

Kreston MNS & Co

COPY Shareholders

Our Ref: 3270 / A104 / SR / RB

Chartered Accountants
P.O. Box 210
50/2, Sir James Peiris Mawatha,
Colombo 02, Sri Lanka.
T +94 (0) 11 2323571
F +94 (0) 11 2433388
E audit@kreston.lk
www.webasia.com/kreston

FINANCIAL STATEMENTS OF

SRI RAMCO ROOFINGS LANKA (PVT) LIMITED

FOR THE YEAR ENDED

31ST MARCH 2016

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRI RAMCO ROOFINGS LANKA (PVT) LTD

Report on the Financial Statements

Chartered Accountants
P.O. Box 210
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F +94 (0) 11 2433388
E audit@kreston.lk
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We have audited the accompanying Financial Statements of SRI RAMCO ROOFINGS LANKA (PVT) LTD ("the Company"), which comprise the Statement of Financial Position as at 31st March 2016, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, exhibited on pages 6 to 19.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standard applicable to Small and Medium – sized Entities and for such internal control as Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company as at 31st March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard applicable to Small and Medium – sized Entities.

Contd.

Report on Other Legal and Regulatory Requirements

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

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - 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
 - The Financial Statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

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CHARTERED ACCOUNTANTS

COLOMBO

20TH MAY 2016

SR/RB/rf

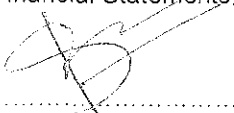
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STATEMENT OF FINANCIAL POSITION AS AT

| | | 31.03.2016 SL Rs. | 31.03.2015 SL Rs. |
|---------------------------------------|-------------|-------------------------|-------------------------|
| ASSETS | Note | | |
| Non-Current Assets | | | |
| Property, Plant & Equipment | 4 | 688,895,371.18 | 769,846,206.41 |
| Capital Work in Progress | 5 | 40,355,260.37 | 5,959,007.12 |
| | | <u>729,250,631.55</u> | <u>775,805,213.53</u> |
| Current Assets | | | |
| Inventories | 6 | 560,188,948.93 | 338,324,945.19 |
| Trade & Other Receivables | 7 | 67,808,932.78 | 41,264,389.69 |
| Other Current Assets | 8 | 62,636,835.06 | 37,123,664.73 |
| Income Tax Recoverable | 9 | 3,912,825.69 | 579,814.80 |
| Cash & Cash Equivalents | 11 | 605,215,455.44 | 181,047,812.99 |
| | | <u>1,299,762,997.90</u> | <u>598,340,627.40</u> |
| TOTAL ASSETS | | <u>2,029,013,629.45</u> | <u>1,374,145,840.93</u> |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Stated Capital | 12 | 1,015,043,010.00 | 1,015,043,010.00 |
| Retained Earnings | | 553,081,692.68 | 261,148,025.04 |
| | | <u>1,568,124,702.68</u> | <u>1,276,191,035.04</u> |
| Non-Current Liabilities | | | |
| Deferred Liabilities | 13 | 4,399,301.49 | 3,459,751.08 |
| | | <u>4,399,301.49</u> | <u>3,459,751.08</u> |
| Current Liabilities | | | |
| Trade & Other Payables | 14 | 338,245,150.49 | 45,617,285.41 |
| Other Current Liabilities | 15 | 5,435,501.41 | 7,404,971.21 |
| Amounts due to Related Companies | 16 | 57,265,206.54 | 41,472,798.19 |
| Bank Overdraft | 11(a) | 55,543,766.84 | - |
| | | <u>456,489,625.28</u> | <u>94,495,054.81</u> |
| TOTAL EQUITY & LIABILITIES | | <u>2,029,013,629.45</u> | <u>1,374,145,840.93</u> |

The Accounting Policies and Notes on pages 6 to 19 form an integral part of these Financial Statements.

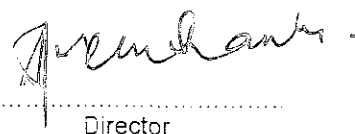
I certify that the Financial Statements are in compliance with the requirement of the Companies Act No. 07 of 2007.


Senior Accountant

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and Signed on behalf of the Board of Directors


Director


Director

20th May 2016.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED

| | Note | 31.03.2016 SL Rs. | 31.03.2015 SL Rs. |
|--|------|-----------------------|-----------------------|
| Revenue | 17 | 1,987,479,732.81 | 1,603,525,839.79 |
| Cost of Sales | | (1,483,938,957.07) | (1,290,194,271.11) |
| Gross Profit | | <u>503,540,775.74</u> | <u>313,331,568.68</u> |
| Other Income | 18 | 2,038,491.72 | 1,230,811.63 |
| | | <u>505,579,267.46</u> | <u>314,562,380.31</u> |
| Distribution Costs | | (58,386,902.31) | (44,597,202.38) |
| Administrative Expenses | | (77,730,344.08) | (76,866,423.86) |
| Other Expenses | | (3,287,160.95) | (2,447,280.76) |
| Operating Profit | | <u>366,174,860.12</u> | <u>190,651,473.31</u> |
| Finance Cost | 19 | - | (4,973,410.27) |
| Finance Income | 19 | 33,330,108.52 | 981,852.88 |
| Profit before Taxation | 20 | <u>399,504,968.64</u> | <u>186,659,915.92</u> |
| Taxation | 21 | (6,067,000.00) | (179,000.00) |
| Profit for the Year | | <u>393,437,968.64</u> | <u>186,480,915.92</u> |
| Other Comprehensive Income | | | |
| Total Comprehensive Income for the Year | | <u>393,437,968.64</u> | <u>186,480,915.92</u> |

