

Driving Towards Excellence

Annual Report

2010/11

SML SATHOSA MOTORS PLC

OPEL 

ISUZU

Our Vision

To be the most productive & dynamic automobile organization in Sri Lanka and achieve excellence in customer satisfaction.

Our Mission

To be a dynamic leader in the automotive industry by providing excellence in customer satisfaction through quality products at very competitive prices and with highly motivated staff dedicated to provide customer satisfaction which will maximize return on investments to our shareholders.



SATHOSA MOTORS

Driving Towards Excellence

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History of Sathosa Motors PLC

The origin of Sathosa Motors PLC goes back to 1962, where Isuzu Agency was secured by the Co-operative Wholesale Establishment in 1962. The first agreement was signed between M/s Isuzu Motors Limited, Tokyo, Japan (Manufacturer), M/s C Itoch & Co. Ltd., (Distributor) and Co-operative Wholesale Establishment C.W.E. (Franchise holder).

Although the demand for Japanese vehicles, specially for commercial vehicles, was not encouraging in 1960 and early 1970, after the liberalization of imports in 1978, Isuzu became most sought after vehicle by fleet owners, Government sector etc.

Isuzu vehicles and spare parts imports and sales were handled by the New Vehicles & Machinery Department of C.W.E. up to 1985. However due to tremendous demand for Isuzu products in Sri Lanka market, The Ministry of Trade and Commerce under whose purview C.W.E. operated, decided to convert the New Vehicles & Machinery Department as a fully owned subsidiary company of the Co-operative Wholesale Establishment titled as "Sathosa Motors Limited" on 1st January 1985 to give more freedom to carry on business operations efficiently facing the competition from other vehicle dealerships.

Sathosa Motors Limited commenced operations with an issued capital of Rs 15,000,007 in 1985. In keeping with Government Policy, the Company was peoplised on 26th August 1992 and 60% of issued capital was acquired by M/s C Itoch & Co., Limited (ITOCHU Corporation) Tokyo, Japan, one of the largest trading organization (sogo-shosa) in Japan. Of the remainder 10% was gifted to employees and 30% was issued to the General Public.

Sathosa Motors Limited successfully launched rights issues in 1994 & 1996 and 1:1 bonus share issued in 1999 and the present share holding is 6,033,622. The

company utilized the fund collected by rights issues for development of new work shop facility at Peliyagoda and to construct Show Room, Administrative Building and to upgrade main Spare Parts sales outlet and office complex at Vauxhall Street, Colombo 02 in order to provide better and improved facilities to our Isuzu and Opel customers.

Sathosa Motos PLC is the franchise holder for Isuzu vehicles and spare parts manufactured by M/s Isuzu Motors Ltd and Opel passenger Cars and Opel Spare Parts manufactured by Adam Opel AG of Germany and marketed by the General Motors Overseas Distributors Corporation. The Isuzu range of vehicles consists of Double Cab Pickup Trucks, Light Duty and Heavy Duty Commercial Vehicles, Luxury Passenger Coaches and Special Purpose Vehicles such as Fire Trucks, Logging Trucks, Dump Trucks, Water & Fuel Bowsers and various other types of vehicles required in building construction, distribution of goods etc.

The Opel range of vehicles mainly comprises of passenger cars and jeep type vehicles.

Our Head Office is situated at No 25, Vauxhall Street, Colombo 02, which comprises New Vehicles Sales Showrooms, main Spare Parts department and Workshop for Opel & Isuzu vehicle repairs. We also have a Spare Parts outlet at Panchikawatte for convenience of our customers. Our Main Workshop at Peliyagoda handles the major portion of workshop repairs of all models of Isuzu trucks. This has modern equipments to identify and repair any kind of problem.

In order to comply with new Companies Act No. 7 of 2007 your company was re-registered as Sathosa Motors PLC.

The Isuzu Series



NPR71H - 23



NMR71H - 21



NOR71L - 21



NMR55H - 21

The Isuzu Series (Contd...)



NLR55E - 13



- 4 WD Crew Cab
- 2.5 turbo diesel engine
- 5-speed manual transmission



- 2 WD Regular Cab
- 2.5 turbo diesel engine
- 5-speed manual transmission



- 2 WD Flat Deck
- 2.5 turbo diesel engine
- 5-speed manual transmission

Flash Back 2010/11

Winning Silver Award



Flash Back (Contd...)

Company Welfare Activities



Flash Back (Contd...)

CSR activities - Blood Donation Campaign



Notice of Meeting

NOTICE IS HEREBY GIVEN that the Twenty Seventh (27th) Annual General Meeting of the Shareholders of Sathosa Motors PLC will be held at the "Cat'seye Ballroom", Ceylon Continental Hotel, No 48, Janadhipathi Mawatha, Colombo 1, on Friday 26th August 2011 at 10.00 am for the following purposes.

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st March 2011 with the Report of the Auditors thereon.
2. To declare a first and final dividend of Rs. 5.00 each per share for the year ended 31st March 2011, as recommended by the Directors.
3. To re-elect Mr. W D N H Perera who retires by rotation in terms of Article 92 of the Articles of Association of the Company.
4. To re-appoint M/s KPMG Ford, Rhodes, Thornton & Company, Chartered Accountants as Auditors for the year ended 31st March 2012, and to authorise the Board of Directors to determine their remuneration.
5. To authorize the Directors to determine contributions to charities and other donations for the year 2011/2012.

By order of the Board

SATHOSA MOTORS PLC



P W CORPORATE SECRETARIAL (PVT) LTD

Director / Secretaries

14th June 2011

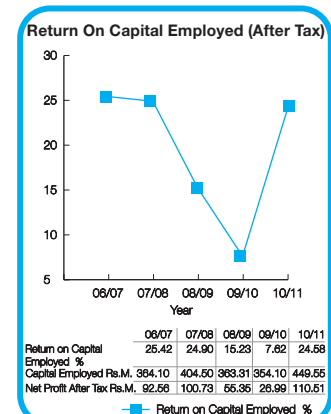
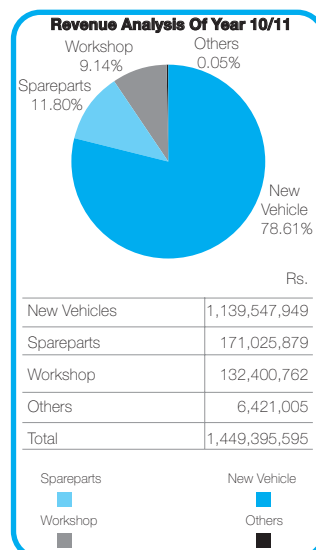
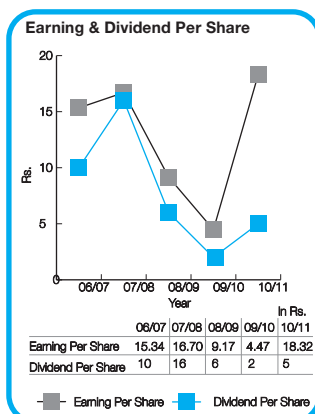
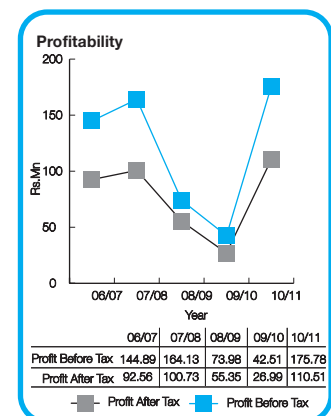
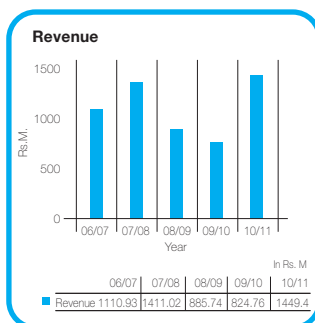
Colombo

Notes

1. Any member of the Company unable to attend the meeting may appoint another person (whether a member or not) as a proxy to attend and vote for him/her
2. A proxy need not be a member of the Company. A proxy form is attached for your use. The completed form of proxy should be lodged with the Secretaries of the Company P W Corporate Secretarial (Pvt) Ltd, No. 3/17, Kynsey Road, Colombo 08 not less than 45 hours before the holding of the Annual General Meeting.
3. Shareholders appointing proxies (other than Directors of the Company) to attend the meeting are requested to indicate the number of the National Identity Card of the Proxy holder on the form or proxy.
4. Only registered Proxy holders will be permitted to attend the Annual General Meeting. Shareholders/Proxy holders attending the Annual General Meeting are kindly requested to bring with them their National Identity Card or any other form of valid identification.

Financial Highlights

Year	05/06	06/07	07/08	08/09	09/10	10/11
Gross Turnover (Rs.000)	899,104	1,110,934	1,411,026	885,743	824,765	1,449,396
Profit/(Loss) before Taxation (Rs.000)	120,031	144,891	164,137	73,981	42,513	175,775
Profit/(Loss) after Taxation (Rs.000)	84,413	92,562	100,732	55,352	26,995	110,512
Property Plant & Equipment (Rs.000)	35,149	33,165	31,768	51,364	45,393	41,349
Gross Dividends (Rs.000)	114,639	60,336	96,538	36,202	12,067	30,168
Dividend Per Share (Rs.)	19.00	10.00	16.00	6.00	2.00	5.00
Dividend Cover (Times)	0.74	1.53	1.04	1.53	2.24	3.66
Earnings Per Share (Rs.)	13.99	15.34	16.70	9.17	4.47	18.32
Net Asset Per Share (Rs.)	64.01	60.35	67.04	60.22	58.69	74.51
Net Profit to Revenue (%)	13.47	13.16	11.74	8.42	5.20	12.28
(Before tax)						
Current Ratio (Times)	3.51	2.57	2.85	2.69	4.69	1.77
Quick Assets Ratio (Times)	2.28	1.65	1.68	0.87	2.61	0.85
Return on Capital Employed (%)	21.86	25.42	24.90	15.24	7.62	24.58



Chairman's Message



It is with great pleasure that I welcome the shareholders of Sathosa Motors PLC to the 27th Annual General Meeting of the Company and take this opportunity to present the Annual Report for the year ended 31st March 2011.

