# REVIVAL

KEELLS KREST

**Keells Food Products PLC**

Annual Report 2021/22

**Read the Keells Food Products PLC**
Annual Report 2021/22
online at http://www.keellsfoods.com/downloads

# REVIVAL

As a provider of wholesome and nutritious meals that have kept a nation delighted for decades, we are aware that success depends on our ability to stay relevant through various business landscapes. Our long-standing commitment, faith in our consistent returns and trust in our heritage has paved the way for strategic growth at every level. Our superior quality products keep delivering pleasure and nutrition to people's lives, as we embark on a journey of revival into the dawn of a new era.

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# ABOUT US

## Vision

Our passion is to deliver pleasure and nutrition throughout people's lives, through exciting and superior products, whenever and wherever they choose to eat and drink.

## Values

**Innovation : Changing constantly, re-inventing and evolving**
In trying new ideas we win or learn, there is no failure.

**Integrity : Doing the right thing always**
Transparency is everything, so we just do it right!

**Excellence : Constantly raising the bar**
We get better every day.

**Caring : Fostering a great place to work**
We listen, we are thoughtful and we care to make a difference.

**Trust : Building strong relationships based on openness and trust**
The foundation we work from.

### KEELLS FOOD PRODUCTS PLC

Established in 1982, Keells Food Products PLC (KFP) is the pioneer in processed meat manufacturing in Sri Lanka with 40 years of experience. As the market leader in the processed meat industry, KFP is renowned for its quality, backed by stringent quality controls and its range of nutritious, tasty and convenient products developed in house and manufactured using state of the art food processing facilities.

Our product portfolio of 200+ products reach customers through 33,000+ retail outlets and we take extensive measures to ensure the right product is available at the right time at the right price to satisfy customer needs.

# FINANCIAL HIGHLIGHTS

| FINANCIAL PERFORMANCE | | 2022 | 2021 | YOY Change |
|---|---|---|---|---|
| Revenue | Rs.'000 | **4,601,230** | 3,651,241 | 26% |
| Gross Profit | Rs.'000 | **1,141,336** | 1,005,188 | 14% |
| Operating Profit | Rs.'000 | **394,896** | 329,304 | 20% |
| Profit Before Tax | Rs.'000 | **389,765** | 326,241 | 19% |
| Profit After Tax | Rs.'000 | **329,573** | 320,980 | 3% |
| EBITDA* | Rs.'000 | **610,135** | 497,081 | 23% |

| FINANCIAL POSITION | | 2022 | 2021 | YOY Change |
|---|---|---|---|---|
| Current Assets | Rs.'000 | **1,621,920** | 1,214,789 | 34% |
| Total Assets | Rs.'000 | **3,439,534** | 3,068,634 | 12% |
| Total Debt | Rs.'000 | **339,620** | 299,664 | 13% |
| Shareholders' Funds | Rs.'000 | **2,192,631** | 2,076,382 | 6% |
| Debt / Equity | % | **15.49** | 14.43 | 1.06 |
| Debt / Total Assets | % | **9.87** | 9.77 | 0.10 |

| WORKING CAPITAL MANAGEMENT | | 2022 | 2021 | YOY Change |
|---|---|---|---|---|
| Inventory | Days | **60** | 65 | (5) |
| Receivable | Days | **56** | 56 | - |
| Payable | Days | **28** | 20 | 8 |
| Working Capital Cycle | Days | **88** | 101 | (13) |
| Current Asset Ratio | Times | **1.80** | 1.96 | (0.16) |
| Quick Asset Ratio | Times | **1.15** | 1.09 | 0.06 |

| PROFITABILITY RATIOS | | 2022 | 2021 | YOY Change |
|---|---|---|---|---|
| Operating Profit Margin | % | **8.58** | 9.02 | (0.44) |
| Return on Assets | % | **10.13** | 10.78 | (0.65) |
| Return on Equity | % | **15.44** | 16.24 | (0.80) |
| Return on Capital Employed | % | **16.09** | 14.31 | 1.78 |

| INVESTOR RATIOS | | 2022 | 2021 | YOY Change |
|---|---|---|---|---|
| Earnings per Share | Rs. | **12.92** | 12.59 | 0.33 |
| Net Assets per Share | Rs. | **85.99** | 81.43 | 4.56 |
| Dividend per Share | Rs. | **9.50** | 7.00 | 2.50 |
| Market Price per Share as at 31st March | Rs. | **166.25** | 162.50 | 3.75 |
| Market Capitalisation as at 31st March | Rs.'000 | **4,239,375** | 4,143,750 | 2% |
| Price Earning Ratio | Times | **12.87** | 12.91 | (0.04) |
| Cash Earnings per Share | Rs. | **22.17** | 20.00 | 2.17 |

