



**annual report**

**2005**

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state trading organization plc

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## Company Profile

### Registered Office

Head Office,  
No.7, Haveereee Hingun  
Male' 20-20  
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  
(closed on 17 April 2005)
- STO Shop No. 157 Hithadhoo Supermart, S. Hithadhoo  
(closed on 15 December 2005)
- 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 the 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	90.00% share
Fuel Supplies Maldives Pvt Ltd	66.67% share

**Joint Venture Company**

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**

	<b>No. of shares</b>	<b>@ Rf 50.00</b>	<b>%</b>
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	

**Bankers**

- State Bank of India, Male'
- Habib Bank Limited, Male'
- Bank of Maldives Plc, 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'  
 Republic of Maldives

## Board of Directors



### Board of Directors



Mr. Ahmed Mohamed,  
G. Ufaa  
**Chairman**



Mr. Mohamed Hussain Maniku,  
Ma. Moodhuvina  
**Managing Director**



Mr. Ali Mohamed,  
M. Everest,  
**Director**



Mr. Ali Naseer Mohamed,  
M. Rosariam,  
**Director**



Ms. Aminath Ali Manik,  
Ma. Florifer,  
**Director**



Dr. Abdulla Mausoom,  
M. Gulshan,  
**Director**



Mr. Abdulla Saleem,  
Ma. Tulip Villa,  
**Director**

### Company Secretary



Ms. Fathimath Ashan,  
G. Nagin



It gives me great pleasure in presenting the Directors' Report and the Annual Report of the State Trading Organization Plc for the year ended 31 December 2005.

Following the devastating Tsunami of 26 December 2004 – the worst natural disaster ever to hit the Maldives – the year 2005 began with the national efforts of Tsunami recovery and reconstruction programmes undertaken jointly by the Government and the general public. STO played an important role in the relief operations by responding to the request of the Government to deliver basic food items - rice, flour and sugar – to those affected by the Tsunami, and procurement of other basic necessities was also promptly facilitated.

In addition, to help those affected by the Tsunami, STO donated Rf 1 million and a days' salary of all STO employees to the Tsunami relief fund established by the Ministry of Finance and Treasury, and Rf 500,000 to the fund established by the Maldives National Chamber of Commerce and Industry.

During the year 2005, special consideration was given to strengthen and streamline the operations and management of STO. One of the key priority actions undertaken in this regard was the formulation of the Corporate Governance Policies and Guidelines, which specifies the responsibilities of the Board of Directors and the management; establishes rules and procedures for corporate decisions; defines corporate objectives together with the means of achieving these objectives; and spells out methods of monitoring, measuring and reporting performance. This exercise was completed before the end of 2005, and the Corporate Governance Policies and Guidelines was adopted by the Board of Directors on 30 January 2006. In addition, the Board has approved the development of a Human Resource Manual and an Operational Manual for the company.

During 2005, the sale of petroleum products – the core business of STO – recorded significant increases in its transactions. The international petroleum prices still remain high and there are no indications that the prices may come down. We believe that it is one of the fundamental social responsibilities of STO to maintain fuel prices at an affordable level. As such we make every effort to maintain the local prices as low as possible. However, it must be noted that if we do not raise our sale prices in line with the soaring international fuel price the profitability of STO will be affected.

Similar to the previous years, special attention was given to sustain and support core business operations of STO. As such, new infrastructure required to upgrade the fuel storage facilities were established and repair and maintenance of vessels and vehicles were undertaken on a timely manner.

To increase efficiency and profitability of STO, the Board of Directors has recently decided to undertake a management audit and formulate a strategic business plan in 2006. As an integral part of these activities, the profitability of trading outlets, both in Male' and the Atolls, will be examined to determine relevance and effectiveness of their operations. Furthermore, to minimise recurrent costs of retail outlets it is planned to house retail outlets in Male' under one roof.

In conclusion, I would like to thank the members of the Board of Directors, the management and employees of the STO for their dedication to make this year a success.

In addition, on behalf of the Board of Directors, I wish to express my sincere gratitude to all our customers, business associates, bankers, government authorities, shareholders and all those who have supported us in our undertakings. We look forward to another successful year.

With Grace of Allah, let STO be an institution that contributes to the overall development of the country, and brings prosperity to the people of Maldives.

A handwritten signature in blue ink, appearing to read 'Ahmed Mohamed'.

Ahmed Mohamed  
Chairman, Board of Directors

25 May 2006

## Introduction

We are pleased to present the Directors' Report, along with the audited financial statements as at 31 December 2005, which was approved by the Board of Directors on 25 May 2006.

## Board of Directors

Mr. Ahmed Mohamed, G. Ufaa  
Chairman

Mr. Mohamed Hussain Maniku, Ma. Moodhuvina  
Managing Director

Mr. Ali Mohamed , M. Everest  
Director

Ms. Aminath Ali Manik, Ma. Florifer  
Director

Dr. Abdulla Mausoom, M. Gulshan  
Director

Mr. Ali Naseer Mohamed, Ma. Rosariam  
Director

Mr. Abdulla Saleem, Ma. Tulip Villa  
Director

Mr. Abdulla Saleem was elected to the Board of Directors by the public shareholders of STO in its Annual General Meeting on 23 August 2005.

Mr. Ahmed Mohamed / G. Ufaa, was appointed as Chairman of the Board of Directors on 11 September 2005, to replace Mr. Hussain Shareef / M. Kothanmaage, as Chairman. We would like to thank Mr. Shareef for his valuable contribution to the STO as the Chairman of the Board. On the same note, we would like also to thank the contribution of Mr. Abdulla Jihad, Mr. Ibrahim Shiyam, Ms. Aishath Shahuda and Mr. Mohamed Ahmed as Directors of STO.

After the Annual General Meeting of 2005 held on 23 August 2005, 21 meetings of the Board of Directors were held, up to and including the meeting held on 11 June 2006.

## General Business Environment

Year 2005 started with reconstruction throughout the country after the devastation that had resulted from the Tsunami on 26 December 2004. The enormous increase in the reconstruction resulted in increase in sales for STO Construction Materials and Home Improvement items. Furthermore, during the emergency phase of the Tsunami, STO played a vital role to ensure that food supplies and other essential items to all islands were delivered on time. STO also contributed Rf 1 million and a days' salary of the staff to the Fund established by the Government. and also Rf 500,000 to the Fund created by the Maldives National Chamber of Commerce and Industry to help the Tsunami victims.

STO introduced Intermediary Fuel Oil (IFO) into the market during the year 2005 to specially cater for the State Electric Company's needs. Similar to the previous years, STO saw an increase in the volume of petrol and gas oil that were traded despite the price increases that was brought to absorb the surging petroleum price increases in the world market.

The world petroleum market price generally stabilized during the latter half of the year after steep rises in the 1<sup>st</sup> half. The stabilization came however, at a price much higher than the previous year's close. Compared to the average price of diesel in 2004 the price of diesel at the end of 2005, closed about forty six percent (46%) higher.

In 2005, STO faced strong competition from new entrants and existing players in the trading industry. However, 2005 proved to be a successful year to STO in general.



### Company Performance 2004 to 2005

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

	<b>2005</b> <b>(Rf in Millions)</b>	<b>% of</b> <b>total sales</b>	<b>2004</b> <b>(Rf in Millions)</b>	<b>% of</b> <b>total sales</b>
Crude Oil Sales	2,540.44	48.09	1,692.34	43.22
Fuel and Lubricants	1,938.29	36.69	1,583.61	40.44
Retail Stores	126.44	2.39	123.86	3.16
Construction Materials	224.48	4.25	133.88	3.42
Staple Foods	116.37	2.20	104.76	2.68
Home Improvement	128.40	2.43	95.61	2.44
Government Imports	46.97	0.89	43.25	1.10
Supermart	75.90	1.44	54.79	1.40
Electronics	48.41	0.92	45.45	1.16
Medical Supply	37.47	0.71	38.20	0.98
<b>Total</b>	<b>5,283.17</b>	<b>100.00</b>	<b>3,915.75</b>	<b>100.00</b>

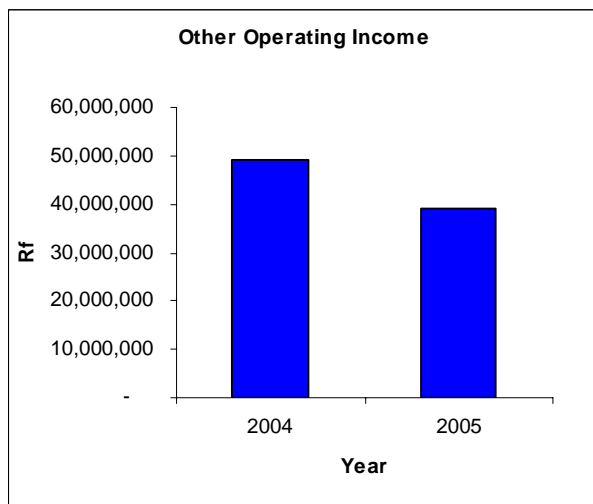


Figure 1

Total revenue for the year 2005 increased to Rf 5.283 billion compared to the 2004 figure of Rf 3.915 billion, an increase of thirty four point nine percent (34.9%). This was largely due to fifty percent (50%) increase in crude oil sales in the year 2005. The local revenue is Rf 2.2 billion in 2004 and Rf 2.7 billion in 2005.

Local revenue growth of Rf 500 million is again largely due to the increase in petroleum prices. The resulting increase of cost of sales has not contributed favourably to the profitability of the company, as STO was unable to increase profitability margins on sale of petroleum products.





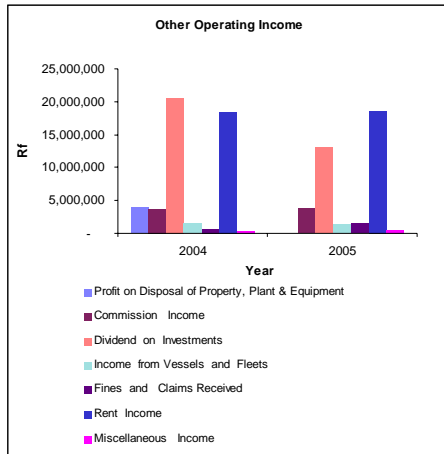


Figure 2

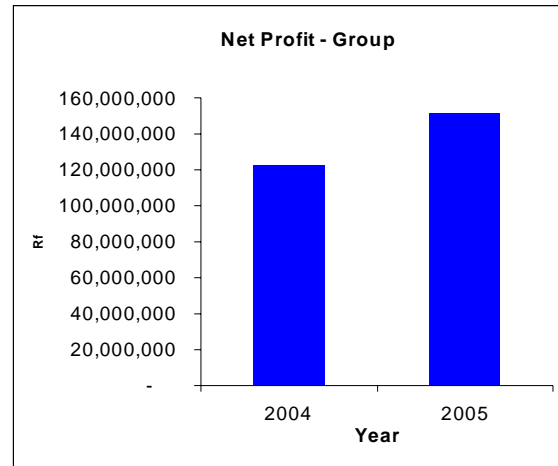


Figure 3

The profit of the company in 2005 is Rf 129.302 million compared to the figure of Rf 114.827 million in 2004, an increase of Rf 14.475 million or twelve point six zero percent (12.60%).

Administrative costs increased as a result of increased provision made in terms of receivables and trade debtors. It is also noted that financing expenses increased from Rf 12.951 million in 2004 to Rf 27.421 million in 2005. This is as a result of increased borrowings by the company to accommodate purchase of fixed assets and also on short term borrowings to accommodate price rises in petroleum prices in international markets.

