

KANSAI PAINTS LANKA (PRIVATE) LIMITED
FINANCIAL STATEMENTS
31 MARCH 2023

Kansai Nerolac Paints Limited - Group audit instructions

C-6 Auditor's report to the Group Auditor on the audit of financial information for group audit Name(s) of component(s):

Group code/Component identifier: Kansai Paints Lanka (Private) Limited

Year-end: 31st March 2023

Currency: LKR

To: Group Auditor/ Anil Jobanputra / Ronak Shah

Opinion

We have audited, for the purpose of your audit of the consolidated Ind AS financial statements for the year ended March 31, 2023 of Kansai Nerolac Paints Limited ("the Company"), the accompanying Special Purpose Financial Statements (hereinafter referred to as "SPFS") of Kansai Paints Lanka (Private) Limited which comprise the balance sheet as at March 31, 2023, and the statement of profit and loss (including other comprehensive income), statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid SPFS give the information required by the Companies Act, 2007, as amended ("the Act") in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2023, its profit/loss including other comprehensive income, its cash flows and the changes in equity for the period ended on that date.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

The Company's Board of Directors is responsible with respect to the preparation of these SPFS that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the accounting principles generally accepted in Sri Lanka, including the Sri Lankan Accounting Standards (LKASs and SLFRSs). This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the SPFS that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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Kansai Nerolac Paints Limited - Group audit instructions

In preparing the SPFS, 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.

The Board of Directors are also responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the SPFS

Our objectives are to obtain reasonable assurance about whether the SPFS 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 SLAuS 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 SPFS.

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

- Identify and assess the risks of material misstatement of SPFS, 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. We are also responsible for expressing our opinion on whether the Company has adequate internal financial controls in place and the operating effectiveness of such controls.
- 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 SPFS, including the disclosures, and whether the SPFS 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.

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

Kansai Nerolac Paints Limited - Group audit instructions

Report on Other Legal and Regulatory Requirements

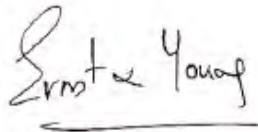
As required by section 163(2) of the Companies Act No.07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the company.

Restriction on Use and Distribution

This report is provided to you solely for the information and use of S R B C & CO LLP, Mumbai to assist you in your audit of the Consolidated Ind AS financial statements of Kansai Nerolac Paints Limited as of and for the year ended 31 March 2023 and for any other statutory certificate purpose. It should not be distributed to anyone in Kansai Nerolac Paints Limited, any of its components, or any other party. If you have any questions on this report, please contact me.

05/04/2023

Mr. Ranil de Saram
EY, Sri Lanka



Ernest Young

Kansai Paints Lanka (Private) Limited
STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

	Note	2023 Rs.	2022 Rs.
ASSETS			
Non-current Assets			
Property, Plant and Equipment	5.	381,850,864	402,161,594
Intangible Assets	6.	-	-
Right of Use Assets	12.	102,652,103	108,519,498
		<u>484,502,967</u>	<u>510,681,092</u>
Current Assets			
Inventories	9.	395,819,057	376,578,385
Deposits, Advances and Prepayments	8.	27,840,726	5,928,520
Trade and Other Receivables	7.	783,717,267	452,814,653
Cash and Cash Equivalents	15.1	106,086,144	100,000
Total current assets		<u>1,313,463,193</u>	<u>835,421,558</u>
Total Assets		<u>1,797,966,160</u>	<u>1,346,102,650</u>
EQUITY AND LIABILITIES			
Stated Capital	10.	2,210,000,000	1,400,000,000
Retained Earnings		(1,396,634,888)	(1,249,270,031)
Total Equity		<u>813,365,112</u>	<u>150,729,969</u>
Non-Current Liabilities			
Defined Benefit Liability	11.	2,025,602	2,290,061
Interest Bearing Borrowings	16.	176,080,478	167,589,327
		<u>178,106,080</u>	<u>169,879,388</u>
Current Liabilities			
Trade and Other Payables	13.	489,581,235	337,244,405
Amount Due to Related Parties	14.	35,496,833	50,991,353
Short Term Loan	17.	-	235,926,928
Bank Overdraft	15.2	272,877,362	397,867,207
Interest Bearing Borrowings	16.	8,539,538	3,463,400
Total Liabilities		<u>806,494,968</u>	<u>1,025,493,293</u>
Total Equity and Liabilities		<u>1,797,966,160</u>	<u>1,346,102,650</u>

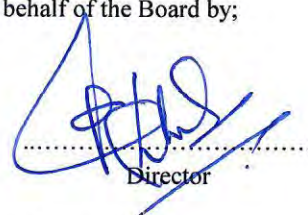
I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Finance Manager

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 28 form an integral part of these Financial Statements.

