

**KANSAI PAINTS LANKA  
(PRIVATE) LIMITED**

**FINANCIAL STATEMENTS  
31<sup>ST</sup> MARCH 2018**



KPMG  
(Chartered Accountants)  
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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of KANSAI PAINTS LANKA (PRIVATE) LIMITED

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Kansai Paints Lanka (Private) Limited ("the Company"), which comprise the statement of financial position as at March 31, 2018, and the statement of 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.

In our opinion, the accompanying financial statements give a true and fair view of (*or present fairly, in all material respects*) the financial position of the Company as at March 31, 2018, and of its financial performance and its 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 Company 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.

#### Other Information

Management is responsible for the other information. These financial statements does not include the other information.

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

#### 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

M.R. Mithila FCA  
T.J.S. Rajakumar FCA  
Ms. S.M.B. Jayasckera ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan ACA  
P.V.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeysatne FCA  
R.M.D.B. Rajapakse FCA  
C.F. Jayatilaka FCA  
Ms. S. Joseph FCA  
S.I.D.I. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Principals - S.R.A. Perera FCA/CA/UK, LLB, Attorney-at-law, H.S. Goonesardene ACA  
B.L. G. Fernando FCA



### **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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.

### **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.

  
CHARTERED ACCOUNTANTS

Colombo, Sri Lanka  
2<sup>nd</sup> May 2018

**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

<i>For the year ended 31<sup>st</sup> March,</i>	Note	2018 <u>Rs.</u>	2017 <u>Rs.</u>
Revenue	4	206,150,349	-
Cost of sales		(160,631,849)	-
<b>Gross profit</b>		<hr/> 45,518,500	-
Other Income	5	832,537	-
Royalty Expense		(1,931,121)	-
Administrative expenses		(61,674,646)	(14,476,349)
Selling and Distribution Expenses		(107,106,047)	-
Other operating expenses		(24,245,981)	(10,138,715)
<b>Loss from operations</b>	6	<hr/> (148,606,759)	(24,615,064)
Finance income	6A	305,602	2,014,418
Finance cost	6B	(16,101,005)	-
<b>Loss before taxation</b>		<hr/> (164,402,163)	(22,600,646)
Income tax expense	7	(55,620)	(564,037)
<b>Loss for the year</b>		<hr/> (164,457,783)	(23,164,683)
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the period</b>		<hr/> <hr/> (164,457,783)	(23,164,683)

*The notes form an integral part of these financial statements.  
Figures in brackets indicate deductions.*



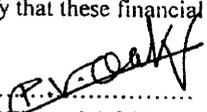
KANSAI PAINTS LANKA (PRIVATE) LIMITED  
STATEMENT OF FINANCIAL POSITION

	Note	31st March 2018 Rs.	31st March 2017 Rs.
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	437,075,281	4,561,188
Intangible assets	9	6,059,819	-
Capital work-in-progress	10	69,529,539	290,899,886
Non-refundable lease deposit	11	22,377,503	22,857,761
<b>Total non-current assets</b>		<b>535,042,143</b>	<b>318,318,834</b>
<b>Current assets</b>			
Inventories	12	212,525,534	-
Non-refundable lease deposit	11	480,257	480,257
Deposits, Advances and prepayments	13	6,090,199	5,449,838
Trade and Other receivables	14	206,399,741	5,130,954
Short term investments		-	140,000,000
Cash and cash equivalents	15	-	12,694,050
<b>Total current assets</b>		<b>425,495,732</b>	<b>163,755,099</b>
<b>Total assets</b>		<b>960,537,874</b>	<b>482,073,933</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stated capital	16	650,000,020	500,000,020
Accumulated loss		(190,337,599)	(25,879,816)
<b>Total Equity</b>		<b>459,662,421</b>	<b>474,120,204</b>
<b>Non-Current Liabilities</b>			
Retirement benefit obligations	17	627,059	-
		<b>627,059</b>	<b>-</b>
<b>Current liabilities</b>			
Trade and other payables	18	74,073,342	4,495,384
Income tax payable		-	564,037
Amount due to related parties	19	21,870,220	2,894,307
Short term loan	20	358,888,931	-
Bank Overdraft	15	45,415,899	-
<b>Total liabilities</b>		<b>500,875,452</b>	<b>7,953,728</b>
<b>Total equity and liabilities</b>		<b>960,537,874</b>	<b>482,073,933</b>

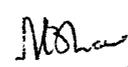
The notes form an integral part of these financial statements.

