Annual Report 2008

State Trading Organization PLC

بسم الله الرحمن الرحيم

Definitions

This report (Annual Report) comprises the Annual Report of State Trading Organization PLC prepared in accordance with the Companies Act of the Republic of Maldives (10/96), Listing Rules of Maldives Stock Exchange, the securities Act of Maldives Securities Depository and Corporate Governance Code of Capital Market Development Authority Requirements.

Unless otherwise stated in this Annual Report, the terms 'STO', the 'Group', 'we', 'us' and 'our' refer to State Trading Organization PLC and its subsidiaries, collectively. The term 'Company' refers to STO and/or its subsidiaries.

STO prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs).

References to a year in this report are, unless otherwise indicated, references to the Company's financial year ending 31st December 2008. In this report, financial and statistical information is, unless otherwise indicated, stated on the basis of the Company's financial year. Information has been updated to the most practical date.

Cautionary statement regarding forward looking statements

This Annual Report contains forward looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'will', 'may', 'should', 'would', 'could' or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and STO plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions. STO cannot guarantee future results, levels of activity, performance or achievements.

VISION

To become the most successful and most efficiently managed multinational company that would make every individual of the nation proud by the year 2014.

By the year 2014, STO will become the most successful and most efficient parent company (of a diversified group of subsidiaries) in the Maldives. By then, we will be a diverse multinational company listed in an internationally recognized stock exchange. We will never stop diversifying and would reach a stage where we will be manufacturing our own brands in our own manufacturing facilities. We will be renowned in the region as one of the most innovative companies in South Asia. We will become one of the best companies to work for where one will have room to excel and grow. We will never lose sight if out core purpose and our contributions to society will come on many forms. Last but not least, investing in our shares will make you a happy investor. Year 2014 will not be a means to an end. It will be merely a beginning.

MISSION

Our corporate mission is to make STO one of the most innovative and efficiently managed multinational companies in the region.

CORE PURPOSE

The core purpose of STO since its inception in 1964 has been to import and supply staple foods and fuel on a sustainable basis. STO also plays a key role in stabilizing market prices. STO will move forward to expand and provide its services in a socially responsible manner, while ensuring that the core purpose is achieved.

CORE VALUES

Nation first – *National interest is number one priority*

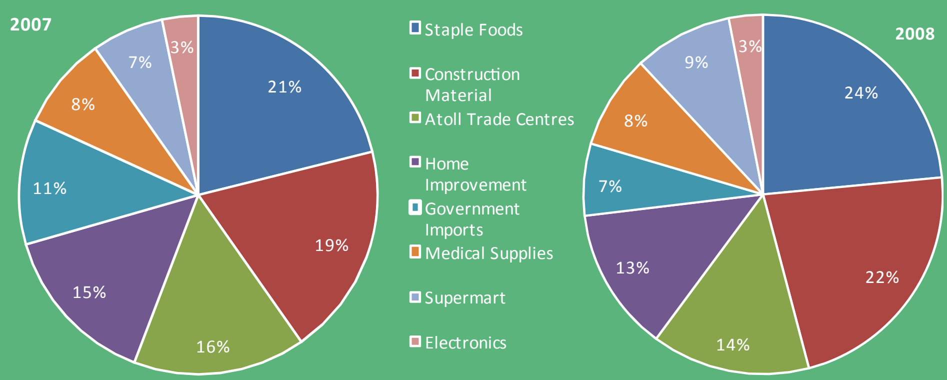
Customer focus – *Delight each and every customer*

Employee well-being – *Pleasant workplace, learning and growth*

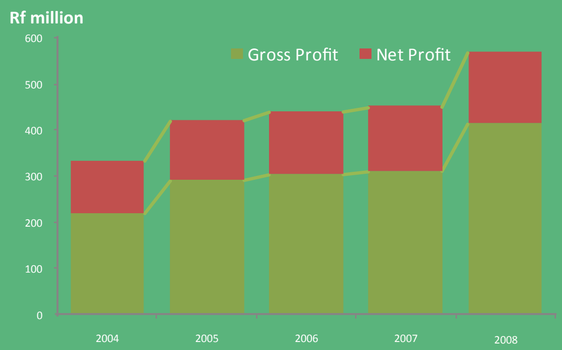
Leadership – *Excel with reliability, integrity, honesty and transparency*

Social Responsibility – *Care for the society and the environment*

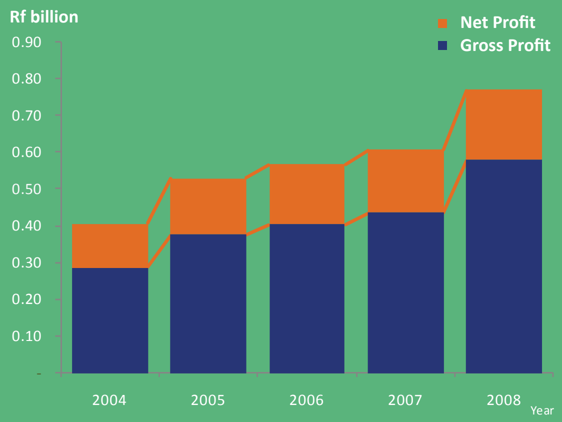
Financial Highlights



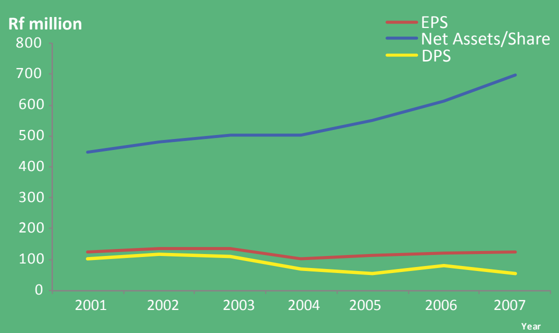
Proportion of non-fuel product categories



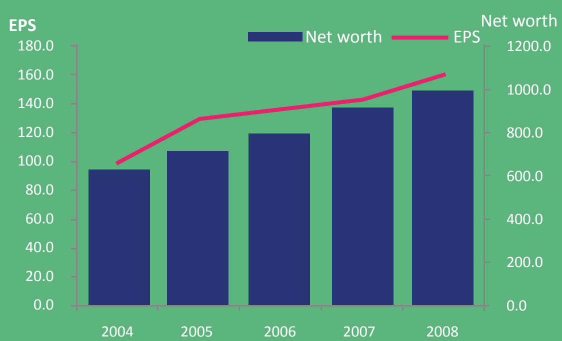
Company Gross Profit and Net Profit 2004 - 2008



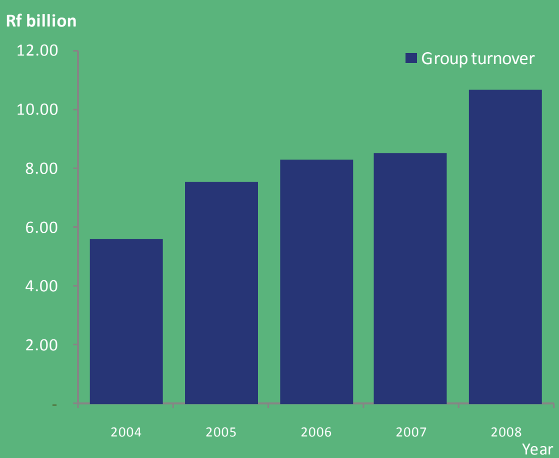
Group Gross Profit and Net Profit 2004 – 2008



Company EPS and Net Assets per share movement 2001 - 2007



Group EPS and Net Worth 2004- 2008



Group turnover 2004 - 2008

Our Company - At a glance

Introduction

An introduction to our Management & a review by the Chairman & MD

Biographies & Review

How we nurtured & managed our business

Business review

Our plans for growth & marketing activities

BDM

Good governance practices within the Company

Governance

Our employees - the most valuable asset of the Company

HRD

Ensuring prosperity, contributing to the development and remaining essential to the society

CSR

Financial statements for the Group and Company including reports from the independent auditor

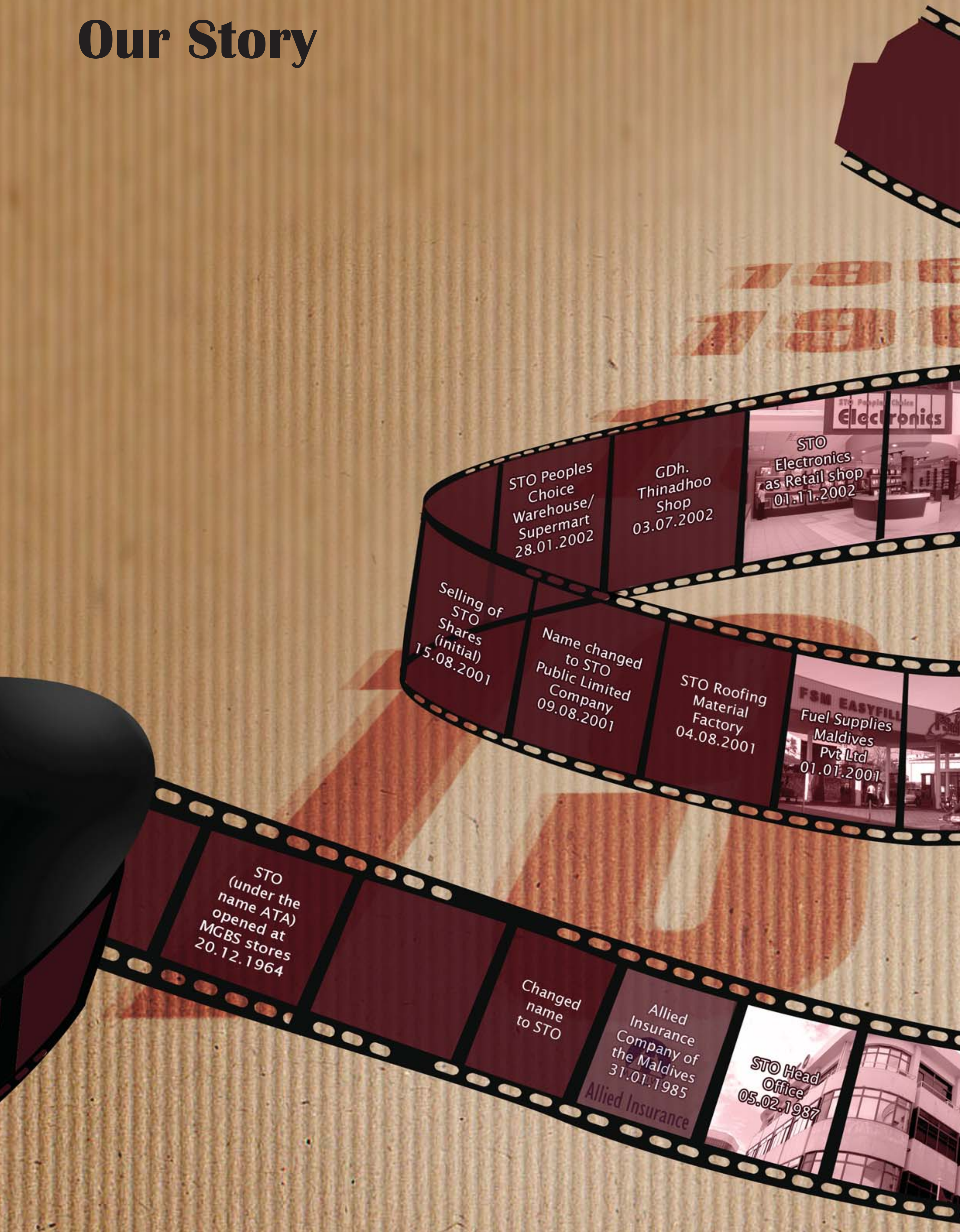
Finance

Nation first – *National interest is number one priority*

Introduction

Our company - At a glance

Our Story



STO (under the name ATA) opened at MGBS stores 20.12.1964
Changed name to STO
Allied Insurance Company of the Maldives 31.01.1985
Allied Insurance
STO Head Office 05.02.1987
FSM EASYFILL
Fuel Supplies Maldives Pvt Ltd 01.01.2001
STO Roofing Material Factory 04.08.2001
Name changed to STO Public Limited Company 09.08.2001
Selling of STO Shares (initial) 15.08.2001
STO Peoples Choice Warehouse/ Supermart 28.01.2002
GDh. Thinadhoo Shop 03.07.2002
Electronics
STO Electronics as Retail shop 01.11.2002


Deisel Trade to Fishermen & Public from B. Eydhafushi Shop 17.09.2008
GA. Atoll STO Trade Centre 20.03.2007
GDh.Atoll Coorperative Society 02.10.2006
Medical Insurance scheme for STO Staff 01.01.2006
Staff Provident Fund 01.01.2006
Name change of STO Peoples Choice Gas to Maldive Gas 01.01.2003
STO Electronics Service Centre 20.12.2003
K. Hulhumale Shop 12.05.2004
New Building (Head office) 22.5.2007
Gn. Fuahmulah Shop and Warehouse 27.05.2005
S. Maradhoo Feydhoo Warehouse 04.11.2000
STO Gas Factory 04.10.1999
STO Cement Factory 25.07.1999
S. Hithadhoo Supermart 29.11.1998
Name changed to STO Ltd 28.06.1998
STO Alfaanu Building 28.06.1998
STO Singapore pvt ltd International 03.09.1996
STO Peoples Choice Gas 03.09.1996
Start of Credit Scheme Service 01.10.1995
Pharmacy at IGMH 02.04.1995
Trade Centre 24.04.1994
EASYFILL
Easy fill 18.03.1993
Supermart 25.07.1992
Ha. Huvarafushi Shop 01.08.1987
Umar Shopping Arcade 01.04.1987

Corporate Information

Name of the Company
State Trading Organization PLC

Company Registration Number
C186/2001

Legal Form
A public listed company with limited liability. Incorporated as a government company, Athireemaafannu Trading Account, on 20th December 1964 and was renamed as State Trading Organization on 09th June 1979. On 09th August 2001, State Trading Organization became a public limited company.

Stock Exchange Listing
Ordinary shares of the company is listed in the Maldives Stock Exchange.

Board of Directors
- Mr. Farooq Umar - Chairman
- Mr. Shahid Ali - Managing Director
- Ms. Sana Mansoor
- Ms. Raheema Saleem
- Mr. Ahmed Arif
- Mr. Mohamed Ahmed
- Mr. Masood Ali

Audit Committee
- Ms. Raheema Saleem - Chairperson
- Mr. Farooq Umar
- Mr. Ahmed Arif
- Mr. Mohamed Ahmed
- Mr. Masood Ali

Nomination and Remuneration Committee
- Mr. Farooq Umar - Chairperson
- Ms. Raheema Saleem
- Mr. Ahmed Arif
- Mr. Mohamed Ahmed
- Mr. Masood Ali

Company Secretary
Ms. Aishath Shaffana Rasheed

Auditors
PriceWaterhouseCoopers
P.O.Box. 2124
HenveyruThandiraiymaage, 3rd Floor,
Roashanee Magu,
Male',
Republic of Maldives.

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

Shareholding Structure

	No. of shares	@ Rf. 50/-	%
Government	1,040,000	52,000,000	92.29
Public	86,910	4,345,500	7.71
Total	1,126,910	56,345,500	100
Authorized Capital (Rf)		57,777,750	
Paid-up capital (Rf)		56,345,500	
Premium		27,814,500	

Registered Address
State Trading Organization PLC,
Boduthakurufaanu Magu,
Maafannu,
Male'
Republic of Maldives.

Contact Details
Telephone: (960) 33 44 333
Fax : (960) 33 44 334
e-mail : info@stomaldives.net

Corporate Directory

STO's main business outlets

STO People's Choice Construction Materials
Ameenee Magu,
Maafannu,
Male', Republic of Maldives
Telephone: +960 3344177
Fax: +960 3344181, 3344182
Email: construction@stomaldives.net

STO People's Choice Electronics
Ground Floor,
Umar Shopping Arcade,
Chaandhanee Magu,
Male', Republic of Maldives
Telephone: +960 3317140
Fax: +960 3313183
Email: electronics@stomaldives.net

STO People's Choice Fuel & Lubricants
Funadhoo Island,
Kaafu Atoll, Republic of Maldives
Telephone: +960 6645901
Fax: +960 6645901
Email: fuel@stomaldives.net

STO People's Choice Home Improvement
Haveeree Hingun,
Maafannu,
Male', Republic of Maldives
Telephone: +960 3318451
Fax: +960 3331656
Email: home_imp@stomaldives.net

STO People's Choice Medicals
Handhuvaree Hingun,
Maafannu,
Male', Republic of Maldives
Telephone: +960 3344136, +960 3344137
Fax: +960 3344142
Email: medical@stomaldives.net

STO People's Choice Medical Pharmacy
Indhira Gandhi Memorial Hospital,
Maafannu,
Male',Republic of Maldives
Telephone: +960 3344242
Fax: +960 3313261
Email: pharmacy@stomaldives.net

STO Peoples Choice Staple Foods
Block No. 393
Handhuvaree Hingun,
Maafannu,
Male', Republic of Maldives
Telephone: +960 3344159
Fax: +960 3344154
Email: staple@stomaldives.net

STO People's Choice Supermart
STO Trade Centre,
Orchid Magu,
Maafannu,
Male', Republic of Maldives
Telephone: +960 3324373
Fax: +960 3313182
Email: supermart@stomaldives.net

Retail Outlets Outside Male'

Ha. Atoll STO Trade Centre (Hoarafushi)
Ghaazee Hingun, Hoarafushi, Haa Alif Atoll,
Republic of Maldives
Tel: +960 6500015
Fax: +960 6500583
Email: sto122@stomaldives.net
STO Shop No. 132, (B.Eydhafushi)
Nolhi Magu, Medhu Avah, Eydhafushi, Baa Atoll,
Republic of Maldives
Tel: +960 660 8315
Fax: +960 6508445
Email: sto132@stomaldives.net

STO Shop No. 162, (K.Hulhumale')
Hulhumale' Commercial Unit, Bageechaa Hingun,
Hulhumale', Kaafu Atoll,
Republic of Maldives
Tel: +960 3350051
Fax:+960 3350051
Email: islandsales@stomaldives.net

STO Shop No. 134, (L.Fonadhoo)
Block No. 32, Medhu Avah, Fonadhoo, Laamu Atoll
Republic of Maldives
Tel: +960 6800048
Fax: +960 6800048
Email: sto134@stomaldives.net

GA. Atoll STO Trade Centre, (GA.Villingili)
Haveeree Hingun, Villlingili, Gaafu Alifu Atoll
Republic of Maldives
Tel: +960 6820110
Fax: +960 6820098
Email: sto16@stomaldives.net

STO Shop No. 136 (Gn. Fuahmualh)
Velifaanu Magu, Maadhan'dhu,
Fuvahmulah, Gnaviyani Atoll,
Republic of Maldives
Tel: +960 6860038
Fax: +960 6862032
Email: sto136@stomaldives.net

STO Shop No. 123 (S. Feydhoo)
Orchid Magu, Feydhoo, Seenu Atoll,
Republic of Maldives
Tel: +960 6892098
Fax: +960 6892098
Email: sto123@stomaldives.net

STO Shop No. 159, (S. Maradhoo Feydhoo)
Shaafee Hingun, Maradhoo Feydhoo, Seenu Atoll
Republic of Maldives
Tel: +960 6891831
Email: sto159@stomaldives.net

STO Shop No. 137, (S. Hithadhoo)
Ziyaaraiyth Faanu Magu, Hithadhoo, Seenu Atoll,
Republic of Maldives
Tel: +960 6885954
Email: sto137@stomaldives.net

