

STATEMENT OF CORPORATE GOVERNANCE

Corporate governance means the process by which the business is managed with the purpose of achieving the corporate objectives and meeting the expectations of the stakeholders of the Establishment.

Board endorse the code of best practice suggested by the Institute of Chartered Accountants of Sri Lanka on corporate governance and aim to adopt the suggested practices to ensure responsibility and accountability to stakeholders of the Establishment.

This statement describes the way in which these principles are applied by the Establishment presently.

The Establishment consists of 08 Directors, 02 of them are ex-official Directors from Treasury and Co-operative Development. The Board has delegated responsibility for planning and guiding the business towards meeting set objectives to the Chairman. The Board meets twice a month.

The Board has set out financial delegation by which the approval procedure for all financial related activities are set out, these instructions allow authority based on different levels of management. The Board meets regularly and has done so on 21 occasions during the year. The Directors receive a comprehensive package of relevant information all issues prior to each meeting. The Board monitors and oversees the business performance of the Establishment.

The Board approves the Annual Budget and any extra votes necessary has to be approved by the Board. The Chairman is delegated authority within the budgeted limits.

The Chairman holds weekly management meetings with the senior management to discuss operational performance and policies. These decisions of the senior management are communicated down the line. The Finance Manager reports to the Chairman on all finance and information management aspects.

The Audit Committee, which currently comprises of three non-executive Directors assist the Board of Directors in discharging their responsibilities with regard to reporting of financial and non-financial information and maintenance of a sound system of internal controls. The General Manager, the Finance Manager and a representative from the External Auditors attend these meetings on invitation.

The Audit Committee is empowered to review any activity within the establishment. It monitors the financial reporting process, so as to give additional assurance regarding the reliability of the financial information through a process of independent and objective review. In addition, the Audit Committee also provides a forum for the impartial review and consideration of the contents findings and recommendations stated in both External & Internal Audit Reports.

The Board is provided assurance by the Audit Committee that business risks, control issues and significant weaknesses are identified and appropriate and timely action is taken to overcome them.

The annual review of controls covers key control areas such as compliance with the establishment policies, documentation of key business risks, effectiveness of organizational structures and signing off of key controls by Departmental Managers.

**REPORT OF THE DIRECTORS OF
THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
FOR THE YEAR ENDED 31ST DECEMBER – 2 0 0 2**

The Chairman and Board of Directors of the Co-operative Wholesale Establishment take pleasure in presenting their report for the year 2002 together with the Accounts of the Establishment in accordance with Section 14 of the Finance Act No. 38 of 1971.

GENERAL

Principal Activities

The Co-operative Wholesale Establishment (CWE) was established by Act of Parliament No.47 of 1949 and began its operation on 1st July 1950. At present it comes under purview of the Ministry of Commerce & Consumer Affairs. This establishment is also known popularly as 'SATHOSA'.

SATHOSA is a large public sector organisation, which was established originally to support the socio-economic requirements of the state. The primary objective of the CWE is to operate as retail and wholesale dealer in consumer products in the context of the present open market economy. The focus of their objective is to provide the consumers access to purchase their essentials at reasonable prices and quality standards.

REVIEW OF BUSINESS

a. An assessment of the Establishment and its affairs is contained in the Chairman's review, which is an integral part of the Director's Report.

b. State of the Affairs

Total Group General Trading Turnover for the year was Rs.7,334 Million after eliminating inter-company sales of Rs.1,084 Million compared with Rs.8,306 Million in 2001. 66% of the total turnover is on account of retail trade. The gross profit earned in general trading was Rs.820 Million and was not sufficient to cover the overheads and bank interest charges amounting to Rs.1,641 Million and Rs.889 Million respectively.

Overall net loss of the organisation for the year was Rs.1,602 Million as compared with Rs.1,243 Million in the year 2001.

All Retail shops were brought under the umbrella of Sathosa Retail Limited since 1st of November 2002 and it shows a net profit of Rs.66.9 Million for the remaining two month of 2002.

c. PERFORMANCE OF MAJOR SECTIONS OF THE ORGANISATION

c-1 Retail Marketing

CWE Retail outlets are strategically located in metropolises providing easy access to the general public. The island-wide net work of retail outlets stands at 157 consisting self service and counter-wise retail outlet. 47 outlets are located in the Western Province as the population density is highest in this region.

Under the restructuring programme of the CWE, Sathosa Retail Limited was incorporated and commenced business with a single outlet at Welisara on 18th March 2002 and subsequently all other retail outlets were brought under the purview of Sathosa Retail Limited with effect from 1st November, 2002. Accounts have been prepared separately for Sathosa Retail Limited and have recorded a net profit of Rs.66 Million.

However no rental for assets used or management fee for services rendered have been charged as these are still under negotiation. Action is also being taken to review the transfer prices charged for products transferred to Sathosa Retail Limited from CWE, so as to reflect the market prices.

Many of the sales outlets particularly in the urban areas are at super market standard which are updated with modern systems. On the guidance of Hon. Minister of Commerce & Consumer Affairs, CWE has commenced 100 super malls project and the first super mall was opened in March 2002 in Welisara and 3 more super malls were opened at Jawatta, Navam Mawatha and Rajagiriya subsequently. These malls have nearly 4000 consumer items of popular brand. Spaces have been rented out to banks and other reputed private sector firms from which a substantial income is derived.

Further on the guidance of Hon. Minister of Commerce & Consumer Affairs action has been taken to open most of the retail shops for 24 hours for the benefit of the consumers.

As a part of computerisation of our retail shops, action has been taken to install point of sales system in the following shops and number would be increased in near future.

1. Welisara
2. Jawatta
3. Rajagiriya
4. Nawam Mawatha

In addition to above sales outlets, operations at the supply unit of Maligawatta have been computerised and action is being taken to computerise supply unit at Welisara also linked to Head Office main frame computer.

Arrangements have been made to open retail shops at commercially viable places and close down or relocate the unprofitable shops.

There is a 4.25% (approximately) increase in share of retail sales in this year as compared with previous year. 36% of the turnover has been achieved in Colombo while Kalutara, Matara, Hambantota, Kegalle and Rathnapura regions have recorded 24% of the turnover.

c– 2 Wholesale Marketing Division

The Wholesale sales of the division for the year 2002 amounted to Rs.2492 Million (approximately) excluding inter company sales of Rs.1084 Million.

The turnover of the previous year was Rs.3128 Million and this reflects a decrease of 20%.

The drop in sales is mainly due to non-availability of goods in sufficient quantities at competitive prices compared with open market prices. It is expected that with the commencement of Sathosa Wholesale Limited, it would be possible to make procurements in a much more efficient and flexible manner so as to compete effectively with private sector. In this respect initial groundwork has already been done to tie up with foreign collaborators to fund the imports for wholesale.

Action has also been taken to introduce a dealer network to distribute 'SATHOSA' brand products while private sector participation will be obtained to enhance efficiency in packeting operations as well.

c– 3 Agricultural Marketing

The Agricultural Marketing Division in the CWE has been originally established basically to meet the socio-economic objectives of the Government. However with the recent changes the policy of the Government is not to involve in business, the CWE too has been undertaking market driven activities in the agricultural sector in collaboration with the private sector though not completely abdicating its social responsibilities.

