KOTMALE HOLDINGS PLC

A MEMBER OF CT HOLDINGS GROUP

ANNUAL REPORT 2012/13

VISION

TO BE THE LEADING PRODUCER OF
FOOD AND BEVERAGE PRODUCTS FOR
THE LOCAL AND INTERNATIONAL MARKET.

MISSION

PROVIDING THE NATION
WITH QUALITY AND AFFORDABLE
FOOD AND BEVERAGE PRODUCTS USING
STATE OF THE ART TECHNOLOGY AND LOCAL EXPERTISE,
CONTINUOUSLY SEEKING OPPORTUNITIES FOR GROWTH AND CREATING
AN ENVIRONMENT THAT DEVELOPS, MOTIVATES AND REWARDS ALL
EMPLOYEES WHILST PROVIDING CONSISTENT RETURNS
TO ALL ITS STAKEHOLDERS.

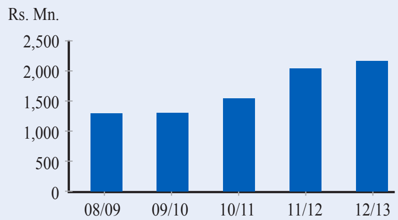
Contents

Financial Reports

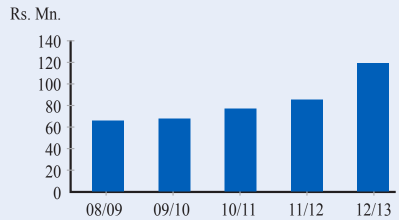
Financial Highlights

Group	2013 Rs. '000	2012 Rs. '000	Change %
Operating Results			
Net revenue	2,205,949	2,085,211	6
Profit from operation	136,643	96,666	41
Profit before taxation	152,290	97,715	56
Profit after taxation	116,060	83,421	39
Financial Position			
Non - current assets	443,211	359,755	23
Current assets	634,564	485,151	31
Current liabilities	259,377	193,788	34
Non - current liabilities	30,019	21,054	43
Share capital and reserves	788,379	630,063	25
Total assets	1,077,775	844,906	28
Per Share Data (Rs.)			
Market value per share at the year end	35.90	39.50	(9)
Earning per share	3.70	2.66	39
Net assets per share	25.11	20.07	25
Cash Flow			
Net cash generated from / (used in) ;			
Operating activities	300,433	102,543	
Investing activities	(55,247)	(43,298)	
Financing activities	(4,329)	(4,193)	

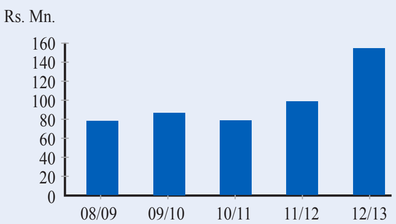
Group Net Revenue



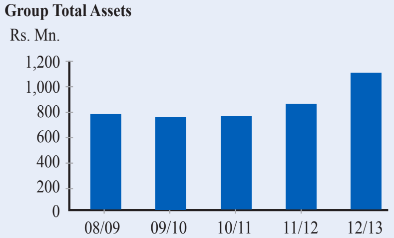
Group Profit After Taxation



Profit Before Taxation



Group Total Assets



Rs.2,206 Mn
Group Net Revenue

Rs.152 Mn
Group Profit Before Tax

Rs.116 Mn
Group Profit After Tax

Rs.1,078 Mn
Group Total Assets

Chairman's Review

Dear Shareholders,

I am pleased to present on behalf of the Board of Directors of Kotmale Holdings PLC, the Annual Report and Audited Financial Statements for the year ended 31 March 2013.

INDUSTRY

The year 2012 reported an increasing trend in domestic milk production supported by concerted efforts of the State to promote the dairy sector. Total milk production in the Country reached 299.3 million litres in 2012 a growth of 15.8% from 2011 while milk collection in the formal sector increased by 28% according to the Central Bank of Sri Lanka Annual Report. The growth in cattle milk production can be attributed to the increased average farm gate price of liquid milk of to Rs. 50 per litre implemented in 2011. The contribution from the North and East has enhanced and the development of logistics with the addition of chilling centres in the Country has resulted in an increase in the number of milking cows. The Central Bank reported that the domestic milk production as a percentage of the total national milk requirement increased to 40% during the year compared to 33% in 2011.

The growth in the industry can be attributed to development initiatives in the dairy sector that have been fast-tracked as per the Government's Livestock Master-plan. The National Livestock Development Board (NLDB) has undertaken the promotion of breed development through the establishment of nucleus farms and 2,000 high yielding pregnant heifers have been imported from Australia in 2012. As part the Livestock breeding project Dairy farmers have also been supported by NLDB to feed and manage their high-breed livestock. Steps taken to increase the import duty on milk powder imports to Rs. 107 per kg with effect from November 2012 have also contributed towards a growth in domestic production. However the processing of milk products based largely on imported milk powder was impacted by the duty increase as well as the depreciation of the rupee.

Your Company has aligned itself with the national goal of achieving self-sufficiency in milk by 2016 with substantial increases in capacity expansion and a resulting increase in milk procurement from smallholder dairy farmers from our milk shed region.

BACKWARD INTEGRATION AND SOURCING

Kotmale Holdings PLC is presently the second largest private-sector milk collector in the country with the average daily collection standing at approximately 45,000 litres. Our network comprises over 8,000 farmers from the Central region of Sri Lanka who directly supply to the Company through 330 collection centres connected to 15 chilling centres spread across the Central Province. In the year concluded our total payments to small holder farmers were Rs. 803 million.

The majority of our farmer base is organised into farmer societies and Kotmale supports these farmers through a consistent flow of knowledge and technical information. The Animal Health Check programme, a project initiated by Kotmale ensures the health and hygiene of the dairy cattle within our network through the active participation of Government Veterinarians.

The Company also provides artificial insemination facilities free of charge through technicians in its employment. In the year concluded Kotmale continued its programme to provide cattle sheds to smallholders to mitigate the spread of infections. The initiative of supporting farmers to cultivate grass for their cattle to ensure good animal nutrition and also manage the cost of production has yielded rich dividends in terms of higher milk quality and productivity. Steps have also been taken to expose our farmer base to training programmes organised by the Department of Livestock. These programmes are conducted at the cost of the company but yields tremendous long term benefits especially in view of securing optimum quality milk for the Kotmale shelf-stable range of fresh milk. The Company also operates a farmer welfare scheme to support a variety of farmer-family events and emergencies including in the event of a death in the family, higher education needs of children etc.

To further strengthen the dairy supply chain the Group has finalised an agreement with GIZ and Tetrapack to set up a Dairy Hub in Chavakachcheri. Meanwhile an agreement has also been linked to purchase milk from the NLDB. Efforts would be made to facilitate animal husbandry and further enhance animal health and hygiene through a systematic programme of support that includes advisory services, technical assistance and resource supply.

CAPACITY AND PRODUCT RANGE

The improved economic environment and resulting rise in disposable income has seen a growth in the FMCG industry with a large percentage stemming from non-urban demand. The dairy category in particular stands to benefit from changing life styles stemming from income growth.

Our Parent Company, Cargills (Ceylon) PLC, in response commenced a capacity expansion drive in 2011/12 adding the 1 litre UHT milk range to the Kotmale brand portfolio while enhancing yoghurt capacity, having launched an improved product to the market after the year under review. The diversification of the cheese segment was also implemented with the introduction of a new ‘wedges’ line.

The 1 litre UHT milk range and the recently launched chocolate-malt food drink have been well received by consumers and are enjoying substantial volume growth month on month. The Kotmale cheese wedges product is of superior quality and further strengthens the brand’s position in the cheese category. The new and improved yoghurt product is expected to receive a good response from the market. Meanwhile the popular pasteurised and UHT flavoured milk categories continue to report strong growth. The distinct quality and flavour of the Kotmale pasteurised range of milk products continues retain its popularity among milk lovers. The success of Kotmale is also underpinned by the strong distribution network of Cargills both in mass market and modern trade. Your company would be focused on further maximising this success by consolidating its operations within the Group.

PERFORMANCE AND FUTURE

Your Company recorded a commendable performance in the year concluded with a 5.8 % growth in Revenue to reach Rs. 2.2 billion. Finance income has grown by 366.6% to Rs. 17.6 million owing to excess cash being invested in short-term instruments. Profit before tax has recorded a 55.9%increase to Rs. 152.3 million. The Group after tax profit attributable to shareholders was Rs. 116.1million, a growth of 39.1% over the previous financial year. Certain subsidiaries of Kotmale previously exempted from income tax are now subjected to taxation and this has impacted after tax profitability. The tax expense has reached Rs. 36.2 million from the previous year’s total payable of Rs. 14.3 million.

Chairman's Review contd...

Your Company has enjoyed substantial benefits from its entry into the Cargills (Ceylon) PLC Group gaining access to an advanced supply chain that penetrates modern trade, general trade and the institutional markets. This has significantly reduced our supply chain management costs and enhanced internal efficiency, reducing distribution costs. With a view to further build on these synergies certain production lines and operations of Kotmale have been transferred to Cargills Quality Dairies (Pvt) Ltd., a fully owned subsidiary of the parent which is reflected in the growth in Other Income. The dairy capacity expansion project under Cargills Quality Dairies (Pvt) Ltd. is now nearing completion with the total project cost allocated being Rs. 1.48 billion.

ACKNOWLEDGEMENT

In conclusion I take this opportunity to commend the excellent team of Kotmale that has adjusted extremely well to a new working culture and have thereby succeeded in delivering well beyond expectations. Let me also place on record the appreciation of the Board of Directors and the senior management of Cargills of Mr. Jude Fernando who resigned from the Group to pursue career advancement. Mr. Fernando was instrumental in facilitating the smooth transfer of Kotmale into the Cargills fold and also contributed substantially towards development of Kotmale into the strongest local dairy company within a very short span of time.

I extend my sincere thanks to the Board of Directors whose leadership and foresight has helped steer the company through exciting times.
I thank our business partners in the dairy farming communities as well as our principals,suppliers and financial institutions for their continued support.
I also express my gratitude to our shareholders for their continued trust in us and invite them to reap the dividends of your Company's continued efforts towards value creation.

Signed.
Stuart Young
Chairman

27 August 2013

Profiles of Directors

STUART YOUNG

** Chairman*

Mr. Stuart Young had a 37 years career with the Nestle Group where he held senior management positions in sales, marketing and general management, spanning the four continents of Europe, Australia, Asia, and Africa, before becoming Managing Director and CEO of Nestle Lanka in November 2002, from which position he retired in October 2008. He is well known in Sri Lanka where he spends time as an independent business consultant. Mr. Young was appointed Chairman/Director of Kotmale Holdings PLC on 5 January 2011 and is also Chairman/Director of a number of public and private companies within the Cargills Group.

IMTIAZ ABDUL WAHID

Managing Director

Mr. M Imtiaz Abdul Wahid is the Managing Director and Deputy CEO of Cargills (Ceylon) PLC and is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants (UK). He has been involved in the operations of Cargills (Ceylon) PLC in an executive capacity at different intervals progressively at higher levels (appointed Director 1997 and Deputy Managing Director in 2001) spanning a period of 26 years, leaving the services of the Company for employment abroad on two occasions in between whereby he also gained valuable exposure holding a number of senior management positions in overseas companies.

RANJIT PAGE

Deputy Chairman

Mr. V Ranjit Page is the Deputy Chairman and CEO of Cargills (Ceylon) PLC (holding company of Cargills Quality Foods Limited, which in turn is the parent company of Kotmale Holdings PLC), and Managing Director of C T Holdings PLC (holding company of Cargills (Ceylon) PLC). He possesses over 30 years of management experience with expertise in food retailing, food service, and manufacturing, having introduced the concept of supermarket to the Sri Lankan masses. He also serves on the Boards of several other companies.

JUDE FERNANDO

Executive Director / Chief Executive Officer

Mr. M S J Fernando possesses over 22 years of experience in the fields of Supply Chain Management, Finance, Strategic Planning and International Marketing. Prior to joining KHP as CEO Mr. Fernando held the position of Director – Supply Chain, at Hemas Manufacturing (Private) Limited. He joined the Hemas Group following a career in Finance at Royal Ceramic PLC where he headed the finance operations as Finance Manager. Mr. Fernando was also a Director of Dunamis Capital PLC. He is a Fellow Member of the Chartered Institute of Management Accountants (UK), an Associate Member of the Association of Certified Chartered Accountants (UK), a member of the Chartered Institute of Marketing (UK) and holds a Masters Degree in Business Administration from the University of Wales.

Resigned w.e.f. 30 June 2013

Profiles of Directors contd...

P S MATHAVAN

Director

Mr. Prabhu Mathavan is a Director of Cargills (Ceylon) PLC. He is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelors Degree in Commerce. He possesses over 20 years of experience in the fields of Finance, Auditing, Accounting and Taxation.

SUNIL MENDIS

**Director*

Desamanya Sunil Mendis was formerly the Chairman of Hayleys Group, and the immediate former Governor of the Central Bank of Sri Lanka. He possesses around 46 years of wide and varied commercial experience most of which has been in very senior positions. He also serves on the Boards of Cargills (Ceylon) PLC and C T Holdings PLC where he is also a Member of the respective Audit Committees. He is the Chairman of the Remuneration Committees of Cargills (Ceylon) PLC and Kotmale Holdings PLC and is a Member of the Remuneration Committee of C T Holdings PLC.

PRIYA EDIRISINGHE

**Director*

Mr. A T Priya Edirisinghe is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants (UK) and holds a Diploma in Commercial Arbitration. He was the Senior Partner of HLB Edirisinghe & Co., Chartered Accountants and currently serves as Consultant / Advisor. He counts over 43 years of experience in both public practice and in the private sector. He serves on the Boards of a number of other listed and non-listed companies, including Cargills (Ceylon) PLC and C T Holdings PLC where he is also Chairman/Member of the respective Audit Committees and a Member of the Remuneration Committees. He is also Chairman/Member of the Audit Committee and a Member of the Remuneration Committee of Kotmale Holdings PLC.

JOSEPH PAGE

***Director*

Mr. Joseph C Page is the Deputy Chairman/Managing Director of C T Land Development PLC. He is also a Director of C T Properties Limited, and Managing Director of Ceylon Theatres (Pvt.) Ltd. Prior to joining C T Land Development PLC he was Executive Director of Millers Limited. He has over 30 years of management experience in the private sector. He also serves on the Boards of Cargills (Ceylon) PLC and C T Holdings PLC.

*Independent Non-Executive
**Non Independent Non-Executive

Corporate Governance

The disclosures below demonstrate the extent to which the principles of good corporate governance are complied with within the Group. Further to the above, the Board of Directors to the best of knowledge and belief is also satisfied that all statutory payments due to the Government, other regulatory institutions, and related to the employees, have been made on time.

Company's adherence to the Corporate Governance Rules as required by Section 7.10 of the Listing Rules of the Colombo Stock Exchange:

Corporate Governance Rule	Compliance Status	Details
7.10.1 Non-Executive Directors **a)** The Board of Directors of a Listed Entity shall include at least, i. Two Non-Executive Directors; or ii. Such number of Non-Executive Director's equivalent to one third of the total number of Directors whichever is higher.	Complied	Company had 04 Non-Executive Directors and 04 Executive Directors on its Board.
b) The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	Complied	The Company had 04 Non-Executive Directors and 04 Executive Directors at the conclusion of the last AGM
c) Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Complied	There has not been any period of non compliance as explained above.
7.10.2 Independent Directors **a)** Where the constitution of the Board of Directors includes only two Non-Executive Directors as mentioned above,both such Non-Executive Directors shall be 'Independent'. In all other instances two or 1/3 of Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'Independent'.	Complied	02 of 04 (50%) of Non-Executive Directors determined to be Independent.
b) The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/ herindependence or non-independence against the specified criteria.	Complied	Each Non-Executive Director has provided a signed and dated declaration of his/ her independence or non independence against the criteria laid down in the listing rules.