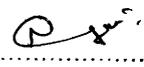
Figures in brackets indicate deductions.

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

  
.....  
Chief Financial Officer

The Board of Directors is responsible for the preparation and the presentation of these Financial Statements.  
Approved and signed for and on behalf of the Board;

  
.....  
Director

  
.....  
Director

2nd of May 2018



KANSAI PAINTS LANKA (PRIVATE) LIMITED  
STATEMENT OF CHANGES IN EQUITY

	Stated capital <u>Rs.</u>	Accumulated loss <u>Rs.</u>	Total <u>Rs.</u>
Balance as at 01st April 2016	100,000,020	(2,715,133)	97,284,887
Issue of ordinary shares	400,000,000	-	400,000,000
Total comprehensive income for the period			
Loss for the period	-	(23,164,683)	(23,164,683)
Other comprehensive income	-	-	-
<b>Balance as at 31st March, 2017</b>	<b>500,000,020</b>	<b>(25,879,816)</b>	<b>474,120,204</b>
Issue of ordinary shares	150,000,000	-	150,000,000
Total comprehensive income for the period			
Loss for the year	-	(164,457,783)	(164,457,783)
Other comprehensive income	-	-	-
<b>Balance as at 31st March, 2018</b>	<b>650,000,020</b>	<b>(190,337,599)</b>	<b>459,662,421</b>

*The notes form an integral part of these financial statements.  
Figures in brackets indicate deductions.*



**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**STATEMENT OF CASH FLOWS**

*For the Month ended 31st March 2018,*

	2018	2017
	<u>Rs.</u>	<u>Rs.</u>
<b>Cash flows from operating activities</b>		
Loss before taxation	(164,402,163)	(22,600,646)
<i>Adjustment for;</i>		
Depreciation of property, plant and equipment	16,992,348	441,189
Amortization of intangible assests	529,557	-
Provision for retirement benefit obligations	627,059	-
Non refundable lease deposit amortised	480,257	480,257
Finance expense	16,101,005	-
<b>Operating loss before working capital changes</b>	<u>(129,671,937)</u>	<u>(21,679,200)</u>
<b>Working capital adjustments:</b>		
Increase in advances, prepayments and other receivables	(640,361)	(3,328,090)
Increase in inventories	(212,525,534)	-
Increase in trade and other receivables	(201,384,840)	(5,244,709)
Increase in trade and other payables	67,370,000	4,405,385
Increase/(decrease) in amount due to related parties	18,975,913	2,894,307
<b>Cash used in operations</b>	<u>(457,876,759)</u>	<u>(22,952,307)</u>
Income tax paid	(503,602)	-
Interest expense paid	(13,893,047)	-
<b>Net cash used in operations</b>	<u>(472,273,409)</u>	<u>(22,952,307)</u>
<b>Cash flows from investing activities</b>		
Acquisition and construction of property, plant and equipment	(449,506,442)	(4,916,390)
Acquisition of intangible assets	(6,589,377)	-
Capital work-in-progress cost incurred	221,370,346	(244,048,775)
(Short term investment)/recoveries from short term investments	140,000,000	(140,000,000)
<b>Net cash flows used in investing activities</b>	<u>(94,725,472)</u>	<u>(388,965,165)</u>
<b>Cash flows from financing activities</b>		
Issue of ordinary shares	150,000,000	400,000,000
Short term loans obtained	358,888,931	-
<b>Net cash flows from financing activities</b>	<u>508,888,931</u>	<u>400,000,000</u>
<b>Net increase in cash and cash equivalents</b>	(58,109,949)	(11,917,471)
Cash and cash equivalents at the beginning of the period	12,694,050	24,611,521
<b>Cash and cash equivalents at the end of the period</b>	<u>(45,415,899)</u>	<u>12,694,050</u>

