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“Our corporate mission is to make STO one of the most innovative and efficiently managed multi national companies in the region”



### Registered Office

Boduthakurufaanu Magu  
Maafannu  
Male' 20345  
Republic of Maldives

### STO's Main Business Outlets

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



### Retail Outlets

- STO Shop No. 122, H.A. Hoarafushi
- STO Shop No. 123, S. Feydhoo
- STO Shop No. 132, B. Eydhafushi
- STO Shop No. 134, L. Fonadhoo
- STO Shop No. 136, Gn. Fuamulaku
- STO Shop No. 137, S. Hithadhoo
- STO Shop No. 138, G.Dh. Thinadhoo
- STO Shop No. 141, Gan Oil, S.Gan
- STO Shop No. 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
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### Associate Company

Lafarge Maldives Cement Pvt Ltd	25% share
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### Shareholding

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

### Bankers

- State Bank of India, Male'
- Habib Bank Limited, Male'
- Bank of Maldives Plc, Male'
- Seylan Bank, Colombo
- HSBC, Male'
- PNB Paribas, Singapore
- Nations Trust Bank - Colombo
- Societe Generale Bank - Singapore

### Auditors

KPMG Ford, Rhodes, Thornton & Co. - Maldives  
 1<sup>st</sup> Floor,  
 Watteenigasdhoshuge  
 Majeedi Magu  
 Male'  
 Republic of Maldives

## Chairman's Message

**“STO is your STORY- the story of the people of the Maldives.”**



**Mr. Ahmed Mohamed**

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It gives me great pleasure to present the Annual Report of State Trade Organisation Plc (STO) for the year 2006.

2006 has been yet another great year for STO. The total revenue increased by 5.2 percent, and net profit increased by 6.0 percent from Rf 129.30 million in 2005 to Rf 137.01 million in 2006. On behalf of the Board of Directors, I congratulate STO on its business accomplishments during the past year.

The elevated fuel price in the world market was the main impediment to improved business performance in 2006. The gross profit margins from sale of petroleum products declined from 7.2 percent in 2005 to 5.2 percent in 2006. STO firmly believes that it is a core social responsibility to maintain local fuel prices low. As such, local fuel prices were not increased to match the world market prices, though we were cautious of how far we can bring the profit margins down before it impacts negatively on the overall profitability of STO.

Rewarding our shareholders as we grow is a continuing commitment of STO, and this promise will continue. This year, the Board has recommended a dividend payout of Rf 73/- per share for shareholders' approval at the forthcoming Annual General Meeting (AGM). This, if approved, would be 32.7 percent higher than the dividend of Rf 55 per share last year. Since public listing in 2001 to date, i.e., including the proposed dividend for 2006, total returns to our shareholders will be in excess of Rf 598 million.

In 2007, we expect to make further progress under the strategic directions laid out in the Business Plan (2007 – 2009) of STO. Facing challenges means we have to change. We will continue to restructure the roles and responsibilities of the Business Units of STO to exit loss-making activities, reduce dependence in operations that place pressure on the profit margins, and diversify into new businesses that provide high return on investment.

STO has taken the lead in implementing good corporate governance practices to optimise performance and accountability. In January 2006, the Corporate Governance Policies and Guidelines of STO was adopted by the Board of Directors, exactly a year before the introduction of a Code of Corporate Governance by the Capital Market Development Authority (CMDA) of the Maldives. STO is committed to be fully compliant with the CMDA's Code of Corporate Governance before the end of 2007. The complementary skills and experience of our Directors provide the leadership and strategic direction of a high quality to achieve and maintain high standards of corporate governance.

It was indeed an honour and a privilege for all of us at STO to have His Excellency the President of the Maldives, Mr. Maumoon Abdul Gayoom, inaugurate two of our business entities in Huvadho Atoll in March 2007, – the “Gaafu Alifu Atoll STO Trade Centre” in GA. Villingili and the Ice Plant of “Gaafu Dhaal Atoll Rayyithunge Cooperative Society” in GDh. Thinadhoo. On behalf of the shareholders, Board of Directors and

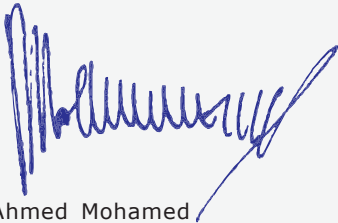
## Chairman's Message

the staff of STO, I express sincere gratitude and appreciation to the President and the Government for the continuing commitment and support to make STO prosper.

On behalf of the Board of Directors, I would like to congratulate and thank the Executive team under Managing Director, Mohamed Hussain Maniku, for their leadership and business acumen, and our 849 employees for their hard work and continued contribution to achieve profitable outcomes and improve customer satisfaction.

I also offer my sincere and warm appreciation to the Board of Directors for the excellent decision making, support, and guidance offered to me as the Chairman.

In addition, on behalf of the Board of Directors, I would like to thank our shareholders, customers, business associates, bankers and all those who have supported us in our business activities. STO is your *STORY* – the story of the people of the Maldives, and with the Grace of Allah, we look forward to another successful year.



Ahmed Mohamed  
Chairman, Board of Directors



**Board of Directors**



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



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



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



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



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



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



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

**Company Secretary**



Ms. Aishath Shaffana Rasheed,  
G.Ras-huvandhu



## Directors' Report

### 1. Introduction

We are pleased to present the Directors' Report along with the audited financial statements as at 31<sup>st</sup> December 2006 which was approved by the Board of Directors of State Trading Organization Plc (STO) on 14<sup>th</sup> May 2007.

This report presents an overview of the core businesses and main business activities of its subsidiary companies. It also highlights actions taken to improve the efficiency and effectiveness of STO during 2006.

### 2. Corporate Governance

The corporate objectives of the Board of Directors are to provide leadership and guidance to the management of STO and to create long term value for the shareholders. Through our commitment to high standards of corporate governance we strive to ensure Accountability, Discipline, Fairness, Independence, Responsibility, Social Responsibility and Transparency.

In this regard, a code of corporate governance - STO's Corporate Governance Policies and Guidelines - was adopted by the Board of Directors on 30th January 2006.

The Directors nominated by the Government for the term 2005-2006 were re-appointed to the Board of Directors on 29th June 2006 for a second term. Mr. Abdulla Saleem Abdul Sattar, who represented the public shareholders, was also re-elected at the Annual General Meeting of 2006 for a second term.

The Directors of the Board of STO are;

Mr. Ahmed Mohamed, G. Ufaa  
Chairman

Mr. Mohamed Hussain Maniku, Ma. Moodhuvina  
Managing Director

Mr. Ali Mohamed, M. Raakani  
Director

Ms. Aminath Ali Manik, Ma. Maanika  
Director

Dr. Abdulla Mausoom, M. Gulshan  
Director

Mr. Ali Naseer Mohamed, Ma. Rosarium  
Director

Mr. Abdulla Saleem Abdul Sattar, Ma. Tulip Villa  
Director

The STO's Annual General Meeting of 2006 was held on 29th June 2006 and since then a total of 21 meetings of the Board of Directors were held up to and including the meeting held on 14th May 2007.

According to the STO's Corporate Governance Policies and Guidelines, a Remuneration Committee and an Audit Committee was established on 6th March 2006.



Members of the Remuneration Committee;

1. Ms. Aminath Ali Manik
2. Dr. Abdulla Mausoom
3. Mr. Mohamed Hussain Maniku

Members of the Audit Committee;

1. Mr. Ali Naseer Mohamed
2. Mr. Abdulla Saleem Abdul Sattar
3. Mr. Mohamed Hussain Maniku

Representatives from the Board of Directors are also included in the STO Staff Provident Fund Management Committee. Members of Staff Provident Fund Committee are;

1. Ms. Aminath Ali Manik (Board Director)
2. Dr. Abdulla Mausoom (Board Director)
3. Mr. Mohamed Hussain Maniku (Board Director)
4. Ms. Sana Mansoor (Head of Accounts and Finance Department)
5. Mr. Ahmed Shifan (Representative of STO Staff)

### 3. Principal Activities of the Company

STO continued to trade in the main areas of import and distribution of staple food items, petroleum products, construction materials, home improvement and household electronic items, groceries, and medical equipments. STO also through its subsidiary and joint venture companies, engaged in insurance services, bottling and distribution of LPG cooking gas, manufacturing and supply of roofing sheets, packing and sale of cement, wholesale and retail distribution of marine gas oil, petrol, and kerosene, and international trading in petroleum products.

During the year, a number of marketing and promotional activities were undertaken. The special promotion during *Ramazaan* and other promotional activities of Hitachi, Philips, and Pfaff products received overwhelming support from customers, proving the popularity of our line of products in the market.

Within the framework of the ongoing corporate social responsibility activities, two trial projects were initiated during the year. The first project was the formation of "Gaafu Dhaal Atoll Rayyithunge Cooperative Society". At present the main capital assets of the Gaafu Dhaal Atoll Rayyithunge Cooperative Society are the STO shop in GDh.Thinadhoo and an Ice Plant with a capacity of producing 100 tonnes of ice per day.

The formation of the cooperative society is in line with the government's policies on facilitating the establishment of island and atoll cooperatives, and development of small and medium enterprises (SME). The establishment of the "Gaafu Dhaal Atoll Rayyithunge Cooperative Society" provides the opportunity for the citizens of Gaaf Dhaal Atoll to participate as shareholders of this cooperative, which in turn facilitates the direct distribution of benefits to Atoll Communities. Depending on the outcome of this trial project it is planned to transform the operation of all existing STO shops in the Atolls to the Cooperative Society model.

The second project is a hybrid renewable energy pilot initiative for electricity generation. The hybrid schemes would run on a combination of wind, solar, LPG and diesel fuel and is designed to maximise the use of renewable energy, resulting in a system with lower emissions than the traditional fossil-fuelled gensets.

The trails are being implemented in three islands: Haa Alifu Uligamu, Meemu Raiymandhoo and Gaafu Alifu Kondey. The initial investment of this pilot project is US\$ 2.85 million.

The hybrid renewable energy development initiative is in line with the Government's policy of enhancing national energy security by promoting renewable and environmentally sound sources of energy. Based on the success of the pilot projects STO plans to participate in the implementation of hybrid renewable energy projects throughout the Maldives.

In addition, STO has also sponsored sports events in an effort to support lifestyle activities, promote business and values of consumers. Some of these activities include football and basketball tournaments and children's Tennis and Athletics events.



#### 4. General Business Environment

In 2006, the Maldives economy recovered substantially after registering a negative growth in 2005, following the Tsunami of December 2004. This recovery impacted positively for other industries such as construction and transport.

The rise in price of petroleum products in international markets in 2006, impacted negatively to the profitability margin of STO. This was as a result of the fact that STO did not raise domestic retail prices to match the rise in international market prices.

Competition in the areas in which the STO continued to operate remained strong and in some cases expanded. These areas include import and sale of construction items and household electrical and electronic items.

The main challenge in the effort to further improve the trading profitability continued to be the constraints that were faced in the area of logistics. With this in mind, STO has budgeted for additional investments that would help overcome the logistical constraints.

#### 5. Company Performance (Revenues)

The total turnover of the company increased from Rf 5,283.17 million in 2005 to Rf 5,555.77 million in 2006. The revenue of STO by product groups are given in table 1.

	2006		2005	
	(Rf in millions)	%	(Rf in millions)	%
Refined Petroleum Products	3,009.30	54.17	1,938.29	36.69
Crude Oil Sales	1,676.59	30.18	2,540.44	48.09
Staple Foods	170.54	3.07	116.37	2.20
Construction Materials	163.52	2.94	224.48	4.25
Retail Stores	152.94	2.75	126.44	2.39
Home Improvement	150.28	2.70	128.40	2.43
Supermart	76.15	1.37	75.90	1.44
Government Imports	71.73	1.29	46.97	0.89
Medical Supplies	46.43	0.84	37.47	0.71
Electronics	38.29	0.69	48.41	0.92
<b>Total</b>	<b>5,555.77</b>	<b>100.00</b>	<b>5,283.17</b>	<b>100.00</b>

Table 1: Total Revenues of the Company 2006 - 2005

Although petroleum related products continued to be the main revenue generator providing 84 percent of the sales of STO, we had to consciously accommodate a reduction in trade margin of the sale of petroleum products from 7.2 percent in 2005 to 5.2 percent in 2006. As stated earlier this was done to keep local fuel prices at reasonably affordable levels.