Group Performance in 2005 recorded substantial improvement. Revenue increased from Rf 4.459 billion in 2004 to Rf 5.832 billion in 2005, while profits increased from Rf 117.349 million to Rf 151.612 million.

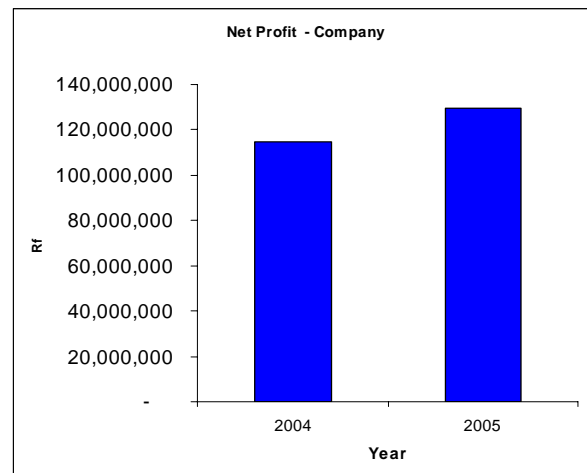


Figure 4

### Key Financials

	2005	2004	2003
Earnings per share (Rf)	114.74	102.00	141.76
Price earning ratio	7.78	9.80	5.64
Dividend per share	-	70.00	110.00
Market price per share			
Highest (Rf)	1210.00	1200.00	600.00
Lowest (Rf)	740.00	500.00	400.00
Weighted average (Rf)	892.27	1000.00	600.00
Dividend yield	-	7.00%	18.33%
Earning Yield	12.86%	10.20%	23.63%
Return on Equity	20.88%	20.00%	28.54%
Return on Total Assets	11.57%	14.00%	20.09%
Current Ratio	1.54:1	1.72:1	2.33:1
Net Asset Value per share	549.42	502.00	503.74
Debt / Equity Ratio	0.81	0.57	0.35
Interest Cover	5.96	9.87	10.58

### Share Performance

A total of 1,749 shares were traded during the year 2005 resulting in a total value of shares traded being at Rf 1.5 million. Out of the share transactions of the Maldives Stock Exchange, seventy seven percent (77%) were that of STO shares. At the end of the year, STO share capitalization in Maldives Stock Exchange stood at Rf 862 million. Total share capitalization of Maldives Stock Exchange is Rf 1.113 billion. This is seventy seven point four percent (77.4%) of the total market capitalization.

The lowest price for the STO share is Rf 740/- and the highest traded price being Rf 1,210/-. The weighted average traded price for the year 2005 was Rf 892.27.

### Responsibility towards society

As previous years, STO continued to lend a helping hand to the society. It is noteworthy to thank all staff of STO and the management for the prompt and responsible manner in which STO was involved in the supply of emergency food supplies, medicines and other necessities to the Tsunami affected areas. Likewise, a team of STO staff were actively involved in the activities of the disaster management center.

Further to this, STO played an active role in the society by various sponsorship activities and ensuring the supply of basic necessities such as staple foods to the country.

### Corporate Governance

During the year, a study was undertaken to draft a Manual of Corporate Guidelines and Procedures for STO. The document was completed in 2006 and adopted by the Board of Directors on 30 January 2006. Efforts are now underway to adopt an Operational Manual and a Human Resource Manual for STO.

### Human Resources

STO's commitment to providing comprehensive training and development to all levels of staff continued in the year 2005. Training focus has been on the all-round development of people through enrichment of job knowledge, skills up-grading and competence building. Fifty (50) different training programs, including in-house training, programs at various local training centers, as well as those conducted by reputed overseas institutions were attended by our staff during the year. In addition to

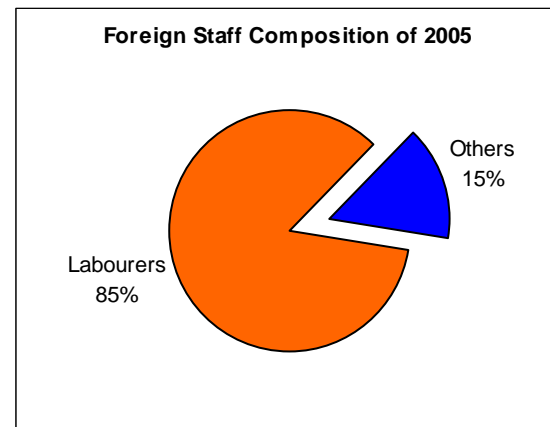


Figure 5

Middle management and operational staff training, year 2005 is particularly noted for the achievement in training and development of executives.

### Focus on the future

We expect the future to pose unprecedented challenges and opportunities.

In this regard, the greatest challenge is to increase profits visa vis the revenue growth. This is particularly difficult when the price of oil in international markets keep rising, while for STO, it is difficult to match the price rises in world markets. STO tries always to keep the price as reasonably low as possible.

On January 2005, diesel prices in world markets stood at USD 47.19 per barrel. However at the year end, this price had increased to USD 66.25 per barrel, a forty point four percent (40.4 %) increase. STO raised prices during this period by only thirty percent (30%). Current indications does not show that oil prices may fall in the near future.

STO believes that even if the world market price of petroleum products keep rising, it is the responsibility of STO to make the products available to the public at reasonable prices. This can only be done if STO increases its efficiency in other areas and reduce it's costs.

STO intends to continue the development of infrastructure that is needed for the development of trade and increase efficiency in distribution towards this end. STO also plans in 2006, to give special emphasis in improving trading efficiency and improve

margins, rather than a single minded drive to increase turnover. Attempts are now underway to replace current POS systems and replace it with a more improved version. STO also has started a document saving system software to assist improve record keeping with improved security features.

In order to facilitate infrastructure development and increase financial strength of the company, the Board has decided that twenty percent (20%) of net profit would be allocated as a general reserve and sixty percent (60%) of the remainder of the profits will be declared as dividends with effect from the year ended 31 December 2005.

In 2005, 3 vessels were purchased. Bonthi on 6 April 2005 at a cost of USD 2.46 million; Kanduhaa on 6 June 2005, at a cost of USD 355,000 and Alaka on 31 May 2005 at a cost of Rf 1.20 million.

STO has planned the following activities during 2006:

1. In 2005, a 7000 ton tank for diesel storage at Funadhoo was awarded to Hayleys Industrial Solutions Limited / Sri Lanka, at a total cost of USD 1.376 million. The project is expected to be completed by 30 June 2006.
2. In 2006, STO intends to start on a new building project to house various STO subsidiaries and joint ventures. As soon as the place for the building is identified, STO will start the project.
3. The other major capital expenditure budgeted for 2006 is an alongside Berth at Thilafushi. As some of the competitors have their own berth at Thilafushi, STO finds itself in a disadvantageous position in competing effectively in the sale of large bulk items, like sand and aggregate.
4. STO also had budgeted to purchase a tug boat to be used in STO operations. However, this project is now delayed and instead it is proposed to buy a 300 ton cargo vessel and a tanker to be used in petroleum operations.
5. STO has already given the project for a shop and warehouse at Ga.Villigili to a contractor. The project is expected to be completed by early next 2007. The total cost of the project is Rf 2.9 million.
6. STO also has plans to construct a warehouse at the land STO received from Hulhumale'. This 30,000 sq ft area is planned to be developed on a warehouse area, as STO might have to move out from some warehouses in Male'.

#### Directors' Responsibility Statement:

The Directors confirm that in the preparation and presentation of the annual accounts for the year ended 31 December 2005:

- International Financial Reporting Standards have been followed;
- 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 December 2005;
- 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

There is no doubt that STO's success is due to the tireless effort of its Management and staff and as previous years the support of STO's customers, suppliers and shareholders. The Board places on record its appreciation to the management and staff of STO. Furthermore, the board would also like to thank the Government of Maldives, other government departments, auditors and banks for their valuable support.

-Thank you-



**KPMG Ford, Rhodes, Thornton & Co.**  
**- Maldives**  
 (Chartered Accountants)  
 First Floor,  
 Watteenigasdhoosuge,  
 Majeedi Magu,  
 Malé,  
 Republic of Maldives.

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 +960 324 856  
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**Report of the Auditors  
 To the Shareholders of  
 State Trading Organization Plc**

**Scope**

We have audited the accompanying consolidated balance sheet of State Trading Organization Plc. as at 31st December 2005 and the related consolidated statements of income, changes in equity and cash flow for the year then ended exhibited on pages 15 to 50.

**Respective Responsibilities of Management and Auditors**

These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

**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**

During the year 2004, the company accrued an amount of Rf 6,514,950/- as payable to a third party and a related company and disclosed under Note No 24 to the financial statements. This transaction could not be substantiated in the absence of sufficient and appropriate audit evidence to establish the validity. This amount was reversed and recognized as revenue for the year ended 31st December 2005. Hence the net profit of the group for the year ended 31st December 2005 has been overstated by Rf 6,514,950/-.

A company incorporated in Singapore by the name of Mocom Trading Private Limited in 2004 has not been disclosed under Note No. 33 to the Financial Statements. There was no evidence available with regard to approval of the incorporation and we are unable to establish the volume and the nature of the transactions of the company with the group. However, the name of the company has been struck off on 20th April 2006.

In accordance with Note No. 13 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 31st December 2004 has disclosed substantial accumulated losses. Further the financial statements for the year ended 31st December 2005 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.

KPMG Ford, Rhodes, Thornton & Co. - Maldives  
 a partnership registered in the Republic of Maldives,  
 a foreign branch of KPMG Ford, Rhodes, Thornton & Co.,  
 the Sri Lankan member firm of KPMG International,  
 a Swiss cooperative

R.N. Asirwatham FCA  
 S. Sirikanathan FCA  
 Ms. M. P. Perera FCA  
 C.P. Jayatilake FCA

A.N. Fernando FCA  
 M.R. Mihular FCA  
 P.Y.S. Perera FCA  
 W.W.J.C. Perera FCA

As explained under Note No. 32.3 to the financial statements, in order to mitigate the currency risk, the company has contracted with 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 USD 23,555,316/- (2004: USD 22,547,068) as foreign currency liabilities, along with un-used/overdrawn bank facilities of a further liability of USD 801,882/- (2004: Foreign currency asset of USD 5,066,213) as at the same date. This has resulted in an amount of USD 24,357,198/- (2004: USD 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 group as at 31st December 2005 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.