In this connection, the CWE has undertaken to sell vegetable on wholesale basis in association with private sector. This project will be expanded so as to benefit a larger sector of consumers.

c– 4 Non- Foods

The CWE has been trading in products belonging to non-food categories such as Stationery, Hardware/Electrical Goods, Sports Goods and Textiles. The textile sector was not profitable and accordingly the CWE has been gradually withdrawing in dealing in textiles. Even though there is a tremendous potential in other non-food areas mentioned above, this sector has been relatively stagnating mainly due to non-availability of banking facilities. It is expected that with the formation of entities like Sathosa Wholesale/Sathosa General Ltd, these lines of businesses would be able to successfully operate as a self-financing unit.

FUTURE DEVELOPMENT

Accumulated losses at the beginning of the year stood at Rs.4,054,023,771/- and bank loans and overdrafts of Rs.5,097,953,147/-. There was an urgent need to restructure the organisation to achieve the above mentioned objectives and to run the as a viable entity.

With the above objective and under the guidance of the Hon. Minister of Commerce & Consumer Affairs restructuring process of the organisation is being done with a view to reduce the debt burden progressively and to ensure its profitability and commercial viability in the future.

Under the restructuring programme the Hon. Minister of Commerce & Consumer Affairs, has obtained Cabinet approval to re-structure the CWE and it was decided to form the following companies as separate strategic business units:

1. Sathosa Retail Limited
2. Sathosa Wholesale Limited
3. Sathosa Distributions Limited
4. Sathosa Tele-card Limited
5. Sathosa Power Generations Limited
6. Sathosa Limited
7. Sathosa Management Services Limited

At present the Sathosa Retail Limited and the Sathosa Management Services Limited have been formed and are operational. Expression of interest has been called for management and divestiture of 40% of shares of Sathosa Retail Limited. Offers received in respect of above are being evaluated by the Cabinet Approved Divestiture Committee.

Plans are underway to undertake new activities with the collaboration of private sector so as to generate additional income from activities such as baggage clearance, duty free shopping. Action will be taken to commence operations in the other subsidiary companies already formed

(2) Computerisation Activities of the Organisation

With the view of getting upto date management information for effective decision making relating to major business functions the CWE prepared a Master IT Plan and commenced implementation of major accounting functions in 1999 and has extended to Purchasing Management System during the year under review.

(3) RESERVES - Total Group Reserves
Capital & Reserves

	Rs.
Capital	1,056,590
Reserves	427,211,894
Vehicle Replacement Reserves	72,218,000
Revaluation Surplus	1,159,246,538
Accumulated Loss	<u>(5,656,945,618)</u>
	<u>3,997,212,596</u>

(4) PROPERTY, PLANT AND EQUIPMENT, THEIR VALUATION AND DEPRECIATION

Details of status and movements of Property, Plant and Equipment are given in the Note 06 to the Notes to the Accounts. The Freehold Land and buildings were revalued at open market rate as at 31st December, 1997.

(5) ISSUE OF SHARES :

Expression of interest for issue of 40% of shares of Sathosa Retail Limited has been called and evaluation of bidders is being carried out by Cabinet Appointed Tender Board.

(6) DIRECTORS' INTEREST IN SHARES

Directors do not hold any shares in CWE or its subsidiaries.

(7) DIRECTORS' INTEREST IN CONTRACTS

Partner of Gajma & Company Tax consultants since 1996, Mr. N.R. Gajendran has been appointed as a Director.

Chairman, Hettigoda Group Dr. Victor Hettigoda is a Director of CWE and has dealings with CWE as a supplier.

(8) EVENT AFTER BALANCE SHEET DATE:

No significant event which affects the Balance Sheet has taken place after the Balance Sheet Date.

(9) GOING CONCERN:

As at the balance sheet date, the Establishment has substantial accumulated losses and its current liabilities exceeds its current assets by Rs. 1,198 Million. Due to continuing availability of banking facilities and the re-negotiation of loans, the Directors are of the opinion that it is appropriate to prepare the financial statements on the going concern basis, which assumes that the Establishment will continue its operational existence for the foreseeable future and would continue to meet its financial obligations as and when

they fall due for a period of at least twelve months from the date of signing these financial statements.

(10) ***AUDITORS***

The Auditor General is the auditor of the organisation in terms of 154(1) of the Constitution of Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971.

ACKNOWLEDGEMENT

We thank Her Excellency the President, the Hon. Prime Minister, the Hon. Minister of Commerce & Consumer Affairs, Hon. Deputy Ministers, the Secretaries, the Additional Secretaries and all Officials of the Ministries for the wise guidance and assistance given to the CWE. We thank all officials of the Ministry of Finance and the Treasury and other Ministries for Co-operation extended to the us during the year.

Our dearest asset is our employees. We thank all employees for their service and co-operation during the year.

The Board of Directors wishes to place on record its appreciation of those members of the staff, who retired during the period after many years of loyal service to this organisation.

The Board of Directors also thanks sincerely our valued customers for their continued patronage. We also thank the various statutory organisations, private sector institutions and our bankers. To the banks, we owe special thanks for their continued support and the confidence they placed on us.

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2002.

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
TURNOVER	(02)	7,212,603,380	14,738,726,322	7,270,921,330
COST OF SALES		(6,602,599,612)	(14,645,314,077)	(6,453,964,440)
GROSS PROFIT	(03)	610,003,768	93,412,245	816,956,890
OTHER OPERATING INCOME	(04)	193,716,879	63,790,414	176,005,201
DISTRIBUTION COSTS	(06)	(1,107,210,250)	(1,727,553,747)	(1,237,791,127)
PROVISION FOR BAD DEBTS		(27,880,721)	(153,357,398)	(27,986,120)
ADMINISTRATIVE EXPENSES	(05)	(355,669,133)	(455,526,524)	(375,937,251)
STOCK VARIENCE		(64,598,231)	(48,573,666)	(64,598,231)
PROFIT FROM OPERATIONS		(751,637,688)	(2,227,808,676)	(713,350,638)
LOSS ON INVESTMENT		-	(2,076,300)	-
FINANCE COSTS		(889,044,937)	(1,602,298,126)	(889,571,209)
PROFIT BEFORE TAX		(1,640,682,625)	(3,832,183,102)	(1,602,921,847)
TAXATION		-	-	-
PROFIT / (LOSS) BEFORE TREASURY SUPPLEMENT FOR REVENUE LOSS		(1,640,682,625)	(3,832,183,102)	(1,602,921,847)
TREASURY SUPPLEMENT FOR REVENUE LOSS		-	2,588,374,652	-
PROFIT / (LOSS) AFTER TREASURY SUPPLEMENT FOR REVENUE LOSS		(1,640,682,625)	(1,243,808,450)	(1,602,921,847)
PROFIT / (LOSS) BROUGHT FORWARD		(4,054,023,771)	(2,810,215,321)	(4,054,023,771)
BALANCE PROFIT / (LOSS) CARRIED FORWARD		(5,694,706,396)	(4,054,023,771)	(5,656,945,618)

