

PROSPECTUS

SHARING
THE GOLDEN HARVEST

LAUGFS GAS LIMITED

PROSPECTUS

Initial Public Offer of

75,000,000 Ordinary Voting Shares @ LKR 23 per share

and

52,000,000 Ordinary Non Voting Shares @ LKR 15 per share

To be listed on the Diri Savi Board of the Colombo Stock Exchange

The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus.

If you are in any doubt regarding the contents of this document or if you require any advice in this regard, you should consult your Stock Broker, Bank Manager, Lawyer or any other Professional Advisor.

Joint Placement Agents to the Issue



Managers and Registrars to the Issue



For further inquiries you may contact the Managers and Registrars to the Issue

PROSPECTUS

This Prospectus is dated 14th October 2010

This Prospectus has been prepared by Merchant Bank of Sri Lanka PLC (MBSL) on behalf of Laugfs Gas Limited (the Company) from the information supplied by the Company, its Directors and which is publicly available. The Company and its Directors having made all reasonable inquiries, confirm that to the best of their knowledge and belief the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading. While MBSL has taken reasonable care to ensure full and fair disclosure, MBSL does not assume responsibility for any investment decision made by the investors based on the information contained herein. In making an investment decision, prospective investors must rely on their own examination and assessments of the Company, including the risks involved.

No person is authorized to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorized by MBSL or the Company.

The Colombo Stock Exchange (CSE) has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed or reports included in the Prospectus. Moreover, the CSE does not regulate the pricing of the shares, which is decided solely by the Company / Issuer.



REGISTRATION

A copy of this Prospectus has been delivered to the Registrar of Companies of Sri Lanka for registration in accordance with the provisions contained in the Companies Act No. 07 of 2007. The following documents were attached to the copy of the Prospectus delivered to the Registrar of Companies:

- ▲ The written consent of the Bankers to the Company and the Bankers to the Issue
- ▲ The written consent of the Auditors/Reporting Accountants to the Company
- ▲ The written consent of the Lawyers to the Company
- ▲ The written consent of the Managers and Registrars to the Issue
- ▲ The written consent of the Joint Placement Agents to the Issue
- ▲ A declaration made by each of the Directors of the Company confirming that each of them have read the provisions of the Companies Act relating to the issue of the Prospectus and that those provisions have been complied with.

In terms of the provisions contained in the Companies Act,

- * The Bankers to the Company and the Bankers to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their names as Bankers to the Company and the Bankers to the Issue in the Prospectus.
 - * The Auditors/Reporting Accountants to the Company have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Auditors/Reporting Accountants to the Company and for the inclusion of their report/statements in the form and context in which it is included in the Prospectus.
 - * The Lawyers to the Company have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Lawyers to the Company in the Prospectus.
 - * The Managers and Registrars to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Managers and Registrars to the Issue and for the inclusion of their statements/declarations in the form in which it is included in the Prospectus.
- In addition to the above,
- * The Joint Placement Agents to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their names as Joint Placement Agents in the Prospectus.

This Prospectus has not been registered with any authority outside Sri Lanka

This issue as contemplated in this Prospectus is made in Sri Lanka and is subject to the exclusive jurisdiction of the courts of Sri Lanka.

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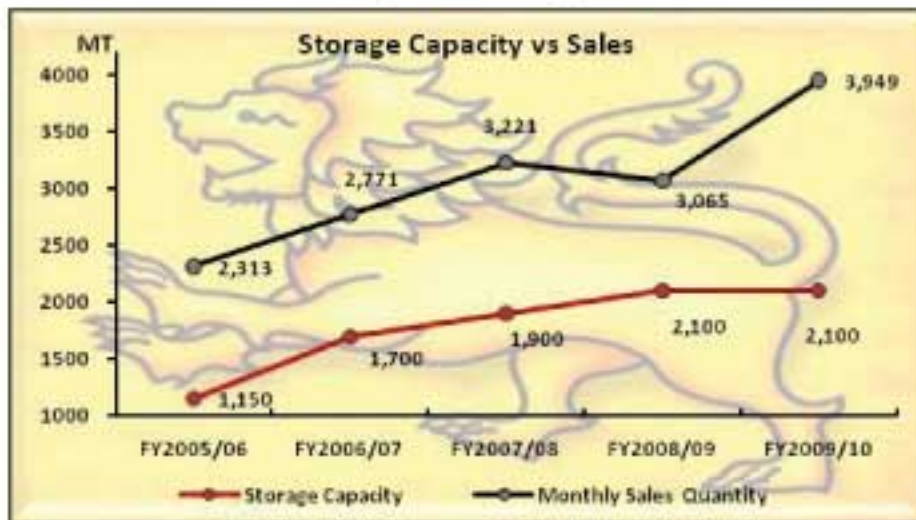


QUICK SNAPSHOT OF THE LKR 2.5 BILLION ISSUE

- | | |
|---|---|
| ➔ ISSUER | ➔ Laugfs Gas Limited |
| ➔ NUMBER AND TYPE OF
SECURITIES TO BE ISSUED | ➔ 75,000,000 Ordinary Voting Shares and
52,000,000 Ordinary Non Voting Shares |
| ➔ ISSUE PRICE | ➔ LKR 23 per Ordinary Voting Share and
LKR 15 per Ordinary Non Voting Share |
| ➔ MINIMUM SUBSCRIPTION PER
APPLICATION | ➔ 100 Ordinary Voting Shares or
100 Ordinary Non Voting Shares |
| | <p>Applications in excess of the minimum subscription shall be in multiples of 100 shares of any class of shares applied</p> <p>Applicants have the option of applying for either class of shares or in combination of both classes of shares</p> |
| ➔ AMOUNT TO BE RAISED | ➔ LKR 1,725,000,000 (Ordinary Voting Shares)
LKR 780,000,000 (Ordinary Non Voting Shares) |
| ➔ DATE OF OPENING OF THE
ISSUE | ➔ 04 November 2010 |
| ➔ CLOSING DATE | ➔ 25 November 2010 or on the date on which
the Issue is oversubscribed, whichever is
earlier |
| ➔ BASIS OF ALLOTMENT | ➔ The basis of allotment is detailed in Section
2.7 of this Prospectus |

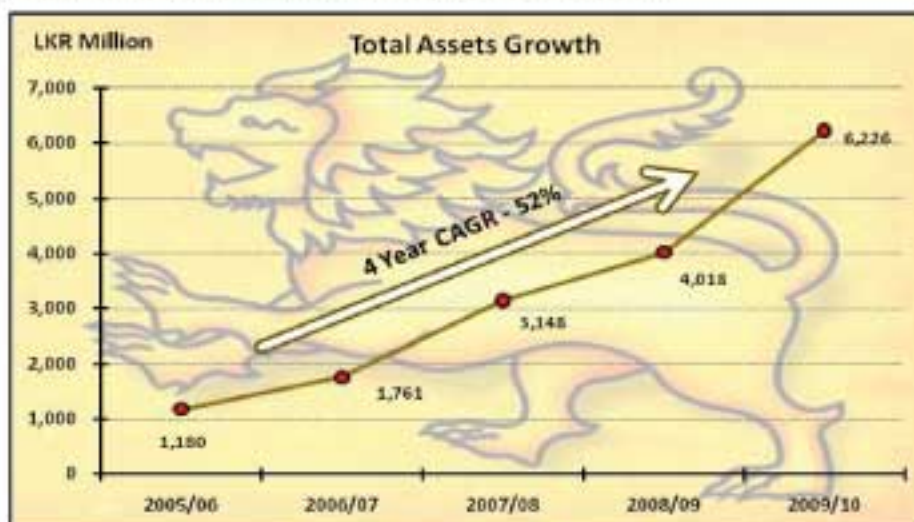
GRAPHICAL FORM OF LAST 5-YEARS' PERFORMANCE

14.3% CAGR on Gas sales during the last 5 years



During the last 5 years (FY2005/06 – FY2009/10) gas sales increased from 2,313 Metric Tons (MT) to 3,949 MT per month in FY 2009/10 with a Cumulative Annual Growth Rate (CAGR) of 14.3% (i.e. 27,756MT for the FY2005/06 vs. 47,388MT for the FY2009/10). The reasons for the growth are penetrating into competitor market segments, pricing strategy and the gradual growth of the industry. However the price sensitiveness and availability of substitutes have been the key concerns which may have a reduce impact for Laugfs in future.

Stable assets growth for sustainable performance



Source: Audited Financial Statements of LGL Group

Assets of the Laugfs Gas Limited and the group have nurtured to higher numbers during a short time span. Implementing aggressive business expansion strategies within the Gas Industry and the diversification into many other business ventures are the key driving forces behind the assets growth. LGL is expected to grow in the same path of business expansion while there could be several growth strategies to realize in future.

Revenue CAGR of 33% to unleash market opportunities



Source: Audited Financial Statements of LGL Group

Growth prospects from many business segments and new ventures were pressing the organisation for growth whilst providing reasonable cash flows for the investors. Revenue CAGR of 33% is impressive, given the economic conditions prevailed in the world and the diluted impacts to Sri Lanka in 2006/07 and late 2007/08. Nevertheless, dawn of a decade in the post war era and Laugfs ability to seize market opportunities will be the success factors in the way forward.

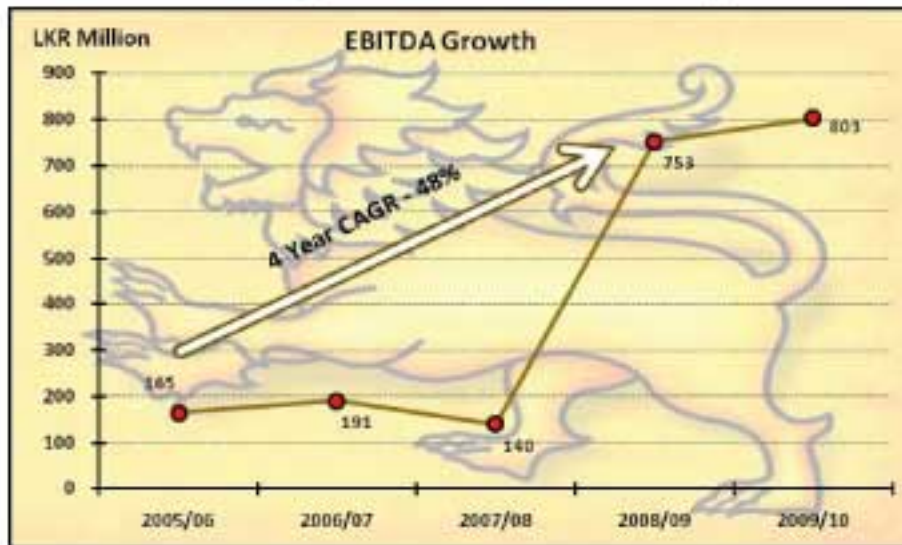
Consistency in GP margin growth



Source: Audited Financial Statements of LGL Group

Gross Profit margins were 9.2% in FY2005/06, which grew to 18.7% in FY2009/10 to reach a notable LKR1billion mark. The new ventures on tourism sector are anticipated to improve margins given the room capacity within the island is limited. Further, in an economic turnaround organisations that stood the storm will benefit more than a new entrant. Nevertheless, it is important to note that the Financial Statements of LGL Group for FY2009/10 has been qualified by the auditors regarding deferred cost of sales.

EBITDA cumulative annual growth is 48% for last 4 years



Source: Audited Financial Statements of LGL Group

Earnings before Interest, Tax and Depreciation and Amortisation (EBITDA) are growing on a higher scale than revenue, as economies of scale, industry maturity and product life cycles switching to a different elevation. The EBITDA drop of 27% in FY2007/08 has seen a spinning edge in FY2008/09 since the execution of the Pricing Formula Agreement between the Company and Consumer Affairs Authority (CAA) on 28 December 2007 pursuant to the order given on 20 August 2007 in the Supreme Court Application No. 163/2007 (Laugfs Gas (Pvt) Ltd vs CAA and others).

Impressive investor acuteness

The following table illustrates the Earnings Per Share (EPS) and Net Assets Value per share (NAV) based on the Audited Financial Statements of the LGL Group and the EPS and NAV after adjusting for capitalisation of reserves and share split.

	<u>FY2005/</u> <u>06</u>	<u>FY2006/</u> <u>07</u>	<u>FY2007/</u> <u>08</u>	<u>FY2008/</u> <u>09</u>	<u>FY2009/</u> <u>10</u>
EPS (after adjustments on shares)	0.26	0.26	(0.33)	0.94	2.03
NAV (after adjustments on shares)	0.49	0.46	3.14	4.47	10.92
EPS (based on Audited Financial Statements)	11.12	11.15	(14.15)	3.12	6.77
NAV (based on Audited Financial Statements)	21.12	19.77	136.26	14.89	36.40

AN OUTLINE FOR THE INVESTORS

	FY2007/08	FY2008/09	FY2009/10
INCOME STATEMENT - LGL Group			
Revenue	3,714	4,541	5,592
Gross profits	215	814	1,048
Revenue growth - %	52.06	22.29	23.14
Gross profit margin - %	5.79	17.92	18.74
Gross profit growth - %	-22.48	278.18	28.75
Earnings Before Interest, Tax & Depreciation and Amortisation (EBITDA)	140	753	803
EBITDA margin - %	3.76	16.59	14.35
EBITDA growth - %	-26.97	439.64	6.53
Operating profits	(103)	346	604
Operating profit growth - %	-389.29	437.27	74.42
Net profits	(85)	229	528
Net profit margin - %	-2.29	5.05	9.45
Net profit growth - %	-226.91	369.96	130.43
Earnings per share (based on Audited Financial Statements) - LKR	(14.15)	3.12	6.77
Earnings per share (after adjustments on shares) - LKR	(0.33)	0.94	2.03
BALANCE SHEET - LGL Group			
Total assets	3,148	4,018	6,226
Total assets growth - %	78.77	27.63	54.97
Total liabilities	2,330	2,856	3,387
Total liabilities growth - %	41.90	22.57	18.59
Net assets	818	1,162	2,839
Net assets growth - %	589.18	42.07	144.42
Net assets value per share (based on Audited Financial Statements) - LKR	136.26	14.89	36.40
Net assets value per share (after adjustments on shares) - LKR	3.14	4.47	10.92
<i>All amounts are extracted from Audited Financial Statements of LGL, LEL, LLL & LPDL and in Sri Lanka Rupees millions unless otherwise stated.</i>			

SUMMARY OF THE LGL GROUP'S PERFORMANCE

All amounts are in Sri Lanka Rupees Thousands							
Company	Industry	Effective Control	Revenue	Net profits	EBITDA	Total Assets	Net Assets
Laugfs Gas Limited	Power & Energy	N/A	5,305,018	524,400	686,637	5,574,539	2,496,083
Laugfs Property Developers (Pvt) Limited	Leisure & Hospitality	100% *	-	(1,943)	(1,913)	449,637	443,759
Laugfs Leisure Limited	Leisure & Hospitality	100%	53,842	290	623	63,466	52,464
Laugfs Eco Sri (Pvt) Limited	Services	100%	287,238	3,893	115,923	555,122	263,046
* - LGL controls 75% directly and 25% indirectly through LEL.							
<i>NOTE - All amounts are for the year ended 31st March 2010 extracted from Audited Financial Statements</i>							

DEFINITIONS / INTERPRETATIONS

The following definitions / interpretations apply throughout this Prospectus, unless the context otherwise requires.

Application Form	:	The Application Forms (Forms A and B) issued with this Prospectus and/or photocopies of the Application Forms (Forms A and B) issued with this Prospectus
Bn	:	Billion
BOI	:	Board of Investment of Sri Lanka
CDS	:	Central Depository Systems (Pvt) Limited
Company /Issuer/ LGL	:	Laugfs Gas Limited
Companies Act	:	Companies Act No. 07 of 2007 and any amendments made thereto from time to time
CSE	:	Colombo Stock Exchange
Directors	:	The Directors for the time being of the Company, unless otherwise stated
GOSL	:	Government of the Democratic Socialist Republic of Sri Lanka
IPO	:	Initial Public Offer
Issue	:	Initial Public Offer of 75,000,000 Ordinary Voting Shares and 52,000,000 Ordinary Non Voting Shares of the Company as envisaged by this Prospectus
Issue price	:	LKR 23 per Ordinary Voting Share and LKR 15 per Ordinary Non Voting share
LKR	:	Sri Lanka Rupees
LPDL	:	Laugfs Property Developers (Pvt) Limited
LLL	:	Laugfs Leisure Limited

LEL	: Laugfs Eco Sri (Pvt) Limited
LGL Group	: Laugfs Gas Limited and its subsidiaries [Laugfs Property Developers (Pvt) Limited, Laugfs Leisure Limited & Laugfs Eco Sri (Pvt) Limited]
LHL	: Laugfs Holding Limited (parent)
Market Day	: Any day on which the CSE is open for trading
MBSL	: Merchant Bank of Sri Lanka PLC
Mn	: Million
MT	: Metric Tons
NIC	: National Identity Card
Offer	: Invitation for the subscription up to 75,000,000 Ordinary Voting Shares and 52,000,000 Ordinary Non Voting Shares of the Company at LKR 23 per Ordinary Voting Share and LKR 15 per Ordinary Non Voting share as envisaged by this Prospectus
POA	: Power of Attorney
SEC	: Securities & Exchange Commission of Sri Lanka
Shares	: The term "Shares" shall mean either class of shares of the Company (i.e. the Ordinary Voting Shares of the Company or Ordinary Non Voting Shares of the Company), unless the context otherwise requires

1.0 CORPORATE INFORMATION



Issuer	:	Laugfs Gas Limited
Registered Office	:	Unit 7-9, 2 nd Floor, Lucky Plaza New Wing, No.70, St. Anthony's Mawatha, Colombo 03. Tel: 0094 11 5566222 Fax: 0094 11 2577824
Company Registration Number	:	PV 8330 PB
Date, Place and Authority of Incorporate	:	Incorporated as a Private Limited Liability Company under the Companies Act No. 17 of 1982 on 06 April 2004 in Colombo registered under the Companies Act No. 07 of 2007 on 20 October 2008 and converted to a Public Company on 30 June 2010.
Board of Directors	:	Wegapitiya Kattadiyalage Hemachandra Wegapitiya <i>Chairman / Chief Executive Officer</i> Udu Kumburage Thilak Nandasiri De Silva <i>Managing Director</i> Hewa Annakage Ariyaratne <i>Non Executive Director</i> Palitha Mendis Kumarasinghe (Appointed with effect from 01.09.2010) <i>Non Executive Independent Director</i> Chandra Lal De Alwis (Appointed with effect from 01.09.2010) <i>Non Executive Independent Director</i> Tissa Kumara Bandaranayake (Appointed with effect from 01.09.2010) <i>Non Executive Independent Director</i>
Company Secretary	:	Corporate Advisory Services (Pvt) Ltd 47, Alexandra Place, Colombo 07. Tel: 0112695782 Fax: 0112695410
Lawyers to the Company	:	Messer's D. L. & F. DE SARAM, Attorneys-at-Law, 47, Alexandra Place, Colombo 07. Tel: 0112695782 Fax: 0112695410

- Reporting Accountants/Auditors** : **Messer's Ernst & Young**
Chartered Accountants
201, De Saram Place, Colombo 10.
Tel: 0112697363 Fax: 0112697369
- Bankers to the Company** :
- **Bank of Ceylon**
No.4, Bank of Ceylon Mawatha,
Colombo 01.
 - **Hatton National Bank PLC**
HNB Towers, 479, T. B. Jayah Mawatha,
Colombo 10.
 - **People's Bank**
Lucky Plaza Branch, St. Anthony's Mawatha,
Colombo 03.
 - **Commercial Bank of Ceylon PLC**
405, R A De Mel Mawatha,
Colombo 03.
 - **Seylan Bank PLC**
428, R A De Mel Mawatha,
Colombo 03.
 - **Union Bank of Colombo Limited**
15A, Alfred Place,
Colombo 03.
- Bankers to the Issue** : **Bank of Ceylon**
No.4, Bank of Ceylon Mawatha, Colombo 01.
Tel. 0112447802 Fax: 0112389128
- Managers and Registrars to the Issue** : **Merchant Bank of Sri Lanka PLC**
Level 18, Bank of Ceylon Merchant Tower,
No. 28, St. Michael's Road, Colombo 03.
Tel. 0114711744 Fax: 0114711741
- Joint Placement Agents to the Issue** :
- : **Capital Alliance Limited**
Level 5, Millennium House, 46/58, Navam Mawatha
Colombo 02.
Tel. 0112317777 Fax: 0112317788
 - : **Asha Phillip Securities Limited**
Level 4, Millennium House, 46/58, Navam Mawatha
Colombo 02.
Tel. 0112429100 Fax: 0112429199

2.0 INFORMATION CONCERNING THE ISSUE



2.1 Invitation to subscribe

Pursuant to a Resolution passed on 08 September 2010 by the Board of Directors of Laugfs Gas Limited (hereinafter sometimes referred to as “the Company”) and the Special Resolution passed on 08 September 2010 by the Shareholders of the Company, the Company invites applications from the public for the subscription up to;

→ **Seventy Five Million (75,000,000) Ordinary Voting Shares of the Company @ LKR 23 per share and**

→ **Fifty Two Million (52,000,000) Ordinary Non Voting Shares of the Company @ LKR 15 per share** payable in full on application on the terms and conditions set out in this Prospectus.

The Company and the Directors are of the opinion that the issue price of LKR 23 per Ordinary Voting Share and LKR 15 per Ordinary Non Voting Share of the Company is fair and reasonable to the Company and to all existing shareholders of the Company.

Applicants shall have the option of applying for either class of shares or for a combination of both classes of shares. The minimum subscription shall be 100 Ordinary Voting Shares at LKR 23 per share or 100 Ordinary Non Voting Shares at LKR 15 per share. Applications in excess of the minimum subscription shall be in multiples of 100 shares of any class of shares applied.

The new Ordinary Voting Shares to be issued pursuant to this offer shall rank equal and pari-passu in all respects with the existing issued Ordinary Voting Shares of the Company from the date of issue of such new shares.

Each Ordinary Voting Share of the Company shall confer on the holder of such shares, the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in any dividends declared to Ordinary Voting Shareholders of the Company and in the event of liquidation of the Company the right to an equal share in any surplus assets of the Company available for distribution to ordinary shareholders after paying all the creditors of the Company and all other claims and debts in accordance with the provisions contained in the Companies Act No. 7 of 2007 and the Articles of Association of the Company.

The Ordinary Non Voting Shares to be issued pursuant to this offer will not confer on the holders of such shares any Voting rights at the meetings of the Company. The Ordinary Non Voting Shares shall rank equal and pari-passu in all other respects other than voting rights with the existing issued Ordinary Voting Shares of the Company, provided however that in the event of declaration of any dividends the holders of the Ordinary Non Voting Shares shall be entitled to receive any dividend that may be declared by the Company in respect of the Ordinary Non Voting Shares and in the event of any rights issue or issue of shares by way of capitalisation of reserves, the holders of the Ordinary Non Voting Shares would be entitled only to Ordinary Non Voting Shares.

Whenever the Company declares a dividend in respect of Ordinary Voting Shares, the Company will also at the same time declare a dividend in respect of Ordinary Non Voting Shares issued pursuant to this Prospectus. The applicable dividend rate (dividend per share) would be the same in respect of both classes of shares.

2.2 Objectives of the Issue

The Company intends to raise LKR 2,505 million through this offering for the purposes set out below;

	Purpose	Estimated Amount LKR (Mn)	% (Out of the total proceed of the IPO)
i.	Business Expansion		
	Expansion of storage and filling capacities of LGL	425	17
	Expansion of the distribution network of LGL	40	2
	Introducing new LP Gas products	40	2
		505	21
ii.	Settlements of financial facilities obtained by LGL	850	33
iii.	Equity investment in LLL to build and operate a hotel in Chilaw	500	20
iv.	Equity investment in LPDL to build and operate service apartments/ Motel at Havelock Road	425	17
v.	Equity investment in LEL to settle the financial facilities obtained by LEL	225	9
	Total	2,505	100

Business Expansion

The Company intends to utilise LKR505Mn from the proceeds of the IPO to expand storage and filling capacities of the Company, expand the distribution network of the Company and to introduce new LP Gas related products. Proceeds of the Issue will be utilised for these purposes within a period of 2 years from the date of closure of the Issue.

Settlement of financial facilities obtained by LGL

The Company intends to utilise a sum of LKR 850Mn to settle the financial facilities detailed below:

Name of the Lender	Type of facility	Facility Amount LKR	Date Obtained	Interest paid up to 09 September 2010	Repayments up to 09 September 2010	Total Amount Outstanding as at 09 September 2010 (LKR)
DFCC Bank PLC	Term Loan	30,000,000	19 April 2007	15,998,031	14,500,000	15,500,000
DFCC Bank PLC	Term Loan	100,000,000	7 December 2007	44,448,008	35,000,007	64,999,993
DFCC Bank PLC	Term Loan	150,000,000	10 October 2008	40,957,321	37,189,661	112,810,339
Central Finance Co., Ltd	Term Loan	15,000,000	23 June 2009	4,167,646	4,405,660	10,594,340
Merchant Bank of Sri Lanka PLC	Term Loan	135,000,000	10 June 2008	64,901,291	44,456,803	90,543,197
Union Bank of Colombo Ltd	Term Loan	25,000,000	12 August 2009	4,073,878	12,465,718	12,534,282
Lanka Orix Leasing Company PLC	Term Loan	113,653,713	20 September 2009		20,443,127	93,210,586
Lanka Orix Leasing Company PLC	Term Loan	25,000,000	15 October 2009	5,152,579	5,828,445	19,171,555
Lanka Orix Leasing Company PLC	Revolving Loan	50,000,000	5 August 2010	70,714,527	-	50,000,000
Lanka Orix Leasing Company PLC	Factoring Facility	75,000,000	24 October 2008	-	-	59,362,805
Lanka Orix Leasing Company PLC	Cheque Discounting	40,000,000	3 May 2010	887,671		41,236,458
Sampath Bank PLC	Term Loan	11,500,000	10 November 2009	1,371,724	1,728,000	9,772,000
Sampath Bank PLC	Term Loan	13,500,000	10 November 2009	1,542,994	2,025,000	11,475,000
Asia Asset Finance Ltd	Loan	15,000,000	30 October 2009	1,822,882	9,582,422	5,763,919
Asia Asset Finance Ltd	Loan	20,000,000	20 August 2010	-	-	22,117,579
Peoples Leasing Finance PLC	Loan	15,000,000	26 August 2010	-	-	15,797,268
Peoples Leasing Finance PLC	Loan	35,000,000	29 April 2010	243,746	24,469,441	12,600,340
CeyLease Financial Services Ltd	Short Term Loan	14,000,000	3 November 2009	1,815,927	13,458,571	2,688,488
Seylan Bank PLC	Revolving Loan	10,000,000	12 August 2009			5,627,000
Seylan Bank PLC	POD	10,000,000				8,730,340
Union Bank of Colombo Ltd	POD	25,000,000	3 March 2010	2,103,138	-	18,709,752
Hatton National Bank PLC	POD	91,200,000	27 April 2010			38,942,171
Bank of Ceylon	LC - Revolving	350,000,000	5 July 2010			138,943,672
Total		1,410,853,713				861,131,084

The financial facilities mentioned above will be settled immediately from the proceeds of the issue. If the total amount outstanding on the said facilities exceeds LKR 850 million at the time of settlement, the difference will be settled from internally generated funds of the Company.

Equity investments in LLL

The Company has a plan to build and operate a tourist Hotel under LLL in Chilaw, passing Negembo as a move to tap tourist segments that prefer short distance travelling and dazzling beaches of the Western Coast. It is intended to invest a sum of LKR 500 million in LLL for this purpose by way of equity (subscription of 50million ordinary shares of LLL at LKR 10 per share) in two tranches. First tranche of the equity investment (LKR 110 million) would be made before the end of year 2010 and the balance amount would be made before the end of year 2011. The hotel is anticipated to be completed in the year 2012 which will generate additional income for the group.

Equity investment in LPDL

The Company has further plans to build and operate service apartments / motel at Havelock road, to cater different segments in the tourism industry under LPDL. It is intended to invest a sum of LKR 425 million in LPDL by way of equity (subscription of 42.5 million ordinary shares of LPDL at LKR 10 per share) in two tranches for this purpose. First tranche of the equity investment (LKR 141 million) would be made before the end of year 2010 and the balance amount would be made before the end of year 2011. It is anticipated that this project would be completed in the year 2012 with a unique service quality to the industry mainly focusing on high end frequent travellers.

Equity investment in LEL

The Company intends to invest a sum of LKR 225Mn in LEL by way of equity (subscription of 22.5 million ordinary shares of LEL at LKR 10 per share) to settle the financial facilities detailed below:

Name of the Lender	Type of facility	Facility Amount (LKR)	Date Obtained	Interest paid up to 09 September 2010 (LKR)	Repayments up to 09 September 2010 (LKR)	Total Amount Outstanding as at 09 September 2010 (LKR)
DFCC Bank PLC	Term Loan	50,000,000	7 April 2008	26,206,820	7,525,455	42,474,545
DFCC Bank PLC	Term Loan	50,000,000	1 July 2008	23,263,989	7,525,455	42,474,545
Lankaputhra Development Bank	Project Loan	25,000,000	31 July 2008	9,575,392	6,770,920	18,229,080
Bank of Ceylon	Term Loan	50,000,000	10 April 2008	25,471,776	7,777,778	42,222,222
Sampath Bank PLC	Term Loan	50,000,000	13 June 2008	18,964,791	26,337,000	23,663,000
Hatton National Bank PLC	Finance Lease	25,000,000	10 April 2008		7,958,753	27,493,874
Peoples Leasing Company PLC	Finance Lease	1,756,429	21 July 2009		738,829	2,384,968
Peoples Leasing Company PLC	Finance Lease	1,756,431	21 July 2009		738,829	2,384,968
Peoples Leasing Company PLC	Finance Lease	1,756,496	21 July 2009		738,868	2,385,062
Peoples Leasing Company PLC	Finance Lease	1,756,429	21 July 2009		738,829	2,384,968
Peoples Leasing Company PLC	Finance Lease	1,756,374	21 July 2009		738,803	2,384,874
Peoples Leasing Company PLC	Finance Lease	1,756,429	21 July 2009		738,829	2,384,970
Peoples Leasing Company PLC	Finance Lease	1,756,517	21 July 2009		738,881	2,385,113
Peoples Leasing Company PLC	Finance Lease	1,756,418	21 July 2009		738,829	2,384,968
Peoples Leasing Company PLC	Finance Lease	1,756,429	21 July 2009		738,829	2,384,968
Peoples Leasing Company PLC	Finance Lease	1,756,429	21 July 2009		738,829	2,384,968
Peoples Leasing Company PLC	Finance Lease	12,560,766	21 July 2009		5,987,813	14,393,785
Total		280,125,147		103,482,768	77,271,529	234,800,878

The said equity investment would be made immediately from the proceeds of the issue. LGL will ensure that LEL will settle the above mentioned financial facilities immediately upon the said equity investment. If the total amount outstanding on the said facilities exceeds LKR 225 million at the time of settlement, the difference will be settled from internally generated funds of LEL.

Further the Offer is expected to facilitate the listing of the Company's Ordinary Voting Shares and Ordinary Non Voting Shares on the Diri Savi Board of the Colombo Stock Exchange in order to provide an opportunity to the public to participate in the equity of the Company, which in turn will broad base the ownership and allow the Company access to the capital market of Sri Lanka.

2.3 Listing

An application has been made to the CSE for approval to deal in and for a listing of Three Hundred and Thirty Five million and Eighty Six (335,000,086) Ordinary Voting Shares of the Company and Fifty Two Million (52,000,000) Ordinary Non Voting Shares of the Company, comprising,

- a. the entire Two Hundred and Sixty Million and Eighty Six (260,000,086) issued and fully paid Ordinary Voting Shares of the Company as at the date of this Prospectus.**
- b. the Seventy Five Million (75,000,000) Ordinary Voting Shares and Fifty Two Million (52,000,000) Ordinary Non Voting Shares of the Company to be issued pursuant to this Initial Public Offer.**

Upon the successful completion of the issue of Ordinary Voting Shares and Ordinary Non Voting Shares of the Company, and upon fulfilling the applicable requirements set out in the Listing Rules of the CSE, the said shares will be listed on the Diri Savi Board of the CSE.

2.4 Subscription List

Subject to the provisions contained below, the subscription list for the both classes of shares will open at 0900 hrs (9.00 am) on 04th November 2010 and shall remain open for 14 market days until closure at 1630 hrs (4.30 pm) on 25th November 2010.

In the event of an over subscription, the subscription list will close at 1630 hrs (4.30 pm) on the same day on which the entire Issue is fully subscribed, with prior written notice to CSE.

Applications may be made forthwith. Applications should be duly completed in the manner set out under the Procedure for Application in Section 3 of this Prospectus.

2.5 Eligible applicants

Applications are invited for the subscription up to Seventy Five Million (75,000,000) Ordinary Voting Shares and Fifty Two Million (52,000,000) Ordinary Non Voting Shares of the Company from the following categories of Applicants:-

- Citizens of Sri Lanka who are resident in or outside Sri Lanka and above 18 years of age;
- Companies, Corporations, Societies and other corporate bodies incorporated or established in Sri Lanka;
- Approved Provident Funds, Trust Funds and Contributory Pension Schemes registered / incorporated / established in Sri Lanka;
- Foreign citizens above 18 years of age;
- Regional Funds and Country Funds approved by the Ministry of Finance/Securities and Exchange Commission of Sri Lanka and
- Corporate bodies incorporated or established outside Sri Lanka.

Applications will not be accepted from individuals under the age of 18 years or in the name of sole proprietorships, partnerships, unincorporated trusts or non corporate bodies.

In the case of approved Provident Funds, Trust Funds and approved Contributory Pension Schemes the Applications should be in the name of the Trustees/Board of Management in order to facilitate the opening of the CDS Accounts.

2.6 Prospectus and Application Forms

Two types of Application Forms are issued with this Prospectus.

Form A – Application Form for subscription of Ordinary Voting Shares of the Company

Form B - Application Form for subscription of Ordinary Non Voting Shares of the Company

Copies of the Prospectus and Application Forms (Forms A & B), may be obtained free of charge from the collection points listed in "Annexure I".

2.7 Basis of allotment

The Company intends to distribute and allocate the 75,000,000 Ordinary Voting Shares and the 52,000,000 Ordinary Non Voting Shares among the Customers, Dealers, employees of the Company and others who have applied for shares at the IPO on the basis set out below;

Employees	- 10%
Dealers & Customers	- 10%
Others	- 80%

Employees will be identified by their EPF numbers indicated in the Application Form. Dealers will be identified by their Dealer reference numbers indicated in the Application Form. Customers will be identified by the cylinder purchase receipt number indicated in the Application Form along with the photo copy of such receipt attached to the Application Form.

The allocation of shares between the categories mentioned above may be subject to adjustment in order to accommodate probable over subscription scenarios of such categories.

In the case of an under subscription of any one or more categories relative to the allocation mix specified above, the quantum of shares undersubscribed may be redistributed and allocated to the other categories that may be oversubscribed. Decisions relating to the amount of any share redistribution and as to which category would receive first priority in selection for allocation of the under subscribed shares will be made at the discretion of the Board of Directors of the Company. Such distribution would be made in a fair manner.

Redistribution shall not apply in the event of oversubscription of all three categories mentioned above.

In the event of an over subscription of any one or all categories mentioned above the basis of allotment will be decided by the Board of Directors of the Company before the expiry of seven (07) market days from the date of closure of the subscription list and immediately notified to the CSE.

2.8 Cost of the Issue

The Directors estimate that the total cost of the Issue including the Managers' fees, Registrars' fees, Initial Listing fee, fees payable to the Bankers to the Issue, Placement Agent, brokerage, postage, printing and marketing costs, stamp duty payable on the issue of shares, etc will be approximately Rupees Forty Million (LKR 40 million). Such costs will be borne by the Company from the internally generated funds.

3.0 PROCEDURE FOR APPLICATION



3.1 How to Apply

1. Applicants shall have the option of applying for either class of shares or for a combination of both classes of shares. The minimum subscription shall be 100 Ordinary Voting Shares at LKR 23 per share or 100 Ordinary Non Voting Shares at LKR 15 per share. Applications in excess of the minimum subscription shall be in multiples of 100 shares of any class of shares applied.
2. Applications for subscription of Ordinary Voting Shares and Ordinary Non Voting Shares should be made separately on the respective Application Forms, which accompany and constitute a part of this Prospectus.
Form A - Application Form for subscription of Ordinary Voting Shares of the Company
Form B - Application Form for subscription of Ordinary Non Voting Shares of the Company

3. Applications are also permitted on exact size photocopies of the relevant Application Forms (Form A - Application Form for subscription of Ordinary Voting Shares of the Company, Form B - Application Form for subscription of Ordinary Non Voting Shares of the Company). Applicants using photocopies are requested to inspect the Prospectus, which is available for inspection and also issued free of charge at the **Collection Points** listed in "**Annexure 1**".

Care must be taken to follow the instructions on the reverse of the Application Forms. **Applications, which do not strictly conform to such instructions and/or the terms and conditions set out in this Prospectus or which are incomplete or illegible may be rejected.**

4. Joint Applicants should note that all parties in the Joint Application should either be residents of Sri Lanka or non residents. An Applicant of a Joint Application will not be eligible to submit a separate Application either individually or jointly for the same class of shares applied. Only one Application should be made by any person or entity with regard to any class of shares. **Multiple applications for the same class of shares will be rejected.**
5. Applications by Companies, Corporations, Societies and other corporate bodies, approved Provident Funds, Trust Funds and approved Contributory Pension Schemes registered / incorporated / established in Sri Lanka should be made under their common seal or in any other manner as provided by their Articles of Association or such other constitutional documents of such Applicants or as per the statutes governing them. In the case of approved Provident Funds, Trust Funds and

approved Contributory Pension Schemes the Applications should be in the name of the Trustees / Board of Management in order to facilitate the opening of the CDS Accounts.

6. The Application Forms may be signed by someone on behalf of the Applicant(s) provided that such person holds the Power of Attorney (POA) of the Applicant(s). A copy of such POA certified by a Notary Public should accompany such Application and should be lodged with the Managers/Registrars to the Issue along with the Application Form. **Original of the POA should not be attached.**
7. If the Applicants wish to lodge the shares allotted, directly to their account maintained with the Central Depository Systems (Pvt) Limited (CDS), they should state their CDS account number correctly in the space provided in the Application Form. In such a situation the shares allotted to them will be directly deposited to their CDS account before the expiry of 18 market days from the date of closure of the subscription list. The Company will not issue Share Certificates to such Applicants. Direct lodgement with the CDS will be notified by despatch of letters of direct lodgement within two market days from crediting to the CDS account. **Application Forms stating third party CDS account numbers, instead of their own CDS account numbers, except in the case of Margin Trading Accounts, will be rejected.**
8. It is suggested that Applicants should lodge the shares allotted to them directly to their CDS accounts if they want to trade their shares on the first day of commencement of trading on the CSE.
9. Applicants, who wish to apply through their Margin Trading Accounts, should submit the Application signed by the Margin Provider, requesting a direct upload of the shares to the CDS Margin Trading Account. The Margin Provider should indicate the relevant CDS account number relating to the Margin Trading Account in the space provided in the Application Form.