Kansai Paints Lanka (Private) Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2023

	Note	2023 Rs.	2022 Rs.
Revenue	18.	1,196,685,184	653,556,531
Cost of Sales		(906,946,171)	(596,171,425)
Gross Profit		<u>289,739,013</u>	<u>57,385,107</u>
Other Operating Income	19.	3,072,098	773,611
Administrative Expenses		(60,703,541)	(46,257,105)
Selling & Distribution Expenses		(229,707,990)	(131,284,259)
Other Operating Expenses		(11,480,280)	(20,016,396)
Operating Profit/(Loss)		<u>(9,080,700)</u>	<u>(139,399,043)</u>
Finance Cost	20.	(139,010,862)	(233,710,169)
Profit / (Loss) Before Tax		<u>(148,091,563)</u>	<u>(373,109,211)</u>
Tax Expense		<u>-</u>	<u>-</u>
Profit / (Loss) for the Year		(148,091,563)	(373,109,211)
Other Comprehensive Income			
Other comprehensive income not to be classified to profit or loss in subsequent periods			
Defined Benefit Plan Actuarial (Loss)/Gain net of tax		726,706	(836,660)
Total Comprehensive Income for the year, net of tax		<u>(147,364,857)</u>	<u>(373,945,871)</u>
Basic Earnings / (Loss) Per Share		(0.48)	(2.16)

The Accounting Policies and Notes from pages 7 through 28 form an integral part of these Financial Statements.

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

Year ended 31 March 2023

	Stated Capital Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 31 March 2021	1,400,000,000	(875,324,160)	524,675,840
Total comprehensive income for the period			
Profit for the Year	-	(373,109,211)	(373,109,211)
Other Comprehensive Income	-	(836,660)	(836,660)
Transactions with owners directly recorded in equity			
Issue of Ordinary Shares	-	-	-
Balance as at 31 March 2022	1,400,000,000	(1,249,270,031)	150,729,969
Total comprehensive income for the period			
Profit for the Year	-	(148,091,563)	(148,091,563)
Other Comprehensive Income	-	726,706	726,706
Transactions with owners directly recorded in equity			
Issue of Ordinary Shares	810,000,000	-	810,000,000
Balance as at 31 March 2023	<u>2,210,000,000</u>	<u>(1,396,634,888)</u>	<u>813,365,112</u>

The Accounting Policies and Notes from pages 7 through 28 form an integral part of these Financial Statements.