G.Dh. Atoll Rayyithunge Cooperative Society
No. 59, Dhaan'naa Magu,Thinadhoo,
Gaafu Dhaal Atoll,
Republic of Maldives
Tel: +960 6841013
Fax : + 960 6842013
Email: sto138@stomaldives.net

Subsidiary Companies

Allied Insurance Company of the Maldives Pvt. Ltd
(99.99% STO shares)
04 - 06, STO Trade Center
Orchid Magu, Malé 20-02,
Republic of Maldives.
Tel: +960 334 1001, + 960 332 4612
Fax: + 960 332 5035
Email: info@alliedmaldives.net
Website: www.alliedmaldives.com

Maldives National Oil Company Ltd
(99.99% STO shares)
Boduthakurufaanu Magu,
Maafannu, Male' 20345,
Republic of Maldives
Tel: +960 325635 Fax: +960 315337
Email: info@mnoc.com.mv
Website: www.mnoc.com.mv

Maldive Gas Pvt Ltd
(90.00% STO shares)
3rd Floor, MTCC Tower Building
Boduthakurufaanu Magu, Male',
Republic of Maldives
Tel: +960 333 5614
Fax: +960 333 5615
Email: mgpl@maldivegas.com
Website: www.maldivegas.com

Fuel Supplies Maldives Pvt Ltd
(66.67% STO shares)
Block A 4th Flr, STO Aifaanu Building
Boduthakurufaanu Magu, Male' 20-05
Republic of Maldives
Tel: +960 333 1442
Fax: +960 331 3881
Email: info@fuelmaldives.com
Website: www.fuelmaldives.com

STO Maldives (Singapore) Pvt Ltd
(99.99% STO shares)
10, Anson Road,
#39-10 International Plaza,
Singapore 079903
Tel: +650 63231337
Fax: +650 63231859

Joint Venture Companies

Maldives Structural Products Pvt Ltd
(50.00% STO shares)
2nd Floor, Marlinespike Building
2/10 Alikilegefaanu Magu
Male', Republic of Maldives
Tel: +960 3337720
Fax: +960 3337721
e-mail: msroof@dhivehinet.net.mv

Associate Companies

Lafarge Maldives Cement Pvt Ltd
(25.00% STO shares)
01-01 STO Trade Centre, Orchid Magu
Male' 20-02, Republic of Maldives
Tel: +960 3315313, +960 3315314
Fax: +960 3315316
e-mail: mimcgm@dhivehinet.net.mv

Customer focus – *Delight each and every customer*

Biographies & Review

An introduction to our Management & a review by the Chairman & MD

Our Board

From left to right:

Mr. Ahmed Arif
Independent, Non- Executive Director

Mr. Masood Ali
Independent, Non- Executive Director

Ms. Raheema Saleem
Independent, Non- Executive Director

Mr. Mohamed Ahmed
Independent, Non- Executive Director

Mr.Farooq Umar
Chairman / Independent, Non-Executive Director

Mr. Shahid Ali
Managing Director / Non- Independent Executive Director

Ms. Sana Mansoor
Chief Fincial Officer/Non- Independent Executive Director

Mr. Farooq Umar
Chairman / Independent, Non-Executive Director

Mr. Farooq Umar has been the Chairman of STO from 20th November 2008, till date.

Farooq is presently the Chairman of STO Maldives (Singapore) Pvt Ltd and a Board Director of Maldives National Oil Company Ltd.

His extensive experience in managing and developing businesses, has earned him recognition as a prominent business leader in Maldives. He is a successful entrepreneur and has over 20 years of experience in business management. His career span across both public and private sectors.

Mr. Shahid Ali
Managing Director/ Non- Independent, Executive Director

Appointed to the Board of STO on 20th November 2008, Mr. Shahid Ali is currently the Managing Director of STO. Shahid is a consultant by profession and has over 15 years of experience in business management, finance, investment appraisals and project management.

Prior to his appointment as MD, Shahid had held various positions for the Government of the Maldives such as the Deputy Director at Ministry of Finance & Treasury. He has also worked in many important projects executed by multilateral agencies such as The World Bank, Asian Development Bank and UNDP.

Shahid holds a Bachelor of Accounting (Hons) from International Islamic University, Malaysia, a Master of Management (Specializing in Project Management) from the Australian National University (ANU), Australia, and a Master of Business Administration (MBA) from the Australian National University, Australia. Shahid is a winner of Sir Roland Wilson Award for best MBA student 2006 at ANU Australia.

Ms. Sana Mansoor
Chief Fincial Officer/Non- Independent, Executive Director

Appointed to the Board of STO on 20th Novermber 2008, Ms. Sana Mansoor is also the Chief Financial Officer.

A Certified Practicing Accountant, Sana has held various positions in STO since her employement in 1988. She was assigned as the Head of Accounting and Finance Department in December 2003. She serves in the Board of Maldives Stock Exchange Company Pvt Ltd and Maldives Securty Depository Company Pvt Ltd.

Sana is a member of CPA, Australia. She also holds a Bachelors Degree in Commerce (Account and Finance) from Griffith Universty, Australia.

Ms. Raheema Saleem
Independent, Non- Executive, Director

Appointed to the Board of STO on 12th June 2008, Ms. Raheema Saleem is currently the Advisor to the Managing Director of Housing Development and Finance Corporation Plc of the Maldives.

Raheema has held numerous positions in the Ministry of Finance and Treasury and has represented the government on many occasions. She currently serves as a member of the Board of several companies, including Housing Development Finance Corporation Plc, and is the Chairperson of Maldives National Oil Company Pvt Ltd. She is also the Chairperson of the Audit Committee of STO.

Raheema holds a Bachelors degree in Commerce (Accounting and Marketing), from Curtin University of Technology, Australia.

Mr. Ahmed Arif
Independent, Non- Executive, Director

Appointed to the Board of STO on 20th November 2008, Mr. Ahmed Arif is presently the Managing Director of Olympia Pvt Ltd, a well established private business entity in the Maldives.

Arif was educated in the field of Business Studies and Economics from Oxford, UK.

Arif encompasses wide experience in areas, such as leadership development, pricing & competitive advantages, cost control and operational efficiency. He has held various positions in government for the Ministry of Trade and Industries, and Marine Research Section of the Ministry of Fisheries.

Mr. Mohamed Ahmed
Independent, Non- Executive, Director

Appointed to the Board of STO on 20th November 2008, Mr. Mohamed Ahmed is currently the Managing Director of Kafa Carpentry.

Mohamed has over 15 years of experience in this industry.

He is the Chairman for the Board of Directors of Fuel Supplies Maldives Pvt Ltd, and a Board Director of Maldive Gas Pvt Ltd.

Mohamed is a pioneering enterpreneur who intiated the business of a multi-farm in K.Kuda Villingili.

Mohamed, who is educated in the UK, had also worked as the manager of Bolifushi Island Resort.

Mr. Masood Ali
Independent, Non- Executive, Director

Appointed to the Board of STO on 26th June 2008, Mr. Masood Ali is currently the Manager of Customer Services for Dhivehiraajeyge Gulhun Pvt Ltd, the largest telecommunications company of the Maldives.

Masood has over 10 years of experience in management, marketing and customer relations. He is a member of Customer Services Institute of Australia.

Masood's professional qualifications are in the areas of Customer Service and Marketing. He is currently undertaking a Masters of Business Administration from the University of Leicester, UK.

Chairman's Message

The new management has a vision to make STO a true Maldivian icon that will be defined by an unprecedented level of trust and reliability. We have set our focus on the country; we will ensure that we serve the nation by ensuring food and energy security on a sustainable basis to our people. We will ensure that we will provide essential goods such as pharmaceuticals and construction materials at reasonable and affordable prices.

A New Era

We are in the midst of a worldwide economic recession. The shrinking economies of the developed and developing nations are adversely affecting demand of the Maldivian economy. Our company needs to take drastic measures to face these challenges. We are also experiencing a new dawn of democracy. The first true democratic presidential elections in the Maldives had brought a new government into power and this has infused a new era of growth and prosperity to our company. We have been given a new mandate by the new government, a mandate to change for the better and to be more efficient and effective in providing the services to the people of this country.

Change for the Better

Our shareholders, customers and employees can look forward for an exciting and prosperous future with the change in the leadership of the company. The new management has a vision to make STO a true Maldivian icon that will be defined by an unprecedented level of trust and reliability.

We have set our focus on the country; we will ensure that we serve the nation by sustainably providing food and energy security to our people. We will ensure that we will provide essential goods such as pharmaceuticals and construction materials at reasonable and affordable prices.

Reviving the Economy

We will invest in strategic projects which will help revive the national economy and create more jobs to the locals. We will expand our operations in the newly designated provinces thereby creating more opportunities in the atolls and helping ease the congestion in capital Male'. We will take the jobs to where your home is, thereby reducing the costs of living and thereby improving the standards of living of all the newly employed staff. The provincial economies will be rejuvenated by these policy changes.

We will ensure the costs of goods remain lower so as to reduce the negative effects of inflation on the national economy. We will improve transparency in all our dealings so as to reduce cost of goods and services being purchased, thereby reducing the outflow of foreign currency from the national economy.

Newer Heights

I am pleased to be a part of the newly appointed Board of Directors of the company, moreover to be entrusted to lead this dedicated team. I am confident that this change will provide a fresh dynamism to the organization. The new board members bring their unique perspectives based on experiences and diverse backgrounds. They will infuse the management with exciting new ideas and directions which will help to take the company to newer heights.

I take this opportunity to thank all Board Members, our shareholders, customers, suppliers, bankers and the management and staff of STO for their support. Your commitment, hard work and patience will be crucial as we try to take on the new challenges, and I look forward to your continued support.

I wish STO a brighter future and a more prosperous year ahead in 2009.

Farooq Umar

Managing Director's Message

Despite a challenging economic environment including record high oil prices during 2008, financial performance of STO was strong and the company outperformed the previous year in almost all aspects.

We face tough times ahead with less liquidity in the financial sector, shortage of foreign currency and plummeting investor and consumer confidence. Nonetheless, regardless of the economic woes, we will continue to be resilient and deliver on our core promises to the community.

We will strive to become a more people oriented organization meeting their needs and contributing to the improvement in the quality of life for all.

To Our Shareholders

Despite a challenging economic environment including record high oil prices during 2008, financial performance of STO was strong and the company outperformed the previous year in almost all aspects.

Group net profit in 2008 was Rf 187 million, this was an increase of 10% over 2007. Group EPS was Rf 156 per share. STO's stocks performed strongly in the Maldives Stock Exchange and had the highest market capitalization in comparison to all other listed companies, the P/E ratio was 4.08.

With this result, and with a change in top management of the company, we have set a new vision for the future, a vision with a focus on innovation, technology and unmatched investment in human resource development. Above all, we will strive to deliver our key mandate of maintaining national energy and food security through sustainable means.

Our aim is to build a world class company that will be a key contributor to the local economy.

To Our Employees

The premise that employees are the most important asset in an organization is a core belief of this management.

By end 2008 we had 1077 employees in our team. There were 882 local and 195 expatriates. 705 staff were working in Male' and 154 staff were working in the atolls. The total payroll in 2008 was Rf 74.3 million and a significant pay revision had been worked out during the year which will be adopted in 2009. 9 staff were granted scholarships to study abroad and 54 staff took part in local and international short-term training programs. In total there were 22 staff studying overseas by end 2008.

We will ensure that all the employees' rights provided by the new Employees Act of Maldives are granted to our staff members. We will invest in training and development of employees. Further, we will provide better workplace safety, flexible working arrangements, better bonuses and profit sharing schemes in order to retain and recruit a highly skillful and motivated workforce. Our goal is to develop a team that will be exemplary in their performance and attitude towards their work.

To Our Partners

Last year we had imported Rf 4.7 billion worth of goods and locally purchased Rf 1.2 billion worth of goods. We had continued to work on new capital investment projects including two new city hotel projects and the investments in other strategic assets, and this work will continue through 2009 and beyond.

Being a business organization with majority state ownership, our aim is not to compete head-on with each and every local business, rather we would strive to compliment them and engage with them to build better business relationships.

Our goal is to build a high level of trust among our partners. We will invest in a state-of-art information management system to ensure that our dealings with all are quick, reliable and efficient. We seek to build solid, trustable relationships based on trust, transparency and honesty with our customers and partners alike.

To Our Fellow Maldivians

STO is a public limited liability company with 92.29% held by the government and 7.71% held by the public. With the new privatization initiative, it has now being decided to float more of the company's government held shares in to public, thereby increasing the private ownership of the company. This will ensure that the people would enjoy further benefits from STO's profits. Corporate social responsibility is of high importance to this management, and improving the corporate image of STO entails hard work towards building a successful and long-lasting relationship with the community. In this regard we will undertake a CSR program through which we will try to touch the lives of each and every Maldivian.

We face tough times ahead with less liquidity in the financial sector, shortage of foreign currency and plummeting investor and consumer confidence. Nonetheless, regardless of the economic woes, we will continue to be resilient and deliver on our core promises to the community.

We will strive to become a more people oriented organization meeting their needs and contributing to the improvement in the quality of life for all.

Shahid Ali

Executives

From left to right:

Mr. Ahmed Zuhoor
General Manager - Procurement and Logistics

Ms. Aishath Shaffana Rasheed
Company Secretary, General Manager - Corporate Affairs

Ms. Fathimath Ashan
General Manager - Human Resource & Administration Department

Mr. Mohamed Nabeel Abdullah
General Manager - Regional Sales and Development

Mr. Shahid Ali
Managing Director/ Board Member

Mr. Ahmed Shifan
General Manager - STO Peoples Choice Electronics,
STO Peoples Choice Home Improvement

Mr.Ashraf Ali
General Manager - STO Peoples Choice Construction Materials

Ms. Sana Mansoor
Chief Financial Officer/ Board Member

Mr. Ahmed Shaheer
General Manager - Credit & Legal Affairs

Ms. Fareeha Shareef
Chief Internal Auditor - Internal Audit Department

Mr. Mohamed Abdul Sattar
General Manager - STO Peoples Choice Medicals,
STO Peoples Choice Fuel & Lubricants,
STO Peoples Choice Staple Foods

Mr. Ahmed Niyaz
General Manager - STO Peoples Choice Supermart

Mr. Ibrahim Shareef Mohamed
General Manager - Asset Management Department,
Information and Communication Technology Department

Mr. Shahid Ali

Managing Director

Mr. Shahid Ali joined STO upon his appointed to the Board of Company on 20th November 2008. He is currently the Managing Director of STO. Prior to his appointment as MD, Shahid has held various positions for the Government of the Maldives such as the Deputy Director at Ministry of Finance & Treasury. He has also worked in many important projects executed by multilateral agencies such as The World Bank, Asian Development Bank and UNDP.

Shahid holds a Bachelor of Accounting (Hons) from International Islamic University, Malaysia, a Master of Management (Specializing in Project Management) from the Australian National University, Australia, and a Master of Business Administration (MBA) from the Australian National University, Australia. Shahid is a winner of Sir Roland Wilson Award for best MBA student 2006.Shahid is a consultant by profession and has over 15 years of experience in business management, finance and investments.

He currently serves as a Board Director of STO and Maldives Tourism Development Corporation Plc (MTDC).

Ms. Sana Mansoor

Chief Financial Officer - Accounts and Finance

Ms. Sana Mansoor joined STO on 1988 and was appointed the Chief Financial Officer since March 2009. She had held various positions in the Company, including that of being the Head of Accounting and Finance Department.

Sana holds a Bachelors Degree in Commerce (Accounts and Finance) from Griffith University, Australia. She is a Certified Practicing Accountant and is also a member of CPA, Australia.

She currently serves as a Board Director of STO, Maldives Stock Exchange Company Pvt Ltd and Maldives Security Depository Company Pvt Ltd.

Mr. Ibrahim Shareef Mohamed

General Manager - Asset Management Department
Information and Communication Technology Department

Mr. Ibrahim Shareef Mohamed joined STO in 1986 and was appointed a General Manager in-charge of Asset Management Department and Information and Communication Technology Department in March 2009. Shareef has held various positions including that of, Director in charge of Asset Management as well as STO Peoples Choice Home Improvement.

Shareef Holds a Post Graduate Diploma in Shipping Management, from Humberside Polytechnic, UK.

He currently serves as the Chairman of the Board for Allied Insurance Company of the Maldives Pvt. Ltd.

Mr. Ahmed Shaheer

General Manager - Credit & Legal Affairs

Mr. Ahmed Shaheer joined STO in 1995 and was appointed a General Manager in-charge of Credit Sales and Legal Department since March 2009. He has held various positions including that of Director, in charge of Business Development and Marketing, STO Peoples Choice in Electronics, and STO Peoples Choice Supermart.

Shaheer holds a Masters Degree in Business Administration from the University of Adelaide, Australia and a Bachelors Degree in Business Administration (Marketing and Management) from University of Charles Stuart, Australia.

He currently serves as the Chairman of the Board of Directors for Maldives Structural Products Pvt. Ltd.

Mr. Mohamed Nabeel Abdullah

General Manager - Regional Sales and Development

Mr. Mohamed Nabeel Abdulla joined STO in 1996 and was appointed a General Manager in- charge of Regional Sales and Development since March 2009. Nabeel previously held other positions including that of Director, in charge of Credit Sales Department, STO Peoples Choice Construction Materials, and STO Peoples Choice Staple Foods.

Nabeel holds a Masters Degree in Information Technology and Business from the University of Lincolnshire and Humberside, UK and a Bachelor of Science with Honours in Software Engineering from the University of Shefield, UK.

He currently serves as the Chairman of the Board of Directors for Lafarge Maldives Pvt. Ltd. He is also a member of British Computer Society.

Ms. Fathimath Ashan

General Manager - Human Resource & Administration Department

Ms. Fathimath Ashan joined STO in 1994 and was appointed as a General Manager in-charge of Human Resource Department in March 2009. Ashan previously held other positions, including that of Deputy Director for HR.

Ashan holds a Masters Degree in Business Administration from the University of Lincoln and a Bachelor of Arts with Honors (First Class) in Business IT from the University of Coventry, Malaysia.

She currently serves as a member of the Board for Allied Insurance Company of the Maldives Pvt. Ltd.

Mr. Mohamed Abdul Sattar

General Manager - STO Peoples Choice Medicals,
STO Peoples Choice Fuel & Lubricants, STO Peoples Choice Staple Foods

Mr. Mohamed Abdul Sattar joined STO in 1983 and was appointed a General Manager in-charge of STO Peoples Choice Medicals, STO Peoples Choice Fuel & Lubricants and STO Staple Foods in March 2009. Sattar has held various positions including that of, his position as Assistant Director, in charge of Legal Department.

Sattar holds a Masters Degree in Business Administration from the University of Northumbria, UK.

He currently serves as a member of the Board for Maldives Structural Products Pvt. Ltd.

Mr. Ahmed Shifan

General Manager - STO Peoples Choice Electronics,
STO Peoples Choice Home Improvement

Mr. Ahmed Shifan joined STO in 2005 and was appointed a General Manager in-charge of STO Peoples Choice Electronics and STO Peoples Choice Home Improvement since April 2009. Shifan previously held other positions including that of Assistant Director, in charge of Island Sales Department.

Shifan holds a Masters Degree in Business Administration with Honors from Auckland University of Technology (AUT), New Zealand and a Bachelor of Science with Joint Honors (First Class) in Business Information Systems and Business Studies from Middlesex University, UK.

He currently serves as a member of the Board for Fuel Supply Maldives Pvt. Ltd.