A copy of the Margin Trading Agreement certified as "True Copy" should be submitted along with the Application.
10. Margin Providers can apply under their own name and such Applications will not be construed as multiple Applications.
11. A Sri Lankan citizen must state his/her National Identity Card (NIC) number in the Application Form. In the case of corporate entities the company registration number must be given. A foreign citizen must state his/her passport number in the space provided. A Sri Lankan citizen can state the passport number only when the NIC number is not available, provided that such Applicant lodges his/her shares directly with the CDS.
12. If the Applicant is applying for shares under the category of Employees of the company, the Employee Provident Fund number (EPF No.) should be stated in the Application Form. If the

Applicant is applying for shares in the category of Dealers, the Dealer reference number should be stated in the Application Form. If the Applicant is applying for shares in the category of Customers, the cylinder purchase receipt number should be stated and a photocopy of such receipt should be attached to the Application Form.

13. Application Forms properly filled in accordance with the instructions thereof, together with the remittance (cheque, bank draft or bank guarantee as the case may be) for the full amount payable on Application, should be enclosed in a sealed envelope marked **"LAUGFS GAS LIMITED – INITIAL PUBLIC OFFER"** and addressed and dispatched by post or delivered by hand to the **"Managers and Registrars to the Issue"** at the following address:-

Managers and Registrars to the Issue
Merchant Bank of Sri Lanka PLC
Level 18, Bank of Ceylon Merchant Tower
28, St Michael's Road
Colombo 03
Sri Lanka.

14. Applications could also be sent by post or delivered to any of the collection points listed in **"Annexure I"**.

Applications sent by post or delivered to any collection point should reach the office of the Managers and Registrars to the Issue at least by 1630 hrs (4.30 pm) on the third market day immediately upon the closure of the subscription list. Applications received after the said duration shall be rejected, even though they have been delivered to any Collection Point prior to the closing date or carry a postmark dated prior to the closing date.

3.2 Payment for the application

1. Payment should be made separately in respect of each Application only by way of Cheque, Bank Draft or Bank Guarantee, as the case may be. Each Application Form should be accompanied by no more than one Cheque, Bank Draft or Bank Guarantee as the case may be, for the aggregate amount payable. Applications with two or more Cheques, Bank Drafts or Bank Guarantees will be rejected. Application Forms accompanied by cash will not be accepted.
2. The amount payable should be calculated by multiplying the number of shares applied in the respective Application Form by the issue price of such shares. If there is any discrepancy in the amount payable and the amount specified in the Cheque/Bank Draft or Bank Guarantee as the case may be, the Application will be rejected.
3. Payments for Applications for values less than Sri Lankan Rupees One Hundred Million (LKR 100,000,000) should be by way of a cheque or Bank Draft. Bank Guarantees will not be accepted for values less than Sri Lankan Rupees One Hundred Million (LKR 100,000,000). Payments for

Applications for values above and inclusive of Sri Lankan Rupees One Hundred Million (LKR 100,000,000) should be supported by a Bank Guarantee. Cheques and Bank Drafts will not be accepted for values above and inclusive of Sri Lankan Rupees One Hundred Million (LKR 100,000,000). Applicants are advised to ensure that sufficient funds are available in order to honour the Bank Guarantees inclusive of charges, when called upon to do so. It is advisable that the Applicants discuss with their respective bankers, all matters concerning the issuance of Bank Guarantees and all charges involved.

4. Cheques and Bank Drafts should be drawn upon any Licensed Commercial Bank in Sri Lanka and crossed "Account Payee Only" and made payable to "**Laugfs Gas Limited - Share Issue Account**".

The Bank Guarantees should be in a form acceptable to the Company and the Managers to the Issue and should be issued by a Licensed Commercial Bank in Sri Lanka payable on demand unconditionally to "**Laugfs Gas Limited - Share Issue Account**".

The Formats of the Bank Guarantees could be obtained from the office of the Managers and Registrars to the Issue.

5. In the event that Cheques are not realized prior to the date of deciding the basis of allotment and realised after such date, the monies will be refunded and no allotment of shares will be made. Cheques must be honoured on first presentation for the Application to be valid. In the event cheques are dishonoured/returned on first presentation the Application will be rejected.
6. All Cheques and Bank Drafts received in respect of Applications will be banked immediately after the closure of the subscription list.

3.3 Foreign Currency Remittance

This section is applicable to citizens of Sri Lanka above 18 years of age who are resident overseas, corporate bodies incorporated or established outside Sri Lanka, foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas) and Regional or Country Funds approved by the Ministry of Finance/SEC.

Applications in respect of such Applicants should be made in conformity with the requisite declarations accompanied by the documentation stipulated by the Controller of Exchange of Sri Lanka. Such Applicants should make their payments in one of the following ways:-

- A. Payment by foreign investors and Non Resident Sri Lankan citizens through a Share Investment External Rupee Account (SIERA) [now known as Securities Investment Account (SIA)] maintained with any Licensed Commercial Bank in Sri Lanka.

1. A foreign investor may use the service of a Custodian Bank as an intermediary when investing in the Sri Lankan securities market. The intermediary may open a SIERA/SIA, on the investor's behalf. In conjunction with the SIERA/SIA, an account must be opened with the Central Depository System (CDS). Payment for shares could be made through Bank Drafts purchased out of the funds in the SIERA/SIA and made payable to "**Laufgs Gas Limited - Share Issue Account**".

An endorsement should be made on the reverse of the Bank Draft by the Custodian Bank to the effect that such payment has been made out of the funds available in the SIERA/SIA.

2. Inward remittances of foreign currency may be held in a Foreign Currency Banking Unit (FCBU) Account of the Applicant with any Licensed Commercial Bank in Sri Lanka, in which case such Applicant could forward his/her Application supported by a Bank Guarantee [if the value is **Sri Lankan Rupees One Hundred Million (LKR 100,000,000) or above**] drawn on the Applicant's FCBU account pending allotment of shares. Upon allotment of shares, payment for the shares allotted would be called on the Bank Guarantee. Foreign currency to the extent of Sri Lankan Rupee equivalent value of the shares allotted should then be credited to the SIERA/SIA opened in favour of the Applicant via the aforementioned FCBU Account and payment for such shares should be made through the funds in the SIERA/SIA. This procedure would protect a prospective investor from any losses accruing due to fluctuating exchange rates.
3. Bank Guarantees issued by a Licensed Commercial Bank in Sri Lanka against the Applicant's SIERA/SIA maintained with the said bank will also be accepted from foreign investors and non resident Sri Lankan citizens provided that the value of such Bank Guarantee is **Sri Lankan Rupees One Hundred Million (LKR 100,000,000) or above**.

Bank Guarantees should be in a form acceptable to the Company and the Managers to the Issue and payable on demand unconditionally to "**Laufgs Gas Limited - Share Issue Account**".

The Formats of the Bank Guarantees could be obtained from the office of Managers and Registrars to the Issue.

An endorsement should be made by the Licensed Commercial Bank on the face of the Bank Guarantee to the effect that such Bank Guarantee has been drawn against the Applicant's FCBU account or SIERA/SIA maintained with the said bank.

B. Payment by Non Resident Sri Lankan citizens via Rupee Accounts for Non Resident Sri Lankan Investments (RANSI)

- Non resident Sri Lankans can remit money for investment purposes in Sri Lankan companies through Rupee Accounts for Non Resident Sri Lankan Investments (RANSI) maintained with authorized dealers.
 - Sri Lankan citizens who have left the country to take up employment, business or a profession and continue to reside abroad and those citizens of Sri Lanka who have made their permanent place of abode outside Sri Lanka are eligible to operate a RANSI with authorized dealers.
 - Remittance by non resident Sri Lankans in connection with this Share Issue could be made via Bank Drafts purchased out of funds in the RANSI.
 - Where a RANSI holder is also the holder of a Non Resident Foreign Currency (NRFC) account, movement of funds between a RANSI and a NRFC account of the account holder is freely permitted, so long as the account holder continues to reside abroad and does not cease to be a citizen of Sri Lanka. Therefore, funds in the NRFC account could be transferred to a RANSI through which investment in shares could be made.

An endorsement should be made on the reverse of the Bank Draft by the issuing bank to the effect that such payment has been made out of the funds available in the RANSI.

3.4 Rejection of Applications

1. Application Forms and the accompanying Cheques/Bank Drafts or Bank Guarantees, which are illegible or incomplete in anyway and/or are not in accordance with the terms and conditions set out in this Prospectus or the instructions on the reverse of the Application Forms will be rejected at the sole discretion of the Company.
2. Applications from individuals under the age of 18 years or in the name of sole proprietorships, partnerships, unincorporated trusts or non corporate bodies will be rejected.
3. An Applicant of a Joint Application will not be eligible to submit a separate Application either individually or jointly for the same class of shares applied. Only one Application should be made by any person or entity with regard to any class of shares. Multiple applications for the same class of shares will be rejected.
4. Application Forms stating third party CDS account numbers, instead of their own CDS account numbers, except in the case of Margin Trading Accounts, will be rejected.
5. Applications with two or more Cheques, Bank Drafts or Bank Guarantees will be rejected. Application Forms accompanied by cash will not be accepted.

6. In the event that Cheques are not realized prior to the date of deciding the basis of allotment and realized after such date, the monies will be refunded and no allotment of shares will be made. Cheques must be honoured on first presentation for the Application to be valid. In the event cheques are dishonoured/returned on first presentation the Application will be rejected.
7. Applications delivered by hand to the office of the Managers and Registrars to the Issue or to any Collection Point listed in **Annexure I** after the subscription list is closed will be rejected.

Applications sent by post or delivered to any Collection Point and received at the office of the Managers and Registrars to the Issue after 1630 hrs (4.30 p.m.) on the third market day immediately upon the closure of the subscription list will also be rejected at the sole discretion of the Company, even though they have been delivered to any Collection Point prior to the closing date or carry a postmark dated prior to the closing date.
8. The Directors of the Company hereby also reserve the right to refuse any Application in total or to accept any Application in part only at their sole discretion.

3.5 Refunds and Share Certificates

1. Where an Application is not accepted subsequent to the cheque being realized, the Applicant's money in full or where an Application is accepted only in part, the balance of the Applicant's money will be refunded.
2. If the Applicant has provided accurate and complete details of the Applicant's bank account in the Application Form, the refund payment will be made to the bank account specified by the Applicant through the Sri Lanka Inter Bank Payment System (SLIPS) and a payment advice shall be issued to the Applicant. If the Applicant has not provided details of the bank account in the Application Form or has provided inaccurate or incomplete details of the bank account, refund payment will be made by a crossed cheque drawn in favour of the Applicant and sent by Registered Post to the address provided by such Applicant in the Application Form. In the case of a joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Application Form.

Refund Cheques on shares which have not been allotted, will be posted before the expiry of **ten (10) market days** from the date of closure of the issue (excluding the date of close of the Issue). Applicants would be entitled to receive interest at the last quoted Average Weighted Prime Lending Rate (AWPLR) published by the Central Bank of Sri Lanka plus five percent (5%) on any refunds not made within this period.

3. In the event the CDS account number of the Applicant is accurately stated in the Application Form the shares allotted will be directly uploaded to the respective CDS account given in the Application Form before the expiry of **eighteen (18) market days**, from the date of closure of the

subscription list. A written confirmation of the allocation will be sent to the Applicant within **two (02) market days** of crediting the CDS account, by ordinary post to the address provided by each Applicant in their respective Application Forms. In the event the CDS account number is not stated in the Application Form or in the event the CDS account number stated in the Application Form is incomplete or inaccurate share certificates will be dispatched to such Applicants.

4. Share certificates will be dispatched before the expiry of **twenty five (25) market days**, from the date of closure of the subscription list by registered post to the address provided by the Applicants in their respective Application forms. Joint Applicants shall be entitled to only one share certificate for the shares held jointly, which shall be dispatched to the joint holder whose name appears first in the Register of Shareholders. The Company shall not register more than three (03) persons (including the principal holder) as joint holders of any shares, except in the case of executors, administrators or heirs of a deceased member.
5. The Company shall submit to the CSE a 'Declaration' as set out in Appendix 2C of the listing rules of the CSE on the market day immediately following the day on which the Ordinary Voting Shares and Ordinary Non Voting Shares are credited to the Investors' CDS accounts and trading of the said shares will commence on or before the third market day upon receipt of the declaration by the CSE.

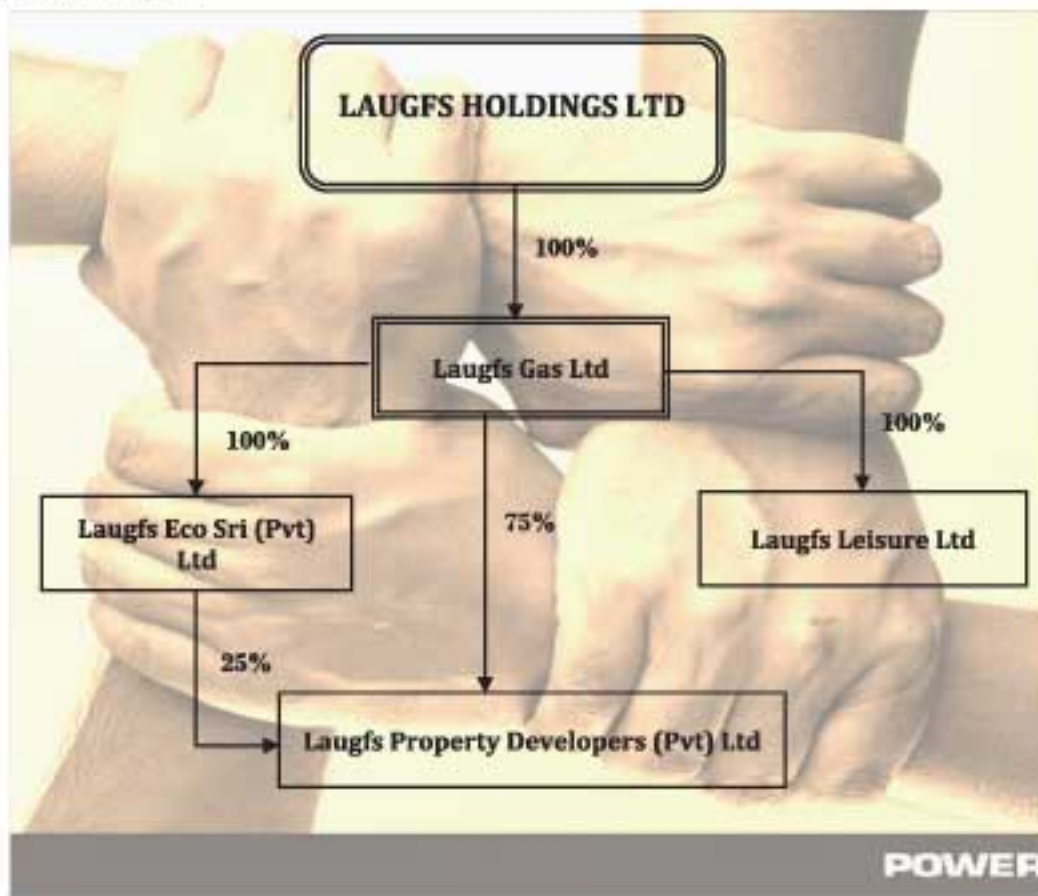
In terms of the CSE listing rules the Ordinary Voting Shares and Ordinary Non Voting Shares will be listed upon the completion of the CDS direct uploads and receipt of the declaration mentioned above by the CSE, but prior to dispatch of share certificates. Therefore, investors desired to trade their Ordinary Voting Shares and Ordinary Non Voting Shares in the secondary market from the first day of the commencement of trading of such Shares are advised to request for a direct upload of shares to their CDS accounts by stating their CDS account numbers when applying for the shares. In the event that the CDS account number is not stated in the Application Form or in the event the CDS account number stated in the Application Form is incomplete or inaccurate, Share Certificates will be dispatched by registered post to such investors and such Share Certificates may not be received by the investors before the Ordinary Voting Shares and Ordinary Non Voting Shares of the Company commence trading on the CSE.

Further, in terms of the CSE Listing Rules the Ordinary Voting Shares of the Company will be listed prior to the listing of Ordinary Non Voting Shares of the Company. Hence the Ordinary Voting Shares of the Company would commence trading on the first date of trading and the Ordinary Non Voting Shares of the Company would commence trading on the next market day immediately upon commencement of trading of the Ordinary Voting Shares of the Company.

4.0 AN OVERVIEW OF THE COMPANY AND THE GROUP



4.1 Group Structure



The group structure as at 9 September 2010

4.2 Laugfs Holdings Limited (LHL)

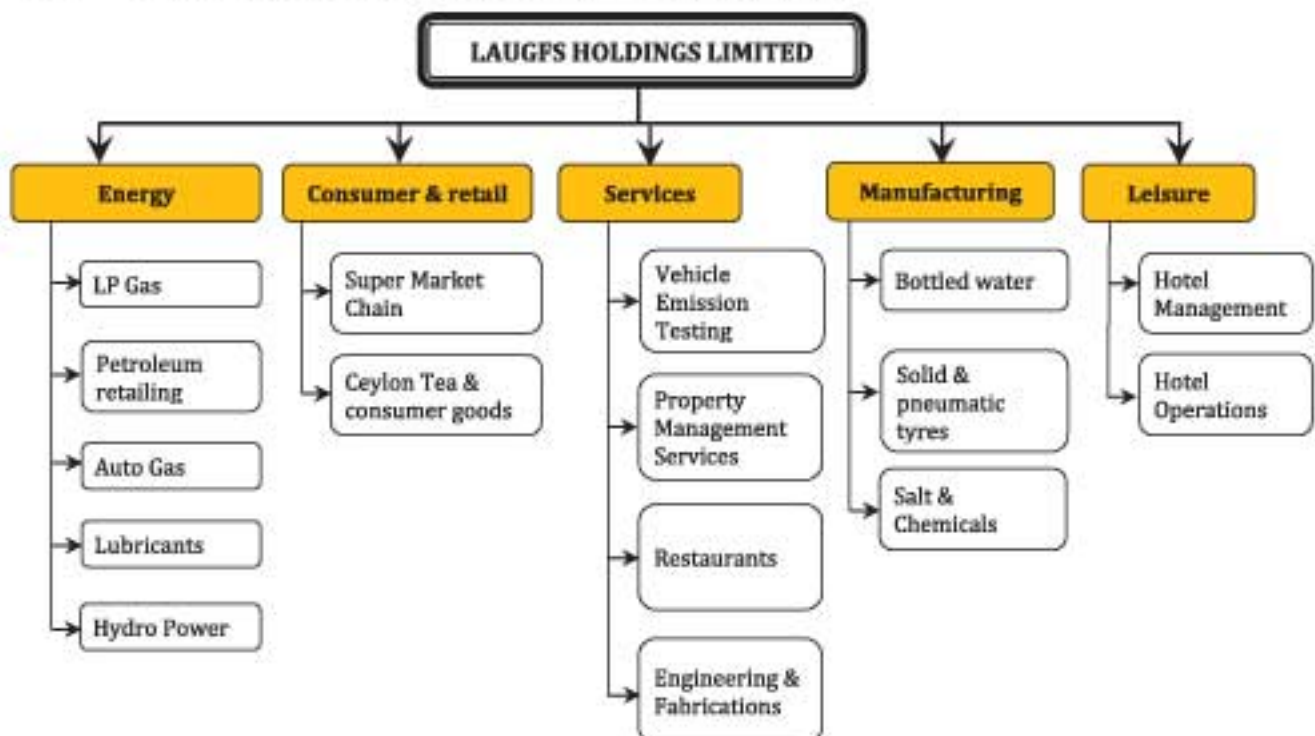
Laugfs Holdings Limited was incorporated in December 1994 under the name of Gas Auto Lanka (Pvt) Limited. LHL was the pioneer to introduce Liquid Petroleum Gas (LPG) as an alternative fuel for motor vehicles in Sri Lanka. At the outset, principle business activities of LHL was transforming petrol powered motor vehicles to use LPG, by installing a conversion kit to the petrol engine and distribution of Automobile LPG required for such vehicles through a chain of Auto Gas fuelling retail station network. Auto Gas conversion workshops were in full swing in Colombo, Galle, Kandy and Kurunagala whilst refuelling stations were set up in many parts of the country. A truly Sri Lankan brand, "LAUGFS" was unveiled to the public with a baseline acronym "Lanka Auto Gas Fuel System" for the automobile sector.

The initial entry point of "Laugfs" into the Sri Lanka's LPG industry was made during a decisive period for the industry, in 1995 during which Colombo Gas Company was privatised to Royal Dutch Shell with a five (05) year trade monopoly. During this period LHL recorded a momentous growth in an inclusive auto gas market whilst make a grade to be the next contender in the downstream LPG business in Sri Lanka. During first five years in operations, LHL managed to establish a standing as the market leader in auto gas industry whilst contributing to develop industry standards with Sri Lanka Standards Institute (SLSI). LHL also initiated assimilation of Auto Gas Association in Sri Lanka affiliated to Ceylon Chamber of Commerce. LHL became the first Sri Lankan member to the World LP Gas Association, an association of all LP Gas organisations around the world.

Having gained sufficient industry knowledge with the support of experts, building a brand name and exposure and fuelled with a long term vision to become a household name in the Sri Lankan energy industry and its related business activities; LHL broaden its wings to various sectors, such as LPG downstream activities, Petroleum retailing, Lubricant marketing, Consumer retailing, heavy engineering and constructions, boat building, automotive services and repairs, restaurants, hotel managements, property developments, manufacturing of bottled drinking water, vehicle emission testing and manufacturing of edible salt. Today, LHL is a well diversified group of companies with over fifteen subsidiary companies under the Laugfs Holdings Limited umbrella and employees over 1,900.

Having started with a clean slate, Laugfs Holdings has grown from mere total revenue of LKR13.0 million in 1996 to LKR 12,531.4 million as at March 2010 and assets base has grown from LKR28 million in 1996 to LKR7,279.7 million in March 2010.

4.3 SECTOR PRESENCE OF LAUGFS HOLDINGS LIMITED



4.4 Laugfs Gas Limited (LGL)

The Company

Laugfs Gas Ltd is a BOI approved company and a fully owned subsidiary of Laugfs Holdings Limited. The Company entered into an agreement with BOI on 07 April 2005. Laugfs Gas is a native brand in the highly volatile LPG downstream business



in the country whilst maintaining an aggressive market growth during last few years.

Industry Background

Sri Lanka's LP Gas business of import, storage filling and distribution was exclusively held by the state until end of 1995 under the Government Owned Business Undertaking (GOBU) with Colombo Gas and Water Co. Ltd. It was privatised in 1995 by disposing 51% of the Government's stake to Royal Dutch Shell and providing a permissible monopoly for a period of five (05) years in the country. Laugfs Gas crossed into the LPG downstream business creating the competition at the point of expiry of the trade monopoly enjoyed by Shell Gas Ltd in 2001. At present, LGL's operations cover the entire gamut of downstream business of LP Gas; importation, storage, distribution and sale for both domestic, industrial and auto gas sectors.

Market share

Laugfs Gas being a native brand with a truly Sri Lankan identity and having been in the business for nearly ten years has achieved, 28% market share in the overall LPG business in the country and has plans to increase it to 50% within the next 2 years. There are three specific sub sectors of the LPG market; packed LPG sector which consists of domestic (12.5kg), commercial (37.5kg), and other pack sizes such as 5kg, and 2kg, in which Laugfs has nearly 30% market share. Industrial bulk sector uses LPG as a feedstock for manufacturing processes in which Laugfs has almost 65% market share. Auto Gas sector in which LPG is used as motor fuel and Laugfs has almost 90% market share.

Standards and Industry practises

The operations of the Company are carried in accordance with SLS standards for LP gas storage, handling, filling and transportation. From the loading to the ship, unloading gas from the ship to the jetty, to the bowzers at the Colombo port, bowser to the filling plant via land transportation is complied with British standards on safety. Additionally, the Company strictly adheres with international LP Gas norms and practices which are applicable to the local environment. The Company has obtained ISO 9001:2000 certifications and also it has received many awards as stated in section 4.9 of this prospectus in recognition of safety procedures and productivity.

Capacity

Laugfs Gas Limited has built its main LPG storage facility and the cylinder filling plant in a 20 acre land in Mabima – Sapugaskanda close to the CPC refinery which benefits on logistic planning. At present, the total LPG storage capacity of the plant is around 2,500MT and the ongoing capacity increasing projects will increase the capacity to 3,000MT by the end of year 2010. The LPG storage capacity of the plant will be further increased to cater larger import parcels, enabling the company to negotiate better terms with the international suppliers. Plans are underway to acquire a floating storage facility to satisfy the increasing demand as the land-fixed storage capacity improvements snatch considerable time.

The cylinder filling plant has the capacity of filling 8,000 cylinders of different sizes per day to be increased to 16,000 cylinders per day over the next 3 year horizon. A modern automatic cylinder filling carousel is in operation for the past few years and more filling heads to be added to increase capacity.

Distribution and marketing

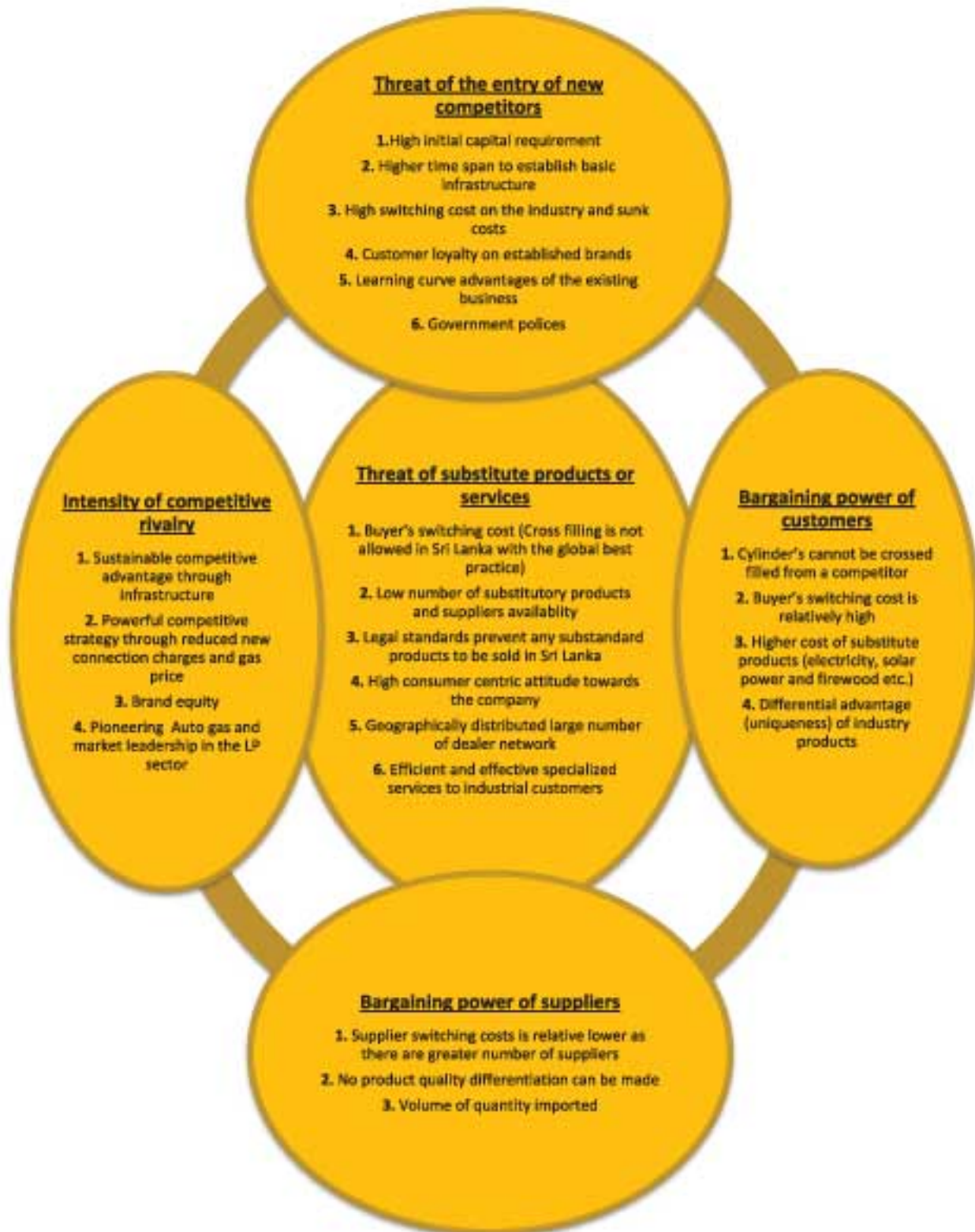
Over the recent past, the dealer network of the Company has seen tremendous growth with 13 main distributors and 1,665 active dealers throughout the country. At present, packed LPG is distributed through main distributors located in different parts of the country and dealers are specifically assigned to the main distributors. Packed cylinders are unruffled by distributors from the main plant at Mabima and maintain specific cushion stocks at their respective regional depots. Successful redistribution within the assigned territory is carried out with the supervision of the company staff who are located at such distribution points.

Procuring of LPG

Laugfs Gas Limited sources LPG requisites for the operation mainly from two supply sources. Initially, from the international market - leading LPG traders and producers in the region who continued to supply on term contracts and spot basis accounting to approximately 70% of the total requirement. Secondly, Laugfs Gas has secured the exclusive right of procuring the entirety of LPG produced at the refinery owned by the Ceylon Petroleum Corporation (CPC) located at Sapugaskanda from the time of entering to the domestic LPG market and has managed to continue the said right, despite many attempts to discontinue of supplies. The quantity supplied by the CPC to Laugfs Gas is around 30% of the total LPG requirements of the company.

The Company intends to utilise LKR 505 Mn from the proceeds of the IPO to expand storage and filling capacities of LGL, expand the distribution network and to introduce new LP Gas related products. Proceeds of the Issue will be utilised for these purposes within a period of 2 years from the date of closure of the Issue.

Porter's Five Forces Analysis: Laugfs Gas Limited



Laugfs Gas's Visionary Statement

Vision

"To be the No.1 safe, cost efficient and environmental friendly energy provider in Sri Lanka".

Mission

- To be the flagship Company within the group
- Ensure returns to stakeholders
- Lead by example as a strong and proud Sri Lankan entity
- Challenge any competition within the energy sector
- Achieve all above with the help of a highly motivated employee force

Values

- We work as a team working towards one common goal with a winning attitude
- We consider employees as our greatest asset and value their individuality
- We strive to our utmost to exceed customer expectations being reliable and provide quality service/ products, treating external and internal customers as a part of the Laugfs family
- We are an equal opportunity company, transparent, professional and adhere to the highest ethical standards with a sense of social responsibility
- We work with a sense of urgency
- We are committed to innovation and continuous improvement
- International safety, Health and Environment standards are a way of life at Laugfs Gas

4.5 Laugfs Eco Sri (Pvt) Ltd (LEL)

LEL which is a fully owned subsidiary of LGL is a BOI approved company incorporated on 05 August 2005 and having its registered office at No. 70, Unit 7-9, 2nd Floor, Lucky Plaza New Wing, St. Anthony's Mawatha, Colombo 3. LEL entered into an agreement with BOI on 13 November 2008. The Board of Directors of LEL as at 09 September 2010 are Mr W K H Wegapitiya and Mr U Thilak N de Silva. There are 371 employees in LEL as at 09 September 2010.



Sri Lanka initiated measures for control of air pollution under Clean Air 2000 Action Plan, developed under the Metropolitan Environment Improvement Program (MEIP) of World Bank. It has been found that the major source of air pollution in Colombo and other urban area were vehicle emissions from Hydrocarbon, Carbon Monoxide, Nitrogen Oxides and Particulates. The Ministry of Environment and Natural Resources gazetted regulations specifying mobile air emission standards under section 32 of the National Environmental Act No 47 of 1980 which was effective from 1 July 2003. These regulations stipulated that the Commissioner of Motor

Traffic is responsible for the enforcement of mobile air emission standards through authorization of accredited entities for the purpose of testing and certifying air emission levels of any motor vehicle or coach.

On 26 July 2007 LEL entered into an agreement with the Commissioner of Motor Traffic acting on behalf of the Government of Sri Lanka with regard to designing, implementing and operating a Vehicle Emission Testing Programme.

At present LEL operates nineteen (19) fixed testing centres, thirty seven (37) semi fixed centres and fifty one (51) mobile centres throughout the country. LEL also maintains one (01) corporate mobile testing van to cater to the fleet of vehicles of corporates and institutions. Total investment made by LEL is approximately LKR 500 million on this segment. A duopoly market is in play since barriers are in place and potential new entrants need high capital infusion and government policies and regulations also act as a deterrent for a new entry.

At present LGL owns 20,299,999 fully paid Ordinary shares (100%) of LEL. Pursuant to the proposed equity investment of LGL in LEL the shareholding of LGL in LEL will increase to 42,799,999 ordinary shares.

Eco-test coverage

WESTERN PROVINCE			
📍	Avissawella	📍	Nawam Mw
📍	Bellantota	📍	Nugegoda
📍	Embudeniya	📍	Orugodawatta
📍	Kaduwela	📍	Piliyandala
📍	Koswatta	📍	Rajagoriya
📍	Kotikawatta	📍	Meegoda
📍	Kottawa	📍	Cooperate Mobile
📍	Kadawatha	📍	Negembo
📍	Katunayaka	📍	Nittambuwa
📍	Kiribathgoda	📍	Wattala
📍	Miriswatta	📍	Matugama
📍	Horana	📍	Panadura
📍	Kaluthara		

CENTRAL PROVINCE			
📍	Akurana	📍	Kandy
📍	Gampola	📍	Kundasale
📍	Kandy	📍	Kotagala
📍	Dambulla	📍	Matale

NORTH CENTRAL PROVINCE			
📍	Anuradhapura	📍	Anuradhapura
📍	Hingurakgoda	📍	Polonnaruwa

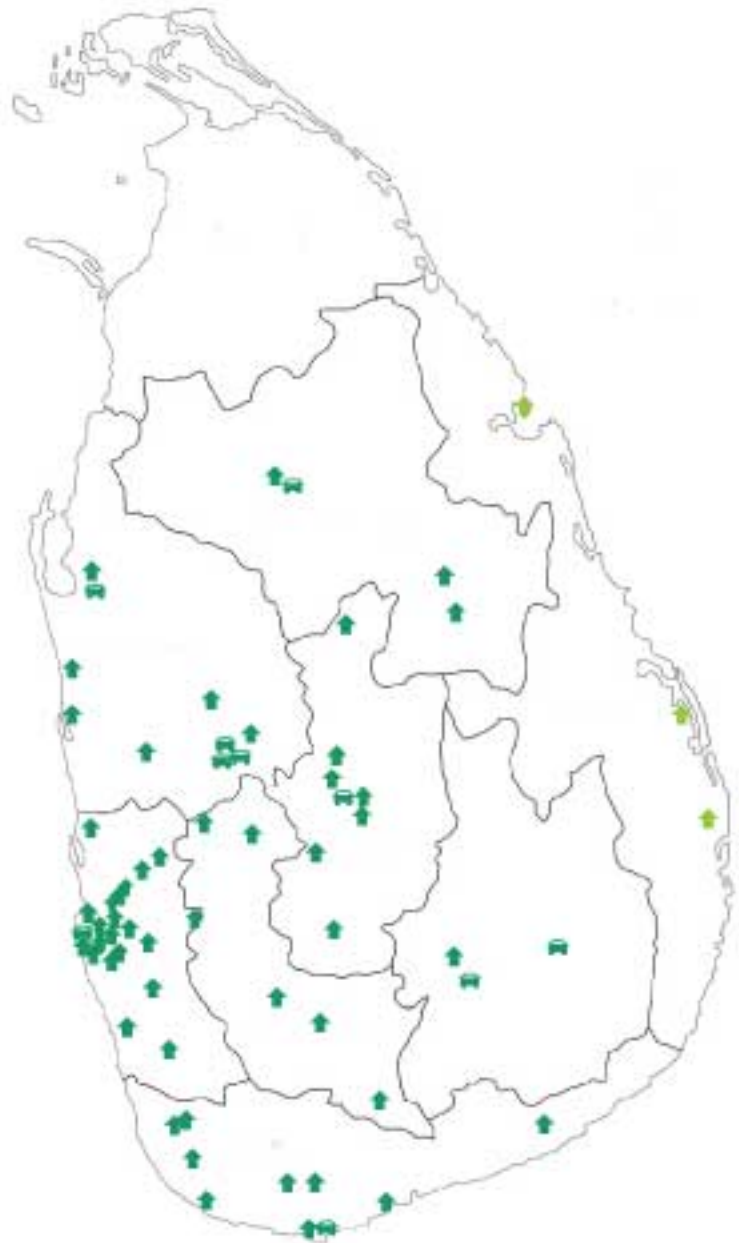
NORTH WESTERN PROVINCE			
📍	Kurunegala	📍	Kurunegala
📍	Kuliyapitiya	📍	Kurunegala
📍	Galgamuwa	📍	Wariyapola
📍	Puttalam	📍	Puttalam
📍	Wennappuwa	📍	Chilaw

SABARAGAMUWA PROVINCE			
📍	Kegalle	📍	Warakapola
📍	Rathnapura	📍	Pelmadulla
📍	Embilipitiya		

UVA PROVINCE			
📍	Bandarawela	📍	Bandarawela
📍	Monaragala		

SOUTHERN PROVINCE			
📍	Galle	📍	Balapitiya
📍	Balapitiya	📍	Elpitiya
📍	Matara	📍	Matara
📍	Akuressa	📍	Kamburupitiya
📍	Tangalle	📍	Tissamaharama

EASTERN PROVINCE			
📍	Ampara	📍	Batticaloa
📍	Trincomalee		



📍 Test Centres 📍 Mobile Test Centres 📍 Proposed Test Centres

4.6 Laugfs Leisure Ltd (LLL)

LLL which is a fully owned subsidiary of LGL is a BOI approved company incorporated on 22 December 2005 and having its registered office at No. 70, Unit 7-9, 2nd Floor, Lucky Plaza New Wing, St. Anthony's Mawatha, Colombo 3. LLL entered into an agreement with BOI on 22 November 2007. The Board of Directors of LLL as at 9 September 2010 are Mr W K H Wegapitiya, Mr U Thilak N de Silva and Mr Harsha Hannagala Gamage. There are 77 employees in LLL as at 09 September 2010.



LLL was incorporated with a view of commencing its flagship, "Ananthaya Resorts" in an idyllic location between the pristine beaches of the Indian Ocean and emerald blue waters of the Negembo lagoon. However, the program to develop this hotel was temporarily postponed due to the situation prevailed at that time, civil war against terrorism. Nevertheless since May 2009, work has been commenced and ground work for the hotel has been completed and presently ready for construction. In addition, LLL has moved in with hotel management of Emerald Bay Hotel and Temple Tree Resort and Spa as an initial step to leisure sector.



In pursuance of this strategy a management agreement was signed on 11 September 2008 to manage the 50 room Emerald Bay Hotel at Induruwa for a period of three years from 15 September 2008. The said agreement will expire on 14 September 2011. The hotel has 50 air-conditioned rooms with views of the Indian Ocean, with a choice between those with balconies and sit-out area. It has a Swimming Pool, Restaurants, a Bar, a Gym and a Ayurveda Wellness centre for the best in leisure and relaxation. It has an air-conditioned Banquet and Conference Hall to

accommodate 200 guests to cater special occasions and the business world. With the recent post war boom in the tourist industry performance from this segment will improve while 2011 will be a promising year for many strategic players in the industry.

