

KANSAI PAINTS LANKA (PRIVATE) LIMITED

FINANCIAL STATEMENTS

31 MARCH 2021

RDeS/SCG/TW

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF KANSAI PAINTS LANKA (PVT) LTD**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kansai Paints Lanka (Pvt) Ltd which comprise the statement of financial position as at 31 March 2021, 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 the financial position of the Company as at 31 March 2021 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.

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.

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.

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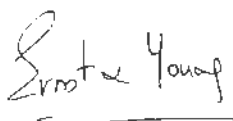
As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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.



28 April 2021
Colombo

Kansai Paints Lanka (Private) Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Note	2021 Rs.	2020 Rs.
Non-current Assets			
Property, plant and equipment		424,260,099	449,177,470
Intangible assets		275,906	2,345,198
Right of use the assets lease		110,927,825	116,945,772
		<u>535,463,830</u>	<u>568,468,440</u>
Current Assets			
Inventories		223,243,065	195,145,321
Deposits, advances and prepayments		26,017,415	12,426,580
Trade and other receivables		333,492,679	318,773,333
Cash and cash equivalents		100,000	100,000
Total current assets		<u>582,853,159</u>	<u>526,445,233</u>
Total Assets		<u>1,118,316,990</u>	<u>1,094,913,674</u>
EQUITY AND LIABILITIES			
Stated Capital	9	1,400,000,000	900,000,020
Retained Earnings		(875,324,160)	(693,817,754)
Total Equity		<u>524,675,840</u>	<u>206,182,266</u>
Non-Current Liabilities			
Defined Benefit Liability	10	1,209,671	1,895,294
Interest Bearing Borrowings	15	92,116,388	88,958,552
		<u>93,326,059</u>	<u>90,853,846</u>
Current Liabilities			
Trade and other payables	12	124,840,834	155,222,770
Amount due to related parties		61,595,934	54,089,027
Short term loan		47,858,619	187,389,066
Bank overdraft		262,796,734	393,815,192
Interest Bearing Borrowings		3,222,970	7,361,507
Total liabilities		<u>500,315,091</u>	<u>797,877,562</u>
Total Equity and Liabilities		<u>1,118,316,990</u>	<u>1,094,913,674</u>

I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



.....
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by:



.....
Director



.....
Director

The Accounting Policies and Notes from pages 7 through 27 form an integral part of these Financial Statements.

28 April 2021
Colombo

Kansai Paints Lanka (Private) Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2021

	Note	2021 Rs.	2020 Rs.
Revenue		389,277,365	323,085,446
Cost of Sales		(323,119,837)	(251,615,726)
Gross Profit		<u>66,157,528</u>	<u>71,469,720</u>
Other Operating Income		1,034,491	317,050
Administrative Expenses		(71,163,492)	(70,267,605)
Selling & Distribution Expenses		(100,614,833)	(153,034,716)
Other operating expenses		(20,202,799)	(25,366,192)
Operating Profit/(Loss)		<u>(124,789,106)</u>	<u>(176,881,743)</u>
Finance Cost		(58,073,536)	(74,459,089)
Profit / (Loss) Before Tax		<u>(182,862,641)</u>	<u>(251,340,832)</u>
Tax Expense		<u>-</u>	<u>-</u>
Profit / (Loss) for the Year		(182,862,641)	(251,340,832)
Other Comprehensive Income			
<i>Other comprehensive income not to be classified to profit or loss in subsequent periods</i>			
Defined Benefit Plan Actuarial (Loss)/Gain net of tax		1,356,235	(506,813)
Total Comprehensive Income for the year, net of tax		<u>(181,506,406)</u>	<u>(251,847,645)</u>
Basic Earnings / (Loss) Per Share		(363.01)	(503.70)

The Accounting Policies and Notes from pages 7 through 27 form an integral part of these Financial Statements.

Kansai Paints Lanka (Private) Limited
STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2021

	Stated Capital Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 01 April 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 31 March 2020	<u>900,000,020</u>	<u>(693,817,753)</u>	<u>206,182,267</u>
Total comprehensive income for the period			
Profit for the Year	-	(182,862,641)	(182,862,641)
Other Comprehensive Income	-	1,356,235	1,356,235
Transactions with owners directly recorded in equity			
Issue of Ordinary Shares	499,999,980	-	499,999,980
Balance as at 31 March 2021	<u><u>1,400,000,000</u></u>	<u><u>(875,324,160)</u></u>	<u><u>524,675,840</u></u>

The Accounting Policies and Notes from pages 7 through 27 form an integral part of these Financial Statements.