* EBITDA - Earning before interest, tax, depreciation and amortisation

# NON-FINANCIAL HIGHLIGHTS

| | | | 2022 | 2021 |
|---|---|---|---|---|
| Financial And Manufactured Capital | **Direct Economic Value Generated** | Rs.'000 | **4,636,789** | 3,663,140 |
| | **Distributed To:** | | | |
| | Employees | Rs.'000 | **616,287** | 547,535 |
| | Government | Rs.'000 | **517,626** | 452,878 |
| | Lenders | Rs.'000 | **2,991,043** | 2,176,498 |
| | Shareholders | Rs.'000 | **242,250** | 178,500 |
| | Depreciation and Amortisation | Rs.'000 | **176,596** | 158,259 |
| | Profit Retained | Rs.'000 | **80,611** | 136,889 |
| | Economic Value Added | Rs.'000 | **1,645,746** | 1,486,642 |
| | Property Plant & Equipment | Rs.'000 | **1,502,851** | 1,546,009 |
| | Capital Expenditure | Rs.'000 | **126,831** | 90,104 |
| Intellectual Capital | No. of Certifications | No. | **19** | 17 |
| | No. of Recipes | No. | **+530** | +500 |
| | New Products Launched | No. | **5** | 15 |
| | Average Length of Employee Service | Years | **12** | 11 |
| Human Capital | Total Employees* | No. | **572** | 530 |
| | Payments to Employees | Rs.'000 | **616,287** | 547,535 |
| | Employee Satisfaction Rate | % | **82** | 77 |
| | Female Representation | % | **16** | 15 |
| | Investment in Training | Rs.'000 | **1,326** | 2,214 |
| | Total Training Hours | Hours | **3,625** | 3,367 |
| | Average Training Hours/Employee | Hours | **9** | 8 |
| | Workplace Injuries | No. | **7** | 7 |
| Social and Relationship Capital | Supplier Reach | No. | **+200** | +200 |
| | Distribution Network** | No. | **59** | 70 |
| | Retail Outlets | No. | **+33,000** | +30,000 |
| | Payments to Suppliers | Rs.'000 | **3,362,656** | 2,511,879 |
| | Supplier Audits | No. | **11** | 9 |
| Natural Capital | Energy Consumption*** | GJ | **30,650** | 26,207 |
| | Water Consumption | $M^3$ | **89,937** | 93,855 |
| | Water Recycled | % | **26** | 29 |
| | Solid Waste Generation | MT | **580** | 627 |
| | Carbon Footprint | tCO2e | **4,688** | 4,106 |

* Total Employees - Represents an increase in contract labour as proactive efforts were taken to ensure continuity of operations given the volatile external environment

** Distribution Network - The reduction represents the consolidation and optimisation of the dry and processed meat distributors to support more efficient allocation of resources

*** Energy Consumption - KFP was compelled to increase reliance on fuel due to frequent power cuts

# CHAIRMAN'S MESSAGE

On behalf of the Board of Directors of Keells Food Products PLC (KFP), I am pleased to present the Annual Report and Audited Financial Statements of your Company for the year ended 31 March 2022. The Group recorded strong revenue growth and profitability despite numerous challenges, as it demonstrated agility, adaptability, and better readiness in responding to pandemic-led disruptions and successfully maintained its market leadership position.

## OPERATING ENVIRONMENT

Sri Lanka's Gross Domestic Product (GDP) growth recovered to 3.7% in 2021, compared to the contraction of 3.6% in 2020. Economic activity rebounded in the first quarter of the year, before moderating in the second quarter following a surge in COVID-19 infections; activity subsequently gained encouraging momentum on the back of improved customer sentiments and a successful vaccination drive. However, the final quarter of the year saw significant macroeconomic challenges, including notable constraints on the external front and inflationary impacts which exerted pressure on the performance of your Company.

Global and domestic supply side disruptions, including a surge in global commodity prices exerted inflationary pressures on the economy, particularly on food items. Resultantly, headline inflation as measured by the YOY change in the National Consumer Price Index (NCPI) accelerated to 21.5% in March 2022, while food inflation YOY increased to 29.5%. Foreign currency reserves fell sharply on the back of liquidity constraints in the domestic foreign exchange market which prompted the Central Bank of Sri Lanka to accommodate a floating exchange rate regime from mid-March 2022; this resulted in the sharp depreciation of the Rupee in the ensuing weeks. Accordingly, the Rupee depreciated by 30% during the financial year.

The key challenges stemming from the external landscape for your Company during the year under review was the sharp increases in raw material prices due to significant increases in global commodity prices coupled with the steep depreciation of the domestic currency. Import restrictions together with foreign exchange liquidity constraints amplified challenges in sourcing raw materials essential for production, which raised numerous operational challenges. This was further exacerbated by intermittent disruptions to power and fuel supply, although the business was able to manage the impact on its operations during the year.

Demand patterns also shifted in view of macro-economic stresses, particularly towards the fourth quarter of the year under review, with increasing preference towards economical, value-for-money propositions.

## STRATEGY AND OPERATIONAL REVIEW

KFP recorded a 12% increase in volumes in 2021/22 in comparison to the 6% decline in volumes recorded in 2020/21. Business remained resilient during the first half of the year under review despite challenges stemming from the pandemic, with volumes increasing by 30% in the first quarter albeit a lower base, and flat against the second quarter in comparison to the corresponding quarters of 2020/21. Volumes noted a gradual pickup thereafter aided by a revival in consumer spending and easing of restrictions.

The retail sausages and meatballs categories recorded commendable growth in 2021/22, increasing volume by 16% and 17%, respectively. The retail sausage segment continued to be a key area of focus and increased its volume share to 27%. It is noted that the highest ever quarterly volume for retail sausages was recorded in the third quarter of 2021/22. Meatball volumes also increased by 17%, supported by an enhanced customer value proposition, which included the launch of a smaller pack size in the "kirata mirisata" range during the year. The meatballs category also achieved the highest monthly volume in March 2022 in its history of operations. In the dry range, the Soya category grew by 19%, as we widened our offering by launching 2 new Soya variants and optimised resources to penetrate the 90g product offering.

KFP maintained its market leadership position during the year under review. The Group's channel strategy continued to centre on aggressive penetration across the retail network to ensure availability of our products, adding over 3,000 new retail outlets to its network and improving its distribution capabilities. General trade grew by 17% on a volume basis during the year and accounted for 45% of total sales of the Company. Modern trade accounted for 34% of volumes and recorded a marginal de-growth of 1% on a volume basis mainly due to the impact of the lockdowns during several months of the year. The Hotel channel delivered strong growth of 67% on a volume basis reflecting the relatively low base of last year and the pickup in tourism towards the latter part of the year. The HoReCa channel continued to be impacted by challenges stemming from the COVID-19 pandemic, demonstrating a reduction in out-of-home consumption and contributed to 16% of overall volumes.

