



# ANNUAL REPORT 2008

## State Trading Organization PLC

### Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of shareholders of State Trading Organization PLC will be held at 9:00 pm on 14th June 2009 at STO Head Office, Male', Maldives.

### AGENDA

1. Recitation of Quran.
2. Passing of the minutes of Annual General Meeting of 26th June 2008.
3. Approval of the Audited Balance Sheet and Income Statement for the year ended 31st December 2008.
4. Adoption of the Annual Report of the Company, presented by the Directors and the Auditors Report for the year 2008.
5. Election and appointment of Directors of the Company.
6. Declaration of dividend for the year 2008.
7. Appointment of Auditors of the Company for the year 2009 and fixing their remuneration.
8. Any other business.
9. Conclusion.

### Corporate Informations

#### Registered Office

State Trading Organization PLC  
Boduthakurufaanu Magu,  
Maafannu  
Male' 20345  
Republic of Maldives

#### STO's Main Business Outlets

- STO People's Choice - Construction Materials
- STO People's Choice - Electronics
- STO People's Choice - Fuel & Lubricants
- STO People's Choice - Home Improvement
- STO People's Choice - Medicals
- STO People's Choice - Staple Foods
- STO People's Choice - Supermart

#### Retail Outlets

- H.A. Atoll Trade Centre (Hoarafushi)
- STO Shop No. 123, S. Feydhoo
- STO Shop No. 132, B. Eydhafushi
- STO Shop No. 134, L. Fonadhoo
- STO Shop No. 136, Gn. Fuamulah
- STO Shop No. 137, S. Hithadhoo
- STO Shop No. 141, S. Gan
- STO Shop No. 158, Cement, Male'
- STO Shop No. 159, S. Maradhoo-Feydhoo
- STO Shop No. 162, K. Hulhumale'
- G.A. Atoll Trade Centre (Villingili)

#### Shareholding

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

#### Subsidiary Companies

|  |              |
|--|--------------|
| Allied Insurance Company of the Maldives Pvt Ltd | 99.99% share |
| STO Maldives (Singapore) Pvt Ltd                 | 99.99% share |
| Maldives National Oil Company Ltd                | 99.99% share |
| Maldivian Gas Pvt Ltd                            | 90.00% share |
| Fuel Supplies Maldives Pvt Ltd                   | 66.67% share |
| G.Dh. Atoll Rayyithunge Cooperative Society      | 99.99% share |

#### Joint Venture Company

|                                      |              |
|--------------------------------------|--------------|
| Maldives Structural Products Pvt Ltd | 50.00% share |
|--------------------------------------|--------------|

#### Associate Company

|                                 |              |
|---------------------------------|--------------|
| Lafarge Maldives Cement Pvt Ltd | 25.00% share |
|---------------------------------|--------------|

#### Bankers

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

#### Auditors

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



## Board Of Directors

### 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 Financial Officer/Non- Independent Executive Director

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

A Certified Practicing Accountant, Sana has held various positions in STO since her employment 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 Security Depository Company Pvt Ltd.

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

### 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. 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.

### 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 Maldivian Gas Pvt Ltd.

Mohamed is a pioneering entrepreneur who initiated 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.

STO's Director's Report is available to all the shareholders on our website at [www.stomaldives.com](http://www.stomaldives.com). To receive a hard copy of the Director's Report (free of charge), visit our head office at Male'. Alternatively you can call us on (960) 3344333 and request a hard copy of the Director's Report be sent to you.

We are being smarter and greener with our shareholders to reduce and cut carbon emission to contribute to a carbon neutral Maldives. We actively encourage shareholder to receive their communications electronically and we have also launched an initiative to reduce the number of duplicate materials produced by the company.

## DIRECTORS' REPORT

### 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

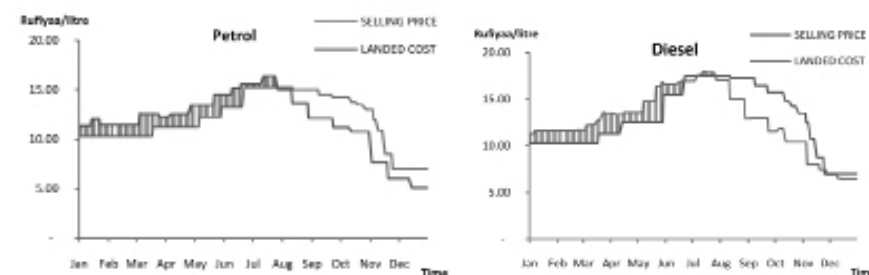
Despite the uncertainties and the state of the world economy that prevailed in 2008, STO recorded a successful year in 2008.

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.

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.

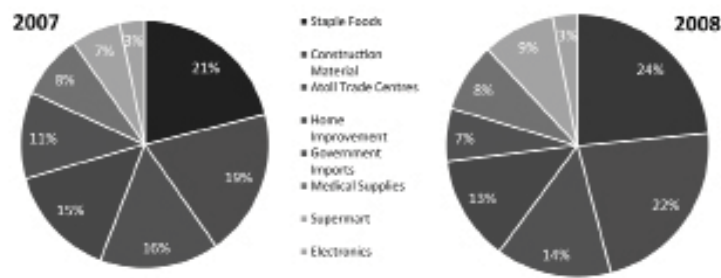


Graph 1: World fuel price movement trend 2008 (Singapore Platts, USD per Barrel)



Graph 2: Local diesel and petrol price and landed cost movement in 2008 (loss market in shaded area)

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.

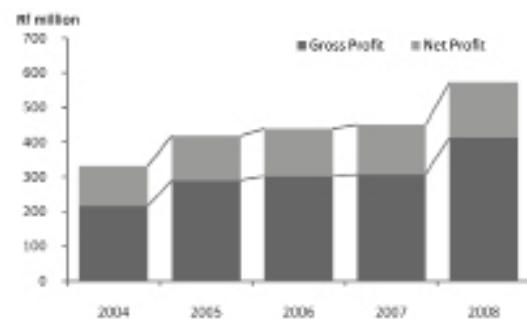


Graph 3: Proportion of non-fuel product categories

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.



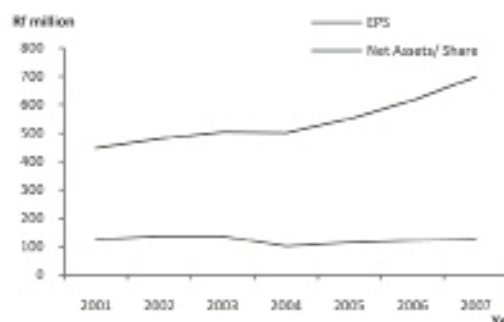
Graph 4: Gross profit and net profit 2004 - 2008

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.

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.

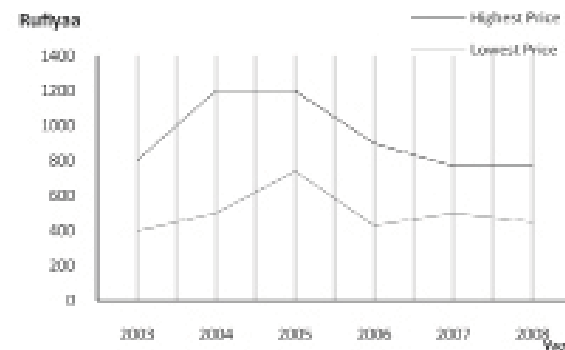
| Indicators                      | 2008     | 2007     | 2006     |
|---------------------------------|----------|----------|----------|
| Earnings Per Share (Rf)         | 138.13   | 125.59   | 121.58   |
| Price Earning Ratio             | 4.08     | 5.28     | 5.54     |
| Dividend Per Share (Rf)         |          | 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.

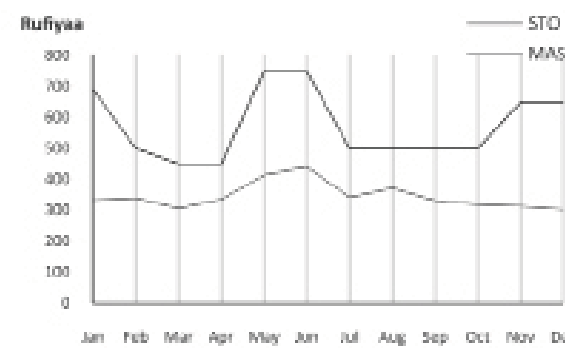
### Share information

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.



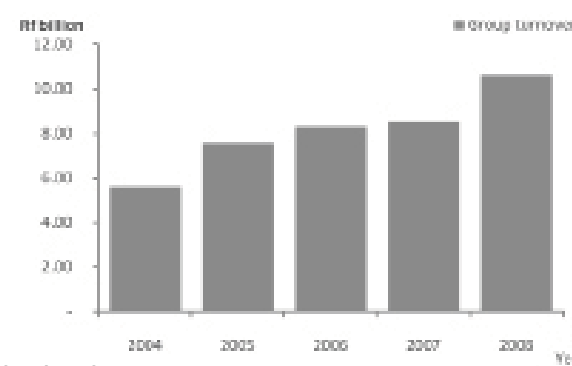
Graph 6: Share Price Movement



Graph 7: STO average share vs. MASIX for 2008

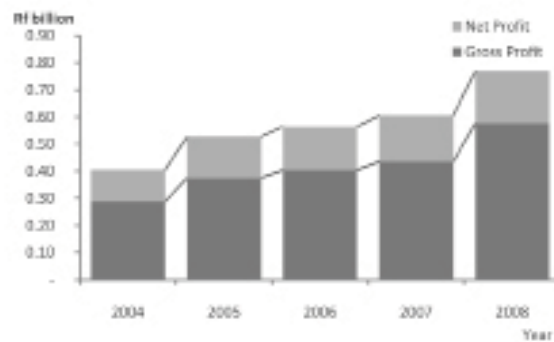
### Group Performance

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.