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
BALANCE SHEET AS AT 31ST DECEMBER, 2002.**

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
ASSETS				
Non - Current Assets				
Property, Plant and Equipment	(07)	1,473,924,368	1,504,836,142	1,548,879,158
Deferred Capital Expenditure	(08)	26,443,245	22,184,748	26,443,245
Investments	(09)	9,923,860	9,923,720	9,923,720
Long Term Receivable (O.F.Assets)	(10)	5,555,880	5,555,880	5,555,880
		<u>1,515,847,353</u>	<u>1,542,500,490</u>	<u>1,590,802,003</u>
Current Assets				
Inventories	(11)	453,772,252	1,151,155,442	845,175,992
Trade and Other Receivable	(12)	1,482,365,753	1,447,468,253	1,274,941,606
Short Term Investment		-	-	17,000,000
Cash in Hand and at Bank	(13)	159,978,680	202,905,352	354,992,536
		<u>2,096,116,685</u>	<u>2,801,529,047</u>	<u>2,492,110,134</u>
Total Assets		<u>3,611,964,038</u>	<u>4,344,029,537</u>	<u>4,082,912,137</u>

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
BALANCE SHEET AS AT 31ST DECEMBER, 2002. (CONTINUED)**

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
EQUITY AND LIABILITIES				
Capital and Reserves				
Capital		1,056,590	1,056,590	1,056,590
Reserves	(14)	427,211,894	427,211,894	427,211,894
Vehicle Replacement Reserve		72,218,000	72,218,000	72,218,000
Revaluation Surplus		1,159,246,538	1,159,246,538	1,159,246,538
Accumulated Loss		(5,694,706,396)	(4,054,023,771)	(5,656,945,618)

		(4,034,973,374)	(2,394,290,749)	(3,997,212,596)
NON - CURRENT LIABILITIES				
Bank Borrowings	(16)	3,156,150,000	-	3,156,150,000
CURRENT LIABILITIES				
Trade and Other Payable	(15)	2,151,223,152	1,640,367,139	2,584,410,473
Bank Borrowings	(16)	1,873,465,338	4,002,194,359	1,873,465,338
Bank Overdraft	(17)	466,098,922	1,095,758,788	466,098,922
		4,490,787,412	6,738,320,286	4,923,974,733
		7,646,937,412	6,738,320,286	8,080,124,733
Total Equity and Liabilities		3,611,964,038	4,344,029,537	4,082,912,137

The accounting policies and notes form an integral part of these Financial Statements.
These Financial Statements were approved by the Board of Directors on

CHAIRMAN

FINANCE MANAGER

(04)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2002.

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
Operating activities				
Net Profit / (Loss) before Taxation and Extraordinary Items		(1,640,682,624)	(1,243,808,450)	(1,602,921,839)
Adjustment for : Depreciation		67,392,359	64,999,073	67,392,360
Deferred Capital Expenditure		8,878,869	7,175,528	8,878,869
Profit / (Loss) on sale of Fixed Assets		(21,690,068)	(897,936)	(1,201,594)
Gratuity Provision		16,476,557	51,172,278	16,476,557
Loss on Investment		-	2,076,300	-
Interest Costs		889,044,935	1,602,298,126	889,571,205
Operating Profit / (Loss) before Working Capital changes		(680,579,972)	483,014,919	(621,804,442)

(Increase) / Decrease in Inventories	697,383,190	2,532,277,523	305,979,450
(Increase) / Decrease in Debtors	(34,897,504)	2,350,224,791	172,526,643
(Increase) / Decrease in Short Term Investments	-	-	(17,000,000)
Increase / (Decrease) in payables	577,619,342	(1,734,901,550)	1,010,806,663
Cash generated from Operations	559,525,056	3,630,615,683	850,508,314
Gratuity Paid	(83,239,886)	(18,996,915)	(83,239,886)
Interest Paid	(889,044,935)	(1,602,298,126)	(889,571,205)
Deferred Capital Expenditure	(13,137,366)	(25,451,180)	(13,137,366)
Net Cash from Operating Activities	(425,897,131)	1,983,869,462	(135,440,143)
Cash Flow from Investing Activities			
Purchases of Fixed Assets	(102,263,703)	(43,644,231)	(111,576,246)
Proceeds From Sale of Fixed Assets	87,473,177	1,974,065	1,342,458
Purchases of Shares in Subsidiary Companies	(140)	-	-
Net cash used in Investing Activities	(14,790,666)	(41,670,166)	(110,233,788)
Cash flow from Financing Activities			
Proceeds form Interest Bearing Borrowings	3,156,150,000	-	3,156,150,000
Decrease in Short Term Borrowings	(2,128,729,021)	(1,860,158,392)	(2,128,729,021)
Net cash flow from Financing Activities	1,027,420,979	(1,860,158,392)	1,027,420,979
Net Movement in Cash and Cash Equivelents	586,733,192	82,040,903	781,747,048
Cash and Cash Equivealent at the beginning of the year	(892,853,434)	(974,894,337)	(892,853,434)
Cash and Cash Equivealent at the end of the year	(306,120,242)	(892,853,434)	(111,106,386)

(08)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002.

(02) TURNOVER

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
General Trading	2 A	7,265,905,828	8,306,886,145	7,334,603,366
Exports	2 C	10,067,601	20,739,329	10,067,601
Flour Operation	2 B	-	7,094,458,059	-
Less : Issues to C.W.E			(102,892,957)	-
		7,275,973,429	6,991,565,102	7,344,670,967

Insurance Commission	-	-	740,000
Turnover Tax	(63,370,049)	(76,409,167)	(74,489,637)
National Security Levy	-	(504,055,087)	-
TOTAL TURNOVER	7,212,603,380	14,738,726,322	7,270,921,330

(03) CONTRIBUTION

General Trading	2 A	613,930,991	1,057,988,079	820,144,117
Flour Operation	2 B	-	(954,653,916)	-
Exports	2 C	(3,927,227)	(9,921,918)	(3,927,227)
Insurance Commission		-	-	740,000
TOTAL CONTRIBUTION		610,003,764	93,412,245	816,956,890

Notes to the accounts continued on page 09.

(09)

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)**

NOTE 2A	NOTES	COMPANY		GROUP
		2002	2001	2002
		Rs.	Rs.	Rs.
GENERAL TRADING WORKING ACCOUNT				
GROSS SALES		7,265,905,828	8,306,886,145	7,334,603,366
Turnover Tax		(63,370,049)	(76,409,167)	(74,489,637)
		7,202,535,779	8,230,476,978	7,260,113,729
LESS :				
COST OF SALES		6,588,604,788	7,172,488,899	(6,439,969,612)
Perished and Condemned good		-	-	-

GROSS PROFIT	613,930,991	1,057,988,079	820,144,117
Contribution - Exports	(3,927,227)	(9,921,918)	(3,927,227)
TOTAL CONTRIBUTION	610,003,764	1,048,066,161	816,216,890
Administration Expenses	(355,669,133)	(385,950,623)	(375,937,251)
Selling and Distribution Expenses	(1,135,090,971)	(1,375,746,164)	(1,265,777,247)
Stock Variance	(64,598,231)	(48,573,666)	(64,598,231)
Bank Interest and Charges	(889,044,937)	(758,627,490)	(889,571,209)
	(1,834,399,508)	(1,520,831,782)	(1,779,667,048)
Other Income	193,716,879	63,790,414	176,005,201
	(1,640,682,629)	(1,457,041,368)	(1,603,661,847)
Loss on Investments	-	(2,076,300)	-
Net Profit / (Loss) before Treasury Supplement for Revenue Loss	(1,640,682,629)	(1,459,117,668)	(1,603,661,847)
Treasury Supplement Claim on Paddy	-	215,309,218	-
NET PROFIT / (LOSS)	(1,640,682,629)	(1,243,808,450)	(1,603,661,847)

Notes to the accounts continued on page 10.