Given the challenging operating environment as outlined earlier, the cost of raw materials essential for production escalated during the year, with chicken, palm oil, and casings increasing by 25%, 37% and 20%, respectively. In response to escalating costs, KFP adopted price increases across selected items, to the extent feasible. The business also launched economical value packs, engaged in an aggressive retail drive to ensure availability of products, and offered substitute food products to further manage the overall impact on margins.

Given persistently low volumes and limited opportunities to drive market activations due to the non-conducive environment that prevailed in recent years on the back of multiple challenges beyond the Company's control, and considering the outlook for the product in the ensuing years, post careful analysis, a decision was made to cease operations at the 'Ezy rice' facility and discontinue the 'Ezy rice' product.

## FINANCIAL PERFORMANCE

The Group achieved a revenue expansion of 26%, supported by a healthy volume growth in key product categories as noted above. while the sharp rise in the cost of input materials, exerted pressure on the gross profit margin, the price increases adopted across selected items during the year helped to manage the overall impact on the business; resultantly, the Group earned a gross profit of Rs 1.1 billion, an increase of 14% against the previous year. The Group was able to maintain its operating margin relatively unchanged at 9%, reflecting ongoing efforts towards cost rationalisations and enhancing efficiencies. Pre-tax profit increased by 19% to reach Rs. 390 million during the year, attesting to the strength and resilience of the Group's strategy in a year of extraordinary challenges. KFP recorded a profit after tax of Rs. 330 million, a YOY growth of 3%.

## AN ENTERPRISING TEAM

Our team ensured the continuity of our operations through their commitment, driving the delivery of our commercial aspirations as well as value creation across our diverse universe of stakeholders. Supporting both the physical and mental wellbeing of our employees through implementing stringent safety guidelines and maintaining a high level of engagement was a strategic priority. Agile work options were offered to selected functions on the back of employee health and hygiene considerations while supporting work-life balance in the new normal. The Group also conducted a 'Living Values' programme to recognise and appreciate employees demonstrating core organisational values in their daily activities. In line with the John Keells Group's, diversity, equity and inclusion (DE&I) initiative- "ONE JKH", where we committed to several long-term goals to increase diversity within the organisation; we also conducted several engagement initiatives to nurture an inclusive workplace including awareness sessions in addressing unconscious bias and preventing sexual harassment, revisions to recruitment guidelines and provision of subsidised child-care facilities.

## COMMITMENT TO ESG

As a responsible corporate citizen, we are acutely aware of the role we can play in addressing the critical economic, social and environmental issues facing the world today. Against this backdrop, KFP has renewed its commitment to adopting strong Environmental (E), Social (S), and Governance (G) practices - aligned with that of the John Keells Group. We are committed to embedding greater environmental responsibility across our operations and are driving concerted efforts to optimise energy and water consumption while increasing reliance on renewable energy through initiatives such as the installation of a solar roof at the Ja-Ela factory. The carbon footprint increased by 14% during the year, as the Group was compelled to increase reliance on fuel due to the power outages in the country.

The Group's social sustainability aspirations are centred on creating a dynamic, inclusive, and conducive work environment for our employees, nurturing long-term, mutually beneficial partnerships with our business partners, and developing livelihoods across our communities through meaningful CSR initiatives. Given the conditions that prevailed during the year, the Group worked closely with farmers, distributors, and suppliers in ensuring their commercial sustainability, while securing undisrupted supply of raw materials. During the year, KFP engaged in several education, health and community empowerment programs in partnership with the John Keells Foundation, under the 'Praja Shakthi' initiative. As an ongoing project, the Group has also continued to implement and maintain a responsible waste management system at the Makandura Vidyayathana Vidyalaya which is in close proximity to the KFP factory.

Given the uncertainty that prevailed during the year, the Board of Directors continued to proactively monitor developments in the macro-economic landscape and potential implications on the Group's performance, people, and prospects. I am pleased to state that there were no departures from any of the provisions of the Code of Business Conduct and Ethics of the Code of Best Practice of Corporate Governance. I also wish to affirm our commitment to upholding Group policies, where emphasis is placed on ethical and legal dealings,

# CHAIRMAN'S MESSAGE

zero tolerance for corruption, bribery and any form of harassment or discrimination in our workplace and any work-related situations.

## DIVIDENDS

The Board recommended the payment of a final dividend of Rs. 0.50 per share, in addition to the interim dividend of Rs. 7.00 per share paid in February 2022 resulting in a total dividend per share of Rs. 7.50 for the financial year 2021/22. Accordingly, the total pay-out of dividends from profits earned for the year amounted to Rs. 191 million.

## FUTURE OUTLOOK

KFP is expected to face challenges in the short to medium term in lieu of the current macroeconomic challenges within the country. The sharp increases in inflation and interest rates together with impending fiscal consolidation measures are likely to result in a moderation in consumer discretionary spending, could hamper growth in demand for non-essential items in the immediate short-term. The notable increase in inputs costs, particularly prices of raw materials, both domestically and globally, on the back of supply chain constraints, inflation and currency impacts, will continue to exert significant pressure on margins in the short-term. Whilst the business will off-set these impacts, to the extent feasible, through the selective price increases taken in the latter part of 2021/22, margins are envisaged to come under pressure in the short to medium term. The business will proactively monitor its margins and take necessary measures, with due consideration on the price elasticity of demand for the products in the portfolio. The impact of exchange rates through the sharp depreciation is expected to be largely one-off if the currency stabilises with in next few months. The prevailing foreign currency shortage in the market, however, is likely to place further pressure on supply chains of the business and, unless the liquidity position and ability to establish trade facilities improve, there could be disruptions to manufacturing and seamless distribution of the products. While prolonged power cuts and fuel shortages may hamper factory operations and logistics in immediate short term, impeding supply chain outlook is that the Government is securing the bridging finance to ensure continuous supply of essential commodities. Considering these circumstances, the business will optimise the use of its available and expected raw material resources to manage its production and profitability.