Corporate Governance contd...

Corporate Governance Rule	Compliance Status	Details
7.10.3 Disclosures Relating to Directors **a)** The Board shall make a determination annually as to the independence or Non-Independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the annual report the names of Directors determined to be 'Independent.'	Complied	02 of 04 Non-Executive Directors are deemed Independent as per the criteria set.
b) In the event a Director does not qualify as 'independent' against any of the criteria set out below but if the Board, taking account all the circumstances, is of the opinion that the Director is nevertheless 'Independent', The Board shall specify the criteria not met and the basis for its determination in the annual report.	Complied	02 Non-Executive Directors are deemed independent by the Board and the criteria not met and the basis for such determination is set out in Note 01 on page 16.
c) In addition to the disclosures relating to the independence of a Director set out above, the Board shall publish in its annual report a brief resume of each Director on its Board which includes information on the nature of his/her expertise in relevant functional areas.	Complied	Please refer profile of Directors on pages 7 and 8.
d) Upon appointment of a new Director to its Board, the Entity shall forthwith provide to the exchange a brief resume of such Director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	N/A	During the year there were no such appointments.

Corporate Governance Rule	Compliance Status	Details
7.10.5 Remuneration Committee A Listed Entity shall have a remuneration committee in conformity with the following: **a) Composition** The remuneration committee shall comprise; i. of a minimum of two Independent Non-Executive Directors (in instances where an Entity has only two Directors of its Board); or ii. of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Complied	The remuneration committee comprises 02 Non-Executive Directors who are deemed Independent.
In a situation where both the parent company and the subsidiary are 'Listed Entities', the remuneration committee of the parent company may be permitted to function as the remuneration committee of the subsidiary.	N/A	N/A
However, if the parent company is not a Listed Entity, then the remuneration committee of the parent company is not permitted to act as the remuneration committee of the subsidiary. The subsidiary shall have a separate remuneration committee.	Complied	The remuneration committee has been appointed specific to the company.
One Non-Executive Director shall be appointed as Chairman of the committee by the Board of Directors.	Complied	The Committee is chaired by Mr. Sunil Mendis, a Non-Executive Director.
b)Functions The remuneration committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer of the Listed Entity and/or equivalent position thereof, to the Board of Listed Entity which will make the final determination upon consideration of such recommendations.	Complied	The Committee recommends to the Board the remuneration payable to the Key Executives. In recommending an appropriate remuneration package the primary objective of the Committee is to attract and retain the services of highly qualified and experienced personnel.

Corporate Governance contd...

Corporate Governance Rule	Compliance Status	Details
c) Disclosures The annual report should set out the names of Directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors. The term "remuneration" shall make reference to cash and all non-cash benefits whatsoever received in consideration of employment with the Listed Entity (excluding statutory entitlements such as Employees Provident Fund and Employees Trust Fund).	Complied	The remuneration committee comprise of 02 Independent Non- Executive Directors as follows; Mr. Sunil Mendis (Chairman) Mr. A T P Edirisinghe
7.10.6 Audit Committee A Listed Entity shall have an audit committee in conformity with the following:		
a) Composition i. The audit committee shall comprise; of a minimum of two Independent Non-Executive Directors (in instances where a Entity has only two Directors on its Board); or ii. of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Complied	The audit committee comprise 02 Independent Non-Executive Directors as follows; Mr. A T P Edirisinghe (Chairman) Mr. Sunil Mendis
In a situation where both the parent company and the subsidiary are 'Listed Entities', the audit committee of the parent company may function as the audit committee of the subsidiary.	N/A	N/A
However, if the parent company is not a listed entity, then the audit committee of the parent company is not permitted to act as the audit committee of the subsidiary. The subsidiary should have a separate audit committee.	Complied	The audit committee has been appointed specific to the company.
One Non-Executive Director shall be appointed as Chairman of the committee by the Board of Directors.	Complied	The committee is chaired by Mr. A T P Edirisinghe, a Non-Executive Director.
Unless otherwise determined by the audit committee, the Chief Executive Officer and the Chief Financial Officer of the Listed Entity shall attend audit committee meetings.	Complied	Please refer Audit Committee Report on page 17.
The Chairman or one member of the committee should be a member of a recognised professional accounting body.	Complied	The Chairman of the committee is a Fellow member of both ICASL and CIMA (UK).

Corporate Governance Rule	Compliance Status	Details
b) Functions Shall include, i. Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordancewith Sri Lanka Accounting Standards (SLFRS/ LKAS). ii. Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the companies Act and other relevant financialreporting related regulations and requirements. iii. Overseeing the processes to ensure that the Entity's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards. iv. Assessment of the independence and performance of the Entity's external auditors. v. To make recommendation to the Board pertaining to appointment, re-appointment and removal of external auditors and to prove the remuneration and terms of engagement of the external auditors.	Complied	Please refer Audit Committee Report on page 17.
c) Disclosures The names of the Directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the annual report.	Complied	Please refer inner back cover.
The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.	Complied	Please refer Audit Committee Report on page 17.
The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity in relation to the above, during the period to which the annual report relates.	Complied	Please refer Audit Committee Report on page 17.

Corporate Governance contd...

Company's adherence to the Provisions of Rule 7.6 as required by the Listing Rules of the Colombo Stock Exchange on disclosure in Annual Reports of Listed Entities:

Corporate Governance Rule	Compliance Status	Details
A Listed Entity must include in its annual reports and accounts, inter alia;		
i. Names of persons who were Directors of the Entity during the financial year.	Complied	Please refer inner back cover for the names of Directors of the Company.
ii. Principal activities of the Entity and its subsidiaries during the year and any changes therein.	Complied	Please refer Note 1.1.1 on page 33.
iii. The names and the number of shares held by the 20 largest holders of voting and nonvoting shares and the percentage of such shares held.	Complied	Please refer investor relations supplement on pages 69 and 70.
iv. The public holding percentage.	Complied	Please refer investor relations supplement on pages 69 and 70.
v. A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year.	Complied	Please refer page 25.
vi. Information pertaining to material foreseeable risk factors of the Entity.	Complied	Please refer report on Risk management on pages 19 to 21.
vii. Details of material issues pertaining to employees and industrial relations of the Entity.	N/A	No material issues pertaining to employees and industrial relations
viii. Extents, locations, valuations and the number of buildings of the Entity's land holding and investment properties.	Complied	Please refer note 11.1 - (e) Group real estate portfolio on page 48.
ix. Number of shares representing the Entity's stated capital.	Complied	Please refer investor relations supplement on pages 69 and 70.
x. A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings in the specified categories.	Complied	Please refer investor relations supplement on pages 69 and 70.

Corporate Governance Rule	Compliance Status	Details
xi. The following ratios and market price information. **EQUITY** i. Dividend per share ii. Dividend pay out iii. Net asset value per share	Complied	Please refer five years summary on page 68.
iv. Market value per share -Highest and lowest value recorded -Value as at the end of financial year.	Complied	Please refer investor relations supplement on pages 69 and 70.
DEBT (Only if listed)	N/A	N/A
xii Significant changes in the Entity's or its subsidiaries' fixed asset and the market value of land, if the value differs substantially from the book value.	N/A	N/A
xiii If during the year the Entity has raised funds either through a public issue, Right issue, and private placement; a. A statement as to the manner in which the proceeds of such issue has been utilised. b. If any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and, c. Any material change in the use of funds raised through an issue of securities.	N/A	N/A
xiv The following information should be disclosed in respect of each employees share ownership or stock option scheme. -Total number of shares allotted during the financial year. -Price at which shares were allotted. -Highest, lowest and closing price of the share recorded during the financial year. -Details of funding granted to employees (if any).	N/A	N/A

Corporate Governance contd...

Corporate Governance Rule	Compliance Status	Details
xv Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of section 7 of the Rules.	Complied	Please refer disclosures in terms of Section 7.10 on pages 9 to 16.
xvi Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower. Details of investments in a Related Party and/or amounts due from a Related Party to be set out separately. The details shall include, as a minimum: a The date of transaction; b The name of the Related Party; c The relationship between the Entity and the Related Party; d The amount of the transaction and terms of the transaction; e The rationale for entering into the transaction.	Complied	Please refer Note 30 - (c) on page 60.

NOTE 01:
Based on the declarations provided by the Non-Executive Directors, the Board has decided the following Directors as Independent:

Mr. A T P Edirisinghe
Mr. Sunil Mendis

Who, in spite of being Directors of C T Holdings PLC (the ultimate parent company) and Cargills (Ceylon) PLC (Which is the sole owner of Cargills Quality Foods Ltd.; holding company of KHP), the Board has nevertheless determined to be Independent considering their credentials and integrity.

Audit Committee Report

The Audit Committee is appointed by the Board of Directors of the company and reports directly to the Board. The Audit Committee comprises three members who are non-executive Directors who are deemed independent. The Chairman of the Audit Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka. The composition of the members of the Audit Committee satisfies the criteria as specified in the Standards on Corporate Governance for listed companies.

The Members of the Audit Committee:

NAME / INDEPENDENCE

Mr. A T P Edirisinghe FCMA, FCA - Chairman Independent
Mr. Sunil Mendis - Independent

The Group Financial Controller (GFC) and the Chief Internal Auditor attend all meetings when scheduled and the Chief Executive Officer (CEO) and the Managing Director attend audit committee meetings as and when requested to do so by the Audit Committee. The Company Secretary acts as the Secretary to the Committee.

The oversight function of (a) the preparation, presentation and adequacy of disclosures in the quarterly and annual financial statements of the company, in accordance with Sri Lanka Accounting Standards including the adoption of new Sri Lanka Accounting Standards (SLFRS/LKAS) and (b) the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements, was duly performed and the Audit Committee reviewed and discussed the year-end financial statements and recommended their adoption to the Board, whilst this was done on circulation at quarter-ends. In all instances, the Audit Committee obtained a declaration from the GFC stating that the respective financial statements are in conformity with the applicable accounting standards, company law and other statutes including corporate governance rules and that the presentation of such financial statements are consistent with those of the previous quarter or year as the case may be, and further states any departures from financial reporting, statutory requirements and Group policies, (if any). Quarterly Compliance Certificates are also obtained from the Finance, Legal, and Secretarial divisions of the Company on an updated standardized exception reporting format perfected by the Audit Committee, stating any instances (where applicable) of, and reasons for, non-compliance.

The oversight function over the processes to ensure that the Company's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards was duly performed and the Audit Committee reviewed and discussed (a) the business risk management processes and procedures adopted by the company, to manage and mitigate the effects of such risks and measures taken to minimize the impact of such risks, (b) the internal audit plan and monitoring the performance of the internal auditor and adherence to the internal audit plan and (c) the internal audit reports and monitoring follow up action by the management. Based on the recommendations of the Audit Committee, the Company has engaged a third party Audit Firm to obtain an independent verification, of stock and cash counts at all its outlets and the factories and other facilities of its own and subsidiary companies, and also adherence to standard systems and procedures as laid down by the Company, commencing in the new financial year. The Audit Committee assessed the independence and performance of the Company's external auditors and made recommendations to the Board pertaining to appointment/ re-appointment. The Audit Committee also reviewed the audit fees for the Company and approved the remuneration and terms of engagement of the external auditors and made recommendations to the Board. When doing so, the Audit Committee reviewed the type and quantum of non-audit services (if any) provided by the external auditors to the Company to ensure that their independence as Auditors has not been impaired. The Audit Committee obtains an 'Auditor's Statement ' from Messrs. KPMG confirming independence as required by Section 163 (3) of the Companies Act No.07 of 2007 on the audit of the statement of financial position and the related statements of comprehensive income, changes in equity, and cash flows of the Company and the Cargills Group.

The Audit Committee has recommended to the Board that Messrs KPMG, Chartered Accountants, be continued as external auditors of the Company for the financial year ending 31 March 2014.

Signed.
A T P Edirisinghe FCMA, FCA,
Chairman – Audit Committee

27 August 2013

Remuneration Committee Report

The Remuneration Committee of Kotmale Holdings PLC consists of two Non – Executive Directors – Messrs. Sunil Mendis (Chairman) and A T P Edirisinghe. The Deputy Chairman and the Managing Director may also be invited to join in the deliberations as required.

The Committee studies and recommends the remuneration and perquisites applicable to the Executive Directors of the Company and makes appropriate recommendations to the Board of Directors of the Company for approval.

The Committee also carries out periodic reviews to ensure that the remunerations are in line with market conditions.

Signed.
Sunil Mendis
Chairman - Remuneration Committee

27 August 2013

Risk Management

INTRODUCTION

Risk management is a pivotal factor of Kotmale Holdings PLC businesses and is an essential component of its operations. It is of paramount importance in safeguarding the interest of all stakeholders. To keep risk management at the centre of the executive agenda, it is embedded in the everyday management of the business.

The management considers each business risk in the context of the Group strategy by identifying the potential upside and downside to the Group businesses. Any identified downside is subject to mitigating measures and any upside is fully made use of to strengthen the competitive position of the Group. Considering the current situation of the Group businesses, future business plans as well as the economic prospects of the country, the Group has addressed the risk management as a vital cog within the Group's financial stability imperatives. Risks and methodology of mitigation are presented here in the areas of business (operation), financial reporting and compliance with applicable laws and regulations.

ADMINISTRATIVE SUPPORT FOR RISK MANAGEMENT

Centralised functions

Kotmale Holdings PLC group being part of CT Holdings PLC group and Cargills (Ceylon) PLC group, the Board, as the focal point in managing the business, has been vested with the final responsibility of managing the risks that the group encounters. A corporate management committee (CMC) established at parent company level has been set up to assist the Board to execute this responsibility. The CMC with the help of the senior management of Kotmale Holdings PLC group decides the risk profile of the Group. It also evaluates the business proposals in view of the existing risk appetite and keeps the Board informed of the suitability of the business proposals in risk perspective. The CMC reviews the operational issues tabled in the monthly meetings to identify the key risks faced by the Group including their impact, likelihood and the controls and procedures implemented to mitigate these risks. The Board is required to take decisions that would increase the intrinsic value of the Group in terms of investing in capital assets which would enhance its future earnings capacity. In this perspective the tolerable risk levels are defined by the CMC provided those investments show commercial justification, striking a balance between risk and return. In addition, the Management Letter issued by external auditors is reviewed by the CMC which will direct to the Board audit committee for their perusal. Any material findings adversely effecting the smooth operation of the business are addressed in detail and corrective actions taken.

LEGAL FUNCTION

The Group obtains the service of the centralised legal department established at parent company level to ensure that the Group complies with laws and regulations. The department reports on a monthly basis to the Board verifying compliance with laws and regulations. All legal agreements are thoroughly scrutinised by competent legal officers while the Company Secretary ensures compliance with the Companies Act. Potential negative impacts on the business are assessed and necessary action plans are formulated to mitigate the risks to the business resulting from laws and regulations. The opinion of the tax consultants pertaining to all tax matters, is considered and necessary steps are taken to ensure statutory requirements are fully complied with.

FINANCIAL REPORTING FUNCTION

Documentation and reporting also plays a key role in managing risk. The financial reporting division has been set up to ensure all financial reporting aspects are addressed. The division co-ordinates with relevant authorities and institutions. The Board audit committee reviews reports of all financial and related information and disseminate such data.

INTERNAL CONTROLS AND INTERNAL AUDIT FUNCTION

The Group has put in place a system of internal control to assist in achieving the management's objective of ensuring orderly and efficient conduct of business, safeguarding of assets, the prevention and detection of fraud and error, timely preparation of reliable financial information, and compliance with relevant laws and regulations. This function would primarily look into matters such as monitoring of internal control, examination of financial and operating information, review of the efficiency and effectiveness of the operation, and review compliance with legal and regulatory requirements.