Kansai Paints Lanka (Private) Limited

STATEMENT OF CASH FLOWS

Year ended 31 March 2021

	Note	2021 Rs.	2020 Rs.
Cash Flows From/(Used in) Operating Activities			
Net Profit/(Loss) Before Income Tax Expense		(182,862,641)	(251,340,832)
Adjustments for :			
Depreciation and amortization of Property, Plant & Equipment and intangible assets		26,986,664	30,347,014
Amortization of ROU		2,408,328	5,740,284
Defined benefit plan cost		670,612	806,403
Finance expense		50,850,873	67,027,747
Finance expense on lease		7,222,663	7,431,342
Provision for impairment of trade receivables		11,000,000	2,688,026
Operating Profit before Working Capital Changes		<u>(83,723,502)</u>	<u>(137,300,016)</u>
(Increase)/ Decrease in advances, prepayments and other receivables		(13,590,835)	(5,455,695)
(Increase)/ Decrease in inventories		(28,097,744)	10,547,495
(Increase)/ Decrease in trade and other receivables		(14,719,346)	(21,194,747)
Increase/ (Decrease) in trade and other payables		(30,381,936)	88,921,720
Increase/(Decrease) in Amounts Due to Related Parties		7,506,907	32,933,561
Cash Generated from Operations		<u>(163,006,457)</u>	<u>(31,547,682)</u>
Income tax paid		-	-
Interest expense paid		(74,459,089)	(67,027,747)
Net Cash Flows from/(Used in) Operating Activities		<u>(237,465,546)</u>	<u>(98,575,429)</u>
Cash Flows From /(Used in) Investing Activities			
Proceeds on disposal of PPE		-	-
Acquisition and construction of Property, Plant & Equipment		-	(1,806,362)
Acquisition of intangible assets		-	-
Net Cash Flows from/(Used in) Investing Activities		<u>-</u>	<u>(1,806,362)</u>
Cash Flows From /(Used in) Financing Activities			
Proceeds from issue of ordinary shares		499,999,980	-
Net repayment of short term loans		(126,724,948)	96,507,883
Repayment of lease liabilities		(4,791,028)	(4,374,178)
Net Cash Flows /(Used in) Financing Activities		<u>368,484,004</u>	<u>92,133,705</u>
Net Increase /(Decrease) in Cash and Cash Equivalents		131,018,458	(8,248,086)
Cash and Cash Equivalents at the Beginning of the Year		<u>(393,715,192)</u>	<u>(385,467,107)</u>
Cash and Cash Equivalents at the End of the Year		<u>(262,696,734)</u>	<u>(393,715,193)</u>

The Accounting Policies and Notes from pages 7 through 27 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 General

Kansai Paints (Private) Limited (“Company”) is a Limited Liability Company incorporated and domiciled in Sri Lanka. The company was duly incorporated under the company’s act No:07 of 2007 on July 30, 2015. The registered office is located at 146, Dawson Street, Colombo 02.

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Entity and Ultimate Parent Entity

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.

1.4 Date of Authorization for Issue

The Financial Statements of Kansai Paints Lanka (Private) Limited for the year ended 31 March 2021 were authorized for issuance in accordance with a resolution of the Board of Directors on 28 April 2021.

2. BASIS OF PREPARATION

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 the Institute of Chartered Accountants of Sri Lanka.

The Financial Statements have been prepared on a historical cost basis except when otherwise indicated. The Financial Statements are presented in Sri Lankan Rupees. The preparation and presentation of these Financial Statements is in compliance with the Companies Act, No. 07 of 2007.

2.1 Statement of Compliance

The Financial Statements of Kansai Paints Lanka (Private) Limited have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the Companies Act No. 7 of 2007.

2.2 Going Concern

The Financial Statements are prepared on the assumption that the Company is a going concern, i.e. as continuing in operation for foreseeable future. The Directors have made the assessment and are confident of the Company's ability to continue as going concern and do not intend either to liquidate or to cease operation taking the following circumstances into consideration.

During the year, the Company has recorded a Net Loss of Rs.xxMn compared to Net Loss of Rs xx Mn reported in previous year.

Beginning of the year COVID -19 affected the market and market got stabilized slowly in the second half of the year.

Despite this challenge the Management has taken various strategic decisions to achieve a continuous growth by introducing few new products in the market and also company has aggressively penetrated the market with the new product developments at competitive prices. With these strategic measures management expect to turnaround the Company in ensuing financial year

2.3 Effect of COVID 19 on the Business and Operations

Subsequent to the outbreak of COVID – 19, the company has taken all recommended measures by the Government to make sure the health and safety of its staff, customers, suppliers and stakeholders throughout this difficult time.

A procedure has been implemented to carry out regular (daily) health condition checks of all employees and maintain a data base in order to ensure the safety of employees. The Group has provided adequate work from home and remote working facilities for its employees to ensure the safety of the employees while avoiding unnecessary delays in operation.

The necessary cost controlling mechanisms have been adapted by the Company to overcome the risk of rising cost of production and required strategies have been implemented to preserve liquidity and curtail losses as COVID – 19 pandemic is expected to be short term and business operations are getting back to normalcy, we do not expect any impairment provisioning on the carrying value of assets in the balance sheet. The Group Management is confident that the Group has the resources and capability to withstand the negative effect and uncertainty this pandemic has created.

Other than the above, there have been no material events occurring after the balance sheet date that require adjustment or disclosure in the Financial Statements.

2.4 Comparative Information

The previous year's figures and phrases have been rearranged wherever necessary to confirm to the current year's presentation.

2.5 Changes in Accounting Policies

The Accounting policies are consistent with the comparative period.

The company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgements, which has the most significant effect on the amounts recognized in the Financial Statements.