*The notes form an integral part of these Financial Statements.*  
*Figures in brackets indicate deductions.*



**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1 CORPORATE INFORMATION**

**1.1 General**

Kansai Paints Lanka (Private) Limited is a limited liability company incorporated and domiciled in Sri Lanka. The Company was duly incorporated under the companies act No. 07 of 2007 on 30th July 2015 and this is the company's first set of financial statements.

The registered office of the company is located at 146, Dawson Street, Colombo 02.

**1.2 Principle activities and nature of operations**

The principle activity of the Company is to manufacture paints (enamel and emulsion) and wood coating for the local and export market.

**1.3 Parent enterprise and ultimate parent enterprise**

Kansai Nerolac Paints Limited, Mumbai, India (60% shareholder) is the company's immediate parent and Kansai Paints Co. Ltd Japan is the Ultimate Parent.

**2 GENERAL ACCOUNTING POLICIES**

**2.1 Statement of compliance**

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS (hereafter "SLFRS"), as issued by Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The preparation and presentation of these financial statements is in compliance with the Companies Act No. 07 of 2007.

**2.1.1 Basis of measurement**

The financial statements have been prepared on a historical cost basis and presented in Sri Lankan Rupees, except when otherwise indicated.

**2.1.2 Going concern**

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

**2.2 Significant accounting judgments, estimates and assumptions**

The financial statements are sensitive to assumptions and estimates made in measuring certain carrying amounts represented in the statement of financial position and amounts charged to the statement of comprehensive income. These could result in a significant risk of causing material adjustments to the carrying amounts of assets and liabilities which are disclosed in the relevant Notes to the Financial Statements.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Property, plant and equipment

##### 3.1.1 Cost and valuation

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement, when the asset is derecognised.

##### 3.1.2 Depreciation

Depreciation is calculated on a straight-line basis on the cost or valuation of all Property, plant and equipment, in order to write off such amounts over the estimated useful lives of the assets.

The estimated useful lives are as follows:

Buildings	30 years
Plant and equipment	5 – 20 years
Computer and equipment	3 years
Motor vehicles	10 years
Furniture and fittings	5 years

The depreciation charges are determined separately for each significant part of an item of Property, plant and equipment and items of property plant and equipment are depreciated from the date that they are installed and are ready for use.



### **3.2 Intangible assets**

#### **3.2.1 Initial Recognition and measurement**

The Company recognises intangible assets if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Separately acquired intangible assets are measured on initial recognition at cost. The cost of such separately acquired intangible assets include the purchase price, import duties, non-refundable purchase taxes and any directly attributable cost of preparing the asset for its intended use.

#### **3.2.2 Subsequent costs**

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

#### **3.2.3 Subsequent measurement**

After initial recognition an intangible asset is stated at its costs less any accumulated amortization and any accumulated impairment losses.

The useful economic life of an intangible asset is assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of the asset. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

#### **3.2.4 Intangible assets recognised by the company**

##### **3.2.4.1 Computer software**

All computer software cost incurred and licensed for use by the company, which does not form an integral part of related hardware, which can be clearly identified and reliably measured with the probability of leading to future economic benefits, are capitalized under intangible assets.

The company amortises the computer software over period of 3 years.



**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**3.3 Inventories**

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

The cost incurred in bringing inventories to its present location and condition is accounted using the following cost formula.

Raw Material	At Weighted Average directly attributable cost
Finished Goods and Work-in-Progress	At Direct material cost, direct labour and appropriate proportion of production overheads

**3.4 Borrowing costs**

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

The interest capitalised is calculated using the weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion, i.e. when substantially all of the development work is completed. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

**3.5 Financial instruments**

**3.5.1 Financial assets**

Financial assets are recognized in the Statement of Financial Position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

**3.5.1.1 Initial recognition and measurement**

The Company classifies its financial assets as loans and receivables when appropriate. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using effective interest rate (EIR) method less impairment.



