KANSAI PAINTS LANKA (PRIVATE) LIMITED

FINANCIAL STATEMENTS
31st MARCH 2020

KPMG
(Chartered Accountants)
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INDEPENDENT AUDITORS' 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, 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at March 31, 2020, 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.

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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.

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CHARTERED ACCOUNTANTS

Colombo, Sri Lanka
May 05, 2020

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

For the year ended 31st March,	Note	2020 Rs.	2019 Rs.
Revenue	4	**323,085,446**	312,455,290
Cost of sales		**(251,615,726)**	(259,715,308)
Gross profit		**71,469,720**	52,739,982
Other income	5	**317,050**	1,021,089
Royalty		**(3,024,823)**	(2,974,574)
Administrative expenses		**(67,242,782)**	(72,574,261)
Selling and distribution expenses		**(153,034,716)**	(139,366,972)
Other operating expenses		**(25,366,192)**	(32,386,505)
Loss from operations	6	**(176,881,743)**	(193,541,242)
Finance expense	7	**(74,459,089)**	(58,209,267)
Loss before taxation		**(251,340,832)**	(251,750,509)
Income tax expense	8	**-**	-
Loss for the year		**(251,340,832)**	(251,750,509)
Other comprehensive income			
Items that will not be reclassifed to profit or loss			
Actuarial gain/ (loss) on retirement benefit obligation	16	**(506,813)**	117,980
Total comprehensive income for the year		**(251,847,645)**	(251,632,529)

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

KANSAI PAINTS LANKA (PRIVATE) LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31st March,	Note	2020 Rs.	2019 Rs.
ASSETS			
Non-current assets			
Property, plant and equipment	9 A	**449,177,470**	475,100,085
Intangible assets	9 B	**2,345,198**	4,963,236
Non-refundable lease deposit	10	-	21,897,248
Right of use- lease assets	10.1	**116,945,773**	-
Total non-current assets		**568,468,441**	501,960,569
Current assets			
Inventories	11	**195,145,320**	205,692,814
Non-refundable lease deposit	10	-	480,257
Deposits, advances and prepayments	12	**12,426,580**	10,487,303
Trade and other receivables	13	**318,773,334**	300,266,612
Cash and cash equivalents	14	**100,000**	9,000
Total current assets		**526,445,234**	516,935,986
Total assets		**1,094,913,675**	1,018,896,555
EQUITY AND LIABILITIES			
Equity			
Stated capital	15	**900,000,020**	900,000,020
Accumulated losses		**(693,817,753)**	(441,970,108)
Total equity		**206,182,267**	458,029,912
Non-current Liabilities			
Retirement benefit obligations	16	**1,895,294**	582,078
Lease Liability	10.2	**88,958,552**	-
Total Non-Current Liabilities		**90,853,846**	582,078
Current liabilities			
Trade and other payables	17	**155,222,771**	66,301,051
Amount due to related parties	18	**54,089,027**	17,626,226
Short term loan	20	**187,389,066**	90,881,183
Bank overdraft	14	**393,815,192**	385,476,107
Lease Liability	10.2	**7,361,507**	-
Total Current Liabilities		**797,877,563**	560,284,567
Total liabilities		**888,731,409**	560,866,645
Total equity and liabilities		**1,094,913,675**	1,018,896,555

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

I certify that the financial statements of the Company comply with the requirements of the Companies Act No.7 of 2007.

....
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of the financial statements.
Approved and signed for and on behalf of the Board,