Deferred Tax Assets:

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The respective carrying amounts of assets and liabilities are given in related notes to the Financial Statements

Defined benefit plans (pension benefits):

The cost of the defined benefit pension plan and the present value of the pension obligation are determined by the management. The valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. Further details about pension obligations are given in Note 10.

a) *Deferred Tax Assets*

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the assets can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1.1 Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Expected to be realised within twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is due to be settled within twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3.1.2 Foreign Currency Translation

The Company's financial statements are presented in Sri Lanka Rupees, which is the parent Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3.1.3 Taxation

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 reporting date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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

Sales Tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

3.1.5 Financial Instruments - Initial Recognition and Subsequent Measurement

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

i) Financial Assets

Financial assets within the scope of SLFRS 9, are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

All financial assets are recognised initially at fair value plus transaction costs of assets in the case of The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Subsequent Measurement

The Company classifies all of its financial assets in the measurement category of financial assets at amortised cost and Financial assets at fair value through profit or loss. Categories of financial assets as per SLFRS 9 are limited only for the followings.

a) Financial assets at amortised cost

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade and other receivables, amounts due from related parties and cash and cash equivalents.

b) Financial Assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Loans and Receivables

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

De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is de-recognised when,

- i) The rights to receive cash flows from the asset have expired or,
- ii) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - The Company has transferred substantially all the risks and rewards of the asset, or
 - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the company's continuing involvement in it.

In that case, the Company also recognizes an associated liability. The transferred assets and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of Financial Assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, 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.

ii) Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, amounts due to related parties, loans and borrowings and bank overdrafts.

Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

The accounting for financial liabilities under SLFRS 9 remains largely the same as it was under LKAS 39.

De-recognition

A financial liability is derecognised 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 a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

iii) 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 recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

3.1.6 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 the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

3.1.7 Cash and Cash Equivalents

Cash and cash equivalents are 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 cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

3.1.8 Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, excluding the costs of day to day servicing, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component 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 derecognises the net book value of replaced part, and recognises the new part with its own associated useful life and depreciation.

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 income statement as incurred.

Depreciation is calculated on straight line basis over the estimated useful lives of all Property, Plant and Equipment.

The estimated useful lives are as follows:

Buildings	20 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.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

3.1.9 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where 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. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

3.1.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw Materials	-	At actual cost on first-in first-out / weighted average cost / standard cost basis
Finished Goods & Work-in-progress	-	At the cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity.
Consumables & Spares	-	At actual cost on weighted average basis / first in first out basis
Goods in Transit	-	At actual cost
Trading Goods	-	At actual cost on first in first out basis

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.1.11 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated by independent actuaries using Projected Unit Credit (PUC) method as recommended by revised LKAS 19 – “Employee benefits”. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

The Company is liable to pay gratuity in terms of Gratuity Act No. 12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of the 05 years of continued service with the Company.

Funding Arrangements

The Gratuity liability is not externally funded.

b) Defined Contribution Plans – Employees’ Provident Fund & Employees’ Trust Fund

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

3.1.12 Revenue Recognition

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company is the principal in its revenue arrangements, as it typically controls the goods before transferring them to the customer.

Rendering of services

Revenue from services is recognised as the services are provided. Revenue from service contracts that cover periods of greater than 12 months is recognised in the profit and loss in proportion to the services delivered at the reporting date

Other Sources of Revenue

Following accounting policies in the context of below income sources have consistently applied in all the periods.

a) Interest Income

Interest Income is recognized as the interest accrues (taking into account the effective yield on the asset) unless collectability is in doubt. Interest income is included in finance income in the income statement.

b) Dividend Income

Revenue is recognized when the Company’s to receive the payment is established. Which is generally when shareholders approve the dividend.

c) Others

Other income is recognized on an accrual basis.

3.1.13 Expenditure Recognition

- a) Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income.

All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income statement.

- b) For the purpose of presentation of the income statement, the “function of expenses” method has been adopted, on the basis that it presents fairly the elements of the Company’s performance.

4. NEW AND AMENDED STANDARDS AND INTERPRETATION

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below.

- SLFRS 17: Insurance Contracts

These standards and amendments will have an impact on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

5. PROPERTY, PLANT AND EQUIPMENT

5.1 Cost or valuation	Buildings	Plant and Equipment	Computer and other equipment	Motor Vehicle	Furniture and Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At 01 April 2020	295,690,896	194,680,283	17,489,570	8,978,580	2,457,308	519,296,638
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 March 2021	<u>295,690,896</u>	<u>194,680,283</u>	<u>17,489,570</u>	<u>8,978,580</u>	<u>2,457,308</u>	<u>519,296,638</u>
5.2 Depreciation and impairment						
At 01 April 2020	26,480,303	25,185,066	14,293,411	2,978,395	1,181,991	70,119,167
Depreciation charge for the year	9,856,363	10,729,218	2,946,827	897,858	487,105	24,917,372
Disposals	-	-	-	-	-	-
At 31 March 2021	<u>36,336,666</u>	<u>35,914,284</u>	<u>17,240,239</u>	<u>3,876,253</u>	<u>1,669,096</u>	<u>95,036,539</u>
5.3 Net book value						
At 01 April 2020	<u>269,210,593</u>	<u>169,495,217</u>	<u>3,196,159</u>	<u>6,000,185</u>	<u>1,275,317</u>	<u>449,177,471</u>
At 31 March 2021	<u>259,354,230</u>	<u>158,765,999</u>	<u>249,332</u>	<u>5,102,327</u>	<u>788,212</u>	<u>424,260,099</u>

5.4 During the financial year, the Company has not acquired any Property, Plant & Equipment. Property, Plant and Equipment includes fully depreciated assets having a gross carrying amounts of Rs. 16,037,918/-.