**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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Loans and receivables are presented as “Trade and other receivables” and “Amounts due from related parties” in the statement of financial position.

**3.5.1.2 Impairment**

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income.

**3.5.1.3 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

**3.5.2 Financial liabilities**

**3.5.2.1 Initial recognition and measurement**

When appropriate the Company determines the classification of its financial liabilities at initial recognition. The company classifies financial liabilities as other financial liabilities.

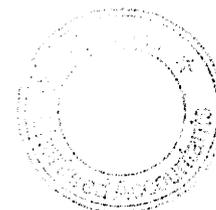
**3.5.2.2 Subsequent measurement**

The measurement of financial liabilities depends on their classification as described below:

**3.5.3 Other financial liabilities – loans and borrowings**

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the EIR amortization process.

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



**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**3.5.3.1 Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

**3.5.4 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**3.6 Cash and cash equivalents**

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

For the purpose of statement of cash flows, cash and cash equivalents consist of favorable cash balances net of outstanding bank overdrafts.

**3.7 Impairment of non-financial assets**

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

**3.8 Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.



### **3.9 Taxation**

#### **3.9.1 Current taxes**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of statement of financial position.

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.

#### **3.9.2 Deferred taxation**

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

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

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

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

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

Deferred income tax relating to item recognized directly in equity is recognized in equity and not in the income statement.

### **3.10 Employee benefits**

#### **3.10.1 Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.



### **3.10.2 Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted.

The Company recognizes all actuarial gains and losses arising from the defined benefit plan and all expenses related to defined benefit plans in personnel expenses in profit or loss.

### **3.10.3 Defined contribution plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution to a separate entity and will have no legal or constructive obligation to pay further amounts. All employees of the Company are members of the Private Provident Fund/ Employees' Provident Fund and Employees' Trust Fund, to which their employers contribute 12% - 15% and 3% respectively of such employees' basic or consolidated wage or salary, cost of living and all other allowances. Contributions to defined benefit plans, EPF & ETF, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

### **3.11 Revenue recognition**

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

#### **3.11.1 Sale of goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to buyers, the recovery of the consideration is probable, the associated costs and return of goods can be estimated reliably, there is non continuing management involvement with the goods and the amount of revenue can be measured reliably.

#### **3.11.2 Interest income**

Interest income is recognized as the interest accrues. Interest income is included in finance income in the income statement.

#### **3.11.3 Other income**

Other income is recognized on an accrual basis.



**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**3.12 New Accounting standards issued but not yet effective**

**SLFRS 9 - Financial Instruments - effective for annual periods beginning on or after 1st of January 2018.**

SLFRS 9 brings together all three aspects of the accounting for the financial instruments i.e. classification and measurement, impairment and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1<sup>st</sup> January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting the requirements are generally applied prospectively with some limited exceptions

**SLFRS 15 - Revenue from Contracts with Customers - effective for annual periods beginning on or after 1st of January 2018.**

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new standard will supersede all current revenue recognition requirements under SLFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1st January 2018. Early adoption is permitted.

**SLFRS 16 - Leases - effective for annual periods beginning on or after 1st of January 2019.**

SLFRS 16 replaces LKAS 17 Leases and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

SLFRS 16 is effective for annual periods beginning on or after 1st January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.