LLL also signed an agreement to manage "Temple Tree Resort & Spa" located at Induruwa, close to Emerald Bay Hotel on 02 September 2008 for a 3 year period from 01 September 2008. The said agreement will expire on 31 August 2011. It is a hotel that can be considered under the category of "small luxury" deluxe ecstasy consists of ten (10) spacious designer rooms with built in Jacuzzi made of natural stone and a spa specializing in Asian treatment for



pampering the body. The "Temple Tree Resort & Spa" has been attracting considerable level of tourists and demand has been growing with tourist arrivals improving. LLL has plans of gaining from immediate opportunities available in the market place.

LGL has a plan to build and operate a tourist Hotel under LLL in Chilaw, passing Negembo as a move to tap tourist segments that prefer short distance travelling and dazzling beaches of the Western Coast. LGL intends to invest a sum of LKR 500 million in LLL for this purpose by way of equity from the proceeds of the IPO. The hotel is anticipated to be completed in the year 2012 which will generate additional income for the group.

Due to LLL being acquired by LGL on 31 March 2010, it is imperative to note the financial statements for the year ended 31 March 2010 of LGL Group has not disclosed any revenue from LLL in the segmental analysis to the statements.

At present, LGL owns 5,000,001 fully paid Ordinary shares (100%) of LLL. Pursuant to the proposed equity investment of LGL in LLL the shareholding of LGL in LLL will increase to 55,000,001 ordinary shares.

4.7 Laugfs Property Developers (Pvt) Ltd (LPDL)

LPDL which is a subsidiary of LGL is a BOI approved company incorporated on 27 June 2005 and having its registered office at No. 70, Unit 7-9, 2nd Floor, Lucky Plaza New Wing, St. Anthony's Mawatha, Colombo 3. LPDL entered into an agreement with BOI on 29 November 2007. The Board of Directors of LPDL as at 09 September 2010 are Mr W K H Wegapitiya and Mr U Thilak N de Silva. LPDL has no employees up to now.



LPDL was incorporated to develop a condominium property at Maya Avenue, Colombo 05 with 40 luxury apartments. However, LPDL switched its strategic plan and now embarks on a Motel Concept to cater the needs of specific tourist segment with 74 service apartments. At present the regulatory approvals are obtained and construction has commenced with the initial basement being completed for the super structure.

The Laugfs Property Developers having grabbed the opportunity from the market for service apartments in the city of Colombo converted its current constructions at Maya Avenue into a fully fledged service apartment complex. The proposed complex will consist of 8 floors having a total number of 72 service apartments which is to be completed in end of 2012.

LPDL became a subsidiary of LGL on 31 March 2010. At present LGL owns 15,000,000 fully paid Ordinary shares of LPDL which comprise 75% of the equity of LPDL. From the proceeds of the IPO, LGL intends to invest a sum of LKR 425 million in LPDL by way of subscribing of 42.5 million ordinary shares of LPDL at LKR 10 per share. Pursuant to the said equity investment, the shareholding of LGL in LPDL will increase to 57.5Mn ordinary shares (92%).

4.8 'LAUGFS' brand equity

The 'LAUGFS' trademark is owned and registered under LAUGFS Gas Limited and for commercial purposes is employed as the unified corporate brand identity by other companies within the LAUGFS group of companies. Whilst the commercial benefits from this brand equity is realised by most companies within the group, LAUGFS Gas Limited, LAUGFS Petroleum (Private) Limited and LAUGFS Sunup Supermarkets (Private) Limited collectively contributes to approximately 80% of the group turnover which can be considered as a main beneficiary of the associated brand promotional activities. As such, conservatively, the brand value of 'LAUGFS' has been estimated by considering the contributions from these three business segments.



Based on an assessment carried out by PricewaterhouseCoopers, Sri Lanka, the value of the 'LAUGFS' brand as at 31 March 2010 has been estimated at LKR 1,757 million. This brand value has been assessed employing the relief-from-royalty approach, a generally accepted valuation approach where value attributed to an intangible asset is estimated based on the notional royalty expense savings from ownership of the brand vis-à-vis royalties or franchise fees payable on an arm's length basis to a third party in return for the right of use of such brand.

The 'LAUGFS' brand value has been estimated based on the three-year forecast of net sales amounts prepared by the respective business segments and computation of notional post-tax royalty streams, net of any associated marketing expenses, generated thereafter. These post-tax royalty streams have been discounted at the company's post-tax weighted average cost of capital in order to arrive at the assessed brand value.

4.9 Milestones of LAUGFS

- 1994** - Establishing the parent company - Gas Auto Lanka (Pvt) Ltd (Currently known as Laugfs Holdings Ltd)
- 1995** - Commenced the commercial operations of Wattala Filling Station
- 1998** - Obtained World LP Gas Association Membership
- 2001** - Incorporated Laugfs Engineering (Pvt) Ltd
- 2001** - Incorporated Laugfs Sunup Supermarket (Pvt) Ltd
- 2001** - Signing of agreement between CPC & LG for the purchase of CPC produced LP Gas
- 2002** - First gas ship registered under the flag of Sri Lanka - Laugfs Wega Ship
- 2003** - Most preferred business partner status – Popular vote for trading year 2003 (Sunup)
- 2004** - Incorporated Laugfs Petroleum (Pvt) Ltd
- 2004** - Incorporated Laugfs Gas Ltd
- 2005** - Obtained BOI status – Laugfs Gas Ltd
- 2005** - Incorporated Laugfs Corporation (Rubber) Ltd
- 2005** - Incorporated Laugfs Eco Sri (Pvt) Ltd
- 2005** - Incorporated Laugfs Property Developers (Pvt) Ltd
- 2005** - Incorporated Laugfs Leisure Ltd
- 2006** - Industrial Safety Award – Merit Award (Western Province) (LGL)
- 2006** - Incorporated Laugfs Lubricants (Pvt) Ltd
- 2006** - Incorporated Laugfs Restaurants (Pvt) Ltd
- 2006** - National Agribusiness Council – Bronze Award (Sunup)
- 2006** - Provincial Productivity Award – 3rd Place Service Sector – Medium Scale (Western Province) (LGL)
- 2007** - Signing of agreement between Consumer Affairs Authority & LGL
- 2007** - Signing of agreement between Commissioner of Motor Traffic on behalf of GOSL & Laugfs Eco Sri (Pvt) Ltd to design implement and operate a Vehicle Emission Testing programme
- 2007** – Obtained BOI status – Laugfs Leisure Ltd
- 2007** - Obtained BOI status – Laugfs Property Developers (Pvt) Ltd
- 2008** - Obtained BOI status – Laugfs Corporation (Rubber) Ltd
- 2008** - Obtained BOI status – Laugfs Eco Sri (Pvt) Ltd
- 2008** – Commenced commercial operations of Eco Sri (Pvt) Ltd at Gampaha Centre
- 2008** - Most respected business entities in Sri Lanka - 50th position
- 2008** - National Safety Award – Runner-up (LGL)
- 2008** - Super brands (Group)
- 2009** - Achievers Award – Extra large service sector – Merit Award (LHL)
- 2009** - Business & Media World – National Business Enterprises Productivity Excellence Award
- 2009** - Effie Awards – Launch of Laugfs Oil
- 2009** - Most respected business – Nation Mindedness – 1st position
- 2009** - Most respected business entities in Sri Lanka - 41st position
- 2009** - National Business Excellence Award–Winner (Diversified Group Companies Sector) (LHL)
- 2010** - Incorporated Laugfs Hotel Management Services (Pvt) Ltd
- 2010** - Incorporated Sunup Ceylon Tea (Pvt) Ltd

4.10 MEMBERSHIPS WITH PREMIUM ORGANISATIONS & INSTITUTIONS

Member – The Ceylon Chamber of Commerce

Member – The National Chamber of Commerce of Sri Lanka

Member – Federation of Chamber of Commerce & Industry of Sri Lanka

Member – Chamber of Young Lankan Entrepreneurs (COYLE)



Member – World LP Gas Association

The above information is as at 09 September 2010.

4.11 Products and Markets

LAUGFS Product portfolio

Product	Product Category	Details
	2kg cylinder	Portable cylinder with 2 kg of LPG
	5kg cylinder	For household use and as a backup cylinder
	12.5 Kg Domestic cylinder	For domestic use and backup cylinder
	37.5 Kg Industrial cylinder	For industrial use and large hotels and restaurants
	Aloka (Lantern)	Gas lantern with 2kg cylinder. Produces power and works 24hrs continuously
	Quick (Stove)	LPG barbeque grill for home use fits in to a 2kg cylinder
	Gas Water Heaters	
	Gas Cookers	
	Tanks and supply facility	
	Regulator (standard)	World standard SIERRA regulator with latest safety features, which gives maximum protection to the user
	Regulator (high pressure)	A high pressure regulator with latest safety features, which gives maximum protection to the user
	Rubber Hose	Specially designed for LP Gas

<p style="text-align: center;">Bulk Gas</p> 	<p>Engineering (tailor made for the requirement) & Bulk Gas supply</p>	<p>Tank supply, installation and maintenance</p>
<p>Pipe Gas Installation and maintenance</p> 	<p>Engineering (tailor made for the requirement) & Bulk Gas supply</p>	<p>LP gas supply, pipe and meters installation and maintenance for large apartments, condominiums, and buildings.</p>

4.12 Future direction, prospects, major assumptions on future plans and risk factors

Laugfs Gas Ltd

The country had been entangled in a civil war for almost three decades which saw its end in May 2009. The economic loss from the war was enormous, taken into account of both direct and indirect cost in terms of loss of productive output and discontinued economic activities. In the past, war in Sri Lanka was deemed the single most serious pull down factor for economic growth and development. Infrastructure and many factors that were destroyed are redeveloped while the path for a rapid economic growth is recouped. The effects of the changes are already visible as reflected in the Colombo Stock Exchange boom, increase in Per Capita Income and investor rush towards opportunities. This growth numbers and favourable perception towards the economy will increase foreign direct investments and improve the socio-economic factors within the country.

The futuristic objectives of Laugfs Gas and its subsidiaries were formulated in the backdrop of these circumstances described above, and to achieve its objectives, the company and the subsidiaries have drawn up certain major strategies to be implemented in the immediate future. The main driving factor for Laugfs Gas will be market development with continuous expansion of distribution network, development of storage and filling capacity, value added services to consumers and new business development in strategic locations.

✦ Business Strategy and Future Plans

The era that is dawn is the exciting times for the company and the economy of the country. Post war economic boom; will be used as a key opportunity for strategic investments and expansion. Foreign direct investments and locals in foreign nations will infuse capital, newer consumption patterns and hope for the future of all Sri Lankans. The company formulated its business strategies and future plans to expand the current operations to North East Provinces while focusing on internal growth of the group.

➤ Expansion of the Distribution Network

The company has specific plans on promoting the use of domestic LP Gas and other products in the Northern and Eastern parts of Sri Lanka. Action plans to penetrate into these territories has been already developed, establishing a strong distribution and dealer network. The penetration strategy for the intended market will focus in significantly lower new connection cost and offer a reasonably lower price to the consumer to capture a sizable market share from these emerging markets.



- There are 13 main distributors and a network of around 1,665 dealers spread throughout the country. This will be increased to 19 distributors and a total of 2,000 dealer network under the current market development strategy/program. The strategy of the company in expansion of distributor and dealer network will be to make additional investments to ensure continuous supply of products, provision of economical package for new connection with the introduction of innovative range of products and making transportation effective and efficient through improved logistical arrangements to be made.

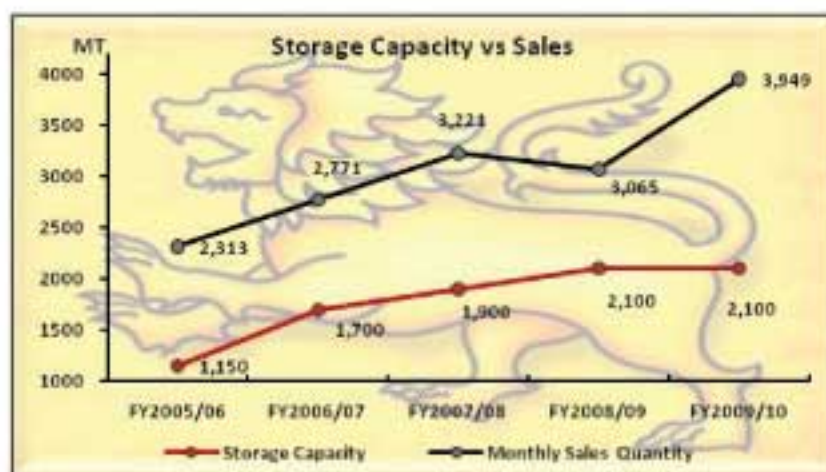
The company had identified a great potential to promote the use of domestic LP Gas in the post-conflict environment in the Northern and Eastern Provinces in Sri Lanka. It has already initiated its action plans to penetrate into these territories through the establishment of a strong distribution and dealer network. The penetration strategy for the intended market development focusing on these particular provinces will be, a significantly lower new connection cost and thereby to offer a reasonably lower product price to the consumer and as a result to capture a sizable market share in these emerging markets.

✦ Storage and filling capacity development

The availability of storage and filling capacity is a critical key element in the success path for the LP Gas downstream business. At present, the company enjoys approximately 24% (2,500MT) share of local storage capacity of 10,500MT within the country as against the demand for 16,250MT per month for the country. The shortage of 5,750MT per month has to be looked into favourably by the existing players.

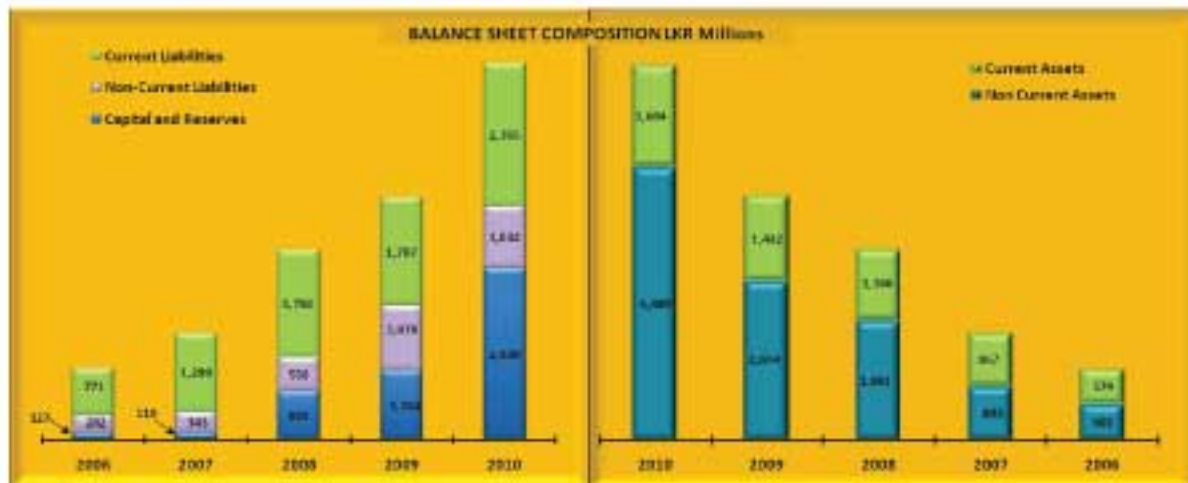
The company under its strategic plan envisages incurring approximately LKR 470 million in the next year on capital expenditure to increase substantially the LP Gas storage capacity at Mabima. The company presently has a capacity of 2,500MT tank storage and this will be increased up to 4,000MT with a further investment. The company presently imports parcels of 2,500MT of LPG each and with the expected expansion of storage capacity; 5,000MT of LPG parcels can be imported.

In addition to the storage capacity development, plans are set to install a new storage tank farm at close proximity to the Galle Harbour with extra filling capacity. This project has been initiated as an additional distribution centre to cater to the expanding market in the Southern Province with higher levels of growth expectations anticipated from this part of the country. Storage capacity against monthly sales can be depicted as follows;



✦ Maintain strong financial position

LGL intends to settle the financial facilities set out in Section 2.2 of this Prospectus from the proceeds of this issue. Low cost of financing and cost effectiveness for better investor return has been a key strategy of Laugfs Gas. Further, employing financial professionals with broader business experience has also been considered as a measure to improve the financial management function of the organisation, which in turn will improve the financial position and performance with better monitoring and review. Balance sheet composition for last 5 years ending 31 March is depicted below in a graphical form.



(Source: Audited Financial Statements of LGL Group)

✦ Value added services

The company intends to develop its existing and new value added business and services to improve its service levels and business revenue streams. The pricing strategy will be more focused to attract new customers whose income levels are low but provides an expectation for the future. This pricing strategy will have a spotlight in providing cost effective packages for day-to-day activities of many consumers of the new markets that was untapped i.e. north and east of the country. The company intends to double the refill sales volumes in the 18 months beginning from September 2010.

Industrial sector is the new emerging market in Sri Lanka and tourism will boost all other sectors as well. Reduction in interest rates will make investors to borrow money for investment opportunities and economic growth. Therefore in the future plans of Laugfs Gas, intergraded services from design, installation and maintenance with safety advice along with the gas supply within affordable price will be a key success factor given the anticipated growth from other sectors and the spill-off effects. High value driving services include the following;

1. Gas for condominiums: Piped LP Gas systems with a main storage tanks and meters for each resident.
2. Supply, install and maintenance of bulk storage tanks and piping systems for Hotels, Restaurants and Industries.
3. Supply of Gas to the ceramics industry as a low cost fuel based on the agreement with the Sri Lanka Ceramics Council.
4. Periodic safety audits, customer training - emergency response, fire fighting and LPG awareness
5. Supply of industrial gas tanks on a rental basis.

+ **New Business Development**

The company was exploring possibilities of installation of "All Weather" LP Gas storage and discharging terminal for the last few years, which is a new industry benchmark for Sri Lankans. All weather storage and discharge terminals are located inside the port and the Company is expected to commence discussions with the authorities concerned under the next phase of developments in the Hambantota Port. The advantage of having an "All Weather" terminal is continuous supply and discharge of LP Gas, irrespective of variation of weather patterns which has a negative correlation to freight charges levied by the shipping companies. The freight expenses will be significantly reduced with the installation of the "All Weather" terminal.

There are anticipation of a Tourism Industry boom in 2011, with a dramatic improvement in the tourist arrivals consequent to the withdrawal of travel advisories by many organisations and countries. The boom in the industry will make high end hotels to be improved, built or developed in a scenario of tourist demand mismatch as against the tourist room capacity available in the country. Condominiums and apartments also will be built to cater different segments in the tourist industry while boom in the rural economics will boost overall economy. This will also support the LP Gas industry with the increased spending on consumption and the new markets - North and East of the country.

+ **Ceylon Petroleum Corporation (CPC) Supply**

Suppliers of the LPG in Sri Lanka include foreign suppliers and Ceylon Petroleum Corporation (CPC). Continuous supply of LP Gas from CPC to LGL is assured by the order given on 30 March 2009 in the Supreme Court Application No. 397/2007 (Laugfs Gas (Pvt) Ltd vs Minister of Petroleum Resources and others). The CPC's daily average production approximates to 50MT. As per the Central Bank annual report in 2009 approximately 12.3% of total requirement of Sri Lanka is supplied by CPC.

+ **Enhancing Operating efficiencies**

In order to meet the increasing market share in all segments including domestic and commercial, it is planned to improve the LPG filling capacity by adding filling heads to the existing filling carousel at the Mabima plant. Loading and unloading facilities will be improved and accordingly will avoid vehicle waiting time at loading and unloading bays. The company is planning to install regional filling plants in Galle, Anuradhapura and Hambantota within the next five years with further investments.

+ **Expansion of Logistics facilities**

The existing LPG tanker fleet will be modernized and expanded in order to ensure safety in LPG transport from LPG vessel tankers to the main storage and to customer's bulk storages. This will further avoid any delays in product evacuation from the CPC refinery and LPG tanker unloading preventing possible shipping demurrages.

The expansion plans of storage and filling capacity compels the modernization and expansion of the existing road tanker fleet to ensure safety and efficiency of LPG transport from vessel tankers to the main storage and to the customer's bulk storage facilities. It is planned to add the 04 more to the existing 17 road tankers at a cost of LKR 100 million and the modernization of the existing road tanker fleet-will cost a further

investment. This will facilitate to avoid any delays in product transportation from the port and the CPC refinery to the plant complex and also from the plant to the customers storage facilities and will reduce high cost of demurrage.

+ **Monthly Refill Sales Target of 500,000 for Domestic Cylinders**

Laugfs Gas's main thrust will be to achieve 500,000 monthly refill sales targets in the financial year 2014/15. Comprehensive and elaborate advertising and promotional plans have been designed to achieve this target focussing the consumer on the one hand and on the other concentrating over the distributors/dealers.

The consumer focussed strategy includes positive price point against the competitor, exclusive promotions targeting specific offers, banded offers, term payment offers, etc. whilst the rest of the promotion will concentrate on offers to the distributors and dealers with quantity discounts, conventions and being with exclusive clubs with benefits attached.

Laugfs Eco Sri (Pvt) Ltd

Business and Profitability Assurance

+ Vehicle Emission Testing (VET) program as is a mandatory requirement by law. The VET project is fully operational at the point of full implementation throughout the country. At present the VET program is implemented in many locations of the country except North and East. The implementation of the VET project in the North and East provinces will commence in the near future. This assures the business and its continuous profitability for the future.

+ As per the conditions of the agreement dated 26 July 2007 entered into between LEL and the Commissioner of Motor Traffic on behalf of GOSL, LEL's fee with regard to VET certification may be revised annually with the consent of GOSL based on the Colombo Consumer Price Index, Whole Sale Price Index and Wage Rate Index published by the Central Bank of Sri Lanka. In May 2010, 21% increase was granted which was due for 2009 and another increase is anticipated in November 2010 for the current year.

+ **Expansion of Vehicle Emission Testing (VET) Centres**

In addition to existing VET centres operated by Laugfs, additional centres will be located at more convenient and strategic locations. Three (03) new VET centres will be formed in the Eastern Province at Trincomalee, Batticaloa and Ampara within next few months along with semi fixed and mobile centres.

+ **Value Added Services at VET Centres**

Value added services (free of charge) such as Windscreen cleaning, battery checking, tyre pressure checking, etc were proposed which were understood as sales drivers and some of the services were already been realized at permanent VET Centres established island wide except for Northern and Eastern provinces will attract more customers to their respective service centres. LEL has negotiated and finalized a program with an established and reputed brand of battery manufacturer in the country to test the batteries of the vehicles

tested at the VET centres of Laugfs Eco Sri, free of charge and generate a status report with the necessary instructions and advise to the motorists.

It has been established that there is a correlation between the tyre air pressure and the fuel consumption of the vehicles. It has also been observed that the tyre pressure of vehicles is either not kept at standards specified or most often, imbalance tire pressure is maintained. The VET centres will provide a system to measure tire air pressure with a status report free of charge. It will also have instructions to the motorists to rectify the issue.

+ **Technically Qualified Staff**

Eco-Sri has equipped with a fully qualified technical team from the automobile engineering industry with the required skills and experience to carryout Eco-Tests in an effective and efficient manner. The company policy towards staff training ensures that all technical staff undergoes a thorough and develop skills and competencies to fill the capability gaps if there is any, to make sure that they are knowledgeable of the advances in technology.

+ **Island wide Eco-Test coverage**

The company offer island wide coverage via well 56 equipped fixed test centres and 10 mobile units. All the test centres are positioned at the ideal locations that were selected after a careful vehicle density analysis of each district with a focus of giving the highest customer service in terms of efficiency and convenience.

+ **Brand Strength of Eco-Sri**

The brand strength of LAUGFS is a critical success factor that supports the success of Eco Sri, as it is a well renowned name with many households that has won the trust and confidence of the consumer through the diverse business ventures of Laugfs Holdings. This will be used as a trust factor to create an outstanding and well equipped emission testing centre at each major city of Sri Lanka.

Laugfs Leisure Ltd

Future Investments

+ **New Hotel Chain**

Laugfs Leisure would commence construction of a "four star" 100-room hotel at Karupakane in Chillaw, on a 14-Acre beach and lagoon front. The construction of the hotel is anticipated to complete within a period of 18 months. However the "Mock-Up" room of the proposed hotel will be available by March 2011 to kick-off the marketing and brand building aspects of the hotel. The soft opening of this hotel is planned for early 2012 and will be fully functional from 2012/13 financial year.

With the completion of 100-room hotel in Chillaw, Laugfs Leisure will move forward to construct two "Five Star" category hotels, one at attractive unsophisticated eastern coastal area and the other hotel in southern/south west part of the country. Based on future plans both the hotels will be in fully functional stage for 2016/17 season, the time during which the government anticipates tourist arrivals to the country to reach an astounding 2.5million guests (Source: National Strategy for Sri Lanka Tourism, Sri Lanka Tourism

Development Authority). By the time the two newly constructed five star hotels are fully functional, the four star hotel operational in Chilaw will also be upgraded to a five star hotel making a chain of five star hotels, under Laugfs Leisure.

LLL has plans of growing in this sector with immediate measures to grab the business opportunities already in the market place and to grow from the room scarcity that could emerge in the near future. This chain will be a unique brand of hotels focused on high end tourists with a touch of Sri Lankan indigenous culture, coupled with innovative eco friendly features which will be unique for the industry.

+ Managing of Hotels

Laugfs Leisure is currently actively involved in managing hotels, of which one Hotel could be categorized as "Small Luxury Sector". In addition to the managers role for the existing hotels the management would study further expansion of its business by venturing into management of several more hotels in the country and extending the current agreements.

Laugfs Property Developers (Pvt) Ltd

Service apartments

The service apartment concept is an alternative for hotel accommodation for short and long stay leisure and for business travellers as it will provide all amenities for daily use. Tourism boom on relatively cheaper international travel will support the industry to grow in 2011/12 period in a significant manner. However, over the last decade tourist needs and their consumption patterns for service apartments have risen. The benefits of service apartments may include more breathing space and privacy, convenience when travelling with a family at a relatively cheaper rate.

These apartments will be fully furnished and equipped for guests with cooking facilities, all modern infrastructure such as television, broadband access, generous closet space, fully sized washer and dryer and ceramic tiled bathrooms. The complex will have common amenities such as gymnasium, swimming pool and restaurants. The proposed complex will be fully operational by 2012/13 with the theme of "a house away from home".

Risk Factors

Laugfs Gas Ltd

+ LP Gas storage capacity

The company may be subject to certain risks in relation to storage capacity due to its lower capacity for buffer stock in order to meet the demand atleast for a one month period in an instance of disruption in international supply of LP Gas. An industry risk prevails since total storage capacity of the country from the two players is approximately 10,500MT whilst the current demand is approximately 16,250MT per month. As such, any disruption either in supply or transportation of LP Gas can lead to unusual behaviour in the market place.

+ Reduction of rates of alternative energy sources

The Government has ambitious programs to increase the capacity of generation, transmission and distribution of electricity with its coal power, other power plants and also by having alternative renewable energy sources. The objectives of providing electricity from the National Grid at a relatively lower rate will have an impact on the LP Gas market. However, switching cost will reduce the impact from the substitute, in an event of an availability of economical electricity supply.

Nonetheless, from the households in Sri Lanka only 30% use LP Gas as an energy source for cooking while the rest use fire wood. Given the economic conditions improving and household income to increase, more households will switch into Gas based cooking providing a robust growth prospects for Laugfs Gas.

+ Supply of LP Gas from Ceylon Petroleum Corporation (CPC)

The continuous supply of LP Gas from CPC has been assured by the Supreme Court Order made on 30 March 2009 in Application No. 397/07 filed by LGL. In the event of a discontinuation of supply of LP Gas by CPC, LGL will lose 30% - 40% of the requirement of the company. The incremental cost will be the cost of freight, as CPC sells at the prevailing world market prices (Saudi-Aramco Contract Price). It is imperative to note, every 3 years CPC closes its refinery operations for maintenance for a period of 2 months, during which period LGL has supplied gas without any disturbance to the current supplies to the distributors utilising imported gas.

+ Possibility of an additional competitor to the industry

Government of Sri Lanka is in discussion on the sale of Shell Gas Lanka (Pvt) Ltd and entry of Government based organisation is a possibility in the future. In such an event the industry might see more players which will increase competition for LGL and their related products.

Laugfs Eco Sri (Pvt) Ltd

+ Public Perception

The Government of Sri Lanka had been very active in making the emission levels monitored in the last decade and improved the required legislative framework to strengthen the industry. Nevertheless, the public perception is not conducive to operate Vehicle Emission Testing programs. However, with developments elsewhere in the world, public at large will be concerned to the environment and the carbon content in the air.

Whilst continuing with the business operations, the company had public awareness programs to educate the general public on the significance of vehicle emission testing, effects of polluted air and the benefits from improved air quality.

Laugfs Leisure Ltd

+ Pressure to reduce hotel rates in competing market segments

The boom in the tourism industry in Sri Lanka will pressurise competitors to react with a reduction in room rates to attract and sustain the existing level of tourists to the respective hotels while better facilities are made available by newer hotels built. Nevertheless, with the anticipated demand for additional 25000 rooms for the

island by 2016, drop in tourists to Maldives and government plan of increasing tourist arrivals to 2.5million in 2016 will have a positive impact on the room rates.

+ **Economic environments of the West and currency fluctuations**

The major markets of Sri Lanka tourism is Europe who search for greater service with higher spending power. However, economic conditions prevailing in such countries have a direct impact on the tourist arrivals and the spending patterns.

Further, volatility of the currencies of the west have significant impact on the operations of the industry as there is time lag between the tour operators seasonal contracts and the actual arrivals of the clientele.

Laugfs Property Developers (Pvt) Ltd

+ **High Competition**

As there are more service apartment constructions coming in close proximity and severe rate cuts as a survival strategy will act as a competitive pressure for LPDL. Further, in future LPDL might face more competition from different classes of apartments with better services while their rates are relatively low.

4.13 Degree of dependence on key Customers and Suppliers

The Company does not depend on any single customer and hence no risk could be identified in that area.

The suppliers to the LPG industry in Sri Lanka include foreign suppliers and Ceylon Petroleum Corporation (CPC). The continuous supply of LP Gas from CPC has been assured by the Supreme Court Order made on 30 March 2009 in Application No. 397/07 filed by LGL.

The risk on dependence on the suppliers has been well mitigated by maintaining excellent relationship with the foreign LPG traders in several countries. The Company has well experience by satisfying its total demand only from imported LPG during the local refinery shut down periods.

4.14 Loans, Overdrafts and details of Material Indebtedness

The details of loans, overdrafts, other borrowings and material indebtedness of the Company including leasing, lease purchase and hire purchase commitments as at 09 September 2010 are given below:-

Type of Debt	Name of Lender	Debt/Facility amount LKR	Amount outstanding as at 09 September 2010 LKR
Finance Leases	Seylan Bank PLC	2,905,672	814,538
	Sampath Bank PLC	14,329,000	4,828,870
	Bank of Ceylon	19,981,000	6,941,833
	Hatton National Bank PLC	27,195,984	22,949,516
Term Loans	DFCC Bank PLC	280,000,000	193,310,332
	Lanka Orix Leasing PLC	138,653,713	112,382,141
	Central Finance Limited PLC	15,000,000	10,594,340
	Merchant Bank of Sri Lanka PLC	135,000,000	90,543,197
	Union Bank of Colombo Ltd	25,000,000	12,534,282
	Sampath Bank PLC	25,000,000	21,247,000
	Asia Asset Finance Limited	35,000,000	27,881,498
	Peoples Leasing Finance PLC	50,000,000	28,397,608
	Ceylease Financial Services Ltd	14,000,000	2,688,488
Overdrafts	Union Bank of Colombo Ltd	25,000,000	18,709,752
	Seylan Bank PLC	10,000,000	8,730,340
	Hatton National Bank PLC	91,200,000	38,942,171
LC Facilities	Bank of Ceylon	350,000,000	139,847,936
Factoring	Lanka Orix Leasing PLC	75,000,000	59,362,805
Revolving Loan	Seylan Bank PLC	10,000,000	5,627,000
	Lanka Orix Leasing PLC	50,000,000	50,000,000
Cheque discounting	Lanka Orix Leasing PLC	40,000,000	41,236,458
	TOTAL		897,570,105

The repayment terms and the security pertaining to the said facilities are set out in Note 11 to the Audited Financial Statements of the Company on this Prospectus.

From the above facilities, the facilities disclosed in section 2.2 of this Prospectus will be settled from the proceeds of the Issue.

As at 09 September 2010 there were no mortgages or charges on the assets of the Company other than the mortgages and charges disclosed under Note 11 to the Audited Financial Statements of the LGL Group set out in this Prospectus.

The details of the Guarantees and other material contingent liability of the Company as at 31 July 2010 are disclosed under Explanatory Note 7 to the Interim Financial Statements of the LGL Group set out in this Prospectus.

Intercompany Trade Receivables as at 31 July 2010 - Laugfs Gas Limited

Name of the company	LKR
Laugfs Holdings Limited	273,256,187
Laugfs Petroleum (Pvt) Ltd	40,494,742
Laugfs Sunup supermarkets (Pvt) Ltd	69,793,846

Note: Receivables from Laugfs Holdings Limited relates to supply of Gas and related products.

4.15 Working Capital

The Board of Directors are of the opinion that the working capital is sufficient for the purpose of the normal day to day operations of the Company.

4.16 Dividend Policy

Subject to the provisions of the Companies Act No. 7 of 2007 and the Articles of Associations of the Company the Board of Directors may recommend and declare distributions to shareholders by way of dividends from and out of the profits of the Company. The dividend rate will be determined based on number of factors, including but not limited to the Company's earnings, capital requirements and overall financial condition.

The details of the dividend paid by the Company, on the Ordinary voting shares since 01 April 2007 is given below

Year	Amount Paid (LKR)	Dividend per share (LKR)
2006/07	75,000,025.00	Final - 7.50, Interim - 5.00
2009/10	58,500,020.00	Final - 0.75

Pursuant to issue of Ordinary Voting Shares and Ordinary Non Voting Shares as contemplated in this Prospectus, whenever the Company declares a dividend in respect of Ordinary Voting Shares, the Company will also at the same time declare a dividend in respect of Ordinary Non Voting Shares. The applicable dividend rate (dividend per share) would be the same in respect of both classes of shares.

4.17 Litigations, Disputes and Contingent Liabilities

Two employees (Minor staff) of the Company who have been terminated on the ground of misconduct have instituted legal action at the Labour Tribunal against their termination. These actions (Application Nos. LT 31/101/2005 and LT 31/102/2005) were dismissed by the Labour Tribunal President on the ground that the termination of their services was legal, lawful and justifiable. These two employees have challenged the judgment and appealed to the High Court (HC (Civil) Appeal Nos 46/09 and 64/09). The Company is of the view that these two litigations will not have any significant effects on the Company's financial position or profitability.

Apart from the above there are no material Contingent Liabilities or legal, arbitration or mediation proceedings pending against the Company as at 09 September 2010 that would materially affect the current financial position or future operations or profits of the Company.

A statement pertaining to commitment and contingent liabilities of the Company as at 31 July 2010 is set out under Explanatory Note 07 to the Interim Financial Statements set out in this Prospectus.

As at 09 September 2010 there were no penalties imposed by any regulatory or statutory authorities against the Company.

4.18 Material Contracts

The Company has not entered into any material contracts other than those contracts entered into as part of the ordinary course of business carried on or intended to be carried on by the Company and the agreement detailed below.

The Company has entered into a Pricing Formula Agreement with Consumer Affairs Authority on 28 December 2007 with regard to pricing of LP Gas.

4.19 Details of Commissions Paid

No commission has been paid by the Company in the two years preceding the IPO for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares of the Company.

4.20 Details of Benefits Paid to Promoters

No benefits have been paid or given by the Company to any promoter within the two years preceding the IPO and there are no benefits intended to be paid or given to any promoter during the next two years succeeding the IPO.

4.21 Management Agreements and Shareholders Agreements

There are no Management Agreements or Shareholders Agreements pertaining to the Company in place as at 09 September 2010 and at present no such Agreements are under consideration.

4.22 Revaluation of Assets

4.22.1 Laugfs Gas Ltd: Mabima - Laugfs Gas filling plant

The assets of the Company have been revalued as at 28 March 2010 and a sum of LKR 899 million was transferred to the Revaluation Reserve. Laugfs Gas filling plant complex is situated in a fast developing residential and industrial area of Biyagama and approximately 10 kilometres away from the Colombo Municipal Council Limits. Since the locality is in the fringe of the Municipal area of Colombo there is a high growth potential seen in the locality as evident by several real estate development taken place and some in progress. Number of medium scale industrial holdings facing the Biyagama road and Kelaniya area have been fragmented and sold as industrial sites. Total valuations of Lands were LKR 359 million, Buildings LKR 35 million and Plant and

machinery LKR 450 million for the year ended 31 March 2010. A qualified independent professional valuer - R.M. Ratnayake with BSc Estate Management & Valuation (sp.) University of Sri Jayawardenapura and Associate membership from of Institute of Valuers carried out the valuation. The valuation is based on the present market price / value of Buildings, Plant and Machinery.

4.22.2 Laugfs Gas Ltd: Havelock Town

The assets of the Company have been revalued as at 28 March 2010 and the property is situated in Havelock town closed proximity to the Colombo City Centre and falls within Concentrated Development Zone formulated by the Urban Development Authority. In general land values of the vicinity has reached a stable level over the past few years due to better availability of facilities within the highly developed commercial belt of Havelock town and immediate vicinity. All the basic facilities and services are available within 500 meters of the property. Building is adopted current rates and depreciated according to their construction, age, physical conditions and other attributes of the property. The building has been revalued at LKR 13 million for the year ended 31 March 2010. A qualified independent professional valuer with BSc Estate Management & Valuation (sp.) University of Sri Jayawardenapura and Associate membership from of Institute of Valuers - R.M. Ratnayake carried out the valuation. The valuation is based on the present market price / value of Buildings, Plant and Machinery.

4.22.3 Laugfs Gas Ltd: Reid Avenue

The assets of the Company have been revalued as at 28 March 2010 and a sum of LKR 252 million was transferred to the Revaluation Reserve. The property is situated dual fronting to the Reid Avenue and Kumaratunga Munidasa Mawatha and closed proximity to the Colombo City Centre. This land falls within Special Primary Residential Zone formulated by the Urban Development Authority. In general land values of the vicinity has reached a stable level over the past few years due to the availability of facilities within the highly developed residential cum commercial of Cinnamon Garden and immediate vicinity. All the basic facilities and services are available within 500 meters of the subject property. A qualified independent professional valuer - R.M. Ratnayake with BSc Estate Management & Valuation (sp.) University of Sri Jayawardenapura and Associate membership from of Institute of Valuers carried out the valuation. The valuation is based on the present market price / value of Buildings, Plant and Machinery.

4.22.4 Laugfs Eco Sri (Pvt) Ltd

The assets of the Company have been revalued as at 28 March 2010 and a sum of LKR 122 million was transferred to the Revaluation Reserve. Fifty three Laugfs Eco Sri Emission testing centres are situated in island wide and these centres are constructed on the leasehold lands. Nineteen centres out of the fifty three are fixed centres and balance thirty four are container centres and mobile centres. Buildings and other structures have adopted current rates and depreciated according to their standards of construction, age, building materials, physical conditions and other attributes of the property. The value of buildings and structures are LKR 287 million. A qualified independent professional valuer - R.M. Ratnayake with BSc Estate Management &

Valuation (sp.) University of Sri Jayawardenapura and Associate membership from of Institute of Valuers carried out the valuation.

Freehold & leasehold testing equipments and generators are valued under the Net Current Replacement Cost Method. The Net current replacement cost is established by depreciating the gross current replacement cost in order to reflect the value attributable to the remaining portion of the total useful economic working life of the asset, taking due account of age, condition, obsolescence and other relevant factors, including residual value at the end of the asset's useful economic working life.