6. INTANGIBLE ASSETS

Computer Software

Costs

Balance as at 1st April

Acquisitions during the year

Balance as at 31st March

Amortization

Balance as at 1st April

Amortization for the year

Balance as at 31st March

Carrying amount as at 31st March

2021
Rs.

2020
Rs.

7,832,655

-

7,832,655

5,487,457

2,069,292

7,556,749275,9062,345,198

7. TRADE AND OTHER RECEIVABLES

Trade Debtors

Less: Impairment Provision for Trade and Other Receivable (7.1)

Notional Tax Recoverable

Economic Service Charge recoverable

Value Added Tax recoverable

Withholding Tax recoverable

National Building Tax recoverable

Other receivables

2021
Rs.

2020
Rs.

345,757,800

(19,956,306)

325,801,494

29,770

2,593,377

4,241,928

30,560

44,489

751,061

333,492,679

300,456,620

(8,956,306)

291,500,314

29,770

2,593,377

23,823,763

30,560

44,489

751,061

318,773,334

7.1 Provision for impairment of trade receivables

Balance as at the beginning of the year

Provision for the year

Balance as at the end of the year

8,956,306

11,000,000

19,956,306

6,268,280

2,688,026

8,956,306

7.2 As at 31 March 2021, the ageing analysis of Trade Receivables is as follows:

Total Rs.	Past due but not impaired			Provision for Debtors Rs.	
	Less Than 3 Month Rs.	3 to 12 Month Rs.	More Than One Year Rs.		
	2021	345,757,800	207,056,542		41,524,171

8. DEPOSITS, ADVANCES AND PREPAYMENTS	2021	2020
	Rs.	Rs.
Prepaid expenses	23,469,728	8,040,786
Electricity connection deposits- Factory connection	1,500,000	1,500,000
Employee Accommodation Deposits	300,000	200,000
Security deposit on electricity connection	50,000	50,000
Staff advance	697,688	2,635,794
	<u>26,017,415</u>	<u>12,426,580</u>
9. INVENTORY	2021	2020
	Rs.	Rs.
Raw material	150,981,177	105,652,431
Finished Goods	52,572,042	67,648,425
Packing material	21,189,846	21,844,464
	<u>224,743,065</u>	<u>195,145,320</u>
Less: Provision for inventory	(1,500,000)	-
	<u>223,243,065</u>	<u>195,145,320</u>
10. STATED CAPITAL	2021	2020
	Rs.	Rs.
Issued and fully paid number of shares		
Ordinary Shares	1,400,000,000	900,000,020
	<u>1,400,000,000</u>	<u>900,000,020</u>
10.1 Number of shares	2021	2020
	Rs.	Rs.
Shares at the beginning of the year	90,000,002	90,000,002
Shares issued during the year	140,000,000	-
Shares at the end of the year	<u>230,000,002</u>	<u>90,000,002</u>
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.		
11. RETIREMENT BENEFITS OBLIGATION-GRATUITY	2021	2020
	Rs.	Rs.
As at 1 April	1,895,294	582,078
Charge/(Reversal) for the year	670,612	806,403
Actuarial (Gain)/Loss on Defined Benefit Obligation - Gratuity	(1,356,235)	506,813
Payments made during the year	-	-
As at the end of the year	<u>1,209,671</u>	<u>1,895,294</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

11. RETIREMENT BENEFITS OBLIGATION-GRATUITY (Contd...)

	2021	2020
	Rs.	Rs.
11.1 Recognized in ;		
<i>a) Statement of Profit or Loss</i>		
Interest Cost	199,006	736,554
Current Service Cost	471,606	69,849
	<u>670,612</u>	<u>806,403</u>
<i>b) Other Comprehensive Income</i>		
Actuarial (Gain)/ Loss	(1,356,235)	506,813

LKAS 19 requires the use of actuarial 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.

Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2021	2020
Discount rate assumed	8%	11%
Future salary escalation	10%	12%
Staff Turnover	25%	25%
Retirement Age	55 Years	55 Years

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

	1% Increase	1% Decrease
	Rs.	Rs.
Discount Rate	63,707	(68,980)
Salary increment	(60,486)	57,174

12. RIGHT OF USE ASSETS

	2021	2020
	Rs.	Rs.
12.1 Right of Use Asset		
Leasehold Buildings	110,927,825	116,945,773
	<u>110,927,825</u>	<u>116,945,773</u>

12.1(a) Set out below are the carrying amounts of right-of-use assets recognized and the movements during the year.

	2021	2020
	Buildings	Buildings
	Rs.	Rs.
Balance at the beginning of the year	116,945,773	122,686,057
Additions/ disposals during the period	(3,609,620)	-
Amortization expenses	(2,408,328)	(5,740,284)
Balance As at 31 March	<u>110,927,825</u>	<u>116,945,773</u>

Amortization period of the ROU Asset is 46.6 months.