Risk Management contd...

Risk	Mitigating Actions
Business risk	
The business risk management is a dynamic process due to the constant change and complexity in the operating environment of the Group. The business operations of the Group and performance are subject to a variety of risk factors.	Management constantly monitors and evaluates risk factors in order to respond effectively. The manufacturing facilities are maintained according to food manufacturing standards.
The dairy business is operating in a competitive environment and this could erode the margin on sales and thereby exert additional pressures to meet planned objectives.	The Group ensure that products are priced competitively in the market to maintain the market leadership position while ensuring comfortable margins are earned by controlling input cost effectively.
Failure in either of the above main areas could have an adverse effect on the Group's financial results.	The Group aim is to have a broad appeal in price and range so that the Group can compete effectively in different markets. The Group monitors performance against a range of measures which customers tell us are critical to their consumption and we constantly monitor customer perceptions of us and our rivals to ensure we respond as quickly as needed.
Reputational risk	
Failure to protect the Group's reputation and brand could lead to a loss of trust and confidence. This could result in an erosion of the customer base and affect the ability to recruit and retain high-calibre people.	Loyalty to the Kotmale brand has helped in development of business over the period. We recognise the commercial imperative to safeguard the interests of all our stakeholders and avoid the loss of such loyalty. We engage with stakeholders in every sphere to take into account their views, and endeavour to develop strategy that reflects their interests. We try to ensure that our strategy reflects those interests.
Product safety	
The safety and quality of our products is of paramount importance to Kotmale as well as being essential to maintenance of our customer trust and confidence. A breach in confidence could shrink our customer base and hence our financial results.	The Group has detailed and established procedures for ensuring product integrity at all times. There are strict product safety processes in place. The Group works in partnership with suppliers to ensure mutual understanding of the standards required, and also monitor developments in areas such as health, safety and nutrition in order to respond appropriately to changing customer trends and new legislation.
Health and safety risks	
Provision of adequate safety for our staff and customers is of the utmost importance to us as the inability to provide such facilities would result in injuries or loss of life that cannot be measured in financial terms.	The Group operates stringent health and safety processes in line with best practices in manufacturing facilities and offices, which are monitored and audited regularly.

Risk	Mitigating Actions
IT systems and infrastructure	
The business is dependent on efficient information technology (IT) systems.	The Group recognises the essential role that IT plays across our operations in allowing us to trade efficiently through the implementation of effective IT solutions. We have extensive controls in place to maintain the integrity and efficiency of our IT infrastructure and to ensure consistency of delivery, and all relevant staff are effectively engaged to mitigate IT related risks through effective policy and procedures as well as increased awareness.
Regulatory and political environment	
Due to the diverse nature of the businesses, we are subject to a wide variety of regulations prevailing in the country.	Uncertainties in the external environment are considered when developing strategies and reviewing performance. We remain vigilant about future changes. As part of our day-to-day operations we engage with government and non-government organisations to ensure the views of our customers and employees are represented and try to anticipate and contribute to important changes in public policy whenever possible.
Funding and liquidity	
The Group finances its operations by a combination of retained earnings and via long term and short term borrowings.	The Group maintains a portfolio of banking institutions to cater to all funding requirements and to obtain them on favorable terms. Healthy relationship with the bankers makes borrowing at comparatively short notice more feasible.
Interest rate risk	
The Group needs to limit its exposure to increases in interest rates while retaining the opportunity to exploit interest rate reductions.	The Group manages interest rate fluctuations with an appropriate mix of fixed and variable rate debts through a centralised treasury management function, where appropriate.
Credit risk	
The Group is exposed to credit risk by the nature of the business. There would be an adverse impact on the liquidity position as a result of payment delays and non-payment by debtors.	The Group is committed to neutralise the risk through a rigorous process of credit management. The Group has effective follow up and collection practices and strictly adheres to business specific credit policies.
Foreign exchange rate risk	
The Group exposure to this risk is minimal as we do not have much in the nature of foreign business activities. However, we are faced with this risk on import of raw material, plant, machinery and equipment.	The Group manages foreign exchange exposure through appropriate financial risk management techniques.

KOTMALE HOLDINGS PLC
ANNUAL REPORT 2012/13

Financial Reports

FINANCIAL REPORTS

Annual Report of the Directors on the Affairs of the Company

The Directors are pleased to submit the Annual Report together with the audited financial statements of Kotmale Holdings PLC and consolidated audited financial statements of the Group for the year ended 31 March 2013.

REVIEW OF THE YEAR

The Chairman's Review describes in brief the Group's affairs, performance and important events of the year.

ACTIVITIES

The principal activities of the Group are the manufacturing and distribution of dairy products.

FINANCIAL STATEMENTS

The audited financial statements comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flow and notes to the financial statements of the Company and the Group for the financial year ended 31 March 2013 are given on pages 28 to 67 forming an integral part of the Annual Report of the Board.

AUDITORS' REPORT

The auditors' report is set out on page 27.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are given on the pages 33 to 42.

There have been changes in the accounting policies in the year under review with the adoption of the new Sri Lanka Accounting Standards (SLFRS and LKAS) with effect from 1 April 2012. The group prepared its financial statements for the previous periods up to the year ended 31 March 2012 in accordance with the Sri Lanka Accounting Standard (SLAS) which were effective up to 31 March 2012. These have now been restated in accordance with SLFRS/ LKAS to enable comparison.

DIVIDENDS

Company has not paid / declared dividends for the year ended 31st March 2013 (2012 - Nil)

RESERVES

The total reserves of the Group stands at Rs. 474 Mn. (2012 - Rs. 316 Mn.), while the total reserves of the Company stand at Rs. (69) Mn. (2012 - Rs. (71) Mn.).

STATED CAPITAL

Stated capital of the Company as at 31 March 2013 was Rs. 314 Mn. (2012 - Rs. 314 Mn) The details of the stated capital is given in note 19 to the financial statements on page 52.

CAPITAL EXPENDITURE

The Group's capital outlay on property, plant and equipment amounted to Rs. 29 Mn (2012 - 37 Mn) while the capital outlay of the Company on property, plant and equipment amounted to Rs. Nil (2012 - Nil). Details are given in note 11 to the financial statements on page 47.

The movement of property, plant and equipment during the year is given in note 11 to the financial statements on pages 47.

MARKET VALUE OF PROPERTIES

The Group land and buildings were revalued as at 31 March 2013. Details are given in note 11.1- e to the financial statements on page 48.

The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties.

SHAREHOLDINGS

The Company is a member of CT Holdings PLC Group and there were 1,723 of registered share holders as at 31 March 2013 (2012 - 1,765).

An analysis of shareholdings according to the size of holding and the names of the 20 largest shareholders is given on pages 69 and 70.

DIRECTORATE

The Directors listed on the inner back cover have been Directors of the Company throughout the year under review.

Mr. M S J Fernando (Executive Director/CEO) resigned from the Group w.e.f. 30 June 2013.

Messrs. V R Page (Deputy Chairman) and A T P Edirisinghe retire by rotation in terms of the Company's Articles of Association and being eligible offer themselves for re-election

DIRECTORS' REMUNERATION

The remuneration of the Directors is given in note 30 - (a) on page 58 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

The Directors' interests in contracts and proposed contracts with the Company are included in note 30 - (b) to the financial statements on page 59. The Directors have declared their interests at meetings of the Board. The Directors have had no direct or indirect interest in any other contracts in relation to the business of the Company.

INTEREST REGISTER

The company maintains an Interest Register conforming to the Provisions of the Companies Act No. 7 of 2007.

DIRECTORS' SHAREHOLDING

The Directors' shareholding in the Company were as follows:

Number of shares as at 31 March	2013	2012
Mr. Stuart Young	Nil	Nil
Mr. V R Page	Nil	Nil
Mr. M I Abdul Wahid	3,000	Nil
Mr. M S J Fernando	Nil	Nil
Mr. P S Mathavan	281,800	281,800
Mr. A T P Edirisinghe	1,000	1,000
Mr. Sunil Mendis	Nil	Nil
Mr. J C Page	1,000	1,000

DONATIONS

During the year no donations (2012 - Rs. Nil) had been made by the Company.

AUDITORS

Messrs KPMG , Chartered Accountants are deemed reappointed as auditors at the Annual General Meeting of the Company in terms of Section 158 of the Companies Act No. 7 of 2007. The Directors have been authorised to determine the remuneration of the Auditors and fees paid to Auditors are disclosed in note 7 to the financial statements. As far as the Directors are aware, the auditors do not have any relationship (other than that of an auditor) with the Company or any of its Subsidiaries other than those disclosed in the above note.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period of the Company are given in note 29 to the financial statements on page 58.

STATUTORY PAYMENTS

All statutory payments due to the Government of Sri Lanka and on behalf of employees have been made or accrued for the reporting date.

FUTURE DEVELOPMENTS

The Chairman's review describes the future developments of the Group.

ENVIRONMENTAL PROTECTION

After making adequate enquiries from the management, the Directors are satisfied that the Company and its subsidiaries operate in a manner that minimizes the detrimental effect on the environment and provide products and services that have a beneficial effect on the customers and the communities within which the Group operates.

GOING CONCERN

The directors have adopted the Going Concern Basis in preparing these financial statements. After making enquiries from the management, the Directors are satisfied that the Group has adequate resources to continue its operations in the foreseeable future.

For and on behalf of the Board;

Signed.
V R Page
Deputy Chairman

Signed.
M I Abdul Wahid
Managing Director

Signed.
S L W Dissanayake
Company Secretary

27 August 2013

Statement of Directors' Responsibilities

The Companies Act No. 7 of 2007 places the responsibility on the Directors to prepare and present financial statements for each year comprising a statement of financial position as at year end date and statement of comprehensive income, statement of cash flow and statement of changes in equity for the year together with the accounting policies and explanatory notes. The responsibility of the auditors with regard to these financial statements, which differ from that of the Directors, is set out in the Auditors' report on page 27.

Considering the present financial position of the Company and the Group and the forecasts for the next year, the Directors have adopted the going concern basis for the preparation of these financial statements.

The Directors confirm that the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS), which have been consistently applied and supported, by reasonable and prudent judgments and estimates.

The Directors are responsible for ensuring that the Company maintains adequate accounting records to be able to disclose with reasonable accuracy, the financial position of the Company and the Group and for ensuring that the financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and provide the information required by the Companies Act.

The Directors are responsible for the proper management of the resources of the Company. The internal control system has been designed and implemented to obtain reasonable but not absolute assurance that the Company is protected from undue risks, frauds and other irregularities. The Directors are satisfied that the control procedures operated effectively during the year.

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments have been made up to date or have been provided for in these financial statements.

By order of the Board

Signed.
S L W Dissanayake
Company Secretary

27 August 2013

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
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TO THE SHAREHOLDERS OF
KOTMALE HOLDINGS PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kotmale Holdings PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiaries (" the Group"), which comprise the statement of financial position as at 31 March 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 28 to 67 of the annual report.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

SCOPE OF AUDIT AND BASIS OF OPINION

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

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

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

OPINION

Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2013 and the financial statements give a true and fair view of the financial position of the Company as at 31 March 2013, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries dealt with thereby as at 31 March 2013, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

These financial statements also comply with the requirements of Section 153(2) to 153(7) of the Companies Act No. 07 of 2007.

Signed.
CHARTERED ACCOUNTANTS

27 August 2013
Colombo

Statement of Comprehensive Income

For the year ended 31 March	Notes	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Revenue	2	2,205,949,375	2,085,210,804	-	-
Cost of sales	3	(1,785,352,110)	(1,664,083,253)	-	-
Gross profit		420,597,265	421,127,551	-	-
Amortisation of grant		477,696	1,910,904	-	-
Other income	4	5,211,796	302,073	5,050,699	2,567,993
Distribution expenses		(208,735,744)	(244,189,742)	-	-
Administrative expenses		(80,907,632)	(82,485,087)	(2,573,603)	(2,213,607)
Other expenses	5	-	-	-	(1,328,333)
Result from operating activities		136,643,381	96,665,699	2,477,096	(973,947)
Net finance income / (cost)	6	15,646,545	1,048,895	39,298	37,276
Profit / (loss) before taxation	7	152,289,926	97,714,594	2,516,394	(936,671)
Tax expenses	8	(36,229,835)	(14,293,524)	(926,916)	(7,469)
Net profit / (loss) for the year		116,060,091	83,421,070	1,589,478	(944,140)
Other comprehensive income					
Revaluation of property plant and equipment		47,800,000	-	-	-
Tax on other comprehensive income		(5,544,000)	-	-	-
Other comprehensive income for the year, net of tax		42,256,000	-	-	-
Total comprehensive income for the year		158,316,091	83,421,070	1,589,478	(944,140)
Earnings / (losses) per share - basic / diluted (Rs.)	9	3.70	2.66	0.05	(0.03)
Dividends per share (Rs.)	10	-	-	-	-

The accounting policies and notes from pages 33 to 67 form an integral part of these financial statements.

Statement of Financial Position

		Group			Company		
As at 31 March		2013	**2012**	**2011**	2013	**2012**	**2011**
	Notes	Rs.	**Rs.**	**Rs.**	Rs.	**Rs.**	**Rs.**
ASSETS							
Non-current assets							
Property, plant and equipment	11	387,347,720	301,388,195	285,958,271	-	-	-
Intangible assets	12	55,863,274	55,863,274	55,863,274	-	-	-
Investments in subsidiaries	13	-	-	-	185,400,000	185,400,000	185,400,000
Deferred tax assets	14	-	2,503,480	-	-	-	-
		443,210,994	359,754,949	341,821,545	185,400,000	185,400,000	185,400,000
Current assets							
Inventories	15	99,595,850	138,796,128	75,976,794	-	-	-
Trade and other receivables	16	131,055,702	193,349,222	217,323,304	4,224	4,104	1,328,333
Amounts due from related parties	17	51,128,813	29,193,865	45,378,156	62,388,510	58,912,798	58,482,017
Short term investments		326,000,000	105,429,225	28,502,151	-	-	-
Cash at banks and in hand	18	26,783,707	18,382,614	28,515,930	1,442,275	1,392,701	1,362,022
		634,564,072	485,151,054	395,696,335	63,835,009	60,309,603	61,172,372
Total assets		1,077,775,066	844,906,003	737,517,880	249,235,009	245,709,603	246,572,372
EQUITY							
Stated capital	19	314,000,000	314,000,000	314,000,000	314,000,000	314,000,000	314,000,000
Reserves	20	94,583,431	52,327,431	52,327,431	3,054,017	3,054,017	3,054,017
Retained earnings		379,795,774	263,735,683	180,314,613	(72,079,595)	(73,669,073)	(72,724,933)
		788,379,205	630,063,114	546,642,044	244,974,422	243,384,944	244,329,084
LIABILITIES							
Non-current liabilities							
Deferred income	21	-	477,696	2,388,600	-	-	-
Deferred tax liability	22	16,187,010	3,771,312	4,724,155	-	-	-
Interest bearing borrowings	23	421,588	3,729,360	8,058,499	-	-	-
Retirement benefit obligations	24	13,409,996	13,076,032	12,455,448	-	-	-
Total equity		30,018,594	21,054,400	27,626,702	-	-	-
Current liabilities							
Trade and other payables	25	220,639,703	151,539,129	158,799,395	3,252,425	2,234,943	2,128,962
Amounts due to related parties	17	4,025,755	9,337,738	-	-	-	-
Income tax payable		31,313,791	16,606,991	23,351	926,916	7,469	23,351
Interest bearing borrowings	23	3,307,772	4,329,139	4,192,818	-	-	-
Bank overdrafts	18	90,246	11,975,492	233,570	81,246	82,247	90,975
		259,377,267	193,788,489	163,249,134	4,260,587	2,324,659	2,243,288
Total liabilities		289,395,861	214,842,889	190,875,836	4,260,587	2,324,659	2,243,288
Total equity and liabilities		1,077,775,066	844,906,003	737,517,880	249,235,009	245,709,603	246,572,372

The accounting policies and notes from pages 33 to 67 form an integral part of these financial statements.
I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Signed.
A Vageesan
Group Financial Controller

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

Signed.
V R Page
Deputy Chairman

Signed.
M I Abdul Wahid
Managing Director

27 August 2013
Colombo

Statement of Changes in Equity

Group	Stated capital Rs.	Capital reserves Rs.	Revaluation reserve Rs.	General reserve Rs.	Retained earnings Rs.	Total Rs.
Balance as at 1 April 2011	314,000,000	1,784,545	49,273,414	1,269,472	180,314,613	546,642,044
Net profit for the year	-	-	-	-	83,421,070	83,421,070
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	314,000,000	1,784,545	49,273,414	1,269,472	263,735,683	630,063,114
Transactions with owners, recognised directly in equity						
Dividends	-	-	-	-	-	-
Balance as at 31 March 2012	314,000,000	1,784,545	49,273,414	1,269,472	263,735,683	630,063,114
Balance as at 1 April 2012	314,000,000	1,784,545	49,273,414	1,269,472	263,735,683	630,063,114
Net profit for the year	-	-	-	-	116,060,091	116,060,091
Other comprehensive income	-	-	42,256,000	-	-	42,256,000
Total comprehensive income	314,000,000	1,784,545	91,529,414	1,269,472	379,795,774	788,379,205
Transactions with owners, recognised directly in equity						
Dividends	-	-	-	-	-	-
Balance as at 31 March 2013	314,000,000	1,784,545	91,529,414	1,269,472	379,795,774	788,379,205

The accounting policies and notes from pages 33 to 67 form an integral part of these financial statements.