KANSAI PAINTS LANKA (PRIVATE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS



	2018	2017
	Rs.	Rs.
<b>4 REVENUE</b>		
Revenue-Finished Goods	193,112,143	-
Revenue-Raw Material	13,038,206	-
	<u>206,150,349</u>	<u>-</u>
<b>5 OTHER INCOME</b>		
Scarp sales income	832,537	-
<b>6 LOSS FROM OPERATIONS</b>		
Depreciation of property, plant and equipment (net of amount charged to cost of sales*)	11,364,955	441,189
Amortization of intangible assets	529,557	-
Audit fees	250,000	150,000
Incorporation expenses	-	11,910
Employee benefit expenses	33,664,215	9,560,303
Ground rent on operating lease	3,245,452	3,306,092
Administrative service charges to related party	4,326,504	-
Non refundable lease deposit amortised	480,257	480,257
<b>6A FINANCE INCOME</b>		
Interest income	305,602	2,014,418
<b>6B FINANCE EXPENSES</b>		
Overdraft interest	2,668,700	-
Short term loan interest	13,432,305	-
	<u>16,101,005</u>	<u>-</u>
<b>7 INCOME TAX EXPENSE</b>		
<b>Current tax expense</b>		

\*Depreciation charged to cost of sales is Rs. 5,627,393/-.

As per the Inland Revenue Act No.10 of 2006 and subsequent amendments thereto the company is liable to income tax at 28% of the adjusted taxable profit for the year.

**Current tax expense:**

Accounting loss before tax	(164,402,163)	(22,600,646)
Less: Interest Income	(305,602)	(2,014,418)
Add: Disallowed expenses	32,270,092	1,083,057
Less: Capital allowance	(51,873,870)	-
Loss from business	(184,311,542)	(23,532,007)
Taxable Income	305,602	2,014,418
Utilisation of tax losses	(106,961)	-
Income tax for the year @ 28%	55,620	564,037
Deferred tax	-	-
	<u>55,620</u>	<u>564,037</u>

**Tax loss carried forward**

Tax loss brought forward	22,873,163	-
Tax loss incurred during the year	184,311,541	22,873,163
Tax loss claimed during the year	(106,961)	-
Tax loss carried forward	<u>207,077,743</u>	<u>22,873,163</u>

A deferred tax asset has not been recognised in respect of the following items as the probability that future taxable profits will be available against which the Company can utilize the benefits thereon is uncertain.

	2018		2017	
	Temporary Difference	Deferred Tax	Temporary Difference	Deferred Tax
Employee benefits	627,059	175,577	-	-
Carried forward tax losses	207,077,743	57,981,768	22,873,163	6,404,486
Property plant & equipment	(33,977,715)	(9,513,760)	-	-
	<u>173,727,087</u>	<u>48,643,584</u>	<u>22,873,163</u>	<u>6,404,486</u>

**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**8 PROPERTY, PLANT AND EQUIPMENT**

	<u>Buildings</u>	<u>Plant and Equipment</u>	<u>Computer and equipment</u>	<u>Motor Vehicle</u>	<u>Furniture &amp; Fittings</u>	<u>Total</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
<b>Cost</b>						
Balance as at 1st April 2017	-	-	184,810	4,818,580	-	5,003,390
Additions during the year (including transfer from CWIP)	274,974,819	146,095,180	15,853,108	10,295,000	2,288,336	449,506,442
<b>Balance as at 31st March 2018</b>	<b>274,974,819</b>	<b>146,095,180</b>	<b>16,037,918</b>	<b>15,113,580</b>	<b>2,288,336</b>	<b>454,509,832</b>
<b>Accumulated depreciation</b>						
Accumulated depreciation as at 1st April 2017	-	-	46,155	396,048	-	442,203
Charge for the year	6,967,724	5,627,394	2,807,676	1,353,969	235,585	16,992,348
<b>Accumulated depreciation as at 31st March 2018</b>	<b>6,967,724</b>	<b>5,627,394</b>	<b>2,853,831</b>	<b>1,750,017</b>	<b>235,585</b>	<b>17,434,551</b>
<b>As at 1st April 2017</b>	<b>-</b>	<b>-</b>	<b>138,655</b>	<b>4,422,532</b>	<b>-</b>	<b>4,561,188</b>
<b>As at 31st March 2018</b>	<b>268,007,095</b>	<b>140,467,786</b>	<b>13,184,086</b>	<b>13,363,563</b>	<b>2,052,751</b>	<b>437,075,281</b>