Mr. Ashraf Ali

General Manager - STO Peoples Choice Construction Materials

Mr. Ashraf Ali joined STO in 1990 and was appointed a General Manager in-charge of STO Peoples Choice Construction Material in March 2009. Ashraf previously held other positions, including that of Assistant Director, in charge of Internal Audit Department. He had also filled the post of Assistant General Manager and the Managing Director of Maldive Gas Pvt Ltd from 2005 to 2007.

Ashraf holds a Masters Degree in Business Administration from the University of Ballarat, Australia and a Post Graduate Diploma from Chartered Institute of Marketing, UK.

He currently serves as a member of the Board for Lafarge Maldives Pvt. Ltd.

Ms. Fareeha Shareef

Chief Internal Auditor - Internal Audit Department

Ms. Fareeha Shareef was appointed Chief Internal Auditor on September 2008. She has extensive experience in the fields of finance, accounting, auditing, and business consultancy in private and public sector.

Fareeha graduated with a Masters of Management Studies (First Class) from the University of Waikato, New Zealand. She also holds a Bachelor of Commerce (Hons) and Management from Lincoln University of New Zealand.

She is a member of Association of Chartered Certified Accountants (ACCA), UK and Institute of Internal Auditors (IIA), USA.

Mr. Ahmed Zuhoor

General Manager - Procurement and Logistics

Mr. Ahmed Zuhoor joined STO in 1998 and was appointed General Manager in-charge of Procurement and Logistics in March 2009. He has held various positions including that of Technical superintendent and Head of Department for Transport and Mechanical Services.

Zuhoor holds a Master of Science Degree in Maritime Affairs specialized in Maritime Safety and Environmental Protection from World Maritime University, Malmo, Sweden.

He currently serves as a member of the Board for STO Maldives (Singapore) Pvt Ltd.

Ms. Aishath Shaffana Rasheed

Company Secretary, General Manager - Corporate Affairs

Ms. Aishath Shaffana Rasheed joined STO in 2004 and was appointed a General Manager in-charge of Corporate Affairs in March 2009. She previously held other positions in STO, including the acting Head of Department for Information Technology Department.

Shaffana holds a Bachelors Degree in Business (Marketing and Management) from the Australian College of Business and Technology, Sri Lanka.

She is also the Company Secretary of STO.

Mr. Ahmed Niyaz

General Manager - STO Peoples Choice Supermart

Mr. Ahmed Niyaz joined STO in 1998 and was appointed a General Manager in-charge of STO Peoples Choice Supermart in March 2009. He has held various positions in STO including his position as Sales Manager at STO People's Choice Supermart.

Niyaz graduated with a BEng (Hons) Electrical & Electronic Engineering from Northumbria University, UK. He also holds a Diploma in Planning/Implementation, Monitoring and Evaluation of Public Investment Program and Projects, International Labor Organization from the International Training Centre, Turin, Italy.

Group Managing Directors

Mr. Abdul Wahid Thaufeeq
Managing Director
Allied Insurance Company of the Maldives Pvt Ltd

Mr.Adam Saleem
Managing Director
Fuel Supplies Maldives Pvt Ltd

Mr.Hussein Zahir
Managing Director
Maldive Gas Pvt Ltd

Mr. Ibrahim Rafeeq
Managing Director
Maldives Structural Products Pvt Ltd

Mr. Ahmed Muneez
Managing Director
Maldives National Oil Company Ltd and STO Maldives (Singapore) Pvt Ltd

Head of Business Units

Mr. Ismail Naseer
STO Peoples Choice Electronics

Mr. Nasrath Mohamed
STO Peoples Choice Home Improvement

Ms. Mariyam Waseema
STO Peoples Choice Medical Godown

Mr. Moosa Yasir
STO Peoples Choice Construction Materials

Ms. Zareena Moosa
STO Peoples Choice Staple Foods

Ms. Aminath Waheeda
STO Peoples Choice Supermart

Mr. Ismail Ali Jaleel
STO Peoples Choice Fuel and Lubricants

Mr. Abdulla Imad
STO Peoples Choice Medical Pharmacy

Mr. Mohamed Shakir
STO 136 No. Fihaara (Gn. Fuahmulah)

Mr. Hussain Didi
STO 138 No. Fihaara (Gdh. Thinadhoo)

Mr. Musthafa Mohamed
STO 163 No. Fihaara (Ga. Villingili)

Mr. Ibrahim Naif
STO 134 No. Fihaara (L. Funadhoo)

Mr. Mohamed Nizam
STO 138 No. Fihaara (Gdh. Thinadhoo)

Mr. Ibrahim Saduree
STO 159 No. Fihaara (S.Maradhoo Feydhoo)

Mr. Abdul Hameed Abdul Kareem
STO 132 No. Fihaara (B. Eydhafushi)

Mr. Ahmed Hameed Ali
STO 162 No. Fihaara / Hulhumale

Mr. Ibrahim Ali
STO 122 No. Fihaara (H.A. Hoarafushi)

Ms. Ibrahim Ali Didi
STO 137 No. Fihaara (S. Hithadhoo)

Achievements

Green Leaf Award 2008

STO was presented with the Green Leaf Award at Environment Day 2008 in recognition for initiating the renewable hybrid energy project using wind solar and diesel/LPG generators. This project, a joint effort with our subsidiary Maldives was inaugurated on 8th January 2007.

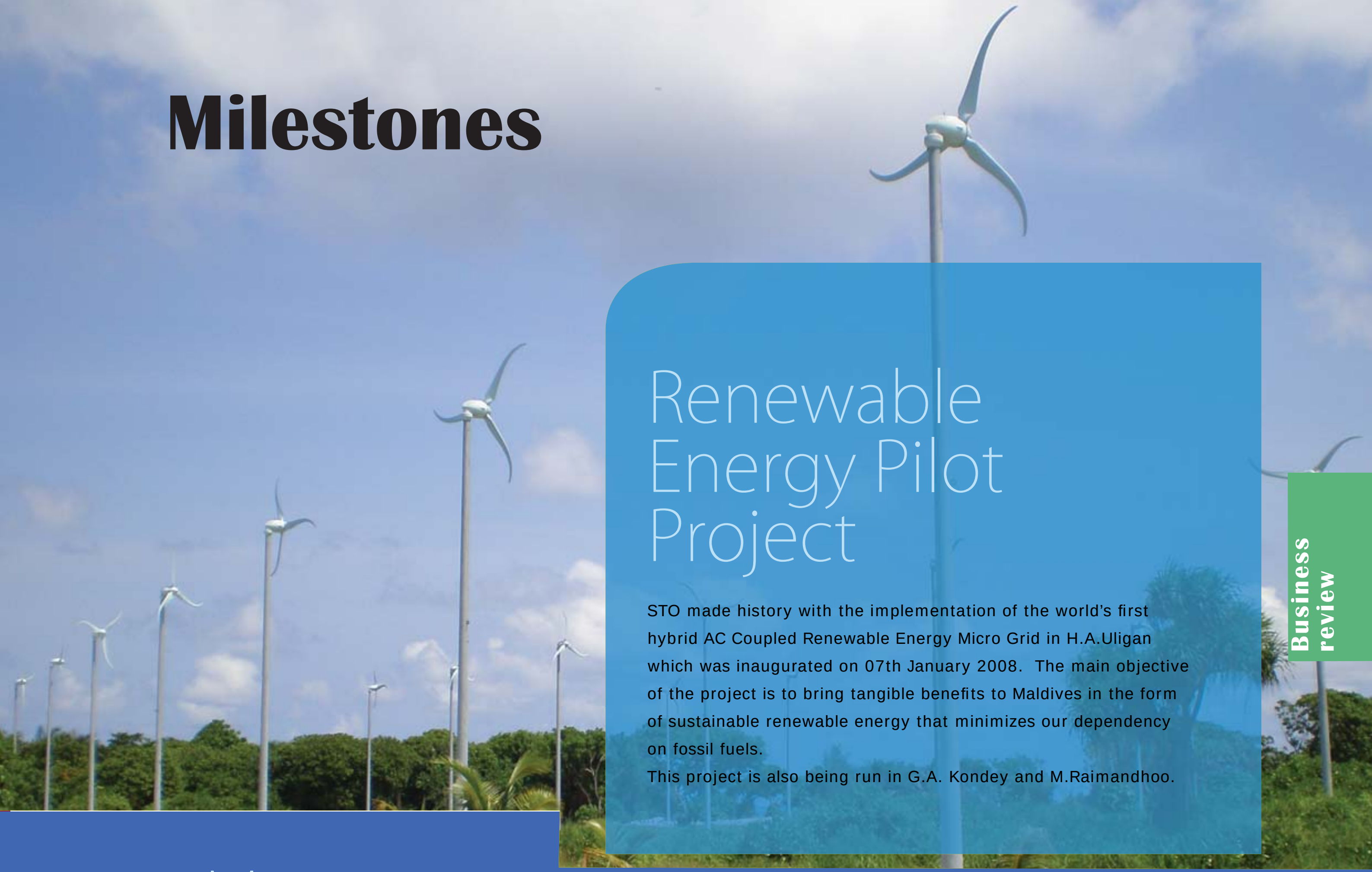
South Asian Federation of Accounts Award 2007

STO received the Best Presented Accounts Award 2007 by the South Asian Federation of Accounts. The South Asian Federation of Accounts is a committee on improving transparency, accountability and governance in the region.
We are the first Maldivian company to achieve this prestigious award.

Recognition of Service Award 2008

Maldives National Defence Force acknowledged our continuous support to MNDF and the society at their 116th Anniversary.

Milestones



Renewable Energy Pilot Project

STO made history with the implementation of the world's first hybrid AC Coupled Renewable Energy Micro Grid in H.A.Uligan which was inaugurated on 07th January 2008. The main objective of the project is to bring tangible benefits to Maldives in the form of sustainable renewable energy that minimizes our dependency on fossil fuels.

This project is also being run in G.A. Kondey and M.Raimandhoo.

Major Partnerships Established

To further strengthen our business operations, we have established the following partnerships;

Oil Term Contract Signed with Singapore Petroleum Company
07th March 2008

Oil Term Contract Signed with Emirates National Oil Company
02nd March 2008

Hotel Project Double Tree awarded to Hilton International Male'
10th September 2008

Hotel Project awarded to Carlson Hotel
14th May 2008

Employee well-being – *Pleasant workplace, learning and growth*

Business Review

How we nurtured & managed our business

New Products/ Brands Introduced

We have successfully developed our product range, enabling greater choice of product solutions to our customers. Our products are continually adjusted to keep pace in the changing marketplace.

Becton and Dickinson, America
GlaxoSmithKline, United Kingdom
Downs Surgical, United Kingdom
Medis, Italy
Al-Mudhish, Oman
Hitachi Ultra Thin TV (World's first 1.5" LCD TV), Japan
Hitachi Starboard, Japan
Enjoy Juice, Egypt
FiberPasta, Italy
Tom Milk, Portugal
De Cecco, Italy

BD FiberPasta DE CECCO since 1886 Al Mudhish HITACHI Inspire the Next

Directors' Report

The new government is pursuing a policy of privatization with emphasis on privatizing state owned enterprises and opening up the national economy for foreign investments.

There was a sharp increase in the prices of essential food items and oil throughout the year. STO played a critical role to minimize the impact on the national economy by maintaining the prices of essential goods.

Improving customer service, especially after sales services was given renewed priority to ensure that STO emerges healthier and more resilient from the economic downturn.

Introduction

We are pleased to submit the STO Directors' Report along with the Audited Financial Statements for the year ended 31st December 2008.

This report presents an overview of our business activities and that of the subsidiaries. It also contains a summary of the actions taken to improve efficiency and effectiveness of our operations during the year 2008.

General Business Environment

Several changes took place in the general environment in 2008 which has important implications on the business of STO. Foremost, a more democratic form of governance structure was introduced in the Maldives with the adoption of a new constitution on the 7th of August 2008. As required by the new constitution, a presidential election contested by multi-party candidates was held in October 2008. A new president was elected and sworn in on 11th November 2008. The new government is pursuing a policy of privatization with emphasis on privatizing state owned enterprises and opening up the national economy for foreign investments.

Furthermore the global economy began experiencing in 2008 one of the worst economic crises in decades, and financial uncertainty prevailed throughout the second half of the year. The national economy of the Maldives was also impacted negatively due to the global economic downturn. GDP dropped from 7.2% in 2007 to 5.8% in 2008. Inflation rate also increased from 7.4% in 2007 to 12.3% during the year. There was a sharp increase in the prices of essential food items and oil throughout the year. STO played a critical role to minimize the impact on the national economy by maintaining the prices of essential goods.

The global financial crisis coupled with economic slowdown in the Maldives caused a severe shortage of foreign currency during 2008. As a result, STO had to take necessary prudent measures to ensure that the company will always have a healthy reserve of foreign currency. International orders were extensively examined to ensure that foreign currency reserves were utilized effectively. Improving customer service, especially after sales services was given renewed priority to ensure that STO emerges healthier and more resilient from the economic downturn.

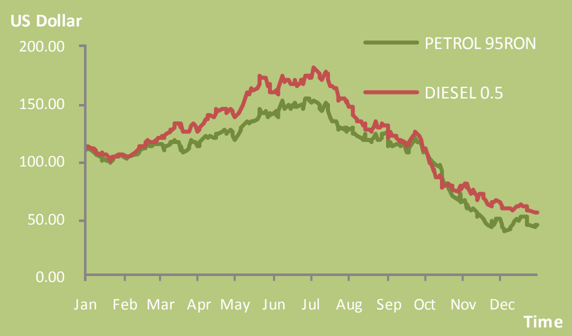
Company Performance

Despite the uncertainties and the state of the world economy that prevailed in 2008, STO recorded a successful year in 2008.

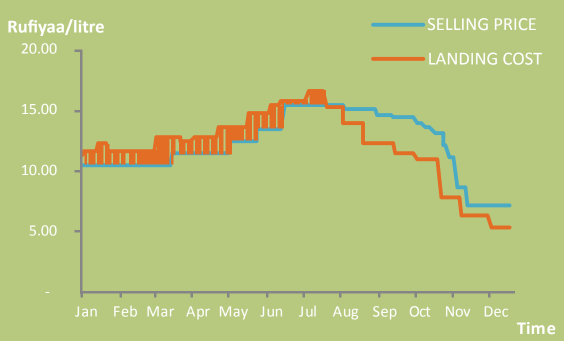
As expected the main source of revenue for STO in 2008 was income from fuel and lubricants. The upward trend in the world fuel price continued in 2008 and reached the peak around mid 2008 (Graph 1). As Maldives is totally dependent on imported fuel, the global fuel price increase had little effect on the demand of fuel locally.

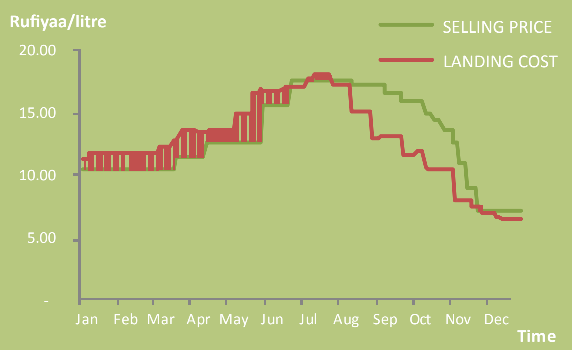
Despite the uncertainties and the state of the world economy that prevailed in 2008, STO recorded a successful year in 2008.

STO, in line with its vision and core purpose, played a critical role in minimizing the effect of the increasing world fuel prices on the economy of the Maldives. STO endeavoured to stabilize the local fuel prices throughout this period. Although local fuel prices had to be increased when absolutely necessary, STO maintained fuel prices consistently lower than its landed cost during this period. Graph 2 shows the selling price and landed cost for diesel and petrol in 2008 and shaded area in Graph 2 shows the loss making period whereby STO was selling fuel at a lower price than its landed cost. When global market fuel prices began to fall in mid 2008, STO also followed this trend. However, the unpredictability of the global market prices and accumulated costs, made STO cautious in reducing its selling prices. The third quarter of the year proved very favourable for STO in the fuel business and the company began to reduce its prices steadily to ensure direct benefits of the customers.



Graph 1: World fuel price movement trend 2008 (Singapore Platts, USD per Barrel)



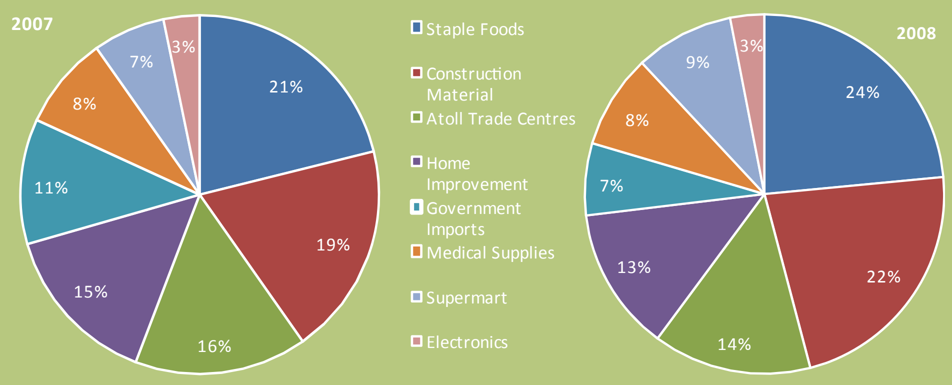


Graph 2: Local diesel and petrol price and landed cost movement in 2008

The total revenue from non-fuel products and services increased by

17%

The non-fuel product portfolio and its contributions are shown in Graph 3. The total revenue from non-fuel products and services reached Rf 1.2 billion in 2008. This is an increase of 17% from 2007. Staple foods and construction materials, together contributed over 46% of non-fuel revenue. Except for Government purchases, all product categories grew in sales revenue in 2008. The highest growth in revenue can be seen in Supermart with a 60% increase, and lowest growth was in Home Improvement with a 3% increase.



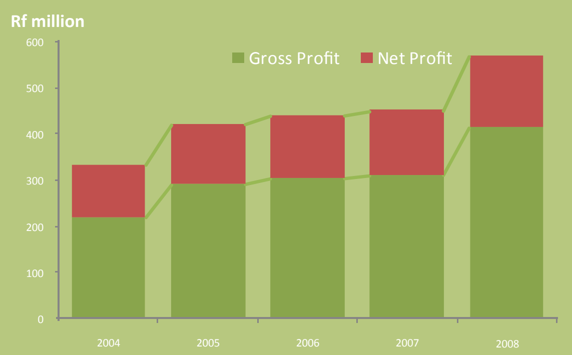
Graph 3: Proportion of non-fuel product categories

Net profit increased by 10%

The gross and net profit trend of STO over the last five years is shown in Graph 4. The favourable trend continued with a gross profit increase of 34% in 2008 from 2007. A consistent gross margin of 6% was maintained during the period.

Other income dropped from Rf 73 million to Rf 26 million in 2008. This is mainly attributable to the extraordinary income generated by sale of asset in 2007.

Total operating expenses of the company increased by 5% in 2008. The main operating cost of the company is employee related expenses of Rf 80 million. Employee related expenses contributed to over 70% of total administrative expenses in 2008 compared to 51% in 2007. Selling and marketing expenses increased by 13% from 2007 to 2008. However, it remained constant as a percentage of sales at 2% during the period.