The Sri Lankan economy as anticipated has entered a period of sustainable growth. The year 2010 saw a growth of 8% of the GDP from a sectorial perspective as per the Central Bank report. Agriculture, service and industry saw a growth of 7%, 8% and 8.4% respectively compared with previous year. Imports into the Sri Lankan economy increased by 32.4% and a substantial increase in vehicle imports, which also benefited from a reduction of duty and taxes. With a stable political and economic climate the short to medium term prospects for economic growth is very encouraging.

The Company Performance

I am pleased to report that the company has achieved a gross turnover of Rs.1.449 Billion and a profit after tax of Rs.110.5 Million. It is heartening and encouraging that the turnover and profit in the year under review is the highest in the company's history. The turnover increased by 75.7% in comparison with the previous year. The share price of the company was recorded at Rs.222 as at 31st March 2011 signifying increased shareholder confidence.

The Board of Directors and the Management is actively pursuing all opportunities available to improve its performance and strengthen its balance sheet.

Future Prospects

With Sri Lanka experiencing a stable political and

Chairman's Message (Contd...)

economic environment and the Government embarking on many development projects, we are confident that the future prospects for the company to benefit and take advantage of the potential business opportunity is very encouraging.

Appreciation

I wish to express my deep appreciation and gratitude to the Executive Director, the Management and staff for their dedication and commitment for the successful operation of the company.

I also wish to thank the Board of Directors for their valuable contribution and co-operation.

Further, I take this opportunity to thank all our stakeholders for their continued patronage and confidence in our organization.



Sumal Perera

Chairman

14th June 2011

Executive Director's Review



Dear Stakeholder

It is with great pleasure I would like to state, that we were able to keep up our commitment to give more value to your investment by achieving a remarkable Turnover, Profit, and share price in the history of Sathosa Motors PLC during year 2010/11.

Economic Overview and its impact on industry

2010/11 was the first full year of peace filled with new hope for the future after ending three decades of war in May 2009.

Government development vision directed the country towards strong and consistent economic growth with 8% in year 2010 compared to 3.5% in year 2009. The economy gained momentum in agriculture, industrial and service sectors all of which entail major transport needs, experiencing a boom in the vehicle sales. The consumer price inflation was curtailed to single digit with annual average inflation in 2010 of 2.9%.

The key economic indicators published by Central Bank of Sri Lanka reveals the growth of exports by 17.3% and imports by 32.4% comparatively to the year 2009.

The local vehicle import market has recorded a 215% growth increasing from Rs 37 billion in 2009 to Rs 117 billion in 2010 according to Ceylon Chamber of Commerce. Growth of vehicle imports has been resulted due to the drastic duty reduction on vehicles by the Government. The company too has experienced an upward trend in growth in business due to the improved economic conditions in the country.

Acceleration through developments

Investor confidence grew with the end of war and showed a major impact on Colombo stock market recording high levels in foreign and local investments. The all share price index (ASPI) reached the highest point during 2010/11 of 6565.00 in Nov 2010.

2010 Budget encouraged listed companies as the corporate taxes reduced to 28% from 35%. Reduction of VAT from 20% to 12% improved the bottom line. The reduction of duty on vehicles has greatly benefited the customers enabling them to purchase vehicles at a more affordable price.

Company Performance

Year under review for Sathosa Motors was a remarkable and historical year which apexed with a gross turnover of Rs 1,449.3 Mn and Profit before Tax of Rs 175.7 Mn.

Achievements

Total Gross Turnover	Rs 1,449.3 Mn
Profit Before Taxation	Rs 175.7 Mn
Profit After Taxation	Rs 110.5 Mn
Return on Capital Employed	Rs 24.58%
Earnings per share	Rs 18.32
Net Asst per share	Rs 74.51
Market Price as at 31/3/2011	Rs 222.1

Amidst competition Sathosa Motors PLC performed and retained "Isuzu" as the leading brand in Sri Lanka in Light duty commercial categories and Sathosa Motors PLC is proud to announce the placement of "Isuzu brand" within

Executive Director's Review (Contd...)

the top hundred brands of Sri Lanka which had been selected by Brand Finance-UK.

I am also happy to inform that Sathosa Motors PLC was awarded with the "Silver Award" at the Annual Report competition 2009/10 organized by the Institute of Chartered Accountants of Sri Lanka.

Key Contributory Segments

The splendid performance was contributed by New Vehicles, Spare Parts and Workshop departments, which were backed and supported by Human Resource, Finance and IT departments.

New Vehicle Department

Our main focus is on promoting and marketing brand new Isuzu commercial trucks, double and single cabs, and other range of Isuzu vehicles meeting customer requirements.

Plantation, fishing, poultry, farming, footwear, paint etc., transportation and construction are some of our major market segments and we are in the process of exploring new market segments and expanding the customer base.

New Vehicle department recorded Rs 1.13 Billion Turnover with a sale of 331 units in the year 2010/11 which is an increase of 99.9% in value and 66% in units compared with the year before.

Isuzu "N Series Reward" which launched in mid 2009 has been successful in maintaining a steady growth in the market which has been manufactured according to Japanese standards with less carbon emission, enabling it to be more fuel efficient.

Isuzu enjoys a market share of 35% and it is the leading player in the Japanese commercial truck segment in Sri Lanka succeeded with enviable reputation.

Despite the entry of cheaper Indian & Chinese manufactured vehicles, the company's share of market has remained stable with timely strategic moves.

The Isuzu brand currently has well over 100,000 vehicles on the road of Sri Lanka which alone speaks brand's high acceptance in the local market.

Strategic moves

In building brand loyalty and customer perception, customer awareness programmes were conducted on brands "key strengths" and "superior technology and performance". We have carried out joint promotional lease campaigns with leading banks and institutions encompassed with tailor-made payment options in exploring customer base of both parties to achieve sales growth and customer base expansion.

Various training programmes to fleet owners and drivers were conducted at various locations on the usage and maintainability of the vehicle. This programme was focused on lower maintenance cost, wear and tare tolerance, with strong emphasis on safety and environmental impact.

New sales representatives were appointed in addition to existing distributors in order to gear up sales in the North and East regions.

Spare Parts Department

The department achieved the Gross Turnover of Rs 171.02 Mn during the year which is 28.8% increase over the last year. This is largely attributed to Dealers, Fleet Owners, Corporate Institutions and Government Institutions.

Strategic moves

Dealer network was increased from 46 to 60 dealers in order to facilitate customers in all parts of the country.

Joint advisory campaigns by Spare Part department along with New Vehicle and Workshop department were conducted for Government Institutions and Fleet Owners on durability, safety and cost effectiveness of using genuine Isuzu spare parts.

We have expanded our field operations and promoted mobile van sales in servicing our valued customers in urban and rural areas. We have trained and motivated sales staff in providing consistent and excellent service to the end customer.

Steps were taken to maintain adequate inventory of Isuzu genuine spare parts to cater to the needs of growing and varied population of Isuzu vehicles.

Executive Director's Review (Contd...)

Efficient stock control systems and improved customer care service were maintained at the main Spare parts stores and two branch outlets. All imports of spare parts were controlled by a Purchase Committee ensuring only importation of essential spare parts while curbing inflow of slow moving parts.

Workshop Department

Workshop department is responsible for providing quality repair service with usage of genuine Isuzu spare parts mainly catering to Isuzu trucks sold by us and domestic models sold by third parties. We also do modifications for Isuzu vehicles in addition to normal repair and maintenance. We have extended our service to all kinds of other branded light vehicles emphasizing on tinkering and painting.

The turnover in the workshop department grew to Rs 132.4 Mn with the increase of 16.5% over the previous year.

Strategic Moves

Company maintained quality standards for all repairs carried out by us to the satisfaction of customers.

Service Clinics, vehicle repair and maintenance programmes, driver training programmes were carried out in collaboration with Japanese technical expertise to our customers to provide technical advice on proper maintenance and durability of the vehicle.

We have developed well trained disciplined technicians with knowledge in new technologies in keeping up with the latest technological advancements in the workshop.

Supportive Forces

Human Resources

To bring Sathosa Motors Vision to reality, our staff perform through proper guidance and directions in facing challenges and today transformed into a professional winning team.

Total number of staff maintained at the same level of last year resulted through low labour turnover which reflects employee job satisfaction and availability of experienced, well trained, skilled labour.

We have developed the corporate culture amongst our employees to enhance quality, performance, loyalty and dedication through induction to skilled based training programmes, recognition and with 360 degree appraisal (multi directional appraisal).

Further support was received from our Principals M/s Itochu Corporation, Japan in providing training through their expertise which was a tremendous support to enhance skills, and professionalism of our employees, particularly in keeping up with technological advances in their field of discipline with the strong and continuous emphasis on customer care and service.

Company provides many fringe benefit schemes inclusive of medical insurance and incentive schemes to improve the morale standards and security of employees.

Company for the 4th time gave nutritious pack containing dry rations to all the employees for their Sinhala and Hindu New Year festival in April.

Finance and Risk Mitigation

Company developed the corporate budget supported by trading budgets of "Strategic Business Units" in line with company's vision and monitored regularly for its achievement.

Total shareholder funds grew to Rs 449.55 Mn as at 31/3/2011 providing a value addition of Rs 248 Mn to stakeholders in the year 2010/11 with the achievements of earning per share Rs 18.32 and Net Assets per share of Rs 74.51

Through prudent management and close monitoring of working capital, ensuring the satisfactory levels in the ratios of stocks and debtors, the company maintained cash flows at optimum levels.

The department constantly scans the money market for investment opportunities and invest funds in number of reputed banks. In order to mitigate risk, the company does not invest in Finance companies although they offer higher interest rates as their Fitch rating is low.

Company was able to build up deposit base of Rs 310 Mn as at 31/3/2011 and earned an interest income on deposits of Rs 15.67 Mn during the year.

Executive Director's Review (Contd...)