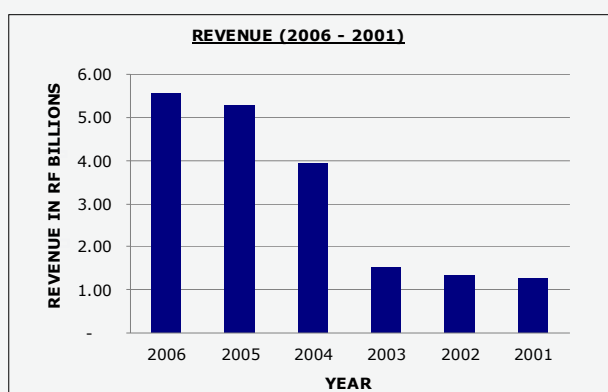


Figure 1: Revenue of STO from 2006 - 2001

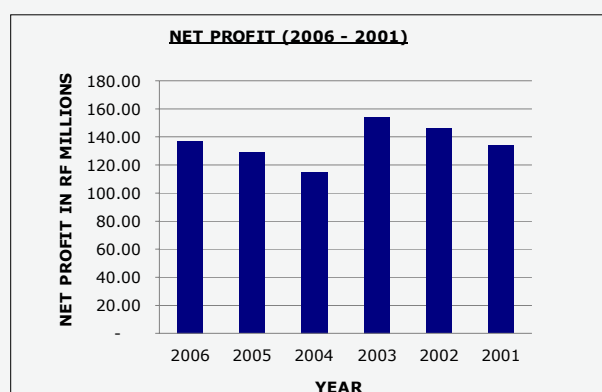


Figure 2: Net Profit of STO from 2006 - 2001

The total turnover in 2006 rose by 5.2 percent while gross profit increased by 4.3 percent. It is also worth noting that operating profit in the year 2006 increased by 6.6 percent from Rf 151.59 million in 2005 to Rf 161.64 million. The main reason for this is that STO received Rf 19.63 million more than 2005 from increased dividend on investments in subsidiary companies and from the sale of assets including the previous Head Office building of STO at Haveeree Hingun.

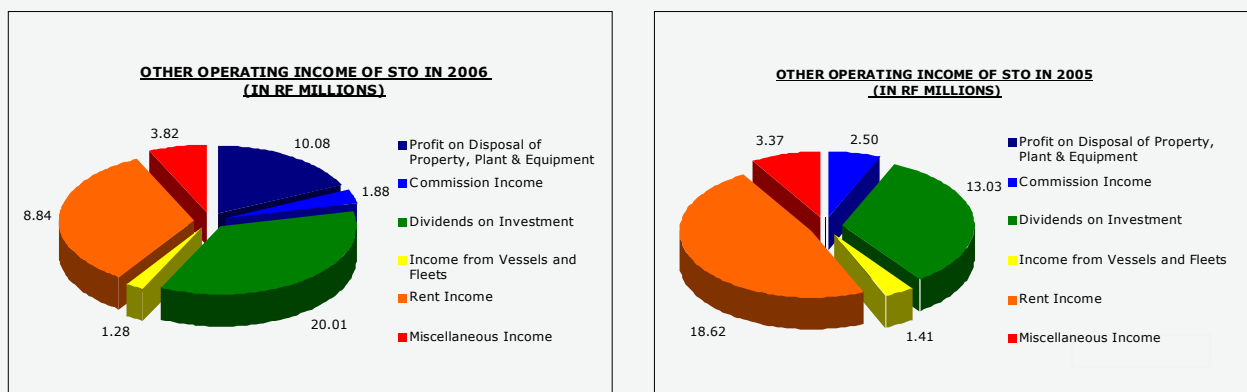


Figure 3: Other Operating Income of STO in 2006 and 2005

Total operating expenses increased by 19.3 percent from Rf 177.00 million in 2005 to Rf 196.27 million in 2006. The main reason for this is the increase in depreciation resulting from the capitalization of new Head Office building, and procurement of a cargo vessel and a landing craft in 2005.

The net financial expenses increased from Rf 22.29 million to Rf 24.63 million in 2006. This is an increase of 10.5 percent mainly as a result of interest paid on bank loans.

The net profit in 2006 increased to Rf 137.01 million from the 2005 figure of Rf 129.30 million. This is an increase of 6.0 percent over 2005.

**6. Financial Performance**

STO has been able to improve its performance in 2006 compared to 2005. Earnings per share in 2006 increased to Rf 121.58 compared to Rf 114.74 in 2005. Also the net asset value per share increased from Rf 549.42 to Rf 614.92 in 2006.

STO also has been able to keep a debt to equity ratio of less than 1 within last two years and have had a healthy interest cover ratio of greater than 5.

In 2006, the weighted average of share price fell in the market. However, the price is still relatively healthy at an average price of Rf 673.00.

The key financial indicators of 2005 and 2006 are given in table 2.

<b>Indicators</b>	<b>2006</b>	<b>2005</b>
Earnings per Share (Rf)	121.58	114.74
Price Earning Ratio	5.54	7.78
Dividend per Share (Rf)		55.00
Market Price per Share		
Highest (Rf)	899.00	1,210.00
Lowest (Rf)	430.00	740.00
Weighted Average (Rf)	673.00	892.27
Dividend Yield (Rf)		6.20%
Earning Yield	18.10%	12.90%
Return on Equity	19.80%	20.90%
Return on Total Assets	11.30%	11.60%
Current Ratio	2.03: 1	1.54: 1
Net Assets Value per Share (Rf)	614.92	549.42
Debt/Equity Ratio	0.75	0.81
Interest Cover	5.50	5.96

Table 2: Key Financial Indicators 2006 - 2005

## 7. Major Capital Expenditure Projects During the Year

1. Construction of a shop and 2 warehouses at Gaafu Alifu Vilingili started on 27th April 2006. This facility under the name of Gaafu Alifu Atoll Trade Centre was officially opened on 20th March 2007 by H.E.President Maumoon Abdul Gayoom.
2. To improve the transport of cargo between Male' and the retail outlets in the atolls, a 300 tonne cargo vessel, 'Thoori' was acquired for Rf 6.05 million in August 2006.
3. A 7,650 cubic meter tank constructed at Funadhoo at a cost of US\$1.37 million was completed on 7th June 2006 and commissioned on 27th July 2006.
4. To improve safety and spillage at Funadhoo tank number 7, a boundary wall was also constructed in 2006.

## 8. Share Performance

In the year 2006, a total of 934 shares were traded compared to the 1,749 shares traded in 2005. The total value of the traded shares in 2006 amounted to Rf 0.63 million while in 2005 this amounted to Rf 1.5 million. Total market capitalization of STO shares as at 31st December 2006 stood at 63.2 percent of the total market capitalization of Rf 767 million. However, this figure stood at 77.4 percent of the total market capitalization of Rf 1.11 billion, as at 31st December 2005.

The lowest traded price of STO shares in 2006 was Rf 430 and the highest traded price was Rf 899 and the weighted average of these trades was Rf 673.

## 9. Human Resource Development, Training and Staff Welfare

The STO has always given high priority to train and develop skills of its entire staff. As at 31st December 2006, STO had a total of 849 permanent staff of whom 76 percent are Maldivians. The company employed 196 expatriates. Majority of the expatriates are employed as labourers, drivers and security officers.

The company, at present has 44 diploma and equivalent certificate holders, 13 first degree holders and 8 masters and equivalent degree holders.

At present, there are 10 students studying for first degree programmes, funded by STO, in areas such as Business Administration, Marketing and professional degrees such as CIMA.

Overall, 80 different training programs including 38 sessions of in-house training at various local training centers, as well as those conducted by reputed overseas institutions were attended by our staff during the year.

To improve staff welfare, a medical insurance scheme for all permanent local staff was established on 1st January 2006. The scheme also encourages including direct family members in the scheme at their own costs.

A staff provident fund was also established on 1st January 2006. Participation in this fund was made mandatory for all permanent employees of STO. Each staff is required to contribute 5 percent of basic salary to the fund. And STO also contributes an equal amount to the staff provident fund. This fund will be managed by representation from the Board and also from the management.

**10. Principle Activities of Subsidiary Companies During the Year**

During the year 2006, STO Plc was involved in the management of the following subsidiary companies.

1. STO Maldives (Singapore) Pvt. Ltd. and Maldives National Oil Company Limited engaged in international trading activities focusing mainly on trading of petroleum products.
2. Allied Insurance Company of the Maldives Pvt. Ltd. engaged in the provision of insurance services such as fire, marine hull, cargo and other general insurance services.
3. Maldivian Gas Pvt. Ltd. engages in sale of LPG for cooking in Male' and Atolls. Maldivian Gas Pvt. Ltd. is one of the two companies in Maldives providing this service.
4. Fuel Supplies Maldives Pvt. Ltd. engages in distribution of petroleum products to Male' and the Atolls, including tourist resorts and other appointed sub distributors located in various Atolls throughout the country.
5. STO Lanka (Pvt) Ltd. engages in managing a tea estate in Sri Lanka. The company manufactures and exports tea to Maldives and also sells tea in the domestic market of Sri Lanka.

**11. Group Performance**

The total turnover for the Group remained same at Rf 5.84 billion in 2005 and 2006. However gross profit for the Group increased from Rf 375.47 million to Rf 404.19 million. The net profit for the Group also increased from Rf 151.61 million in 2005 to Rf 160.83 million in 2006. Earnings per share for 2006 was Rf 134.62 compared to Rf 129.06 in 2005.

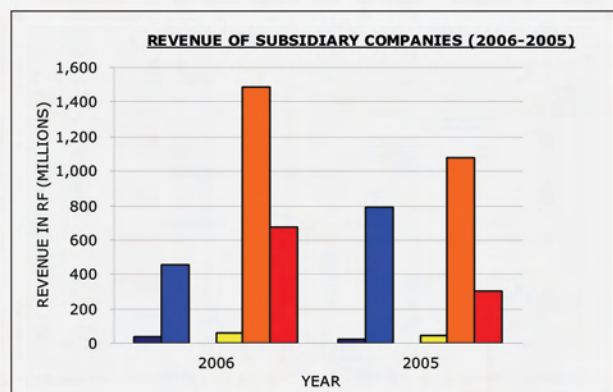


Figure 4: Revenue by Subsidiary Companies

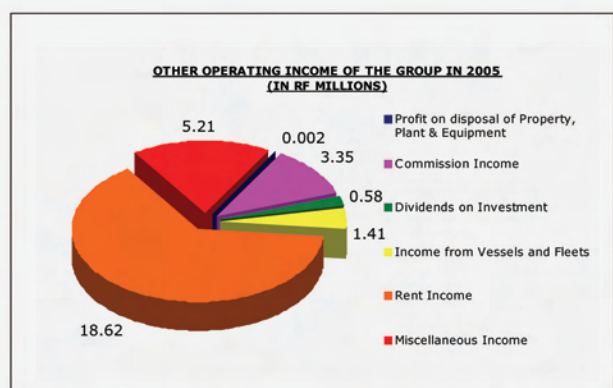
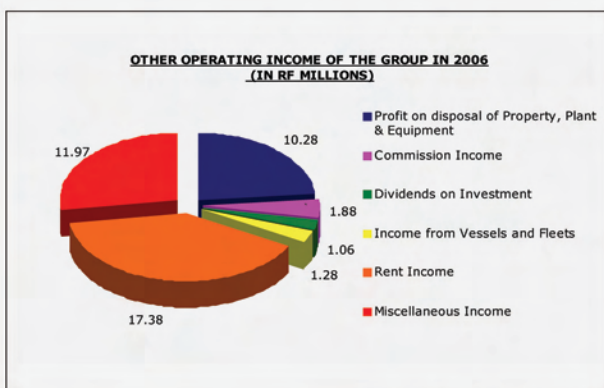


Figure 5: Other Operating Income of the Group in 2006 and 2005

## 12. Focus on the Future

The main emphasis in the coming few years for STO would be to come to grips with the new Corporate Governance Code formulated by the Capital Market Development Authority which will become mandatory from 1st January 2008 and the resulting change in the mindset of both the shareholders and the management and its relation with other stakeholders.