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

25 May 2006  
Male'.

## CONSOLIDATED INCOME STATEMENT

## FOR THE YEAR ENDED 31ST DECEMBER

	Note	Group		Company	
		2005 Rf	2004 Rf	2005 Rf	2004 Rf
<b>Revenue</b>	<b>2</b>	5,832,550,728	4,458,975,646	5,283,176,159	3,915,755,882
Cost of Sales		(5,457,078,311)	(4,171,689,956)	(4,993,520,030)	(3,698,561,208)
<b>Gross Profit</b>		375,472,417	287,285,690	289,656,129	217,194,674
Other Operating Income	<b>3</b>	29,167,455	26,606,041	38,932,962	49,346,651
		404,639,872	313,891,731	328,589,091	266,541,325
Administrative Costs		(169,372,637)	(141,884,792)	(131,025,725)	(101,784,190)
Sales and Marketing Costs		(51,796,870)	(43,219,183)	(44,741,636)	(41,095,228)
Other Operating Costs		(8,641,660)	(3,366,554)	(1,230,985)	(887,550)
		174,828,705	125,421,202	151,590,745	122,774,357
Financial Income	<b>4</b>	5,201,378	5,453,772	5,132,055	5,003,509
Financial Expenses	<b>4</b>	(30,018,827)	(13,515,810)	(27,420,787)	(12,950,833)
<b>Net Financing Costs</b>		(24,817,449)	(8,062,038)	(22,288,732)	(7,947,324)
Share of Profit of Associate Company		1,633,150	31,813	-	-
<b>Profit before Tax</b>	<b>5</b>	151,644,406	117,390,977	129,302,013	114,827,033
Income Tax	<b>6</b>	(32,138)	(42,390)	-	-
<b>Profit for the Year</b>		151,612,268	117,348,587	129,302,013	114,827,033
<b>Attributable to:</b>					
Equityholders of the Parent		145,440,102	111,026,309	129,302,013	114,827,033
Minority Interest	<b>7</b>	6,172,166	6,322,278	-	-
<b>Profit for the Year</b>		151,612,268	117,348,587	129,302,013	114,827,033
<b>Basic Earnings Per Share - Rf</b>	<b>8</b>	129	99	115	102

The figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form part of the financial statements of the company set out on pages 18 to 48. The Report of the Auditors is given on pages 11 to 12.

## Consolidated Balance Sheet

## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER		Group		Company	
		2005 Rf	2004 Rf	2005 Rf	2004 Rf
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Property, Plant and Equipment	9	349,274,643	290,046,038	232,081,630	173,137,543
Investments in Subsidiaries	10	-	-	91,535,222	91,535,222
Investment in Associate	11	4,388,664	2,755,514	10,567,268	10,567,268
Investment in Joint Venture	12	-	-	4,700,000	4,700,000
Investments Available for Sale	13	54,054,900	50,251,150	54,054,900	50,251,150
Loan given to Associate Company	14.1	3,324,423	3,989,308	3,324,423	3,989,308
		<u>411,042,630</u>	<u>347,042,010</u>	<u>396,263,443</u>	<u>334,180,491</u>
<b>Current Assets</b>					
Inventories	15	286,656,824	229,795,512	252,049,198	207,206,950
Trade and Other Receivables	16	477,960,358	379,648,812	200,921,339	149,000,093
Loan given to Associate Company	14.2	664,885	664,885	664,885	664,885
Amounts due from Related Parties	17	21,292,255	1,391,609	213,262,653	163,989,443
Reinsurance Contracts	18	151,269,250	197,842,546	-	-
Cash and Cash Equivalents	19	101,037,456	88,870,861	54,700,816	36,015,173
		<u>1,038,881,028</u>	<u>898,214,225</u>	<u>721,598,891</u>	<u>556,876,544</u>
<b>Total Assets</b>		<u>1,449,923,658</u>	<u>1,245,256,235</u>	<u>1,117,862,334</u>	<u>891,057,035</u>
<b>Equity</b>					
Share Capital	20	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		(401,079)	(419,144)	-	-
Claim Equalization Reserve		2,622,377	1,050,373	-	-
General Reserve		202,494,543	176,634,140	202,494,543	176,634,140
Fair Value Reserve		8,565,498	4,761,748	8,565,498	4,761,748
Retained Earnings		380,940,628	341,816,833	323,925,354	299,367,644
<b>Total equity attributable to equity holders of the parent</b>		<u>678,381,967</u>	<u>608,003,950</u>	<u>619,145,395</u>	<u>564,923,532</u>
Minority Interest	7	22,305,999	19,926,533	-	-
<b>Total Equity</b>		<u>700,687,966</u>	<u>627,930,483</u>	<u>619,145,395</u>	<u>564,923,532</u>
<b>Liabilities</b>					
<b>Non-current Liabilities</b>					
Loans and Borrowings	21.3	29,765,409	3,244,536	29,343,289	1,514,866
Deferred Tax Liability	22	21,362	60,240	-	-
Provision for Retiring Gratuity	23	136,453	86,672	-	-
		<u>29,923,224</u>	<u>3,391,448</u>	<u>29,343,289</u>	<u>1,514,866</u>
<b>Current Liabilities</b>					
Loans and Borrowings	21.2	105,372,360	42,966,900	104,143,667	40,548,909
Trade and Other Payables	24	203,365,137	202,276,007	128,829,471	116,150,627
Amounts due to Related Parties	25	96,658	2,494,252	17,422,196	8,049,218
Current Tax Liability	26	53,717	42,389	-	-
Dividend Payable	27	3,367,431	3,016,187	3,367,431	3,016,187
Insurance Contracts	28	158,753,340	206,284,515	-	-
Bank Overdrafts	29	248,303,825	156,854,054	215,610,885	156,853,696
		<u>719,312,468</u>	<u>613,934,304</u>	<u>469,373,650</u>	<u>324,618,637</u>
<b>Total Liabilities</b>		<u>749,235,692</u>	<u>617,325,752</u>	<u>498,716,939</u>	<u>326,133,503</u>
<b>Total Equity and Liabilities</b>		<u>1,449,923,658</u>	<u>1,245,256,235</u>	<u>1,117,862,334</u>	<u>891,057,035</u>

The figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form part of the financial statements of the company set out on pages 18 to 48. The Report of the Auditors is given on pages 11 to 12.

For and on behalf of the board;

  
Mr. Mohamed Hussain Maniku

Director

25 May 2006

  
Mr. Abdulla Saleem

Director

## Statement Of Changes in Equity

## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31ST DECEMBER 2005

GROUP	Attributable to Equity Holders										Minority Interest	Total Equity
	Share Capital	Share Premium	Claim Equalization Reserve	General Reserve	Fair Value Reserve	Exchange Translation Reserve	Retained Earnings	Total	Minority Interest	Total Equity		
	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf		
As At 1st January 2004	56,345,500	27,814,500	643,201	178,354,000	3,696,698	-	353,572,499	620,426,398	19,513,455	639,939,853		
Translation gain during the year	-	-	-	-	-	(419,144)	(55,413)	(474,557)	-	(474,557)		
Dividend	-	-	-	-	-	-	(123,960,100)	(123,960,100)	(5,909,200)	(129,869,300)		
Net Profit for the Year	-	-	-	-	-	-	111,026,309	111,026,309	6,322,278	117,348,587		
Change in Fair Value of Investments Available for S	-	-	-	-	1,065,050	-	-	1,065,050	-	1,065,050		
Transfer to Claim Equalization reserve	-	-	407,172	-	-	-	(407,172)	-	-	-		
Difference in the Opening Balances	-	-	-	(1,719,860)	-	-	1,640,710	(79,150)	-	(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>608,003,950</u>	<u>19,926,533</u>	<u>627,930,483</u>		
As At 1st January 2005	56,345,500	27,814,500	1,050,373	176,634,140	4,761,748	(419,144)	341,816,833	608,003,950	19,926,533	627,930,483		
Translation loss during the year	-	-	-	-	-	18,065	-	18,065	-	18,065		
Dividend	-	-	-	-	-	-	(78,883,900)	(78,883,900)	(3,792,700)	(82,676,600)		
Net Profit for the Year	-	-	-	-	-	-	145,440,102	145,440,102	6,172,166	151,612,268		
Transfer to General Reserve	-	-	-	25,860,403	-	-	(25,860,403)	-	-	-		
Transfer to Claim Equalization reserve	-	-	1,572,004	-	-	-	(1,572,004)	-	-	-		
Change in Fair Value of Investments Available for S	-	-	-	-	3,803,750	-	-	3,803,750	-	3,803,750		
As At 31st December 2005	<u>56,345,500</u>	<u>27,814,500</u>	<u>2,622,377</u>	<u>202,494,543</u>	<u>8,565,498</u>	<u>(401,079)</u>	<u>380,940,628</u>	<u>678,381,967</u>	<u>22,305,999</u>	<u>700,687,966</u>		

The figures in brackets indicate deductions

The financial statements are to be read in conjunction with the related notes, which form part of the financial statements of the company set out on pages 18 to 48. The Report of the Auditors is given on pages 11 to 12.



## Statement Of Changes in Equity

## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31ST DECEMBER 2005

COMPANY	Share Capital Rf	Share Premium Rf	General Reserve Rf	Fair Value Reserve Rf	Retained Earnings Rf	Total Rf
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 11.1)	-	-	-	-	7,843,567	7,843,567
Restatement (Note 12.1)	-	-	-	-	(2,516,856)	(2,516,856)
Restated balance as at 1st January 2004	56,345,500	27,814,500	176,634,140	3,696,698	308,500,711	572,991,549
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 Year	-	-	-	-	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>
As At 1st January 2005	56,345,500	27,814,500	176,634,140	4,761,748	299,367,644	564,923,532
Change in Fair Value of Investments Available for Sale	-	-	-	3,803,750	-	3,803,750
Net Profit for the Year	-	-	-	-	129,302,013	129,302,013
Transfer to General Reserve	-	-	25,860,403	-	(25,860,403)	-
Dividend	-	-	-	-	(78,883,900)	(78,883,900)
As At 31st December 2005	<u>56,345,500</u>	<u>27,814,500</u>	<u>202,494,543</u>	<u>8,565,498</u>	<u>323,925,354</u>	<u>619,145,395</u>

The figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form part of the financial statements of the company set out on pages 18 to 48. The Report of the Auditors is given on pages 11 to 12.

## Consolidated Cash Flow Statement

## CONSOLIDATED CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31ST DECEMBER

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
<b>Operating Activities</b>				
Cash Generated from Operations ( <i>Note A</i> )	42,854,243	59,559,727	48,438,686	22,113,354
Interest Paid	(28,658,646)	(13,515,810)	(26,074,526)	(12,950,833)
Tax Paid	(58,265)	(19,846)	-	-
Net Cash Flow from Operating Activities	<u>14,137,332</u>	<u>46,024,071</u>	<u>22,364,160</u>	<u>9,162,521</u>
<b>Investing Activities</b>				
Purchase of Property, Plant and Equipment	(109,117,549)	(60,097,476)	(96,867,919)	(41,520,341)
Proceeds from Disposal of Property, Plant and Equipment	2,652,046	7,248,351	2,713,437	6,005,155
Interest Received	5,198,372	5,298,776	5,132,055	4,433,743
Loan Recoveries	664,885	664,885	664,885	664,885
Investments in Subsidiaries	-	-	-	(10,000,000)
Dividends Received	580,761	651,865	13,031,311	20,525,746
Net Cash Used in Investing Activities	<u>(100,021,485)</u>	<u>(46,233,599)</u>	<u>(75,326,231)</u>	<u>(19,890,812)</u>
Net Cash Flow before Financing	(85,884,153)	(209,528)	(52,962,071)	(10,728,291)
<b>Financing Activities</b>				
Loans Obtained During the Year	94,269,446	199,843,322	94,607,150	199,212,082
Loans Repayments during the Year	(5,343,113)	(201,034,082)	(3,183,969)	(199,368,307)
Dividends Paid	(78,532,656)	(121,719,585)	(78,532,656)	(121,719,585)
Dividends Paid to Minority Interest	(3,792,700)	(5,909,200)	-	-
Changes in Bank Overdrafts	91,449,771	118,600,084	58,757,189	118,599,726
Changes in Opening Reserves	-	(79,150)	-	-
Net Cash Flow from Financing Activities	<u>98,050,748</u>	<u>(10,298,611)</u>	<u>71,647,714</u>	<u>(3,276,084)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>12,166,595</b>	<b>(10,508,139)</b>	<b>18,685,643</b>	<b>(14,004,375)</b>
<b>Cash and Cash Equivalents at beginning of the Year</b>	<b>88,870,861</b>	<b>99,379,000</b>	<b>36,015,173</b>	<b>50,019,548</b>
<b>Cash and Cash Equivalents at end of the Year (<i>Note 19</i>)</b>	<b><u>101,037,456</u></b>	<b><u>88,870,861</u></b>	<b><u>54,700,816</u></b>	<b><u>36,015,173</u></b>

