addition to the Herculean task of providing essential food and basic supplies to the victims strewn across the archipelago, the Company donated financial contributions of Rf. 1 million (One Million Rufiyaa) and Rf 500,000 (Five Hundred Thousand Rufiyaa) to the special tsunami assistance fund established by the Ministry of Finance and Treasury and the Maldives National Chamber of Commerce and Industry, respectively.

Although the tsunami was a huge set back for STO, I am confident that the on going national reconstruction programme, and its emphasis on the provision of housing for those who lost their homes in the disaster, will present STO's construction-related businesses with additional opportunities in the time to come.

One of the toughest challenges that STO faced during the past year was as a result of the unprecedented rises in world petroleum prices. Being a public enterprise, it is of course not a policy of STO to raise the price of its petroleum imports into the country to offset the sudden and sharp increases in the global market. As such, the profits registered by STO in 2004 were considerably lower than estimated at the start of the year.

As in previous years, the company will allocate resources to maintain and upgrade STO infrastructure, streamline its imports and strengthen its petroleum and other business interests. As such, a cargo vessel and a landing craft were purchased during 2005.

2005 will no doubt be a challenging year for STO, especially given the continued rise in world petroleum prices and the extent of economic setback caused by the tsunami. We are under no illusion that much hard work and dedication is needed to ensure that the company's successes are sustained.

I firmly believe that the Company's further development lies in the consolidation of its core businesses. We will also continue to address the food security concerns of the nation

as in the past. We will also try to make more efficient the less profitable sections of its operations.

The inspiration behind the development of STO over the years has undoubtedly been President Gayoom himself, who had regularly monitored the progress of the Company and had continuously accorded importance to the Company's progress. I am greatly honoured to extend, on behalf of the Board of Directors and the management and staff of STO, our sincere gratitude to the President.

It is with great satisfaction that I thank all the Board members who left in 2004. My special thanks go to Hon. Abdulla Yameen, the former Chairman of STO and former Minister of Trade and Industries, for his invaluable service.

I also thank Hon. Mohamed Jaleel, Lt. Gen. (Rt.) Anbaree Abdul Sattar and Hon. Ismail Fathee, for their contribution and support.

While extending a very warm welcome to the new Board of Directors of STO, I thank them for the dedication and perseverance to make STO more vibrant and successful.

I sincerely hope that, with the hard work of the Board of Directors, the management and staff of STO, the company will usher in a period of sustainable success for the common benefit of shareholders and our beloved nation.

May Almighty Allah help us attain these worthy goals.

Hussain Shareef  
Chairman

### Introduction

We are pleased to present the Directors' Report, along with the audited financial statements as at December 31, 2004, which was approved by the Board of Directors on 3rd August 2005.

### Board of Directors

Mr. Hussain Shareef	Chairman
Mr. Ibrahim Shiyam	Director
Mr. Abdullah Jihad	Director
Ms. Aishath Shahuda	Director
Mr. Mohamed Ahmed	Director
Mr. Mohamed Maniku	Managing Director & Company Secretary

Mr. Mohamed Ahmed was re-elected for a third term in June 2004 by the public shareholders of STO.

Twelve meetings of the Board of Directors were held during the year 2004-2005.

The Board of Directors was reconstituted on 18 August 2004.

Members who left the Board on August 18, 2004 are:

Hon. Abdullah Yameen	Chairman
Hon. Anbaree Abdul Sattar	Director
Hon. Ismail Fathy	Director
Hon. Mohamed Jaleel	Director
Mr. Fazeel Najeeb	Director
Mr. Mohamed Maniku	Managing Director & Company Secretary



STO Annual General Meeting 2003

The Board of Directors would like to place on record, the services of the previous Board of Directors who has contributed immensely to the development of the Company. The Board of Directors in particular would like to note the services of the former Chairman, Hon. Abdulla Yameen, Hon. Abdul Sattar Anbaree, Hon. Ismail Fathy and Hon. Mohamed Jaleel, who for a number of years have served on the Board and guided its development through the last number of years.



Financial Performance during 2004

A breakdown of the STO's sales performance is given below.

	2004 (Rf Mn)	% of total sales	2003 (Rf Mn)	% of total sales
Crude oil sales	1,692.34	43.22	0.00	0.00
Fuel and Lubricants	1,583.61	40.44	1,000.76	66.35
Retail stores	123.86	3.16	96.33	6.39
Construction materials	133.88	3.42	95.85	6.35
Staple foods	104.76	2.68	72.03	4.78
Home Improvement	95.61	2.44	71.32	4.73
Government Imports	43.25	1.10	54.03	3.58
Supermart	54.79	1.40	45.36	3.01
Electronics	45.45	1.16	37.34	2.48
Medical supply	38.20	0.98	35.34	2.34
<b>Total</b>	<b>3,915.75</b>	<b>100.00</b>	<b>1,508.36</b>	<b>100.00</b>

The total revenue for the year 2004 Rf. 3.916 billion compared to the 2003 figure of Rf.1.508 billion. This huge revenue growth in 2004 is as a result of inclusion in the accounts, of Rf. 1.692 billion in crude oil trading revenue outside Maldives. The actual revenue growth locally is therefore, from Rf. 1.508 to Rf 2.224 billion, an increase of 47 percent. This increase is largely attributed to the increase in prices of petroleum products.

Other operating income slightly increased from Rf. 48.509 million to Rf. 49.347 million in 2004 (Figure 1). This was mainly as a result of a profit made on the disposal of fixed assets.

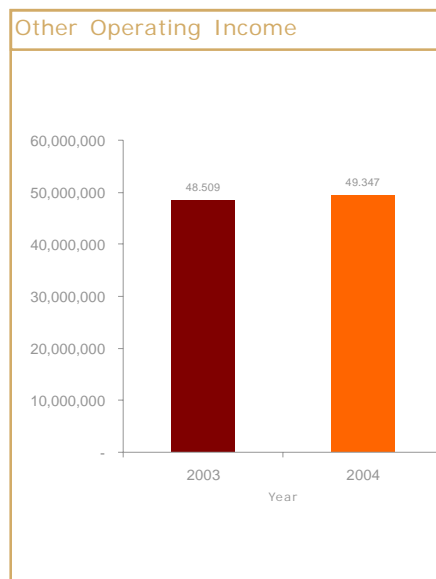


Figure 1

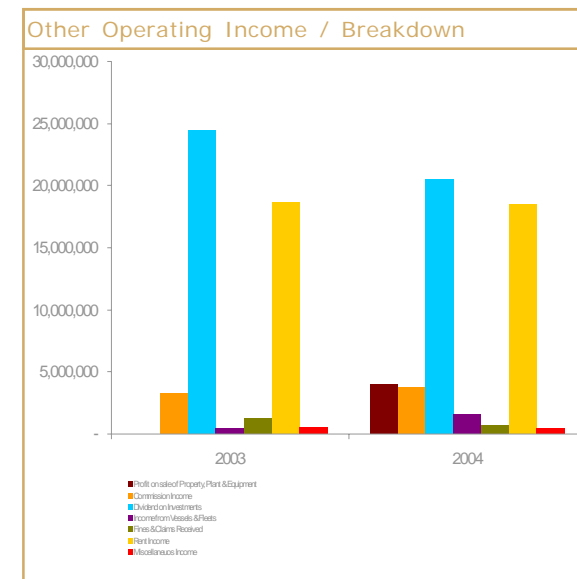


Figure 2

As a result of measures undertaken to control expenditure, the operating expenditure slightly declined from Rf. 147.840 million to Rf. 143.767 million in 2004 (Figure 3). This is including a 13 percent growth in personnel expenditure during the year 2004.

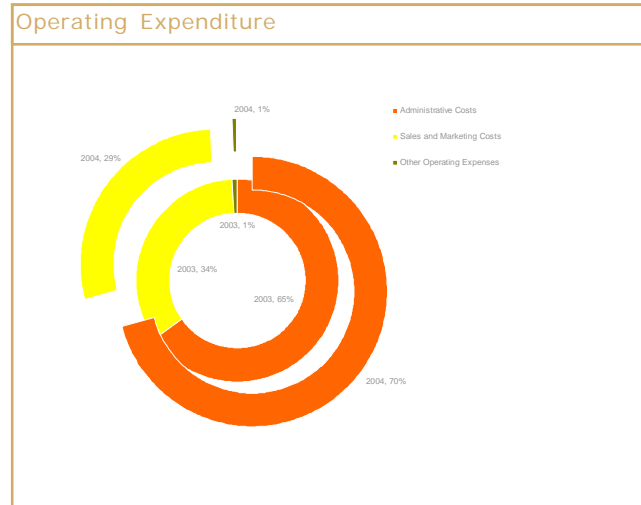


Figure 3

Operating profit before financing costs declined substantially from Rf 163.307 million in 2003 to Rf. 122.774 million in 2004 (Figure 4). This is mainly due to the fact that STO had not been able to raise the domestic retail prices of petroleum in line with the increase in the prices of the petroleum products in the world market.

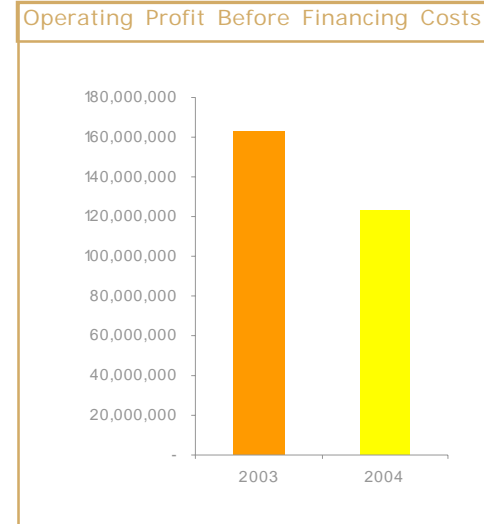


Figure 4

Net profit for the year 2004, therefore, declined from Rf. 154. million in 2003 to Rf. 114.827 million in 2004 (Figure 5).

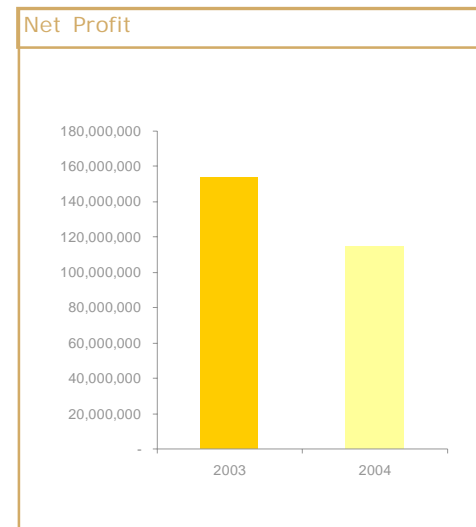


Figure 5

Key Financial Indicators	2004	2003	2002
Earnings per share	102.00	141.76	137.04
Price Earning Ratio	9.80	5.64	4.38
Dividend per share	-	110.00	118.00
Market price per share			
Highest	1,200.00	600.00	600.00
Lowest	500.00	400.00	400.00
Price at year end	1,000.00	600.00	500.00
Dividend Yield	-	0.18	0.20
Earning Yield	0.09	0.24	0.23
Return on Equity	0.20	0.29	0.30
Return on Total Assets	0.14	0.20	0.20
Current Ratio	1.72 : 1	2.33 : 1	1.93 : 1
Net Asset Value per share	502.00	503.74	479.73
Debt / Equity Ratio	0.57	0.35	0.49
Interest Cover	15.79	13.81	10.37

#### Share Performance

Subsequent to the share issue on 1<sup>st</sup> September 2003, the total issued and fully paid up share capital as at 31<sup>st</sup> December 2003 is Rf 56,345,500 consisting of 1,126,910 ordinary shares of Rf 50.00 each. There was no further issue of shares in the year 2004.