12.1(b) The following are the amounts recognized in profit or loss in respect of ROU Assets:

	2021	2020
	Rs.	Rs.
Amortization expense of right-of-use assets	2,408,328	5,740,284
Interest expense on lease liabilities	7,222,663	7,431,342
Total amount recognized in profit or loss	<u>9,630,990</u>	<u>13,171,626</u>

Kansai Paints Lanka (Private) Limited
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

13. TRADE AND OTHER PAYABLES		2021	2020
		Rs.	Rs.
Trade Payables		104,255,699	90,900,673
Other payables		(1,765,410)	2,615,761
Accrued expenses		22,350,547	61,706,337
		<u>124,840,837</u>	<u>155,222,771</u>
14. AMOUNTS DUE TO RELATED PARTIES		2021	2020
	Relationship	Rs.	Rs.
The Capital Maharaja Organization Ltd	Parent	4,154,621	10,465,007
Kansai Nerolac Paints Limited	Subsidiary of Capital Holdings Pvt Ltd	34,344,984	25,311,934
Disposable Soft Goods Pvt Ltd	Subsidiary of Capital Holdings Pvt Ltd	4,812,600	3,529,240
Harrisons Shipping Pvt Ltd	Subsidiary of Capital Holdings Pvt Ltd	10,396,586	8,515,703
International Cosmetics Pvt Ltd	Subsidiary of Capital Holdings Pvt Ltd	7,887,143	6,267,143
		<u>61,595,934</u>	<u>54,089,027</u>
15. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT		2021	2020
Components of Cash and Cash Equivalents		Rs.	Rs.
15.1 Favourable Cash and Cash Equivalents Balances			
Cash and Bank Balances		100,000	100,000
		<u>100,000</u>	<u>100,000</u>
15.2 Unfavourable Cash and Cash Equivalent Balances			
Bank Overdrafts		(262,796,734)	(393,815,192)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement		<u>(262,696,734)</u>	<u>(393,715,192)</u>
16. INTEREST BEARING BORROWINGS		2021	2020
		Rs.	Rs.
16.1 Lease liabilities			
Non-current Liability		92,116,388	88,958,552
Current Liability		3,222,970	7,361,507
		<u>95,339,358</u>	<u>96,320,059</u>
16.2 Movement of the lease liability			
Gross Liability as at 01 April		96,320,059	93,262,895
- New Leases obtained/ leases disposed		(3,412,336)	-
- Repayments during the period		(4,791,028)	(4,374,178)
Gross Liability as at 31 March		88,116,695	88,888,717
Future finance charges on finance leases		7,222,663	7,431,342
Present value of lease liability		<u>95,339,358</u>	<u>96,320,059</u>
17. SHORT TERM LOANS		2021	2020
		Rs.	Rs.
Financial Institutions		47,858,619	127,956,546
SLON Loan payable		-	59,432,520
		<u>47,858,619</u>	<u>187,389,066</u>

Kansai Paints Lanka (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

18. REVENUE	2021	2020
	Rs.	Rs.
Revenue- Finished Goods	387,815,374	310,925,136
Revenue-Raw Material	1,461,991	12,160,310
	<u>389,277,365</u>	<u>323,085,446</u>
19 OTHER OPERATING INCOME	2021	2020
	Rs.	Rs.
Scrap sales income	1,034,491	317,050
	<u>1,034,491</u>	<u>317,050</u>
20. FINANCE COST	2021	2020
	Rs.	Rs.
Interest on bank overdraft	31,967,301	49,500,936
Short term loan interest	18,883,572	17,526,811
Interest on lease	7,222,663	7,431,342
	<u>58,073,536</u>	<u>74,459,089</u>
21. LOSS FROM OPERATIONS	2021	2020
	Rs.	Rs.
Auditor's remuneration		
-Statutory Audit fee	325,000	300,000
Depreciation of property, plant and equipment	24,917,372	27,728,976
Amortization of Intangible Assets	2,069,292	2,618,038
Amortization of right of use assets	2,408,328	5,740,284
Administrative service charges to related party	4,807,426	6,721,087
Provision for impairment of trade receivables	11,000,000	8,956,306
22. INCOME TAX EXPENSES		
The major components of income tax expense for the years ended 31 March are as follows :		
	2021	2020
	Rs.	Rs.
Current Income Tax		
Current Income Tax Charge	-	-
Under/Over Provision of Current Taxes in Respect of Prior Years	-	-
	<u>-</u>	<u>-</u>
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	-	-
	<u>-</u>	<u>-</u>

22. INCOME TAX EXPENSES (Contd...)**22.1 A Reconciliation between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate is as follows:**

	2021 Rs.	2020 Rs.
Accounting Profit / (Loss) before Income Tax	(182,862,641)	(249,159,620)
Less: Interest Income	-	-
Add: Disallowed expenses	49,788,266	31,796,217
Less: Claims	(44,278,997)	(96,866,631)
Statutory loss from business	(177,353,372)	(314,230,034)
Taxable Income	-	-
Utilization of tax losses	-	-
	<u>(177,353,372)</u>	<u>(314,230,034)</u>
Income tax for the year @ 28%	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>

22.2 Deferred Tax Liability/Asset

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amount of assets and liability for financial reporting purposes and the amounts used for taxation purposes. Temporary differences for which a deferred tax asset has not been recognized as at March 2021 is disclosed as follows.