In the current backdrop, managing stakeholder concerns remains pivotal. Emphasis will be placed on maintaining rigorous engagement with its suppliers and distributors to ensure a seamless supply chain, better management of the working capital cycle, reduced credit exposure, greater stability in the distributor network while cashflow and cost management will remain a priority throughout the ensuing year. In tandem with the trends witnessed in the latter end of the year, smaller pack sizes, particularly given its lower price points, is expected to continue its higher share of the volume mix. The business will continue to focus on reinventing its portfolio of products as well as packaging to manage costs while offering enhanced value to its consumer base.

Looking beyond the short-term impacts, KFP remains confident of the underlying fundamentals of the industry that we operate and envisages strong growth momentum in the medium and long term with a revival of the economy and improvement in consumer confidence post the fiscal consolidation process. The penetration of processed foods in Sri Lanka continues to be relatively low in comparison to global and regional peers, demonstrating the significant potential in the industry. Over the medium term, we will seek to increase market share through developing product extensions and convenient meal options, focusing primarily on the modern and general trade channels, including the organised small and medium segment. Our product strategy will focus on catering to customers' increasing concerns on affordability through expanding our entry-level propositions, exploring opportunities in the kids' range, further expanding the Soya range and continued focus on reengineering our products to offer better value propositions to our customers. We will also seek to consolidate the dry distribution network and to increase distribution efficiency and support readiness for the anticipated growth in volumes.

## ACKNOWLEDGEMENTS

I take this opportunity to extend my appreciation to my colleagues on the Board for their continued guidance and support. I also thank the KFP team for their commitment and dedication to overcome the numerous challenges faced during the year and delivering a year of strong performance. On behalf of the Board, I thank all our valued stakeholders, including distributors, suppliers, business partners and shareholders for their continued trust and loyalty.

Yours sincerely,

Krishan Balendra

**Krishan Balendra**
Chairman

20th May 2022

# ABOUT OUR ANNUAL REPORT

Keells Food Product PLC's Integrated Annual Report has been carefully structured and presented to provide our readers with a concise and balanced overview of how the directed strategy in creating value for our stakeholders over the short, medium and long-term. The content included in this Report reflects the matters that are most material to the Group and includes information on the operating environment, risks and opportunities, Corporate Governance and risk management among others.

## BASIS OF PREPARATION

### REPORTING ENTITY

Keells Food Products PLC ("KFP" or "the Company") which operates solely in Sri Lanka and its Subsidiary, John Keells Foods India Private Limited, which has operations in India. Collectively these entities are referred to as "the Group."

### STANDARDS AND PRINCIPLES

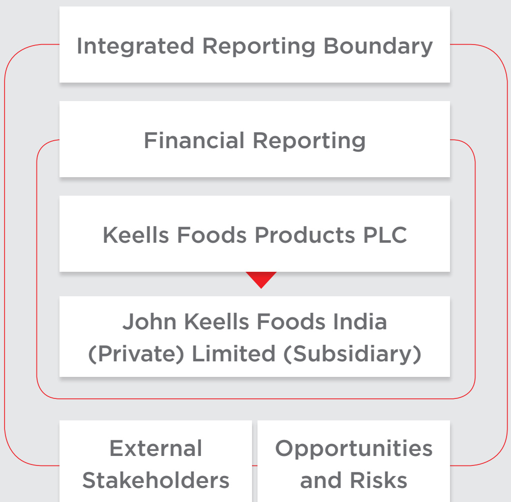
- Sri Lanka Accounting Standards issued by CA Sri Lanka
- Companies Act No. 7 of 2007
- <IR> Framework of the International Integrated Reporting Council
- Sustainability reporting: Prepared in accordance with the GRI Standards: Core option
- Listing Rules of the Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021
- ESG Reporting Guidelines issued by the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance issued by Securities and Exchange Commission of Sri Lanka (2017)

### REPORTING CONCEPTS

**Strategic Focus**
Demonstrates how our activities are guided by clearly defined strategic priorities

**Connectivity**
Use of navigation icons and signposting across Report

**Conciseness**
Discussion limited to material factors that are most relevant to stakeholders



# ABOUT OUR ANNUAL REPORT

## REPORT SCOPE AND BOUNDARY

This Report covers the operations of the Group for the period from 1st April 2021 to 31st March 2022. The financial and non-financial information presented relates to consolidated information, unless otherwise mentioned. The Group adopts an annual reporting cycle, and this Report builds on the Group's previous report for the financial year ended 31st March 2021. There were no significant changes to the Group's structure, supply chain or size nor any material restatements of information provided in the previous Annual Report.

## ASSURANCE

KFP adopts a combined assurance model in ensuring the integrity of the financial and non-financial information presented in this Report. Internal assurance on the Financial Statements and the relevant internal controls are provided by the Internal Audit function and the Audit Committee while external assurance is provided by Messrs. Ernst & Young. Meanwhile, the accuracy of the Company's non-financial information is assessed by the John Keells Group Sustainability Unit. We have not sought external assurance on our sustainability reporting.

## FEEDBACK

We are committed to consistently enhancing the readability and relevance of our reporting and we welcome your suggestions and comments on our Annual Report. Please direct your feedback to

**Ms. P N Fernando**
Chief Financial Officer/ Director
Keells Food Products PLC
E-mail: Nelindra.ccs@keells.com

## THE SIX CAPITALS

We rely on a combination of resources and relationships in driving our strategy and generating value. These are referred as the six capitals and are shown through the Report with the use of the following navigation icons.

| Financial Capital | Manufactured Capital | Intellectual Capital | Human Capital | Social and Relationship Capital | Natural Capital |
|---|---|---|---|---|---|

## BOARD RESPONSIBILITY

The Board of Directors is responsible for ensuring the integrity and accuracy of this Integrated Report. The Board hereby confirms that in their opinion, this Report addresses all material issues and presents the Group's performance in a fair manner and is prepared in accordance with the <IR> Framework.