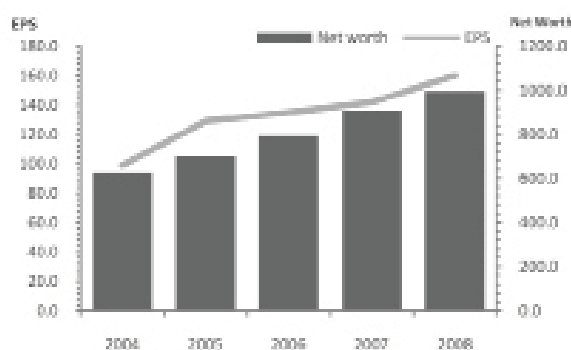
Graph 8: Group turnover 2004 - 2008

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(33%). 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 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

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 Baazaar 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

## 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 9 to 37

## Auditors' Report

The Audit Report on the Financials Statements is given on page 8

## Directors

The details of changes in the Board of Directors

| Name of Director        | From                | To                 | Position             |
|-------------------------|---------------------|--------------------|----------------------|
| Ahmed Mohamed           | 20th September 2005 | 27th February 2008 | Board Chairman       |
|                         | 28th February 2008  | 17th December 2008 | Board Director/CEO   |
| Ali Mohamed             | 23rd August 2005    | 11th June 2008     | Board Director       |
|                         | 12th June 2008      | 6th August 2008    | 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 2008      | 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       |

## 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 |

## 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:

- Ms. Raheema Saleem (Chairperson)
- Mr. Farooq Umar
- Mr. Mohamed Ahmed
- Mr. Ahmed Arif
- 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:

- Mr. Farooq Umar (Chairperson)
- Ms. Raheema Saleem
- Mr. Mohamed Ahmed
- Mr. Ahmed Arif
- 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.

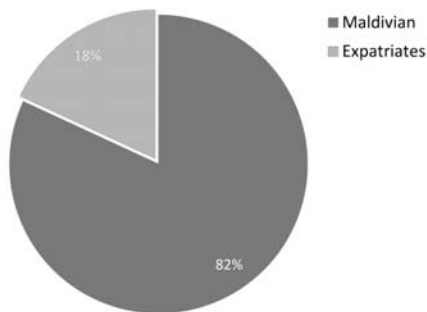
There were two changes to the board of directors in 2008. For this reason an appropriate performance evaluation of the Board of Directors was not carried out. The Board has planned to appoint an external facilitator in 2009 to review the existing evaluation procedures and implement a more efficient system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

## Human Resources

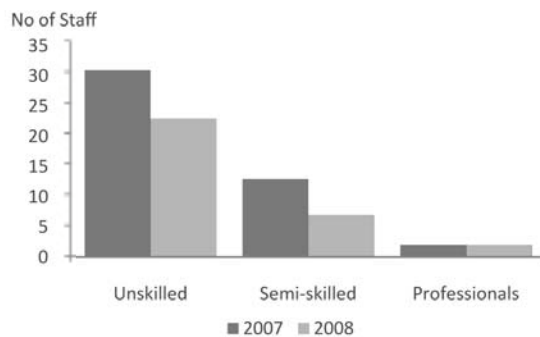
At STO, we consider our staffs members to be the most valuable asset of the company. As at 31st December 2008, there were 882 locals and 195 expatriates working for STO. Of the total 1077 employees at STO, 82% represented local staff indicating the high priority given by the company to recruit and retain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

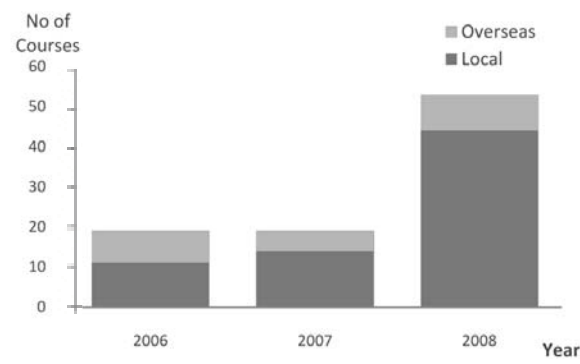
Attracting and retaining talent is the key to success of STO. As part of attracting young and dynamic graduates, and in order to make the public aware of our job opportunities STO held an "Open Day". As a result, STO recruited 10 graduates in much needed areas of business such as management and marketing 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 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

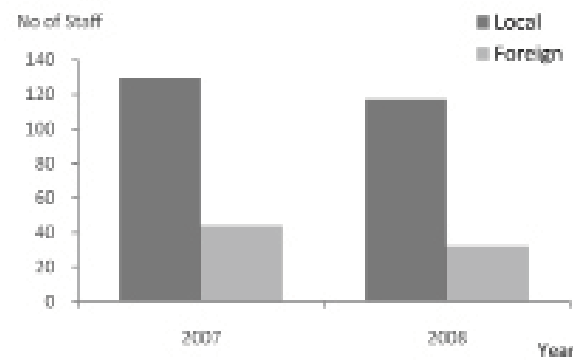
The previous employee bonus scheme was replaced by a more equitable staff incentive program in 2008. The new program was designed to motivate staff by linking day to day tasks with company's financial performance through a series of key performance indicators. The traditional sales target was changed 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 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

## 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.

## Annual General Meeting

Annual General Meeting will be held on 14th June 2009 at STO Head Office.

The Notice of Meeting and Agenda are given on page 1

## 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.

## 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.

### 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)

|  | Note | Group                |                      | Company              |                      |
|--|------|----------------------|----------------------|----------------------|----------------------|
|  |      | As at 31 December    |                      |                      |                      |
|  |      | 2008                 | 2007                 | 2008                 | 2007                 |
| <b>ASSETS</b>  |      |                      |                      |                      |                      |
| <b>Non-current assets</b>  |      |                      |                      |                      |                      |
| 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            | 4,652,292            | 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            |
|  |      | <u>425,019,358</u>   | <u>462,363,590</u>   | <u>376,874,852</u>   | <u>415,945,726</u>   |
| <b>Current assets</b>  |      |                      |                      |                      |                      |
| 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          |
|  |      | <u>1,726,733,039</u> | <u>1,584,121,378</u> | <u>1,403,464,419</u> | <u>1,338,572,498</u> |
| <b>Total assets</b>  |      | <u>2,151,752,397</u> | <u>2,046,484,968</u> | <u>1,780,339,271</u> | <u>1,754,518,224</u> |
| <b>EQUITY</b>  |      |                      |                      |                      |                      |
| <b>Capital and reserves attributable to equityholders of the Company</b> |      |                      |                      |                      |                      |
| Share capital  | 18   | 56,345,500           | 56,345,500           | 56,345,500           | 56,345,500           |
| Share premium  |      | 27,814,500           | 27,814,500           | 27,814,500           | 27,814,500           |
| 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          |
|  |      | <u>955,758,025</u>   | <u>879,808,163</u>   | <u>842,050,622</u>   | <u>786,988,574</u>   |
| <b>Minority interest</b>   |      | <u>34,818,211</u>    | <u>29,781,042</u>    | <u>-</u>             | <u>-</u>             |
| <b>Total equity</b>  |      | <u>990,576,236</u>   | <u>909,589,205</u>   | <u>842,050,622</u>   | <u>786,988,574</u>   |
| <b>LIABILITIES</b>   |      |                      |                      |                      |                      |
| <b>Non-current liabilities</b>   |      |                      |                      |                      |                      |
| Borrowings   | 23   | 28,701,645           | 40,232,010           | 25,921,943           | 35,283,336           |
| <b>Current liabilities</b>   |      |                      |                      |                      |                      |
| 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          |
|  |      | <u>1,161,176,161</u> | <u>1,136,895,763</u> | <u>938,288,649</u>   | <u>967,529,650</u>   |
| <b>Total liabilities</b>   |      | <u>1,161,176,161</u> | <u>1,136,895,763</u> | <u>938,288,649</u>   | <u>967,529,650</u>   |
| <b>Total equity and liabilities</b>                                      |      | <u>2,151,752,397</u> | <u>2,046,484,968</u> | <u>1,780,339,271</u> | <u>1,754,518,224</u> |

These financial statements were approved by the Board of Directors on

**Sana Mansoor**  
Chief Financial Officer

**Shahid Ali**  
Managing Director

**Masood Ali**  
Director

The notes on pages 13 to 37 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)

|  | Note | Group                  |                 | Company         |                 |
|--|------|------------------------|-----------------|-----------------|-----------------|
|  |      | Year ended 31 December |                 |                 |                 |
|  |      | 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) |
| <b>Gross profit</b>  |      | 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)     |
| <b>Operating profit</b>  |      | 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)        | -               | -               |
| <b>Profit before tax</b>   |      | 187,391,241            | 170,114,612     | 155,659,518     | 141,532,856     |
| Income tax provision written back  | 35   | 1,100                  | 12,310          | -               | -               |
| <b>Profit for the year</b>   |      | 187,392,341            | 170,126,922     | 155,659,518     | 141,532,856     |
| <b>Attributable to:</b>  |      |                        |                 |                 |                 |
| Equityholders of the Company   |      | 175,750,789            | 160,391,681     | 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     |
| <b>Earnings per share for profit attributable to the equityholders of the Company during the year</b><br>(expressed in Rf per share) |      |                        |                 |                 |                 |
| - basic  | 36   | 156                    | 142             | 138             | 126             |

The notes on pages 13 to 37 are an integral part of these consolidated financial statements.

