Kotmale

CTH

Creating Value since 1928

A MEMBER OF C T HOLDINGS PLC

SINCE 1844

KOTMALE HOLDINGS PLC

ANNUAL REPORT 2019 I 2020

Contents

OUR VISION

To be the leading producer of food and beverage products for the local and international market.

OUR MISSION

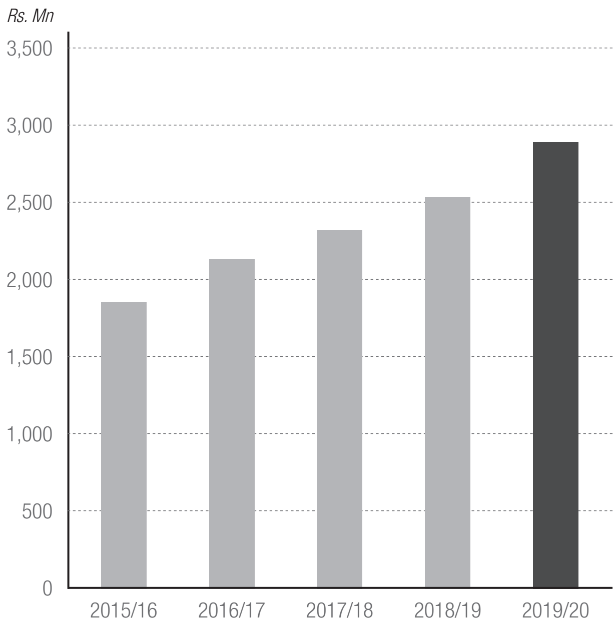
Providing the nation with quality and affordable food and beverage products using state of the art technology and local expertise, continuously seeking opportunities for growth and creating an environment that develops, motivates and rewards all employees whilst providing consistent returns to all its stakeholders.

Financial Spotlight

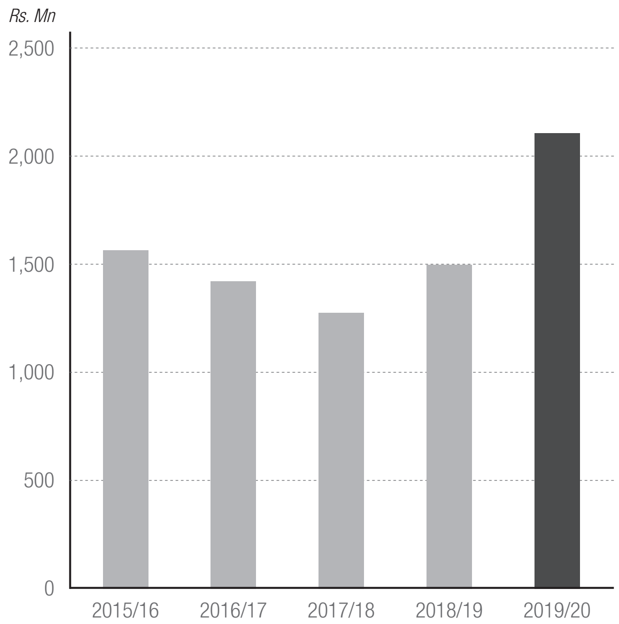
Group	2019/20	2018/19	Change
	Rs. 000	Rs. 000	%
Operating Results for the Year			
Net revenue	2,892,690	2,545,600	13.63
Gross profit	672,233	619,715	8.47
Other income	3,435	2,854	20.34
Profit from operation	225,522	205,102	9.96
Profit before taxation	213,476	222,316	(3.98)
Profit after taxation	148,558	155,959	(4.75)
Highlights of Financial Position at the Year End			
Non - current assets	1,355,180	787,722	72.04
Current assets	757,867	694,919	9.06
Current liabilities	917,648	456,883	100.85
Non - current liabilities	100,940	80,082	26.05
Stated capital and reserves	1,094,459	945,676	15.73
Total assets	2,113,047	1,482,641	42.52
Per Share Data (Rs.)			
Earning per share	4.73	4.97	(4.81)
Net assets per share	34.86	30.12	15.72
Cash Flow			
Net cash generated from / (used in) ;			
Operating activities	192,957	95,561	
Investing activities	(606,473)	(215,809)	
Financing activities	242,912	-	

Rs. 2,893Mn	Rs. 213Mn	Rs. 148Mn	Rs. 2,113Mn
Net Revenue	Profit Before Tax	Profit After Tax	Total Assets

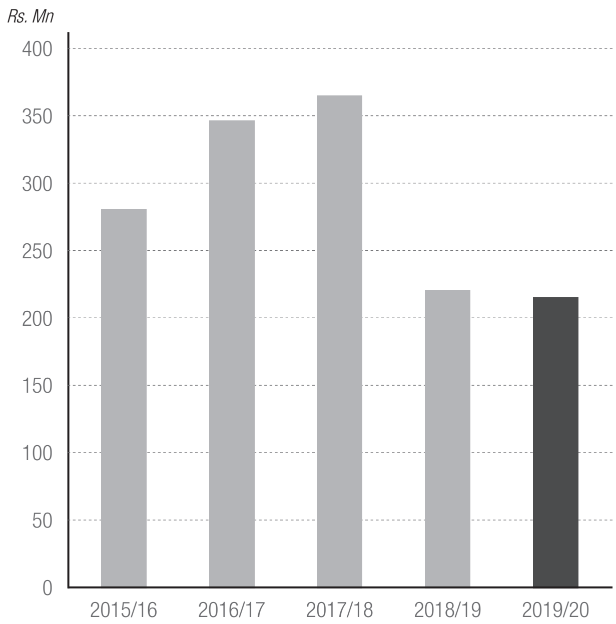
Group Net Revenue



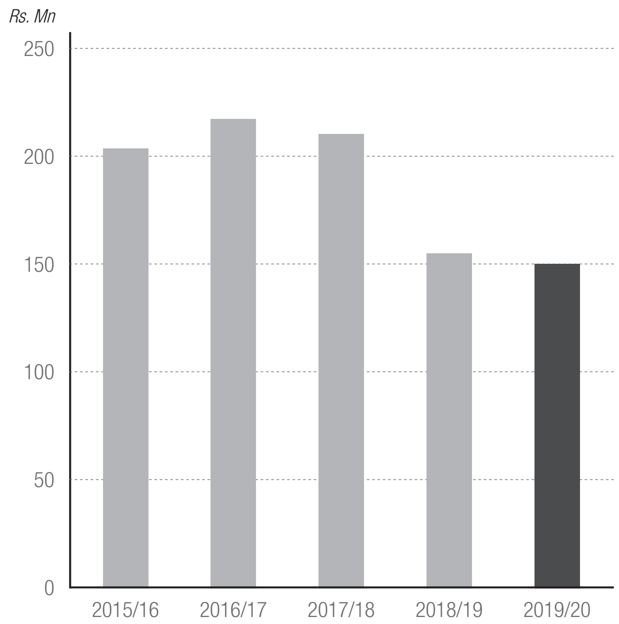
Group Total Assets



Group Profit Before Taxation



Group Profit After Taxation



Chairman's Message

Dear Shareholder,
On behalf of the Board of Directors of Kotmale Holdings PLC, I am pleased to present the Annual Report and Financial Statements of the Company for the year ended 31 March 2020.

The momentum garnered last year didn't carry on into this year as the Sri Lankan economy grew 2.3%, a decline from the preceding year's 3.3% growth. Consumer activity heavily contracted due to the aftermath of the Easter Sunday attack in April 2019. With the introduction of favourable fiscal policies in terms of tax concessions during the latter part of 2019, business confidence improved and made way for discretionary spending to rebound. However, consumer activity was further hampered in March 2020 due to the COVID-19 pandemic and the resultant national lockdown imposed by the government.

In the year 2019, the total national milk production was 448 million litres, down 6.3% from the previous year. This decline is mainly attributable to the outbreak of foot and mouth disease during the latter half of the year. Despite the fact that the national average cost of production of milk increased by 7.2%, quality of the milk produced did not improve, resulting in a lower profit margin for farmers even though the average farmgate price did rise by 4.6%.

Despite the challenging landscape, the local dairy market performed ably throughout the period in review with sustained growth in consumer demand for local value-added dairy products. The Company remains a market leader in the pasteurized milk and cheese categories and further consolidated its market presence with the completion of the new cheese processing facility in the latter part of 2019.

In 2019/20, the company reported a revenue growth of 13.6% YoY to Rs. 2,892 Mn. Operating profit improved from last year, recording a 10% YoY growth to Rs. 225 Mn amidst a decline in other income, profit for the year was reported at Rs. 149 Mn, down 4.7% against the previous year.

Development of the local dairy industry remains principal to us and we remain committed to investing in this endeavour. Sourcing fresh milk directly from over 6,000 dairy farmers, Kotmale strives to uplift the lives and livelihoods of farmers across the country. To our customers, we reaffirm our adherence to offering a wide range of value-added dairy products of the highest quality, to better meet their nutritional needs. Going forward, we are hopeful that domestic milk production will be further supported with implementation of favourable policies and investments in more agricultural import substitution strategies.

On behalf of the Board of Directors, I wish to place on record my sincere thanks to our dairy farming community, our customers, and suppliers and greatly appreciate the support extended to us during the year. I also thank our valued shareholders for their continued confidence in our Company. Finally, I wish to extend my sincere gratitude to all my fellow Directors and staff for the assistance and cooperation rendered during the year.

(Signed)
Ranjit Page
Chairman

5 August 2020

Board of Directors

Ranjit Page

Chairman

Mr. V. Ranjit Page possesses over 35 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 and is the Deputy Chairman/CEO of the Parent Company, Cargills (Ceylon) PLC, and is also the Deputy Chairman/ Managing Director of the ultimate holding company, C T Holdings PLC.

Imtiaz Abdul Wahid

Managing Director

Mr. M. Imtiaz Abdul Wahid is the Managing Director and Deputy CEO of holding Company 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 30 years. He was appointed Managing Director / Deputy CEO of Cargills (Ceylon) PLC in May 2010, and appointed a Director of the ultimate holding Company CT Holdings PLC in December 2016.

Priya Edirisinghe

*Director**

Mr. Priya Edirisinghe is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Fellow Member of the Chartered Institute of Management Accountants (UK) and holds a Diploma in Commercial Arbitration. He was the Senior Partner of Bakertilly Edirisinghe & Co., Chartered Accountants and currently serves as Consultant / Advisor. He is the Managing Director of PE Management Consultants (Pvt) Ltd. He counts over 50 years' experience in both public practices and in the private sector. He serves on the Boards of a number of other listed and non-listed companies, including Cargills (Ceylon) PLC, C T Holdings PLC, etc. where in some companies he also serves as Chairman of the Audit Committee and Related Par¬ty Transactions Review Committee, and a Member of the Remuneration Committee. Mr. Edirisinghe is the Chairman of the Company's Audit Committee, Related Party Transactions Review Committee, and a member of the Company's Remuneration Committee.

Sunil Mendis

*Director**

Desamanya 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. Mr. Mendis is the Chairman of the Company's Remuneration Committee and a member of the Company's Audit Committee and Related Party Transactions Review Committee, and also serves on the boards and board committees of several other Group companies.

Joseph Page

*Director***

Mr. Joseph C. Page is the Deputy Chairman/ Managing Director of C T Land Development PLC. He is also a Director of C T Holding PLC, Cargills (Ceylon) PLC, Ceylon Theatres (Pvt) Ltd. and C T Properties Limited. Prior to joining C T Land Development PLC, he was the Executive Director of Millers Limited. He has over 35 years of management experience in the private sector.

**Independent Non Executive*

***Non Independent Non Executive*

Corporate Governance

1. CORPORATE GOVERNANCE AT KOTMALE

Corporate Governance at Kotmale encompasses a set of systems, processes and practices in place to ensure that the company's affairs are being managed in a manner which ensures accountability, transparency and fairness in all transactions. We believe that sound Corporate Governance practices are essential to create sustainable value and to safeguard the interest of the stakeholders.

2. THE CORPORATE GOVERNANCE FRAMEWORK

Our Corporate Governance Framework is illustrated in the diagram below.

3. Internal Governance Structure

The Group has put in place an internal governance structure with defined roles and responsibilities of every constituent of the system. The Board of Directors appointed by the shareholders is primarily responsible for good governance. The Board delegates some of its responsibilities to the Board Committees to discharge its responsibilities in an effective manner.

3.1 The Board of Directors

3.1.1 Board Composition

The Company currently has five Directors in the Board comprising three Non-Executive Directors (of whom two are independent) and two Executive Directors.

The Board consists of a mix of Independent, Executive, Non-Executive Directors to maintain the Board independence and also to ensure adherence to CSE Listing Rules.

3.1.2 Board Independence and Conflict of Interest

Our Board is well represented by the Independent Directors who support the Executive Directors in governance and strategic management. Independence of the Directors has been determined in accordance with the criteria of the CSE Listing Rules and present composition of Non-Executive Independent Directors is in line with the requirements of the CSE Listing Rules. The two Independent Non-Executive Directors have submitted signed confirmations of their independence.

Where the personal or business relationships or interests of Directors and Executive Officers may conflict with those of Kotmale, they are required to disclose in writing the nature and extent of any interest they have in a material contract or material transaction with the Group.

3.1.3 Appointment of Directors

The Nominations Committee of the Parent Company (CT Holdings PLC; CTH) recommends any person to be a Director either to fill a casual vacancy or as an additional Director, subject to the provisions in the Articles of Association of the Company. Any Director so appointed shall hold office until the next Annual General Meeting and shall then be eligible for election, but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting. In considering candidates for Directorship, the Nominations Committee will take into account all factors it considers appropriate, including, among other things, breadth of experience in business and industry, financial acumen, integrity, leadership as well as the diversity of the board.

Details of new Directors are disclosed to the shareholders at the time of their appointment by public announcement as well as in the Annual Report (Please refer Board Profiles section of the Report).

3.1.4 Board Tenure, Retirement and Re-election of Directors

The Executive Directors are appointed and recommended for re-election subject to their prescribed retirement age whilst Non-Executive Directors are appointed and recommended for re-election subject to the age limit as per statutory provisions at the time of re-appointment. At each Annual General Meeting one-third of the Directors retire by rotation on the basis prescribed in the Articles of Association of the Company and are eligible for re-election. The Directors who retire are those who have been longest in office since their appointment or reappointment. In addition, any new Director appointed to the Board during the year is required to stand for re-election at the next Annual General Meeting.

3.1.5 Other Board Memberships

The Group, in assessing the performance of the individual Director, considers whether sufficient time and attention have been given by the Director to the affairs of the Group while holding board membership in other companies. The Group expects Directors to devote sufficient time in the affairs of the Company though it does not impose a limit on the number of Board representations which a Director may hold in other companies.

Directors have demonstrated their commitment and effectiveness in discharging their duties and responsibilities and avoiding actual or potential conflicts of interest caused by serving on other Boards.

3.1.6 Directors' Remuneration Policy

The Remuneration 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. Executive Directors' Remuneration is reviewed periodically against market comparators. Remuneration of Non-Executive Directors is determined in reference to fees paid by the comparable companies and is adjusted where necessary. The fees received by Non- Executive Directors are determined by the Board and reviewed annually.

3.2 Board Committees

The Group has the following Board Committees;

1) Audit Committee
2) Nominations Committee
3) Remuneration Committee
4) Related Party Transactions Review Committee (RPTRC)

All committees have written charters detailing their responsibilities and the extent to which they have been delegated powers of the Board of Directors.

3.2.1 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 functions within the overall governance process established by the Board of Directors of the Company and assists the Board in effectively discharging its responsibilities.

Policy Framework

The policy framework for the functioning of the Audit Committee of the Company and its subsidiaries is set out in the Group policies adopted across the Group.

Composition

The Members of the Audit Committee:

Name / Independence

Mr. A.T.P. Edirisinghe – Independent (Chairman)
Mr. Sunil Mendis - Independent

The Audit Committee comprises two members who are Non-Executive Directors who are deemed Independent. The Chairman of the Audit Committee 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. The composition of the members of the Audit Committee satisfies the criteria as specified in the standards on Corporate Governance for listed companies. The Company Secretary acts as the Secretary to the Committee.

Procedure

In terms of the Group Policy the Audit Committees should meet at least once in every quarter, two of which should be attended by the company auditors. The procedure in place is for the Group Managing Director/Deputy CEO, Group Chief Financial Officer, Group Chief Risk Officer, heads of finance of the business sectors and Senior Manager of Internal Audit to attend all meetings when scheduled and for the Deputy Chairman/CEO to attend Audit Committee meetings as and when requested to do so by the Audit Committee. Besides this, procedure are in place to circulate the various documents and for clarification of matters raised by the members of the Audit Committee. Where necessary, approvals may also be given by circular resolutions.

Corporate Governance (contd.)

Meetings

The Audit Committee met five times during the year, three of which were with the participation of the company's external auditors.