Graph 4: Gross Profit and Net Profit 2004 - 2008

The net worth of STO increased by 7%

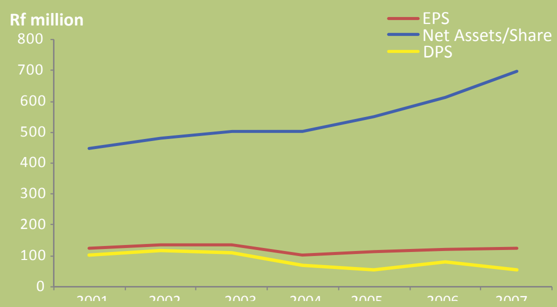
Due to the extraordinary fuel prices and the credit crunch, financing cost for the company increased by 128% during the year. Despite the fall in net profit margin which was attributable to the tough business environment, the company manage to increase its net profit by 10% during 2008.

The net worth of STO increased by 7% in 2008. The main contributor is the increase of 5% in current assets and increase of 12% in retained earnings. To address the issue of unavailability of cost effective credit and as a general cost reduction strategy, all major capital investments were delayed in 2008. As a result, there was a net decrease in non current asset of 9% in 2008.

Graph 5 below shows the trend in overall shareholder wealth of the company.

Earnings per share increased by 15%

Graph 5 below shows the EPS and Net Assets per share movement 2001 - 2007.



Graph 5: EPS and Net Assets per share movement 2001 - 2007

The Key financial indicators of the company for the years 2006 and 2008 are given in Table 1.

Indicators	2008	2007	2006
Earnings Per Share (Rf)	138.13	125.59	121.58
Price Earning Ratio	4.08	5.28	5.54
Dividend Per Share (Rf)		70.00	82.00
Market Price Per Share			
Highest (Rf)	775	770	899
Lowest (Rf)	450	500	430
Weighted Average (Rf)	564	663	673
Dividend Yield		10.56%	12.18%
Earning Yield	24.49%	18.94%	18.07%
Return on Equity	18.39%	17.98%	19.77%
Return on Total Assets	8.74%	8.07%	11.27%
Current Ratio	1.55 : 1	1.44 : 1	2.03:1
Net Assets Value per Share (Rf)	751.02	698.36	614.92
Debt/Equity Ratio	0.03	0.04	0.16
Interest Cover	3.62	6.31	5.58

Table 1: Key Financial Indicators.

The price of STO shares throughout the year continued to be the **highest** among all the shares of the listed companies in the Maldives Stock Exchange

Share trade increased from **280** shares in 2007 to **353** shares in 2008

Total value of traded shares was **Rf 0.20million** in 2008

The market capitalization of shares is valued to be **Rf 732million** in 2008

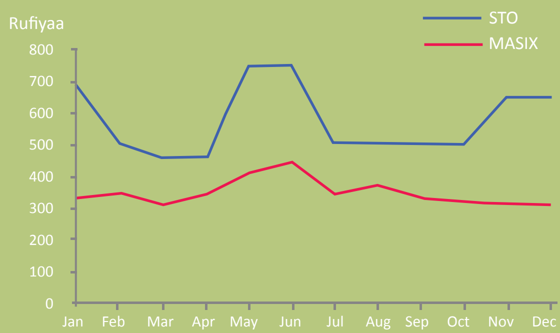
The highest traded price of an STO share was **Rf 775** while the lowest traded price was **Rf 450** during 2008

Share information

The price of STO shares throughout the year continued to be the highest among all the shares of the listed companies in the Maldives Stock Exchange.

The number of shares traded increased from 280 shares in 2007 to 353 shares in 2008. The total value of traded shares was Rf 0.20 million in 2008 compared to Rf 0.19 million in 2007. The market capitalization of the shares is valued to be Rf 732 million as at 31 December 2008. The highest traded price of an STO share was Rf 775 while the lowest traded price was Rf 450 during 2008. The share price movement of STO since 2003 is shown in Graph 6. The comparison between average share price and MASIX for 2008 is shown in Graph 7.

Graph 6: Share Price Movement



Graph 7: STO average share vs. MASIX for 2008

Group revenue improved 15%

Gross profit increased from **Rf 434million** in 2007 to **Rf 577 million** in 2008

The net profit increased from **Rf 170 million** in 2007 to **Rf 187 million** in 2008

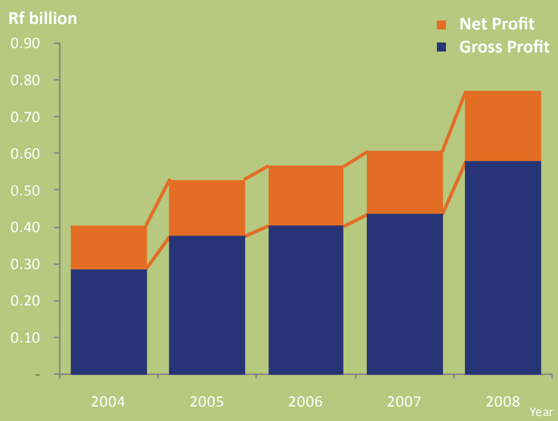
The shareholder value **continued** to **grow** steadily over the past five years

Group Performance

Group revenue improved 15% to Rf 6.4 billion in 2008. The main contributor to group revenue was STO PLC, with over 64% of the total revenue. FSM was the second highest contributor with 27% contribution amounting to Rf 2.9 billion.

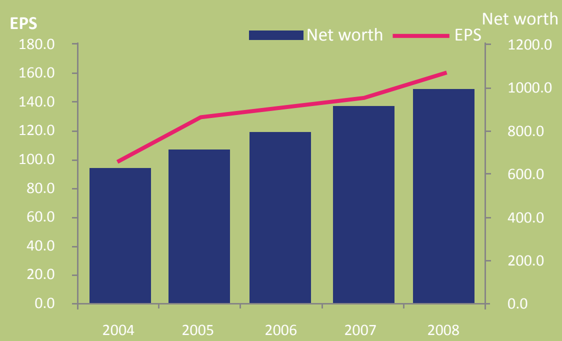
Graph 8: Group turnover 2004 - 2008

The last five year trend in Group profitability is shown in Graph 9. The increasing profitability trend continued in 2008. Gross profit increased from Rf 434 million in 2007 to Rf 577 million in 2008(34%). The net profit increased from Rf 170 million in 2007 to Rf 187 million in 2008(10%). Gross profit margin increased by a percentage point from 8% to 9%, whilst the net profit margin remained at 3% during the period.



Graph 9: Group Gross Profit and Net Profit 2004 – 2008

Graph 10 shows the earnings per share (EPS) and net worth of the group from 2004 to 2008. Group EPS is recording a positive trend and the shareholder value continued to grow steadily over the past five years.



Graph 10: Group EPS and Net Worth 2004- 2008

Subsidiary Highlights

Allied Insurance Company of the Maldives Pvt Ltd

Introduction of Life Insurance – 24th March 2008

Allied Insurance introduced life insurance in 2008. The main aim was to facilitate social protection and provide the opportunity to save for future retirement.

Allied Insurance Company, Addu – 18th August 2008

Allied Insurance opened their first Branch Office in Addu Atoll. The aim of this initiative is to provide better and efficient services to customers resident in the South Province of the Maldives.

Health Insurance Platinum and Gold Card

Allied Insurance introduce a health insurance platinum and gold card. This step is taken by the company to enhance the quality and efficiency of services provided to the customers.

Maldives National Oil Company Ltd (MNOC)

As part of the business expansion project, MNOC competed with several multinational companies and was successful in the tender for supplying low sulphur diesel to Bangladesh Petroleum Corporation (BPC).

Fuel Supplies Maldives Pvt Ltd (FSM)

FSM increased the capacity for storage of oil by investing in new vessels and an additional storage tank in Lh.Naifaru.

Business Development and Marketing

Our plans for growth & marketing activities

Business Development and Marketing

Business Development and Marketing

STO enhanced existing products and introduced new products to maintain and improve its leadership position in the market. STO believes it is essential to formulate new projects, and supports continually the operations of existing projects to enable sustainable growth of the company.

The new developments undertaken during 2008 include expansion and upgrades of regional outlets and the diversification of STO's business operations to venture into tourism and hospitality industry.

Radisson Hotel Maldives

The very first city hotel project of STO, Radisson Hotel Maldives is scheduled to open in 2010. This new five star hotel will consist of 500 rooms and suites with stunning sea view and boasts restaurants, state of the art swimming pool and a first-class spa among other facilities. Located in Hulhumale', footsteps away from Male' International Airport, the hotel is targeted for a broad range of travelers. The hotel will allow guests the ease and comfort synonymous with the popular and experienced hotel chain Radisson, which has more than 950 Hotels in 71 countries world-wide. The management agreement for the project was signed between STO and Carlson Group on 14th May 2008.

DoubleTree by Hilton, Male'

STO has signed an agreement with Hilton International Manage (Maldives) Pvt Ltd on 10th September 2008 to commence the second hotel project of STO. The 5 star, 150-room hotel including convention center, food court, underground parking and a Cineplex is expected to open in 2011. The multi-storey hotel complex will be located on the west side of Male'. The hotel will be marketed and advertised under Double Tree, a brand under Hilton, which comprises of a global infrastructure that supports a worldwide network of more than 3,200 hotels and 545,000 rooms in 77 countries.

The hotel will be conveniently located in Male' 10 minutes from Male' International Airport and will offer all of Hilton's signature comforts.

Regional Expansion and Development

STO has plans to establish storage and warehousing of staple foods and construction materials in the regional provinces of Maldives. This is an initiative to reduce cost and improve efficiency in the STO's regional distribution network.

STO also plans to establish multi-purpose buildings in strategic locations within the country. These buildings would have shops, warehousing and storage areas, in addition to spaces for community based activities and for lease to private sector businesses. With these complexes, STO aims to contribute towards improving the quality of life for those living in the regional provinces of the country by enhancing better access to goods and services. The development of STO shopping complexes in L. Fonadhoo, B. Eydhafushi, S. Hulhumeedhoo and H.Dh. Khulhudhufushi are currently in the planning stage.

The STO shop in H.A Hoarafushi was expanded and relocated to the new harbor front on the eastern side of the island and reopened on 09th May 2008. This expansion allows the company to provide of a broader range of products to the communities in Haa Alifu.

Marketing

Marketing strategy of STO is to provide reputed and quality products to the market at affordable prices and cater for the needs of different market segments, while maintaining a healthy customer relationship. Selling of the products is done from the individual outlets and supported by the business development and marketing team.

In the face of ever increasing competition, STO is improving its sales and marketing effort which has yielded positive results during the year. Over the years, STO business units ;Supermart, Electronics, Home Improvement, Medicals and Construction Materials have built an excellent reputation for offering high quality consumables and appliances

Advertising

STO's advertising campaigns were conducted mainly in collaboration with major international brands such as Hitachi, Philips, Makita, Devondale and Nippon. In addition, systematic advertisement campaigns were run throughout the year. To achieve the maximum impact STO uses local news papers, radio, television and billboards in Male' and the provinces.

Event Marketing

STO organizes special events for promoting products at outlets. Such events attract potential new buyers, and at the same time enhances our relationship with existing customers. Some of the events held during 2008 include Chocolate Week, Childrens' Day, Ramazaan Baazaaru and Euro Warm up Promotion.

Sponsorships

STO has given several sponsorships to NGO's, clubs and community activities during the year. Significant sponsorships include the Makita Athletics Junior Championship and sponsorship of Valencia Football Team by Philips.

Donations

The total donations made by the Company during the year amounted to Rf 0.31 million

Leadership – *Excel with reliability, integrity, honesty and transparency*

Governance

Good governace practices within the Company

Financial Statements

The financial statements which include the income statement, balance sheet, cash flow statements, statement of changes in equity, and the notes to the financial statements of the Company and the Group for the year ended 31st December 2008 are set out on pages 54 to 98.

Auditors' Report

The Audit Report on the Financials Statements is given on page 52.

Directors'

The details of changes in the Board of Directors is given in the table below.

Name of Director	From	To	Position
Ahmed Mohamed	20th September 2005 28th February 2008	27th February 2008 17th December 2008	Board Chairman Board Director/CEO
Ali Mohamed	23rd August 2005 12th JUne 2008	11th June 2008 6th August 2008	Board Director Board Chairman
Mohamed Hussain Maniku	14th August 2001	28th February 2008	Board Director / MD
Aminath Ali Manik	23rd August 2005	20th November 2008	Board Director
Abdulla Saleem	23rd August 2005	26th June 2008	Board Director
Yoosuf Naeem	14th June 2007	20th November 2008	Board Director
Ibrahim Shareef Mohamed	12th June 2008	20th November 2008	Board Director
Raheema Saleem	12th June 2008	Till Date	Board Director
Masood Ali	26th June 2008	Till Date	Board Director
Farooq Umar	20th November 2008	Till Date	Chairman
Shahid Ali	20th November 2008	Till Date	Board Director / MD
Sana Mansoor	20th November 2008	Till Date	Board Director / CFO
Ahmed Arif	20th November 2008	Till Date	Board Director
Mohamed Ahmed	20th November 2008	Till Date	Board Director

Table 2: Details of changes in the Board of Directors

Declaration of Interest

All Directors and senior management have declared and signed "conflict of interest and disclosure statements", which are available for inspection by the regulatory bodies upon request.

Directors' Remuneration

Board of Director's remuneration is set by the Board in consultation with Remuneration & Nomination Committee and in line with other listed and non listed companies.Total remuneration for the Board and the top management of STO was Rf. 3.7 million for 2008.

Directors' Shareholding

Mr. Masood Ali holds five (5) shares and Ms. Sana Mansoor holds thirty (30) shares in the Company.

Directors' Meetings

A total of nineteen (19) meetings were held in the financial year which ended 31st December 2008.

Name of Director	Attendance	%
Ahmed Mohamed	15/15	100
Ali Mohamed	10/11	91
Mohamed Hussain Maniku	9/9	100
Aminath Ali Manik	13/15	87
Abdulla Saleem	9/9	100
Yoosuf Naeem	6/15	40
Ibrahim Shareef Mohamed	6/6	100
Raheema Saleem	10/10	100
Masood Ali	10/10	100
Farooq Umar	4/4	100
Shahid Ali	3/4	75
Sana Mansoor	4/4	100
Ahmed Arif	4/4	100
Mohamed Ahmed	4/4	100

Table 2: Details of changes in the Board of Directors

Board Committee

In 2008 there were two (02) sub committees of the Board. These were the Audit Committee and the Remuneration & Nomination Committee. To ensure good governance principles are followed within the organization, the Corporate Governance and Compliance Committee was formed in 2009.

Audit Committee

The Audit Committee consists of five (05) members, all of whom are non-executive directors. The members are:

1. Ms. Raheema Saleem (Chairperson)
2. Mr. Farooq Umar
3. Mr. Mohamed Ahmed
4. Mr. Ahmed Arif
5. Mr. Masood Ali

The main responsibilities of Audit Committee are to assist the Board to ensure;

- the integrity of the financial statements of the Company,
- the independent auditor's qualifications and independence,
- the performance of the Company's internal audit function and independent auditors,
- the compliance by the Company with legal and regulatory requirements and,
- that there is in place an effective system of controls reasonably designed to safeguard assets and income of the company
- compliance with the Company's ethical standards, policies, plans and procedures

During the year, a Charter was enacted and the Internal Audit Department started reporting functionally to the Audit Committee.

Remuneration & Nomination Committee

The Board's Remuneration Committee and Nomination Committee (R&N) act as one body. It constitutes of five (05) members, all of whom are non-executive directors. The members are:

1. Mr. Farooq Umar (Chairperson)
2. Ms. Raheema Saleem
3. Mr. Mohamed Ahmed
4. Mr. Ahmed Arif
5. Mr. Masood Ali

The committee held two (02) meetings in the presence of all members in 2008.

The main responsibilities of Remuneration and Nomination Committee are to:

- Review and make recommendations to the Board in respect of remuneration policies for executive directors, non- executive directors and senior executives.
- Make assessments and recommendations about the performance and suitability of individual directors and the Board as a whole.
- The Committee is responsible for making recommendations to the Board regarding the following areas:
- Identify candidates for potential appointment to the Board.
- Executive remuneration policy.
- Specific remuneration of executive directors and senior management, including incentive plans.
- All equity based incentive plans.
- Process for reviewing the performance of directors as individuals and as a Board, and, if applicable, for their contribution on committees, plus senior executives.

Auditors

KPMG Fords, Rhodes and Thornton & Co. were the External Auditors of STO from 2005 to 2008. At the 2008 Annual General Meeting, PriceWaterhouseCoopers was appointed as the External Auditor. PriceWaterhouseCoopers was appointed on an agreed fee of USD 19,500.

Corporate Governance

The Board of STO and the Executive Committee are committed to achieve the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business, by ensuring greater transparency, business integrity, professionalism and ethical values.

A concerted effort was made to fully comply with the Corporate Governance Code (CGC). In line with the principles of CGC, the Directors participated in trainings on corporate governance, compliance, accounting, risk management and controls. Furthermore, in order to safeguard assets and to prevent mismanagement and detect fraud and other irregularities, the company's internal control systems were strengthened.

There were two changes to the board of directors in 2008. For this reason an appropriate performance evaluation of the Board of Directors was not carried out. The Board has planned to appoint an external facilitator in 2009 to review the existing evaluation procedures and implement a more efficient system of appraisal.

System of Internal Controls

Establishing and maintaining an effective internal control system is a function of the Board. The Board of Directors relies on the Audit Committee and the Internal Audit Department to fullfill this function. STO has taken a number of measures during 2008 to make internal audit function more independent and more effective. Such measures include changing the reporting structure whereby internal audit reports directly to the audit commitee of the board and increasing the capacity of the Internal Audit Department.

Human Resource Development

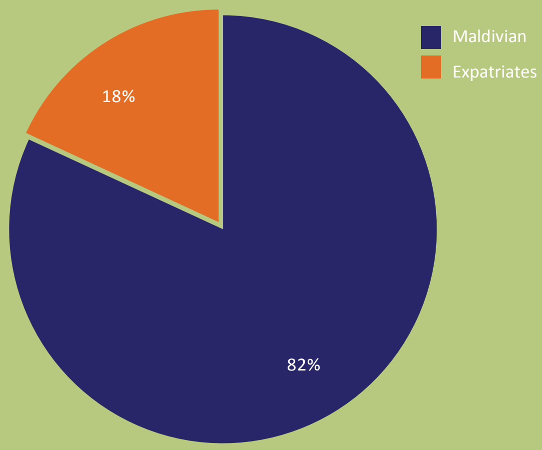
Our employees - the most valuable asset of the Company

Human Resources

At STO, we consider our **staffs** members to be the most **valuable asset** of the company

82%
Local staff
18%
Expatriates

At STO,we consider our staffs members to be the most valuable asset of the company. As at 31st December 2008, there were 882 locals and 195 expatriates working for STO. Of the total 1077 employees at STO, 82% represented local staff indicating the high priority given by the company to recruit and retain locals whenever possible to locals. As at 31st Dec 2007, there were 627 locals and 175 expatriate staff working for STO.



Graph 11: Local and Foreign staff numbers 2008

Recruitment and Selection

Attracting and retaining talent is the key to success of STO. As part of attracting young and dynamic graduates, and in order to make the public aware of our job opportunities STO held an “Open Day”. As a result, STO recruited 10 graduates in much needed areas of business such as management and marketing and accounting. This was 10 times more recruitment than 2007. Furthermore, priority given on recruitment and retention of local staff has resulted in continuous decrease in foreign staff numbers as is evident from Graph 12.