Krishan Balendra

**Krishan Balendra**
Chairman

20th May 2022

# THE YEAR AT A GLANCE

## FACTORS IMPACTING OUR PERFORMANCE IN 2021/22

**VOLUME GROWTH**
12% growth, in a challenging year, back by continued focus on retail products through pursuing increased penetration in the General Trade channel

**SUPPLY CHAIN DISRUPTIONS**
Pandemic-led disruptions to both local and global supply chains

**PRODUCT AND PROCESS INNOVATION**
Strategic focus on value re-engineering of products and exploring alternative ingredients and product formulations

**ESCALATION IN RAW MATERIAL COSTS**
Significant increases in input costs due to supply chain disruptions, escalation in freight chargers and the depreciation of the Rupee

**DEMAND SHIFTS**
Consumers' increased price sensitivity given concerns on affordability

# EVENTS OF THE YEAR

## APRIL

**KeellsKrest Avurudu Campaign**
A seasonal campaign for Avurudu was carried out during the Avurudu season to build association for KeellsKrest with the happy moments that people share. The campaign was amplified via mainstream, digital media, influencer partnership and consumer promotions.

## MAY

**First ever Direct-to-Consumer RTM**
Frankie consumer promotion, bundling with the fast-moving party pack 500g was carried out in both GT and SMMT outlets to generate trials for Frankie cheese and chicken from May – July.

## JUNE

**Chunky Chicken Digital Campaign**
A tactical digital campaign on Chunky Chicken was released to emphasise the 3 key propositions that distinguish Chunky Chicken from a base sausage – "Chunkier, Meatier and Juicier".

**KFP KnowMo – Knowledge Sharing Session**
As an initiative from HR team to improve the knowledge of the employees, a series of knowledge sharing sessions were started. First session was conducted by the QA team for the executive staff carder.

## JULY

**Retail Volume Drive Amongst Sales Staff and Distributors**
Strong focus was given to drive retail products in General Trade channel through execution and rewards schemes. The latest incentive program "KeellsKrest Lions" was introduced to drive the volumes of the retail sausages and meat ball categories.

**"Working Energised" – Skills Development Program**
A soft skills development program was conducted for the executives of KFP. The programme mainly covered enhancing self-discipline with participation of the executive carder.

## AUGUST

**Fire Drills**
Simulated fire drills were carried out by each department at KFP as per the requirement of the Business Continuity Plan (BCP) and the drill adequacies were evaluated by an external party.

**Chunky Chicken Digital Campaign**
Campaign emphasising the 3 key propositions that distinguish Chunky Chicken from a base sausage – Chunkier, Meatier and Juicier, was amplified on social media and influencer platforms to gain traction in larger audiences

## SEPTEMBER

**Lanka Premier League – Event Partner**
KeellsKrest was the official food partner of the 2021 edition of Lanka Premier League (LPL). This improved the visibility of the brand and derived sales through the food stalls at the grounds during the series.

**ISO 14001: 2015 Environmental Management System Awareness Session**
As KFP planned to implement ISO 14001: 2015 Environmental Management System, an awareness session was conducted with the facilitation of SGS Lanka Pvt Ltd.

## OCTOBER

**Launch of the Kirata Mirisata 100g Variant**

An extension to the meatball range, chicken meatballs Kirata Mirisata 100g was launched with the objective of upgrading regular meatball customers to a value-added range while expanding the penetration of meatball value-added range to a wider customer base.

**Waste Management System in Neighbouring Schools**

A CSR project focused on safeguarding and improving environmental stewardship was conducted at Makandura Vidyayathana Vidyalaya which is in close proximity to KFP Pannala factory. The project helped students to have a better understanding on waste management and importance of safeguarding the environment for their future prosperity.

## NOVEMBER

**KFP – MasterMind**

Blending innovation to employee engagement, a game show of general knowledge questions was initiated under the name "MasterMind" with the participation of the executive and above staff carder.

**Kaizen Training**

Kaizen is an already established process improvement philosophy at the Pannala factory premises. To refresh the knowledge, an in-person session was conducted by the 5S consultant of KFP at the Pannala factory premises with the view of keep employees motivated to continue Kaizen culture.

## DECEMBER

**CA Sri Lanka Annual Report Awards 2021**

KFP won the silver award in the Food and Beverages Sector at the 56th Annual Report Awards Ceremony 2021, organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

**Christmas Campaign of EH Range**

The "12 Days of Christmas Campaign" was carried out with focus on seasonal products and the main retail products of the Elephant House brand with high end influencers. The campaign was executed on the radio channels "Red FM" and "Lite FM" with hamper giveaways.

## JANUARY

**English Language Scholarship Program (JKELSP) in Collaboration with John Keells Foundation**

A program was conducted targeting school children from underprivileged families in few identified schools situated in Ja-Ela and Pannala to provide them with an opportunity to learn how to speak English confidently.

**"Shine with Values" – Refreshing Core Values**

A revamping session of JKH Core Values was conducted within the sales team by the sales team leaders and emphasised the importance of values for a sales career. During a period of one week, the five core values were discussed highlighting one value per day.

## FEBRUARY

**NCE Awards 2021**

KFP was awarded the Silver award at the 29th annual NCE Export Awards 2021 under the Processed Food Sector displaying our strong dedication and continued commitment towards their loyal consumers in international markets.

**Installation of a Solar System**

As part of our sustainability initiatives a 230 KW solar system was installed at Ja-Ela factory and commissioned in February with the objective of contributing to the national grid through renewable energy generation.

## MARCH

**Soya Meat Range Extensions**

The soya meat range was extended with the introduction of the cuttlefish and regular variants. This market introduction was done in line with the business plans to expand and offer variety in the soya meat range.