All the following factors are considered in determining the useful life of the assets.

- ❖ Expected usage of the assets
- ❖ Expected physical wear and tear
- ❖ Technical or commercial obsolescence arising from changes or improvements in production
- ❖ Legal or similar limits on the use of the assets.

Being a Board of Investment approved industry all machinery and equipment were imported duty free and any sale to another BOI project would be duty free while sale to any outsider will be subject to the normal duty. Hence the value as based on the current duty free prices of the subject testing equipments and generators.

Although the economic life of these testing equipments and generators are about 15 years it is observed that they are usable for a longer term with proper care and maintenance.

5.0 DIRECTORS



5.1 Details of the Board of Directors of the Company as at date

Name & Address	Age	Qualifications/Business Experience	Other Directorships / Positions
<p>Mr. Wegapitiya Kattadiyalage Hemachandra Wegapitiya</p> <p>195/30 Royal Court, Koswatte Road, Rajagiriya.</p>	48	<ul style="list-style-type: none"> → Master of Business Administration (MBA) in 2008 Post Graduate Institute of Management University of Sri Jayawardenepura → Certificate on Energy Management in 2000 University of Oxford, England → BSc (Business Management) Special in 1984 University of Sri Jayawardenepura → Program for Sri Lankan Entrepreneurs 1998, Overseas Technical Scholarship, Tokyo, Japan → On several occasions member of official Presidential entourage of visiting delegations to several countries in business promotions. → Member of visiting Sri Lankan, trade and industry delegations to various countries organized by several local Chamber of Industry and Commerce. → Attended number of industry and trade fairs held overseas for business promotion. → Frequent invited guest speaker on entrepreneurship, leadership and business development at forums organized by professional associations, industry associations, business related clubs and societies. → Entrepreneur of the year 2004 – Western Province – Bronze → Entrepreneur of the year 2004 – National – Bronze 	<p>Chairman</p> <ul style="list-style-type: none"> → Chamber of Young Lankan Entrepreneurs <p>Director</p> <ul style="list-style-type: none"> → Federation of Chamber of Commerce & Industry of Sri Lanka <p>Director</p> <ul style="list-style-type: none"> → State Trading (Co-Op) Wholesale Co. Ltd <p>Executive Committee Member</p> <ul style="list-style-type: none"> → Ceylon Chamber of Commerce <p>Board Member</p> <ul style="list-style-type: none"> → SLAASMB (Sri Lanka Accounting & Auditing Standards Monitoring Board) <p>Chairman</p> <ul style="list-style-type: none"> → Laugfs Holdings Ltd → Gas Auto Lanka Ltd → Laugfs Aqua Systems (Pvt) Ltd → Laugfs Corporation (Rubber) Ltd → Laugfs Rubber Products (Pvt) Ltd → Laugfs Eco Sri (Pvt) Ltd → Laugfs Engineering (Pvt) Ltd → Laugfs Gas Ltd → Laugfs International (Pvt) Ltd → Laugfs Leisure Ltd → Laugfs Lubricants Ltd → Laugfs Petroleum (Pvt) Ltd

		<ul style="list-style-type: none"> → Entrepreneur of the year 2005 – Western Province – Silver → Entrepreneur of the year 2005 – Extra Large Category – National Gold → Asian Leadership Award for Excellence in Entrepreneurship Excellence – 2007 by Dr. P N Singh Foundation in Mumbai, India. → Entrepreneur of the year 2006 – National Platinum Award 	<ul style="list-style-type: none"> → Laugfs Power Ltd → Laugfs Property Developers (Pvt) Ltd → Laugfs Restaurants (Pvt) Ltd → Laugfs Salt & Chemicals Ltd → Laugfs Sunup Supermarket (Pvt) Ltd → Laugfs Terminals (Pvt) Ltd → Laugfs Hotel Management Services (Pvt) Ltd → Sunup Ceylon Tea (Pvt) Ltd
<p>Mr. Udu Kumburage Thilak Nandasiri De Silva 21/6E, Samarakoon Garden, Ananda Balika Mawatha, Kotte.</p>	56	<ul style="list-style-type: none"> → Entrepreneur Development Program 2003 – The Association for overseas Technical Scholarship (AOTS), JAPAN → Higher Diploma in Business Management - UK → Attended number of industry and trade fairs held overseas for business promotion. → Wide exposure for distribution of products, LP Gas procurement, LP Gas related equipment procurement and general business management. → Count a total number of 30 years of business experience as entrepreneur engaged on diversified fields and businesses. 	<p>Advisor</p> <ul style="list-style-type: none"> → United Nations Youth Federation of Sri Lanka <p>Managing Director</p> <ul style="list-style-type: none"> → Laugfs Holdings Ltd → Gas Auto Lanka Ltd → Laugfs Aqua Systems (Pvt) Ltd → Laugfs Corporation (Rubber) Ltd → Laugfs Rubber Products Pvt Ltd → Laugfs Eco Sri (Pvt) Ltd → Laugfs Engineering (Pvt) Ltd → Laugfs Gas Ltd → Laugfs International (Pvt) Ltd → Laugfs Leisure Ltd → Laugfs Lubricants Ltd → Laugfs Petroleum (Pvt) Ltd → Laugfs Power Ltd → Laugfs Property Developers (Pvt) Ltd → Laugfs Restaurants (Pvt) Ltd → Laugfs Salt & Chemicals Ltd → Laugfs Sunup Supermarket (Pvt) Ltd → Laugfs Terminals (Pvt) Ltd → Laugfs Hotel Management Services (Pvt) Ltd → Sunup Ceylon Tea (Pvt) Ltd <p>Director</p> <ul style="list-style-type: none"> → U K De Silva & Company

<p>Mr. Hewa Annakage Ariyaratne 282E, Kotte Road, Nugegoda.</p>	<p>57</p>	<ul style="list-style-type: none"> → First Class Honours Science Graduate → Banker with over 30 years of banking experience. → Wide exposure to Development Banking, Investment Banking, Asset Management, Venture Capital, etc. → At present the Executive Vice President in charge of overall lending at DFCC Bank. → Former Chief Executive Officer of Lanka Ventures Limited. 	<p>Executive Vice President</p> <ul style="list-style-type: none"> → DFCC Bank PLC <p>Director</p> <ul style="list-style-type: none"> → Kuruwita Textile Mills Ltd → Wayamba Plantations (Pvt) Ltd. → Laugfs Gas Ltd → Laugfs Engineering(Pvt) Ltd → Laugfs Sunup Supermarket (Pvt) Ltd → Laugfs Holdings Ltd
<p>Mr. Chandra Lal de Alwis 146/10A1, Kaldera Gardens, Dutugamunu Street, Kohuwala, Dehiwala. (Appointed w.e.f. 01.09.2010)</p>	<p>67</p>	<ul style="list-style-type: none"> → Graduated in Business Management in 1976 → Receipt of the a certificate of commendation from AOTS Japan presented in recognition of his leadership and dedication to the network of AOTS Alumni Societies and Economic & Industry development as well as enhancement of friendly relations between Japan & Sri Lanka linking the world, in the year 2006. → Recipient of the prestigious Merit Award made by the Plastic & Rubber Institute in UK in 1994 in recognition of his services to the Plastic & Rubber Industry & for the development of human resource. → Also received a prestigious award from the Chinese Government to celebrate the 50th Anniversary of the Diplomatic Relations between Sri Lanka & China in May 2007 in recognition of his contribution to build-up friendly relations between the two countries. 	<p>Chairman</p> <ul style="list-style-type: none"> → Subsidiary companies of Chemanex Group <p>Director</p> <ul style="list-style-type: none"> → Link Natural Products (Pvt) Ltd. → Ceylon Tapes Ltd. <p>Founder / General Secretary</p> <ul style="list-style-type: none"> → JASTECA (Alumni of AOTS, Japan) & later served as its President for 4 years. <p>Vice Patron</p> <ul style="list-style-type: none"> → Japan - Sri Lanka Technical Cultural Association, <p>President</p> <ul style="list-style-type: none"> → National Chamber of Commerce of Sri Lanka, <p>Dep. President,</p> <ul style="list-style-type: none"> → Sri Lanka - China Business Corporation Council, <p>Immediate Past President,</p> <ul style="list-style-type: none"> → Sri Lanka Institute of Packaging, <p>Gen. Secretary,</p> <ul style="list-style-type: none"> → Sasakawa Memorial Sri Lanka - Japan Cultural Trust <p>Member</p> <ul style="list-style-type: none"> → Board of Governors of the University of Vocational Technology → Honorary Membership for Sri Lanka Institute of Packaging in 2009.

<p>Mr. Palitha Mendis Kumarasinghe 615/10 Rajagiriya Udyanaya, Nawala Road, Rajagiriya. (Appointed w.e.f. 01.09.10)</p>	52	<ul style="list-style-type: none"> → President's Counsel since 7th July 2006 → Practising Lawyer with 30 years of experience in Civil Law → Specialised in Commercial Law and Banking Law → Retainer for several Commercial and Merchant Banks and Finance Companies → Vice President / Member Executive Committee the Bar Association of Sri Lanka (2003 – 2005) → President – Colombo Law Society (2003 – 2005) 	<ul style="list-style-type: none"> → Lecturer in Practical Training Course for Apprentice Law Students. → Lecturer in Certificate Course for Attorneys-at-Law. → Director of Sri Lanka Law College Foundation. → Chairman, Environmental Council established under the Central Environment Authority Act. since June 2010 → Member of Incorporated Council of Legal Education → Member – Public Service Commission 2006 – 2009 → Member of the Advisory Commission on Intellectual Property → Lecturer - Banking and Recovery, Special Practical Training Course, Apprentice Law Students of Sri Lanka Law College.
<p>Mr. Tissa Kumara Bandaranayake 45/1 Sumangala Road, Colombo 08. (Appointed w.e.f. 01.09.10)</p>	67	<ul style="list-style-type: none"> → Fellow member of Institute of Chartered Accountants of Sri Lanka (FCA) → Holder of BSc degree from University of Ceylon 	<p>Independent, Non Executive Director</p> <ul style="list-style-type: none"> → Nawaloka Hospitals PLC → DFCC Bank PLC → Central Finance PLC → Samson International PLC <p>Advisor / Consultant to the Board of Directors of Noritake Lanka Porcelain (Pvt) Ltd</p> <p>Board Audit Sub-Committee</p> <ul style="list-style-type: none"> → DFCC Vardhana Bank <p>Chairman</p> <ul style="list-style-type: none"> → Quality Assurance Board established by the Institute of Chartered Accountants of Sri Lanka → Audit Faculty of the Institute Chartered Accountants Sri Lanka <p>Past President</p> <ul style="list-style-type: none"> → Practicing Chartered Accountants Forum

No Director of the Company is or was involved in any of the following events:-

- a) A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer
- b) Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

5.2 Directors' Shareholdings as at 09 September 2010

Name of Director	No. of Ordinary Voting Shares	Percentage (%)
Mr W K H Wegapitiya	43	0.0005
Mr U K Thilak Nandasiri De Silva	43	0.0005

Apart from the shares issued to the above mentioned Directors upon capitalisation of reserves as set out in section 7.1 of this prospectus, the Directors of the Company were not involved in any sales transfers or purchases of shares of the Company during the two year period immediately preceding the date of this Prospectus.

5.3 Directors' Interests

The Directors' direct and/or indirect interests in the transactions with the Company as at 31 July 2010 are set out in Explanatory Note 6 to the Interim Financial Statements set out in this Prospectus.

None of the Directors held or hold any interest in any assets acquired, disposed or leased by the Company during the two years preceding the date of this IPO. As at date the Directors do not have any interest in any assets proposed to be acquired, disposed or leased by the Company in the two years succeeding this IPO.

5.4 Directors' Remuneration

The aggregate emoluments including bonus and/ or profit sharing payments paid by the Company to the Directors during the last financial year ended 31 March 2010 is LKR 4.8 million.

The aggregate emoluments including bonus and/ or profit sharing payments payable to Directors of the Company for the financial year ending on 31 March 2011 is estimated at LKR 7.2 million.

5.5 Corporate Governance Practices

The practices of good governance had been the hallmark of success of Laugfs Gas and its subsidiaries throughout its existence and it had been an integral part of its management and corporate culture. The Company recognizes, in a rapidly changing business environment the need to be professionally advised on how it should be directed and controlled and in total compliance with statutory requirements especially with the regulatory standards laid down by the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka.

The procedure and methodology adopted by the Company to ensure good governance, involves all levels of management and they contribute through proper and extensive examination and review of information, practices and ideas encompassing the entire gamut of the business operations of the entity and its subsidiaries. The foregoing description in brief gives an account of the most important best practices adopted by the company.

Board of Directors

The Board consists of well experienced and most respected business personalities and professionals from multi faceted functional backgrounds. The Board is responsible for broad policy formation and implementation and also for the development of overall business strategy.

The Board is responsible for the review and approval of the corporate plans and annual budgets prepared in line with the business strategy of the Company. The Board ensures reliability and integrity of the information, internal control systems and compliance with laws, regulations and ethical standards.

Composition of the Board

As at date the Board consists of 06 members, comprising 02 Executive and 04 Non Executive Directors. Out of the 04 Non Executive Directors, 03 are Independent Directors.

Board Meetings

Generally, the Board meets once in two (02) months as a routine. The Board has a well laid out procedure for its meetings ensured by the secretaries to the Company. The Directors are fully assured of their right for any information and explanations from any officer of the Company and also all relevant, material relating to the agenda are submitted to the members of the Board of Directors in advance of the meetings. The Executive and Non Executive Directors will not participate in discussions or in the process of making decisions of any matter they have an interest.

Board Committees

The Board has established four (04) committees, namely Audit Committee, Remuneration Committee, Management Committee and Investment Committee. The composition and the brief responsibilities of the respective committees are given below:

Audit Committee

Audit Committee comprises of 03 members namely Mr Tissa Kumara Bandaranayake, Mr Palitha Mendis Kumarasinghe and Mr Chandra Lal De Alwis as at date. Mr Tissa Kumara Bandaranayake is the Chairman of the committee.

The broad purposes of the committee are to oversee the preparation, presentation and adequacy of the disclosure of information in financial statements in accordance with SLAS and all the other statutory requirements. The Audit Committee also ensures the Company's internal control system and risk management procedure are up to industry standards. The committee also assesses the independence and performance of the External Auditors.

Remuneration Committee

The remuneration committee comprises of Mr H A Ariyaratne, Mr Tissa Kumara Banadaranayake & Mr Chandra Lal De Alwis as at date. This committee recommends the remuneration payable to Executive Directors and sets guidelines for the remuneration of the Senior Management of the Company. The Board makes the final determination having considered the recommendations of this committee and also the performance of the Senior Management. Mr H A Ariyaratne is the Chairman of the committee.

Management Committee

The Management Committee comprises of Mr W K H Wegapitiya, Mr U K T N De Silva, Mr H A Ariyaratne and Mr Chandra Lal De Alwis. Its principle focus is on the overall strategic direction and review of business operational results. The meetings are conducted at least monthly to assess the performance of each entity under the group. The Chief Executive Officer and all members of the senior management staff participate in these review meetings. Mr W K H Wegapitiya is the Chairman of the committee.

In addition to the regular meetings with the Board Management Committee, the Chief Executive Officer conducts regular weekly meetings with heads of subsidiaries and also with all functional heads to monitor performance and to address the situations that may arise in the course of day to day operations, of the Company and its subsidiaries.

Investment Committee

The Investment Committee comprises of Mr U K T N De Silva, Mr W K H Wegapitiya and Mr H A Ariyaratne. Its principle focus is on evaluating investment opportunities, monitoring return on investments, the overall direction of the group and review of business operational results. The meetings are conducted at least once in two months to assess the performance of each entity under the group. Mr U K T N De Silva is the Chairman of the committee.

6.0 MANAGEMENT AND HUMAN RESOURCES



The Chief Executive Officer

Mr W K H Wegapitiya of No.195/30, Royal Court, Koswatte Road, Rajagiriya is the Chairman and Chief Executive Officer (CEO) of the Company. He is not and was not involved in any of the following events:

- i. Petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer.
- ii. Convicted of fraud misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

6.1 Senior Management

The operational management of the Company is overlooked by the following management team as at 09 September 2010 :-

Name	Designation	Qualifications	Business / Work Experience
Mr. W K H Wegapitiya	Chairman / Chief Executive Officer	→ Refer profile in section 5.1 above.	
Mr. U K T N De Silva	Managing Director	→ Refer profile in section 5.1 above.	
Mr. B.M.H. Perera	Chief Operations Officer/ General Manager	→ Post Graduate Diploma from the Chartered Institute of Marketing (CIM), UK → Fellow of the Chartered Institute of Marketing, UK.	A marketer by profession with over 30 years experience in national & multinational companies. He has hands on experience in Marketing & General Management and has contributed towards significant profitability growth, sales growth, customer satisfaction achievements, positive impact on total cost, brand building, negotiations on domestic and international transactions, new business development, process improvements through effective staff training / motivation, Development of distribution and enhancing employee

			<p>performance in diverse sectors such as Energy, FMCG, Insurance, Alcoholic Beverages and Hospitality. Widely travelled in the Far East studying best business practices and a lecturer for CIM (UK) examinations.</p> <p>Has been with Laugfs Group since 2006.</p>
Mr. K R W Ranasinghe	Chief Financial Officer	<ul style="list-style-type: none"> → Master of Business Administration (MBA) Post Graduate Institute of Management, Sri Jayewardenepura University 2008. → Associate member of the Institute of Chartered Accountants of Sri Lanka, 1995. (ACA) → Fellow member of the Certified Management Accountants (FSCMA) → BSc. Management (Special) Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, 1982. → Post Graduate Diploma in Business Management, Sri Jayewardenepura University, 2006. → Higher Diploma: Institute Of Data Processing Management (L. I. D .P.M.) (United Kingdom), 1993. → Certificate Course in Design and Development of Computer Systems. Faculty Of Computer Studies - National Institute of Business Management (N.I.B.M.), 1989 → Post Graduate Diploma In Industrial Engineering 1989 Faculty of Industrial Engineering, National Institute of Business Management (N.I.B.M.) (Sri Lanka), 1990 → Faculty Development Program on Training Technique and Methodology 1994, Centre for International Cooperation and Training in Agricultural Banking, Pune, India. 	<p>Director Laugfs Engineering (Pvt) Ltd Laugfs SunUp Supermarket (Pvt) Ltd Laugfs Salt & Chemicals Ltd</p> <p>Chief Executive Officer Laugfs Engineering (Pvt) Ltd Laugfs Salt & Chemicals Ltd Laugfs Power Limited</p> <p>Has been with Laugfs group since 1999.</p> <p>Over twenty five years of experience in Finance, Accounting & Management with multi disciplinary positions in public & private sector.</p>

Mr. B.P. Hector Perera	Group General Manager – HRD	<ul style="list-style-type: none"> → Bachelor of Commerce (Hons) University of Peradeniya → Management training : <ul style="list-style-type: none"> - Employers Federation of Ceylon (EFC) - Indian Institute of Management (IIM)- Ahamadabad 	<p>30 years of experience in the Public and Private sector in middle and senior management out of which 15 years has been in Human Resource Development and Administration.</p> <p>He has been with Laugfs Group since 2003.</p>
Mr. C.L. Indrapala	Head of Finance	<ul style="list-style-type: none"> → Member of Institute of Chartered Accountants of Sri Lanka (ACA) → Senior Accounting Technician (SAT) → Associate Member of the Society of Certified Management Accountants (ASCMA). 	<p>He has over 11 years work exposure with National & Multinational companies and has served in a variety of Auditing, Accounting, Cost Management and Finance Management roles in diverse industries with particular emphasis to manufacturing</p> <p>He has been with Laugfs Group since 2008.</p>
Mr. W.M.A.K.B. Wijekoon	Manager IT	<ul style="list-style-type: none"> → Degree – M.Sc – IT - SLIIT → B.I.T. – University of Colombo 	<p>He has over 11 years experience in the field of Information Technology and has been with Laugfs Group since 2001.</p>
Mr. Heshan De Silva	Deputy General Manager – Operations	<ul style="list-style-type: none"> → B.Sc. Engineering specialized in Chemical Engineering - University of Moratuwa → MBA in Management of Technology - University of Moratuwa 	<p>An Engineer by profession, counts over 17 years of factory management experience in different sectors such as Food, Industrial Gas and LPG.</p> <p>He is also an Associate Member of the Institute of Engineers, Sri Lanka and has undergone wide range of training both overseas and locally related to Safety, Productivity, Waste Management, Industrial best practices etc. He is a qualified Auditor for the ISO 9001:2000 certification.</p> <p>He has been with Laugfs Group since 2007.</p>

Mr. H.W.R.W.W. M.R.S.A. Halangoda	Manager – Accounts and Treasury	→ B.Sc – Human Resource Management – University of Sri Jayewardenepura → Licentiate Examination Part I – Institute of Chartered Accountancy	He has over 10 years experience in Accounting and has been with Laugfs Group since 2001.
Mr. Bandula Jayampathi	Senior Plant Engineer	→ B Sc (Eng) – Faculty of Engineering, University of Peradeniya. → Qualified Internal Auditor for ISO 9001:2008 certification.	He has been with Laugfs Group since 2000 in the capacities of Research & Development Engineer, Plant Engineer, and Senior Plant Engineer. Experienced in designing and installation of LPG bulk systems. Gained experience at Motorcrom Auto Gas (Pvt) Ltd in conversion of Petrol Vehicles to Auto Gas and designing and fabricating auto mobile spare parts etc.
Ms. M.H.D. Gayani	Manager – Imports	→ Diploma in Shipping and International Freight Management conducted by Institute of Shipping & Logistics	She has extensive experience in this field, out of which 7 years in handling imports and related services She has been with Laugfs since 1996

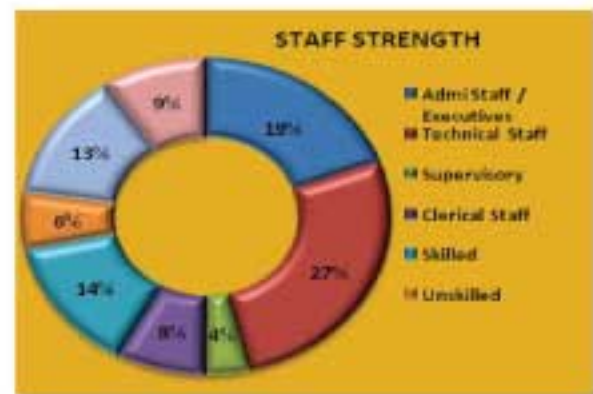
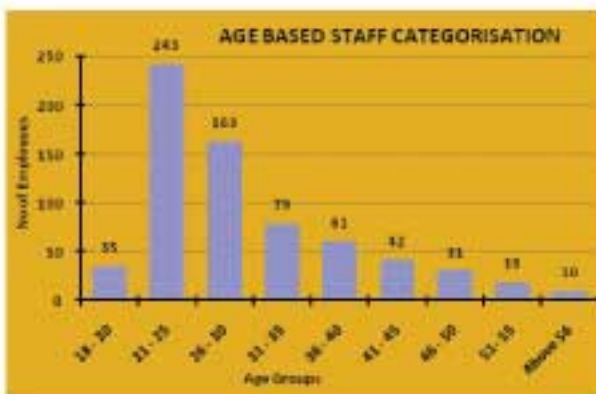
The aggregate emoluments, including any bonus and/or profit sharing payments paid to the Senior Management team, excluding the Executive Directors during the last completed financial year was LKR 18.2 million (FY2009/10).

The aggregate emoluments, including any bonus and/or profit sharing payments payable for the Senior Management team, excluding the Executive Directors is estimated as LKR 22 million for the current financial year (FY2010/11).

6.2 Human Resources

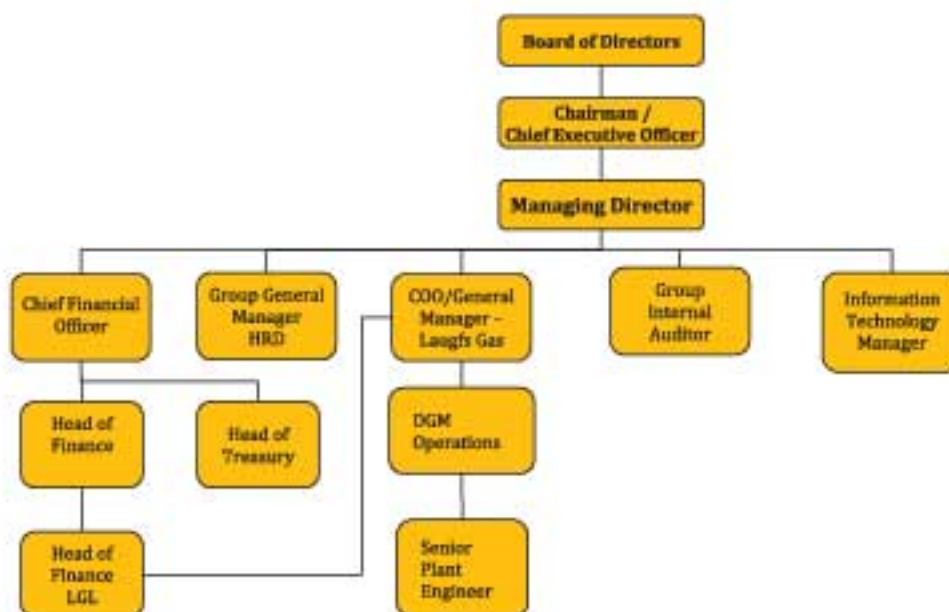
The number of employees of the LGL Group and the Company as at 09 September 2010 was 683 and 235 respectively as detailed below:-

Category	Number of staff (Group)	Number of staff (Company)
Admin staff/ Executives	132	60
Technical Staff	183	15
Supervisory	27	3
Clerical and Allied (Clerks, Typists)	54	19
Skilled	93	70
Unskilled	40	20
Trainees	91	9
Others (Security officers, Drivers, Office Assistants, stores staff and messengers)	63	39
Total	683	235



As at 31 July 2010 there were no Trade Unions and Collective Agreements.

The main organisational structure can be depicted as follows;



7.0 STATED CAPITAL

7.1 Capital Structure

The Stated Capital of the Company as at date is Sri Lankan Rupees Seven Hundred and Eighty Million and Two Hundred and Sixty (LKR 780,000,260) comprising Two Hundred and Sixty Million and Eighty Six (260,000,086) Ordinary Voting Shares of the Company.

The capital structure of the Company during the last three years is as follows:-

Ordinary Voting Shares	2008	2009	2010
Balance as at 31 March	6,000,002	6,000,002	78,000,026
Balance as at 30 June	6,000,002	6,000,002	260,000,086

- Stated Capital of the Company as at 31 March 2009 was LKR 60,000,020 comprising of 6,000,002 Ordinary Voting Shares issued at a price of LKR 10 per share to the following shareholders :-

Name of the Shareholder	No. of Ordinary Voting Shares
Mr W K H Wegapitiya	01
Mr U K Thilak De Silva	01
Laugfs Holdings Limited	6,000,000

- The Company capitalised a sum of LKR 720,000,240 fully paid standing to the credit of its Reserve Accounts/Profit & Loss Account and issued 72,000,024 Ordinary Voting Shares at a price of LKR 10 per share as a bonus issue to the shareholders as at 30 March 2010 in the following manner whereby the No. of shares in the Company increased to 78,000,026 Ordinary Voting Shares and the stated capital was increased from LKR 60,000,020 to LKR 780,000,260 as at 31 March 2010.

Name of Shareholder	No. of Shares issued as at 30 March 2010	No. of Shares as at 31 March 2010	%
Mr W K H Wegapitiya	12	13	0.0005
Mr U K Thilak De Silva	12	13	0.0005
Laugfs Holdings Limited	72,000,000	78,000,000	99.99
Total	72,000,024	78,000,026	100.00

- Subsequently, the Company subdivided each Ordinary Voting Share into 3.333333333 shares on 29 June 2010 without making any changes to its stated capital whereby the number of shares in the Company increased to 260,000,086 Ordinary Voting Shares as at 30 June 2010.

- Shareholding structure as at 09 September 2010 is as follows:

Name of Shareholder	No. of Ordinary Voting Shares	%
Mr W K H Wegapitiya	43	0.0005
Mr U K Thilak De Silva	43	0.0005
Laugfs Holdings Limited	260,000,000	99.99
Total	260,000,086	100.00

7.2 Other Securities

The Company has not issued any convertible debt securities or any other class of shares other than the shares stated above. Further there are no securities of the same or other class subscribed or sold privately in conjunction with this offering.

7.3 Transferability of Shares

The shares allotted pursuant to this Initial Public Offer shall not be transferable during the period between the date of allotment/issue of shares and prior to the date of commencement of trading on the CSE.

By letter dated 16 September 2010, the BOI has given its consent for issue of shares of the Company to the Public and listing the shares of the Company on the Colombo Stock Exchange.

Upon the Ordinary Voting Shares and the Ordinary Non Voting Shares of the Company being listed on the CSE, such shares shall be freely transferable and the registration of the transfer of such listed shares shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.

There are no statutory restrictions or limitations on the free transferability of the shares of the Company.

7.4 Takeover Offers

There have been no takeover offers by third parties in respect of the Company's shares during the past two years and no takeover offers have been made by the Company in respect of shares of third parties during the past two years.

7.5 Public Holding

As at date the public does not hold any of the shares of the Company.

8.0 RATIOS

LGL Group	Year ended 31 March		04 months ended 31 July	
	2010	2009	2010	2009
Revenue Growth (%)	23%	22%	40%	5%
EBITDA/ Revenue (%)	14%	17%	19%	17%
Profit after tax/ Revenue (%)	9%	5%	12%	12%
Profit after tax/ Average Equity (%)	26%	23%	9%	16%
Return on Average Assets (%)	10%	6%	4%	4%
Current Ratio	0.72	0.78	0.75	0.90
Average No. of days in Inventory	17	21	13	12
Average receivables collection period (days)	69	78	53	72
Average payables payment period (days)	40	32	37	64
Debt/ Equity (%)	28%	76%	26%	50%
Equity/ Assets (%)	46%	29%	52%	26%
EBIT/ Interest Expense (X)	4	2	7	4
Dividends/Profit After Tax (%)	11%	0%	0%	0%
Book value per share (LKR)	10.92	4.47	11.93	4.41
Earnings per share (LKR)	2.03	0.88	1.01	0.74

Note

Administrative expenses have reduced by 24% for the Group (FY2009/10 – LKR 160 million, FY 2008/09 – LKR 212 million) and by 59% for the Company (FY2009/10 – LKR 73 million, FY2008/09 – LKR 181 million) mainly due to the changes in the depreciation policy.

9.0 TAXATION

9.1 Corporate Taxation

In terms of the Agreement dated 07 April 2005 entered into with the Board of Investment of Sri Lanka,

a. The Company's business profits and income are exempted from income tax for a period of three (03) years from the financial year the Company commenced to make profits (the Company made profits from the financial year 2005/06).

b. After the expiration of the said exempted period the Company's profits and income are liable for taxation at a concessionary tax rate of 10% for a further period of two (02) years. After the expiration of above two (02) year period the profits and income of the Company shall be liable for taxation at the rate of 20%.

9.2 Economic Service Charge (ESC)

The Company can claim ESC against income tax liability. The Company is liable to pay ESC at the rate of 0.5% on the turnover since it is eligible to pay income tax at a concessionary rate.

9.3 Value Added Tax (VAT)

Selling of Liquefied Petroleum Gas is exempted from VAT according to the Value Added Tax (Amendment) Act No 6 of 2005 from 5 August 2005 and other sales are liable to pay VAT at 12%.

10.0 INDUSTRY ANALYSIS OF THE GROUP

Global trends in the LP Gas Industry

The climate change debate has focused global attention on the need to develop new and cleaner methods of supplying the ever increasing energy demands of the world's population. The LPG industry is well placed to provide solutions to this ongoing challenge, from encouraging the uptake of auto gas and hybrid engines in the automotive sector to assisting developing nations to help their populations switch from wood and kerosene to LPG for their cooking and heating needs. Today, energy markets around the world are in a state of transition. The debate about climate change – whether it is happening and what is causing it – is all but over and society's energy choices have been accepted as having the most significant impact. LPG was proven to be a genuinely low carbon fuel with savings of over 20% against petrol and heating oil easily possible in both the auto gas and heating markets. Total global demand for LPG is expected to rise from about 239 million tonnes in 2008 to around 270 million tonnes by 2012.

On the Indian subcontinent, LPG production rose from 6.3 million tonnes in 2000 to 8.8 million tonnes in 2008, resulting in average growth of more than 4% per year. India dominates the region's LPG supply, with almost 95% of total production. More than 70% of LPG production is from refineries. Several significant refinery additions are expected to occur in India over the next few years. Consequently, regional LPG production is expected to increase to over 10 million tonnes by 2012.

At the extreme end of the scale, some studies put the carbon emissions of non-renewable sourced wood, fossil fuel based electricity and coal at over double that of LPG. Even heating oil can emit 68% more CO₂ than LPG as well as being a significant potential source of ground pollution. This data clearly puts us as part of the solution to reducing carbon emissions for a whole range of applications. The air quality study confirmed that using LPG vehicles in urban areas can make a significant improvement to air quality. Despite improvements in conventional automotive technology, LPG vehicles can emit far less NOX and particulate matter than diesel equivalents and still represent good value for the consumer. For stationary applications i.e. cooking, heating, power generation etc., the reduction in pollutants over wood/coal and heating oil is even more dramatic. This reduction is making a real contribution to the lives of people in emerging economies who still cook using solid fuel and, consequently, suffer from extremely poor indoor air quality. In the current environmental debate we should also remember that poor air quality is immediately harmful to human health and advances death in more than a million cases worldwide every year. As LP Gas is increasing in supply and an ideal fuel for the changing needs of the world as it is clean, acceptable and accessible.

A macro view of Sri Lanka

The aftermath of the three decades of war against the terrorism could unleash in a new era of economic development in Sri Lanka. The elimination of terrorism which had been the most serious hindrance to economic development would certainly generate expectations of moving the economy into a higher line of growth in the short and long term. Further, one of the key factors that require for rapid economic development and investor confidence is political stability in the country, which is in place and having a clear majority in the legislature an

enabler in crafting new and strong economic policy formulations should be used in the betterment of the country.

Making the situation more favourable, the external financial constraints of the country has eased further by the grant of the International Monetary Fund (IMF) standby facility of approximately USD2.6 billion. The Central Bank has consequently revised the pre-peace expectations of economic growth of 2.5% to 5.0%. The expectations for 2010 are even higher. Analysts expect it to rise to 10.0% or more in the next year on the expectation of a rise in investments, the resurgence of several sectors of the economy such as tourism and developments from the North and East. The effects of the changes will be visible in future and as reflected in the key indicators of the economy with a growth in GDP, Per Capita Income and reduction in inflation. It is heartening to note the state interventions on de-regulations, reforms in the tax regime and on other economic fundamentals. These key elements shall provide a platform for growth opportunities resulting further investments, socio-economic development and improvement of quality of life of our people.

The strategic approach of Laugfs Gas and its subsidiaries are developed in the backdrop of the favourable economic variables and circumstances described. The company and the subsidiaries have drawn up a strategic plan to be implemented based on the emerging opportunities in the economy and develop the group to greater heights.

LPG Industry Analysis

Sri Lanka is one of the fastest growing markets for domestic, commercial and industrial Liquid Petroleum Gas (LPG) in South Asia. The growth rate of the industry reached double figures a decade ago and this figure is continuously increasing which shows a promising future for the players in the industry. At present 25% of the population uses LP Gas as a cooking fuel while most of the population use firewood. This indicates the potential available in the future growth if LP Gas is provided relative at a low cost. Imported quantity of LPG in the year 1993 was 38,000MT and it has grown to 180,000MT in the year 2007. This excludes the daily average production of 60MT by the Ceylon Petroleum Corporation (CPC) refinery at Sapugaskanda. After liberalization of the gas industry in year 2001, LAUGFS Gas (LG) entered the market as the second player in the downstream LPG operations in the market. As a consequence to LG entering the market, the consumers in the country experienced a significant improvement in safety, service standards & customer care.

Petroleum sector performance including the LP Gas industry could be summarised as follows;

	2005	2006	2007	2008	2009
Quantity imported (MT'000)					
Crude oil	2,008	2,153	1,938	1,853	2,066
Refined products	1,823	1,764	2,216	2,103	2,098
LP Gas	149	158	156	144	146
LP Gas domestically produced	13	15	16	16	25
Value of imports (LKR million)					
Crude Oil	77,686	106,977	113,584	143,159	111,715
Refined Products	88,767	106,702	150,390	200,757	126,148
LP Gas	7,573	9,749	12,027	15,378	12,153
LP Gas local sales (MT'000)	165	170	197	174	195
LP Gas Price (LKR/Kg)					
Shell Gas	63.68	76.80	105.04	142.80	124.00
Laugfs Gas	65.60	72.72	97.12	109.60	119.84

Source: Central Bank Annual Reports

The consumption of petroleum products including LPG have increased during last two years as per the Central Bank of Sri Lanka Annual Report in the year 2009 and continued to increase in first quarter of year 2010. Local sales of LPG increased to 195,000MT in the year 2009 from 174,000MT in the year 2008, a 12.1% growth and in 2010 this is anticipated to be increased to 250,000MT, a growth of 14%. With access to North and East of the country and fast growth potential from rural economies, provinces other than Western and contributions from growth of all other sectors including tourism; the LPG industry will maintain a 20% growth in the year 2011. The demand created in Sri Lanka, Gas as a utility has to be LPG since we do not have other alternative resources in Gas such as Liquefied Natural Gas (LNG) or Compressed Natural Gas (CNG) unlike in the countries in the region. It is also striking to state, LPG price is inelastic, a fact proved historically as a utility product. At present, the industry comprises of two players

- ▲ Laugfs Gas Limited
- ▲ Shell Gas Lanka Limited

Competition

The Sri Lanka's LPG business is considered a duopoly having two contending firms in the market. The Shell Gas Lanka Limited who was the dominant player in the market for long years, recently has given reasonable grounds to assume that to exit from the downstream market thus creating a better opportunity for Laugfs Gas to enjoy the benefits of the growing market. Globally LPG industry has strict entry barriers for new entrants; any new entry must need heavy investments on the ground, which may take a minimum of two to three years to setup. Secondly, it requires about two to three years time for acquiring a sizable market share to leverage LPG business to an economical and competitive cost level. Thirdly, the existing pricing formula regulated by the Consumer Affairs Authority will be a discouraging factor for new foreign entrants to the domestic LPG industry.

Supply of LPG

As per the published data in the Annual Report of Central Bank of Sri Lanka, in 2009 domestic LPG production available from the refinery owned by the Ceylon Petroleum Corporation has increased up to 25,000MT from 16,000MT in 2008. Further, with the Government's decision to expand the capacity of the refinery with the assistance from the Iranian Government would surely increase the LPG output to a higher quantity in the future. The continuous supply of LP Gas from CPC has been assured by the Supreme Court Order made on 30 March 2009 in Application No. 397/07 filed by LGL. Currently, the quantity of LPG purchased from the local refinery is around 30% of the requirement of Laugfs Gas and the balance is imported from the sources of world market. The ocean freight advantage of buying LPG from the local refinery would maintain a positive price gap in the retail market hence Laugfs Gas been the preferred LPG brand in the country.