Details of the participation of the members of the Audit Committee at such meetings is set out below:

Name	Meetings Held	Meetings Attended
Mr. A.T. Priya Edirisinghe (Chairman)	5	5
Mr. Sunil Mendis	5	4

Scope

The functions of the Audit Committee, as set out in the Group policies, include the following:

- Oversight of the preparation, presentation and adequacy of disclosures in the financial statements in accordance with SLFRS/LKAS
- Oversight of the Company's compliance with financial reporting requirements, information requirements of the Companies Act and SEC and other related regulatory bodies
- Oversight of the processes to ensure that the Company's internal controls and risk management procedures are adequate to ensure the various risk exposures are mitigated
- Assessment of the performance and independence of the External Auditors and make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and approval of the remuneration and terms of engagement
- Review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process
- Develop and implement policy on the engagement of the External Auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non- audit services by the External Auditors
- Review the Company's annual audited Financial Statements and quarterly Financial Statements to ensure compliance with the Sri Lanka Accounting Standards and other relevant laws and regulations
- Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations
- Report regularly to the Board with respect to the Committee's activities and make recommendations as appropriate

Financial Reporting

The Audit Committee reviewed the quarterly and annual Financial Statements of the Group prior to publication to assure that the published Financial Statements fairly present the state of affairs of the Group. The Audit Committee had discussions with the management and the External Auditors on the annual Financial Statements. In all instances, the Audit Committee obtained a declaration from the GCFO 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 draw attention to any departures from financial reporting, statutory requirements and Group policies, (if any).

Quarterly Compliance Certificates were also obtained from the finance, legal, and secretarial divisions of the Company on a standardized exception reporting format perfected by the Audit Committee, highlighting any instances (where applicable) of, and reasons for, non-compliance, along with a Risk Management & Internal Audit Report submitted by the GCRO.

Internal Audit, Controls and Risk Management

The Audit Committee reviewed the Internal Audit Reports containing details of the audit coverage, compliance to the laws, regulations, established policies and procedures. The Risk Management report containing detailed risk assessments and risk mitigation actions pertaining to different business units were reviewed by the Audit Committee to give assurance that the risk management process is carried out in an effective manner.

Conclusion

Based on its work, the Audit Committee is of the opinion that the control procedures and environment within the Group provide reasonable assurance regarding the monitoring of the operations, accuracy of the Financial Statements and safeguarding of assets of the Company.

Audit and Auditors' Independence

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 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 2021.

A.T.P. Edirisinghe FCMA, FCA
Chairman – Audit Committee
5 Aug 2020

3.2.2 Nominations Committee

The Nominations Committee of the Parent Company (CTH) acts as the Nomination Committee of Kotmale Holdings PLC.

Composition

The Nominations Committee of the Parent Company consists of the following members;

Mr. Louis Page – Non Executive / (Chairman) Non Independent
Mr. A.T.P Edirisinghe - Independent
Mr. Sunil Mendis - Independent
Mr. Ranjit Page - Executive Director (Deputy Chairman / CEO)

Scope

Scope of the Nominations Committee would be to review all appointments to the Board and recommend to the Board of Directors for appointment.

Meetings

The Committee meets once each year or as required.

3.2.3 Remuneration Committee

The Remuneration Committee of Kotmale Holdings PLC consists of two Non - Executive Directors - Messrs. Sunil Mendis (Chairman) and A.T. P. Edirisinghe. The Chairman, Deputy Chairman / CEO, and the Group 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.

The Committee met once during the year under review.

(Signed)
Sunil Mendis
Chairman - Remuneration Committee
5 Aug 2020

3.2.4 Related Party Transactions Review Committee Report

The Related Party Transactions Review Committee (RPTRC) is appointed by the Board of Directors of the Company and reports directly to the Board. The Committee functions within the overall governance process established by the Board of Directors of the Company and assists the Board in effectively discharging its responsibilities.

Policy Framework

The policy framework for the functioning of the RPTRC of the Company and its subsidiaries is set out in the Group policies adopted across the Group.

Composition

The Members of the RPTRC:

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

The RPTR Committee comprises two members who are Non-Executive Directors who are independent or deemed independent. The Chairman of the RPTRC is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of Chartered Institute of Management Accountants. The composition of the members of the RPTRC satisfies the criteria as specified in the standards on Corporate Governance for listed companies. The Company Secretary acts as the Secretary to the Committee.

Scope

The RPTRC assists the Board in reviewing all Related Party Transactions (RPT) carried out by the Company.

The functions of the RPTR Committee include the following:

- Developing a related party transactions policy consistent with that proposed by the RPT Code of the SEC and recommending for adoption by the Board of Directors of the Company and its listed subsidiaries
- Reviewing and recommending improvements to the control procedures to ensure that all recurrent and non-recurrent related party transactions are identified, adequately captured and reported in a timely manner in accordance with the applicable rules
- Establishing procedures to ensure that related party transactions that are captured within the system are reviewed in a systematic manner and certified by Key Management Personnel with the appropriate level of authority
- Reviewing all related party transactions as reported by management for compliance with the RPT Code
- Ensuring that appropriate disclosures are made as applicable to the CSE where immediate market disclosures are required, and in the Annual Report

Procedures are also in place for the RPTR Committee to obtain and have obtained:

- Quarterly declarations of related party transactions from Directors & Senior Management of all Group companies on recurrent & non-recurrent transactions undertaken by them or by their close family members
- Quarterly declarations of Directors & Senior Management of all Group companies who have a significant shareholding/ownership in a company or partnership or proprietorship which is outside the Group companies and/or of the subsidiaries and associate companies of Group companies
- Quarterly declarations of Group Chief Financial Officer or equivalent position in Group companies on recurrent and/or non-recurrent transactions within the Group Companies

Corporate Governance (contd.)

Likewise, procedures are also in place for the assessment of the need to obtain shareholder approval for specified transactions and to inform the SEC/CSE on the applicable non-recurrent transactions.

Related Party Transactions

Companies within the Group regularly engage in transactions with other companies within the Group. The Committee receives and reviews details of all related party transactions from the Group Chief Financial Officer of the Company and disposes of the same in accordance with the mandate set out above.

In respect of non-recurrent transactions, if any, the Committee is empowered to seek independent expert advice on valuation or any other related matters that the Committee deems to be significant.

Meetings

The Related Party Transactions Review Committee (RPTRC) met five times during the year. The meetings were also attended by the Group Managing Director of the Company, Group Chief Financial Officer, Group Chief Risk Officer, as well as the heads of finance of the business sectors.

Details of the participation of the members of the RPTR Committee at such meetings is set out below:

Name	Meetings Held	Meetings Attended
Mr. T. Priya Edirisinghe (Chairman)	5	5
Mr. Sunil Mendis	5	4

The Committee adopted 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 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.

Conclusion

Based on its work, the Related Party Transactions Review Committee confirms that there were no non-recurrent transactions with related parties during the year that warranted prior shareholder approval. It is also noted that in respect of recurrent transactions, the transactions were in the ordinary course of business, there were no changes to terms or practices over the previous year and general terms and conditions applicable to such transactions with related parties are similar to those entered into with non-related parties taking into account, if any, due consideration of factors such as volume, cost and any other special benefits which form part and parcel of such transactions. The observations of the Committee have been communicated to the Board of Directors.

The details of the recurrent transactions entered into with related parties are disclosed in Note 29 to the Financial Statements.

(Signed)
A .T. P. Edirisinghe FCMA (UK), FCA
Chairman - Related Party Transactions Review Committee
5 Aug 2020

4. LEADERSHIP

4.1 Board Leadership

The role of our Board of Directors includes setting the strategic direction, providing strong leadership and reporting to the shareholders on its stewardship of the Group. The Board has a clear governance framework with defined responsibilities and accountabilities.

Our Board at present comprises Directors with diverse skills and vast experience in the field of business who are capable of steering the business towards achieving the company goals and good governance. While the Board plays an oversight role over the Group, the Group CEO and his executive management are empowered to manage and lead the business on a day-to-day basis, guided by an approved delegation of authority.

4.1.1 Role of Group Chairman and Group CEO

Whilst the Group Chairman and Group Chief Executive Officer are collectively responsible for the leadership of the Group. There is a clear and an effective division of accountability and responsibility between the Chairman and the Group Chief Executive Officer. Each plays a distinctive role but complementing each other to ensure that there is a balance of power and authority and no individual has unfettered powers of decision and control. The Chairman is responsible for providing leadership to the Board and ensuring that proper order and effective discharge of Board functions are carried out at all times by the Board members. Group CEO is responsible for developing, implementing strategies and the performance management of the business units. He is entrusted with leading the management in the day-to-day running of the business in order to achieve Group's long term goals.

4.1.2 Board Responsibilities

The Board oversees the affairs of the Company and provides leadership and guidance to the Senior Management Team. The key functions and responsibilities of the Board are:

	Roles and Responsibilities
Strategy	• Providing direction, guidelines, and approval of, the Group's strategic direction and business plans as developed by Management • Directing, monitoring and assessing the Group's performance against strategic and business plans • Approving and monitoring capital management including major capital expenditure, acquisitions and divestments • Review and approve the annual operating plans and financial budgets
Risk Management	• Ensuring a process is in place to identify the principal risks of the Group's business • Reviewing, ratifying and assessing the integrity of the Group's systems of risk management, internal controls and compliance
Management	• Appointment and terms of engagement of the Group Chief Executive Officer ensuring that a process is in place such that the remuneration and conditions of service of Executives are appropriate • Ensuring that a process is in place for Executive succession planning, and monitoring that process delegating authority to the Group CEO
Performance	• Evaluate the performance of the Board Committees and individual Directors • Establishing and reviewing succession plans for Board membership • To review the performance of the Senior Management and the compensation framework for the Board, Executive Directors and Senior Management • Monitor corporate performance and evaluate results compared to the strategic and annual plans
Corporate Governance	• Establishing appropriate standards and encouraging ethical behaviour and compliance with the Group's policies • Monitoring the Company's compliance with Corporate Governance standards • To oversee the process and framework for evaluating the adequacy of internal controls, risk management, financial reporting and compliance
Reporting and Disclosure	• Approving and monitoring financial and other reporting, including reporting to shareholders and other stakeholders • Establishing procedures to ensure adherence to the Company's continuous reporting policy

4.1.3 Board meetings

The Board met five times in the year under review, and the following table shows the attendance record for the same.

Attendance at Board Meetings

Name	Position	Meetings Held	Meetings Attended
Mr. V. R. Page	Chairman	5	5
Mr. M. I. Abdul Wahid	Managing Director	5	5
Mr. A. T. P. Edirisinghe	Non-Executive Director	5	5
Mr. Sunil Mendis	Non-Executive Director	5	5
Mr. J. C. Page	Non-Executive Director	5	2

5. BUSINESS PRACTICES AND ETHICS

Good governance is embedded in the Group's culture creating an enabling environment for growth in a structured, predictable and sustainable manner.

The Corporate Governance system at Kotmale demands our employees to enhance their competence and capability levels to meet the expectations in managing the enterprise and its resources effectively with the highest standards of ethics.

The Group's Code of Conduct aims to promote and strengthen the reputation of Kotmale Holdings by establishing a standard of performance, behaviour and professionalism for its people and stakeholders with respect to their professional and personal conduct.

Corporate Governance (contd.)

6. STRATEGIC AND PERFORMANCE MANAGEMENT

The Group has a robust strategic management process which involves all key internal stakeholders and led by the Group CEO.

The Group's Corporate Governance guidelines clearly define, for example, which strategic decisions can be decided by managers and which decisions must be decided by the Board of Directors or shareholders.

6.1 Strategic Management

The Group considers strategic planning as an essential first step in the development of a results-based accountability system. The strategic planning process of the Group sets the strategic direction and integrates all business activities. The planning process in place considers all stakeholders in goal setting and aims at effective use of resources in order to optimize the deliverables to all stakeholders concerned. The careful analysis and scanning of the external and internal environment of the company enables the effective selection of suitable strategies.

Constantly changing environment requires continuous review of both internal as well as external environments as new strengths, weaknesses, opportunities and threats may arise. If the new circumstances affect the company, corrective actions are taken as soon as possible in order to make sure the strategies are on track to provide desired results.

6.2 Performance Management

The structured performance management system of the Group enables the company to evaluate the performance of each business unit in the form of monthly reviews. The Company has a robust mechanism of building budgets at an integrated cross- functional level. The performances are reviewed against the budget on a monthly basis and corrective measures are taken, wherever required.

The Group through its performance management system focuses on developing talents, organizing people to be more effective and motivating them to perform at their best. The system promotes targeted results in a transparent and systematic manner which ensures that the employees are productive, provide efficient services and demonstrate the required knowledge, skills, behaviour, competencies and engagement to perform their duties to the best of their ability.

The Company also continuously evaluates the performance of the employees periodically in order to identify gaps and take corrective actions. Employee evaluations and communication of the results thereof to those evaluated have become an essential aspect of their professional training.

7. CONTROLS, ASSURANCE AND RISK MANAGEMENT

7.1 Systems of Internal Control and Internal Compliance

The Group has adequate systems of internal controls in place to ensure the orderly and efficient conduct of its business, including adherence to company's policies, safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

The Internal Auditors independently evaluate the adequacy of internal controls and compliance and concurrently audit the majority of the transactions in value terms. The Group's Internal Audit reports to the Board directly through the Audit Committee assuring independence.

To ensure effective internal controls and compliance the Group has laid down the following measures:

- All operations under each functional area are executed based on periodically updated and validated Standard Operating Procedures (SOPs)
- Pre-approved level of authority and delegation are set for all material transactions which are reviewed periodically
- The Group's Internal Audit carries out an extensive transaction, process and compliance audits in a structured manner. The reports arising out of such audits are discussed at the business / functional unit levels and subsequently reviewed by the respective head of the business / service unit. The summarized version of the Audit Report is forwarded to the Audit Committee on a regular basis
- The Group has a comprehensive risk management process to identify key risks and take necessary risk mitigation strategy

Group's financial reporting is carried out by the centralized corporate reporting unit independent from operations. The Audit Committee reviews all financial and related information that is reported and disseminated;

- The centralized legal department coordinates with all business sectors to ensure that the Group complies with applicable laws and regulations
- A quarterly self-certification programme requiring the Group Chief Financial Officer, Group Chief Risk Officer, Internal Audit Manager and the Legal Officer to confirm compliance with financial standards and regulations
- The Group engages with professional firms to carry out non-audit services such as fixed assets verification, stock verification and process documentation periodically

7.2 Internal Audit

The Group Internal Audit assists and supports management continuously by reviewing the internal controls. The Internal Audit function is independent of management and reports functionally to the Board, through the Audit Committee and administratively to the Group CEO.

The Audit Committee reviews and approves the annual work plan prepared by the Internal Audit. It also ensures that audit resources are appropriately allocated to focus on the high-risk areas.

The Audit Committee meets with the Internal Audit, and discusses the results of their audits, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing risk management, internal controls, regulatory and compliance issues. The Committee also receives periodic reports on the status of Internal Audit activities, key performance indicators' accomplishments and quality assurance and improvement programs.

7.3 External Audit

The Group engages the services of independent External Auditors to conduct an audit and obtain reasonable assurance on whether the financial statements and relevant disclosures are free from material misstatements. The independent auditors directly report their findings to the Audit Committee which has the oversight responsibility of financial statement integrity and the reporting process.

KPMG is the External Auditor of the Group as well as of all subsidiary companies. In addition to the normal audit services, KPMG and the other professional firms, also provided certain non-audit services to the Group. However, External Auditor would not engage in any services which may compromise the independence of the auditor. All such services have been provided with the full knowledge of the Audit Committee and are assessed to ensure that there is no compromise on the independence of the External Auditor.

The Group conducts a performance appraisal of the External Auditors on an annual basis. Based on the evaluation results the Committee proposes the appointment of the External auditors to the Board for endorsement and approval of the shareholders. The endorsement is submitted to the stockholders for approval at the Annual General Meeting (AGM). The representatives of the independent auditors are expected to be present at the AGM and have the opportunity to make a statement on the Company's financial statements and results of operations if they desire to do so. The auditors are also expected to be available to respond to appropriate questions during the meeting.

7.4 Risk Management

The Group has an Enterprise Risk Management framework through which it manages the risks facing the Group.

A Risk Committee was established to manage the risks stemming from the external environment, strategy and business operations.

Risk Management section and the notes to the financial statements of the Annual Report carry a detailed discussion of the Group's Enterprise Risk Management Process.

7.5 Information Technology Governance

Group recognizes the fact that Information Technology (IT) has become an integral part of its business operations, as it is fundamental for the business processes, sustainability and growth of the Group. It also has a pivotal role to play in improving Corporate Governance practices of the Group as our critical business processes are automated and Directors rely on information provided by IT systems for their decision making.

Information Technology, in addition to being a strategic asset to the Company also associated with significant risks. The strategic nature of the IT and its related risks should be well-governed and managed to ensure that it supports the achievement of strategic objectives of the Group.

The Information Technology Policy of the Group establishes an overall framework for the governance and management of the processes and actions relating to Information Technology (IT) within the Group. The framework is made up of processes designed to ensure effective and efficient use of IT in order to enable the Company to achieve its objectives.

The IT Steering Committee periodically reviews conformance to its governance principles and recommends corrective action as a part of the continuous improvement plan of the IT Governance of the Group.

7.6 Sustainability Governance

Our sustainability strategy is to embed social responsibility as an integral part of everything we do. It is a company-wide commitment that channels our expertise and knowledge to create sustainable value for every direct and indirect stakeholder we touch.

The adherence to the standard operating procedures pertaining to the sustainability by the business units is reviewed by the management regularly. The performance related to sustainability is tracked, measured and reported by the management in order to achieve continuous improvements in these areas.