**9 INTANGIBLE ASSETS**

**Computer software**

**Costs**

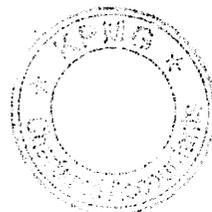
Balance as at 1st April	-	-
Acquisition during the year	6,589,377	-
<b>Balance as at 31st March</b>	<b>6,589,377</b>	<b>-</b>

**Amortization**

Balance as at 1st April	-	-
Amortization for the year	529,557	-
<b>Balance as at 31st March</b>	<b>529,557</b>	<b>-</b>

**Carrying amount as at 31st March**

	2018	2017
	-	-
	6,589,377	-
	6,589,377	-
	-	-
	529,557	-
	529,557	-
	6,059,819	-



KANSAI PAINTS LANKA (PRIVATE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

	31st March 2018 Rs.	31st March 2017 Rs.
<b>10 CAPITAL WORK-IN-PROGRESS</b>		
Machinery & equipment	14,805,452	99,640,520
Construction cost and other costs	54,724,087	191,259,366
	<u>69,529,539</u>	<u>290,899,886</u>
<b>11 NON REFUNDABLE LEASE DEPOSIT</b>		
Balance beginning of the period	23,338,018	23,818,275
Amortised during the period - Non refundable lease deposit and related expenses	(480,257)	(480,257)
	<u>22,857,761</u>	<u>23,338,018</u>
Current portion of the non refundable lease deposit	480,257	480,257
Non-current portion of the non refundable lease deposit	<u>22,377,503</u>	<u>22,857,761</u>
<p>The Company entered into a lease of a land in the Koggala Export Processing Zone for a period of 50 years from 28th of October 2015 and paid a non-refundable deposit amounting to Rs.11,812,900 (including VAT) and an additional payment of Rs.12,199,961 as land tax. The total of these amounts are amortised over the lease period of 50 years.</p>		
<b>12 INVENTORIES</b>		
Raw Material	136,231,270	-
Finish Goods	55,083,251	-
Packing Material	21,211,013	-
	<u>212,525,534</u>	<u>-</u>
<b>13 DEPOSITS, ADVANCES AND PREPAYMENTS</b>		
Prepaid expenses	3,266,624	2,929,911
Electricity connection deposit - Factory Connection	1,500,000	1,500,000
Employee Accomadation Deposits	290,000	130,000
Security deposit on electricity connection	50,000	50,000
Staff advance	983,576	839,927
	<u>6,090,199</u>	<u>5,449,838</u>
<b>14 TRADE AND OTHER RECEIVABLES</b>		
Trade Receivable	154,721,034	-
Income tax recoverable	85,389	-
Value added tax recoverable	44,933,903	3,495,512
Withholding tax recoverable	30,560	201,442
Nation building tax recoverable	3,423,787	-
Other receivables	3,205,069	1,434,000
	<u>206,399,741</u>	<u>5,130,954</u>
<b>15 CASH AND CASH EQUIVALENTS</b>		
Components of cash and cash equivalents comprise of the following:		
Cash in hand	-	20
Cash at bank	(45,415,899)	12,694,030
	<u>(45,415,899)</u>	<u>12,694,050</u>
Cash and cash equivalents for the purpose of statement of cash flows:		
Cash and cash equivalents	(45,415,899)	12,694,050
	<u>(45,415,899)</u>	<u>12,694,050</u>



KANSAI PAINTS LANKA (PRIVATE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