Kansai Paints Lanka (Private) Limited

STATEMENT OF CASH FLOWS

Year ended 31 March 2023

	Note	2023 Rs.	2022 Rs.
Cash Flows From/(Used in) Operating Activities			
Net Profit/(Loss) Before Income Tax Expense		(148,091,563)	(373,109,211)
Adjustments for :			
Depreciation and amortization of Property, Plant & Equipment and intangible assets	5.	21,705,230	22,558,011
Amortization of ROU	12.	5,867,395	2,408,328
Defined benefit plan cost	11.	984,181	842,233
Finance expense		125,416,315	225,286,799
Finance expense on lease		36,457,905	8,423,370
Provision for inventory		-	1,500,000
Provision for impairment of trade receivables		1,486,629	4,043,694
Operating Profit before Working Capital Changes		<u>43,826,093</u>	<u>(108,046,777)</u>
(Increase)/ Decrease in Advances, prepayments and other receivables	8.	(21,912,206)	20,088,895
(Increase)/ Decrease in Inventories	9.	(19,240,672)	(153,335,320)
(Increase)/ Decrease in Trade and other receivables	7.	(332,389,243)	(119,321,974)
Increase/ (Decrease) in Trade and other payables	13.	152,336,830	212,403,571
Increase/(Decrease) in Amounts Due to Related Parties	14.	(15,494,520)	(10,604,581)
Cash Generated from Operations		<u>(192,873,717)</u>	<u>(158,816,186)</u>
Income tax paid		-	-
Interest expense paid		(139,010,862)	(74,459,089)
Net Cash Flows from/(Used in) Operating Activities		<u>(331,884,580)</u>	<u>(233,275,275)</u>
Cash Flows From/(Used in) Investing Activities			
Proceeds on disposal of PPE		-	-
Gratuity paid		(521,934)	(598,500)
Acquisition and construction of Property, Plant & Equipment		(1,394,500)	(183,600)
Acquisition of intangible assets		-	-
Net Cash Flows from/(Used in) Investing Activities		<u>(1,916,434)</u>	<u>(782,100)</u>
Cash Flows From/(Used in) Financing Activities			
Proceeds from issue of ordinary shares		810,000,000	-
Net repayment of short term loans		(235,926,928)	104,771,046
Repayment of lease liabilities		(9,296,070)	(5,784,143)
Net Cash Flows/(Used in) Financing Activities		<u>564,777,002</u>	<u>98,986,903</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		230,975,989	(135,070,472)
Cash and Cash Equivalents at the Beginning of the Year		<u>(397,767,207)</u>	<u>(262,696,734)</u>
Cash and Cash Equivalents at the End of the Year		<u>(166,791,218)</u>	<u>(397,767,207)</u>

The Accounting Policies and Notes from pages 7 through 28 form an integral part of these Financial Statements.

1 CORPORATE INFORMATION

1.1 General

Kansai Paints Lanka (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 31st March 2023 were authorized for issuance in accordance with a resolution of the Board of Directors on 4 May 2023.

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 LKR 148 Mn compared to Net Loss of LKR 373 Mn reported in previous year.

2.3 Comparative Information

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

2.4 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 11.

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 as 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 recognised 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.

3.1.4 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.

3.1.5 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 Class 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.

3.1.6 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.

3.1.7 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	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.

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

3.1.8 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.

3.1.9 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
-	-	At actual cost on first in first out basis
Trading Goods		

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.

3.1.10 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.

3.1.11 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.

3.1.12 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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

4.1 Standards issued but not yet effective

The new and amended 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. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

4.1.1 SLFRS 17 Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

Select as appropriate [This standard is not applicable to the Group / Company OR The Group is currently assessing the impact the amendments will have on current practice.

4.1.2 Definition of Accounting Estimates - Amendments to LKAS 8

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Select as appropriate [This standard is not applicable to the Group / Company OR The Group is currently assessing the impact the amendments will have on current practice.

4.1.3 Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to LKAS 12

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

Select as appropriate [This standard is not applicable to the Group / Company OR The Group is currently assessing the impact the amendments will have on current practice.

4.1.4 Disclosure of Accounting Policies - Amendments to LKAS 1 and IFRS Practice Statement 2

Amendments to LKAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their „significant“ accounting policies with a requirement to disclose their „material“ accounting policies
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

Select as appropriate [This standard is not applicable to the Group / Company OR The Group is currently assessing the impact the amendments will have on current practice.

4.1.5 Classification of Liabilities as Current or Noncurrent - Amendments to LKAS 1

Amendments to LKAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify -

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- Disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

Select as appropriate [This standard is not applicable to the Group / Company OR the Group is currently assessing the impact the amendments will have on current practice.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2023

5. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and Equipment	Computer and Other equipment	Motor Vehicle	Furniture and Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
5.1 Cost or Valuation						
As at 01st April 2022	295,690,896	194,680,283	17,694,953	8,978,580	2,435,525	519,480,238
Additions	-	659,710	734,790	-	-	1,394,500
Disposals	-	-	-	-	-	-
As at 31st March 2023	295,690,896	195,339,993	18,429,743	8,978,580	2,435,525	520,874,738
5.2 Depreciation and impairment						
As at 01st April 2022	46,193,029	46,643,502	17,551,800	4,774,111	2,156,202	117,318,644
Depreciation Charge for the Year	9,856,363	10,548,700	152,580	897,858	249,729	21,705,230
Disposals	-	-	-	-	-	-
As at 31st March 2023	56,049,392	57,192,202	17,704,380	5,671,969	2,405,931	139,023,874
5.3 Net book value						
As at 31st March 2022	249,497,867	148,036,781	143,153	4,204,469	279,323	402,161,594
As at 31st March 2023	239,641,504	138,147,792	725,363	3,306,611	29,594	381,850,864