**Women's Day Celebration – 2022**

International Women's Day 2022 was celebrated on 08th March 2022 at both the Ja-Ela and Pannala plants under the theme of #BreaktheBias. The importance of building harmony among both genders without discriminating employees based on gender was communicated as the key message on Women's Day.

# REJUVENATION

MANAGEMENT DISCUSSION AND ANALYSIS

# OUR BUSINESS

## ORGANISATIONAL OVERVIEW

KFP is the pioneer and market leader in Sri Lanka's processed meat industry with an established track record of four decades. With an unmatched reputation for innovation, product and process quality, the Group has sharpened its competitive edge through continued investments in manufacturing technology and research and development which has enabled it to cater to evolving consumer needs. Our products are distributed island-wide through an extensive network over 50 distributors and over 33,000 retail outlets. The Group has also established a regional presence, through exports to Maldives and several markets in the United Arab Emirates. KFP is a Subsidiary of John Keells Holdings PLC, Sri Lanka's premier diversified conglomerate and the most valuable listed entity in Sri Lanka.

- High standard of product and process quality through compliance and certifications
- Much loved brand names including KeellsKrest and Elephant House
- Island-wide market reach facilitated by extensive distribution network and retail outlets
- Array of products catering to evolving customer needs
- Team of 572 high-performing, agile and committed professionals

### OUR PRODUCTS

- Processed meat
- Crumbed and formed meat
- Dry range

### OUR CHANNELS

- General Trade
- Modern Trade
- HoReCa
- Hotels
- Exports

| | |
|---|---|
| Rs. **4,601** million<br>Revenue | Rs. **330** million<br>Profit after tax |
| Rs. **3,440** million<br>Total assets | Rs. **2,193** million<br>Total equity |

# OUR BUSINESS

## VALUE CREATION MODEL

The Group's value creation model graphically depicts how we utilise our resources and relationships (capital inputs), to transform these inputs through our business activities and in turn generate outputs and stakeholder outcomes. This transformation process leads to the creation, preservation and erosion of our capital inputs and is underpinned by strong Corporate Governance and risk management practices. This value creation process is illustrated below:

### CAPITAL INPUTS

**FINANCIAL CAPITAL**

The funds obtained through shareholders, banks and other lenders which allow us to drive our strategic ambitions.

- Shareholders' funds: Rs. 2,193 million
- Borrowings: Rs. 331 million

31

**MANUFACTURED CAPITAL**

State-of-the-art manufacturing facilities through which we manufacture our products.

- 4 Production facilities
- Property, Plant & Equipment Rs. 1,503 million

34

**INTELLECTUAL CAPITAL**

Represents our brands and extensive recipe library which underpins our competitive edge as well as our strong R&D capabilities.

37

**HUMAN CAPITAL**

Our team of 572 employees who provide the competencies and commitment to support the delivery of our strategic objectives.

39

**SOCIAL AND RELATIONSHIP CAPITAL**

The relationships we rely on to drive our value creation and provide our social license to operate.

- Distributors and retail partners: +33,000
- Suppliers: +200
- Relationships with communities in which we operate

45

**NATURAL CAPITAL**

Natural resources we rely on to manufacture and distribute our products and manage our operations.

- Energy consumption: 30,650 GJ
- Water consumption: 89,937 M3

50

### VALUE TRANSFORMATION

**VISION:**

Our passion is to deliver pleasure and nutrition throughout people's lives, through exciting and superior products, whenever and wherever they choose to eat and drink.

**VALUES:**

Innovation, Integrity, Excellence, Caring, Trust

**Business Activities**

- Procurement of raw materials
- Manufacturing and packaging
- Warehousing and distribution
- Managing customer relationships
- Research and Development

**Strategic Priorities**

- Sustainable Growth
- Empowered Team
- Sustainability
- Innovation and Quality
- Channel and Supplier Relationships

**Underpinned by effective Corporate Governance (pg. 53) and Risk Management practices (pg. 78)**

Changes in customer lifestyle and preferences → Macro-economic conditions → Increased concern about health and nutrition → Supply chain implications → Religious and cultural values

## OUTPUTS

- **580** MT
  Solid waste generated

- **23,544** $M^3$
  Effluents discharged

- **4,688** tCO2e
  Carbon footprint

## OUTCOMES

### FINANCIAL CAPITAL

+ Rs. 390 million in profit before tax (19% YOY)
+ Rs. 191  million dividend payments
+ Rs. 12 million paid as interest
+ Share price increased by 2% to Rs. 166.25

### MANUFACTURED CAPITAL

+ Rs. 127 million capital expenditure
+ 5S and Kaizen implementation in Pannala factory

### INTELLECTUAL CAPITAL

+ 5 new products and variants added
+ Process innovation through the use of alternative ingredients
+ Obtained COVID-19 Safety Management System certification from SLSI
+ Rs. 4.4 million in brand building initiatives

### HUMAN CAPITAL

+ Rs. 616 million in salaries and benefits
+ Rs. 1.3 million investment in training
+ Measures to ensure physical and mental well-being
+ 82% employee satisfaction rate

### SOCIAL AND RELATIONSHIP CAPITAL

+ Rs. 288 million distributor earnings
+ No. of freezers deployed - 405
+ Rs. 3,363 million payments to suppliers
+ Ongoing investment in community projects

### NATURAL CAPITAL

- 4,688 tCO2e generated from operations
+ Zero environmental grievances
+ Fully compliant with all relevant environmental regulations
- 580 MT of waste generated
- 23,544 $M^3$ effluents discharged

