

# KOTMALE HOLDINGS PLC

ANNUAL REPORT  
2015/2016



# 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.

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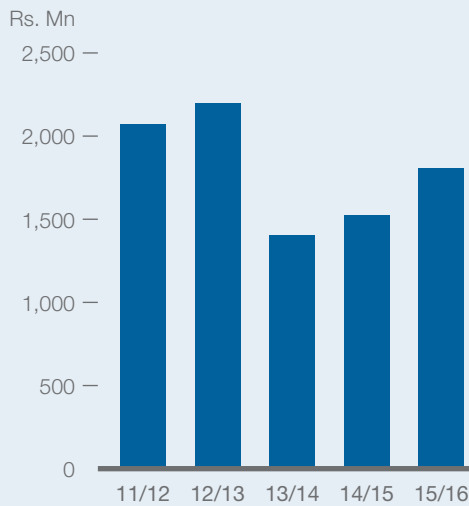
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# FINANCIAL HIGHLIGHTS

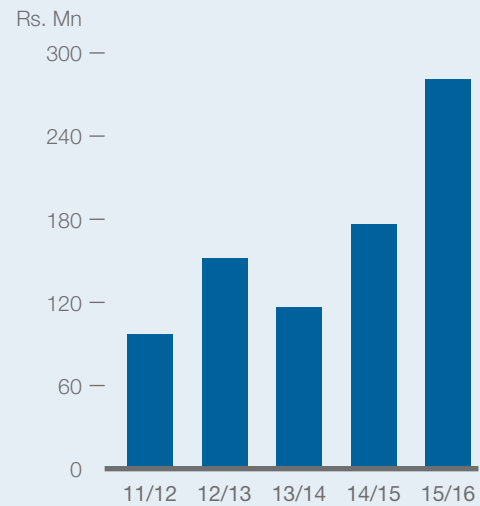
Group	2016 Rs. '000	2015 Rs. '000	Change %
<b>Operating Results for the Year</b>			
Net revenue	1,840,417	1,507,422	22
Profit from operation	226,112	128,120	76
Profit before taxation	280,974	177,078	59
Profit after taxation	203,371	115,625	76
<b>Highlights of Financial Position at the Year End</b>			
Non - current assets	377,390	342,814	10
Current assets	1,181,459	980,012	21
Current liabilities	298,083	273,306	9
Non - current liabilities	55,339	54,482	2
Stated capital and reserves	1,205,427	995,038	21
Total assets	1,558,849	1,322,826	18
<b>Per Share Data (Rs.)</b>			
Earning per share	6.48	3.68	76
Net assets per share	38.39	31.69	21
<b>Cash Flow</b>			
Net cash generated from / (used in) ;			
Operating activities	162,489	162,590	
Investing activities	13,592	21,160	
Financing activities	(6,127)	(422)	

Group Net Revenue



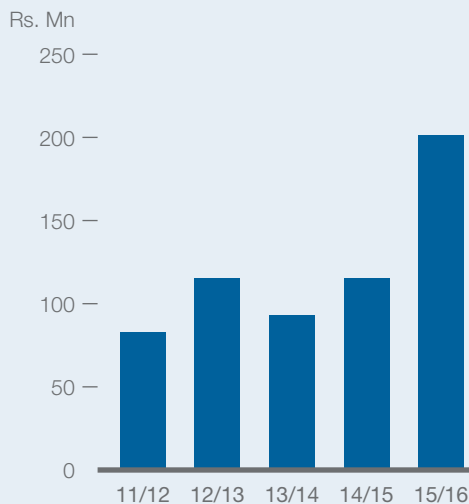
RS. **1,840** MN

Group Profit Before Taxation



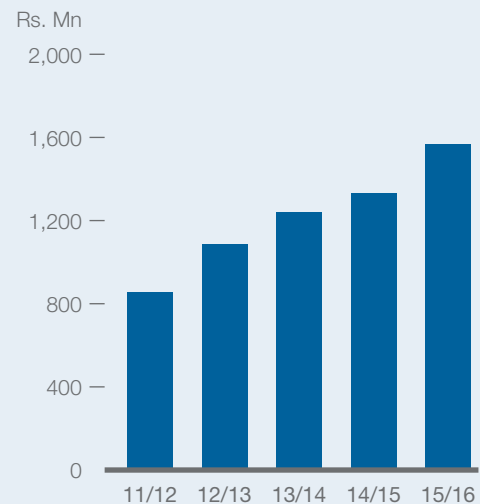
RS. **281** MN

Group Profit After Taxation



RS. **203** MN

Group Total Assets



RS. **1,559** MN

# PROFILE OF DIRECTORS

## Ranjit Page

*Chairman*

Mr. Ranjit Page is the Chairman of Cargills Quality Foods Limited (CQF, parent company of KHP), Deputy Chairman & CEO of Cargills (Ceylon) PLC (holding company of CQF) and Deputy Chairman & 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 supermarketing to the Sri Lankan masses. He also serves on the boards of several other companies.

## P S Mathavan

*Director*

Mr. Prabhu Mathavan 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 Bachelor's Degree in Commerce. He possesses over 20 years of experience in the fields of Finance, Auditing, Accounting and Taxation. He is the Managing Director / Chief Financial Officer of Cargills Bank Ltd.

## 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 28 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.

## Priya Edirisinghe

*\*Director*

Mr. 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 45 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 the Chairman of the Audit Committee and a Member of the Remuneration Committee of Kotmale Holdings PLC.

## Sunil Mendis

*\*Director*

Deshamanya Sunil Mendis was formerly the Chairman of Hayleys Group, and a former Governor of the Central Bank of Sri Lanka. He possesses around 50 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. He is the Chairman of the Remuneration Committees of Cargills (Ceylon) PLC and Kotmale Holdings PLC and is a Member of the Audit Committee of Kotmale Holdings PLC. He is also a Member of the Audit Committee and Remuneration Committee of CT Holdings PLC.

## Joseph Page

*\*\*Director*

Mr. Joseph Page is the Deputy Chairman/Managing Director of C T Land Development PLC. He is also Executive Director of C T Properties Limited. 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
<b>7.10.1 Non-Executive Directors</b>		
a) The Board of Directors of a Listed Entity shall include at least, <ul style="list-style-type: none"> <li>(i) Two Non-Executive Directors; or</li> <li>(ii) Such number of Non-Executive Directors equivalent to one third of the total number of Directors whichever is higher.</li> </ul>	Complied	Company has 03 Non-Executive Directors and 03 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 03 Non-Executive Directors and 03 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.
<b>7.10.2 Independent Directors</b>		
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 03 (2/3) of Non-Executive Directors are determined to be Independent.
b) The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/her Independence 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.
<b>7.10.3 Disclosures Relating to Directors</b>		
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 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 11.
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	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 Rule	Compliance Status	Details
<p>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.</p>	Complied	Please refer profile of Directors on page 04 and 05.
<p>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.</p>	N/A	During the year there were no such appointments.
<p><b>7.10.5 Remuneration Committee</b></p>		
<p>A Listed Entity shall have a Remuneration Committee in conformity with the following:</p>		
<p><b>(a) Composition</b> The Remuneration Committee shall comprise;</p> <ul style="list-style-type: none"> <li>(i) of a minimum of two Independent Non-Executive Directors (in instances where an Entity has only two Directors of its Board); or</li> <li>(ii) of Non-Executive Directors a majority of whom shall be Independent, whichever shall be higher.</li> </ul>	Complied	The Remuneration Committee comprise 02 Non-Executive Directors who are deemed Independent.
<p>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.</p>	N/A	N/A
<p>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.</p>	Complied	The Remuneration Committee has been appointed specific to the Company.
<p>One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.</p>	Complied	The Committee is chaired by Mr. Sunil Mendis, a Non-Executive Director.
<p><b>(d) Functions</b> 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.</p>	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
<p>(c) Disclosures</p> <p>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.</p> <p>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).</p>	Complied	The Remuneration Committee comprise 02 Independent Non-Executive Directors as follows; Mr. Sunil Mendis (Chairman) Mr. A T P Edirisinghe
<b>7.10.6 Audit Committee</b>		
<p>A Listed Entity shall have an Audit Committee in conformity with the following:</p> <p>(a) Composition</p> <p>(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</p> <p>(ii) of Non-Executive Directors a majority of whom shall be Independent, whichever shall be higher.</p> <p>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.</p> <p>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.</p> <p>One Non-Executive Director shall be appointed as Chairman of The Committee by the Board of Directors.</p> <p>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.</p> <p>The Chairman or one member of the Committee should be a member of a recognised professional accounting body.</p>	<p>Complied</p> <p>N/A</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p>	<p>The Audit Committee comprise 02 Independent Non-Executive Directors as follows; Mr. A T P Edirisinghe (Chairman) Mr. Sunil Mendis</p> <p>N/A</p> <p>The Audit Committee has been appointed specific to the Company.</p> <p>The Committee is chaired by Mr. A T P Edirisinghe, a Non- Executive Director.</p> <p>Please refer Audit Committee Report on page 12.</p> <p>The Chairman of the Committee is a Fellow of CA Sri Lanka and CIMA (UK).</p>

Corporate Governance Rule	Compliance Status	Details
<p><b>(b) Functions</b> Shall include,</p> <ul style="list-style-type: none"> <li>(i) Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs).</li> <li>(ii) Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.</li> <li>(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.</li> <li>(iv) Assessment of the Independence and performance of the Entity's external auditors.</li> <li>(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.</li> </ul>	<p>Complied</p>	<p>Please refer Audit Committee Report on page 12.</p>
<p><b>(C ) Disclosures</b> 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.</p> <p>The Committee shall make a determination of the Independence of the Auditors and shall disclose the basis for such determination in the Annual Report.</p> <p>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.</p>	<p>Complied</p> <p>Complied</p> <p>Complied</p>	<p>Please refer inner back cover.</p> <p>Please refer Audit Committee Report on page 12.</p> <p>Please refer Audit Committee Report on page 12.</p>

# 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 1.1.3 on page 28.
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 59 and 60.
iv) The public holding percentage.	Complied	Please refer Investor relations supplement on pages 56, 60 and Note 02 on page 11.
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 21.
vi) Information pertaining to material foreseeable risk factors of the Entity.	Complied	Please refer report on Risk management on pages 15 to 17.
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 10 (f) Group real estate portfolio on page 43.
ix) Number of shares representing the Entity's stated capital.	Complied	Please refer Investor relations supplement on pages 59 and 60.
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 59 and 60.
xi) The following ratios and market price information. <b>EQUITY</b> 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share - Highest and lowest value recorded - Value as at the end of financial year. <b>DEBT</b> (Only if listed)	Complied           N/A	Please refer Five year summary on page 58.           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

Corporate Governance Rule	Compliance Status	Details
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
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 06 to 11.
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 26 (c) on page 52.