....
Director **Director**

May 5, 2020
Colombo

KANSAI PAINTS LANKA (PRIVATE) LIMITED
STATEMENT OF CASH FLOWS

For the year ended 31st March,	Note	2020 Rs.	2019 Rs.
Cash flows from operating activities			
Loss before taxation		**(251,340,832)**	(251,750,509)
Adjustment for;			
Depreciation and amortisation of property, plant and equipment and intangible assets	9 A	**30,347,014**	28,172,892
Ammortisation of Right of use assets	10.1	**5,740,284**	-
Gain/(loss) on disposal of property, plant and equipment	5	-	(242,389)
Defined benefit plan cost	16	**806,403**	72,999
Amortisation of non-refundable deposit	10	-	480,257
Finance expenses	7	**67,027,747**	58,209,267
Finance expense on lease	7	**7,431,342**	-
Revenue nature capital-work-in-progress expensed		-	414,094
Provision for impairment of trade receivables	13.1	**2,688,026**	6,268,280
Operating loss before working capital changes		**(137,300,016)**	(158,375,109)
Working capital adjustments:			
Increase in advances, prepayments and other receivables	12	**(5,455,695)**	(4,397,104)
(Increase)/decrease in inventories	11	**10,547,495**	6,832,720
Increase in trade and other receivables	13	**(21,194,747)**	(100,135,151)
Increase/(decrease) in trade and other payables	17	**88,921,720**	(7,772,291)
Increase/(decrease) in amount due to related parties	18	**32,933,561**	(4,243,995)
Cash used in operations		**(31,547,682)**	(268,090,930)
Income tax paid		-	-
Interest expense paid		**(67,027,747)**	(58,209,267)
Net cash from/ (used in) operations		**(98,575,429)**	(326,300,197)
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		-	5,500,000
Acquisition and construction of property, plant and equipment	9 A	**(1,806,362)**	-
Acquisition of intangible assets		-	(1,243,278)
Net cash flows (used in)/ from investing activities		**(1,806,362)**	4,256,722
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	250,000,000
Net repayment of short term loan	20	**96,507,883**	(268,007,733)
Repayment of lease liabilities	10.4	**(4,374,178)**	-
Net cash flows from/ (used in) financing activities		**92,133,705**	(18,007,733)
Net decrease in cash and cash equivalents		**(8,248,086)**	(340,051,208)
Cash and cash equivalents at the beginning of the year		**(385,467,107)**	(45,415,899)
Cash and cash equivalents at the end of the period (Note 14)		**(393,715,192)**	(385,467,107)

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

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

	Stated capital Rs.	Accumulated losses Rs.	Total equity Rs.
Balance as at 1st April 2018	650,000,020	(190,337,599)	459,662,421
Total comprehensive income for the period			
Loss for the year	-	(251,750,489)	(251,750,489)
Other comprehensive income	-	117,980	117,980
Transactions with owners directly recorded in equity			
Issue of ordinary shares	250,000,000	-	250,000,000
Balance as at 31st March, 2019	900,000,020	(441,970,108)	458,029,912
Total comprehensive income for the period			
Loss for the year	-	**(251,340,832)**	**(251,340,832)**
Other comprehensive income	-	**(506,813)**	**(506,813)**
Transactions with owners directly recorded in equity			
Issue of ordinary shares	-	-	-
Balance as at 31st March 2020	**900,000,020**	**(693,817,753)**	**206,182,267**

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

1. REPORTING ENTITY

1.1 Domicile and legal form

Kansai Paints Lanka (Private) Limited (the "Company") 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 July 30, 2015. 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

The Company is owned by Kansai Nerolac Paints Limited, Mumbai, India which holds 60% of shares and The Capital Maharaja Organization Limited which holds 40% shares. The Company's immediate parent is Kansai Nerolac Paints Limited, and the ultimate parent is Kansai Paints Co. Ltd Japan.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company comprises of the statement of financial position as at March 31, 2020 and the statements of profit or loss and other comprehensive income, changes in equity and statement of cash flows for the period then ended, together with the notes, have been prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) promulgated by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards (SLFRSs/LKASs).

2.3 Approval of financial statements by Directors

The financial statements of the Company for the year ended March 31, 2020 were authorized for issue in accordance with a resolution of the Board of Directors on May 05, 2020.

2.4 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Retirement benefit obligations are measured at the present value of the retirement benefit obligations as explained in Note 16 to the financial statements.

2.5 Comparative Information

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

2.6 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. (Note 25).

2.7 Functional and presentation currency

The financial statements are presented in Sri Lankan rupees which is the functional currency of the Company.

2.8 Use of judgments and estimates

The preparation of the financial statements of the Company in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Impairment of trade receivables (Note 13.1)
- Retirement benefit obligations (Note 16)

2.8.1 Useful lives of depreciable assets

Management reviews its estimation of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the useful life of certain property, plant and equipment.