The Company earned foreign exchange gain of Rs 53.1Mn having constant monitoring on the economic situation and international currency trends ensuring a holistic approach in the volatile world. This is an important role in the organization, since our core activity is, importation of New Vehicles and Spare Parts.

Optimization in liquidity is visible with the satisfactory levels in current ratio of 1.77 times and Quick Asset Ratio of 0.85 times as at 31/03/2011.

Company drives with "Nil" gearing structure drifting from long-term commitments and borrowings ensuring your investments are belt up safely.

Information Technology

The IT infrastructure is vital for the development and enhancements of each department's functionality and services which provide information to employees of all levels to forecast, plan and make decisions in providing an outstanding service to our stakeholders. These systems bring resourceful controls and procedures for the end user in order to maintain the company rules and regulations.

The Company stepped up in upgrading the IT infrastructure enhancing the efficiency of all the functional operations inline with technological advancements to enhance productivity and convenience to stakeholders.

IT framework facilitates to maintain its periodic functionalities efficiently, which helps either management committees or individuals in various departments in taking timely and accurate decisions.

We also re-launched the website for Sathosa Motors. Our present and prospective shareholders, customers, or an other interested parties nationally or internationally could visit our Website. The Website provides information about our company, its products and product information in detail. Further, any interested party is facilitated to have on line inquiries. Address of our website is www.sathosamotorsplc.com

Corporate Social Responsibilities

Being a social responsible company, Sathosa Motors counts a longstanding involvement in the country. Blood donation campaigns, road development projects and financial contributions to religious organizations, are

some of the projects carried out by us for community development. In addition, the company provides free training in motor mechanism to defense-services personnel, and also to students of NAITA and NAB.

The Road Ahead

Sathosa Motors is currently on the lookout for established vehicle agencies and hopes to build up good business relationships. The company is moving towards expansion and diversification in the future but the Isuzu brand will always be our core brand and will always dominate the market due to its uniqueness in technology.

Sathosa Motors PLC can look forward to bring brighter prospects in the years to come, as we enjoy a strong financial foundation, close collaboration with internationally renowned principals, well developed infrastructure facilities, a dedicated and satisfied workforce and management team, who have the vision and dynamism to guide the company into great heights.

Acknowledgement

I wish to express my sincere appreciation to the Chairman, Board of Directors, Audit Committee, our Principals M/s Itochu Corporation and Isuzu Motors Ltd., Japan, Management team and all employees for their unswerving support and dedication given to achieve this tremendous success during the year.

I thank Mr. Masahiko Kuzuno for his contribution to the success of Sathosa Motors during the year under review & welcome Mr. Naoya Sode to the Board who has wealth of experience & knowledge to support the activities of Sathosa Motors.

Further I wish to thank all the stakeholders, Auditors, Bankers, Secretaries and Lawyers for their valuable contribution and co-operation.

Finally I wish to state that as a company, we are committed to strive in providing greater returns to our stakeholders assuring your investments continued to be in safe hands.



Deshamana Tilak Dias Gunasekera
Executive Director

Corporate Governance

INTRODUCTION

Corporate Governance deals with the role of the Board of Directors, the framework of internal controls and the manner in which Companies are led and managed. The Board is committed to review and update the Company's corporate governance structure taking into consideration current market practice and the best practice guidelines issued by the Institute of Chartered Accountants of Sri Lanka. The following sections explain how the Company has applied these principles.

BOARD OF DIRECTORS

The Board of Directors is responsible for the corporate governance of the Company. The main function of the Board is to oversee the business and the affairs of the Company. It is also responsible for the formulation of strategic objectives, policy framework, the approval of annual budgets (including major capital expenditure), regular reviews of financial performance compared to budgets, the appointment and evaluation of the performance of the Executive Director, and the periodic and timely reporting to shareholders.

It also has the task of ensuring that the Senior Management team has the necessary skills and experience to perform the functions effectively in the best interest of the company and that there are sufficient parameters in place for monitoring the performance of the management.

The Board comprises of Seven Directors including the Chairman. All the Directors are non-executive Directors except the Executive Director. The Executive Director acts in the capacity of the Managing Director. Where decisions have to be taken on urgent matter, Board decisions are taken by circulation.

The Board has determined that Mr. Nimal Perera and Mr. M M N de Silva are 'independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange.

BOARD MEETINGS

The Board has met on 05 occasions during the last financial year. All directors receive a comprehensive package of information prior to each Board Meeting thus ensuring that they are well informed in advance.

PW Corporate Secretarial (Pvt) Ltd who act as Secretaries to the Company are qualified to act as Secretaries as per the provisions of the Companies Act No.7 of 2007. Directors have access to the advice and services of the Company Secretaries, who are responsible to the Board for ensuring that Company Secretarial procedures are

followed and that applicable rules and regulations are complied with.

AUDIT COMMITTEE

The Audit Committee consists of three non-executive Directors, two of whom are independent. The Audit Committee is chaired by Mr. M M N de Silva who is a Chartered Accountant. There were 06 Audit Committee meetings during the year.

The Executive Director, Head of Finance, Head of departments and internal auditors attend meetings of the Audit Committee by invitation.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three non-executive Directors, two of whom are independent. Mr. S J S Perera is the Chairman of the Remuneration Committee.

FINANCIAL DISCLOSURES AND TRANSPARENCY

The Company's financial statements are prepared in accordance with the Sri Lanka Accounting Standards and Companies Act, No. 07 of 2007. The financial statements are published quarterly and annually on time in compliance with the disclosure requirements of the Colombo Stock Exchange.

The Statement of Directors Responsibilities for the Financial Statements is given on page 18 of this Report.

INTERNAL CONTROLS

The Board acknowledges overall responsibility and ensures that a sound internal control system is maintained to safeguard shareholders' investments and company assets.

GOING CONCERN

The Board is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason it continues to adopt the going concern basis when preparing and presenting financial statements

By Order of the Board
Sathosa Motors PLC



Tilak Gunasekera
Executive Director

14th June 2011

Annual Report of the Board of Directors on the Affairs of the Company

The Directors of Sathosa Motors PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2011.

This Report contains the information required in terms of the Companies Act, No. 7 of 2007, the Listing Rules of the Colombo Stock Exchange and guided by the recommended best practices.

General

Sathosa Motors PLC is a public limited liability Company which was incorporated under the Companies Ordinance (Cap.145) as a public limited liability company on 11th March 1982 and re-registered as per the Companies Act, No.7 of 2007 on 13th December 2007 and bears registration number PQ 105.

Principal activities of the Company and review of performance during the year

The Company's principal activity is the import and sale of Motor Vehicles and spare parts together with the repair and maintenance of such Motor Vehicles.

A review of the business of the Company, its performance during the year and its future prospects are contained in the Chairman's Review, which forms an integral part of this Report.

This Report and the Financial Statements, therefore reflect the state of affairs of the Company.

Financial Statements

The complete Financial Statements of the Company, duly signed by two Directors on behalf of the Board of Directors and the Auditors are given on pages 21 to 37.

Property, Plant & Equipment

The Company expenditure on the acquisition of property, plant & equipment during the year amounted to Rs. 2.3Mn and information relating to movements in fixed assets is given in Note 9 of the accounts.

Investments

No long term investment was made during the financial year under review.

Reserves

The total reserves as at 31st March 2011 was Rs. 333.63 Mn, as shown in the Balance Sheet to the Accounts.

Accounting Policies

There has been no changes in the Accounting Policies adopted by the Company in preparation of Financial Statements during the financial Year under review.

Interests Register

The Interest Register is maintained by the Company. All related party transactions, which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period, are recorded in the Interests Register, as required by the Companies Act No. 07 of 2007.

The relevant interests of Directors in the shares of the Company as at 31st March 2011 as recorded in the Interests Register are given in this report under the caption of "Directors' Shareholding".

Directors Interest in Contracts and Shares

All Directors have made declarations as provided for in section 192(2) of the Companies Act.

Directors Interest in transactions of the company are disclosed in Note 23 under related party transaction to these Financial Statements and have been declared at meetings of the Director's. The Directors have had no direct or indirect interest in any other contracts or proposed contracts in relation to the business of the Company.

The relevant interests of Directors in the shares of the Company as at 31st March 2011 as recorded in the Interests Register are given in this report under the caption of "Directors' Shareholding".

Annual Report of the Board of Directors on the Affairs of the Company (Contd...)

Directors

The names of the Directors who held office as at the end of the accounting period are given below, with their brief profiles appearing on page 38.

Executive Directors

Deshamanya T D Gunasekera - **Executive Director**

Non-Executive Directors

Mr. S J S Perera Chairman
*Mr. W D N H Perera Director
*Mr. M M N De Silva Director
Mr. Takashi Yoshino Director
Mr. Masahiko Kuzuno Director - Resigned on 01/05/2011
Mr. Yukiharu Aratani Director
Mr. Naoya Sode Appointed on 01/05/2011
* Independent Non-Executive Directors

Mr. Masahiko Kuzuno resigned from the Board on 1st May 2011.

Mr. Naoya Sode was appointed to the Board on 1st May 2011.

In accordance with Article 92 of the Articles of Association of the Company, Mr. W D N H Perera retires by rotation and being eligible, offers himself for re-election.

Directors Remuneration

The total remuneration of the Directors during the year under review amounted to Rs 5,680,000.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs. A further statement in this regard is included on page 30.

Auditors

Messrs KPMG Ford, Rhodes, Thornton & Company, Chartered Accountants served as the Auditors during the year under review and also provided tax related services. Based on the written representation made by the Auditors, they do not have any interest in the Company other than those referred to herein.

The Auditors were paid a sum of Rs. 590,000 as Audit fees by the Company for the financial year under review. As far as they are aware, the Auditors do not have any relationship with the Company other than carrying out External Audits.

The Auditors have expressed their willingness to continue in office. A resolution to re-appoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Stated Capital

The Stated Capital of the Company is Rs. 115.92 Mn and the Capital Reserve is Rs. 106.82 Mn and General Reserves on Page 23 under Shareholders Information.