**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.

**Note 02:**

Complied to the extent that the Company has made the required disclosure to the CSE/SEC where the public holding falls below the requirement specified in Rule 7.13 and the Company is in discussions with the CSE/SEC in this regard.

# 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 two 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

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

The procedure in place is for the Group Chief Financial Officer (G-CFO) and Chief Risk Officer (CRO) to attend all meetings when scheduled and for the Managing Director to 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 G-CFO 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 reports 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 a standardized exception reporting format perfected by the Audit Committee, stating any instances (where applicable) of, and reasons for, non-compliance, along with a Risk Management and Internal Audit Report submitted by the CRO.

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 reviewed covering (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 audit department and adherence to the internal audit plan and (c) the internal audit reports and monitoring follow up action by the management. 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 balance sheet and the related statements of 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 2017.

*(Signed)*

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

9 June 2016

# 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 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*

9 June 2016

# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Related Party Transactions Review Committee (RPTRC) was appointed by the Board of Directors of the Company on 23 December 2015 and reports directly to the Board. The Committee comprise two members who are non-executive Directors who are deemed independent. The Chairman is a Fellow of the Institute of Chartered Accountants of Sri Lanka. The composition of the members of the Related Party Transactions Review Committee satisfies the criteria as specified in the Standards on Corporate Governance for listed companies.

The Members of the Related Party Transactions Review Committee:

Name / Independence

A. T. P. Edirisinghe FCMA, FCA - Chairman Independent

Sunil Mendis - Independent

The Company Secretary acts as the Secretary to the Committee.

## Scope

The RPTRC was formed by the Board to assist the Board in reviewing all Related Party Transactions (RPT) carried out by the Company.

The mandate of the Committee includes inter-alia the assurance of the following:

- Developing and recommending for adoption by the Board of Directors of the Company a RPT Policy consistent with that proposed by the CSE.
- Making immediate market disclosures on applicable RPT, as required by Section 9 of the Continuing Listing Requirements of the CSE.
- Making appropriate disclosures on RPT in the Annual Report, as required by Section 9 of the Continuing Listing Requirements of the CSE.

The RPTRC has decided to meet once a quarter commencing from financial year 2016/17, with the Managing Director of the Company, group Chief Financial Officer (CFO) and group Chief Risk Officer (CRO) in attendance.

The Committee has circulated policies and procedures for (a) reviewing the Related Party Transactions at each quarterly meeting, (b) identifying & reporting on recurrent & non-recurrent transactions to be in line with the applicable CSE Rules.

The Committee has noted that there were no changes to practices followed over the years and general Terms and Conditions applicable to all Lease Agreements entered into with Related Parties are similar to those entered into with non-related parties taking to account, if any, due consideration of factors such as the long term nature of the Leases and the extent of the area occupied, etc.

The Committee agreed that all transactions with Related Parties will hereafter be reviewed by it and supporting documents and/or justification of such terms will be called for. Its comments/observations will thereafter be communicated to the Board of Directors.

*(Signed)*

A .T. P. Edirisinghe FCMA, FCA,  
Chairman – Related Party Transactions  
Review Committee

9 June 2016



# 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 of 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 affecting 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.

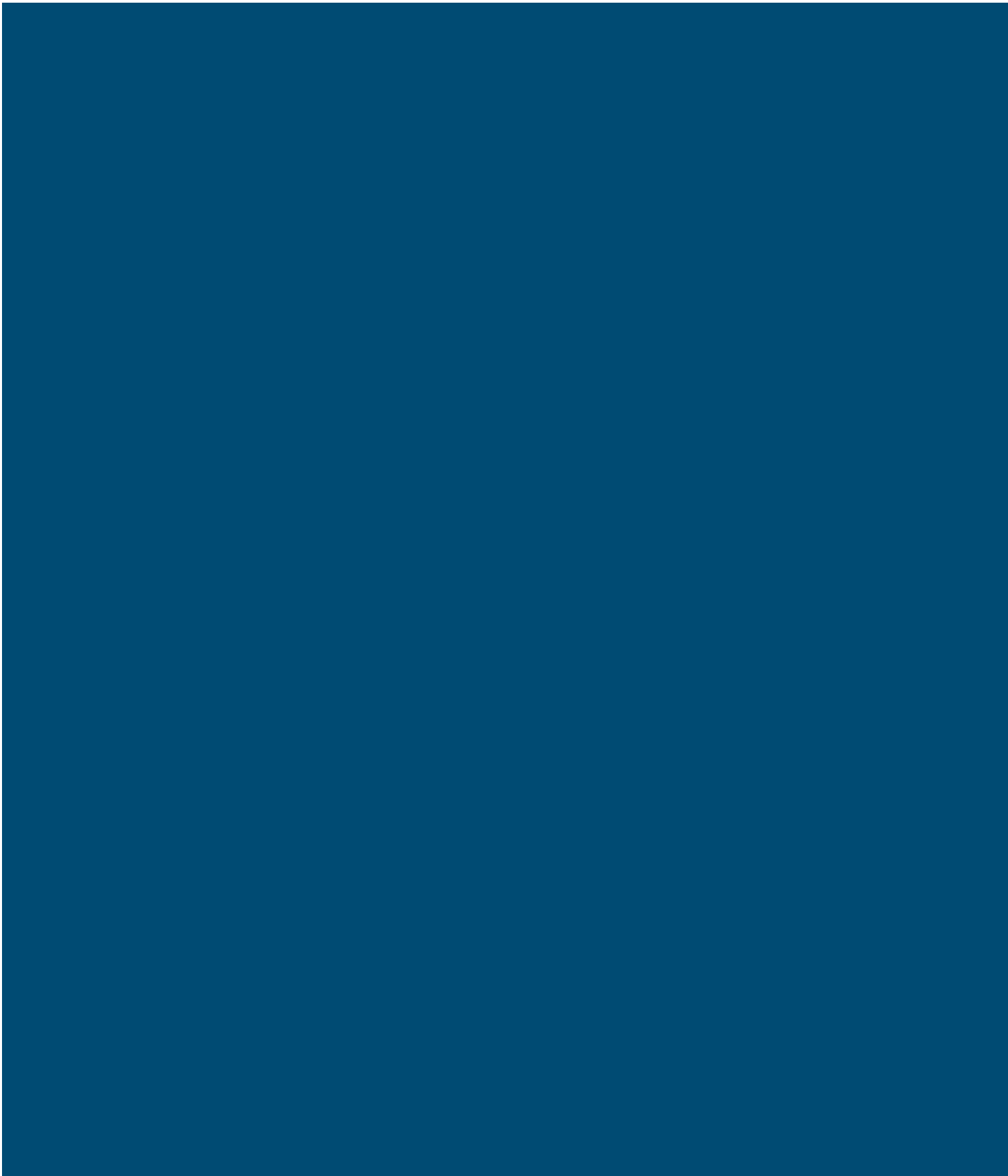
## Internal Controls And Internal Audit Function

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
<b>Business risk</b>	
<p>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.</p> <p>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.</p> <p>Failure in either of the above main areas could have an adverse effect on the Group's financial results.</p>	<p>Management constantly monitors and evaluates risk factors in order to respond effectively. The manufacturing facilities are maintained according to food manufacturing standards.</p> <p>The Group ensures 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.</p> <p>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.</p>
<b>Reputational risk</b>	
<p>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-caliber people.</p>	<p>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 endeavor to develop strategy that reflects their interests. We try to ensure that our strategy reflects those interests.</p>
<b>Product safety</b>	
<p>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.</p>	<p>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.</p>
<b>Health and safety risks</b>	
<p>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.</p>	<p>The Group operates stringent health and safety processes in line with best practices in manufacturing facilities and offices, which are monitored and audited regularly.</p>
<b>IT systems and infrastructure</b>	
<p>The business is dependent on efficient information technology (IT) systems.</p>	<p>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.</p>

Risk	Mitigating Actions
<b>Regulatory and political environment</b>	
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.
<b>Funding and liquidity</b>	
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.
<b>Interest rate risk</b>	
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.
<b>Credit risk</b>	
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.
<b>Foreign exchange rate risk</b>	
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

## FINANCIAL REPORTS

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# 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 2016.

## Activities

The principal business activities of the Group / Company remained unchanged from the previous year as the manufacturing and distribution of dairy products.

## Financial statements

The Audited Financial Statements comprising the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statements 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 2016 are given on pages 24 to 57 forming an integral part of the Annual Report of the Board.

## Auditors' report

The auditors' report is set out on page 23.

## Accounting policies

The accounting policies adopted in the preparation of the financial statements are given on pages 28 to 37. There were no significant changes to the accounting policies of the Group during the year.

## Dividends

An interim dividend of 0.20 cents per share (Rs. 6.28 Mn) was paid on 14 October 2015 for the year ended 31 March 2015. A final dividend of Rs. 0.20 cents per share (Rs. 6.28 Mn) is proposed for the year ended 31 March 2016. This will be reflected in the subsequent year's financial statements. (refer note 25 to the financial statements on page 49)

## Reserves

The total reserves of the Group stands at Rs. 891 Mn. (2015 - Rs. 681 Mn.), while the total reserves of the Company stand at Rs. 57 Mn. (2015 - Rs. 20 Mn)

## Stated capital

Stated capital of the Company as at 31 March 2016 was Rs. 314 Mn. (2015 - Rs. 314 Mn)

The details of the stated capital are given in note 17 to the financial statements on page 46.

## Capital expenditure

The Group's capital outlay on property, plant and equipment amounted to Rs. 16 Mn (2015 - Rs. 33 Mn) while no capital expenditure was incurred by the Company during the year (2015 - Nil). Details are given in note 10 to the financial statements on page 42.

The movement of property, plant and equipment during the year is given in note 10 to the financial statements on page 42.