**Note A****Cash Generated from Operating Activities**

Net Profit before tax	151,644,406	117,390,977	129,302,013	114,827,033
Depreciation	44,502,330	32,629,074	32,635,085	25,734,577
Interest Expenses	28,658,646	13,515,810	26,074,526	12,950,833
Interest Income	(5,198,372)	(5,298,776)	(5,132,055)	(4,433,743)
Dividend Income	(580,761)	(651,865)	(13,031,311)	(20,525,746)
Share of Profit of Associate	(1,633,150)	(31,813)	-	-
Provision for Impairment of Trade Receivables	6,620,727	4,467,177	4,963,636	4,467,177
Bad debts recovered during the year	(1,401,318)	-	(1,401,318)	-
Provision for Impairment of Value	-	119,747	-	-
Provision for Gratuity	49,781	42,486	-	-
Property, Plant and Equipment written off due to tsunami	-	332,779	-	-
Property, Plant and Equipment written off	179,900	-	-	-
Profit / (Loss) on Disposal of Property, Plant and Equipment	2,571,310	(4,333,962)	2,575,310	(3,993,759)
Provision for Obsolete Inventories	5,037,566	-	5,037,566	-
Increase in Inventories	(61,898,878)	(56,525,010)	(49,879,814)	(43,730,466)
(Increase)/Decrease in Trade and Other Receivables	(103,530,955)	(81,743,558)	(55,483,564)	3,971,730
Changes in Balances with Related Parties	(22,298,240)	3,901,480	(39,900,232)	(86,881,510)
Increase in Trade and Other Payables	1,089,130	36,438,523	12,678,844	19,727,228
Change in Insurance Contracts	(957,879)	(693,342)	-	-
	<u>42,854,243</u>	<u>59,559,727</u>	<u>48,438,686</u>	<u>22,113,354</u>

The figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form part of the financial statements of the company set out on pages 18 to 48. The Report of the Auditors is given on pages 11 to 12.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT GROUP ACCOUNTING POLICIES

#### 1.1 GENERAL ACCOUNTING POLICIES

##### 1.1.1 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 under the Companies Act No. 10 of 1996, with its registered office at No.07, Haveeree Higung, 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<sup>st</sup> December 2005 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 25th May 2006.

##### 1.1.2 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).

##### 1.1.3 BASIS OF PREPARATION

The financial statements are presented in Maldivian Rufiyaa, rounded to the nearest Rufiyaa. 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****1.1.4 BASIS OF CONSOLIDATION****a 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.

**b 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.

**c 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.

**d 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.

**1.1.5 TRANSACTIONS IN OTHER CURRENCIES****a Foreign Currency Transactions**

Transactions in foreign currencies are translated to Maldivian Rufiyaa 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****1.1.5 TRANSACTIONS IN OTHER CURRENCIES (CONTINUED)****a Foreign Currency Transactions (Continued)**

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

**b 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 operations 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.

**c 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.

**1.1.6 FINANCIAL INSTRUMENTS****a Financial Assets**

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

**b Financial Liabilities**

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

**1.2 ASSETS AND THEIR BASES OF VALUATION****1.2.1 PROPERTY, PLANT AND EQUIPMENT****a Owned Assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer accounting policy 1.2.7). 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.

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

**1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)**

**1.2.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**a Owned Assests (Continued)**

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.

**b 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 (refer accounting policy 1.2.7).

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 1.4.2. 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.

**c 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.

**d 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 and Buildings	Over the lease period
Freehold Buildings	5-20 years
Plant and Machinery, Furniture and Fixtures, Office Equipment	3-20 years
Vessels and Fleet and 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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****1.2.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****d Depreciation (Continued)**

The charge for the depreciation commences from the date on which the asset is put to use and depreciation is provided up to the date of disposal except Maldivian Gas Private Limited, Fuel Supplies Maldives Private Limited and STO Lanka (Pvt) Ltd, for which no depreciation is provided in the year of purchase while full year depreciation is provided in the year of disposal.

**1.2.2 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.

**1.2.3 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 Maldivian 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.

**1.2.4 TRADE AND OTHER RECEIVABLES**

Trade and other receivables are stated at their cost less impairment losses (refer accounting policy 1.2.7).

**1.2.5 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash in hand, balances with banks and fixed deposits.

**1.2.6 CASH FLOW STATEMENT**

Cash flow statement is prepared using the indirect method.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

#### 1.2.7 IMPAIRMENT

##### a Recognition

The carrying amounts of the Group's assets, other than inventories (refer accounting policy 1.2.3) 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 (refer accounting policy 1.2.7 - b).

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.

##### b 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.

##### c 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

#### 1.2.8 INSURANCE CONTRACTS

The group issues contracts that transfer insurance risk. Insurance contracts are those that transfer insurance risk.

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expenses when due.

The group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement.

### 1.3 LIABILITIES AND PROVISIONS

#### 1.3.1 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.

#### 1.3.2 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.

#### 1.3.3 TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

#### 1.3.4 COMMITMENTS AND CONTINGENCIES

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

#### 1.3.5 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.

#### 1.3.6 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.

#### 1.3.7 DEFINED BENEFIT PLAN

The retirement benefit plan adopted by 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 completed 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.

#### 1.3.8 DEFINED CONTRIBUTION PLAN

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

### 1.4 PROFIT AND LOSSES

#### 1.4.1 REVENUE RECOGNITION

##### a 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.

##### b Plantation Industry

###### 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 the sale.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)****1.4.1 REVENUE RECOGNITION (CONTINUED)****c Insurance**

Revenue of fire, accident, marine hull, marine cargo and health insurance businesses are recognized on the following basis:

**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.

**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.

**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.

**Re-insurance Commission**

As it accrues unless collectibility is in doubt.

**d 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.

**1.4.2 EXPENDITURE****a 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.

**b 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

#### 1.4.2 EXPENDITURE (CONTINUED)

##### c 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.

##### d 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.

### 1.5 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 (CONTINUED)

## FOR THE YEAR ENDED 31ST DECEMBER 2005

## 2. REVENUE

## 2.1 Analysis By Product Categories

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Retail and Wholesale	809,250,232	1,483,541,494	804,418,629	639,799,981
Tea	1,841,151	1,921,538	-	-
Insurance	16,753,316	6,006,182	-	-
Gas	47,159,831	34,670,292	-	-
Structural Products	27,578,931	6,608,899	-	-
Crude Oil	2,540,467,898	1,692,343,110	2,540,467,898	1,692,343,110
Fuel and Lubricants	<u>2,389,499,369</u>	<u>1,233,884,131</u>	<u>1,938,289,632</u>	<u>1,583,612,791</u>
	<u>5,832,550,728</u>	<u>4,458,975,646</u>	<u>5,283,176,159</u>	<u>3,915,755,882</u>

## 2.2 Analysis By Companies

	Group	
	2005 Rf	2004 Rf
State Trading Organization Plc	5,283,176,159	3,915,755,882
Allied Insurance Company of the Maldives Private Limited (Note 2.3)	21,584,919	9,417,107
STO Maldives (Singapore) Pvt Ltd	788,776,373	867,938,580
STO Lanka (Pvt) Ltd	2,393,692	2,147,472
Maldivian Gas Pvt Ltd	47,742,438	37,406,306
Fuel Supply Maldives Pvt Ltd	1,076,696,167	753,584,012
Maldives National Oil Company Ltd	301,913,828	-
Maldives Structural Products (Pvt) Ltd	<u>27,578,931</u>	<u>19,475,443</u>
	7,549,862,507	5,605,724,802
Less : Inter-company Transactions	<u>(1,717,311,779)</u>	<u>(1,146,749,156)</u>
	<u>5,832,550,728</u>	<u>4,458,975,646</u>

## 2.3 Allied Insurance Company of the Maldives Private Limited

	Group	
	2005 Rf	2004 Rf
<b>Gross Written Premium and Net Underwriting Income</b>		
Gross Written Premium	62,016,191	39,394,823
Re-insurance	<u>(48,242,437)</u>	<u>(31,703,473)</u>
Net Written Premium	13,773,754	7,691,350
Unearned Premium Reserve	<u>(2,306,095)</u>	<u>693,630</u>
Net Earned Premium	11,467,659	8,384,980
Reinsurance Commission Income	<u>14,332,166</u>	<u>8,873,126</u>
Total Underwriting Income	25,799,825	17,258,106
Net Incurred Claims	<u>(4,214,906)</u>	<u>(7,840,999)</u>
	21,584,919	9,417,107
Less : Inter-company Transactions	<u>(4,831,603)</u>	<u>(3,410,925)</u>
	<u>16,753,316</u>	<u>6,006,182</u>

## 3. OTHER OPERATING INCOME

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Profit on Disposal of Property, Plant & Equipment	2,000	4,333,962	-	3,993,759
Commission Income	4,665,155	3,671,616	3,819,084	3,671,616
Dividends on Investments	580,761	651,865	13,031,311	20,525,746
Income from Vessels and Fleets	1,407,709	1,520,746	1,407,709	1,520,746
Fines and Claims Received	1,489,214	1,799,239	1,465,485	729,089
Rent Income	18,621,345	13,883,546	18,621,345	18,495,600
Miscellaneous Income	<u>2,401,271</u>	<u>745,067</u>	<u>588,028</u>	<u>410,095</u>
	<u>29,167,455</u>	<u>26,606,041</u>	<u>38,932,962</u>	<u>49,346,651</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31ST DECEMBER 2005

## 4 NET FINANCING COSTS

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
<b>FINANCING INCOME</b>				
Interest Income on Loans given	707,579	491,664	707,579	491,664
Interest Income on Government Credit Sales	4,400,602	3,532,290	4,373,369	2,667,257
Interest Income on Fixed Deposits	90,191	1,274,822	51,107	1,274,822
Foreign Exchange Gain	3,006	154,996	-	569,766
	<u>5,201,378</u>	<u>5,453,772</u>	<u>5,132,055</u>	<u>5,003,509</u>
<b>FINANCING COSTS</b>				
Interest on Bank Overdraft	(22,409,331)	(10,697,771)	(19,825,211)	(10,697,771)
Interest Expenses on Bank Loans	(6,030,417)	(1,951,309)	(6,030,417)	(1,951,309)
Interest Expenses on others	(218,898)	(866,730)	(218,898)	(301,753)
Foreign Exchange Loss	(1,360,181)	-	(1,346,261)	-
	<u>(30,018,827)</u>	<u>(13,515,810)</u>	<u>(27,420,787)</u>	<u>(12,950,833)</u>
<b>NET FINANCING COSTS</b>	<u>(24,817,449)</u>	<u>(8,062,038)</u>	<u>(22,288,732)</u>	<u>(7,947,324)</u>