Graph 12: No of professionals, semi skilled and unskilled foreign staff 2007 - 2008

Training & Development

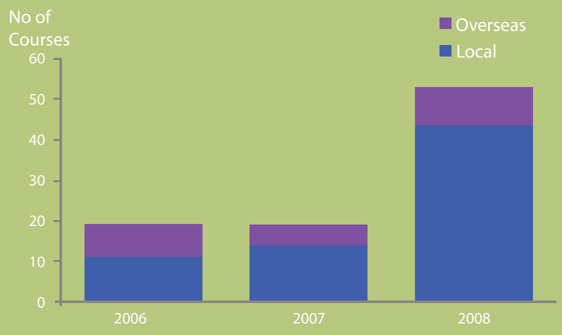
STO places emphasis on development and training of our staff members. Staff undertook a number of training programs held both locally and overseas (Graph 13) . Training was mainly focused on management related areas, professional fields, general skill level development

STO introduced a more equitable **staff incentive program** in 2008

together we can... we will

STO will continue to **improve** staff retention by providing **better opportunities** for **growth** and **career development** in the future

programs and vocational education. In addition, the executive management team and board members undertook refresher training programmes during the year.



Graph 13: Staff Training 2006 - 2008

Staff incentive and motivation

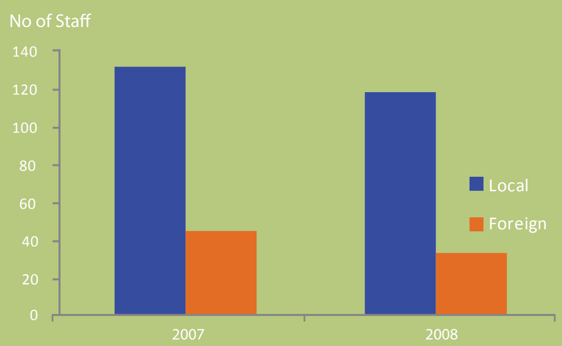
The previous employee bonus scheme was replaced by a more equitable staff incentive program in 2008. The new program was designed to motivate staff by linking day to day tasks with company's financial performance through a series of key performance indicators. The traditional sales target was changed to net profit targets in the new scheme allowing a better focus in cost reduction and efficiency. 14 departments out of 19 achieved the targets in 2008 and eligible staff will be rewarded under this scheme this year.

Staff recreation

STO recreational club (STORC) organized a number of interdepartmental games such as futsal, carom, billiard and volleyball during they year. In addition STO also participated in inter-office level tournaments and became champions in Mark Office Challenge 2008 – Inter Office Women's Carrom tournament and the runner-up team in Rainbow Futsal tournament. These social events help to improve inter-departmental communication and build team spirit amongst staff.

Staff turnover

Graph 14 shows the staff turnover pattern of STO for the past two years. Our concentrated efforts on staff selection, motivation and retention seem to be effective in reducing the turnover this year. STO will continue to improve staff retention by providing better opportunities for growth and career development in the future.



Graph 14: No of Local and Foreign staff 2007 - 2008

HRD


adidas

Corporate Social Responsibility

Ensuring prosperity, contributing to the development and remaining essential to the society

Corporate Social Responsibility

STO under its Corporate Social Responsibility (CSR) program continually supports the community to contribute towards improvement of the living standards of our people. Listed below are some of the highlights of our CSR program in the year 2008.

- Blood donation day in association with Maldives Doctor's Association
- Nursing Day celebrations in Hulhumale
- Vaccine Camp in collaboration with Nursing Association
- Environment Day
- Drivers Training Program

Some of the associations and NGO's we supported by giving donations during 2008 are:

- Maldives Thalassaemia Center,
- Kottafaru Boarding House,
- Society for Health Education,
- Maldivian Thalassaemia Society,
- Imaaduddin School,
- Ga. Kolamaafushi Anhenunge (Womens') Committee,
- S.Feydhoo Anhenunge (Womens') Committee,
- Thadhureesul Quraan,
- The National Football Team,
- Kulhuduffushi Ameer Ameen School,
- Diabetic and Cancer Society,
- Islaamee Eheetherikamuge Gulhun,
- Makunudhoo Madhurasaa,
- Care Society.

We see CSR as part of our continuing process of building long-term value and as a way of giving back to our community.

Annual Report

The Board of Directors approved the audited financial reports on 26th May 2009.

Future Focus

In line with STO's vision, we plan to undertake several key initiatives in the immediate future. , STO will initiate the process of increasing public ownership and sharing returns by offering more shares of the company to the public.

We are actively working to reduce costs and improve efficiency so that we can pass on the cost savings to customers in the form of reduced prices of goods and services. We will endeavor to implement a plan whereby we will be able to supply all essential goods including staple foods and pharmaceuticals at similar prices throughout the country.

We are initiating a project to implement an Enterprise Resource Planning (ERP) system, a company-wide computer software system used to manage and coordinate all the resources, information, and functions of a business from shared data stores. With the complex operations and geographically separated outlets, managing and obtaining an overall picture of our business becomes and increasingly difficult task. With the implementation of ERP system, we believe that these tasks will become more manageable in future.

These initiatives will enable us to enhance our business practices and take us further towards achieving our corporate vision.

Directors' Responsibility Statement

The Directors' confirm that in preparation of the Annual accounts for the year ended 31st December 2008;

- International Financial Reporting Standards have been followed,
- The accounting policies were consistently applied,
- Reasonable and prudent judgments of estimates were 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 the profit of the Company for the year 31st December 2008
- 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 the going concern basis

Acknowledgement

We are grateful for the support of our customers, suppliers, banks and auditors for their continued commitment and corporation shown throughout the years. We appreciate the contributions of the previous Board of Directors, especially Mr. Ahmed Mohamed who was also the Chief Executive Officer of the Company till 17th December 2008. Mr. Ahmed Mohamed contributed positively to the successful performance of the Company during 2008. Finally, we are indebted to the staff and the management of STO, for their insight, dedicated and consistent hard work that made 2008 another successful year for STO. Thank you.

PRICEWATERHOUSECOOPERS

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Male'
Republic of Maldives
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Independent auditor's report

To the Shareholders and Board of Directors of State Trading Organization Plc

1. We have audited the accompanying financial statements of State Trading Organization Plc (the Company) and its subsidiaries (the Group) which comprise the balance sheet as of 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act No. 10/96, of the Republic of Maldives. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers 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 policies 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 audit opinion.

Auditors Report

Opinion

5. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Companies Act No. 10/96, of the Republic of Maldives.

6. In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Companies Act no. 10/96, of the Republic of Maldives.

26th May 2009

MALE'

CHARTERED ACCOUNTANTS

Financial statements - 31 December 2008
Consolidated Balance Sheet

(All amounts in Maldivian Rufiyaa unless otherwise stated)

		Group		Company	
		As at 31 December			
	Note	2008	2007	2008	2007
ASSETS					
Non-current assets					
Property, plant and equipment	6	357,740,372	369,857,847	219,950,883	233,310,860
Intangible asset	7	3,718,865	4,152,602	-	-
Investments in subsidiaries	8	-	-	83,666,750	83,666,750
Investments in associates	9	5,570,169	-	10,567,267	10,567,267
Investment in joint venture	10	-	-	4,700,000	4,700,000
Available for sale investment	11	55,995,295	81,706,192	55,995,295	81,706,192
Trade and other receivables	13	1,994,657	1,994,657	1,994,657	1,994,657
		425,019,358	462,363,590	376,874,852	415,945,726
Current assets					
Inventories	12	365,618,199	528,852,573	325,704,358	492,034,478
Trade and other receivables	13	1,008,671,072	728,040,521	919,129,506	631,487,570
Reinsurance contracts	15	120,173,728	53,458,746	-	-
Investment held to maturity	16	6,966,757	-	-	-
Cash and cash equivalents	17	225,303,283	273,769,538	158,630,555	215,050,450
		1,726,733,039	1,584,121,378	1,403,464,419	1,338,572,498
Total assets		2,151,752,397	2,046,484,968	1,780,339,271	1,754,518,224
EQUITY					
Capital and reserves attributable to equityholders of the Company					
Share capital	18	56,345,500	56,345,500	56,345,500	56,345,500
Share premium		27,814,500	27,814,500	27,814,500	27,814,500
Currency translation reserve	20	305,185	457,125	-	-
Claim equalization reserve	19	2,729,182	5,629,447	-	-
General reserves		289,334,485	258,202,581	289,334,485	258,202,581
Fair value reserves		30,541,388	52,255,158	30,541,388	52,255,158
Retained earnings		548,687,785	479,103,852	438,014,749	392,370,835
		955,758,025	879,808,163	842,050,622	786,988,574
Minority interest		34,818,211	29,781,042	-	-
Total equity		990,576,236	909,589,205	842,050,622	786,988,574
LIABILITIES					
Non- current liabilities					
Borrowings	23	28,701,645	40,232,010	25,921,943	35,283,336
Current liabilities					
Trade and other payables	22	395,854,595	570,448,715	316,015,733	502,293,399
Current tax liability		-	1,066	-	-
Insurance contracts	27	106,369,037	71,241,649	-	-
Borrowings	23	630,250,884	454,972,323	596,350,973	429,952,915
Total liabilities		1,161,176,161	1,136,895,763	938,288,649	967,529,650
Total equity and liabilities		2,151,752,397	2,046,484,968	1,780,339,271	1,754,518,224

These financial statements were approved by the Board of Directors on

Sana Mansoor
Chief Financial Officer

Shahid Ali
Managing Director

Farooq Umar
Chairman

Masood Ali
Director

The notes on pages 59 to 98 are an integral part of these consolidated financial statements.

Financial statements - 31 December 2008
Consolidated Income Statement

(All amounts in Maldivian Rufiyaa unless otherwise stated)

		Group		Company	
		Year ended 31 December			
	Note	2008	2007	2008	2007
Sales	28	6,417,712,665	5,559,676,645	6,894,450,162	5,157,152,790
Cost of sales	32	(5,840,308,373)	(5,125,106,488)	(6,480,638,290)	(4,849,423,112)
Gross profit		577,404,292	434,570,157	413,811,872	307,729,678
Other operating income	30	30,621,930	80,081,898	25,507,303	72,594,509
		608,026,222	514,652,055	439,319,175	380,324,187
Profit / (loss) on disposal of subsidiary	31	-	7,256,201	-	(1,443,472)
Selling and marketing costs	32	(170,295,864)	(139,236,680)	(138,332,790)	(122,902,054)
Administrative expenses	32	(199,168,723)	(190,919,931)	(114,815,479)	(120,015,980)
Other operating cost	32	(820,746)	(1,434,720)	(2,766,712)	(1,434,720)
Operating profit		237,740,889	190,316,925	183,404,194	134,527,961
Financial income	34	13,489,679	12,129,287	34,047,679	34,104,565
Financial cost	34	(64,757,204)	(32,239,293)	(61,792,355)	(27,099,670)
Finance (cost) / income -net	34	(51,267,525)	(20,110,006)	(27,744,676)	7,004,895
Share of profit of associates	9	917,877	(92,307)	-	-
Profit before tax		187,391,241	170,114,612	155,659,518	141,532,856
Income tax provision written back	35	1,100	12,310	-	-
Profit for the year		187,392,341	170,126,922	155,659,518	141,532,856
Attributable to:					
Equityholders of the Company		175,750,789	160,391,881	155,659,518	141,532,856
Minority interest	21	11,641,552	9,735,041	-	-
		187,392,341	170,126,922	155,659,518	141,532,856
Earnings per share for profit attributable to the equityholders of the Company during the year (expressed in Rf per share)					
- basic	36	156	142	138	126

The notes on pages 59 to 98 are an integral part of these consolidated financial statements.

Finance

Financial statements - 31 December 2008
Statement of change in shareholders' equity- Company

(All amounts in Maldivian Rufiyaa)

	Notes	Share capital	Share premium	General reserve	Faire value reserve	Retained earnings	Total
Balance at 1 January 2007		56,345,500	27,814,500	229,896,010	7,348,298	371,551,170	692,955,478
Profit for the year		-	-	-	-	141,532,856	141,532,856
Net fair value gain, on available-for-sale investments	11	-	-	-	44,906,860	-	44,906,860
Transfer to general reserve		-	-	28,306,571	-	(28,306,571)	-
Dividends	37	-	-	-	-	(92,406,620)	(92,406,620)
Balance at 31 December 2007		56,345,500	27,814,500	258,202,581	52,255,158	392,370,835	786,988,574
Balance at 1 January 2008		56,345,500	27,814,500	258,202,581	52,255,158	392,370,835	786,988,574
Profit for the year		-	-	-	-	155,659,518	155,659,518
Net fair value loss, on available-for-sale investments	11	-	-	-	(21,713,770)	-	(21,713,770)
Transfer to general reserve		-	-	31,131,904	-	(31,131,904)	-
Dividends	37	-	-	-	-	(78,883,700)	(78,883,700)
Balance at 31 December 2008		56,345,500	27,814,500	289,334,485	30,541,388	438,014,749	842,050,622

The notes on pages 59 to 98 are an integral part of these consolidated financial statements.

Financial statements - 31 December 2008
Statement of change in shareholders' equity- Group

(All amounts in Maldivian Rufiyaa unless otherwise stated)

		Attributable to equityholders									
	Notes	Share capital	Share premium	Claim equalization reserve	General reserve	Faire value reserve	Currency translation reserve	Retained earnings	Total	Minority interest	Group total
Balance at 1 January 2007		56,345,500	27,814,500	4,279,524	229,896,010	7,348,298	(520,227)	441,611,562	766,775,167	26,344,501	793,119,668
Profit for the year		-	-	-	-	-	-	160,391,881	160,391,881	9,735,041	170,126,922
Translation profit during the year		-	-	-	-	-	140,875	-	140,875	-	140,875
Net fair value gain, on available-for-sale investments	11	-	-	-	-	44,906,860	-	-	44,906,860	-	44,906,860
Transfer to general reserve		-	-	-	28,306,571	-	-	(28,306,571)	-	-	-
Transfer to claim equalization reserve	19	-	-	1,349,923	-	-	-	(1,349,923)	-	-	-
Transfer due to disposal of the subsidiary		-	-	-	-	-	836,477	(836,477)	-	-	-
Dividends	37	-	-	-	-	-	-	(92,406,620)	(92,406,620)	(6,298,500)	(98,705,120)
Balance at 31 December 2007		56,345,500	27,814,500	5,629,447	258,202,581	52,255,158	457,125	479,103,852	879,808,163	29,781,042	909,589,205
Balance at 1 January 2008		56,345,500	27,814,500	5,629,447	258,202,581	52,255,158	457,125	479,103,852	879,808,163	29,781,042	909,589,205
Profit for the year		-	-	-	-	-	-	175,750,789	175,750,789	11,641,552	187,392,341
Translation loss during the year		-	-	-	-	-	(151,940)	-	(151,940)	-	(151,940)
Net fair value loss, on available-for-sale investments	11	-	-	-	-	(21,713,770)	-	-	(21,713,770)	-	(21,713,770)
Excess amount credited to minority interest rectified	21	-	-	-	-	-	-	948,483	948,483	(948,483)	-
Transfer to general reserve		-	-	-	31,131,904	-	-	(31,131,904)	-	-	-
Transfer of claim and loss expenses	19	-	-	(3,752,298)	-	-	-	3,752,298	-	-	-
Transfer to claim equalization reserve		-	-	852,033	-	-	-	(852,033)	-	-	-
Dividends	37	-	-	-	-	-	-	(78,883,700)	(78,883,700)	(5,655,900)	(84,539,600)
Balance at 31 December 2008		56,345,500	27,814,500	2,729,182	289,334,485	30,541,388	305,185	548,687,785	955,758,025	34,818,211	990,576,236

The notes on pages 59 to 98 are an integral part of these consolidated financial statements.

Financial statements - 31 December 2008
Consolidated cash flow statement

(All amounts in Maldivian Rufiyaa unless otherwise stated)

		Group		Company	
		Year ended 31 December			
	Note	2008	2007	2008	2007
Cash flows from operating activities					
Cash (used in) / generated from operations	38	(95,286,121)	190,559,120	(154,335,583)	121,626,112
Interest paid		(62,373,204)	(31,601,346)	(59,430,889)	(26,637,645)
Excess tax provision reversed		(1,066)	(32,513)	-	-
Net cash (used in) / generated from operating activities		(157,660,391)	158,925,261	(213,766,472)	94,988,467
Cash flows from investing activities					
Purchases of property, plant and equipment	6	(47,720,831)	(90,056,370)	(27,084,206)	(59,544,636)
Purchases of intangible assets	7	(572,339)	(3,006,900)	-	-
Sales proceed from fixed assets	6	1,029,762	11,054,451	906,891	2,066,590
Proceeds from disposal of investment in subsidiary		-	6,425,000	-	6,425,000
Loan realisation		-	1,163,548	2,156,172	14,427,897
Loan granted during the year		-	-	(1,576,563)	(13,514,416)
Purchase of non-current investment	11	(534,300)	(7,177,782)	(534,300)	(7,177,782)
Investment in treasury bills	16	(6,966,757)	-	-	-
Interest received		11,186,446	11,216,387	10,621,259	9,248,711
Dividends received	34	2,285,620	912,900	23,426,420	24,855,854
Net cash (used) / generated from in investing activities		(41,292,399)	(69,468,766)	7,915,673	(23,212,782)
Cash flows from financing activities					
Proceeds from borrowings		1,735,476,840	810,093,474	1,727,021,103	805,463,008
Repayment of borrowings		(1,744,039,624)	(709,070,992)	(1,741,440,529)	(705,585,996)
Dividends paid to Company's shareholders		(13,261,661)	(97,429,843)	(7,605,761)	(91,131,343)
Net cash (used in) / generated from financing activities		(21,824,445)	3,592,639	(22,025,187)	8,745,669
Net (decrease) / increase in Cash, cash equivalents and bank overdrafts		(220,777,235)	93,049,134	(227,875,986)	80,521,354
Cash, cash equivalents and bank overdrafts at beginning of year	17	108,221,884	15,172,750	70,651,673	(9,869,681)
Cash, cash equivalents and bank overdrafts at end of the year	17	(112,555,351)	108,221,884	(157,224,313)	70,651,673

The notes on pages 59 to 98 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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 2008 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in the associates and jointly controlled entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of State Trading Organization Plc have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the combination are measured initially at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-Company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

Minority interest is that portion of the profit or loss and net asset of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.2 Consolidation(continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognised immediately if it provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The primary segments of the Group are as follows:

i) Trading
ii) Gas
iii) Insurance service
iv) Fuel, lubricant & crude oil
v) Structural product
vi) Other

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Maldivian Rufiyaa which is the Group's functional and presentation currency.

2.4 Foreign currency translation(continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied.

Transaction differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are, included in the fair value reserve in equity.

(c) Group Companies

The results and financial position of all the group entities (none of which has the currency of hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

(ii) income and expenses for each income statement are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions): and

(iii) Exchange differences arising from the translation of the net investment in foreign operations, are taken to currency translation reserve. They are released into the income statement upon disposal.

On consolidation, exchange differences arising from the translation of the net investments in foreign operations and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign currency are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

All property, plant and equipment, which are initially recorded at historical cost, is stated at cost less depreciation. Cost includes the transfer value of the assets, or their purchase cost, or the cost of construction, together with any incidental expenses of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2.5 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost or revalue amounts to their residual values over their estimated useful lives, commencing from the month in which the assets were purchased upto the date of disposal, as follows:

Leasehold buildings	Over the lease period
Freehold buildings	5-20 years
Plant and machinery	3-20 years
Vessels and fleet	5-15 years
Motor vehicles	4-5 years
Air conditioners	3-4 years
Office equipment	3-5 years
Furniture and fixtures	3-5 years
Other assets	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Buildings constructed on leasehold land and improvements made to leasehold premises are amortised over the unexpired period of the lease.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisition of associates is included in 'Investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.7 Intangible assets (continued)

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development cost recognised as assets are amortised over their estimated useful life of five years.