8. LEGAL AND REGULATORY COMPLIANCE

The Group is fully compliant with all the mandatory provisions of the Companies Act No. 7 of 2007, Listing Rules of the Colombo Stock Exchange (CSE) and rules of the Securities and Exchange

Corporate Governance (contd.)

Commission of Sri Lanka (SEC). The Group practices are in line with the Code of Best Practices on Corporate Governance jointly issued by the SEC and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Company employees actively monitor the regulatory environments in order to keep in touch with the regulatory changes. The Company acknowledges that it is compliant with all other financial, legal and regulatory compliance requirements.

9. DISCLOSURE AND TRANSPARENCY

The Group has policies and procedures that govern the provision of timely, accurate and complete information to stakeholders, in a manner which gives all stakeholders equal access to information. The Board of Directors, in conjunction with the Audit Committee where applicable, is responsible in ensuring the accuracy and timeliness of published information and in presenting an honest and balanced assessment of results in the quarterly and annual financial statements.

10. STAKEHOLDERS ENGAGEMENT

The Board values the Company's stakeholders and strives to take their concerns and interests into account when making business decisions. This not only enables it to anticipate and manage risk effectively, but also helps it identify new business opportunities and improve the Group's relationship with its stakeholders.

The Company seeks to engage all stakeholders in accordance with Group's stakeholders' engagement policy which is based on two-way communication, transparency, active listening and equal treatment. This allows their legitimate interests to be taken into consideration when business decisions are made.

The shareholders are given the opportunity at the AGM to get updates from the Chairman and Group CEO on the Group's performance, to ask questions, and to express a view and vote on the various matters of Company business on the agenda. Shareholders may also ask questions from the Company's External Auditors at the meeting. The Company encourages its shareholders to attend its AGM and committed to dealing with shareholder queries in a respectful and timely manner whenever they are received by the Company.

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

CSE Rule		Status of Compliance	Details/Reference
7.10.1 Non-Executive Directors (NED)			
a./b./c.	At least 2 members or one-third of the Board, whichever is higher should be NEDs. Any change to this ratio should be rectified within 90 days.	Compliant	Three out of five Directors are NEDs
7.10.2 Independent Directors			
a.	At least 2 or one third of the NEDs, whichever is higher shall be independent.	Compliant	Two out of three Non-Executive directors are deemed to be independent. Refer Note 01 below.
b.	Each NED should annually submit a signed and dated declaration of his/her independence or non-independence.	Compliant	All NEDs have submitted their confirmations on independence as per the criteria laid down in the listing rules
7.10.3 Disclosures Relating to Directors			
a./b.	The Board should determine the independence or otherwise of the NEDs and disclose in the Annual Report the names of the NEDs determined to be 'independent"	Compliant	Profile of Directors on page 05 and Note 01 on page 15
c.	A brief resume of each Director with information on his/her area of expertise should be included in the Annual Report	Compliant	
d.	Upon appointment to the Board, a brief resume of the new director should be provided to the exchange for dissemination to the public.	Compliant	

CSE Rule		Status of Compliance	Details/Reference
7.10.5 Remuneration Committee			
a.1	Remuneration Committee should comprise of at least 2 independent NEDs or more than 2 NEDs majority of whom shall be independent.	Compliant	Remuneration Committee Report on page 09. The aggregate remuneration paid to the Directors is given in the Note 29(a) to the financial statements.
a.2	One NED shall be appointed as chairman of the Committee by the Board of Directors.	Compliant	
b.	Remuneration Committee shall recommend the remuneration of the CEO and Executive Directors to the Board	Compliant	
c.	The Annual Report should include the names of the Remuneration Committee members, a statement of the remuneration policy and the aggregate remuneration paid to Executive and Non-Executive Directors		
7.10.6 Audit Committee			
a.1	Audit Committee should comprise at least 2 independent NEDs or more than 2 NEDs majority of whom shall be independent.	Compliant	Audit Committee Report on page 07 to 08
a.2	One NED shall be appointed as Chairman of the Committee by the Board of Directors	Compliant	
	CFO shall attend the AC meetings, and CEO when requested to attend	Compliant	
a.3	The Chairman of the AC or one member should be a member of a recognized professional accounting body	Compliant	
a.4	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.	Compliant	
B. Functions of the Audit Committee			
b.1	Overseeing the preparation, presentation of the financial statements and adequacy of disclosures in accordance with SLFRS/LKAS	Compliant	Audit Committee Report on page 07 to 08
b.2	Overseeing the compliance with financial reporting requirements and information requirements as per laws and regulations	Compliant	
b.3	Overseeing the processes to ensure internal controls and risk management functions are adequate to meet the requirements of Sri Lanka Auditing Standards	Compliant	
b.4	Assessing the independence and performance of the External Auditors	Compliant	
b.5	Making recommendations to the Board pertaining to appointment or reappointment or removal of External Auditors and to approve their remuneration and terms of engagement.	Compliant	
C	The Annual Report should include the names of the Audit Committee members, the basis for the determination of the independence of the External Auditors and a report of the AC setting out the manner of compliance with the above requirements during the specified period	Compliant	

Note 01

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

Mr. A T P Edirisinghe

Mr. Sunil Mendis

Corporate Governance (contd.)

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. which in turn is the sole owner of Cargills Quality Dairies (Pvt) Ltd. which is the holding company of KHP), the Board has nevertheless determined to be Independent considering their credentials and integrity.

Code of Best practice of Corporate Governance Issued Jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA - Sri Lanka)

Principle		Status	Details/Reference
A. Directors			
A.1 The Board			
A.1.1	The Board should meet regularly, at least once in every quarter and to execute board responsibilities while providing information to the board on a structured and regular basis.	In place	Corporate Governance Report – Section 4.1.3
A.1.2	provide entrepreneurial leadership by undertaking responsibilities for • Ensuring the formulation and implementation of sound business strategy • Skills and succession of the key management personnel • Approving budgets and major capital expenditure • Ensure effective system to secure integrity of information, internal controls, business continuity and risk management • Ensure compliance with laws, regulations and ethical standards • Ensure all stakeholder interests are considered in corporate decision making • Sustainable business development and consider the need of integrated reporting • Adopting appropriate accounting policies and compliance with financial regulations • Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks. • Ensuring that a process is established for corporate reporting on annual and quarterly basis or more as relevant to the company.	In place	Corporate Governance Report – Section 4.1.2
A.1.3	The Board collectively and the Directors individually must act in accordance with the laws of the country and obtain independent professional advice where necessary	In place	
A.1.4	All Directors should have access to the advice and services of the Company Secretary	In place	
A.1.5	All Directors should bring independent judgement to bear on issues of strategy, performance, resources and business conduct	In place	
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company	In place	
A.1.7	One third of directors can call for a resolution to be presented to the Board where they feel it is in best interest of the company to do so.		
A.1.8	Every Director should receive appropriate training when first appointed to the Board and subsequently necessary. The Board should regularly review and agree on the training and development needs of the Directors.	In place	

Principle		Status	Details/Reference
A.2 Chairman and Chief Executive Officer			
A.2.1	Justification for combining the posts of Chairman and CEO in one person	N/A	N/A
A.3 Chairman's Role			
A.3.1	The Chairman should conduct board proceedings in a proper manner and ensure, • agenda for board meetings is developed in consultation with the CEO, Directors and the Company Secretary taking into consideration matters relating to strategy, performance, resource allocation, risk management and compliance. • Sufficiently detailed information of matters included in the agenda should be provided to Directors in a timely manner. • All directors are made aware of their duties and responsibilities and committee structures through which it will operate in discharging its responsibilities. • The effective participation and contribution of the Directors is secured • All directors are encouraged to seek information considered necessary to discuss matters on the agenda of meetings and to request inclusion of matters of corporate concern on the agenda. • A balance of power between Executive and Non-Executive Directors is maintained. • The views of Directors on issues under consideration are ascertained • The Board is in complete control of the Company's affairs and alerts to its obligations to all stake-holders	In place	
A.4 Financial Acumen			
A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance	In place	
A.5 Board Balance			
A.5.1	At least 3 members or one third of the Board, whichever is higher should be NEDs. Any change to this ratio should be rectified within 90 days.	In place	Corporate Governance Report – Section 3.1
A.5.2	Where the constitution of the Board of Directors includes only three NEDs, all three such NEDs should be independent	N/A	N/A
A.5.3	Definition of Independent Directors For a director to be deemed 'independent' such director should be independent of management and free of any business or other relationship that could materially interfere.	In place	Corporate Governance Report – Section 3.1.2
A.5.4	Each NED should submit annually a signed and dated declaration of his/her independence or non-independence.	In place	Corporate Governance Report – Section 3.1.2
A.5.5	The Board should determine the independence or otherwise of the NEDs based on the guidelines provided	In place	Corporate Governance Report – Section 3.1.2
A.5.6	If an alternate Director is appointed by a NED such Director should not be an Executive of the company. If an alternate Director is appointed by an independent Director such Director also should meet the criteria of independence	N/A	N/A

Corporate Governance (contd.)

Principle		Status	Details/Reference
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent NEDs to be the "Senior Independent Director" (SID)	N/A	N/A
A.5.8	The SID should make himself available for confidential discussions with other Directors who may have concerns	N/A	N/A
A.5.9	The Chairman should hold meetings only with NEDs as necessary and at least once in each year	In place	
A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously re-solved, they should ensure their concerns are recorded in the Board minutes	In place	
A.6 Supply of information			
A.6.1	The management should provide the Board with appropriate and timely information	In place	
A.6.2	The agenda and papers required for a meeting should be provided to the Directors at least seven days before the meeting.	In place	
A.7 Appointments to the Board			
A.7.1	A Nominations Committee should be established and its Chairman and members should be disclosed in the Annual Report	In Place	Corporate Governance Report – Section 3.2.2
A.7.2	The Nominations Committee should annually assess the combined knowledge and experience of the Board.	In Place	
A.7.3	Upon the appointment of a new Director, a brief resume, the nature of expertise, details of directorship in other companies, independence/non-independence in the Board of the new Director should be disclosed to shareholders	In place	
A.8 Re – Election			
A.8.1	NEDs should be appointed for specified terms subject to re-election/removal and their re-appointment should not be automatic	In place	Corporate Governance Report – Section 3.1.4
A.8.2	All Directors including Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years	In place	Corporate Governance Report – Section 3.1.4
A.8.3	In the event of resignation of director prior to completion of his/her appointed term, the director should provide a written communication to be provided to the board of his/her reasons for resignation.	N/A	
A.10 Disclosure of Information in respect of Directors			
A.10.1	The Annual Report should disclose details of each Director such as qualifications, expertise, immediate family/material business relationship with other Directors, status of independence, directorship in other companies, membership in Board Committees and details of attendance to Board meetings and com-mittee meetings if relevant.	In place	Profile of Directors on page 05
A.11 Appraisal of Chief Executive Officer (CEO)			
A.11.1	At the commencement of every fiscal year, the Board in consultation with the CEO should set financial and non-financial targets for the year.	In place	
A.11.2	The performance of the CEO in meeting the set targets should be evaluated by the Board at the end of each fiscal year	In place	

Principle		Status	Details/Reference
A. Directors' Remuneration			
B.1 Remuneration Procedure			
B.1.1	The Board Should set up a Remuneration Committee	In place	Corporate Governance Report – Section 3.2.3
B.1.2	The Remuneration Committee should consist exclusively of NEDs of whom the majority should be independent. The Chairman should be an Independent Non-Executive Director and should be appointed by the Board.	In place	Corporate Governance Report – Section 3.2.3
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report	In place	Corporate Governance Report – Section 3.2.3
B.1.4	The Board as a whole should determine the remuneration of NEDs	In place	
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other EDs	In place	
B.2 The level and make up of Remuneration			
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors and should avoid paying more than necessary	In place	Corporate Governance Report – Section 3.2.3
B.2.2	Executive Directors' remuneration should be designed to promote the long-term success of the company.	In place	
B.2.3	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other companies	In place	Corporate Governance Report – Section 3.2.3
B.2.4	The Remuneration Committee should be sensitive to remuneration and employment conditions elsewhere in the Company or Group of which it is a part, especially when determining annual salary increases.	In place	
B.2.5	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	In place	
B.2.6	Executive share option should not be offered at a discount	N/A	
B.2.7	The Remuneration Committee should follow the given guidelines in designing schemes of performance related remuneration	In place	
B.2.8	The Remuneration Committee should appropriately decide on compensation commitments of Directors	In place	
B.2.10	The Remuneration of NEDs should reflect the time commitment, responsibilities and market practices	In place	
B.3 Disclosure of Remuneration			
B.3.1	The Annual Report should include the names of the Remuneration Committee members, a statement of remuneration policy and the aggregate remuneration paid to Executive and Non-Executive Directors	In place	Remuneration committee Report on page 09. The aggregate remuneration paid to the Directors is given in the Note 08 to the financial statements.

Corporate Governance (contd.)

Principle		Status	Details/Reference
B. Relations with shareholders			
C.1 Constructive use of Annual General Meeting (AGM) and conduct of general meetings			
C.1.1	The Notice for AGM and related papers should be sent to the shareholders before the meeting as per the relevant statute	In place	
C.1.2	The Company should propose a separate resolution at the AGM on each substantially separate issue	In place	
C.1.3	The Company should count all proxy votes with respect to each resolution	In place	
C.1.4	Chairpersons of Board Committees should be available at the AGM to answer questions	In place	
C.1.5	A summary of proceedings governing voting should be circulated with every Notice of General Meeting	In place	
C.2 Communication with shareholders			
C.2.1	There should be a channel to reach all shareholders in order to disseminate timely information	In place	
C.2.2/ C.2.3/ C.2.4	The Company should disclose • Policy and methodology for communication with shareholders • How the above policy and methodology will be implemented • The contact person for such communication	In place	
C.2.5	A process to make all Directors aware of major issues and concerns of shareholders should be in place and disclosed.	In place	
C.2.6	The Company should decide the person to contact in relation to shareholders' matters	In place	
C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed.	In place	
C.3 Major and Material Transactions			
C.3.1	Directors should disclose to shareholders all proposed material transactions including related party transactions	In place	
C.3.2	Public listed companies should in addition comply with the disclosure requirements and shareholder approval by special resolution as required by the rules and regulation of the SEC and by the CSE.	In place	
A. Accountability and Audit			
D.1 Financial and Business Reporting			
D.1.1	The Board should present an annual report including financial statements that is true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation being clearly explained.	In place	
D.1.2	The Board should present the interim, other price sensitive reports and reports to regulators	In place	
D.1.3	The Board should, before it approves the Company's financial statements obtain from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance.	In place	Corporate Governance Report – Section 3.2.1

Principle		Status	Details/Reference
D.1.4	The Annual Report should contain a Report from Directors declaring, • The Company has not engaged in any unlawful activities • All material interests of Directors in contracts involving the Company • The equitable treatment of shareholders • The Directors have compiled with best practices of Corporate Governance. • Property, plant and equipment is reflected at fair value, where it is different from fair value adequate disclosures are made • The Review of internal controls and risk management • The business is a going concern	In place	Annual Report of the Directors' on the affairs of the Company on page 30 to 31.
D.1.5	The Annual Report Should contain a statement of Directors' responsibility.	In place	Statement of Directors' responsibilities on page 32.
D.1.6	The Annual Report should contain a "Management Discussion and Analysis".	In place	Chairman's Message on page 04
D.1.7	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting to notify shareholders of the position and of remedial action being taken.	In place	
D.1.8	The Board should adequately and accurately disclose the related party transactions in the Annual Report	In place	Note 29 to the financial statements
D.2 Risk Management and Internal Control			
D.2.1	The Directors should, at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal controls	In place	Corporate Governance Report – Section 7 & Enterprise Risk Management Report on page 24 to 28
D.2.2	The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency, or liquidity.	In place	Corporate Governance Report – Section 7 & Enterprise Risk Management Report on page 24 to 28
D.2.3	Companies should have an internal audit function.	In place	Corporate Governance Report – Section 7 & Enterprise Risk Management Report on page 24 to 28

Corporate Governance (contd.)