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THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
NOTE 2B				
FLOUR OPERATION WORKING ACCOUNT				
SALES		-	7,094,458,059	-
Less : National Security Levy		-	(504,055,087)	-
		-	6,590,402,972	-
COST OF SALES		-	(7,545,056,888)	-
GROSS PROFIT		-	(954,653,916)	-

Less : EXPENSES			
Distribution	-	486,394,313	-
Printing and Stationery	-	502,596	-
Bank Interest & Charges	-	843,670,636	-
Other Expenses	-	207,281	-
CWE Administration Charges	-	65,728,961	-
Insurance	-	3,846,939	-
Trade Mission Expenses	-	-	-
Legal Expenses	-	84,880	-
Provision for Bad Debts	-	17,975,911	-
	-	1,418,411,517	-
PROFIT / (LOSS) FROM FLOUR OPERATIONS DURING THE YEAR	-	(2,373,065,433)	-
Cost of Wheat Grain with Prima Ceylon Ltd.	-	(364,969,045)	-
	-	(2,738,034,478)	-

Notes to the accounts continued on page 11.

(11)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
NOTE 2C				
EXPORT DEPARTMENT WORKING ACCOUNT				
EXPORT SALES :				
Traditional		-	4,864,092	-
Non-Traditional : Betel & Others		10,067,601	15,875,237	10,067,601
		10,067,601	20,739,329	10,067,601
COST OF SALES		(9,095,429)	(21,513,659)	(9,095,429)
GROSS CONTRIBUTION		972,172	(774,330)	972,172

Other Income / Local Sales	158,004	1,070,678	158,004
	1,130,176	296,348	1,130,176
DIRECT EXPENSES :			
Staff Emoluments	2,909,037	3,952,781	2,909,037
Transport Charges	531,581	1,229,444	531,581
Export Promotion Expenses	128,665	137,313	128,665
Loss on Price Reduced Stocks	18,876	38,847	18,876
Staff Car Running Expenses	-	82,500	-
Travelling and Subsistence	30,561	59,037	30,561
Staff Welfare	290,576	259,361	290,576
Rent, Rates & Taxes	367,018	128,971	367,018
Telephone	290,511	497,160	290,511
Electricity	490,157	248,851	490,157
Export Department Expenses	421	324,281	421
Trade Mission Expenses	-	3,259,720	-
	5,057,403	10,218,266	5,057,403
NET CONTRIBUTION	(3,927,227)	(9,921,918)	(3,927,227)

Notes to the accounts continued on page 12.

(12)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
(04). OTHER INCOME				
Rental Income		40,300,348	13,616,250	41,533,493
Interest		22,117,820	33,478,721	22,825,022
Profit on Sale of Fixed Assets		21,690,068	897,936	1,201,594
Miscellaneous Income		104,928,740	2,775,531	105,765,189
Exchange Difference		4,679,903	13,021,976	4,679,903
		193,716,879	63,790,414	176,005,201
(05) ADMINISTRATIVE EXPENSES				
Advertising		375,987	1,169,980	392,392
Audit Fees		975,000	1,200,000	1,475,000

Bonus	2,634,890	8,590,762	2,634,890
Computer Charges	4,117,200	7,286,342	4,117,200
Company Incorporation Charges	-	-	113,318
Depreciation	35,578,466	34,158,264	35,578,466
Directors' Fees	574,755	873,474	574,755
Electricity	6,641,847	5,141,024	11,287,434
Employees' Provident Fund and Trust Fund	10,726,893	17,661,972	11,513,582
Gifts and Donations	3,275,500	59,000	3,275,500
Gifts and Rewards to Staff	-	7,718,118	-
GST/ VAT Paid	17,837,513	28,092,802	17,837,513
C/F	82,738,051	111,951,738	88,800,050

Notes to the accounts continued on page 13.

(13)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
(05) ADMINISTRATION EXPENSES (CONTINUED)				
B/F		82,738,051	111,951,738	88,800,050
Amortisation of Deferred Capital Expenditure		8,878,869	7,175,528	8,878,869
Insurance		28,183,824	21,884,933	28,285,737
Legal Expenses		2,569,394	3,309,043	2,569,394
Ministry Expenses		1,178,426	516,033	1,203,426
Management Fees - SMS		12,924,575		-
Motor Vehicle Lease Interest		-	143,554	-
Opening Ceramany Expenses		-	-	517,928
Postage and Telephone Charges		8,024,923	7,785,808	9,148,431
Printing and Stationery		16,125,490	9,547,143	16,385,971
Provision for Gratuity		3,981,273	19,605,003	3,981,273
Rent, Rates and Taxes		10,246,508	2,381,935	10,250,035
Repair and Maintenance		3,839,314	2,319,539	4,875,200
Secretarial Charges		-	-	17,635
Security Fees		-	-	271,216
Staff Emoluments		125,398,707	202,862,694	145,820,093

Staff Training and Development	154,464	552,693	154,465
Staff Welfare	11,475,656	20,431,983	13,272,331
Sundry Expenses	6,602,644	5,388,538	6,752,562
Travelling and Transport	33,347,015	39,670,359	34,621,038
Water	-	-	131,597
	<u>355,669,133</u>	<u>455,526,524</u>	<u>375,937,251</u>

Notes to the accounts continued on page 14.

(14)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u>	<u>2001</u>	<u>2002</u>
(06) SELLING AND DISTRIBUTION EXPENSES		Rs.	Rs.	Rs.
Advertising and Sales Promotion		5,914,684	8,394,939	13,033,685
Bonus		1,291,916	29,797,767	1,714,406
Depreciation		27,552,514	27,001,595	27,552,514
Electricity		40,174,335	29,927,012	48,762,298
Employees' Provident Fund and Trust Fund		43,207,978	47,323,935	48,480,327
Incentives to Staff		169,085	420,201	169,085
Legal Expenses		940,759	2,026,085	941,359
Loss on Imports		137,995	440,785	137,995
Loss on Price Reduced Stocks		19,705,705	47,024,131	25,580,807
Packing Materials		79,266,663	113,081,117	82,743,756
Postage, Telegrams and Telephone		22,179,269	21,741,348	25,035,186
Printing and Stationery		5,208,305	9,550,259	5,773,241
PROVISION FOR BAD AND DOUBTFUL DEBTS		21,000,121	133,331,390	21,900,120
Provision for Gratuity		12,495,284	31,567,275	12,495,284
Rent, Rates and Taxes		126,827,261	80,625,744	133,772,035
Repairs and Maintenance		19,492,426	17,671,092	24,164,912
Reuter Monitor Service		-	1,815,963	-
Licence Fee		-	-	205,100
Staff Emoluments		528,737,976	534,815,297	602,658,952
Staff Training and Development		82,000	741,083	82,000

Staff Welfare	32,501,467	36,623,338	35,780,120
Sundry Expenses	8,851,145	6,453,035	13,374,295
Trade Mission Expenses	2,658,873	1,201,124	2,658,877
Transport and Distribution Expenses	124,343,976	672,973,853	124,988,847
Travelling and Subsistence	5,470,634	6,336,769	5,757,631
Barcode expenses	-	-	1,073,936
Credit Card Commission	-	-	831,447
Commission on Gift Vouchers	-	-	23,032
	<u>1,135,090,971</u>	<u>1,880,911,145</u>	<u>1,265,777,247</u>

Notes to the accounts continued on page 15.