Nevertheless, year 2004 is noted for the trade of shares and increase in the market capitalization of STO shares. A total of 1,442 shares were traded in 55 transactions during the year resulting in a total value of shares traded being at Rf 1,059,740.00. Out of the share transactions of the Maldives Stock Exchange, 51% were that of STO shares.

The lowest traded price for the STO shares is Rf 500.00 (on 26/01/2004) and the highest traded price being Rf 1,200.00 (on 07/12/2004). The weighted average traded price for the year 2004 was Rf 734.91. Market capitalization of STO Shares is at over Rf 1.126 billion at 31/12/2004.

#### General Business Environment

Throughout the year, the world market petroleum prices were increasing due to the high demand from developing countries like China and India although the developed countries remained to be the major consumers. This had a serious impact on our trading as petroleum products contributed to 83.66 % of our sales.

The open and liberalized trade policy by the government resulted in a number of new entrants to the market, specially in construction and home improvement items and new ventures by existing companies resulting in an increase in domestic competition.

The year 2004 was fruitful in general. However fluctuations in petroleum prices had a negative impact on STO's profitability although the turnover had relatively increased over the year 2003.

On 26<sup>th</sup> of December 2004, the world experienced the most devastating Tsunami of its recorded history. It is estimated that the Tsunami disaster has caused USD 470 Million in quantifiable damages to the Maldives.

**Responsibility towards society**

STO Plc today takes into account the enormous responsibility towards society in line with its business strategies. Efforts are made to make sure the products we sell are environment friendly, and of good durable quality. Its pricing policy takes into account the interest of the shareholders, while making sure no unreasonable profits are obtained.

STO Plc also contributes to various charities and worthy causes.

**Corporate Governance**

To further address corporate governance and transparency at STO, some of the operations were re-structured to improve decision making process and accountability. In this regard the Accounts and Finance department was re-structured to create three independent entities, the Accounts Department, Finance Department and a new Internal Audit department.



STO Annual General Meeting 2003

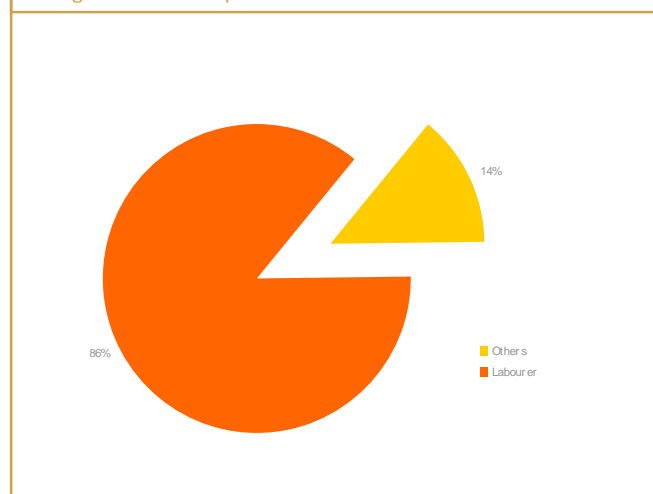
The objective of the Internal Audit department is to report on the adequacy of internal control systems and the level of compliance with the organisations' regulations.

**Human Resources**

STO's commitment to providing comprehensive training and development to all levels of staff continued in the year 2004. Training focus has been on the all-round development of people through enrichment of job knowledge, skills up-grading and competence building. About 50 different training programs, including in-house training programs at various local training centres, as well as those conducted by reputed overseas institutions were attended by the staff during the year. In addition to Middle management and Operational staff training, year 2004 is particularly noted for the achievement in training and development of executives.

	2004	2003	2002
Number of Maldivian staff	640	596	571
As a percentage	83%	81%	79%

Foreign Staff Composition



Focus on the future

We expect the future to pose unprecedented challenges and opportunities.

To reap maximum benefits from these opportunities, STO will consolidate the company's core business strengths. STO will also continue to further streamline its imports and give more emphasis on the development of international trade and investment.

It is extremely important that STO work in areas where the company will reduce its dependency on foreign currency and work towards increased foreign currency earnings.

In the short-term the following areas have been identified for special emphasis:

1. Cash and financial management services.
2. Internal audit controls.
3. Foreign trade investment opportunities.
4. Infrastructure logistics development.

Directors' Responsibility Statement

The Directors confirm that in the preparation of the annual accounts for the year ended 31<sup>st</sup> December 2004:

- The applicable accounting standards have been followed along with proper explanation relating to material departures if any;
- The accounting policies used were consistently applied;
- Reasonable and prudent judgment of estimates were made so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for the year ended 31<sup>st</sup> December 2004;

- Proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of applicable laws of the Maldives; and
- The accounts have been prepared on a going concern basis.

Conclusion

The successes or developments that STO has achieved, is due to the support of its loyal customers, combined with the effort of its shareholders, suppliers, well-wishers and the management team as a whole. The Board of Directors places on record its appreciation for this support. In addition, the board also expresses its appreciation to the Government of Maldives and other institutions both in Maldives and abroad for their continuous support.



STO Executives Meeting





**KPMG Ford, Rhodes, Thornton & Co.  
- Maldives  
(Chartered Accountants)**

First Floor,  
Watheenigasdhoshuge,  
Majeedi Magu,  
Male',  
Republic of Maldives

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Fax: +960 3323175

E-Mail: frt@kpmg.com.mv

## **Report of the Auditors**

### **To the Shareholders of State Trading Organisation Plc.**

#### **Scope**

We have audited the accompanying consolidated balance sheet of State Trading Organisation Plc. as at 31<sup>st</sup> December 2004 and the related consolidated statements of income, changes in equity and cash flow for the year then ended exhibited on pages 15 to 67.

#### **Respective Responsibilities of Management & Auditors**

These consolidated financial statements are responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the company as of and for the year ended 31<sup>st</sup> December 2003 were audited by another auditor whose report dated 8<sup>th</sup> June 2004, expressed a qualified opinion due to non recognition of impairment loss of investment available for sale.

#### **Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

#### **Opinion**

The Company has accrued an amount of Rf. 6,514,950/- as payable to a third party and a related Company. None of the creditors have confirmed the balance. The amount due to creditors has been disclosed under Note No. 22 to the financial statements. This transaction could not be substantiated in the absence of sufficient and appropriate audit evidence to establish the validity. This has understated net assets of the group by Rf. 6,514,950/- as at 31<sup>st</sup> December 2004.

A company incorporated in Singapore by the name of Mocom Trading Private Limited in 2004 has not been disclosed under Note No. 30 to the Financial Statements. There was no evidence available with regard to approval of the incorporation. Further we are unable to establish the volume and the nature of the transactions of the company with the group.

In accordance with Note No. 12 to the financial statements, investment available for sale includes an amount of Rf. 43,100,100/- in Maldives Industrial Fisheries Company Limited whose audited financial statements upto 31<sup>st</sup> December 2003 has disclosed substantial losses. Further the financial statements for the year ended 31<sup>st</sup> December 2004 has not been audited yet. Having considered above, no attempt has been made to assess the impairment loss in relation to the investment. Hence company has not complied with the provisions of International Accounting Standard 36, Impairment of Assets.

As explained under Note No. 29.3 to the financial statements, in order to mitigate the currency risk, the company has ventured to the parties who are willing to sell United States Dollars and granting advances to buy United States Dollars. Nevertheless, as at the balance sheet date, the company has approximately US\$ 22,547,068/- as foreign currency liabilities, whereas foreign currency assets including un-used bank facilities amounted to US\$ 5,066,213/- as at the same date. This has resulted in an amount of US\$ 17,480,855/- over exposure of foreign currency liabilities as at the balance sheet date.

In our opinion, except for the impact on the financial statements of the matters referred to in the preceding paragraphs, the consolidated financial statements give a true and fair view of the financial position of the company as at 31<sup>st</sup> December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act. No 10 of 1996.

(Signed)

**KPMG Ford, Rhodes, Thornton & Co. - Maldives**  
CHARTERED ACCOUNTANTS

3rd August 2005  
Male'.

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER		Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
	Note				
<b>Revenue</b>	1	4,458,975,646	2,119,126,410	3,915,755,882	1,508,361,191
Cost of Sales		(4,171,689,956)	(1,783,907,050)	(3,698,561,208)	(1,245,723,401)
<b>Gross Profit</b>		<b>287,285,690</b>	<b>335,219,360</b>	<b>217,194,674</b>	<b>262,637,790</b>
Other Operating Income	2	26,606,041	36,669,960	49,346,651	48,509,496
		313,891,731	371,889,320	266,541,325	311,147,286
Administrative Costs		(141,884,792)	(122,378,123)	(101,784,190)	(96,335,085)
Sales and Marketing Costs		(43,219,183)	(66,884,339)	(41,095,228)	(50,394,726)
Other Operating Expenses		(3,366,554)	(1,110,006)	(887,550)	(1,110,006)
<b>Operating Profit before Financing Costs</b>	3	<b>125,421,202</b>	<b>181,516,852</b>	<b>122,774,357</b>	<b>163,307,469</b>
Financial Income		5,453,772	5,560,627	5,003,509	5,465,610
Financial Expense		(13,515,810)	(17,283,611)	(12,950,833)	(17,289,714)
<b>Net Financing Costs</b>	4	<b>(8,062,038)</b>	<b>(11,722,984)</b>	<b>(7,947,324)</b>	<b>(11,824,104)</b>
Share of Profit from Associates		31,813	-	-	-
Share of Profit from Joint Venture		-	-	-	2,516,856
<b>Profit before Tax</b>		<b>117,390,977</b>	<b>169,793,868</b>	<b>114,827,033</b>	<b>154,000,221</b>
Income Tax	5	(42,390)	(61,000)	-	-
<b>Profit for the Period</b>		<b>117,348,587</b>	<b>169,732,868</b>	<b>114,827,033</b>	<b>154,000,221</b>
<b>Attributable to:</b>					
Equity Holders of the Parent		111,026,309	159,654,868	114,827,033	154,000,221
Minority Interest	6	6,322,278	10,078,000	-	-
<b>Profit for the Period</b>		<b>117,348,587</b>	<b>169,732,868</b>	<b>114,827,033</b>	<b>154,000,221</b>
<b>Basic Earnings per Share</b>	7	<b>99</b>	<b>147</b>	<b>102</b>	<b>142</b>

The figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the accounting policies and notes, which form part of the financial statements of the company set out on pages 22 to 67. The Report of the Auditors is given on pages 13 to 14.

## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER	Note	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Property, Plant and Equipment	8	290,046,038	266,416,351	173,137,542	159,363,172
Investments in Subsidiaries	9	-	-	91,535,222	81,535,222
Investment in Associate	10	2,755,514	2,723,701	10,567,268	2,723,701
Investments in Joint Ventures	11	-	-	4,700,000	7,216,856
Investments Available for Sale	12	50,251,150	49,186,100	50,251,150	49,186,100
Loan to Associate Company	13.1	3,989,308	4,654,193	3,989,308	4,654,193
		<u>347,042,010</u>	<u>322,980,345</u>	<u>334,180,490</u>	<u>304,679,244</u>
<b>Current Assets</b>					
Inventories	14	229,795,512	173,270,502	207,206,950	163,476,484
Trade and Other Receivables	15	376,785,665	299,509,284	149,000,093	157,439,000
Loan to Associate Company	13.2	664,885	664,885	664,885	664,885
Amounts due from Related Parties	16	1,432,355	4,650,370	163,989,443	93,482,946
Cash and Cash Equivalents	17	88,870,861	99,379,000	36,015,174	50,019,551
		<u>697,549,278</u>	<u>577,474,041</u>	<u>556,876,545</u>	<u>465,082,866</u>
<b>Total Assets</b>		<u>1,044,591,288</u>	<u>900,454,386</u>	<u>891,057,035</u>	<u>769,762,110</u>

## CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31ST DECEMBER	Note	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share Capital	18	56,345,500	56,345,500	56,345,500	56,345,500
Share Premium		27,814,500	27,814,500	27,814,500	27,814,500
Exchange Translation Reserve		(419,144)	-	-	-
Claim Equalization Reserve		1,050,373	643,201	-	-
General Reserve		176,634,140	178,354,000	176,634,140	176,634,140
Fair Value Reserve		4,761,748	3,696,698	4,761,748	3,696,698
Retained Earnings		341,816,833	353,572,499	299,367,644	303,174,000
<b>Total equity attributable to equity holders of the parent</b>		<b>608,003,950</b>	<b>620,426,398</b>	<b>564,923,532</b>	<b>567,664,838</b>
Minority Interest	6	19,926,533	19,513,455	-	-
<b>Total Equity</b>		<b>627,930,483</b>	<b>639,939,853</b>	<b>564,923,532</b>	<b>567,664,838</b>
<b>Liabilities</b>					
<b>Non-current Liabilities</b>					
Loans & Borrowings	19	3,244,536	6,241,166	1,514,866	2,669,000
Unearned Premium		2,811,002	3,504,344	-	-
Deferred Tax Liability	20	60,240	16,000	-	-
Provision for Retiring Gratuity	21	86,672	44,186	-	-
		<u>6,202,450</u>	<u>9,805,696</u>	<u>1,514,866</u>	<u>2,669,000</u>
<b>Current Liabilities</b>					
Loans & Borrowings	19	42,966,900	41,161,030	40,548,909	39,551,000
Trade and Other Payables	22	205,043,827	168,605,304	116,150,627	96,423,399
Amount due to Related Parties	23	2,534,998	1,851,533	8,049,218	24,424,231
Current Tax Liability	24	42,389	61,328	-	-
Dividend Payable	25	3,016,187	775,672	3,016,187	775,672
Bank Overdrafts	26	156,854,054	38,253,970	156,853,696	38,253,970
		<u>410,458,355</u>	<u>250,708,837</u>	<u>324,618,637</u>	<u>199,428,272</u>
<b>Total Equity and Liabilities</b>		<b>1,044,591,288</b>	<b>900,454,386</b>	<b>891,057,035</b>	<b>769,762,110</b>

The figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the accounting policies and notes, which form part of the financial statements of the company set out on pages 22 to 67. The Report of the Auditors is given on pages 13 to 14.

For and on behalf of the board;

(Signed)

**Mr. Hussain Shareef**  
Director

3rd August 2005

(Signed)

**M. Mohamed Ahmed**  
Director



**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31ST DECEMBER 2004**

COMPANY	Share Capital	Share Premium	General Reserve	Fair Value Reserve	Retained Earnings	Total
	Rf	Rf	Rf	Rf	Rf	Rf
As at 1st January 2003	53,302,500	6,509,500	176,634,140	3,696,698	274,966,499	515,109,337
Issue of shares	3,043,000	21,305,000	-	-	-	24,348,000
Net Profit for the Period	-	-	-	-	154,000,221	154,000,221
Dividend	-	-	-	-	(125,792,720)	(125,792,720)
As at 1st December 2003	<u>56,345,500</u>	<u>27,814,500</u>	<u>176,634,140</u>	<u>3,696,698</u>	<u>303,174,000</u>	<u>567,664,838</u>
As at 1st January 2004	56,345,500	27,814,500	176,634,140	3,696,698	303,174,000	567,664,838
Restatement (Note 10.1)	-	-	-	-	7,843,567	7,843,567
Restatement (Note 10.2)	-	-	-	-	(2,516,856)	(2,516,856)
Restated balance as at 1st January 2004	<u>56,345,500</u>	<u>27,814,500</u>	<u>176,634,140</u>	<u>3,696,698</u>	<u>308,500,711</u>	<u>572,991,549</u>
Dividend	-	-	-	-	(123,960,100)	(123,960,100)
Change in Fair Value of Investments Available for Sale	-	-	-	1,065,050	-	1,065,050
Net Profit for the Period	-	-	-	-	114,827,033	114,827,033
As at 31st December 2004	<u>56,345,500</u>	<u>27,814,500</u>	<u>176,634,140</u>	<u>4,761,748</u>	<u>299,367,644</u>	<u>564,923,532</u>

The figures in brackets indicate deductions

The financial statements are to be read in conjunction with the accounting policies and notes, which form part of the financial statements of the company set out on pages 22 to 67. The Report of the Auditors is given on pages 13 to 14.

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31ST DECEMBER 2004**

GROUP	Attributable to Equity Holders						Minority Interest	Total	
	Share Capital	Share Premium	Claim Equalisation Reserve	General Reserve	Fair Value Reserve	Exchange Translation Reserve	Retained Earnings		
	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	
As at 1st January 2003	53,302,500	6,509,500	643,201	178,354,000	-	-	317,356,000	7,384,455	563,549,656
Net Fair Value Gain	-	-	-	-	3,696,698	-	-	-	3,696,698
Net Profit for the Period	-	-	-	-	-	-	159,654,868	10,078,000	169,732,868
Prior Year Adjustments	-	-	-	-	-	-	2,354,351	-	2,354,351
Issue of Share Capital	3,043,000	21,305,000	-	-	-	-	-	9,276,000	33,624,000
Dividend	-	-	-	-	-	-	(125,792,720)	(7,225,000)	(133,017,720)
As at 1st December 2003	<u>56,345,500</u>	<u>27,814,500</u>	<u>643,201</u>	<u>178,354,000</u>	<u>3,696,698</u>	<u>-</u>	<u>353,572,499</u>	<u>19,513,455</u>	<u>639,939,853</u>
As at 1st January 2004	56,345,500	27,814,500	643,201	178,354,000	3,696,698	-	353,572,499	19,513,455	639,939,853
Translation gain during the year	-	-	-	-	-	(419,144)	(55,413)	-	(474,557)
Dividend	-	-	-	-	-	-	(123,960,100)	(5,909,200)	(129,869,300)
Net Profit for the Period	-	-	-	-	-	-	111,026,309	6,322,278	117,348,587
Change in Fair Value of Investments Available for Sale	-	-	-	-	1,065,050	-	-	-	1,065,050
Transfer to equivalent reserve	-	-	407,172	-	-	-	(407,172)	-	-
Difference in the Opening Balances	-	-	-	(1,719,860)	-	-	1,640,710	-	(79,150)
As at 31st December 2004	<u>56,345,500</u>	<u>27,814,500</u>	<u>1,050,373</u>	<u>176,634,140</u>	<u>4,761,748</u>	<u>(419,144)</u>	<u>341,816,833</u>	<u>19,926,533</u>	<u>627,930,483</u>

The figures in brackets indicate deductions

The financial statements are to be read in conjunction with the accounting policies and notes, which form part of the financial statements of the company set out on pages 22 to 67. The Report of the Auditors is given on pages 13 to 14.

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
<b>Operating Activities</b>				
Cash Generated from Operations <i>(Note A)</i>	59,559,727	161,487,397	22,113,354	136,486,630
Interest Paid	(13,515,810)	(16,226,401)	(12,950,833)	(15,818,622)
Tax Paid	(19,846)	(536,000)	-	-
Net Cash Flow from Operating Activities	46,024,071	144,724,996	9,162,521	120,668,008
<b>Investing Activities</b>				
Purchase of Property, Plant and Equipment	(60,097,476)	(66,264,317)	(41,520,340)	(35,482,836)
Proceeds from Disposal of Property, Plant and Equipment	7,248,351	869,000	6,005,152	14,000
Interest Received	5,298,776	5,560,627	4,433,743	5,109,627
Loan Recoveries	664,885	(664,885)	664,885	664,885
Investments in subsidiaries	-	1,318,000	(10,000,000)	-
Purchase of Non Current Investment	-	(5,000,000)	-	(12,869,000)
Dividends Received	651,865	24,494,815	20,525,746	24,400,080
Net Cash Used in Investing Activities	(46,233,599)	(39,686,760)	(19,890,814)	(18,163,244)
Net Cash Flow before Financing	(209,528)	105,038,236	(10,728,293)	102,504,764
<b>Financing Activities</b>				
Issue of Ordinary Shares	-	3,043,000	-	3,043,000
Share Premium	-	21,305,000	-	21,305,000
Loans Obtained During the Year	199,843,322	134,582,034	199,212,082	133,976,502
Loans Repayments during the Year	(201,034,082)	(116,776,269)	(199,368,307)	(122,974,269)
Dividends Paid	(121,719,585)	(125,017,000)	(121,719,585)	(125,017,000)
Dividends Paid to Minority Interest	(5,909,200)	(7,225,000)	-	-
Changes in Bank Overdrafts	118,600,084	(94,114,000)	118,599,726	(94,114,000)
Changes in Opening Reserves	(79,150)	-	-	-
Net Cash Flow from Financing Activities	(10,298,611)	(184,202,235)	(3,276,084)	(183,780,767)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	(10,508,139)	(79,163,999)	(14,004,377)	(81,276,003)
<b>Cash and Cash Equivalents at beginning of the Year</b>	99,379,000	178,542,999	50,019,551	131,295,554
<b>Cash and Cash Equivalents at end of the Year (Note 17)</b>	88,870,861	99,379,000	36,015,174	50,019,551

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
<i>Note A</i>				
<b>Cash Generated from Operations</b>				
Net Profit before tax	117,390,977	169,793,868	114,827,033	154,000,221
Depreciation	32,629,074	31,706,425	25,734,577	25,022,205
Interest Charged	13,515,810	16,226,401	12,950,833	15,818,622
Interest Received	(5,298,776)	(5,560,627)	(4,433,743)	(5,109,627)
Dividend Income	(651,865)	(24,494,815)	(20,525,746)	(24,400,080)
Share of Profit of Associates	(31,813)	-	-	-
Share of Profit of jointly controlled entities	-	-	-	(2,516,856)
Provision for Impairment of Trade Receivables	4,467,177	12,224,000	4,467,177	8,762,000
Provision/(Reversal) for slow moving inventories	-	10,023,000	-	10,023,000
Provision for Impairment of Value	119,747	821,000	-	821,000
Provision for Gratuity	42,486	44,186	-	44,186
Property, Plant & Equipment written off due to tsunami	332,779	-	-	-
Profit on Disposal of Property, Plant and Equipment	(4,333,962)	(14,000)	(3,993,759)	(14,000)
Working capital written off	-	203,145	-	203,145
Increase in Inventories	(56,525,010)	(18,131,000)	(43,730,466)	(15,772,000)
(Increase)/Decrease in Trade and Other Receivables	(81,743,558)	(68,426,000)	3,971,730	(64,204,000)
Changes in Balances with Related Parties	3,901,480	-	(86,881,510)	-
(Decrease)/ Increase in Trade and Other Payables	36,438,523	37,071,814	19,727,228	33,808,814
Change in Unearned Premium	(693,342)	-	-	-
	<u>59,559,727</u>	<u>161,487,397</u>	<u>22,113,354</u>	<u>136,486,630</u>

The figures in brackets indicate deductions

The financial statements are to be read in conjunction with the accounting policies and notes, which form part of the financial statements of the company set out on pages 22 to 67. The Report of the Auditors is given on pages 13 to 14.