The number of shares issued by the Company stood at 6,033,622 ordinary shares as at 31st March 2011.

Directors' Shareholding

The relevant interests of the Directors in the shares of the Company as at 31st March 2011 are as follows.

	Shareholding as at 31/03/2011	Shareholding as at 31/03/2010
Mr. S J S Perera	Nil	Nil
Mr. T D Gunasekera	6,300	4,000
Mr. W D N H Perera	Nil	Nil
Mr. M M N De Silva	Nil	Nil
Mr. Takashi Yoshino	Nil	Nil
Mr. Masahiko Kuzuno	Nil	Nil
Mr. Yukiharu Aratani	Nil	Nil

Shareholders

There were 1,457 shareholders registered as at 31st March 2011 (1,507 shareholders as at 31st March 2010). The details of distribution are given on page 40 of this report.

Major Shareholders, Distribution Schedule and other information

Information on the distribution of shareholding, analysis of shareholders, market values per share, earnings, dividends, net assets per share, the twenty largest

Annual Report of the Board of Directors on the Affairs of the Company (Contd...)

shareholders of the Company, percentage of shares held by the public as per the Listing Rules of the Colombo Stock Exchange are given on page 40 and 41 under the caption "Information to Investors".

Donations

The Company did not make any donations during the year under review and the previous year.

Dividend

The Directors recommend a final dividend of Rs. 5.00 per share for the year under review, which is to be approved by the shareholders at the Annual General Meeting.

As required by Section 56 of the Companies Act, the Directors have certified that the Board is satisfied that the Company will, immediately after the distribution is made, satisfy the solvency test in accordance with the provisions of the Companies Act, No. 7 of 2007 and have obtained a Certificate of Solvency from the Auditors.

Statutory Payments

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the Balance Sheet date have been paid or, where relevant provided for.

Contingent Liabilities

There were no material Contingent Liabilities as at the Balance Sheet date, except as disclosed in Note to the Financial Statement on page 36.

Events occurring after the Balance Sheet date

No events have occurred since the balance sheet date which would require adjustment to, or disclosure in the Financial Statements.

Corporate Governance

Corporate Governance practices and principles with respect to the management and operations of the Company is set out on page 16 of this report. The Directors confirm that the Company is in compliance

with the Rules on Corporate Governance contained in the Listing Rules of the Colombo Stock Exchange.

An Audit Committee and a Remuneration Committee function as Sub-Committees of the Board and the members of these Committees possess the requisite qualifications and experience. The composition of the said Committees are as follows;

Audit Committee

Mr. M M N Silva - Chairman
Mr. W D H N Perera
Mr. Takashi Yoshino

Remuneration Committee

Mr. S J S Perera - Chairman
Mr. W D H N Perera
Mr. M M N de Silva

Going Concern

The board of directors is satisfied that the company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concerns concept.

Annual General Meeting

The Notice of the Twenty Seventh (27th) Annual General Meeting appears on page 08.

This Annual Report is signed for and on behalf of the Board of Directors by



S J S Perera
Chairman



T D Gunasekera
Executive Director



P W Corporate Secretarial (Pvt) Ltd
Secretaries

14th June 2011
Colombo

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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TO THE SHAREHOLDERS OF SATHOSA MOTORS PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Sathosa Motors PLC, which comprise the Balance Sheet as at 31 March 2011, 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 as set out in pages 21 to 37.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

Ford Rhodes Thornton & Co.

CHARTERED ACCOUNTANTS

Colombo,
14th June 2011

Income Statement

For the year ended 31st March 2011

	Note	2011 Rs.	2010 Rs.
Revenue	3	1,431,891,114	817,806,219
Cost of Sales		<u>(1,183,108,821)</u>	<u>(674,637,111)</u>
Gross Profit		248,782,293	143,169,108
Other Income	4	79,085,311	33,019,723
Administrative Expenses		<u>(137,679,142)</u>	(115,169,714)
Selling and Distribution Expenses		<u>(14,395,759)</u>	(12,660,821)
Finance Expenses	5	<u>(17,583)</u>	<u>(5,845,474)</u>
Profit Before Tax	6	175,775,120	42,512,822
Income Tax Expenses	7	<u>(65,263,385)</u>	<u>(15,517,587)</u>
Profit for the Year		<u>110,511,735</u>	<u>26,995,235</u>
Earning per Share	8	18.32	4.47

The Notes from pages 25 to 37 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Balance Sheet

As at 31st March 2011

	Note	31.03.2011 Rs	31.03.2010 (RESTATED) Rs.
ASSETS			
Non - Current Assets			
Property, Plant and Equipment	9	35,605,003	39,573,281
Leasehold Land	10	5,743,877	5,820,144
Deferred Tax Asset	7.4	402,246	590,350
Total Non-Current Assets		41,751,126	45,983,775
Current Assets			
Inventories	11	520,885,717	188,091,570
Trade and Other Receivables	12	167,073,283	207,297,775
Cash in Hand and at Bank	13	310,319,430	27,875,368
Total Current Assets		998,278,430	423,264,713
Total Assets		1,040,029,556	469,248,488
EQUITY AND LIABILITIES			
EQUITY			
Stated Capital	14	115,924,290	115,924,290
Capital Reserve		106,820,000	106,820,000
General Reserve		48,800,064	48,800,064
Retained Earnings		178,009,457	79,564,966
Total Equity		449,553,811	351,109,320
Non Current Liabilities			
Assets Related Grants	15	7,459,208	7,678,597
Retirement Benefit Obligations	16	19,524,682	16,998,654
		26,983,890	24,677,251
Current Liabilities			
Interest Bearing Borrowings	17	-	-
Trade and Other Payables	18	162,546,146	41,987,927
Amount due to Related Company-Itochu Corporation Japan	19	348,757,943	49,698,772
Dividend Payable		1,528,921	1,460,491
Income Tax Payable		49,275,571	253,722
Bank Overdraft	13	1,383,274	61,005
Total Current Liabilities		563,491,855	93,461,917
Total Liabilities		590,475,745	118,139,168
Total Equity and Liabilities		1,040,029,556	469,248,488

The Notes from pages 25 to 37 form an integral part of these Financial Statements.



Head of Finance

It is certified that the Financial Statements are prepared and presented in compliance with the requirements of the Companies Act No. 7 of 2007.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Approved and Signed For and on behalf of the Board,



Chairman



Executive Director

Statement of Changes in Equity

For the year ended 31st March 2011

	Stated Capital Rs.	Capital Reserve Rs.	General Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31st March 2009	115,924,290	106,820,000	48,800,064	91,771,463	363,315,817
Prior Period Adjustment (Note - A)	-	-	-	(3,000,000)	(3,000,000)
Balance as at 1st April 2009 (Restated)	115,924,290	106,820,000	48,800,064	88,771,463	360,315,817
Net Profit for the year	-	-	-	26,995,235	26,995,235
Dividend Paid - (2008/2009)	-	-	-	(36,201,732)	(36,201,732)
Balance as at 31st March 2010	115,924,290	106,820,000	48,800,064	79,564,966	351,109,320
Net Profit for the year	-	-	-	110,511,735	110,511,735
Dividend Paid - (2009/2010)	-	-	-	(12,067,244)	(12,067,244)
Balance as at 31st March 2011	115,924,290	106,820,000	48,800,064	178,009,457	449,553,811

NOTE - A

The prior year adjustment gives effect to a correction of an error in an under payment of Turnover Tax in relation to the Financial Year 2006/07 which was paid during the current year upon finalization of the matter, and has been accounted in accordance with Sri Lanka Accounting Standard 10 - "Accounting Policies, Changes in Accounting Estimates and Errors".

The Notes from pages 25 to 37 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Capital Reserve is formed for capital expenditure purposes.

Cash Flow Statement

For the Year ended 31st March 2011

	Note	2011 Rs.	2010 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before Tax		175,775,120	42,512,822
Adjustments for :			
Depreciation & amortisation		6,390,974	6,729,168
Provision for Gratuity		4,666,282	3,125,224
Amortization of Grants Received		(219,389)	(219,389)
Interest Expense		17,583	5,845,474
Provision / (Reversal of Provision) for Bad and Doubtful Debts		(956,160)	(10,114)
Write off of Inventories		2,757,274	1,287,780
Profit on Disposal of Property, Plant and Equipment		(446,429)	(1,875,000)
Interest Income		(16,041,445)	(2,409,016)
Operating Profit before Working Capital Changes		171,943,810	54,986,949
(Increase) / Decrease in Inventories		(335,551,421)	171,340,742
(Increase) / Decrease in Trade and Other Receivables		41,180,651	(42,550,411)
Increase / (Decrease) in Trade and Other Payables		120,558,219	(29,970,122)
Increase / (Decrease) in Related Party Payables		299,059,171	(7,488,618)
Cash Generated from Operations		297,190,430	146,318,539
Tax Paid		(16,053,431)	(14,091,219)
Gratuity Paid		(2,140,254)	(2,109,507)
Net Cash Flows from Operating Activities		278,996,745	130,117,814
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Property, Plant and Equipment		(2,346,429)	(758,721)
Proceeds from Disposal of Property , Plant and Equipment		446,429	1,875,000
Interest Received		16,041,445	2,409,016
Net Cash Flows from Investing Activities		14,141,445	3,525,295
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest Paid		(17,583)	(5,845,474)
Dividend Paid		(11,998,814)	(36,196,642)
Loans Repaid		-	(71,096,000)
Net Cash used in Financing Activities		(12,016,397)	(113,138,116)
Net Increase in Cash and Cash Equivalents		281,121,793	20,504,993
Cash & Cash Equivalents at the beginning of the year	13	27,814,363	7,309,370
Cash & Cash Equivalents at the end of the year	13	308,936,156	27,814,363

The Notes from pages 25 to 37 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

Notes to the Financial Statement

For the year ended 31st March 2011

1. CORPORATE INFORMATION

1.1 Reporting Entity

Sathosa Motors PLC is a public limited liability company incorporated and domiciled in Sri Lanka under the Companies Act No. 7 of 2007 and is listed on the Colombo Stock Exchange. The registered office and principal place of business of the Company is situated at No. 25, Vauxhall Street, Colombo 02.