## 5 PROFIT BEFORE TAX

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
<i>Is stated after charging all the expenses including the followings:</i>				
Audit Fees only	269,905	122,075	147,775	102,800
Other Fees Paid to Auditors	379,025	328,426	278,795	278,795
Depreciation	44,502,330	32,629,074	32,635,085	25,734,577
Loss on Disposal of Property, Plant and Equipment	2,573,310	-	2,575,310	-
Impairment Loss	-	119,747	-	-
Provision for Obsolete Inventories	5,037,566	-	5,037,566	-
Capital Work In Progress Written Off during the year	179,900	-	-	-
Provision for Impairment loss of Trade Receivables	6,620,727	4,467,177	4,963,636	4,467,177
Personnel Expenses ( <b>Note 5.1</b> )	71,637,295	60,016,480	51,790,426	45,429,811
Donations for Tsunami	1,500,000	-	1,500,000	-
	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>

## 5.1 Personnel Expenses

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Salaries and Wages	39,681,265	31,741,221	23,979,710	21,578,435
Staff Welfare	1,918,682	1,416,692	1,238,559	1,230,310
Foreign Staff Expenses	2,561,488	2,059,492	2,561,488	2,050,146
Medical Expenses	661,206	1,087,008	661,206	647,810
Allowances	24,598,594	21,937,977	22,820,639	19,496,705
Provision for Gratuity	49,781	42,486	-	-
Provident fund Contribution	764,553	447,373	528,824	426,405
Other Staff related Expenses	1,401,726	1,284,232	-	-
	<u>71,637,295</u>	<u>60,016,480</u>	<u>51,790,426</u>	<u>45,429,811</u>

## 5.2 Average Number of Employees

Permanent	1,288	1,240	760	735
Temporary	115	93	80	37
	<u>1,403</u>	<u>1,333</u>	<u>840</u>	<u>772</u>
National Staff	940	910	670	640
Expatriates	463	423	170	132
	<u>1,403</u>	<u>1,333</u>	<u>840</u>	<u>772</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31ST DECEMBER 2005

## 6 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.

## 6.1 Analysis of Income Tax

	Group	
	2005 Rf	2004 Rf
Current income tax (Note 6.2)	50,843	-
Under provision in respect of prior year	18,750	907
Provision / (Reversal) for deferred tax for the year	(37,455)	41,483
	<u>32,138</u>	<u>42,390</u>

## 6.2 Current Income Tax

	Group	
	2005 Rf	2004 Rf
Income tax expense at statutory rate	100,493	96,660
Non-allowable items	24,841	28,282
Non-taxable items	-	(109,298)
Wear and tear allowance-current year	(14,100)	(18,045)
Other income	(2,048)	353
Unutilized wear & tear allowances carried forward	-	2,048
Exempt amount	(58,343)	-
Total income tax expense	<u>50,843</u>	<u>-</u>

## 7 MINORITY INTEREST

	Group	
	2005 Rf	2004 Rf
Balance as at 1st January	19,926,533	19,513,455
Add: Share of Net Results of Subsidiaries	6,172,166	6,322,278
Less: Dividends paid	(3,792,700)	(5,909,200)
Balance as at 31st December	<u>22,305,999</u>	<u>19,926,533</u>

## 8 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	
	2005	2004	2005	2004
Net Profit Attributable to the Ordinary Shareholders - Rf	145,440,102	111,026,309	129,302,013	114,827,033
Weighted Average Number of Shares	1,126,910	1,126,910	1,126,910	1,126,910
Basic Earnings Per Share - Rf	<u>129</u>	<u>99</u>	<u>115</u>	<u>102</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

## 9 PROPERTY, PLANT AND EQUIPMENT

9.1 Group	Land and Buildings		Leasehold Buildings		Plant and Machinery		Vessels and Fleet		Motor Vehicle		Dumpers, Payloaders and Air Conditioners		Office Equipment		Furniture and Fixtures		Other Assets		Total			
	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf		
Cost																						
As at 1st January	265,289,808	18,149,778	68,799,641	38,381,994	27,517,593	2,866,652	14,472,170	6,212,259	28,989,394	428,394,223												
Additions during the year	314,372	793,179	286,507	43,717,065	3,875,967	373,475	1,843,774	331,756	6,849,583	58,385,678												
Transfer from CWIP during the year	67,523,787	879,183	24,098,099	1,204,001	-	-	141,351	-	-	37,646,611												
Assets written off due to Tsunami (Note 9.1.3)	-	-	-	-	-	-	-	-	-	-												
Exchange Difference	-	-	(55,159)	(3,449,287)	(108,049)	-	2,320	-	-	(524,424)												
Disposals during the year	(5,673,600)	-	(55,159)	(3,449,287)	(108,049)	-	(22,714)	(438)	(89,633)	(473,764)												
As at 31st December	327,454,367	19,822,140	93,129,088	79,853,773	31,285,511	3,240,127	16,436,901	6,543,577	35,749,344	470,679,289												
Depreciation																						
As at 1st January	143,749,293	3,795,999	18,430,996	20,790,551	14,330,894	2,282,885	11,991,737	4,205,176	12,847,227	211,372,264												
Charge for the year	15,816,752	1,556,812	9,610,546	7,681,820	3,785,897	374,490	1,569,045	682,413	3,424,555	32,629,074												
Impairment Loss	-	-	-	-	-	-	-	-	-	119,747												
Assets written off due to Tsunami (Note 9.1.3)	-	-	(6,467)	-	(6,216)	-	1,561	(720)	-	(19,645)												
Exchange Difference	(2,480)	-	(55,159)	(2,607,541)	(9,045)	-	(22,714)	-	(67,225)	(1,963)												
Disposals during the year	(1,323,840)	-	(55,159)	25,864,830	18,011,530	2,657,375	13,539,829	4,886,869	16,204,567	(11,502,719)												
As at 31st December	158,239,725	5,352,811	27,979,916	25,864,830	18,011,530	2,657,375	13,539,829	4,886,869	16,204,567	232,424,758												
Net Carrying Amount																						
As at 31st December 2005	169,214,642	14,469,329	65,149,172	53,988,943	13,273,981	582,752	2,897,272	1,656,708	19,544,787	340,777,586												
As at 31st December 2004	121,540,515	14,353,779	50,368,645	17,591,443	13,186,699	583,767	2,480,433	2,007,083	16,142,167	238,254,531												
Capital Work In Progress (Note 9.1.1)																						
Total																						
Capital Work In Progress																						
Balance as at 1st January																						
Additions during the year																						
Transfer to PPE during the year																						
Written off during the year																						
Balance as at 31st December																						
Capital Work In Progress																						
Total																						
Capital Work In Progress																						
Balance as at 1st January																						
Additions during the year																						
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Balance as at 1st January																						
Additions during the year																						
Transfer to PPE during the year																						
Written off during the year																						
Balance as at 31st December																						



## Notes to the Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

## 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

9.2 Company	Land and Buildings		Plant and Machinery		Vessels and Fleet		Motor Vehicle		Dumpers, Payloaders and Air Conditioners		Office Equipment		Furniture and Fixtures		Other Assets		Total	
	Rf		Rf		Rf		Rf		Rf		Rf		Rf		Rf		Rf	
<b>Cost</b>																		
As at 1st January	255,705,079		8,757,673		17,619,261		21,451,293		2,375,728		11,378,356		2,397,510		2,497,394		322,182,294	
Additions during the year	634,302		21,950		42,090,086		3,381,015		255,855		1,040,291		179,037		503,367		48,105,903	
Transfer from CWIP during the Year	67,523,787		23,261,770		1,204,001		-		-		-		-		-		91,989,558	
Disposals	(5,673,600)		(55,159)		(3,449,286)		(108,048)		-		-		-		-		(9,286,093)	
As at 31st December	318,189,568		31,986,234		57,464,062		24,724,260		2,631,583		12,418,647		2,576,547		3,000,761		452,991,662	
<b>Depreciation</b>																		
As at 1st January	145,596,895		6,489,422		17,038,773		12,886,915		1,859,147		9,536,125		1,804,216		1,567,966		196,779,459	
Charge for the year	15,413,808		6,405,798		5,912,975		2,965,039		211,028		1,060,933		416,302		249,202		32,635,085	
Disposals	(1,323,840)		(55,159)		(2,519,302)		(99,045)		-		-		-		-		(3,997,346)	
As at 31st December	159,686,863		12,840,061		20,432,446		15,752,909		2,070,175		10,597,058		2,220,518		1,817,168		225,417,198	
<b>Net Carrying Amount</b>																		
As at 31st December 2005	158,502,705		19,146,173		37,031,616		8,971,351		561,408		1,821,589		356,029		1,183,593		227,574,464	
As at 31st December 2004	110,108,184		2,268,251		580,488		8,564,378		516,581		1,842,231		593,294		929,428		125,402,835	
Capital Work In Progress (Note 9.2.1)																	4,507,166	
<b>Total</b>																	232,081,630	
<b>Capital Work in Progress</b>																	173,137,543	
Balance as at 1st January																	47,734,708	
Additions during the Year																	48,762,016	
Transfer to PPE during the Year																	(91,989,558)	
Balance as at 31st December																	4,507,166	

9.2.2 Property, plant and equipment which are mortgaged under the loans and borrowings obtained by the company are disclosed under Note No 21 to the financial statements.

9.2.3 The buildings of State Trading Organization Plc. have been constructed on a 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. Directors have considered it prudent to provide depreciation in accordance with Accounting Policy No 1.2.1 (d).

## 9.2.4 Lease Assets

The Company has acquired five motor vehicles under finance lease agreements. At the end of lease period, the company has the option to purchase those items. The net carrying value of lease assets as at balance sheet date is as follows:

	2005	2004
	Rf	Rf
	2,249,122	3,130,465

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2005

## 10 INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 Rf	2004 Rf
STO Lanka Private Limited	7,868,472	7,868,472
Maldive 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	10,000,000
	<u>91,535,222</u>	<u>91,535,222</u>

## 11 INVESTMENT IN ASSOCIATE

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Balance as at 1st January	2,755,514	2,723,701	10,567,268	2,723,701
Restatement (Note 11.2)	-	-	-	7,843,567
Share of Profit for the Year	<u>1,633,150</u>	<u>31,813</u>	-	-
Balance as at 31st December	<u>4,388,664</u>	<u>2,755,514</u>	<u>10,567,268</u>	<u>10,567,268</u>

State Trading Organization Plc has acquired 10,567,267 shares at a 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 trading of cement.

The Group's share of post acquisition total recognized profit or loss in the above associate for the year ended 31st December 2005 was Rf 1,633,150/- (2004 : Rf 31,813/-).

## 11.1 Summary of Financial Information on Associate - 100 Percent

	2005 Rf	2004 Rf
Assets	47,136,965	42,630,764
Liabilities	29,578,527	31,604,928
Equity	17,558,439	11,025,837
Revenue	76,178,707	44,292,240
Profit	6,532,601	127,253

## 11.2 Restatement

The investment in Associate has been recognized 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.

## 12 INVESTMENT IN JOINT VENTURE

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Balance as at 1st January	-	-	4,700,000	7,216,856
Restatement (Note 12.1)	-	-	-	(2,516,856)
Balance as at 31st December	<u>-</u>	<u>-</u>	<u>4,700,000</u>	<u>4,700,000</u>

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.