During the years 2007-09 emphasis would be given to further strengthen the investments in transport and fuel related activities as well as improvements in the infrastructure facilities in the Atolls.

The Board of Directors has decided that tourism is an area that needs to be actively sought out by STO for investment. Involvement in tourism has not been a main focus for the Company in the past.

Once the Government finalises the status of the plots of land that STO now holds, decisions have to be made on how effectively they could be utilised to further improve the business performance of STO.

## 13. Directors Responsibility Statement

The Directors confirm that in preparation and presentation of the Annual accounts for the year ended 31<sup>st</sup> December 2006:

- International Financial Reporting Standards have been followed;
- The accounting policies were consistently applied;
- Reasonable and prudent judgments of estimates were made so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the Company for the year ended 31<sup>st</sup> December 2006;
- 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.

## 14. Acknowledgements

With structured investment and expansion planned for the future, and having committed staff who strive to deliver their best, the future of STO looks promising. The Board of Directors appreciates the work of Management and staff who has contributed tirelessly to achieve the corporative objectives of the Company and make 2006 a successful year.

The Board also expresses its gratitude to the Customers, Banks, the Auditors and Suppliers for their support and contribution towards the success of the Company.

Further, the Board would also like to thank the Government of Maldives for their valuable support.

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**KPMG Ford, Rhodes, Thornton & Co.**  
**- Maldives**  
**(Chartered Accountants)**  
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## **Report of the Auditors To the shareholders of State Trading Organization Plc**

We have audited the accompanying consolidated financial statements of State Trading Organization Plc (the "Company") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31st December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and other explanatory notes exhibited in pages 16 to 51.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Basis for Qualified Opinion***

In accordance with Note No. 13 to the financial statements, investment available for sale includes an amount of MRF. 43,100,100/- in Maldives Industrial Fisheries Company Limited whose audited financial statements up to 31st December 2005 has disclosed substantial accumulated losses. Further the financial statements for the year ended 31st December 2006 has not yet been audited. Further, no attempt has been made by the management 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.

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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. 33.3 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 US\$ 26,914,096/- (2005: US\$ 23,555,316) as foreign currency liabilities, whereas foreign currency assets including un-used bank facilities amounted US\$ 11,343, 150/- (2005: Foreign currency liability of US\$ 801,882/-) as at the same date. This has resulted in an amount of US\$ 13,812,313/- (2005: US\$ 24,357,198/-) over exposure of foreign currency liabilities as at the balance sheet date.

**Qualified Opinion**

In our opinion, except for the effects on the consolidated financial statements of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31st December 2006, and of its consolidated financial performance and its consolidated 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

14th May 2007  
Male'



## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER	Note	Group		Company	
		2006 MRf	2005 MRf	2006 MRf	2005 MRf
<b>Revenue</b>	<b>2</b>	5,837,605,135	5,836,765,634	5,555,771,157	5,283,176,159
Cost of Sales		(5,433,416,117)	(5,461,293,217)	(5,253,790,944)	(4,993,520,030)
<b>Gross Profit</b>		404,189,018	375,472,417	301,980,213	289,656,129
Other Operating Income	<b>3</b>	43,850,912	29,167,455	55,915,351	38,932,962
		448,039,930	404,639,872	357,895,564	328,589,091
Administrative Costs		(183,347,418)	(169,372,637)	(141,124,912)	(131,025,725)
Sales and Marketing Costs		(65,225,279)	(51,796,870)	(54,023,525)	(44,741,636)
Other Operating Costs		(10,649,340)	(8,641,660)	(1,109,525)	(1,230,985)
		188,817,893	174,828,705	161,637,602	151,590,745
Financial Income	<b>4</b>	5,977,298	5,201,378	5,812,285	5,132,055
Financial Expenses	<b>4</b>	(34,327,203)	(30,018,827)	(30,442,554)	(27,420,787)
<b>Net Financing Costs</b>		(28,349,905)	(24,817,449)	(24,630,269)	(22,288,732)
Share of Profit of Associate Company		355,935	1,633,150	-	-
<b>Profit before Tax</b>	<b>5</b>	160,823,923	151,644,406	137,007,333	129,302,013
Income Tax	<b>6</b>	10,640	(32,138)	-	-
<b>Profit for the Year</b>		160,834,563	151,612,268	137,007,333	129,302,013
<b>Attributable to:</b>					
Equity holders of the Parent		151,709,598	145,440,102	137,007,333	129,302,013
Minority Interest	<b>7</b>	9,124,965	6,172,166	-	-
<b>Profit for the Year</b>		160,834,563	151,612,268	137,007,333	129,302,013
<b>Basic Earnings Per Share - MRf</b>	<b>8</b>	135	129	122	115

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 Group set out on pages 21 to 51. The Report of the Auditors is given on pages 14 to 15.

## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER	Note	Group		Company	
		2006 MRf	2005 MRf	2006 MRf	2005 MRf
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Property, Plant and Equipment	9	347,555,355	349,274,643	217,158,904	232,081,630
Investments in Subsidiaries	10	-	-	91,535,222	91,535,222
Investment in Associate	11	4,744,599	4,388,664	10,567,268	10,567,268
Investment in Joint Venture	12	-	-	4,700,000	4,700,000
Investments Available for Sale	13	53,288,976	54,054,900	53,288,976	54,054,900
Loans given to Related Companies	14.2	3,158,205	3,656,888	3,416,086	5,469,150
		<u>408,747,135</u>	<u>411,375,095</u>	<u>380,666,456</u>	<u>398,408,170</u>
<b>Current Assets</b>					
Inventories	15	430,438,886	286,656,824	373,290,696	252,049,198
Trade and Other Receivables	16	480,539,236	462,966,994	208,235,153	185,927,975
Loans given to Related Companies	14.3	664,885	664,885	7,556,139	2,114,479
Amounts due from Related Parties	17	5,732,911	20,959,790	185,695,088	209,406,083
Reinsurance Receivables	18	51,180,757	151,269,250	-	-
Cash and Cash Equivalents	19	129,113,584	113,887,839	59,976,724	67,551,199
		<u>1,097,670,259</u>	<u>1,036,405,582</u>	<u>834,753,800</u>	<u>717,048,934</u>
<b>Total Assets</b>		<u>1,506,417,394</u>	<u>1,447,780,677</u>	<u>1,215,420,256</u>	<u>1,115,457,104</u>
<b>EQUITY AND LIABILITIES</b>					
<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		(520,227)	(401,079)	-	-
Claim Equalization Reserve		4,279,524	2,622,377	-	-
General Reserve		229,896,010	202,494,543	229,896,010	202,494,543
Fair Value Reserve		7,348,298	8,565,498	7,348,298	8,565,498
Retained Earnings		441,611,562	380,940,628	371,551,170	323,925,354
<b>Total equity attributable to equity holders of the parent</b>		<u>766,775,167</u>	<u>678,381,967</u>	<u>692,955,478</u>	<u>619,145,395</u>
Minority Interest	7	26,344,501	22,305,999	-	-
<b>Total Equity</b>		<u>793,119,668</u>	<u>700,687,966</u>	<u>692,955,478</u>	<u>619,145,395</u>
<b>Liabilities</b>					
<b>Non-current Liabilities</b>					
Loans and Borrowings	21.3	117,076,996	29,765,409	111,322,311	29,343,289
Deferred Tax Liability	22	11,949	21,362	-	-
Grants and Subsidies	23	138,321	-	-	-
Provision for Retiring Gratuity	24	189,903	136,453	-	-
		<u>117,417,169</u>	<u>29,923,224</u>	<u>111,322,311</u>	<u>29,343,289</u>
<b>Current Liabilities</b>					
Loans and Borrowings	21.2	111,552,286	105,372,360	109,638,151	104,143,667
Trade and Other Payables	25	295,167,363	201,222,156	206,584,659	126,424,241
Amounts due to Related Parties	26	10,232,325	96,658	22,046,673	17,422,196
Current Tax Liability	27	33,579	53,717	-	-
Dividend Payable	28	3,026,579	3,367,431	3,026,579	3,367,431
Insurance Contracts	29	61,927,591	158,753,340	-	-
Bank Overdrafts	30	113,940,834	248,303,825	69,846,405	215,610,885
		<u>595,880,557</u>	<u>717,169,487</u>	<u>411,142,467</u>	<u>466,968,420</u>
<b>Total Liabilities</b>		<u>713,297,726</u>	<u>747,092,711</u>	<u>522,464,778</u>	<u>496,311,709</u>
<b>Total Equity and Liabilities</b>		<u>1,506,417,394</u>	<u>1,447,780,677</u>	<u>1,215,420,256</u>	<u>1,115,457,104</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 Group set out on pages 21 to 51. The Report of the Auditors is given on pages 14 to 15.

For and on behalf of the board;



**Mr. Abdulla Saleem**  
Director

14th May 2007



**Mr. Mohamed Hussain Maniku**  
Director

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST DECEMBER 2006**

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				
	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF
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 gain during the year	-	-	-	-	-	18,065	-	18,065	-	-	18,065	
Dividend	-	-	-	-	-	-	(78,883,900)	(78,883,900)	(3,792,700)		(82,676,600)	
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 Sale	-	-	-	-	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>	
As At 1st January 2006	56,345,500	27,814,500	2,622,377	202,494,543	8,565,498	(401,079)	380,940,628	678,381,967	22,305,999		700,687,966	
Translation loss during the year	-	-	-	-	-	(119,148)	-	(119,148)	-	-	(119,148)	
Dividend	-	-	-	-	-	-	(61,980,050)	(61,980,050)	(5,086,463)		(67,066,513)	
Profit for the Year	-	-	-	-	-	-	151,709,598	151,709,598	9,124,965		160,834,563	
Transfer to General Reserve	-	-	-	27,401,467	-	-	(27,401,467)	-	-	-	-	
Transfer to Claim Equalization reserve	-	-	1,657,147	-	-	-	(1,657,147)	-	-	-	-	
Change in Fair Value of Investments Available for Sale	-	-	-	-	(1,217,200)	-	-	(1,217,200)	-	-	(1,217,200)	
As At 31st December 2006	<u>56,345,500</u>	<u>27,814,500</u>	<u>4,279,524</u>	<u>229,896,010</u>	<u>7,348,298</u>	<u>(520,227)</u>	<u>441,611,562</u>	<u>766,775,167</u>	<u>26,344,501</u>		<u>793,119,668</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 Group set out on pages 21 to 51. The Report of the Auditors is given on pages 14 to 15.

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST DECEMBER 2006**

<b>COMPANY</b>	<b>Share Capital MRf</b>	<b>Share Premium MRf</b>	<b>General Reserve MRf</b>	<b>Fair Value Reserve MRf</b>	<b>Retained Earnings MRf</b>	<b>Total MRf</b>
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
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>
As At 1st January 2006	56,345,500	27,814,500	202,494,543	8,565,498	323,925,354	619,145,395
Change in Fair Value of Investments Available for Sale	-	-	-	(1,217,200)	-	(1,217,200)
Profit for the Year	-	-	-	-	137,007,333	137,007,333
Transfer to General Reserve	-	-	27,401,467	-	(27,401,467)	-
Dividend	-	-	-	-	(61,980,050)	(61,980,050)
As At 31st December 2006	<u>56,345,500</u>	<u>27,814,500</u>	<u>229,896,010</u>	<u>7,348,298</u>	<u>371,551,170</u>	<u>692,955,478</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 Group set out on pages 21 to 51. The Report of the Auditors is given on pages 14 to 15.