(c) Impairment of intangible assets

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

A financial asset is any asset that is an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the entity.

The Group classifies its financial assets in the following categories: held to maturity instruments, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Held to maturity investments

These investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than those that the entity upon initial recognition designates as at fair value through profit or loss, those that the entity designates as available for sale and those that meet the definition of loans and receivables.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets as trade and other receivables except for maturities greater than 12 months after the balance sheet date.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the balance sheet date.

(d) Recognition of financial asset

When a financial asset is recognised initially, an entity shall measure it at its fair value plus, transactions cost that are directly attributable to the acquisition or issue of the financial asset. Loans and receivables shall be measured at amortised cost using the effective interest method.

2.8 Financial assets (continued)

(d) Recognition of financial asset (continued)

Held to maturity investments shall be measured at amortised cost using the effective interest method.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, shall be measured at cost.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle except in Maldives Gas Private Limited, which is on first-in-first-out 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.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'selling and marketing costs'.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

"Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.Government grants relating to purchase of properties, plant and equipment are included in current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the ex

2.12 Employee benefits

Amounts contributed by the Group to the employee's provident fund under a voluntary or a compulsory scheme are treated as a staff cost.

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Insurance contracts and investment contracts-classification

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

(a) Recognition and measurement

Insurance contracts and investment contracts are classified, depending on the duration of risk and whether or not the terms and conditions are fixed.

(i) Short term insurance contracts

These contracts are property and short-duration non life insurance contracts.

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earning caused by the inability to use the insured properties in their business activities (business interruption cover).

For these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before reduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

(ii) Long-term insurance contracts with fixed and guaranteed terms

These contracts insure events associated with human life (for example, death) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contracts.

(b) Re-insurance commission

As it accrues unless collectibility is in doubt.

2.14 Insurance contracts and investment contracts-classification (continued)

(c) Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;

- For long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities.

(d) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets banking such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and subsequently by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

(e) Reinsurance contracts held

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 in this note 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. These assets consists of short-term balances due from reinsurers, as well as long term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. 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 recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2.7.

(f) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 2.7.

As set out in (a) above, long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margin for adverse deviation) are used for the subsequent measurement of these liabilities.

Any DAC written off as a result of this test cannot be subsequently reinstated.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligations.

2.17 Taxation

(a) Current taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the country where the Group's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situation in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it is arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/ loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectibles of the related receivables are reasonably assured.

2.18 Revenue recognition (continued)

(b) Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known to management.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Rental income

Rental income is recognised on accrual basis.

2.19 Leases

(a) The Company is the lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) The Company is the lessor

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2.20 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

2.21 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Board of Directors on specific areas, such as foreign exchange risk, credit risk and the liquidity risk.

(a) Market risk - Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

3.1 Financial risk factors (continued)

(a) Market risk - Foreign exchange risk (continued)

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than Maldivian Rufiyaa and mainly in United States Dollars. As at the balance sheet date, the Group has approximately US$ 66,578,222 (2007 : US$ 62,984,261) as foreign currency liabilities, whereas foreign currency assets including un-used bank facilities amounted to US$ 4,129,544 (2007: US$ 9,659,006) as at the same date. This has resulted in an amount of US$ 62,448,678 (2007: US$ 53,325,255) exposure of foreign currency liabilities as at the balance sheet date. Besides the Group has un-drawn borrowing facility of US$ 8,000,000 as at the balance sheet date.

The management has taken following steps to mitigate the exposure of currency risk on payments in foreign currencies. By doing so, the Group has managed to settle all the foreign currency liabilities without default in the past.

Ministry of Finance and Treasury (MOFT) approves United States Dollar sales through Maldives Monetary Authority (MMA) for imports made by the Group based on the quarterly import statement submitted to MOFT by the Group.

Payment by Maldivian Rufiyaa for some of the import clients by mutual arrangement with the banks.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain liquidity by keeping committed credit facilities.

(d) Interest rate risk

The Group's exposure to interest rate risk relates to its bank and other borrowings which are on fixed and floating rate terms, and this risk is reviewed on an ongoing basis. At the balance sheet the Group did not have in place any instruments to hedge its exposure to interest rate risk.

3.2 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from period to period from the estimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The reinsurance arrangements include excess, and catastrophe coverage. In addition to the above, individual policies of a larger sum assured have additional reinsurance protection.

3.2 Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for incurred but not reported claims (IBNR), a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

3.3 Long-term insurance contracts

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS or SARS) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures, with premiums varied to reflect the health condition and family medical history of the applicants. The Company reinsures the excess of the insured benefit for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement.

Insurance risk for contracts disclosed in this Note is also affected by the contract holders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behaviour. On the assumption that contract holders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that contract holders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those contract holders remaining in good health. This results in an increasing trend of expected mortality, as the portfolio of insurance contracts reduces due to voluntary terminations.

The Company has factored the impact of contract holders' behaviour into the assumptions used to measure these liabilities.

(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

The Company uses appropriate base table of standard mortality.

(c) Process used to decide on assumptions

For long-term insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At inception of the contract, the Company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract.

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ('unlocked') to reflect the latest current estimates; no margin is added to the assumptions in this event. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

3.3 Long-term insurance contracts (continued)

(c) Process used to decide on assumptions (continued)

The assumptions used for the insurance contracts disclosed in this Note are as follows:

- **Mortality**

An appropriate base table of standard mortality is chosen depending on the type of contract.

- **Morbidity**

The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Company's own experience.

- **Persistency**

An investigation into the Company's experience over the most recent year is performed, and statistical methods are used to determine an appropriate persistency rate. Persistency rates vary by product type and policy duration. An allowance is then made for any trends in the data to arrive at a best estimate of future persistency rates that takes into account the effective contract holders' behaviour.

- **Investment returns**

Investment returns affect the assumed level of future benefits due to the contract holders and the selection of the appropriate discount rate. The Company's primary assumptions on investment returns relate to the following components:

Risk-free rates: the risk-free rates are the gross yields to redemption of benchmark government securities. For the current valuation, the rate is 4%.

- **Renewal expense level**

The current level of expenses is taken as an appropriate expense base.

(d) Sensitivity analysis

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment.

3.4 Property insurance contracts

Frequency and severity of claims

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, accident or tsunami.

Property insurance contracts are subdivided into four risk groups: fire, accident, marine cargo and marine hull. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings. The Company does not underwrite property insurance contracts outside Maldives.

3.5 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payable to shareholders, issue new shares or sell assets to reduce debt.

3.5 Capital risk management (continued)

The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Total borrowings	1,161,176,161	1,136,895,763	938,288,649	967,529,650
Less: Cash and cash equivalents (Note17)	(225,303,283)	(273,769,538)	(158,630,555)	(215,050,450)
Net debt	935,872,878	863,126,225	779,658,094	752,479,200
Total equity	990,576,236	909,589,205	842,050,622	786,988,574
Total capital	1,926,449,114	1,772,715,430	1,621,708,716	1,539,467,774
Gearing	49%	49%	48%	49%

There were no significant change in the gearing ratio during 2008 compared to 2007.

3.6 Fair value estimation

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

5 Segment information

The segment results for the year ended 31 December 2007 are as follows:

	Trading	Tea	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Group
Revenue	1,070,059,880	578,325	53,404,815	41,764,550	4,357,729,842	36,139,233	5,559,676,645
Segment Results							
Operating profit before financing cost	107,171,980	(1,402,289)	(12,826,673)	6,078,866	89,478,967	1,816,074	190,316,925
Net financing costs	(3,696,705)	(283,283)	(1,084,133)	(449,905)	(13,978,087)	(617,893)	(20,110,006)
Share of loss from associate	-	-	-	-	-	-	(92,307)
Profit /(loss) before tax	103,382,968	(1,685,572)	(13,910,806)	5,628,961	75,500,880	1,198,181	170,114,612
Tax	12,310	-	-	-	-	-	12,310
Minority interest	-	-	-	-	-	-	(9,735,041)
Profit / (loss) for the year							160,391,881

The Company had disposed off the entire investment in STO Lanka (Private Limited) to a third party on 31 July 2007.

The segment results for the year ended 31 December 2008 are as follows:

	Trading	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Unallocated	Group
Revenue	1,379,113,257	94,722,255	57,244,147	4,864,975,957	21,657,049	-	6,417,712,665
Segment Results							
Operating profit before financing cost	181,763,956	(2,415,926)	7,710,060	35,522,780	12,378,957	2,781,062	237,740,889
Net financing costs	(48,712,802)	(1,909,756)	(78)	(292,606)	(352,283)	-	(51,267,525)
Share of profit from associate	-	-	-	-	-	-	917,877
Profit /(loss) before tax	133,051,154	(4,325,682)	7,709,982	35,230,174	12,026,674	-	187,391,241
Tax	1,100	-	-	-	-	-	1,100
Minority interest	-	-	-	-	-	-	(11,641,552)
Profit / (loss) for the year							175,750,789

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Trading	Tea	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Group
Assets	1,418,154,684	-	94,038,104	166,219,384	309,883,142	58,189,654	2,046,484,968
Liabilities	901,549,024	-	86,252,004	114,868,265	17,985,733	16,240,737	1,136,895,763
Capital expenditure	59,613,631	-	6,097,725	4,506,667	21,968,922	876,325	93,063,270
Depreciation	41,946,068	121,886	8,404,498	805,372	5,602,967	654,205	57,534,996

The Company had disposed off the entire investment in STO Lanka (Private Limited) to a third party on 31 July 2007.

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Trading	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Group
Assets	1,558,801,411	92,808,294	208,384,894	244,715,695	47,042,103	2,151,752,397
Liabilities	810,771,237	31,808,923	153,985,579	146,668,452	17,941,970	1,161,176,161
Capital expenditure	27,084,206	9,024,416	1,721,681	8,903,330	1,559,537	48,293,170
Depreciation	39,936,450	8,562,680	1,178,946	8,875,620	704,606	59,258,302

Financial statements - 31 December 2008
Notes to the consolidated financial statement (continued)

(All amounts in Maldivian Rufiyaa unless otherwise stated)

6 Property, plant and equipment - Company

	Building	Plant and machinery	Vessels and fleet	Motor vehicles	Air conditioners	Office equipments	Furniture and fittings	Other assets	Capital work- in - progress	Total
At 1 January 2007										
Cost	324,093,713	31,986,234	62,483,537	27,310,093	2,483,651	14,342,830	2,782,444	3,717,588	2,732,070	471,932,160
Accumulated depreciation	(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)
Net book amount	157,478,982	10,272,876	33,403,212	8,347,826	683,837	2,440,509	283,297	1,516,295	2,732,070	217,158,904
Year ended 31 December 2007										
Opening net book amount	157,478,982	10,272,876	33,403,212	8,347,826	683,837	2,440,509	283,297	1,516,295	2,732,070	217,158,904
Additions	161,904	2,283,709	642,503	4,193,241	122,626	838,806	52,398	1,045,106	50,204,343	59,544,636
Transfer	6,520,371	-	-	-	-	-	-	-	(6,520,371)	-
Disposals	(1,531,278)	-	-	-	(1,593)	(25,266)	(970)	(6,662)	-	(1,565,769)
Written off during the year	-	-	-	-	(4,109)	(19,580)	-	(14,079)	-	(37,768)
Depreciation charge (Note 32)	(18,879,241)	(8,075,912)	(8,908,714)	(3,634,940)	(294,785)	(1,325,030)	(156,077)	(514,444)	-	(41,789,143)
Closing net book amount	143,750,738	4,480,673	25,137,001	8,906,127	505,976	1,909,439	178,648	2,026,216	46,416,042	233,310,860
At 31 December 2007										
Cost	327,667,644	33,769,952	62,751,060	30,420,285	2,360,329	11,879,829	2,368,174	3,922,073	46,416,042	521,555,388
Accumulated depreciation	(183,916,906)	(29,289,279)	(37,614,059)	(21,514,158)	(1,854,353)	(9,970,390)	(2,189,526)	(1,895,857)	-	(288,244,528)
Net book amount	143,750,738	4,480,673	25,137,001	8,906,127	505,976	1,909,439	178,648	2,026,216	46,416,042	233,310,860
Year ended 31 December 2008										
Opening net book amount	143,750,738	4,480,673	25,137,001	8,906,127	505,976	1,909,439	178,648	2,026,216	46,416,042	233,310,860
Additions	3,591,853	1,041,160	-	72,000	268,567	1,329,793	165,447	1,290,774	19,324,612	27,084,206
Transfer	12,552,592	39,413,798	-	-	-	-	-	-	(51,966,390)	-
Disposals	-	-	-	(512,100)	(1,170)	(37,372)	(5,245)	(33,136)	-	(589,023)
Depreciation charge (Note 32)	(20,483,113)	(3,588,212)	(10,181,262)	(3,041,920)	(289,061)	(1,354,887)	(144,145)	(772,560)	-	(39,855,160)
Closing net book amount	139,412,070	41,347,419	14,955,739	5,424,107	484,312	1,846,973	194,705	2,511,294	13,774,264	219,950,883
At 31 December 2008										
Cost	338,135,911	73,492,221	62,624,387	29,415,088	2,593,039	12,949,290	2,511,268	4,998,874	13,774,264	540,494,342
Accumulated depreciation	(198,723,841)	(32,144,802)	(47,668,648)	(23,990,981)	(2,108,727)	(11,102,317)	(2,316,563)	(2,487,580)	-	(320,543,459)
Net book amount	139,412,070	41,347,419	14,955,739	5,424,107	484,312	1,846,973	194,705	2,511,294	13,774,264	219,950,883

Notes to the consolidated financial statement (continued)

(All amounts in Maldivian Rufiyaa unless otherwise stated)

6 Property, plant and equipment - Group

	Land	Building	Leasehold buildings	Plant and machinery	Vessels and fleet	Motor vehicles	Air conditioners	Office equipments	Furniture and fittings	Other assets	Capital work-in- progress	Total
At 1 January 2007												
Cost	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	10,905,288	662,884,568
Accumulated depreciation	-	(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)
Net book amount	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	10,905,288	347,555,355
Year ended 31 December 2007												
Opening net book amount	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	10,905,288	347,555,355
Additions	-	1,028,507	768,117	2,949,193	11,441,009	4,370,010	202,260	2,185,985	455,302	4,033,627	62,622,360	90,056,370
Transfer	-	7,155,512	-	437,331	-	547,041	-	-	-	-	(8,139,884)	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	-	-	(1,523,212)	(1,523,212)
Exchange difference	-	(89,995)	-	(5,381)	-	(2,467)	-	2,136	(775)	-	-	(96,482)
Disposals	-	(1,531,277)	-	-	-	(6,684)	(5,843)	(25,266)	(6,420)	(6,662)	-	(1,582,152)
Disposal of subsidiary	(5,094,752)	(1,256,731)	-	(337,563)	-	(136,997)	-	(78,797)	(74,428)	-	-	(6,979,268)
Written off during the year	-	-	-	-	-	-	(4,109)	(19,580)	-	(14,079)	-	(37,768)
Depreciation charge (Note 32)	-	(19,332,555)	(1,620,729)	(11,427,090)	(12,261,067)	(4,502,937)	(392,317)	(2,316,439)	(351,717)	(5,330,145)	-	(57,534,996)
Closing net book amount	-	148,738,960	12,473,834	47,037,790	59,503,634	12,467,219	476,291	4,394,872	1,595,746	19,304,949	63,864,552	369,857,847
At 31 December 2007												
Cost	-	331,903,723	21,034,080	97,734,481	108,509,962	37,793,228	3,107,177	18,995,209	6,868,595	43,627,324	63,864,552	733,438,331
Accumulated depreciation	-	(183,164,763)	(8,560,246)	(50,696,691)	(49,006,328)	(25,326,009)	(2,630,886)	(14,600,337)	(5,272,849)	(24,322,375)	-	(363,580,484)
Net book amount	-	148,738,960	12,473,834	47,037,790	59,503,634	12,467,219	476,291	4,394,872	1,595,746	19,304,949	63,864,552	369,857,847
Year ended 31 December 2008												
Opening net book amount	-	148,738,960	12,473,834	47,037,790	59,503,634	12,467,219	476,291	4,394,872	1,595,746	19,304,949	63,864,552	369,857,847
Additions	-	3,682,007	-	1,041,160	194,457	1,875,304	341,767	2,242,071	480,878	9,540,089	28,323,098	47,720,831
Transfer	-	12,552,592	752,406	39,493,604	7,006,001	1,708,268	51,604	(287,981)	(13,900)	320,949	(61,577,605)	5,938
Exchange difference	-	1,925	-	1,156	-	-	-	-	-	-	-	3,081
Disposals	-	-	-	-	-	(512,100)	(1,170)	(37,372)	(5,245)	(33,136)	-	(589,023)
Depreciation charge (Note 32)	-	(20,924,176)	(1,703,664)	(6,521,024)	(16,648,931)	(4,159,259)	(569,092)	(2,567,603)	(346,046)	(5,818,507)	-	(59,258,302)
Closing net book amount	-	144,051,308	11,522,576	81,052,686	50,055,161	11,379,432	299,400	3,743,987	1,711,433	23,314,344	30,610,045	357,740,372
At 31 December 2008												
Cost	-	345,294,126	21,786,486	132,760,004	115,637,305	40,031,020	3,905,583	20,451,132	5,810,317	47,438,084	30,610,045	763,724,102
Accumulated depreciation	-	(201,242,818)	(10,263,910)	(51,707,318)	(65,582,144)	(28,651,588)	(3,606,183)	(16,707,145)	(4,098,884)	(24,123,740)	-	(405,983,730)
Net book amount	-	144,051,308	11,522,576	81,052,686	50,055,161	11,379,432	299,400	3,743,987	1,711,433	23,314,344	30,610,045	357,740,372

6 Property, plant and equipment (continued)

Group

a) 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 2.5

b) The value of fully depreciated property, plant and equipment at the balance sheet date amounted to Rf 58,497,704 (December 2007: Rf 93,290,229).

c) Depreciation expense of Rf 59,258,302 (December 2007: Rf 57,534,996) has been charged to administrative expenses.

d) 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 31st December 2008 is MRf 11,806,978 (2007:MRf 15,020,043).

e) Borrowings from Seylan Bank and Bank of Maldives are secured on STO trade center building and a vessel , Bonthi-2 respectively.

Company

a) 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.

b) The value of fully depreciated property, plant and equipment at the balance sheet date amounted to Rf 44,730,662 (December 2007: Rf 88,759,592).

c) Depreciation expense of Rf 39,855,160 (December 2007: Rf 41,789,143) has been charged to administrative expenses.

d) The net carrying value of lease assets as at 31st December 2008 is MRf Nil (2007: MRf 486,434).

e) Borrowings from Seylan Bank and Bank of Maldives are secured on STO trade center building and a vessel , Bonthi-2 respectively.

7 Intangible assets

	Software Implementation	Total
1st January 2007		
Cost	-	-
Accumulated charge	-	-
		-
Net book amount	-	-
Year ended 31 December 2007		
Opening net book amount	-	-
Transferred from capital work in progress	1,523,212	1,523,212
Addition	3,006,900	3,006,900
Amortization charges (Note 32)	(377,510)	(377,510)
		-
Closing net book amount	4,152,602	4,152,602
At 31 December 2007		
Cost	4,530,112	4,530,112
Accumulated amortization	(377,510)	(377,510)
		-
Net book amount	4,152,602	4,152,602
Year ended 31 December 2008		
Opening net book amount	4,152,602	4,152,602
Addition	572,339	572,339
Amortization charge (Note 32)	(1,006,076)	(1,006,076)
		-
Closing net book amount	3,718,865	3,718,865
At 31 December 2008		
Cost	5,102,451	5,102,451
Accumulated amortization	(1,383,586)	(1,383,586)
		-
Net book amount	3,718,865	3,718,865

a) During 2007, the Group has capitalised implementation of premeia software.

b) Amortisation charge of Rf 1,006,076 (2007 :Rf 377,510) have been charged in expenses for administration.