Principle		Status	Details/Reference
D.2.4	The Board should maintain a sound system of internal controls and require Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls	In place	Corporate Governance Report – Section 7 & Enterprise Risk Management Report on page 24 to 28
D.3 Audit Committee			
D.3.1	The Audit Committee should comprise exclusively of Non-Executive Directors with a minimum of three Non-Executive Directors of whom at least two should be independent. If there are more Non- Executive Directors, the majority should be independent. The committee should be shared by an independent Non-Executive Director.	In place	Corporate Governance Report – Section 3.2.1
D.3.2	The Audit Committee should have a written term of reference, dealing clearly with its authority and duties	In place	Corporate Governance Report – Section 3.2.1
D.3.3	The annual report should include the names of the Audit Committee members, the basis for the determination of the independence of the External Auditors and a report of the AC setting out the manner of compliance with the above requirements during the specified period	In place	Corporate Governance Report – Section 3.2.1
D.4 Related Party Transactions Review committee			
D.4.1	A related party and related party transactions will be as defined in LKAS 24.	In place	
D.4.2	The board should establish a Related Party Transactions (RPT) Review Committee consisting exclusively of Non-Executive Directors with a minimum Three Non-Executive Directors of whom the majority should be independent. The Chairman should be an Independent Non-Executive Director appointed by the Board.	In place	Corporate Governance Report – Section 3.2.1
D.4.3	RPT Review Committee should have written terms of reference dealing clearly with its authority and duties which should be approved by the Board of Directors.	In place	
D.5 Code of Business Conduct and Ethics			
D.5.1	The company should disclose whether the code of business conduct and ethics for Directors and key management personnel is in place and whether all Directors and key management personnel have declared their compliance with such codes.	In place	
D.5.2	The Company should have a process in place to ensure that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations.	In place	
D.6 Corporate Governance Disclosures			
D.6.1	The Directors should include in the Company's Annual Report, a Corporate Governance Report setting out the manner and extent to which the company has complied with the principles and provisions of such code.	In place	Corporate Governance Report – Section 3.2.1

Principle		Status	Details/Reference
A. Institutional Investors			
E.1 Shareholder Voting			
E.1.1	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives. Arising from such dialogue, the Chairman should ensure the views of shareholders are communicated to the Board as a whole.	In place	Corporate Governance Report – Section 10
E. 2 Evaluation of governance disclosures			
E.2.1	When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	In place	
B. Other Investors			
F.1 Investing/Divesting Decisions			
F.1.	Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	In place	
F.2 Shareholder Voting			
F.2	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	In place	
C. Internet of Things and Cybersecurity			
G.1	The Board should have a process to identify how in the organization's business model, IT devices within and outside the organization can connect to the organization's network to send and receive information and the consequent cybersecurity risks that may affect the business.	In place	Corporate Governance Report – Section 10
G.3	The Board should allocate regular and adequate time on the board meeting agenda for discussions about cyber- risk management.	In place	
G.4	The Board should ensure the effectiveness of the cybersecurity risk management through independent periodic review and assurance.	In place	
D. Environment, Society and Government (ESG)			
H.1 to H.1.5	Adherence to ESG principles are disclosed in the Annual Report.	In place	

Enterprise Risk Management

At Kotmale we believe that a robust Enterprise Risk Management (ERM) process is vital to achieve a sustainable growth in the business in the current volatile and complex business environment where businesses are exposed to numerous risks. The company manages the enterprise risks through an integrated risk management framework, with the objective of maximizing risk adjusted returns in line with the risk appetite.

RISK MANAGEMENT FRAMEWORK

The comprehensive and integrated risk management framework helps to minimize the adverse impact of the risks, thus enabling the company to leverage market opportunities effectively and enhance its long-term competitive advantage.

The key elements of risk management revolve around the vision, mission, core values, culture and strategic objectives of Kotmale. The governance structure at the highest level consists of the Board of Directors, Audit Committee, Management Committee, Risk Committee, Group Risk Management Team and Internal Audit Team. The Board of Kotmale Holdings PLC, has the oversight responsibility for risk management and some of its responsibilities are delegated to Board Committees. The key roles and responsibilities of the key stakeholders of risk management function are summarized as follows:

BOARD OF DIRECTORS

Oversight of risk management process with the support of the Board Committees.

AUDIT COMMITTEE

Oversight role to ensure appropriate risk management framework, internal controls and risk management process are in place.

RISK COMMITTEE

- Creating a risk awareness culture throughout the organization
- Identifying key risks that may impact company strategic objectives and formulating appropriate mitigation actions
- Assist and review the implementation of mitigation actions by the respective stakeholders
- Review and improve the effectiveness of the mitigation strategies in a regular basis

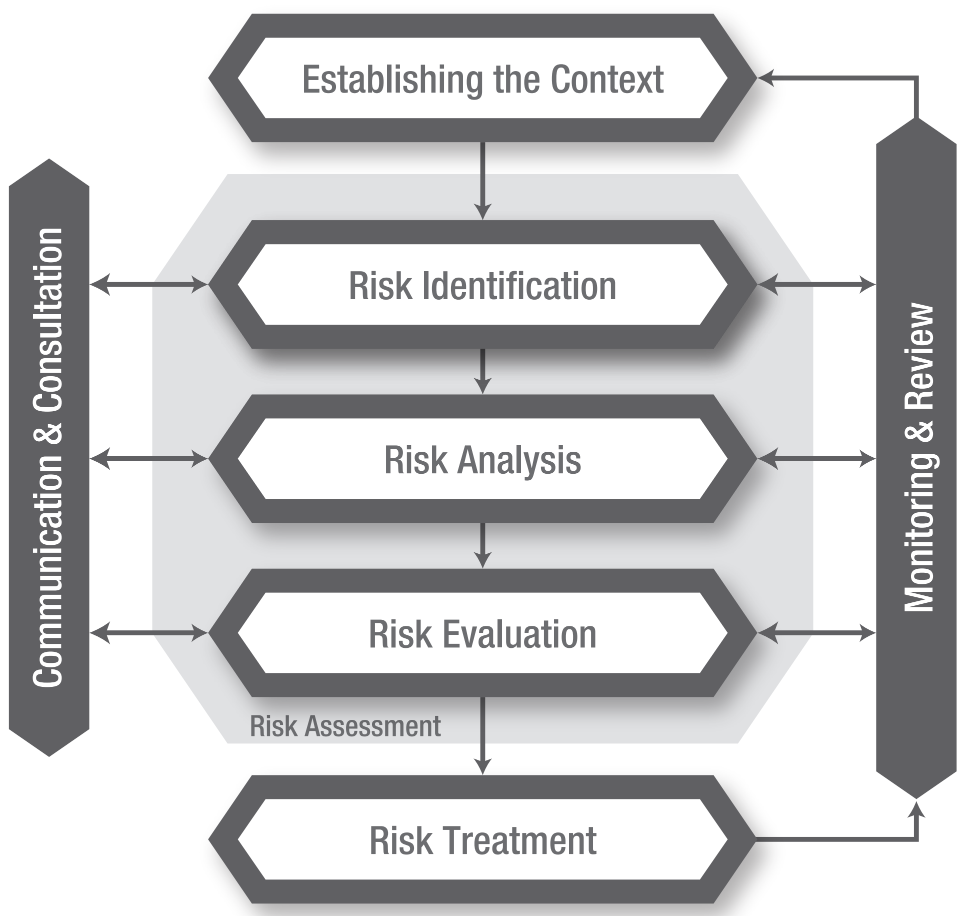
GROUP RISK MANAGEMENT & INTERNAL AUDIT TEAMS

- Review and update the Risk Management Framework periodically
- Support the risk committees in the risk management process
- Review the effectiveness of the risk management process
- Develop and implement effective systems of internal controls
- Advice the audit committee on the effectiveness of the risk management process and internal control weaknesses

Enterprise Risk Management (contd.)

The risk management policies and procedures specify the risk management methodologies used, roles and responsibilities and risk management process. Internal control systems are in place to ensure adherence to policies, rules, regulations and to minimize the risks. The Three lines of defense mechanism functions as an integral part of the control system. Engagement of a third party for assurance enhances the effectiveness of risk management. The organization operates with a clear risk management strategy which specifies the management approach towards risk taking. The risk management process at Kotmale encompasses practices relating to identification, analysis, evaluation, mitigation and monitoring of the strategic, operational, financial, external and hazard risks. The risk management process positively contributes to business improvement by providing management with a greater insight into risks and their impacts.

The iterative risk management process is depicted below.



Risk Area	Potential Impact	Mitigation Action
Supply of Fresh Milk	Short supply of fresh milk can significantly impact the business.	We continuously expand the dairy farmer network and milk collection centers. We offer an attractive price to the farmers for milk and engage with them by providing technical inputs. We strive to uphold their livelihoods through the Cargills Sarubima Fund.
Employee Retention and Talent Management	Failure to attract, retain and develop people with the right caliber could severely impact the long-term growth potential of the business.	HR planning, recruitment, training and development programs, employee welfare and reward and recognition aspects are effectively carried out to be in line with market demands and to demonstrate a strong value proposition to employees.
Product Quality and Safety	Unsatisfactory safety and quality levels of products impact customer trust and confidence and affect business performance.	Robust quality assurance practices are in place throughout the value chain to ensure food safety and quality. Required quality and standard certifications are obtained to affirm the product and process quality.
Competition	Increased competition in the dairy sector have a potential impact on our long term revenue and profitability.	We continuously assess the business environment and incorporate changes into our business model
Consumer Buying Power	Declining GDP, loss of employment, reduction in employment benefits and reduced foreign remittances lead to a reduction in personal disposable income and can negatively impact the demand for our products.	We continuously attempt to provide value for money through our dairy products.
Reputation	Failure to protect the reputation of the company and Kotmale brand could lead to a loss of trust and confidence and affect the customer base.	Measures are in place to maintain the quality of products, processes and people. Kotmale Values and Code of Conduct are embedded into our engagement processes with all stakeholders. Systems are in place to capture feedback and address the concerns of all stakeholders.
Inventory and Supply Chain	Interruption to supply of goods and materials affects our operations. Poor management of inventory increases the risk of obsolete inventory, stock adjustments as well as stock holding costs	Supply chain risk is managed through centralized procurement function, sourcing from a broader supplier base, effective vendor management , effective portfolio management, stringent inventory control measures and supported by adequate insurance cover.
Health and Safety	The inability to provide a safe working environment results in injuries or loss of life that cannot be measured in financial terms.	Stringent health and safety processes are in place and regular health and safety reviews are conducted to ensure safety and hazard free environment for the employees and other stakeholders.
Cyber Security	Circumventing information security controls through a cyber-attack can cause substantial impairment to the business by means of economic cost, reputational damage and legal consequences.	The company has recognized that it is extremely important to manage cyber risks on a continuous basis. Periodic reviews of current information security controls are carried out by the internal team which is further strengthened with periodic reviews made by an independent organization specialized in cyber security. Appropriate investments are made as recommended by the expert teams to upgrade, replace or implement new systems or controls.

Enterprise Risk Management (contd.)

Risk Area	Potential Impact	Mitigation Action
IT systems and infrastructure	Failure of key IT systems and outdated IT infrastructure could have a substantial impact on our business operations.	The Group manages foreign exchange exposure through appropriate financial risk management techniques.
Funding and Liquidity	Inability to source adequate funds for ongoing business operations, the expansion projects and also for other investments can negatively impact the business operations.	Internally generated funds are utilized for investments as much as possible. Our company has established banking facilities with all major banks to obtain funds as and when required.
Credit Management	There would be adverse impacts on the liquidity position as a result of payment delays and non-payment by customers.	Sales to our distributors are covered by bank guarantees. Robust credit control process is in place to avoid bad debts.
Regulatory Environment	Failure to comply with laws and regulations could lead to legal prosecution and fines or imprisonment. In addition, a breach could lead to reputational damage.	Appropriate strategies are developed through regularly monitoring the changes in the regulations and their impact on the business. Adherence to regulations by the business is closely monitored.
Interest Rates	Steep upward movement in the interest rate could have a severe impact on the financial performance of the company.	Interest rates movements are monitored and appropriate steps are taken to mitigate the financial impact due to the interest rate fluctuations.
Foreign Exchange Rates	Fluctuation of foreign exchange rates have an impact on the prices of imported raw material and equipment.	Foreign exchange rates are monitored by our import division and necessary steps are taken to minimize the adverse impacts.
Commodity Prices	Fluctuations in the commodity prices could affect the prices of raw material.	Measures including monitoring market prices, alternate sourcing arrangements and forward booking are in place to manage fluctuations in the market.
Hazards	Hazards such as natural disasters, civil unrest, terrorist attacks could adversely affect the business operations.	Contingency plans are in place to mitigate the hazard risks and to ensure the business continuity. Adequate insurance covers are obtained against all identified risks.
Sustainability	Inability to address negative impacts to the environment and society can affect the long term survival of the organization.	Continuous efforts are in place to minimize plastic usage, use of non-renewable energy, harmful waste disposal and excessive water consumption. We support our farming community with sustainable farming practices.
Pandemic	Pandemic can result in business interruptions, health and safety and food security concerns. It may also necessitate changes to the business models.	Contingency plans are in place to mitigate the pandemic risks and to ensure the business continuity. Adequate measures are in place to ensure health and safety of employees and food security.

Financial Reports

Annual Report of The Directors' on the Affairs of The Company

The Directors are pleased to submit the Annual Report together with the Audited Financial Statements of Kotmale Holdings PLC and consolidated audited financial statements of the Group for the year ended 31 March 2020, which were approved by the Board of Directors on 5 Aug 2020.

ACTIVITIES

The principal business activities of the Group are processing manufacturing and distribution of dairy products, and remain unchanged from the previous year.

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 Flows and Notes to the Financial Statements of the Company and the Group for the financial year ended 31 March 2020 are given on pages 36 to 78 forming an integral part of the Annual Report of the Board.

AUDITORS' REPORT

The auditors' report is set out on pages 33 to 35.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are given on pages 40 to 52. There were no significant changes to the accounting policies of the Group during the year.

DIVIDENDS

The Company has not paid / declared dividends for the year ended 31 March 2020. (2019 - Nil)

RESERVES

The total reserves of the Group stand at Rs. 780 Mn. (2019 - Rs. 632 Mn), while the total reserves of the Company stand at Rs. 38 Mn. (2019 - Rs. 43 Mn)

STATED CAPITAL

Stated capital of the Company as at 31 March 2020 was Rs. 314 Mn. (2019 - Rs. 314 Mn)

The details of the stated capital are given in Note 20 to the financial statements on page 65

CAPITAL EXPENDITURE

The Group's capital outlay on property, plant and equipment amounted to Rs. 610 Mn (2019 – Rs. 236 Mn) while no capital expenditure was incurred by the Company during the year (2019 - Nil). Details are given in Note 12 to the financial statements on page 57.

The movement of property, plant and equipment during the year is given in Note 12 to the financial statements on page 57.

MARKET VALUE OF PROPERTIES

The Group land and buildings were revalued as at 31 March 2018. Details are given in Note 12 to the financial statements on pages 58.

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 within the Cargills Group of companies, which in turn is part of C T Holdings PLC Group. There were 556 registered shareholders as at 31 March 2020 (2019 – 539).

An analysis of shareholdings according to the size of holding and the names of the shareholders is given on pages 80 to 81.

DIRECTORATE

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) (b) of the Companies Act No. 7 of 2007 having attained and surpassed the age of seventy years and offer themselves for reelection 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 08 on page 54 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

The Directors' interests in contracts and proposed contracts with the Company are included in Note 29(b) to the financial statements on page 71.

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.

Statement of Compliance with Related Party Transactions Rules

Directors' hereby confirm that the Company is in compliance with section 9 of the Listing Rules of the Colombo Stock Exchange in respect of the related party transactions entered into by the company during the year.

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	2020	2019
Mr. V R Page	Nil	Nil
Mr. M I Abdul Wahid	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 (2019 - Rs. Nil) had been made by the Company.

EMPLOYMENT

The number of persons employed by the Company and Group as at 31 March 2020 was Nil (2019 – Nil) and 180 (2019 – 188), respectively.

There have been no material issues pertaining to employees and industrial relations of the Company and the Group.

EMPLOYEE SHARE OPTION SCHEME (ESOS)

Details of the options granted, options exercised, the grant price and the options cancelled or lapsed and outstanding as at 31 March 2020, are disclosed in Note 21.3 to the financial statements on page 66.

The Directors confirm that the Company has not granted any funding to employees to exercise options.

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 08 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 28 to the financial statements on page 71.

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)
V R Page
Chairman

(Signed)
M I Abdul Wahid
Managing Director

(Signed)
H S Ellawala
Company Secretary

5 Aug 2020

Statement of Directors' Responsibility

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 pages 33 to 35.

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 and the listing rules of the Colombo Stock Exchange.

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

The Directors are required to provide the Auditors with every opportunity to carry out any reviews and tests that they consider appropriate and necessary to carry out their responsibilities. The responsibility of the Independent Auditors in relation to the financial statements is set out in the Independent Auditors' Report.

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)
H S Ellawala
Company Secretary

5 Aug 2020

Independent Auditor's Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the 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, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information set out on pages 36 to 78 of the Annual Report.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw our attention to Note 22 of the financial statements wherein the Group has considered all land held and used in business as investment assets. Based on our understanding of the Inland Revenue Act and legal advice provided by the expert, there is significant judgment involved in determining whether the lands held by the entity and used in business are to be considered as capital assets or investment assets due to the uncertainties that exist with respect of the interpretation of the application. In the event the Group's position is not held by the Authorities, the impact on the Company and the Group is disclosed in Note 22 to the financial statements. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor’s Report (contd.)

Risk Description	Our Response
Revenue recognition	Our audit procedures included:
Group revenue comprises revenue from Kotmale Dairy Products (Private) Limited from its manufacture and distribution of dairy products, which accounted for 100% Group’s revenue for the year ended 31 March 2020. During the prior year, the Group adopted SLFRS 15, Revenue from Contracts with Customers, which specifies how and when an entity should recognize revenue along with the need to provide users of the financial statements with more informative, relevant disclosures. We identified revenue recognition as a key audit matter because of its significance to the consolidated financial statements. Refer to the Note 3.15 for SLFRS 15 -Revenue from contracts with customers.	Evaluating the appropriateness of the Group’s revenue recognition policies including the recognition, measurement and classification criteria as well as disclosure requirements as per SLFRS 15. Testing the operating effectiveness of key controls over the revenue recognition and measurement. Evaluating the integrity of the general IT control environment and testing the operating effectiveness of key IT application controls over revenue. Performing monthly trend analysis of revenue considering internal benchmarks, and detailed testing by vouching a sample of invoices and credit notes.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s and the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company and the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1798.