5.4 During the financial year, the Company has acquired a Property, Plant & Equipment for cash to the aggregated value of Rs. 1,394,500 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amounts of Rs. 20,765,520

6. INTANGIBLE ASSETS

	2023 Rs.	2022 Rs.
Computer Software		
<u>Costs</u>		
Balance as at 01st April	7,832,655	7,832,655
Acquisitions during the Year	-	-
Balance as at 31st March	7,832,655	7,832,655
<u>Amortization</u>		
Balance as at 01st April	7,832,655	7,556,749
Amortization for the Year	-	275,906
Balance as at 31st March	7,832,655	7,832,655
Carrying amount as at 31st March	-	-

7. TRADE AND OTHER RECEIVABLES

	2023 Rs.	2022 Rs.
Trade Debtors	787,577,130	451,127,859
Less: Impairment Provision for Trade and Other Receivable (7.1)	(5,530,323)	(4,043,694)
	782,046,807	447,084,165
Income Tax Receivable	29,770	29,770
Economic Service Charge Recoverable	-	2,593,377
Value Added Tax Recoverable	-	1,378,110
Notional Tax Receivable	30,560	30,560
National Building Tax Recoverable	964,068	947,610
Other Receivables	646,061	751,061
	783,717,267	452,814,653

7.1 Provision for impairment of trade receivables

Balance as at the beginning of the year	24,000,000	19,956,306
Provision for the year	1,486,629	4,043,694
Balance as at the end of the year	25,486,629	24,000,000

7.2 As at 31 March 2023, 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.	
2023	787,577,130	573,308,397	141,209,809	73,058,924	1,486,629

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

Year ended 31 March 2023

8. DEPOSITS, ADVANCES AND PREPAYMENTS	2023	2022
	Rs.	Rs.
Prepaid expenses	6,748,537	3,992,420
Electricity connection deposits- Factory connection	1,500,000	1,500,000
Employee Accommodation Deposits	300,000	300,000
Security deposit on electricity connection	50,000	50,000
Staff advance	-	86,100
Other Deposits -Water	320,000	-
Advances to Factory Suppliers	18,922,189	-
	<u>27,840,726</u>	<u>5,928,520</u>
9. INVENTORY	2023	2022
	Rs.	Rs.
Raw material	270,681,773	238,019,647
Finished Goods	67,787,105	108,888,627
Packing material	58,850,178	31,170,110
	<u>397,319,057</u>	<u>378,078,385</u>
Less: Provision for inventory	(1,500,000)	(1,500,000)
	<u>395,819,057</u>	<u>376,578,385</u>
10. STATED CAPITAL	2023	2022
	Rs.	Rs.
Issued and fully paid number of shares		
Ordinary Shares	<u>2,210,000,000</u>	<u>1,400,000,000</u>
	<u>2,210,000,000</u>	<u>1,400,000,000</u>
10.1 Number of shares		
Shares at the beginning of the year	173,333,332	173,333,332
Shares issued during the year	135,000,000	-
Shares at the end of the year	<u>308,333,332</u>	<u>173,333,332</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	2023	2022
	Rs.	Rs.
As at the beginning of the year	2,290,061	1,209,671
Charge/(Reversal) for the year	-	-
Current Service Cost	679,479	755,515
Past Service Cost	-	(10,059)
Interest Cost	304,702	96,774
Actuarial (Gain)/Loss on Defined Benefit Obligation - Gratuity	(726,706)	836,660
Payments made during the year	(521,934)	(598,500)
As at the end of the year	<u>2,025,602</u>	<u>2,290,061</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2023

11. RETIREMENT BENEFITS OBLIGATION-GRATUITY (Contd...)	2023 Rs.	2022 Rs.
11.1 Recognized in ;		
a) Statement of Profit or Loss		
Interest Cost	304,702	96,774
Current Service Cost	793,098	745,456
	<u>1,097,800</u>	<u>842,230</u>
b) Other Comprehensive Income		
Actuarial (Gain)/ Loss	(726,706)	836,660

The defined benefit obligation is based on the actuarial valuations carried out by Messer's Actuarial and Management consultant (Private) Limited as at 31 March 2023.