8 Investments in subsidiaries

The principal subsidiary undertakings, which are incorporated in Republic of Maldives and unlisted, are as follows:

		Company	
Name of the company	**% of interest hold**	**2008**	**2007**
Maldive Gas Private Limited	90%	61,200,000	61,200,000
Allied Insurance Company of the Maldives Private Limited	99.99%	807,000	807,000
STO Maldives (Singapore) Pte Limited	99.99%	1,459,750	1,459,750
Fuel Supplies Maldives Pte Limited	66.67%	10,200,000	10,200,000
Maldives National Oil Company Ltd	99.99%	10,000,000	10,000,000
		83,666,750	83,666,750

9 Investments in associate

	Group		Company	
	2008	2007	2008	2007
Beginning of the year	4,652,292	4,744,599	10,567,267	10,567,267
Share of profit	917,877	(92,307)	-	-
End of the year	5,570,169	4,652,292	10,567,267	10,567,267

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 summarised financial information of the following associate, which is incorporated in Republic of Maldives and unlisted, is as follows:

	Assets	Liabilities
At 31 December 2007		
Lafarge Maldives Cement Private Limited	29,986,083	11,376,913
At 31 December 2008		
Lafarge Maldives Cement Private Limited	60,961,620	31,699,567

	Revenues	Profit / (loss)
At 31 December 2007		
Lafarge Maldives Cement Private Limited	76,676,595	(373,006)
At 31 December 2008		
Lafarge Maldives Cement Private Limited	125,226,669	3,671,508

10 Investment in joint venture

	2008	2007
Maldives Structural Products Pvt Ltd	4,700,000	4,700,000

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.

The amounts given represent the Company's 50% of share of assets and liabilities and results of the joint venture. They are included in the balance sheet and income statement.

	Group's interest in joint venture company	
	2008	2007
Assets		
Non- current assets	3,080,145	2,225,216
Current assets	45,534,413	26,869,612
	48,614,558	29,094,827
Liabilities		
Current liabilities	(19,475,026)	(8,120,369)
Net assets	29,139,532	20,974,459
Income	52,739,652	42,724,454
Expenses	(40,712,978)	(34,947,831)
Profit for the year	12,026,674	7,776,623

There are contingent liabilities relating to the Group's interest in the joint venture as follows:

The joint venture had a contingent liability in respect of letter of credit aggregating to Rf 3,124,391 (2007: Rf 5,311,321).

11 Available-for-sale investments

	Group		Company	
	2008	**2007**	**2008**	**2007**
At the beginning of the year	81,706,192	53,288,976	81,706,192	53,288,976
Revaluation (loss) / surplus transferred to equity	(21,713,770)	44,906,860	(21,713,770)	44,906,860
Investment made during the year	534,300	7,177,782	534,300	7,177,782
Provision for impairment	(4,531,427)	(23,667,426)	(4,531,427)	(23,667,426)
At the end of the year	55,995,295	81,706,192	55,995,295	81,706,192

Marketable equity securities, are measured at fair value annually at the close of business on 31 December. For investments traded in active markets, fair value is determined by reference to Stock exchange quoted bid prices. There were no disposal on available-for-sale investments in 2008 and 2007. Other investments (unlisted securities) are stated at cost less impairment since the fair value of those shares cannot be measured reliably.

Available-for-sale financial assets are classified as non-current assets, unless they are expected to be realised within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

Available-for-sale financial assets consist of the equity securities in the following entities and investment made in G.Dh Atoll Rayyithunge Cooperative Society.

	Group		Company	
	2008	**2007**	**2008**	**2007**
Maldives Industrial Fisheries Company Ltd	43,100,100	43,100,100	43,100,100	43,100,100
G.Dh Atoll Rayyithunge Cooperative Society	4,500,000	4,500,000	4,500,000	4,500,000
Bank of Maldives Plc	34,284,900	55,998,670	34,284,900	55,998,670
Maldives Stock Exchange Company Private Limited	1,600,000	1,065,700	1,600,000	1,065,700
Madivaru Holdings Pvt Ltd	709,148	709,148	709,148	709,148
	84,194,148	105,373,618	84,194,148	105,373,618
Less: Provision for loss on impairment	(28,198,853)	(23,667,426)	(28,198,853)	(23,667,426)
	55,995,295	81,706,192	55,995,295	81,706,192

12 Inventories

	Group		Company	
	2008	**2007**	**2008**	**2007**
Finished goods	493,500	545,853	-	-
Raw materials	17,862,642	10,833,952	-	-
Food stock	55,972,315	31,479,389	55,972,315	31,479,389
Fuel and lubricants	110,121,956	327,086,327	90,668,376	307,010,206
Home improvement and Electronics	149,894,327	103,852,278	149,894,327	103,852,278
Construction materials	17,522,640	33,741,237	17,522,640	33,741,237
Pharmaceuticals	9,366,774	13,425,498	9,366,774	13,425,498
Spare parts	3,833,233	6,223,181	58,363	861,012
Retail shops	19,948,327	11,509,932	19,948,327	11,509,932
Others	225,042	-	-	-
	385,240,756	538,697,647	343,431,122	501,879,552
Less : Provision for non / slow moving inventories	(19,622,557)	(9,845,074)	(17,726,764)	(9,845,074)
	365,618,199	528,852,573	325,704,358	492,034,478

Provision for non / slow moving inventories

	Group		Company	
	2008	**2007**	**2008**	**2007**
Balance as at 1st January				
Provision / (reversal) made during the year	9,845,074	6,269,626	9,845,074	6,269,626
Balance as at 31st December	9,777,483	3,575,448	7,881,690	3,575,448
	19,622,557	9,845,074	17,726,764	9,845,074

13 Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
Trade receivables	745,590,553	503,237,222	565,405,281	251,733,892
Due from policyholders	47,762,566	40,638,387	-	-
Due from re-insurers	-	51,475,059	-	-
	793,353,119	595,350,668	565,405,281	251,733,892
Less: Provision for impairment of trade receivables	(49,151,263)	(32,786,966)	(23,929,915)	(12,206,813)
Trade receivables - net	744,201,856	562,563,702	541,475,366	239,527,079
Advances, prepayments and deposits	79,726,133	91,750,164	73,984,778	77,439,193
Receivables from related parties (Note 41)	26,336,969	17,116,822	142,682,737	249,325,980
Loans granted to related companies (Note 41)	2,659,542	2,659,542	9,554,528	10,136,361
Amount due from directors	24,954	-	-	-
Other receivables (Note 14)	178,965,371	74,813,166	171,576,966	75,640,217
	287,712,969	186,339,694	397,799,009	412,541,751
Less: Provision for impairment of receivables	(21,249,096)	(18,868,218)	(18,150,212)	(18,586,603)
	266,463,873	167,471,476	379,648,797	393,955,148
Total trade and other receivables	1,010,665,729	730,035,178	921,124,163	633,482,227
Less: Non current portion of loans given to related companies	(1,994,657)	(1,994,657)	(1,994,657)	(1,994,657)
Current portion	1,008,671,072	728,040,521	919,129,506	631,487,570

a) There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers of different background and business.

b) Trade and other receivables are short term in nature and their carrying amounts approximate their fair value.

c) Receivable from related parties are unsecured, interest free and have no fixed repayment terms. Accordingly these amounts have been shown as due within one year.

d) Loans given to related companies represent an unsecured loan to Lafarge Maldives Cement Private Limited at an interest rate of 9% per annum, repayable in twenty four semi-annual installments from 15th June 2000 to 15th December 2011 and a short term advance to Maldives Gas Private Limited in March 2006 at an interest rate of 8.5% without any fixed repayment terms.

14 Other receivables

	Group		Company	
	2008	2007	2008	2007
Government employee credit scheme	42,476,674	32,287,764	42,476,674	32,287,764
Less: unmatured interest	(2,917,272)	(2,551,469)	(2,917,272)	(2,551,469)
	39,559,402	29,736,295	39,559,402	29,736,295
Subsidy receivable	96,702,293	30,421,892	96,702,293	30,421,892
Staff advances and other loans	3,739,082	3,223,380	3,108,088	3,223,380
Advances paid for custom duty	15,576,560	2,354,534	15,576,560	2,354,534
Receivable on disposal of property, plant and equipments	176,600	4,000	176,600	4,000
Miscellaneous receivables	23,211,434	9,073,065	16,454,023	9,900,116
	178,965,371	74,813,166	171,576,966	75,640,217

15 Reinsurance Contracts

	Group		Company	
	2008	2007	2008	2007
Re-insurers' share of insurance liabilities	80,700,339	10,903,310	-	-
Unearned premium	39,473,389	42,555,436	-	-
	120,173,728	53,458,746	-	-

Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in trade receivables (Note 13).

16 Investments held to maturity

	Group		Company	
	2008	2007	2008	2007
Investments in treasury bills	6,966,757	-	-	-

The Company has invested Rf 6,966,757 in treasury bills issued by the Maldives Monetary Authority for a maturity value of Rf 7,000,000 at the rate of interest of 6.25% per annum with the maturity period of 90 days.

17 Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
Cash at bank and in hand	185,345,687	186,216,198	119,152,488	136,317,534
Short term bank deposit	39,957,596	87,553,340	39,478,067	78,732,916
	225,303,283	273,769,538	158,630,555	215,050,450

The weighted average effective interest rate on short-term bank deposit was 3.75% (December 2007– 3.75%).

Cash and bank balances include the following for the purpose of cash flow statement:

	Group		Company	
	2008	2007	2008	2007
Cash and cash equivalents	225,303,283	273,769,538	158,630,555	215,050,450
Bank overdraft (Note 23)	(337,858,634)	(165,547,654)	(315,854,868)	(144,398,777)
	(112,555,351)	108,221,884	(157,224,313)	70,651,673

18 Share capital

	Number of shares	Ordinary shares	Share premium	Total
At 1 January 2007	1,126,910	56,345,500	27,814,500	84,160,000
At 31 December 2007	1,126,910	56,345,500	27,814,500	84,160,000
At 1 January 2008	1,126,910	56,345,500	27,814,500	84,160,000
At 31 December 2008	1,126,910	56,345,500	27,814,500	84,160,000

The total authorised number of ordinary shares is 1,155,555 shares (2007: 1,155,555 shares), with a par value of Rf 50 per share (2007: Rf 50 per share). All issued shares are fully paid.

19 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	
	2008	2007	2008	2007
Balance as at 1st January	5,629,447	4,279,524	-	-
Amount utilised during the year	(3,752,298)	-		
Transfer during the year	852,033	1,349,923	-	-
Balance as at 31st December	2,729,182	5,629,447	-	-

20 Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign subsidiary.

21 Minority interest

	2008	2007
At beginning of year	29,781,042	26,344,501
Add: Share of net results of subsidiaries	11,641,552	9,735,041
Less: dividends paid	(5,655,900)	(6,298,500)
Excess amount credited to minority interest rectified	(948,483)	-
At end of the year	34,818,211	29,781,042

22 Trade and other payables

	Group		Company	
	2008	2007	2008	2007
Trade payables	253,797,342	499,873,602	191,122,420	305,398,518
Payables to related parties (Note 41)	8,706,012	12,109,715	14,472,825	151,780,962
Accrued expenses	16,947,533	18,140,199	12,811,937	14,600,328
Dividend payable	75,579,795	4,301,856	75,579,795	4,301,856
Other payables	40,823,913	36,023,343	22,028,756	26,211,735
	395,854,595	570,448,715	316,015,733	502,293,399

Other payables of the Company consist of Rf 1,388,008 (December 2007 : Rf 2,551,202) advance received for rent, Rf 1,849,636 (December 2007 : Rf Nil) advances from customers, Rf 7,192,903 (December 2007 : Rf 14,508,800) foreign aid, Rf 3,719,808 (December 2007 : Rf 2,273,656) provident funds payables, Rf 1,454,054 (December 2007 : Rf 2,895,013) other deposits, Rf 1,241,370 (December 2007 : Rf 3,243,808) retention payable, Rf 4,302,937 (December 2007 : Rf Nil) zakath payable, and Rf 880,040 (December 2007 : Rf 739,247) other miscellaneous payables.

23 Borrowings

	Group		Company	
	2008	2007	2008	2007
Non-current				
Finance lease liabilities	3,122,196	6,179,529	-	-
Interest in suspense	(342,494)	(1,230,855)	-	-
	2,779,702	4,948,674	-	-
Bank borrowings	25,921,943	35,283,336	25,921,943	35,283,336
	28,701,645	40,232,010	25,921,943	35,283,336
Current				
Finance lease liabilities	3,064,651	4,116,702	-	-
Interest in suspense	(336,181)	(246,171)	-	-
	2,728,470	3,870,531	-	-
Bank borrowings	280,496,105	285,554,138	280,496,105	285,554,138
Other borrowings	238,852	-	-	-
Devolved letter of credits	8,928,823	-	-	-
Bank overdraft (Note 17)	337,858,634	165,547,654	315,854,868	144,398,777
	630,250,884	454,972,323	596,350,973	429,952,915
Total borrowings	658,952,529	495,204,333	622,272,916	465,236,251

The Company has obtained a revolving credit facility of US$ 6 million (MRf 77,100,000) at an annual interest rate of 8.1 % from the Seylan Bank Plc for working capital requirements. This is required to be settled within 90 days commencing the date of disbursement of funds. The STO Trade Centre has been mortgaged against this facility.

The Company has obtained a import credit loan facility of US$ 12 million (MRf. 154,200,000) from HSBC Male' branch at an annual interest rate of 8.5% for working capital requirements and required to be settled within 90 days commencing the date of disbursement of funds. The loan is secured by stock and receivables in the Company.

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.

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 in 2006 at an annual interest rate of 8% to finance the trade operations. The loans were repayable within 36 months with a grace period of 6 months commencing 1st October 2006 and 31st July 2007 respectively.

Bank overdrafts in Allied Insurance Company of the Maldives Private Limited are secured by fixed and floating charges over receivables from re-insurers and are repayable on demand. Accordingly the entire amount due has been shown as falling due within one year.

Bank overdraft in Maldives Structural Products Private Limited is secured by hypothecation of all buildings, machinery, equipment and stock including leasehold rights of 31,020 sq.ft. of land leased from the Government of Maldives and corporate guarantees of Rainbow Enterprises Private Limited and State Trading Organization Plc.

23 Borrowings (continued)

The exposure of the Company's borrowings are as follows:

Total borrowings:

	Group		Company	
	2008	**2007**	**2008**	**2007**
-At fixed rates	581,852,529	379,719,483	545,172,916	349,751,401
-At floating rates	77,100,000	115,484,850	77,100,000	115,484,850
	658,952,529	495,204,333	622,272,916	465,236,251

The effective interest rates at the balance sheet date were as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Bank overdraft	8.50%	8.50%	8.50%	8.50%
Bank borrowings				
-Bank of Maldives Plc	8.50%	8.50%	8.50%	8.50%
-Nation Trust Bank Limited	3 Month LIBOR + 2.75%	3 Month LIBOR + 2.75%	3 Month LIBOR + 2.75%	3 Month LIBOR + 2.75%
-Seylan Bank Limited	NYPR+2.5% or min 7.5%	NYPR+2.5% or min 7.5%	NYPR+2.5% or min 7.5%	NYPR+2.5% or min 7.5%
-HSBC	8.70%	8.70%	8.70%	8.70%
-Habib Bank Limited	8.50%	8.50%	8.50%	8.50%
-Ministry of Finance and Treasury	8.00%	8.00%	8.00%	8.00%

The carrying amount and the fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2008	**2007**	**2008**	**2007**
Bank borrowings	28,701,645	40,232,010	26,085,180	37,615,545

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 8.5% (2007: 8.5%).

23 Borrowings (continued)

Maturity of non current borrowing (excluding finance lease liabilities)

	Group		Company	
	2008	2007	2008	2007
Between 1 and 2 years	17,852,143	32,797,388	17,852,143	32,797,388
Between 2 and 5 years	8,069,800	2,485,948	8,069,800	2,485,948
	25,921,943	35,283,336	25,921,943	35,283,336

Finance lease liabilities - minimum lease payments

	Group		Company	
	2008	2007	2008	2007
Not later than 1 year	3,064,651	4,116,702	-	-
Later than 1 year and not later than 5 years	3,122,196	6,179,529	-	-
	6,186,847	10,296,231	-	-
Future finance charges on finance leases	(678,675)	(1,477,026)	-	-
Present value of finance lease liabilities	5,508,172	8,819,205	-	-
Representing lease liabilities :				
-current	2,728,470	3,870,531	-	-
-non current	2,779,702	4,948,674	-	-
	5,508,172	8,819,205	-	-

The Group has acquired two vessels under finance lease agreements entered with Maldives Finance Leasing Company Private Limited on 30th September 2006, repayable in 56 monthly installments which includes installment of Rf 201,745 for the first 8 installments, installment of Rf 268,993 from 9 to 48 installments and installment of Rf 67,248 from 49 to 56 installments commencing 26th October 2006. The Group mortgaged one of its vessels (Mt Koamas) as security for the lease facilities obtained.

24 Deferred tax liability

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

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2008	2007	2008	2007
At the beginning of the year	-	11,949	-	-
Reversal during the year	-	(12,310)	-	-
Exchange difference	-	361	-	-
A the end of the year	-	-	-	-

25 Grants and subsidies

	Group		Company	
	2008	2007	2008	2007
Opening balance	-	138,321	-	-
Adjustments due to disposal of subsidiary	-	(138,321)	-	-
	-	-	-	-

The 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. The Group had fully recognised this during the year 2007.