## Market value of properties

The Group land and buildings were revalued as at 31 March 2016. Details are given in note 10 (f) to the financial statements on pages 43.

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 subsidiary of C T Holdings PLC and there were 3 registered shareholders as at 31 March 2016 (2015 - 3).

An analysis of shareholdings according to the size of holding and the names of the shareholders is given on pages 59 and 60.

Please see note no. 05 on page 60 in this context.

## Directorate

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

Mr. J. C. Page retires by rotation in terms of the Company's Articles of Association, and being eligible offers himself for re-election.

Messrs. A T P Edirisinghe and Sunil Mendis also retire in terms of Section 210 (2) (a) and (b) of the Companies Act No. 7 of 2007 having attained the age of seventy years and offer themselves for re-election in terms of Section 211 (1) and (2) of the Companies Act No. 7 of 2007.

The re-election of the retiring Directors has the unanimous support of the other Directors.

### Directors' remuneration

The remuneration of the Directors is given in note 26 (a) on page 51 to the consolidated financial statements.

### Directors' interests in contracts

The Directors' interests in contracts and proposed contracts with the Company are included in note 26 (b) to the financial statements on page 51. 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.

### Director's shareholding

The Director's shareholdings in the Company were as follows:

Number of shares as at 31 March	2016	2015
Mr. V R Page	Nil	Nil
Mr. M I Abdul Wahid	Nil	Nil
Mr. P S Mathavan	Nil	Nil
Mr. A T P Edirisinghe	Nil	Nil
Mr. Sunil Mendis	Nil	Nil
Mr. J C Page	Nil	Nil

### Donations

During the year no donations (2015 - 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 6 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 25 to the financial statements on page 51.

### 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.

### Environmental protection

After making adequate enquiries from the Management, the Directors are satisfied that the Company and its subsidiaries operate in a manner that minimises 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)  
M I Abdul Wahid  
Managing Director

(Signed)  
P S Mathavan  
Director

(Signed)  
S L W Dissanayake  
Company Secretary

9 June 2016

# 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 profit or loss and other 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 23.

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 (SLFRSs/LKASs), 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 (SLFRSs/LKASs) and provides 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

9 June 2016



# INDEPENDENT AUDITORS' REPORT



**KPMG**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : www.lk.kpmg.com

## 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 March 31, 2016, and the statements of profit or loss and other 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 24 to 57 of the annual report.

### Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at March 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
  - The financial statements of the Company give a true and fair view of its financial position as at March 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

(Signed)

Chartered Accountants

Colombo

09th June 2016

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March	Note	Group		Company	
		2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Revenue	2	1,840,417,164	1,507,421,600	-	-
Cost of sales	3	(1,382,097,472)	(1,151,968,391)	-	-
Gross profit		458,319,692	355,453,209	-	-
Other income	4	89,660,725	64,804,529	87,740,136	65,320,330
Distribution expenses		(227,387,614)	(164,299,195)	-	-
Administrative expenses		(94,481,224)	(98,740,432)	(24,179,285)	(607,000)
Other Expenses		-	(29,097,955)	-	-
<b>Result from operating activities</b>		<b>226,111,579</b>	<b>128,120,156</b>	<b>63,560,851</b>	<b>64,713,330</b>
Net finance income	5	54,862,912	48,957,566	7,527,023	598,278
<b>Profit before taxation</b>	6	<b>280,974,491</b>	<b>177,077,722</b>	<b>71,087,874</b>	<b>65,311,608</b>
Tax expense	7	(77,603,365)	(61,452,648)	(19,817,475)	(17,392,804)
<b>Profit for the year</b>		<b>203,371,126</b>	<b>115,625,074</b>	<b>51,270,399</b>	<b>47,918,804</b>
Other comprehensive income / (expenses)					
Revaluation of land and building	10	26,596,093	-	-	-
Actuarial losses on employee benefits	20	(758,592)	(679,378)	-	-
Tax on other comprehensive income		(1,214,501)	190,226	-	-
Other comprehensive income / (expense) for the year, net of tax		24,623,000	(489,152)	-	-
<b>Total comprehensive income for the year</b>		<b>227,994,126</b>	<b>115,135,922</b>	<b>51,270,399</b>	<b>47,918,804</b>
Earnings per share - basic / diluted (Rs.)	8	6.48	3.68	1.63	1.53

Figures in brackets indicate deductions.

The accounting policies and notes from pages 28 to 57 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	Group		Company	
		2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	321,526,739	286,950,974	-	-
Intangible assets	11	55,863,274	55,863,274	-	-
Investments in subsidiaries	12	-	-	185,400,000	185,400,000
<b>Total non-current assets</b>		<b>377,390,013</b>	<b>342,814,248</b>	<b>185,400,000</b>	<b>185,400,000</b>
<b>Current assets</b>					
Inventories	13	101,386,277	79,353,083	-	-
Trade and other receivables	14	128,302,139	123,957,570	2,874,522	6,656,872
Amounts due from related companies	15	61,375,943	53,949,432	75,099,355	103,252,073
Short term investments	16.c	849,344,626	700,528,278	121,048,257	58,015,890
Cash and cash equivalents	16.a	41,050,258	22,223,594	2,772,863	3,575,155
<b>Total current assets</b>		<b>1,181,459,243</b>	<b>980,011,957</b>	<b>201,794,997</b>	<b>171,499,990</b>
<b>Total assets</b>		<b>1,558,849,256</b>	<b>1,322,826,205</b>	<b>387,194,997</b>	<b>356,899,990</b>
<b>EQUITY</b>					
Stated capital	17	314,000,000	314,000,000	314,000,000	314,000,000
Reserves	18	119,752,618	94,583,431	3,054,017	3,054,017
Retained earnings		771,674,067	586,454,667	53,795,351	16,755,034
<b>Total equity</b>		<b>1,205,426,685</b>	<b>995,038,098</b>	<b>370,849,368</b>	<b>333,809,051</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Deferred tax liabilities	19	34,102,171	36,758,847	-	-
Employee benefits	20	21,237,009	17,722,784	-	-
<b>Total non-current liabilities</b>		<b>55,339,180</b>	<b>54,481,631</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>					
Trade and other payables	21	203,193,317	184,043,742	4,913,728	10,366,436
Amounts due to related companies	15	8,229,240	17,686,726	5,096,939	222,338
Current tax liabilities		86,609,986	69,213,367	6,334,962	12,502,165
Bank overdrafts	16.b	50,848	2,362,641	-	-
<b>Total current liabilities</b>		<b>298,083,391</b>	<b>273,306,476</b>	<b>16,345,629</b>	<b>23,090,939</b>
<b>Total liabilities</b>		<b>353,422,571</b>	<b>327,788,107</b>	<b>16,345,629</b>	<b>23,090,939</b>
<b>Total equity and liabilities</b>		<b>1,558,849,256</b>	<b>1,322,826,205</b>	<b>387,194,997</b>	<b>356,899,990</b>

The accounting policies and notes from pages 28 to 57 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)

Dilantha Jayawardhana  
Group Chief Financial Officer

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

(Signed)

M I Abdul Wahid  
Managing Director

(Signed)

P S Mathavan  
Director

# STATEMENT OF CHANGES IN EQUITY

	Stated capital Rs.	Capital reserves Rs.	Revaluation reserve Rs.	General reserve Rs.	Retained earnings Rs.	Total Rs.
<b>GROUP</b>						
Balance as at 1 April 2014	314,000,000	1,784,545	91,529,414	1,269,472	471,318,745	879,902,176
Total comprehensive income for the year						
Profit for the year	-	-	-	-	115,625,074	115,625,074
Other comprehensive income	-	-	-	-	(489,152)	(489,152)
Total comprehensive income for the year	-	-	-	-	115,135,922	115,135,922
Transactions with owners, recognized directly in equity						
Dividends	-	-	-	-	-	-
Balance as at 31 March 2015	314,000,000	1,784,545	91,529,414	1,269,472	586,454,667	995,038,098
Balance as at 1 April 2015	314,000,000	1,784,545	91,529,414	1,269,472	586,454,667	995,038,098
Super gain tax (Note 7.iii)	-	-	-	-	(11,325,539)	(11,325,539)
Adjusted balance as at 1 April 2015	314,000,000	1,784,545	91,529,414	1,269,472	575,129,128	983,712,559
Total comprehensive income for the year						
Profit for the year	-	-	-	-	203,371,126	203,371,126
Other comprehensive income	-	-	25,169,187	-	(546,187)	24,623,000
Total comprehensive income for the year	-	-	25,169,187	-	202,824,939	227,994,126
Transactions with owners, recognized directly in equity						
Dividends	-	-	-	-	(6,280,000)	(6,280,000)
Balance as at 31 March 2016	314,000,000	1,784,545	116,698,601	1,269,472	771,674,067	1,205,426,685
<b>COMPANY</b>						
Balance as at 1 April 2014	314,000,000	1,784,545	-	1,269,472	(31,163,770)	285,890,247
Total comprehensive income for the year						
Profit for the year	-	-	-	-	47,918,804	47,918,804
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	47,918,804	47,918,804
Transactions with owners of the Company, recognized directly in equity						
Dividends	-	-	-	-	-	-
Balance as at 31 March 2015	314,000,000	1,784,545	-	1,269,472	16,755,034	333,809,051
Balance as at 1 April 2015	314,000,000	1,784,545	-	1,269,472	16,755,034	333,809,051
Super gain tax (Note 7.iii)	-	-	-	-	(7,950,082)	(7,950,082)
Adjusted balance as at 1 April 2015	314,000,000	1,784,545	-	1,269,472	8,804,952	325,858,969
Total comprehensive income for the year						
Profit for the year	-	-	-	-	51,270,399	51,270,399
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	51,270,399	51,270,399
Transactions with owners of the Company, recognized directly in equity						
Dividends	-	-	-	-	(6,280,000)	(6,280,000)
Balance as at 31 March 2016	314,000,000	1,784,545	-	1,269,472	53,795,351	370,849,368

Figures in brackets indicate deductions.