(16)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
	<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
(08). DEFFERED CAPITAL EXPENDITURE			
At the Beginning of the Year	22,184,748	3,909,096	22,184,748
Incurred During the Year	13,137,366	25,451,180	13,137,366
Amortised During the Year	(8,878,869)	(7,175,528)	(8,878,869)
At the End of the Year	<u>26,443,245</u>	<u>22,184,748</u>	<u>26,443,245</u>
(09). INVESTMENTS			
Sathosa Retail Limited	70	-	-
Sathosa Motors Limited	10	10	10
Ingrin Institute of Printing and Graphics	9,923,710	9,923,710	9,923,710
Sathosa Management Services Limited	70	-	-
	<u>9,923,860</u>	<u>9,923,720</u>	<u>9,923,720</u>
(10). LONG TERM RECEIVABLE			
Building Materials Corporation	3,000,000	3,000,000	3000000
Sri Lanka State Trading (Consolexport) Corporation	1,535,880	1,535,880	1,535,880

1,020,000	1,020,000	1,020,000
5,555,880	5,555,880	5,555,880

Notes to the accounts continued on page 17.

(17)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
(11). INVENTORIES				
GENERAL TRADING STOCK				
Wholesale Stock		376,588,832	671,227,222	376,588,832
Retail Stock		-	354,398,121	391,102,816
C & D Class Stock		25,996,424	27,435,354	31,079,733
		<u>402,585,256</u>	<u>1,053,060,697</u>	<u>798,771,381</u>
Provision for Condemned Goods		(25,996,424)	(27,435,354)	(31,079,733)
		<u>376,588,832</u>	<u>1,025,625,343</u>	<u>767,691,648</u>
EXPORT DEPARTMENT STOCK :		532,234	2,019,421	532,234
TRANSPORT DEPARTMENT STOCK :		9,113,911	9,405,789	9,113,911
FILLING STATION STOCK :				
Fuel Stock and Lubricant Stock		-	2,345,394	-
OTHERS				
Building Department Stock		3,688,977	7,274,030	3,688,977
Spare Parts Stock		5,513,669	7,854,337	5,513,669
Stock - Aflot		5,337,160	20,403,858	5,337,160
Medical Centre - Drug Stock		50,000	110,751	50,000
Packing Materials Stock		33,917,647	63,041,675	34,218,571
Office Services Stock		5,720,003	7,876,799	5,720,003
Finished Goods, Oil / Vinegar Stock - Welisara		13,309,819	1,072,900	13,309,819
Raw Material Stock		-	3,436,824	-
		<u>67,537,275</u>	<u>111,071,174</u>	<u>67,838,199</u>
FLOUR OPERATION STOCK :				

Packing Materials Stock

-	688,321	-
-	688,321	-
453,772,252	1,151,155,442	845,175,992

Notes to the accounts continued on page 18.

(21)

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)**

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
(13). CASH-IN-HAND AND AT BANK				
C.W.E.				
Peoples Bank Savings A/c		2,412,666	-	2,412,666
ABN Amro Bank		8,181	-	8,181
Sampath Bank		-	2,573,588	-
Hatton National Bank - Cinnamon Gardens		-	516	-
American Express Bank		1,122	1,122	1,122
People's Bank Foreign Branch		-	21,996,999	-
Mashreque Bank		994	994	994
Hatton National Bank - Franchise Operations		-	170,089	-
Domestic Foreign Currency Account		136,056,474	125,830,766	136,056,474
Pan Asia Bank		1,976	1,976	1,976
Commercial Bank		591,882	842	591,882
National Development Bank - Rajagiriya		-	8,181	-
Credit Cards		7,441,031	5,191,428	7,441,031
Seylan Bank		40,450	2,071	40,450
Nations Trust Bank		164	364	164
C/F		146,554,940	155,778,936	146,554,940

Notes to the accounts continued on page 22.

(22)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)**

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
B/F		146,554,940	155,778,936	146,554,940
Bank Transfers		7,870,500	-	7,870,500
Postage and Petty Cash Imprest S.R.L.		5,548,610	9,630,355	5,588,610
Bank of Ceylon		-	-	3,701,885
Peoples Bank - Foreign Branch		-	-	102,369,888
Hatton National Bank		-	-	7,146,293
Commercial Bank		-	-	18,099,898
National Development Bank		-	-	1,578,031
Hongkong and Shanghai Bank Corporation		-	-	21,698,206
H.S.B.C - Special Account		-	-	1,334,927
Credit Cards		-	-	2,644,340
Seylan Bank		-	-	7,425,091
City Bank		-	-	4,236,488
Hatton National Bank		-	-	177,921
Day Sheet Control Account		-	37,491,431	24,560,888
		159,974,050	202,900,722	354,987,906
FOOD DEPARTMENT				
People's Bank		4,630	4,630	4,630
		4,630	4,630	4,630
		159,978,680	202,905,352	354,992,536

Notes to the accounts continued on page 23.

FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

	<u>NOTES</u>	<u>COMPANY</u>		<u>GROUP</u>
		<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
(14). RESERVES				
Capital Reserve		32,444,879	32,444,879	32,444,879
General Reserve		94,477,411	94,477,411	94,477,411
Loan Redemption Reserve		300,289,604	300,289,604	300,289,604
		<u>427,211,894</u>	<u>427,211,894</u>	<u>427,211,894</u>
(15). TRADE AND OTHER PAYABLE				
Trade Creditors		345,523,216	217,554,035	738,246,206
Import Purchases and Charges		664,126,995	365,185,647	664,126,995
Advance from Treasury for Chillie		56,843,000	56,843,000	56,843,000
Provision for Gratuity		216,746,561	283,509,890	216,746,561
Salaries and Dues to Employees		104,230,341	9,469,012	104,312,397
Other Creditors		644,859,934	554,719,310	684,289,609
C.R.				
Power Generation Ltd.		-	-	126,533
S.R.W .				
Current account with C.W.E.		-	-	826,067
		<u>2,032,330,047</u>	<u>1,487,280,894</u>	<u>2,465,517,368</u>
FOOD DEPARTMENT				
Others		118,893,105	153,086,245	118,893,105
		<u>118,893,105</u>	<u>153,086,245</u>	<u>118,893,105</u>
		<u>2,151,223,152</u>	<u>1,640,367,139</u>	<u>2,584,410,473</u>

Notes to the accounts continued on page 24.