Company	**Stated capital Rs.**	**Capital reserves Rs.**	**Revaluation reserve Rs.**	**General reserve Rs.**	**Retained earnings Rs.**	**Total Rs.**
Balance as at 1 April 2011	314,000,000	1,784,545	-	1,269,472	(72,724,933)	244,329,084
Net loss for the year	-	-	-	-	(944,140)	(944,140)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	314,000,000	1,784,545	-	1,269,472	(73,669,073)	243,384,944
Transactions with owners of the Company, recognised directly in equity						
Dividends	-	-	-	-	-	-
Balance as at 31 March 2012	314,000,000	1,784,545	-	1,269,472	(73,669,073)	243,384,944
Balance as at 1 April 2012	314,000,000	1,784,545	-	1,269,472	(73,669,073)	243,384,944
Net profit for the year	-	-	-	-	1,589,478	1,589,478
Other comprehensive income						
Total comprehensive income	314,000,000	1,784,545	-	1,269,472	(72,079,595)	244,974,422
Transactions with owners of the Company, recognised directly in equity						
Dividends	-	-	-	-	-	-
Balance as at 31 March 2013	314,000,000	1,784,545	-	1,269,472	(72,079,595)	244,974,422

The accounting policies and notes from pages 33 to 67 form an integral part of these financial statements.

Statement of Cash Flow

For the year ended 31 March	Notes	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Cash flows from operating activities					
Profit / (loss) before tax		152,289,926	97,714,594	2,516,394	(936,671)
Adjustments for :					
Amortisation of grant		(477,696)	(1,910,904)	-	-
Depreciation	11	34,718,680	31,622,067	-	-
Retirement benefit obligation	24	1,461,117	2,275,512	-	-
Net finance (income) / cost	6	(15,646,545)	(1,048,895)	(39,298)	(37,276)
Loss on sale of property, plant and equipment		-	25,050	-	-
Provision for / (reversal of provision for) inventories		(5,600,368)	919,067	-	-
Provision for / (reversal of provision for) doubtful debtors		14,409,358	16,254,838	-	-
Operating profit before working capital changes		181,154,472	145,851,329	2,477,096	(973,947)
Changers in working capital					
(Increase) / Decrease in inventories		44,800,646	(63,738,401)	-	-
(Increase) / Decrease in trade and other receivables		42,805,764	7,719,244	(4,225)	1,324,229
(Increase) / Decrease in related company receivables		(21,934,948)	16,184,291	(3,475,712)	(430,781)
Increase / (Decrease) in trade and other payables		69,100,574	(7,260,266)	1,017,482	105,981
Increase / (Decrease) in related company payables		(5,311,983)	9,337,738	-	-
Cash generated from operations		310,614,525	108,093,935	14,641	25,482
Interest paid	6.2	(1,985,092)	(2,729,677)	(2,950)	(3,762)
Gratuity paid	24	(1,127,153)	(1,654,928)	-	-
Taxes paid		(7,069,459)	(1,166,207)	(3,364)	(23,351)
Net cash generated /(used in) from operating activities		300,432,821	102,543,123	8,327	(1,631)
Cash flows from investing activities					
Addition to property, plant and equipment	11	(91,072,515)	(47,102,091)	-	-
Disposal of property, plant and equipment	11	18,194,310	25,050	-	-
Interest income	6.1	17,631,637	3,778,572	42,248	41,038
Net cash generated /(used in) investing activities		(55,246,568)	(43,298,469)	42,248	41,038
Cash flows from financing activities					
Repayment of long term borrowings	23	(4,329,139)	(4,192,818)	-	-
Net cash generated /(used in) financing activities		(4,329,139)	(4,192,818)	-	-
Net increase / (decrease) in cash and cash equivalents		240,857,114	55,051,836	50,575	39,407
Movement in cash and cash equivalents					
At the beginning of the year		111,836,347	56,784,511	1,310,454	1,271,047
Movement during the year		240,857,114	55,051,836	50,575	39,407
At the end of the year	18 - c	352,693,461	111,836,347	1,361,029	1,310,454

The accounting policies and notes from pages 33 to 67 form an integral part of these financial statements.

Notes to the Financial Statements

1.1 Reporting entity

Kotmale Holdings PLC, formerly known as Lambretta (Ceylon) Ltd., is a company incorporated and operating in Sri Lanka since 6 January 1967 as a Quoted Public Company listed with the Colombo Stock Exchange on 1969. The registered office of the Company is located at No. 40, York Street, Colombo 01.

The consolidated financial statements of the Company as at and for the year ended 31 March 2013 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

1.1.1 Principal activities and nature of operations

Kotmale Holdings PLC became the holding Company of the Group during the financial year ended 31 December 2003. The principal activities of the Subsidiaries are to engage in the manufacturing and distributing dairy products under the brand name of KOTMALE.

Kotmale Products Ltd., and Kotmale Milk Foods Ltd., are fully owned subsidiaries of Kotmale Holdings PLC. Following companies which are fully owned subsidiaries of Kotmale Products Ltd., have also been included in this consolidated financial statements.

- Kotmale Dairy Products (Pvt) Ltd.
- Kotmale Milk Products Ltd.
- Kotmale Kiri (Pvt) Ltd.
- Kotmale Marketing (Pvt) Ltd.

Kotmale Marketing (Pvt) Ltd., has ceased operations on 31 March 2001 and in the process of liquidation. Kotmale Kiri (Pvt) Ltd., has ceased operations since February 2007 and continues as a dormant Company. Kotmale Milk Foods Ltd., has ceased its commercial operations with effect from 01 February 2011.

All the companies in the Group have a common financial year, which ends on 31 March.

1.2 Basis of preparation

1.2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with new Sri Lanka Accounting Standards (SLFRS / LKAS's) as laid down by the Institute of Chartered Accountants of Sri Lanka(ICASL) and the requirements of the Companies Act No. 07 of 2007.

For all periods up to and including the year ended 31 March 2012, the Group and the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLASs). These are the Group's and the Company's first financial statements prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRSs and LKASs) and SLFRS - 1 First-time Adoption of Sri Lanka Accounting Standards has been applied.

An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 32.

The Financial statements were authorised for issue by the Board of Directors on 27 August 2013.

1.2.2 Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for defined benefit obligations are measured at its present value, based on an actuarial valuation in the statement of financial position:

The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future and they do not foresee a need for liquidation or cessation of trading.

1.2.3 Comparative information

The previous year figures and phrases have been reclassified whenever necessary to conform to current year presentation.

1.2.4 Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the Group's functional currency. All financial information presented in Rupees (Rs.), unless stated otherwise.

1.2.5 Use of estimates and judgments

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

Notes to the Financial Statements contd...

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

Information about significant areas of estimation uncertainty and judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in notes;
Note 8.1 - utilisation of tax losses
Note 24 - measurement of defined benefit obligations

1.3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening SLFRS / LKAS statement of financial position at 1 April 2011 for the purposes of the transition to SLFRSs / LKASs, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

1.3.1 Basis of consolidation

1.3.1.1 Business combinations

The consolidated Financial Statements (referred to as the "Group") comprise the Financial Statements of the Company and its subsidiaries.

The Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions/ events in similar circumstances and where necessary, appropriate adjustments have been made in the Consolidated Financial Statements.

As part of its transition to SLFRSs and LKASs, the Group elected to restate only those business combinations that occurred on or after the transition date, 1 April 2011.

1.3.1.2 Subsidiaries

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

1.3.1.3 Acquisitions from entities under common control

The purchase method of accounting is used to account for the acquisition of subsidiary by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the Group's share of the identifiable net assets acquired is recorded as Goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

1.3.1.4 Transactions eliminated on consolidation

Inter Group balances and transactions and any unrealised income and expenses arising from inter Group transactions are eliminated in preparing the consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.4 Foreign currency

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at yearend exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.5 Assets and the bases of their valuation

1.5.1 Property, plant and equipment

1.5.1.1 Recognition and Measurement

The cost of an item of property, plant and equipment comprise its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to the working condition for its intended use. This also includes cost of dismantling and removing the items and restoring in the site on which they are located and borrowing costs on qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Carrying amounts of property plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss. Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charged subsequent to the date of the revaluation. Where land and buildings are subsequently revalued, any increases in the carrying amount is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve statement of equity, any excess and all other decreases are charged to the income statement. Revaluation of property, plant and equipment are undertaken by professionally qualified independent valuers.

1.5.1.2 Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

1.5.1.3 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognized within other income in profit or loss.

1.5.1.4 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives and rates of depreciation for the current and comparative periods are as follows:

	Years
Freehold buildings	20-40
Plant, machinery and equipment	5-10
Office furniture, fittings and equipment	4-8
Air condition and refrigeration	5 -10
Computer and accessories	4
Motor vehicles	4

Notes to the Financial Statements contd...

Improvements of leasehold buildings and buildings constructed on leasehold land are amortised over the lower of their economic useful lives or unexpired period of lease.

Depreciation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

1.5.1.5 Capital work in progress

Capital expenses incurred during the year which are not completed as at the Balance Sheet date are shown as capital work – in – progress whilst, the capital assets which have been completed during the year and put to use have been transferred to property, plant and equipment.

1.5.2 Intangible assets

An intangible asset is recognised if it is probable that economic benefits are attributable to the assets will flow to the entity and cost of the assets can be measured reliably and carried at cost less accumulated amortisation and accumulated impairment losses.

1.5.2.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in a business combination is tested annually for impairment, or more frequently if events or changes in circumstance indicate that it might be impaired; and carried at costs less accumulated impairment losses. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

1.5.3 Financial instruments

1.5.3.1 Financial assets

1.5.3.1.1 Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short term deposits, trade and other receivables, loans and other receivables, unquoted equity instruments and derivative financial instruments.

1.5.3.1.2 Derecognition

The Group derecognised financial asset when:

- The right to receive cash flows from the asset have expired or the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement: and either.

- The entity has transferred substantially all the risks and rewards of the asset, or

- The entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

- On derecognition of a financial asset, the difference between the carrying amount of the asset or the carrying amount allocated to the portion of the asset transferred and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in Statement of Comprehensive Income.

1.5.3.2 Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

1.5.3.3 Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group become a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

1.5.3.4.1 Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the statement of comprehensive income.

During the Financial year the Group has not designated any financial assets as fair value through profit or loss

1.5.3.4.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income.

The Group considers impairment of trade receivables at both a specific significant individual debtor level and collectively. Any Group company which has any individually significant debtors assesses them for specific impairment. All individually insignificant debtors that are not specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified by grouping together assets with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred and adjusted for the management's judgment. The carrying amount of the trade receivables is

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reduced through the use of the bad debt provision account and the amount of the loss is recognised in the profit or loss. If there is no realistic prospect of future recovery of a debt, the amount is written off.

An impairment loss in respect of other financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

1.5.3.4.3 Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

During the Financial year the Group has not designated any financial assets as held-to-maturity investments

1.5.3.4.4 Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the statement of comprehensive income in finance costs and removed from the available-for-sale reserve.

During the Financial year the Group has not designated any financial assets as available-for-sale financial investments

1.5.4 Financial Liabilities

1.5.4.1 Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, transaction costs that are directly attributable to the acquisition or issue of such financial liability.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments

1.5.4.2 Subsequent measurement

1.5.4.2.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39.

Gains or losses on liabilities held for trading are recognised in the statement comprehensive income.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

1.5.4.2.2 Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

1.5.4.2.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

1.5.4.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

1.5.5 Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the normal course of business less estimated cost of realisation and / or cost of conversion from their existing state to saleable condition.

The cost of each category of inventory of the group is determined on the following basis.

- Raw materials
  Actual cost on a First In First Out (FIFO) basis
- Finished Goods and work in progress
  Directly attributable manufacturing cost
- Merchandising goods
  Actual cost on a First In First Out (FIFO) basis
- Other inventories
  Actual cost

1.5.6 Short term investment

Short term investment consist of investment in money market instruments, re-purchases agreements and call deposits.

1.5.7 Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, demand deposits, short term highly liquid investments in money market which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value net of bank overdrafts that are repayable on demand for the purpose of the statement of cash flows.

1.5.8 Equity and liabilities

1.5.8.1 Stated capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.5.9 Post employment benefits

1.5.9.1 Defined benefit plan - retiring gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the balance sheet in respect of defined benefit plan is the present value of defined benefit obligation as at the balance sheet date. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. The defined benefit obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by LKAS 19 - “Employees Benefits”.

The actuarial gains and losses are credited or charged to income statement in the period in which they arise.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 24 to the financial statements.

However, according to the Payment of Gratuity Act No.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Group.

1.5.9.2 Defined contribution plans – employees’ provident fund and employee trust fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have

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no legal or constructive obligation to pay further amounts. Employer's contribution to the defined contribution plans are recognised as an expense in the statement of comprehensive income when incurred.

All the employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in accordance with the respective statutes and regulations. Group contributes 15% and 3% of gross emoluments of employees to the Employees' Provident Fund and Employees' Trust Fund, respectively.

1.5.10 Borrowings

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

1.5.11 Provisions, contingent assets and contingent liabilities

A provision is recognised if, as a result of a past event the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

All contingent liabilities are disclosed, as notes to the financial statements unless the outflow of resources is remote.

Contingent assets if exist, are disclosed, when inflow of economic benefit is probable.

1.6 Statement of comprehensive income

1.6.1 Revenue

The revenue of the company and Group represents invoiced value of goods to customers other than to companies in the group, net of discounts and returns.

1.6.1.1 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group/Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes. The following specific recognition criteria must also be met before revenue is recognised.

1.6.2 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 delivery of the goods.

1.6.3 Other income

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

Gains or losses of revenue nature arising from the disposal of property, plant and equipment and other non-current assets, including investments, are accounted for in the income statement, after deducting from the net sales proceeds on disposal the carrying amount of such assets.

Foreign currency gains and losses are reported on a net basis.