The accounting policies and notes from pages 28 to 57 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

For the year ended 31 March	Note	Group		Company	
		2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>Cash flows from operating activities</b>					
Profit before taxation		280,974,491	177,077,722	71,087,874	65,311,608
Adjustments for:					
Depreciation	10	33,980,117	39,863,166	-	-
Employee benefits	20	3,955,718	3,632,122	-	-
Net finance income	5	(54,862,912)	(48,957,566)	(7,527,023)	(598,278)
Inventory write-off		247,791	102,979	-	-
Write-off of WHT		353	-	-	-
Impairment of loss on property, plant and equipment		-	24,469,999	-	-
Provision / (reversal) for trade and other receivables		(1,538,085)	1,100,000	-	-
Operating profit before working capital changes		262,757,473	197,288,422	63,560,851	64,713,330
<b>Changes in working capital:</b>					
(Increase) / Decrease in inventories		(22,281,338)	6,905,011	-	-
(Increase) / Decrease in trade and other receivables		(18,643,175)	(20,975,873)	(9,157,662)	(6,656,872)
(Increase) / Decrease in related company receivables		(7,426,511)	71,783,587	28,152,718	14,324,013
Increase / (Decrease) in trade and other payables		18,071,118	(44,180,567)	(5,606,196)	61,056
Increase / (Decrease) in related company payables		(9,457,486)	(30,283,579)	4,874,601	222,338
Cash generated from operations		223,020,081	180,537,001	81,824,312	72,663,865
Interest paid	5.2	(689,102)	(647,532)	(25,600)	(24,518)
Gratuity paid	20	(1,200,085)	(2,309,440)	-	-
Super gain tax paid		(11,325,539)	-	(7,950,082)	-
Tax paid		(47,316,263)	(14,989,891)	(13,044,666)	(13,248,369)
Net cash generated from operating activities		162,489,092	162,590,138	60,803,964	59,390,978
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	10	(43,401,052)	(31,919,086)	-	-
Proceeds from sale of property, plant and equipment	10	1,441,263	3,474,152	-	-
Interest income	5.1	55,552,014	49,605,098	7,552,623	622,796
Net cash generated from investing activities		13,592,225	21,160,164	7,552,623	622,796
<b>Cash flows from financing activities</b>					
Dividend paid		(6,126,512)	-	(6,126,512)	-
Repayment of long term borrowings		-	(421,588)	-	-
Net cash used in financing activities		(6,126,512)	(421,588)	(6,126,512)	-
Net increase in cash and cash equivalents		169,954,805	183,328,714	62,230,075	60,013,774
<b>Movement in cash and cash equivalents</b>					
At the beginning of the year		720,389,231	537,060,517	61,591,045	1,577,271
Movement during the year		169,954,805	183,328,714	62,230,075	60,013,774
At the end of the year	16 - b	890,344,036	720,389,231	123,821,120	61,591,045

Figures in brackets indicate deductions.

The accounting policies and notes from pages 28 to 57 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 in 1969. The registered office of the Company is located at No. 40, York Street, Colombo 01.

### 1.1.1 Consolidated Financial Statements

The Consolidated Financial Statements of the Company as at and for the year ended 31 March 2016 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

### 1.1.2 Parent Entity & Ultimate Parent Entity

The Company's parent entity is Cargills Quality Foods Ltd., and the Company's ultimate parent entity is CT Holdings PLC which is a Quoted Public Limited Liability Company domiciled in Sri Lanka and listed in Colombo Stock Exchange.

### 1.1.3 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 these consolidated financial statements.

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

Kotmale Marketing (Pvt) Ltd., have ceased operations and are in the process of being liquidated.

Kotmale Milk Products Ltd. and Kotmale Milk Foods Ltd., have ceased operations and the board of directors of the companies are currently in the process of evaluating the various business opportunities.

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

## 1.1.4 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

The responsibility of the Directors in relation to the Financial Statements is set out in "The Statement of Director's Responsibility" on page 22 to in the Annual report.

## 1.2 Basis of preparation

### 1.2.1 Statement of compliance

The consolidated financial statements which comprise the Statement of Financial Position, Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and the Cash Flows, together with the accounting policies and notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the requirements of the Companies Act No. 07 of 2007 and listing rules of Colombo Stock Exchange.

### 1.2.2 Approval of Financial Statements by the Board of Directors

The Financial Statements were approved and authorised for issue by the Board of Directors on 9 June 2016.

### 1.2.3 Basis of measurement

The Consolidated 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.

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.

### 1.2.4 Presentation and Functional currency

These consolidated financial statements are presented in Sri Lankan Rupees, which is the Group's functional currency.

Each material class of similar items is presented cumulatively in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

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. Estimates and underlying assumptions are reviewed on an ongoing 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 7.1 - Utilisation of tax losses

Note 20 - Employee benefits

## 1.3 Significant accounting policies

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

### 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.

#### 1.3.1.2 Subsidiaries

Subsidiaries are entities that are controlled by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases. The Company is presumed to control an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in subsidiaries are stated at cost, net of any impairment losses which are charged to the Profit or Loss in the Company's

Financial Statements and it is in accordance with the Sri Lanka Accounting Standard LKAS 27 on 'Consolidated and Separate Financial Statements'.

#### 1.3.1.3 Business Combinations and Goodwill

Business combinations are accounted for using the Acquisition method as per the requirements of Sri Lanka Accounting Standard - SLFRS 03 (Business Combinations).

The Group and the Company measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net amount of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Statement of Profit or Loss.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## 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

All foreign currency transactions are translated into the functional currency which is Sri Lankan Rupees (Rs.) at the spot exchange rate at the date of the transactions are effected.

Monetary assets and liabilities denominated in foreign currency are translated to functional currency equivalents at the spot exchange rate prevailing at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary assets and liabilities are translated using exchange rates that existed when the values were determined. The gain or loss arising on translation of non-monetary items is recognised in line with the gain or loss of the item that gave rise to the translation difference.

## 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 profit or loss. 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. Any gain or loss arising on derecognition of the assets is included in the profit or loss in the year the assets are derecognized.

#### 1.5.1.4 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, 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

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 reporting 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.

#### 1.5.3 Financial Instruments – Initial Recognition and Subsequent Measurement

##### 1.5.3.1 Classification and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard- LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

##### 1.5.3.2 Classification and Subsequent Measurement of Financial Assets

At inception a financial asset is classified under one of the following categories:

- i) Financial Assets at Fair value through profit or loss (FVTPL);
  - Financial Assets - Held for trading or
  - Financial Assets - Designated at fair value through profit or loss
- ii) Loans and receivables (L&R);
- iii) Financial Assets - Held to maturity (HTM); or
- iv) Available-for-sale (AFS) financial assets.

The subsequent measurement of Financial Assets depends on their classification.

##### 1.5.3.2.1 Financial Assets at Fair Value through Profit or Loss (FVTPL)

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

##### Financial Assets - Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Financial assets investments held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'other income'. Interest and dividend income is recorded in 'other income' according to the terms of the contract, or when the right to receive the payment has been established.

##### Financial Assets - Designated at Fair Value through Profit or Loss

The Group and Company designates financial assets at fair value through profit or loss in the following circumstances;

- The assets are managed, evaluated and reported internally at fair value;
- The designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss is recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in other income as net gain or loss on financial assets and liabilities designated at fair value through profit or loss. Interest earned is accrued in 'interest income' using EIR while dividend income is recorded in 'other income' when the right to receive the payment has been established.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## 1.5.3.2.2 Available for Sale Financial Assets

Available for sale financial investments include equity 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.

Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognised in the Statement of Profit or Loss in 'Other income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial assets are reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available for sale financial investments are recognised in the Statement of Profit or Loss as 'Other income' when the right of the income has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss and removed from the 'Available for sale reserve'.

## 1.5.3.2.3 Financial Assets Classified as Loans and Receivables

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group and Company intends to sell immediately or in the near term and those that, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group and Company, upon initial recognition, designates as available for sale
- Those for which the Group and Company may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, 'Loans and receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are

an integral part of the EIR. The amortization is included in 'Interest income' in the Profit or Loss. The losses arising from impairment are recognised in the Profit or Loss.

## 1.5.3.3 Classification and Subsequent Measurement of Financial Liabilities

At the inception the Group and Company determines the classification of its financial liabilities. Accordingly financial liabilities are classified as:

- Financial liabilities at fair value through profit or loss (FVTPL)
  - Financial liabilities held for trading
  - Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost.
 

The subsequent measurement of financial liabilities depends on their classification.

### 1.5.3.3.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognised in profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered into by the Group and Company that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 on Financial Instruments: Recognition and Measurement. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the Statement of Profit or Loss.

### 1.5.3.3.2 Financial Liabilities at Amortised Cost

Financial Instruments where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are de-recognised as well as through the EIR amortisation process.

#### 1.5.3.4 Reclassification of Financial Instruments

The Group does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

The Group reclassifies non-derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on Financial Instruments: Recognition and Measurement. In certain circumstances the Group is also permitted to reclassify financial assets out of the 'available for sale' category and into the 'loans and receivables', 'held for trading' or 'held- to maturity' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Profit or Loss.

The Group may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

#### 1.5.3.5 De-recognition of Financial Assets and Financial Liabilities Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when;

- The rights to receive cash flows from the asset which have expired;
- The Group and Company 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 Group and Company has transferred substantially all the risks and rewards of the asset; or
- The Group and Company have 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 and consideration received and any cumulative gain or loss that has been recognised is recognised in profit or loss.

When the Group and Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### 1.5.3.6 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

### 1.5.3.7 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 are 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 have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

#### 1.5.3.8.1 Loans and Receivables

Losses for impaired loans are recognized promptly when there is objective evidence that impairment has occurred. Impairment losses are recorded as charges to the Profit or Loss. The carrying amount of impaired loans and receivables on the Statement of Financial Position is reduced through the use of impairment allowance accounts.

## Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

#### 1.5.3.8.2 Available for Sale Financial Investments

For available for sale financial investments, the Company and group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a significant' or 'prolonged' decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Group generally treats 'significant' as 20% or more and 'prolonged' as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss is removed from equity and recognised in the Statement of Profit or Loss. Impairment losses on equity investments are not reversed through the Statement of Profit or Loss; increases in the fair value after impairment are recognised in other comprehensive income.

### 1.5.3.9 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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 realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKAS / SLFRS, or for gains and losses arising from a group of similar transactions.

## 1.5.4 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

### 1.5.5 Short term investment

Short term investments consist of investment in re-purchase agreements and call deposits.