Signed.
CHARTERED ACCOUNTANTS
Colombo, Sri Lanka

5 Aug 2020

Statement of Profit or Loss and Other Comprehensive Income

		Group		Company	
For the year ended 31 March		2020	2019	2020	2019
	Note	Rs.	Rs.	Rs.	Rs.
Revenue	4	2,892,690,447	2,545,600,341	-	-
Cost of sales	5	(2,220,457,343)	(1,925,884,958)	-	-
Gross profit		**672,233,104**	**619,715,383**	-	-
Other income	6	3,434,897	2,854,444	-	-
Distribution expenses		(287,141,229)	(269,942,833)	-	-
Administrative expenses		(163,005,213)	(147,525,048)	(4,585,504)	(3,965,932)
Results from operating activities		**225,521,559**	**205,101,946**	**(4,585,504)**	**(3,965,932)**
Finance income	7.1	3,681,162	18,564,506	137,885	7,231,605
Finance cost	7.2	(15,727,177)	(1,350,356)	(249,013)	(4,163)
Profit / (loss) before taxation	8	**213,475,544**	**222,316,096**	**(4,696,632)**	**3,261,510**
Income tax expense	9	(64,917,087)	(66,357,487)	(38,608)	(2,024,849)
Profit / (loss) for the year		**148,558,457**	**155,958,609**	**(4,735,240)**	**1,236,661**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial (losses) / gain on employee benefits.	23	(157,019)	141,048	-	-
Tax on other comprehensive income	22	43,965	(39,493)	-	-
Other comprehensive (expense) / income for the year, net of tax		(113,054)	101,555	-	-
Total comprehensive income for the year		**148,445,403**	**156,060,164**	**(4,735,240)**	**1,236,661**
Earnings per share - basic / diluted (Rs.)	10	4.73	4.97	(0.15)	0.04

Figures in brackets indicate deductions.

The accounting policies and notes from pages 40 to 78 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March	Notes	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
ASSETS					
Non-current assets					
Property, plant and equipment	12	1,284,132,917	731,858,837	-	-
Right of use assets	13	15,183,646	-	-	-
Intangible assets	14	55,863,274	55,863,274	-	-
Investments in subsidiaries	15	-	-	185,400,000	185,400,000
Total non-current assets		1,355,179,837	787,722,111	185,400,000	185,400,000
Current assets					
Inventories	16	258,310,283	165,241,943	-	-
Trade and other receivables	17	398,060,554	355,840,557	698,121	1,840,068
Amounts due from related companies	18	59,950,247	39,741,159	169,706,724	131,316,860
Short term investments	19.c	18,929,896	123,229,392	-	54,711,530
Cash and cash equivalents	19.a	22,616,168	10,865,584	2,617,115	2,434,413
Total current assets		757,867,148	694,918,635	173,021,960	190,302,871
Total assets		2,113,046,985	1,482,640,746	358,421,960	375,702,871
EQUITY					
Stated capital	20	314,000,000	314,000,000	314,000,000	314,000,000
Reserves	21	199,294,609	198,790,609	3,054,017	3,054,017
Retained earnings		581,164,507	432,885,499	35,233,645	39,968,885
Total equity		1,094,459,116	945,676,108	352,287,662	357,022,902
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	22	52,298,685	47,569,496	-	-
Employee benefits	23	37,846,183	32,512,160	-	-
Lease obligations	13	10,794,744	-	-	-
Total non-current liabilities		100,939,612	80,081,656	-	-
Current liabilities					
Trade and other payables	24	243,617,402	199,346,276	4,474,180	4,155,472
Amounts due to related companies	18	150,334,058	30,765,433	1,660,118	13,819,335
Current tax liabilities		142,431,477	177,648,372	-	680,273
Lease obligations	13	5,588,082	-	-	-
Borrowings	25	248,500,000	-	-	-
Bank overdrafts	19.b	127,177,238	49,122,901	-	24,889
Total current liabilities		917,648,257	456,882,982	6,134,298	18,679,969
Total liabilities		1,018,587,869	536,964,638	6,134,298	18,679,969
Total equity and liabilities		2,113,046,985	1,482,640,746	358,421,960	375,702,871

The accounting policies and notes form pages 40 to 78 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 Jayawardana
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 of Directors:

Signed.
V R Page
Chairman

Signed.
M.I.Abdul Wahid
Managing Director

5 Aug 2020
Colombo

Statement of Changes in Equity

Group	Stated capital Rs.	Capital reserves Rs.	Revaluation reserve Rs.	General reserve Rs.	Employee share option reserve Rs.	Retained earnings Rs.	Total Equity Rs.
Balance as at 1 April 2018							
Total comprehensive income for the year	314,000,000	1,784,545	193,281,801	1,269,472	1,494,791	276,825,335	788,655,944
Profit for the year	-	-	-	-	-	155,958,609	155,958,609
Other comprehensive income, net of tax	-	-	-	-	-	101,555	101,555
Total comprehensive income for the year, net of tax	-	-	-	-	-	156,060,164	156,060,164
Transactions with owners, recognized directly in equity							
Equity settled share based transactions	-	-	-	-	960,000	-	960,000
Balance as at 31 March 2019	314,000,000	1,784,545	193,281,801	1,269,472	2,454,791	432,885,499	945,676,108
Balance as at 1 April 2019	314,000,000	1,784,545	193,281,801	1,269,472	2,454,791	432,885,499	945,676,108
Adjustment to opening retained earnings on account of SLFRS 16	-	-	-	-	-	(166,395)	(166,395)
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	148,558,457	148,558,457
Other comprehensive income, net of tax	-	-	-	-	-	(113,054)	(113,054)
Total comprehensive income for the year, net of tax	-	-	-	-	-	148,445,403	148,445,403
Transactions with owners, recognized directly in equity							
Equity settled share based transactions	-	-	-	-	504,000	-	504,000
Balance as at 31 March 2020	314,000,000	1,784,545	193,281,801	1,269,472	2,958,791	581,164,507	1,094,459,116

Company	Stated capital Rs.	Capital reserves Rs.	General reserve Rs.	Retained earnings Rs.	Total Rs.
Balance as at 1 April 2018	314,000,000	1,784,545	1,269,472	38,732,224	355,786,241
Total comprehensive income for the year					
Profit for the year	-	-	-	1,236,661	1,236,661
Other comprehensive income , net of tax	-	-	-	-	-
Total comprehensive income for the year, net of tax	-	-	-	1,236,661	1,236,661
Transactions with owners of the Company, recognized directly in equity					
Balance as at 31 March 2019	314,000,000	1,784,545	1,269,472	39,968,885	357,022,902
Balance as at 1 April 2019	314,000,000	1,784,545	1,269,472	39,968,885	357,022,902
Total comprehensive income for the year					
Profit for the year	-	-	-	(4,735,240)	(4,735,240)
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income for the year, net of tax	-	-	-	(4,735,240)	(4,735,240)
Transactions with owners of the Company, recognized directly in equity					
Balance as at 31 March 2020	314,000,000	1,784,545	1,269,472	35,233,645	352,287,662

Figures in brackets indicate deductions.

The accounting policies and notes from pages 40 to 78 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 March	Note	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Cash flows from operating activities					
Profit before taxation		213,475,544	222,316,096	(4,696,632)	3,261,510
Adjustments for :					
Depreciation on property,plant & equipment	12	57,879,630	49,778,428	-	-
Employee benefits	23	6,643,194	5,733,687	-	-
Net finance income	7	12,046,015	(17,214,150)	111,128	(7,227,442)
Write off of long outstanding receivables		-	25,539	-	-
Write back of liability no longer payable	6	(2,449,342)	(111)	-	-
Depreciation of right of use asset	8	4,431,116	-	-	-
Gain on disposal of property,plant and equipment	6	-	(1,150,000)	-	-
Equity settled share base payment transactions	21.3	504,000	960,000	-	-
Provision for trade and other receivables	8	3,531,480	-	-	-
Operating profit before working capital changes		296,061,637	260,449,489	(4,585,504)	(3,965,932)
Changes in working capital					
(Increase) / Decrease in inventories		(93,068,340)	(11,253,821)	-	-
(Increase) / Decrease in trade and other receivables		(60,441,353)	(138,936,801)	1,400,199	(45,674)
(Increase) / Decrease in related company receivables		(21,869,209)	(18,836,231)	(38,389,864)	2,060,636
Increase / (Decrease) in trade and other payables		46,720,476	4,408,153	318,709	(5,424,917)
Increase / (Decrease) in related company payables		121,228,738	28,460,560	(12,159,217)	6,980,554
Cash generated from/ (used in) operations		288,631,949	124,291,349	(53,415,677)	(395,333)
Interest paid	7.2	(13,537,426)	(1,350,356)	(249,013)	(4,163)
Retiring gratuity paid	23	(1,466,190)	(1,129,345)	-	-
Income tax paid		(80,670,952)	(26,250,150)	(977,134)	(8,167,312)
Net cash generated from operating activities		192,957,381	95,561,498	(54,641,824)	(8,566,808)
Cash flows from investing activities					
Acquisition of property, plant and equipment	12	(610,153,710)	(235,523,375)	-	-
Proceeds from sale of property, plant and equipment	6	-	1,150,000	-	-
Interest income received	7.1	3,681,162	18,564,506	137,885	7,231,605
Net cash (used in)/ generated from investing activities		(606,472,548)	(215,808,869)	137,885	7,231,605
Cash flows from financing activities					
Repayment of lease obligations	13.1.2	(5,588,082)	-	-	-
Net proceeds from short term borrowings	25.1	248,500,000	-	-	-
Net cash used in financing activities		242,911,918	-	-	-
Net cash and cash equivalents used in		(170,603,249)	(120,247,371)	(54,503,939)	(1,335,203)
Movement in cash and cash equivalents					
At the beginning of the year		84,972,075	205,219,446	57,121,054	58,456,257
Movement during the year		(170,603,249)	(120,247,371)	(54,503,939)	(1,335,203)
At the end of the Period	19 - b	(85,631,174)	84,972,075	2,617,115	57,121,054

Figures in brackets indicate deductions.

The accounting policies and notes from pages 40 to 78 form an integral part of these financial statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

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.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the Company for the year ended 31 March 2020 comprise the Company and its subsidiaries (together referred to as the 'Group')

1.3 Parent Entity & Ultimate Parent Entity

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

1.4 Principal Activities and Nature of Operations

The principal activities of the Group are:

1. Manufacture and distribution of dairy products under the brand name of 'KOTMALE'
2. Investment holding company.

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements as at 31 March 2020 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007.

These Consolidated Financial Statements include the following components:

- The Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the company for the year under review;
- The Statement of Financial Position providing the information on the financial position of the Group and the company as at the year-end;
- The Statement of Changes in Equity depicting all changes in shareholder's equity of the Group and the company during the year under review;
- The Statement of Cash Flows providing the information to the users, on the ability to generate cash and cash equivalents of the Group and the company during the year under review; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

This is the first set of the Group and the Company's annual Consolidated Financial Statements in which SLFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 2.11.1.4

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements as per the provision of the Companies Act No. 07 of 2007 and SLFRS and LKAS.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the Annual Report of the Board of Director's, Statement of Directors' Responsibility, and the certification on the Statement of Financial Position.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements for the year ended 31 March 2020 (including comparatives) were approved and authorized by the Board of Directors for issue on 5 Aug 2020.

2.4 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following items in the Statement of Financial Position:

Item	Basis of measurement	Note No.
Land and Building	Cost / Revaluation	12
Employee Benefit Liability	Present value of the defined benefit obligation	23
Employee share option reserve	Fair value	21.3

2.5 Presentation of Financial Statements

The assets and liabilities of the Statement of Financial Position are grouped by nature. No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.6 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (Rs.), which is the Group's functional and presentation currency.

All financial information presented in rupee has been rounded to the nearest thousands, unless otherwise indicated.

2.7 Materiality and Aggregation

Each material class of similar items is presented \ in the \ Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.8 Comparative Information

Comparative information has been reclassified to conform to the current year's presentation, where necessary. Except when a standard permit or requires otherwise, comparative information is disclosed in respect of the previous period. Where the presentation or classification of items in the financial statements are amended, comparative amounts are reclassified unless it is impracticable.

- Free issue cost which was disclosed under distribution expenses is now shown under cost of sales.
- Management believes that the above reclassification gives a Fair Presentation.

2.9 Key Accounting of Judgements and Estimates

In preparing these Consolidated Financial Statements, management has made judgements and estimates that affect the application of the Group's 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 estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2.9.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following notes:

- Note 3.15 - Revenue Recognition: whether revenue from made-to-order products is recognised over time or at a point in time;
- Note 3.12 - Lease Term: whether the Group is reasonably certain to exercise extension options; and
- Note 3.20.2 - Deferred Tax Liabilities: Determination of whether lands should be considered as a capital asset or an investment asset.

2.9.2 Assumption

Information about assumptions and estimation uncertainties at 31 March 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 23 - Measurement of defined benefit obligations: key actuarial assumptions;
- Note 16 - Provision for inventory;
- Note 21.3 - Determination of fair value of ESOPS at grant date;
- Note 14 - Impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts;
- Note 3.14 - Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources

2.9.3 Fair value Measurement

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuations techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire environment.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes;

- Note 21.3 – Share based payment arrangements
- Note 12 - Revaluation of freehold land and building

Notes to the Financial Statements (contd.)

2.10 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for a foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.11 Changes in Significant Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these Financial Statements.

The group has applied SLFRS 16 with an initial application date of 1 April 2019. As a result, the group has changed its accounting policy for lease contracts as detailed below. A number of other new standards are also effective from 1 April 2019, but they do not have a material effect on the Financial Statements.

The Group applied SLFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Accordingly, the comparative information presented for 2018/19 is not restated – i.e. it is presented as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not been applied to comparative information.

2.11.1 Definition of a Lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under SLFRS 16, the Group now assesses whether a contract is or contains a lease based on the definition of lease, as explained in Note 3.12.

On transition to SLFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applies SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 1. Therefore, the definition of lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

2.11.2 As a Lessee

As a lessee, the Group mainly leases properties. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset to the Group. Under SLFRS 16, the Group recognises right-of-use asset and lease liabilities for all of its leases. i.e these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

2.11.2.1 Leases Classified as Operating Leases Under LKAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, Lease liabilities were measured at the present value of remaining lease payments, discounted at the Group's incremental borrowing rate as at 01 April 2019. The right-of-use assets are measured at their carrying amount as if SLFRS 16 has been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group applied this approach to all leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used the following practical expedient when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognise right-of-use assets and liabilities for leases of low value assets.
- Used hindsight when determining the lease term.

2.11.3 As a Lessor

The Group is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with SLFRS 16 from the date of initial application under SLFRS 16, The Group is required to assess the classification of a sub-lease with reference to the right of use asset, not the underlying asset. on transition the Group did not have any sub lease arrangements.

2.11.1.4 Impact on Financial Statements

On transition to SLFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

At 1 April 2019	Note	Group Rs. '000	Company Rs. '000
Right-of-use assets	13	19,614,762	-
Lease liabilities	13	19,781,157	-
Retained earnings		166,395	-

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. Incremental borrowing rate is 12%.

At 1 April 2019	Group Rs. '000	Company Rs. '000
Operating lease commitments as at 31 March 2019 as disclosed under LKAS 17 in the Group/Company's Consolidated Financial Statements	11,400,000	-
Adjustment to update for SLFRS 16	5,884,925	-
Impact of discounting using incremental borrowing rate as at 01 April 2019	2,496,232	-
Recognition exemption for leases with less than 12 months of lease term at transition	-	-
Lease liability recognised at 1 April 2019	19,781,157	-

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The Financial Statements comprise of Financial Statements of the Company, its subsidiaries and its equity accounted investees for the year ended 31 March 2020. Financial Statements of the Company's subsidiaries and associates are prepared for the same reporting year using consistent accounting policies.

3.1.1 Business Combination and Goodwill

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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, from the acquisition date is, 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.

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

3.1.3 Non-Controlling Interests

For each business combination, the Group elects to measure any non- controlling interests in the acquire either: at fair value; or at proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Acquisition of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.4 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.5 Interest in Equity-accounted Investees

The Group's interest in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the Financial Statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence ceases.

3.1.6 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. 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.

3.2 Foreign Currency Transactions and Balances

All foreign currency transactions are translated into the functional currency of the Group which is Sri Lankan Rupees (Rs.) at the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the spot exchange rate at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies are translated into functional currency at spot exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into functional currency at the spot exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the spot exchange rate at the date of transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance cost.

3.3 Financial Instruments

3.3.1 Recognition and Initial Measurement

Trade receivable and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group become a party to the contractual provisions of the instrument.

Financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3.3.2 Classification and Subsequent Measurement

Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets classified under amortised cost includes trade and other receivable, amounts due from related companies and cash and cash equivalents.

A debt investment is measured at FVOCI if it meets both of the following conditions and it not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial Assets - Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial Assets - Assessment whether Contractual Cash Flows are Solely Payments of Principal and Interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value for money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs. (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual cash flows such that it would not meet this condition. In marking this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial Assets - Subsequent Measurement and Gains and Losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial Liabilities - Classification, Subsequent Measurement and Gains and Losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities measured at amortised cost include interest bearing loans and borrowings, trade and other payables and amounts due to related companies.