	2021 Rs.	2020 Rs.
Tax Losses Brought Forward as per the Provisional Tax Computation	864,742,268	553,116,149
Adjustment - Tax loss 2018/19	(117,980)	-
Adjustment - Tax loss 2019/20	(5,956,101)	-
Tax Losses Brought Forward as per the Income Tax Return	858,668,187	553,116,149
Tax Loss for the year	177,353,372	311,626,119
Loss Claimed during the year	-	-
Carried Forward Tax Losses as per the Provisional Tax Computation	<u>1,036,021,559</u>	<u>864,742,268</u>

Net deferred tax asset/(liability) relate to the following;

	2021		2020	
	Temporary Difference Rs.	Deferred Tax asset/ (Liability) Rs.	Temporary Difference Rs.	Deferred Tax asset/ (Liability) Rs.
Retirement Benefit Obligation	1,209,671	338,708	1,895,294	530,682
Property Plant and Equipment	(226,175,574)	(63,329,161)	(206,134,329)	(57,717,612)
Right-of-Use asset	113,336,153	31,734,123	91,051,850	25,494,518
Lease Liability	(103,325,658)	(28,931,184)	(99,882,220)	(27,967,022)
Carried forward tax losses	214,955,408	60,187,514	213,069,405	59,659,433
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Deferred tax has been computed at 28%.

23. EARNINGS / (LOSS) PER SHARE

23.1 Basic Earnings/(Loss) Per Share is calculated by dividing the net profit/(loss) for the year attributable to ordinary shareholders (after deducting preference share dividends) by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

	2021	2020
	Rs.	Rs.
Amounts Used as Numerator:		
Net Profit / (Loss) Attributable to Ordinary Shareholders	(181,506,406)	(3,727,970)
Numbers of Ordinary Shares Used as Denominator:	2021	2020
	Number	Number
Weighted Average Number of Ordinary Shares in Issue Applicable to Basic Earnings Per Share	230,000,002	500,000
	2021	2020
	Rs.	Rs.
Earnings / (Loss) Per Share	(0.79)	(7.46)

24. RELATED PARTY DISCLOSURES**24.1 Identity of related parties**

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

24.2 Transactions with key management personnel

Key management personnel is comprised of directors of the company.

24.2.1 Loans to directors

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

24.2.2 Key Management personnel compensation

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

24.3 Transactions with the Parent and Related Entities

Name of the related Party	Relationship	Nature of Transactions	Transactions during the year	Balance as at 31.03.2021	Balance as at 31.03.2020
				Rs.	Rs.
Kansai Nerolac Paints Ltd	Parent	Consultancy fee Royalty payment	(4,847,620) (4,185,429)	(34,344,984)	(25,311,934)
The Capital Maharaja Organisation Ltd	Subsidiary of Capital Holding	Administration Services fee Salary Payment	(4,807,426) (30,355,498) 41,473,310	(4,154,621)	(10,465,007)
Harrisons Shipping (Pvt) Ltd	Subsidiary of Capital Holding	Clearing Charges Payments	(18,036,378) 16,155,494	(10,396,586)	(8,515,703)
Disposable Soft Goods (Pvt) Ltd	Subsidiary of Capital Holding	Office Rent expense Payments	(1,283,360)	(4,812,600)	(3,529,240)
International Cosmetics (Pvt) Ltd	Subsidiary of Capital Holding	Secondment Charges Payments	(1,620,000) -	(7,887,143)	(6,267,143)
				(61,595,934)	(54,089,027)

25. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to the outbreak of COVID – 19, the company has taken all recommended measures by the Government to make sure the health and safety of its staff, customers, suppliers and stakeholders throughout this difficult time.

A procedure has been implemented to carry out regular (daily) health condition checks of all employees and maintain a data base in order to ensure the safety of employees. The Group has provided adequate work from home and remote working facilities for its employees to ensure the safety of the employees while avoiding unnecessary delays in operation.

The necessary cost controlling mechanisms have been adapted by the Company to overcome the risk of rising cost of production and required strategies have been implemented to preserve liquidity and curtail losses.

As COVID – 19 pandemic is expected to be short term and business operations are getting back to normalcy, we do not expect any impairment provisioning on the carrying value of assets in the balance sheet.

The Group Management is confident that the Group has the resources and capability to withstand the negative effect and uncertainty this pandemic has created.

Other than the above, there have been no material events occurring after the balance sheet date that require adjustment or disclosure in the Financial Statements.

26. COMMITMENTS & CONTINGENCIES

26.1 Capital Commitments

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

26.2 Contingencies

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

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities, comprise loans and borrowings, trade and other payables . The main purpose of these financial liabilities is to finance the Group's operations. The Company has trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds investments classified as Fair Value through Profit or Loss.