## SIGNIFICANT GROUP ACCOUNTING POLICIES

### 1. GENERAL ACCOUNTING POLICIES

#### 1.1 REPORTING ENTITY

State Trading Organization Plc. (the "Company") is a company incorporated and domiciled in the Republic of Maldives as a public limited liability company since 2001 and presently governed under the Companies Act No. 10 of 1996, with its registered office at No.07, Haveeree Higon, Male'20-20, Republic of Maldives. The Company is a listed Company in the Maldives stock exchange. The main business of the company is importing, exporting, manufacturing and trading of various types of consumable and industrial goods.

The consolidated financial statements of the Group for the year ended 31 December 2004 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in the associates and jointly controlled entities.

The financial statements were authorized for issue by the directors on 3<sup>rd</sup> August 2005.

#### 1.2 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

#### 1.3 BASIS OF PREPARATION

The financial statements are presented in Maldivian Rufiyaa, rounded to the nearest thousand. They are prepared on the historical cost basis except assets and liabilities, which are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.



## SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

### 1.3 BASIS OF PREPARATION (CONTINUED)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed under note to the financial statements where appropriate.

The accounting policies set out below have been consistently applied by the group and are consistent with those used in the previous year. Previous year figures and phrases have been rearranged and reclassified when necessary to conform to the current presentation.

### 1.4 BASIS OF CONSOLIDATION

#### 1.4.1 Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### 1.4.2 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)**

## 1.4 BASIS OF CONSOLIDATION (CONTINUED)

**1.4.3 Joint Ventures**

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

**1.4.4 Transactions eliminated on consolidation**

Intra group balances and any unrealized gains and losses or income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

## 1.5 TRANSACTIONS IN OTHER CURRENCIES

**1.5.1. Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Maldivian Rufiyaa at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Maldivian Rufiyaa at foreign exchange rates ruling at the dates the fair value was determined.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)**

## 1.5 TRANSACTIONS IN OTHER CURRENCIES (CONTINUED)

**1.5.2. Financial statements of foreign operation**

The assets and liabilities of foreign operation, including goodwill and fair value adjustments arising on consolidation, are translated to Maldivian Rufiyaa at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operation are translated to Maldivian Rufiyaa at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognized directly in a separate component of equity.

**1.5.3. Net investment in foreign operation**

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

## 1.6 FINANCIAL INSTRUMENTS

**1.6.1. Financial assets**

Financial assets include cash, trade & other receivables. The accounting policies for each financial asset are stated separately. Financial income is accounted for on an accrual basis.

**1.6.2. Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities include trade & other payables and bank overdrafts. The accounting policies for each financial liability are stated separately. Finance costs are accounted for on an accrual basis.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****2 ASSETS AND THEIR BASES OF VALUATION****2.1 PROPERTY, PLANT AND EQUIPMENT****2.1.1 Owned assets**

Items of property, plant and equipment are stated at cost as deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy 2.8). The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads.

The cost of acquisition includes purchase cost together with any incidental expenses incurred in bringing the assets to its working condition for the intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on repairs or maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets has been recognized as an expense when incurred.

**2.1.2 Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy 2.8).

The property held under finance leases and leased out under operating lease is classified as investment property and stated at the fair value model. Lease payments are accounted for as described in accounting policy 4.2.2. Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****2.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****2.1.3. Subsequent costs**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalised only if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

**2.1.4. Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Leasehold Land & Buildings	Over the lease period
Freehold Buildings	5-20 years
Plant and machinery, Furniture & fixtures, Office Equipment	3-20 years
Vessels and Fleet & Other Assets	3-8 years
Cylinders	8 years
Motor Vehicles	4-5 years
Dumpers	3 years
Pay loaders	4 years
Air – conditioners	3-4 years
Other assets	3-5 years

Full year's depreciation is provided in the year of purchase while no depreciation is provided in the year of disposal.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****2.2 INTANGIBLE ASSETS****2.2.1. Goodwill**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortized but is tested annually for impairment (see accounting policy 2.8). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognized directly in profit or loss.

**2.2.2. Other intangible assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy 2.8).

Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

**2.2.3. Subsequent expenditure**

Subsequent expenditure on capitalized 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.

**2.2.4. Amortization**

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortized from the date they are available for use.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****2.3 INVESTMENTS IN EQUITY SECURITIES**

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognized in the income statement.

Other financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

**2.4 INVENTORIES**

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle except in Maldives Gas Private Limited which is on weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Biological assets related to agricultural activity and agricultural produce at the point of harvest are measured at fair value less costs to sell.

The cost of harvest is its fair value less estimated point of sale cost at the date of harvest, determined in accordance with the accounting policy for biological assets. Any change in value at the date of harvest is recognized in the income statement.

**2.5 TRADE AND OTHER RECEIVABLES**

Trade and other receivables are stated at their cost less impairment losses (see accounting policy 2.8).

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****2.6 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash balances and fixed deposits.

**2.7 CASH FLOW STATEMENT**

Cash flow statement is prepared using the indirect method.

**2.8 IMPAIRMENT****2.8.1. Recognition**

The carrying amounts of the Group's assets, inventories (see accounting policy 2.4) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy 2.8.2.).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.



## SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

### 2.8 IMPAIRMENT (CONTINUED)

#### 2.8.2. Calculation of recoverable amount

The recoverable amount of other assets is the greater of their net selling price 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### 2.8.3. Reversals of impairment

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## 3. LIABILITIES AND PROVISIONS

### 3.1. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The materiality of the events occurring after the balance sheet date has been considered and appropriate adjustments and provisions have been made in the financial statements where necessary.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****3.2 PROVISIONS**

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**3.3. TRADE AND OTHER PAYABLES**

Trade and other payables are stated at cost.

**3.4 COMMITMENTS AND CONTINGENCIES**

Commitments and contingent liabilities of the Group are disclosed where appropriate.

**3.5 BORROWING COSTS**

Borrowing costs are recognized as an expense in the period in which they are incurred except to the extent that they are eligible for capitalization.

**3.6 INTEREST-BEARING BORROWINGS**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the income statement.

**3.7 DEFINED BENEFIT PLAN**

The retirement benefit plan adopted by the STO Lanka (Private) Limited is as required under the payment of Gratuity Act of 12 of 1983 of Sri Lanka which is based on half month salary for every year of service. The provision is not externally funded, nor has it been actuarially valued. As per Gratuity Act No 12 of 1983 of Sri Lanka, liability for payment to an employee arises only after completion of 5 years continued service.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****3.8. DEFINED CONTRIBUTION PLAN**

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

**4. PROFIT AND LOSSES****4.1 REVENUE RECOGNITION****4.1.1. Goods sold and services rendered**

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

**4.1.2. Plantation Industry****a. Sale of perennial crops**

In keeping with the practice of Plantation industry, revenue or profit or loss on sale of perennial crops are recognized in the financial period of harvesting. Revenue is recorded at invoice value net of brokerage, selling expenses and other levies related to.

**4.1.3. Insurance****a. Premium**

Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

**SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)**

## 4.1 REVENUE RECOGNITION (CONTINUED)

**4.1.3. Insurance (Continued)****b. Unearned Premiums**

Unearned premiums are the proportion of premiums written in the current year, which relate to risk cover provided in respect of future periods. Unearned premiums for fire, accident and marine hull policy are calculated at the rate of 40% of the total net written premium for the year, for health insurance policy at the rate of 50% of the gross written premium and at the rate of 50% of net written premium of the fourth quarter of the year for marine cargo.

**c. Claims**

Claims incurred include provisions for the estimated amount of claims and related handling expense in respect of incidents up to 31 December, including those which had not been notified. Anticipated reinsurance and other recoveries have been netted off. Any differences in the estimated claim amounts and settlements are charged to the income statement of future years.

**d. Re-insurance commission**

As it accrues unless collectibility is in doubt.

**4.1.4. Rental income**

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

## 4.2. EXPENDITURE

**4.2.1. Operating lease payments**

Payments made under operating leases are recognized in the income statement on a straight line basis over the term of the lease.

**4.2.2. Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

### 4.2. EXPENDITURE (CONTINUED)

#### 4.2.3. Net financing costs

Net financing costs comprise interest payable on borrowings interest receivable on funds invested, dividend income, foreign exchange gains and losses, and that are recognized in the income statement.

Interest income is recognized in the income statement as it accrues, using the effective interest method. Dividend income is recognized in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is usually the ex-dividend date. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

#### 4.2.4. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

## 5. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

**NOTES TO THE FINANCIAL STATEMENTS**

**AS AT 31 ST DECEMBER 2004**

**1 REVENUE**

**1.1 Analysis By Product Categories**

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Retail and Wholesale	1,483,541,494	1,450,902,101	639,799,981	507,597,086
Tea	1,921,538	1,225,091	-	-
Insurance	6,006,182	13,094,107	-	-
Gas	34,670,292	29,751,018	-	-
Structural Products	6,608,899	12,686,066	-	-
Crude Oil Sales	1,692,343,110	-	1,692,343,110	-
Fuel and Lubricants	1,233,884,131	611,468,027	1,583,612,791	1,000,764,105
	<u>4,458,975,646</u>	<u>2,119,126,410</u>	<u>3,915,755,882</u>	<u>1,508,361,191</u>

**1.2 Analysis By Companies**

	Group	
	2004 Rf	2003 Rf
State Trading Organization PLC	3,915,755,882	1,508,361,191
Allied Insurance Company of Maldives Pvt Ltd (Note 1.3)	9,417,107	13,094,277
STO Maldives Singapore Pvt Ltd	867,938,580	645,753,015
STO Lanka Pvt Ltd	2,147,472	1,222,095
Maldiv Gas Pvt Ltd	37,406,306	29,992,084
Fuel Supply Maldives Pvt Ltd	753,584,012	591,603,370
Maldives Structural Products Private Limited	19,475,443	14,361,926
	<u>5,605,724,802</u>	<u>2,804,387,958</u>
Inter-Company Transactions	(1,146,749,156)	(685,261,548)
	<u>4,458,975,646</u>	<u>2,119,126,410</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 1 REVENUE (CONTINUED)