Income from scrap sales are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

1.6.4 Grants

Grants, including non-monetary grants at fair value, are recognised when there is reasonable assurance that the conditions attached to them will be complied by the company and the grants will be received. Grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet as deferred income and recognised in the income statement on a systematic and rational basis over the useful life of the asset. Grants related to income are presented as a credit in the income statement, under the heading of amortisation of grant.

1.6.5 Expenditure recognition

1.6.5.1 Expenditure

Expenses are recognised in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenses incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Statement of Comprehensive Income.

1.6.5.2 Allowance for doubtful debts

The Group assesses at the date of balance sheet whether there is objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual and anticipated impairment.

1.6.5.3 Borrowing costs

Borrowing costs directly attributable to acquisition, construction or production of assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that Group incurs in connection with the borrowing of funds.

1.6.5.4 Net finance cost

Finance income comprises interest income on funds invested and staff loans, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

1.6.5.5 Taxation

1.6.5.5.1 Current taxation

The provision for income tax on Sri Lankan operation is based on the elements of income and expenditures reported in the Financial Statements and computed with in accordance with the provisions of the Inland Revenue Act.

1.6.5.5.2 Deferred taxation

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred 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 as at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if legally enforceable right exists to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity and the same taxation authority.

1.7 Related party transaction

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged or not.

The relevant details are disclosed in the respective notes to the Financial Statements.

1.8 Statement of cash flow

Interest received and dividends received are classified as investing cash flows, while dividend paid and interest paid, is classified as financing cash flows for the purpose of presentation of Statement of Cash Flows which has been prepared using the ‘Indirect Method’.

1.9 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group/Company by the weighted average number of shares outstanding during the period.

1.10 Events occurring after the reporting period

Events after the reporting period are those events favorable and unfavorable that occurs between the end of the

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reporting period and the date when the financial statements are authorised for issue.

The materiality of the events occurring after the reporting period is considered and appropriate adjustments to or disclosures are made in the Financial Statements, where necessary.

1.11 Commitments and contingencies

Commitments and contingencies as at the balance sheet date, is disclosed in Note 26 and 27 to the Financial Statements

1.12 Comparative information

The comparative information is re-classified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

1.13 Directors' responsibility statement

The Board of Directors of the Company is responsible for the preparation and presentation of these Financial Statements. Please refer to page 26 for the statement of the Directors' Responsibility for financial reporting.

1.14 First Time Adoption of Sri Lanka Accounting Standards (SLFRSs/LKASs)

These financial statements, for the year ended 31 March 2013, are the first, Group has prepared in accordance with SLFRSs/LKASs. For periods up to and including the year ended 31 March 2012, the Group prepared its financial statements in accordance with the Sri Lanka Accounting Standards that existed immediately prior to 1 January 2012 (SLASs) Accordingly, the Group has prepared financial statements which comply with SLFRSs/LKASs applicable for periods ending on or after 31 March 2013, together with the comparative period data as at and for the year ended 31 March 2012, as described in the significant accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 April 2011 the date of transition to SLFRSs/LKASs for the Group.

Optional exemptions as permitted in the SLFRS 1– First Time Adoption of Sri Lanka Accounting Standards (SLFRSs).

Deemed Cost

The Group elected to measure freehold land and buildings and investment property at the date of transition to SLFRS (i.e. 1 April 2011) at their fair values and use the fair values as their deemed cost at that date.

Investments in subsidiaries

The Group elected to account for its investments in subsidiaries at cost as recognised previously as per the previous Sri lanka accounting standards.

1.15 New standards and interpretations not yet adopted

The Institute of Chartered Accountants of Sri Lanka has issued the following standards which become effective for annual periods beginning after the current financial year. Accordingly these standards have not been applied in preparing theses financial statements. The Group expects that these standards when applied will have substantial impact to the financial performance, financial position and disclosures. The Group will be adopting these standards when they become effective.

SLFRS 9	– Financial instruments
SLFRS 10	– Consolidated financial statements
SLFRS 12	– Disclosure of interest in other entities
SLFRS 13	– Fair value measurement.

For the year ended 31 March	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
2 REVENUE				
Gross revenue liquid milk based products	2,250,985,703	2,128,373,448	-	-
Nation Building Tax (NBT)	(45,036,328)	(43,162,644)	-	-
Net revenue	2,205,949,375	2,085,210,804	-	-

3 COST OF SALES

Cost of sales of the Group includes direct operating cost.

For the year ended 31 March	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
4 OTHER INCOME				
Dividend income	-	-	-	2,567,993
Royalty income	5,050,699	-	5,050,699	-
Sundry income	161,097	302,073	-	-
	5,211,796	302,073	5,050,699	2,567,993
5 OTHER EXPENSES				
Provision for interest receivable from Kotmale Milk Foods Ltd.	-	-	-	1,328,333
	-	-	-	1,328,333
6 NET FINANCE INCOME / (COST)				
6.1 Finance income				
Interest income	17,631,637	3,778,572	42,248	41,038
	17,631,637	3,778,572	42,248	41,038
6.2 Finance expenses				
Bank charges	1,150,339	1,416,493	2,950	3,500
Loan interest	558,615	888,418	-	-
Overdraft interest	276,138	424,766	-	262
	1,985,092	2,729,677	2,950	3,762
Net finance income / (cost)	15,646,545	1,048,895	39,298	37,276

Notes to the Financial Statements contd...

For the year ended 31 March	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
7 PROFIT BEFORE TAXATION				
Profit before taxation is stated after charging / (crediting) all the expenses / (income) including the following;				
Auditors' remuneration - for audit	938,290	820,000	315,000	295,000
- for Non-audit	46,121	73,113	15,000	-
Amortisation of capital grant	477,696	1,910,904	-	-
Depreciation on property, plant and equipment (Note 11)	34,718,680	31,622,067	-	-
Provision / (reversal) for inventories	(5,807,243)	919,067	-	-
Staff costs (Note 7.1)	146,897,663	137,852,839	-	-
Directors' emoluments	10,754,500	8,368,000	-	-
7.1 Staff cost				
Salaries, wages and other related costs	132,249,304	122,789,526	-	-
Defined benefits plan cost - retirement gratuity	1,461,117	2,275,512	-	-
Defined contribution plan cost - EPF and ETF	13,187,242	12,787,801	-	-
	146,897,663	137,852,839	-	-
Number of employees as at 31 March	226	245	-	-
8 INCOME TAX EXPENSE				
Current year income tax				
Income tax on current year profit (Note 8.1)	25,964,889	16,606,991	926,916	7,469
(Over)/ under provision in respect of previous year	23	180,506	-	-
Dividend tax	889,745	962,350	-	-
Deferred Income tax (Note 8.2)	9,375,178	(3,456,323)	-	-
	36,229,835	14,293,524	926,916	7,469

(1) The tax liability of the companies in the Group are computed at the standard rate of 28% except for Kotmale Milk Products Ltd., which is subject to a concessionary tax rate of 10% under the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

Kotmale Dairy Products (Pvt) Ltd., is subject to a concessionary tax rate of 10% under the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto. However, as the Department of Inland Revenue is contesting the income tax exemptions claimed, hence provision has been made for income tax at the normal rate for the financial years ended 31 March 2012 and 31 March 2013 although tax returns continue to be filed based on the concessionary tax rate.

(11) During the year the subsidiaries paid Economic Service Charge (ESC) amounting to Rs. 1,425,945 (2012 - Rs. 5,728,360).

For the year ended 31 March	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
8.1 Reconciliation between income tax charge and tax on current year profit is given below;				
Profit before taxation	152,289,926	97,714,594	2,516,394	(936,671)
Aggregate other income	(22,682,336)	-	(5,092,947)	-
Aggregate exempt income	(6,053,123)	(7,543,055)	-	(2,609,031)
Aggregate disallowed expenses	58,630,128	52,550,460	894,582	1,328,333
Aggregate allowable expenses	(41,995,869)	(27,654,135)	-	-
Aggregate taxable profit on disposal of plant and machinery	14,714,057	-	-	-
Adjusted profit (a)	154,902,783	115,067,864	(1,681,971)	(2,217,369)
Interest income	18,555,266	4,163,897	42,248	41,038
Royalty income	5,050,699	-	5,050,699	-
Statutory income (b)	23,605,965	4,163,897	5,092,947	41,038
Tax losses brought forward	55,078,446	124,460,429	20,474,288	18,271,282
Tax loses added	3,788,086	7,029,230	1,681,971	2,217,369
Tax losses utilised (c)	(34,632,989)	(19,989,763)	(1,782,531)	(14,363)
Unrecognised tax losses from previous years	37,556,821	(56,421,450)	-	-
Tax losses carried forward	61,790,364	55,078,446	20,373,728	20,474,288
Taxable income (a+b+c)	143,875,759	99,241,998	3,310,416	26,675
Income tax @ 28% (2012 - @ 28%)	18,009,153	10,395,450	926,916	7,469
Income tax @ 10% (2012 - @ 10%)	7,955,736	6,211,541	-	-
Income tax expense on current year profit	25,964,889	16,606,991	926,916	7,469
8.2 Deferred income tax;				
Deferred tax expense arising from;				
Accelerated depreciation for tax purposes	700,432	21,727,608	-	-
Retirement benefit obligation	(68,522)	(2,405,712)	-	-
Benefit arising from tax losses	9,287,336	(13,431,840)	-	-
Provisions	(3,866,317)	(9,346,379)	-	-
Increase / (decrease) in future tax rates	3,322,249	-	-	-
Deferred tax (release) / charge	9,375,178	(3,456,323)	-	-

Deferred tax has been computed taking in to consideration the tax rates effective from 1 April 2012 which is 28% for all the companies. The deferred tax effect on reserves on subsidiaries has not been recognised since the parent can control the timing of the reversal of these temporary differences.

Notes to the Financial Statements contd...

8.3 Temporary differences associated with Kotmale Milk Foods Ltd., and Kotmale Holdings PLC (Company), for which the deferred tax assets have not been recognised, are disclosed as follows,

	2013		2012	
For the year ended 31 March	**Temporary difference Rs.**	**Tax effect on Temporary difference Rs.**	**Temporary difference Rs.**	**Tax effect on Temporary difference Rs.**
Deductible temporary difference	41,495,215	11,618,660	38,162,831	10,685,593

Deferred tax is not recognised since it is probable that taxable profit will not be available against which the above deductible temporary differences amounting to Rs. 41,495,215 (2012 - Rs. 38,162,831) could be utilized in accordance with LKAS 12 - " Income taxes"

	Group		Company	
As at 31 March	**2013**	**2012**	**2013**	**2012**
9 EARNINGS PER SHARE				
Profit / (Loss) attributable to ordinary share holders (Rs.)	116,060,091	83,421,070	1,589,478	(944,140)
Weighted average number of ordinary shares	31,400,000	31,400,000	31,400,000	31,400,000
Basic earnings / (losses) per share (Rs.)	3.70	2.66	0.05	(0.03)

Basic earnings / (loss) per share is calculated by dividing the net profit/ (loss) for the year attributable to ordinary shareholders of Kotmale Holdings PLC by weighted average number of ordinary shares in issue during the year.

As there were no dilutive potential ordinary shares outstanding at the end of the year, dilutive earning per share is equal to basic earning per share for the year.

10 DIVIDEND PER SHARE

	Group		Company	
As at 31 March	**2013 Rs.**	**2012 Rs.**	**2013 Rs.**	**2012 Rs.**
Dividends per share	-	-	-	-

The Company has not paid or proposed dividends for the ended 31 March 2013 (2012 - Nil)

As at 31 March	Group 2013 Rs.	Group 2012 Rs.	Group 1 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company 1 April 2011 Rs.
11 PROPERTY, PLANT AND EQUIPMENT						
Freehold property, plant and equipment (Note 11.1)	387,347,720	301,388,195	285,958,271	-	-	-
	387,347,720	301,388,195	285,958,271	-	-	-

11.1 Freehold property, plant and equipment

Group	Land and building Rs.	Expenditure incurred on leasehold building Rs.	Plant, machinery and equipment Rs.	Motor vehicle Rs.	Furniture and fittings Rs.	Computer and accessories Rs.	Total 2013 Rs.	Total 2012 Rs.	Total 1 April 2011 Rs.
Cost / revaluation									
Balance as at 1 April	80,999,999	15,500,000	262,939,199	19,315,064	8,279,441	5,788,719	392,822,422	355,510,889	400,220,945
Additions	-	-	28,751,209	-	74,480	734,514	29,560,203	37,411,733	25,622,076
Disposal	-	-	(29,940,905)	-	-	-	(29,940,905)	(100,200)	-
Adjustments	-	-	-	-	-	-	-	-	(87,768,857)
Transfers	-	-	-	-	-	-	-	-	40,525,922
Impairment	-	-	-	-	-	-	-	-	(23,089,197)
Revaluation	47,800,000	-	-	-	-	-	47,800,000	-	-
Balance as at 31 March	128,799,999	15,500,000	261,749,503	19,315,064	8,353,921	6,523,233	440,241,720	392,822,422	355,510,889
Depreciation / Amortisation									
Balance as at 1 April	4,425,000	2,325,000	77,886,492	16,421,071	6,632,340	4,228,765	111,918,668	80,346,701	132,359,780
Charge for the year	1,475,000	775,000	29,991,833	982,180	589,391	905,276	34,718,680	31,622,067	28,868,978
Disposal	-	-	(11,746,595)	-	-	-	(11,746,595)	(50,100)	-
Adjustments	-	-	-	-	-	-	-	-	(87,768,849)
Transfers	-	-	-	-	-	-	-	-	19,008,621
Impairment	-	-	-	-	-	-	-	-	(12,121,829)
Balance as at 31 March	5,900,000	3,100,000	96,131,730	17,403,251	7,221,731	5,134,041	134,890,753	111,918,668	80,346,701
Carrying value	122,899,999	12,400,000	165,617,773	1,911,813	1,132,190	1,389,192	305,350,967	280,903,754	275,164,188
Capital working progress	-	-	-	-	-	-	81,996,753	20,484,441	10,794,083
Carrying value as at 31 March	122,899,999	12,400,000	165,617,773	1,911,813	1,132,190	1,389,192	387,347,720	301,388,195	285,958,271

Notes to the Financial Statements contd...

a The freehold land and building of the subsidiary Company of Kotmale Dairy Products (Pvt) Ltd. was revalued as at 31 March 2013 by an independent professional valuer, Mr. Tissa Weeratne FIVSL (Reg. No. F 53), on a depreciated replacement cost basis for buildings and market value base for lands as at the date of valuation. The revalued amount was incorporated in the financial statements as at 31 March 2013.

These revaluations have been carried out in conformity with the requirements of LKAS 16 - "Property, plant and equipment". The surplus on revaluation was credited to the revaluation reserve account.

b Capital working progress consists of expenditure incurred on projects which are not completed and commenced business operations as at the reporting date.

c Fully depreciated assets of the Group at the year end is Rs. 24,928,925 (2012 - Rs. 23,179,859).

d Expenditure incurred on leasehold building represents the cost incurred in setting up buildings on leasehold land.

e Group real estate portfolio

Location	Land extent	Building area (Sq. ft.)	Valuation Rs.	Year of valuation
Kotmale Dairy Products (Pvt) Ltd.				
Mulleriyawa	1.7 Acres	29,615	100,000,000	2013
Bogahawatta	1.7 Acres	17,442	22,900,000	2013

	Group			Company		
As at 31 March	2013 Rs.	2012 Rs.	1 April 2011 Rs.	2013 Rs.	2012 Rs.	1 April 2011 Rs.
12 INTANGIBLE ASSETS						
Gross value						
At the beginning of the year	97,773,232	97,773,232	97,773,232	-	-	-
Impairment						
At the beginning of the year	(41,909,958)	(41,909,958)	(41,909,958)	-	-	-
Impairment for the year	-	-	-	-	-	-
At the end of the year	(41,909,958)	(41,909,958)	(41,909,958)	-	-	
Net carrying value	55,863,274	55,863,274	55,863,274	-	-	-

Goodwill as at the balance sheet date has been tested for impairment and found no impairment in carrying value. Recoverable value has been estimated based on the value in use method as stipulated in LKAS 36 - "Impairment of Assets".