The Accounting Policies and Notes on pages 6 to 19 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST MARCH 2016

| | Stated Capital SL Rs. | Retained Earnings SL Rs. | Total SL Rs. |
|---|--------------------------|--------------------------------|------------------|
| Balance as at 31st March 2014 | 1,015,043,010.00 | 74,667,109.12 | 1,089,710,119.12 |
| Profit for the year | - | 186,480,915.92 | 186,480,915.92 |
| Other comprehensive income for the year | - | - | - |
| Total comprehensive income for the year | - | 186,480,915.92 | 186,480,915.92 |
| Balance as at 31st March 2015 | 1,015,043,010.00 | 261,148,025.04 | 1,276,191,035.04 |
| Profit for the year | | 393,437,968.64 | 393,437,968.64 |
| Other comprehensive income for the year | | | |
| Total comprehensive income for the year | - | 393,437,968.64 | 393,437,968.64 |
| Dividend | | (101,504,301.00) | (101,504,301.00) |
| Balance as at 31st March 2016 | 1,015,043,010.00 | 553,081,692.68 | 1,568,124,702.68 |

The Accounting Policies and Notes on pages 6 to 19 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED

| | | 31.03.2016 SL Rs. | 31.03.2015 SL Rs. |
|---|------|-------------------------|-----------------------|
| | Note | | |
| Profit before Taxation | | 399,504,968.64 | 186,659,915.92 |
| Adjustments : | | | |
| Depreciation | 4 | 81,202,497.73 | 81,242,056.05 |
| Provision for Replacement of Damaged Sheets | 20 | 2,938,277.25 | 2,274,810.41 |
| Amortisation of Deferred Staff Expense | 20 | - | - |
| Provision for Retiring Gratuity | 13 | 939,550.41 | 1,875,295.51 |
| Interest Income | 19 | (33,330,108.52) | (981,852.88) |
| Cost of sheets replaced relating to previous year | 20 | (2,274,810.41) | (1,689,601.22) |
| Operating Profit before changes in Working Capital | | 448,980,375.10 | 269,380,623.79 |
| Changes in Working Capital | | | |
| (Increase) / Decrease in Inventories | 6 | (221,864,003.74) | (104,310,422.63) |
| (Increase) / Decrease in Trade & Other Receivables | 7 | (26,544,543.09) | (24,059,201.12) |
| (Increase) / Decrease in Other Current Assets | 8 | (25,991,594.37) | 85,167,158.76 |
| Increase / (Decrease) in Trade & Other Payables | 14 | 292,627,677.59 | (94,007,411.10) |
| Increase / (Decrease) in other Current Liability | 15 | (2,632,936.64) | 2,305,194.88 |
| Increase / (Decrease) in Amounts due to Related Companies | 16 | 15,792,408.35 | (49,669,296.12) |
| Cash Generated / (Used) from Operations | | 480,367,383.21 | 84,806,646.46 |
| Interest Income | 19 | 33,330,108.52 | 981,852.88 |
| WHT Paid | 9 | (462,567.31) | - |
| Notional Tax | 9 | (2,870,443.58) | (98,185.29) |
| ESC Paid | 8(a) | (5,588,575.96) | (4,433,578.45) |
| Gratuity Paid | 13 | - | (1,999,648.00) |
| Net Cash Flows from / (used in) Operating Activities | | 504,775,904.88 | 79,257,087.60 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchase of Property, Plant & Equipment | 4 | (251,662.50) | (5,237,500.00) |
| Investment in Capital Work-in-Progress | 5 | (34,396,252.65) | (4,420,115.98) |
| Investment in Money market & daily Repo | | - | - |
| Net Cash Flows from / (used in) Investing Activities | | (34,647,915.15) | (9,657,615.98) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Divident payment | | (101,504,114.12) | - |
| Net Cash Flows from Financing Activities | | (101,504,114.12) | - |
| Net Increase/(Decrease) in Cash & Cash Equivalents | | 368,623,875.61 | 69,599,471.62 |
| Cash & Cash Equivalents at the beginning of the year | 11 | 181,047,812.99 | 111,448,341.37 |
| Cash & Cash Equivalents at the end of the year | 11 | 549,671,688.60 | 181,047,812.99 |

The Accounting Policies and Notes on pages 6 to 19 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – CORPORATE INFORMATION

| | | |
|--|----|---|
| Name of the Company | :- | Sri Ramco Roofings Lanka (Pvt) Ltd. |
| Legal Form | :- | A Private Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 07 of 2007 on 09th November 2010 - (PV 75389). |
| Registered Office | :- | 441, S.G. Arcade Building, 1st Floor, Sri Sangarajah Mawatha, Colombo 10 |
| Factory | :- | Pallegodawatte, 5 th Mile Post, Meegama, Dharga Town |
| Nature of business / activities | :- | Manufacture of rubber household items & plastic items, asbestos fiber cement sheets and accessories. |
| Parent enterprise and ultimate Parent enterprise | :- | The Company's Parent undertaking is Sri Ramco Lanka (Pvt) Ltd, a Company incorporated in Sri Lanka. However the ultimate Parent enterprise is Ramco Industries Ltd a Company incorporated in India. |

NOTE 2 - GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH SRI LANKA ACCOUNTING STANDARD FOR SMALL AND MEDIUM SIZED ENTITIES (SLFRS FOR SMES)

The Financial Statements of the Company for the year ended 31st March 2016 have been prepared in accordance with the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs) issued by the Institute of Chartered Accountants of Sri Lanka. They are presented in Sri Lankan Rupees (Rs), which is also the functional currency of the Company.