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:

	2023	2022
Discount rate assumed	23%	14%
Future salary escalation	15%	12%
Staff Turnover	28%	23%
Retirement Age	60 Years	60 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 Rs.	1% Decrease Rs.
Discount Rate	1,974,492	2,079,581
Salary increment	2,091,873	1,962,071

12. RIGHT OF USE ASSETS	2023 Rs.	2022 Rs.
12.1 Right of Use Asset		
Leasehold Buildings	102,652,103	108,519,498
	<u>102,652,103</u>	<u>108,519,498</u>

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

	2023 Buildings Rs.	2022 Buildings Rs.
Balance at the beginning of the year	108,519,498	110,927,825
Adjustment	3,744,846	-
Additions/ disposals during the period	-	-
Amortization expenses	(9,612,241)	(2,408,328)
Balance as at the end of the year	<u>102,652,103</u>	<u>108,519,498</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:

	2023 Rs.	2022 Rs.
Amortization expense of right-of-use assets	2,387,258	2,408,328
Interest expense on lease liabilities	13,594,547	8,423,370
Total amount recognized in profit or loss	<u>15,981,805</u>	<u>10,831,698</u>

13. TRADE AND OTHER PAYABLES		2023	2022
		Rs.	Rs.
Trade Payables		519,099,832	325,408,841
Other payables		18,335,527	5,886,309
Staff advance		1,676,090	-
Bonus Payable		3,424,562	-
VAT Payable		13,527,567	-
SSCL Payable		5,197,370	-
Other Control Accounts		(118,003,250)	-
Accrued expenses		46,323,536	5,949,256
		<u>489,581,235</u>	<u>337,244,405</u>
14. AMOUNTS DUE TO RELATED PARTIES		2023	2022
	Relationship	Rs.	Rs.
The Capital Maharaja Organization Ltd	Parent	32,741	6,653,252
Kansai Nerolac Paints Limited	Subsidiary of Capital Holdings Pvt Ltd	34,298,995	24,469,681
Disposable Soft Goods Pvt Ltd	Subsidiary of Capital Holdings Pvt Ltd	-	-
Harrisons Shipping Pvt Ltd	Subsidiary of Capital Holdings Pvt Ltd	1,165,097	16,057,610
International Cosmetics Pvt Ltd	Subsidiary of Capital Holdings Pvt Ltd	-	56,323
SLON Lanka (Pvt) Ltd	Subsidiary of Capital Holding	-	3,754,487
Jones Carriers (Pvt) Ltd	Subsidiary of Capital Holding	-	-
		<u>35,496,833</u>	<u>50,991,353</u>
15. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT		2023	2022
Components of Cash and Cash Equivalents		Rs.	Rs.
15.1 Favourable Cash and Cash Equivalents Balances			
Cash at Bank - Commercial		105,961,144	-
Cash in Hand		125,000	100,000
		<u>106,086,144</u>	<u>100,000</u>
15.2 Unfavourable Cash and Cash Equivalent Balances			
Bank Overdrafts - SCB		(272,877,362)	(397,867,207)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement		<u>(166,791,218)</u>	<u>(397,767,207)</u>
16. INTEREST BEARING BORROWINGS		2023	2022
		Rs.	Rs.
16.1 Lease liabilities			
Non-current Liability		176,080,478	167,589,327
Current Liability		8,539,538	3,463,400
		<u>184,620,016</u>	<u>171,052,727</u>
16.2 Movement of the lease liability			
Gross Liability as at 01 April		171,052,728	95,339,358
- New Leases Obtained/ Leases Disposed		-	-
- Repayments during the Period		(9,296,070)	(4,338,107)
Gross Liability as at 31 March		<u>161,756,658</u>	<u>91,001,251</u>
FOREX Adjustment		22,863,358	80,051,477
Present Value of Lease Liability		<u>184,620,016</u>	<u>171,052,728</u>

Kansai Paints Lanka (Private) Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2023