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              |
|--|-------|-------------------|-------------------|--------------------|---------------------|--------------------|--------------------|
| <b>Balance at 1 January 2007</b>                       |       | 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)       |
| <b>Balance at 31 December 2007</b>                     |       | <b>56,345,500</b> | <b>27,814,500</b> | <b>258,202,581</b> | <b>52,255,158</b>   | <b>392,370,835</b> | <b>786,988,574</b> |
| <b>Balance at 1 January 2008</b>                       |       | 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)       |
| <b>Balance at 31 December 2008</b>                     |       | <b>56,345,500</b> | <b>27,814,500</b> | <b>289,334,485</b> | <b>30,541,388</b>   | <b>438,014,749</b> | <b>842,050,622</b> |

Statement of change in shareholders' equity- Group

(All amounts in Maldivian Rufiyaa unless otherwise stated)

|  | Notes | Attributable to equityholders |                   |                            |                    |                     |                              | Total              | Minority interest  | Group total       |                    |
|--|-------|-------------------------------|-------------------|----------------------------|--------------------|---------------------|------------------------------|--------------------|--------------------|-------------------|--------------------|
|  |       | Share capital                 | Share premium     | Claim equalization reserve | General reserve    | Faire value reserve | Currency translation reserve |                    |                    |                   |                    |
| <b>Balance at 1 January 2007</b>                       |       | 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)       |
| <b>Balance at 31 December 2007</b>                     |       | <b>56,345,500</b>             | <b>27,814,500</b> | <b>5,629,447</b>           | <b>258,202,581</b> | <b>52,255,158</b>   | <b>457,125</b>               | <b>479,103,852</b> | <b>879,808,163</b> | <b>29,781,042</b> | <b>909,589,205</b> |
| <b>Balance at 1 January 2008</b>                       |       | 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)       |
| <b>Balance at 31 December 2008</b>                     |       | <b>56,345,500</b>             | <b>27,814,500</b> | <b>2,729,182</b>           | <b>289,334,485</b> | <b>30,541,388</b>   | <b>305,185</b>               | <b>548,687,785</b> | <b>955,758,025</b> | <b>34,818,211</b> | <b>990,576,236</b> |

The notes on pages 13 to 37 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)

|  | Note | Group                  |               | Company         |               |
|--|------|------------------------|---------------|-----------------|---------------|
|  |      | Year ended 31 December |               | 2008            | 2007          |
|  |      | 2008                   | 2007          | 2008            | 2007          |
| <b>Cash flows from operating activities</b>                                    |      |                        |               |                 |               |
| 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)  | (59,430,869)    | (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    |
| <b>Cash flows from investing activities</b>                                    |      |                        |               |                 |               |
| 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   | 2,385,620              | 912,900       | 23,426,420      | 24,855,854    |
| Net cash (used) / generated from investing activities                          |      | (41,292,399)           | (69,468,766)  | 7,915,673       | (23,212,782)  |
| <b>Cash flows from financing activities</b>                                    |      |                        |               |                 |               |
| Proceeds from borrowings   |      | 1,735,476,840          | 810,093,474   | 1,727,021,108   | 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     |
| <b>Net (decrease) / increase in Cash, cash equivalents and bank overdrafts</b> |      | (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)   |
| <b>Cash, cash equivalents and bank overdrafts at end of the year</b>           | 17   | (112,555,351)          | 108,221,884   | (157,224,313)   | 70,651,673    |

The notes on pages 13 to 37 are an integral part of these consolidated financial statements.

**Financial statements - 31 December 2008**  
**Notes to the 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.

**(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.

**(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.

## 2.4 Foreign currency translation (Continued)

### (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.

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.

### (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.

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 expected useful lives of the related asset.”

## **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

## 2.14 Insurance contracts and investment contracts – classification (Continued)

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.

### (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.

## 2.17 Taxation (continued)

### (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 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.

### (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.

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.

#### 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.

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%.

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**Notes to the consolidated financial statements (Continued)**

• **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.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

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<br>(Note 17) | (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 |
| <b>Gearing</b>                               | 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.

**Financial statements - 31 December 2008**

**Notes to the consolidated financial statements**

(All amounts in Maldivian Rufiyaa unless otherwise stated)

**5 Segment information**

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

|  | <b>Trading</b> | <b>Tea</b>  | <b>Gas</b>   | <b>Insurance service</b> | <b>Fuel, lubricant and crude oil</b> | <b>Structural products</b> | <b>Group</b>       |
|--|----------------|-------------|--------------|--------------------------|--------------------------------------|----------------------------|--------------------|
| <b>Revenue</b>                         | 1,070,059,880  | 578,325     | 53,404,815   | 41,764,550               | 4,357,729,842                        | 36,139,233                 | 5,559,676,645      |
| <b>Segment Results</b>                 |                |             |              |                          |                                      |                            |                    |
| 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)        |
| <b>Profit / (loss) for the year</b>    |                |             |              |                          |                                      |                            | <b>160,391,881</b> |

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:

|  | <b>Trading</b> | <b>Gas</b>  | <b>Insurance service</b> | <b>Fuel, lubricant and crude oil</b> | <b>Structural products</b> | <b>Unallocated</b> | <b>Group</b>       |
|--|----------------|-------------|--------------------------|--------------------------------------|----------------------------|--------------------|--------------------|
| <b>Revenue</b>                         | 1,379,113,257  | 94,722,255  | 57,244,147               | 4,864,975,957                        | 21,657,049                 | -                  | 6,417,712,665      |
| <b>Segment Results</b>                 |                |             |                          |                                      |                            |                    |                    |
| 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)       |
| <b>Profit / (loss) for the year</b>    |                |             |                          |                                      |                            |                    | <b>175,750,789</b> |

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

|                     | <b>Trading</b> | <b>Tea</b> | <b>Gas</b> | <b>Insurance service</b> | <b>Fuel, lubricant and crude oil</b> | <b>Structural products</b> | <b>Group</b>  |
|---------------------|----------------|------------|------------|--------------------------|--------------------------------------|----------------------------|---------------|
| 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:

|                     | <b>Trading</b> | <b>Gas</b> | <b>Insurance service</b> | <b>Fuel, lubricant and crude oil</b> | <b>Structural products</b> | <b>Group</b>  |
|---------------------|----------------|------------|--------------------------|--------------------------------------|----------------------------|---------------|
| 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    |

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         |
|------------------------------------|---------------|---------------------|-------------------|----------------|------------------|-------------------|------------------------|--------------|--------------------------|---------------|
| <b>At 1 January 2007</b>           |               |                     |                   |                |                  |                   |                        |              |                          |               |
| Cost                               | 324,093,713   | 31,986,234          | 62,483,537        | 27,310,093     | 2,483,651        | 14,342,638        | 2,782,444              | 3,717,588    | 2,732,070                | 471,832,168   |
| Accumulated depreciation           | (166,614,731) | (21,713,358)        | (29,080,325)      | (18,962,267)   | (1,799,814)      | (11,902,321)      | (2,499,147)            | (2,281,293)  | -                        | (254,773,256) |
| Net book amount                    | 157,478,982   | 10,272,876          | 33,403,212        | 8,347,826      | 683,837          | 2,440,317         | 283,297                | 1,516,295    | 2,732,070                | 217,158,904   |
| <b>Year ended 31 December 2007</b> |               |                     |                   |                |                  |                   |                        |              |                          |               |
| Opening net book amount            | 157,478,982   | 10,272,876          | 33,403,212        | 8,347,826      | 683,837          | 2,440,317         | 283,297                | 1,516,295    | 2,732,070                | 217,158,904   |
| Additions                          | 161,904       | 2,283,789           | 642,503           | 4,143,241      | 122,626          | 636,606           | 52,396                 | 1,043,186    | 58,204,343               | 59,544,636    |
| Transfer                           | 6,520,371     | -                   | -                 | -              | -                | -                 | -                      | -            | (6,520,371)              | -             |
| Deposits                           | (1,531,278)   | -                   | -                 | -              | (1,583)          | (25,266)          | (978)                  | (6,662)      | -                        | (1,565,768)   |
| Written off during the year        | -             | -                   | -                 | -              | (4,109)          | (19,588)          | -                      | (14,079)     | -                        | (37,786)      |
| Depreciation charge (Note 32)      | (18,879,241)  | (8,075,912)         | (8,908,714)       | (3,634,940)    | (294,785)        | (1,325,838)       | (156,077)              | (514,444)    | -                        | (41,799,143)  |
| Closing net book amount            | 143,790,736   | 4,480,673           | 25,137,001        | 8,986,127      | 905,876          | 1,909,439         | 178,646                | 2,026,216    | 46,436,042               | 233,310,868   |
| <b>At 31 December 2007</b>         |               |                     |                   |                |                  |                   |                        |              |                          |               |
| Cost                               | 327,467,644   | 33,769,952          | 62,751,060        | 30,420,285     | 2,368,329        | 11,679,629        | 2,368,174              | 3,922,073    | 46,436,042               | 521,955,388   |
| Accumulated depreciation           | (183,916,908) | (29,289,279)        | (37,614,059)      | (21,514,158)   | (1,854,353)      | (9,878,398)       | (2,189,528)            | (1,885,857)  | -                        | (288,244,528) |
| Net book amount                    | 143,790,736   | 4,480,673           | 25,137,001        | 8,986,127      | 905,876          | 1,909,439         | 178,646                | 2,026,216    | 46,436,042               | 233,310,868   |
| <b>Year ended 31 December 2008</b> |               |                     |                   |                |                  |                   |                        |              |                          |               |
| Opening net book amount            | 143,790,736   | 4,480,673           | 25,137,001        | 8,986,127      | 905,876          | 1,909,439         | 178,646                | 2,026,216    | 46,436,042               | 233,310,868   |
| Additions                          | 3,591,853     | 1,041,180           | -                 | 72,080         | 268,567          | 1,329,793         | 365,447                | 1,290,774    | 19,324,612               | 27,094,206    |
| Transfer                           | 12,552,592    | 39,413,798          | -                 | -              | -                | -                 | -                      | -            | (51,966,390)             | -             |
| Deposits                           | -             | -                   | -                 | (512,100)      | (1,170)          | (37,372)          | (5,245)                | (33,136)     | -                        | (588,823)     |
| Depreciation charge (Note 32)      | (20,483,113)  | (3,586,212)         | (30,181,262)      | (3,041,920)    | (288,881)        | (1,354,887)       | (144,145)              | (772,580)    | -                        | (39,855,168)  |
| Closing net book amount            | 139,412,070   | 41,347,419          | 34,955,739        | 5,424,307      | 894,312          | 1,846,973         | 194,705                | 2,511,294    | 13,774,264               | 219,950,883   |
| <b>At 31 December 2008</b>         |               |                     |                   |                |                  |                   |                        |              |                          |               |
| Cost                               | 330,135,911   | 73,482,221          | 62,624,367        | 29,415,086     | 2,993,839        | 12,949,298        | 2,511,268              | 4,998,874    | 13,774,264               | 540,494,342   |
| Accumulated depreciation           | (188,723,841) | (32,144,802)        | (47,668,648)      | (23,990,981)   | (2,108,727)      | (11,102,317)      | (2,316,563)            | (2,487,580)  | -                        | (320,543,458) |
| Net book amount                    | 139,412,070   | 41,347,419          | 34,955,739        | 5,424,307      | 894,312          | 1,846,973         | 194,705                | 2,511,294    | 13,774,264               | 219,950,883   |