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

NOTE 3 - SUMMARY OF ACCOUNTING POLICIES

NOTE 3.1 - OVERALL CONSIDERATIONS

The significant accounting policies that have been used in the preparation of these Financial Statements are summarised below. These accounting policies have been used throughout all periods presented in the financial statements.

NOTE 3.2 - FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency of the respective Company using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items that are measured at historical cost are not retranslated. Non-monetary items that are measured at fair value are translated at the exchange rates at the date fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

NOTE 3.3 – REVENUE

Revenue is measured at the fair value of consideration received or receivable, excluding sales taxes, collected on behalf of third parties, volume rebates, and trade discounts.

(a) Sale of Goods

Revenue from sale of goods is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer with the Company retaining neither continuing managerial involvement to the degree usually associated with the ownership, nor an effective control over the goods sold.

(b) Interest and Dividend Income

Interest income is recognised on an accrual basis using the effective interest method. Dividend income is recognised at the time the right to receive payment is established.

(c) Others

Other income is recognised on an accrual basis.

NOTE 3.4 - BORROWING COSTS

All borrowing costs are expensed in the period in which they are incurred.

NOTE 3.5 – EVENTS OCCURING AFTER THE REPORTING DATE

All material events occurring after the reporting date have been considered and where necessary adjustments to or disclosure have been made in the Financial Statements.

NOTE 3.6 - PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following useful lives are used for the depreciation of Property, Plant & Equipment :

| | |
|-----------------------------------|-------|
| Plant & Machinery | 10% |
| Buildings | 3.33% |
| Lab Equipment | 10% |
| Motor Vehicles & Fork Lift Trucks | 20% |
| Furniture, Fixtures & Fittings | 10% |
| Electrical Goods | 10% |
| Electrical Installation | 10% |
| Office Equipment | 10% |
| Factory Tools | 10% |
| Factory Equipment | 10% |
| Tube well | 10% |

Depreciation is provided from the month of purchase to the month of sale.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

NOTE 3.7 - CAPITAL WORK IN PROGRESS

Capital expenditure incurred which are not completed as at the Balance Sheet date are shown as capital work in progress and the capital assets completed / installed during the year have been transferred to Property, Plant & Equipment.

NOTE 3.8 - IMPAIRMENT TESTING OF PROPERTY, PLANT AND EQUIPMENT

For the purpose of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash-inflows (cash-generating units – CGUs). As a result, some assets are tested individually for impairment and some are tested at the CGU level. Goodwill is allocated to those CGUs that are expected to benefit from the synergies of the related business combination.

Individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount

Impairment losses for CGUs reduce first the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro-rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently assessed for indications that an impairment loss previously recognised may no longer exist. In that case the previous impairment loss is reversed through comprehensive Income Statement.

NOTE 3.9 - CASH & CASH EQUIVALENTS

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

For the purpose of the Cash Flow Statement Cash and Cash Equivalents comprise cash in hand, demand deposits, net of bank overdraft.

Cash Flow Statement has been prepared using indirect method.

NOTE 3.10 - FINANCIAL INSTRUMENTS

(a) Financial Assets

Trade & other receivables and cash & cash equivalents

These financial assets are recognised initially at the transaction price.

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial or where the balances are recoverable on demand. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

Staff Loans

Staff loans are recognised initially at fair value. After initial recognition staff loans are measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

NOTE 3.10 - FINANCIAL INSTRUMENTS (CONTD.)

(b) Financial Liabilities

The Company's financial liabilities include borrowings, Amounts due to Related Companies and trade and other payables. Financial liabilities are recognised initially at transaction price. After initial recognition they are measured at amortised cost using the effective interest method. Trade payables are on normal credit terms and do not bear interest.

Amounts due to related companies are stated at cost since these are considered as payable on demand

NOTE 3.11 - INVENTORIES

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. In general Raw Material cost is determined using the first-in, first-out method. Value of finished goods and General Stock items are determined on weighted average basis. Inventories are assessed for impairment at each reporting date. Impairment losses on inventory are recognised immediately in profit or loss and presented within 'other operating expenses'.

NOTE 3.12 - INCOME TAXES

(a) Corporate Income Tax

The Company has entered into an agreement with the Board of Investment of Sri Lanka under Section 17(2) of the BOI Law No. 4 of 1978 on 12th November 2010 to set up, conduct and operate a project to manufacture rubber household items & plastic items, asbestos fibre cement sheets and accessories on the land at Pallegodawatta Industrial Estate, Mathugama in the Divisional Secretariat Divisions of Mathugama in the District of Kalutara. According to this agreement,

- (i) For a period of five (05) years reckoned from the year of assessment as may be determined by the Board ("tax exemption period") the provisions of the Inland Revenue Act No. 10 of 2006 relating to the imposition payment and recovery of income tax in respect of the profits and income of the Enterprise shall not apply to the profits and income of the Company.