### 1.5.6 Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, demand deposits, and 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.

### 1.5.7 Equity and liabilities

#### 1.5.7.1 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.

### 1.5.8 Employee benefits

#### 1.5.8.1 Defined benefit plan - Gratuity

The Group measures the present value of the retirement benefits for gratuity, with the advice of an independent professional actuary using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard- LKAS 19 on 'Employee Benefits'.

The item is stated under Employee benefits in the Statement of Financial Position.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 20 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.

#### 1.5.8.1.1 Recognition of Actuarial Gains and Losses

The Company and Group recognises the total actuarial gains and losses that arise in calculating the obligation in Other Comprehensive Income during the period in which it occurs.

#### 1.5.8.1.2 Funding Arrangements

The gratuity liability is not externally funded.

#### 1.5.8.2 Defined contribution plans – employees' provident fund and employee trust fund

Defined Contribution Plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay any further amounts. Obligations for contributions to Employees Provident Fund and Employees Trust Fund covering all employees are recognised as an expense in the Profit or Loss, as 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.

### 1.5.9 Provisions, contingent assets and contingent liabilities

Provisions are recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with the Sri Lanka Accounting Standard - LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date.

## 1.6 Statement of profit or loss and other comprehensive income

### 1.6.1 Revenue

The revenue of the Company and Group represents invoiced value of goods to customers other than to companies within 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## 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 been 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 been passed to the buyer, usually on delivery of the goods.

## 1.6.4 Expenditure recognition

### 1.6.4.1 Expenditure

Expenses are recognised in the Statement of Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income.

### 1.6.4.2 Allowance for doubtful debts

The Group assesses at the reporting date 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.

### 1.6.4.3 Borrowing costs

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

### 1.6.5.4 Net finance cost

Finance income comprises interest income on funds invested 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 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.

### 1.6.4.5 Taxation

#### 1.6.4.5.1 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.

#### 1.6.4.5.2 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 be applied 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 transactions

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 flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flow', whereby operating activities, investing activities and financing activities are separately recognised. Cash and Cash

Equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

### 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 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 reporting date, is disclosed in Note 23 and 24 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 Standards Issued but not yet Effective

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 March 2016.

**SLFRS 9 - Financial Instruments:**  
Classification and Measurement

SLFRS 9, as issued, reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities as defined in LKAS 39.

SLFRS 9 was issued in 2012 and effective date of this standard has been deferred until 1 January 2018 until further notice.

**SLFRS 15 - Revenue from contracts with customers**

The objective of this standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

**SLFRS 15 will become effective on 1 January 2018**

The impact on the implementation of the above standard has not been quantified yet.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

For the year ended 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>2. REVENUE</b>				
Gross revenue on liquid milk based products	1,877,976,698	1,538,185,306	-	-
Nation Building Tax (NBT)	(37,559,534)	(30,763,706)	-	-
Net revenue	1,840,417,164	1,507,421,600	-	-

### 3. COST OF SALES

Cost of sales of the Group includes direct operating cost.

For the year ended 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>4. OTHER INCOME</b>				
Dividend income	-	-	311,177	1,037,257
Royalty income	87,428,959	64,283,073	87,428,959	64,283,073
Reversal of provision for trade receivable	1,538,085	-	-	-
Sundry income	693,681	521,456	-	-
	89,660,725	64,804,529	87,740,136	65,320,330

A royalty of 3% on the net sale has been received by the Company from Cargills Quality Dairies (Pvt) Ltd., on the sale of UHT milk and yoghurt products.

For the year ended 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>5. NET FINANCE INCOME</b>				
<b>5.1 Finance income</b>				
Interest income	55,552,014	49,605,098	7,552,623	622,796
	55,552,014	49,605,098	7,552,623	622,796
<b>5.2 Finance cost on;</b>				
Bank charges	689,102	637,048	25,600	24,518
Long term borrowings	-	5,293	-	-
Bank overdrafts	-	5,191	-	-
	689,102	647,532	25,600	24,518
Net finance income	54,862,912	48,957,566	7,527,023	598,278



For the year ended 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.

## 6. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging / (crediting) all the expenses / (income) including the following;

Auditors' remuneration -for audit	1,087,145	1,030,920	399,645	373,500
-for non audit	115,000	115,000	45,000	45,000
Depreciation on property, plant and equipments (Note 10)	33,980,117	39,863,166	-	-
Provision / (reversal) for trade and other receivables	(1,538,085)	1,100,000	-	-
Inventory write-off	247,791	102,979	-	-
Staff costs (Note 6.1)	158,681,395	132,648,472	-	-
Directors' emoluments	13,630,506	7,887,500	-	-

### 6.1 Staff cost

Salaries, wages and other related costs	140,857,383	117,623,118	-	-
Defined benefits plan cost	3,955,718	3,632,122	-	-
Gratuity charged from inter company	222,702	23,073	-	-
Defined contribution plan cost - EPF and ETF	13,645,592	11,370,159	-	-
	158,681,395	132,648,472	-	-

Number of employees as at 31 March	270	267	-	-
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## 7. INCOME TAX EXPENSE

Income tax on current year profit (Note 7.1)	80,549,576	55,062,795	19,817,475	17,392,804
Dividend tax	924,966	256,935	-	-
Deferred Income tax (Note 7.2)	(3,871,177)	6,132,918	-	-
	77,603,365	61,452,648	19,817,475	17,392,804

- (i) The tax liability of the companies in the Group are computed at the standard rate of 28% 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, provision has been made for income tax at the normal rate for the financial years commencing from 2011/2012, where as tax returns continue to be filed based on the concessionary tax rate.

- (ii) During the year the subsidiaries have not paid Economic Service Charge (ESC) (2015 -Nil).
- (iii) As per the provisions of Part III of the Finance Act, No. 10 of 2015, which was certified on 30 October 2015, the Group and Company is liable for Super Gain Tax of Rs. 11.33 Mn and 7.95 Mn respectively. According to the Act, the Super Gain Tax was deemed to be expenditure in the Financial Statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards; hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

For the year ended 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>7.1 Reconciliation between profit before tax and tax on current year profit is given below;</b>				
Profit before taxation	280,974,491	177,077,722	71,087,874	65,311,608
Aggregate other income	(55,552,014)	(49,605,098)	(7,552,623)	(622,796)
Aggregate exempt income	-	-	(311,177)	(1,037,257)
Aggregate disallowed expenses	38,479,119	74,255,923	-	-
Aggregate allowable expenses	(33,131,759)	(55,786,230)	-	-
Tax losses incurred	591,578	742,372	-	-
Aggregate taxable profit on disposal of plant and machinery	763,727	2,520,295	-	-
Adjusted profit (a)	232,125,142	149,204,984	63,224,074	63,651,555
Taxable income from other sources	55,552,014	49,605,098	7,552,623	622,796
Statutory income (b)	55,552,014	49,605,098	7,552,623	622,796
Tax losses brought forward	37,318,030	38,732,901	-	2,157,193
Tax losses added	591,931	742,372	-	-
Tax losses utilised (c)	(99)	(2,157,243)	-	(2,157,193)
Tax losses carried forward	37,909,862	37,318,030	-	-
Taxable income (a+b+c)	287,677,057	196,652,839	70,776,697	62,117,158
Income tax @ 28% (2015 - @ 28%)	80,549,576	55,062,795	19,817,475	17,392,804
Income tax expense on current year profit	80,549,576	55,062,795	19,817,475	17,392,804
<b>7.2 Deferred income tax;</b>				
Deferred tax expense / (income) arising from;				
Accelerated depreciation for tax purposes	(3,530,263)	4,124,194	-	-
Employee benefit liabilities	(771,578)	(370,351)	-	-
Benefit arising from tax losses	-	2,687,075	-	-
(Increase) / decrease in provisions	430,664	(308,000)	-	-
Deferred tax charge / (reversal)	(3,871,177)	6,132,918	-	-

Deferred tax has been computed taking into 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.

**7.3** Temporary differences associated with Kotmale Milk Foods Ltd. and Kotmale Milk Products Ltd., for which the deferred tax assets have not been recognised, are disclosed as follows.

For the year ended 31 March	Temporary difference	2016 Tax effect on Temporary difference	Temporary difference	2015 Tax effect on Temporary difference
	Rs.	Rs.	Rs.	Rs.
Deductible temporary difference	39,704,155	11,117,163	39,231,954	10,984,947

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. 39,704,155 (2015 - Rs. 39,231,954) could be utilized in accordance with LKAS 12 - "Income taxes"

For the year ended 31 March	2016	Group		Company	
		2016	2015	2016	2015
<b>8. EARNINGS PER SHARE</b>					
Profit attributable to ordinary share holders (Rs.)	203,371,126	115,625,074	51,270,399	47,918,804	
Weighted average number of ordinary shares	31,400,000	31,400,000	31,400,000	31,400,000	
Basic earnings per share (Rs.)	6.48	3.68	1.63	1.53	

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

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

For the year ended 31 March	2016	Group		Company	
		2016	2015	2016	2015
<b>9. DIVIDEND PER SHARE</b>					
Dividends per share	0.20	-	0.20	-	

The Company has paid Rs. 6,280,000 as dividends during the year ended 31 March 2016. (2015 - Nil)

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## 10. 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 2016 Rs.	Total 2015 Rs.
<b>Cost / revaluation</b>								
Balance as at 1 April	129,772,444	15,500,000	336,011,797	20,215,064	8,864,992	8,923,973	519,288,270	493,940,185
Additions	-	-	12,324,144	1,539,000	885,535	986,755	15,735,434	32,919,085
Disposal	-	-	(5,759,818)	-	-	-	(5,759,818)	(7,571,000)
Revaluation	26,596,093	-	-	-	-	-	26,596,093	-
Balance as at 31 March	156,368,537	15,500,000	342,576,123	21,754,064	9,750,527	9,910,728	555,859,979	519,288,270
<b>Depreciation and impairment</b>								
Balance as at 1 April	11,190,748	15,500,000	170,789,438	19,540,059	8,274,182	7,042,869	232,337,296	172,012,586
Charge for the year	2,677,789	-	29,590,042	417,375	369,459	925,452	33,980,117	39,863,166
Impairment	-	-	-	-	-	-	-	24,469,999
Disposal	-	-	(4,318,555)	-	-	-	(4,318,555)	(4,008,455)
Balance as at 31 March	13,868,537	15,500,000	196,060,925	19,957,434	8,643,641	7,968,321	261,998,858	232,337,296
Carrying value	142,500,000	-	146,515,198	1,796,630	1,106,886	1,942,407	293,861,121	286,950,974
Capital working progress	-	-	-	-	-	-	27,665,618	-
Carrying value as at 31 March	142,500,000	-	146,515,198	1,796,630	1,106,886	1,942,407	321,526,739	286,950,974

(a) If land and buildings were stated at the historical cost basis, the amounts would have been as follows:

As at 31 March	Land		Building	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Group				
Cost	22,172,700	22,172,700	26,057,618	26,057,618
Accumulated depreciation	-	-	(8,142,510)	(6,937,618)
Carrying value	22,172,700	22,172,700	17,915,108	19,120,000

(b) The freehold land and building of the subsidiary Company of Kotmale Dairy Products (Pvt) Ltd. was revalued as at 31 March 2016 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 2016.