3.3.3 Derecognition Financial Asset

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

3.3.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.3.5 Impairment of Financial Assets

For trade receivables, the Group applies a simplified approach in calculating Expected Credit Losses (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- It is probable that the borrower will enter bankruptcy or other financial reorganisation.

3.4 Impairment of Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.5 Property, plant and equipment

3.5.1 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 Statement of Changes in Equity. Revaluation of property, plant and equipment are undertaken by professionally qualified independent valuers.

3.5.2 Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

3.5.3 Derecognition

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

3.5.4 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

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

3.5.5 Revaluation

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The Company transfer portion of revaluation reserve to retained earnings as the assets are used by the entity, since the future economic benefits embodied in the assets are consumed principally through its use rather than on retirement or disposal.

3.5.6 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.

3.6 Short term investments

Short term investments consist of investment in fixed deposits with a maturity period of less than 90 days.

3.7 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, cash at bank and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

3.8 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 following are the type of inventories and their costing method;

- 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

3.9 Employee Benefits

3.9.1 Defined Contribution Plans - Cargills Employees' Provident Fund and Employees' 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 Profit or Loss, as incurred.

3.9.2 Share-based Payment Arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

3.9.3 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of defined benefit obligation as at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by LKAS 19 - "Employees Benefits".

The assumptions based on which the results of the valuation were determined are included in the Note 23 to the Financial Statements.

The liability is not externally funded.

The Group recognises all actuarial gains and losses arising from defined benefit plan in Other Comprehensive Income and expenses related to defined benefit plan in administrative expenses in profit or loss.

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19. However, under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

3.10 Dividends Payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended by and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

3.11 Borrowings

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

3.12 Leases

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately if they are different from those under SLFRS 16 and the impact of changes is disclosed in Note 13.

3.12.1 Policy Applicable from 1 April 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1 April 2019.

3.12.1.1 As a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

Notes to the Financial Statements (contd.)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.12.1.2 As a Lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risk and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic useful life of the asset.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses the lease classification of sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies sub-lease as an operating lease.

The Group recognises lease payments received under operating leases as rental income on a straight-line basis over the lease term as part of 'other income'.

Generally, the accounting policies to the Group as a lessor in the comparative period were not different from SLFRS 16.

3.12.2 Policy Applicable Before 1 April 2019

3.12.2.1 As a Lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's Consolidated Statement of Financial Position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

3.12.2.2 As a Lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risk and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

3.13 Provisions

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 recognised 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.

3.14 Capital commitments and contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Capital commitment and contingent liabilities of the Company and group are disclosed in the respective notes to the financial statements.

3.15 Revenue

Revenue is recognized when control of the goods have been transferred to the customers, when mainly upon the arrival at the customer. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of the payment and excluding taxes.

Sale of goods

Revenue from the sale of goods is recognized when the control of the goods have been transferred to the buyer, usually on delivery of the 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.

3.16 Other income

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 the income statement, after deducting from the met sales proceeds on disposal the carrying amount such as assets.
Foreign currency gains and losses are reported on a net basis.

3.17 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.

3.18 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.

3.19 Borrowing Costs

As per Sri Lanka Accounting Standard - LKAS 23 on 'Borrowing Costs', the Group capitalises 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 profit or loss in the period in which they occur.

3.20 Income Tax Expense

Income tax expense comprises of current and deferred tax. The income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to the items recognised directly in the Statement of Other Comprehensive income or Statement of Changes in Equity, in which case it is recognised directly in the respective statements.

3.20.1 Current Tax

Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and subsequent amendments thereto.

3.20.2 Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and the differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities recognised by individual companies within the Group are disclosed separately as assets and liabilities in the Statement of Financial Position and are not offset against each other.

Withholding tax on the Intra-group dividends are recognised as a tax expense in the Statement of Profit or Loss.

3.21 Stated Capital

3.21.1 Ordinary Shares

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

Notes to the Financial Statements (contd.)

3.22 Operating Profit

Operating profit is the result generated from the continuing principal revenue-producing activities of the group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs.

3.23 Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.24 Related Party Transaction

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

3.25 Consolidated Statement of Cash Flows

The Consolidated 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 Flows', 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. Cash and Cash Equivalents as referred to in the Consolidated Statement of Cash Flow are comprised of those items as explained in Note 19.

3.26 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these Consolidated Financial Statements.

The following amended standards are not expected to have a significant impact on the Group's Consolidated Financial Statements.

- Amendments to references to conceptual framework in Sri Lanka Financial Reporting Standards
- Definition of a business (Amendments to SLFRS 3)
- Definition of Material (Amendments to LKAS 1 and LKAS 8)

4. REVENUE

For the year ended 31 March	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
Gross revenue on liquid milk based products	2,931,157,152	2,597,550,922	-	-
Nation Building Tax (NBT)	(38,466,705)	(51,950,581)	-	-
Net revenue	2,892,690,447	2,545,600,341	-	-

5. COST OF SALES

Cost of the sales of the Group include direct operating cost and allocated overhead costs.

6. OTHER INCOME

For the year ended 31 March	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
Write back of creditores no longer payable	2,449,342	111	-	-
Gain on disposal of property, plant and equipments	-	1,150,000	-	-
Sundry income	985,555	1,704,333	-	-
	3,434,897	2,854,444	-	-

7. NET FINANCE INCOME

For the year ended 31 March	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
7.1 Finance income				
Interest income	3,681,162	18,564,506	137,885	7,231,605
	3,681,162	18,564,506	137,885	7,231,605
7.2 Finance cost on;				
Bank charges	1,279,008	923,619	4,413	4,000
Interest cost on short term loan	10,533,530	13,415	244,600	163
Bank overdrafts	1,724,888	413,322	-	-
Interest on lease liability	2,189,751			
	15,727,177	1,350,356	249,013	4,163
Net finance income	(12,046,015)	17,214,150	(111,128)	7,227,442

Notes to the Financial Statements (contd.)

8. PROFIT BEFORE TAXATION

For the year ended 31 March	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Profit before taxation is stated after charging / (crediting) all the expenses / (income) including the following;				
Auditors' remuneration for audit	1,383,000	1,270,000	450,000	530,000
Depreciation on property, plant and equipments (Note 12)	57,879,630	49,778,428	-	-
Provision / (reversal) for trade and other receivables	3,531,480	-	-	-
Depreciation of right of use assets	4,431,116	-	-	-
Inventory Provision	3,546,517	3,066,516	-	-
Staff costs (Note 8.1)	251,318,047	214,872,441	-	-

8.1 Staff cost

Salaries, wages and other related costs	188,489,781	161,013,406	-	-
Employee benefits (Note 23)	6,643,194	5,733,687	-	-
Gratuity charged from inter company	1,554,031	576,117	-	-
Directors' emoluments	32,513,700	27,943,942	-	-
Equity settled share based payment transactions	504,000	960,000	-	-
Defined contribution plan cost - EPF and ETF	21,613,341	18,645,289	-	-
	251,318,047	214,872,441	-	-
Number of employees as at 31 March	180	188	-	-

9. INCOME TAX EXPENSE

Income tax on current year profit (Note 9.1)	60,143,933	63,963,990	38,608	2,024,849
Deferred tax expense (Note 9.2)	4,773,154	2,393,497	-	-
	64,917,087	66,357,487	38,608	2,024,849

(i) During the year the Group has paid Economic Service Charge (ESC) amounting to Rs. 14,536,453 (2019 -12,445,691).

For the year ended 31 March	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
9.1 Reconciliation between income tax charge and tax on current year profit is given below;				
Profit before taxation	213,475,544	222,316,096	(4,696,632)	3,261,510
Aggregate interest income	(3,681,162)	(18,564,506)	(137,885)	(7,231,605)
Aggregate disallowed expenses	76,528,136	60,586,067	2,161,504	2,061,757
Aggregate allowable expenses	(77,877,282)	(56,394,909)	-	-
Tax losses incurred	2,673,363	1,935,569	-	-
Adjusted profit from business (a)	211,118,599	209,878,317	(2,673,013)	(1,908,338)
Taxable income from other sources (b)	3,681,162	18,564,506	137,885	7,231,605
Statutory income (a+b)	214,799,761	228,442,823	137,885	7,231,605
Tax losses brought forward	39,519,709	37,584,143	1,908,338	-
Tax losses added	2,673,363	1,935,566	2,673,013	1,908,338
Tax losses carried forward	42,193,072	39,519,709	4,581,351	1,908,338
Taxable income (a+b)	214,799,761	228,442,823	137,885	7,231,605
Income tax @ 28% (2019 - @ 28%)	60,143,933	63,963,990	38,608	2,024,849
Income tax expense on current year profit	60,143,933	63,963,990	38,608	2,024,849
9.2 Deferred income tax;				
Deferred tax expense arising from;				
Accelerated depreciation for tax purposes	7,681,076	3,958,856	-	-
Employee benefit liabilities	(1,449,561)	(1,289,215)	-	-
(Increase) in provision and employee share option scheme	(1,122,590)	(276,144)	-	-
Lease liability	(335,771)	-	-	-
Deferred tax charge (Note 22)	4,773,154	2,393,497	-	-

Deferred tax has been computed using tax rates and tax laws that are enacted or substantially enacted at the reporting date. The deferred tax effect on reserves subsidiaries has not been recognised since the parent can control the timing of the reversal of these temporary difference.

Notes to the Financial Statements (contd.)

9. INCOME TAX EXPENSE (CONTD)

9.3 Unrecognised deferred tax asset.

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

For the year ended 31 March	Group		Company	
	2020 Tax effect on Temporary difference Rs.	2019 Tax effect on Temporary difference Rs.	2020 Tax effect on Temporary difference Rs.	2019 Tax effect on Temporary difference Rs.
Deductible temporary difference.	11,033,684	11,033,586	1,325,867	-

10. EARNING PER SHARE

	Group		Company	
For the year ended 31 March	2020	2019	2020	2019
Profit attributable to ordinary share holders (Rs.)	148,558,457	155,958,609	(4,735,240)	1,236,661
Weighted average number of ordinary shares	31,400,000	31,400,000	31,400,000	31,400,000
Basic earnings per share (Rs.)	4.73	4.97	(0.15)	0.04

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 earning per share is equal to basic earning per share for the year.

11. DIVIDEND PER SHARE

	Group		Company	
For the year ended 31 March	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Dividends per share	-	-	-	-

12. PROPERTY, PLANT AND EQUIPMENT GROUP

2019	Freehold land Rs.	Freehold building Rs.	Plant and machinery and Equipment Rs.	Furniture and Fittings Rs.	Computer and accessories Rs.	Motor vehicles Rs.	Capital work in progress Rs	Total Rs.
Cost/revaluation								
As at 1 April	202,030,000	105,005,000	455,849,418	11,861,397	12,164,948	21,978,544	47,854,021	856,743,328
Additions	-	-	10,365,749	-	-	-	225,157,626	235,523,375
Disposals	-	-	-	-	-	(1,705,000)	-	(1,705,000)
Transfers	-	-	(34,118,000)	-	-	-	-	(34,118,000)
Transfers from CWIP	-	-	44,673,629	-	762,607	-	(45,436,236)	-
As at 31st March	202,030,000	105,005,000	476,770,796	11,861,397	12,927,555	20,273,544	227,575,411	1,056,443,703
Depreciation and impairment losses								
As at 1 April	-	-	269,615,116	9,834,708	9,974,621	21,204,993	-	310,629,438
Charge for the year	-	8,157,403	39,341,475	876,746	961,934	440,870	-	49,778,428
Transfers	-	-	(34,118,000)	-	-	-	-	(34,118,000)
Disposals	-	-	-	-	-	(1,705,000)	-	(1,705,000)
As at 31st March	-	8,157,403	274,838,591	10,711,454	10,936,555	19,940,863	-	324,584,866
Carrying value	202,030,000	96,847,597	201,932,205	1,149,943	1,991,000	332,681	227,575,411	731,858,837
As at 31st March	202,030,000	96,847,597	201,932,205	1,149,943	1,991,000	332,681	227,575,411	731,858,837

2020	Freehold land Rs.	Freehold building Rs.	Plant and machinery and Equipment Rs.	Furniture and Fittings Rs.	Computer and accessories Rs.	Motor vehicles Rs.	Capital work in progress Rs	Total Rs.
Cost/revaluation								
As at 1 April	202,030,000	105,005,000	476,770,796	11,861,397	12,927,555	20,273,544	227,575,411	1,056,443,703
Additions	-	40,064,302	89,202,315	-	196,017	7,980,000	472,711,076	610,153,710
Disposals	-	-	-	-	-	-	-	-
Impairement	-	-	-	-	-	-	-	-
Transfers from CWIP	-	46,817,780	88,137,129	-	-	-	(134,954,909)	-
As at 31st March	202,030,000	191,887,082	654,110,240	11,861,397	13,123,572	28,253,544	565,331,578	1,666,597,413
Depreciation and impairment losses								
As at 1 April	-	8,157,403	274,838,591	10,711,454	10,936,555	19,940,863	-	324,584,866
Charge for the year	-	10,799,302	43,743,532	699,477	892,574	1,744,745	-	57,879,630
Impairment losses	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
As at 31st March	-	18,956,705	318,582,123	11,410,931	11,829,129	21,685,608	-	382,464,496
Carrying value	202,030,000	172,930,377	335,528,117	450,466	1,294,443	6,567,936	565,331,578	1,284,132,917
As at 31st March	202,030,000	172,930,377	335,528,117	450,466	1,294,443	6,567,936	565,331,578	1,284,132,917

Notes to the Financial Statements (contd.)

12. PROPERTY, PLANT AND EQUIPMENT (CONTD)

	Land		Building	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
a) If land and buildings were stated at the historical cost basis, the amounts would have been as follows:				
Group				
Cost	73,571,700	73,571,700	147,939,700	61,057,618
Accumulated depreciation	-	-	(21,108,147)	(15,257,186)
Carrying value	73,571,700	73,571,700	126,831,553	45,800,432

b) The freehold land and building of the Group was revalued as at 31 March 2018 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 2018.

c) Capital working 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.183,322,210 (2019- Rs. 154,999,249).

e) Group's real estate portfolio is as Follows.

Location	Land extent	Building area (Sq. ft.)	Valuation Rs.	Year of valuation
Kotmale Dairy Products (Pvt) Ltd.				
Mulleriyawa	1.8 Acres	28,862	186,690,000	2018
Bogahawatta	1 Acres	16,304	28,500,000	2018
Hatton	17.5 Acres	12,479	91,845,000	2018

g) Description of valuation techniques used and key inputs used in the valuation of the group's real estate portfolio:

Property	Method of valuation	Effective date of valuation	Property valuer	Land extent	Building area (Sq. ft.)	No. of Buildings	Significant unobservable inputs	2018 Valuation Rs.
Mulleriyawa	Open market value	31/03/2018	Mr. Tissa Weeratne FIVSL	1.8 Acres	28,862	3	Market value per perch	186,690,000
Bogahawatta	Open market value	31/03/2018	Mr. Tissa Weeratne FIVSL	1 Acres	16,304	6	Market value per perch	28,500,000
Bogahawatta	Open market value	31/03/2018	Mr. Tissa Weeratne FIVSL	17.5 Acres	12,479	4	Market value per perch	91,845,000

13. RIGHT OF USE ASSET

	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.

13.1 Amounts recognised in the statement of financial position and income statement

Set out below, are the carrying amounts of the company's right of use assets and the movements for the year ended 31 March 2020.

13.1.1 Right of use assets

	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
As at 1 April 2019	-	-	-	-
Effect of adoption of SLFRS as at 01 April 2019	19,614,762	-	-	-
Additions	-	-	-	-
Depreciation	(4,431,116)	-	-	-
As at 31 March 2020	**15,183,646**	-	-	-

13.1.2 Lease liability

Set out below are the carrying amounts of lease liabilities and the movements for the period ended 31 March 2020.

	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
As at 1 April 2019	-	-	-	-
Effect of adoption of SLFRS as at 01 April 2019	19,781,157	-	-	-
Additions	-	-	-	-
Interest expense	2,189,751	-	-	-
Payments	(5,588,082)	-	-	-
As at 31 March 2020	**16,382,826**	-	-	-

Lease Liabilities included in the statement of Financial position as at 31 March.

	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Current	5,588,082	-	-	-
Non-current	10,794,744	-	-	-
	16,382,826	-	-	-

Maturity Analysis for Contractual Undiscounted Cashflows

	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Less than one year	5,532,000	-	-	-
One to five years	14,546,000	-	-	-
More than five years	-	-	-	-
Total Undiscounted Liabilities as at 31st March 2020	**20,078,000**	-	-	-

Notes to the Financial Statements (contd.)

13.1.3 Amounts Recognised in Profit or Loss

	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
Depreciation of right of use assets.	4,431,116	-	-	-
Interest expense on lease liabilities.	2,189,751	-	-	-
	6,620,867	-	-	-

	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
2018 / 2019 - Operating lease under LKAS 17.				
Lease expense	-	4,884,122	-	-
	-	4,884,122	-	-

13.1.4 Amounts Recognised in Statement of Cash Flows.

	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
Total cash outflow for lease	(5,588,082)	-	-	-
	(5,588,082)	-	-	-

14. INTANGIBLE ASSETS

As at 31 March	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
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	-	-

Group's intangible assets represent the goodwill from acqusition of subsidiaries.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”.