# OUR BUSINESS

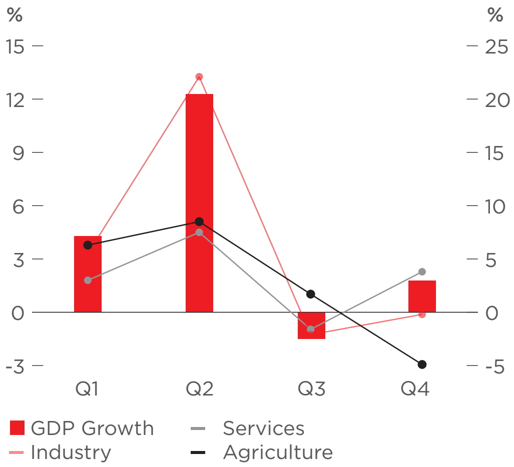
## OUR OPERATING CONTEXT

Key trends in the economic and industry landscape and their impact on the Group's strategy, operations and performance is summarised below:

### Economic environment

Sri Lanka's GDP expanded by 3.7% in 2021, reflecting strong rebound in the early part of the year. The second half of the year, however, witnessed a slowdown in economic activity given the resurgence of infections and a severe shortage in foreign currency, which led to restrictions on selected imports and fuel. As the country grappled with external debt payments, the foreign currency crisis intensified during the first quarter of 2022, resulting in shortages in essential items. Inflation also escalated reflecting supply chain disruptions and the sharp depreciation of the Sri Lankan Rupee.

**GDP GROWTH**



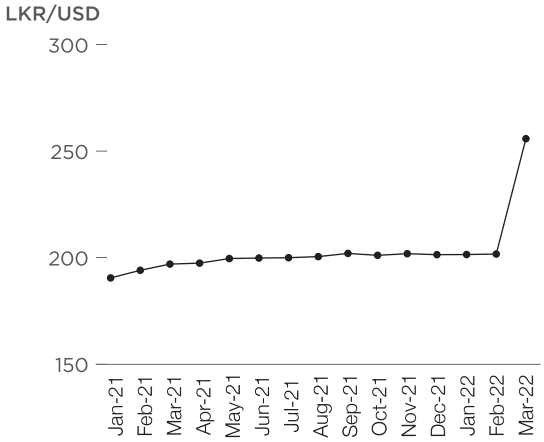

*Source: Department of Census & Statistics*

> **Impact on KFP:** Decline in disposable income and resultant impact on demand

### Exchange rate and external position

The repayment of international borrowings, together with the decline in tourism earnings and workers' remittances led to a rapid depletion in foreign currency reserves. In line with Sri Lanka's weakening external position, the Rupee experienced significant pressure in 2021 depreciating by 7% during the year. In order to preserve foreign currency, the regulator imposed several restrictions including import control, mandatory conversion of export proceeds and requirement of 100% cash margin on selected imports among others. Following the CBSL's decision to allow market forces to determine the exchange rate, the Rupee depreciated sharply in March 2022, reaching a record low of Rs. 305 per USD by end of Financial Year 2021/22.

**EXCHANGE RATE (LKR/USD)**



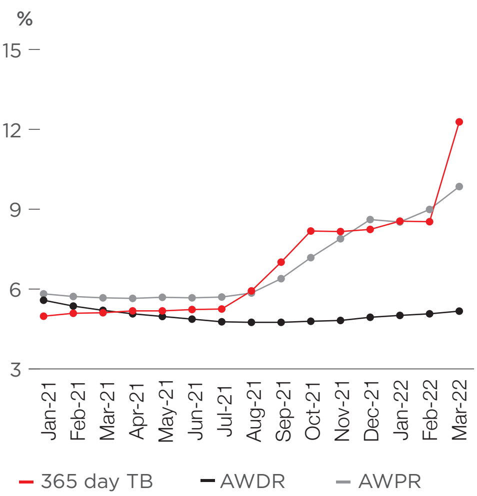

*Source: Central Bank of Sri Lanka*

> **Impact on KFP:** Cost escalations of input material

### Interest rates

Following successive months of expansionary monetary policy, the CBSL adopted a tightening monetary policy stance from the 3rd quarter of 2021. Accordingly, the Standing Deposit Facility Rate (SDFR), Standing Lending Facility Rate (SLFR), Statutory Reserve Ratio (SRR) and the Bank rates were increased during the year. Resultantly, market interest rates trended upwards towards the latter part of the year.

**INTEREST RATES**



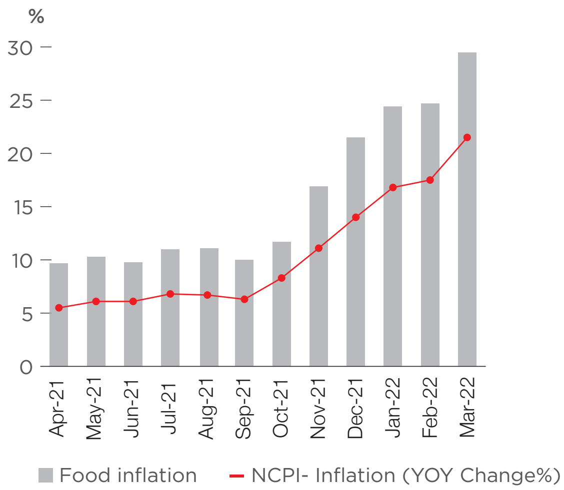

*Source: Central Bank of Sri Lanka*

**Impact on KFP:** Increase in borrowing costs towards the latter part of the year.

## Inflation

Rising global prices, supply side disruptions and removal of price controls led to the escalation of inflationary pressures from the second half of 2021. Headline inflation and core inflation increased by 12.1% and 8.3% YOY respectively during 2021. The global increase in commodity and fuel prices together with the sharp depreciation of the Rupee during the first quarter of 2022 resulted in a sharp surge in prices. Inflation stood at 14% in December 2021 has escalated by 53.5% and reached 21.5% by March 2022.