2.9 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 Changes in accounting policies

The Company has applied SLFRS 16 Leases from 1st April 2019. A number of other new standards are also effective from 1st April 2019.

The Company applied SLFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is not recognized in retained earnings at 1 April 2019. Accordingly, the comparative information presented for 2019 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 generally been applied to comparative information.

(a) Definition of a Lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease according to SFLRS 16.

On transition to SLFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transaction are leases. It applied 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 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered or changed on or after 1st April 2019.

(b) As a lessee

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

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

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-leases components as a single lease component.

(i) Leases Classified as Operating Leases Under LKAS 17

Previously, the Company classified property lease as operating leases under LKAS 17. Property lease arrangements in which the Company is the lessee classified as non-refundable lease deposit on land where the lease payments are recognised as an operating expense in the Statement of Comprehensive Income on a straight- line basis over the lease term. At transition, the lease liability and the right-of–use asset arising from the leases were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1st April 2019.

Right-of-use of assets are measured an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: The Company has applied this approach to all other leases.

The Company used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Company:

- did not recognised 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
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(c) Impact on financial statements

On transition to SLFRS 16, the Company recognised additional right-of-use assets, and additional lease liabilities. The impact on translation is summarized below.

	1st April 2019 Rs.
Right-of-use assets	96,792,134
Lease liabilities	96,792,134
Retained Earnings	-

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 1 April 2019. The incremental borrowing rate applied is 7.25%.

	1st April 2019 Rs.
Operating lease commitments as at 31 March 2020 as disclosed under LKAS 17 in the Company's financial statements	-
Discounted using the incremental borrowing rate as at 1 April 2019	96,792,134
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognised as at 1 April 2019	96,792,134

3.2 Property, plant and equipment

3.2.1 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.

3.2.2 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.

3.3 Intangible assets

3.3.1 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.

3.3.2 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.

3.3.3 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.

3.3.4 Intangible assets recognised by the company

3.3.4.1 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.

3.4 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 labor and appropriate proportion of production overheads

3.5 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.

3.6 Financial instruments

3.6.1 Recognition and initial measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

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

A 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.

3.6.2 Classification and initial measurement

3.6.2.1 Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Company 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 designed 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 (SPPI) on the principal amount outstanding.

This assessment in referred to as the SPPI test and it is performed at an instrument level. The Company's financial assets classified under amortised cost includes trade and other receivable and cash and cash equivalents

A debt investment is measured at FVOCI if it meets both of the following conditions:

- 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 (SPPI) on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company 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 Company 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.

(b) Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio levels 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 realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company'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 expectations 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 Company'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.

(c) Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes 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 of 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 Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company 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 Company'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 paramount, 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.

(d) Subsequent measurement and gains and losses

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.

(e) Impairment
Trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ECL are discounted at the effective interest rate of the financial asset.

(f) Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the trade receivables.

(g)Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(f) 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.

3.6.2.2 Financial liabilities

(a) 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.

(b) Subsequent measurement

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

(c) 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.

(d) 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.

3.6.3 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.

3.7 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.

3.8 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.

3.9 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.

3.10 Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity or other comprehensive income.

3.10.1 Current Tax

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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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 relevant tax legislations.

Current income tax relating to items recognised directly in equity is recognised in equity through Other Comprehensive Income and not in the profit or loss.

3.10.2 Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting 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.

3.11 Employee benefits

3.11.1 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.

3.11.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the financial statements in respect of defined benefit plans is the present value of

the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a Qualified Actuary as at the reporting date using as recommended by LKAS 19 "Employee benefits".

The actuarial valuation involved making assumptions about discount rate, salary increment rate and balance service period of the employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

Liabilities are not externally funded.

3.11.3 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.

3.12 Leases

Policy applicable from 1st January 2019

At inception of a contract, the Company 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 Company uses the definition of a lease in SLFRS 16.
This policy is applied to contracts entered into, on or after 1st January 2019.

i. As a lessee

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

The Company 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, In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company 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 depends 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured 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 Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company 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.

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

Policy applicable before 1st January 2019

i. As a lessee

In the comparative period, the Company classified property lease arrangements in which the Company is the lessee classified as non-refundable lease deposit on land and other leases were classified as operating leases where the lease payments are recognised as an operating expense in the Statement of Comprehensive Income on a straight- line basis over the lease term and were not recognized in the Company's statement of financial position.