#### 1.3 Allied Insurance Company of Maldives Pvt Ltd

	Group	
	2004 Rf	2003 Rf
<b>Gross Written Premium and Net Underwriting Income</b>		
Gross Written Premium	39,394,823	35,140,194
Re-insurance	(31,703,473)	(25,680,162)
Net Written Premium	7,691,350	9,460,032
Unearned Premium Reserve	693,630	(1,791,817)
Net Earned Premium	8,384,980	7,668,215
Reinsurance Commission Income	8,873,126	7,257,528
Total Underwriting Income	17,258,106	14,925,743
Net Incurred Claims	(7,840,999)	(1,831,466)
Net Underwriting Income	9,417,107	13,094,277

### 2 OTHER OPERATING INCOME

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Profit on sale of Property, Plant & Equipment	4,333,962	14,000	3,993,759	14,000
Commission Income	3,671,616	3,310,789	3,671,616	3,310,789
Dividends on Investments	651,865	24,494,815	20,525,746	24,400,080
Income from Vessels & Fleets	1,520,746	404,220	1,520,746	404,220
Fines & Claims Received	1,799,239	2,271,526	729,089	1,243,903
Rent Income	13,883,546	5,366,066	18,495,600	18,622,635
Miscellaneous Income	745,067	808,544	410,095	513,869
	<u>26,606,041</u>	<u>36,669,960</u>	<u>49,346,651</u>	<u>48,509,496</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### AS AT 31 ST DECEMBER 2004

#### 3 PROFIT FROM OPERATION

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
<i>Is stated after charging all the expenses including followings,</i>				
Audit Fees Only	122,075	81,850	102,800	39,000
Other Auditors' Fees	328,426	322,288	278,795	341,075
Depreciation	32,629,074	31,706,425	25,734,577	25,022,205
Impairment Loss	119,747	8,944,144	-	-
Management & Agency Fee	57,264,451	31,647,329	57,117,976	31,616,829
Building Rent	5,562,535	5,832,656	5,526,456	5,517,656
Provision for Impairment of Trade Receivables	22,951,248	28,753,152	11,073,606	16,875,510
Personal Expenses (Note 3.1)	59,973,994	54,116,161	45,429,811	40,193,409
Donations to tsunami	1,500,000	-	1,500,000	-

#### 3.1 Personal Expenses

Staff Welfare	1,416,692	1,186,389	1,230,310	934,701
Foreign Staff Exp	2,059,492	3,000,000	2,050,146	1,709,697
Salaries & Wages	31,741,221	27,384,395	21,578,435	18,673,541
Medical Expenses	1,087,008	1,763,440	647,810	597,320
Allowances	21,937,977	18,624,526	19,496,705	17,846,435
Provident fund Contribution	447,373	448,650	426,405	431,715
Other Staff related Expenses	1,284,232	1,708,761	-	-
	<u>59,973,994</u>	<u>54,116,161</u>	<u>45,429,811</u>	<u>40,193,409</u>

#### 3.2 Average Number of Employees

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Permanent	1,240	1,172	735	706
Temporary	93	54	37	27
	<u>1,333</u>	<u>1,226</u>	<u>772</u>	<u>733</u>
National Staff	910	785	640	596
Expatriates	423	441	132	137
	<u>1,333</u>	<u>1,226</u>	<u>772</u>	<u>733</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 4 NET FINANCING COST

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
<b>FINANCING INCOME</b>				
Interest Received- Investments	-	(523,599)	-	(523,599)
Exchange Difference Unrealized	(154,996)	-	(145,156)	(355,983)
Exchange Difference Realized	-	-	(424,610)	-
Interest Received - Loans	(491,664)	(53,671)	(491,664)	(53,671)
Interest Received - Others	(3,532,290)	(1,898,881)	(2,667,257)	(1,898,881)
Interest Received - FD	<u>(1,274,822)</u>	<u>(3,084,476)</u>	<u>(1,274,822)</u>	<u>(2,633,476)</u>
	<u>(5,453,772)</u>	<u>(5,560,627)</u>	<u>(5,003,509)</u>	<u>(5,465,610)</u>
<b>FINANCING COSTS</b>				
Exchange Difference Realized	-	1,057,210	-	1,471,092
Overdraft Interest	10,697,771	12,968,082	10,697,771	12,968,082
Interest Paid on Loans	1,951,309	2,718,202	1,951,309	2,718,202
Interest Paid - Others	<u>866,730</u>	<u>540,117</u>	<u>301,753</u>	<u>132,338</u>
	<u>13,515,810</u>	<u>17,283,611</u>	<u>12,950,833</u>	<u>17,289,714</u>
NET FINANCING COST	<u>(8,062,038)</u>	<u>(11,722,984)</u>	<u>(7,947,324)</u>	<u>(11,824,104)</u>

### 5 INCOME TAX

The income tax charged represents the income tax payable to the statutory authority on the taxable profits of an overseas subsidiary. The profits and the income of the companies incorporated in the Republic of Maldives are presently not liable for income tax except for commercial Banks

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### AS AT 31 ST DECEMBER 2004

#### 5 INCOME TAX (CONTINUED)

##### 5.1 Analysis of Income Tax

	Group	
	2004	2003
	Rf	Rf
Current income tax	-	61,000
Under provision in respect of prior year	907	-
Provision for deferred tax for the year	41,483	-
	<u>42,390</u>	<u>61,000</u>

	Group	
	2004	2003
	Rf	Rf
Income tax expense at statutory rate	96,660	167,895
Non-allowable items	28,283	28,808
Non-taxable items	(109,298)	(43,875)
Wear and tear allowance-current year	(18,045)	(22,643)
Other income	353	-
Unutilised wear & tear allowances carried forward	2,048	-
Exempt amount	-	(69,186)
Total income tax expense	<u>-</u>	<u>61,000</u>

Subject to the agreement of the Comptroller of Income Tax in Singapore, STO Maldives Singapore Private Limited has unutilised capital allowances of S\$ 1,359 (Rf 10,193) which are available for set off against future taxable income

#### 6 MINORITY INTEREST

	Group	
	2004	2003
	Rf	Rf
Opening Balance	19,513,455	7,384,455
Acquisitions	-	9,276,000
Share of Net Results of Subsidiaries	6,322,278	10,078,000
Less: Dividends paid	<u>(5,909,200)</u>	<u>(7,225,000)</u>
	<u>19,926,533</u>	<u>19,513,455</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 7 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on net profit for the year attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the year and calculated as follows,

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Net Profit Attributable to the Ordinary Shareholders	111,026,309	159,654,868	114,827,033	154,000,221
Weighted Average Number of Shares	1,126,910	1,086,345	1,126,910	1,086,345
Basic Earnings Per Share	99	147	102	142

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### AS AT 31 ST DECEMBER 2004

#### 8 PROPERTY, PLANT AND EQUIPMENT

##### 8.1 COMPANY

	Land & Buildings	Plant & Machinery	Vessels & Fleet	Motor Vehicle	Dumpers, Payloaders & Air Conditioners	Office Equipments	Furniture & Fixtures	Other Assets	Total 2004	Total 2003
	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf
<b>Cost</b>										
As at 1st January	233,466,797	5,775,363	30,634,286	19,749,194	2,059,238	10,664,492	2,115,021	1,627,448	306,091,839	289,901,206
Additions	-	6,901	-	1,957,508	316,490	713,865	282,488	869,945	4,147,197	9,342,104
Transfer from CWIP during the Year	22,238,282	2,975,409	-	-	-	-	-	-	25,213,691	8,251,624
Disposals	-	-	(13,015,025)	(255,408)	-	-	-	-	(13,270,433)	(1403,095)
As at 31st December	255,705,079	8,757,673	17,619,261	2,145,1293	2,375,728	11,378,357	2,397,509	2,497,394	322,182,294	306,091,839
<b>Depreciation</b>										
As at 1st January	128,275,549	5,230,939	25,107,699	10,608,810	1,692,186	8,539,913	1,412,271	1,436,555	182,303,922	158,685,218
Charge for the year	17,321,346	1,258,483	2,934,705	2,533,513	166,962	996,212	391,945	131,411	25,734,577	25,022,205
Disposals	-	-	(11,003,631)	(255,408)	-	-	-	-	(11,259,039)	(1403,501)
As at 31st December	145,596,895	6,489,422	17,038,773	12,886,915	1,859,148	9,536,125	1,804,216	1,567,966	196,779,460	182,303,922
<b>Net Carrying Amount</b>										
As at 31st December 2004	110,108,184	2,268,251	580,488	8,564,378	516,580	1,842,232	593,293	929,428	125,402,834	
As at 31st December 2003	105,191,248	544,424	5,526,587	9,140,384	367,052	2,124,579	702,750	190,893		123,787,917
Capital Work In Progress (Note 8.1.1)									47,734,708	35,575,255
<b>Total</b>									173,137,542	159,363,172
<b>8.1.1 Capital Work In Progress</b>										
Balance as at 1st January									35,575,255	17,889,817
Addition during the Year									37,373,143	26,140,732
Transfer to PPE during the Year									(25,213,690)	(8,251,624)
Disposals									-	(203,670)
Balance as at 31st December									47,734,708	35,575,255

**8.1.2** Company has mortgaged STO Trading Centre to obtain a revolving credit facility of US\$ 4 MN from Seylan Bank Limited -Sri Lanka.

**8.1.3** The buildings of State Trading Organisation Plc. have been constructed on land belonging to the Government of Maldives for which a rental of Rf. 1 per sq.ft. per month is paid with effect from 2002. There is no lease agreement and accordingly no definite period of lease is identified. Under these circumstances, the Directors have considered it prudent to provide depreciation in accordance with accounting policy 2.1.4.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### AS AT 31 ST DECEMBER 2004

#### 8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### 8.2 GROUP

	Land & Buildings	Plant & Machinery	Vessels & Fleet	Motor Vehicle	Dumpers, Payloaders & Air Conditioners	Office Equipment	Furniture & Fixtures	Other Assets	Total 2004	Total 2003
	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf
<b>Cost</b>										
As at 1st January	256,107,774	57,005,114	45,456,633	23,214,847	2,548,152	13,290,313	5,233,816	25,537,574	428,394,223	378,953,420
Additions	1281,604	1,100,871	6,963,785	4,608,850	321,309	1,173,697	1,262,408	3,341,227	20,053,751	14,702,192
Transfer from CWIP during the Year	26,462,433	10,742,695	-	-	-	-	-	441,483	37,646,611	35,593,611
Assets written off due to Tsunami (Note 8.2.3)	-	-	-	-	-	-	(280,158)	(244,266)	(524,424)	-
Exchange Difference	(412,225)	(49,039)	-	(24,864)	-	782	5,865	5,717	(473,764)	-
Disposals	-	-	(14,038,424)	(281,240)	(2,809)	-	(2,294)	(92,341)	(14,417,108)	(855,000)
As at 31st December	283,439,586	68,799,641	38,381,994	27,517,593	2,866,652	14,464,792	6,219,637	28,989,394	470,679,289	428,394,223
<b>Depreciation</b>										
As at 1st January	131,331,419	14,746,924	27,442,973	11,415,404	2,066,580	10,457,104	3,466,139	10,445,721	211,372,264	189,623,215
Charge for the year	16,220,150	3,696,545	4,594,889	3,170,898	216,304	15,10,533	788,681	2,431,074	32,629,074	31,706,425
Impairment Charge	-	-	-	-	1	14,639	104,047	1,060	119,747	8,944,144
Assets written off due to Tsunami (Note 8.2.3)	-	-	-	-	-	-	(159,263)	(32,382)	(191,645)	-
Exchange Difference	(4,142)	(6,130)	-	-	-	837	2,635	4,837	(1,963)	-
Disposals	-	-	(11,247,311)	(255,408)	-	-	-	-	(11,502,719)	(18,901,520)
As at 31st December	147,547,427	18,437,339	20,790,551	14,330,894	2,282,885	11,983,113	4,202,239	12,850,310	232,424,758	211,372,264
<b>Net Carrying Amount</b>										
As at 31st December 2004	135,892,159	50,362,302	17,591,443	13,186,699	583,767	2,481,679	2,017,398	16,139,084	238,254,531	
As at 31st December 2003	124,776,355	42,258,190	18,013,660	11,799,443	481,572	2,833,209	1,767,677	15,091,853		217,021,959
Capital Work In Progress (Note 8.2.1)									51,791,507	49,394,392
<b>Total</b>									290,046,038	266,416,351
<b>8.2.1 Capital Work In Progress</b>										
Balance as at 1st January									49,394,392	43,143,023
Addition during the Year									40,043,725	42,049,125
Transfer to PPE during the Year									(37,646,610)	(35,593,611)
Disposals									-	(204,145)
Balance as at 31st December									51,791,507	49,394,392

**8.2.2** Company has mortgaged STO Trading Centre to obtain a revolving credit facility of US\$ 4 MN from Seylan Bank Limited -Sri Lanka.