1.2 Principal Activities and Nature of Operations

The principal activity of the Company, which is the importing and distribution of Isuzu new vehicles and spare parts and operating workshop remained unchanged during the year.

1.3 Parent Enterprise and Ultimate Parent Enterprise

In the Director's opinion, the Company's parent undertaking and controlling party is Itochu Corporation Japan, which is incorporated in Japan.

1.4 Financial Year

The Company's financial year ends on 31st March.

1.5 Director's Responsibility Statement

The board of directors is responsible for the preparation and presentation of the financial statement.

1.6 Date of Authorization for Issue

The financial statements were approved for issue by the directors on 14th June 2011.

1.7 Number of Employees

The average number of employees for the year was 134 (2009/2010 - 132).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 GENERAL POLICIES

2.1.1 Basis of Preparation

The Financial Statements of the Company comprise the Balance Sheet, the Statement of Income, Changes in Equity and Cash Flow Statement together with the Accounting Policies and Notes to the Financial Statements.

These Financial Statements are prepared on the historical cost basis.

The said Financial Statements are presented in Sri Lankan Rupees which is the Company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee.

No adjustments are made for inflationary factors in the Financial Statements.

Use of Estimates & Judgements

The preparation of financial statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underline assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimates, uncertainty and critical judgements in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements are included in the following notes.

Note 16 - Retirement Benefit Obligations

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Previous year figures and phrases have been rearranged & classified wherever necessary to conform with to the current year's presentation.

2.1.2 Statement of Compliance

The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No 07 of 2007.

2.1.3 Foreign Currency Translation

Transactions in foreign currencies are converted into the functional currency (Sri Lankan Rupees)

Notes to the Financial Statement (Contd...)

For the year ended 31st March 2011

at the foreign exchange rate prevailing at the date of the transaction, except for transactions entered under forward exchange contract, which are converted at such contracted forward rates.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupees at the rate of exchange ruling at the Balance Sheet date while all non-monetary items are reported at the rate of exchange prevailing at the time the transactions were effected. The resulting gains or losses are accounted for in the Income Statement.

2.1.4 Income Tax Expense

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized directly in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(a) Current Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted as per the provisions of the Inland Revenue Act No.10 of 2006 and subsequent amendments thereon, and any adjustment made to tax payable in respect of previous years. The relevant details are disclosed in Note 07 to the Financial Statements.

(b) Deferred Taxation

Deferred Tax is recognized using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which such temporary differences can be utilized. The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent that it is no longer probable that the related tax benefit will be realised.

2.1.5 Borrowing Cost

Borrowing Costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, is capitalised as part of the asset.

2.2 ASSETS AND THEIR BASES OF VALUATION

Assets classified as current assets in the Balance Sheet are cash and those, which are expected to be realized in cash during the normal operating cycle of the Company's business or within one year from the Balance Sheet date. Assets other than current assets are those, which the Company intends to hold beyond a period of one year from the Balance Sheet date.

2.2.1 Property, Plant and Equipment

(a) Recognition and Measurement

Items of Property, Plant and Equipment are measured at cost less accumulated depreciation, which is provided for on the bases specified in 2.2.1 (c) and impairment losses.

The cost of Property, Plant and Equipment is the cost of purchase or construction together with any expenses incurred in bringing the assets to its working conditions for its intended use.

Expenditure incurred for the purpose of acquiring, extending or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business has been treated as capital expenditure.

Gains and losses on disposal of an item of Property, Plant & Equipment are determined by comparing the proceeds from disposal with carrying amount of Property, Plant & Equipment and are recognized net within " Other Income" in Profit & Loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

When part of an item of Property, Plant & Equipment have different useful lives, they are accounted for as separate items (major components) of property, Plant & Equipment.

Notes to the Financial Statement (Contd...)

For the year ended 31st March 2011

(b) Subsequent Expenditure

Expenditure incurred to replace a component of an item of Property, Plant and Equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only if it is probable that the future economic benefits embodied in the item of Property, Plant and Equipment will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

(c) Depreciation

Depreciation has been provided on a consistent basis so as to write off the cost over their estimated useful lives as follows;

Leasehold Land	99 Years lease period
Freehold Building	
- Vauxhall Street	01 Year remaining period of the Rent agreement
Freehold Building	
- Peliyagoda	50 Years lease period
Plant and Machinery	08 Years
Office Equipment	05 Years
Furniture and Fittings	05 Years
Motor Vehicles	05 Years
Computers	05 Years
Work Shop Hand Tools	05 Years

Depreciation of an asset acquired begins when it is available for use whereas depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Commencing from 1st April 2006, depreciation methods, useful lives and residual values are reassessed at the reporting date. 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.

2.2.2 Leased Assets

(a) Finance Leases - where the Company is the Lessee

Where assets are financed under an agreement under which substantially transfers all the risks

and rewards of ownership are transferred to the lessee, such assets are recorded in the Balance Sheet as property, plant & equipment at their cash price.

The total interest payable is accounted as interest in suspense, and the corresponding credit is recorded as an amount payable to the lessor. The instalments paid are used to reduce this liability.

An amount equal to the interest charge for the year is transferred from interest in suspense account to the Income Statement.

2.2.3 Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the estimated selling price at which inventories can be sold in the normal course of business after allowing for cost of realisation and / or cost of conversion from their existing state to a saleable condition.

The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

The cost of each category of inventory of the company is determined on the following basis:

Spare parts	- at actual cost on a weighted average basis.
New Vehicles	- at actual cost.
Goods in Transit	- at actual cost.
Work in Progress	- includes only the cost of material and labour.

Inventories which are non moving for more than 5 years, based on the movement will be Written off.

2.2.4 Trade and Other Receivables

Trade and other receivables are carried at original invoice amount less provision for impairment of trade receivables when there is evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced and

Notes to the Financial Statement (Contd...)

For the year ended 31st March 2011

the amount of the loss is recognized in the income statement under, 'Administrative Expenses'. When a trade receivable is uncollectible, it is written off against the provision for trade receivables. Subsequent recoveries of amounts previously written off are credited to other income in the income statement.

2.2.5 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits held in banks net of outstanding bank overdrafts.

Interest paid and received are classified as operating cash flows, dividend received are classified as investing cash flows while dividend paid are classified as financing cash flows for the purpose of presentation of Cash Flow Statement, reported based on the indirect method.

2.2.6 Impairment of Assets

The identifiable assets of the Company are reviewed at each balance Sheet date to determine whether there is any indication of impairment. If any such indication exists the recoverable amount of the assets is estimated and shown in the Balance Sheet. The impairment loss is taken to the income statement.

2.3 LIABILITIES AND PROVISIONS

Liabilities classified as current liabilities in the Balance Sheet are those obligations payable on demand or within one year from the Balance Sheet date. Liabilities classified, as non-current liabilities are those obligations, which expire beyond a period of one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing the Financial Statements.

2.3.1 Trade and Other Payables

Trade and Other Payables are stated at their cost.

2.3.2 Provisions

All known liabilities have been accounted for in preparing these Financial Statements. Provisions and liabilities are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.3.3 Employee Benefits

(a) Defined Benefit Plan - Retirement Gratuity

The company is liable to pay gratuity in terms of the payment of Gratuity Act, No. 12 of 1983. Gratuity provision for employees has been made based on the assumption of an actuarial valuation as recommended by the related Sri Lanka Accounting Standard 16, (Revised 2006), 'Employee Benefits', the 'Projected Unit Credit' (PUC) method has been used in this valuation. Actuarial gains and losses are recognized as income or expenses immediately. The company expects to carry out actuarial valuations once in every three years.

This liability is not externally funded

(b) Defined Contribution Plan - Employees' Provident Fund and Employees' Trust Fund

All employees who are eligible for Provident Fund Contributions and Trust Fund Contributions are covered by relevant contribution funds in line with respective statutes and regulations. Contribution to the defined contributions plans are recognized as an expense in the Income Statement when incurred.

2.3.4 Capital Commitments and Contingent Liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured.

Capital commitments and contingent liabilities are disclosed in the respective Notes to the Financial Statements.

Notes to the Financial Statement (Contd...)

For the year ended 31st March 2011

2.3.5 Events Occurring after the Balance Sheet

Date

All material post Balance Sheet events are considered and where appropriate adjustments to or disclosures are made in the respective notes to the Financial Statements.

2.4 INCOME STATEMENT

2.4.1 Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, sales returns and revenue related taxes. The following specific criteria are used for the purpose of recognition of revenue.

(a) Sale of Spare Parts, New Vehicles

Sales are recognised at the point of despatch.

(b) Income from Work shop

Sales are recognised at the point of invoicing when the job is completed.

(c) Agency Commissions & Hire Income

Agency Commissions & Hire income are recognised on an accrual basis.

(d) Interest Income

Interest Income is recognised on an accrual basis.

(e) Other Income

Other income is recognized on an accrual basis.

2.4.2 Expenditure Recognition

Expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Income Statement in arriving at the profit for the period.'

For the purpose of presentation of Income Statement, the Directors are of the opinion that the function of expenses method presents fairly the elements of the enterprise's performance; hence such presentation method is adopted.

2.4.3 Assets Related Grants

Assets Related Grants for the purchase of Property, Plant & Equipment are amortised and credited to the Income Statement over the useful lives of the related assets.

2.4.4 Financing Income / (Cost)

Financing income comprise interest payable on borrowings, interest receivable on funds invested.

Interest income is recognized in the Income Statement as it accrues.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of the financing income / (cost).

2.4.5 Segmental Reporting

A segment is a distinguishable component of an enterprise that is engaged in either providing products or services (Business Segment) or in providing products or services within a particular economic environment (Geographic Segment) which is subject to risks and rewards that are different from those of other segments.

However, there are no distinguishable components to be identified as segments for the Company.