3.13 Statement of Profit or loss and Other Comprehensive Income

3.13.1 Revenue recognition

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 no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Interest income

Interest income is recognized as the interest accrues. Interest income is included in finance income in the statement of profit or loss.

Other income

Other income is recognized on an accrual basis.

For the year ended 31st March,	2020 Rs.	2019 Rs.
4 REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue - Finished Goods	**310,925,136**	291,302,865
Revenue - Raw Material	**12,160,310**	21,152,425
	323,085,446	312,455,290
5 OTHER INCOME		
Gain on disposal of property, plant and equipment	-	242,389
Scrap sales income	**317,050**	778,700
	317,050	1,021,089
6 LOSS FROM OPERATIONS		
Is stated after charging all expenses including the following:		
Auditor's remuneration		
- Statutory audit fee	**300,000**	270,000
Depreciation of property, plant and equipment (Includes amounts charged to Cost of Sales)	**27,728,976**	25,833,030
Amortization of intangible assets	**2,618,038**	2,618,038
Amortization of right of use asset	**5,740,284**	-
Staff cost (6.1)	**41,317,405**	50,113,084
Ground rent on operating lease	-	3,342,168
Administrative service charges to related party	**6,721,087**	5,077,029
Non refundable lease deposit amortised	-	480,257
Revenue nature capital-work-in-progress expensed	-	414,094
Provision for impairment of trade receivables	**8,956,306**	6,268,280

For the year ended 31st March,	2020 Rs.	2019 Rs.
6.1 Staff cost		
Salaries and wages and other related costs	**35,456,006**	40,938,609
Defined contribution cost- EPF and ETF	**5,054,996**	9,101,476
Defined benefit plan cost- retiring gratuity	**806,403**	72,999
	41,317,405	50,113,084
7 FINANCE EXPENSE		
Finance expense		
Interest on bank overdraft	**49,500,936**	27,355,573
Short term loan interest	**17,526,811**	30,853,694
Interest on lease	**7,431,342**	-
	74,459,089	58,209,267

For the year ended 31st March,

8 INCOME TAX EXPENSE
Current tax expense

As per the Inland Revenue Act No.24 of 2017 and subsequent amendments thereto the company is liable to income tax at 28% of the adjusted taxable profit for the year.

For the year ended 31st March,	2020 Rs.	2019 Rs.
8.1 Reconciliation of the accounting profit to income tax expense		
Accounting loss before tax	**(249,159,620)**	(251,750,509)
Less: Interest Income	-	-
Add: Disallowed expenses	**31,796,217**	34,606,489
Less: Claims	**(96,866,631)**	(97,006,928)
Statutory loss from business	**(314,230,034)**	(314,150,948)
Taxable Income	-	-
Utilisation of tax losses	-	-
	(314,230,034)	(314,150,948)
Income tax for the year @ 28%	-	-
Deferred tax	-	-
	-	-

	2020	2019
8.2 Tax loss carried forward		
Tax loss brought forward	**553,116,149**	207,077,744
Adjustment to tax loss- 2017/2018	-	31,887,457
Tax loss incurred during the year	**311,626,119**	314,150,948
Tax loss claimed during the year	-	-
Tax loss carried forward	**864,742,268**	553,116,149

8.3 Deferred tax asset on B/F Losses has been recognised only to the extent that the entity has sufficient taxable temporary difference.

As at 31st March,	**2020**		2019	
	Temporary difference Rs.	**Deferred tax asset/(liability) Rs.**	Temporary difference Rs.	Deferred tax asset/(liability) Rs.
Retirement benefit obligations	**1,895,294**	**530,682**	582,078	162,982
Property plant & equipment	**(206,134,329)**	**(57,717,612)**	(171,747,668)	(48,089,347)
Right-of-use asset	**91,051,850**	**25,494,518**	-	-
Lease Liability	**(99,882,220)**	**(27,967,022)**	-	-
Carried forward tax losses	**213,069,405**	**59,659,433**	553,116,149	154,872,522
	-	-	381,950,559	106,946,156