	Shares	(%)	Group 2013 Rs.	Group 2012 Rs.	Group 1 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company 1 April 2011 Rs.
13 INVESTMENT IN SUBSIDIARIES								
Kotmale Products Ltd.	10,372,560	100	-	-	-	185,400,000	185,400,000	185,400,000
Kotmale Milk Foods Ltd.	70	100	-	-	-	30,000,060	30,000,060	30,000,060
Provision for the investment in Kotmale Milk Foods Ltd.			-	-	-	(30,000,060)	(30,000,060)	(30,000,060)
			-	-	-	185,400,000	185,400,000	185,400,000

As at 31 March	Group 2013 Rs.	Group 2012 Rs.	Group 1 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company 1 April 2011 Rs.
14 DEFERRED TAX ASSETS						
As at 1 April	2,503,480	-	-	-	-	-
(Charge) / Release for the year	(2,503,480)	2,503,480	-	-	-	-
As at 31 March	-	2,503,480	-	-	-	-
Deferred tax assets as at the year end is made up as follows.						
Deferred tax assets arising from						
- Temporary difference of property, plant and equipment	-	24,683,571	-	-	-	-
- Temporary difference of retirement benefit obligations	-	(3,460,784)	-	-	-	-
- Temporary difference of trade debts	-	(10,294,427)	-	-	-	-
- Carried forward tax losses	-	(13,431,840)	-	-	-	-
As at 31 March	-	(2,503,480)	-	-	-	-
15 INVENTORIES						
Finished goods	57,426,214	65,297,678	33,400,599	-	-	-
Raw materials	19,843,642	45,639,626	14,906,486	-	-	-
Packing materials	11,763,618	21,293,683	24,084,924	-	-	-
Others	10,562,376	12,165,509	8,266,086	-	-	-
Provision for obsolete stocks	-	(5,600,368)	(4,681,301)	-	-	-
	99,595,850	138,796,128	75,976,794	-	-	-

a Inventories which have been mortgaged for bank facilities are disclosed note 23 - (c), in notes to the financial statements.

Notes to the Financial Statements contd...

As at 31 March	Group 2013 Rs.	2012 Rs.	1 April 2011 Rs.	Company 2013 Rs.	2012 Rs.	1 April 2011 Rs.
16 TRADE AND OTHER RECEIVABLES						
Trade receivables	159,405,576	198,843,356	201,136,203	-	-	-
Provision for bad and doubtful debts	(51,654,809)	(40,293,916)	(25,513,770)	-	-	-
	107,750,767	158,549,440	175,622,433	-	-	-
Staff debtors (Note 16.1)	322,371	443,395	703,113	-	-	-
Other receivables (Note 16.2)	22,982,564	34,356,387	40,997,758	4,224	4,104	1,328,333
	131,055,702	193,349,222	217,323,304	4,224	4,104	1,328,333

a Trade receivables which have been mortgaged for bank facilities are disclosed note 23 - (c), in notes to the financial statements

16.1 Staff debtors

Balance at the beginning of the year	443,395	703,113	646,992	-	-	-
Advances given during the year	2,323,501	1,624,653	1,950,442	-	-	-
Repayment made during the year	(2,444,525)	(1,884,371)	(1,894,321)	-	-	-
Balance at the end of the year	322,371	443,395	703,113	-	-	-

16.2 Other receivables

Receivable from farmers (16.2 - a)	7,060,053	13,896,190	14,084,626	-	-	-
Provision for bad and doubtful debts for receivables from farmers	(3,942,955)	(2,400,000)	(1,500,000)	-	-	-
	3,117,098	11,496,190	12,584,626	-	-	-
Other debtors	4,040,871	4,155,076	10,322,238	-	1,328,333	1,328,333
Provision for bad and doubtful debts for other debtors	(4,024,368)	(3,079,013)	(2,494,371)	-	(1,328,333)	-
	16,503	1,076,063	7,827,867	-	-	1,328,333
Deposits, advances and prepayments	19,848,963	21,784,134	20,585,265	4,224	4,104	-
Total Other receivables	22,982,564	34,356,387	40,997,758	4,224	4,104	1,328,333

a Receivables from farmers consist of advances and cost of cattle feed, milk cans, etc. given to farmers.

As at 31 March	Group 2013 Rs.	Group 2012 Rs.	Group 1 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company 1 April 2011 Rs.
17 AMOUNT DUE FROM / DUE TO RELATED COMPANIES						
Amount due from ultimate parent company						
Cargills (Ceylon) PLC	-	23,830,765	45,378,156	-	-	-
	-	23,830,765	45,378,156	-	-	-
Amount due from other related companies	-					
Kotmale Milk Products Ltd.	-	-	-	18,438,381	18,438,381	18,438,381
Kotmale Milk Foods Ltd.	-	-	-	2,474,640	2,474,640	-
Kotmale Dairy Products (Pvt) Ltd.	-	-	-	36,331,437	37,906,424	40,043,636
Kotmale Products Ltd.	-	-	-	93,353	93,353	-
Millers Brewary Ltd.	-	5,363,100	-	-	-	-
Cargills Quality Foods Ltd.	635,843	-	-	-	-	-
Cargills Quality Dairies (Pvt) Ltd.	50,492,970	-	-	5,050,699	-	-
	51,128,813	5,363,100	-	62,388,510	58,912,798	58,482,017
Total amount due from related companies	51,128,813	29,193,865	45,378,156	62,388,510	58,912,798	58,482,017
Amount due to ultimate parent company						
Cargills (Ceylon) PLC	3,950,334	6,484,608	-	-	-	-
	3,950,334	6,484,608	-	-	-	-
Amount due to other related companies						
Cargills Quality Foods Ltd.	-	2,853,130	-	-	-	-
Millers Ltd.	75,421	-	-	-	-	-
	75,421	2,853,130	-	-	-	-
Total amount due to related companies	4,025,755	9,337,738	-	-	-	-
18 CASH AND CASH EQUIVALENTS						
a Cash at banks and in hand						
Cash at bank	26,521,207	18,147,614	28,226,490	1,442,275	1,392,701	1,362,022
Cash in hand	262,500	235,000	289,440	-	-	-
	26,783,707	18,382,614	28,515,930	1,442,275	1,392,701	1,362,022
b Bank overdrafts						
Bank overdrafts	90,246	11,975,492	233,570	81,246	82,247	90,975

Notes to the Financial Statements contd...

	Group			Company		
As at 31 March	**2013**	**2012**	**1 April 2011**	**2013**	**2012**	**1 April 2011**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
c For the purpose of cash flow statement, the year end cash and cash euivalents comprise the following;						
Short term investments	326,000,000	105,429,225	28,502,151	-	-	-
Cash at banks and in hand	26,783,707	18,382,614	28,515,930	1,442,275	1,392,701	1,362,022
Bank overdrafts	(90,246)	(11,975,492)	(233,570)	(81,246)	(82,247)	(90,975)
Cash and cash equivalents as at 31 March	352,693,461	111,836,347	56,784,511	1,361,029	1,310,454	1,271,047

19 STATED CAPITAL

Issued and fully paid;						
31,400,000 Ordinary shares	314,000,000	314,000,000	314,000,000	314,000,000	314,000,000	314,000,000

20 RESERVES

Capital reserves						
Revaluation reserve	91,529,414	49,273,414	49,273,414	-	-	-
Capital reserve	1,784,545	1,784,545	1,784,545	1,784,545	1,784,545	1,784,545
	93,313,959	51,057,959	51,057,959	1,784,545	1,784,545	1,784,545
Revenue reserves						
General reserve	1,269,472	1,269,472	1,269,472	1,269,472	1,269,472	1,269,472
	94,583,431	52,327,431	52,327,431	3,054,017	3,054,017	3,054,017

Revaluation reserve consist of net surplus resulting from revaluation of property plant and equipment.
General reserve represents the amount set aside by the directors for general application.

21 DEFERRED INCOME

Grant received for the UHT filling machine						
Balance at the beginning of the year	477,696	2,388,600	4,299,504	-	-	-
Amortisation for the year	(477,696)	(1,910,904)	(1,910,904)	-	-	-
Balance at the end of the year	-	477,696	2,388,600	-	-	-

As at 31 March	Group 2013 Rs.	Group 2012 Rs.	Group 1 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company 1 April 2011 Rs.
22 DEFERRED TAX LIABILITY						
At beginning of the year	3,771,312	4,724,155	4,829,801	-	-	-
Charge / (Release) for the year	6,871,698	(952,843)	(105,646)	-	-	-
Attributable to revaluation	5,544,000	-	-	-	-	-
As at 31 March	16,187,010	3,771,312	4,724,155	-	-	-
Deferred tax liability arising from						
- Temporary difference of property, plant and equipment	29,318,875	3,934,872	6,890,835	-	-	-
- Temporary difference of retirement benefit obligation	(3,600,916)	(71,609)	(1,126,680)	-	-	-
- Temporary difference of trade debts	(14,252,695)	(91,951)	(1,040,001)	-	-	-
-Temporary difference of revaluation surplus of buildings	5,544,000	-	-	-	-	-
- Carried forward tax losses	(4,144,503)	-	-	-	-	-
-(Decrease) / increase in future tax rates	3,322,249	-	-	-	-	-
As at 31 March	16,187,010	3,771,312	4,724,155	-	-	-
23 INTEREST BEARING BORROWINGS						
Current						
Current portion of long term loans	3,307,772	4,329,139	4,192,818	-	-	-
	3,307,772	4,329,139	4,192,818	-	-	-
Non current						
Long term loan (23 - a)	421,588	3,729,360	8,058,499	-	-	-
	421,588	3,729,360	8,058,499	-	-	-
Total borrowings	3,729,360	8,058,499	12,251,317	-	-	-
a Non current						
As at 1 April	8,058,499	12,251,317	32,533,537	-	-	-
Repayments	(4,329,139)	(4,192,818)	(20,282,220)	-	-	-
As at 31 March	3,729,360	8,058,499	12,251,317	-	-	-
Falling due within one year	(3,307,772)	(4,329,139)	(4,192,818)	-	-	-
	421,588	3,729,360	8,058,499	-	-	-
Repayment during 1-2 years	421,588	3,729,360	7,738,345	-	-	-
Repayment during 2-5 years	-	-	320,154	-	-	-
	421,588	3,729,360	8,058,499	-	-	-

Notes to the Financial Statements contd...

b Details of all loans and bank facilities at the balance sheet date are set out as follows;

Institution and the facility	Principle Amount in Rs.	Repayment terms and interest rates
Kotmale Dairy Products (Pvt) Ltd.		
Bank Overdraft		
Bank of Ceylon	10,000,000	Average interest rate of 17.35% p.a.
Import Loan Facility		
Bank of Ceylon	40,000,000	Average interest rate of 17.35% p.a.
Series of Loan on Import		
Bank of Ceylon	40,000,000	Average interest rate of 17.35% p.a.
Bank Loans		
People's Leasing Company PLC	3,549,000	48 Monthly instalments of Rs. 73,940 per month, commencing from September 2009, at an average interest rate of 6.5% p.a.
People's Leasing Company PLC	4,500,000	48 Monthly instalments of Rs. 93,750 per month, commencing from August 2009, at an average interest rate of 6.5% p.a.
Lankaputhra Development Bank	11,196,000	60 Monthly instalments of Rs. 186,600 per month, commencing from February 2009, at an average interest rate of 13.94% (2% rebate) p.a.
Kotmale Milk Products Ltd.		
Bank Overdraft		
Pan Asia Bank Corporation Ltd.	5,000,000	Average interest rate of 17.50% p.a.
Import Loan Facility		
Pan Asia Bank Corporation Ltd.	20,000,000	Average interest rate of 17.50% p.a.

c The security offered for each loan / bank facility are set out as follows;

Loan / Facility	Security offered
Kotmale Dairy Products (Pvt) Ltd.	
Bank of Ceylon	
Bank Overdraft Rs. 10 Mn	Corporate Guarantee from Kotmale Holdings PLC. Mortgage over stocks and book debtors.
Import Facility Rs. 40 Mn (Series of Loan on Import Rs. 40 Mn)	Corporate Guarantee from Kotmale Holdings PLC. Mortgage over stocks and book debtors.
People's Leasing Company PLC	
Long term loan facility Rs. 3.55 Mn	Corporate Guarantee from Kotmale Holdings PLC.
Long term loan facility Rs. 4.55 Mn	Corporate Guarantee from Kotmale Holdings PLC.
Lankaputhra Development Bank	
Long term loan facility Rs. 11.2 Mn	Primary mortgage on project machinery along with relevant insurance covers and a Corporate Guarantee from Kotmale Holdings PLC.
Kotmale Milk Products Ltd.	
Pan Asia Bank Corporation Ltd.	
Bank Overdraft Rs. 5 Mn	Corporate Guarantee from Kotmale Holdings PLC.
Import loan facility Rs. 20 Mn	Corporate Guarantee from Kotmale Holdings PLC.

	Group			Company		
As at 31 March	**2013**	**2012**	**1 April 2011**	**2013**	**2012**	**1 April 2011**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
24 RETIREMENT BENEFIT OBLIGATION						
At beginning of the year	13,076,032	12,455,448	10,524,508	-	-	-
Charge for the year	1,461,117	2,275,512	2,741,517	-	-	-
Contributions paid	(1,127,153)	(1,654,928)	(810,577)	-	-	-
As at 31st March	13,409,996	13,076,032	12,455,448	-	-	-
a The amounts recognised in the balance sheet are as follows.						
Present value of unfunded obligation	13,409,996	13,076,032	12,455,448	-	-	-
Present value of funded obligation	-	-	-	-	-	-
Total present value of obligation	13,409,996	13,076,032	12,455,448	-	-	-
Fair value of plan assets	-	-	-	-	-	-
Recognised liability for defined benefit obligation	13,409,996	13,076,032	12,455,448	-	-	-

Notes to the Financial Statements contd...

As at 31 March	Group 2013 Rs.	Group 2012 Rs.	Group 1 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company 1 April 2011 Rs.
b The movement in retirement benefit obligations during the year as follows:						
At beginning of year	13,076,032	12,455,448	10,524,508	-	-	-
Current service cost	1,553,631	1,894,355	2,284,453	-	-	-
Interest cost	1,434,783	-	882,845	-	-	-
Benefit paid	(1,127,153)	(1,654,928)	(810,577)	-	-	-
Actuarial (gain) / loss	(1,527,297)	381,157	(425,781)	-	-	-
Present value obligation as at the year end	13,409,996	13,076,032	12,455,448	-	-	-
c The amount recognised in the income statement as follows:						
Current service cost	1,553,631	1,894,355	2,284,453	-	-	-
Interest cost	1,434,783	-	882,845	-	-	-
Net actuarial (gain) / loss	(1,527,297)	381,157	(425,781)	-	-	-
	1,461,117	2,275,512	2,741,517	-	-	-

d This obligation is not externally funded.

e The Gratuity liability is based on the actuarial valuation carried out by Mr. M Poopalanathan, AIA, Messrs. Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries, as at 31 March 2013. The principal assumptions used in the actuarial valuation were as follows:

	Group 2013 %	Group 2012 %	Group 1 April 2011 %
1 Discount rate (the rate of interest used to discount the future cash flows in order to determine the present value)	11%	11%	9%
2 Future salary increase			
Executive	10%	10%	8%
Staff	10%	10%	8%

In addition to the above , demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation."A 67/70 mortality table" issued by the institute of Actuaries London was used to estimate the gratuity liabilities of the following Companies;

Kotmale Dairy Products (Pvt) Ltd.
Kotmale Milk Products Ltd.