2.5 New Accounting Standards Issued But Not Effective as at the Balance Sheet Date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards - 2011, applicable for financial periods beginning on or after 1, January 2012. These new Accounting Standards are prefixed as both SLFRS and LKAS which correspond to the relevant International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the year ended 31st March 2011. The company is currently in the process of evaluating the potential effects of these Standards on its financial statements and the impact on the adoption of these Standards have not been quantified as at the Balance Sheet date.

Notes to the Financial Statement (Contd...)

For the year ended 31st March 2011

	2011 Rs	2010 Rs.
3. REVENUE		
Spare Parts	171,025,879	132,731,383
New Vehicles	1,139,547,949	570,179,885
Work Shop Repairs	132,400,762	113,642,606
Agency Commission	6,421,005	8,211,862
	<u>1,449,395,595</u>	<u>824,765,736</u>
Business Turnover Tax and NBT	(17,504,481)	(6,959,517)
Net Revenue	<u>1,431,891,114</u>	<u>817,806,219</u>
4. OTHER INCOME		
Interest Income on Reverse Repurchase Agreement and Fixed Deposits	15,672,225	1,882,966
Interest on Loans to Employees	369,220	526,050
Valuation and Fitness Certificates	606,339	434,464
Profit on Disposal of Property, Plant and Equipment	446,429	1,875,000
Sundry Income	8,575,007	477,088
Amortization of Asset Related Grants	219,389	219,389
Non Refundable Tender Deposits	55,500	4,500
Fines and Surcharges	36,392	-
Foreign Exchange Gain	53,104,810	27,600,266
	<u>79,085,311</u>	<u>33,019,723</u>
5. FINANCE COST		
Interest on Bank Overdrafts	17,583	4,618,371
Interest on Short Term Loans	-	1,227,103
	<u>17,583</u>	<u>5,845,474</u>
6. PROFIT BEFORE TAX		
Is stated after charging / (crediting) all the expenses / (income) including the following		
Directors Emoluments and Fees	5,680,000	5,435,567
Auditors remuneration- Statutory Audit	590,000	530,000
- Non Audit services	143,220	140,417
Legal Expenses	677,163	956,638
Depreciation on Property , Plant & Equipment	6,314,707	6,652,901
Amortisation of Lease hold land	76,267	76,267
Write off of Inventories	2,757,274	1,287,780
Provision /(Reversal of Provision) for Bad & Doubtful Debts	(956,160)	10,114
Personnel Cost (Note 6.1)	59,909,009	53,980,467
6.1 Personnel Cost		
Salaries, Wages and Other related costs	49,998,953	45,602,919
Defined Benefit Plan Cost - Retirement Gratuity	4,666,281	3,125,224
Defined Contribution Plan Cost - EPF & ETF	5,243,775	5,252,324
	<u>59,909,009</u>	<u>53,980,467</u>

Notes to the Financial Statement (Contd...)

For the year ended 31st March 2011

	2011 Rs	2010 Rs.
7. INCOME TAX EXPENSE		
7.1 Current Tax		
In accordance with the provision of the Inland Revenue Act No. 10 of 2006 and amendments thereto the company is liable for Income Tax at 35% on its taxable profit.		
7.2 Taxation on current year profits (Note 7.3)	65,318,235	15,836,860
Under/(over) provision in respect of previous years	(242,954)	271,077
Origination of deferred tax assets / Liabilities (Note 7.4)	70,034	(590,350)
Effect of change in Tax rate	118,070	-
	<u>65,263,385</u>	<u>15,517,587</u>
7.3 Reconciliation between Accounting Profit and Taxable Profit		
Accounting Profit Before Income Tax Expense	175,775,120	42,512,822
Aggregated Disallowable Items	24,002,692	23,034,760
Aggregated Allowable Items	(15,912,267)	(20,968,102)
Aggregated Disallowable Income	(16,041,445)	(2,409,016)
Income from Other Sources	16,041,445	2,409,016
Total Statutory Income	<u>183,865,545</u>	<u>44,579,480</u>
Statutory Tax Rate	35%	35%
Income Tax Expense	<u>64,352,941</u>	15,602,818
Social Responsibility Levy (SRL) @ 1.5%	965,294	234,043
Current Tax Expense	<u>65,318,235</u>	<u>15,836,860</u>
7.4 Deferred Taxation	31.03.2011	31.03.2010
	Rs	Rs.
As at 1st April	590,350	-
Origination of Deferred Tax during the year	-	590,350
Effect on change in Tax rate	(118,070)	-
Charge for the year	(70,034)	-
	<u>402,246</u>	<u>590,350</u>
Deferred Tax asset as at the year end is made up of the following:		
Property, Plant and Equipment	5,199,350	5,862,192
Retirement Benefit Obligations	(5,466,911)	(5,949,529)
Provision for Bad Debtors	(134,685)	(503,013)
	<u>(402,246)</u>	<u>(590,350)</u>

Impact Due to Corporate Income tax Rate Change

As provided for in "SLAS 14 - Income Taxes" (Revised 2005), deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

As per the amendments made to the Inland Revenue Act No. 10 of 2006 by the amendment Act No. 22 of 2011 corporate income tax rate would be reduced to 28% (from the currently enacted 35%) with effect from 1 April 2011, accordingly deferred tax assets and liabilities have been computed based on the said reduced corporate tax rate. This resulted in a reversal of Rs. 188 K to the Income Statement.

Notes to the Financial Statement (Contd...)

For the year ended 31st March 2011

8. EARNINGS PER SHARE

Basic Earnings Per Share

Basic Earnings per Share has been calculated dividing profit attributable to equity holders of the company, by the weighted average number of ordinary shares outstanding during the year 31st March 2011, as per the Sri Lanka Accounting Standard 34-Earnings per Share.

Diluted Earnings per Share

Diluted earning per share is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

	2011 Rs.	2010 Rs.
8.1 Earnings per Share		
Amount used as the Numerator		
Profit Attributable to Ordinary Shareholders (Rs.)	110,511,735	26,995,235
Amount used as the Denominator		
Weighted Average Number of Ordinary Shares as at the end	6,033,622	6,033,622
Basic Earnings Per Share (Rs.)	<u>18.32</u>	<u>4.47</u>

As at 31st March 2011

9. PROPERTY PLANT AND EQUIPMENT

Cost	Balance as at 01.04.2010 Rs.	Additions during the year Rs.	Disposals during the year Rs.	Balance as at 31.03.2011 Rs.
Freehold Assets				
Buildings on Leasehold Land	52,040,378	-	-	52,040,378
Machinery & Others	8,885,089	-	-	8,885,089
Workshop Hand Tools	3,285,935	122,250	-	3,408,185
Motor Vehicles	35,134,972	-	(831,600)	34,303,372
Furniture & Fittings	6,602,154	157,150	-	6,759,304
Office Equipment	8,388,389	369,900	-	8,758,289
Computers	16,932,994	1,697,129	-	18,630,123
Total	<u>131,269,911</u>	<u>2,346,429</u>	<u>(831,600)</u>	<u>132,784,740</u>
Accumulated Depreciation	Balance as at 01.04.2010 Rs.	Charge for the Period Rs.	Charge on Disposals Rs.	Balance as at 31.03.2011 Rs.
Freehold Assets				
Buildings on Leasehold Land	33,013,388	526,842	-	33,540,230
Machinery & Others	7,569,183	328,977	-	7,898,160
Workshop Hand Tools	3,196,431	41,044	-	3,237,475
Motor Vehicles	18,472,489	4,432,725	(831,600)	22,073,614
Furniture & Fittings	6,411,376	74,340	-	6,485,716
Office Equipment	7,464,474	357,180	-	7,821,654
Computers	15,569,289	553,599	-	16,122,888
Total	<u>91,696,630</u>	<u>6,314,707</u>	<u>(831,600)</u>	<u>97,179,737</u>
Carrying Value	<u>39,573,281</u>			<u>35,605,003</u>

Notes to the Financial Statement (Contd...)

As at 31st March 2011

	31.03.2011 Rs.	31.03.2010 Rs.
10. LEASEHOLD LAND		
Cost		
As at 1st April	7,550,366	7,550,366
As at 31st March	<u>7,550,366</u>	<u>7,550,366</u>
Accumulated Amortisation		
As at 1st April	1,730,222	1,653,955
Charge for the year	<u>76,267</u>	<u>76,267</u>
As at 31st March	<u>1,806,489</u>	<u>1,730,222</u>
Net Book Value	<u>5,743,877</u>	<u>5,820,144</u>
<p>Leasehold Land disclosed above relate to the land at Peliyagoda acquired on a 99 years lease commencing from 1989 and building represents Company's Work Shop put up on the said Land at Peliyagoda.</p>		
11. INVENTORIES		
New Vehicles	342,557,978	110,521,011
Spare Parts	64,692,758	76,101,282
Work in Progress	1,000,430	924,002
General Stores	2,064,938	1,833,055
Goods in Transit	<u>113,326,887</u>	<u>-</u>
	<u>523,642,991</u>	<u>189,379,350</u>
Write Off of Inventories - Spare Parts	<u>(2,757,274)</u>	<u>(1,287,780)</u>
	<u>520,885,717</u>	<u>188,091,570</u>
12. TRADE AND OTHER RECEIVABLES		
Trade Receivables - New Vehicles	56,671,533	122,298,418
- Spare Parts	35,127,804	28,801,091
- Work Shop	<u>17,004,219</u>	<u>15,559,554</u>
	<u>108,803,556</u>	<u>166,659,063</u>
Provision for Bad and Doubtful Debts	<u>(481,020)</u>	<u>(1,437,180)</u>
	<u>108,322,536</u>	<u>165,221,883</u>
Loans to Employees (Note 12.1)	2,373,717	3,767,573
Other Debtors	5,681,666	12,015,276
Deposits & Prepayments	6,708,310	2,118,703
Withholding Tax Recoverable	3,261,621	3,865,127
VAT Receivable	<u>40,725,433</u>	<u>20,309,213</u>
	<u>167,073,283</u>	<u>207,297,775</u>
12.1 Loans to Employees		
<p>Loans to Employees include loans and advances granted to officers, equal to or exceeding Rs. 20,000/-. The total amount of such loans granted during the year is Rs.568,200/-. The movements of these loans during the year is as follows:</p>		
Balance at the beginning of the year	3,767,573	4,730,099
Loans granted during the year	<u>568,200</u>	<u>1,120,000</u>
	<u>4,335,773</u>	<u>5,850,099</u>
Repayments during the year	<u>(1,962,056)</u>	<u>(2,082,526)</u>
Balance at the end of the year	<u>2,373,717</u>	<u>3,767,573</u>

Notes to the Financial Statement (Contd...)