##### 8.2.3 Assets written off due to Tsunami

The net carrying value of Rf. 332,780/- of the Property, Plant & Equipment which were damaged due to Tsunami have been written off against the insurance claim agreed by Allied Insurance Company of the Maldives Private Limited.

**8.2.4** The buildings of State Trading Organisation Plc. have been constructed on land belonging to the Government of Maldives for which a rental of Rf. 1 per sq.ft. per month is paid with effect from 2002. There is no lease agreement and accordingly no definite period of lease is identified. Under these circumstances, the Directors have considered it prudent to provide depreciation in accordance with accounting policy 2.1.4.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 9 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 Rf	2003 Rf
STO Lanka Private Limited	7,868,472	7,868,472
Maldivé Gas Private Limited	61,200,000	61,200,000
Allied Insurance Company of Maldives Private Limited	807,000	807,000
STO Maldives Singapore Private Limited	1,459,750	1,459,750
Fuel Supplies Maldives Private Limited	10,200,000	10,200,000
Maldives National Oil Company Ltd	10,000,000	-
	<u>91,535,222</u>	<u>81,535,222</u>

### 10 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Opening Balance	2,723,701	-	2,723,701	-
Restatement (Note 10.1)	-	-	7,843,567	-
Additions during the Year	-	3,544,701	-	3,544,701
Provision for Long Term Impairment	-	(821,000)	-	(821,000)
Share of Profit for the Year	31,813	-	-	-
Closing Balance	<u>2,755,514</u>	<u>2,723,701</u>	<u>10,567,268</u>	<u>2,723,701</u>

State Trading Organization PLC has acquired 10,567,267 shares at price of Rf 1/- each on 8th of January 2002 in Lafarge Maldives Cement Private Limited which represents 25% of the shareholding of the company. The principal activity of the company is the trading of cement.

#### 10.1 Restatement

The investment in Associate has been recognised under cost method in the financial statements with effect from year ended 31st December 2004 in compliance with the revised International Accounting standard 28, Investment in Associates and appropriate adjustments have been made to the retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 11 INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Opening Balance	-	-	7,216,856	8,245,000
Restatement (Note 11.1)	-	-	(2,516,856)	-
Share of Profit for the Year	-	-	-	2,516,856
Changes in the status of Joint venture	-	-	-	(3,545,000)
Closing Balance	-	-	4,700,000	7,216,856

State Trading Organization PLC has acquired 47,000 shares at a price of Rf 100/- each on 31st December 2001 in Maldives Structural Products Private Limited which represents 50% of the shareholding of the company. The company engaged in the business of manufacturing and trading of structural products.

#### 11.1 Restatement

The investment in Joint Venture has been recognised under cost method in the financial statements with effect from year ended 31st December 2004 in compliance with the revised International Accounting Standard 31 Investments in Joint Ventures and appropriate adjustments have been made to the retained earnings.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

**12 INVESTMENTS AVAILABLE FOR SALE**

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Maldives Industrial Fisheries Company Ltd (Note 12.1)	43,100,100	43,100,100	43,100,100	43,100,100
Bank of Maldives PLC (Note 12.2)	7,151,050	6,086,000	7,151,050	6,086,000
	<u>50,251,150</u>	<u>49,186,100</u>	<u>50,251,150</u>	<u>49,186,100</u>

**12.1 Maldives Industrial Fisheries Company Ltd**

State Trading Organization PLC has acquired 143,667 shares at price of Rf 300/- each in Maldives Industrial Fisheries Company Limited which represents 10% of the shareholding of the company.

**12.2 Bank of Maldives PLC**

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Opening Balance	6,086,000	2,389,000	6,086,000	2,389,000
Change in the Fair Value	1,065,050	3,697,000	1,065,050	3,697,000
Closing Balance	<u>7,151,050</u>	<u>6,086,000</u>	<u>7,151,050</u>	<u>6,086,000</u>

State Trading Organization PLC has acquired 6,086 shares in Bank of Maldives Plc which represents 5% of the shareholding of the company.

This investment has been fairly valued based on the market value per share as at the balance sheet date.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 13 LOAN TO ASSOCIATE COMPANY

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Opening Balance	5,319,078	5,983,963	5,319,078	5,983,963
Repayments	(664,885)	(664,885)	(664,885)	(664,885)
Closing Balance	<u>4,654,193</u>	<u>5,319,078</u>	<u>4,654,193</u>	<u>5,319,078</u>

#### 13.1 Non-Current Receivables

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Loan to Associate company	<u>3,989,308</u>	<u>4,654,193</u>	<u>3,989,308</u>	<u>4,654,193</u>
	<u>3,989,308</u>	<u>4,654,193</u>	<u>3,989,308</u>	<u>4,654,193</u>

#### 13.2 Current Receivables

Loan to Associate company	<u>664,885</u>	<u>664,885</u>	<u>664,885</u>	<u>664,885</u>
	<u>664,885</u>	<u>664,885</u>	<u>664,885</u>	<u>664,885</u>
	<u>4,654,193</u>	<u>5,319,078</u>	<u>4,654,193</u>	<u>5,319,078</u>

Lafarge Maldives Cement Private Limited has obtained an unsecured loan at an interest rate of 9% per annum from State Trading Organization PLC to invest in a Bulk Import Terminal at Thilafushi Island. The original loan amount of Rf 11,081,480 (US\$ 862,372) was obtained on 17th January 2000 and repayable in on twenty semi-annual installments from 15th June 2000 to 15th December 2009

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 14 INVENTORIES

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Finished Goods	631,232	916,104	-	-
Raw Materials	4,454,809	3,213,026	-	-
Food Stocks	23,865,052	19,741,861	23,980,326	20,242,059
Tea	115,273	500,250	-	-
Fuel Gas and Lubricants	50,608,879	49,148,004	34,565,492	43,856,041
Constructions, Electronics and Others	61,243,210	58,463,024	59,784,075	59,222,032
Pharmaceuticals	9,735,351	8,318,098	9,735,351	8,318,112
Retails Shops	21,733,390	17,119,004	21,733,390	17,118,010
Goods- In-Transit	57,408,316	15,851,131	57,408,316	14,720,230
	<u>229,795,512</u>	<u>173,270,502</u>	<u>207,206,950</u>	<u>163,476,484</u>

### 15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Trade Receivables	287,296,622	229,303,517	71,091,232	109,285,510
Due from Policyholders	10,083,550	11,532,041	-	-
Due from Re-insurers	10,445,134	7,623,050	-	-
	<u>307,825,306</u>	<u>248,458,608</u>	<u>71,091,232</u>	<u>109,285,510</u>
Provision for Loss on Impairment (Note 15.2)	(22,951,248)	(28,753,152)	(11,073,606)	(16,875,510)
	<u>284,874,058</u>	<u>219,705,456</u>	<u>60,017,626</u>	<u>92,410,000</u>
Advances and Deposits	28,931,323	2,299,539	27,209,057	945,000
Other Receivables (Note 15.1)	74,577,314	88,314,075	73,370,440	74,893,786
	<u>103,508,637</u>	<u>90,613,614</u>	<u>100,579,497</u>	<u>75,838,786</u>
Provision for Loss on Impairment (Note 15.2)	(11,597,030)	(10,809,786)	(11,597,030)	(10,809,786)
	<u>91,911,607</u>	<u>79,803,828</u>	<u>88,982,467</u>	<u>65,029,000</u>
	<u>376,785,665</u>	<u>299,509,284</u>	<u>149,000,093</u>	<u>157,439,000</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

**15 TRADE AND OTHER RECEIVABLES (CONTINUED)**

**15.1 Other Receivables**

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Government Employees Credit Scheme	20,320,616	11,517,816	20,320,616	11,518,000
Subsidy receivables	-	8,030,891	-	8,031,000
Staff Advances and Other Loans	3,289,651	3,409,259	3,289,651	3,409,000
Advances to Purchase Dollars	23,911,160	46,927,404	23,911,160	46,927,786
Advance Paid to Suppliers	-	2,485,206	-	2,485,000
Insurance Receivable	544,425	-	-	-
Others	26,511,462	15,943,499	25,442,524	2,523,000
	<u>74,577,314</u>	<u>88,314,075</u>	<u>73,370,440</u>	<u>74,893,786</u>

**15.2 Provision for Loss on Impairment**

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Balance as at 1st January	39,562,938	48,835,312	27,685,296	36,957,670
Amount Written Off	(9,481,837)	(9,272,374)	(9,481,837)	(9,272,374)
Provision made during the year	4,467,177	-	4,467,177	-
Balance as at 31st December	<u>34,548,278</u>	<u>39,562,938</u>	<u>22,670,636</u>	<u>27,685,296</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

16 AMOUNTS DUE FROM RELATED PARTIES

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
STO Maldives Singapore Pvt Ltd	-	-	7,250,490	-
Maldivian Gas Pvt Ltd	-	-	9,445,912	7,741,946
Lafarge Maldives Cement Pvt Ltd	-	4,650,370	-	-
STO Lanka Pvt Ltd	-	-	2,753,065	1,659,000
Fuel Supplies Maldives Pvt Ltd	-	-	144,539,976	79,397,000
Maldives National Oil Company	-	-	-	35,000
Rainbow Enterprises Private Limited	1,396,132	-	-	-
Maldives Industrial Fisheries Company Limited	36,223	-	-	4,650,000
	<u>1,432,355</u>	<u>4,650,370</u>	<u>163,989,443</u>	<u>93,482,946</u>

17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Cash in Hand	37644305	22,941,217	16,466,995	12,149,974
Cash in Transit	58594	5,057,198	-	-
Balances with Banks	50503423	61,109,221	19,277,624	27,599,022
Fixed Deposits	664539	10,271,364	270,555	10,270,555
	<u>88,870,861</u>	<u>99,379,000</u>	<u>36,015,174</u>	<u>50,019,551</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

**18 SHARE CAPITAL**

**18.1 Authorized**

Authorized share capital comprises of 1,155,555 (In 2003 : 1,155,555) ordinary shares of Rf. 50/- each.