The Company is exposed to market risk, credit risk and liquidity risk. Delmege Group's senior management oversees the management of these risks. The Group's senior management advises on financial risks and the appropriate financial risk governance framework for the Group.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk of losses in positions arising from movements in market prices. Market prices comprise five types of risks: interest rate risk, Foreign currency risk, Credit Risk, Liquidity risk and equity price risk. Financial instruments affected by market risk include: loans and borrowings and Held-for-trade investments.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Group's short term investments in fixed deposits and intercompany lendings with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

Foreign currency risk

Foreign currency risk is the risk that the changes in cash flows because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

Equity price risk

The Group's listed and unlisted equity securities are susceptible to market-price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 6.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases. The Group assesses the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)**Excessive risk concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 March 2021	On demand	With in 1 year	1 to 5 years	Total
	Rs.	Rs.	Rs.	Rs.
Trade and other payables	124,840,834	-	-	124,840,834
Year ended 31 March 2020	On demand	With in 1 year	1 to 5 years	Total
	Rs.	Rs.	Rs.	Rs.
Trade and other payables	155,222,770	-	-	155,222,770

Capital management

Capital includes convertible preference shares and equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratios in order to support its business and maximise shareholder value.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

	2021	2020
	Rs.	Rs.
Trade and other payables (Note 12)	124,840,834	155,222,770
Less: cash and short-term deposits (Note 14)	100,000	100,000
Net debt	<u>124,740,834</u>	<u>155,122,770</u>
Equity	524,675,840	206,182,266
Total Capital	1,400,000,000	900,000,020
Capital and net Debt	1,524,740,834	1,055,122,790
Gearing Ratio	2.91	5.12

KANSAI PAINTS LANKA (PRIVATE) LIMITED

**DETAILED EXPENDITURE STATEMENT
YEAR ENDED 31 MARCH 2021**

Kansai Paints Lanka (Private) Limited**DETAILED INCOME STATEMENT**

Year ended 31 March 2021

		2021	2020
		Rs.	Rs.
Revenue		389,277,365	323,085,446
Cost of Sales		(323,119,837)	(251,615,726)
Gross Profit		<u>66,157,528</u>	<u>71,469,720</u>
Other Operating Income		1,034,491	317,050
Administrative Expenses	I	(71,163,492)	(70,267,605)
Selling & Distribution Expenses	II	(100,614,833)	(153,034,716)
Other operating expenses	III	(20,202,799)	(25,366,192)
Operating Profit/(Loss)		<u>(124,789,106)</u>	<u>(176,881,743)</u>
Finance Cost		(58,073,536)	(74,459,089)
Profit / (Loss) Before Tax		<u><u>(182,862,641)</u></u>	<u><u>(251,340,832)</u></u>

Kansai Paints Lanka (Private) Limited

DETAILED INCOME STATEMENT

Year ended 31 March 2021

STATEMENT I

ADMINISTRATION EXPENSES	2021	2020
	Rs.	Rs.
SALARY - D/E	1,658,833	2,563,000
EPF - D/E	194,860	302,400
ETF - D/E	48,715	75,600
BONUS - D/E	549,375	160,247
CAR ALLOWANCE - D/E	-	117,380
MEDICAL - D/E	-	996
SALARY - STAFF	2,464,819	2,806,815
EPF - STAFF	186,580	242,728
ETF - STAFF	46,645	60,682
BONUS - STAFF	362,250	105,665
MEDICAL - STAFF	109,147	13,610
OVERTIME - STAFF	33,973	276,258
RENT	6,417,600	1,709,820
STAMP DUTY	-	139,325
SLSI CHARGES	70,409	131,609
TESTING FEE	19,997	149,493
TRAVELLING - LOCAL	208,216	697,132
TRAVELLING - FOREIGN	67,800	1,059,174
VEHICLE MAINTENANCE	174,233	67,112
CONSULTANCY FEE	6,442,732	11,370,069
AMORTIZATION OF PREMIUM - BOI	-	(1)
REGISTER FEES	9,364	14,962
AUDIT FEE	953,333	824,819
ADMIN FEE	4,360,739	4,414,808
IT CHARGES	3,959,000	1,707,052
LEGAL FEE	40,000	30,000
BANK CHARGES	870,677	721,809
BAD DEBTS	11,000,000	2,688,026
STOCK DAMAGES	1,500,000	-
OTHERS ADMIN EXPENSES	89,120	-
GENERATOR RENT	-	828,000
SALARY - D/E	5,123,713	4,734,083
EPF - D/E	614,846	625,794
ETF - D/E	153,711	156,449
BONUS - D/E	924,233	269,590
CAR ALLOWANCE - D/E	1,869,340	1,750,420
MEDICAL - STAFF	280,798	4,552
TELEPHONE - MOBILE DATA	10,655	-
INSURANCE	611,967	816,780
TRAVELLING - VEHICLE HIRE	73,251	-
BOI ENVIRONMENT LICENSE FEE	143,316	178,071
BUILDING	9,856,363	9,883,367
COMPUTER AND EQUIPMENT	2,946,827	5,801,325
MOTOR VEHICLE	897,858	900,318
FURNITURE	487,105	485,124
SOFTWARE	2,069,292	2,618,038
LEASE LAND KOGGALA	2,408,328	2,408,328
LEASE BUILDING SEEDUWA	(3,331,956)	3,331,956
ROYALTY	4,185,429	3,024,823
	<u>71,163,492</u>	<u>70,267,605</u>