For the above purpose the year of assessment shall be reckoned from the year in which the Enterprise commences to make profits or any year of assessment not later than two (02) years reckoned from the date of commencement of commercial operations, whichever year is earlier, as specified in a certificate issued by the Board.

Since the Company commenced its commercial operation on 10.02.2012 and has incurred tax loss upto the year of assessment 2012/13, the Company is of the view the tax holiday commence from year of assessment 2013/2014.

- (ii) After the expiration of the aforesaid tax exemption period, referred to in sub-clause (i) above, the profits and income of the Enterprise shall be charged at the rate of ten per centum (10%) ("Concessionary Period") for a period of two (02) years immediately succeeding the last date of the tax exemption period during which the profits and income of the Enterprise is exempted from the income tax.
- (iii) After the expiration of the aforesaid concessionary period referred to in sub-clause (ii) above, the profits and income of the Enterprise shall be charged for any year of assessment at the rate of twenty per centum (20%)

The above tax concession will apply only if the following conditions are satisfied:-

- (a) Make an investment of Sri Lankan Rupees Thirty Eight Million Seven Hundred and Sixty Thousand (Rs. 38,760,000/-) ("the investment") in the business on / or before 31st March 2012. The investment shall be made in Plant, Machinery and Buildings

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

NOTE 3.12 - INCOME TAXES (CONTD.)

The above tax concession will apply only if the following conditions are satisfied:- (Contd)

- (b) Create employment opportunities for a minimum of hundred (100) local persons in the business on / or before 31st March 2012 and
- (c) Locate the business at the site and shall not conduct the business in any other place and no other project and / or business activities shall be conducted at the site.

(b) Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

The deferred tax has not been recognised due to the tax holiday detailed in Note 3.12(a).

NOTE 3.13 - ECONOMIC SERVICE CHARGE (ESC)

As per the provisions of the Finance Act No. 11 of 2004, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the Company's income tax liability, and any excess can be carried forward and set off against the income tax payable for a specified period. No refund of ESC is due thereafter.

NOTE 3.14 - EQUITY, RESERVES AND DIVIDEND PAYMENTS

The total amount received by the Company or due and payable to the Company in respect of the issue of shares are referred to as "Stated Capital".

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

NOTE 3.15 - POST-EMPLOYMENT BENEFITS, SHORT-TERM EMPLOYEE BENEFITS AND TERMINATION BENEFITS**Post Employment Benefit**

The Company provides post-employment benefits through various defined contribution plans and defined benefit plans.

Defined Contribution Plans

A defined contribution plan is a post – employment benefit plan under which the Company pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contribution to Employee Provident and Employee Trust Funds covering all employees are recognised as an expense in profit or loss as incurred.

The Company contributes 12% and 3% of gross emoluments of employees as Provident Fund and Trust Fund contribution respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

NOTE 3.15 - POST-EMPLOYMENT BENEFITS, SHORT-TERM EMPLOYEE BENEFITS AND TERMINATION BENEFITS (CONTD.)**Defined Benefit Plan - Gratuity**

A defined benefit plan is a post – employment benefit plan other than a defined contribution plan. The defined benefit obligation is measured using the projected unit credit method assuming a 12 per cent average annual salary increase, with employee turnover based on the Company's recent experience. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds 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.

Termination Benefits

Termination benefits are recognised as an expense when the Company has announced a detailed formal plan for the termination to the employees affected and are measured at the estimated expenditure required to settle the obligations at the reporting date.

NOTE 3.16 - OTHER CURRENT ASSETS AND OTHER CURRENT LIABILITIES

Other Current assets comprise advances and prepayments and they are stated at cost less impairment losses. Other current liabilities are stated at cost.

NOTE 3.17 - SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Transfer pricing regulation

The Company is subject to income taxes and other taxes including transfer pricing regulations. Prevailing uncertainties with respect to the interpretation of respective transfer pricing regulations, necessitated using management judgment to determine the impact of transfer pricing regulations. Accordingly critical judgments and estimates were used in applying the regulations in aspects including but not limited to identifying associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism. The current tax charge is subject to such judgments. Differences between estimated income tax charge and actual payable may arise as a result of management's interpretation and application of transfer pricing regulation.

Significant management judgments

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgment is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

NOTE 3.17 - SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY (CONTD.)

• Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets

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

• Inventories

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market driven changes that may reduce future selling prices.

Defined Benefit Obligation (DBO)

Management's estimate of the DBO is based on a number of critical underlying assumptions such as discount rate, future salary, increment rate, etc.

Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

• Fair value of financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

NOTE 3.18 - EXPENDITURE

All expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the profit for the year.

All expenditure incurred in the acquisition, extension or improvement of assets of a permanent nature in order to carry on or increase the earning capacity of the business has been treated as capital expenditure.

NOTES TO FINANCIAL STATEMENTS (CONTD.)