(24)

**THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)**

COMPANY

GROUP

(16). BANK BORROWINGS	<u>NOTES</u>	<u>2002</u> Rs.	<u>2001</u> Rs.	<u>2002</u> Rs.
C.W.E.				
Import Loans				
Bank of Ceylon		49,164,454	349,926,851	49,164,454
Hatton National Bank		448,238,691	-	448,238,691
People's Bank		448,381,902	230,767,508	448,381,902
Seylan Bank		64,964,000	-	64,964,000
		1,010,749,047	580,694,359	1,010,749,047
Short Term Loans				
Bank of Ceylon		153,716,291	1,380,000,000	153,716,291
Hongkong & Shanghai Banking Corporation		489,000,000	941,500,000	489,000,000
People's Bank		-	300,000,000	-
Commercial Bank		-	800,000,000	-
Seylan Bank		220,000,000	-	220,000,000
		862,716,291	3,421,500,000	862,716,291
		1,873,465,338	4,002,194,359	1,873,465,338
(17). LONG TERM LOANS				
Commercial Bank		778,000,000	-	778,000,000
Hongkong & Shanghai Banking Corporation		354,150,000	-	354,150,000
Bank of Ceylon		2,024,000,000	-	2,024,000,000
		3,156,150,000	-	3,156,150,000

Notes to the accounts continued on page 25.

(25)

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002. (CONTINUED)

<u>NOTES</u>	<u>COMPANY</u>	<u>GROUP</u>
<u>2002</u>	<u>2001</u>	<u>2002</u>

(18). BANK OVERDRAFT**C.W.E.**

	Rs.	Rs.	Rs.
Day sheet Control Account	53,696,427		53,696,427
Hatton National Bank	139,118,217	92,407,139	139,118,217
People's Bank Foreign Branch	84,393,050	-	84,393,050
People's Bank - Betel	6,982	6,982	6,982
People's Bank Special Account	1,114,513	-	1,114,513
Bank of Ceylon - Paddy	8,688,007	752,988,335	8,688,007
Bank of Ceylon	110,410,384	120,175,854	110,410,384
People's Bank - Suduwella	33,679	25,631	33,679
Hongkong & Shanghai Banking Corporation	37,699,374	26,484,436	37,699,374
Sampath Bank	170,976	-	170,976
Union Bank	1,265	1,265	1,265
Citi Bank	18,689,810	91,746,226	18,689,810
	454,022,684	1,083,835,868	454,022,684

FOOD DEPARTMENT

Bank of Ceylon	12,076,238	11,922,920	12,076,238
	12,076,238	11,922,920	12,076,238
	466,098,922	1,095,758,788	466,098,922

Notes to the accounts continued on page 26.

(19). CONTINGENT LIABILITIES

- (I) The value of stock in bonded warehouses as at 31st December, 2001 stood at Rs. 54.6 Mn. (CIF Value). There is no provision made in the accounts for duty and defence levy payable (Rs. 11.5 Mn.) in the event of these stocks being sold ex-bond.
- (II) A lease rental has been imposed by the Commissioner of Lands on CWE for the property at McCallum Road @ Rs. 20,940,000 per annum from 1993. No provision has been made in the accounts to this effect (Rs. 146,580,000) pending a decision by the Minister regarding this payment.
- (III) Deemed Dividend Tax - The Department of Inland Revenue has issued assessments for years 1991/1992 and 1992/1993 as follows.

	<u>Tax</u> Rs.	<u>Penalty</u> Rs.
91/92	Rs. 142,062,546	71,031,273
92/93	Rs. 165,249,578	82,624,789

The Board of Review has cancelled the assessment issued for 91/92. It has however affirmed the Commissioner's assessment for the Y/A 92/93. The CWE has appealed against this assessment and the case is pending in the Court of Appeal. Department of Inland Revenue in stating their case has claimed for Deemed Dividend Tax and not a penalty. This amounts to Rs. 165,249,578 for which no provision has been made in the Accounts.

(20). DISCONTINUED OPERATIONS

CWE has been importing Wheat Grain on a Government Directive since 1989. Shipments were directed to Prima Mill at Trincomalee for milling. Extracted flour was handed over to the Food Commissioner who was selling Wheat Flour on behalf of CWF and proceeds were collected by CWE. A separate working account was maintained for this purpose. This operation was discontinued with effect from 25th June, 2002 under a Directive of the Government.

Notes to the accounts continued on page 28.

WHOLESALE ESTABLISHMENT FINANCIAL STATEMENTS 31ST DECEMBER, 2002. (CONTINUED)

(21). POST BALANCE SHEET EVENTS

With a view to continuing the CWE as a commercially viable organisation it has been decided to effect changes in the principal sphere of activity. It has been proposed to establish subsidiary companies of strategic business units which will take over principal activities to diversify and expand operations to bring in much needed 'profit' with a view to implementing this strategy to Sathosa Management Services Ltd and Sathosa Retail Ltd have been formed and are in operation.

(22). DIRECTORS' INTERESTS IN CONTRACTS

Gajma & Company has been the tax consultants with effect from 9th December, 1996 Mr. N. R. Gajendran who is a partner of this company has been appointed to the Board of Directors on 25th January, 2002. Deshabandu Ayur Dr. Victor Hettigoda, Chairman of Hettigoda Group which the CWE deals with, is also a Director of CWE. There were no material related party transactions other than the above.

(23). TAXATION

Income Tax

Taxation has been computed in accordance with the Inland Revenue Act No. 38 of 2000. There is no tax liability as there is a carry forward tax loss.

Deferred Taxation

No provision is required for deferred taxation on excess of the net book value of the assets of which depreciation allowance has been claimed over its tax written down value on the timing differences of assets on the basis that these timing differences are not likely to reverse in the foreseeable future.

Notes to the accounts continued on page 29.

WHOLESALE ESTABLISHMENT FINANCIAL STATEMENTS 31ST DECEMBER, 2002. (CONTINUED)

(24). CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash in hand, demand deposits with banks and bank borrowings.

(25). COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's presentation.

(26). GOVERNMENT LOANS

Bank Loans on Flour and Paddy amounting to Rs. 3,035 Mn and Rs. 513 Mn respectively have been converted into Government Loans.

(27). FLOUR STOCK

CWE imported wheat grain and handed over to Prima Ceylon Ltd for milling according to a Government Directive since 1989. Flour extracted was given back to the CWE. This operation was discontinued by the CWE from June 2001 in accordance with Treasury letter dated 29th June, 2001 and there was a remaining stock of 25,490 MT of Wheat Grain with Prima to the value of Rs. 364,969,045 which was not returned to the CWE. The cost of this was charged to the Working Account and has been disclosed as due from Prima Ceylon Ltd.