Kansai Paints Lanka (Private) Limited**DETAILED INCOME STATEMENT**

Year ended 31 March 2021

STATEMENT II

SELLING & DISTRIBUTION EXPENSES	2021	2020
	Rs.	Rs.
FREIGHT	21,624,366	24,613,522
ADVERTISING EXPENSES	-	157,928
HOARDING CHARGES	7,920	33,947
INSURANCE PREMIUM FOR TRANSPORT	168,676	-
MARKETING EXPENSES	6,700,000	310,220
TV	19,720,000	22,984,675
RADIO	2,664,000	3,692,000
SOCIAL MEDIA	1,068,000	-
EXHIBITION	472,000	2,380,018
DOOR TO DOOR PROMOTION/ INSPECTION	32,600	-
DIGITAL - MANAGEMENT & ADVERTISING	-	1,242,635
SHOP BRANDING	6,765,500	1,051,516
WALL PAINTING	350,000	-
DEALER BOARDS & RACKS	1,413,065	26,876,738
PAINTERS MEETING	91,000	3,661,552
SHOP BOY INCENTIVES	4,105,650	3,779,709
PAINTERS LOYALTY PROMOTION	5,766,075	7,842,112
SAMPLE FREE ISSUES	-	19,700
SALES PROMOTION	-	11,530,500
SALES TRAINING	-	128,920
T- SHIRTS,CAPS,KEY TAG,PENS & OTHERS	1,632,923	1,371,508
SPONSORSHIP	200,000	187,500
VISITING CARDS, POSTERS, BANNERS & ECT	-	1,256,374
FIELD STAFF EXPENSES	6,707,051	8,213,014
INCENTIVE SALES REF	1,906,524	6,103,589
INCENTIVE SALES ASM	326,753	1,213,028
SALES STAFF EXPENSES-WELFARE	188,113	265,951
SALES STAFF ACCOMMODATION EXPENSES	-	29,875
SALARY - D/E	5,157,655	7,246,560
EPF - D/E	605,878	869,587
ETF - D/E	151,469	217,397
BONUS - D/E	1,297,508	378,470
CAR ALLOWANCE - D/E	3,120,000	5,011,109
EPF - STAFF	753,204	774,060
ETF - STAFF	188,301	193,515
SALARY - STAFF	6,276,700	6,501,484
BONUS - STAFF	878,393	256,219
OVERTIME - STAFF	44,740	65,469
SALES CONFERENCE	-	457,998
LOADING & UNLOADING CHARGES	230,771	2,116,316
	<u>100,614,833</u>	<u>153,034,716</u>

Kansai Paints Lanka (Private) Limited

DETAILED INCOME STATEMENT

Year ended 31 March 2021

STATEMENT III

OTHER OPERATING EXPENSES	2021 Rs.	2020 Rs.
GRATUITY - D/E	53,649	106,783
GRATUITY - D/E	127,416	307,013
MEDICAL INSURANCE PREMIUM	997,815	925,742
STAFF WELFARE EXPENSES	597,346	470,747
TELEPHONE - VOICE	169,020	277,729
TELEPHONE -DATA	1,172,690	958,580
TELEPHONE - MOBILE	401,481	835,970
POSTAGE & COURIER	71,387	150,748
ELECTRICITY	661,482	1,022,952
RATES & TAXES	-	21,400
SECURITY SERVICE CHARGES	867,136	2,533,192
JANITORIAL SERVICE CHARGES	280,000	743,582
WATER SUPPLY	81,948	129,666
PRINTING & STATIONERY	516,176	207,518
INSURANCE	130,059	147,412
REPAIRS & MAINTENANCE - BUILDING, FURNITURE & OTHER EQUIPMENT	1,350,788	388,291
FUEL	31,790	102,419
ID CHARGES	1,242	751
GRATUITY - D/E	100,592	220,883
GRATUITY - STAFF	40,237	85,692
MEDICAL INSURANCE	2,041,907	1,626,496
INSURANCE	140,244	186,992
PRINTING & STATIONERY	96,750	126,085
MOTORCYCLE REPAIR	377,712	76,301
GRATUITY - STAFF	140,828	273,333
GRATUITY - STAFF	207,890	434,099
WELFARE	1,529,501	738,444
TELEPHONE - FIXED VOICE	30,067	40,924
POSTAGE & COURIER	14,182	6,583
SECURITY SERVICE CHARGES	2,675,882	2,694,713
JANITORIAL SERVICE CHARGES	279,128	731,164
WATER SUPPLY	247,900	246,922
SLSI CHARGES	-	169,352
PRINTING & STATIONERY	254,144	176,636
REPAIRS & MAINTENANCE - BUILDING, FURNITURE & OTHER EQUIPMENT	2,180,237	1,446,200
TRAVELLING - LOCAL	369,459	288,082
FUEL	160,315	325,949
COST OF SAMPLE	-	72,663
FACTORY OVERHEAD EXPENSES	52,320	39,779
NBT EXPENSES	-	3,696,532
MEDICAL INSURANCE	1,752,079	1,935,872
IT CHARGE	-	396,000
	<u>20,202,799</u>	<u>25,366,192</u>