Pricing

The pricing of Domestic LPG is governed by the Consumer Affairs Authority Act No 09 of 2003. Pursuant to the order given on 20 August 2007 in the Supreme Court Application No. 163/2007 (Laugfs Gas (Pvt) Ltd vs CAA and others) a Pricing Formula Agreement has been entered between the Company and Consumer Affairs Authority (CAA) on 28 December 2007. Pricing formula is linked to the world market price of LPG that assures guaranteed profits for LGL. Accordingly, a 30% margin on the landed cost was allowed which include the elements of world market price of LP Gas, Sea freight and the fluctuation of the exchange rate to cover company overheads and to earn profits. The 30% margin covers the depreciation and administrative costs that is considered as an industry norm whilst providing the players to supply LPG on a productive manner. At present, prices are revised every two months which has fluctuations in the volumes sold to the consumer.



The main objective of Laugfs Gas is, to increase the market share above 50% in all customer segments. Conversely, the company will achieve its objectives if it maintains the cost leadership in the industry despite any entry by the state in recent times.

The regulatory environment for LPG business saw a new turn in May 2003, when a third entrant Mundo Gas refilled LPG cylinders belonging to competitors without investing in their own cylinders. The impacts of the new regulation were wide ranging and included the violation of trademark and intellectual property rights, negating of brand integrity and seriously undermining the consumer safety as the refilled unit had no obligation on the safety of the cylinder. In August 2003, a new Gazette notification was issued by the CAA listing LPG Gas used for domestic purposes as a 'specified good' under the CAA Act along with four other items. The implication was LPG companies were subject to price controls and thereby required to obtain approval from the CAA for a price increase. The pricing formula that was effective from January 2008 is the current method adopted to determine the price of a Cylinder of Gas.

Regulatory Environment

In the first 5 years from 1995 - 2000 after deregulating the industry from the state monopoly, the main regulatory mechanisms were the privatisation agreement entered into between Government of Sri Lanka, Shell Overseas Investments BV, Colombo Gas Company Limited and Shell Terminal Lanka (Pvt) Limited on 14 November 1995 with regard to pricing. The Consumer Protection Act No.1 of 1979 is applicable in relation to compliance on safety standards and measures of LP Gas related products. In March 2003, the Government enacted the Consumer Affairs Authority Act and created the Consumer Affairs Authority (CAA). The new act repealed the Consumer Protection Act No.1 of 1979, the Fair Trading Commission Act No.1 of 1987 and the Control of Prices Act No 29 of 1950 (as amended).

Achieve and maintain cost leadership

As stated the establishment & maintenance of cost leadership is the key element in achieving and maintaining the market leadership. For this purpose efficiencies have to be maintained in two areas firstly, efficiencies in product (LPG) procuring and secondly, efficiencies in operations and distributions.

Vehicle Emission Test Certification

Motor vehicles are important sources of both the criteria air pollutants and air toxics. Emission standards, fuel standards, types of fuel used, vehicle type mix and activity levels are important factors of consideration in calculating the emissions from motor vehicles. Changes in fuel usage patterns and vehicle kilometres travelled will have implications for emission of pollutants. An increase in the proportion of light commercial vehicles using diesel fuel will lead to increases in emissions of fine particles and oxides of nitrogen. LPG and CNG fuels, compared to petrol and diesel fuels, have the lowest emission factor for PM10 and lower emission factors for oxides of nitrogen and the air toxics.

On average, nearly 25% of the energy output of the vehicular fuel goes unutilized (Fuel Wasted). Wasted fuel discarded into the atmosphere through vehicle - exhausts as unburned and highly noxious hydrocarbons and carbon monoxide vapour contributes to the increasing levels of air pollution. Motor vehicle emissions are a significant source of pollution, including carbon monoxide, nitrogen oxides and hydrocarbons. Cancers and bronchial illnesses, stemming from inhalation of fine particles in motor vehicle exhaust, have been identified as being a health risk of great concern. Carbon monoxide is a colourless, odourless gas that may cause dizziness,

difficulty in breathing and death. Hydrocarbons and nitrogen oxides combine with sunlight to form ground level ozone (smog). Ozone can aggravate health problems for people with heart disease and breathing-related diseases such as asthma and emphysema.

There is a high frequency of respiratory related disease caused by air pollution in Sri Lanka, particularly among young children. A combination of unburned Hydrocarbons, Carbon Monoxide, and Oxides of Nitrogen combine to spread an obnoxious mixture, harmful to children and the elderly. Unchecked vehicle exhaust emission is the prime contributor to this syndrome. This made the Government of Sri Lanka gazette minimum vehicle emission standards to protect the people against unsolicited vehicle emissions (Gazette No 1557/14 dated 09 July 2008). With the commencement of commercial operations in the Western Province in November 2008, the Registrar of Motor Traffic has subsequently extended the certification to Southern, North Central and Central provinces and Uva, Wayamba and Sabaragamuwa provinces from 2009.

With only one competitor in the marketplace to service an estimated vehicle population of 2.2million vehicles at present and anticipated increase in vehicles from the import duty slash, the industry is expected to gain from the certification business segment.

India and other south Asian countries have been enforcing vehicle emission testing since the beginning of this decade. Though Sri Lanka enforced this law in the recent past many countries have been operating with greater standards on vehicle emission. Medleys of gases that spew from automobiles pollute our atmosphere, and are fast making the environment a place unfit for living.

Leisure Sector

With post era after the war, Sri Lanka has emerged as a potential destination for many tourists. Whilst many countries and organisations slashing down the tourist threat for the country, growth potential of the industry has increased the demand for the current room capacity within the country.

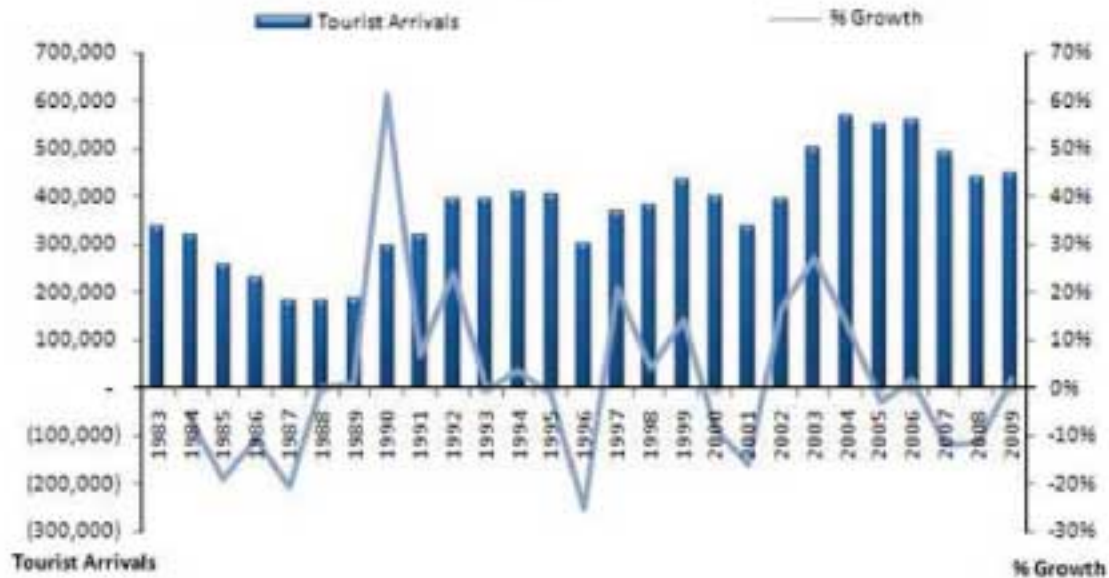
The Democratic Socialist Republic of Sri Lanka is an island in the Indian Ocean, which lies off the south-eastern tip of the Indian subcontinent. Colombo is the largest city and the commercial capital of Sri Lanka, and is situated on the western coast of the Island. Sri Lanka measures 435 km north to south and 224 km east to west, covering a total area of 65,610 sq.km.

Currently, a strategic medium-term (10 years) infrastructure and product planning and development plan has been implemented for the Tourism industry. This strategic plan is based on market demand for high and mid-end markets. The plan hopes to gain profitability through better yields, sustain the integrity and value of Sri Lanka's natural, cultural and human resources, and ensure optimum visitor experiences. The Sri Lanka Tourism Development Authority hopes that the benefits of the strategic plan will accrue to all communities connected with the tourism industry.

With the diversification plans of the company, it entered into the leisure sector in 2005 by acquiring a property located at Bangadeniya, Chillaw as a BOI venture to construct Hundred (100) 4-star rooms under the 'Small Luxury Category' ideology.

It is estimated that approximately 2,000 - 3,000 new hotel rooms will be constructed during the period of 2011/12 and plans to add approximately 20,000 hotel rooms in the next six years to cater to the anticipated boom in tourism.

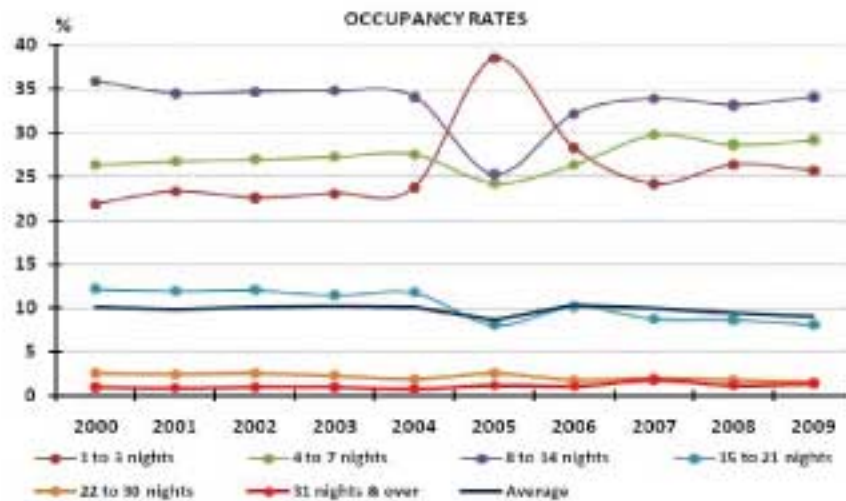
In view of strategic advantage in the tourism sector in Sri Lanka, Laugfs Leisure Limited, a subsidiary of Laugfs Gas Limited group will enhance investments aggressively in the leisure sector within next few years. Tourist arrivals since 1983 to 2009 can be illustrated in a graphical form as follows;



(Source: Statistics from Sri Lanka Tourism Development Authority)

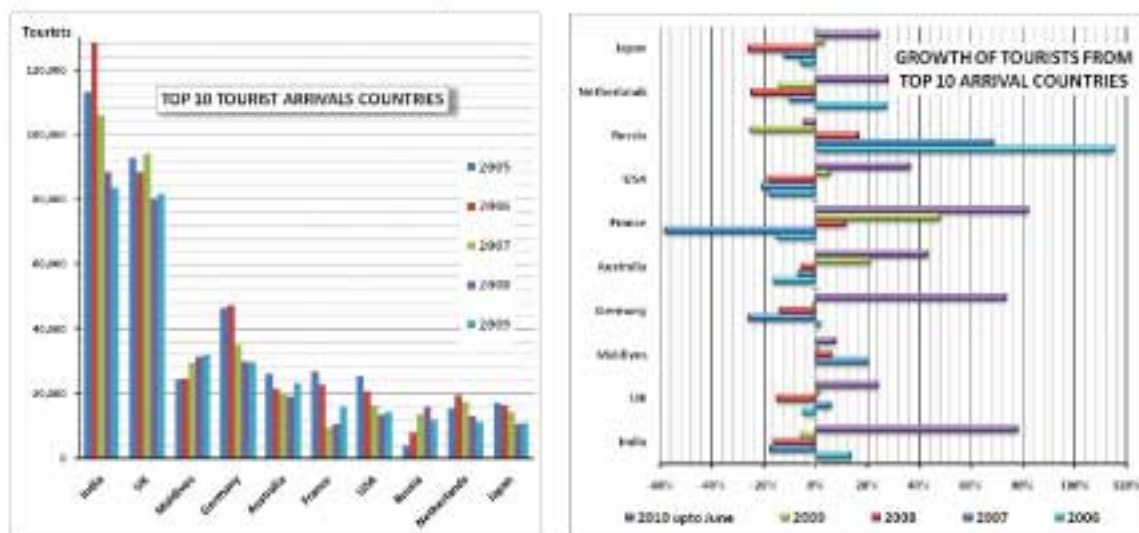
The growth in the supply of graded tourist accommodation has resulted in an increase of tourist arrivals within the last 40-year period. In 1967 there was one room for every 31 tourist arrivals and by 2009 one for every 31 arrivals. However, a scarcity in accommodation was seen during the truce period, the time of most intense growth in tourist activity. Hence supply shortage with the expected growth in tourist arrivals is a definite shot on room rates and the existing hoteliers would benefit through better margins, throughout the lag period of putting up new hotel facilities to cater the demand.

The President of Sri Lanka setup an ambitious target to attract 2.5million tourists from the current 447,890 arrivals for the year 2009. In this context, effective Public Private Partnerships (PPP) will be the way forward and setting up Sri Lanka Tourism Development Authority, Sri Lanka Tourism Promotions Bureau, Sri Lanka Institute of Tourism & Hotel Management and Sri Lanka Convention Bureau will be the catalysts towards sustainable development. Occupancy rates based the category of stay is depicted on a graphical form in the below graph. As indicated, 8 to 14 nights of stay has been having the highest occupancy level during the last 9 year period.



(Source: Statistics from Sri Lanka Tourism Development Authority)

Tourist arrivals based on the top 10 tourist arrival countries can be depicted in absolute form and growth prospects from those countries as follows;



(Source: Statistics from Sri Lanka Tourism Development Authority)

Based on the top 10 tourist arrivals from India and United Kingdom tourists dominate a considerable portion of the tourist arrivals to the country. However, in order to improve guest revenues tourist destination based marketing and customised service will be a critical factor. As such, hotels which cater more towards high spending tourists and comparably a higher growth will benefit in the future.

As Sri Lanka strives to remain as one of the most attractive travel destinations in the world, it's needed to make the transition from negative image that was built over the last 30 years and deliver a unique brand promised with product quality to attract the middle and high end customers. Simultaneously, it is required to correctly identify market segments and build a correct mix between mass and alternative tourism with a sound strategy to tap the potential that will arise in the next 1 - 3 years.

11.0 OTHER INFORMATION

11.1 Hosting of Prospectus, Application Form and the Articles of Association on the Web

This Prospectus, Application Form and the Articles of Association of the Company will be available on the website of the CSE, www.cse.lk, website of the Company, www.laugfs.lk and the website of the Managers to the Issue, www.mbslbank.com from the date of opening of the Issue, until the subscription list closes or up to fourteen (14) Market Days, whichever is later.

11.2 Inspection of Documents

The Articles of Association of the Company, the Auditor's Report, Financial Statements of the Company, BOI Agreement and all other documents pertaining to the Company to which references are made in this Prospectus could be inspected by the public during normal working hours at the Registered Office of the Company from the date hereof until the subscription list closes or up to fourteen (14) Market Days, whichever is later.

11.3 Brokerage

Brokerage at the rate of 0.5 percent (0.5%) of the issue price of Ordinary Voting Shares and Ordinary Non Voting Shares will be paid in respect of the number of shares allotted on Applications bearing the seal of any licensed Commercial Bank in Sri Lanka or any member/trading member of the CSE or the seal of MBSL.

11.4 Underwriting

The Initial Public Offering is not underwritten.

The offering is not conditional upon any minimum amount to be raised through this issue. In the event of an under subscription, the Company is confident that the shortfall can be financed through internally generated funds and other sources.

12.0 STATUTORY DECLARATIONS

Declaration by the Directors

06 October 2010

We, the undersigned being the Directors of Laugfs Gas Limited hereby declare and confirm that we have read the provisions of the Companies Act No.7 of 2007 relating to the issue of the Prospectus and that those provisions have been complied with.

This Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that the provisions of the Listing Rules of the Colombo Stock Exchange and the Companies Act No. 7 of 2007 and any amendments made thereto from time to time, have been complied with and after making all reasonable inquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of the Company have been given in the Prospectus, such representations have been made after due and careful inquiry of the information available to the Company and making assumptions that are considered to be reasonable at the present point in time and according to our best judgement.

Name	Designation	Signature
Wegapitiya Kattadiyalage Hemachandra Wegapitiya	Chairman/Chief Executive Officer	(Sgd)
Udu Kumburage Thilak Nandasiri De Silva	Managing Director	(Sgd)
Hewa Annakage Ariyaratne	Non Executive Director	(Sgd)
Chandra Lal De Alwis	Non Executive Independent Director	(Sgd)
Tissa Kumara Bandaranayake	Non Executive Independent Director	(Sgd)
Palitha Mendis Kumarasinghe	Non Executive Independent Director	(Sgd)

Declaration by the Managers to the Issue, Merchant Bank of Sri Lanka PLC

08 October 2010

We, Merchant Bank of Sri Lanka PLC of No 28, St. Michael's Road Colombo 3 being the Managers and Registrars to this Public Share Issue of Laugfs Gas Limited hereby declare that to the best of our knowledge and belief the Prospectus constitutes full and fair disclosure of all material facts about the Issue and Laugfs Gas Limited whose shares are being offered.

The Common Seal of Merchant Bank of Sri Lanka PLC is affixed hereto in the presence of two Directors of the Company at Colombo on this 08 day of October 2010.

(Signed)

Chairman

Name: Mr. M R Shah

(Signed)

Director

Name: Mr. P G Rupasinghe

Declaration by the Company

07 October 2010

An application has been made to the Colombo Stock Exchange for permission to deal in and for a listing for all of the Ordinary Voting Shares issued by the Company and those Ordinary Voting Shares and Ordinary Non Voting Shares which are the subject of this issue. Such permission will be granted when the Ordinary Voting Shares and Ordinary Non Voting Shares are listed on the Colombo Stock Exchange. The Colombo Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the Colombo Stock Exchange is not to be taken as an indication of the merits of the Company or of the securities issued.

The Common Seal of Laugfs Gas Limited is affixed hereto in the presence of two Directors of the Company at Colombo on this 07 day of October 2010.

(Signed)

Director

Name: Mr. W K H Wegapitiya

(Signed)

Director

Name: Mr. U K T N De Silva

Accountants' Report and 5 Year Summary





DKH/PNR/JJ

September 8, 2010

The Board of Directors
Laugfs Gas Limited
No 70, Unit 07-09, Lucky Plaza
New Wing,
St. Anthony's Mawatha
Colombo 03.

Dear Sirs

Accountants' Report for Inclusion in the Prospectus of Laugfs Gas Limited (Formerly known as Laugfs Gas (Private) Limited)

Introduction

This report has been prepared for the inclusion in the prospectus issued in connection with the initial public offering of 75,000,000 voting ordinary shares each at Rs.23/- per share and 52,000,000 nonvoting shares each at Rs 15/- per share.

We have examined the financial statements of Laugfs Gas (Private) Limited (the "Company"), and the consolidated financial statements of the Company and its subsidiary (the "Group") and report as follows:

1. Incorporation

The Company was incorporated in Sri Lanka on 06 April 2004 as a private limited liability company under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No.07 of 2007 on 20 October 2008.

Persuant to the application of the Company to the Registrar of Companies to change its status to a public limited liability company, a certificate had been issued by the Registrar of Companies dated 30 June 2010 and the Company changed its name to Laugfs Gas Limited thereon.

2. Financial Statements

2.1 Five-Year Summary of Audited Financial Statements

A summary of audited Income Statements, Balance Sheets, Statements of Changes in Equity and Cash Flow Statements of Laugfs Gas (Private) Limited for the financial years ended 31 March 2006 to 31 March 2010, based on the audited financial statements are set out on page 86 of the Prospectus.

2.2 Audited Financial Statements for the year ended 31 March 2010

Our audit report on the financial statements for the year ended 31 March 2010 together with such financial statements comprising the balance sheet and income statement, statement of changes in equity and cash flow statement along with the accounting policies and notes thereon is given on pages 87 to 129 of the Prospectus.



Partners: A D B. Talwalle FCA FCMA, M P D. Cooray FCA FCMA, R N de Saram ACA FCMA, Ms. Y A. De Silva ACA, W R J. Fernando FCA, FCMA, W K B S P Fernando FCA, FCMA, A P A Gunasekera FCA, FCMA, A Herath FCA, D K Hulangamuwa FCA, FCMA LLB (Lond), H M A. Jayasinghe FCA, FCMA, Ms. G G S Manatunga ACA, Ms. L. C. G. Nanayakkara FCA, FCMA, B E Wijesuriya ACA, ACMA



2.3 Audit Reports

We have audited the financial statements of the Company and the Group for the periods ended 31 March 2006 to 31 March 2010. Qualified audit opinions have been issued for the years 2005/2006 and 2009/2010 and such qualifications are given on page 84 to the Prospectus.

2.4 Accounting Policies

The Financial Statements of the Company and the Group for the periods ended 31 March 2006 to 31 March 2010 comply with the Sri Lanka Accounting Standards except for page 85 of the prospectus.

The accounting policies of the Company and the Group are stated in detail in the audited financial statements of Laugfs Gas (Private) Limited and its subsidiary for the year ended 31 March 2010. During this period, there were no material changes in the accounting policies of the Group except for the change made to the accounting policy discussed more fully on page 85 to the Prospectus.

2.5 Dividends

The Company has declared dividends in respect of Ordinary Shares in the Company in the following financial years,

Year	Dividend per share (Rs)
2007 -Interim	5.00/-
2007 -Final	7.50/-
2010-Final	0.75/-

2.6 Events Occurring after the Balance Sheet Date

A Special Resolution has been passed by the shareholders at an Extraordinary General Meeting to sub-divide seventy eight million and twenty six (78,000,026) ordinary shares of the Company into two hundred and sixty million eighty six (260,000,086) ordinary shares without any change to the stated capital of the Company of Rs.780,000,260/-.

Other than the above, there have been no material events occurring after the Balance Sheet date that require adjustments or disclosure in the Financial Statements.

Yours faithfully



Qualifications made in Auditors' Report

Year	Qualification Made in the Audit Report
2005/2006 (Company)	<p>No other qualifications reported except for the followings;</p> <ol style="list-style-type: none"> 1) Property, Plant & Equipment <ol style="list-style-type: none"> a. Lands included in the financial statements amounting to Rs. 7,164,000/- situated at Mabima carrying the title deed no's 20, 46 and 56 are not in the name of the company. b. We were unable to peruse the original title deed no 56. 2) Assets revalued at the time of purchase from Laugfs Lanka Gas (Pvt) Ltd has not been applied to the entire class of assets as required by SLAS 18 and also the valuation was not performed by a professional valuer. 3) Receivables include statutory debts amounting to Rs. 1,385,210/- where recoverability is doubtful.
2006/2007	No qualifications reported.
2007/2008	No qualifications reported.
2008/2009	No qualifications reported.
2009/2010	<ol style="list-style-type: none"> 1) The Company has deferred Cost of Sales on account of sales derived during the current financial year. This amount is included as Associate Cost Equalisation under Trade and Other Receivable in the Balance Sheet. The above practice departs from SLAS 29 – Revenue, which requires Revenue and Expenses that relates to the same transaction or other events are recognised simultaneously. The effect to the financial statements from above is morefully described under note 22.2 (a) of the financial statements.

Year	Accounting Policy Changes																																																																																									
2005/2006	There were no material changes.																																																																																									
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2008/2009	<p>Except for the following there were no material accounting policy changes to the financial statements.</p> <p>The accounting policies adopted are consistent with those of the previous financial year except where the Group has made changes to be compliant with Sri Lanka Accounting Standard No 16 Employee Benefits (Revised 2006), which is discussed.</p> <p>During the year ended 31 March 2009, the Group changed its accounting policy for the measurement of Retirement Gratuity (Defined Benefit Plan). The Group now performs the computation based on Gratuity Formula in Appendix E of SLAS 16 (Revised 2006). This formula measures the liability, using the Projected Unit Credit Method.</p> <p>The principal assumptions used in determining the post employment benefit liability for the Company are shown below.</p> <table border="1"> <thead> <tr> <th></th> <th>Non Executive</th> <th>Executive</th> </tr> </thead> <tbody> <tr> <td>Staff Turnover Rate</td> <td>29%</td> <td>28%</td> </tr> <tr> <td>Salary Increase Rate</td> <td>7%</td> <td>10%</td> </tr> <tr> <td>Discount Rate</td> <td>10%</td> <td>10%</td> </tr> <tr> <td>Retirement Age</td> <td>60 years</td> <td>60 years</td> </tr> </tbody> </table> <p>The gratuity liability is not funded nor actuarially valued.</p>		Non Executive	Executive	Staff Turnover Rate	29%	28%	Salary Increase Rate	7%	10%	Discount Rate	10%	10%	Retirement Age	60 years	60 years																																																																										
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This change in accounting policies has been accounted for retrospectively. The comparative statements for 2009 have been restated to conform to the changed policy. The effects of the changes are discussed in the above note.</p> <p>The Group changed its accounting policy with respect to the treatment of cost of sales in order to conform to the new policy which is discussed more fully under note 2.4.16, in the financial statements.</p> <p>a) The Group has adjusted cost of gas applicable to the 12.5 Kg Cylinders in line with pricing formula approved by Consumer Affairs Authority. Any increased /decreased due to above has been reversed in subsequently. This change in accounting policy has been accounted for retrospectively. The comparative statements for 2009 have been restated to conform to the changed policy.</p> <p>The Sri Lanka Accounting Standards 29 requires that all Revenue and expenses that relate to the same transaction or other events are recognized simultaneously. However, the directors are of the opinion that since the Group is entitled to a price revision based on the past 100 months average cost relevant to these two months should be deferred and matched against the revised selling price of the future. The effect to the Income Statement as a result of the above mentioned accounting policy is that the cost of gas amounting to Rs. 344,143,734/- (2009 - Rs. 88,401,904/-) has been deferred from the current financial year to the next financial year and the profit stated has increased by this amount (2009 - profit has decreased by Rs.88,401,904/-). The deferred cost amounting to Rs. 256,441,830/- (2009 - Rs. 88,401,904/-) is shown under current assets in the Balance Sheet.</p> <p>b) During the current financial year the Group has changed its policy of accounting for non refundable deposits received in respect of empty gas cylinder provided to its customers. The previous policy was to accrue for as income in the Income Statement account, the non refundable deposit over a period of ten years. The revised policy is to account for the income over a period of five years (Note 12). In line with above policy, the Group also has changed its accounting policy for expenses on equalization and testing charges of cylinders. As a result of that Group has deferred expenses on equalization and testing charges of cylinder over a period of 3 years. This amount is shown under Other Receivables account in the Balance Sheet.</p>		Note	← 1 April 2008 →			1 April 2009	31 March 2010	As reported previously Rs.	Effect of change in Accounting Policy Rs.	Restated Balance Rs.	Effect of change in Accounting Policy Rs.	Cumulative effect of change in Accounting Policy Rs.	Balance Sheet							Trade and Other Receivables	(a)	770,235,899	-	770,235,899	(88,401,904)	(88,401,904)	Deferred Expenses	(b)	-	-	-	27,833,686	27,833,686	Retained Earnings	(a)(b)	(23,608,235)	157,430,073	133,821,840	(11,415,291)	146,014,794	Deferred Income	(b)	412,996,353	(189,549,003)	223,447,350	(57,429,914)	(246,978,917)	Trade and Other Payables	(b)	77,384,824	34,241,519	111,626,343	6,153,205	40,394,724						Year ended 31 March 2009							Profit Increase/(Decrease)		Cost of Sales	(a)				(62,692,000)		Other Income	(b)				51,276,709							<u>(11,415,291)</u>	
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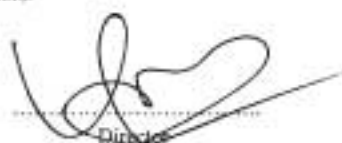
Laugfs Gas Limited and its Subsidiaries

FIVE YEAR SUMMARY

Year Ended 31 March

	2010	2009	2008	2007	2006
	Rs.	Restated Rs.	Rs.	Rs.	Rs.
A) Summary of the operations					
Revenue	5,592,255,679	4,541,495,965	3,713,804,757	2,442,313,524	1,782,337,480
Gross Profit	1,047,769,834	813,827,398	215,193,061	277,588,341	163,995,234
Net Profit Before Finance Cost	773,149,429	489,924,643	(18,660,471)	96,007,619	92,685,987
Profit/(Loss) Before Taxation	583,880,283	290,780,575	(76,990,578)	71,126,023	68,201,696
Taxation	55,586,672	61,516,756	7,933,642	4,210,943	1,491,326
Profit/(Loss) Attributable to Shareholders	528,293,611	229,263,819	(84,924,220)	66,915,080	66,710,370
B) Summary of Financial Position					
Capital and Reserves					
Stated Capital	780,000,260	60,000,020	60,000,020	60,000,020	60,000,020
Other Reserves	1,212,411,791	713,938,216	781,668,161	-	-
Retained Earnings	846,565,811	377,799,113	(26,298,795)	58,625,425	66,710,370
Equity	2,838,977,862	1,151,737,349	815,369,386	118,625,445	126,710,390
Minority Interest	-	9,765,986	2,170,000	-	-
Total Equity	2,838,977,862	1,161,503,335	817,539,386	118,625,445	126,710,390
Assets and Liabilities					
Current Assets	1,684,069,092	1,402,309,612	1,185,518,862	866,586,173	579,466,131
Current Liabilities	2,355,135,313	1,786,620,857	1,780,343,145	1,298,873,479	771,078,604
Net Current Assets	(671,066,221)	(384,311,245)	(594,824,283)	(432,287,306)	(191,612,473)
Property, Plant and Equipment	4,488,998,712	2,613,699,993	1,960,626,889	892,534,516	600,310,198
Other Non Current Assets	52,928,221	1,626,077	1,686,077	1,746,077	240,000
Non Current Liabilities	1,031,882,850	1,069,511,490	549,949,297	343,367,842	282,227,335
Net Assets	2,838,977,862	1,161,503,335	817,539,386	118,625,445	126,710,390
Financial Ratio					
Earning Per Share	6.77	3.12	(14.15)	11.15	11.12
Net Assets Per Share	36.40	14.89	136.26	19.77	21.12
Current Ratio	0.72	0.78	0.67	0.67	0.75

The above summarised financial information and its extraction from audited financial statements, is the responsibility of the Board of Directors.


.....
Director


.....
Director

**AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2010**

**LAUGFS GAS (PRIVATE) LIMITED AND ITS SUBSIDIARIES
FINANCIAL STATEMENTS
31 MARCH 2010**



DKH/PNR/RPN/JJ

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF LAUGFS GAS (PRIVATE) LIMITED****Report on the Financial Statements**

We have audited the accompanying financial statement of Laugfs Gas (Private) Limited ("Company"), the consolidated financial statements of the Company and its subsidiaries ("Group") which comprise the balance sheets as at 31 March 2010, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 misstatements.

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

1. The Company has deferred Cost of Sales on account of sales derived during the current financial year. This amount is included as Associate Cost Equalisation under Trade and Other Receivable in the Balance Sheet. The above practice departs from SLAS 29 - Revenue, which requires Revenue and Expenses that relates to the same transaction or other events are recognised simultaneously. The effect to the financial statements from above is morefully described under note 22.2 (a) of the financial statements.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph 1, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



In our opinion, except for the effect on the consolidated financial statements of the matter referred to in the paragraph 1 above, the consolidated financial statements give a true and fair view of the state of affairs as at 31 March 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

In our opinion, except for matter discussed in paragraph 1 above, these financial statements also comply with the requirements of Section 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

20 July 2010
Colombo



Lauf's Gas (Private) Limited and its Subsidiaries

BALANCE SHEET

As at 31 March 2010

ASSETS	Note	Group		Company	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs. Restated
Non-Current Assets					
Property, Plant and Equipment	4	4,488,998,712	2,613,699,993	3,544,281,297	2,303,332,030
Investments in Subsidiaries	6	-	-	419,301,984	75,830,000
		<u>4,488,998,712</u>	<u>2,613,699,993</u>	<u>3,963,583,281</u>	<u>2,379,162,030</u>
Intangible Asset	5	52,928,221	1,626,077	-	60,000
Current Assets					
Inventories	7	198,316,779	213,291,079	197,234,937	213,291,079
Trade and Other Receivables	8	1,005,001,817	1,111,337,521	969,670,354	1,069,657,227
Cash and Bank Balances	21	480,750,496	77,681,012	444,050,247	77,072,151
		<u>1,684,069,092</u>	<u>1,402,309,612</u>	<u>1,610,955,538</u>	<u>1,360,020,457</u>
Total Assets		<u>6,225,996,025</u>	<u>4,017,635,682</u>	<u>5,574,538,819</u>	<u>3,739,242,487</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
Stated Capital	9	780,000,260	60,000,020	780,000,260	60,000,020
Reserves	10	1,212,411,791	713,938,216	825,375,478	713,938,216
Retained Earnings		846,565,811	377,799,113	890,706,980	424,806,693
		<u>2,838,977,862</u>	<u>1,151,737,349</u>	<u>2,496,082,718</u>	<u>1,198,744,929</u>
Minority Interest		-	9,765,986	-	-
Total Equity		<u>2,838,977,862</u>	<u>1,161,503,335</u>	<u>2,496,082,718</u>	<u>1,198,744,929</u>
Non-Current Liabilities					
Interest Bearing Loans and Borrowings	11	587,852,845	721,392,363	386,510,552	509,838,548
Deferred Tax Liability	19.5	158,075,947	71,961,545	158,075,947	71,961,545
Deferred Income	12	273,079,975	270,359,315	273,079,975	270,359,315
Retirement Benefit Liabilities	13	12,874,083	5,798,267	11,401,124	5,798,267
		<u>1,031,882,850</u>	<u>1,069,511,490</u>	<u>829,067,598</u>	<u>857,957,675</u>
Current Liabilities					
Trade and Other Payables	14	417,445,795	574,080,780	375,580,503	523,136,334
Refundable Deposits	15	789,951,479	710,212,683	789,951,479	710,212,683
Income Tax Liabilities		14,847,687	24,253,655	15,242,331	24,253,656
Interest Bearing Loans and Borrowings	11	1,132,890,352	478,073,739	1,068,614,190	424,937,210
		<u>2,355,135,313</u>	<u>1,786,620,857</u>	<u>2,249,388,503</u>	<u>1,682,539,883</u>
Total Equity and Liabilities		<u>6,225,996,025</u>	<u>4,017,635,682</u>	<u>5,574,538,819</u>	<u>3,739,242,487</u>

I certify that these financial statements are in compliance with the requirements of the Companies Act No. 07 of 2007.


Finance Manager

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board by:


Director


Director

The accounting policies and notes on pages 7 through 40 form an integral part of the Financial Statements.

20 July 2010
Colombo



Laufgs Gas (Private) Limited and its Subsidiaries

INCOME STATEMENT

Year ended 31 March 2010

	Note	Group		Company	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs. Restated
Revenue	3	5,592,255,679	4,541,495,965	5,305,017,600	4,477,117,017
Cost of Sales		(4,544,485,845)	(3,727,668,567)	(4,412,546,581)	(3,667,762,377)
Gross Profit		1,047,769,834	813,827,398	892,471,019	809,354,640
Other Income and Gains	16	168,987,045	143,536,956	168,979,685	143,530,427
Selling and Distribution Costs		(283,077,391)	(255,522,039)	(277,589,473)	(248,733,672)
Administrative Expenses		(160,530,059)	(211,917,672)	(73,366,994)	(181,085,680)
Finance Cost	18	(189,269,146)	(199,144,068)	(130,507,260)	(170,564,105)
Profit Before Tax	17	583,880,283	290,780,575	579,986,978	352,501,609
Income Tax Expense	19	(55,586,672)	(61,516,756)	(55,586,672)	(61,516,756)
Profit for the Year		<u>528,293,611</u>	<u>229,263,819</u>	<u>524,400,306</u>	<u>290,984,853</u>
Attributable to:					
Equity Holders of the Parent		527,266,718	243,118,569	524,400,306	290,984,853
Minority Interest		1,026,893	(13,854,750)	-	-
		<u>528,293,611</u>	<u>229,263,819</u>	<u>524,400,306</u>	<u>290,984,853</u>
Earnings Per Share	20	6.77	3.12		

The accounting policies and notes on pages 7 through 40 form an integral part of the Financial Statements.



STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2010

	Note	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.	Minority Interest Rs.	Total Equity Rs.
Group							
Balance as at 01 April 2008		60,000,000	781,668,161	131,331,280	972,799,461	-	972,799,461
Transfer of Surplus on Revaluations of Property, Plant & Equipment	10	-	(118,326)	-	(118,326)	-	(118,326)
Deferred Tax Liability on Revaluation Reserve	19.3	-	(67,611,619)	-	(67,611,619)	-	(67,611,619)
Adjustments Due to Changes in Holding		-	-	3,548,264	3,548,264	23,620,736	27,170,000
Profit for the Year		-	-	283,108,569	283,108,569	113,854,750	229,263,819
Balance as at 31 March 2009		60,000,000	713,938,216	317,799,113	1,151,737,349	9,765,986	1,161,503,335
Surplus on Revaluation of Property, Plant & Equipment	10	-	1,285,598,031	-	1,285,598,031	-	1,285,598,031
Deferred Tax Liability on Revaluation Reserve	19.3	-	(67,124,216)	-	(67,124,216)	-	(67,124,216)
Issue of Shares for Non Cash Consideration	10	720,000,240	(720,000,240)	-	-	-	-
Dividend (Final- 2009/2010)		-	-	(58,500,000)	(58,500,000)	-	(58,500,000)
Adjustments Due to Changes in Holding		-	-	-	-	(10,792,879)	(10,792,879)
Profit for the Year		-	-	527,266,718	527,266,718	1,028,393	528,293,611
Balance as at 31 March 2010		780,000,260	1,212,411,791	846,565,811	2,838,977,862	-	2,838,977,862

Company	Note	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 April 2008 (as previously stated)		60,000,000	781,668,161	(25,608,235)	818,059,946
Effect of Changes in Accounting Policies	22	-	-	157,430,075	157,430,075
Balance as at 01 April 2008 (as restated)		60,000,000	781,668,161	133,821,840	975,490,021
Transfer of Surplus on Revaluations of Property, Plant & Equipment	10	-	(118,326)	-	(118,326)
Deferred Tax Liability on Revaluation Reserve	19.3	-	(67,611,619)	-	(67,611,619)
Profit for the Year		-	-	290,984,855	290,984,855
Balance as at 31 March 2009 (as restated)		60,000,000	713,938,216	424,806,695	1,198,744,929
Surplus on Revaluation of Property, Plant & Equipment	10	-	898,561,718	-	898,561,718
Deferred Tax Liability on Revaluation Reserve	19.3	-	(67,124,216)	-	(67,124,216)
Issue of Shares for Non Cash Consideration	10	720,000,240	(720,000,240)	-	-
Dividend (Final- 2009/2010)		-	-	(58,500,000)	(58,500,000)
Profit for the Year		-	-	524,400,306	524,400,306
Balance as at 31 March 2010		780,000,260	825,373,478	890,706,580	2,496,082,718

The accounting policies and notes on pages 7 through 40 form an integral part of the Financial Statements.