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
<b>Operating Activities</b>				
Cash Generated from Operations ( <i>Note A</i> )	193,258,176	56,037,091	137,308,152	60,155,733
Interest Paid	(33,825,782)	(28,658,646)	(29,941,133)	(26,074,526)
Tax Paid	(20,138)	(58,265)	-	-
Net Cash Flow from Operating Activities	<u>159,412,256</u>	<u>27,320,180</u>	<u>107,367,019</u>	<u>34,081,207</u>
<b>Investing Activities</b>				
Purchase of Property, Plant and Equipment	(56,869,045)	(109,117,549)	(29,485,317)	(96,867,919)
Proceeds from Disposal of Property, Plant and Equipment	14,025,662	2,818,245	13,242,582	2,713,437
Interest Received	5,829,708	5,198,372	5,738,212	5,132,055
Loan Recoveries	498,683	166,221	1,948,275	1,798,221
Loan Granted During the Year	-	-	(5,336,871)	-
Investments in Investments Available for Sale	(451,276)	-	(451,276)	-
Dividends Received	1,058,600	580,761	20,014,777	13,031,311
Net Cash Flow from / (used in) Investing Activities	<u>(35,907,668)</u>	<u>(100,353,950)</u>	<u>5,670,382</u>	<u>(74,192,895)</u>
Net Cash Flow before Financing Activities	123,504,588	(73,033,770)	113,037,401	(40,111,688)
<b>Financing Activities</b>				
Loans Obtained During the Year	588,456,075	94,269,446	579,415,428	94,607,150
Loans Repayments during the Year	(494,964,562)	(5,343,113)	(491,941,922)	(3,183,969)
Dividends Paid	(62,320,902)	(78,532,656)	(62,320,902)	(78,532,656)
Dividends Paid to Minority Interest	(5,086,463)	(3,792,700)	-	-
Changes in Bank Overdrafts	(134,362,991)	91,449,771	(145,764,480)	58,757,189
Net Cash Flow from / (used in) Financing Activities	<u>(108,278,843)</u>	<u>98,050,748</u>	<u>(120,611,876)</u>	<u>71,647,714</u>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	15,225,745	25,016,978	(7,574,475)	31,536,026
<b>Cash and Cash Equivalents at beginning of the Year</b>	<u>113,887,839</u>	<u>88,870,861</u>	<u>67,551,199</u>	<u>36,015,173</u>
<b>Cash and Cash Equivalents at end of the Year (<i>Note 19</i>)</b>	<u>129,113,584</u>	<u>113,887,839</u>	<u>59,976,724</u>	<u>67,551,199</u>
<b>Note A</b>				
<b>Cash Generated from Operations</b>				
Profit before tax	160,823,923	151,644,406	137,007,333	129,302,013
Depreciation	54,863,528	44,502,330	41,243,755	32,635,085
Interest Expenses	33,825,782	28,658,646	29,941,133	26,074,526
Interest Income	(5,903,781)	(5,198,372)	(5,812,285)	(5,132,055)
Dividend Income	(1,058,600)	(580,761)	(20,014,777)	(13,031,311)
Share of Profit of Associate	(355,935)	(1,633,150)	-	-
Provision for Impairment of Trade and Other Receivables	9,584,913	6,620,727	5,674,251	4,963,636
Bad debts recovered during the year	-	(1,401,318)	-	(1,401,318)
Provision for Gratuity	53,450	49,781	-	-
Property, Plant and Equipment written off	-	179,900	-	-
(Profit) / Loss on Disposal of Property, Plant and Equipment	(10,280,457)	2,571,310	(10,078,294)	2,575,310
Provision for Obsolete Inventories	1,232,060	5,037,566	1,232,060	5,037,566
Increase in Inventories	(145,014,122)	(61,898,878)	(122,473,558)	(49,879,814)
Increase in Trade and Other Receivables	(27,083,082)	(88,537,591)	(27,907,356)	(40,490,200)
Changes in Balances with Related Parties	25,362,546	(21,965,775)	28,335,472	(40,771,319)
Increase / (Decrease) in Trade and Other Payables	93,945,207	(1,053,851)	80,160,418	10,273,614
Change in Insurance Receivables	3,262,744	(957,879)	-	-
	<u>193,258,176</u>	<u>56,037,091</u>	<u>137,308,152</u>	<u>60,155,733</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 Group set out on pages 21 to 51. The Report of the Auditors is given on pages 14 to 15.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT GROUP ACCOUNTING POLICIES

#### 1.1 GENERAL ACCOUNTING POLICIES

##### 1.1.1 REPORTING ENTRY

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 Boduthakurufaanu Magu, Maafannu, Male' 20345, Republic of Maldives. The Company is a listed Company in the Maldives stock exchange. The main business of the company is importing and trading of various types of consumable and industrial goods.

The consolidated financial statements of the Group for the year ended 31st December 2006 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 14th May 2007.

##### 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. 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.

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 Group. Control exists when the Group 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 are translated to Maldivian Rufiyaa at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### 1.1.5 TRANSACTIONS IN OTHER CURRENCIES (CONTINUED)

##### 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 as 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 Exchange 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 BASES OF THEIR 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.

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.



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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### 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 Maldives Gas Private Limited, which is on weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

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

Tea manufactured up to the balance sheet date and sold since then, until the time of preparation of the financial statements are valued at the since realized price. The balance stock is valued at estimated selling price. The prices are net of all attributable expenses relating to the public auction.

#### 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).

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.

For the 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.

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 expense 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 the STO Lanka (Private) Limited is as required under the Payment of Gratuity Act No. 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 of 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.

#### 1.3.9 GRANTS AND SUBSIDIES

Grants and subsidies are credited to the income statement over the periods necessary to match them with the related costs, which they are intended to be compensated on a systematic basis.

Grants related to assets, including non monetary grants at fair value is deferred in the balance sheet and credited to the income statement over the useful life of the related asset. Grants related to revenue nature are recognized in the income statement in the period in which it is received.

### 1.4 PROFITS 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### 1.4.1 REVENUE RECOGNITION (CONTINUED)

##### b Sale of Tea

In keeping with the practice of Plantation industry, revenue or profit or loss on sale of tea 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.

##### 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 policies 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### 1.4.2 EXPENDITURE (CONTINUED)

##### **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.

##### **c Net Financing Costs**

The financing costs comprise interest payable on short term and long term borrowings, foreign exchange losses, and are recognized in the income statement.

Interest income comprise of interest receivable on funds, dividend income and foreign exchange gains 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 2006

## 2 REVENUE

2.1 Analysis by Product Categories	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Retail and Wholesale	877,483,707	809,250,232	869,881,591	804,418,629
Tea	1,652,375	1,841,151	-	-
Insurance (Note 2.3)	27,785,394	20,968,222	-	-
Gas	60,714,983	47,159,831	-	-
Structural Products	13,726,039	27,578,931	-	-
Crude Oil	1,676,586,376	2,540,467,898	1,676,586,376	2,540,467,898
Fuel and Lubricants	3,179,656,261	2,389,499,369	3,009,303,190	1,938,289,632
	<u>5,837,605,135</u>	<u>5,836,765,634</u>	<u>5,555,771,157</u>	<u>5,283,176,159</u>

## 2.2 Analysis by Companies

	Group	
	2006 MRf	2005 MRf
State Trading Organization Plc	5,555,771,157	5,283,176,159
Allied Insurance Company of the Maldives Private Limited (Note 2.3)	35,387,510	25,799,825
STO Maldives (Singapore) Pvt Ltd	456,722,889	788,776,373
STO Lanka (Pvt) Ltd	1,929,040	2,393,692
Maldives Gas Pvt Ltd	61,238,120	47,742,438
Fuel Supplies Maldives Pvt Ltd	1,488,516,414	1,076,696,167
Maldives National Oil Company Ltd	671,438,759	301,913,828
Maldives Structural Products (Pvt) Ltd	36,792,544	27,578,931
	8,307,796,433	7,554,077,413
Less : Inter-company Transactions	(2,470,191,298)	(1,717,311,779)
	<u>5,837,605,135</u>	<u>5,836,765,634</u>

## 2.3 Allied Insurance Company of the Maldives Private Limited

	Group	
	2006 MRf	2005 MRf
<b>Gross Written Premium and Net Underwriting Income</b>		
Gross Written Premium	75,859,058	62,016,191
Re-insurance	(58,562,938)	(48,242,437)
Net Written Premium	17,296,120	13,773,754
Unearned Premium Reserve	(2,506,723)	(2,306,095)
Net Earned Premium	14,789,397	11,467,659
Reinsurance Commission Income	20,598,113	14,332,166
Total Underwriting Income	35,387,510	25,799,825
Less : Inter-company Transactions	(7,602,116)	(4,831,603)
	<u>27,785,394</u>	<u>20,968,222</u>

## 3 OTHER OPERATING INCOME

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Profit on Disposal of Property, Plant and Equipment	10,280,457	2,000	10,078,294	-
Commission Income	1,884,587	3,345,494	1,884,587	2,499,423
Dividends on Investments	1,058,600	580,761	20,014,777	13,031,311
Income from Vessels and Fleets	1,278,070	1,407,709	1,278,070	1,407,709
Fines and Claims Received	2,495,028	1,489,214	2,309,718	1,465,485
Rent Income	17,375,495	18,621,345	18,838,345	18,621,345
Discounts Received	4,682,965	-	-	-
Service charge on handling Japanese Food Aids	976,248	1,319,661	976,248	1,319,661
Miscellaneous Income	3,819,462	2,401,271	535,312	588,028
	<u>43,850,912</u>	<u>29,167,455</u>	<u>55,915,351</u>	<u>38,932,962</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31ST DECEMBER 2006

## 4 NET FINANCING COSTS

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
<b>FINANCING INCOME</b>				
Interest Income on Loans given	589,770	707,579	538,339	707,579
Interest Income on Government Employees Credit Scheme	4,824,477	4,400,602	4,784,412	4,373,369
Interest Income on Fixed Deposits	489,534	90,191	489,534	51,107
Foreign Exchange Gain	73,517	3,006	-	-
	<u>5,977,298</u>	<u>5,201,378</u>	<u>5,812,285</u>	<u>5,132,055</u>
<b>FINANCING COSTS</b>				
Interest on Bank Overdrafts	(15,756,692)	(22,409,331)	(12,192,375)	(19,825,211)
Interest Expenses on Bank Loans	(17,575,568)	(6,030,417)	(17,575,568)	(6,030,417)
Interest Expenses on others	(493,522)	(218,898)	(173,190)	(218,898)
Foreign Exchange Loss	(501,421)	(1,360,181)	(501,421)	(1,346,261)
	<u>(34,327,203)</u>	<u>(30,018,827)</u>	<u>(30,442,554)</u>	<u>(27,420,787)</u>
<b>NET FINANCING COSTS</b>	<u>(28,349,905)</u>	<u>(24,817,449)</u>	<u>(24,630,269)</u>	<u>(22,288,732)</u>

## 5 PROFIT BEFORE TAX

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
<i>Is stated after charging all the expenses including the followings;</i>				
Audit Fees only	432,750	269,905	199,175	147,775
Other Fees Paid to Auditors	600,779	379,025	600,779	278,795
Depreciation	54,863,528	44,502,330	41,243,755	32,635,085
Loss on Disposal of Property, Plant and Equipment	-	2,573,310	-	2,575,310
Provision for Obsolete Inventories	1,232,060	5,037,566	1,232,060	5,037,566
Capital Work In Progress Written Off	-	179,900	-	-
Provision for Impairment Loss of Trade and Other Receivable:	9,584,913	6,620,727	5,674,251	4,963,636
Personnel Expenses (Note 5.1)	80,443,517	71,523,005	53,963,704	51,532,337
Donations	256,874	1,500,000	256,874	1,500,000
	<u>80,443,517</u>	<u>71,523,005</u>	<u>53,963,704</u>	<u>51,532,337</u>

## 5.1 Personnel Expenses

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Salaries and Wages	45,975,873	39,681,265	24,962,239	23,835,911
Staff Welfare	2,406,147	1,918,682	1,380,279	1,238,559
Foreign Staff Expenses	2,976,848	2,561,488	2,976,848	2,561,488
Medical Expenses	657,554	661,206	657,554	661,206
Bonus, Overtime and Allowances	25,108,243	24,484,304	22,998,291	22,706,349
Provision for Gratuity	53,450	49,781	-	-
Provident Fund Contribution	1,185,792	764,553	988,493	528,824
Other Staff related Expenses	2,079,610	1,401,726	-	-
	<u>80,443,517</u>	<u>71,523,005</u>	<u>53,963,704</u>	<u>51,532,337</u>