17. SHORT TERM LOANS	2023	2022
	Rs.	Rs.
Financial Institutions	-	170,926,928
SLON Loan payable	-	65,000,000
	<u>-</u>	<u>235,926,928</u>
	<u>-</u>	<u>235,926,928</u>
18. REVENUE	2023	2022
	Rs.	Rs.
Revenue	1,196,685,184	653,556,531
	<u>1,196,685,184</u>	<u>653,556,531</u>
	<u>1,196,685,184</u>	<u>653,556,531</u>
19. OTHER OPERATING INCOME	2023	2022
	Rs.	Rs.
Scrap Sales Income	3,072,098	773,611
	<u>3,072,098</u>	<u>773,611</u>
	<u>3,072,098</u>	<u>773,611</u>
20. FINANCE COST	2023	2022
	Rs.	Rs.
Interest on Bank Overdraft	69,245,655	27,112,309
Interest on Term Loan	26,438,641	16,092,238
Interest on Other Loan	11,169,633	
Interest on Lease	13,594,547	8,423,370
Exchange Loss	18,562,386	182,082,252
	<u>139,010,862</u>	<u>233,710,169</u>
	<u>139,010,862</u>	<u>233,710,169</u>
21. LOSS FROM OPERATIONS	2023	2022
	Rs.	Rs.
Auditor's remuneration		
-Statutory Audit fee	450,000	350,000
Depreciation of property, plant and equipment	21,705,230	22,282,105
Amortization of Intangible Assets	-	275,906
Amortization of right of use assets	2,387,258	2,408,328
Administrative service charges to related party	4,552,534	4,672,624
Provision for impairment of trade receivables	1,486,629	4,043,694
22. INCOME TAX EXPENSES		
The major components of income tax expense for the years ended 31 March are as follows :		
	2023	2022
	Rs.	Rs.
Current Income Tax		
Current Income Tax Charge	-	-
Under/Over Provision of Current Taxes in Respect of Prior Years	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	-	-
	<u>-</u>	<u>-</u>
	<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:**

	2023	2022
	Rs.	Rs.
Accounting Profit / (Loss) before Income Tax	(148,091,563)	(373,109,212)
Less: Interest Income	-	-
Add: Disallowed expenses	65,644,589	221,857,888
Less: Claims	(47,554,510)	(45,125,128)
Statutory loss from business	(130,001,484)	(196,376,452)
Taxable Income	-	-
Utilization of tax losses	-	-
	(130,001,484)	(196,376,452)
Income tax for the year @ 30%	-	-
Deferred tax	-	-
	-	-

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 31 March 2023 is disclosed as follows.

	2023	2022
	Rs.	Rs.
Tax Losses Brought Forward as per the Provisional Tax Computation	1,200,423,539	1,004,047,087
Adjustment - Tax loss 2018/19	-	-
Adjustment - Tax loss 2019/20	-	-
Tax Losses Brought Forward as per the Income Tax Return	1,200,423,539	1,004,047,087.00
Tax Loss for the year	130,001,484	196,376,452
Loss Claimed during the year	-	-
Carried Forward Tax Losses as per the Provisional Tax Computation	1,330,425,023	1,200,423,539

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

	2023		2022	
	Temporary	Deferred Tax	Temporary	Deferred Tax
	Difference	asset/ (Liability)	Difference	asset/ (Liability)
	Rs.	Rs.	Rs.	Rs.
Retirement Benefit Obligation				
Property Plant and Equipment				
Right-of-Use asset				
Lease Liability				
Carried forward tax losses				
	-	-	-	-

Deferred tax has been computed at 30%.

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.

	2023 Rs.	2022 Rs.
Amounts Used as Numerator:		
Net Profit / (Loss) Attributable to Ordinary Shareholders	(147,364,857)	(373,945,871)
Numbers of Ordinary Shares Used as Denominator:	2023 Number	2022 Number
Weighted Average Number of Ordinary Shares in Issue Applicable to Basic Earnings Per Share	308,333,332	173,333,332
	2023 Rs.	2022 Rs.
Earnings / (Loss) Per Share	(0.48)	(2.16)