## 12.1 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 31ST DECEMBER 2005

## 13 INVESTMENTS AVAILABLE FOR SALE

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Maldives Industrial Fisheries Company Ltd (Note 13.1)	43,100,100	43,100,100	43,100,100	43,100,100
Bank of Maldives Plc (Note 13.2)	10,954,800	7,151,050	10,954,800	7,151,050
	<u>54,054,900</u>	<u>50,251,150</u>	<u>54,054,900</u>	<u>50,251,150</u>

## 13.1 Maldives Industrial Fisheries Company Ltd

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

## 13.2 Bank of Maldives Plc

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Balance as at 1st January	7,151,050	6,086,000	7,151,050	6,086,000
Change in the Fair Value	3,803,750	1,065,050	3,803,750	1,065,050
Balance as at 31st December	<u>10,954,800</u>	<u>7,151,050</u>	<u>10,954,800</u>	<u>7,151,050</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.

## 14 LOAN GIVEN TO ASSOCIATE COMPANY

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Balance as at 1st January	4,654,193	5,319,078	4,654,193	5,319,078
Repayments	(664,885)	(664,885)	(664,885)	(664,885)
Balance as at 31st December	<u>3,989,308</u>	<u>4,654,193</u>	<u>3,989,308</u>	<u>4,654,193</u>

## 14.1 Non-Current Receivables

Receivable after one year	<u>3,324,423</u>	<u>3,989,308</u>	<u>3,324,423</u>	<u>3,989,308</u>
	<u>3,324,423</u>	<u>3,989,308</u>	<u>3,324,423</u>	<u>3,989,308</u>

## 14.2 Current Receivables

Receivable within one year	<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>3,989,308</u>	<u>4,654,193</u>	<u>3,989,308</u>	<u>4,654,193</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 (USD 862,372) was obtained on 17th January 2000 and repayable in twenty semi-annual installments from 15th June 2000 to 15th December 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

**15 INVENTORIES**

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Finished Goods	1,193,327	631,232	-	-
Raw Materials	5,107,131	4,454,809	-	-
Food Stocks	25,357,878	23,865,052	25,357,878	23,980,326
Tea	227,788	115,273	-	-
Fuel, Gas and Lubricants	120,377,228	50,608,879	92,297,848	34,565,492
Constructions, Electronics and Others	90,314,023	61,243,210	90,314,023	59,784,075
Pharmaceuticals	8,089,778	9,735,351	8,089,778	9,735,351
Retail Shops	30,306,270	21,733,390	30,306,270	21,733,390
Goods-In-Transit	10,720,967	57,408,316	10,720,967	57,408,316
	291,694,390	229,795,512	257,086,764	207,206,950
Less : Provision for obsolete inventories	(5,037,566)	-	(5,037,566)	-
	286,656,824	229,795,512	252,049,198	207,206,950

**16 TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Trade Receivables	367,991,550	287,296,622	146,868,683	71,091,232
Due from Policyholders	20,331,170	10,083,550	-	-
Due from Re-insurers	43,665,580	13,308,281	-	-
	431,988,300	310,688,453	146,868,683	71,091,232
Provision for Loss on Impairment (Note 16.2)	(25,741,546)	(22,951,248)	(12,206,813)	(11,073,606)
	406,246,754	287,737,205	134,661,870	60,017,626
Advances and Deposits	15,197,570	28,931,323	13,507,250	27,209,057
Other Receivables (Note 16.1)	70,525,265	74,577,314	66,761,450	73,370,440
	85,722,835	103,508,637	80,268,700	100,579,497
Provision for Loss on Impairment (Note 16.2)	(14,009,231)	(11,597,030)	(14,009,231)	(11,597,030)
	71,713,604	91,911,607	66,259,469	88,982,467
	477,960,358	379,648,812	200,921,339	149,000,093

**16.1 Other Receivables**

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Government Employees Credit Scheme	24,321,971	20,320,616	24,321,971	20,320,616
Subsidy Receivables	19,548,745	-	19,548,745	-
Staff Advances and Other Loans	3,254,271	3,289,651	3,254,271	3,289,651
Advances to Purchase Dollars	6,893,324	23,911,160	6,893,324	23,911,160
Insurance Receivable	-	544,425	-	-
Miscellaneous	16,506,954	26,511,462	12,743,139	25,849,013
	70,525,265	74,577,314	66,761,450	73,370,440

**16.2 Provision for Loss on Impairment**

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Balance as at 1st January	34,548,278	39,562,938	22,670,636	27,685,296
Amount written off during the year	(16,910)	(9,481,837)	(16,910)	(9,481,837)
Recovered during the year	(1,401,318)	-	(1,401,318)	-
Provision made during the year	6,620,727	4,467,177	4,963,636	4,467,177
Balance as at 31st December	39,750,777	34,548,278	26,216,044	22,670,636

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2005

## 17 AMOUNTS DUE FROM RELATED PARTIES

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
STO Maldives (Singapore) Pte Ltd	-	-	7,210,009	7,250,490
Maldivian Gas Pvt Ltd	-	-	3,570,963	9,445,912
Lafarge Maldives Cement Pvt Ltd	921,072	-	918,789	-
STO Lanka (Pvt) Ltd	-	-	4,002,397	2,753,065
Fuel Supplies Maldives Pvt Ltd	-	-	180,299,461	144,539,976
Allied Insurance Company of the Maldives Pvt Ltd	-	-	2,321,054	-
Maldives Structural Products (Pvt) Ltd	4,111,085	-	-	-
Rainbow Enterprises Pvt Ltd	1,211,267	1,355,386	-	-
Maldives Industrial Fisheries Company Limited	15,048,831	36,223	14,939,980	-
	<u>21,292,255</u>	<u>1,391,609</u>	<u>213,262,653</u>	<u>163,989,443</u>

## 18 REINSURANCE CONTRACTS

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Re-insurers' share of insurance liabilities	<u>151,269,250</u>	<u>197,842,546</u>	-	-
	<u>151,269,250</u>	<u>197,842,546</u>	-	-

Amounts due from reinsurers in respect of claims already paid by the group on the contracts that are reinsured are included in trade and other receivables (Note 16).

## 19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Cash in Hand	38,818,179	37,644,305	10,856,639	16,466,994
Cash in Transit	-	58,594	-	-
Balances with Banks	61,945,962	50,503,423	43,570,862	19,277,624
Fixed Deposits	273,315	664,539	273,315	270,555
	<u>101,037,456</u>	<u>88,870,861</u>	<u>54,700,816</u>	<u>36,015,173</u>

## 20 SHARE CAPITAL

## 20.1 Authorized

Authorized share capital comprises 1,155,555 (2004 : 1,155,555) ordinary shares of Rf. 50/- each.

## 20.2 Issued and Fully Paid

Issued and fully paid share capital comprises 1,126,910 (2004 : 1,126,910) ordinary shares of Rf. 50/- each.

	Group		Company	
	2005	2004	2005	2004
<b>Issued and Fully Paid</b>				
Balance as at 1st January	1,126,910	1,126,910	1,126,910	1,126,910
Issued during the year	-	-	-	-
Balance as at 31st December	<u>1,126,910</u>	<u>1,126,910</u>	<u>1,126,910</u>	<u>1,126,910</u>

## 20.3 Dividends and Voting Rights

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

The following dividends have been declared and paid by the company during the year.

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Final Dividend for 2002/2003	-	123,960,100	-	123,960,100
Final Dividend for 2003/2004	<u>78,883,900</u>	-	<u>78,883,900</u>	-
	<u>78,883,900</u>	<u>123,960,100</u>	<u>78,883,900</u>	<u>123,960,100</u>

During the year, company has proposed and paid a final dividend of Rf. 70/- per share for the year ended 31st December 2004. (In 2004, a dividend of Rf. 110/- per share for the year ended 31st December 2003 was proposed and paid).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

## 20 SHARE CAPITAL (CONTINUED)

## 20.4 Claim Equalization Reserve

Reserve for claim equalization 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	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Balance as at 1st January	1,050,373	643,201	-	-
Transfer for the year	1,572,004	407,172	-	-
Balance as at 31st December	<u>2,622,377</u>	<u>1,050,373</u>	<u>-</u>	<u>-</u>

## 20.5 Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations that are not integral part of the operations of the company.

## 20.6 Fair Value Reserve

Fair value reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognized.

## 21 LOANS AND BORROWINGS

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Balance as at 1st January	47,075,661	47,774,616	42,436,195	42,894,173
Borrowings during the Year	94,269,446	199,843,322	94,607,150	199,212,082
Repayments during the Year	(5,753,618)	(200,542,277)	(3,402,867)	(199,670,060)
	<u>135,591,489</u>	<u>47,075,661</u>	<u>133,640,478</u>	<u>42,436,195</u>
Less: Interest in Suspense	(453,720)	(864,225)	(153,522)	(372,420)
Balance as at 31st December	<u>135,137,769</u>	<u>46,211,436</u>	<u>133,486,956</u>	<u>42,063,775</u>

## 21.1 Sources of Finance

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
<b>Secured Loans</b>				
Seylan Bank Limited (Note 21.4)	51,348,806	39,766,779	51,348,806	39,766,779
Hatton National Bank - Sri Lanka	-	467,805	-	-
HSBC - Male' Branch (Note 21.5)	4,287,582	-	4,287,582	-
Maldives Finance Leasing Company (Note 21.9)	3,165,680	5,976,852	1,514,867	2,296,996
Bank of Maldives Plc (Note 21.6)	27,826,951	-	27,826,951	-
HSBC - Male' Branch (Note 21.7)	44,975,000	-	44,975,000	-
Nations Trust Bank Limited - Sri Lanka (Note 21.8)	3,533,750	-	3,533,750	-
	<u>135,137,769</u>	<u>46,211,436</u>	<u>133,486,956</u>	<u>42,063,775</u>

## 21.2 Current

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Loans and Borrowings	103,268,861	40,080,673	103,268,861	39,766,779
Finance Lease Liabilities	2,423,867	3,529,746	1,001,031	1,001,031
	<u>105,692,728</u>	<u>43,610,419</u>	<u>104,269,892</u>	<u>40,767,810</u>
Interest in Suspense	(320,368)	(643,519)	(126,225)	(218,901)
	<u>105,372,360</u>	<u>42,966,900</u>	<u>104,143,667</u>	<u>40,548,909</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2005

## 21 LOAN AND BORROWINGS (CONTINUED)

21.3 Non Current	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Loans and Borrowings	28,703,228	153,911	28,703,228	-
Finance Lease Liabilities	1,195,533	3,311,331	667,358	1,668,385
	<u>29,898,761</u>	<u>3,465,242</u>	<u>29,370,586</u>	<u>1,668,385</u>
Interest in Suspense	(133,352)	(220,706)	(27,297)	(153,519)
	<u>29,765,409</u>	<u>3,244,536</u>	<u>29,343,289</u>	<u>1,514,866</u>

21.4 The Company has obtained a revolving credit facility of USD 4 million 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.

21.5 The Company has obtained a loan of USD 364,000/- (Rf 4,677,400/-) from HSBC Male' branch at an annual interest rate of 8.5% to acquire a landing craft during the year. The Loan is repayable from 27 October 2005 in 36 monthly installments of USD 10,112/- (Rf 129,939/-) each. The loan is secured by the primary mortgage over the proposed landing craft.

21.6 The Company has obtained a loan of USD 2,400,000/- (Rf 30,840,000/-) from Bank of Maldives Plc at an annual interest rate of 8.5% to acquire a vessel named "MV Bonthi 2" during the year. The Loan should be repayable in 60 monthly installments of USD 49,800/- (Rf 639,930/-) each from 5th June 2005. The loan is secured by the mortgage over the vessel named " MV Bonthi 2" bearing registry no. C7848A - 03 10-T.