Lauf's Gas (Private) Limited and its Subsidiaries

CASH FLOW STATEMENT

Year ended 31 March 2010

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs. Restated
Cash Flows From / (Used in) Operating Activities				
Profit Before Tax	583,880,283	290,780,575	579,986,978	352,501,609
Adjustments for				
(Profit)/Loss on Disposal of Property, Plant and Equipment	(11,948)	734,658	-	117,500
Depreciation - Property, Plant and Equipment	29,410,527	263,441,256	(23,857,379)	241,998,730
Amortisation of Intangible Assets	60,000	60,000	60,000	60,000
Income from Investments	(9,559,732)	(21,307,906)	(9,559,732)	(21,307,906)
Finance Costs	189,269,146	199,144,068	130,507,260	170,564,105
Provision for Defined Benefit Plans	7,397,805	(721,647)	6,044,920	(721,647)
Operating Profit Before Working Capital Changes	800,446,081	732,131,004	683,182,047	743,212,391
(Increase)/ Decrease in Inventories	16,056,142	(3,262,240)	16,056,142	(3,262,240)
(Increase)/ Decrease in Trade and Other Receivables	168,078,470	(316,903,468)	99,986,873	(299,421,328)
Increase/ (Decrease) in Trade and Other Payables	(218,623,711)	531,685,203	(147,555,831)	436,233,774
Increase/ (Decrease) in Deferred Income	2,720,660	24,310,773	2,720,660	24,310,773
Cash Generated from Operations	768,677,642	967,961,272	654,389,891	901,073,370
Refundable Deposits Received	263,758,057	142,851,181	263,758,057	142,851,181
Refund/Transfers of Deposits	(184,019,261)	(239,252,027)	(184,019,261)	(239,252,027)
Finance Costs Paid	(186,169,188)	(199,144,068)	(127,407,302)	(170,564,105)
Income Tax Paid	(45,607,810)	(37,040,445)	(45,607,810)	(37,040,445)
Defined Benefit Plan Paid	(498,979)	(161,478)	(442,063)	(161,478)
Net Cash from/(Used in) Operating Activities	616,140,461	635,214,435	560,671,512	596,906,496
Cash Flows from / (Used in) Investing Activities				
Acquisition of Property, Plant and Equipment and Cylinders	(392,164,474)	(871,718,486)	(306,360,957)	(589,192,543)
Proceeds from Disposal of Property, Plant and Equipment	358,147	634,250	-	572,384
Acquisition of Investments	(278,332,286)	-	(343,471,984)	-
Interest Received	9,559,732	21,307,906	9,559,732	21,307,906
Net Cash Flows from/(Used in) Investing Activities	(660,578,881)	(849,776,330)	(640,273,209)	(567,312,253)
Cash Flows from / (Used in) Financing Activities				
Issue of Shares	-	25,000,000	-	-
Proceeds from Interest Bearing Loans and Borrowings	1,160,926,702	1,600,993,544	1,126,197,598	1,375,993,544
Repayment of Interest Bearing Loans and Borrowings	(527,082,191)	(1,438,078,960)	(512,029,357)	(1,431,406,960)
Principal Payment under Finance Lease Liabilities	(23,023,204)	(17,427,472)	(10,689,755)	(12,563,858)
Dividend Paid	(58,500,020)	-	(58,500,020)	-
Net Cash Flows from/(Used in) Financing Activities	552,321,287	170,487,112	544,978,466	(67,977,274)
Net Increase/(Decrease) in Cash and Cash Equivalents	507,882,867	(44,074,783)	465,376,769	(38,383,031)
Cash and Cash Equivalents at the Beginning of the Year	(32,586,508)	11,488,275	(26,458,769)	11,924,262
Cash and Cash Equivalents at the End of the Year	475,296,359	(32,586,508)	438,918,000	(26,458,769)

The accounting policies and notes on pages 7 through 40 form an integral part of the Financial Statements.



1. CORPORATE INFORMATION

1.1 General

Lauf's Gas (Private) Limited ("Company") is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No. 10-12, Lucky Plaza, 2nd Floor, New Wing, No. 70, St. Anthony's Mawatha, Colombo 03 and the principal place of business is situated at No. 311/1, Biyagama Road, Mabima, Heiyanthuduwa.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company and the subsidiaries dealt with in these financial statements were as follows.

Company	Activities
Lauf's Gas (Private) Limited	Sale of liquefied petroleum gas and other related products.
Lauf's Eco Sri (Private) Limited	Providing emission testing services.
Lauf's Leisure Limited	Managing the operations of Emerald Bay Hotel and Temple Trees Hotel located in Induruwa.
Lauf's Property Developers (Private) Limited	The Company has changed its principal activity of developing apartments for sales to building serviced apartments for short and long term duration.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent entity is Lauf's Holdings Limited. In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is Lauf's Holdings Limited, which is incorporated in Sri Lanka.

1.4 Date of Authorization for Issue

The Consolidated Financial Statements of Lauf's Gas (Private) Limited and its subsidiaries for the year ended 31 March 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 20 July 2010.



2. BASIS OF PREPARATION

The Financial Statements have been prepared on a historical cost basis, except for land, plant, machinery and equipment, buildings, cylinders, motor vehicles and testing equipment that have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees. The preparation and presentation of these financial statements is in compliance with the Companies Act No. 07 of 2007.

Laugfs Gas (Private) Limited acquired its subsidiary of Laugfs Leisure Limited and Laugfs Property Developers (Private) Limited on 31 March 2010. The Company is required to present consolidated financial statements from the year ended 31 March 2010.

Consolidated Income Statement and Cash Flow have been presented taking into account the Company result for the year ended 31 March 2010 and result of Laugfs Eco Sri (Private) Limited.

2.1 Comparative Information

The accounting policies applied by the Group are consistent with those used in previous year's figures and phrases have been rearranged, wherever necessary, to conform to the current year's presentation. The impact of this discussed in Note 25.

2.1.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except where the Group has made voluntary changes. The principal effects of this decision are discussed in Note 22.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the Financial Statements.

Allowance for Doubtful Debts

The Group reviews at each balance sheet date all receivables to assess whether an allowance should be recorded in the Income Statement. The Management uses judgement in estimating such amounts in the light of the duration of outstanding and any other factors, management is aware of that indicate uncertainty in recovery.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets within the next financial year are discussed below. The respective carrying amounts of assets are given in related notes to the Financial Statements.



Fair Value of Property, Plant & Equipment

The Property, Plant and Equipment of the Group are reflected at fair value. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets. In the absence of such information the Group determines within a reasonable fair value estimates, amounts that can be attributed as fair values, with the assistance of an independent valuer.

Defined Benefit Plans

The Defined Benefit Obligation and the related charge for the year are determined using assumptions required under actuarial valuation techniques. The valuation involves making assumptions about discount rates, future salary increases, staff turnover rates etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainty. Further details are given in Note 13.

2.3 CONSOLIDATION POLICY

2.3.1 Basis of consolidation

The Consolidated Financial Statements include the Financial Statements of the Company, its subsidiaries and other companies over which it has control.

The Group's Financial Statements comprise of the Consolidated Financial Statements of the Company and the Group which have been prepared in compliance with the Sri Lanka Accounting Standards.

All intra group balances, income and expenses and profits and losses resulting from intra group transactions are eliminated in full.

2.3.2 Acquisitions and divestments

Acquisitions of subsidiaries are accounted for using the purchase method of accounting unless they involve entities under common control. The results of subsidiaries, acquired or incorporated during the year have been included from the date of acquisition, or incorporation while results of subsidiaries, disposed have been included up to the date of disposal.

2.3.3 Subsidiaries

Subsidiaries are those enterprises controlled by the Parent. Control exists when the parent holds more than 50% of the voting rights or otherwise has a controlling interest.

Subsidiaries are consolidated from the date the Parent obtains control until the date that control ceases.

Subsidiaries consolidated have been listed in Note 6.

The total profits and losses for the period, of the Company and of its subsidiaries included in consolidation and all assets and liabilities of the Company and of its subsidiaries included in consolidation are shown in the Consolidated Income Statement and Balance Sheet respectively.

Minority interests which represents the portion of profit or loss and net assets not held by the Group, are shown as a component of profit for the period in the Income Statement and as a component of equity in the Consolidated Balance Sheet, separately from parent shareholders' equity.

The Consolidated Cash Flow Statement includes the cash flows of the Company and its subsidiaries.



2.3.4 Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of cash-generating units that are expected to benefit from the synergies of the combination.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets pro-rata to the carrying amount of each asset in the unit.

2.3.5 Financial Year

Results of all subsidiaries are drawn for the twelve month period up to 31 March, which is their year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lanka Rupees, which is the group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4.2 Taxation

a) Current Taxes

Provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and is computed in accordance with the provisions of the relevant tax statutes.

b) Deferred Taxation

Deferred income tax is provided, using the liability method, on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the Income Statement.

c) Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or service is not recoverable from the taxation authorities in which case the sales tax is recognised as a part of the cost of the asset or part of the expense items as applicable and receivable and payable that are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as a part of receivables and payables in the Balance Sheet.

2.4.3 Borrowing Costs

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

2.4.4 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Income Statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.



2.4.5 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and conditions are accounted using the following cost formula:-

Raw Materials	- At purchase cost on weighted average cost basis
Finished Goods	- At the cost of direct materials, direct labour and an appropriate proportion of overheads based on normal operating capacity, but excluding borrowing costs.
Goods in Transit	- At purchase cost
Food & Beverages	- At actual cost on weighted average basis

Inventory represents property held by the group intended for resale and costs connected with projects.

The Project under Development comprises acquisition costs, purchase taxes, and any directly attributable costs to bring the asset to intended sale. Administrative expenses are not included unless these can be directly attributed to specific projects. Directly attributable costs are costs incurred for bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2.4.6 Trade and Other Receivables

Trade Receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other Receivables and Dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

2.4.7 Cash and Cash Equivalents

Cash and Cash equivalents are 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 in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.4.8 Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met.

Land, Buildings, Plant and Machinery and Equipment, Cylinders, Motor Vehicle and Testing Equipment are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on a straight line basis over the useful life of the assets is disclosed in Note 4.6.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.



Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

When each major inspection is performed, its cost is recognised in the carrying amount of the Property, Plant and Equipment as a replacement if the recognition criteria are satisfied.

An item of Property, Plant and Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.4.9 Leases - Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the Income Statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in 4.6.

Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term.

2.4.10 Investments

a) Initial Recognition

Cost of investment includes purchase cost and acquisition charges such as brokerages, fees, duties and bank regulatory fees. The Group distinguishes and presents current and non current investment in the Balance Sheet.

b) Measurement

Current Investment

Current investments are carried at the lower of cost and market value, determined on the basis of aggregate portfolio.

Unrealized losses arising from reduction to market value and reversals of such reduction required to state current investments at lower of cost and market value are included in income statement.

Long Term Investments

Long term investments are stated at cost. Carrying amounts are reduced to recognize a decline other than temporary, determined for each investment individually. These reductions for other than temporary declines in carrying amounts are charged to income statement.



Disposal of Investment

On disposal of an investment, the difference between net disposals and proceeds and the carrying amounts is recognized as income or expense. Any revaluation surplus related to disposed investments are; transferred to retained earnings.

2.4.11 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.4.12 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

The Group annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the Gratuity Formula in Appendix E of Sri Lanka Accounting Standard No. 16, Employee Benefits (Revised 2006) which is based on the Projected Unit Credit method as discussed in the said Standard. Although actuarial assumptions are used therein, it should not be treated as a substitute to an Actuarial Valuation.

The item is stated under Employee Benefit Liability in the Balance Sheet.

The gratuity liability is not funded nor actuarially valued.

b) Defined Contribution Plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Group contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.4.13 Impairment of Non Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.



For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.4.14 Deferred Income

The LPG Cylinders remains a property of Laugfs Gas (Private) Limited and issued to the customers on a temporary basis against a refundable security deposit. The Group is liable to refund the deposit for 12.5Kg, 37.5Kg, 5Kg & 2Kg cylinders on following basis subject to a minimum refund of Rs.1,000/, Rs.1,700/, Rs. 485/, & Rs. 450/ respectively for indefinite period.

1st Year – Minimum refund + Two third of the selling price of a Cylinder
after deducting Minimum refund

2nd Year – Minimum refund + one third of the selling price of a Cylinder
after deducting Minimum refund

3rd Year Onwards Minimum refund.

The difference between the deposit and minimum refund is charged to deferred income over a period of three years in line with the refund policy (See also 2.4.15 (c)).

2.4.15 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue and 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 and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

a) Sale of Goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

b) Interest

Interest income is recognized on accrual basis.

c) Deferred Income from Non-Refundable Deposits

The deferred income from non-refundable deposits is recognised in the Income Statement over a period of 5 years, which is the period it is estimated to be held by the customer.

d) Dividend

Dividend Income is recognised when the shareholders' right to receive the payment is established.

e) Others

Other Income is recognised on an accrual basis.



f) Room Revenue

Revenue is recognized on the rooms occupied on daily basis.

g) Food & Beverage Revenue

Food & Beverage Revenue is accounted at the time of sale.

2.4.16 Cost of Sales Recognition

During the financial year the Group has changed its accounting policy of accounting for the cost of gas where part of the cost of gas sold in 12.5KG cylinders for domestic consumption has been deferred to the next financial year. The accounting policy has been revised which the directors believe would reflect fairly the financial position of the Group taking in to account the agreement signed between the Group and the Consumer Affairs Authority consequent to an order given by the Supreme Court. According to the judgment of the Supreme Court the Group is entitled to a price of landed cost plus a margin. Consequent to the judgment, the Consumer Affairs Authority has entered in to an agreement with the Group where it has permitted to a selling price of landed cost plus a margin. However, according to such agreement the price revision is subject to a lead time of three months. Hence, any increase/decrease in landed cost which would be subject to a price revision would be effective after a period three months.

2.4.17 Segment Information

2.4.17.1 Reporting Segments

Segmentation has been determined based on primary format. Primary format represents the business segments, identified based on the differences in the services provided which has different risks and returns. The operating results of the segments are described in Note 3 to these financial statements.

2.4.17.2 Segment information

Segment information has been prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

2.5 Effect of Sri Lanka Accounting Standards issued but not yet effective:

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)

SLAS 44 and 45 becomes effective for financial years beginning on or after 01 January 2011. Accordingly, the Financial Statements for the year ending 31 March 2012 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Group is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effects of these standards, the impact of adoption cannot be estimated as at the date of publication of these financial statements.



b) Sri Lanka Accounting Standard 39- Share Based Payments (SLAS 39)

SLAS 39- Share based payments, effective for periods beginning on or after 01 January 2010 will be first adopted in the year ending 31 March 2011. This standard requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares (equity –settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash- settled transactions). For equity-settled share-based payment transactions, the Group is required to apply SLAS 39 for grants of shares, share options or other equity instruments that were granted after 01 January 2010.

The Group is in the process of evaluating the impact of this standard. However, it is unlikely that this standard will have a material impact on the Financial Statements.



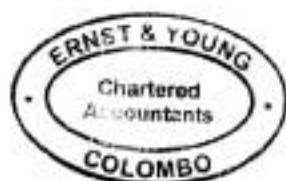
Laufts Gas (Pvt) Limited and its Subsidiaries
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2010

3. Segmental Reporting	3.1 Business Segment	Trading of Liquefied Petroleum Gas		Hotels & Travels		Property Developers		Service		Group	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
	Revenue										
	Segmental Revenue - Gross	5,305,017,660	4,477,117,017	-	-	-	-	287,238,079	64,378,048	5,592,255,679	4,541,495,965
	Inter Segmental Revenue	-	-	-	-	-	-	-	-	-	-
	Total Revenue	5,305,017,660	4,477,117,017					287,238,079	64,378,048	5,592,255,679	4,541,495,965
	Results										
	Segment Results	710,404,238	523,005,714	-	-	-	-	62,655,791	(13,141,073)	773,149,429	489,334,641
	Finance Costs	(133,507,265)	(170,564,351)	-	-	-	-	(19,761,886)	(28,579,061)	(153,269,146)	(199,144,066)
	Profit Before Income Tax	576,896,973	352,441,363	-	-	-	-	42,893,905	(41,720,134)	619,880,283	290,190,575
	Income Tax Expense	(55,586,672)	(61,516,356)	-	-	-	-	(3,890,365)	(61,516,756)	(59,477,027)	(61,516,756)
	Profit for the year	521,310,301	290,925,007					38,993,540	(103,236,890)	560,403,256	228,673,819
	Assets and Liabilities										
	Non-Current Assets										
	Property Plant & Equipment	3,544,281,297	2,369,533,030	37,540,278	-	442,489,271	-	464,687,867	310,367,963	4,488,998,712	2,615,899,993
	Investments	413,201,984	75,830,000	-	-	-	-	50,000,000	-	463,201,984	75,830,000
	Segmental Non-Current Assets	3,957,483,281	2,445,363,030	37,540,278	-	442,489,271	-	514,687,867	310,367,963	4,952,200,696	2,691,729,993
	Eliminations/Adjustments	-	-	-	-	-	-	-	-	(469,101,981)	(75,830,000)
	Total Non-Current Assets	3,957,483,281	2,445,363,030	37,540,278	-	442,489,271	-	514,687,867	310,367,963	4,483,098,712	2,615,899,993
	Intangible Assets										
	Segmental Intangible Assets	-	-	-	-	-	-	-	-	-	-
	Eliminations/Adjustments	-	-	-	-	-	-	-	-	-	-
	Current Assets										
	Segmental Current Assets	1,810,935,538	1,360,023,457	25,923,318	-	7,148,216	-	40,434,443	87,896,241	1,884,467,515	1,447,916,698
	Eliminations/Adjustments	-	-	-	-	-	-	-	-	(194,647)	(65,607,850)
	Total Current Assets	1,810,935,538	1,360,023,457	25,923,318	-	7,148,216	-	40,434,443	87,896,241	1,689,812,868	1,382,308,848
	Non-Current Liabilities										
	Segmental Non-Current Liabilities	820,467,998	857,957,675	176,961	-	98,548,165	-	202,638,161	211,553,813	1,031,802,330	1,009,511,490
	Deferred Tax Liability	-	-	-	-	-	-	-	-	-	-
	Total Non-Current Liabilities	820,467,998	857,957,675	176,961	-	98,548,165	-	202,638,161	211,553,813	1,031,802,330	1,009,511,490
	Current Liabilities										
	Segmental Current Liabilities	2,240,388,903	1,682,539,885	10,824,716	-	5,818,793	-	89,437,934	149,688,090	2,351,226,936	1,832,227,943
	Eliminations/Adjustments	-	-	-	-	-	-	-	-	(94,641)	(45,607,086)
	Total Current Liabilities	2,240,388,903	1,682,539,885	10,824,716	-	5,818,793	-	89,437,934	149,688,090	2,256,589,295	1,786,620,857
	Total Liabilities										
	Total Liabilities	3,181,018,161	2,856,132,347	37,540,278	-	448,308,064	-	717,121,405	562,046,853	6,164,310,633	5,402,520,840



4. PROPERTY, PLANT & EQUIPMENT

4.1 Group	Balance As at 01.04.2009 Rs.	Additions Rs.	Transfers In Rs.	Increase/ Decrease in Revaluation Rs.	Transfers/ Disposals Rs.	Balance As at 31.03.2010 Rs.
4.1.1 Gross Carrying Amounts						
At Cost						
Freehold Land	346,270,000	48,872,944	-	-	(433,142,944)	-
Buildings on Freehold Land	12,064,004	91,695	-	-	(12,185,699)	-
Buildings on Leasehold Land	209,792,535	24,219,458	-	-	(233,769,493)	242,500
Plant & Machinery	58,656,046	1,942,364	95,109,265	-	(154,838,398)	909,477
Office Equipment	17,808,029	8,344,655	-	-	(456,000)	25,696,684
Furniture & Fittings	9,653,961	611,757	-	-	(16,506)	10,249,212
Tools and Equipment	131,670	200,704	-	-	-	332,464
Gas Point Dealer Boards and Storage Hat	8,339,409	3,653,977	-	-	-	11,993,386
Motor Vehicles	12,049,713	8,199,289	4,370,446	-	-	24,669,448
Testing Equipment	68,321,388	30,307,296	-	-	(98,628,894)	-
Cutlery and Crockery	-	97,386	-	-	-	97,386
Cylinders in Circulation and in Hand	135,132,892	168,082,787	-	-	(303,215,679)	-
	<u>918,339,647</u>	<u>292,624,602</u>	<u>99,479,711</u>	<u>-</u>	<u>(1,236,253,603)</u>	<u>74,190,557</u>
Assets on Finance Lease						
Plant & Machinery	43,033,731	-	-	-	(38,433,751)	4,600,000
Office Equipment	13,985,278	3,188,643	-	-	(112,659)	17,071,264
Motor Vehicles	84,108,040	12,168,214	-	-	(4,678,958)	91,598,316
Testing Equipment	-	25,217,171	-	-	-	25,217,171
	<u>141,137,049</u>	<u>40,575,030</u>	<u>-</u>	<u>-</u>	<u>(43,225,328)</u>	<u>138,486,751</u>
At Valuation						
Freehold Land	222,437,300	75,894,177	655,580,445	492,223,379	(222,437,500)	1,221,700,001
Buildings	29,013,950	186,444,938	39,284,012	107,840,530	(29,013,950)	533,669,490
Plant & Machinery	290,903,300	841,435	365,575,047	84,543,511	(290,903,300)	450,960,000
Motor Vehicles	1,482,000	-	-	-	-	1,482,000
Testing Equipment	-	80,680,028	-	23,537,384	-	104,017,412
Cylinders in Circulation and in Hand	1,269,599,500	-	1,431,818,780	577,351,220	(1,269,599,500)	2,009,170,000
	<u>1,813,436,250</u>	<u>341,668,578</u>	<u>2,492,258,284</u>	<u>1,285,598,051</u>	<u>(1,811,954,250)</u>	<u>4,120,998,891</u>
Total Value of Depreciable Assets	<u>2,872,913,346</u>	<u>674,869,210</u>	<u>2,591,737,995</u>	<u>1,285,598,051</u>	<u>(5,091,433,181)</u>	<u>4,533,676,201</u>
Capital Work In Progress						
Buildings	35,000	12,773,743	127,417,083	-	-	140,225,826
Storage Tank	56,303,454	25,522,627	-	-	(54,291,326)	27,534,955
Gas Detector	-	147,697	-	-	-	147,697
Connection Conveyor	1,682,155	-	-	-	(1,682,155)	-
Shrink Sealer Machine	-	254,192	-	-	-	254,192
Iron Pallet	-	702,254	-	-	(702,254)	-
Flow Meter	-	679,508	-	-	(679,508)	-
Landscape	-	16,090,000	-	-	-	16,090,000
Washing Tunnel	1,036,013	169,310	-	-	-	1,205,823
Galv. Boring Plant	80,000	628,690	-	-	-	878,690
	<u>59,106,622</u>	<u>37,168,521</u>	<u>127,417,083</u>	<u>-</u>	<u>(37,553,043)</u>	<u>186,537,183</u>
Goods In Transit						
Cylinders in Circulation and in Hand	-	32,502,717	-	-	-	32,502,717
Total Value of Assets	<u>2,932,019,768</u>	<u>764,531,448</u>	<u>2,719,155,078</u>	<u>1,285,598,051</u>	<u>(1,148,788,224)</u>	<u>4,552,516,101</u>



4. PROPERTY, PLANT & EQUIPMENT (Contd.)

4.1.2 Depreciation	Balance As at 01.04.2009 Rs.	Charge for the year/ Adjustments Rs.	Transfers in Rs.	Transfers/ Disposals Rs.	Balance As at 31.03.2010 Rs.
At Cost					
Buildings on Freehold Land	1,356,892	(895,773)	-	(461,119)	-
Buildings on Leasehold Land	12,261,718	31,130,577	-	(43,382,472)	9,823
Plant & Machinery	9,675,479	(21,261,716)	33,670,358	(21,846,712)	237,409
Office Equipment	8,407,904	2,869,448	-	-	11,277,352
Furniture & Fittings	1,372,628	1,276,351	-	-	2,648,979
Tools and Equipment	5,709	30,984	-	-	36,693
Gas Point Dealer Boards and Storage Hut	1,336,621	1,110,600	-	-	2,447,221
Motor Vehicles	1,353,307	2,989,898	2,214,562	-	6,557,767
Testing Equipment	5,432,113	12,576,723	-	(18,008,836)	-
Cutlery and Crockery	-	62,189	-	-	62,189
Cylinders in Circulation and in Hand	5,779,819	8,215,880	-	(13,995,695)	-
	<u>46,982,190</u>	<u>38,105,161</u>	<u>35,884,920</u>	<u>(97,694,838)</u>	<u>23,277,433</u>
Assets on Finance Leases					
Plant & Machinery	30,577,307	4,080,135	-	(33,670,358)	987,084
Office Equipment	1,273,991	2,249,250	-	(29,261)	3,493,980
Motor Vehicles	23,960,521	12,121,147	-	(2,214,562)	33,867,106
Testing Equipment	-	1,410,136	-	-	1,410,136
	<u>55,811,819</u>	<u>19,860,668</u>	<u>-</u>	<u>(35,914,181)</u>	<u>39,758,306</u>
At Valuation					
Buildings	3,384,962	(1,930,444)	-	(1,454,518)	-
Plant & Machinery	84,846,796	(26,482,292)	-	(58,364,504)	-
Motor Vehicles	259,350	222,300	-	-	481,650
Cylinders in Circulation and in Hand	127,034,658	(31,958)	-	(127,000,700)	-
	<u>215,525,766</u>	<u>(28,224,394)</u>	<u>-</u>	<u>(186,819,722)</u>	<u>481,650</u>
Total Depreciation	<u>318,319,775</u>	<u>29,741,435</u>	<u>35,884,920</u>	<u>(320,428,741)</u>	<u>63,517,389</u>



4. PROPERTY, PLANT & EQUIPMENT (Contd..)

	2010 Rs.	2009 Rs.
4.1.3 Net Book Values		
At Cost		
Freehold Land	-	386,270,000
Buildings on Freehold Land	-	10,737,112
Buildings on Leasehold Land	232,677	197,530,817
Plant & Machinery	672,068	49,020,567
Office Equipment	14,419,332	9,400,125
Furniture & Fittings	7,600,233	8,281,333
Tools and Equipment	295,771	125,961
Gas Point Dealer Boards and Storage Huts.	9,546,165	7,002,788
Motor Vehicles	18,111,681	10,746,406
Testing Equipment	-	62,889,475
Cutlery and Crockery	35,197	-
Cylinders in Circulation and in Hand	-	129,353,073
	<u>50,913,124</u>	<u>871,357,657</u>
Assets on Finance Leases		
Plant & Machinery	3,612,916	12,456,424
Office Equipment	13,577,284	12,721,287
Motor Vehicles	57,731,210	60,147,519
Testing Equipment	23,807,035	-
	<u>98,728,445</u>	<u>85,325,230</u>
At Valuation		
Freehold Land	1,221,700,001	222,437,500
Buildings	333,669,480	25,628,988
Plant & Machinery	450,960,000	206,056,504
Motor Vehicles	1,482,000	1,222,650
Testing Equipment	103,535,762	-
Cylinders in Circulation and in Hand	2,009,170,000	1,142,564,842
	<u>4,120,517,243</u>	<u>1,597,910,484</u>
Capital Work In Progress		
Buildings	140,225,826	35,000
Storage Tank	27,534,955	56,303,454
Gas Detector	147,697	-
Connection Conveyor	-	1,682,155
Shrink Sealer Machine	254,192	-
Landscape	16,090,000	-
Washing Tunnel	1,205,823	1,036,013
Galle Bottling Plant	878,690	50,000
	<u>186,337,183</u>	<u>59,106,622</u>
Goods In Transit		
Cylinders in Circulation and in Hand	32,502,717	-
	<u>4,488,998,712</u>	<u>2,613,699,993</u>



4. PROPERTY, PLANT AND EQUIPMENT

4.2 Company	Balance As at 01.04.2009	Additions	Transfers in	Increase/ (Decrease) in Revaluation	Transfer out	Balance As at 31.03.2010
4.2.1 Gross Carrying Amounts	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At Cost						
Freehold Land	386,270,000	46,872,944	-	-	(433,142,944)	-
Buildings	12,094,004	91,695	-	-	(12,185,699)	-
Plant, Machinery and Equipment	57,869,310	1,859,822	95,109,266	-	(154,858,398)	-
Office Equipment	11,056,364	660,667	-	-	-	11,717,031
Furniture and Fittings	3,464,928	130,050	-	-	-	3,594,928
Gas Point Dealer Boards	7,195,819	3,245,612	-	-	-	10,441,431
Gas Storage Hut at Dealer Points	1,143,590	408,365	-	-	-	1,551,955
Motor Vehicles	12,099,713	7,933,432	4,370,446	-	-	24,403,591
Cylinders in Circulation and in Hand	135,132,892	168,082,787	-	-	(303,215,679)	-
	<u>626,326,620</u>	<u>229,285,544</u>	<u>99,479,712</u>	<u>-</u>	<u>(903,382,720)</u>	<u>51,708,956</u>
At Valuation						
Freehold Land	222,437,500	-	655,580,443	227,319,557	(222,437,500)	882,900,000
Buildings	29,013,950	-	39,284,012	9,465,988	(29,013,950)	48,750,000
Plant, Machinery and Equipment	290,903,500	-	365,575,047	84,424,953	(290,903,300)	450,000,000
Motor Vehicles	1,482,000	-	-	-	-	1,482,000
Cylinders in Circulation and in Hand	1,269,599,500	-	1,431,818,740	577,351,220	(1,269,599,500)	2,009,170,000
	<u>1,813,436,250</u>	<u>-</u>	<u>2,492,258,242</u>	<u>898,561,718</u>	<u>(1,811,954,250)</u>	<u>3,392,302,000</u>
Assets on Finance Leases						
Plant and Machinery	38,433,731	-	-	-	(38,433,731)	-
Motor Vehicles	62,808,040	12,169,214	-	-	(5,690,938)	71,286,316
	<u>101,241,771</u>	<u>12,169,214</u>	<u>-</u>	<u>-</u>	<u>(42,124,669)</u>	<u>71,286,316</u>
Capital Work In Progress						
Storage Tanks	56,303,454	25,522,627	-	-	(54,291,126)	27,534,955
Washing Tunnel	1,036,013	169,810	-	-	-	1,205,823
Connection Conveyor	1,682,155	-	-	-	(1,682,155)	-
Galle Bottling Plant	90,000	828,690	-	-	-	878,690
Buildings	33,600	178,118	-	-	-	211,718
Gas Detector	-	147,697	-	-	-	147,697
Shrink Sealer Machine	-	254,192	-	-	-	254,192
Iron Pallet	-	702,254	-	-	(702,254)	-
Landscape	-	16,090,000	-	-	-	16,090,000
Flow Meter	-	679,508	-	-	(679,508)	-
	<u>59,106,622</u>	<u>44,572,896</u>	<u>-</u>	<u>-</u>	<u>(57,355,043)</u>	<u>46,324,475</u>
Goods In Transit						
Cylinders in Circulation and in Hand	-	32,502,717	-	-	-	32,502,717
	<u>-</u>	<u>32,502,717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,502,717</u>
Total Gross Carrying Amount	2,660,111,263	318,530,171	2,591,737,994	898,561,718	(2,814,816,682)	3,594,124,464

4.2.2 Depreciation	Balance As at 01.04.2009	Charge for the Year/ Adjustments	Transfers In	Transfers Out	Balance As at 31.03.2010
At Cost	Rs.	Rs.	Rs.	Rs.	Rs.
Buildings					
Buildings	1,356,892	(895,773)	-	(461,119)	-
Plant, Machinery and Equipment					
Plant, Machinery and Equipment	9,610,212	(21,478,423)	33,670,358	(21,802,147)	-
Office Equipment					
Office Equipment	7,571,997	1,466,695	-	-	9,038,692
Furniture and Fittings					
Furniture and Fittings	1,130,105	353,660	-	-	1,483,765
Gas Point Dealer Boards					
Gas Point Dealer Boards	1,237,244	849,229	-	-	2,086,473
Gas Storage Hut at Dealer Points					
Gas Storage Hut at Dealer Points	99,377	261,371	-	-	360,748
Motor Vehicles					
Motor Vehicles	1,353,307	2,974,834	2,214,562	-	6,542,683
Cylinders in Circulation and in Hand					
Cylinders in Circulation and in Hand	5,779,819	6,215,880	-	(13,995,699)	-
	<u>28,138,953</u>	<u>(8,252,547)</u>	<u>35,884,920</u>	<u>(36,258,965)</u>	<u>19,512,361</u>
At Valuation					
Buildings	3,384,962	(1,930,444)	-	(1,454,518)	-
Plant, Machinery and Equipment	84,846,796	(26,482,292)	-	(58,364,504)	-
Motor Vehicles	259,350	222,300	-	-	481,650
Cylinders in Circulation and in Hand	127,034,658	(33,958)	-	(127,090,700)	-
	<u>215,525,766</u>	<u>(28,224,394)</u>	<u>-</u>	<u>(186,819,722)</u>	<u>481,650</u>
Assets on Finance Leases					
Plant and Machinery	30,232,307	3,438,051	-	(33,670,358)	-
Motor Vehicles	22,882,208	9,181,511	-	(2,214,562)	29,849,157
	<u>53,114,514</u>	<u>12,619,562</u>	<u>-</u>	<u>(35,884,920)</u>	<u>29,849,157</u>
Total Depreciation	296,779,233	(23,857,379)	35,884,920	(258,963,697)	49,841,167



Laugfs Gas (Private) Limited and its Subsidiaries
NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2010

4. PROPERTY, PLANT AND EQUIPMENT

4.2 Company	Balance	Increase/				Balance
	As at	Additions	Transfers in	(Decrease) in	Transfer out	As at
4.2.1 Gross Carrying Amounts	01.04.2009	Rs.	Rs.	Revaluation	Rs.	31.03.2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At Cost						
Freehold Land	386,270,000	46,872,944	-	-	(433,142,944)	-
Buildings	12,094,004	91,695	-	-	(12,185,699)	-
Plant, Machinery and Equipment	57,869,310	1,839,822	95,109,266	-	(134,838,398)	-
Office Equipment	11,056,364	660,687	-	-	-	11,717,051
Furniture and Fittings	3,464,928	130,000	-	-	-	3,594,928
Gas Point Dealer Boards	7,195,819	3,245,612	-	-	-	10,441,431
Gas Storage Hut at Dealer Points	1,143,590	408,365	-	-	-	1,551,955
Motor Vehicles	12,099,713	7,933,832	4,370,446	-	-	24,403,591
Cylinders in Circulation and in Hand	135,132,892	164,082,787	-	-	(303,215,679)	-
	<u>626,326,620</u>	<u>229,285,344</u>	<u>99,479,712</u>	<u>-</u>	<u>(993,382,720)</u>	<u>51,708,936</u>
At Valuation						
Freehold Land	222,437,500	-	655,580,443	227,319,557	(222,437,500)	882,900,000
Buildings	29,013,950	-	39,284,012	9,465,988	(29,013,950)	48,750,000
Plant, Machinery and Equipment	290,903,300	-	365,575,047	84,424,953	(290,903,300)	450,000,000
Motor Vehicles	1,482,000	-	-	-	-	1,482,000
Cylinders in Circulation and in Hand	1,269,599,500	-	1,431,818,740	577,351,220	(1,269,599,500)	2,009,170,000
	<u>1,813,436,250</u>	<u>-</u>	<u>2,492,258,242</u>	<u>898,561,718</u>	<u>(1,811,954,250)</u>	<u>3,392,302,000</u>
Assets on Finance Leases						
Plant and Machinery	38,433,731	-	-	-	(38,433,731)	-
Motor Vehicles	62,808,040	12,169,214	-	-	(3,690,938)	71,286,316
	<u>101,241,771</u>	<u>12,169,214</u>	<u>-</u>	<u>-</u>	<u>(42,124,669)</u>	<u>71,286,316</u>
Capital Work In Progress						
Storage Tanks	56,303,454	25,522,627	-	-	(54,291,126)	27,534,955
Washing Tunnel	1,036,013	169,810	-	-	-	1,205,823
Connection Conveyor	1,682,155	-	-	-	(1,682,155)	-
Galle Boiling Plant	50,000	828,690	-	-	-	878,690
Buildings	35,000	178,118	-	-	-	213,118
Gas Detector	-	147,697	-	-	-	147,697
Shrink Sealer Machine	-	254,192	-	-	-	254,192
Iron Pallet	-	702,254	-	-	(702,254)	-
Landscape	-	16,090,000	-	-	-	16,090,000
Flow Meter	-	679,508	-	-	(679,508)	-
	<u>59,106,622</u>	<u>44,572,896</u>	<u>-</u>	<u>-</u>	<u>(57,355,043)</u>	<u>46,324,475</u>
Goods In Transit						
Cylinders in Circulation and in Hand	-	32,502,717	-	-	-	32,502,717
	<u>-</u>	<u>32,502,717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,502,717</u>
Total Gross Carrying Amount	<u>2,690,131,263</u>	<u>318,530,171</u>	<u>2,591,737,964</u>	<u>898,561,718</u>	<u>(2,814,816,682)</u>	<u>3,594,124,464</u>

4.2.2 Depreciation	Balance	Charge	Transfers		Balance
	As at	for the Year/	In	Out	As at
	01.04.2009	Adjustments	Rs.	Rs.	31.03.2010
	Rs.	Rs.	Rs.	Rs.	Rs.
At Cost					
Buildings	1,356,892	(895,773)	-	(461,119)	-
Plant, Machinery and Equipment	9,610,212	(21,478,423)	33,670,358	(21,802,147)	-
Office Equipment	7,571,997	1,466,695	-	-	9,038,692
Furniture and Fittings	1,130,105	353,660	-	-	1,483,765
Gas Point Dealer Boards	1,237,244	849,229	-	-	2,086,473
Gas Storage Hut at Dealer Points	99,377	261,371	-	-	360,748
Motor Vehicles	1,351,307	2,974,814	2,214,562	-	6,540,683
Cylinders in Circulation and in Hand	5,779,819	8,215,880	-	(13,995,699)	-
	<u>28,138,953</u>	<u>(8,252,547)</u>	<u>35,884,920</u>	<u>(36,258,965)</u>	<u>19,512,361</u>
At Valuation					
Buildings	3,384,962	(1,930,444)	-	(1,454,518)	-
Plant, Machinery and Equipment	84,846,796	(26,482,292)	-	(58,364,504)	-
Motor Vehicles	259,350	222,300	-	-	481,650
Cylinders in Circulation and in Hand	127,034,658	(33,958)	-	(127,090,700)	-
	<u>215,525,766</u>	<u>(28,224,394)</u>	<u>-</u>	<u>(186,819,722)</u>	<u>481,650</u>
Assets on Finance Leases					
Plant and Machinery	30,232,307	3,438,051	-	(33,670,358)	-
Motor Vehicles	22,882,208	9,181,511	-	(2,214,562)	29,849,157
	<u>53,114,514</u>	<u>12,619,562</u>	<u>-</u>	<u>(35,884,920)</u>	<u>29,849,157</u>
Total Depreciation	<u>296,779,233</u>	<u>(23,857,379)</u>	<u>35,884,920</u>	<u>(258,963,607)</u>	<u>49,843,167</u>



4. PROPERTY, PLANT & EQUIPMENT (Contd.)

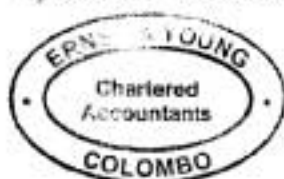
4.2.3 Net Book Value	2010 Rs.	2009 Rs.
At Cost		
Freehold Land	-	386,270,000
Buildings	-	10,737,112
Plant, Machinery and Equipment	-	48,250,008
Office Equipment	2,678,359	3,484,367
Furniture and Fittings	2,111,163	2,334,823
Gas Point Dealer Boards	8,354,958	3,958,575
Gas Storage Hat at Dealer Points	1,191,207	1,044,213
Motor Vehicles	17,860,908	10,746,406
Cylinders in Circulation and in Hand	-	129,353,073
	<u>32,156,595</u>	<u>598,187,667</u>
At Valuation		
Freehold Land	882,960,000	222,437,500
Buildings	48,750,000	25,628,988
Plant, Machinery and Equipment	450,000,000	206,056,504
Motor Vehicles	1,000,350	1,222,650
Cylinders in Circulation and in Hand	2,009,170,000	1,142,564,842
	<u>3,391,820,350</u>	<u>1,297,910,484</u>
Assets on Finance Leases		
Plant and Machinery	-	8,201,424
Motor Vehicles	41,437,160	39,925,833
	<u>41,437,160</u>	<u>48,127,257</u>
Capital Work In Progress		
Storage Tanks	27,534,955	56,303,454
Washing Tunnel	1,205,823	1,076,013
Connection Conveyor	-	1,682,155
Galle Bottling Plant	878,690	50,000
Buildings	213,118	35,000
Gas Detector	147,697	-
Shrink Sealer Machine	254,192	-
Landscape	16,090,000	-
	<u>46,324,475</u>	<u>59,106,622</u>
Goods in Transit		
Cylinders in Circulation and in Hand	32,502,717	-
	<u>32,502,717</u>	<u>-</u>
Total Carrying Amount of Property, Plant and Equipment	<u>3,544,281,297</u>	<u>2,303,332,030</u>

4.3 The fair value of Land, Buildings, Plant, Machinery and Equipment, Cylinders and Motor Vehicles were initially determined by means of a revaluation during the financial year 2007/2008 by incorporated valuer Messrs. R.M. Rathnayake an independent valuer with reference to replacement cost and refundable fees to customers for cylinders and others for market based evidence. The results of such revaluation carried out on 20 January and 31 March 2008 were incorporated in these financial statements of 31 March 2008. The surplus arising from the revaluation, was transferred to a revaluation reserve.