9 A PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Computer and	Motor Vehicle	Furniture & Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost						
Balance as at 1st April 2018	274,974,819	146,095,180	16,037,918	15,113,580	2,288,336	454,509,832
Additions during the year	20,716,077	47,117,002	1,187,154	-	95,211	69,115,445
Disposals during the year	-	-	-	(6,135,000)	-	(6,135,000)
Balance as at 31st March 2019	295,690,896	193,212,182	17,225,071	8,978,580	2,383,547	517,490,276
Additions during the year	-	1,468,101	264,499	-	73,762	1,806,362
Disposals during the year	-	-	-	-	-	-
Balance as at 31st March 2020	**295,690,896**	**194,680,283**	**17,489,570**	**8,978,580**	**2,457,309**	**519,296,638**
Accumulated depreciation						
Balance as at 1st April 2018	6,967,724	5,627,394	2,853,831	1,750,017	235,585	17,434,551
Charge for the year	9,629,212	8,898,831	5,638,255	1,205,449	461,283	25,833,030
Disposal during the year	-	-	-	(877,389)	-	(877,389)
Balance as at 31st March 2019	16,596,936	14,526,225	8,492,086	2,078,077	696,867	42,390,192
Charge for the year	9,883,367	10,658,842	5,801,325	900,318	485,124	27,728,976
Disposal during the year	-	-	-	-	-	-
Balance as at 31st March 2020	**26,480,303**	**25,185,067**	**14,293,411**	**2,978,395**	**1,181,991**	**70,119,168**
Carrying value						
As at 31st March 2020	**269,210,593**	**169,495,216**	**3,196,159**	**6,000,185**	**1,275,318**	**449,177,470**
As at 31st March 2019	279,093,960	178,685,958	8,732,985	6,900,503	1,686,679	475,100,085

9 B INTANGIBLE ASSETS

	2020	2019
	Rs.	Rs.
Computer software		
Costs		
Balance as at 1st April	**7,832,655**	6,589,377
Acqnisition during the year	-	1,243,278
Balance as at 31st March	**7,832,655**	7,832,655
Amortization		
Balance as at 1st April	**2,869,419**	529,557
Amortization for the year	**2,618,038**	2,339,862
Balance as at 31st March	**5,487,457**	2,869,419
Carrying amount as at 31st March	**2,345,198**	4,963,236

As at 31st March,	2020 Rs.	2019 Rs.

10 NON REFUNDABLE LEASE DEPOSIT

Balance at the beginning of the period	-	22,857,761
Amortized during the period	-	(480,257)
	-	22,377,505
Current portion of the non refundable lease deposit	-	480,257
Non-current portion of the non refundable lease deposit	-	21,897,248

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 amortized over the lease period of 50 years.

10.1 RIGHT OF USE ASSETS

	2020 Rs.	2019 Rs.
Lease Assets		
Reclassification of non refundable lease deposit ***	**22,377,505**	-
SLFRS 16 Lease adjustments during the year	**96,320,059**	-
(+) Prepayment	**3,988,493**	
Depreciation during the year	**(5,740,284)**	-
Balance as at 31st March 2020	**116,945,773**	-

*** Non Refundable lease deposit has been reclassified as right of use asset from 2020***

10.2 Lease Liability

Lease Liabilities included in the Statement of Financial Position

Current	**7,361,507**	-
Non Current	**88,958,552**	-
	96,320,059	-

10.3 Amounts Recognised in Profit or Loss

For the year ended 31st March 2020

Interest on Lease Liabilities	**7,431,342**	-
	7,431,342	

10.4 Amounts Recognised in Statement of Cashflows

Repayment on Lease Liabilities	**4,374,178**	-
	4,374,178	

As at 31st March,	2020 Rs.	2019 Rs.