PERFORMANCE REVIEW – 2 0 0 2

The highlights of financial results of the CWE (Group) for the year 2002 as compared to 2001 (excluding wheat flour) are indicated below:

	Rs. Mn.		
	2002 Group	2001 Excluding Wheat	Variance
Total Gross Turnover	7335	8306	(971)
Gross Profit	820	1057	(237)
G.P.%	11.1%	12.7%	(1.6%)
Distribution & Admn. Expenses	1641	1761	(120)
Finance Cost	889	758	(131)
Loss after Treasury Subsidy	1602	1243	359

a. Turnover/Gross Profit

The total turnover for the year 2002 has recorded a decrease of 11.6% as compared to 2001. The major reason for this is decrease in wholesale trade even though retail trade has increased as indicated below:

	2002 Rs.Mn	2001 Rs.Mn.	Variance Rs. Mn.
Wholesale	2645	3273	(628)
Retail	4690	5033	(343)

The gross profit earned in general trading was Rs.820 Million and has not been sufficient to cover the overheads and financial charges of Rs.1641 Million and Rs.889 Million respectively.

It is noted that if not for the financial charges of Rs.889 Million there would have been a break-even situation. The excessive financial charges have been incurred mainly on account of losses during last 05 years amounting to Rs. 4050 Million approximately.

b. Distribution and Administration Expenses:

These expenses have decreased in 2002 as compared to 2001 as indicated below:

	2002 Group	2001 Excluding Wheat Flour	Rs. Mn. Variance
Selling & Distribution Cost	1264	1375	(111)
Admn. Expenses	<u>376</u>	<u>385</u>	<u>(9)</u>
	<u>1640</u>	<u>1760</u>	<u>(120)</u>
	=====	=====	=====

The staff salaries for the entire group have increased by Rs.51 Million during the year. However, there has been a significant reduction in overtime cost as shown below:

	2002	<u>Rs. Mn.</u> 2001
Staff Salaries (Excluding SMSL)	583	532
Overtime	113	159

The other significant changes in the cost structure are indicated below:

	<i>Rs. Mn.</i>		
	2002 Group	2001	Variance
Bonus	4	38	(34)
Rent/Rates/Taxes	144	83	61
Electricity	60	35	25
Printing/Stationery	23	18	05
Insurance	28	18	10
Postage/Telephone	34	29	05
Packing materials	82	113	(31)
Advertising	13.4	9.5	4
Travelling & Transport	40	46	(6)
Transport & Distribution	124	186	(62)
Loss on Price Reduced Items	25	47	(22)
Repairs/Maintenance	37	27	10

The increase in rent has been in respect of claims made by Railway and Food Department. The increased expenses on printing, postage/telephone and advertising are attributable to increased trade in retail. It is also noted that there are significant reductions in following areas:

	2002 Group	<i>Rs. Mn.</i> 2001
Condemned Goods	16.1	21.2
Loss on selling below cost	8.1	26.7
Provision for condemning	<u>30.6</u>	<u>27.4</u>
Total :	54.8 =====	75.3 =====

1. ***Stocks:***

The closing stock valuation is based on physical verification for wholesale depots and on book value for retail shops as at 31.12.2002.

	2002	<i>Rs. Mn.</i> 2001
	Group	
Wholesale	376	671
Retail	<u>391</u>	<u>354</u>
	<u>767</u>	<u>1025</u>
	====	====

The average stock holding period for the year has come down to 59 days from 71 days in 2001. The ideal period for stock holding in relation to CWE should be 15 – 30 days depending on the geographical location. Therefore, action will have to be taken to we may further reduce the stock holding period and this will benefit on savings, such as lesser, shortages, Board of Survey, Combined Board of Survey etc.

2. *Working Capital*

With the erosion of capital base during last 7 years CWE is burdened with negative capital for a considerable period. The current asset ratio has deteriorated as given below compared to last year.

	2002	<i>Rs. Mn.</i> 2001
	Group	
Working capital	(581)	(1159)
	====	====
Current Asset Ratio	0.27:1	0.41:1

The deterioration of working capital ratio has placed constraints on local purchases and imports.

3. As per an exercise carried out by Retail Marketing Division during the year 2002 60 retail shops out of 158 are running at a loss.

The average stocks maintained at these outlets is Rs.79 Million approximately. Which is substantial investment when considering the financial constraints faced by the CWE.

c. **Retail Marketing**

As a part of the restructuring exercise, Sathosa Retail Limited (SRL) commenced business with a single outlet at Welisara in March 2002 while all other retail outlets came under the purview of SRL with effect from 01.11.2002. Accounts have been prepared separately for SRL and have recorded a net profit of Rs.66 Million.

The retail marketing strategy in re-furbishing and upgrading the outlets has paid off even through a major constraint has been the limitation on the finance available.

d. Wholesale Marketing:

The Wholesale Marketing strategy has been to increase the wholesale trade by importing high volumes of bulk good items at competitive prices and selling with a few margin within the least possible time so that both distribution and financial costs are minimal.

The CWE has been able to continue its operations during the last 05 years even with very heavy losses due to cash flow brought in by wheat flour trade and the termination of wheat flour trade in the latter part of 2001. The CWE has been finding it difficult to fund its import/wholesale business. Even with significant cash in flow generated by Wheat flour, the CWE's wholesale trade has not been able to operate profitably due to constraints indicated below:

- Lack of flexibility in purchasing thereby preventing competing effectively with the private sector.
- High operational cost
- Lack of proper identification of responsibility and insufficient authority.

The new strategy in wholesale marketing was based on reducing operational cost which has been achieved successfully. But the overall success could not be achieved mainly due to insufficient finances. Therefore, the need for a suitable financing strategy whereby alternative sources of funds are made use of is imperative.

It is expected that other constraints in wholesale trade mentioned above will be dealt with once the Sathosa Wholesale Ltd. becomes operational.

e. Export Department

	2002	Rs. Mn. 2001
Turnover	10.0	20
Contribution	0.972	(0.774)
Direct Cost	5.05	10.22 (Almost 50% of T/O)
Net Contribution/(Loss)	(3.92)	(9.92)

The Export Department has been continuously making losses and it is expected that this Department which is not part of the core-business of the CWE will be closed down in the near future.

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

The Year in Brief

	2002	2001	Increase/ (Decrease)%
	Rs.000	Rs.000	
Turnover			
General Trading	7,265,906	8,306,886	-12.53%
Flour Operation	-	6,991,565	-100.00%
Export Department	10,068	20,739	-51.45%
Imports C.I.F	2,062,681	2,226,993	-7.38%
Local Purchases	3,150,471	3,707,533	-15.03%
Trading Profit/(Loss) Before Tax	(1,640,683)	(1,243,808)	31.91%
Income from other sources	193,717	63,790	203.68%
Income Tax	-	-	-
T .T.& Defence Levy	63,370	580,464	-89.08%
Profit/(Loss)after Tax	(1,640,683)	(1,243,808)	31.91%
Retained Profit	-	-	-
Capital Expenditure	106,522	61,920	72.03%
Working Capital	(5,550,821)	(3,936,791)	41.00%
Movement of Net Liquid Funds	586,733	82,041	615.17%
Number of Employees	5650	5961	-5.22%
Employee Emoluments	759,581	963,403	-21.16%

| 3,150,470,764 |

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STAFF EMOLUMENTS-2002

	ADMINISTRATION	S& D	EXPORT
SALARIES	125,398,707	528,737,976	2,909,037
EPF & ETF	10,726,893	43,207,978	
STAFF WELFARE	11,475,656	32,501,467	290,576
INCENTIVES TO STAFF	-	169,085	
BONUS	2,634,890	1,291,916	
STAFF TRAINING & DEVELOPMENT	154,465	82,000	
	150,390,611	605,990,422	3,199,613