## 5.2 Average Number of Employees

Permanent	1,376	1,288	796	760
Temporary	71	115	28	80
	<u>1,447</u>	<u>1,403</u>	<u>824</u>	<u>840</u>
National Staff	1,163	940	656	670
Expatriates	284	463	168	170
	<u>1,447</u>	<u>1,403</u>	<u>824</u>	<u>840</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31ST DECEMBER 2006

## 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	
	2006 MRf	2005 MRf
Current income tax (Note 6.2)	-	50,843
Under provision in respect of prior year	-	18,750
Reversal of deferred tax for the year	(10,640)	(37,455)
	<u>(10,640)</u>	<u>32,138</u>

## 6.2 Current Income Tax

	Group	
	2006 MRf	2005 MRf
Income tax expense at statutory rate	13,934	100,493
Non-allowable items	23,253	24,841
Non-taxable items	(127,328)	-
Wear and tear allowance-current year	(2,512)	(14,100)
Other income	-	(2,048)
Unutilized wear and tear allowances carried forward	2,512	-
Exempt amount	-	(58,343)
Unutilized losses carried forward	90,141	-
Total income tax expense	<u>-</u>	<u>50,843</u>

## 7 MINORITY INTEREST

	Group	
	2006 MRf	2005 MRf
Balance as at 1st January	22,305,999	19,926,533
Add: Share of Net Results of Subsidiaries	9,124,965	6,172,166
Less: Dividends paid	(5,086,463)	(3,792,700)
Balance as at 31st December	<u>26,344,501</u>	<u>22,305,999</u>

## 8 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on 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	
	2006	2005	2006	2005
Profit Attributable to the Ordinary Shareholders - MRf	151,709,598	145,440,102	137,007,333	129,302,013
Weighted Average Number of Shares	1,126,910	1,126,910	1,126,910	1,126,910
Basic Earnings Per Share - MRf	<u>135</u>	<u>129</u>	<u>122</u>	<u>115</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2006

## 9. PROPERTY, PLANT AND EQUIPMENT

9.1 GROUP	Land	Buildings	Leasehold Buildings	Plant and Machinery	Vessels and Fleet	Motor Vehicle	Dumpers, Playdozers and Air Conditioners	Office Equipment	Furniture and Fixtures	Other Assets	Total 2006	Total 2005
	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF
<b>Cost</b>												
As at 1st January	5,094,752	322,359,615	19,822,140	93,129,088	79,853,773	31,285,511	3,240,127	16,436,901	6,543,577	35,749,344	613,514,828	470,679,289
Additions during the year	-	982,944	116,069	2,398,953	17,005,318	3,358,051	484,884	3,829,813	459,795	5,426,922	34,062,749	58,385,678
Transfer from CWIP during the year	-	18,985,119	327,754	140,350	944,842	-	-	-	5,912	-	20,398,065	93,846,421
Exchange Difference	-	(120,733)	-	(15,238)	-	(8,348)	-	27,442	-	-	(110,965)	2,320
Disposals during the year	-	(13,790,378)	-	(177,244)	(360,000)	(268,050)	(569,896)	(67,513)	-	(652,316)	(15,885,397)	(9,398,880)
As at 31st December	5,094,752	328,416,567	20,265,963	95,475,909	97,443,933	34,367,164	3,155,115	20,226,643	7,009,284	40,523,950	651,979,280	613,514,828
<b>Depreciation</b>												
As at 1st January	-	158,239,725	5,352,811	27,979,916	25,864,830	18,011,530	2,657,375	13,539,629	4,886,869	16,204,557	272,737,242	232,424,758
Charge for the year	-	17,982,514	1,586,706	12,042,663	11,615,411	4,328,372	381,521	2,051,943	524,897	4,349,501	54,863,528	44,502,330
Exchange Difference	-	77,790	-	(34,437)	-	96,059	-	37,302	23,734	-	200,448	(14,322)
Disposals during the year	-	(10,648,961)	-	66,467	(360,000)	(268,050)	(560,081)	(49,064)	-	(652,316)	(12,472,005)	(4,175,524)
As at 31st December	-	165,651,068	6,939,517	40,054,609	37,120,241	22,167,911	2,478,815	15,579,810	5,435,500	19,901,742	315,329,213	272,737,242
<b>Net Carrying Amount</b>												
As at 31st December 2006	5,094,752	162,765,499	13,326,446	55,421,300	60,323,692	12,199,253	676,300	4,646,833	1,573,784	20,622,208	336,650,067	
As at 31st December 2005	5,094,752	164,119,890	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
Capital Work In Progress (Note 9.1.1)											10,905,288	8,497,057
<b>Total</b>											347,555,355	349,274,643
<b>9.1.1 Capital Work In Progress</b>												
Balance as at 1st January											8,497,057	51,791,507
Additions during the Year											22,806,296	50,731,871
Transfer to PPE during the Year											(20,398,065)	(93,846,421)
Written off during the year											-	(179,900)
Balance as at 31st December											10,905,288	8,497,057

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

9.1.3 The buildings of State Trading Organization Plc. have been constructed on lands belonging to the Government of Maldives for which a rental of MRF. 3 per sq.ft. per month is paid. There is no lease agreement and accordingly no definite period of lease is identified. Under these circumstances, the Directors have considered it is prudent to provide depreciation in accordance with Accounting Policy 1.2.1 (d).

## 9.1.4 Lease Assets

State Trading Organization Plc has acquired five motor vehicles and Fuel Supplies Maldives Private Limited has acquired a bowser and two vessels under finance lease agreements. At the end of lease periods, companies have the option to purchase those items. The net carrying value of lease assets as at balance sheet date is as follows:

2006	2005
MRF	MRF
15,020,043	11,103,722

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## 9.2 COMPANY

	Buildings	Plant and Machinery	Vessels and Fleet	Motor Vehicle	Dumpers, Playloaders and Air Conditioners	Office Equipment	Furniture and Fixtures	Other Assets	Total 2006	Total 2005
	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF	MRF
<b>Cost</b>										
As at 1st January	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	322,182,294
Additions during the year	709,404	-	5,379,475	2,853,883	421,964	1,987,844	205,897	716,827	12,275,294	48,105,903
Transfer from CWIP during the Year	18,985,119	-	-	-	-	-	-	-	18,985,119	91,989,558
Disposals	(13,790,378)	-	(360,000)	(268,050)	(569,896)	(63,661)	-	-	(15,051,985)	(9,286,093)
As at 31st December	324,093,713	31,986,234	62,483,537	27,310,093	2,483,651	14,342,830	2,782,444	3,717,588	469,200,090	452,991,662
<b>Depreciation</b>										
As at 1st January	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	196,779,459
Charge for the year	17,576,829	8,873,297	9,007,879	3,477,408	289,720	1,355,868	278,629	384,125	41,243,755	32,635,085
Disposals	(10,648,961)	-	(360,000)	(268,050)	(560,081)	(50,605)	-	-	(11,887,697)	(3,997,346)
As at 31st December	166,614,731	21,713,358	29,080,325	18,962,267	1,799,814	11,902,321	2,499,147	2,201,293	254,773,256	225,417,198
<b>Net Carrying Amount</b>										
As at 31st December 2006	157,478,982	10,272,876	33,403,212	8,347,826	683,837	2,440,509	283,297	1,516,295	214,426,834	227,574,464
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	217,158,904	232,081,630
Capital Work In Progress (Note 9.2.1)									2,732,070	4,507,166
<b>Total</b>									<u>217,158,904</u>	<u>232,081,630</u>
<b>9.2.1 Capital Work In Progress</b>										
Balance as at 1st January									4,507,166	47,734,708
Additions during the Year									17,210,023	48,762,016
Transfer to PPE during the Year									(18,985,119)	(91,989,558)
Balance as at 31st December									<u>2,732,070</u>	<u>4,507,166</u>

**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 lands belonging to the Government of Maldives for which a rental of MRF. 3 per sq.ft. per month is paid. Directors have considered it is 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:

	2006	2005
	MRF.	MRF.
	<u>1,367,778</u>	<u>2,249,122</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 10 INVESTMENTS IN SUBSIDIARIES

	<u>Company</u>	
	2006 MRf	2005 MRf
STO Lanka Private Limited	7,868,472	7,868,472
Maldivé Gas Private Limited	61,200,000	61,200,000
Allied Insurance Company of the 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

	<u>Group</u>		<u>Company</u>	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	4,388,664	2,755,514	10,567,268	10,567,268
Share of Profit for the Year	<u>355,935</u>	<u>1,633,150</u>	-	-
Balance as at 31st December	<u>4,744,599</u>	<u>4,388,664</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 MRf 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 in the above associate for the year ended 31st December 2006 was MRf 355,935/- (2005 : MRf 1,633,150/-).

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

	2006 MRf	2005 MRf
Assets	36,395,148	47,136,965
Liabilities	17,412,972	29,578,527
Equity	18,982,176	17,558,439
Revenue	71,247,021	76,178,707
Profit	1,423,738	6,532,601

## 12 INVESTMENT IN JOIN VENTURE

	<u>Group</u>		<u>Company</u>	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Maldives Structural Products Private Limited	-	-	4,700,000	4,700,000
	<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 MRf 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.

## 13 INVESTMENTS AVAILABLE FOR SALE

	<u>Group</u>		<u>Company</u>	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
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)	9,737,600	10,954,800	9,737,600	10,954,800
Madivaru Holdings Pvt Ltd (Note 13.3)	451,276	-	451,276	-
	<u>53,288,976</u>	<u>54,054,900</u>	<u>53,288,976</u>	<u>54,054,900</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 13 INVESTMENTS AVAILABLE FOR SALE (CONTINUED)

## 13.1 Maldives Industrial Fisheries Company Ltd

State Trading Organization Plc has acquired 143,667 shares at a price of MRF 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	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	10,954,800	7,151,050	10,954,800	7,151,050
Change in the Fair Value	(1,217,200)	3,803,750	(1,217,200)	3,803,750
Balance as at 31st December	<u>9,737,600</u>	<u>10,954,800</u>	<u>9,737,600</u>	<u>10,954,800</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 of MRF. 1,600 (2005 : MRF. 1,800) as at the balance sheet date.

## 13.3 Madivaru Holdings Pvt Ltd

State Trading Organization Plc has acquired 16,117 shares of MRF 100/= each in Madivaru Holdings Private Limited which represents 1.6 % of the shareholding of the company. The company has paid only 28% of the total share value as at 31st December 2006.

## 14 LOANS GIVEN TO RELATED COMPANIES

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	4,321,773	4,487,994	7,845,878	9,644,099
Loan given during the year	-	-	5,336,871	-
Recoveries during the year	(498,683)	(166,221)	(2,130,683)	(1,798,221)
	<u>3,823,090</u>	<u>4,321,773</u>	<u>11,052,066</u>	<u>7,845,878</u>
Less: Interest in Suspense	-	-	(79,841)	(262,249)
Balance as at 31st December	<u>3,823,090</u>	<u>4,321,773</u>	<u>10,972,225</u>	<u>7,583,629</u>

## 14.1 Analysis

Lafarge Maldives Cement Private Limited (Note 14.4)	3,823,090	4,321,773	3,823,090	4,321,773
Maldives Gas Private Limited (Note 14.5)	-	-	5,336,871	-
Fuel Supplies Maldives Private Limited (Note 14.6)	-	-	1,812,264	3,261,856
	<u>3,823,090</u>	<u>4,321,773</u>	<u>10,972,225</u>	<u>7,583,629</u>

## 14.2 Non-Current Receivables

Lafarge Maldives Cement Private Limited	3,158,205	3,656,888	3,158,205	3,656,888
Fuel Supplies Maldives Private Limited	-	-	257,881	1,812,262
	<u>3,158,205</u>	<u>3,656,888</u>	<u>3,416,086</u>	<u>5,469,150</u>

## 14.3 Current Receivables

Lafarge Maldives Cement Private Limited	664,885	664,885	664,885	664,885
Maldives Gas Private Limited	-	-	5,336,871	-
Fuel Supplies Maldives Private Limited	-	-	1,554,383	1,449,594
	<u>664,885</u>	<u>664,885</u>	<u>7,556,139</u>	<u>2,114,479</u>

## 14.4 Lafarge Maldives Cement Private Limited

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 MRF 11,081,480 (US\$ 862,372) was obtained on 17th January 2000 and repayable in twenty four semi-annual installments from 15th June 2000 to 15th December 2011.