The fair value of Land, Buildings, Plant and Machinery, Cylinders and Testing Equipment were last determined by means of a revaluation during the financial year 2009/2010 by incorporated valuer Messrs. R.M. Rathnayake an independent valuer with reference to replacement cost and refundable fees to customers for cylinders and others to market based evidence. The results of such revaluation carried out on 20 March and 28 March were incorporated in these financial statements of 31 March 2010. The surplus arising from the revaluation, was transferred to a revaluation reserve.

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation are as follows:

Group		Cumulative Depreciation If assets were carried at cost	Net Carrying Amount 2010	Net Carrying Amount 2009
Class of Asset	Cost Rs.	Rs.	Rs.	Rs.
Land	572,252,255	-	572,252,255	65,215,134
Buildings	272,589,747	54,513,421	218,076,326	22,126,212
Plant, Machinery and Equipment	328,543,848	184,973,331	143,570,517	86,269,315
Motor Vehicles	3,822,598	1,481,808	2,340,778	2,914,166
Testing Equipment	98,462,523	17,982,495	80,480,028	-
Cylinders in Circulation and in Hand	1,277,186,060	424,373,516	852,812,544	739,291,783
	<u>2,552,857,019</u>	<u>683,324,571</u>	<u>1,869,532,648</u>	<u>915,816,610</u>



4. PROPERTY, PLANT & EQUIPMENT (Contd.)

4.4 Company

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation are as follows:

Class of Asset	Cost Rs.	Cumulative Depreciation If assets were carried at cost Rs.	Net Carrying Amount 2010 Rs.	Net Carrying Amount 2009 Rs.
Land	498,358,078	-	498,358,078	65,215,134
Buildings	42,781,068	11,149,680	31,631,388	22,126,212
Plant, Machinery and Equipment	328,543,848	184,973,331	143,570,517	86,269,315
Motor Vehicles	3,822,586	1,481,808	2,340,778	2,914,166
Cylinders in Circulation and in Hand	1,277,186,060	424,375,516	852,812,544	739,291,783
	<u>2,150,691,640</u>	<u>621,978,335</u>	<u>1,528,713,305</u>	<u>915,816,610</u>

4.5 During the financial year, the Group and Company acquired Property, Plant and Equipment to the aggregate value of Rs.764,531,498/- and Rs.318,530,171/- respectively. (2009 -Rs. 455,853,401/-and Rs 590,986,293/-) of which Rs.40,575,030 and Rs.12,169,214/- (2009 - Rs. 1,793,750/-) was acquired by means of finance leases. Cash payments amounting to Rs.392,164,474/- and Rs.306,360,957/- (2009-Rs.871,718,486/- and Rs 589,192,543/- respectively) were made during the year for purchase of Property, Plant and Equipment.

4.6 The useful lives of the assets are estimated as follows;

	2010	2009
Buildings	40 Years	10-20 Years
Buildings on Leasehold Land	20 - 7 Years	6 Years
Plant & Machinery	10-7 Years	4 Years
Office Equipment	7-4 Years	4 Years
Furniture & Fittings	10-4 Years	10-4 Years
Motor Vehicles	6-7 Years	6-7 Years
Computer Accessories	7-4 Years	4 Years
Testing Equipments	7 Years	5 Years
Electrical Equipment	10 Years	10 Years
Generator	7 Years	5 Years
Cutlery & Crockery	1 Year	1 Year
Gas Point Dealer Boards	10 Years	10 Years
Gas Storage Hut at Dealer Points	5 Years	5 Years
Cylinders in Circulation and in Hand	20 Years	10 Years

4.7 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs.5,595,364/- (2009 - 5,594,813/-).

4.8 The useful lives / depreciation rates of Buildings, Plant and Machinery and Cylinder were reviewed and changed by the Directors in consultation with an independent valuer. Due to these changes in estimation, the following additional reductions have resulted in the current year, in comparison to the depreciation charge based on previous estimate. These differences will arise in the future periods for the property, plant and equipment existing as at 31 March 2010, unless they are disposed in the future.

Class of Asset	Previous estimate of depreciation useful life	Adjusted depreciation useful life	Increase/ (decrease) in depreciation charge 2010 Rs.	Comparative Depreciation Charge based on previous estimate 2010
Buildings	10 Years	40 Years	(6,939,307)	8,854,944
Plant, Machinery and Equipment	4 Years	10 Years	(137,787,780)	80,166,650
Cylinders in Hand and in Circulation	10 Years	20 Years	(140,971,885)	132,814,477



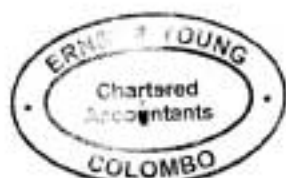
5. INTANGIBLE ASSETS - Group/Company	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Cost				
As at the Beginning of the Period	300,000	300,000	300,000	300,000
Acquired / Incurred Good will during the Period	52,928,221	1,566,077	-	-
As at the End of the Period	53,228,221	1,866,077	300,000	300,000
Amortization				
Provided during the Period	240,000	180,000	240,000	180,000
Impairment Loss Recognized	60,000	60,000	60,000	60,000
Amortized as at the End of the Period	300,000	240,000	300,000	240,000
As at the End of the Period	52,928,221	1,626,077	-	60,000

6. INVESTMENTS	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Non Current - Investment in Subsidiaries (6.1)				
Investment in Subsidiaries	-	-	419,301,984	75,830,000
	-	-	419,301,984	75,830,000

6.1 Investments in Subsidiaries

Company	Country of Incorporation	% of Holding		Cost 2010 Rs.	Directors' Valuation 2010 Rs.	Cost 2009 Rs.	Directors' Valuation 2009 Rs.
		2010	2009				
Lauf's Eco Sri (Pvt) Ltd	Sri Lanka	99.99%	73.62%	219,301,984	219,301,984	75,830,000	75,830,000
Lauf's Property Developers (Pvt) Ltd	Sri Lanka	99.99%	-	150,000,000	150,000,000	-	-
Lauf's Leisure Ltd	Sri Lanka	99.99%	-	50,000,000	50,000,000	-	-
Total Non-Quoted Investments in Subsidiaries				419,301,984	419,301,984	75,830,000	75,830,000

7. INVENTORIES	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Gas Cylinders	10,770,420	4,769,080	10,770,420	4,769,080
Gas Stocks	11,029,590	7,002,929	11,029,590	7,002,929
Sundry Stocks	294,595	-	-	-
Food and Beverage	787,247	-	-	-
Goods in Transit	175,414,927	201,519,070	175,434,927	201,519,070
	198,316,779	213,291,079	197,234,937	213,291,079



8. TRADE AND OTHER RECEIVABLES	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Trade Debtors - Related Party (8.1)	399,647,426	364,786,418	399,647,426	364,786,418
- Other	265,187,928	147,747,426	252,411,468	147,579,362
Less: Factoring Advances	(45,556,366)	(40,861,703)	(45,556,366)	(40,861,703)
Less: Provision for Doubtful Debts	(2,113,152)	(2,113,152)	(2,113,152)	(2,113,152)
	617,165,836	469,558,989	604,389,376	469,390,925
Other Debtors -Related Party (8.2)	-	552,552,009	-	574,314,870
- Other	22,207,216	84,257,701	6,038,884	31,141,977
Advances and Prepayments	107,066,179	90,997,409	100,698,761	80,842,277
	746,439,231	1,197,366,108	711,127,021	1,155,691,049
Loans to Company Officers	2,120,756	2,373,317	2,101,503	2,368,082
Associate Cost Equalization	256,441,830	(88,401,904)	256,441,830	(88,401,904)
	1,005,001,817	1,111,337,521	969,670,354	1,069,657,227

Trade Debtors amounting to Rs 70,117,210/- is factored with Lanka Orix Leasing Company PLC for advance given subject to the terms of discount rate at 17% per annum and service charge at 0.4% on gross invoice value.

8.1 Trade Receivables Due from Related Parties

Relationship	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Laugfs Petroleum (Pvt) Ltd	58,363,475	62,127,245	58,363,475	62,127,245
Laugfs Restaurants (Pvt) Ltd	-	35,063	-	35,063
Laugfs Engineering (Pvt) Ltd	-	11,137	-	11,137
Laugfs Lubricants Ltd	-	673,472	-	673,472
Laugfs Holdings Ltd	270,393,790	224,288,640	270,393,790	224,288,640
Laugfs Sun -Up Supermarket (Pvt) Ltd	70,890,161	77,650,863	70,890,161	77,650,863
	399,647,426	364,786,418	399,647,426	364,786,418

8.2 Other Dues from Related Parties

Relationship	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Laugfs Sun-up Super Market (Pvt) Ltd.	-	39,071,860	-	39,071,860
Laugfs Aqua System (Pvt) Ltd.	-	611,333	-	611,333
Laugfs Confectionery (Pvt) Ltd.	-	393,401	-	393,401
Laugfs Terminal (Pvt) Ltd.	-	292,483	-	292,483
Laugfs Petroleum (Pvt) Ltd.	-	13,479,041	-	13,479,041
Laugfs Eco Sri (Pvt) Ltd.	-	-	-	45,607,086
Laugfs Mini Power (Pvt) Ltd.	-	1,070,460	-	1,070,460
Laugfs Corporation (Tyre) (Pvt) Ltd	-	6,941,110	-	6,941,110
Laugfs Property Developers (Pvt) Ltd.	-	91,282,971	-	91,282,971
Laugfs International (Pvt) Ltd	-	80,293	-	80,293
Laugfs Corporation (Coir) Ltd.	-	29,681,107	-	29,681,107
Laugfs Corporation (Rubber) Ltd.	-	144,833,288	-	144,833,288
Laugfs Condominium (Pvt) Ltd	-	555,425	-	555,425
Laugfs Leisure Ltd.	-	17,814,202	-	17,814,202
Laugfs Restaurants (Pvt) Ltd.	-	468,209	-	468,209
Laugfs Engineering (Pvt) Ltd.	-	23,668,862	-	23,668,862
Laugfs Holdings Ltd	-	143,427,618	-	119,583,393
Laugfs Salt and Chemical Project	-	10,783,393	-	10,783,393
Laugfs Lubricants Ltd.	-	28,090,933	-	28,090,933
	-	552,552,009	-	574,314,870

9. STATED CAPITAL

Fully Paid Ordinary Shares	2010		2009	
	Number	Rs.	Number	Rs.
Balance as at the Beginning of the Year	6,000,002	60,000,020	6,000,002	60,000,020
Issue of Shares for Non Cash Consideration	72,000,024	720,000,240	-	-
Balance as at the End of the Year	78,000,026	780,000,260	6,000,002	60,000,020

10. RESERVES

Revaluation Reserves	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
As at 1 April	713,938,216	781,668,161	713,938,216	781,668,161
Revaluation Surplus During the Year	1,285,598,031	-	898,561,718	-
Issue of Shares for Non Cash Consideration	(720,000,240)	-	(720,000,240)	-
Asset Disposal	-	(118,326)	-	(118,326)
Deferred Tax Liability on Revaluation Reserve	(67,124,216)	(67,611,619)	(67,124,216)	(67,611,619)
Balance as at the End of the Year	1,212,411,791	713,938,216	825,375,478	713,938,216



11. INTEREST BEARING LOANS AND BORROWINGS

Group	2010	2010	2010	2009	2009	2009
	Amount Repayable Within 1 Year Rs.	Amount Repayable After 1 Year Rs.		Total Rs.	Amount Repayable Within 1 Year Rs.	
Finance Leases (11.1)	20,990,331	60,338,680	81,329,011	20,304,682	41,484,350	61,789,032
Bank Loans (11.2)	189,928,634	327,514,165	717,442,799	138,145,786	679,908,013	818,053,799
Bank Loans-Short Term (11.3)	96,621,021	-	96,621,021	79,176,909	-	79,176,909
Bank Overdrafts (21)	5,454,137	-	5,454,137	110,267,520	-	110,267,520
Letter of Credit	819,896,229	-	819,896,229	130,178,842	-	130,178,842
	<u>1,132,890,352</u>	<u>587,852,845</u>	<u>1,720,743,197</u>	<u>478,073,739</u>	<u>721,392,363</u>	<u>1,199,466,102</u>

Company	2010	2010	2010	2009	2009	2009
	Amount Repayable Within 1 Year Rs.	Amount Repayable After 1 Year Rs.		Total Rs.	Amount Repayable Within 1 Year Rs.	
Finance Leases (11.1)	10,197,841	16,544,864	26,742,705	7,332,633	15,030,655	22,163,288
Bank Loans (11.2)	136,766,852	169,965,688	506,732,540	104,617,006	494,807,893	599,725,799
Bank Loans-Short Term (11.3)	96,621,021	-	96,621,021	79,176,909	-	79,176,909
Bank Overdrafts	5,132,247	-	5,132,247	103,530,920	-	103,530,920
Letter of Credit	819,896,229	-	819,896,229	130,178,842	-	130,178,842
	<u>1,068,614,190</u>	<u>186,510,552</u>	<u>1,455,124,742</u>	<u>424,937,210</u>	<u>509,838,548</u>	<u>934,775,758</u>

11.1 Finance Leases	As At 01.04.2009	Leases Obtained	Repayments	As At 31.03.2010
	Rs.	Rs.	Rs.	Rs.
Group				
Seylan Bank PLC	1,831,986	-	(933,606)	898,380
Commercial Leasing Company PLC	112,671	-	(112,671)	-
Hutton National Bank PLC	2,219,880	50,654,928	(5,125,086)	47,749,722
Sampath Bank PLC	9,990,766	-	(3,996,307)	5,994,459
People Leasing Company Ltd	54,331,176	11,079,899	(17,045,609)	48,365,466
Bank of Ceylon	12,806,408	-	(4,139,700)	8,666,708
	<u>81,292,887</u>	<u>61,734,827</u>	<u>(31,352,979)</u>	<u>111,674,735</u>
			As At 31.03.2010	As At 31.03.2009
			Rs.	Rs.
Gross Liability			111,674,735	81,292,887
Finance Charges Allocated to Future Periods			(30,345,724)	(19,503,833)
Net Liability			<u>81,329,011</u>	<u>61,789,054</u>
Company				
Seylan Bank PLC	1,831,986	-	(933,606)	898,380
Commercial Leasing Company PLC	112,671	-	(112,671)	-
Hutton National Bank PLC	2,219,880	15,925,824	(1,307,471)	16,838,233
Sampath Bank PLC	9,990,766	-	(3,996,307)	5,994,459
Bank of Ceylon	12,806,408	-	(4,139,700)	8,666,708
	<u>26,961,711</u>	<u>15,925,824</u>	<u>(10,689,755)</u>	<u>32,197,780</u>



	As At 31.03.2010 Rs.	As At 31.03.2009 Rs.
Gross Liability	32,193,780	29,961,711
Finance Charges Allocated to Future Period - Within one year	(3,098,944)	(2,715,613)
- More than one year	(2,356,131)	(2,082,808)
Net Liability	<u>26,742,705</u>	<u>22,163,288</u>

11.2 Bank Loans

Group	As At 01.04.2009 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2010 Rs.
Long Term Loans				
DICC PLC	370,563,332	12,000,000	(68,815,180)	313,748,152
Central Finance PLC	1,083,184	15,000,000	(3,791,840)	12,291,344
Lanka Oris Leasing Company PLC	203,768,598	25,000,000	(97,782,795)	130,985,803
Merchant Bank of Sri Lanka PLC	124,310,685	17,903,500	(37,624,031)	104,590,154
Union Bank of Colombo Ltd	-	25,000,000	(7,374,913)	17,625,087
Sarpath Bank PLC 1-139	43,328,000	25,000,000	(3,988,000)	62,340,000
Bank of Ceylon	50,000,000	-	(1,875,000)	48,125,000
Lanka Pufco Development Bank Ltd	25,000,000	-	(4,166,720)	20,833,280
People Leasing Company PLC	-	7,435,093	(531,114)	6,903,979
	<u>818,053,799</u>	<u>127,338,593</u>	<u>(227,949,593)</u>	<u>717,442,799</u>

Company

Long Term Loans	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2010 Rs.	Interest Rate %	Terms of Repayments	Security
DICC PLC Loan 1 - 72458	-	(14,000,000)	1,230,000	AWPR-6%	37 Installments	(a)
DICC PLC Loan 2 - 74781	-	(20,000,004)	73,333,228	AWPR-7.75%	60 Installments	(b)
DICC PLC Loan 3 - 72457	-	(6,000,000)	18,000,000	AWPR-6%	60 Installments	(c)
DICC PLC Loan 54 - 76177	12,000,000	(24,655,176)	125,344,824	AWPR+6.5%	60 Installments	(d)
Central Finance PLC	15,000,000	(3,791,840)	12,291,344	27%	48 Installments	(e)
Lanka Oris Leasing Company PLC	25,000,000	(97,782,795)	130,985,803	51%	60 Installments	(f)
Merchant Bank of Sri Lanka PLC	17,903,500	(37,624,031)	104,590,154	27%	60 Installments	(g)
Union Bank of Colombo Ltd	25,000,000	(7,374,913)	17,625,087	23%	24 Installments	(h)
Sarpath Bank PLC 1-139	13,300,000	(900,000)	12,400,000	AWPR 3%	60 Installments	(i)
Sarpath Bank PLC 2-130	11,580,000	(768,000)	10,732,000	AWPR 3%	39 Installments	(j)
	<u>119,783,500</u>	<u>(212,896,759)</u>	<u>506,532,540</u>			



11. INTEREST BEARING LIABILITIES (Contd...)

Security:

- (a) A sum of Rs. 10,400,000/- to be secured by a secondary mortgage over 6,000,000 ordinary shares and two ordinary shares of 10/- each held by Laugfs Gas (Pvt) Ltd, held by Laugfs Holdings Ltd and Mr. W.K.H. Wegapitiya respectively. A sum of Rs 32,800,000/- to be secured by a secondary mortgage over an allotment of land depicted as lot 1 in Plan No.3000A situated at Mabima and over an allotment of Land depicted as Lot 1 in Plan No. 3364.
- (b) A sum of Rs. 10,000,000/- to be secured by a secondary mortgage over 6,000,000 ordinary shares of 10/- each held by Laugfs Holdings Ltd, 1 ordinary shares of Rs. 10/- held by Mr. W.K.H. Wegapitiya and 1 ordinary shares of Rs.10/- held by Mr. U.T.N. De Silva respectively. A sum of Rs.90,000,000/- to be secured by secondary mortgage over an allotment of land depicted as lot 1 in Plan No.3000A situated at Mabima and over an allotment of Land depicted as Lot 1 in Plan No. 3364 situated at Mabima.
- (c) A sum of Rs. 9,000,000/- to be secured by a secondary mortgage over 6,000,000 ordinary shares and two ordinary shares of 10/- each held by Laugfs Gas (Pvt) Ltd, held by Laugfs Holdings Ltd and Mr. W.K.H. Wegapitiya respectively. A sum of Rs.21,000,000/- to be secured by a primary mortgage over an allotment of land depicted as lot 1 in Plan No.3000A situated at Mabima and over an allotment of Land depicted as Lot 1 in Plan No. 3364.
- (d) A sum of Rs. 15,000,000/- to be secured by a further mortgage over 6,000,000 ordinary shares of 10/- each held by Laugfs Holdings Ltd, 1 ordinary shares of Rs. 10/- held by Mr. W.K.H. Wegapitiya and 1 ordinary shares of Rs.10/- held by Mr. U.T.N. De Silva respectively. A sum of 135,000,000/- to be secured by a mortgage ranking and equal paripasu with Mortgage Bond No.504 over the allotment of land depicted as lot 1 in Plan No.3000A situated at Mabima and over an allotment of Land depicted as Lot 1 in Plan No. 3364 situated at Mabima together with Plant and Machinery.
- (e) A sum of Rs.15,000,000/- to be secured by 10 units of Motor Vehicles.
- (f) A sum of Rs. 210,000,000/- to be secured by a Corporate Guarantee of Laugfs Property Developers (Pvt) Ltd, Personal Guarantee of Mr.W.K.H.Wegapitiya and Mr.U.T.N. De Silva, Tertiary mortgage over the allotment of land depicted as lot 9646 in Plan No.4054 situated at Maya Avenue and primary mortgage over the allotment of land depicted as lot 5 in Plan No. 12 situated at Havelock Town. A sum of 25,000,000/- to be secured by personnel guarantees of Mr. Wegapitiya and Mr. U.T.N. Silva.
- (g) A sum of Rs. 135,000,000/- to be secured by primary mortgage over Land depicted as Lot 3A in Plan No.9570 situated at Bambalapitiya.
- (h) A sum of Rs.25,000,000/- to be secured by joint and several personnel guarantees of Mr.W.K.H. Wegapitiya and Mr.U.T.N. Silva and corporate guarantees of Laugfs Holdings.
- (i) A sum of Rs.13,500,000/- to be secured by primary mortgage bond over land at No.293 A, Matara Road, Magalle, Galle.
- (j) A sum of Rs.11,500,000/- to be secured by joint and several guarantees of directors.

11.3 Short Term Loans Group /Company	As at	Loans	Repayment	As at
	01.04.2009	Obtained		31.03.2010
	Rs.	Rs.	Rs.	Rs.
Asia Asset Finance Limited	12,356,459	23,000,000	(19,384,681)	15,971,778
Ceylease Financial Services Ltd	15,411,074	28,000,000	(29,659,727)	13,751,347
Lanka Orix Leasing Company PLC	50,000,000	223,841,710	(222,105,022)	51,736,688
Seylan Bank PLC	-	11,735,000	(11,735,000)	-
Central Finance PLC	1,409,376	-	(1,409,376)	-
People Leasing Finance PLC	-	30,000,000	(14,838,792)	15,161,208
	79,176,909	316,576,710	(299,132,598)	96,621,021



Lauf's Gas (Private) Limited and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

12. DEFERRED INCOME	Balance 01.04.2009 Rs. Restated	Transferred During the year Rs.	Transferred to Income During the year Rs.	Balance 31.03.2010 Rs.
Non Refundable Deposit	270,359,315	173,574,710	(170,854,050)	273,079,975
	<u>270,359,315</u>	<u>173,574,710</u>	<u>(170,854,050)</u>	<u>273,079,975</u>

13. RETIREMENT BENEFIT LIABILITY	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
13.1 Expense on Defined Benefit Plan				
Current Service Cost	3,569,537	1,361,271	2,039,662	1,361,271
Interest Cost on Benefit Obligation	579,826	668,139	579,826	668,139
Net Actuarial Gain/(Loss) for the Year	3,425,432	(2,751,057)	3,425,432	(2,751,057)
	<u>7,574,795</u>	<u>(721,647)</u>	<u>6,044,920</u>	<u>(721,647)</u>
13.2 Defined Benefit Obligation				
Balance as at the beginning of the Year	5,798,267	6,681,392	5,798,267	6,681,392
Current Service Cost	3,569,537	1,361,271	2,039,662	1,361,271
Interest Cost on Benefit Obligation	579,826	668,139	579,826	668,139
Actuarial Gain/(Loss) on Obligation	3,425,432	(2,751,057)	3,425,432	(2,751,057)
Benefit Paid	(498,979)	(161,478)	(442,063)	(161,478)
Balance as at 31 March	<u>12,874,083</u>	<u>5,798,267</u>	<u>11,401,124</u>	<u>5,798,267</u>

13.3 Principal Assumptions in Applying Gratuity Formula

The principal financial assumptions underlying the valuation are as follows:

	Non Executive	Executive
Staff Turnover Ratio	20% - 39%	20%
Discount Rate	10%	10%
Salary Increment Rate	5% - 13%	13%
Retirement Age	60 years	60 years

14. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Trade Payable - Others	163,186,406	235,281,111	158,228,263	235,281,111
Other Creditors - Related Parties (14.1)	108,669	6,417,338	-	1,809,682
- Others	9,964,427	19,152,203	-	-
Sundry Creditors including Accrued Expenses	244,186,293	313,230,128	217,352,240	286,045,541
	<u>417,445,795</u>	<u>574,080,780</u>	<u>375,580,503</u>	<u>523,136,334</u>

14.1 Other Dues to Related Parties

	Relationship	Group		Company	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Lauf's Sun -Up Supermarket (Pvt) Ltd.	Group Company	-	1,117,475	-	-
Lauf's Engineering (Pvt) Ltd	Group Company	-	475,874	-	-
Lauf's Aqua Systems (Pvt) Ltd.	Group Company	-	31,645	-	-
Lauf's Lubricants Ltd	Group Company	-	105,910	-	-
Lauf's Corporation (Coir) Ltd.	Group Company	-	4,000	-	-
Lauf's Petroleum (Pvt) Ltd.	Group Company	-	4,682,434	-	1,809,682
Temple Tree Induruwa (Pvt) Ltd	Common Management	108,669	-	-	-
		<u>108,669</u>	<u>6,417,338</u>	<u>-</u>	<u>1,809,682</u>



15. REFUNDABLE DEPOSITS - Group/Company	2010		2009	
	Rs.		Rs.	
Opening Balance		710,212,683		806,613,530
Additions		263,798,057		142,851,181
Refunds / Transfers		(184,019,261)		(239,252,028)
		<u>789,991,479</u>		<u>710,212,683</u>

16. OTHER INCOME AND GAINS	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Rent Income	204,000	180,000	204,000	180,000
Interest Income	9,599,732	21,307,906	9,599,732	21,307,906
Income from Non Refundable Deposits	152,548,259	121,423,480	152,548,259	121,423,480
Sundry Income	629,680	613,455	622,380	606,926
Bad Debt Recovery	5,500,000	-	5,500,000	-
Disposal and Project Income	545,394	12,115	545,394	12,115
	<u>168,087,045</u>	<u>143,536,956</u>	<u>168,079,685</u>	<u>143,530,427</u>

17. PROFIT BEFORE TAX is stated after Charging / (Crediting)	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Included in Cost of Sales				
Depreciation	22,163,773	257,628,954	(26,788,335)	238,403,034
Employees Benefits including the following	24,587,117	19,521,945	24,587,117	19,521,945
Defined Contribution Plan Costs - EPF&ETF (Included in employees benefits)	1,256,949	2,374,135	1,256,949	2,374,135
Included in Administrative Expenses				
Employees Benefits including the following	105,658,654	52,279,435	35,783,916	27,432,558
- Defined Benefit Plan Costs - Gratuity (included in employee benefits)	6,044,920	(508,012)	6,044,920	(721,647)
- Defined Contribution Plan Costs - EPF&ETF (included in employee benefits)	10,160,707	4,923,021	3,087,538	2,927,788
Depreciation	6,349,603	5,151,564	1,820,355	2,854,584
Exchange (Gain)/Loss	(20,188,101)	21,207,033	(20,682,101)	21,066,633
Provision / (Reversal) for Doubtful Debts	-	1,290,931	-	1,290,931
Legal Fees	2,400,502	1,081,567	2,269,552	1,065,067
Auditor's Fees and Expenses	855,370	751,670	404,019	605,545
Donations	1,371,102	2,796,841	1,272,452	2,700,966
Amortization of Intangible Assets	60,000	60,000	60,000	60,000
Loss on Disposal of Cylinder	-	117,500	-	117,500
Debt Write-Off	497,483	67,216,547	497,483	67,216,547
Included in Selling and Distribution Costs				
Employees Benefits including the following	20,156,765	16,531,015	20,156,765	16,531,015
- Defined Contribution Plan Costs - EPF&ETF (included in employee benefits)	1,549,485	1,279,649	1,549,485	1,279,649
Depreciation	1,110,600	741,074	1,110,600	741,074
Advertising Costs	9,598,865	37,049,717	3,810,951	29,984,143

18. FINANCE COST	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Interest Expense on Overdrafts	13,731,813	19,569,120	13,620,546	19,369,535
Interest Expense on Loans & Borrowings	128,804,394	158,344,274	81,671,015	137,748,471
Finance Charges on Lease Liabilities	14,692,852	11,895,889	3,085,612	4,111,314
Interest on Dealer Refundable Deposit	-	5,852,482	-	5,852,482
Interest on Import Loan	22,540,584	123,309	22,540,584	123,309
Interest on Factoring	9,589,503	3,358,994	9,589,503	3,358,994
	<u>189,269,146</u>	<u>199,144,068</u>	<u>130,507,260</u>	<u>170,564,105</u>



19. INCOME TAX - Group / Company

19.1 The major components of income tax expense for the years ended 31 March are as follows :

Income Statement	2010 Rs.	2009 Rs.
Current Income Tax		
Current Income Tax charge (19.4)	37,180,310	56,322,000
Under/(Over) Provision of current taxes in respect of prior years	(1,141,529)	-
Social Responsibility Levy @ 1.5% (2009- 1.5%)	557,705	844,830
	<u>36,596,486</u>	<u>57,166,830</u>
19.2 Deferred Income Tax		
Deferred Taxation Charge (19.5)	18,990,186	4,349,926
Income tax expense reported in the Income Statement	<u>55,586,672</u>	<u>61,516,756</u>

19.3 Statement of Changes in Equity

Deferred Income Tax related to items charged directly to equity :

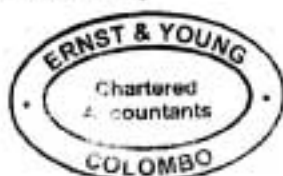
Net Gain on Revaluation of Property, Plant & Equipment	67,124,216	67,611,619
Income tax expense reported in equity	<u>67,124,216</u>	<u>67,611,619</u>

19.4 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows: (Company)

	2010 Rs.	2009 Rs.
Accounting Profit Before Income Tax	579,986,978	352,501,609
	<u>579,986,978</u>	<u>352,501,609</u>
Aggregate Disallowed Items Income Exempt from Tax	127,587,682	343,233,419
Aggregate Allowable Expenses	(369,230,619)	(337,289,596)
Other Sources of Income	9,559,732	21,307,906
	<u>347,903,773</u>	<u>512,567,815</u>
At the statutory income tax rate - Business Profit	10%	10%
- Other Income	35%	35%
Current Income Tax Expenses - 10%	33,834,404	49,126,733
- 35%	3,345,906	7,195,267
	<u>37,180,310</u>	<u>56,322,000</u>

19.5 Deferred Tax Assets, Liabilities and Income Tax relates to the following :

	Balance Sheet 2010 Rs.	Income Statement 2010 Rs.	Balance Sheet 2009 Rs.	Income Statement 2009 Rs.
Deferred Tax Liability				
Capital Allowances for Tax Purposes	24,480,224	19,550,472	4,929,752	4,929,752
Revaluation of Building and Plant and Machinery	134,735,835	-	67,611,619	-
	<u>159,216,059</u>	<u>19,550,472</u>	<u>72,541,371</u>	<u>4,929,752</u>
Deferred Tax Assets				
Defined Benefit Plans	(1,140,112)	(560,286)	(579,826)	(579,826)
	<u>(1,140,112)</u>		<u>(579,826)</u>	
Deferred Income Tax Expense		18,990,186		4,349,926
Net Deferred Tax Liability	<u>158,075,947</u>		<u>71,961,545</u>	



19. INCOME TAX

19.6 Income tax rates and details of tax holidays enjoyed by the group

The tax liabilities of resident companies are computed at the standard rate of 35%.

19.6.1 Current Taxes

a) Lauf's Gas (Pvt) Ltd

Pursuant to agreement dated 07 April 2005 entered into with Board of Investment under section 17 (2) of the Board of Investment Law No. 4 of 1978, the Company was exempt from the payment and recovery of income tax in respect of the profit and income of enterprise for a period of 03 years from 07 April 2005. This exemption expired on 06 April 2008. Subsequent to the tax exemption, the Company is liable for tax at the rate of 10% for a period of 02 years immediately succeeding the last date of the tax exemption year and thereafter at the rate of 20%.

b) Lauf's Property Developers (Pvt) Ltd

In accordance with and subject to the powers conferred on the Board under Section 17 of the said Law No. 4 of 1978 and regulations the Company was exempt from income tax for a period of five (5) years reckoned from the year of assessment as may be determined by the Board ("the tax exemption period") the provisions of the Inland Revenue Act No. 10 of 2010 relating to the imposition payment and recovery of income tax shall not apply in respect of the profits and income of the Enterprise.

For the above purpose the year of assessment shall be reckoned from the year in which the Enterprise commences to make profits or any year of assessment not later than two (02) years from the date of commencement of commercial operations of the Enterprise, whichever year is earlier, as may be specified in a certificate issued by the Board. However, the BOI has not yet issued a certificate confirming the tax exemption.

After the expiration of the aforesaid tax exemption period referred to in sub-clause (i) above, the profits and income of the Enterprise shall be charged at the rate of ten per cent (10%) for a period of two (02) years immediately succeeding the last date of the tax exemption period during which the profits and income of the Enterprise is exempted from the income tax ("the concessory tax rate of ten per cent (10%).

After the expiration of the aforesaid concessory tax rate of ten per cent (10%) referred to in sub-clause (ii) above, the profits and income of the Enterprise shall be charged for any year of assessment at the rate of twenty per cent (20%).

The Company intend to commence negotiation with the BOI to change the agreement from developing apartments to developing apartments for lease.

c) Lauf's Eco Sri (Pvt) Ltd

In accordance with and subject to the powers conferred on the Board under Section 17 of the said Law No. 4 of 1978 and regulations the Company was exempt from income tax for a period of five (5) years reckoned from the year of assessment as may be determined by the Board ("the tax exemption period") the provisions of the Inland Revenue Act No. 10 of 2006 relating to the imposition payment and recovery of income tax shall not apply in respect of the profits and income of the Enterprise.

For the above purpose the year of assessment shall be reckoned from the year in which the Enterprise commences to make profits or any year of assessment not later than two (02) years from the date of commencement of commercial operations of the Enterprise, whichever year is earlier, as may be specified in a certificate issued by the Board. However, the BOI has not yet issued a certificate confirming the tax exemption.

After the expiration of the aforesaid tax exemption period referred to in sub-clause (i) above, the profits and income of the Enterprise shall be charged at the rate of ten per cent (10%) for a period of two (02) years immediately succeeding the last date of the tax exemption period during which the profits and income of the Enterprise is exempted from the income tax ("the concessory tax rate of ten per cent (10%).

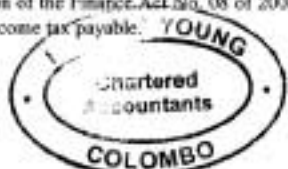
After the expiration of the aforesaid concessory tax rate of ten per cent (10%) referred to in sub-clause (ii) above, the profits and income of the Enterprise shall be charged for any year of assessment at the rate of twenty per cent (20%).

Deferred Taxation

As the Inland Revenue Act does not apply as stated above, temporary differences do not exist during tax exemption period. Therefore deferred tax does not apply for (b) and (c).

Social Responsibility Levy

As per the provision of the Finance Act No. 08 of 2008, with effect from 01 April 2008 Social Responsibility Levy (SRL) is payable at the rate 1.5% on the income tax payable.



20. EARNINGS PER SHARE

20.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

20.2 The following reflects the income and share data used in the Basic Earnings Per Share computation.

Amount Used as the Numerator:	2010 Rs.	2009 Rs.
Profit attributable to equity holder of the parent for the year	527,266,718	243,118,569
	<u>527,266,718</u>	<u>243,118,569</u>
	2010	2009
Number of Ordinary Shares Used as Denominator:	Number	Number
Weighted Average Number of Ordinary Shares in Issue	78,000,029	78,000,028

The Bonus Shares issued was without consideration hence it is treated as if it had been accrued of the beginning of the earliest period.

21. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
21.1 Favourable Cash & Cash Equivalents balance				
Cash & Bank Balances	379,790,896	38,408,795	343,099,647	37,799,934
Fixed & Call Deposits	100,950,600	39,272,217	100,950,600	39,272,217
	<u>480,750,496</u>	<u>77,681,012</u>	<u>444,050,247</u>	<u>77,072,151</u>
21.2 Unfavourable Cash & Cash Equivalent Balances				
Bank Overdraft	(5,454,137)	(10,267,520)	(5,132,347)	(103,530,920)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	<u>475,296,359</u>	<u>(32,586,508)</u>	<u>438,918,000</u>	<u>(26,458,769)</u>



22. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND OTHERS

As stated under 2.1.1, the Group adopted certain changes to accounting policies as a result of the electing voluntary changes. The accounting policies set out in 2.4 have been applied in preparing these Financial Statements for the year ended 31 March 2010 and the comparative information presented in these financial statements for the year ended 31 March 2009. In preparing these financial statements, the Group has adjusted amounts reported previously in financial statements prepared in accordance with the previous accounting policies. The changes in accounting policies are made retrospectively.

22.1 An explanation of effect of changes in accounting policies are set out in following table.

	Note	←-----1 April 2008-----→			1 April 2009	31 March 2010
		As reported previously Rs.	Effect of change in Accounting Policy Rs.	Restated Balance Rs.	Effect of change in Accounting Policy Rs.	Cumulative effect of change in Accounting Policy Rs.
Balance Sheet						
Trade and Other Receivables	(a)	770,235,899	-	770,235,899	(88,401,904)	(88,401,904)
Deferred Expenses	(b)	-	-	-	27,833,686	27,833,686
Retained Earnings	(a)/(b)	(23,608,235)	157,430,075	133,821,840	(11,415,291)	146,014,784
Deferred Income	(b)	412,996,353	(189,549,003)	223,447,350	(57,429,914)	(246,978,917)
Trade and Other Payables	(b)	77,384,824	34,241,519	111,626,343	6,153,205	40,394,724
					Year ended 31 March 2009	
Income Statement						
Cost of Sales	(a)					Profit Increase/(Decrease)
Other Income	(b)					(62,692,000)
					51,276,709	
					<u>(11,415,291)</u>	

22.2 Effect and Nature of Changes in Accounting policies

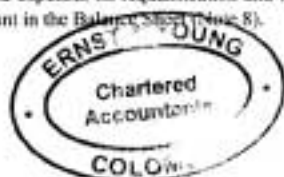
During the year ended 31 March 2010, the Group changed its accounting policy with respect to the treatment of revenue recognition of non refundable deposits, recognition of cost of sales and cost relating to the Cylinders. This change in accounting policies has been accounted for retrospectively. The comparative statements for 2009 have been restated to conform to the changed policy. The effects of the changes are discussed in the above note.