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 31.03.2023 Rs.	Balance as at 31.03.2022 Rs.
Kansai Nerolac Paints Ltd	Parent	Consultancy fee Royalty payment Payment	13,635,201	38,104,881.18	24,469,681
The Capital Maharaja Organisation Ltd	Subsidiary of Capital Holding	Administration Services fee Salary IT Charges Staff Loan Payment	4,552,534 80,342,885 1,296,484 587,140 93,399,553	- - - - 32,740.89	- - - - 6,653,252
Harrisons Shipping (Pvt) Ltd	Subsidiary of Capital Holding	Clearing Charges Payments	8,507,294 (23,399,807)	1,165,096.96	16,057,610
Disposable Soft Goods (Pvt) Ltd	Subsidiary of Capital Holding	Payments	-	-	-
International Cosmetics (Pvt) Ltd	Subsidiary of Capital Holding	Payments	(56,323)	-	56,323
S-lon Lanka (Pvt) Ltd	Subsidiary of Capital Holding	Loan received Consultancy Fee Deputation Payments Sale Interest on loan	- 1,343,989 1,405,904 (78,917,339) 3,438,249 11,167,445	- - - - - -	65,000,000 - - - - 3,754,487
Jones Carriers (Pvt) Ltd	Subsidiary of Capital Holding	Office Rent Water Charges Payments	2,673,525 181,098 (3,713,326)	- - -	858,704 - -
				39,302,719	116,850,056

25. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require

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. Kansai Paints Lanka 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.

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).

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

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.

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.

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

Year ended 31 March 2023	On demand	With in 1 year	1 to 5 years	Total
	Rs.	Rs.	Rs.	Rs.
Trade and other payables	489,581,235	-	-	489,581,235
Year ended 31 March 2022	On demand	With in 1 year	1 to 5 years	Total
	Rs.	Rs.	Rs.	Rs.
Trade and other payables	337,244,405	-	-	337,244,405

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.

	2023	2022
	Rs.	Rs.
Trade and other payables (Note 13)	489,581,235	337,244,405
Less: cash and short-term deposits (Note 15)	106,086,144	100,000
Net debt	<u>383,495,091</u>	<u>337,144,405</u>
Equity	813,365,112	150,729,969
Total Capital	2,210,000,000	1,400,000,000
Capital and net Debt	2,593,495,091	1,737,144,405
Gearing Ratio	3.19	11.52

KANSAI PAINTS LANKA (PRIVATE) LIMITED

**DETAILED EXPENDITURE STATEMENT
YEAR ENDED 31 MARCH 2023**

Kansai Paints Lanka (Private) Limited

DETAILED INCOME STATEMENT

Year ended 31 March 2023

STATEMENT I

	2023	2022
	Rs.	Rs.
ADMINISTRATION EXPENSES		
SALARY - TRAINEE	60,667	-
SALARY - STAFF SL	13,951,721	11,193,483
EPF - STAFF SL	1,800,844	1,232,818
ETF - STAFF SL	450,211	308,309
BONUS - STAFF SL	1,240,840	1,529,881
OVERTIME - STAFF SL	18,980	4,250
STAFF WELFARE SL	2,548,785	-
MEDICAL - STAFF SL	585,834	26,764
CAR ALLOWANCE - SL	2,288,271	1,638,160
GRATUITY	107,131	-
RENT	3,192,966	1,922,354
STAMP DUTY	77650	-
SLSI CHARGES	-	70,409
TRAVELLING - LOCAL	848,118	257,866
VEHICLE MAINTENANCE	-	6,222
CONSULTANCY FEE (PROFESSIONAL)	4,208,530	6,706,495
AUDIT FEE	939,439	399,000
ADMIN FEE	-	4,326,504
IT CHARGES	4,096,465	5,730,736
OFFICE EXPENSES	5,277,170	-
LEGAL FEE	1,976,701	3,360
BANK CHARGES	2,775,746	975,747
OTHERS ADMIN EXPENSES	-	121,080
TELEPHONE	2,563,613	-
TELEPHONE - MOBILE DATA	588,371	-
INSURANCE	2,635	679,963
BOI ENVIRONMENT LICENSE FEE	-	77,328
PEST CONTROL EXP- SL	347,700	-
ELECTRICITY	932,615	-
WATER CHARGES	183,033	-
FUEL	779,970	-
PRINTING AND STATIONERY	1,370,520	-
JANITORIAL	671,283	-
REPAIR AND MAITENANCE	21,996	-
SECRETARIAL EXPENSE	28,718	-
IFRS ADJUSTMENTS	(8,168,349)	-
COMPUTER AND EQUIPMENT (DEPRECIATION)	152,580	311,561
MOTOR VEHICLE (DEPRECIATION)	897,858	897,858
FURNITURE (DEPRECIATION)	249,729	487,105
SOFTWARE (DEPRECIATION)	-	275,906
ROYALTY	13,635,201	7,073,945
	<u>60,703,541</u>	<u>46,257,105</u>