11 INVENTORY

Raw materials	**105,652,431**	133,295,091
Finished goods	**67,648,425**	47,645,765
Packing materials	**21,844,464**	24,751,958
	195,145,320	205,692,814

12 DEPOSITS, ADVANCES AND PREPAYMENTS

Prepaid expenses	**8,040,786**	3,949,227
Prepaid annual ground rent Factory	-	3,202,038
Electricity connection deposit - Factory Connection	**1,500,000**	1,500,000
Employee Accommodation Deposits	**200,000**	330,000
Security deposit on electricity connection	**50,000**	50,000
Staff advance	**2,635,794**	1,456,038
	12,426,580	10,487,303

As at 31st March,	2020 Rs.	2019 Rs.
13 TRADE AND OTHER RECEIVABLES		
Trade Receivables	**300,456,620**	270,829,530
Provision for impairment of trade receivables (Note 13.1)	**(8,956,306)**	(6,268,280)
	291,500,314	264,561,250
Notional Tax Recoverable	**29,770**	29,770
Economic Service Charge recoverable	**2,593,377**	1,593,049
Value added Tax recoverable	**23,823,763**	32,584,591
Withholding Tax recoverable	**30,560**	30,560
Nation Building Tax recoverable	**44,489**	821,331
Other receivables	**751,061**	646,061
	318,773,334	300,266,612

Details of trade receivables pledged as security for banking facilities obtained have been given in Note 20 in the financial statements.

13.1 Provision for impairment of trade receivables		
Balance as at the beginning of the year	**6,268,280**	-
Provision for the year	**2,688,026**	6,268,280
Balance as at the end of the year	**8,956,306**	6,268,280

14 CASH AND CASH EQUIVALENTS

Components of cash and cash equivalents comprise of the following;

Cash in hand	-	-
Favourable cash and cash equivalent balances		
Cash at bank	-	9,000
Petty Cash	**100,000**	-
	100,000	**9,000**
Unfavourable cash and cash equivalent balances		
Bank overdraft (Note 14.1)		
	-	-
Commercial Bank OD Account	**(49,730,472)**	(51,031,347)
Axis Bank OD Account	-	(334,444,760)
SC Bank OD Account	**(344,084,720)**	-
	(393,815,192)	(385,476,107)
Cash and cash equivalents for the purpose of statement of cash flows:	**(393,715,192)**	(385,467,107)
Cash and cash equivalents	**(393,715,192)**	(385,467,107)

14.1

The overdraft facilities obtained by the Company is against a Corporate Gurantee provided by Kansai Nerolac Paints Limited (India).

As at 31st March,	2020 Rs.	2019 Rs.
15 STATED CAPITAL		
Issued and fully-paid number of shares		
Ordinary shares	**900,000,020**	900,000,020

15.1 Number of shares	**2020**	2019
Shares at the beginning of the year	**90,000,002**	65,000,002
Shares issued during the year	-	25,000,000
Shares at the end of the year	**90,000,002**	90,000,002

Rights, preference and restrictions of classes of capital

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.

As at 31st March,	**2020**	2019
	Rs.	Rs.
16 RETIREMENT BENEFIT OBLIGATIONS		
Balance at the beginning of the year	**582,078**	627,059
Expenses recognised in the statement of profit or loss		
Current service cost	**736,554**	27,941
Interest cost	**69,849**	45,058
	806,403	72,999
Expenses recognised in the statement of other comprehensive income		
Actuarial (gain)/loss	**506,813**	(117,980)
Benefit paid	**-**	-
Balance at the end of the year	**1,895,294**	582,078

LKAS 19 requires the use of acturial techniques to make a reliable estimate of the amount of retirement benefit that the employees have earned in return for their service in the current and prior periods and discount that benefit using the Projected Unit Credit Method in order to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit.

The following key assumptions were made in arriving at the above figure using the gratuity formula as per LKAS 19.

As at 31st March,	**2020**	2019
	Rs.	Rs.
Discount rate	**11%**	12%
Rate of salary increment	**12%**	10%
Staff turnover	**25%**	25%
Retirement age	**55 years**	55 years

16.1 Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes at the reporting date in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the comprehensive income and the financial position to the effect of the assumed changes in discount rate and rate of salary increment is given below:

	Discount Rate		**Rate of salary increment**	
	1% increase	**1% decrease**	**1% increase**	**1% decrease**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Impact on financial position	(1,797,339)	2,001,161	2,006,632	(1,790,613)