As at 31 March	Group 2013 Rs.	Group 2012 Rs.	Group 1 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company 1 April 2011 Rs.
25 TRADE AND OTHER PAYABLES						
Trade creditors	62,596,971	72,233,724	74,875,313	-	-	-
Other creditors	81,016,107	37,141,504	34,203,321	187,842	60	60
Accrued expenses	70,396,541	34,652,210	39,295,977	3,064,583	2,045,001	2,128,902
VAT payable	3,972,246	3,972,246	3,972,246	-	-	-
NBT payable	2,470,055	3,349,562	6,452,538	-	-	-
Dividend Payable	187,783	189,883	-	-	189,882	-
	220,639,703	151,539,129	158,799,395	3,252,425	2,234,943	2,128,962
26 COMMITMENTS						
a Capital Commitments						
Approved and contracted	-	50,267,375	-	-	-	-
	-	50,267,375	-	-	-	-
b Financial Commitments						
Future payment of operating lease rental						
Payable within 1 year	2,647,500	3,131,200	-	-	-	-
Payable between 1-5 years	-	2,647,500	-	-	-	-
Payable after 5 years	-	-	-	-	-	-
	2,647,500	5,778,700	-	-	-	-

27 CONTINGENT LIABILITIES

a The Company has given corporate guarantees on behalf of its subsidiaries as follows;

Kotmale Dairy products (Pvt) Ltd. - Rs. 69.3 Mn.
Kotmale Milk Products Ltd. - Rs. 25 Mn.
The Directors of the Company do not expect any claim on these guarantees, hence no provision has been made in the financial statements.

b The Department of Inland Revenue is contesting the income tax exemptions claimed under Section 16 of the Inland Revenue Act No. 10 of 2006. The contingent liability on potential income tax payment is as follows;
Kotmale Dairy Products (Pvt) Ltd. - Rs. 40.03 Mn
Kotmale Milk Products Ltd. - Rs. 8.04 Mn.
Having sought professional advice, management is confident that the tax exemption sought are applicable and as such no liability would arise. Accordingly, no provision has been made in the financial statements.

c There is no material pending litigation as at balance sheet date which would result in material liability.

d There are no other material contingent liabilities as at the reporting date.

Notes to the Financial Statements contd...

28 TRANSFER OF OPERATION WITHIN THE GROUP

In the year under review the production and sales operation of the UHT milk was transferred from Kotmale Products Ltd. to Cargills Quality Dairies (Pvt) Ltd. The royalty of 3% on the net sale is paid by Cargills Quality Dairies (Pvt) Ltd. for the sale of Kotmale branded products.

29 EVENTS AFTER THE REPORTING DATE

From June 2013 Yoghurt production and sales operations has been transferred from Kotmale Dairy Products Ltd. to Cargills Quality Dairies (Pvt) Ltd. The royalty of 3% on the net sale is paid by Cargills Quality Dairies (Pvt) Ltd. for the sale of Kotmale branded products.

Mr. M S J Fernando, Director/ Chief Executive Officer of the Kotmale Group of Companies has resigned from the employment and from the Boards of the respective companies with effect from 30 June 2013.

There is no other significant events have been taken place since the reporting date which would require any adjustments or disclosure in the financial statements

30 TRANSACTIONS WITH GROUP COMPANIES

Companies within the Group engaging in trading and business transactions under normal commercial terms which gives rise to related company balances.
The related company balances have been disclosed under note 17 to the financial statements.

a Transaction with key management personnel (KMP)

According to the Sri Lanka Accounting Standards (LKAS 24) “Related Party Disclosures”, key management personnel are those having authority and responsibility for planning, directing and controlling activities of the entity. Accordingly, the Board of Directors (including Executive and Non - Executive Directors) have been classified as key management personnel of the company. There have been no transactions involving key Management personal during the year.

The Group has paid Rs. 10.75 Mn (2012 - Rs. 8.37 Mn) to the Directors as emoluments during the year. There is no other payments made to key management personnel apart from the disclosed amount.

b The transaction of directors of the group companies

The Directors of the Company are also directors of the following companies with which the Company had regular business transactions disclosed as follows;

	Mr. Stuart Young	Mr. V R Page	Mr. M I Abdul Wahid	Mr. M S J Fernando	Mr. P S Mathavan	Mr. J C Page	Mr.A T P Edirisinghe	Mr. Sunil Mendis
Group Companies								
Kotmale Holdings PLC	√	√	√	√	√	√	√	√
Kotmale Dairy Products (Pvt) Ltd.	√		√	√				
Kotmale Milk Products Ltd.	√		√	√				
Kotmale Milk Foods Ltd.	√		√	√				
Kotmale Products Ltd.	√		√	√				
Kotmale Marketing (Pvt) Ltd.	√		√	√				
Kotmale Kiri (Pvt) Ltd.	√		√	√				
Other Companies								
Cargills (Ceylon) PLC		√	√		√	√	√	√
Cargills Quality Foods Ltd.			√		√			
Millers Breway Ltd.	√				√		√	
Millers Ltd.			√		√			
Cargills Quality Daries (Pvt) Ltd.			√		√			
CT Holdings PLC		√				√	√	√

Directors have no direct or indirect interest in any other contracts with the company. The above interest in contracts have been declared at Board Meeting by the Directors concerned.

Notes to the Financial Statements contd...

c Transactions with related companies

The subsidiaries of Kotmale Holdings PLC have engaged in trading transactions with related companies under normal terms and conditions, which can be summarised as follows;

Group

For the year ended 31 March	2013		2012	
	Sales Rs.	Purchases Rs.	Sales Rs.	Purchases Rs.
Transaction with ultimate parent company				
Cargills (Ceylon) PLC	309,560,016	-	267,569,358	-
Transaction with parent company				
Cargills Quality Foods (Pvt) Ltd.	6,186,525	-	4,947,649	-
Transaction with other related companies				
Cargills Quality Dairies (Pvt) Ltd.	130,206,780	26,278,719	-	52,922,166

Company

For the year ended 31 March	2013 Rs.	2012 Rs.
Dividend received from subsidiary companies		
Kotmale Milk Products Ltd.	-	2,567,993
	-	2,567,993

There are no material transactions between the Company and it's related companies during the year, other than disclosed above .

d Amounts due from / due to related companies

The relationship of related companies along with the amount due from and due to as at the year end have been disclosed under note 17 to these financial statement.

31 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of Financial instruments:

Credit risk
Liquidity risk
Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management processes are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversee how management monitors compliance with the Group's risk management processes / guidelines and procedures and reviews the adequacy of the risk management framework in relation to the risks. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

31.1 Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a Financial instrument fails to meet its contractual obligation, and arise principally from the Group's receivables from customers.

Carrying amount of Financial assets represents the maximum credit exposure.
The maximum exposure to credit risk at the reporting date was as follows;

Carrying value

	Group		Company	
As at 31 March	**2013**	**2012**	**2013**	**2012**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Trade receivables	159,405,576	198,843,356	-	-
Advances	19,848,963	21,784,134	-	-
Amount due from related companies	51,128,813	29,193,865	62,388,510	58,912,789
Cash and cash equivalents	26,783,707	18,382,614	1,442,275	1,392,701
	257,167,059	268,203,969	63,830,785	60,305,490

31.1.1 Trade receivables

Past due neither nor impaired				
Past due 1 - 30 days	59,579,507	92,833,682	-	-
Past due 31 - 60 days	32,677,385	28,863,536	-	-
Past due 61 - 90 days	15,035,948	12,502,591	-	-
> 91 days	52,112,736	64,643,547	-	-
	159,405,576	198,843,356	-	-

The Companies in the Group has obtained bank guarantees from major customers by reviewing their past performance and credit worthiness.

Notes to the Financial Statements contd...

31.1.2 Advances
Advances represents advances given to suppliers, farmers and permanent employees.

31.1.3 Amount due from related companies
The Group's amounts due from related companies mainly consist of related companies and ultimate parent company balance. The Company balance consists of the balance from affiliate companies.

31.1.4 Cash and cash equivalents
The Group and the Company held cash and cash equivalents of Rs. 353 Mn and Rs. 1.4 Mn at 31 March 2013 (2012: Rs. 111.8 Mn and Rs. 1.3 Mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated AAA(lka) to A(lka), based on Fitch Ratings.

Short-term investments represent investment in REPO and call deposits with less than one month maturity period are classified as cash and cash equivalent.

31.1.5 Guarantees
The Group's policy is to provide financial guarantees only to wholly owned subsidiaries.

31.2 Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities as at 31 March 2013

Group	Within 1 year Rs.	Between 1-2 years Rs.	Between 2-3 years Rs.	Between 3-4 years Rs.	Between 4-5 years Rs.	More than 5 years Rs.	Total Rs.
Financial instruments in non-current liabilities							
Borrowings	-	421,588	-	-	-	-	421,588
Financial instruments in current liabilities							
Trade and other payables	220,639,703	-	-	-	-	-	220,639,703
Amounts due to related companies	4,025,755	-	-	-	-	-	4,025,755
Current portion of long term loan	3,307,772	-	-	-	-	-	3,307,772
Bank overdraft	90,246	-	-	-	-	-	90,246
	228,063,476	421,588	-	-	-	-	228,485,064

Company	Within 1 year Rs.	Between 1-2 years Rs.	Between 2-3 years Rs.	Between 3-4 years Rs.	Between 4-5 years Rs.	More than 5 years Rs.	Total Rs.
Financial instruments in non-current liabilities							
Borrowings	-	-	-	-	-	-	-
Financial instruments in current liabilities							
Trade and other payables	3,252,425	-	-	-	-	-	3,252,425
Amounts due to related companies	-	-	-	-	-	-	-
Current portion of long term loan	-	-	-	-	-	-	-
Bank overdraft	81,246	-	-	-	-	-	81,246
	3,333,671	-	-	-	-	-	3,333,671

The following are the contractual maturities of financial liabilities as at 31 March 2012

Group	Within 1 year Rs.	Between 1-2 years Rs.	Between 2-3 years Rs.	Between 3-4 years Rs.	Between 4-5 years Rs.	More than 5 years Rs.	Total Rs.
Financial instruments in non-current liabilities							
Borrowings	-	3,307,772	421,588	-	-	-	3,729,360
Financial instruments in current liabilities							
Trade and other payables	151,539,129	-	-	-	-	-	151,539,129
Amounts due to related companies	9,337,738	-	-	-	-	-	9,337,738
Current portion of long term loan	4,329,139	-	-	-	-	-	4,329,139
Bank overdraft	11,975,492	-	-	-	-	-	11,975,492
	177,181,498	3,307,772	421,588	-	-	-	180,910,858

Notes to the Financial Statements contd...

Company	Within 1 year Rs.	Between 1-2 years Rs.	Between 2-3 years Rs.	Between 3-4 years Rs.	Between 4-5 years Rs.	More than 5 years Rs.	Total Rs.
Financial instruments in non-current liabilities							
Borrowings	-	-	-	-	-	-	-
Financial instruments in current liabilities							
Trade and other payables	2,234,943	-	-	-	-	-	2,234,943
Amounts due to related companies	-	-	-	-	-	-	-
Current portion of long term loan	-	-	-	-	-	-	-
Bank overdraft	82,247	-	-	-	-	-	82,247
	2,317,190	-	-	-	-	-	2,317,190

31.3 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

31.3.1 Currency Risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the Sri Lankan rupees (LKR).The Group also has limited exposure in respect of recognised foreign currency assets and liabilities.

31.3.2 Interest Rate Risk

The Group is exposed to interest rate risk on borrowings and deposits. The Group's interest rate policy seeks to minimise the cost and volatility of the Group's interest expense by maintaining a diversified portfolio of fixed rate, floating rate and inflation-linked liabilities.

The group adopt policy of ensuring borrowings are maintained at manageable level while optimising return. Interest rates are negotiated leveraging on the strength of the Kotmale Group and thereby ensuring the availability of cost-effective funds at all time, while minimising the negative effect of market fluctuations. Further, the Company has considerable banking facilities with several reputed banks which has enabled the Company to negotiate competitive rates.

32 EXPLANATION OF TRANSITION TO SLFRS / LKAS

In preparing its opening SLFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with SLASs (Previous GAAP). An explanation of how the transition from previous SLASs to SLFRSs has affected the Group's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany the tables.

32.1 Reconciliation of comprehensive income

	Group			Company		
	As per SLASs	**Effect of to transaction SLFRSs / LKASs**	**As per SLFRSs / LKASs**	**As per SLASs**	**Effect of to transaction SLFRSs / LKASs**	**As SLFRSs / LKASs**
For the year ended 31 March	**2012**		**2012**	**2012**		**2012**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Revenue	2,085,210,804	-	2,085,210,804	-	-	-
Cost of sales	(1,664,083,253)	-	(1,664,083,253)	-	-	-
Gross profit	421,127,551	-	421,127,551	-	-	-
Amortisation of grant	1,910,904	-	1,910,904	-	-	-
Other income (Note 32.4)	4,080,645	(3,778,572)	302,073	2,609,031	(41,038)	2,567,993
Distribution expenses	(244,189,742)	-	(244,189,742)	-	-	-
Administrative expenses	(82,485,087)	-	(82,485,087)	(2,213,607)	-	(2,213,607)
Other expenses	-	-	-	(1,328,333)	-	(1,328,333)
Operating profit	100,444,271	(3,778,572)	96,665,699	(932,909)	(41,038)	(973,947)
Finance income (Note 32.4)	-	3,778,572	3,778,572	-	41,038	41,038
Finance cost	(2,729,677)	-	(2,729,677)	(3,762)	-	(3,762)
Net finance income / (cost)	-	-	1,048,895	-	-	37,276
Profit / (loss) before taxation	97,714,594	-	97,714,594	(936,671)	-	(936,671)
Tax expenses	(14,293,524)	-	(14,293,524)	(7,469)	-	(7,469)
Net profit / (loss) for the year	83,421,070	-	83,421,070	(944,140)	-	(944,140)
Other comprehensive income						
Revaluation of property plant and equipment	-	-	-	-	-	-
Tax on other comprehensive income	-	-	-	-	-	-
Other comprehensive income for the year, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	83,421,070	-	83,421,070	(944,140)	-	(944,140)

Notes to the Financial Statements contd...