NOTE 4 - PROPERTY, PLANT & EQUIPMENT

| Item | As at 01.04.2015 SL Rs. | Additions SL Rs. | Disposal SL Rs. | As at 31.03.2016 SL Rs. |
|-----------------------------------|-------------------------------|---------------------|--------------------|-------------------------------|
| Plant & Machinery | 483,812,998.14 | - | - | 483,812,998.14 |
| Building | 338,891,823.92 | - | - | 338,891,823.92 |
| Electrical Goods | 92,470,407.96 | - | - | 92,470,407.96 |
| Electrical Installation | 57,691,614.39 | - | - | 57,691,614.39 |
| Factory Equipment | 4,977,838.80 | - | - | 4,977,838.80 |
| Lab Equipment | 2,657,783.36 | - | - | 2,657,783.36 |
| Factory Tools | 454,400.00 | - | - | 454,400.00 |
| Furniture & Fittings | 6,156,829.18 | - | - | 6,156,829.18 |
| Motor Vehicles & Fork Lift Trucks | 22,432,746.41 | - | - | 22,432,746.41 |
| Office Equipment | 3,639,595.00 | 251,662.50 | - | 3,891,257.50 |
| Tube Well | 2,196,895.38 | - | - | 2,196,895.38 |
| | <u>1,015,382,932.54</u> | <u>251,662.50</u> | <u>-</u> | <u>1,015,634,595.04</u> |

| Depreciation | As at 01.04.2015 SL Rs. | Charge for the year SL Rs. | On Disposal SL Rs. | As at 31.03.2016 SL Rs. |
|-----------------------------------|-------------------------------|----------------------------------|-----------------------|-------------------------------|
| Plant & Machinery | 145,463,529.35 | 48,381,299.81 | - | 193,844,829.16 |
| Building | 33,626,702.12 | 11,285,175.12 | - | 44,911,877.24 |
| Electrical Goods | 29,771,902.46 | 9,247,040.80 | - | 39,018,943.26 |
| Electrical Installation | 18,293,193.71 | 5,769,161.44 | - | 24,062,355.15 |
| Factory Equipment | 1,558,266.43 | 497,783.88 | - | 2,056,050.31 |
| Lab Equipment | 881,788.83 | 265,778.34 | - | 1,147,567.17 |
| Factory Tools | 152,680.11 | 45,440.00 | - | 198,120.11 |
| Furniture & Fittings | 1,862,704.99 | 615,682.94 | - | 2,478,387.93 |
| Motor Vehicles & Fork Lift Trucks | 12,059,276.21 | 4,486,549.28 | - | 16,545,825.49 |
| Office Equipment | 1,143,242.11 | 388,896.58 | - | 1,532,138.69 |
| Tube Well | 723,439.81 | 219,689.54 | - | 943,129.35 |
| | <u>245,536,726.13</u> | <u>81,202,497.73</u> | <u>-</u> | <u>326,739,223.86</u> |

| Written Down Value | As at 31.03.2016 SL Rs. | As at 31.03.2015 SL Rs. |
|-----------------------------------|-------------------------------|-------------------------------|
| Plant & Machinery | 289,968,168.98 | 338,349,468.79 |
| Building | 293,979,946.68 | 305,265,121.80 |
| Electrical Goods | 53,451,464.70 | 62,698,505.50 |
| Electrical Installation | 33,629,259.24 | 39,398,420.68 |
| Factory Equipment | 2,921,788.49 | 3,419,572.37 |
| Lab Equipment | 1,510,216.19 | 1,775,994.53 |
| Factory Tools | 256,279.89 | 301,719.89 |
| Furniture & Fittings | 3,678,441.25 | 4,294,124.19 |
| Motor Vehicles & Fork Lift Trucks | 5,886,920.92 | 10,373,470.20 |
| Office Equipment | 2,359,118.81 | 2,496,352.89 |
| Tube Well | 1,253,766.03 | 1,473,455.57 |
| | <u>688,895,371.18</u> | <u>769,846,206.41</u> |

The above building has been constructed on 15 acres Land obtained on a 35 years lease from the Ministry of Industry & Commerce. The terms of payment for this Land has not been finalized yet.

NOTE 4(a) - DEPRECIATION CHARGE FOR THE YEAR

| | | |
|----------------------------|----------------------|----------------------|
| On Current year additions | 24,937.08 | 533,224.66 |
| On previous year additions | 81,177,560.65 | 80,708,831.39 |
| | <u>81,202,497.73</u> | <u>81,242,056.05</u> |

NOTES TO FINANCIAL STATEMENTS (CONTD.)

NOTE 5 - CAPITAL WORK IN PROGRESS

| | Balance on 01.04.2015 SL Rs. | Additions during the year | Capitalized during the year | Write of to profit & Loss | Balance on 31.03.2016 |
|--|------------------------------------|---------------------------------|-----------------------------------|------------------------------|--------------------------|
| Dormitory First Floor | 4,021,924.74 | - | - | - | 4,021,924.74 |
| HR Office - 1st Floor | 1,346,537.73 | - | - | - | 1,346,538.33 |
| Tube Well for Drinking Water | 111,440.00 | 7,500.00 | - | - | 118,940.00 |
| Jumbo Bag Cement Unloading Machine | - | 4,835,046.50 | - | - | 4,835,046.50 |
| Employee Lockers | - | 142,025.00 | - | - | 142,025.00 |
| Drier, Trolley & Aluminium Trays | 479,104.65 | - | - | 479,104.65 | - |
| 732 Pcs of flat sheet templates | - | 27,672,152.28 | - | - | 27,672,152.28 |
| Ball mill IMT/HR 1.5MD * 2L with motor | - | 2,218,633.52 | - | - | 2,218,633.52 |
| | <u>5,959,007.12</u> | <u>34,875,357.30</u> | <u>-</u> | <u>479,104.65</u> | <u>40,355,260.37</u> |