	31st March 2018 Rs.	31st March 2017 Rs.
<b>16 STATED CAPITAL</b>		
<b>Issued and fully-paid number of shares</b>		
65,000,002 Ordinary shares (2017: 50,000,002 shares)	650,000,020	500,000,020
<b>Rights, preference and restrictions of classes of capital</b>		
The holders of ordinary shares are entitled to receive dividend from time to time and are entitled to one vote per share at meetings of the Company.		
<b>17 RETIREMENT BENEFIT OBLIGATIONS</b>		
<b>Defined Benefits Plan Cost - Gratuity</b>		
Defined Benefit Obligation at the beginning of the year	-	-
Current Service Cost	627,059	-
Interest Cost	-	-
Benefit Paid	-	-
Defined Benefit Obligation at the end of the year	627,059	-
Defined benefit obligation of the company is determined through an management estimate carried out internally by the Company for the each reporting period. Appropriate and compatible assumptions were used in of determining the cost of retirement benefits.		
	31st March 2018 Rs.	31st March 2017 Rs.
The principle assumptions used were as follows,		
Discount Rate	11%	-
Future Salary Increment Rate	10%	-
Staff Turnover	28%	-
<b>18 TRADE AND OTHER PAYABLES</b>		
Retention payable	-	3,840,734
Trade payables	43,714,550	-
Contractor payables	11,454,855	-
Marketing agency payables	7,155,300	-
Other payables	11,748,637	654,650
	74,073,342	4,495,384
<b>19 AMOUNT DUE TO RELATED PARTIES</b>		
The Capital Maharaja Organisation Ltd	6,692,812	-
Kansai Nerolac Paints Limited	9,117,297	2,894,307
Disposable Soft Goods(Pvt) Ltd	3,529,240	-
Harrisons Shipping (Pvt) Ltd	2,530,871	-
	21,870,220	2,894,307
<b>20 SHORT TERM BORROWINGS</b>		
Financial institutions	208,888,931	-
Related parties	150,000,000	-
	358,888,931	-

- Short term borrowings from financial institutions are payable over a period of 45-120 days. Interest is payable at AWPLR+1.5% - 3%.
- The receivables and inventories of the Company have been mortgaged to financial institutions to the value of the borrowings.
- No security has been provided on behalf of short term borrowings from related parties and no interest is payable for these borrowings.



KANSAI PAINTS LANKA (PRIVATE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

21 RELATED PARTY TRANSACTIONS

(a) **Identity of related parties**

The Company carries out transactions in the ordinary course of business with parties who are defined as related parties as per Sri Lanka Accounting Standard - LKAS 24 Related Party Disclosures.

(b) **Transactions with key management personnel**

Key Management Personnel comprise of Directors of the Company.

(i) **Loans to directors**

There were no loans given to Directors of the Company during the financial period or as at the period end.

(ii) **Key management personnel compensation**

No compensation was paid to/on behalf of key management personnel of the Company.

Name of the related party	Nature of relationship	Details of transactions	Transactions during the Year Rs.	Balance as at 31.3.2018 Rs.	Balance as at 31.03.2017 Rs.
Kansai Nerolac Paints Limited	Parent	Consultancy fee	(4,291,869)	(9,117,297)	(2,894,307)
		Royalty payment	(1,931,121)		
The Capital Maharaja Organisation Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Administration services (incl taxes)	(5,077,029)	(6,692,812)	-
		Administration services payment	4,653,943		
		Salary reimbursement	(31,257,395)		
		Salary reimbursement payment	24,987,669		
Harrisons Shipping (Pvt) Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Clearing Charges	(15,097,557)	(2,530,871)	-
		Clearing Charges Payment	12,566,686		
Disposable Soft Goods (Pvt) Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Office Rent expense	(3,529,240)	(3,529,240)	-
		Office Rent Payment	-		
S-Lon Lanka (Pvt) Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Short term loan received	100,000,000	(100,000,000)	-
		Interest expenses	-		
Harcros Chemicals (Pvt) Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Short term loan received	50,000,000	(50,000,000)	-
		Interest expenses	-		



KANSAI PAINTS LANKA (PRIVATE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

22 **CAPITAL COMMITMENTS**

There were no capital commitments as at the reporting date that require adjustments to or disclosure in the financial statements.

23 **CONTINGENT LIABILITIES**

There were no material contingent liabilities outstanding as at the reporting date that require adjustments to or disclosure in the financial statements.

24 **EVENTS OCCURRING AFTER THE REPORTING DATE**

There were no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements.