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         |
|------------------------------------|-------------|---------------|---------------------|---------------------|-------------------|----------------|------------------|-------------------|------------------------|--------------|--------------------------|---------------|
| <b>At 1 January 2007</b>           |             |               |                     |                     |                   |                |                  |                   |                        |              |                          |               |
| Cost                               | 5,094,752   | 328,416,567   | 20,265,963          | 95,475,909          | 97,443,993        | 34,367,164     | 3,135,115        | 20,226,643        | 7,089,284              | 48,523,950   | 10,905,288               | 662,884,588   |
| Accumulated depreciation           | -           | (165,651,068) | (6,838,517)         | (48,854,609)        | (37,128,241)      | (22,867,811)   | (2,478,815)      | (15,573,818)      | (5,435,300)            | (19,801,742) | -                        | (315,329,213) |
| Net book amount                    | 5,094,752   | 162,765,499   | 13,326,446          | 55,421,300          | 60,323,892        | 12,199,253     | 676,300          | 4,646,633         | 1,573,784              | 28,622,208   | 10,905,288               | 347,555,355   |
| <b>Year ended 31 December 2007</b> |             |               |                     |                     |                   |                |                  |                   |                        |              |                          |               |
| Opening net book amount            | 5,094,752   | 162,765,499   | 13,326,446          | 55,421,300          | 60,323,892        | 12,199,253     | 676,300          | 4,646,633         | 1,573,784              | 28,622,208   | 10,905,288               | 347,555,355   |
| Additions                          | -           | 1,028,507     | 788,117             | 2,848,193           | 11,441,008        | 4,370,010      | 202,268          | 2,185,885         | 455,382                | 4,033,627    | 62,622,380               | 98,856,370    |
| 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)                  | -            | -                        | (96,462)      |
| Deposits                           | -           | (1,531,277)   | -                   | -                   | -                 | (8,884)        | (5,843)          | (25,266)          | (6,420)                | (6,662)      | -                        | (1,582,152)   |
| Disposal of subsidiary             | (5,094,752) | (1,298,731)   | -                   | (337,583)           | -                 | (136,897)      | -                | (78,797)          | (74,428)               | -            | -                        | (6,979,288)   |
| Written off during the year        | -           | -             | -                   | -                   | -                 | -              | (4,109)          | (19,588)          | -                      | (14,879)     | -                        | (37,786)      |
| Depreciation charge (Note 32)      | -           | (19,332,555)  | (1,628,729)         | (11,427,090)        | (12,261,867)      | (4,302,837)    | (392,317)        | (2,316,438)       | (351,717)              | (5,338,145)  | -                        | (37,534,996)  |
| Closing net book amount            | -           | 148,738,960   | 12,473,834          | 47,037,798          | 59,503,634        | 12,467,219     | 476,291          | 4,394,672         | 1,595,746              | 19,304,948   | 63,884,552               | 368,857,847   |
| <b>At 31 December 2007</b>         |             |               |                     |                     |                   |                |                  |                   |                        |              |                          |               |
| Cost                               | -           | 331,983,723   | 21,034,888          | 97,734,481          | 188,909,962       | 37,793,228     | 3,107,177        | 16,995,208        | 6,888,585              | 43,627,321   | 63,884,552               | 733,438,331   |
| Accumulated depreciation           | -           | (183,244,763) | (8,568,246)         | (50,696,683)        | (129,006,328)     | (25,326,009)   | (2,630,886)      | (14,808,337)      | (5,272,849)            | (24,322,373) | -                        | (363,580,484) |
| Net book amount                    | -           | 148,738,960   | 12,473,834          | 47,037,798          | 59,503,634        | 12,467,219     | 476,291          | 4,394,672         | 1,595,746              | 19,304,948   | 63,884,552               | 368,857,847   |
| <b>Year ended 31 December 2008</b> |             |               |                     |                     |                   |                |                  |                   |                        |              |                          |               |
| Opening net book amount            | -           | 148,738,960   | 12,473,834          | 47,037,798          | 59,503,634        | 12,467,219     | 476,291          | 4,394,672         | 1,595,746              | 19,304,948   | 63,884,552               | 368,857,847   |
| Additions                          | -           | 3,682,007     | -                   | 1,041,168           | 194,457           | 1,875,304      | 341,767          | 2,242,071         | 480,878                | 9,540,088    | 28,323,088               | 47,728,831    |
| Transfer                           | -           | 12,552,592    | 752,406             | 39,493,804          | 7,006,001         | 1,788,288      | 51,804           | (287,881)         | (13,900)               | 320,948      | (81,577,685)             | 5,438         |
| Exchange difference                | -           | 1,925         | -                   | 1,198               | -                 | -              | -                | -                 | -                      | -            | -                        | 3,081         |
| Deposits                           | -           | -             | -                   | -                   | -                 | (512,100)      | (1,170)          | (37,372)          | (5,245)                | (33,136)     | -                        | (989,023)     |
| Depreciation charge (Note 32)      | -           | (20,824,178)  | (1,703,844)         | (6,521,824)         | (18,848,331)      | (4,159,239)    | (368,882)        | (2,262,803)       | (246,046)              | (5,818,507)  | -                        | (39,759,300)  |
| Closing net book amount            | -           | 144,051,308   | 11,522,578          | 81,052,886          | 50,855,161        | 11,379,432     | 298,400          | 3,743,887         | 1,711,433              | 23,314,344   | 30,610,045               | 357,748,372   |
| <b>At 31 December 2008</b>         |             |               |                     |                     |                   |                |                  |                   |                        |              |                          |               |
| Cost                               | -           | 345,294,128   | 21,786,486          | 132,748,804         | 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)   | (3,806,183)      | (18,707,145)      | (4,088,884)            | (24,123,740) | -                        | (405,883,730) |
| Net book amount                    | -           | 144,051,308   | 11,522,578          | 81,052,886          | 50,855,161        | 11,379,432     | 298,400          | 3,743,887         | 1,711,433              | 23,314,344   | 30,610,045               | 357,748,372   |

**Financial statements - 31 December 2008**

**Notes to the consolidated financial statements (Continued)**

(All amounts in Maldivian Rufiyaa unless otherwise stated)

**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<br>Implementation | Total            |
|---|----------------------------|------------------|
| <b>1st January 2007</b>                   |                            |                  |
| Cost                                      | -                          | -                |
| Accumulated charge                        | -                          | -                |
| <b>Net book amount</b>                    | <b>-</b>                   | <b>-</b>         |
| <b>Year ended 31 December 2007</b>        |                            |                  |
| 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)        |
| <b>Closing net book amount</b>            | <b>4,152,602</b>           | <b>4,152,602</b> |
| <b>At 31 December 2007</b>                |                            |                  |
| Cost                                      | 4,530,112                  | 4,530,112        |
| Accumulated amortization                  | (377,510)                  | (377,510)        |
| <b>Net book amount</b>                    | <b>4,152,602</b>           | <b>4,152,602</b> |
| <b>Year ended 31 December 2008</b>        |                            |                  |
| 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)      |
| <b>Closing net book amount</b>            | <b>3,718,865</b>           | <b>3,718,865</b> |
| <b>At 31 December 2008</b>                |                            |                  |
| Cost                                      | 5,102,451                  | 5,102,451        |
| Accumulated amortization                  | (1,383,586)                | (1,383,586)      |
| <b>Net book amount</b>                    | <b>3,718,865</b>           | <b>3,718,865</b> |

a) During 2007, the Group has capitalised implementation of premise 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:

| Name of the company                                      | % of interest held | Company           |                   |
|--|--------------------|-------------------|-------------------|
|  |                    | 2008              | 2007              |
| Maldive Gas Private Limited                              | 90%                | 61,200,000        | 61,200,000        |
| Allied Insurance Company of the Maldives Private Limited |                    | 807,000           | 807,000           |
| STO Maldives (Singapore) Pte Limited                     | 98.99%             | 1,459,750         | 1,459,750         |
| Fuel Supplies Maldives Pte Limited                       | 66.67%             | 18,200,000        | 18,200,000        |
| Maldives National Oil Company Ltd                        | 98.99%             | 18,000,000        | 18,800,000        |
|  |                    | <b>83,666,750</b> | <b>83,666,750</b> |