NOTE 6 - INVENTORIES

| | | |
|---|-----------------------|-----------------------|
| Raw Materials | 442,431,084.79 | 170,884,225.00 |
| Finished Goods | 95,792,364.46 | 146,918,263.40 |
| Consumables - Machinery Spares & Others | 21,965,499.68 | 20,522,456.79 |
| | <u>560,188,948.93</u> | <u>338,324,945.19</u> |

NOTE 7 - TRADE & OTHER RECEIVABLES

| | | |
|---------------------|----------------------|----------------------|
| Trade Debtors | 63,719,880.29 | 37,194,374.74 |
| Refundable Deposits | 3,790,327.48 | 2,922,834.48 |
| Salary Advance | 135,026.40 | 159,526.40 |
| Festival Advance | 53,912.31 | 853,912.31 |
| Staff Advance | 7,281.38 | 7,497.72 |
| Staff Loan | 102,504.92 | 124,127.34 |
| Welfare Advance | - | 2,116.70 |
| | <u>67,808,932.78</u> | <u>41,264,389.69</u> |

NOTE 8 - OTHER CURRENT ASSETS

| | | |
|-----------------------------|----------------------|----------------------|
| Prepayments & Advances | 6,065,066.78 | 1,786,930.49 |
| ESC Recoverable (Note 8(a)) | 7,303,013.92 | 7,781,437.96 |
| VAT Recoverable | 45,780,543.24 | 27,555,296.28 |
| NBT Recoverable | 3,488,211.12 | - |
| | <u>62,636,835.06</u> | <u>37,123,664.73</u> |

NOTES TO FINANCIAL STATEMENTS (CONTD.)

NOTE 8(a) - ESC RECOVERABLE

| | 31.03.2016 SL Rs. | 31.03.2015 SL Rs. |
|---|----------------------|----------------------|
| Balance on 1 st April | 7,781,437.96 | 3,526,556.73 |
| Payment made during the year | 5,588,575.96 | 4,433,578.45 |
| Amount set off against Income Tax payable | (6,067,000.00) | (178,697.22) |
| Balance on 31 March | <u>7,303,013.92</u> | <u>7,781,437.96</u> |

NOTE 8(a).1 - BREAKUP FOR CLOSING BALANCE OF ESC

| | | |
|-----------|---------------------|---------------------|
| 2013/2014 | - | 3,347,859.51 |
| 2014/2015 | 1,714,437.96 | 4,433,578.45 |
| 2015/2016 | 5,588,575.96 | - |
| | <u>7,303,013.92</u> | <u>7,781,437.96</u> |

NOTE 9 - INCOME TAX (RECOVERABLE) / PAYABLE

| | | |
|------------------------------|-----------------------|---------------------|
| Balance on 1 st April | (579,814.80) | (481,932.29) |
| Provision for the year | 6,067,000.00 | 179,000.00 |
| Payment made during the year | - | - |
| ESC Set off | (6,067,000.00) | (178,697.22) |
| WHT Paid | (462,567.31) | - |
| Notional Tax paid | (2,870,443.58) | (98,185.29) |
| Balance on 31 st March | <u>(3,912,825.69)</u> | <u>(579,814.80)</u> |

NOTE 10 - FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Assets

| | | |
|------------------------------------|-----------------------|-----------------------|
| Trade & Other Receivables (Note 7) | 67,808,932.78 | 41,264,389.69 |
| Cash & Cash Equivalents (Note 11) | 605,215,455.44 | 181,047,812.99 |
| | <u>673,024,388.22</u> | <u>222,312,202.68</u> |

Financial Liabilities

| | | |
|--|-----------------------|----------------------|
| Trade & Other Payables (Note 14) | 338,245,150.49 | 45,617,285.41 |
| Amounts due to Related Companies (Note 16) | 57,265,206.54 | 41,472,798.19 |
| Bank Overdraft (Note 11) | 55,543,766.84 | - |
| | <u>451,054,123.87</u> | <u>87,090,083.60</u> |

NOTE 11 - CASH & CASH EQUIVALENTS

| | | | |
|--|------------------------------|-----------------------|-----------------------|
| Commercial Bank - Pannala | A/c. No. 1144015888 | - | 146,085,248.85 |
| Nations Trust Bank - Sri Sangaraja Mawatha | A/c. No. 003100028836 | 10,205,533.93 | 2,621,742.20 |
| Peoples Bank - Sri Sangaraja Mawatha | A/c. No. 056-1-001-6-0005189 | 7,854,533.83 | 4,134,999.66 |
| State Bank of India - Colombo | A/c. No. 25160369820219 | 99,933,664.09 | 9,634,326.13 |
| Sampath Bank - Old Moor Street | A/c. No. 002710012116 | 18,736,254.72 | 13,127,348.00 |
| Bank of Ceylon | A/c. No. 0076178616 | - | 4,748,243.75 |
| Nations Trust Bank | A/c. No. 003100031720 | 371,516.00 | 61,073.00 |
| Commercial Bank Daily Repo | | 400,000,000.00 | - |
| Commercial Bank Money market | | 67,702,047.57 | - |
| Cash In Hand | | 411,905.30 | 634,831.40 |
| | | <u>605,215,455.44</u> | <u>181,047,812.99</u> |