32.2 Reconciliation - Statement of financial position - Group

As at 31 March	As per SLASs 2012 Rs.	Effect of to transaction SLFRSs / LKASs Rs.	As per SLFRSs / LKASs 2012 Rs.	As per SLASs 2011 Rs.	Effect of to transaction SLFRSs Rs.	As SLFRSs / LKASs / LKASs 1 April 2011 Rs.
ASSETS						
Non-current assets						
Property, plant and equipment	301,388,195		301,388,195	285,958,271	-	285,958,271
Intangible assets	55,863,274	-	55,863,274	55,863,274	-	55,863,274
Deferred tax assets	2,503,480		2,503,480	-	-	-
	359,754,949	-	359,754,949	341,821,545	-	341,821,545
Current assets						
Inventories	138,796,128	-	138,796,128	75,976,794	-	75,976,794
Trade and other receivables	193,349,222	-	193,349,222	217,323,304	-	217,323,304
Amounts due from related parties	29,193,865	-	29,193,865	45,378,156	-	45,378,156
Short term investments	105,429,225	-	105,429,225	28,502,151	-	28,502,151
Cash at banks and in hand	18,382,614	-	18,382,614	28,515,930	-	28,515,930
	485,151,054	-	485,151,054	395,696,335	-	395,696,335
Total assets	844,906,003	-	844,906,003	737,517,880	-	737,517,880
EQUITY						
Stated capital	314,000,000		314,000,000	314,000,000	-	314,000,000
Revaluation reserve (Note 32.5)	130,522,781	(81,249,367)	49,273,414	130,522,781	(81,249,367)	49,273,414
Retained earnings (Note 32.5)	182,486,316	81,249,367	263,735,683	99,065,246	81,249,367	180,314,613
Other Reserves	3,054,017		3,054,017	3,054,017	-	3,054,017
Total equity	630,063,114	-	630,063,114	546,642,044	-	546,642,044
LIABILITIES						
Non-current liabilities						
Deferred income	477,696	-	477,696	2,388,600	-	2,388,600
Deferred tax liability	3,771,312	-	3,771,312	4,724,155	-	4,724,155
Interest bearing borrowings	3,729,360	-	3,729,360	8,058,499	-	8,058,499
Retirement benefit obligations	13,076,032	-	13,076,032	12,455,448	-	12,455,448
	21,054,400	-	21,054,400	27,626,702	-	27,626,702
Current liabilities						
Trade and other payables	151,539,129	-	151,539,129	158,799,395	-	158,799,395
Amounts due to related parties	9,337,738	-	9,337,738	-	-	-
Income tax payable	16,606,991	-	16,606,991	23,351	-	23,351
Interest bearing borrowings	4,329,139	-	4,329,139	4,192,818	-	4,192,818
Bank overdrafts	11,975,492	-	11,975,492	233,570	-	233,570
	193,788,489	-	193,788,489	163,249,134	-	163,249,134
Total liabilities	214,842,889	-	214,842,889	190,875,836	-	190,875,836
Total equity and liabilities	844,906,003	-	844,906,003	737,517,880	-	737,517,880

32.3 Reconciliation - Statement of financial position - Company

There were no adjustments to opening balance of the Company compared to the amount reported previously in Financial Statement prepared in accordance with SLASs.

32.4 Reclassification of financial income

The Company and Group classified the interest income in to finance income, which was previously classified as other income.

The impact arising from the above is summarised as follows:

For the year ended 31 March	Group 2012 Rs.	Company 2012 Rs.
Statement of comprehensive income		
Other income	(3,778,572)	(41,038)
Finance income	3,778,572	41,038
	-	-

32.5 Revaluation reserve / Retained earnings

On transition to SLFRSs / LKASs, Group elected to apply the optional exemption to use that previous revaluation as deemed cost for property, plant and equipment except for land and building. The revaluation reserves were reclassified to retained earnings in the statement of financial position. There were no any impact to the financial statements due to this reclassification.

	Group	
As at 31 March	**2012 Rs.**	**1 April 2011 Rs.**
Statement of financial position		
Reclassification from revaluation reserve to retained earnings	81,249,367	81,249,367
	81,249,367	81,249,367

32.6 Statement of Cash Flow

No material impact to the Statement of Cash Flow of the Company and the Group due to the transition from SLAS to SLFRS / LKAS.

Five Year Financial Summary

		2008/09 Rs 000's	2009/10 Rs 000's	2010/11 Rs 000's	2011/12 Rs 000's	2012/13 Rs 000's
Financial Results						
Net revenue		1,352,959	1,348,176	1,543,379	2,085,211	2,205,949
Profit from operation		99,239	97,233	85,184	100,444	136,643
Net finance cost		(23,682)	(10,172)	(8,114)	(2,730)	15,647
Profit before taxation		75,557	87,061	77,070	97,714	152,290
Income tax expenses		(12,035)	(4,941)	(1,787)	(13,331)	(36,230)
10% WHT on inter company dividends		-	(16,614)	-	(962)	-
Profit attributable to equity shareholders of the Company		63,522	65,506	75,283	83,421	116,060
Financial Position						
Stated capital		314,000	314,000	314,000	314,000	314,000
Reserves		217,454	220,159	232,642	316,063	474,379
Capital and reserves		531,454	534,159	546,642	630,063	788,379
Current assets		407,266	394,344	395,696	485,151	634,564
Current liabilities		(183,666)	(153,239)	(163,249)	(193,788)	(259,377)
Working capital		223,600	241,105	232,447	291,363	375,187
Non Current assets		356,098	345,241	341,822	359,755	443,211
Non Current liabilities		(48,244)	(52,187)	(27,627)	(21,054)	(30,019)
Net assets		531,454	534,159	546,642	630,063	788,379
Key Indicators						
Growth in net revenue	%	(13.84)	(0.35)	14.48	35.11	5.79
Growth in earnings	%	1,188.39	3.12	14.93	10.81	39.13
Return on total assets	%	8.32	8.86	10.21	9.87	10.77
Growth in total assets	%	27.70	(3.11)	(0.28)	14.56	27.56
Growth in capital and reserves	%	48.28	0.51	2.34	15.26	25.13
Return on investment	%	11.95	12.26	13.77	13.24	14.72
Earnings per share	(Rs.)	2.02	2.09	2.40	2.66	3.70
Dividends per share	(Rs.)	-	4.00	-	-	-
Dividends paid per share	(Rs.)	-	2.00	2.00	-	-
Net assets per share	(Rs.)	16.93	17.01	17.41	20.07	25.11
Market value per share (Closing)	(Rs.)	9.50	24.75	53.00	39.50	35.90
Market capitalisation	(Rs.)	298,300,000	777,150,000	1,664,200,000	1,240,300,000	1,127,260,000
Dividend pay-out	(times)	-	1.92	-	-	-
Debt equity ratio	(times)	0.09	0.10	0.05	0.03	0.04
Interest cover	(times)	4.19	9.56	10.50	35.41	68.83
Current ratio	(times)	2.22	2.57	2.42	2.50	2.45
Quick assets ratio	(times)	1.94	2.27	1.96	1.79	2.06

(a) The above ratios have been computed based on 31,400,000 numbers of issued and fully paid shares as at 31 March 2013.
(b) Debt equity ratio is computed by dividing the total liabilities by the shareholder's funds.
(c) Return on investment is computed by dividing profit for the year by the shareholder's funds.

Investor Relations Supplement

1 GENERAL

Stated Capital	Rs. 314,000,000
Issued Shares	31,400,000
Class of Shares	Ordinary Shares
Voting Rights	One vote for ordinary shares

2 STOCK EXCHANGE LISTING

The issued ordinary shares of Kotmale Holdings PLC are listed on the Colombo Stock Exchange.

3 DISTRIBUTION OF SHAREHOLDING

Size of	31 March 2013				31 March 2012			
	Shareholders		Holding		Shareholders		Holding	
	Number	%	Number	%	Number	%	Number	%
1-1,000	1,289	74.81	415,896	1.33	1,289	73.03	453,691	1.45
1,001-10,000	372	21.59	1,280,652	4.08	410	23.23	1,388,425	4.42
10,001-100,000	55	3.19	1,531,184	4.88	59	3.34	1,613,142	5.14
100,001-1,000,000	6	0.35	1,399,328	4.46	6	0.34	1,285,175	4.09
Over 1,000,000	1	0.06	26,772,940	85.25	1	0.06	26,659,567	84.90
Total	1,723	100.00	31,400,000	100.00	1,765	100.00	31,400,000	100.00

4 ANALYSIS OF SHAREHOLDERS

Group of	31 March 2013				31 March 2012			
	Shareholders		Holding		Shareholders		Holding	
	Number	%	Number	%	Number	%	Number	%
Individuals	1,667	96.75	3,356,903	10.69	1,704	96.54	3,565,667	11.36
Institutions	56	3.25	28,043,097	89.31	61	3.46	27,834,333	88.64
Total	1,723	100.00	31,400,000	100.00	1,765	100.00	31,400,000	100.00
Resident	1,701	98.72	31,327,629	99.77	1,743	98.75	31,224,690	99.44
Non-Resident	22	1.28	72,371	0.23	22	1.25	175,310	0.56
Total	1,723	100.00	31,400,000	100.00	1,765	100.00	31,400,000	100.00

5 PUBLIC HOLDING

The public holding as at 31 March	2013	**2012**
Number of shares held by the public	4,340,260	4,456,633
Percentage held by the public	13.82	14.19

Share Information contd...

6 SHARE PRICE MOVEMENTS FOR THE PERIOD

The market price of share recorded during the year 31 March	2013 Rs.	2012 Rs.
Highest	47.10	63.90
Lowest	20.00	38.00
Period-end	35.90	39.50

7 INFORMATION ON SHARE TRADING AND MARKET CAPITALISATION

For the year ended 31 March	2013	2012
Number of transactions	1,075	4,461
Number of shares traded	578,220	4,864,179
Values of shares traded (Rs.)	21,433,589	240,739,714
Market capitalisation (Rs.)	1,127,260,000	1,240,300,000

08 TOP TWENTY SHAREHOLDERS

Names of Shareholders	No. of Shares as at 31 March 2013	Holding %	No. of Shares as at 31 March 2012	Holding %
Cargills Quality Foods Ltd.	26,772,940	85.26	26,659,567	84.90
Janashakthi Insurance PLC	468,500	1.49	468,500	1.49
Mr. P S Mathavan	281,800	0.90	281,800	0.90
E W Balasuriya & Co. (Pvt) Ltd.	226,428	0.72	112,275	0.36
Mouldex Ltd.	158,000	0.50	158,000	0.50
Mrs. D F E S Ollegasegrem	140,000	0.45	140,000	0.45
Mrs. M Mathews	124,600	0.40	124,600	0.40
The Bishop of Galle	100,000	0.32	100,000	0.32
Mr. S V Kodikara	100,000	0.32	100,000	0.32
Senkadagala Finance Company PLC	85,000	0.27	80,000	0.25
Mr. A P Rupasiri	70,200	0.22	70,200	0.22
Mr. N C A Nuwarapaksa	68,400	0.22	68,400	0.22
Mr. G G R Kariyawasam	59,700	0.19	59,700	0.19
Mr. D A Edussuriya	50,000	0.16	50,000	0.16
Mr. E M Senevirathne	50,000	0.16	50,000	0.16
Mr.Y Esmailjee	40,000	0.13	40,000	0.13
Hemas Holdings PLC	40,000	0.13	40,000	0.13
Deutsche Bank AG as Trustee to Amana Heraymila Shariah Fund	38,125	0.12	-	-
Mrs. I S Jayasinghe	37,500	0.12	37,500	0.12
Mr. C S David	33,504	0.11	33,504	0.11
Thurston Investments Ltd.	-	-	40,000	0.13

Notice of Annual General Meeting

Notice is hereby given that the forty sixth Annual General Meeting of the Company will be held at the Sri Lanka Foundation, No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 on Monday, 30 September 2013, at 3.00 p.m. and the business to be brought before the meeting will be:

1 To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31 March 2013, with the Report of the Auditors thereon.

2. To re-elect Directors
   a) Mr. V R Page, and
   b) Mr. A T P Edirisinghe, who retire by rotation.

3. To authorise the Directors to determine contributions to charities for the financial year 2013/14.

4. To authorise the Directors to determine the remuneration of the Auditors, Messrs. KPMG, who are deemed reappointed as Auditors at the Annual General Meeting of the Company in terms of Section 158 of the Companies Act No. 07 of 2007.

By Order of the Board
Kotmale Holdings PLC

Signed.
S L W Dissanayake
Company Secretary
27 August 2013

Notes :

i. A member is entitled to appoint a proxy to attend and vote at the meeting in his or her stead and the proxy need not be a member of the Company.

ii. A form of proxy is enclosed for this purpose.

iii. The instrument appointing a proxy must be completed and deposited at the registered office of the Company not less than 48 hours before the time fixed for the meeting.

Notes

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Proxy Form

For use at the forty sixth Annual General Meeting

*I/We ………

of………...being a

*member/members of Kotmale Holdings PLC hereby appoint ……………………………………………………………. of

……………………………………………………………………….whom failing …………………………………………………….

………………………………………………………………………………………. of ………………………………or failing him/her,

the Chairman of the Meeting as *my/our Proxy to represent *me/us and to vote for on *my/our behalf at the forty sixth Annual General Meeting of the Company to be held on Monday, 30 September 2013 and at any adjournment thereof and at every Poll which may be taken in consequence thereof in the manner indicated below:

Resolution number	1	2(a)	2 (b)	3	4
For					
Against					

………………………..
Date

....
Signature of member (s)

Notes:

(a) *Strike out whichever is not desired

(b) Instructions as to completion of the Form of Proxy are set out in the reverse hereof

(c) A Proxy holder need not be a Member of the Company

(d) Please indicate with an "X" in the cage provided how your Proxy holder should vote. If no indication is given, or if there is, in the view of the Proxy holder, any doubt (by reason of the manner in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder in his/her discretion may vote as he/she thinks fit

INSTRUCTIONS FOR COMPLETION OF THE PROXY FORM

1. To be valid, the completed Proxy Form should be deposited at the Registered Office of the Company at No. 40, York Street, Colombo 01, not less than 48 hours before the time appointed for the holding of the Meeting.

2. In perfecting the form, please ensure that all details are legible. If you wish to appoint a person other than the Chairman as your proxy, please fill in your full name and address, the name and address of the proxy holder and sign in the space provided and fill in the date of signature.

3. The instrument appointing a Proxy shall, in the case of an individual, be signed by the appointer or by his Attorney and in the case of a Corporation must be executed under its Common Seal or in such other manner prescribed by its Articles of Association or other constitutional documents.

4. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Proxy Form, if it has not already been registered with the Company.

5. In the case of joint holders, only one need sign. The votes of the senior holder who tenders a vote will alone be counted.

6. In the case of non-resident Shareholders, the stamping will be attended to upon return of the completed Proxy Form to Sri Lanka.

Corporate Information

NAME OF THE COMPANY
Kotmale Holdings PLC

COMPANY REGISTRATION NO.
PQ 213

LEGAL FORM
Incorporated as a Public Company in 1967 under the provisions of the Companies Ordinance No. 51 of 1938 and subsequently re-registered under the Companies Act No. 7 of 2007 on 6 May 2008.

STOCK EXCHANGE LISTING
The Company was listed on the Colombo Stock Exchange in 1969.

BOARD OF DIRECTORS
Mr. Stuart Young (Chairman)
Mr. V R Page (Deputy Chairman)
Mr. M I Abdul Wahid (Managing Director)
Mr. M S J Fernando (Executive Director /CEO) - *Resigned w.e.f. 30 June 2013*
Mr. P S Mathavan
Mr. A T P Edirisinghe
Mr. Sunil Mendis
Mr. J C Page

REGISTERED OFFICE
No. 40, York Street, Colombo 01, Sri Lanka.
Tel: 2427777
Telefax: 2338704

FACTORY
20, Sri Sumana Mawatha, New Town, Mulleriyawa.
Tel: 2578774 – 6

COMPANY SECRETARY
Mr. S L W Dissanayake

REGISTRARS
SSP Corporate Services (Pvt) Ltd.
No.101, Inner Flower Road, Colombo 03.
Tel: 2573894

AUDIT COMMITTEE
Mr. A T P Edirisinghe (Chairman)
Mr. Sunil Mendis

REMUNERATION COMMITTEE
Mr. Sunil Mendis (Chairman)
Mr. A T P Edirisinghe

AUDITORS
KPMG
Chartered Accountants.

BANKERS
Bank of Ceylon
Commercial Bank of Ceylon PLC
DFCC Vardhana Bank PLC
Hatton National Bank PLC
The Hongkong & Shanghai Banking Corporation Ltd.
Pan Asia Banking Corporation PLC
Seylan Bank PLC

SUBSIDIARY COMPANIES
Kotmale Dairy Products (Pvt) Ltd.
Kotmale Milk Products Ltd.
Kotmale Milk Foods Ltd.
Kotmale Products Ltd.
Kotmale Marketing (Pvt) Ltd.
Kotmale Kiri (Pvt) Ltd.

Kotmale Holdings PLC
No. 40, York Street,
Colombo 01.