## 9 Investments in associate

|                        | Group            |                  | Company           |                   |
|------------------------|------------------|------------------|-------------------|-------------------|
|                        | 2008             | 2007             | 2008              | 2007              |
| Beginning of the year  | 4,652,292        | 4,744,599        | 18,567,267        | 18,567,267        |
| Share of profit        | 917,877          | (82,307)         | -                 | -                 |
| <b>End of the year</b> | <b>5,570,169</b> | <b>4,652,292</b> | <b>18,567,267</b> | <b>18,567,267</b> |

9 Investments in associate (continued)

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     |
|---|-------------|-----------------|
| <b>At 31 December 2007</b>              |             |                 |
| Lafarge Maldives Cement Private Limited | 29,906,083  | 11,376,913      |
| <b>At 31 December 2008</b>              |             |                 |
| Lafarge Maldives Cement Private Limited | 68,961,620  | 31,699,567      |
|   | Revenue     | Profit / (Loss) |
| <b>At 31 December 2007</b>              |             |                 |
| Lafarge Maldives Cement Private Limited | 76,676,585  | (373,086)       |
| <b>At 31 December 2008</b>              |             |                 |
| 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              |
| <b>Assets</b>              |   |                   |
| Non-current assets         | 3,060,145                                 | 2,226,216         |
| Current assets             | 46,634,413                                | 26,869,612        |
|                            | <u>49,694,558</u>                         | <u>29,095,828</u> |
| <b>Liabilities</b>         |   |                   |
| Current liabilities        | (19,475,026)                              | (8,120,369)       |
| <b>Net assets</b>          | <u>29,189,532</u>                         | <u>20,974,459</u> |
| <b>Income</b>              | 52,789,652                                | 42,724,454        |
| <b>Expenses</b>            | (40,712,976)                              | (34,947,831)      |
| <b>Profit for the year</b> | <u>12,026,674</u>                         | <u>7,776,623</u>  |

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        | (21,713,778)      | 44,906,860        |
| Divestment made during the year                    | 534,300           | 7,177,762         | 534,300           | 7,177,762         |
| Provision for impairment                           | (4,531,427)       | (23,667,426)      | (4,531,427)       | (23,667,426)      |
| <b>At the end of the year</b>                      | <u>55,995,295</u> | <u>81,706,192</u> | <u>55,995,295</u> | <u>81,706,192</u> |

11 Available-for-sale investments(continued)

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                |
| <b>Maldives Industrial Fisheries Company Ltd</b>                                     |                     |                     |                     |                     |
|  | 43,100,100          | 43,100,100          | 43,100,100          | 43,100,100          |
| <b>G.Dh Atoll Rayyithunge Cooperative Society</b>                                    |                     |                     |                     |                     |
|  | 4,500,000           | 4,500,000           | 4,500,000           | 4,500,000           |
| <b>Bank of Maldives Plc:<br/>Maldives Stock Exchange Company Private<br/>Limited</b> |                     |                     |                     |                     |
|  | 34,204,900          | 55,990,670          | 34,204,900          | 55,990,670          |
|  | 1,600,000           | 1,065,700           | 1,600,000           | 1,065,700           |
| <b>Maldivian Holdings+ Pvt Ltd</b>   |                     |                     |                     |                     |
|  | 709,148             | 709,148             | 709,148             | 709,148             |
|  | <b>84,194,148</b>   | <b>105,373,618</b>  | <b>84,194,148</b>   | <b>105,373,618</b>  |
| <b>Less: Provision for loss on impairment</b>  |                     |                     |                     |                     |
|  | <b>(20,190,853)</b> | <b>(23,667,426)</b> | <b>(20,190,853)</b> | <b>(23,667,426)</b> |
|  | <b>55,995,295</b>   | <b>81,706,192</b>   | <b>55,995,295</b>   | <b>81,706,192</b>   |

12 Inventories

|   | Group               |                    | Company             |                    |
|---|---------------------|--------------------|---------------------|--------------------|
|   | 2008                | 2007               | 2008                | 2007               |
| <b>Finished goods</b>   | 493,500             | 545,053            | -                   | -                  |
| <b>Raw materials</b>  | 17,062,642          | 10,033,952         | -                   | -                  |
| <b>Food stock</b>   | 55,072,315          | 31,479,309         | 55,072,315          | 31,479,309         |
| <b>Fuel and lubricants</b>                                    | 110,121,956         | 327,006,327        | 90,060,376          | 307,010,206        |
| <b>Home Improvement and Electronics</b>                       | 149,094,327         | 103,052,270        | 149,094,327         | 103,052,270        |
| <b>Construction materials</b>                                 | 17,522,640          | 33,741,237         | 17,522,640          | 33,741,237         |
| <b>Pharmaceuticals</b>  | 9,366,774           | 13,425,490         | 9,366,774           | 13,425,490         |
| <b>Spare parts</b>  | 3,033,233           | 6,223,101          | 50,363              | 061,012            |
| <b>Retail shops</b>   | 19,040,327          | 11,509,932         | 19,040,327          | 11,509,932         |
| <b>Others</b>   | 225,042             | -                  | -                   | -                  |
|   | <b>305,240,756</b>  | <b>530,607,647</b> | <b>343,431,122</b>  | <b>501,079,552</b> |
| <b>Less : Provision for non / slow moving<br/>inventories</b> |                     |                    |                     |                    |
|   | <b>(19,622,557)</b> | <b>(9,045,074)</b> | <b>(17,726,764)</b> | <b>(9,045,074)</b> |
|   | <b>305,618,199</b>  | <b>528,052,573</b> | <b>325,704,358</b>  | <b>492,034,478</b> |

**Provision for non / slow moving inventories**

|  | Group             |                  | Company           |                  |
|--|-------------------|------------------|-------------------|------------------|
|  | 2008              | 2007             | 2008              | 2007             |
| <b>Balance as at 1st January</b>                   | 9,045,074         | 6,209,626        | 9,045,074         | 6,209,626        |
| <b>Provision / (reversal) made during the year</b> | 9,777,483         | 3,575,448        | 7,001,690         | 3,575,448        |
| <b>Balance as at 31st December</b>                 | <b>19,622,557</b> | <b>9,045,074</b> | <b>17,726,764</b> | <b>9,045,074</b> |

13 Trade and other receivables

|   | Group                |                    | Company            |                    |
|---|----------------------|--------------------|--------------------|--------------------|
|   | 2008                 | 2007               | 2008               | 2007               |
| Trade receivables   | 745,590,553          | 503,237,222        | 545,405,261        | 251,733,892        |
| Due from policyholders  | 47,762,566           | 40,638,387         | -                  | -                  |
| Due from re-insurers  | -                    | 51,475,059         | -                  | -                  |
|   | <u>793,353,119</u>   | <u>595,350,668</u> | <u>545,405,261</u> | <u>251,733,892</u> |
| Less: Provision for impairment of trade receivables           | (49,151,263)         | (32,786,966)       | (23,929,915)       | (12,206,813)       |
| Trade receivables - net                                       | <u>744,201,856</u>   | <u>562,563,702</u> | <u>541,475,366</u> | <u>239,527,079</u> |
| Advances, prepayments and deposits                            | 79,726,133           | 91,750,364         | 73,984,778         | 77,438,193         |
| Receivables from related parties (Note 41)                    | 26,336,969           | 17,116,822         | 142,682,737        | 249,325,960        |
| Loans granted to related companies (Note 41)                  | 2,659,542            | 2,659,542          | 9,554,528          | 18,136,361         |
| Amount due from directors                                     | 24,954               | -                  | -                  | -                  |
| Other receivables (Note 14)                                   | 178,965,371          | 74,813,366         | 171,576,966        | 75,648,217         |
|   | <u>287,712,969</u>   | <u>186,399,694</u> | <u>397,799,009</u> | <u>412,541,751</u> |
| Less: Provision for impairment of receivables                 | (21,249,096)         | (18,888,218)       | (18,150,212)       | (18,586,608)       |
|   | <u>266,463,873</u>   | <u>167,471,476</u> | <u>379,648,797</u> | <u>393,955,143</u> |
| Total trade and other receivables                             | <u>1,010,665,729</u> | <u>730,035,178</u> | <u>921,124,163</u> | <u>633,482,227</u> |
| Less: Non current portion of loans given to related companies | (1,994,657)          | (1,994,657)        | (1,994,657)        | (1,994,657)        |
| Current portion   | <u>1,008,671,072</u> | <u>728,040,521</u> | <u>919,129,506</u> | <u>631,487,570</u> |

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)       |
|  | <u>39,559,402</u>  | <u>29,736,295</u> | <u>39,559,402</u>  | <u>29,736,295</u> |
| Solvency receivable                                      | 96,782,293         | 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 | 176,680            | 4,080             | 176,600            | 4,800             |
| Miscellaneous receivables                                | 23,211,434         | 9,073,065         | 16,454,023         | 9,908,116         |
|  | <u>178,965,371</u> | <u>74,813,366</u> | <u>171,576,966</u> | <u>75,648,217</u> |

15 Reinsurance Contracts

|   | Group              |                   | Company  |          |
|---|--------------------|-------------------|----------|----------|
|   | 2008               | 2007              | 2008     | 2007     |
| Re-insurers' share of insurance liabilities | 60,780,339         | 10,983,310        | -        | -        |
| Unearned premium                            | 39,473,369         | 42,555,436        | -        | -        |
|   | <u>120,173,728</u> | <u>53,458,746</u> | <u>-</u> | <u>-</u> |

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).