NOTE 11(a) - BANK OVERDRAFT

| | | | |
|---------------------------|---------------------|-----------------------|-----------------------|
| Bank of Ceylon | A/c. No. 0076178616 | 14,656,589.64 | - |
| Commercial Bank - Pannala | A/c. No. 1144015888 | 40,887,177.20 | - |
| | | <u>55,543,766.84</u> | <u>-</u> |
| | | <u>549,671,688.60</u> | <u>181,047,812.99</u> |

NOTES TO FINANCIAL STATEMENTS (CONTD.)

31.03.2016

31.03.2015

NOTE 12 - STATED CAPITAL

No. of Ordinary Shares Issued & Fully Paid

101,504,301

101,504,301

Stated Capital on 31st March

SL Rs.
1,015,043,010.00SL Rs.
1,015,043,010.00

NOTE 13 - DEFERRED LIABILITIES

Provision for Retiring Gratuity

Balance on 1st April

3,459,751.08

3,584,103.57

Add : Provision for the year - Note 13.1

939,550.41

1,875,295.51

4,399,301.49

5,459,399.08

Less : Payment made during the year

-

(1,999,648.00)

Balance on 31st March

4,399,301.49

3,459,751.08

NOTE 13.1 - PROVISION FOR THE YEAR

Charge for the year

1,534,692.91

1,429,092.21

Interest for the year

376,791.85

178,813.01

Deficit / (Surplus) charge for the year

(971,934.35)

267,390.29

939,550.41

1,875,295.51

This provision has been computed in accordance with the Sri Lanka Accounting Standard for SMEs. Appropriate and compatible assumptions were used in determining the cost of retirement benefits.

In order to carry out this valuation, the following assumptions were made:-

Retirement Age - 55 years

Rate of Interest - 12%

Staff Turnover Factor (as a %) - 15.91%

Salary Increment - 10%

NOTE 14 - TRADE & OTHER PAYABLES

Trade & Other Creditors

271,307,144.37

4,579,356.63

Accrued Expenses

63,526,787.99

39,677,873.68

Advance Received from Customers

3,411,218.13

1,360,055.10

338,245,150.49

45,617,285.41

NOTES TO FINANCIAL STATEMENTS (CONTD.)

31.03.2016
SL Rs.31.03.2015
SL Rs.

NOTE 15 - OTHER CURRENT LIABILITIES

| | | |
|---|---------------------|---------------------|
| Provision for Replacement of Damaged Sheets | 2,938,277.25 | 2,274,810.41 |
| EPF Payable | 656,039.46 | 554,494.63 |
| ETF Payable | 97,700.48 | 83,660.14 |
| PAYE | 25,745.64 | 171,731.74 |
| Stamp Duty | 38,175.00 | 26,825.00 |
| NBT payable | - | 2,947,795.83 |
| ESC Payable | 1,679,563.58 | 1,179,804.34 |
| EPF Payable Contract A/C | - | 144,208.80 |
| ETF Payable Contract A/C | - | 21,640.32 |
| | <u>5,435,501.41</u> | <u>7,404,971.21</u> |

NOTE 16 - AMOUNTS DUE TO RELATED COMPANIES

| | | |
|--------------------------------|----------------------|----------------------|
| Ramco Industries Ltd - Chennai | 57,265,206.54 | 41,472,798.19 |
| | <u>57,265,206.54</u> | <u>41,472,798.19</u> |

NOTE 17 - REVENUE

| | | |
|----------------------------------|-------------------------|-------------------------|
| Gross amount invoiced | 2,481,222,766.17 | 1,980,987,739.58 |
| Less : Value Added Tax | (245,886,940.79) | (208,039,432.98) |
| | <u>2,235,335,825.38</u> | <u>1,772,948,306.60</u> |
| Sales Incentive (Volume Rebates) | (247,856,092.57) | (169,422,466.81) |
| | <u>1,987,479,732.81</u> | <u>1,603,525,839.79</u> |

NOTE 18 - OTHER INCOME

| | | |
|-------------------------|---------------------|---------------------|
| Exchange Gain | 2,038,491.72 | 975,693.87 |
| Insurance Claim | - | 27,027.03 |
| Scrap Sales - Note 18.1 | - | 228,090.73 |
| | <u>2,038,491.72</u> | <u>1,230,811.63</u> |

NOTE 18.1 - SCRAP SALES

| | | |
|--------------|----------|-------------------|
| Gross Amount | - | 253,180.71 |
| VAT | - | (25,089.98) |
| | <u>-</u> | <u>228,090.73</u> |

NOTE 19 - FINANCE COSTS AND FINANCE INCOME

| | | |
|--------------------|----------------------|---------------------|
| Interest Expense | - | 4,964,960.27 |
| Overdraft Interest | - | 8,450.00 |
| Finance Costs | <u>-</u> | <u>4,973,410.27</u> |
| Interest income | 33,330,108.52 | 981,852.88 |
| Finance Income | <u>33,330,108.52</u> | <u>981,852.88</u> |

NOTES TO FINANCIAL STATEMENTS (CONTD.)