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.

(c) Capital work-in-progress consists of expenditure incurred on projects which are not completed and commenced business operations as at the reporting date.

(d) Fully depreciated assets of the Group as at the year end is Rs. 69,948,125 (2015- Rs. 41,329,949).

(e) Expenditure incurred on leasehold building represents the cost incurred in setting up buildings on leasehold land.

(f) Group real estate portfolio

Location	Land extent	Building area (Sq. ft.)	Valuation Rs.	Year of valuation
Kotmale Dairy Products (Pvt) Ltd.				
Mulleriyawa	1.8 Acres	29,615	116,000,000	2016
Bogahawatta	1 Acres	17,442	26,500,000	2016
		Group		Company
For the year ended 31 March	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.

## 11. INTANGIBLE ASSETS

Gross value				
At the beginning of the year	97,773,232	97,773,232	-	-
Impairment				
At the beginning of the year	(41,909,958)	(41,909,958)	-	-
Impairment for the year	-	-	-	-
At the end of the year	(41,909,958)	(41,909,958)	-	-
Net carrying value	55,863,274	55,863,274	-	-

Goodwill as at the reporting 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".

As at 31 March	Shares	(%)	Group 2016 Rs.	2015 Rs.	Company 2016 Rs.	2015 Rs.
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## 12. INVESTMENTS IN SUBSIDIARIES

Kotmale Products Ltd.	10,372,560	100	-	-	185,400,000	185,400,000
Kotmale Milk Foods Ltd.	70	100	-	-	30,000,060	30,000,060
Provision for the investment in Kotmale Milk Foods Ltd.			-	-	(30,000,060)	(30,000,060)
			-	-	185,400,000	185,400,000

Company initiated measures to have its subsidiary Company Kotmale Kiri (Pvt) Ltd. (Which has been dormant since February 2007) struck off the Company Register under the provisions of Section 394 (3) of the Companies Act No. 07 of 2007. Accordingly Kotmale Kiri (Pvt) Ltd. has been struck off from the Company Register with effective from 10 October 2015.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>13. INVENTORIES</b>				
Finished goods	33,795,926	24,575,322	-	-
Raw materials	27,567,340	27,524,018	-	-
Packing materials	19,385,806	9,149,812	-	-
Others	20,637,205	18,103,931	-	-
	<b>101,386,277</b>	<b>79,353,083</b>	-	-

(a) Inventories which have been mortgaged for bank facilities are disclosed note 22, in notes to the financial statements.

As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>14. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	124,926,547	117,880,376	-	-
Provision for trade receivables	(13,331,460)	(14,869,545)	-	-
	<b>111,595,087</b>	<b>103,010,831</b>	-	-
Staff debtors (Note 14.1)	544,005	403,168	-	-
Other receivables (Note 14.2)	1,933,624	1,152,865	-	-
Deposits, advances and prepayments	14,229,423	19,390,706	2,874,522	6,656,872
	<b>128,302,139</b>	<b>123,957,570</b>	<b>2,874,522</b>	<b>6,656,872</b>

(a) Trade receivables which have been mortgaged for bank facilities are disclosed in note 22, in notes to the financial statements

As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>14.1 Staff debtors</b>				
Balance at the beginning of the year	403,168	281,521	-	-
Advances given during the year	4,067,255	4,177,198	-	-
Repayments	(3,926,418)	(4,055,551)	-	-
Balance at the end of the year	<b>544,005</b>	<b>403,168</b>	-	-
<b>14.2 Other receivables</b>				
Receivable from farmers (14.2 -a)	7,876,579	7,095,820	-	-
Other debtors	3,124,368	3,124,368	-	-
	<b>11,000,947</b>	<b>10,220,188</b>	-	-
Provision for other receivables	(9,067,323)	(9,067,323)	-	-
	<b>1,933,624</b>	<b>1,152,865</b>	-	-

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

As at 31 March	2016 Rs.	Group 2015 Rs.	2016 Rs.	Company 2015 Rs.
<b>15. AMOUNTS DUE FROM / DUE TO RELATED COMPANIES</b>				
Amounts due from related companies				
Parent				
Cargills Quality Foods Ltd.	339,635	-	568	-
	339,635	-	568	-
Subsidiaries				
Kotmale Milk Products Ltd.	-	-	18,438,381	18,438,381
Kotmale Milk Foods Ltd.	-	-	2,474,640	2,474,640
Kotmale Dairy Products (Pvt) Ltd.	-	-	24,832,645	60,005,059
Kotmale Products Ltd.	-	-	2,064,141	1,752,964
	-	-	47,809,807	82,671,044
Other related companies				
Cargills Foods Company (Pvt) Ltd.	8,337,153	10,544,746	-	-
Cargills Quality Dairies (Pvt) Ltd.	51,940,330	42,831,550	27,288,980	20,581,029
Cargills Agrifoods Ltd.	-	211,265	-	-
Cargills Food Processors (Pvt) Ltd.	51,975	31,794	-	-
Cargills Food Services (Pvt) Ltd.	706,850	330,077	-	-
	61,036,308	53,949,432	27,288,980	20,581,029
<b>Total amounts due from related companies</b>	<b>61,375,943</b>	<b>53,949,432</b>	<b>75,099,355</b>	<b>103,252,073</b>
Amounts due to related companies				
Parent				
Cargills (Ceylon) PLC	7,908,586	16,977,457	5,096,939	222,338
Cargills Quality Foods Ltd.	-	262,883	-	-
	7,908,586	17,240,340	5,096,939	222,338
Other related companies				
Cargills Agrifoods Ltd.	183,441	-	-	-
Cargills Quality Confectioneries (Pvt) Ltd.	137,213	446,386	-	-
	320,654	446,386	-	-
<b>Total amounts due to related companies</b>	<b>8,229,240</b>	<b>17,686,726</b>	<b>5,096,939</b>	<b>222,338</b>

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

As at 31 March	2016 Rs.	Group	2015 Rs.	Company	2015 Rs.
<b>16. CASH AND CASH EQUIVALENTS</b>					
(a) Cash at banks and in hand					
Cash at bank	40,795,258		21,961,094	2,772,863	3,575,155
Cash in hand	255,000		262,500	-	-
	<b>41,050,258</b>		<b>22,223,594</b>	<b>2,772,863</b>	<b>3,575,155</b>
(b) For the purpose of cash flow statement, the year end cash and cash equivalents comprise the following;					
Short term investments	849,344,626		700,528,278	121,048,257	58,015,890
Cash at banks and in hand	41,050,258		22,223,594	2,772,863	3,575,155
Bank overdrafts	(50,848)		(2,362,641)	-	-
Cash and cash equivalents as at 31 March	<b>890,344,036</b>		<b>720,389,231</b>	<b>123,821,120</b>	<b>61,591,045</b>
(c) Short term investments					
Call/fixed deposits	759,193,773		618,169,315	121,048,257	58,015,890
Re-purchase agreements	90,150,853		82,358,963	-	-
	<b>849,344,626</b>		<b>700,528,278</b>	<b>121,048,257</b>	<b>58,015,890</b>
<b>17. STATED CAPITAL</b>					
Issued and fully paid;					
31,400,000 ordinary shares	<b>314,000,000</b>		<b>314,000,000</b>	<b>314,000,000</b>	<b>314,000,000</b>
<b>18. RESERVES</b>					
Capital reserves					
Revaluation reserve	116,698,601		91,529,414	-	-
Capital reserve	1,784,545		1,784,545	1,784,545	1,784,545
	<b>118,483,146</b>		<b>93,313,959</b>	<b>1,784,545</b>	<b>1,784,545</b>
Revenue reserves					
General reserve	1,269,472		1,269,472	1,269,472	1,269,472
	<b>1,269,472</b>		<b>1,269,472</b>	<b>1,269,472</b>	<b>1,269,472</b>
	<b>119,752,618</b>		<b>94,583,431</b>	<b>3,054,017</b>	<b>3,054,017</b>

Revaluation reserve consists of net surplus resulting from revaluation of land and building.

General reserve represents the amount set aside by the Directors for general application.



As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>19. DEFERRED TAX LIABILITIES</b>				
At the beginning of the year	36,758,847	30,816,155	-	-
Charge for the year	(4,083,582)	5,942,692	-	-
Attributable to revaluation	1,426,906	-	-	-
<b>At the end of the year</b>	<b>34,102,171</b>	<b>36,758,847</b>	-	-
Deferred tax liability arising from ;				
- Temporary difference of property, plant and equipment	38,813,388	42,343,651	-	-
- Temporary difference of employee benefits	(5,946,363)	(4,962,380)	-	-
- Temporary difference of provisions	(5,735,760)	(6,166,424)	-	-
- Temporary difference of revaluation surplus of buildings	6,970,906	5,544,000	-	-
<b>As at 31 March</b>	<b>34,102,171</b>	<b>36,758,847</b>	-	-
Origination/ (reversal) of Deferred tax				
Total expense charged / (reversed) to income statement	(3,871,177)	6,132,918	-	-
Total expense charged / (reversed) to other comprehensive income				
Actuarial losses on employee benefit	(212,405)	(190,226)	-	-
Revaluation surplus of building	1,426,906	-	-	-
	<b>(2,656,676)</b>	<b>5,942,692</b>	-	-
<b>20. EMPLOYEE BENEFITS</b>				
At the beginning of the year	17,722,784	15,720,724	-	-
Expense recognised in profit or loss	3,955,718	3,632,122	-	-
Expense recognised in other comprehensive income	758,592	679,378	-	-
Contributions paid	(1,200,085)	(2,309,440)	-	-
<b>At the end of the year</b>	<b>21,237,009</b>	<b>17,722,784</b>	-	-

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
(a) The amount recognised in the profit or loss as follows:				
Current service cost	2,183,440	1,981,446	-	-
Interest cost	1,772,278	1,650,676	-	-
	<u>3,955,718</u>	<u>3,632,122</u>	-	-
(b) The amount recognised in other comprehensive income as follows:				
Actuarial loss	758,592	679,378	-	-
	<u>758,592</u>	<u>679,378</u>	-	-

(c) This obligation is not externally funded.