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

The Year in Brief

	2002	2001	Increase/ (Decrease)%
	Rs.000	Rs.000	
Turnover			
General Trading	7,334,603	8,306,886	-11.70%
Flour Operation	-	6,991,565	-100.00%
Export Department	10,068	20,739	-51.45%
Imports C.I.F	2,062,681	2,226,993	-7.38%
Local Purchases	3,529,496	3,707,533	-4.80%
Trading Profit/(Loss) Before Tax	(1,602,922)	(1,243,808)	28.87%
Income from other sources	176,005	63,790	175.91%
Income Tax	-	-	-
T .T.& Defence Levy	74,490	580,464	-87.17%
Profit/(Loss)after Tax	(1,602,922)	(1,243,808)	28.87%
Retained Profit	-	-	-
Capital Expenditure	102,264	43,644	134.31%
Working Capital	(2,431,865)	(3,936,791)	-38.23%
Movement of Net Liquid Funds	781,747	82,041	852.87%
Number of Employees	5650	5961	-5.22%
Employee Emoluments	862,280	963,403	-10.50%

STAFF EMOLUMENTS-2002

	ADMINISTRATION	S& D	EXPORT
SALARIES	145,820,093	602,658,952	
EPF & ETF	11,513,582	48,480,327	
STAFF WELFARE	13,272,331	35,780,120	
INCENTIVES TO STAFF	-	169,085	
BONUS	2,634,890	1,714,406	
STAFF TRAINING & DEVELOPMENT	154,465	82,000	
	173,395,361	688,884,890	-

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

Ratios and statistics	2002	2001
1 Operational Ratio		
Return on capital Employed	-	-
Stock Turnover Times	9.05	5.06
Gross profit Ratio	8.45%	12.74%
2 Efficiency Ratio		
Profit to Sales- Before Tax	-22.55%	-8.11%
Profit to Sales- After Tax	-	-
Sales per Employee (Rs.000)	1,288	2,570
Profit/(Loss) per Employee (Rs.000)	(290)	(209)
3 Credit Control		
Debtors Ratio (Days)	45	33
Creditors Ratio (Days)	20	16
4 Liquidity		
Current Ratio	0.27:1	0.41:1
Liquidity Ratio	0.21:1	0.24:1

15319770

1,542,456,829.14
5,213,152,209.11
5,213,152,209.11

208.6898171

THE CO-OPERATIVE WHOLESALE ESTABLISHMENT

Ratios and statistics	2002	2001
1 Operational Ratio		
Return on capital Employed	-	-
Stock Turnover Times	6.97	5.06
Gross profit Ratio	11.12%	12.74%
2 Efficiency Ratio		
Profit to Sales- Before Tax	-21.82%	-8.11%
Profit to Sales- After Tax	-	-
Sales per Employee (Rs.000)	1,300	2,570
Profit/(Loss) per Employee (Rs.000)	(284)	(209)
3 Credit Control		
Debtors Ratio (Days)	45	33
Creditors Ratio (Days)	31	16
4 Liquidity		
Current Ratio	0.47:1	0.41:1
Liquidity Ratio	0.37:1	0.24:1

0.47

0.37

THE C0 - OPERATIVE WHOLESALE ESTABLISHMENT

TEN YEAR SUMMARY (Rs. Million)

Ten Year Review	2002	2001	2000	1999	1998
Financial					
Turnover	7,345	15,319	17,382	17,674	16,544
Net Profit/(Loss) Before Tax	(1,603)	(1,244)	(1,356)	(85)	(123)
Net Profit/(Loss) After Tax	(1,603)	(1,244)	(1,356)	(85)	(123)
Funds Generated from operations	851	2,002	(1,643)	(797)	459
State Revenue	133	1,243	1,308	1,300	1,137
Capital Expenditure	112	61	79	68	28
Depreciation	67	65	52	47	53
Liquidity					
Ratio Current Assets: Current Liabilities	0.47:1	0.41:1	0.74:1	0.84:1	0.86:1
Liquid Assets : Current Liabilities	0.37:1	0.24:1	0.39:1	0.31:1	0.51:1
Profitability					
Profit Before Tax/Capital Employed	-	-	-	(41.26%)	(41.43%)
Profit Before Tax/Turnover	(21.82%)	(8.11%)	(7.80%)	(0.48%)	(0.74%)
Profit Before Tax/Net Fixed and Current Assets	(39.66%)	(28.63%)	(14.30%)	(0.96%)	(1.38%)
Capital Employed					
State Contribution	1	1	1	1	1
Reserves and Surpluses	(3,998)	(2,395)	(1,151)	205	290
Long Term Loans	3,156	-	-	-	7
	(841)	(2,394)	(1,150)	206	298
Net Assets					
Net Fixed Assets	1,553	1,492	1,496	1,473	1,462
Capital Work - in - Progress	23	35	35	30	21
Long Term Investments	15	16	18	18	18
Net Current Assets	(2,432)	(3,937)	(2,699)	(1,315)	(1,203)
	(841)	(2,394)	(1,150)	206	298
Assets Turnover					
Ratio of Sales to Fixed Assets	4.61:1	10.03:1	11.35:1	11.75:1	11:01
Ratio of Sales to Av. Total Assets	1.74:1	2.22:1	1.89:1	2.16:1	1.89:1
General					
Staff Strength at the end of the year	5,650	5,961	4,200	3,930	3,992
Value of Sales per Employee Rs'.000	1,300	2,570	4,139	4,497	4,144
Net Profit /(Loss) per Employee Rs'.000	(284.00)	(209.00)	(323.00)	(21.60)	(30.90)

1997	1996	1995	1994	1993
15,777	13,834	10,232	11,827	12,560
(740)	(257)	(67)	(545)	62
(740)	(257)	(67)	(545)	62
408	187	(49)	(621)	155
1,148	907	819	743	1,196
114	21	41	68	66
41	42	38	37	25

0.86:1	0.96:1	0.99:1	1.06:1	1.25:1
0.50:1	0.44:1	0.44:1	0.69:1	0.88:1

-	-	(26.60%)	(105.00%)	4.69%
-	(1.92%)	(0.65%)	(4.60%)	0.49%
-	(3.42%)	(0.86%)	(14.00%)	1.16%

1	1	1	1	1
413	(6)	251	519	1,207
19	-	-	-	113
433	(5)	252	520	1,321

1,476	250	275	267	267
31	25	21	32	24
18	18	18	18	18
(1,092)	(298)	(62)	203	1,012
433	(5)	252	520	1,321

10.:1	50:1	35:1	39:1	43:1
1.85:1	1.85:1	1.74:1	2.55:1	2.35:1

4,149	4,312	4,266	4,448	4,788
3,802	3,208	2,616	2,650	2,909
(178.40)	(59.50)	(17.00)	(122.00)	15.00