26 Retirement benefit obligations

	Group		Company	
	2008	2007	2008	2007
At beginning of year	-	189,903	-	-
Provision made during the year	-	18,872	-	-
Adjustments due to disposal of subsidiary	-	(208,775)	-	-
At end of year	-	-	-	-

27 Insurance contracts

	Group		Company	
	2008	2007	2008	2007
Claims reported and loss adjustment expenses	42,272,169	15,312,079	-	-
Unearned Premiums	64,090,577	55,929,570	-	-
Valuation premium	6,291	-	-	-
Total insurance liabilities, gross	106,369,037	71,241,649	-	-

28 Sales

Sales, which represent income from various operations, are made up as follows:

	Group		Company	
	2008	2007	2008	2007
Retail and wholesale	1,379,113,257	1,070,059,880	1,199,172,089	1,025,764,150
Tea	-	578,325	-	-
Insurance (Note 29)	57,244,147	41,764,550	-	-
Gas	94,722,255	53,404,815	-	-
Structural Products	21,657,049	36,139,233	-	-
Crude oil	-	453,126,286	-	453,126,286
Fuel and lubricants	4,864,975,957	3,904,603,556	5,695,278,073	3,678,262,354
	6,417,712,665	5,559,676,645	6,894,450,162	5,157,152,790

28 Sales(Continued)

	Group	
	2008	2007
State Trading Organization Plc	6,894,450,162	5,157,152,790
Allied Insurance Company of the Maldives Private Limited (Note 29)	68,788,614	48,166,733
STO Maldives (Singapore) Pte Ltd	182,624,643	541,797,706
STO Lanka (Pvt) Ltd	-	726,850
Maldive Gas Pvt Ltd	96,482,319	67,297,491
Fuel Supplies Maldives Pvt Ltd	2,918,647,352	1,842,444,247
Maldives National Oil Company Ltd	425,972,738	819,303,115
Maldives Structural Products (Pvt) Ltd	52,602,486	42,718,119
	10,639,568,314	8,519,607,051

29 Net insurance premium revenue and fee income

	2008	2007
Long term insurance contracts with fixed terms		
- premium receivable	485,559	-
- change in unearned premium provision	(316,467)	-
Premium revenue arising from insurance contracts issued	169,092	-
Short term insurance contracts		
- premium receivable	128,308,473	110,878,267
- change in unearned premium provision	(7,844,540)	(18,099,605)
Premium revenue arising from insurance contracts issued	120,463,933	92,778,662
Reinsurance contracts		
Long term reinsurance contracts with fixed terms		
- premium payable	(185,400)	-
- change in unearned premium provision	-	-
Premium revenue ceded to reinsurers on insurance contracts	(185,400)	-
Short term reinsurance contracts		
- premium payable	(77,935,631)	(82,433,531)
- change in unearned premium provision	(3,082,047)	12,349,291
Premium revenue ceded to reinsurers on insurance contracts issued	(81,017,678)	(70,084,240)

29 Net insurance premium revenue and fee income (continued)

Net insurance premium revenue	39,429,947	22,694,422
Reinsurance commission	23,644,652	25,335,278
Profit commission for reinsurers	5,714,015	-
Inward reinsurance premium	-	137,033
Fee income	29,358,667	25,472,311
Total income	68,788,614	48,166,733
Less : Inter-company transactions	(11,544,467)	(6,402,183)
	57,244,147	41,764,550

30 Other operating income

	Group		Company	
	2008	2007	2008	2007
Profit on disposal of property, plant and equipment	440,739	2,493,031	317,868	500,821
Profit on disposal of the leasehold rights of Vakarufalhi island	-	46,874,746	-	46,874,746
Income from vessels and fleets	1,941,085	2,475,261	1,941,085	2,475,261
Fines and claims received	1,529,257	1,048,922	1,247,510	907,715
Rent income	17,131,463	16,505,098	19,077,429	18,261,325
Discounts received	3,198,733	6,255,138	-	-
Service charge on handling Japanese food aids	1,212,829	2,539,951	1,212,829	2,539,951
Miscellaneous income	5,167,824	1,889,751	1,710,582	1,034,690
	30,621,930	80,081,898	25,507,303	72,594,509

31 Profit on disposal of subsidiary

	Group		Company	
	2008	2007	2008	2007
Sales proceeds on disposal	-	6,425,000	-	6,425,000
Value of the net assets / investment at the date of disposal	-	831,201	-	(7,868,472)
Profit / (loss) on disposal	-	7,256,201	-	(1,443,472)

The Company had disposed of the entire investment in STO Lanka (Private Limited) to a third party on 31 July 2007.

32 Expenses by nature

	Group		Company	
	2008	2007	2008	2007
Depreciation (Note 6)	59,258,302	57,534,996	39,855,160	41,789,143
Employment benefit expenses (Note 33)	117,691,671	92,428,694	79,812,417	61,743,927
Materials consumed	37,426,980	31,548,233	-	-
Amortisation charge (Note 7)	1,006,076	377,510	-	-
Operating lease rentals	569,014	416,081	-	-
Directors' remuneration	2,852,041	1,408,665	1,157,719	724,149
Cost of sales	5,801,215,108	5,091,967,374	6,480,638,290	4,849,423,112
Transportation	11,573,018	15,359,107	10,334,633	13,864,980
Vessel and fleet expenses	8,518,870	11,941,243	8,518,870	11,941,243
Advertising costs	2,257,590	2,644,153	1,040,879	908,168
Agents commission	2,626,426	2,579,519	-	-
Audit fees	510,130	390,985	250,575	218,450
Accounting and legal charges	361,335	971,472	-	-
Provision for bad and doubtful debts	20,338,699	10,839,854	11,718,349	6,685,425
Bad debts written off	65	946,931	-	-
Provision for non / slow moving inventories	9,375,894	3,575,448	7,881,690	3,575,448
Impairment of investments	4,531,427	23,667,426	4,531,427	23,667,426
Fuel expenses	34,136,017	18,509,554	14,822,895	10,606,405
Rental expenses	11,964,449	12,891,833	10,208,886	11,000,573
Telephone, electricity and water charges	13,411,203	13,569,402	8,087,850	9,520,476
Bank charges	6,580,024	5,975,333	5,964,610	5,236,614
Insurance expenses	-	-	4,239,844	3,514,108
Repair and maintenance	26,346,833	24,724,796	13,162,124	13,176,844
Zakath	4,302,937	-	4,302,937	-
Other selling and distribution costs	14,254,584	14,948,955	13,576,205	14,922,211
Other expenses	19,485,013	17,480,255	16,447,911	11,257,164
	6,210,593,706	5,456,697,819	6,736,553,271	5,093,775,866
Classified as:				
- cost of sales	5,840,308,373	5,125,106,488	6,480,638,290	4,849,423,112
- selling and marketing costs	170,295,864	139,236,680	138,332,790	122,902,054
- administrative expenses	199,168,723	190,919,931	114,815,479	120,015,980
- other operating expenses	820,746	1,434,720	2,766,712	1,434,720
	6,210,593,706	5,456,697,819	6,736,553,271	5,093,775,866

Notes to the consolidated financial statement (continued)

(All amounts in Maldivian Rufiyaa unless otherwise stated)

33 Employee benefit expense

	Group		Company	
	2008	2007	2008	2007
Salaries and wages	58,752,989	48,345,166	31,889,477	26,864,441
Staff welfare	2,869,719	3,340,980	1,327,077	1,637,675
Foreign staff expenses	3,349,523	2,666,874	3,349,523	2,666,874
Staff medical expenses	175,925	499,535	7,823	363,946
Bonus, overtime and allowances	49,585,402	35,197,058	40,982,112	28,641,216
Provision for gratuity	-	21,845	-	-
Provident fund contribution	1,479,864	1,191,655	1,253,255	1,033,341
Other staff related expenses	2,216,799	1,165,581	1,003,150	536,434
	117,691,671	92,428,694	79,812,417	61,743,927

34 Finance income and costs

	Group		Company	
	2008	2007	2008	2007
Finance cost				
Interest expense:				
- bank borrowings	(28,499,549)	(18,816,356)	(28,021,682)	(19,154,717)
- bank overdrafts	(32,801,378)	(10,897,173)	(31,315,097)	(7,361,081)
- other borrowings	(1,072,277)	(1,887,817)	(94,110)	(121,847)
Foreign exchange loss	(2,384,000)	(637,947)	(2,361,466)	(462,025)
	(64,757,204)	(32,239,293)	(61,792,355)	(27,099,670)
Finance income				
Interest income on loans given	669,379	2,485,296	606,661	989,184
Interest income on government credit scheme	6,012,032	4,990,488	6,012,032	4,990,488
Interest income on fixed deposits	4,505,035	3,740,603	4,002,566	3,269,039
Foreign exchange gain	17,613	-	-	-
Dividends on investments	2,285,620	912,900	23,426,420	24,855,854
	13,489,679	12,129,287	34,047,679	34,104,565
Net finance (cost) / income	(51,267,525)	(20,110,006)	(27,744,676)	7,004,895

35 Taxation

The income tax charged represents the income tax payable to the statutory authority on the taxable profits of an overseas subsidiary. There is no incidence of taxation on profits in the Republic of Maldives. Accordingly, the Group is not liable to income tax on profits earned in the Republic of Maldives.

	Group		Company	
	2008	2007	2008	2007
Current Income Tax	-	-	-	-
Deferred tax reversal (Note 24)	-	12,310	-	-
Excess provision made in earlier year reversed	1,100	-	-	-
	1,100	12,310	-	-

36 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equityholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2008	2007	2008	2007
Profit attributable to equityholders of the Company	175,750,789	160,391,881	155,659,518	141,532,856
Weighted average number of ordinary shares in issue	1,126,910	1,126,910	1,126,910	1,126,910
Basic earnings per share (Rf per share)	156	142	138	126

37 Dividends per share

At the Annual General Meeting on 26 June 2008 a dividend in respect of 2007 of Rf 70 per share (2007: declared dividend Rf 82 per share) amounting to a total of Rf 78,883,700 (2007: declared Rf 92,406,620) was declared and approved by the shareholders and accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2008.

38 Cash (used in) / generated from operations

	Group		Company	
	2008	2007	2008	2007
Profit before tax	187,391,241	170,114,612	155,659,518	141,532,856
Adjustments for:				
- Depreciation (Note 6)	59,258,302	57,534,996	39,855,160	41,789,143
- Amortization (Note 7)	1,006,076	377,510	-	-
- Interest income (Note 34)	(11,186,446)	(11,216,387)	(10,621,259)	(9,248,711)
- Interest expense (Note 34)	62,373,204	31,601,346	59,430,889	26,637,645
- Dividend income (Note 34)	(2,285,620)	(912,900)	(23,426,420)	(24,855,854)
- (Profit) / loss on disposal of subsidiaries (Note 31)	-	(7,256,201)	-	1,443,472
- property, plant and equipment written off (Note 6)	-	37,768	-	37,768
- Impairment losses of investment held for sale (Note11)	4,531,427	23,667,426	4,531,427	23,667,426
- Share of result of associates (Note 9)	(917,877)	92,307	-	-
- Profit on disposal of property, plant and equipment	(440,739)	(2,493,031)	(317,868)	(500,821)
- property, plant and equipment transfers (Note 6)	(5,938)	-	-	-
-Currency translation differences	(155,021)	1,073,834		
-Grants and subsidiary	-	(138,321)		
-provision for gratuity	-	(189,903)		
Changes in working capital				
- Inventories	163,234,374	(98,413,687)	166,330,120	(118,743,781)
- trade and other receivables	(347,345,533)	(243,381,478)	(288,221,545)	(229,493,242)
- Trade and other payables	(210,743,571)	270,061,229	(257,555,605)	269,360,211
Cash (used in) / generated from operations	(95,286,121)	190,559,120	(154,335,583)	121,626,112

39 Contingencies

Contingent liabilities

Guarantees

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

	Name of Banks	2008	2007
Maldives Structural Product Pvt Ltd			
- overdraft	Bank of Maldives	3,212,500	3,212,500
- letter of credit	Bank of Maldives	38,550,000	19,275,000
Maldives National Oil Company Ltd			
- letter of credit	Societe General Singapore	771,000,000	771,000,000
Fuel Supplies Maldives Pvt Ltd			
- overdraft	State Bank of India Male'	30,000,000	30,000,000
Maldives Gas Pvt Ltd			
- overdraft	State Bank of India Male'	8,000,000	8,000,000
- letter of credit	State Bank of India Male'	8,673,750	8,673,750
		859,436,250	840,161,250

(ii) A policy holder has filed a suit in high court claiming insurance cover which was not accepted by the Allied Insurance Company of Maldives Private Limited. The Company had won the case in civil court. In the event the high court holds in favour of the policyholder, the Group will need to recognise a liability in respect of the claim.

(iii) A supplier has made a claim for demurrage charges of Rf 2,531,595, which has not been accepted by the Maldives National Oil Company Limited. The directors of the Company are of the view that the delay in clearance of oil shipment was on account of delay in issuance of delivery clearance by the supplier. Therefore the Company is not liable for demurrage charges. Negotiations are in progress with the supplier and in the event the Company accepts the demurrage liability, the Group will need to recognise this liability in respect of the demurrage claim.

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

Contingent assets

There were no material contingent assets regonised at the balance sheet date.

40 Commitments

Capital commitments

	Group		Company	
	2008	**2007**	**2008**	**2007**
Capital expenditure contracted as of the balance sheet date but not yet incurred.	8,427,555	8,427,555	8,427,555	8,427,555

Financial commitments

The Maldives Structural Products Private Limited has an annual commitment to pay a sum of Rf 270,016 as rentals for the use of office premises and factory land. The office rental agreement is cancelable if either party provides two months notice and factory land agreement is cancelable if the Company gives six months notice and the lessor (Government of Maldives) provides two years notice.

There were no other material capital commitments recognized at the balance sheet date.

Operating lease commitments

	Group		Company	
	2008	**2007**	**2008**	**2007**
Not later than 1 year	-	186,120	-	-
Later than 1 year and not later than 5 years	-	186,120	-	-
Later than 5 years	909,879,110	909,879,110	906,528,950	906,528,950
	909,879,110	910,251,350	906,528,950	906,528,950

The Company has entered into an agreement with Hulhumale Development Corporation Limited on 31st July 2007 for developing, operating and managing a five star tourist hotel in Hulhumale.

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 years 25 years is due to expire by 2025.

Financing lease commitments

	Group		Company	
	2008	**2007**	**2008**	**2007**
Not later than 1 year	2,728,470	2,473,338	-	-
Later than 1 year and not later than 5 years	2,779,702	2,353,461	-	-
Later than 5 years	-	3,992,406	-	-
	5,508,172	8,819,205	-	-

41 Related party transactions

(a) The following transactions were carried out, on commercial terms and conditions, with related parties:

	2008	2007
Allied Insurance Company of the Maldives Pvt Ltd		
(Subsidiary Company)		
- sale of goods	2,683,474	95,700
- services obtained	(8,143,281)	(6,402,183)
- interest on advance	-	270,000
- rent received	590,182	416,081
- dividends received	5,927,960	8,249,945
STO Maldives (Singapore) Pte Ltd		
(Subsidiary Company)		
- purchases of oil	-	(496,945,455)
- rent received	154,200	154,200
- services obtained	-	(163,103)
- dividends received	-	41,008
STO Lanka Pvt Ltd		
(Subsidiary Company)		
- purchases of tea	-	(148,525)
- bad debts written off	-	7,782,304
Maldives National Oil Company Ltd		
(Subsidiary Company)		
- purchases of oil	-	(13,124,193)
- advances given	300,000	-
- rent received	154,200	154,200
Maldives Gas Pvt Ltd		
(Subsidiary Company)		
- sale of goods	623,395	454,041
- purchases of goods	(1,760,064)	(389,397)
- rent received	287,299	274,384
- interest on advance	432,531	357,325
Fuel Supplies Maldives Pvt Ltd		
(Subsidiary company)		
- sale of fuel	2,846,998,259	1,810,631,552
- purchases of fuel	(1,327,300,552)	(629,898,233)
- dividends received	-	9,690,000
- rent received	760,084	757,362
- services obtained	-	(2,481,994)
- interest on advance	-	77,617
- dividends received	11,311,800	-
Maldives Structural Product Pvt Ltd		
(Joint venture company)		
- sale of goods	-	13,560
- purchases of goods	(61,890,875)	(53,437,094)
- dividends received	3,900,000	3,055,000

41 Related party transactions (continued)

	2008	2007
Lafarge Maldives Cement Pvt Ltd		
(Associate company)		
- purchases of goods	(96,019,465)	(52,290,675)
- sales of goods	-	18,894
- services rendered	109,200	109,200
- interest on advance	224,400	284,242
Maldives Industrials Fisheries Company Ltd		
(Investee society)		
- sale of goods	1,585,326	13,157,772
- purchases of goods	-	(9,548,269)
Ensis Fisheries Pvt Ltd		
(Related party of subsidiary)		
- services rendered	-	181,036
G.Dh Atoll Rayyithunge Cooperative Society		
(Investee society)		
- purchases of goods	-	(364,713)
- sales of goods	21,628,154	14,564,280
Ministry of Finance and Treasury		
(Majority shareholder)		
- loan settlements	(51,462,841)	(42,950,380)
- loan interest paid	(4,415,916)	(8,369,246)
- food subsidy income	138,717,293	99,744,422
- dividends paid	(72,332,310)	(85,280,000)

(b) Key management compensation

For the year ended 31 December 2008, the total remuneration of the directors was Rf 2,852,041 (2007: Rf 1,408,665).

41 Related party transactions (continued)

(c) Year-end balances arising from sale / purchase of goods and services

	Group		Company	
	2008	**2007**	**2008**	**2007**
Receivables from related parties (Note 13):				
STO Maldives (Singapore) Pte Ltd	-	-	3,896,708	-
Maldives Gas Pvt Ltd	-	-	690,312	430,957
Fuel Supplies Maldives Pvt Ltd	-	-	129,029,933	241,956,805
Allied Insurance Company of the Maldives Pvt Ltd	-	-	308,325	-
Rainbow Enterprises Pvt Ltd	15,710,657	7,278,400	-	-
Maldives National Oil Company Ltd	-	-	455,190	216,176
G.Dh Atoll Rayyithunge Cooperative Society	7,745,559	6,392,815	7,745,559	6,392,815
Ensis Fisheries Private Limited	401,006	857,112	-	-
Maldives Industrials Fisheries Company Ltd	845,841	2,588,495	372,124	329,227
Ministry of Finance and Treasury	184,586	-	184,586	-
Mr Abdul Rasheed Ahmed	1,395,500	-	-	-
Vara Maldives Private Limited	47,036	-	-	-
Lafarge Maldives Cement Pvt Ltd	6,784	-	-	-
	26,336,969	17,116,822	142,682,737	249,325,980

Receivables from related parties are unsecured, interest free and have no fixed repayment terms. Accordingly these amounts have been shown as due within one year.

	Group 2008	Group 2007	Company 2008	Company 2007
Payables to related parties (Note 22):				
Lafarge Maldives Cement Pvt Ltd	2,578,225	5,765,620	2,578,225	5,765,620
Maldives Structural Product Pvt Ltd	5,929,155	6,344,095	11,894,600	12,688,189
Allied Insurance Company of the Maldives Pvt Ltd	-	-	-	871,302
STO Maldives (Singapore) Pvt Ltd	-	-	-	132,455,851
Rainbow Enterprises Pvt Ltd	198,632	-	-	-
	8,706,012	12,109,715	14,472,825	151,780,962

(d) Loans to related parties (Note 13):

	Group		Company	
	2008	**2007**	**2008**	**2007**
Beginning of the year	2,659,542	3,823,090	10,136,361	11,052,066
Loans advanced during the year	-	-	1,576,563	13,514,416
Loans repayments received	-	(1,163,548)	(2,156,172)	(14,427,897)
	2,659,542	2,659,542	9,556,752	10,138,585
Less: interest in suspense	-	-	(2,224)	(2,224)
End of the year	2,659,542	2,659,542	9,554,528	10,136,361

(All amounts in Maldivian Rufiyaa unless otherwise stated)

41 Related party transactions (continued)

(d) Loans to related parties (Note 13):

	Group		Company	
	2008	2007	2008	2007
Beginning of the year	2,659,542	3,823,090	10,136,361	11,052,066
Loans advanced during the year	-	-	1,576,563	13,514,416
Loans repayments received	-	(1,163,548)	(2,156,172)	(14,427,897)
	2,659,542	2,659,542	9,556,752	10,138,585
Less: interest in suspense	-	-	(2,224)	(2,224)
End of the year	2,659,542	2,659,542	9,554,528	10,136,361

Loans given to related companies represent an unsecured loan to Lafarge Maldives Cement Private Limited at an interest rate of 9% per annum repayable in twenty four semi-annual installments from 15th June 2000 to 15th December 2011 and a short term advance to Maldives Gas Private Limited in March 2006 at an interest rate of 8.5% without any fixed repayment term.

42 Post balance sheet events

The Company has acquired the majority shares of Fuel Supplies Maldives Private Limited, on 1st March 2009, making it a wholly owned subsidiary. No other significant events have occurred since the balance sheet date, which would require adjustments to, or disclosure in, the financial statements.