(d) The gratuity 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 2016. The Principle assumptions used in Actuarial valuation were as follows;

As at 31 March	Group	
	2016 Rs.	2015 Rs.
(e) Discount rate (the rate of interest used to discount the future cash flows in order to determine the present value)	10.50%	10.00%
i. Future salary increase		
- Executive	10.00%	8%
- Staff	10.00%	8%
ii. Retirement Age		
	55	55

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 liability.

(f) Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the defined benefit obligation measurement.

	2016		2015	
	Increase Rs.	Decrease Rs.	Increase Rs.	Decrease Rs.
Discount rate (1% movement)	(1,140,056)	1,269,238	(1,177,830)	1,332,356
Future salary increment rate (1% movement)	1,135,687	(1,039,085)	1,406,468	(1,260,733)

As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>21. TRADE AND OTHER PAYABLES</b>				
Trade payables	95,359,794	75,804,279	-	-
Other payables	60,109,505	67,783,993	2,199,271	7,528,614
Accrued expenses	47,201,490	40,086,430	2,191,941	2,468,794
Dividend payable	522,528	369,040	522,516	369,028
	<b>203,193,317</b>	<b>184,043,742</b>	<b>4,913,728</b>	<b>10,366,436</b>

Other payables of the Group and Company includes VAT and NBT payables.

## 22. BANK FACILITIES

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

Institution and the facility	Principle Amount in Rs.	Repayment terms and interest rates	Security offered
<b>Kotmale Dairy Products (Pvt) Ltd.</b>			
<b>Bank Overdraft</b>			
Bank of Ceylon	10,000,000	Average interest rate of 10.92% P .a	Corporate Guarantee from Kotmale Holdings PLC. Mortgage over stocks and book debtors.
<b>Import Loan Facility</b>			
Bank of Ceylon	40,000,000	Average interest rate of 10.92% P .a	Corporate Guarantee from Kotmale Holdings PLC. Mortgage over stocks and book debtors.
<b>Series of Loan on Import</b>			
Bank of Ceylon	40,000,000	Average interest rate of 10.92% P .a	Corporate Guarantee from Kotmale Holdings PLC. Mortgage over stocks and book debtors.
<b>Kotmale Milk Products Ltd.</b>			
<b>Bank Overdraft</b>			
Pan Asia Bank Corporation Ltd.	5,000,000	Average interest rate of 11.04% P .a	Corporate Guarantee from Kotmale Holdings PLC.
<b>Import Loan Facility</b>			
Pan Asia Bank Corporation Ltd.	20,000,000	Average interest rate of 11.04% P .a	Corporate Guarantee from Kotmale Holdings PLC.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## 23. COMMITMENTS

### (a) Capital Commitments

There were no material capital commitments approved by the Board of Directors as at the reporting date.

As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>(b) Financial Commitments</b>				
Future payment of operating lease rental;				
- Payable within 1 year	3,480,000	3,480,000	-	-
- Payable between 1-5 years	7,192,000	11,020,000	-	-
	10,672,000	14,500,000	-	-

## 24 CONTINGENT LIABILITIES

### Letter of Guarantee to Commercial Banks

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

Kotmale Dairy products (Pvt) Ltd. - Rs. 50 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.

### Income Tax

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. 61.4 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.

### Litigation against the Group

Kotmale Dairy Products (Pvt) Ltd.

DC Hatton case no. 1805/2013/M

Plaintiff filed action claiming damages of Rs. 50 Mn for loss of revenue as dispute over the equipment take off.

Management is of the view that any pending litigation will not have a material impact on the financial statements.

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

## 25. EVENTS AFTER THE REPORTING DATE

The Board of Directors has proposed a final dividend of 0.20 cents per share on 9 June 2016 (on the 31,400,000 shares now in issue) for the year ended 31 March 2016 which is to be approved by the shareholders at the Annual General Meeting.

As required by the Section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors has confirmed the Company satisfy the 'Solvency Test', and has obtained a concurrence from auditors.

In accordance with LKAS 10 - "Events after the reporting period", the proposed dividends has not been recognised as a liability in the financial statements.

No events other than the above, have occurred since the reporting date which would require any adjustments or disclosure in the financial statements.

## 26. TRANSACTIONS WITH GROUP COMPANIES

Companies within the group engage 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 15 to the financial statements.

### (a) Transactions with Key Management Personnel (KMP)

According to the Sri Lanka Accounting Standard (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 and its subsidiaries. There have been no transactions involving key management personnel during the year.

The Group has paid Rs. 13.6 Mn (2015 - Rs. 7.9 Mn) as directors emoluments. There are no other payments made to key management personnel apart from the disclosed amount.

### (b) Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include;

- (a) the individual's domestic partner and children;
- (b) children of the individual's domestic partner; and
- (c) dependents of the individual or the individual's domestic partner

CFM are related parties to the entity. There were no transactions with CFM during the year.

# 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;

For the year ended 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>Parent</b>				
Sales	6,221,638	5,848,148	-	-
Settlements	(7,906,677)	(43,186,652)	-	-
Others	-	(1,604,705)	4,874,601	222,338
<b>Subsidiary</b>				
Fund transfers	-	-	-	6,904,765
Dividend	-	-	311,177	1,037,257
Settlements	-	-	(34,849,432)	(27,586,806)
Others	-	-	(322,414)	-
<b>Other related companies</b>				
Royalty income	87,428,959	64,283,074	87,428,959	64,283,074
Sales	1,044,360,304	863,469,332	-	-
Purchases	(115,500,562)	(86,221,324)	-	-
Settlements	(1,010,456,774)	(905,486,003)	(80,721,008)	(58,962,303)
Sale of machinery	-	98,116	-	-
Others	1,798,360	295,502	-	-

There are no material transactions between the Company and its 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 amounts due from and due to as at the year end have been disclosed under note 15 to these financial statements.

## 27. FINANCIAL INSTRUMENTS

### FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

Financial assets and liabilities in the tables below are split into categories in accordance with LKAS 39.

Financial assets by categories As at 31 March	Group		Company	
	Loans and receivables		Loans and receivables	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>Financial instruments in current assets</b>				
Trade and other receivables	128,302,139	123,957,570	2,874,522	6,656,872
Amounts due from related companies	61,375,943	53,949,432	75,099,355	103,252,073
Short term investments	849,344,626	700,528,278	121,048,257	58,015,890
Cash and cash equivalents	41,050,258	22,223,594	2,772,863	3,575,155
<b>Total</b>	<b>1,080,072,966</b>	<b>900,658,874</b>	<b>201,794,997</b>	<b>171,499,990</b>

The fair value of instruments under loans and receivables category does not significantly vary from the value based on amortised cost.

Financial liabilities by categories As at 31 March	Group		Company	
	Financial liabilities measured at amortised cost		Financial liabilities measured at amortised cost	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
<b>Financial instruments in current liabilities</b>				
Trade and other payables	203,193,317	184,043,742	4,913,728	10,366,436
Amounts due to related companies	8,229,240	17,686,726	5,096,939	222,338
Bank overdrafts	50,848	2,362,641	-	-
<b>Total</b>	<b>211,473,405</b>	<b>204,093,109</b>	<b>10,010,667</b>	<b>10,588,774</b>

**27.1** The above table does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The Group has not disclosed the fair values for financial instruments such as short term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair value.

## 28. 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 financial statements.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## 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 oversees 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.

### 28.1 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 As at 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Trade receivables	111,595,087	103,010,831	-	-
Other receivables	1,933,624	1,152,865	-	-
Deposits and Advances	9,361,139	10,221,738	-	-
Amounts due from related companies	61,375,943	53,949,432	75,099,355	103,252,073
Cash and cash equivalents	890,394,884	722,751,872	123,821,120	61,591,045
	<b>1,074,660,677</b>	<b>891,086,738</b>	<b>198,920,475</b>	<b>164,843,118</b>

#### 28.1.1 Trade receivables

Past due 1 - 30 days	67,734,673	64,579,078	-	-
Past due 31 - 60 days	29,912,642	25,288,561	-	-
Past due 61 - 90 days	13,947,772	13,143,192	-	-
> 91 days	-	-	-	-
	<b>111,595,087</b>	<b>103,010,831</b>	<b>-</b>	<b>-</b>

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



### 28.1.2 Advances

Advances represent advances given to suppliers, farmers and permanent employees.

### 28.1.3 Amounts due from related companies

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

### 28.1.4 Cash and cash equivalents

The Group and the Company held cash and cash equivalents of Rs. 890.4 Mn and Rs. 123.8 Mn at 31 March 2016 (2015: Rs. 722.8 Mn and Rs. 61.6 Mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated AAA(Ika) to A(Ika), based on Fitch Ratings.

Short term investments represent investment in REPO, call deposits and fixed deposit with less than three month maturity period are classified as cash and cash equivalent.

### 28.1.5 Guarantees

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

## 28.2 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 2016.

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.
<b>Financial instruments in current liabilities</b>							
Trade and other payables	203,193,317	-	-	-	-	-	203,193,317
Amounts due to related companies	8,229,240	-	-	-	-	-	8,229,240
Bank overdraft	50,848	-	-	-	-	-	50,848
	211,473,405	-	-	-	-	-	211,473,405

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

The following are the contractual maturities of financial liabilities as at 31 March 2016.

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 current liabilities							
Trade and other payables	4,913,728	-	-	-	-	-	4,913,728
Amounts due to related companies	5,096,939	-	-	-	-	-	5,096,939
Bank overdraft	-	-	-	-	-	-	-
	10,010,667	-	-	-	-	-	10,010,667

The following are the contractual maturities of financial liabilities as at 31 March 2015.