**18.2 Issued and Fully Paid**

Issued & fully paid share capital comprises of 1,126,910 (In 2003 : 1,126,910) ordinary shares of Rf. 50/- each.

Issued and Fully Paid	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
As At Beginning of the Year	1,126,910	1,066,040	1,126,910	1,066,040
Issued During the Year	-	60,870	-	60,870
As At End of the Year	<u>1,126,910</u>	<u>1,126,910</u>	<u>1,126,910</u>	<u>1,126,910</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### AS AT 31 ST DECEMBER 2004

#### 18 SHARE CAPITAL (CONTINUED)

**18.3** The holders of ordinary shares are entitled to dividend as declared from time to time and are entitled to one vote per share at the meetings of the company.

Final Dividend	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Final Dividend for the Year	123,960,100	125,792,720	123,960,100	125,792,720
	<u>123,960,100</u>	<u>125,792,720</u>	<u>123,960,100</u>	<u>125,792,720</u>

During the year, company has proposed and paid a final dividend of Rf. 123,960,100/- for the year ended 31st December 2003. (In 2003, a dividend of Rf. 125,792,720/- for the year ended 31st December 2002 was proposed and paid)

#### 18.4 Claim Equalization Reserve

Reserve for claim equalisation represents 12% of the operating profit before taking into account operating income of the current year, which was created to meet abnormally high claims in future in the financial statements of Allied Insurance Company of the Maldives Private Limited.

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
At beginning of year	643,201	643,201	-	-
Transfer for the year	407,172	-	-	-
At end of year	<u>1,050,373</u>	<u>643,201</u>	<u>-</u>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 19 LOANS & BORROWINGS

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
At Beginning of the Year	47,774,616	36,167,000	42,894,173	31,892,557
Borrowings during the Year	199,843,322	134,581,885	199,212,082	133,975,885
Repayments during the Year	<u>(200,542,277)</u>	<u>(122,974,269)</u>	<u>(199,670,060)</u>	<u>(122,974,269)</u>
	47,075,661	47,774,616	42,436,195	42,894,173
Less: Interest in Suspense	<u>(864,225)</u>	<u>(372,420)</u>	<u>(372,420)</u>	<u>(674,173)</u>
At the End of the Year	<u>46,211,436</u>	<u>47,402,196</u>	<u>42,063,775</u>	<u>42,220,000</u>

#### 19.1 Source of Finance

##### Secured Loans

Seylan Bank - Revolving Loan Facility (Note 19.4)	39,766,779	38,505,814	39,766,779	38,851,306
Hatton National Bank - Sri Lanka	467,805	44,186	-	-
Maldives Finance Leasing Company	<u>6,841,077</u>	<u>9,224,616</u>	<u>2,669,416</u>	<u>4,042,867</u>
	<u>47,075,661</u>	<u>47,774,616</u>	<u>42,436,195</u>	<u>42,894,173</u>

#### 19.2 Current

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Short Term Borrowings	40,080,673	38,550,000	39,766,779	38,851,306
Finance Lease Liabilities	<u>3,529,746</u>	<u>2,611,030</u>	<u>1,001,031</u>	<u>1,001,447</u>
	43,610,419	41,161,030	40,767,810	39,852,753
Interest in Suspense	<u>(643,519)</u>	<u>-</u>	<u>(218,901)</u>	<u>(301,753)</u>
	<u>42,966,900</u>	<u>41,161,030</u>	<u>40,548,909</u>	<u>39,551,000</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

**19 LOANS & BORROWINGS (CONTINUED)**

**19.3 Non Current**

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Loans and Borrowings	153,911	-	-	-
Finance Lease Liabilities	3,311,331	6,613,586	1,668,385	3,041,420
	3,465,242	6,613,586	1,668,385	3,041,420
Interest in Suspense	(220,706)	(372,420)	(153,519)	(372,420)
	<u>3,244,536</u>	<u>6,241,166</u>	<u>1,514,866</u>	<u>2,669,000</u>

**19.4** Company has obtained a revolving credit facility of US\$ 4 MN at an annual interest rate of 5.75 % from the Seylan Bank Ltd for working capital requirements. The STO Trade Centre has been mortgaged against this facility.

**20 DEFERRED TAX LIABILITY**

	Group		Company	
	2004 Rf	2003 Rf	2004 Rf	2003 Rf
Balance brought forward	16,000	16,000	-	-
Charge for the year	41,483	-	-	-
Exchange Difference	2,757	-	-	-
Balance Carried Forward	<u>60,240</u>	<u>16,000</u>	<u>-</u>	<u>-</u>

Deferred income Taxes are calculated on all timing differences under the liability method using a principle tax rate of 24.5%.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

21	PROVISION FOR RETIRING GRATUITY	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
	Opening Balance	44,186	-	-	-
	Provision Made During the Year	42,486	44,186	-	-
	Closing Balance	<u>86,672</u>	<u>44,186</u>	<u>-</u>	<u>-</u>
22	TRADE AND OTHER PAYABLES	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
	Trade Payables	167,138,097	138,865,304	92,675,622	73,533,399
	Accrued Expenses	37,056,631	20,922,000	23,325,045	14,823,000
	Other Payables	849,099	8,818,000	149,960	8,067,000
		<u>205,043,827</u>	<u>168,605,304</u>	<u>116,150,627</u>	<u>96,423,399</u>
23	AMOUNTS DUE TO RELATED PARTIES	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
	Maldives National Oil Company	-	-	2,739,518	-
	Allied Insurance company of Maldives Pvt Ltd	-	-	196,114	73,862
	Lafarge Maldiva Cement Pvt Ltd	2,154,252	1,851,533	2,154,252	1,852,231
	Maldives Structural Product Pvt Ltd	-	-	2,959,334	1,594,382
	STO Maldives (Singapore) Pvt Ltd	-	-	-	20,903,756
	Rainbow Enterprises Private Limited	40,746	-	-	-
	Champa Group	340,000	-	-	-
		<u>2,534,998</u>	<u>1,851,533</u>	<u>8,049,218</u>	<u>24,424,231</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

24	CURRENT TAX LIABILITY	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
	Current Income Tax	42,389	61,328	-	-
		<u>42,389</u>	<u>61,328</u>	<u>-</u>	<u>-</u>
25	DIVIDEND PAYABLE	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
	Dividends Payable	3,016,187	775,672	3,016,187	775,672
		<u>3,016,187</u>	<u>775,672</u>	<u>3,016,187</u>	<u>775,672</u>
26	BANK OVERDRAFT	Group		Company	
		2004 Rf	2003 Rf	2004 Rf	2003 Rf
	Bank of Ceylon - Sri Lanka	358	5,509,727	-	5,509,727
	Seylan Bank - Sri Lanka	-	12,986	-	12,986
	HSBC - Maldives (Note 26.1)	17,361,416	11,415,898	17,361,416	11,415,898
	Bank of Maldives (Note 26.2)	54,231,662	-	54,231,662	-
	State Bank of India - Maldives (Note 26.3)	43,900,171	8,475,179	43,900,171	8,475,179
	Habib Bank Ltd - Maldives (Note 26.4)	41,360,447	12,840,180	41,360,447	12,840,180
		<u>156,854,054</u>	<u>38,253,970</u>	<u>156,853,696</u>	<u>38,253,970</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 26 BANK OVERDRAFT (CONTINUED)

Note	Bank	Approved Limit Rf	Security	Value Rf	Rate of Interest
26.1	HSBC - Maldives	12,850,000	Government Guarantee	12,850,000	8.50%
26.2	Bank of Maldives Plc.	54,612,500	Government Guarantee	6,425,000	8.50%
26.3	State Bank of India - Maldives	51,400,000	Government Guarantee	51,400,000	8.50%
26.4	Habib Bank Ltd - Maldives	51,400,000	Government Guarantee	44,975,000	8.50%

### 27 COMMITMENTS

#### 27.1 Capital Commitments

There were no material capital commitments approved or contracted as at the balance sheet date which require adjustments to/or disclosure in the financial statements of the company.

#### 27.2 Lease Commitments

Lease rentals falling	Less than one year	1 to 2 years	More than 2 Years	Total
Finance Leases	Rf	Rf	Rf	Rf
State Trading Organisation PLC (Note 27.2.1)	1,001,031	1,001,031	667,354	2,669,416
Fuel Supplies Maldives Private Limited	2,417,991	1,155,455	177,401	3,750,847
STO Maldives Singapore Private Limited	243,289	192,662	91,174	527,126
<b>Operating Leases</b>				
State Trading Organisation PLC (Note 27.2.2)	2,698,500	2,698,500	4,722,375	10,119,375
Maldives Structural Products Private Limited (Note 27.2.3)	189,620	744,480	3,148,530	4,082,630

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

**27 COMMITMENTS (CONTINUED)**

**27.2.1** The company has acquired five motor vehicles under lease agreements entered with Maldives Finance Leasing Company Private Limited for period of four years from 25th August 2003. Maldives Finance Leasing Company Private Limited has fixed the lease rents for the period from 25th August 2003 to 25th September 2007.

State Trading Organisation PLC has mortgaged security deposits of US\$ 39,250 (equivalent in Rf 504,362) against above mentioned leased assets.

**27.2.2** State Trading Organisation PLC has entered into a leasing agreement dated on 28th June 1993 with the Government of Maldives in respect of Island of Vakarufalhi and the agreed lease rentals are payable as above.

**27.2.3** This balance represents the estimated future minimum lease payments under non cancellable operating leases.

**28 CONTINGENT LIABILITIES**

**Unexpired Policies**

Group has following liabilities in respect of unexpired policies of the insurance segment as at the balance sheet date.

	<b>2004</b>	<b>2003</b>
	<b>Rf</b>	<b>Rf</b>
Marine Cargo	88,720,042	46,919,729
Marine Hull	226,607,172	150,820,107
Fire	303,453,682	338,170,367
Accident	510,379,288	191,656,063
Health	120,760,000	72,610,000
	<u>1,249,920,184</u>	<u>800,176,266</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****AS AT 31 ST DECEMBER 2004****28 CONTINGENT LIABILITIES (CONTINUED)****Letter of Credit****State Trading Organisation PLC**

State Trading Organization Plc has obtained letters of credit amounting to US\$ 70,750/- (Rf 909,138/-) from Habib Bank Ltd as at 31st December 2004

**Maldives Structural Products Private Limited**

The company had a contingent liability in respect of letters of credit aggregating to Rf 12,336,561 as at 31st December 2004.

**Guarantees**

State Trading Organisation Plc has issued guarantees to the following banks for the facilities obtained by subsidiary companies.

Company Name	Bank	Facility	Corporate	Corporate
			(Rf)	Guarantee Amount (US\$)
STO Lanka Pvt Ltd	State Bank of India	Overdraft	372,650	29,000
STO Maldives Singapore Pvt Ltd	State Bank of India	Letter of Credit	20,560,000	1,600,000
Maldives Structural Products Pvt Ltd	Bank of Maldives Plc	Overdraft	9,637,500	750,000

There were no material contingent liabilities which require adjustment to/or disclosure in the financial statements as at the balance sheet date other than those disclosed above.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****AS AT 31 ST DECEMBER 2004****29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The main risks arising from the company's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The policies for managing each of these risks are summarized below:

**29.1 Credit Risk**

Credit evaluations are performed on all customers requiring credit over and above certain amount. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial assets.