21.7 The Company has obtained two Import Credit Loans with total value of Rf. 44,975,000/- from HSBC Male' branch at an annual interest rate of 8.5% for working capital requirements and required to be settled within 60 days commencing from the date of disbursement of funds. The loan is secured by primary concurrent mortgage over stocks and book debts of US\$ 3,500,000/- (Rf 44,975,000/-).

21.8 The Company has obtained a loan of USD 1,375,000/- (Rf 17,668,750/-) from Nations Trust Bank Limited at an annual interest rate of LIBOR + 2.75% to construct a steel fuel storage tank at Funadhoo Island Male' Atoll. The loan is repayable within six years with a grace period of one year, commencing from 21 April 2006 in 5 installments of USD 275,000/- (Rf 3,533,750/-) each. The loan is secured by the mortgage over property, plant and equipment of the Island of Funadhoo for USD 1,375,000/- and corporate guarantee from State Trading Organization Plc for USD 1,375,000/-.

21.9 The company has acquired five motor vehicles under lease agreements entered with Maldives Finance Leasing Company Private Limited and repayable over a period of four years from 25 August 2003. The company has mortgaged security deposits of USD39,250 (Rf 504,362) against above mentioned leased assets.

21.9.1 Analysis of Finance Lease Liabilities	2005		
	Minimum Lease Payments	Interest	Principle
	Rf	Rf	Rf
<b>Group</b>			
Less than one year	2,423,867	320,368	2,103,499
More than one year, but less than five years	1,195,533	133,352	1,062,181
	<u>3,619,400</u>	<u>453,720</u>	<u>3,165,680</u>
<b>Company</b>			
Less than one year	1,001,031	126,225	874,806
More than one year, but less than five years	667,358	27,297	640,061
	<u>1,668,389</u>	<u>153,522</u>	<u>1,514,867</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

21 LOAN AND BORROWINGS (CONTINUED)

21.9.1 Analysis of Finance Lease Liabilities (Continued)

Group	2004		
	Minimum Lease Payments	Interest	Principle
	Rf	Rf	Rf
Less than one year	3,529,746	643,519	2,886,227
More than one year, but less than five years	3,311,331	220,706	3,090,625
	<u>6,841,077</u>	<u>864,225</u>	<u>5,976,852</u>
<b>Company</b>			
Less than one year	1,001,031	218,901	782,130
More than one year, but less than five years	1,668,385	153,519	1,514,866
	<u>2,669,416</u>	<u>372,420</u>	<u>2,296,996</u>

21.10 Loans and Borrowings - Maturity Analysis

	Group		Company	
	2005	2004	2005	2004
	Rf	Rf	Rf	Rf
Less than one year	103,268,861	40,080,673	103,268,861	39,766,779
More than one year, but less than two years	7,430,604	153,911	7,430,604	-
More than two years, but less than four years	18,081,152	-	18,081,152	-
More than four years, but less than five years	3,191,472	-	3,191,472	-
	<u>131,972,089</u>	<u>40,234,584</u>	<u>131,972,089</u>	<u>39,766,779</u>

22 DEFERRED TAX LIABILITY

	Group		Company	
	2005	2004	2005	2004
	Rf	Rf	Rf	Rf
Balance as at 1st January	60,240	16,000	-	-
Charge for the year	(37,455)	41,483	-	-
Exchange Difference	(1,423)	2,757	-	-
Balance as at 31st December	<u>21,362</u>	<u>60,240</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%.

23 PROVISION FOR RETIRING GRATUITY

	Group		Company	
	2005	2004	2005	2004
	Rf	Rf	Rf	Rf
Balance as at 1st January	86,672	44,186	-	-
Provision made during the year	49,781	42,486	-	-
Balance as at 31st December	<u>136,453</u>	<u>86,672</u>	<u>-</u>	<u>-</u>

24 TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	2005	2004
	Rf	Rf	Rf	Rf
Trade Payables	132,263,609	167,138,097	63,336,340	92,675,622
Accrued Expenses	62,704,797	34,288,811	64,717,562	23,325,045
Other Payables	8,396,731	849,099	775,569	149,960
	<u>203,365,137</u>	<u>202,276,007</u>	<u>128,829,471</u>	<u>116,150,627</u>



## Notes to the Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2005

## 25 AMOUNTS DUE TO RELATED PARTIES

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Maldives National Oil Company Limited	-	-	9,390,443	2,739,518
Allied Insurance Company of the Maldives Pvt Ltd	-	-	-	196,114
Lafarge Maldives Cement Pvt Ltd	-	2,154,252	-	2,154,252
Maldives Structural Product Pvt Ltd	-	-	8,031,753	2,959,334
Rainbow Travels Pvt Ltd	1,458	-	-	-
Champa Oil and Gas Pvt Ltd	95,200	340,000	-	-
	<u>96,658</u>	<u>2,494,252</u>	<u>17,422,196</u>	<u>8,049,218</u>

## 26 CURRENT TAX LIABILITY

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Current Income Tax	53,717	42,389	-	-
	<u>53,717</u>	<u>42,389</u>	<u>-</u>	<u>-</u>

## 27 DIVIDEND PAYABLE

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Dividends Payable	3,367,431	3,016,187	3,367,431	3,016,187
	<u>3,367,431</u>	<u>3,016,187</u>	<u>3,367,431</u>	<u>3,016,187</u>

## 28 INSURANCE CONTRACTS

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Claims Reported and Loss Adjustment Expenses	135,051,692	191,321,625	-	-
Unearned Premiums	23,701,648	14,962,890	-	-
	<u>158,753,340</u>	<u>206,284,515</u>	<u>-</u>	<u>-</u>

## 29 BANK OVERDRAFT

	Group		Company	
	2005 Rf	2004 Rf	2005 Rf	2004 Rf
Bank of Ceylon - Sri Lanka (Unsecured)	237,755	358	-	-
Seylan Bank Limited - Sri Lanka (Unsecured)	358,846	-	358,846	-
HSBC - Male' Branch (Note 29.1)	44,643,534	17,361,416	37,696,812	17,361,416
Bank of Maldives Plc - USS (Note 29.2)	53,269,799	54,231,662	53,269,799	54,231,662
State Bank of India - Male' Branch (Note 29.3)	60,039,062	43,900,171	51,400,574	43,900,171
Habib Bank Ltd - Male' Branch (Note 29.4)	56,812,833	41,360,447	56,812,833	41,360,447
Bank of Maldives Plc - MRF (Note 29.5)	32,941,996	-	16,072,021	-
	<u>248,303,825</u>	<u>156,854,054</u>	<u>215,610,885</u>	<u>156,853,696</u>

Note	Bank	Company	Approved Limit Rf	Security	Security Value Rf	Rate of Interest Per Annum
29.1	HSBC - Male' Branch	State Trading Organization Plc	19,275,000	Government Guarantee	19,275,000	8.50%
		Maldivian Gas Pvt Ltd	-	Corporate Guarantee	-	8.50%
29.2	Bank of Maldives Plc.	State Trading Organization Plc	54,612,500	Government Guarantee	6,425,000	8.50%
29.3	State Bank of India - Male' Branch	State Trading Organization Plc	51,400,000	Government Guarantee	51,400,000	8.50%
		Fuel Supplies Maldives Pvt Ltd	30,000,000	Property Mortgage	27,102,842	8.50%
29.4	Habib Bank Ltd - Male' Branch	State Trading Organization Plc	51,400,000	Government Guarantee	32,125,000	8.50%
29.5	Bank of Maldives Plc.	State Trading Organization Plc	20,000,000	Fixed Deposit	19,275,000	8.50%
		Allied Insurance Company of the Maldives Pvt Ltd	-	STO New Head Office Fixed and Floating Charges of Receivables	-	8.50%

## 30 COMMITMENTS

## 30.1 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

30 COMMITMENTS (CONTINUED)

30.2 Lease Commitments

Lease rentals falling	Less than one year Rf	1 to 2 years Rf	More than 2 Years Rf	Total Rf
<b>Finance Leases</b>				
State Trading Organization Plc (Note 30.2.1)	1,001,031	667,354	-	1,668,385
Fuel Supplies Maldives Private Limited	1,111,895	408,814	-	1,520,709
STO Maldives (Singapore) Private Limited	243,602	40,607	-	284,209
	<u>2,356,528</u>	<u>1,116,775</u>	<u>-</u>	<u>3,473,303</u>
<b>Operating Leases</b>				
State Trading Organization Plc (Note 30.2.2)	2,698,500	2,698,500	2,023,875	7,420,875
Maldives Structural Products Private Limited (Note 30.2.3)	186,120	186,120	3,536,280	3,908,520
	<u>2,884,620</u>	<u>2,884,620</u>	<u>5,560,155</u>	<u>11,329,395</u>

30.2.1 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 Organization Plc has mortgaged security deposits of USD 39,250 (Rf 504,362) against above mentioned leased assets.

30.2.2 State Trading Organization Plc has entered into a leasing agreement on 28th June 1993 with the Government of Maldives in respect of Island of Vakarufalhi, in Ari Atoll and the agreed lease rentals are payable as above.

30.2.3 Maldives Structural Products Private Limited has entered into a leasing agreement with the Government of Maldives in respect of the Island of Thilafushi, and the lease period of years 25 years is due to expire by 2025.

31 CONTINGENT LIABILITIES

31.1 Unexpired Policies

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

	Group	
	2005 Rf	2004 Rf
Marine Cargo	97,672,599	88,720,042
Marine Hull	286,984,411	226,607,172
Fire	421,944,718	303,453,682
Accident	944,764,447	510,379,288
Health	29,906,000	120,760,000
	<u>1,781,272,175</u>	<u>1,249,920,184</u>

31.2 Letters of Credit

Company Name	Bank	Unexpired LC Facility as at 31/12/2005
State Trading Organization Plc	Habib Bank - Male' branch	US\$ 3,648,354/- (Rf 46,881,349/-)
State Trading Organization Plc	Nation Trust Bank Limited	US\$ 1,100,000/- (Rf 14,135,000/-)
Maldives Structural Products Private Limited	Bank of Maldives Plc	US\$ 1,204,286 (Rf 15,475,072/-)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2005

## 31 CONTINGENT LIABILITIES (CONTINUED)

## 31.3 Guarantees

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

Company Name	Bank	Facility	Corporate Guarantee Amount Rf	Corporate Guarantee Amount US\$
STO Lanka Pvt Ltd	HSBC - Colombo	Loan	243,309	18,935
Maldives National Oil Company Ltd	Societe Generale - Singapore Branch	Letter of Credit	771,000,000	60,000,000
Maldives Structural Products Pvt Ltd	Bank of Maldives Plc	Overdraft	1,927,500	150,000
	Bank of Maldives Plc	Letter of Credit	9,637,500	750,000
Fuel Supplies Maldives Pvt Ltd	State Bank of India - Male' Branch	Overdraft	30,000,000	2,334,630
Maldives Gas Pvt Ltd	Habib Bank Limited - Male' Branch	Overdraft	5,000,000	389,105
	Habib Bank Limited - Male' Branch	Letter of Credit	5,782,500	450,000
			<u>823,590,809</u>	<u>64,092,670</u>

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

## 32 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:

## 32.1 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.

## 32.2 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.

## 32.3 Currency Risk

The group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than Rf. The currencies giving rise to this risk are primarily US Dollars. The management of the group has taken following actions to mitigate the currency risk on payments in foreign currencies.