Financial statements - 31 December 2008

Notes to the consolidated financial statements (Continued)

(All amounts in Maldivian Rufiyaa unless otherwise stated)

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 | 105,345,607        | 106,216,190        | 119,152,400        | 136,317,534        |
| Short term bank deposit  | 39,857,596         | 87,553,340         | 39,470,067         | 70,732,918         |
|                          | <b>225,303,203</b> | <b>273,769,530</b> | <b>158,630,555</b> | <b>215,050,450</b> |

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 | 225,303,203          | 273,769,530        | 158,630,555          | 215,050,450       |
| Bank overdraft (Note 23)  | (337,050,634)        | (165,547,654)      | (315,054,060)        | (144,390,777)     |
|                           | <b>(112,555,351)</b> | <b>100,221,094</b> | <b>(157,224,313)</b> | <b>70,651,673</b> |

18 Share capital

|                     | Group            |                 | Company       |            |
|---------------------|------------------|-----------------|---------------|------------|
|                     | Number of shares | Ordinary shares | Share premium | Total      |
| At 1 January 2007   | 1,126,910        | 56,345,500      | 27,814,500    | 84,164,000 |
| At 31 December 2007 | 1,126,910        | 56,345,500      | 27,814,500    | 84,164,000 |
| At 1 January 2008   | 1,126,910        | 56,345,500      | 27,814,500    | 84,164,000 |
| At 31 December 2008 | 1,126,910        | 56,345,500      | 27,814,500    | 84,164,000 |

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 utilized during the year | (3,752,290)      | -                | -        | -        |
| Transfer during the year        | 852,033          | 1,349,923        | -        | -        |
| Balance as at 31st December     | <b>2,729,182</b> | <b>5,629,447</b> | <b>-</b> | <b>-</b> |

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                                  | (5,635,980)       | (6,290,580)       |
| Excess amount credited to minority interest rectified | (940,483)         | -                 |
| At end of the year                                    | <b>34,818,211</b> | <b>29,781,042</b> |

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<br>(Note 41) | 8,784,012          | 12,189,719         | 14,472,825         | 151,788,982        |
| Accrued expenses                         | 16,947,533         | 18,140,199         | 12,811,937         | 14,808,328         |
| Dividend payable                         | 75,579,795         | 4,381,858          | 75,579,795         | 4,301,856          |
| Other payables                           | 40,823,913         | 36,023,343         | 22,828,756         | 26,211,735         |
|  | <b>395,854,595</b> | <b>570,448,715</b> | <b>316,815,733</b> | <b>502,293,399</b> |

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               |
| <b>Non-current</b>          |                    |                    |                    |                    |
| Finance lease liabilities   | 3,122,196          | 6,179,529          | -                  | -                  |
| Interest in suspense        | (342,494)          | (1,230,835)        | -                  | -                  |
|                             | <b>2,779,702</b>   | <b>4,948,694</b>   | <b>-</b>           | <b>-</b>           |
| Bank borrowings             | 25,821,943         | 35,283,336         | 25,821,943         | 35,283,336         |
|                             | <b>28,781,645</b>  | <b>40,232,010</b>  | <b>25,821,943</b>  | <b>35,283,336</b>  |
| <b>Current</b>              |                    |                    |                    |                    |
| Finance lease liabilities   | 3,064,651          | 4,116,702          | -                  | -                  |
| Interest in suspense        | (336,181)          | (248,171)          | -                  | -                  |
|                             | <b>2,728,470</b>   | <b>3,870,531</b>   | <b>-</b>           | <b>-</b>           |
| Bank borrowings             | 280,496,105        | 285,554,138        | 280,496,105        | 285,554,138        |
| Other borrowings            | 238,852            | -                  | -                  | -                  |
| Revolving letter of credits | 8,928,823          | -                  | -                  | -                  |
| Bank overdraft (Note 17)    | 337,858,634        | 185,547,654        | 315,854,888        | 144,398,777        |
|                             | <b>630,250,894</b> | <b>454,972,323</b> | <b>596,350,973</b> | <b>429,952,915</b> |
| <b>Total borrowings</b>     | <b>659,052,529</b> | <b>495,204,333</b> | <b>622,272,916</b> | <b>465,236,251</b> |

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        |
|                    | <b>658,952,529</b> | <b>495,204,333</b> | <b>622,272,916</b> | <b>465,236,251</b> |

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

|                                   | Group                  |                        | Company                |                        |
|-----------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                   | 2008                   | 2007                   | 2008                   | 2007                   |
| Bank overdraft                    | 3.50%                  | 3.50%                  | 6.50%                  | 6.50%                  |
| Bank borrowings                   |                        |                        |                        |                        |
| -Bank of Maldives Plc             | 3.50%                  | 3.50%                  | 6.50%                  | 6.50%                  |
| -Maldivian Trade Bank Limited     | 9 Month LIBOR + 2.75%  | 9 Month LIBOR + 2.75%  | 3 Month LIBOR + 2.75%  | 3 Month LIBOR + 2.75%  |
| -Deyan Bank Limited               | MEFEP+2.5% or min 7.5% | MEFEP+2.5% or min 7.5% | MEFEP+2.5% or min 7.5% | MEFEP+2.5% or min 7.5% |
| -EHEC                             | 3.70%                  | 3.70%                  | 6.70%                  | 6.70%                  |
| -Ethiopia Bank Limited            | 3.50%                  | 3.50%                  | 6.50%                  | 6.50%                  |
| -Ministry of Finance and Treasury | 3.00%                  | 3.00%                  | 6.00%                  | 6.00%                  |

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 | 28,781,945      | 46,838,019 | 25,085,100 | 37,615,545 |

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 3.5% (2007: 3.5%).

Maturity of non-current borrowing (excluding finance lease liabilities)

|                       | Group             |                   | Company           |                   |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
|                       | 2008              | 2007              | 2008              | 2007              |
| Between 1 and 2 years | 17,852,143        | 32,797,368        | 17,852,143        | 32,797,368        |
| Between 2 and 5 years | 8,069,800         | 2,485,946         | 8,069,800         | 2,485,946         |
|                       | <b>25,921,943</b> | <b>35,283,314</b> | <b>25,921,943</b> | <b>35,283,314</b> |

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        | -       | -    |
| Future finance charges on finance leases     | 6,186,847        | 10,296,231       | -       | -    |
| Present value of finance lease liabilities   | <b>5,508,172</b> | <b>8,819,205</b> | -       | -    |
| Representing lease liabilities:              |                  |                  |         |      |
| -current                                     | 2,728,470        | 3,878,531        | -       | -    |
| -non-current                                 | 2,779,702        | 4,940,674        | -       | -    |
|  | <b>5,508,172</b> | <b>8,819,205</b> | -       | -    |

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 | -     | 11,049   | -       | -    |
| Reversal during the year     | -     | (12,310) | -       | -    |
| Exchange difference          | -     | 361      | -       | -    |
| At the end of the year       | -     | -        | -       | -    |

25 Grants and subsidies

|   | Group |           | Company |      |
|---|-------|-----------|---------|------|
|   | 2008  | 2007      | 2008    | 2007 |
| Opening balance                           | -     | 130,321   | -       | -    |
| Adjustments due to disposal of subsidiary | -     | (130,321) | -       | -    |
|   | -     | -         | -       | -    |

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                      | -     | 199,983   | -       | -    |
| 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 | 42,272,369  | 15,312,079 | -       | -    |
| Unearned Premiums                            | 64,090,577  | 95,929,570 | -       | -    |
| 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 | 1,199,172,069 | 1,025,764,150 |
| Ten                  | -             | 578,325       | -             | -             |
| Insurance ( Note 29) | 57,244,347    | 41,764,550    | -             | -             |
| Gas                  | 94,722,255    | 53,484,815    | -             | -             |
| Structural Products  | 21,657,049    | 36,139,233    | -             | -             |
| Crude oil            | -             | 453,126,286   | -             | 453,126,286   |
| Fuel and lubricants  | 4,864,975,957 | 3,904,683,556 | 5,895,278,073 | 3,678,262,354 |
|                      | 6,417,712,665 | 5,559,676,645 | 6,894,450,162 | 5,157,152,790 |

28 Sales(Continued)

Analysis by companies

|  | <b>Group</b>           |                        |
|--|------------------------|------------------------|
|  | <b>2008</b>            | <b>2007</b>            |
| 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                |
| Maldives Gas Pvt Ltd   | 96,482,319             | 67,297,481             |
| 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             |
|  | <b>18,639,588,314</b>  | <b>8,519,607,051</b>   |
| Less : Inter-company Transactions                                  | <b>(4,221,855,649)</b> | <b>(2,939,930,486)</b> |
|  | <b>6,417,732,665</b>   | <b>5,579,676,565</b>   |