## 14.5 Maldiv Gas Private Limited

Maldiv Gas Private Limited has obtained a short term advance from State Trading Organisation Plc in March 2006 at an interest rate of 8.5%. However the Maldiv Gas Private Limited has not repaid this as at the balance sheet date.

## 14.6 Fuel Supplies Maldives Private Limited

Fuel Supplies Maldives Private Limited has obtained finance lease facility from State Trading Organisation Plc in 2004 at an interest rate of 7% per annum for the purpose of buying two vessels named " Barujora" and " Fiyala" .

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 15 INVENTORIES

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Finished Goods	806,240	1,193,327	-	-
Raw Materials	13,632,869	5,107,131	-	-
Food Stocks	24,154,364	25,357,878	24,154,364	25,357,878
Tea	361,989	227,788	-	-
Fuel, Gas and Lubricants	123,387,989	120,377,228	81,040,897	92,297,848
Constructions, Electronics and Others	85,839,948	90,314,023	85,839,948	90,314,023
Pharmaceuticals	9,513,328	8,089,778	9,513,328	8,089,778
Retail Shops	28,725,082	30,306,270	28,725,082	30,306,270
Goods-In-Transit	150,286,703	10,720,967	150,286,703	10,720,967
	436,708,512	291,694,390	379,560,322	257,086,764
Less : Provision for obsolete inventories (Note 15.1)	(6,269,626)	(5,037,566)	(6,269,626)	(5,037,566)
	<u>430,438,886</u>	<u>286,656,824</u>	<u>373,290,696</u>	<u>252,049,198</u>

## 15.1 Provision for Obsolete Inventories

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	5,037,566	-	5,037,566	-
Provision made during the year	1,232,060	5,037,566	1,232,060	5,037,566
Balance as at 31st December	<u>6,269,626</u>	<u>5,037,566</u>	<u>6,269,626</u>	<u>5,037,566</u>

## 16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Trade Receivables	331,576,804	367,991,550	143,447,624	146,868,683
Due from Policyholders	25,458,652	20,331,170	-	-
Due from Re-insurers	64,520,078	43,665,580	-	-
	421,555,534	431,988,300	143,447,624	146,868,683
Provision for Loss on Impairment (Note 16.2)	(29,156,356)	(25,741,546)	(12,206,813)	(12,206,813)
	<u>392,399,178</u>	<u>406,246,754</u>	<u>131,240,811</u>	<u>134,661,870</u>
Advances and Deposits	9,214,909	2,347,187	3,946,205	656,867
Other Receivables (Note 16.1)	98,838,614	68,382,284	92,731,619	64,618,469
	108,053,523	70,729,471	96,677,824	65,275,336
Provision for Loss on Impairment (Note 16.2)	(19,913,465)	(14,009,231)	(19,683,482)	(14,009,231)
	<u>88,140,058</u>	<u>56,720,240</u>	<u>76,994,342</u>	<u>51,266,105</u>
	<u>480,539,236</u>	<u>462,966,994</u>	<u>208,235,153</u>	<u>185,927,975</u>

## 16.1 Other Receivables

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Government Employees Credit Scheme	34,550,114	24,321,971	34,550,114	24,321,971
Less: Unmatured Interest	(1,971,333)	(2,163,585)	(1,971,333)	(2,163,585)
	32,578,781	22,158,386	32,578,781	22,158,386
Subsidy Receivables	19,677,470	19,548,745	19,677,470	19,548,745
Staff Advances and Other Loans	3,544,948	3,254,271	3,149,577	3,254,271
Advances to Purchase Dollars	5,059,647	6,893,324	5,059,647	6,893,324
Advances paid for Custom Duty	7,292,417	-	7,292,417	-
Rent Receivables	2,032,878	1,896,948	2,032,878	1,896,948
Receivable on disposal of Property, Plant and Equipment	13,146,567	-	13,146,567	-
Miscellaneous	15,505,906	14,630,610	9,794,282	10,866,795
	<u>98,838,614</u>	<u>68,382,284</u>	<u>92,731,619</u>	<u>64,618,469</u>

## 16.2 Provision for Loss on Impairment

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	39,750,777	34,548,278	26,216,044	22,670,636
Amount written off during the year	(265,869)	(16,910)	-	(16,910)
Recovered during the year	-	(1,401,318)	-	(1,401,318)
Provision made during the year	9,584,913	6,620,727	5,674,251	4,963,636
Balance as at 31st December	<u>49,069,821</u>	<u>39,750,777</u>	<u>31,890,295</u>	<u>26,216,044</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 17 AMOUNTS DUE FROM RELATED PARTIES

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
STO Maldives (Singapore) Pte Ltd	-	-	3,708,518	7,210,009
Maldivian Gas Pvt Ltd	-	-	115,356	3,570,963
Lafarge Maldives Cement Pvt Ltd	-	588,607	-	586,324
STO Lanka (Pvt) Ltd	-	-	5,627,922	4,002,397
Fuel Supplies Maldives Pvt Ltd	-	-	174,118,640	176,775,356
Allied Insurance Company of the Maldives Pvt Ltd	-	-	1,726,511	2,321,054
Maldives Structural Products (Pvt) Ltd	-	4,111,085	-	-
Rainbow Enterprises Pvt Ltd	5,266,095	1,211,267	-	-
Maldives Industrial Fisheries Company Limited	466,816	15,048,831	398,141	14,939,980
	<u>5,732,911</u>	<u>20,959,790</u>	<u>185,695,088</u>	<u>209,406,083</u>

## 18 REINSURANCE CONTRACTS

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Re-insurers' share of insurance liabilities	<u>51,180,757</u>	<u>151,269,250</u>	-	-
	<u>51,180,757</u>	<u>151,269,250</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	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Cash in Hand	34,507,592	38,818,179	22,354,413	10,856,639
Balances with Banks	88,086,409	68,366,352	31,102,728	49,991,252
Fixed Deposits	<u>6,519,583</u>	<u>6,703,308</u>	<u>6,519,583</u>	<u>6,703,308</u>
	<u>129,113,584</u>	<u>113,887,839</u>	<u>59,976,724</u>	<u>67,551,199</u>

## 20 SHARE CAPITAL

## 20.1 Authorized

Authorized share capital comprises 1,155,555 (2005 : 1,155,555) ordinary shares of MRf. 50/- each.

## 20.2 Issued and Fully Paid

Issued and fully paid share capital comprises 1,126,910 (2005 : 1,126,910) ordinary shares of MRf. 50/- each.

Issued and Fully Paid	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	56,345,500	56,345,500	56,345,500	56,345,500
Issued during the year	-	-	-	-
Balance as at 31st December	<u>56,345,500</u>	<u>56,345,500</u>	<u>56,345,500</u>	<u>56,345,500</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	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Final Dividend for the year 2004	-	78,883,900	-	78,883,900
Final Dividend for the year 2005	<u>61,980,050</u>	-	<u>61,980,050</u>	-
	<u>61,980,050</u>	<u>78,883,900</u>	<u>61,980,050</u>	<u>78,883,900</u>

During the year, Company has proposed and paid a final dividend of MRf. 55/- per share for the year ended 31st December 2005. (In 2005, a dividend of MRf. 70/- per share for the year ended 31st December 2004 was proposed and paid).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 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	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	2,622,377	1,050,373	-	-
Transfer for the year	1,657,147	1,572,004	-	-
Balance as at 31st December	4,279,524	2,622,377	-	-

## 20.5 Exchange Translation Reserve

The exchange 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 investments available for sale until the investment is derecognized.

## 20.7 General Reserve

The Company transfers 20% of the profit before tax to the general reserve every year as per the decision made by the board of directors.

## 20.8 Share Premium

The share premium represents issue of 26,040 ordinary shares of MRf. 50/ each with a premium of MRf. 250/- per share on 15th August 2001 and issue of 60,870 ordinary shares of MRf 50/- each with a premium of MRf. 350/- per share on 1st September 2003.

## 21 LOANS AND BORROWINGS

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	135,591,489	47,075,661	133,640,478	42,436,195
Borrowings during the Year	588,456,075	94,269,446	579,415,428	94,607,150
Repayments during the Year	(493,597,778)	(5,753,618)	(492,068,115)	(3,402,867)
	230,449,786	135,591,489	220,987,791	133,640,478
Less: Interest in Suspense	(1,820,504)	(453,720)	(27,329)	(153,522)
Balance as at 31st December	228,629,282	135,137,769	220,960,462	133,486,956

## 21.1 Sources of Finance

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
<b>Secured Loans</b>				
Seylan Bank Limited (Note 21.4)	12,757,776	51,348,806	12,757,776	51,348,806
HSBC - Male' Branch (Note 21.5)	2,598,373	4,287,582	2,598,373	4,287,582
Maldives Finance Leasing Company (Note 21.9)	8,308,845	3,165,680	640,025	1,514,867
Bank of Maldives Plc (Note 21.6)	22,272,933	27,826,951	22,272,933	27,826,951
HSBC - Male' Branch (Note 21.7)	44,975,001	44,975,000	44,975,001	44,975,000
Nations Trust Bank Limited - Sri Lanka (Note 21.8)	17,668,750	3,533,750	17,668,750	3,533,750
Ministry of Finance and Treasury (Note 21.10)	120,047,604	-	120,047,604	-
	228,629,282	135,137,769	220,960,462	133,486,956

## 21.2 Current

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Loans and Borrowings	108,998,126	103,268,861	108,998,126	103,268,861
Finance Lease Liabilities	3,023,229	2,423,867	667,354	1,001,031
	112,021,355	105,692,728	109,665,480	104,269,892
Interest in Suspense	(469,069)	(320,368)	(27,329)	(126,225)
	111,552,286	105,372,360	109,638,151	104,143,667

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 21 LOANS AND BORROWINGS (CONTINUED)

## 21.3 Non Current

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Loans and Borrowings	111,322,311	28,703,228	111,322,311	28,703,228
Finance Lease Liabilities	7,106,120	1,195,533	-	667,358
	<u>118,428,431</u>	<u>29,898,761</u>	<u>111,322,311</u>	<u>29,370,586</u>
Interest in Suspense	(1,351,435)	(133,352)	-	(27,297)
	<u><u>117,076,996</u></u>	<u><u>29,765,409</u></u>	<u><u>111,322,311</u></u>	<u><u>29,343,289</u></u>

21.4 The Company has obtained a revolving credit facility of US\$ 4 million at an annual interest rate of 10.75 % 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 US\$ 364,000/- (MRf 4,677,400/-) from HSBC Male' branch at an annual interest rate of 8.5% to acquire a landing craft during the year 2005. The Loan is repayable from 27th October 2005 in 36 monthly installments of US\$ 10,112/- (MRf 129,939/-) each. The loan is secured by the primary mortgage over the landing craft bearing registry no. C7904A- 03 10-T.

21.6 The Company has obtained a loan of US\$ 2,400,000/- (MRf 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 2005. The Loan should be repayable in 60 monthly installments of US\$ 49,800/- (MRf 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 MRf. 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 the date of disbursement of funds. The loan is secured by primary concurrent mortgage over stocks and book debts of US\$ 3,500,000/- (MRf 44,975,000/-).

21.8 The Company has obtained a loan of US\$ 1,375,000/- (MRf 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 21st April 2006 in 5 installments of US\$ 275,000/- (MRf 3,533,750/-) each. The loan is secured by the mortgage over property, plant and equipment of the Island of Funadhoo for US\$ 1,375,000/- and corporate guarantee from State Trading Organization Plc for US\$ 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 25th August 2003. The company has mortgaged security deposits of US\$ 25,000 (MRf 321,250) against above mentioned leased assets.