1. Payment by Rufiyaa for some of the import clients by mutual arrangements with the banks.
2. Tie project sales for parties who are willing to sell dollars to State Trading Organization Plc.
3. Procure foreign exchange through payment of Rufiyaa in advance

## 32.4 Liquidity Risk

The group actively manages its debt maturity profile, operating cash flows and availability of funding 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 31ST DECEMBER 2005

32 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

32.5 Effective Interest Rates and 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.

		2005			
<u>Company</u>	Note	Effective Interest Rate	Less than 1 Year Rf	More than 1 Year Rf	Total Rf
<b>Financial Assets</b>					
Loan Given to Associate Company	14	9.00%	664,885	3,324,423	3,989,308
Fixed Deposits	19	2.00%	273,315	-	273,315
			938,200	3,324,423	4,262,623
<b>Financial Liabilities</b>					
Seylan Bank Limited	21.4	5.75%	51,348,806	-	51,348,806
HSBC - Male' Branch	21.5	8.50%	1,559,272	2,728,310	4,287,582
Maldives Finance Leasing Company	21.9	11.25%	1,001,031	667,358	1,514,867
Bank of Maldives Plc	21.6	8.50%	3,013,049	24,813,902	27,826,951
HSBC - Male' Branch	21.7	8.50%	44,975,000	-	44,975,000
Nation Trust Bank Limited - Sri Lanka	21.8	5.75%	-	3,533,750	3,533,750
Bank Overdraft	29	8.50%	215,610,885	-	215,610,885
			317,508,043	31,743,320	349,097,841
<b>Group</b>					
<b>Financial Assets</b>					
Loan Given to Associate Company	14	9.00%	664,885	3,324,423	3,989,308
Fixed Deposits	19	2.00%	273,315	-	273,315
			938,200	3,324,423	4,262,623
<b>Financial Liabilities</b>					
Seylan Bank Limited	21.4	5.75%	51,348,806	-	51,348,806
HSBC - Male' Branch	21.5	8.50%	1,559,272	2,728,310	4,287,582
Maldives Finance Leasing Company	21.9	11.25%	2,423,867	1,195,533	3,165,680
Bank of Maldives Plc	21.6	8.50%	3,013,049	24,813,902	27,826,951
HSBC - Male' Branch	21.7	8.50%	44,975,000	-	44,975,000
Nation Trust Bank Limited - Sri Lanka	21.8	5.75%	-	3,533,750	3,533,750
Bank Overdraft	29	8.50%	248,303,825	-	248,303,825
			351,623,819	32,271,495	383,441,594
		2004			
<u>Company</u>	Note	Effective Interest Rate	Less than 1 Year Rf	More than 1 Year Rf	Total Rf
<b>Financial Assets</b>					
Loan Given to Associate Company	14	9.00%	664,885	3,989,308	4,654,193
Fixed Deposits	19	2.00%	-	270,555	270,555
			664,885	4,259,863	4,924,748
<b>Financial Liabilities</b>					
Seylan Bank Limited	21.4	5.75%	39,766,779	-	39,766,779
Maldives Finance Leasing Company	21.9	11.25%	782,130	1,514,866	2,296,996
Bank Overdraft	29	8.50%	156,853,696	-	156,853,696
			197,402,605	1,514,866	198,917,471

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

## 32 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

## 32.5 Effective Interest Rates and Reprising (Continued)

Group	Note	Effective Interest Rate	2004		Total
			Less than 1 Year Rf	More than 1 Year Rf	
<b>Financial Assets</b>					
Loan Given to Associate Company	14	9.00%	664,885	3,989,308	4,654,193
Fixed Deposits	19	2.00%	664,539	-	664,539
			<u>1,329,424</u>	<u>3,989,308</u>	<u>5,318,732</u>
<b>Financial Liabilities</b>					
Seylan Bank Limited	21.4	5.75%	39,766,779	-	39,766,779
Maldives Finance Leasing Company	21.9	8.50%	3,529,746	3,311,331	5,976,852
Hatton National Bank - Sri Lanka	21	11.25%	467,805	-	467,805
Bank Overdraft	29	8.50%	156,854,054	-	156,854,054
			<u>200,618,384</u>	<u>3,311,331</u>	<u>203,065,490</u>

## 32.6 Fair value of financial assets and financial liabilities

**Financial assets and 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.

## 33 RELATED PARTY TRANSACTIONS

Related Party	Relationship	Nature of the Transaction	Amount	Balance as at 31/12/2005 Due from / (Due to)
			Rf	Rf
Allied Insurance Company of the Maldives Pvt Ltd	Subsidiary Company	Sales of goods	321,630	2,321,054
		Purchases of goods	(52,732)	
		Services rendered	4,787,898	
		Dividends received	1,800,000	
STO Maldives (Singapore) Pte Ltd	Subsidiary Company	Purchases of oil	(227,749,470)	7,210,009
		Services rendered	318,240	
		Dividends received	330,750	
STO Lanka (Pvt) Ltd	Subsidiary Company	Purchases of tea	(552,541)	4,002,397
Maldives National Oil Company Ltd	Subsidiary Company	Purchases of oil	(17,359,152)	(9,390,443)
		Services rendered	(771,000)	
Maldiv Gas Pvt Ltd	Subsidiary Company	Sale of goods	504,744	3,570,963
		Services rendered	463,037	
		Fund Transfer	1,300,000	
		Purchases of gas	(1,279,404)	
Fuel Supplies Maldives Pvt Ltd	Subsidiary Company	Dividends received	856,800	180,299,461
		Sales of fuel	1,046,076,443	
		Purchases of fuel	(332,051,742)	
		Dividends received	7,395,000	

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

**AS AT 31ST DECEMBER 2005**

**33 RELATED PARTY TRANSACTIONS (CONTINUED)**

Related Party	Relationship	Nature of the Transaction	Amount	Balance as at 31/12/2005 Due from / (Due to)
			Rf	Rf
Maldives Structural Products (Pvt) Ltd	Joint Venture Company	Sales of goods	13,508	
		Purchases of goods	(37,205,550)	(8,031,753)
		Dividends received	2,068,000	4,111,085
Lafarge Maldives Cement Pvt Ltd	Associate Company	Purchases of goods	(53,568,756)	
		Services rendered	2,320,650	921,072
		Loan Interest	403,927	
		Loan given	-	3,989,308
Rainbow Enterprises Private Limited	Related Party of Joint Venture	Purchases of goods	(2,995,426)	1,211,267
		Sales of goods	16,489,068	
Maldives Industrial Fisheries Company Limited	Common Directorship of Mr. Mohamed Maniku	Sales of goods	65,040,940	15,048,831
Champa Oil and Gas Pvt Ltd	Shareholder of Subsidiary Company	Dividends received	(95,200)	(95,200)
Rainbow Travels Pvt Ltd	Related Party of Joint Venture	Purchases of goods	(1,458)	(1,458)

**34 POST BALANCE SHEET EVENTS**

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

**35 COMPARATIVE FIGURES**

Comparative figures have been restated wherever appropriate to confirm with the current year presentation.

**36 INVESTMENTS IN SUBSIDIARIES**

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

	Country of Incorporation	No of Shares		Share Holding	
		2005	2004	2005	2004
Allied Insurance Company of Maldives Pvt Ltd	Maldives	9,999	9,999	99.99%	99.99%
STO Maldives (Singapore) Pvt Ltd (Note 36.1)	Singapore	200,000	200,000	99.99%	99.99%
STO Lanka Pvt Ltd (Note 36.2)	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%

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2005

## 36 INVESTMENT IN SUBSIDIARIES (CONTINUED)

36.1 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.

36.2 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 of Sri Lanka. The principal activities of the company are cultivation, manufacture and sale of black tea.

## 37 INVESTMENT IN JOINT VENTURE

The company has invested in the following joint venture.

	Country of Incorporation	No of Shares		Share Holding	
		2005	2004	2005	2004
Maldives Structural Products Pvt Ltd	Maldives	47,000	47,000	50%	50%

## 38 INVESTMENT IN ASSOCIATE

The company has invested in the following associate.

	Country of Incorporation	No of Shares		Share Holding	
		2005	2004	2005	2004
Lafarge Maldives Cement Private Limited	Maldives	10,567,267	10,567,267	25%	25%

## 39 DIRECTORS' RESPONSIBILITY

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

## 40 SEGMENT INFORMATION

## 40.1 AS AT 31ST DECEMBER 2005

	Trading		Tea		Gas		Insurance Service		Fuel, Lubricant and Crude Oil		Structural Products		Group	
	Rf		Rf		Rf		Rf		Rf		Rf		Rf	
<b>Revenues</b>	809,250,232		1,841,151		47,159,831		16,753,316		4,929,967,267		27,578,931		5,832,550,728	
<b>Segment Results</b>														
Operating Profit Before Financing Cost	44,609,032		(1,749,258)		(209,045)		13,953,665		114,570,665		3,653,646		174,828,705	
Net Financing Costs	(22,288,732)		(324,368)		(253,707)		(737,004)		(1,171,383)		(42,255)		(24,817,449)	
Share of Profit from Associate	-		-		-		-		-		-		1,633,150	
Profit/(Loss) Before Tax	22,320,300		(2,073,626)		(462,752)		13,216,661		113,399,282		3,611,391		151,644,406	
Tax	-		-		-		-		(32,138)		-		(32,138)	
Minority Interest	-		-		-		-		-		-		(6,172,166)	
<b>Net Profit / (Loss) for the Year</b>	<b>22,320,300</b>		<b>(2,073,626)</b>		<b>(462,752)</b>		<b>13,216,661</b>		<b>113,367,144</b>		<b>3,611,391</b>		<b>145,440,102</b>	
<b>Segment Assets</b>	669,038,398		8,024,699		158,570,657		230,512,538		368,647,792		15,129,574		1,449,923,658	
<b>Segment Liabilities</b>	205,756,904		5,010,285		24,327,141		188,336,215		322,707,404		3,097,743		749,235,692	
<b>Capital Expenditure</b>	96,805,953		-		7,539,136		424,438		3,935,690		412,332		109,117,549	
<b>Depreciation</b>	32,638,167		330,332		6,443,766		315,579		4,213,455		561,031		44,502,330	



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2005

## 40 SEGMENT INFORMATION (CONTINUED)

## 40.2 AS AT 31ST DECEMBER 2004

	Trading		Tea		Gas		Insurance Service		Fuel, Lubricant and 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 cost	13,677,241		(1,299,781)		1,788,742		3,845,514		103,319,924		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	5,729,917		(1,299,781)		1,788,742		4,285,624		102,765,100		4,121,375		117,390,977	
Tax	-		-		-		-		(42,390)		-		(42,390)	
Minority Interest	-		-		-		-		-		-		(6,322,278)	
<b>Net Profit / (Loss) for the Year</b>	<b>5,729,917</b>		<b>(1,299,781)</b>		<b>1,788,742</b>		<b>4,285,624</b>		<b>102,722,710</b>		<b>4,121,375</b>		<b>111,026,309</b>	
<b>Segment Assets</b>	622,510,977		8,495,373		89,941,791		241,444,948		271,735,433		11,127,713		1,245,256,235	
<b>Segment Liabilities</b>	141,837,808		10,350,727		15,582,541		210,685,285		238,230,117		639,274		617,325,752	
<b>Capital Expenditure</b>	35,066,340		609,538		5,062,934		775,730		18,425,434		157,500		60,097,476	
<b>Depreciation</b>	22,581,949		205,356		5,062,934		192,849		4,044,650		541,336		32,629,074	



State Trading Organization Plc