17 TRADE AND OTHER PAYABLES		
Trade payables	**90,900,673**	48,573,722
Marketing agency payables	**-**	6,160,141
Other Payables	**2,615,761**	11,567,188
Accrued expenses	**61,706,337**	-
	155,222,771	66,301,051
18 AMOUNT DUE TO RELATED PARTIES		
The Capital Maharaja Organisation Ltd	**10,465,007**	-
Kansai Nerolac Paints Limited	**25,311,934**	17,039,491
Disposable Soft Goods(Pvt) Ltd	**3,529,240**	-
Harrisons Shipping (Pvt) Ltd	**8,515,703**	-
International Cosmetics (Pvt) Ltd	**6,267,143**	586,735
	54,089,027	17,626,226

18.1 These amounts are unsecured and payable on demand. No interest is payable on these balances.

19 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 31.03.2020 Rs.	Balance as at 31.03.2019 Rs.
Kansai Nerolac Paints Ltd	Parent	Consultancy Fee	**(5,247,620)**	**(25,311,935)**	(17,039,491)
		Royalty Payment	**(3,024,823)**		
The Capital Maharaja Organisation Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Administration Services fee	**(6,721,087)**	**(10,465,007)**	-
		Salary reimbursement	**(31,498,327)**		
		IT Support Service Fee	**(211,225)**		
		Payment	**27,965,632**		
Harrisons Shipping (Pvt) Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Clearing Charges	**(12,285,555)**	**(8,515,702)**	-
		Settlement of Expenses	**3,769,852**		
Disposable Soft Goods (Pvt) Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Office Rent Expense	**(3,817,996)**	**(3,529,240)**	-
		Settlement of Expenses	**288,756**		
International Cosmetics (Pvt) Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Secondment Charges	**(7,040,816)**	**(6,267,143)**	(586,735)
		Settlement of Expenses	**1,360,408**		

20 SHORT TERM BORROWINGS

Financial institutions	**127,956,546**	90,881,183
SLON Loan payable	**59,432,520**	-
	187,389,066	90,881,183

- Short term borrowings 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 SLON

21 CAPITAL COMMITMENTS

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

22 CONTINGENT LIABILITIES

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

23 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.

24 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

24.1 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	
		2020	2019
	Note	**Rs.**	Rs.
Deposits, Advances And Prepayments	12	**12,426,580**	10,487,303
Trade and other receivables	13	**318,773,334**	300,266,612
Cash and cash equivalents	14	**100,000**	9,000
		331,299,914	**310,762,915**

24 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 2020	**Carrying Amount Rs.**	**0-6 Months Rs.**	**6-12 Months Rs.**	**1-2 Years Rs.**	**2-5 Years Rs.**	**More than (2-46 years) Rs.**
Financial liabilities (Non-Derivatives)						
Trade and other payables	**155,222,771**	**155,222,771**	-	-	-	-
Amount due to related parties	**54,089,027**	**54,089,027**	-	-	-	-
Short term loan	**187,389,066**	**187,389,066**	-	-	-	-
Bank Overdraft	**393,815,192**	**393,815,192**	-	-	-	-
Lease Liabilities	**96,320,059**	-	-	**7,361,507**	-	**88,958,552**
Total	**886,836,115**	**790,516,056**	-	**7,361,507**	-	**88,958,552**

As at 31st March 2019	Carrying Amount Rs.	0-6 Months Rs.	6-12 Months Rs.	1-2 Years Rs.	2-5 Years Rs.	More than 5 years Rs.
Financial liabilities (Non-Derivatives)						
Trade and other payables	66,301,051	66,301,051	-	-	-	-
Amount due to related parties	17,626,226	17,626,226	-	-	-	-
Short term loan	90,881,183	90,881,183	-	-	-	-
Total	174,808,460	174,808,460	-	-	-	-

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.