As at 31st March 2011

	31.03.2011 Rs.	31.03.2010 Rs.
13. CASH AND CASH EQUIVALENTS		
13.1 Favourable Balance		
Overnight Repos and Call Deposits	291,148,199	-
Cash at Bank	<u>19,171,231</u>	<u>27,875,368</u>
	<u>310,319,430</u>	<u>27,875,368</u>
13.2 Unfavourable Balance		
Bank Overdraft (Note 13.3)	<u>(1,383,274)</u>	<u>(61,005)</u>
Cash and Cash Equivalents for the purpose of Cash Flow Statement	<u>308,936,156</u>	<u>27,814,363</u>

	31.03.2011 Rs.	31.03.2010 Rs.
14. STATED CAPITAL		
6,033,622 Ordinary Shares	<u>115,924,290</u>	<u>115,924,290</u>

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the company's residual assets.

	31.03.2011 Rs.	31.03.2010 Rs.
15. ASSETS RELATED GRANTS		
Balance at the beginning of the year	7,678,597	7,897,986
Amortisation for the year	<u>(219,389)</u>	<u>(219,389)</u>
Balance at the end of the year	<u>7,459,208</u>	<u>7,678,597</u>

The above represents the grants received for the construction of work shop at Peliygoda and are amortised over a period of fifty (50) years.

Notes to the Financial Statement (Contd...)

As at 31st March 2011

	31.03.2011 Rs.	31.03.2010 Rs.
16. RETIREMENT BENEFIT OBLIGATIONS		
Balance at the beginning of the year	16,998,654	15,982,937
Current service cost	1,193,565	1,072,154
Interest cost	1,313,644	1,874,500
Actuarial losses	2,159,073	178,570
Benefits paid during the year	<u>(2,140,254)</u>	<u>(2,109,507)</u>
Balance at the end of the year	<u>19,524,682</u>	<u>16,998,654</u>

The key assumptions used in the Gratuity Formula include the following.

- i) Rate of Interest 9 % per annum
- ii) Rate of Salary Increase 10 % per annum
- iii) Retirement Age 55 years
- iv) The Company will continue as a going concern.

The actuarial present value of the accrued benefits as at 31st March 2011 is Rs.19,524,682, which has been estimated based on gratuity formula method in the absence of an actuary valuation, which is performed once in every three years in accordance with SLAS 16 (Revised 2006) "Employee Benefits". This item is grouped under retirement benefit obligations in the Balance Sheet. The liability is not externally funded.

The actuarial valuations have been carried out by Actuarial & Management Consultants (Pvt) Ltd for retiring gratuity for employees as at 31st March 2009

	31.03.2011 Rs.	31.03.2010 Rs.
17. INTEREST BEARING BORROWINGS		
Short Term Bank Loan-National Development Bank		
Balance at the beginning of the year	-	71,096,000
Repayments during the year	<u>-</u>	<u>(71,096,000)</u>
Balance at the end of the year	<u>-</u>	<u>-</u>
18. TRADE AND OTHER PAYABLES		
Accrued Expenses	26,428,120	22,123,517
Trade and Sundry Creditors	5,442,892	4,658,185
Advances & Retentions	130,675,134	12,206,225
Business Turnover Tax Payable	-	3,000,000
	<u>162,546,146</u>	<u>41,987,927</u>
19. AMOUNT DUE TO RELATED COMPANY		
ITOCHU Corporation - Japan	<u>348,757,943</u>	<u>49,698,772</u>
20. CAPITAL EXPENDITURE COMMITMENTS		

There were no material Capital Commitments for the Company approved by the Board of Directors as at Balance sheet date.

Notes to the Financial Statement (Contd...)

As at 31st March 2011

21. CONTINGENT LIABILITIES

The Following cases were outstanding as at the Balance sheet date, of which the outcome cannot be determined.

Labour Tribunal Cases against the Company

Ms. Sujatha Silva Vs. Sathosa Motors PLC (Ref - Ct. 78(02))

An Ex-Employee Ms. Sujatha Silva, who stood retired upon her attaining the age of 55 years lodged a complaint to the Termination of Employment Unit of the Commissioner of labour alleging that she has been unlawfully terminated. The Commissioner of Labour dismissed the application of Ms. Sujatha Silva. Subsequently she filed a special case in the District court bearing No. D.S.P./00137/09. The court delivered order on 11 January in favour of Sathosa Motors by dismissing the action with costs. The plaintiff has now filed an appeal.

W.A. Siriwardane Vs. Sathosa Motors PLC

The above application was filed in the labour tribunal by an ex-employee Mr. W.A. Siriwardane who was a driver in the company for terminating his services and seeks reinstatement in service. The Company is vehemently resisting the claim.

Other Cases against the Company

Customs Case No. POM/2280/2006

The Custom Department has initiated an inquiry regarding the payment of Duty on dividend paid to Itochu Corporation of Japan, who is the exporter of vehicles to the company as well as the major shareholder of the Company. The matter is still pending.

22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There were no material events occurring after the Balance Sheet Date that require adjustments to or disclosure in the Financial Statements other than those disclosed below.

The Board of Directors has recommended a first and final dividend of Rs. 5/- per share amounting to Rs. 30,168,110/- for the year ended 31st March 2011 (2010 Rs. 2/- per share), which is to be approved at the Annual General Meeting to be held on 26th August 2011. In accordance with SLAS 12 "Events After the Balance Sheet Date", this proposed dividend has not been recognized as a liability as at the Balance Sheet date.

As required by Section 56 of the Companies Act No 7 of 2007, the Board of Directors has satisfied the solvency test in accordance with Section 57. A statement of solvency completed and duly signed by the directors has been audited by Messers KPMG Ford, Rhodes, Thornton & Co.

Notes to the Financial Statement (Contd...)

As at 31st March 2011

23. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 30 'Related Party Disclosures (Revised 2005)'. The details of related party transactions are reported below.

23.1 Transactions with the holding Company - Itochu Corporation, Japan

Date	Description	Amount (Rs.)	Balance as at 31.03.2011 (Rs.)	Balance as at 31.03.2010 (Rs.)
Transactions have taken place through out the Financial Year	Purchases of - Vehicles - Spare Parts	1,144,107,511	348,757,943	49,698,772
	Payments Made	855,571,641		

Mr.S.J.S. Perera- Chairman, & Mr. T. D. Gunasekara, Mr. M. Kuzuno, Mr. Y. Aratani, Mr. M.M.N. De Silva, Mr. W.D.N.H. Perera, Mr. T. Yoshino, Mr. M. Kozuno Directors of the Company, are nominees of Itochu Corporation Japan, the holding Company. Itochu Corporation which forms part of the Itochu group holds minority shares in Isuzu Motors Ltd, Japan in addition to trading relationships with the latter.

23.2 Transaction with Key Management Personnel

According to Sri Lankan Accounting Standard 30 (Revised 2005) 'Related Party Disclosures', Key Management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the board of directors (including executive and non-executive Directors) have been classified as key management personnel of the company.

Fees, emoluments and other benefits paid to Key Management Personnels amounted to Rs. 5.68 Mn (2009/10 Rs.5.43Mn) and a loan facility amounting to Rs. 750,000 was provided to the Executive Director of the company of which Rs. 337,500 was outstanding as at the balance sheet date.

There were no material related party transactions other than those disclosed above and in Note 19 to the Financial Statements.

24. COMPARATIVE INFORMATION

Comparative figures have been reclassified wherever necessary to conform with the current period's presentation and details of the reclassification is provided in the respective notes.

Directors' Profiles

Sumal Joseph Sanjeeva Perera - Chairman

Mr. Sumal Perera was appointed to the Board of Sathosa Motors PLC on 12th June 1998. He is the founder and Chairman of the Access Group of Companies. He is a Fellow of the Chartered Institute of Management Accountants, UK (FCMA).

Deshamanya Tilak Gunasekera - Executive Director

Mr. Gunasekera joined Sathosa Motors PLC as Senior Deputy General Manager (Marketing) in 2003. He was promoted to the Deputy CEO position in 2005. In the year 2007 he was further promoted to the Board of Sathosa Motors PLC as the Executive Director.

He counts over 28 years of experience in the fields of Marketing Management and Administrative Management in well established companies. He is a fellow of the Institute of Administrative Management, United Kingdom. He also holds qualifications in Marketing. He is also the Senior Vice Chairman of Ceylon Motor Traders Association (CMTA) which is an umbrella organization of Ceylon Chamber of Commerce (CCC).

Nimal Perera - Director

Mr. Nimal Perera who joined the Board of Sathosa Motors PLC on 11th February 2009, is a member of the Sri Lanka Institute of Marketing and counts over 28 years of experience in fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services.

He serves as a Director in several public quoted companies. He is the Managing Director of Royal Ceramics Lanka PLC, Deputy Chairman of Pan Asia Banking Corporation PLC, Group Finance Director of Amaya Leisure PLC, Director Finance of Hotel Reefcomber PLC, L B Finance PLC, Vallibel Power Erathna PLC and Vallibel Finance Ltd.

M M Nelson De Silva - Director

Mr. Nelson De Silva who joined the Board of Sathosa Motors PLC on 11th February 2009, is an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He graduated with a B.Sc in Public Administration from Sri Jayawardenapura University.

He serves as the Managing Director of Ned Management Consultants (Pvt) Ltd. He is also the Proprietor of M M N De Silva & Company.

He had been the Group Accountant of Tisara Group, Senior Accountant of John Keells Group, Finance Manager of Finlay Chemicals & Dyes (Pvt) Ltd, Director of PE Management Consultants (Pvt) Ltd and Partner of HLB Edirisinghe & Company.