31.03.2016
SL Rs.31.03.2015
SL Rs.

NOTE 20 - PROFIT / (LOSS) BEFORE TAXATION

The following items have been recognised as expenses in determining profit / (loss) before tax

| | | |
|---|----------------|----------------|
| Depreciation | 81,202,497.73 | 81,242,056.05 |
| Auditors Remuneration - Audit Fees | 390,000.00 | 348,000.00 |
| - Audit fees under / (over) provision in respect of previous year | 6,960.00 | - |
| Staff Cost : | | |
| - E.P.F | 5,942,287.64 | 5,021,552.93 |
| - E.T.F | 1,432,099.30 | 1,255,367.30 |
| - Provision for Retiring Gratuity | 939,550.41 | 1,875,295.51 |
| - Other Staff Costs | 66,160,439.53 | 64,147,642.14 |
| Royalty - Ramco Industries Ltd. | 194,281,159.81 | 156,884,850.72 |
| Provision for Replacement of Damaged Sheets | 2,938,277.25 | 2,274,810.41 |
| Provision for Leasehold Land | 1,080,000.00 | 945,000.00 |
| Nation Building Tax | 44,707,501.52 | 35,468,627.17 |

NOTE 21 - TAXATION

| | | |
|-----------------------------------|--------------|------------|
| Income Tax on Current Year Profit | 6,067,000.00 | 179,000.00 |
|-----------------------------------|--------------|------------|

NOTE 21(a) - RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSES

| | | |
|--------------------------------------|------------------|------------------|
| Profit before Taxation | 399,504,968.64 | 186,659,915.92 |
| Expenses Disallowed for Tax purposes | 87,660,621.06 | 87,021,840.50 |
| Expenses Allowable for Tax purposes | (47,792,864.26) | (109,661,535.41) |
| Tax Loss Brought Forward | (242,464,222.00) | (242,807,871.00) |
| Exempt Loss Brought Forward | 168,129,525.00 | (168,129,525.00) |
| Tax Loss Carried Forward | 230,798,683.89 | 242,464,222.00 |
| Exempt Loss Carried Forward | (5,148,532.00) | 5,091,157.00 |
| Exempt Profit Carried Forward | (569,023,609.92) | - |
| Income Tax | 21,664,570.41 | 638,204.01 |
| Income Tax Payable | 6,066,079.82 | 178,697.22 |
| Total Income Tax Provision | 6,067,000.00 | 179,000.00 |

NOTE 22- DIVIDENDS

Final dividend for 2015/2016(Rs 1 Per Share) Paid on 28.03.2016

| | | |
|----------------|----------------|--|
| - Net Dividend | 90,192,689.10 | |
| - WHT @ 10% | 10,021,409.90 | |
| Gross | 100,214,099.00 | |

Final dividend for 2015/2016(Rs 1 Per Share) Paid on 28.03.2016

| | | |
|----------------|----------------|--|
| - Net Dividend | 1,193,436.86 | |
| - WHT @ 7.5% | 96,765.14 | |
| Gross | 1,290,202.00 | |
| Total | 101,504,301.00 | |

NOTES TO FINANCIAL STATEMENTS (CONTD.)

NOTE 23 - RELATED PARTY TRANSACTIONS

(i) Transactions with Key Managerial Persons

Key Managerial Persons include members of the Board of Directors of the Company and Key Employees of the Company.

| | 2015/2016 SL Rs. | 2014/2015 SL Rs. |
|-------------------------------------|---------------------|---------------------|
| Key Managerial Persons Remuneration | <u>3,784,195.33</u> | <u>2,797,188.08</u> |

(ii) The Company has purchased Rs. 12,778,153.96 worth of Raw Materials & Consumables from Sri Ramco Lanka (Pvt) Ltd.

(iii) Directors of this Company Mr. P. R. Ramasubrahmaneya Raja and Mr. P.R.Venketrama Raja are also Directors of Sri Ramco Lanka (Pvt) Ltd and Ramco Industries Ltd, Chennai.

Director of this Company Mr. Prem G. Shanker is also a Director of Sri Ramco Lanka (Pvt) Ltd.

(iv) The Company has accounted a sum of Rs. 194,281,159.81 as a royalty to Ramco Industries Limited - India for the year ended 31.03.2016.

(v) The Company has entered into the following transactions with Ramco Industries Ltd. Chennai, India.

| | | |
|---|-----|---------------|
| - Purchase of Raw Materials | Rs. | 51,286,242.71 |
| - Purchase of Plant & Machinery & Spare Parts | Rs. | 16,543,092.61 |

NOTE 24 - CONTINGENT ASSETS & CONTINGENT LIABILITIES

There are no Contingent Assets & Contingent Liabilities as at 31.03.2016.

NOTE 25 - CAPITAL COMMITMENTS

There were no capital expenditure commitments approved as at 31.03.2016 in respect of the Company.

NOTE 26 - EVENTS AFTER THE END OF THE REPORTING PERIOD

No circumstances has arisen since the reporting date which require adjustments to or disclosure in the Financial Statements.