Kansai Paints Lanka (Private) Limited

DETAILED INCOME STATEMENT

Year ended 31 March 2023

STATEMENT II

	2023	2022
	Rs.	Rs.
SELLING & DISTRIBUTION EXPENSES		
SALARY - STAFF	22,511,150	16,641,333
EPF - STAFF	2,851,556	1,996,960
ETF - STAFF	712,119	499,240
BONUS - STAFF	3,533,493	1,813,250
OVERTIME - STAFF	-	87,001
CAR ALLOWANCE - D/E	6,785,371	4,291,635
INCENTIVE	53,134,670	10,881,394
SALES STAFF EXPENSES-WELFARE	-	43,500
CONFERENCE EXP	1,418,410	-
GRATUITY	434,022	-
PERSONAL PAY	9,277	-
TECH.FEILD ALLOWANCE	12,755,949	15,590,806
MEDICAL - STAFF SL	1,739,996	-
DOOR TO DOOR PROMOTION/ INSPECTION	-	1,861,080
FREIGHT	36,646,586	30,901,336
ADVERTISING EXPENSES	14,987,500	-
HOARDING CHARGES	(1,474,622)	-
INSURANCE PREMIUM FOR TRANSPORT	172,614	-
MARKETING EXPENSES (GIVE AWAY)	24,056,838	150,000
TV	7,640,304	10,093,440
RADIO	-	5,133,000
SOCIAL MEDIA (PUBLICITY)	26,391,286	3,107,068
SHOP BRANDING	-	15,854,122
DEALER BOARDS & RACKS	10,966,982	268,612
PAINTERS MEETING	3,891,546	-
SHOP BOY INCENTIVES	-	1,000,000
PAINTERS LOYALTY PROMOTION	-	10,105,005
SALES PROMOTION	-	377,000
T- SHIRTS,CAPS,KEY TAG,PENS & OTHERS	78,000	465,797
LOADING & UNLOADING CHARGES	-	122,680
BAD DEBTS	1,486,629	-
POSTAGE AND COURIER	110,199	-
PRINTING AND STATIONARY	(1,778,878)	-
NBT	(16,458)	-
LOCAL CNVY -SL	663,448	-
	<u>229,707,990</u>	<u>131,284,259</u>

Kansai Paints Lanka (Private) Limited

DETAILED INCOME STATEMENT

Year ended 31 March 2023

STATEMENT III

	2023	2022
	Rs.	Rs.
OTHER OPERATING EXPENSES		
SALARY - FACTORY -SL	5,925,871	-
EPF - FACTORY -SL	550,140	-
ETF - FACTORY -SL	137,535	-
BONUS WORKERS - SL	1,015,273	-
OT - FACTORY -SL	293,815	-
CASUAL LABOUR WAGES	52,450	-
STAFF WELFARE EXPENSES	125,608	411,014
WELFARE	-	2,139,999
OTHER ALLOWANCE	810,439	-
GRATUITY	132,908	1,678,890
MEDICAL INSURANCE	513,548	2,979,230
FIRE/ OTHER INSURANCE	-	183,552
OTHER OPERATING EXPENSE	537,724	-
TELEPHONE - VOICE	-	38,554
TELEPHONE -DATA	-	776,775
TELEPHONE - MOBILE	-	652,010
PRINTING & STATIONERY	12,300	409,572
POSTAGE & COURIER	1,466	225
ELECTRICITY	-	769,232
WATER SUPPLY	-	478,007
SECURITY SERVICE CHARGES	-	3,554,384
REPAIRS & MAINTENANCE - BUILDING, FURNITURE & OTHER EQUIPMENT	-	3,658,646
REPAIRS & MAINTENANCE - OTHER	-	207,048
IT COMMUNICATION EXP	155,693	-
WATCH & WARD EXP	1,044,140	-
ID CHARGES	-	1,794
MOTORCYCLE REPAIR	-	238,500
TRAVELLING - LOCAL	-	123,757
FUEL	-	16,650
QUALITY CONTROL EXPENSES	-	229,824
SCRAP DISPOSAL EXPENSES	-	354,546
JANITORIAL SERVICE CHARGES	171,369	1,114,187
	<u>11,480,280</u>	<u>20,016,396</u>