Kuzuno Masahiko - Director

Mr. Kuzuno Masahiko who joined the Board of Directors of Sathosa Motors PLC on 1st April 2009 is a Japanese graduate from Osaka University of Foreign Languages. He is the President of Itochu Argentina, South Africa and is also the General Manager of Isuzu Business Department of Itochu Corporation.

Yoshino Takashi - Director

Mr. Yoshino Takashi a Japanese national joined the Board of Directors of Sathosa Motors PLC on 1st April 2009. He has graduated from KEIO University - Faculty of Economics.

He has served as the General Manager - Machinery Department of Itochu Corporation KL Branch, Manager of Iron and Steel Plan Section of Itochu Corporation, Director/General Manager of Machinery Department of Itochu Brazil.

He was also the President of Itochu Mexico, and Itochu Prodein- South Africa. He was also the Director of Baimex, South Africa.

Currently he is the General Manager of Itochu Corporation.

Yukiharu Aratani - Director

Mr. Yukiharu Aratani a Japanese national joined the Board of Directors of Sathosa Motors PLC on 15th January 2010. He graduated from the University of Tohoku, Faculty of Engineering in 1990 and joined Itochu Corporation during the same year.

He was assigned as the Manager ITOCHU Tokyo ISUZU business Department, ISUZU business Section No. 5 in January 2010.

Mr. Naoya Sode - Director

Mr. Naoya Sode is a graduate of the Tokyo University, Faculty of Urban Planning. He joined the Overseas Construction Department, Section No. 1 of Itochu Corporation on 1st April 1983. He was assigned as a Director of Auto Agro in Caracas, Venezuela on 21st December 1997 and was appointed the President of Auto Agro on 11th May 2000.

He was later appointed Section Manager of Itochu North America Business section on 1st April 2004 and was assigned to Isuzu Network. Thereafter, he was assigned as Deputy General Manager of Isuzu Business Department on 1st May 2009 and became General Manager of Isuzu Business Department on 1st April 2010.

Report of the Audit Committee

A formal sub-committee functioned as the Audit Committee of the Company until the end of February 2009. Thereafter, further to the appointment of the Independent Directors to the Board on 11th February 2009, the Audit Committee was reconstituted in line with the Rules on Corporate Governance as per the Listing Rules of the Colombo Stock Exchange. Accordingly, the present Audit Committee is as follows;

Mr M M N de Silva - Chairman
Mr W D N H Perera
Mr. Takashi Yoshino

The Company Secretary functions as the Secretary of the Audit Committee. The Chief Executive Officer, Head of Finance and Head of Departments and Internal Auditors attend the Audit Committee meetings by invitation while other members of the Senior Management attend meetings when required. The Audit Committee is empowered to review and monitor the financial process of the Company, so as to provide additional assurance on the reliability of the financial statements through a process of independent and objective review. As such, the Audit Committee will act as an effective forum in assisting the Board of Directors in discharging their responsibilities of ensuring the quality of financial reporting and related communications to the shareholders and the public.

The Audit Committee is also empowered amongst other functions to examine any matters relating to the financial affairs of the Company and to review the adequacy of internal control procedure, audit programs, disclosure of accounting policies, compliance with statutory and corporate governance requirements etc.

The Committee along with the board reviewed the annual financial statements for the year ended 31st March 2011 to ensure compliance with mandatory and statutory requirements.

During the year under review, the Audit Committee met twelve times and reviewed internal audit reports, quarterly and the annual financial statements of the Company prior to its release. Attendance by the Committee members and the proceedings of these meetings were recorded.

Based on the reports submitted by the Internal auditors, the Audit Committee is of the view that the internal controls prevalent within the Company is satisfactory and provides reasonable assurance that the financial position of the Company is well monitored and the assets are safeguarded.

The Committee has recommended to the Board of Directors that Messrs. KPMG Ford Rhodes Thornton & Company be re-appointed as Auditors for the year ending 31st March 2012 subject to the approval of shareholders at the Annual General Meeting. The Audit Committee will also recommend the fees payable to the Auditors for approval by the Board.



M M N de Silva

Chairman – Audit Committee

14th June 2011

Information to Investor

Shareholders & Investor Information

20 LARGEST SHAREHOLDERS		No. of shares		No. of shares	
		as at		as at	
		31.03.2011	%	31.03.2010	%
1	ITOCHU CORPORATION	3,600,000	59.67	3,600,000	59.67
2	MR. R M NANAYAKKARA	1,209,000	20.04	101,400	1.68
3	SEYLAN BANK PLC/LAKSHMANS HOUSING AND CONSTRUCTION CO. (PVT) LTD	606,800	10.06	606,800	10.06
4	DFCC VARDHANA BANK LTD/MR S P FERNANDO	107,400	1.78	-	-
5	MR. S P FERNANDO	80,258	1.33	191,758	3.18
6	MR.K.P.C.S PIYATILLAKE	12,200	0.20	7,500	0.12
7	MR. R ABEYSEKERA	9,600	0.16	9,600	0.16
8	MR. R.A WIJEYEKOON /MRS D P WIJEYEKOON	9,000	0.15	7,500	0.12
9	MR T D GUNASEKERA	6,300	0.10	4,000	0.07
10	MS. F.F KALEEL	6,000	0.10	6,500	0.11
11	LAKSHMANS HOUSING AND CONSTRUCTION CO. (PVT) LTD	5,700	0.09	5,700	0.09
12	MR. M RAGAVAN	5,200	0.09	-	-
13	MR R D LEELARATNA	4,028	0.07	3,928	0.07
14	MR. R D U A RANAMUKA	4,000	0.07	4,000	0.07
15	MR. A H MUNASINGHE	3,798	0.06	3,798	0.06
16	MR. G C GOONETHILEKE	3,700	0.06	3,600	0.06
17	MS. K.P.P.K PIYATILLAKE	3,400	0.06	3,500	0.06
18	TEA CEYLON INVESTMENTS (PVT) LTD	3,300	0.05	2,800	0.05
19	MR S T N FERNANDO	3,000	0.05	-	-
20	MR K ALOYSIOUS/MRS J ALOYSIUS	2,900	0.05	2,900	0.05

SHAREHOLDING AS AT 31ST MARCH 2011

Value Bands		No of Holders	No of Shares	%
1	1,000	1,375	251,454	4.17
1,001	10,000	76	166,510	2.76
10,001	100,000	2	92,458	1.53
100,001	1,000,000	2	714,200	11.84
Over 1,000,000		2	4,809,000	79.70
Total		1,457	6,033,622	100.00

CATEGORIES OF SHAREHOLDERS

Local Individuals	1,221	1,642,486	27.22
Local Institutions	41	735,877	12.20
Foreign Individuals	189	50,395	0.84
Foreign Institutions	6	3,604,864	59.75
Total	1,457	6,033,622	100.00

Information to Investor

Stock Market Information

	2010/11 Rs.	2009/10 Rs.
Market Value Per Share		
Market price (as at 31st March) -	Rs.222.10	Rs.143.00
Highest Market Price during the year -	Rs.265.00	Rs.158.75
Lowest Market Price during the year -	Rs.112.50	Rs. 87.50
Net Asset Value per share -	Rs.74.51	Rs. 59.00
Earnings per share -	Rs.18.32	Rs. 4.47
Dividends per share -	Rs 5.00	Rs. 2.00
Public Holding -	10.14%	11.85%

FINANCIAL CALENDAR 2010/2011

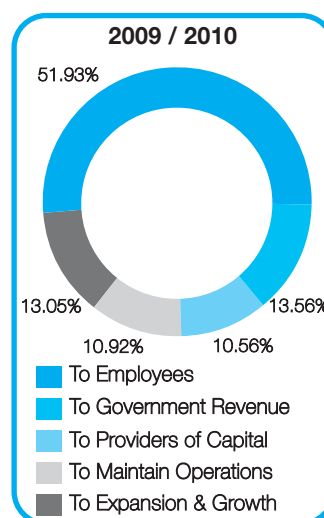
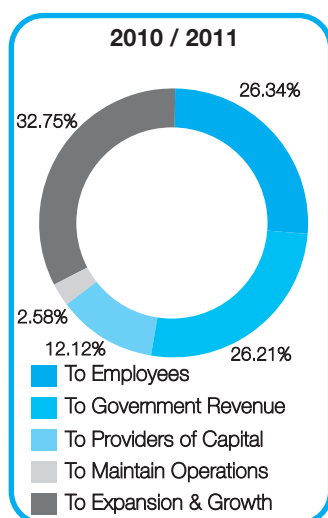
1st Quarter ended 30-06-2010	Accounts Circulated on 10/08/2010
2nd Quarter ended 30-09-2010	Accounts Circulated on 01/11/2010
3rd Quarter ended 31-12-2010	Accounts Circulated on 02/02/2011
4th Quarter ended 31-03-2011	Accounts Circulated on 06/05/2011
26th Annual General Meeting	23rd July 2010
27th Annual General Meeting	26th August 2011

Statement of Value Added

For the year ended 31st March	2011 Rs.000	2010 Rs.000
Value added		
Revenue	1,431,891	817,806
Other Income	79,085	33,020
	<u>1,510,976</u>	<u>850,826</u>
Less Cost of material & Services	1,261,993	736,400
	<u>248,983</u>	<u>114,426</u>

Distribution of value added

	2011		2010	
	Rs.000	%	Rs.000	%
To employees				
as salaries, Incentive & other benefits	65,589	26.34	59,416	51.93
To government Revenue				
as taxes	65,263	26.21	15,517	13.56
To providers of Capital				
as dividend	30,168	12.12	12,067	10.55
To maintain operations				
Depriciation	6,391	2.57	6,653	5.81
Financing Expenses	18	0.01	5,845	5.11
To Expansion & Growth				
Reserves	81,554	32.75	14,928	13.05
	<u>248,983</u>	<u>100.00</u>	<u>114,426</u>	<u>100.00</u>



SML SATHOSA MOTORS PLC

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