15. INVESTMENT IN SUBSIDIARIES

As at 31 March	Shares	(%)	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
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

Notes to the Financial Statements (contd.)

16. INVENTORIES

As at 31 March	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Finished goods	107,877,044	41,103,382	-	-
NRV written off	-	-	-	-
	107,877,044	41,103,382	-	-
Raw materials	55,750,532	53,631,169	-	-
Provision for raw materials	(641,628)	(641,628)	-	-
	55,108,904	52,989,541	-	-
Packing materials	40,698,830	33,126,823	-	-
Provision for packing materials	(2,854,889)	(2,424,888)	-	-
	37,843,941	30,701,935	-	-
Others (Note 16.1)	57,530,394	40,447,085	-	-
Provision for other items	(50,000)	-	-	-
	57,480,394	40,447,085	-	-
	258,310,283	165,241,943	-	-

16.1 Inventory others

	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Crates	25,045,931	17,696,699	-	-
Milk cans	16,585,710	16,585,710	-	-
Engineering spares and other consumables	15,898,753	6,164,676	-	-
	57,530,394	40,447,085	-	-

a. Inventories which have been mortgaged for bank facilities are disclosed Note 31.2.1 in notes to the financial statements.

17. TRADE AND OTHER RECEIVABLES

As at 31 March	Group		Company	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Trade receivables	240,999,866	214,619,819	-	-
Provision for trade receivables	(14,829,466)	(11,297,987)	-	-
	226,170,400	203,321,832	-	-
Staff debtors (Note 17.1)	8,256,714	1,389,695	-	-
Other receivables (Note 17.2)	6,132,160	7,566,439	-	-
Deposits, advances and prepayments	157,501,280	143,562,591	698,121	1,840,068
	398,060,554	355,840,557	698,121	1,840,068

a) Trade receivables which have been mortgaged for bank facilities are disclosed Note 31.2.1 in notes to the financial statements

b) Deposits,advance and prepayments of the Company mainly consist of advance paid to suppliers amounting to Rs 145,924,847 (2019 - Rs 127,872,627)

17.1 Staff debtors

Balance at the beginning of the year	1,389,695	641,434	-	-
Advances given during the year	12,859,019	6,161,532	-	-
Repayments	(5,992,000)	(5,413,271)	-	-
Balance at the end of the year	8,256,714	1,389,695	-	-

17.2 Other receivables

Receivable from farmers (Note 17.2-a)	8,262,774	5,165,218	-	-
Other debtors	5,197,987	9,729,822	-	-
	13,460,761	14,895,040	-	-
Provision for other receivables	(7,328,601)	(7,328,601)	-	-
	6,132,160	7,566,439	-	-

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

18. AMOUNT DUE FROM / DUE TO RELATED COMPANIES

	Group		Company	
As at 31 March	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Amount due from related companies				
Parent				
Cargills Quality Foods Ltd.	1,070,605	-	568	568
	1,070,605	-	568	568
Subsidiaries				
Kotmale Dairy Products (Pvt) Ltd.	-	-	169,706,156	131,316,292
	-	-	169,706,156	131,316,292
Related Company.				
Cargills Foods Company (Pvt) Ltd.	55,779,159	39,379,784	-	-
Cargills Ceylon Plc	1,552,748	-	-	-
Cargills Food Processors (Pvt) Ltd.	569,054	11,984	-	-
Cargills Food Services (Pvt) Ltd.	139,684	287,113	-	-
Millers Limited	838,997	62,278	-	-
	58,879,642	39,741,159	-	-
Total amount due from related companies	59,950,247	39,741,159	169,706,724	131,316,860
Amount due to related companies				
Parent				
Cargills (Ceylon) PLC	-	11,262,826	232,816	13,663,420
Cargills Quality Foods Ltd.	-	49,757	-	-
Cargills Quality Dairies (Pvt) Ltd.	146,390,261	18,996,317	-	-
	146,390,261	30,308,900	232,816	13,663,420
Related Company.				
Cargills Agri Foods Ltd.	3,355,814	258,628	-	-
Cargills Foods Company (Pvt) Ltd.	-	-	1,427,302	155,915
Cargills Quality Confectioneries (Pvt) Ltd	582,233	197,905	-	-
CPC Lanka	5,750	-	-	-
	3,943,797	456,533	1,427,302	155,915
Total amount due to related companies	150,334,058	30,765,433	1,660,118	13,819,335

19. CASH AND CASH EQUIVALENTS

As at 31 March	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
a) Cash at banks and in hand				
Cash at bank	10,380,863	10,520,584	2,617,115	2,434,413
Cash in hand	394,999	345,000	-	-
Fixed Deposits-Maturity period is less than or equal to 3 months	11,840,306	-	-	-
	22,616,168	10,865,584	2,617,115	2,434,413
b) For the purpose of cash flow statement, the year end cash and cash equivalents comprise the following;				
Short term investments (Note 19-c)	18,929,896	123,229,392	-	54,711,530
Cash at banks and in hand	22,616,168	10,865,584	2,617,115	2,434,413
Bank overdrafts	(127,177,238)	(49,122,901)	-	(24,889)
Cash and cash equivalents as at 31 March	(85,631,174)	84,972,075	2,617,115	57,121,054
c) Short term investments				
Fixed deposits	18,929,896	82,070,163	-	54,711,530
Re-purchase agreements	-	41,159,229	-	-
	18,929,896	123,229,392	-	54,711,530

20. STATED CAPITAL

As at 31 March	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Issued and fully paid;				
31,400,000 ordinary shares	314,000,000	314,000,000	314,000,000	314,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company.

Notes to the Financial Statements (contd.)

21. RESERVES

As at 31 March	Group 2020 Rs.	Group 2019 Rs.	Company 2020 Rs.	Company 2019 Rs.
Capital reserves				
Employee share option reserve (Note 21.3)	2,958,791	2,454,791	-	-
Revaluation reserve	193,281,801	193,281,801	-	-
Capital reserve	1,784,545	1,784,545	1,784,545	1,784,545
	198,025,137	197,521,137	1,784,545	1,784,545
Revenue reserves				
General reserve	1,269,472	1,269,472	1,269,472	1,269,472
	199,294,609	198,790,609	3,054,017	3,054,017

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

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

21.3 Share based arrangements

At 31 March 2020, the Group had the following share-based payment arrangements

Share option programmes (Equity-settled)

On 29 June 2017, the Directors of Cargills (Ceylon) PLC (intermediate parent of Kotmale Holdings PLC) established an Employee Share Option Scheme (ESOS) that entitle key management personnel to purchase shares in Cargills (Ceylon) PLC.

The cost of Share Based Payments accounted for the Group's Financial Statements for the year amounted to Rs. 504,000 (2019-960,000)

22. DEFERRED TAX LIABILITIES

As at 31 March	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
At the beginning of the year	47,569,496	45,136,506	-	-
Charge for the year	4,729,189	2,432,990	-	-
At the end of the year	52,298,685	47,569,496	-	-
Deferred tax liability arising from				
- Temporary difference of property, plant and equipment	69,728,208	62,047,131	-	-
- Temporary difference of employee benefits	(10,596,931)	(9,103,405)	-	-
- Temporary difference of provisions	(5,668,360)	(4,686,890)	-	-
- Temporary difference of right of use assets and liabilities	(335,771)	-	-	-
- Temporary difference of employee share options scheme	(828,461)	(687,340)	-	-
As at 31 March	52,298,685	47,569,496	-	-
Origination/ (reversal) of deferred tax				
Total expense charged / (reversed) to profit or loss	4,773,154	2,393,497	-	-
Total expense charged / (reversed) to other comprehensive income	(43,965)	39,493	-	-
	4,729,189	2,432,990	-	-

The Inland Revenue Act No 24 of 2017 and new tax rates including capital gains taxes are effective from 1 April 2018. Accordingly, the income tax charge for the year ended 31 March 2020 has been computed on rates applicable in the year of assessment 2019/2020. The provision for deferred tax at 31 March 2020 has been calculated at rates and on capital gains applicable post 1 April 2018

Due to uncertainties that exist on the interpretation of the law relating to freehold land for tax purposes, significant judgement was exercised to determine the provision required for deferred taxes on capital gains applicable to freehold land.

Having sought independent professional legal advice, the Group is of the view that the freehold land used in the business falls under the category of "Investment Assets" and accordingly deferred tax has been provided on the related gain on revaluation. In the event it is deemed that freehold land be considered as "Capital Assets used in the business", the Group would have to make an additional deferred tax charge in the other comprehensive income for the year ended 31 March 2020 amounting to Rs. 10.5 Mn (2019 - Rs.10.5 Mn) with a consequential increase in the deferred tax liability on the statement of financial position.

Notes to the Financial Statements (contd.)

23. EMPLOYEE BENEFITS

	Group		Company	
As at 31 March	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
At the beginning of the year	32,512,160	28,048,866	-	-
Expense recognised in profit or loss	6,643,194	5,733,687	-	-
Expense recognised in other comprehensive income	157,019	(141,048)	-	-
Contributions paid	(1,466,190)	(1,129,345)	-	-
At the end of the year	37,846,183	32,512,160	-	-

a. The amount recognised in the profit or loss as follows:

Current service cost	3,066,857	2,788,556	-	-
Interest cost	3,576,337	2,945,131	-	-
	6,643,194	5,733,687	-	-

b. The amount recognised in other comprehensive income as follows:

Actuarial loss/ (gain)	157,019	(141,048)	-	-
	157,019	(141,048)	-	-

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 2020. The Principle assumptions used in Actuarial valuation were as follows;

Group	2020	2019
e. Discount rate (the rate of interest used to discount the future cash flows in order to determine the present value)	10.50%	11%
I. Future salary increase		
- Executive	10.00%	10.00%
- Staff	10.00%	10.00%
II. Retirement Age (Years)	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.

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.

23. EMPLOYEE BENEFITS (CONTD)

Group	2020		2019	
	Increase Rs.	Decrease Rs.	Increase Rs.	Decrease Rs.
Discount rate (1% movement)	(2,088,216)	2,308,420	(1,778,966)	1,970,781
Future salary increment rate (1% movement)	2,434,054	(2,234,623)	2,051,574	(1,878,902)

24. TRADE AND OTHER PAYABLES

As at 31 March	Group		Company	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Trade payables	155,252,539	86,457,899	-	-
Other payables	43,732,246	43,589,659	-	-
Accrued expenses	42,677,802	67,343,875	2,519,365	2,200,641
Dividend payable	1,954,815	1,954,843	1,954,815	1,954,831
	243,617,402	199,346,276	4,474,180	4,155,472

25. LOANS AND BORROWINGS

	Group		Company	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Current				
Short term loans	248,500,000	-	-	-
Total borrowings	248,500,000	-	-	-

25.1 Short term loans

Hatton National Bank	148,500,000	-	-	-
Commercial Bank	100,000,000	-	-	-
Total borrowings	248,500,000	-	-	-

Notes to the Financial Statements (contd.)

26. COMMITMENT

	Group		Company	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
a. Capital Commitments				
Capital Commitments approved and contracted for as at the reporting date is as follows.				
Approved and contracted.	15,106,223	-	-	-

27. 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. (Details on Note 31.2.1)
Kotmale Milk Products Ltd. - Rs. 25 Mn. (Details on Note 31.2.1)

Total value of the guarantees given by the Company exceeds 20% of the Company's net worth, details are disclosed in Note 31.2.1 as per the Section 8 of the CSE Listing Rules. 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 income tax exemption claimed under the Inland Revenue Act No 10 of 2006 is being contested by the Department of Inland Revenue. The contingent liability on potential income tax payment is as follows:

Kotmale Dairy Products (Private) Limited Rs. 18.2 Mn.

Having sought professional advice, the Management is confident that the tax exemptions are applicable and as such no liabilities would arise. Accordingly, no provision has been made in the Financial Statements. Where necessary, interim stay orders have been obtained on any recovery actions

Litigation against the Group

The management on 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.

28. EVENTS AFTER THE REPORTING DATE

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

29. 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 transaction are carried out in the ordinary course of the business and arms length in nature.

The related company balances have been disclosed under Note 18 to the financial statements.

(a) Transaction with key management personnel (KMP)

According to LKAS 24 - "Related Party Disclosures", KMP are those having authority and responsibility for planning, directing, controlling the activities of the entity. Accordingly, the directors of the Company and its subsidiaries (including executive and Non - Executive Directors) have been classified as KMP of the Group.

The Group has paid Rs.32.5 Mn (2019 - Rs. 27.9 Mn) to Directors as emoluments and no post employment benefits during the year (2019 - Nil). 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.

(c) Transactions with related companies

The companies within the Group are engaged in trading and business transactions under normal commercial terms which give rise to related company balances. The balances have been disclosed under Note 18 to the financial statements and the transactions are summarized as follows;

	Group		Company	
For the year ended 31 March	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Parent				
Sales	206,226,666	34,400,747	-	-
Purchases	(18,163,113)	(345,781,905)	-	-
Settlements	(40,100,481)	272,199,493	(15,237,107)	(30,706,527)
(Receiving) / Rendering of services	(289,402,650)	-	1,806,504	-
Others	-	53,161	-	-

Notes to the Financial Statements (contd.)

	Group		Company	
For the year ended 31 March	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Other Related Companies				
Sales	691,790,821	560,086,086	-	-
Purchases	(24,554,604)	(92,600,060)	-	-
Settlements	(609,134,344)	(426,005,965)	(8,185,354)	-
(Receiving) / Rendering of services	(48,768,921)	-	9,456,739	-
Others	8,428,657	1,837,777	-	-

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

(d) Non-recurrent related party transactions

There were no non - recurrent related party transactions which in aggregate the value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Group and/or the Company as per the audited financial statements as at 31 March 2019 which required additional disclosures in the 2019/20 Annual Report under the Colombo Stock Exchange Listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

(e) Recurrent related party transactions

The Group and the Company are engaged in related party transactions which in aggregate, the value exceeds 10% of the consolidated revenue of the Group as per the audited financial statements as at 31 March 2019, which required additional disclosures in the 2019/20 Annual Report under the Colombo Stock Exchange Listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

For the year ended 31 March			Group				Company			
			2020		2019		2020		2019	
Name of the Company	Relationship	Nature of transaction	Rs.	*PONR	Rs.	*PONR	Rs.	*PONR	Rs.	*PONR
Cargills Foods Company (Pvt) Ltd.	Affiliates	Supermarket Sales	676,678,602	23%	544,432,185	21%	-	-	-	-

*PONR - Percentage of Net Revenue

These transactions have been occurred on daily or monthly basis through out the year

f) Amounts due from / due to related companies

The relationship of related companies along with the amount due from and due to as at the year end have been disclosed under Note 18 to these financial statement.

30. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

Financial assets and liabilities in the tables below are split into categories in accordance with SLFRS 9.

	Group		Company	
As at 31 March	2020	2019	2020	2019
Financial assets by categories	Rs.	Rs.	Rs.	Rs.
Financial instruments in current assets				
Trade receivables	226,170,400	203,321,832	-	-
Amounts due from related companies	59,950,247	39,741,159	169,706,724	131,316,860
Short term investments	18,929,896	123,229,392	-	54,711,530
Cash and cash equivalents	22,616,168	10,865,584	2,617,115	2,434,413
Total	327,666,711	377,157,967	172,323,839	188,462,803

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

	Group		Company	
	Financial liabilities measured at amortised cost		Financial liabilities measured at amortised cost	
As at 31 March	2020	2019	2020	2019
Financial liabilities by categories	Rs.	Rs.	Rs.	Rs.
Financial instruments in current liabilities				
Trade and other creditors	200,939,600	132,002,401	1,954,815	1,954,831
Amounts due to related companies	150,334,058	30,765,433	1,660,118	13,819,335
Bank overdrafts	127,177,238	49,122,901	-	24,889
Borrowing	248,500,000	-	-	-
Total	726,950,896	211,890,735	3,614,933	15,799,055

30.1 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.

30.2 Fair Value Hierarchy

The Group held the following non financial assets carried at fair value in the Statement of Financial Position:

Notes to the Financial Statements (contd.)

30.2.1 Non financial assets by fair value hierarchy

As at 31 March	Note	Level 3 2020 Rs.	Level 3 2019 Rs.
Non Financial Assets			
Assets measured at fair value			
freehold land and buildings	12	307,035,000	307,035,000

In determining the fair value, highest and best use of the property has been considered including the current condition of the properties, future usability and associated redevelopment requirements have been considered. Also, the valuers have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values.

30.2.2 Fair Value Hierarchy

Assets and liabilities	Valuation technique	Significant unobservable	Sensitivity of the input to the fair value
Property, plant and equipment - Freehold land and building	"Market comparable method - This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for difference in size, nature and location of the property."	Price per perch of land and building/ Square foot	Estimated fair value will increase (decrease) if; Price per perch/ Square foot increases/ (decreases)

31. FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk Management Framework

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

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

The Audit Committee 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.

31.1 Credit Risk

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

Carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was as follows;

Carrying value

	Group		Company	
	2020	2019	2020	2019
As at 31 March	Rs.	Rs.	Rs.	Rs.
Trade receivables	226,170,400	203,321,832	-	-
Amount due from related companies	59,950,247	39,741,159	169,706,724	131,316,860
Cash and cash equivalents	41,546,064	134,094,976	2,617,115	57,145,943
	327,666,711	377,157,967	172,323,839	188,462,803

31.1.1 Trade receivables

Past due neither nor impaired	-	-	-	
Past due 1 - 30 days	117,894,739	104,660,057	-	-
Past due 31 - 60 days	49,296,503	49,559,802	-	-
Past due 61 - 90 days	45,099,225	35,239,034	-	-
> 91 days	13,879,933	13,862,939	-	-
	226,170,400	203,321,832	-	-

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

31.1.2 Staff debtors and other receivables

Represent amounts due from suppliers, framers, and permanent employees.