## 21.9.1 Analysis of Finance Lease Liabilities

	2006		
	Minimum Lease Payments	Interest	Principle
	MRf	MRf	MRf
<b>Group</b>			
Less than one year	3,023,229	469,069	2,554,160
More than one year, but less than five years	7,106,120	1,351,435	5,754,685
	<u>10,129,349</u>	<u>1,820,504</u>	<u>8,308,845</u>
<b>Company</b>			
Less than one year	667,354	27,329	640,025
More than one year, but less than five years	-	-	-
	<u>667,354</u>	<u>27,329</u>	<u>640,025</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 21 LOANS AND BORROWINGS (CONTINUED)

## 21.9.1 Analysis of Finance Lease Liabilities (Continued)

Group	2005		
	Minimum Lease Payments	Interest	Principle
	MRf	MRf	MRf
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>

**21.10** The Company has obtained two loans of US\$ 6,700,000/- (MRf 86,095,000/-) and US\$ 3,312,226/- (MRf 42,562,104/-) from Ministry of Finance and Treasury during the year at annual interest rate of 8% to finance the trade operations. The loans are repayable within 36 months with a grace period of 6 months commencing 31st October 2006 and 31st July 2007 respectively.

## 21.11 Loans and Borrowings - Maturity Analysis

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Less than one year	108,998,126	103,268,861	108,998,126	103,268,861
More than one year, but less than two years	62,613,517	7,430,604	62,613,517	7,430,604
More than two years, but less than four years	42,348,044	18,081,152	42,348,044	18,081,152
More than four years, but less than five years	3,533,750	3,191,472	3,533,750	3,191,472
More than five years	2,827,000	-	2,827,000	-
	<u>220,320,437</u>	<u>131,972,089</u>	<u>220,320,437</u>	<u>131,972,089</u>

## 22 DEFERRED TAX LIABILITY

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	21,362	60,240	-	-
Reversal during the year	(10,640)	(37,455)	-	-
Exchange Difference	1,227	(1,423)	-	-
Balance as at 31st December	<u>11,949</u>	<u>21,362</u>	<u>-</u>	<u>-</u>

Deferred income taxes are calculated on all timing differences under the liability method using a principle tax rate of 20%.

## 23 GRANTS AND SUBSIDIES

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Grants Received during the year	138,321	-	-	-
	<u>138,321</u>	<u>-</u>	<u>-</u>	<u>-</u>

STO Lanka (Pvt) Ltd has recorded the funds received from the NGO, World Vision Lanka in the form of G.I. Plain Sheets for reroofing the line rooms. The amounts spent are capitalised under the relevant classification of Property, Plant and Equipment and the corresponding grant component is reflected under deferred grants and subsidies and amortised over useful life span of the related asset.

## 24 PROVISION FOR RETIRING GRATUITY

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	136,453	86,672	-	-
Provision made during the year	53,450	49,781	-	-
Balance as at 31st December	<u>189,903</u>	<u>136,453</u>	<u>-</u>	<u>-</u>

## 25 TRADE AND OTHER PAYABLES

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Trade Payables	251,994,023	132,263,609	177,416,082	63,336,340
Accrued Expenses	13,976,162	41,180,256	11,443,834	43,706,341
Other Payables	29,197,178	27,778,291	17,724,743	19,381,560
	<u>295,167,363</u>	<u>201,222,156</u>	<u>206,584,659</u>	<u>126,424,241</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 26 AMOUNTS DUE TO RELATED PARTIES

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Maldives National Oil Company Limited	-	-	6,923,631	9,390,443
Lafarge Maldives Cement Pvt Ltd	7,498,383	-	7,498,383	-
Maldives Structural Product Pvt Ltd	2,726,942	-	7,624,659	8,031,753
Tekton Design Pvt Ltd	7,000	-	-	-
Rainbow Travels Pvt Ltd	-	1,458	-	-
Champa Oil and Gas Pvt Ltd	-	95,200	-	-
	<u>10,232,325</u>	<u>96,658</u>	<u>22,046,673</u>	<u>17,422,196</u>

## 27 CURRENT TAX LIABILITY

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Current Income Tax	33,579	53,717	-	-
	<u>33,579</u>	<u>53,717</u>	<u>-</u>	<u>-</u>

## 28 DIVIDEND PAYABLE

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Balance as at 1st January	3,367,431	3,016,187	3,367,431	3,016,187
Dividend declared during the year	61,980,050	78,883,900	61,980,050	78,883,900
Dividend paid during the year	(62,320,902)	(78,532,656)	(62,320,902)	(78,532,656)
Balance as at 31st December	<u>3,026,579</u>	<u>3,367,431</u>	<u>3,026,579</u>	<u>3,367,431</u>

## 29 INSURANCE CONTRACTS

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Claims Reported and Loss Adjustment Expenses	24,097,626	135,051,692	-	-
Unearned Premiums	<u>37,829,965</u>	<u>23,701,648</u>	<u>-</u>	<u>-</u>
	<u>61,927,591</u>	<u>158,753,340</u>	<u>-</u>	<u>-</u>

Total net insurance income of MRF. 8,395,910/- (2005 : MRF. 4,214, 906/-) has been charged to the cost of sales.

## 30 BANK OVERDRAFTS

	Group		Company	
	2006 MRf	2005 MRf	2006 MRf	2005 MRf
Bank of Ceylon - Sri Lanka (Unsecured)	229,228	237,755	-	-
Seylan Bank Limited - Sri Lanka (Unsecured)	276,154	358,846	276,154	358,846
HSBC - Male' Branch (Note 30.1)	20,268,905	44,643,534	20,268,905	37,696,812
Bank of Maldives Plc - US\$ (Note 30.2)	26,253,996	53,269,799	26,253,996	53,269,799
State Bank of India - Male' Branch (Note 30.3)	19,511,053	60,039,062	2,032,425	51,400,574
Habib Bank Ltd - Male' Branch (Note 30.4)	30,011,390	56,812,833	21,014,925	56,812,833
Bank of Maldives Plc - MRF (Note 30.5)	<u>17,390,108</u>	<u>32,941,996</u>	<u>-</u>	<u>16,072,021</u>
	<u>113,940,834</u>	<u>248,303,825</u>	<u>69,846,405</u>	<u>215,610,885</u>

Note	Bank	Company	Approved Limit MRf	Security	Security Value MRf	Rate of Interest Per Annum
30.1	HSBC - Male' Branch	State Trading Organization Plc	19,275,000	Government Guarantee	19,275,000	8.50%
30.2	Bank of Maldives Plc.	State Trading Organization Plc	54,612,500	Government Guarantee	19,275,000	8.50%
30.3	State Bank of India - Male' Branch	State Trading Organization Plc	51,400,000	Government Guarantee	51,400,000	9.50%
		Fuel Supplies Maldives Pvt Ltd	20,000,000	Property Mortgages and Corporate Guarantee	27,102,842	11.00%
30.4	Habib Bank Ltd - Male' Branch	State Trading Organization Plc	51,400,000	Government Guarantee	32,125,000	8.50%
		Maldiv Gas Pvt Ltd	9,000,000	Corporate Guarantee	8,000,000	11.10%
30.5	Bank of Maldives Plc.	Allied Insurance Company of the Maldives Pvt Ltd	19,275,000	Fixed and Floating Charges of Receivables	-	8.50%

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 31 COMMITMENTS

## 31.1 Capital Commitments

	<b>2006 MRf</b>
Contracted but not provided for - State Trading Organisation Plc	690,351
Contracted but not provided for - Maldives Structural Products Private Limited	<u>1,262,092</u>
	<u>1,952,443</u>

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 other than disclosed above.

## 31.2 Lease Commitments

Lease rentals falling	Less than one year MRf	1 to 2 years MRf	More than 2 Years MRf	Total MRf
<b>Finance Leases</b>				
State Trading Organization Plc ( <b>Note 31.2.1</b> )	667,354	-	-	667,354
Fuel Supplies Maldives Private Limited	1,830,726	2,114,609	3,815,730	7,761,065
STO Maldives (Singapore) Private Limited	<u>40,607</u>	<u>-</u>	<u>-</u>	<u>40,607</u>
	<u>2,538,687</u>	<u>2,114,609</u>	<u>3,815,730</u>	<u>8,469,026</u>
<b>Operating Leases</b>				
State Trading Organization Plc ( <b>Note 31.2.2</b> )	1,349,250	-	-	1,349,250
Maldives Structural Products Private Limited ( <b>Note 31.2.3</b> )	<u>186,120</u>	<u>186,120</u>	<u>3,350,160</u>	<u>3,722,400</u>
	<u>1,535,370</u>	<u>186,120</u>	<u>3,350,160</u>	<u>5,071,650</u>

**31.2.1** The company has acquired five motor vehicles under lease agreements entered with Maldives Finance Leasing Company Private Limited for a 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.

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

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

## 32 CONTINGENT LIABILITIES

## 32.1 Unexpired Policies

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

	<b>Group</b>	
	<b>2006 MRf</b>	<b>2005 MRf</b>
Marine Cargo	113,072,128	97,672,599
Marine Hull	477,137,366	286,984,411
Fire	661,670,392	421,944,718
Accident	1,052,645,530	944,764,447
Health	<u>534,868,450</u>	<u>29,906,000</u>
	<u>2,839,393,866</u>	<u>1,781,272,175</u>

## 32.2 Letters of Credit

Company Name	Bank	Unexpired Letters of Credits as at 31/12/2006
State Trading Organization Plc	Habib Bank - Male' branch	US\$ 44,100/- (MRf 566,685/-)
Maldives Structural Products Private Limited	Bank of Maldives Plc	US\$ 588,037/- (MRf 7,556,275/-)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****AS AT 31ST DECEMBER 2006****32 CONTINGENT LIABILITIES (CONTINUED)****32.3 Guarantees**

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

<b>Company Name</b>	<b>Bank</b>	<b>Facility</b>	<b>Corporate Guarantee Amount MRF</b>	<b>Corporate Guarantee Amount US\$</b>
STO Lanka Pvt Ltd	HSBC - Colombo	Loan	237,963	18,519
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	8,000,000	622,568
	Habib Bank Limited - Male' Branch	Letter of Credit	8,673,750	675,000
			<u>829,476,713</u>	<u>64,550,717</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.

**33 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:

**33.1 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.

**33.2 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.

**33.3 Currency Risk**

The group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than Maldivian Rufiyaa. 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.