25 **FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT**

25.1 **Overview**

The Company has exposure to the following risks from financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

***Risk management framework***

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**(i) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to Financial Instrument fails to meet its contractual obligations, and arises principally from the Company's receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

		Carrying amount	
		2018	2017
	<u>Note</u>	<u>Rs.</u>	<u>Rs.</u>
Deposits, Advances And Prepayments	13	6,090,199	5,449,838
Trade and other receivables	14	206,399,741	5,130,954
Cash at bank	15	-	12,694,030



KANSAI PAINTS LANKA (PRIVATE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

25 **FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)**

**(ii) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities as at the year end.

As at 31st March 2017	Carrying Amount Rs.	0-6 Months Rs.	6-12 Months Rs.	1-2 Years Rs.	2-5 Years Rs.	More than 5 years Rs.
<b>Financial liabilities (Non-Derivatives)</b>						
Trade and other payables	654,650	654,650	-	-	-	-
Amount due to related parties	2,894,307	2,894,307	-	-	-	-
Short term loan	-	-	-	-	-	-
<b>Total</b>	<b>654,650</b>	<b>654,650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As at 31<sup>st</sup> March 2018</b>	<b>Carrying Amount Rs.</b>	<b>0-6 Months Rs.</b>	<b>6-12 Months Rs.</b>	<b>1-2 Years Rs.</b>	<b>2-5 Years Rs.</b>	<b>More than 5 years Rs.</b>
<b>Financial liabilities (Non-Derivatives)</b>						
Trade and other payables	74,073,342	74,073,342	-	-	-	-
Amount due to related parties	21,870,220	21,870,220	-	-	-	-
Short term loan	358,888,931	358,888,931	-	-	-	-
<b>Total</b>	<b>454,832,493</b>	<b>454,832,493</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**(iii) Market risk**

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company'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.

**Interest rate risk**

Interest rate risk is the risk to the company's earnings and economic value of equity ("EVE") arising from adverse movements in interest rates.



**KANSAI PAINTS LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



**25 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)**

**25.2 Carrying amount and fair value of financial instruments**

Fair values of financial assets and financial liabilities, together with the carrying amounts in the statement of financial position, are as follows:

	Note	Loans and receivables Rs.	Available for sale Rs.	Other financial liabilities Rs.	Non financial instruments Rs.	Total carrying amount Rs.	Fair value Rs.
<b>31st March 2017</b>							
<b>Financial assets</b>							
Deposits, Advances And Prepayments	13	5,449,838	-	-	-	5,449,838	5,449,838
Trade and other receivables	14	5,130,954	-	-	-	5,130,954	5,130,954
Cash and cash equivalents	15	-	-	-	-	12,694,050	12,694,050
		<u>10,580,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,274,842</u>	<u>23,274,842</u>
<b>Financial liabilities</b>							
Trade and other payables	18	-	-	4,495,384	-	4,495,384	4,495,384
		<u>-</u>	<u>-</u>	<u>4,495,384</u>	<u>-</u>	<u>4,495,384</u>	<u>4,495,384</u>
<b>31st March 2018</b>							
<b>Financial assets</b>							
Deposits, Advances And Prepayments	13	6,090,199	-	-	-	6,090,199	6,090,199
Trade and other receivables	14	206,399,741	-	-	-	206,399,741	206,399,741
		<u>212,489,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,489,941</u>	<u>212,489,941</u>
<b>Financial liabilities</b>							
Trade and other payables	18	-	-	74,073,342	-	74,073,342	74,073,342
Bank overdraft	15	-	-	45,415,899	-	45,415,899	45,415,899
Short term loan	20	-	-	358,888,931	-	358,888,931	358,888,931
		<u>-</u>	<u>-</u>	<u>478,378,173</u>	<u>-</u>	<u>478,378,173</u>	<u>478,378,173</u>

25.3 The Company does not have any financial instruments designated at fair value through profit or loss on initial recognition as at 31st March 2018.