29 Net insurance premium revenue and fee income

|   | <b>2008</b>         | <b>2007</b>         |
|---|---------------------|---------------------|
| <b>Long term insurance contracts with fixed terms</b>             |                     |                     |
| - premium receivable  | 485,539             | -                   |
| - change in unearned premium provision                            | (316,467)           | -                   |
| Premium revenue arising from insurance contracts issued           | <b>169,072</b>      | <b>-</b>            |
| <b>Short term insurance contracts</b>                             |                     |                     |
| - premium receivable  | 128,308,473         | 118,878,267         |
| - change in unearned premium provision                            | (7,944,540)         | (18,099,685)        |
| Premium revenue arising from insurance contracts issued           | <b>120,363,933</b>  | <b>92,778,582</b>   |
| <b>Reinsurance contracts</b>                                      |                     |                     |
| <b>Long term reinsurance contracts with fixed terms</b>           |                     |                     |
| - premium payable   | (185,480)           | -                   |
| - change in unearned premium provision                            | -                   | -                   |
| Premium revenue ceded to reinsurers on insurance contracts        | <b>(185,480)</b>    | <b>-</b>            |
| <b>Short term reinsurance contracts</b>                           |                     |                     |
| - 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 | <b>(81,017,678)</b> | <b>(70,084,240)</b> |
| <b>Net insurance premium revenue</b>                              | <b>38,429,947</b>   | <b>22,694,422</b>   |
| Reinsurance commission  | 23,644,652          | 25,335,278          |
| Profit commission for reinsurers                                  | 5,714,015           | -                   |
| Inward reinsurance premium  | -                   | 137,033             |
| Fee income  | 28,358,667          | 25,472,311          |
| <b>Total income</b>   | <b>68,788,614</b>   | <b>48,166,733</b>   |
| Less : Inter-company transactions                                 | <b>(11,544,467)</b> | <b>(6,402,183)</b>  |
|   | <b>57,244,147</b>   | <b>41,764,550</b>   |

| 30 Other operating income  | Group             |                   | Company           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2008              | 2007              | 2008              | 2007              |
| Profit on disposal of property, plant and equipment              | 440,739           | 2,483,031         | 317,060           | 508,821           |
| Profit on disposal of the leasehold rights of Velakubathi 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         | 1,040,822         | 1,247,510         | 907,715           |
| Rent income  | 17,131,463        | 16,585,098        | 19,877,429        | 18,261,325        |
| Discounts received   | 3,188,733         | 6,255,138         | -                 | -                 |
| Service charge on handling Japanese food sales                   | 1,212,829         | 2,539,951         | 1,212,829         | 2,539,951         |
| Miscellaneous income   | 5,167,824         | 1,889,751         | 1,730,582         | 1,834,690         |
|  | <b>30,621,930</b> | <b>80,081,898</b> | <b>25,507,303</b> | <b>72,594,509</b> |

| 31 Profit on disposal of subsidiaries                        | Group |                  | Company |                    |
|--|-------|------------------|---------|--------------------|
|  | 2008  | 2007             | 2008    | 2007               |
| Sales proceeds on disposal                                   | -     | 6,425,080        | -       | 6,425,000          |
| Value of the net assets / investment at the date of disposal | -     | 831,201          | -       | (7,868,472)        |
| Profit / (loss) on disposal                                  | -     | <b>7,256,281</b> | -       | <b>(1,443,472)</b> |

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)                       | 58,256,382           | 57,534,996           | 39,855,168           | 41,789,143           |
| Employment benefit expenses (Note 33)       | 117,681,671          | 92,428,694           | 79,812,417           | 61,743,827           |
| Materials consumed                          | 37,426,980           | 31,548,233           | -                    | -                    |
| Amortisation charge (Note 7)                | 1,006,876            | 377,510              | -                    | -                    |
| Operating lease rentals                     | 568,834              | 416,861              | -                    | -                    |
| Directors' remuneration                     | 2,852,841            | 1,408,685            | 1,157,719            | 724,149              |
| Cost of sales                               | 5,801,215,108        | 5,091,967,374        | 6,480,638,298        | 4,849,423,112        |
| Transportation                              | 11,573,018           | 15,358,107           | 10,334,833           | 13,884,988           |
| Vessel and fleet expenses                   | 8,518,878            | 11,941,243           | 8,518,878            | 11,941,243           |
| Advertising costs                           | 2,257,598            | 2,644,153            | 1,040,879            | 908,168              |
| Agents commission                           | 2,626,426            | 2,579,519            | -                    | -                    |
| Audit fee                                   | 518,130              | 398,885              | 250,575              | 218,458              |
| Accounting and legal charges                | 361,335              | 971,472              | -                    | -                    |
| Provision for bad and doubtful debts        | 20,338,699           | 18,838,854           | 11,718,348           | 6,685,425            |
| Bad debts written off                       | 65                   | 946,831              | -                    | -                    |
| Provision for non / slow moving inventories | 9,375,894            | 3,575,448            | 7,881,898            | 3,575,448            |
| Impairment of investments                   | 4,531,427            | 23,667,426           | 4,531,427            | 23,667,426           |
| Fuel expenses                               | 34,136,817           | 18,508,554           | 14,822,895           | 10,406,405           |
| Rental expenses                             | 11,964,449           | 12,891,833           | 10,208,886           | 11,000,573           |
| Telephone, electricity and water charges    | 13,411,203           | 13,568,402           | 8,087,858            | 9,520,476            |
| Bank charges                                | 6,588,824            | 5,875,333            | 5,964,818            | 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           |
| Zakat                                       | 4,302,937            | -                    | 4,302,937            | -                    |
| Other selling and distribution costs        | 14,254,584           | 14,848,955           | 13,576,205           | 14,822,211           |
| Other expenses                              | 19,485,013           | 17,488,255           | 16,447,911           | 11,257,164           |
|   | <b>6,218,593,706</b> | <b>5,456,697,819</b> | <b>6,736,553,271</b> | <b>5,093,775,866</b> |
| <b>Classified as:</b>                       |                      |                      |                      |                      |
| - cost of sales                             | 5,840,388,373        | 5,125,186,488        | 6,480,638,298        | 4,849,423,112        |
| - selling and marketing costs               | 170,295,884          | 139,236,680          | 138,332,790          | 122,902,054          |
| - administrative expenses                   | 199,188,723          | 190,919,931          | 154,815,479          | 120,815,980          |
| - other operating expenses                  | 820,746              | 1,434,720            | 2,766,712            | 1,434,720            |
|   | <b>6,210,593,706</b> | <b>5,456,697,819</b> | <b>6,736,553,271</b> | <b>5,093,775,866</b> |

## 33 Employee benefit expense

|                                  | Group              |                   | Company           |                   |
|----------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                  | 2008               | 2007              | 2008              | 2007              |
| Salaries and wages               | 50,752,909         | 40,345,366        | 31,009,477        | 26,004,441        |
| Staff welfare                    | 2,009,719          | 3,340,990         | 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             | 303,946           |
| Bonuses, overtime and allowances | 49,585,402         | 35,197,058        | 40,902,112        | 20,641,216        |
| Provision for gratuity           | -                  | 21,045            | -                 | -                 |
| Provident fund contribution      | 1,479,064          | 1,191,655         | 1,253,255         | 1,033,341         |
| Other staff related expenses     | 2,216,799          | 1,165,581         | 1,003,150         | 536,434           |
|                                  | <b>117,601,671</b> | <b>92,420,694</b> | <b>79,012,417</b> | <b>61,743,927</b> |

## 34 Finance income and costs

|   | Group               |                     | Company             |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | 2008                | 2007                | 2008                | 2007                |
| <b>Finance cost</b>                         |                     |                     |                     |                     |
| Interest expenses:                          |                     |                     |                     |                     |
| - bank borrowings                           | (20,499,549)        | (10,016,356)        | (20,021,682)        | (19,154,717)        |
| - bank overdrafts                           | (32,001,378)        | (10,097,173)        | (31,315,097)        | (7,361,081)         |
| - other borrowings                          | (1,072,277)         | (1,007,017)         | (94,110)            | (121,047)           |
| Foreign exchange loss                       | (2,304,000)         | (637,947)           | (2,361,464)         | (462,025)           |
|   | <b>(64,757,204)</b> | <b>(32,239,293)</b> | <b>(61,792,355)</b> | <b>(27,099,670)</b> |
| <b>Finance income</b>                       |                     |                     |                     |                     |
| Interest income on loans given              | 669,379             | 2,485,296           | 606,661             | 908,104             |
| Interest income on government credit scheme | 6,012,032           | 4,990,408           | 6,012,032           | 4,990,408           |
| Interest income on fixed deposits           | 4,585,035           | 3,740,603           | 4,002,586           | 3,268,039           |
| Foreign exchange gain                       | 17,613              | -                   | -                   | -                   |
| Dividends on investments                    | 2,285,620           | 912,900             | 23,426,420          | 24,855,854          |
|   | <b>13,409,679</b>   | <b>12,129,207</b>   | <b>34,047,679</b>   | <b>34,104,505</b>   |
| <b>Net finance (cost) / income</b>          | <b>(51,267,525)</b> | <b>(20,110,006)</b> | <b>(27,744,676)</b> | <b>7,004,895</b>    |

## 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 | 1,180        | -             | -        | -        |
|  | <b>1,180</b> | <b>12,310</b> | <b>-</b> | <b>-</b> |

## 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 | 175,750,799 | 160,391,001 | 155,659,510 | 141,532,056 |
| 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)             | <b>156</b>  | <b>142</b>  | <b>139</b>  | <b>126</b>  |

## 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               |
| <b>Profit before tax</b>                                  | <b>187,391,241</b>  | <b>178,134,612</b> | <b>155,659,518</b>   | <b>141,532,858</b> |
| <b>Adjustments for:</b>                                   |                     |                    |                      |                    |
| - Depreciation (Note 6)                                   | 59,258,302          | 57,534,896         | 39,855,168           | 41,789,143         |
| - Amortization (Note 7)                                   | 1,806,876           | 377,510            | -                    | -                  |
| - Interest income (Note 34)                               | (11,186,446)        | (11,216,367)       | (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)          | (23,426,428)         | (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 (Note 11) | 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)        | (317,048)            | (500,821)          |
| - property, plant and equipment transfers (Note 6)        | (5,938)             | -                  | -                    | -                  |
| -Currency translation differences                         | (135,021)           | 1,873,834          | -                    | -                  |
| -Grants and subsidy                                       | -                   | (138,321)          | -                    | -                  |
| -provision for gratuity                                   | -                   | (189,903)          | -                    | -                  |
| <b>Changes in working capital</b>                         |                     |                    |                      |                    |
| - Inventories   | 163,234,374         | (98,413,687)       | 166,330,128          | (118,743,781)      |
| - trade and other receivables                             | (347,345,533)       | (243,381,478)      | (286,221,545)        | (229,493,242)      |
| - Trade and other payables                                | (218,743,571)       | 278,861,229        | (257,555,605)        | 289,360,211        |
| <b>Cash (used in) / generated from operations</b>         | <b>(95,286,121)</b> | <b>198,558,120</b> | <b>(154,335,583)</b> | <b>121,426,112</b> |