(a) The Group changed its accounting policy with respect to the treatment of cost of sales in order to conform to the new policy which is discussed more fully under note 2.4.16.

i. The Group has adjusted cost of gas applicable to the 12.5 Kg Cylinders in line with pricing formula approved by Consumer Affairs Authority. Any increased /decreased due to above has been reversed in subsequently. This change in accounting policy has been accounted for retrospectively. The comparative statements for 2009 have been restated to conform to the changed policy.

ii The Sri Lanka Accounting Standards 29 requires that all Revenue and expenses that relate to the same transaction or other events are recognized simultaneously. However, the directors are of the opinion that since the Group is entitled to a price revision based on the past two months average cost relevant to those two months should be deferred and matched against the revised selling price of the future. The effect to the Income Statement as a result of the above mentioned accounting policy is that the cost of gas amounting to Rs. 144,843,734/- (2009 - Rs. 88,401,904/-) has been deferred from the current financial year to the next financial year and the profit stated has increased by this amount (2009 - profit has decreased by Rs.88,401,904/-) . The deferred cost amounting to Rs. 256,441,830/- (2009 - Rs. 88,401,904/-) is shown under current assets in the Balance Sheet (Note 8).

(b) During the current financial year the Group has changed its policy of accounting for non refundable deposits received in respect of empty gas cylinder provided to its customers. The previous policy was to accrue for as income in the Income Statement account, the non refundable deposit over a period of ten years. The revised policy is to account for the income over a period of five years (Note 12). In line with above policy, the Group also has changed its accounting policy for expenses on requalification and testing charges of cylinders. As a result of that Group has deferred expenses on requalification and testing charges of cylinder over a period of 5 years. This amount is shown under Other Receivables account in the Balance Sheet (Note 8).



23. COMMITMENTS AND CONTINGENCIES

23.1 Capital Expenditure Commitments

23.1.1 Lauf's Gas (Private) Limited

a) The Company has purchase commitments for acquisition of Property, Plant and Equipment incidental to the ordinary course of business as at 31 March, as follows:

Contracted but not Provided for	2010 Rs.	2009 Rs.
Storage Tanks	54,000,000	56,303,454
Washing Tunnel	400,000	1,036,013
Connection Conveyor	-	1,682,155
Galle Bottling Plant	-	50,000
Building	-	35,000
Shrink Sealer Machine	400,000	-
	<u>54,800,000</u>	<u>59,106,622</u>

b) Finance Lease Commitments

The Company has finance leases contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases contracts are as follows:

	2010 Minimum Payments Rs.	2009 Minimum Payments Rs.
Within one year	13,296,785	9,848,248
After one year but not more than five years	18,900,995	17,113,463
Total minimum lease payments	<u>32,197,780</u>	<u>26,961,711</u>
Less : representing finance charges	<u>(5,455,075)</u>	<u>(4,798,423)</u>
Minimum lease payments	<u>26,742,705</u>	<u>22,163,288</u>

23.1.2 Lauf's Property Developers (Private) Limited

The Company has a commitment for a corporate guarantee on behalf of a related party amounting to Rs. 50,000,000/-.



24. ASSETS PLEDGED- Group /Company

The following Assets have been pledged as security for liabilities.

Nature of Assets	Nature of the Liability	Carrying Amount Pledged		Included Under
		2010 Rs.	2009 Rs.	
24.1 Laugfs Gas (Pvt) Ltd				
Plant and Machinery	Primary & Secondary Mortgage	412,053,800	219,755,382	Property, Plant and Equipment
Fixed Deposit	Lien Over Letter of Guarantee	120,000	107,000	Fixed Deposit
Share Certificate	Primary Mortgage	78,830,000	78,830,000	Investment in Subsidiaries
Property at Biyagama Road, Mahima	Primary & Secondary Mortgage	246,800,000	182,850,000	Property, Plant and Equipment
Property at Havelock Town.	Primary Mortgage	218,300,000	215,999,000	Property, Plant and Equipment
Property at Bambalapitiya	Primary Mortgage	280,000,000	166,899,000	Property, Plant and Equipment
Property at Galle	Primary Mortgage	26,000,000	-	Property, Plant and Equipment
Motor Vehicles	Primary Mortgage	7,435,413	-	Property, Plant and Equipment
24.2 Laugfs Property Developers (Pvt) Ltd				
Freehold Land	Primary Mortgage	60,000,000	-	Property, Plant and Equipment
24.3 Laugfs Eco Sri (Pvt) Ltd				
Testing Equipments	Primary Mortgage	67,884,936	67,884,936	Property, Plant and Equipment

25. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year.

	2010 Rs.	2009 Rs.
As reported previously:		
Property, Plant and Equipment		1,031,414,115
Cylinders in Hand and in Circulation		1,271,917,915
Current Presentation:		
Property, Plant and Equipment	3,544,181,297	2,303,332,030

The comparative classification and presentation of Property, Plant and Equipment and Cylinders in Hand and in Circulation were amended to conform to current presentation which is Property, Plant and Equipment since cylinders are property of the Company.



Laufigs Gas (Private) Limited and its Subsidiaries
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

26. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

26.1 Transaction with the parent and related entities

Group	Percent		Other Related Companies		Total	
	2010	2009	2010	2009	2010	2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Amounts Receivable as at 31 March	270,393,790	224,288,640	129,253,636	140,497,778	399,647,426	364,786,418
Amounts Payable as at 31 March	-	-	108,669	6,417,338	108,669	6,417,338
Nature of Transaction						
Sale of Goods/Services	712,880,940	554,056,145	45,994,783	110,095,419	738,875,723	464,129,564
Settlement of Trade Debtors	43,854,888	(260,541,851)	33,884,526	(57,217,911)	77,739,606	(317,859,762)
Purchase of Goods/Services	(358,748)	(912,771)	(125,074,962)	(85,462,083)	(125,433,710)	(86,374,854)
Rendering of Services	(246,691)	-	(2,500,213)	-	(2,746,904)	-
Investments Made by the Company	-	-	(122,186,400)	-	(122,186,400)	-
Investments Made in the Company	122,186,400	-	-	-	122,186,400	-
Disposal of Co. Rubber Investment	-	-	-	-	-	-
Redemption of Debentures	-	-	-	-	-	-
Dividend Paid	(53,181,836)	-	(56,797,142)	-	(53,181,836)	-
Settlement	(882,599,112)	-	40,000,000	939,646	(639,106,254)	-
Loan Given To	-	-	(52,500,000)	-	(52,500,000)	939,646
Loan Given From	-	-	-	(2,000)	-	(2,000)
Staff Loan	-	-	-	-	-	-
Fund Transfers Received	104,234,978	51,662,331	133,328,385	365,876,366	327,563,263	418,938,697
Fund Transfers Given	(281,699,964)	(12,750,819)	(243,108,387)	(110,849,987)	(524,808,351)	(143,660,806)
Intercompany Expenses in	58,168,230	12,119,287	12,632,675	43,484,248	70,890,905	55,863,535
Intercompany Expenses from	(82,070,517)	(57,633,823)	(26,809,060)	(21,937,415)	(108,879,577)	(79,591,238)
Loan Settlement	(164,264,336)	-	2,500,000	-	(161,764,336)	-
Loan Repayment	-	-	(9,160,896)	-	(9,160,896)	-
Balance Transfer To	6,967,903	-	61,120,420	-	68,088,323	-
Balance Transfer From	-	-	(103,339,116)	-	(103,339,116)	-
Transfer To W/g	-	-	(328,690)	-	(328,690)	-
Settlement of Creditors	-	-	54,964,078	-	54,964,078	-
Write Off Bad Debt	-	-	(497,483)	-	(497,483)	-
Others	120,964	-	(146,887,067)	-	(146,887,067)	-
Payment for Services	161,537	-	66,100,848	-	66,262,385	-



Laufs Gas (Private) Limited and its Subsidiaries
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2010

26. RELATED PARTY DISCLOSURES (Contd.)

26.2 Transaction with the parent and related entities

Company	Parent		Subsidiaries		Other Related Companies		Total	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Nature of Transaction								
As at 1 April	343,872,033	213,525,954	45,607,087	(5,476,591)	547,812,488	266,379,826	937,291,608	474,429,189
Sale of Goods/Services	712,880,940	354,036,145	-	-	45,994,783	110,093,419	758,875,723	464,129,564
Settlement of Trade Debtors	43,854,880	(260,541,851)	-	-	33,884,526	(57,317,911)	77,359,406	(317,859,762)
Purchase of Goods/Services	-	(912,771)	-	-	(115,692,505)	(81,203,091)	(115,692,505)	(82,115,862)
Investments Made by the Company	-	-	-	-	(122,186,400)	-	(122,186,400)	-
Investments Made in the Company	-	-	(300,000,000)	-	-	-	(300,000,000)	-
Disposal of Car/Rubber Investment	122,146,400	-	-	-	-	-	122,146,400	-
Redemption of Debentures	-	-	-	-	-	-	-	-
Dividend Paid	(53,181,836)	-	-	-	-	-	(53,181,836)	-
Settlements	(502,399,112)	-	-	-	(56,707,142)	-	(639,106,254)	-
Loan Given To	-	-	-	-	40,000,000	939,046	40,000,000	939,046
Loan Given From	-	-	-	-	(52,500,000)	-	(52,500,000)	-
Staff Loan	-	-	-	-	-	(2,000)	-	(2,000)
Fund Transfers Received	194,234,978	53,862,331	110,204,631	126,140,460	127,483,272	365,076,366	431,922,881	545,079,357
Fund Transfers Given	(281,699,964)	(12,750,819)	(41,124,760)	(80,000,000)	(242,108,587)	(77,900,000)	(564,933,111)	(170,650,819)
Intercompany Expenses to	6,884,419	2,549,090	419,093	4,043,218	12,632,675	43,684,248	19,937,087	51,176,556
Intercompany Expenses from	(78,942,515)	(5,896,046)	(12,074,395)	-	(19,903,141)	(21,937,415)	(110,920,051)	(27,833,461)
Loan Settlement	(164,264,336)	-	-	-	2,500,000	-	(161,764,336)	-
Loan Repayment	-	-	-	-	(9,160,896)	-	(9,160,896)	-
Balance Transfer To	6,967,903	-	113,097,356	-	61,120,420	-	181,185,679	-
Balance Transfer From	-	-	(21,166,220)	-	(103,339,116)	-	(124,505,336)	-
Transfer To WIP	-	-	-	-	(328,690)	-	(328,690)	-
Settlement of Creditors	-	-	-	-	54,964,078	-	54,964,078	-
Write off Bad Debt	-	-	-	-	(497,483)	-	(497,483)	-
Others	-	-	105,036,308	-	(74,714,846)	-	30,321,462	-
As at 31 March	270,303,790	343,872,033	-	45,607,087	129,253,636	547,812,488	399,647,426	937,291,608

The amounts receivable from or payable to related parties as at 31 March 2010 are disclosed under notes 8.1, 8.2 and 14.1.



Laugfs Gas (Private) Limited and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

26. RELATED PARTY DISCLOSURES (Contd.)

26.3 Terms and Conditions

Transactions with related parties are carried out in ordinary course of business. Outstanding balances at the year end are unsecured and net settlement occurs in cash.

26.4 Transactions with Key Management Personnel of the Company or its parent

The key management personnel of the Company are the members of its board of directors and that of its parent .

a) Key Management Personnel Compensation

	2010 Rs.	2009 Rs.
Director's Emoluments	4,800,000	4,800,000
	<u>4,800,000</u>	<u>4,800,000</u>

27. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

27.1 Special Resolution has been passed by the shareholders at an Extraordinary General Meeting to covert the private limited company into a public company. Accordingly the name of the Company has been changed from Laugfs Gas (Private) Limited to Laugfs Gas Limited with effect from 30 June 2010.

27.2 Special Resolution has been passed by the shareholders at an Extraordinary General Meeting to sub- divide seventy eight million and twenty six (78,000,026) ordinary shares of the Company into two hundred and sixty million eighty six (260,000,086) ordinary shares without any change to the stated capital of the Company of Rs.780,000,260/-.

27.3 Other than the above there have been no material events occurring after the Balance Sheet date that require adjustments or disclosure in the Financial Statements.



**INTERIM FINANCIAL
STATEMENTS
31 JULY 2010**

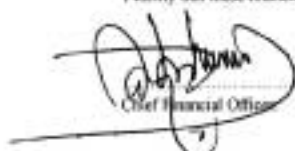
Lauf's Gas Limited and its Subsidiaries
Provisional and Unaudited Financial Statements
INCOME STATEMENT

For the four months ended 31st July	Group			Company		
	2010 Rs.	2009 Rs.	Change %	2010 Rs.	2009 Rs.	Change %
Revenue	2,241,030,521	1,600,937,025	40%	2,052,894,504	1,534,784,273	34%
Cost of Sales	(1,774,396,907)	(1,249,786,337)	42%	(1,700,188,323)	(1,216,385,114)	40%
Gross Profit	466,633,614	351,150,688	33%	352,706,181	318,399,159	11%
Other Income and Gains	54,344,320	59,431,143	-9%	54,022,972	59,422,403	-9%
Selling and Distribution Costs	(104,383,303)	(93,948,198)	11%	(100,210,340)	(91,542,802)	9%
Administrative Expenses	(68,050,690)	(51,143,066)	33%	(20,700,538)	(29,360,838)	-29%
Finance Cost	(48,389,353)	(52,812,889)	-23%	(33,656,448)	(40,237,104)	-16%
Profit Before Tax	300,154,588	202,677,678	48%	252,161,827	216,600,818	16%
Income Tax Expense	(37,824,274)	(14,781,992)	156%	(37,824,274)	(14,781,992)	156%
Profit for the period	262,330,314	187,895,686	40%	214,337,553	201,818,826	6%
Attributable to:						
Equity Holders of the Parent	262,330,314	191,568,610		214,337,553	201,818,826	
Minority interest	-	(3,672,924)		-	-	
	262,330,314	187,895,686		214,337,553	201,818,826	
Earnings Per Share	1.01	0.72				

Lauf's Gas Limited and its Subsidiaries
Provisional and Unaudited Financial Statements
BALANCE SHEET

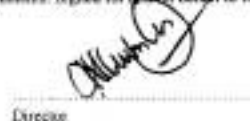
As at	Group			Company		
	31.7.2010 Rs.	31.7.2009 Rs.	31.3.2010 Rs. (Audited)	31.7.2010 Rs.	31.7.2009 Rs.	31.3.2010 Rs. (Audited)
ASSETS						
Non-Current Assets						
Property, Plant & Equipment	4,490,080,978	2,715,155,132	4,488,998,712	3,558,956,569	2,387,660,054	3,544,281,297
Investments in Subsidiaries	-	-	-	419,301,984	75,830,900	419,301,984
Good Will	52,928,221	1,566,077	52,928,221	-	-	-
Other Intangible Asset	-	40,000	-	-	40,000	-
	4,543,009,199	2,716,761,209	4,541,926,933	3,978,258,553	2,489,530,954	3,963,583,281
Current Assets						
Inventories	185,936,345	28,928,493	198,316,779	184,581,086	28,928,493	197,234,937
Trade and Other Receivables	830,843,607	1,441,127,823	1,005,001,817	798,029,192	1,382,654,740	969,670,354
Cash and Bank Balances	426,353,788	130,354,311	480,750,496	367,718,518	129,515,713	444,050,247
	1,443,133,740	1,600,410,627	1,684,069,092	1,350,328,796	1,541,098,946	1,610,955,538
Total Assets	5,986,142,939	4,317,171,836	6,225,996,025	5,328,587,349	4,030,629,900	5,574,538,819
EQUITY AND LIABILITIES						
Capital and Reserves						
Statutory Capital	780,000,260	60,000,020	780,000,260	780,000,260	60,000,020	780,000,260
Reserves	1,212,411,791	713,938,216	1,212,411,791	825,375,478	713,938,216	825,375,478
Retained Earnings	1,108,886,125	334,050,599	846,565,811	1,105,044,533	392,208,296	890,706,990
	3,101,308,176	1,108,088,835	2,838,977,862	2,710,420,271	1,166,146,532	2,496,082,718
Minority Interest	-	6,093,052	-	-	-	-
Total Equity	3,101,308,176	1,114,981,897	2,838,977,862	2,710,420,271	1,166,146,532	2,496,082,718
Non-Current Liabilities						
Interest Bearing Loans and Borrowings	514,610,464	828,339,024	587,852,845	353,049,673	615,371,123	386,510,532
Deferred Income	273,986,864	518,245,119	273,079,975	273,986,864	518,245,119	273,079,975
Deferred Tax Liability	160,630,189	71,961,545	158,075,947	160,630,189	71,961,545	158,075,947
Retirement Benefit Liabilities	13,232,354	6,119,856	12,874,083	11,477,623	6,119,856	11,401,124
	962,459,871	1,424,665,544	1,031,882,850	799,144,349	1,211,697,643	829,067,578
Current Liabilities						
Trade and Other Payables	682,107,942	617,763,361	417,445,795	650,976,891	520,413,609	375,580,503
Refundable Deposits	827,931,094	744,096,866	789,051,479	827,931,094	744,096,866	789,951,479
Income Tax Liabilities	34,310,152	22,862,942	14,867,687	34,310,152	22,862,942	15,242,331
Interest Bearing Loans and Borrowings	378,025,764	392,801,226	1,132,890,352	305,804,592	335,411,308	1,068,614,190
	1,922,374,892	1,777,524,395	2,354,135,313	1,819,022,729	1,622,784,725	2,249,388,503
Total Equity and Liabilities	5,986,142,939	4,317,171,836	6,225,996,025	5,328,587,349	4,030,629,900	5,574,538,819

I certify that these financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007.


Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by:


Director


Director

06 September 2010
Colombo

Laugfs Gas Limited and its Subsidiaries

STATEMENT OF CHANGES IN EQUITY

Four Months Period Ended 31st July 2010.

GROUP	Stated Capital Rs.	Capital Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31st March 2009.	60,000,020	713,938,216	377,799,113	1,151,737,349
Profit for the period			187,895,686	187,895,686
Balance as at 31st July 2009.	60,000,020	713,938,216	565,694,799	1,339,633,035
Surplus on Revaluation of Property, Plant & Equipment		1,285,598,031		1,285,598,031
Deferred Tax Liability On Revaluation Reserve		(67,124,216)		(67,124,216)
Issue of Shares for Non Cash Consideration	720,000,240	(720,000,240)		-
Profit for the year			339,371,032	339,371,032
Dividend			(58,500,020)	(58,500,020)
Balance as at 31st March 2010.	780,000,260	1,212,411,791	846,565,811	2,838,977,862
Profit for the period			262,330,314	262,330,314
Balance as at 31st July 2010.	780,000,260	1,212,411,791	1,108,896,125	3,101,308,176
COMPANY	Stated Capital Rs.	Capital Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31st March 2009.	60,000,020	713,938,216	424,806,694	1,198,744,930
Profit for the period			201,818,826	201,818,826
Balance as at 31st July 2009.	60,000,020	713,938,216	626,625,520	1,400,563,756
Surplus on Revaluation of Property, Plant & Equipment		898,561,718		898,561,718
Deferred Tax Liability On Revaluation Reserve		(67,124,216)		(67,124,216)
Issue of Shares for Non Cash Consideration	720,000,240	(720,000,240)		-
Profit for the year			322,581,480	322,581,480
Dividend			(58,500,020)	(58,500,020)
Balance as at 31st March 2010.	780,000,260	825,375,478	890,706,980	2,496,082,718
Profit for the period			214,337,553	214,337,553
Balance as at 31st July 2010.	780,000,260	825,375,478	1,105,044,533	2,710,420,271

Lauf's Gas Limited and its Subsidiaries
Provisional and Unaudited Financial Statements
CASH FLOW STATEMENTS

For the four months ended 31st July	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Cash Flows From / (Used in) Operating Activities				
Net Profit Before Tax	300,154,588	202,677,678	252,161,827	216,600,818
Adjustments for				
(Profit)/Loss on disposal of Property, Plant and Equipment	(16,901)	-	-	-
Depreciation - Property, Plant and Equipment	80,779,950	8,505,922	55,384,245	(7,952,460)
Depreciation - Cylinders in Hand and in Circulation	-	-	-	-
Amortization of Intangible Assets	-	20,000	-	20,000
Income from Investments	(2,931,399)	(2,777,696)	(2,931,399)	(2,777,696)
Finance Costs	48,109,159	57,652,291	33,656,448	40,237,105
Provision for Defined Benefit Plans	1,419,836	480,000	1,119,836	480,000
Operating Profit Before Working Capital Changes	427,515,233	266,558,195	339,390,957	246,607,767
(Increase)/ Decrease in Inventories	12,380,434	184,362,588	12,653,851	184,362,588
(Increase)/ Decrease in Deferred Expenses	-	-	-	-
(Increase)/ Decrease in Trade and Other Receivables	174,552,852	(312,015,712)	171,641,162	(340,830,008)
Increase/ (Decrease) in Trade and Other Payables	264,662,148	42,034,378	275,396,388	37,671,999
Increase/ (Decrease) in Deferred Income	906,889	906,886	906,889	906,886
Cash Generated from Operations	880,017,556	181,846,335	799,989,247	128,719,232
Refundable Deposits Received	97,572,596	91,742,420	97,572,596	91,742,420
Refund/Transfers of Deposits	(59,592,982)	(57,858,237)	(59,592,982)	(57,858,237)
Finance Costs Paid	(46,795,044)	(55,955,893)	(32,370,735)	(38,540,707)
Income Tax Paid	(16,220,439)	(16,172,706)	(16,202,210)	(16,172,706)
Defined Benefit Plan Paid	(43,500)	(158,410)	(43,500)	(158,410)
Net Cash from/(Used in) Operating Activities	854,938,187	143,443,509	789,352,416	107,731,592
Cash Flows from / (Used in) Investing Activities				
Acquisition of Property, Plant and Equipment and Cylinders	(81,873,962)	(112,677,622)	(70,059,514)	(72,375,564)
Proceeds from Disposal of Property, Plant and Equipment	-	-	-	-
Interest Received	2,931,399	2,777,696	2,931,399	2,777,696
Net Cash Flows from/(Used in) Investing Activities	(78,942,563)	(109,899,926)	(67,128,115)	(69,597,868)
Cash Flows from / (Used in) Financing Activities				
Issue of Shares	-	-	-	-
Proceeds from Interest Bearing Loans and Borrowings	180,727,976	164,841,710	180,727,976	164,841,710
Repayment of Interest Bearing Loans and Borrowings	(1,081,325,173)	(294,313,321)	(1,051,526,774)	(291,811,321)
Principal Payment under Finance Lease Liabilities	(12,194,150)	(6,878,842)	(4,611,561)	(3,713,367)
Dividend Paid	-	-	-	-
Net Cash Flows from/(Used in) Financing Activities	(912,791,347)	(136,350,453)	(875,410,359)	(130,682,978)
Net Increase/(Decrease) in Cash and Cash Equivalents	(136,795,723)	(97,646,271)	(153,186,058)	(92,549,254)
Cash and Cash Equivalents at the Beginning of the Year	475,296,359	(25,849,908)	438,918,000	(26,458,769)
Cash and Cash Equivalents at the End of the Year	338,500,636	(123,496,179)	285,731,942	(119,008,023)
Components of Cash and Cash Equivalents				
Cash and Bank Balances	426,353,788	130,354,311	367,718,518	129,515,713
Bank Overdraft	(87,853,152)	(253,850,490)	(81,986,576)	(248,523,736)
	338,500,636	(123,496,179)	285,731,942	(119,008,023)

**FUTURE FORECASTS OF
LAUGFS PROPERTY DEVELOPERS (PVT) LTD
AND
LAUGFS LEISURE LTD**

LAUGFS PROPERTY DEVELOPERS (PVT) LIMITED
INCOME STATEMENT - FORECASTED

For the Year Ended	31.03.2011 Rs.	31.03.2012 Rs.	31.03.2013 Rs.
Revenue	-	-	28,424,550
Operating Expenses	-	-	9,380,102
Operating Gross Profit	-	-	19,044,449
Other Income and Gains	3,460,000	5,570,000	3,890,000
Gross Monthly Income	3,460,000	5,570,000	22,934,449
Overhead Expenses.			
Administration Expenses.	2,400,000	2,427,900	6,250,000
Marketing and Promotional Expenses	-	-	3,500,000
Other Expenses	72,000	72,000	730,000
Profit/(Loss) Before Depreciation and Finance Cost	988,000	3,070,100	12,454,449
Finance Cost	-	-	-
Depreciation	26,250	26,250	7,342,785
Profit/(Loss) Before Tax	961,750	3,043,850	5,111,663
Income Tax Expense	-	-	-
Profit/(Loss) for the Year	961,750	3,043,850	5,111,663

**LAUGFS PROPERTY DEVELOPERS (PVT) LIMITED
BALANCE SHEET - FORECASTS**

As at

	31.03.2011	31.03.2012	31.03.2013
	Rs.	Rs.	Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	488,763,021	680,036,771	863,693,985
	488,763,021	680,036,771	863,693,985
Current Assets			
Trade and Other Receivables	-	-	11,785,200
Short Term Investment	95,000,000	210,000,000	-
Cash and Bank Balances	7,657,423	12,727,523	3,960,122
	102,657,423	222,727,523	15,745,322
Total Assets	591,420,444	902,764,294	879,439,307
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	341,000,020	625,000,020	625,000,020
Capital Reserves	252,501,000	252,501,000	252,501,000
Retained Earnings	(7,780,576)	(4,736,726)	374,937
Total Equity	585,720,444	872,764,294	877,875,957
Current Liabilities			
Accrued Expenses	-	-	1,563,350
Trade and Other Payables	5,700,000	30,000,000	-
	5,700,000	30,000,000	1,563,350
Total Equity and Liabilities	591,420,444	902,764,294	879,439,307

**LAUGFS PROPERTY DEVELOPERS (PVT) LIMITED
CASH FLOW - FORECASTED**

For the Year Ended	31.03.2011	31.03.2012	31.03.2013
	Rs.	Rs.	Rs.
Inflows			
Revenue	-	-	16,639,350
Debtors Settlement	-	-	-
Interest Income	3,460,000	5,570,000	3,890,000
Withdrawal - Short Term Investment	30,000,000	45,000,000	210,000,000
Proceeds from Issue of Shares	141,000,000	284,000,000	-
Total Inflow	174,460,000	334,570,000	230,529,350
Outflows			
Short Term Investment	125,000,000	160,000,000	-
Expenses for Building	40,600,000	161,300,000	160,000,000
Creditors Settlement	5,878,793	5,700,000	30,000,000
Capital Expenses (Furniture and Equipment)	-	-	31,000,000
Operating Expenses	-	-	7,816,751
Marketing and Promotional Expenses	-	-	3,500,000
Administration	2,400,000	2,427,900	6,250,000
Other Expenses.	72,000	72,000	730,000
Total Outflow	173,950,793	329,499,900	239,296,751
Net Cash Flow	509,207	5,070,100	(8,767,401)
Balance at the beginning of the period	7,148,216	7,657,423	12,727,523
Balance as at the end of the period	7,657,423	12,727,523	3,960,122

LAUGFS PROPERTY DEVELOPERS (PVT) LIMITED

3 YEARS FINANCIAL FORECAST

Assumptions

- 1) Construction of the project will be completed within 2 years starting from October 2010 and commercial operation will be started in October 2012.
- 2) Inflation has not been considered within project construction period.
- 3) a) Expenses have been estimated on the basis of actual expenses of last two years of Laugfs Leisure Limited.
b) After the Construction period, applicable expenses will be increased at 5% per annum as per company policy.

4) Revenue

- a). Room rates are based on prevailing current market prices
- b). Occupancy rate has been estimated at 42% for 1st year, 70% for 2nd year and 72% for 3rd year of operation
- c) After the Construction period, applicable revenue rates will be increased at 10% per annum as per company policy.

(5) Other income

Interest income will be arisen from the investment of excess funds at the rate of 8% per annum on short term investments.

(6) Operating Expenses

Operating expenses represents, House keeping, Laundry, Electricity, Building maintenance, Etc and the amount has been estimated at 33% of the Revenue

(7) Administration Expenses

This includes, Salary & related expenses, Security, Telephone, Water, Traveling & Transport, Maintenance, Etc. and the amount has been estimated at Rs. 750,000/- per month from September 2012. Administration expenses will be paid in the same month.

(8) Marketing and Promotional Expenses

Marketing & promotional expenses has been estimated at RS. 500,000/- per month starting from September 2012 and the payment will be made in the same month

(9) Other Expenses

Bank charges, Debit tax and other contingency expenses has been included under other expenses and the same has been estimated at Rs. 100,000/- per month from September 2012. The payment will be made in the same month.

(10) Depreciation

Depreciation has been provided at following rates

Furniture and Fittings	10.0%
Equipment	25.0%
Plant and Machinery	10.0%
Building	2.5%

(10) Debtors Collection Period 2 Months

(11) Creditors Settlement Period 1 Months

Risk factors that may affect;

1. If any political instability will be arisen in the country, that may be effected to leisure sector.
2. If global recession will continue, that may effect to leisure sector.
3. Due to high expectation in the industry by the entrepreneurs, there will be over supply in hotel rooms.
4. Better tourist attractions in the other countries may effect to tourist arrivals.
5. If inflation of the country will increase in the future, that may be effected to leisure sector too

LAUGFS LEISURE LIMITED
INCOME STATEMENT - FORECASTS

For the Year ended	31.03.2011	31.03.2012	31.03.2013
	Rs.	Rs.	Rs.
Revenue	60,532,940	64,694,515	175,234,367
Cost of Sales	24,079,368	25,283,337	64,615,245
Contribution	36,453,572	39,411,178	110,619,122
Direct Expenses			
Gross Profit	36,453,572	39,411,178	110,619,122
Other Operating Income	3,903,986	14,453,699	21,516,910
Total Earnings	40,357,558	53,864,878	132,136,032
Marketing & Promotional Expenses	1,887,965	1,789,956	10,459,737
Administration Expenses	32,445,539	34,954,443	75,272,447
Other Expenses	-	-	-
Profit (Loss) before Depreciation	6,024,054	17,120,479	46,403,848
Depreciation	286,421	354,581	20,658,122
Profit (Loss) from Operating Activities	5,737,633	16,765,898	25,745,727
Finance Cost	-	-	-
Profit (Loss) from Ordinary Activities Before Tax	5,737,633	16,765,898	25,745,727
Taxation	663,311	968,386	2,056,667
Net Profit for the Year	5,074,322	15,797,512	23,689,060

LAUGFS LEISURE LIMITED
BALANCE SHEET - FORECASTED

As at	31.03.2011 Rs.	31.03.2012 Rs.	31.03.2013 Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	97,724,678	287,805,399	502,713,170
	97,724,678	287,805,399	502,713,170
Current Assets			
Inventories	1,581,843	2,181,843	3,081,843
Trade & Other Receivables	7,012,429	6,535,904	27,142,261
Investments	51,000,000	265,000,000	55,000,000
Cash and Bank Balances	13,088,027	15,792,754	18,271,579
Total Current Assets	72,682,300	289,510,501	103,495,683
Total Assets	170,406,978	577,315,900	606,208,854
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	160,000,070	550,000,070	550,000,070
Reserves	12,404,822	12,404,822	12,404,823
Retained Earnings	(4,866,482)	10,931,030	34,620,090
Total Equity	167,538,410	573,335,922	597,024,982
Non- Current Liabilities			
Employee Benefit Liability	357,525	541,663	729,488
Current Liabilities			
Trade and Other Payables	1,847,733	2,469,928	6,397,717
Tax Payable	663,311	968,386	2,056,667
Total Current Liabilities	2,511,043	3,438,314	8,454,384
Total Equity and Liabilities	170,406,978	577,315,900	606,208,854

LAUGFS LEISURE LIMITED
CASH FLOW STATEMENT - FORECASTED

For the Year ended	31.03.2011 Rs.	31.03.2012 Rs.	31.03.2013 Rs.
Inflows			
Proceeds from Issue of Shares	110,000,000	390,000,000	-
Sales Receipts	93,108,192	92,828,549	187,733,619
Investment Income	1,400,000	10,100,000	15,140,000
Withdrawal - Short Term Investment	24,000,000	161,000,000	232,000,000
Total Inflow	228,508,192	653,928,549	434,873,619
Outflows			
Payment for Suppliers	51,972,494	46,590,222	79,810,640
Settlement of Creditors	36,290,222	38,534,988	94,049,875
Income Tax Payment	-	663,311	968,386
Capital Expenses	60,470,821	190,435,302	235,565,893
Investment in Short-Term Investments	75,000,000	375,000,000	22,000,000
Total Outflow	223,733,537	651,223,822	432,394,793
Net Cash Flow	4,774,655	2,704,726	2,478,826
Balance at the beginning of the period	8,313,372	13,088,027	15,792,754
Balance as at the end of the period	13,088,027	15,792,754	18,271,579

Laugfs Leisure Limited
3 Years Financial Forecast

Assumptions

Revenue

2011 & 2012 - Average of past 2 years revenue of one of the management hotels (50 rooms)

2013 - 5 months revenue of Chillaw hotel (100 rooms) is included additionally.

Normal revenue rate - 10% increase every year.

Cost of Sales

Included items - Food, Beverage, House keeping

Health centre commission,

LP gas consumption, Restaurant & bar O/H

Other Income & Gains

* 50% profit sharing of the hotel under management

* Interest on short term investments.

Finance cost - Debt free

Tax

Tax is payable for one of the Management Hotel (35%)

Tax is exempted for the new Project of Chillaw

All Expenses

5% increase rate every year.

Amounts for 2011 is based on past 2 years actual & industry information.

Marketing & promotional expenses (included items)

Advisement

Hotel account-F&B

Music & other entertainment

Foreign travel etc...

Administration expenses (included items)

Maintenance

Staff & management salary

Insurance & license fees

Meal expenses

TV & Telephone charges

Gratuity etc...

Short Term Investment

The company intends to invest, excess cash in short term investments at a rate of 8% p.a

Risk factors that may affect;

1. If any political instability will be arisen in the country, that may be effected to leisure sector.
2. If global recession will continue, that may effect to leisure sector.
3. Due to high expectation in the industry by the entrepreneurs, there will be over supply in hotel rooms.
4. Better tourist attractions in the other countries may effect to tourist arrivals.
5. If inflation of the country will increase in the future, that may be effected to leisure sector too

Annexure I

COLLECTION POINTS

BANK OF CEYLON (BOC) HEAD OFFICE

4, Bank of Ceylon Mawatha,
Colombo 01.

Tel: 0094 11 2446790-811(22 lines), 0094 11 2338741 -55

Fax: 094 11 2321160 (AGM Customer Relations)

Telex Address: HEADBANK

SWIFT Address: BCEYLKX

Telex:

Colombo 21331 ABLANKA BK CE

Colombo 21123 FORBANK CE

22419 BCCEX CE

21868 INTBANK

Email: boc@boc.lk

BOC BRANCH NETWORK

Anuradhapura Branch Maithripala Senanayake Mawatha, Anuradhapura.	Horana Branch 87, Anguruwathota Road Horana.
Badulla Branch Bank Road Badulla.	Ja-Ela Branch 19, Negombo Road Ja-Ela.
Batticaloa Branch Covington Road Batticaloa.	Jaffna Branch 476 476A, Hospital Road Jaffna.
Bambalapitiya Branch 20, Galle Road Colombo 04.	Jaffna 2nd 56, Stanley Road Jaffna.
Borella Branch 71, Danister de Silva Mawatha Colombo 08.	Kollupitiya Branch 28, St Michael's Road Colombo 03.
City Branch 41, Bristol Street Colombo 01.	Kadawatha Branch 469, Ragama Road Kadawatha.
Chunnakam Branch 146, KKS Road Chunnakam.	Kalutara Branch 218, Galle Road Kalutara South, Kalutara.
Dehiwela Branch 207, Galle Road Dehiwela.	Kandy Branch 88, Dalada Veediya Kandy.
Fifth City Branch 85, York Street Colombo 01.	Kegalle Branch 110, Colombo Road Kegalle.

Galle Branch 2, Light House Street Fort Galle.	Kurunegala Branch Commercial Complex Kurunegala.
Galle Bazaar Branch 2, Gamini Road Galle.	Kaduruwela Branch 612, 614 Batticaloa Road Kaduruwela.
Gampaha Branch 16, Rest House Road Gampaha.	Main Street 94, Main Street Colombo 11.
Maharagama Branch 19, High Level Road Maharagama.	Nuwara Eliya Branch 43, Lawson Street Nuwara Eliya.
Milagiriya Branch 248, Galle Road Colombo 04.	Personal Branch 4, Bank of Ceylon Mawatha Colombo 01.
Manipay Branch 174, Jaffna Road Manipay.	Peliyagoda Branch 42, Negombo Road Peliyagoda.
Matale Branch 5/2, Trincomalee Street Matale.	Panadura Branch 21, Susantha Mawatha Panadura.
Matara Branch 11, Kumaratunga Mawatha Matara.	Ratnapura Branch 6, Dharmapala Mawatha Ratnapura.
Mannar Branch 52, Pallimunai Road Grand Bazaar Mannar.	Union Place Branch 278, Access Tower Colombo 02.
Nugegoda Branch 174, High Level Road Nugegoda.	Vavuniya Branch 75, Station Road Vavuniya.
Negombo Branch 118, Rajapakse Broadway Negombo.	Wellawatta Branch 149/2, Galle Road Colombo 06.

MEMBERS AND TRADING MEMBERS OF THE COLOMBO STOCK EXCHANGE

CSE MEMBERS – DEBT & EQUITY

Acuity Stockbrokers (Pvt) Ltd

Level 6, Acuity House 53, Dharmapala Mawatha
Colombo 03.

Tel: 011 2206206 Fax: 011 2206298/9

Email: sales@acuitystockbrokers.com

Kandy Branch Tel: 081 2205609, 081 2203623 Fax: 081 4470257

Asia Securities (Pvt) Ltd

Level 21, West Tower, World Trade Centre, Echelon Square
Colombo 01.

Tel: 011 2423905 Fax: 011 2336018

Email: enquiry@asiacapital.lk

Kandy Branch Tel: 081 4474432

Kurunegala Branch Tel: 037 4691845

Matara Branch Tel: 041 5677525

Negombo Branch Tel: 031 5315001

Asha Phillip Securities Ltd

Level 4, Millenium House, 46/58, Navam Mawatha
Colombo 02.

Tel: 011 2429100 Fax: 011 2429199

Email: apsl@ashaphillip.net

Matara Branch Tel: 041 2223240, 041 2223940

Kandy Branch Tel: 081 4474118, 081 2204750

Kurunegala Branch Tel: 037 4691844 Fax: 037 2234777

Negombo Branch Tel: 031 2227474 Fax: 031 2227474

Jaffna Branch Tel: 021 2221614

Bartleet Mallory Stockbrokers (Pvt) Ltd

Level "G", Bartleet House, 65, Braybrooke Place
Colombo 02.

Tel: 011 5220200 Fax: 011 2434985

Email: info@bartleetstock.com

Kandy Branch Tel: 081 5 622779, 081 5 622781

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