**29.2 Interest Rate Risk**

The group's exposure to the risk of changes in interest rate relates mainly to its bank and other borrowings which are mainly on floating rate terms.

**29.3 Currency Risk**

The group incurs currency risk on sales, purchases and borrowings that are denominated in a currency other than MRf. The management of the group has taken following actions to mitigate the currency risk on payments in foreign currencies.

01. Payment by Rufiyaa for some of the import clients by mutual arrangements with the banks.
02. Tie project sales for parties who are willing to sell dollars to Sate Trading Organisation.
03. Procure foreign exchange through payment of Rufiyaa in advance

**29.4 Liquidity Risk**

The group actively manages its debt maturity profile, operating cash flows and availability of ending so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the group maintains sufficient level of cash or cash convertible investments to meet its working capital requirement.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**AS AT 31 ST DECEMBER 2004**
**29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**
**29.5 Effective Interest Rates & Reprising Analysis**

In respect of income earning financial assets and interest bearing financial liabilities , the following table indicates their effective interest rates at balance sheet date and the periods in which they reprice.

		31.12.2004				
	Note	Effective Interest Rate	Total Rf	Less than 1 Year Rf	More than 1 Year Rf	
<b>Company</b>						
Seylan Bank - Revolving Loan Facility	13	5.75%	39,766,779	39,766,779	-	
Maldives Finance Leasing Company	13	11.25%	2,669,416	1,001,031	1,668,385	
Fixed Deposits	10	2.00%	270,555	270,555	-	
Bank Overdraft	19	8.50%	156,853,696	156,853,696	-	
			<u>199,560,446</u>	<u>197,892,061</u>	<u>1,668,385</u>	
<b>Group</b>						
Seylan Bank - Revolving Loan Facility	13	5.75%	40,234,584	40,080,673	153,911	
Maldives Finance Leasing Company	13	11.25%	6,841,077	3,529,746	3,311,331	
Fixed Deposits	10	2.00%	664,539	664,539	-	
Bank Overdraft	19	13.00%	156,854,054	156,854,054	-	
			<u>204,594,254</u>	<u>201,129,012</u>	<u>3,465,242</u>	
		31.12.2003				
	Note	Effective Interest Rate	Total Rf	Less than 1 Year Rf	More than 1 Year Rf	
<b>Company</b>						
Seylan Bank - Revolving Loan Facility	13	5.75%	38,851,306	38,851,306	-	
Maldives Finance Leasing Company	13	11.25%	4,042,867	1,001,447	3,041,420	
Fixed Deposits	10	2.00%	10,270,555	-	10,270,555	
Bank Overdraft	19	13.00%	38,253,970	38,253,970	-	
			<u>91,418,698</u>	<u>78,106,723</u>	<u>13,311,975</u>	
<b>Group</b>						
Seylan Bank - Revolving Loan Facility	13	5.75%	38,505,814	38,505,814	-	
Maldives Finance Leasing Company	13	11.25%	9,224,616	2,611,030	6,657,772	
Fixed Deposits	10	2.00%	10,271,364	-	10,271,364	
Bank Overdraft	19	13.00%	38,253,970	-	-	
			<u>96,255,764</u>	<u>41,116,844</u>	<u>16,929,136</u>	

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****AS AT 31 ST DECEMBER 2004****29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)****29.6 Fair value of financial assets & financial liabilities****Financial assets & liabilities ( Short - term)**

The fair value of financial assets & liabilities approximate their carrying value because of their immediate or short term maturity.

**Financial assets & liabilities ( Long - term)**

The fair value of long-term investment cannot be determined without incurring excessive costs and time due to lack of quoted market places and related information. The directors believe that the fair value would not differ significantly from its carrying amount recorded in the balance sheet.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 30 RELATED PARTY TRANSACTIONS

Related Party	Relationship	Nature of the Transaction	Amount	Balance as at 31/12/2004
			Rf	Receivable/(Payable) Rf
Allied Insurance Company of Maldives Pvt Ltd	Subsidiary Company	Sales	40,320	(196,114)
		Purchases	(2,456,651)	
		Services	3,879,846	
		Dividends	26,803	
STO Singapore Maldives Pvt Ltd	Subsidiary Company	Purchases	(205,724,537)	7,250,490
		Services	913,132	
		Dividends	530,760	
STO Lanka Pvt Ltd	Subsidiary Company	Purchases	(225,934)	2,753,065
		Services	92,735	
Maldives National Oil Company Ltd	Subsidiary Company	Services	101,266	(2,739,518)
		Funds Transfer	9,800,000 (673,463)	
Maldive Gas Pvt Ltd	Subsidiary Company	Sales	17,849,290	9,445,912
		Services	296,199	
		Fund Transfer	2,505,750	
		Purchases	(632,665)	
		Dividends	3,060,000	
Fuel Supply Maldives Pvt Ltd	Subsidiary Company	Sales	722,989,126	144,539,976
		Purchases	(214,845,164)	
		Dividends	11,138,400	
Maldives Structural Products Pvt Ltd	Joint Venture Company	Sales	30,028	(2,959,334)
		Purchases	22,682,465	
		Dividends	1,296,000	
Lafarge Maldiva Cement Pvt Ltd	Associate Company	Purchases	(25,491,756)	(2,320,489)
		Services	1,582,610	
		Loan Interest	463,769	
Rainbow Enterprises Private Limited	Related Party of Joint Venture	Purchases of goods and services	1,383,438	1,355,386
Champa Group	Shareholder of Maldives Gas	Sales	908,670	(340,000)
Maldives Industrial Fisheries Company Limited	Shareholder of Allied Insurance	Services	2,139,176	36,224

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 ST DECEMBER 2004

### 31 SEGMENT INFORMATION

AS AT 31ST DECEMBER 2004

	Trading	Tea	Gas	Insurance Service	Fuel, Lubricants & Crude Oil	Structural Products	Group
	Rf	Rf	Rf	Rf	Rf	Rf	Rf
<b>Revenues</b>	1,483,541,494	1,921,538	34,670,291	6,006,182	2,926,227,242	6,608,899	4,458,975,646
<b>Segment Results</b>							
Operating Profit Before Financing Costs	97,528,830	(1,299,781)	1,788,742	3,845,514	19,468,335	4,121,375	125,421,202
Net Financing Costs	(7,947,324)	-	-	440,110	(554,824)	-	(8,062,038)
Share of Profit from Associate	-	-	-	-	-	-	31,813
Profit /(Loss) Before Tax	89,581,506	(1,299,781)	1,788,742	4,285,624	18,913,511	4,121,375	117,390,977
Tax	-	-	-	-	(42,390)	-	(42,390)
Minority Interest	-	-	-	-	-	-	(6,322,278)
<b>Net Profit for the Period</b>	<u>89,581,506</u>	<u>(1,299,781)</u>	<u>1,788,742</u>	<u>4,285,624</u>	<u>18,871,121</u>	<u>4,121,375</u>	<u>111,026,309</u>
<b>Segment Assets</b>	624,655,394	8,495,373	89,941,791	40,739,255	271,735,433	11,127,713	1,046,694,959
<b>Segment Liabilities</b>	138,717,554	10,350,727	15,582,541	9,979,592	238,230,117	639,274	413,499,805
<b>Capital Expenditure</b>	4,147,197	609,538	5,062,934	775,730	18,425,434	157,500	29,178,332
<b>Depreciation</b>	25,193,750	205,356	5,062,934	192,849	4,044,650	541,336	35,240,875

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### AS AT 31 ST DECEMBER 2004

#### 31 SEGMENT INFORMATION

##### AS AT 31ST DECEMBER 2003

	Trading	Tea	Gas	Insurance Service	Fuel and Lubricants	Structural Products	Group
	Rf	Rf	Rf	Rf	Rf	Rf	Rf
<b>Revenues</b>	1,450,902,000	1,225,000	29,751,000	32,959,000	591,603,000	12,686,410	2,119,126,410
<b>Segment Results</b>							
Operating Profit before financing costs	59,457,852	(981,000)	5,476,000	3,505,000	113,216,000	843,000	181,516,852
Net Financing Costs	(11,817,984)	21,000	-	445,000	(371,000)	-	(11,722,984)
Profit / (Loss) Before Tax	47,639,868	(960,000)	5,476,000	3,950,000	112,845,000	843,000	169,793,868
Tax	(61,000)	-	-	-	-	-	(61,000)
Minority Interest	-	-	-	-	-	-	(10,078,000)
<b>Net Profit for the Period</b>	<u>47,578,868</u>	<u>(960,000)</u>	<u>5,476,000</u>	<u>3,950,000</u>	<u>112,845,000</u>	<u>843,000</u>	<u>159,654,868</u>
<b>Segment Assets</b>	633,303,852	8,756,000	88,630,000	35,017,000	127,603,000	7,477,000	900,786,852
<b>Segment Liabilities</b>	238,418,897	188,000	4,917,000	4,864,000	12,463,000	639,000	261,489,897
<b>Capital Expenditure</b>	9,413,000	7,844,000	5,744,000	70,990	16,721,000	7,000	39,799,990
<b>Depreciation</b>	25,077,332	-	3,391,000	250,093	2,461,000	527,000	31,706,425

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

**32 POST BALANCE SHEET EVENTS**

No circumstances have been arisen since the balance sheet date which require adjustments to/or disclosure in the financial statements.

**33 COMPARATIVE FIGURES**

Comparative figures have been restated wherever appropriate.

**34 INVESTMENT IN SUBSIDIARIES**

The company is the parent company for the following six subsidiaries.

	Country of Incorporation	No of Shares		Share Holding	
		2004	2003	2004	2003
Allied Insurance Company of Maldives Pvt Ltd	Maldives	10,000	10,000	99.99%	100%
STO Maldives Singapore Pvt Ltd <b>(Note 34.1)</b>	Singapore	200,000	200,000	99.99%	99.99%
STO Lanka Pvt Ltd <b>(Note 34.2)</b>	Sri Lanka	24,999	24,999	99.99%	99.99%
Maldives National Oil Company Ltd	Maldives	99,999	99,999	99.99%	99.99%
Maldivian Gas Pvt Ltd	Maldives	61,200	61,200	90%	90%
Fuel Supply Maldives Pvt Ltd	Maldives	10,200	10,200	66.67%	66.67%

**34.1** STO Maldives Singapore Private Limited is domiciled and incorporated in Singapore and the principal activities of the company are to undertake international trading of commodities.

**34.2** STO Lanka (Private) Limited is a limited liability company incorporated and domiciled in Sri Lanka. The company had been approved under section 17 of the BOI Act. The principal activities of the company are cultivation, manufacture and sale of Black Tea.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**AS AT 31 ST DECEMBER 2004**

**35 INVESTMENT IN JOINT VENTURE**

The company has invested in the following joint venture.

	Country of Incorporation	No of Shares		Share Holding	
		2004	2003	2004	2003
Maldives Structural Products Pvt Ltd	Maldives	47,000	47,000	50%	50%

**36 INVESTMENT IN ASSOCIATE**

The company has invested in the following associate.

	Country of Incorporation	No of Shares		Share Holding	
		2004	2003	2004	2003
Lafarge Maldives Cement Private Limited	Maldives	10,567,267	10,567,267	25%	25%

**37 DIRECTORS' RESPONSIBILITY**

The Board of Directors are responsible for the preparation and presentation of these financial statements.