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 current liabilities							
Trade and other payables	184,043,742	-	-	-	-	-	184,043,742
Amounts due to related companies	17,686,726	-	-	-	-	-	17,686,726
Bank overdraft	2,362,641	-	-	-	-	-	2,362,641
	204,093,109	-	-	-	-	-	204,093,109

The following are the contractual maturities of financial liabilities as at 31 March 2015.

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 current liabilities							
Trade and other payables	10,366,436	-	-	-	-	-	10,366,436
Amounts due to related companies	222,338	-	-	-	-	-	222,338
Bank overdraft	-	-	-	-	-	-	-
	10,588,774	-	-	-	-	-	10,588,774

**28.3 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.

**28.3.1 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.

**28.3.2 Interest Rate Risk**

The Group is exposed to interest rate risk on borrowings. 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 adopts a policy of ensuring borrowings are maintained at manageable levels 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.

**28.3.3 Capital management**

The primary objective of the Group's capital management is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

	Group		Company	
	2016	2015	2016	2015
Debt/Equity	29%	33%	4%	7%

# FIVE YEAR FINANCIAL SUMMARY

Group	2011/12 Rs. '000	2012/13 Rs. '000	2013/14 Rs. '000	2014/15 Rs. '000	2015/16 Rs. '000
<b>Financial Results</b>					
Net revenue	2,085,211	2,205,949	1,422,683	1,507,422	1,840,417
Results from operating activities	100,444	136,643	79,945	128,120	226,112
Profit before taxation	97,714	152,290	117,115	177,078	280,974
Profit attributable to equity shareholders of the parent	83,421	116,060	93,374	115,625	203,371
<b>Financial Position</b>					
Stated capital	314,000	314,000	314,000	314,000	314,000
Reserves	316,063	474,379	565,902	681,038	891,427
Capital and reserves	630,063	788,379	879,902	995,038	1,205,427
Current assets	485,151	634,564	853,154	980,012	1,181,459
Current liabilities	(193,788)	(259,377)	(305,506)	(273,306)	(298,083)
Working capital	291,363	375,187	547,648	706,706	883,376
Non Current assets	359,755	443,211	378,791	342,814	377,390
Non Current liabilities	(21,054)	(30,019)	(46,537)	(54,482)	(55,339)
Net assets	630,063	788,379	879,902	995,038	1,205,427
<b>Key Indicators</b>					
Growth in net revenue (%)	35.11	5.79	(35.51)	5.96	22.09
Growth in earnings (%)	10.81	39.13	(19.55)	23.83	75.89
Return on total assets (%)	9.87	10.77	7.58	8.74	13.05
Growth in total assets (%)	14.56	27.56	14.30	7.38	17.84
Growth in capital and reserves (%)	15.26	25.13	11.61	13.09	21.14
Return on investment (%)	13.24	14.72	10.61	11.62	16.87
Earnings per share (Rs.)	2.66	3.70	2.97	3.68	6.48
Dividend per share (Rs.)	-	-	-	-	0.20
Dividend paid per share (Rs.)	-	-	-	-	0.20
Net assets per share (Rs.)	20.07	25.11	28.02	31.69	38.39
Market value per share (Closing) (Rs.)	39.50	35.90	52.00	60.10	-
Market capitalisation (Rs.)	1,240,300,000	1,127,260,000	1,632,800,000	1,887,140,000	-
Debt equity ratio (times)	0.34	0.37	0.40	0.33	0.29
Interest cover (times)	35.41	68.83	113.89	197.86	328.12
Current ratio (times)	2.50	2.45	2.79	3.59	3.96
Quick assets ratio (times)	1.79	2.06	2.51	3.30	3.62

(a) The above ratios have been computed based on 31,400,000 numbers of issued and fully paid shares as at 31 March 2016.

(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 per ordinary share

## 2. Stock Exchange Listing

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

## 3. Distribution of shareholding

Shareholdings	31 March 2016				31 March 2015			
	Shareholders		Holding		Shareholders		Holding	
	Number	%	Number	%	Number	%	Number	%
1 - 1,000	-	-	-	-	-	-	-	-
1,001 - 10,000	-	-	-	-	-	-	-	-
10,001 - 100,000	-	-	-	-	-	-	-	-
100,001 - 1,000,000	1	33.33	193,501.00	0.62	1	33.33	193,501	0.62
Over 1,000,000	2	66.67	31,206,499	99.38	2	66.67	31,206,499	99.38
<b>Total</b>	<b>3</b>	<b>100.00</b>	<b>31,400,000</b>	<b>100.00</b>	<b>3</b>	<b>100.00</b>	<b>31,400,000</b>	<b>100.00</b>

## 4. Analysis of shareholders

Shareholder Category	31 March 2016				31 March 2015			
	Shareholders		Holding		Shareholders		Holding	
	Number	%	Number	%	Number	%	Number	%
Individuals	-	-	-	-	-	-	-	-
Institutions	3	100.00	31,400,000	100.00	3	100.00	31,400,000	100.00
<b>Total</b>	<b>3</b>	<b>100.00</b>	<b>31,400,000</b>	<b>100.00</b>	<b>3</b>	<b>100.00</b>	<b>31,400,000</b>	<b>100.00</b>
Resident	3	100.00	31,400,000	100.00	3	100.00	31,400,000	100.00
Non-Resident	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3</b>	<b>100.00</b>	<b>31,400,000</b>	<b>100.00</b>	<b>3</b>	<b>100.00</b>	<b>31,400,000</b>	<b>100.00</b>

# INVESTOR RELATIONS SUPPLEMENT CONTD...

## 5. Public holding

The public holding as at 31 March	2016	2015
Number of shares held by the public	-	-
Percentage held by the public	-	-

As per the announcement made to the Colombo Stock Exchange on 14 January 2015, Cargills (Ceylon) PLC (CCP) sought to utilise the provisions of Section 246 of the Companies Act, No. 7 of 2007 to compulsorily purchase any shares in the Company not held by Cargills Group at a price of Rs. 62.50 per share. This action was based on legal advice received that the aforesaid section could be read on a stand-alone basis. The SEC has subsequently informed CCP that the Section 246 referred to aforesaid cannot be read on a stand-alone basis and should be read as a part of Part VIII of the Companies Act which deals with 'Amalgamations'. Accordingly, the SEC has directed that Cargills and Kotmale give the former minority shareholders of Kotmale the opportunity to continue as shareholders of Kotmale if they so desire.

Therefore, subsequent to the reporting date, the Company (jointly with KHP) has written to the shareholders as directed by the SEC. There is no further liability arising to the Company or KHP from this transaction.

## 6. Share price movements for the period

The market price of share recorded for the year ended 31 March	2016 Rs.	2015 Rs.
Highest	-	72.00
Lowest	-	50.00
Last traded price	-	60.10

Trading in the shares of the Company has been suspended from 23 January 2015.

## 7. Top Twenty Shareholders

Consequent to Cargills (Ceylon) PLC exercising its option under Sec. 246 of the Companies Act, the shareholdings in the Company are as follows.

	Name of the shareholder	No. of shares as at 31 March 2016	Holding %	No. of shares as at 31 March 2015	Holding %
1.	Cargills Quality Foods Ltd.	29,539,098	94.07	29,539,098	94.07
2.	Cargills (Ceylon) PLC	1,667,401	5.31	1,667,401	5.31
3.	Cargills Quality Dairies (Pvt) Ltd.	193,501	0.62	193,501	0.62

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the forty ninth Annual General Meeting of the Company will be held on Friday 30 September 2016, at 9.30am at the Sri Lanka Foundation, No, 100, Sri Lanka Padanam Mawatha, Independence Square, Colombo 07, 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 2016, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors
3. To re-elect Directors, Messrs.
  - a) J. C. Page, who retires by rotation, and
  - b) A T P Edirisinghe, and
  - c) Sunil Mendis, who retire in terms of Section 210 (2) (a) & (b) of the Companies Act No. 07 of 2007 having attained the age of seventy and seventy one years' respectively, and offer themselves for re-election in terms of Section 211 (1) and (2) of the Companies Act No. 07 of 2007.
4. To authorise the Directors to determine contributions to charities for the financial year 2016/17.
5. 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*  
9 June 2016

**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.

Ordinary Resolution (i)

"Resolved that A T P Edirisinghe, a retiring Director, who has attained the age of seventy years be and is hereby reappointed a Director of the Company and it is hereby declared that the age limit of seventy years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not apply to the appointment of the said Director"

Ordinary Resolution (ii)

"Resolved that Sunil Mendis, a retiring Director, who has attained the age of seventy one years be and is hereby reappointed a Director of the Company and it is hereby declared that the age limit of seventy years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not apply to the appointment of the said Director"





# PROXY FORM

**For use at the forty ninth 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 ninth Annual General Meeting of the Company to be held on Friday, 30 September 2016 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	3 (a)	3 (b)	3 (c)	4	5
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 notorially 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 needs 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**

Ranjit Page (Chairman)

Imtiaz Abdul Wahid (Managing Director)

Prabhu Mathavan

Priya Edirisinghe

Sunil Mendis

Joseph Page

## **Registered office**

No 40, York Street, Colombo 01.

Tel: +94 (0) 11 242 7777

Telefax: +94 (0) 11 233 8704

## **Factory**

20, Sri Sumana Mawatha, New Town, Mulleriyawa.

Tel: +94 (0) 11 749 6400

## **Company Secretary**

Sarath Dissanayake

## **Registrars**

SSP Corporate Services (Pvt) Ltd

No. 101, Inner Flower Road, Colombo 03.

Tel: +94 (0) 11 257 3894

## **Audit committee**

Priya Edirisinghe (Chairman)

Sunil Mendis

## **Remuneration committee**

Sunil Mendis (Chairman)

Priya Edirisinghe

## **Related Party Transactions Review Committee**

Priya Edirisinghe (Chairman)

Sunil Mendis

## **Auditors**

KPMG

Chartered Accountants

## **Bankers**

Cargills Bank Ltd.

Bank of Ceylon

Commercial Bank of Ceylon 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 HOLDINGS PLC

ANNUAL REPORT  
2015/2016



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