24 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

24.2 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

	Note	Financial assets- Amortised cost	Other financial liabilities	Total carrying amount	Fair value
		Rs.	Rs.	Rs.	Rs.
31st March 2020					
Financial assets					
Trade and other receivables	13	292,251,375	-	292,251,375	292,251,375
Cash and cash equivalents	14		-	100,000	100,000
		292,251,375	-	292,351,375	292,351,375
Financial liabilities					
Trade and other payables	17	-	155,222,771	155,222,771	155,222,771
Amounts due to related parties	18	-	54,089,027	54,089,027	54,089,027
Short term loan	20	-	187,389,066	187,389,066	187,389,066
Bank overdraft	14	-	393,815,192	393,815,192	393,815,192
Lease Liability	10.2	-	96,320,059	96,320,059	96,320,059
		-	886,836,115	886,836,115	886,836,115
31st March 2019					
Financial assets					
Trade and other receivables	13	265,207,311	-	265,207,311	265,207,311
Cash and cash equivalents	14		-	-	-
		265,207,311	-	265,207,311	265,207,311
Financial liabilities					
Trade and other payables	17	-	66,301,051	66,301,051	66,301,051
Amounts due to related parties	18	-	17,626,226	17,626,226	17,626,226
Short term borrowings	20	-	90,881,183	90,881,183	90,881,183
Bank overdraft	14	-	385,467,107	385,467,107	385,467,107
		-	560,275,567	560,275,567	560,275,567

24.3 The Company does not have any financial instruments designated at fair value through profit or loss on initial recognition as at 31st March 2020 (2019- Nil).

25 COVID-19 Disclosures

The Company's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain and with the increased economic uncertainty and risk, it has either directly or indirectly impacted the financial performances and position of the Company.

Financial Statement Area	Impact
Revenue and Inventory	The revenue of an entity may decline as a result of the spread of the virus and the economic impact. Kansai Paints Lanka (Pvt) Ltd faces loss of sales during the month of March by 90% compared to February month's sales (March sales Rs. 6,123,736 and February sales Rs. 61,489,083) and a reduction in the scope of operations due to factory shut down. However, sales during the year 2019/20 is greater than 2018/19. Despite the import restrictions, in addition to few consignments of raw material at port under clearance, the Company was able to store enough finished goods to meet the demand for a considerable period. As a result of COVID-19, Kansai Paints Lanka (Pvt) Ltd has experienced diffuclty in delivering products to those customers who are etiher based in far regions impacted by COVID-19. Kansai Paints has requested their Galle Factory to deliver their products to those customers who are living in the far regions. The Company has reviewied its revenue accounting policies and estimates to make sure they are still applicable given the current circumstances and assessed whether collection is probable while evaluating new contracts. In the absence of such probability, the Company may not be able to recognize revenue until or unless payment is received and becomes non-refundable, because such contracts are unlikely to meet the criteria to apply the normal SLFRS 15 approach.
Financial Instrument risk disclosures	Due to the rapidly changing economic environment, an entity may find that it is subject to new or increasing risk (eg credit, liquidity, or market risk) or concentrations of risk. The Management has implemented a plan to effectively to address the risk on financial instruments.
Credit risk	Many corporates and dealers may not be in position to pay due to crash in global stock markets and overexposure to debt. The Company should ensure all outstanding is collected by frequently following up with the customers. If the customer has a favorable history on repayment, a slight delay is accepted. However, if the customer is highly unlikely to pay, the goods shall be withdrawn. Further, the Company should review credit limits of all the customers and ensure that bank gurantee limits are appropriate.
Liquidity Risk	Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. The stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. The Company has ensured that it meet its working capital requirement effectively by cutting down unnecesary costs and make timely payments to their lenders and creditors while focusing on cost reductions on advertising and media expenses by renegotiating prices.
Market Risk	The Company has assessed the debt repayment terms with their financial institutions. The management has decided that there is no change in terms which represents a modification or extinguishment of the debt obligation and classification of current versus non-current.
Leases	Futher the Company has ensured that there are no lease modifications in their lease agreements in response to the operational distruptions that have occurred and there are no changes to their incremental borrowing rate, lease rentals and entitys own credit risk these are not reconsidered.
Going Concern	The consequences of the COVID-19 outspread have affected the supply and demand for the Company's primary products and therefore, its operating results have been negatively impacted in the month of March when compared to the previous months. The Company has been making continuous losses which has led to a significant reduction in the Total equity (2019 – Rs. 458,029,912 and 2020 – Rs. 211,588,794). The Accumulated loss for the year amounts to Rs. 688,411,226. The Company has assessed the going concern status of the Company taking COVID-19 into considerataion and there is no significant impact of Covid-19, where the the management is planning to increase capital injections by the shareholders in the next financial year and the Company is backed by a powerful parent Company ;Kansai Nerolac Paints Limited.