**33.4 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 2006

## 33 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

## 33.5 Effective Interest Rates and Repricing 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.

	Note	Effective Interest Rate	2006		Total MRf
			Less than 1 Year MRf	More than 1 Year MRf	
<b>Company</b>					
<b>Financial Assets</b>					
Lafarge Maldives Cement Private Limited	14.4	9.00%	664,885	3,158,205	3,823,090
Maldives Gas Private Limited	14.5	8.00%	5,336,871	-	5,336,871
Fuel Supplies Maldives Private Limited	14.6	7.00%	1,554,383	257,881	1,812,264
Fixed Deposits	19	3.00%	6,519,583	-	6,519,583
			<u>14,075,722</u>	<u>3,416,086</u>	<u>17,491,808</u>
<b>Financial Liabilities</b>					
Seylan Bank Limited	21.4	11.00%	12,757,776	-	12,757,776
HSBC - Male' Branch	21.5	8.24%	1,559,272	1,039,101	2,598,373
Ministry of Finance and Treasury	21.1	8.17%	42,950,419	77,097,185	120,047,604
Maldives Finance Leasing Company	21.9	8.50%	640,025	-	640,025
Bank of Maldives Plc	21.6	11.25%	6,048,908	16,224,025	22,272,933
HSBC - Male' Branch	21.7	8.70%	44,975,001	-	44,975,001
Nations Trust Bank Limited - Sri Lanka	21.8	10.63%	706,750	16,962,000	17,668,750
Bank Overdrafts	30	8.50%	69,846,405	-	69,846,405
			<u>179,484,556</u>	<u>111,322,311</u>	<u>290,806,867</u>
<b>Group</b>					
<b>Financial Assets</b>					
Lafarge Maldives Cement Private Limited	14.4	9.00%	664,885	3,158,205	3,823,090
Fixed Deposits	19	3.00%	6,519,583	-	6,519,583
			<u>7,184,468</u>	<u>3,158,205</u>	<u>10,342,673</u>
<b>Financial Liabilities</b>					
Seylan Bank Limited	21.4	11.00%	12,757,776	-	12,757,776
HSBC - Male' Branch	21.5	8.24%	1,559,272	1,039,101	2,598,373
Ministry of Finance and Treasury	21.10	8.17%	42,950,419	77,097,185	120,047,604
Maldives Finance Leasing Company	21.9	10.75%	2,554,160	5,754,685	8,308,845
Bank of Maldives Plc	21.6	11.25%	6,048,908	16,224,025	22,272,933
HSBC - Male' Branch	21.7	8.70%	44,975,001	-	44,975,001
Nations Trust Bank Limited - Sri Lanka	21.8	10.63%	706,750	16,962,000	17,668,750
Bank Overdrafts	30	8.50%	113,940,834	-	113,940,834
			<u>225,493,120</u>	<u>117,076,996</u>	<u>342,570,116</u>
<b>2005</b>					
	Note	Effective Interest Rate	Less than 1 Year MRf	More than 1 Year MRf	Total MRf
<b>Company</b>					
<b>Financial Assets</b>					
Lafarge Maldives Cement Private Limited	14.4	9.00%	664,885	3,656,888	4,321,773
Fuel Supplies Maldives Private Limited	14.6	7.00%	1,449,594	1,812,262	3,261,856
Fixed Deposits	19	2.00%	6,703,308	-	6,703,308
			<u>8,817,787</u>	<u>5,469,150</u>	<u>14,286,937</u>
<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%	874,806	640,061	1,514,867
Bank of Maldives Plc	21.6	8.50%	5,485,783	22,341,168	27,826,951
HSBC - Male' Branch	21.7	8.50%	44,975,000	-	44,975,000
Nations Trust Bank Limited - Sri Lanka	21.8	5.75%	-	3,533,750	3,533,750
Bank Overdrafts	30	8.50%	215,610,885	-	215,610,885
			<u>319,854,552</u>	<u>29,243,289</u>	<u>349,097,841</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2006

## 33 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

## 33.5 Effective Interest Rates and Repricing Analysis (Continued)

Group	Note	Effective Interest Rate	2005		Total
			Less than 1 Year	More than 1 Year	
			MRf	MRf	MRf
<b>Financial Assets</b>					
Lafarge Maldives Cement Private Limited	14	9.00%	664,885	3,656,888	4,321,773
Fixed Deposits	19	2.00%	6,703,308	-	6,703,308
			<u>7,368,193</u>	<u>3,656,888</u>	<u>11,025,081</u>
<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%	2,103,499	1,062,181	3,165,680
Bank of Maldives Plc	21.6	8.50%	5,385,783	22,441,168	27,826,951
HSBC - Male' Branch	21.7	8.50%	44,975,000	-	44,975,000
Nations Trust Bank Limited - Sri Lanka	21.8	5.75%	-	3,533,750	3,533,750
Bank Overdrafts	30	8.50%	248,303,825	-	248,303,825
			<u>353,676,185</u>	<u>29,765,409</u>	<u>383,441,594</u>

## 33.6 Fair Value of Financial Assets and Financial Liabilities

**Financial Assets and Liabilities ( Short - term)**

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

**Financial Assets and 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.

## 34 RELATED PARTY TRANSACTIONS

Related Party	Relationship	Nature of the Transaction	Amount	Balance as at 31/12/2006
			MRf.	Due from / (Due to) MRf.
Allied Insurance Company of the Maldives Pvt Ltd	Subsidiary Company	Sales of goods	10,006	
		Services obtained	(5,751,220)	1,726,511
		Services rendered	333,122	
		Dividends received	6,599,956	
STO Maldives (Singapore) Pvt Ltd	Subsidiary Company	Purchases of oil	(264,934,733)	
		Services rendered	150,723	3,708,518
		Services obtained	(234,497)	
		Dividends received	266,021	
STO Lanka (Pvt) Ltd	Subsidiary Company	Purchases of tea	(327,027)	5,627,922
Maldives National Oil Company Ltd	Subsidiary Company	Purchases of oil	(34,315,192)	
		Services rendered	150,723	
		Services obtained	(234,496)	(6,923,631)
Maldivian Gas Pvt Ltd	Subsidiary Company	Sale of goods	901,879	
		Services rendered	327,284	115,356
		Purchases of gas	(523,137)	
		Loan granted	5,017,115	5,336,871
		Interest Received	319,756	
Fuel Supplies Maldives Pvt Ltd	Subsidiary Company	Sales of fuel	1,441,082,042	
		Purchases of fuel	(449,424,222)	174,118,640
		Dividends received	10,210,200	
		Services rendered	828,225	
		Services obtained	(6,287,295)	
		Interest Received	182,408	
		Loan Balance	-	1,892,105



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2006

## 34 RELATED PARTY TRANSACTIONS (CONTINUED)

Related Party	Relationship	Nature of the Transaction	Amount Mrf.	Balance as at 31/12/2006 Due from / (to) Mrf.
Maldives Structural Products (Pvt) Ltd	Joint Venture Company	Sales of goods	13,003	
		Purchases of goods	(46,121,152)	
		Dividends received	1,880,000	(7,624,659)
Lafarge Maldives Cement Pvt Ltd	Associate Company	Purchases of goods	(46,284,678)	-
		Sales of goods	1,100	(7,498,383)
		Services rendered	1,486,220	
		Loan Interest	344,072	
		Loan Balance		3,823,090
Rainbow Enterprises Private Limited	Related Party of Joint Venture	Purchases of goods	(4,564,675)	5,266,095
		Sales of goods	20,840,131	
Maldives Industrial Fisheries Company Limited	Investee Company	Sales of goods	2,725,612	466,816
		Purchases of goods	(46,284,678)	398,141
		Services rendered	1,830,292	
Tekton Design Pvt Ltd	Related Party of Joint Venture	Purchases of goods	(14,000)	(7,000)
Champa Oil and Gas Pvt Ltd	Shareholder of Subsidiary Company	Dividends received	95,200	-
Rainbow Travels Pvt Ltd	Related Party of Joint Venture	Purchases of goods	(7,017)	-
Ministry of Finance and Treasury	Majority Shareholder	Loans obtained	(128,657,104)	(120,047,604)
		Loan interest	(4,915,926)	(189,165)
		Food subsidy income	72,525,936	19,677,470
		Dividend paid	(57,200,000)	

## 34.1 Transactions with Key Management Personnel

The board of directors of the Group are the members of key management personnel. Group has paid MRF. 1,644,386/- as emoluments and fees to the directors during the year ended 31st December 2006 (2005: MRF. 1,050,570/-).

## 35 POST BALANCE SHEET EVENTS

STO Shop No. 138 at G.Dh. Thinadhoo was converted to a Cooperative Society named "Gaafu Dhaal Atoll Rayyithunge Cooperative Society" with effect from 6th February 2007. Effective from this date, cooperative society is operating as a separate business entity under company's control.

The rights and obligations vested in the Company under the agreement entered with the Government of Maldives on 28 June 1993 in respect of Vakarufalhi island were transferred to a third party on 13th May 2007.

No circumstances have arisen since the balance sheet date which require adjustments to/or disclosure in the financial statements other than those disclosed above.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****AS AT 31ST DECEMBER 2006****36 COMPARATIVE FIGURES**

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

**37 INVESTMENTS IN SUBSIDIARIES**

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

	Country of Incorporation	No of Shares		Share Holding %	
		2006	2005	2006	2005
Allied Insurance Company of the Maldives Pvt Ltd	Maldives	149,999	149,999	99.99%	99.99%
STO Maldives (Singapore) Pvt Ltd <b>(Note 37.1)</b>	Singapore	199,998	199,998	99.99%	99.99%
STO Lanka Pvt Ltd <b>(Note 37.2)</b>	Sri Lanka	585,599	585,599	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 Supplies Maldives Pvt Ltd	Maldives	10,200	10,200	66.67%	66.67%

**37.1** 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.

**37.2** 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.

**38 INVESTMENT IN JOINT VENTURE**

The company has invested in the following joint venture.

	Country of Incorporation	No of Shares		Share Holding %	
		2006	2005	2006	2005
Maldives Structural Products Pvt Ltd	Maldives	47,000	47,000	50%	50%

**39 INVESTMENT IN ASSOCIATE**

The company has invested in the following associate.

	Country of Incorporation	No of Shares		Share Holding %	
		2006	2005	2006	2005
Lafarge Maldives Cement Private Limited	Maldives	10,567,267	10,567,267	25%	25%

**40 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 2006

## 4.1 SEGMENT INFORMATION

## 4.1.1 AS AT 31ST DECEMBER 2006

	Trading	Tea	Gas	Insurance Service	Fuel, Lubricant and Crude Oil	Structural Products	Group
	MRF	MRF	MRF	MRF	MRF	MRF	MRF
<b>Revenue</b>	877,483,707	1,652,375	60,714,983	27,785,394	4,856,242,637	13,726,039	5,837,605,135
<b>Segment Results</b>							
Operating Profit Before Financing Cost	37,907,465	(1,763,271)	(3,637,910)	14,583,622	135,501,364	6,226,623	188,817,893
Net Financing Costs	(24,630,269)	(354,083)	(807,684)	(727,137)	(1,705,114)	(125,618)	(28,349,905)
Share of Profit from Associate	-	-	-	-	-	-	355,935
Profit / (Loss) Before Tax	13,277,196	(2,117,354)	(4,445,594)	13,856,485	133,796,250	6,101,005	160,823,923
Tax	-	-	-	-	10,640	-	10,640
Minority Interest	-	-	-	-	-	-	(9,124,965)
<b>Profit / (Loss) for the Year</b>	<u>13,277,196</u>	<u>(2,117,354)</u>	<u>(4,445,594)</u>	<u>13,856,485</u>	<u>133,806,890</u>	<u>6,101,005</u>	<u>151,709,598</u>
<b>Segment Assets</b>	1,016,426,173	7,840,387	30,542,718	147,282,582	284,287,501	20,038,033	1,506,417,394
<b>Segment Liabilities</b>	512,466,102	1,357,912	23,225,186	97,436,560	66,514,438	12,297,528	713,297,726
<b>Capital Expenditure</b>	30,205,462	243,330	7,490,766	3,196,822	15,072,509	660,156	56,869,045
<b>Depreciation</b>	41,243,755	307,770	7,331,218	501,328	4,965,369	514,088	54,863,528

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31ST DECEMBER 2006

## 4.1 SEGMENT INFORMATION (CONTINUED)

4.1.2 AS AT 31ST DECEMBER 2005	Trading	Tea	Gas	Insurance Service	Fuel, Lubricant and Crude Oil	Structural Products	Group
	MRF	MRF	MRF	MRF	MRF	MRF	MRF
<b>Revenue</b>	809,250,232	1,841,151	47,159,831	20,968,222	4,929,967,267	27,578,931	5,836,765,634
<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>Profit / (Loss) for the Year</b>	<u>22,320,300</u>	<u>(2,073,626)</u>	<u>(462,752)</u>	<u>13,216,661</u>	<u>113,367,144</u>	<u>3,611,391</u>	<u>145,440,102</u>
<b>Segment Assets</b>	666,895,417	8,024,699	158,570,657	230,512,538	368,647,792	15,129,574	1,447,780,677
<b>Segment Liabilities</b>	203,613,923	5,010,285	24,327,141	188,336,215	322,707,404	3,097,743	747,092,711
<b>Capital Expenditure</b>	139,920,503	-	7,539,136	424,438	3,935,690	412,332	152,232,099
<b>Depreciation</b>	32,638,167	330,332	6,443,766	315,579	4,213,455	561,031	44,502,330