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               |
|---|------------------------------|--------------------|--------------------|
| <b>Maldive Structural Product Pvt Ltd</b> |                              |                    |                    |
| - overdraft                               | Bank of Maldives             | 3,212,500          | 3,212,500          |
| - letter of credit                        | Bank of Maldives             | 38,550,080         | 19,275,000         |
| <b>Maldive National Oil Company Ltd</b>   |                              |                    |                    |
| - letter of credit                        | Society General Singapore    | 771,000,080        | 771,800,000        |
| <b>Fuel Supplies Maldives Pvt Ltd</b>     |                              |                    |                    |
| - overdraft                               | State Bank of India Maldives | 38,000,080         | 38,800,000         |
| <b>Maldive Gas Pvt Ltd</b>                |                              |                    |                    |
| - overdraft                               | State Bank of India Maldives | 8,000,080          | 8,800,000          |
| - letter of credit                        | State Bank of India Maldives | 8,673,750          | 8,673,750          |
|   |                              | <b>858,436,250</b> | <b>848,161,250</b> |

(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 recognised 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        |
|  | <b>909,879,110</b> | <b>910,251,350</b> | <b>906,528,950</b> | <b>906,528,950</b> |

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        | 2,473,336        | -        | -        |
| Later than 1 year and not later than 5 years | 2,779,702        | 2,353,461        | -        | -        |
| Later than 5 years                           | -                | 3,982,408        | -        | -        |
|  | <b>5,508,172</b> | <b>8,819,205</b> | <b>-</b> | <b>-</b> |

41 Related party transactions

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

|   | 2008        | 2007          |
|---|-------------|---------------|
| <b>Allied Insurance Company of the Maldives Pvt Ltd</b><br>(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     |
| <b>STO Maldives (Singapore) Pte Ltd</b><br>(Subsidiary Company)                 |             |               |
| - purchases of oil  | -           | (496,943,455) |
| - rent received   | 154,200     | 154,200       |
| - services obtained   | -           | (183,183)     |
| - dividends received  | -           | 41,008        |
| <b>STO Lanka Pvt Ltd</b><br>(Subsidiary Company)                                |             |               |
| - purchases of tea  | -           | (148,525)     |
| - bad debts written off   | -           | 7,782,304     |
| <b>Maldives National Oil Company Ltd</b><br>(Subsidiary Company)                |             |               |
| - purchases of oil  | -           | (13,124,183)  |
| - advances given  | 300,000     | -             |
| - rent received   | 154,200     | 154,200       |

41 Related party transactions (Continued)

|   |                 |               |
|---|-----------------|---------------|
| <b>Maldives Gas Pvt Ltd</b>                       |                 |               |
| <b>(Subsidiary Company)</b>                       |                 |               |
| - sale of goods                                   | 623,365         | 454,041       |
| - purchases of goods                              | (1,760,064)     | (369,397)     |
| - rent received                                   | 267,299         | 274,364       |
| - interest on advance                             | 432,531         | 357,325       |
| <b>Fuel Supplies Maldives Pvt Ltd</b>             |                 |               |
| <b>(Subsidiary company)</b>                       |                 |               |
| - sale of fuel                                    | 2,846,996,259   | 1,818,631,552 |
| - purchases of fuel                               | (1,327,300,552) | (629,696,233) |
| - dividends received                              | -               | 9,690,000     |
| - rent received                                   | 760,064         | 757,362       |
| - services obtained                               | -               | (2,461,994)   |
| - interest on advance                             | -               | 77,617        |
| - dividends received                              | 11,311,080      | -             |
| <b>Maldives Structural Product Pvt Ltd</b>        |                 |               |
| <b>(Joint venture company)</b>                    |                 |               |
| - sale of goods                                   | -               | 13,580        |
| - purchases of goods                              | (61,690,675)    | (53,437,094)  |
| - dividends received                              | 3,900,080       | 3,855,000     |
| <b>Lafarge Maldives Cement Pvt Ltd</b>            |                 |               |
| <b>(Associate company)</b>                        |                 |               |
| - purchases of goods                              | (96,019,465)    | (52,290,675)  |
| - sales of goods                                  | -               | 18,694        |
| - services rendered                               | 109,200         | 109,200       |
| - interest on advance                             | 224,400         | 294,242       |
| <b>Maldives Industrial Fisheries Company Ltd</b>  |                 |               |
| <b>(Investee society)</b>                         |                 |               |
| - sale of goods                                   | 1,565,326       | 13,157,772    |
| - purchases of goods                              | -               | (9,548,269)   |
| <b>Ensis Fisheries Pvt Ltd</b>                    |                 |               |
| <b>(Related party of subsidiary)</b>              |                 |               |
| - services rendered                               | -               | 161,036       |
| <b>G.Dh Atoll Ranyithunge Cooperative Society</b> |                 |               |
| <b>(Investee society)</b>                         |                 |               |
| - purchases of goods                              | -               | (364,713)     |
| - sales of goods                                  | 21,628,154      | 14,564,280    |
| <b>Ministry of Finance and Treasury</b>           |                 |               |
| <b>(Majority shareholder)</b>                     |                 |               |
| - loan settlements                                | (51,462,641)    | (42,950,390)  |
| - loan interest paid                              | (4,415,916)     | (8,369,246)   |
| - food subsidy income                             | 136,717,293     | 98,744,422    |
| - dividends paid                                  | (72,332,310)    | (85,200,080)  |

(b) Key management compensation

For the year ended 31 December 2008, the total remuneration of the directors was RF 2,852,841 (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               |
| <b>Receivables from related parties (Note 13):</b>      |                   |                   |                    |                    |
| <b>STO Maldives (Singapore) Pte Ltd</b>                 |                   |                   |                    |                    |
|   | -                 | -                 | 3,896,706          | -                  |
| <b>Maldives Gas Pvt Ltd</b>                             | -                 | -                 | 690,312            | 438,957            |
| <b>Fuel Supplies Maldives Pvt Ltd</b>                   | -                 | -                 | 129,829,933        | 241,856,805        |
| <b>Allied Insurance Company of the Maldives Pvt Ltd</b> | -                 | -                 | 306,325            | -                  |
| <b>Rainbow Enterprises Pvt Ltd</b>                      | 15,710,657        | 7,278,400         | -                  | -                  |
| <b>Maldives National Oil Company Ltd</b>                | -                 | -                 | -                  | -                  |
| <b>G.Dh Atoll Ranyithunge Cooperative Society</b>       | -                 | -                 | 455,190            | 216,176            |
|   | 7,745,559         | 6,392,615         | 7,745,559          | 6,392,615          |
| <b>Exels Fisheries Private Limited</b>                  | 481,085           | 857,112           | -                  | -                  |
| <b>Maldives Industrial Fisheries Company Ltd</b>        | -                 | -                 | -                  | -                  |
|   | 845,841           | 2,588,495         | 372,124            | 329,227            |
| <b>Ministry of Finance and Treasury</b>                 | 184,586           | -                 | 184,586            | -                  |
| <b>Hr Abdul Raheem Ahmed</b>                            | 1,385,500         | -                 | -                  | -                  |
| <b>Vera Maldives Private Limited</b>                    | 47,036            | -                 | -                  | -                  |
| <b>Lafarge Maldives Cement Pvt Ltd</b>                  | 6,784             | -                 | -                  | -                  |
|   | <u>26,336,969</u> | <u>17,116,822</u> | <u>142,882,737</u> | <u>248,325,900</u> |

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.

**Payables to related parties (Note 22):**

|   |                  |                   |                   |                    |
|---|------------------|-------------------|-------------------|--------------------|
| <b>Lafarge Maldives Cement Pvt Ltd</b>                  |                  |                   |                   |                    |
|   | 2,578,225        | 5,765,620         | 2,578,225         | 5,765,620          |
| <b>Maldives Structural Product Pvt Ltd</b>              | -                | -                 | -                 | -                  |
|   | 5,929,155        | 6,344,095         | 11,894,600        | 12,688,189         |
| <b>Allied Insurance Company of the Maldives Pvt Ltd</b> | -                | -                 | -                 | 871,302            |
| <b>STO Maldives (Singapore) Pvt Ltd</b>                 | -                | -                 | -                 | 132,455,651        |
| <b>Rainbow Enterprises Pvt Ltd</b>                      | 188,632          | -                 | -                 | -                  |
|   | <u>8,786,012</u> | <u>12,189,715</u> | <u>14,472,825</u> | <u>151,788,962</u> |

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

|                                       | Group            |                  | Company          |                   |
|---------------------------------------|------------------|------------------|------------------|-------------------|
|                                       | 2008             | 2007             | 2008             | 2007              |
| <b>Beginning of the year</b>          | 2,659,542        | 3,823,090        | 18,136,361       | 11,852,066        |
| <b>Loans advanced during the year</b> | -                | -                | 1,576,583        | 13,534,416        |
| <b>Loans repayments received</b>      | -                | (1,163,548)      | (2,156,172)      | (14,427,897)      |
|                                       | 2,659,542        | 2,659,542        | 9,556,772        | 18,138,585        |
| <b>Less: Interest in suspense</b>     | -                | -                | (2,224)          | (2,224)           |
| <b>End of the year</b>                | <u>2,659,542</u> | <u>2,659,542</u> | <u>9,554,528</u> | <u>18,136,361</u> |

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.