31.1.3 Amount due from related companies

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

31.1.4 Cash and cash equivalents

The Group and the Company held cash and cash equivalents of Rs. 41.5 Mn and Rs. 2.6 Mn at 31 March 2020 (2019: Rs. 134.1 Mn and Rs. 57.1 Mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated AAA(lka) to A(lka), based on Fitch Ratings.

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

31.1.5 Guarantees

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

Notes to the Financial Statements (contd.)

31.2 Liquidity risk

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

The following are the contractual maturities of financial liabilities as at 31 March 2020.

	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 Contracted Cash Flows Rs.	Total Carrying Value Rs.
Group								
Financial instruments in current liabilities								
Trade and other creditors	200,939,600	-	-	-	-	-	200,939,600	200,939,600
Amounts due to related companies	150,334,058	-	-	-	-	-	150,334,058	150,334,058
Sort term loans	248,500,000	-	-	-	-	-	248,500,000	248,500,000
Bank overdraft	127,177,238	-	-	-	-	-	127,177,238	127,177,238
	726,950,896	-	-	-	-	-	726,950,896	726,950,896

The following are the contractual maturities of financial liabilities as at 31 March 2020.

	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 Contracted Cash Flows Rs.	Total Carrying Value Rs.
Company								
Financial instruments in current liabilities								
Trade and other creditors	1,954,815	-	-	-	-	-	1,954,815	1,954,815
Amounts due to related companies	1,660,118	-	-	-	-	-	1,660,118	1,660,118
	3,614,933	-	-	-	-	-	3,614,933	3,614,933

The following are the contractual maturities of financial liabilities as at 31 March 2019.

Group								
Financial instruments in current liabilities								
Trade and other payables	132,002,401	-	-	-	-	-	132,002,401	132,002,401
Amounts due to related companies	30,765,433	-	-	-	-	-	30,765,433	30,765,433
Bank overdraft	49,122,901	-	-	-	-	-	49,122,901	49,122,901
	211,890,735	-	-	-	-	-	211,890,735	211,890,735
Company								
Financial instruments in current liabilities								
Trade and other payables	1,954,831	-	-	-	-	-	1,954,831	1,954,831
Amounts due to related companies	13,819,335	-	-	-	-	-	13,819,335	13,819,335
Bank overdraft	24,889	-	-	-	-	-	24,889	24,889
	15,799,055	-	-	-	-	-	15,799,055	15,799,055

31.2.1 Borrowings

The group has access to the following facilities in place which can be utilized to meet its liabilities when they full due if required.

Institution and the facility	Principle Amount in Rs.	Repayment terms and interest rates	Security offered
Kotmale Dairy Products (Pvt) Ltd.			
Bank overdraft			
Bank of Ceylon	10,000,000	On Demand Based on market rates	Corporate Guarantee from Kotmale Holdings PLC. Mortgage over stocks and book debtors.
Import loan facility			
Bank of Ceylon	40,000,000	On Demand Based on market rates	Corporate Guarantee from Kotmale Holdings PLC. Mortgage over stocks and book debtors.
Kotmale Milk Products Ltd.			
Bank overdraft			
Pan Asia Bank Corporation Ltd	5,000,000	On Demand Based on market rates	Corporate Guarantee from Kotmale Holdings PLC.
Import loan facility			
Pan Asia Bank Corporation Ltd.	20,000,000	On Demand Based on market rates	Corporate Guarantee from Kotmale Holdings PLC.

31.3 Market Risk

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

31.3.1 Currency Risk

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

31.3.2 Interest Rate Risk

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

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

31.3.3 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	
As at 31 March	2020	2019	2020	2019
Debt/Equity	93%	57%	2%	5%

32. SEGMENTAL INFORMATION

At present the only significant operating segment in the Group is Fast Moving Consumer Goods (FMCG). There are no distinguishable components to be identified as geographical segments for the Group.

33. IMPACT OF COVID 19

The factories in the Group continued their production on lower scale only in certain period. However, the Companies in the Group were able to continue milk collecting from dairy farmers throughout the period. The distribution of finished products was disturbed during the initial few days of the lockdown. Thereafter, the operation of all the manufacturing plants as well as distribution activities of the Group were progressively increased by fulfilling certain guideline issued by health and other government authorities.

The response of the Group to the Pandemic centered around safety and welfare of our employees, support to suppliers through continuous timely payments, provision of goods to customers in a safe environment, and management of expenditure to mitigate the adverse impact of the pandemic.

The finance and capital resources has not been significantly affected due to the pandemic. The cost of accessing funds has not impacted the Group significantly as the Group has adequate credit lines with many Banks to work with and relatively low borrowing cost as a result of the relief measures implemented by the Central Bank of Sri Lanka to enhance market liquidity. The Group do not have any material uncertainties in meeting covenants and any material liquidity deficiencies since the Group was able to make substantial amount of sales before and after lockdown through our distribution channels.

The Group do not expect material changes in Fixed assets as a result of COVID 19. However, cost of key raw materials has increased during COVID 19 which resulted in increased value of inventory in hand. Trade receivables has also increased as a result of COVID 19 since the settlements were delayed due to the lockdown situation in the country. However, post lockdown the debtor collection has been improved substantially.

Despite the setbacks brought about by the Covid-19 pandemic, the operations and financial position of the Group have been protected through the mitigating actions taken by the management and the spread of the virus in the country being largely contained at present. Due to the many variables, the Group will review and proceed cautiously with its previously planned expansion. Further release of the lockdown and opening of the economy will enable the Group to return to pre-covid operational level and continue to serve customers across all districts of the country.

Five Year Financial Summary

Group		2015/16 Rs. 000	2016/17 Rs. 000	2017/18 Rs. 000	2018/19 Rs. 000	2019/2020 Rs. 000
Financial Results						
Net revenue		1,840,417	2,132,962	2,317,243	2,545,600	2,892,690
Results from operating activities		226,112	254,881	300,569	205,102	225,522
Profit before taxation		280,974	348,423	365,835	222,316	213,476
Profit attributable to equity shareholders of the parent		203,371	216,367	210,581	155,959	148,558
Financial Position						
Stated capital		314,000	314,000	314,000	314,000	314,000
Reserves		891,427	688,638	474,656	631,676	780,459
Capital and reserves		1,205,427	1,002,638	788,656	945,676	1,094,459
Current assets		1,181,459	943,302	648,297	694,919	757,867
Current liabilities		(298,083)	(349,530)	(388,433)	(456,883)	(917,648)
Working capital		883,376	593,772	259,864	238,036	(159,781)
Non current assets		377,390	469,335	601,977	787,722	1,355,180
Non current liabilities		(55,339)	(60,469)	(73,185)	(80,082)	(100,940)
Net assets		1,205,427	1,002,638	788,656	945,676	1,094,459
Key Indicators						
Growth in net revenue	%	22.09	15.90	8.64	9.85	13.63
Growth in earnings	%	75.89	6.39	(2.67)	(25.94)	(4.74)
Return on total assets	%	13.05	15.32	16.84	10.52	7.03
Growth in total assets	%	17.84	(9.38)	(11.49)	18.59	42.52
Growth in capital and reserves	%	21.14	(16.82)	(21.34)	19.91	15.73
Return on investment	%	16.87	21.58	26.70	16.49	13.57
Earnings per share	(Rs.)	6.48	6.89	6.71	4.97	4.73
Dividend per share	(Rs.)	0.20	13.30	16.00	-	-
Dividend pay out	(times)	0.03	1.93	2.38	-	-
Dividend paid per share	(Rs.)	0.20	13.30	16.00	-	-
Net assets per share	(Rs.)	38.39	31.93	25.12	30.12	34.86
Market value per share (Closing)	(Rs.)	-	90.40	200.70	230.00	178.60
Market capitalisation	(Rs.)	-	2,838,560,000	6,301,980,000	7,222,000,000	5,608,040,000
Debt equity ratio	(times)	0.29	0.41	0.59	0.57	0.93
Interest cover	(times)	328.12	366.08	369.28	151.89	14.34
Current ratio	(times)	3.96	2.70	1.67	1.52	0.83
Quick assets ratio	(times)	3.62	2.27	1.27	1.16	0.54

(a) The above ratios have been computed based on 31,400,000 numbers of issued and fully paid shares as at 31 March 2020.

(b) Debt equity ratio is computed by dividing the total liabilities by the shareholder's funds.

(c) Return on investment is computed by deviding 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 2020				31 March 2019			
	Shareholders Number	%	Holding Number	%	Shareholders Number	%	Holding Number	%
1 - 1,000	534	96.04	61,581	0.20	518	96.10	62,591	0.20
1,001 - 10,000	18	3.24	31,786	0.10	17	3.15	30,776	0.10
10,001 - 100,000	3	0.54	114,171	0.36	3	0.56	114,171	0.36
100,001 - 1,000,000	-	-	-	0.00	-	-	-	0.00
Over 1,000,000	1	0.18	31,192,462	99.34	1	0.19	31,192,462	99.34
Total	556	100.00	31,400,000	100.00	539	100.00	31,400,000	100.00

4. ANALYSIS OF SHAREHOLDERS

Shareholder Category	31 March 2020				31 March 2019			
	Shareholders Number	%	Holding Number	%	Shareholders Number	%	Holding Number	%
Individuals	535	96.22	147,848	0.47	519	96.29	148,048	0.47
Institutions	21	3.78	31,252,152	99.53	20	3.71	31,251,952	99.53
Total	556	100.00	31,400,000	100.00	539	100.00	31,400,000	100.00
Resident	550	98.92	31,396,945	99.99	533	98.89	31,397,150	99.99
Non-Resident	6	1.08	3,055	0.01	6	1.11	2,850	0.01
Total	556	100.00	31,400,000	100.00	539	100.00	31,400,000	100.00

5. PUBLIC HOLDING

The percentage of shares held by the public and number of public shareholders as at 31 March 2020 is 0.49% (2019-0.49%) and 553 (2019-536) respectively. The total number of shares in issue is 31.400,000, of which Public Holding represents 153,222 shares. The float adjusted market capitalisation amounts to Rs. 27.4 Mn. Accordingly, the Company complies with the Minimum Public Holding requirement of the Main Board. as per Option 1 of Section 7.13.1(a) of the CSE Listing Rules.

Consequent to the Company being non-compliant with Rule 7.13.1(a) as of 01 July 2018, the Securities of the Company has been transferred to Watch List on 01 July 2018.

6. SHARE PRICE MOVEMENTS FOR THE PERIOD

The market price of share recorded for the year ended 31 March	2020 Rs.	2019 Rs.
Highest	230.00	250.00
Lowest	171.00	150.00
Last traded price	178.60	230

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.

	Names of Shareholder	No. of Shares as at 31 March 2020	Holding %	No. of Shares as at 31 March 2019	Holding %
1	Cargills Quality Dairies (Pvt) Ltd.	31,192,462	99.34	31,192,462	99.34
2	Cargills (Ceylon) PLC	54,315	0.17	54,315	0.17
3	Mrs. I.S. Jayasinghe	37,500	0.12	37,500	0.12
4	Mr. K.C.Vignarajah	22,356	0.07	22,356	0.07
5	Dr. G.R. Handy	2,950	0.01	2,950	0.01
6	Uniwalkers Limited	2,550	0.01	2,550	0.01
7	Mrs. R.T. Purasinghe	2,100	0.01	2,100	0.01
8	Mr. S. Muhunthan	2,096	0.01	2,096	0.01
9	Mr. Z.G. Carimjee	2,000	0.01	2,000	0.01
9	Mrs. S.Z. Nizam	2,000	0.01	2,000	0.01
9	Mrs.P .T.D. Harasgama	2,000	0.01	2,000	0.01
12	Mr. P.R.A.Jansz	1,986	0.01	1,986	0.01
13	Mrs. B.P. Narhari	1,875	0.01	1,875	0.01
14	Mr.P .R. Gunasekara	1,600	0.01	1,600	0.01
15	Mr. D.R. Wickramasekara	1,500	0.00	1,500	0.00
15	Mr. B. Nadarajah	1,500	0.00	1,500	0.00
17	Dr. G.W. Karunaratne	1,400	0.00	1,400	0.00
18	Mr. M.R. Fernando	1,331	0.00	1,331	0.00
19	People's Leasing & Finance PLC/Mr. A.L. Ranaweera	1,308	0.00	1,308	0.00
20	Mr. A. Rajaratnam	1,300	0.00	1,300	0.00

Notice of Annual General Meeting

Notice is hereby given that the fifty third Annual General Meeting of the Company will be held at the Auditorium of the SRI LANKA FOUNDATION, 100, Independence Square, Colombo 07 on Thursday,27 August 2020, at 9.00 a.m. and the business to be brought before the meeting will be:

1 To consider and adopt the Annual Report of the Directors and the Financial Statements for the year ended 31 March 2020, with the Report of the Auditors thereon

2. To re-elect Directors

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

   b) A. T. P. Edirisinghe, and

   c) Sunil Mendis,

who retire in terms of Section 210 (2) (b) of the Companies Act No. 07 of 2007 having surpassed seventy years of age and offer themselves for re-election in terms of Section 211 (1) and (2) of the Companies Act No. 07 of 2007, and accordingly pass the following Ordinary Resolutions:

Ordinary Resolution (i)

"Resolved that Priya Edirisinghe, a retiring Director, who has attained the age of seventy four 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", and

Ordinary Resolution (ii)

"Resolved that Sunil Mendis, a retiring Director, who has attained the age of seventy six 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"

3. To authorise the Directors to determine contributions to charities for the financial year 2020/21

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

This year the Annual Report and Financial Statements of the Company are available on the;

- Corporate Website : http://www.cargillsceylon.com/investors/annual-report/kotmale
- The Colombo Stock Exchange: https://www.cse.lk/home/company-info/LAMB.N0000/financial

Members may also access the Annual Report and Financial Statements on their electronic devices by scanning the following QR code.

For clarification on how to download and/ or access the Annual Report and Financial Statements, please contact Mr. Lakshan on +94 0117496403 during normal office hours (8.30 a.m to 5.00 p.m)

By Order of the Board
Kotmale Holdings PLC

(Signed)
H.S.Ellawala
Company Secretary
5 August 2020

Notes :

i. Voting by Proxy

   Given that the health & safety and well-being of our Members is of paramount importance to us, Members are encouraged to vote by Proxy through the appointment of the Chairman of the Board of Directors of the Company to represent them and vote on their behalf. Members are advised to complete the Form of Proxy and indicate their voting preferences on the specified resolutions to be taken up at the Meeting and submit the same to the Company in accordance with the instructions given on the reverse of the Form of Proxy.

ii. 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.

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

iv. 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.

v. In the event the Company is required to take any further action in relation to the Meeting in the best interests of the attendees in the context of the COVID-19 pandemic, and / or any communications, guidelines, directives or orders issued by the Government of Sri Lanka, Notice of such action shall be given by way of additional announcement/s made to the Colombo Stock Exchange.

Notes

Notes

Notes

Form of Proxy

For use at the fifty third 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 fifty third Annual General Meeting of the Company to be held on Thursday 27 August 2020 and at any adjournment thereof and at every Poll which may be taken in consequent thereof in the manner indicated below:

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

....
Date Signature of member (s)

NOTES:

(a) *Strike out whichever is not desired

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

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

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

INSTRUCTIONS FOR COMPLETION OF THE PROXY FORM

1. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company at No: 40, York Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
2. In perfecting the form, please ensure that all details are legible. If you wish to appoint a person other than the Chairman as your proxy, please fill in your full name and address, the name and address of the proxy holder and sign in the space provided and fill in the date of signature.
3. The instrument appointing a Proxy shall, in the case of an individual, be signed by the appointer or by his Attorney and in the case of a Corporation must be executed under its Common Seal or in such other manner prescribed by its Articles of Association or other constitutional documents.
4. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy, if it has not already been registered with the Company.
5. In the case of joint holders, only one need sign. The votes of the senior holder who tenders a vote will alone be counted.
6. In the case of non-resident Shareholders, the stamping will be attended to upon return of the complet-ed form of proxy to Sri Lanka.

Corporate Information

NAME OF THE COMPANY
Kotmale Holdings PLC

REGISTRATION NUMBER
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.

REGISTERED OFFICE
No 40, York Street, Colombo 01.

CONTACT DETAILS
Tel: +94 (0) 11 242 7777
Telefax: +94 (0) 11 233 8704

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)
Priya Edirisinghe
Sunil Mendis
Joseph Page

COMPANY SECRETARY
Hemali Sagarika Ellawala.

POSTAL ADDRESS.
P.O. Box 23,
Colombo 1.

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
Bank of Ceylon
Cargills Bank Ltd.
Commercial Bank of Ceylon PLC
NDB Bank
Pan Asia Banking Corporation PLC
Seylan Bank PLC
The Hongkong & Shanghai Banking Corporation Ltd.
HNB Bank PLC.

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

Concept & Designed by
Copyline a great equation
Printed by Printel (Pvt) Ltd

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