### INFLATION




*Source: Department of Census & Statistics*

**Impact on KFP:** Adverse impact on demand stemming from higher price sensitivity, given the nature of our products.

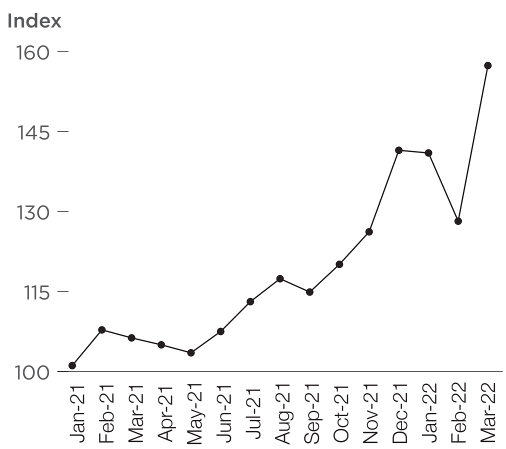
## Consumer spending

On current prices, Household consumption expenditure increased by 7% by the 3rd quarter of 2021; on constant prices however, consumption recorded a contraction of 0.4% reflecting the uptick in inflation, import restrictions, pandemic-led disruptions and the overall weakening of consumer sentiments in view of macro-economic pressures.

## Industry environment

Sri Lanka's meat industry is an important sub-sector of the livestock sector while chicken remains the most consumed meat in the country, given its perception as a relatively healthy source of protein, widespread availability across the island and religious and socio-cultural values which often discourage the consumption of beef and pork. Consumption of processed meats have also recorded a gradual increase supported by urbanisation, higher disposable incomes and customer sophistication. Import restrictions on animal feed, together with pandemic-led disruptions impacted the country's chicken production during the year, with total production and per capita availability of chicken declining in 2021. The cost of production also recorded significant increase, reflecting increased procurement prices in both imported and domestically sourced input materials.

### PRODUCER PRICE INDEX- ANIMAL PRODUCTION




*Source: Department of Census & Statistics*

# OUR BUSINESS

## INDUSTRY DRIVERS

| Consumption expenditure | Disposable income | Consumer preferences | Urbanisation | Product availability | Regulations |
|---|---|---|---|---|---|
| 1% increase in expenditure on food during 2021 (At constant prices) | 3% increase per capita GDP (in dollar) during the year | Increasing health consciousness and awareness of health risks | Urbanisation and busier lifestyles have driven demand for processed meat, given increased convenience | Customer reach through ensuring product availability across the general and modern trade channels | Regulatory developments in product labelling packaging and, import restrictions |

## OPPORTUNITIES AND RISKS

### CONSUMER PREFERENCES

**What happened:**
As prevalent macro-economic conditions impacted personal disposable incomes, customers demonstrated increased preference towards smaller-sized packaging.

Longer-term trends include,

- Increasing demand for ready-to-eat and ready-to cook meat products
- The rising prevalence of non-communicable diseases and sedentary lifestyles have led to increased emphasis on healthier diets
- Increasing popularity of trends such as veganism and vegetarianism

**OPPORTUNITIES:**

- Widening product portfolio through entry into new categories

**RISKS:**

- Erosion of competitive advantage over the long-term, due to increased health consciousness of customers

**OUR RESPONSE**

While opportunities for new product launched were limited during the year, over the medium-to-long term we will focus on expanding fish and vegetable offerings and our dry range. We also continue to monitor evolving trends in customer preferences to ensure the relevance and attractiveness of our product portfolio.
Ongoing focus on developing healthier, nutritional products and formulations.

## SUPPLY CHAIN DISRUPTIONS

**What happened:**
Pandemic-led disruptions to the supply chain together with restrictions on imports, shortage in foreign currency and surge in freight charges impacted the continuity and cost of procuring raw and packing materials.

**OPPORTUNITIES:**
- Strengthen relationships with domestic suppliers in building a more secure and resilient supply chain
- Explore opportunities in using alternate ingredients and product formulations

**RISKS:**
- Significant increase in the cost of input materials and resultant impact on profitability margins

**OUR RESPONSE**
We proactively engaged with suppliers to ensure security in raw material procurement while pursuing alternate product formulations, ingredients and suppliers.

## IMPLICATIONS OF THE PANDEMIC

**What happened:**
Following the emergence of highly transmissible variants in the 2nd and 3rd waves of the pandemic, the Government imposed lockdowns and travel restrictions for several months during the year. These restrictions adversely impacted the Group's supply chain resulting in difficulties in sourcing raw materials, continuing production, implications on the HoReCa channel and increased customer concerns on affordability.

**OPPORTUNITIES:**
- Increased in-home consumption given restrictions on social gatherings and elevated safety concerns

**RISKS:**
- Challenges in ensuring the continued supply of raw materials
- Limited opportunity to launch new products given adverse market sentiments
- Delays in product launches- trying to activate the market property.

**OUR RESPONSE**
Pursued aggressive penetration through the General Trade channel focusing on our existing product portfolio and introducing several small-sized packs to cater to increased concerns on affordability

## ENVIRONMENT AND CLIMATE RELATED RISKS

**What happened:**
The meat production industry is an energy and water intensive sector, with a high carbon footprint and broad-based implications on biodiversity and land use. As demand for meat continues to increase globally, the parallel increase in production could lead to significant environmental costs.

**OPPORTUNITIES:**
- Implement sustainable business practices to strengthen resilience of business model

**RISKS:**
- Increasing intensity and frequency of climate-related risks
- The rise of the ethical and environmentally conscious consumer could over the long-term impact the social and environmental sustainability of the sector.

**OUR RESPONSE**
Increased investments in technology and automation
Ongoing focus on productivity improvements and lean initiatives
Exploring opportunities in solar energy generation

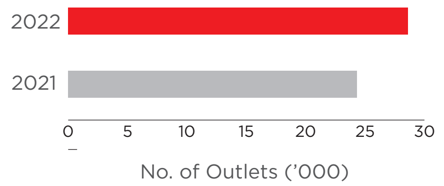
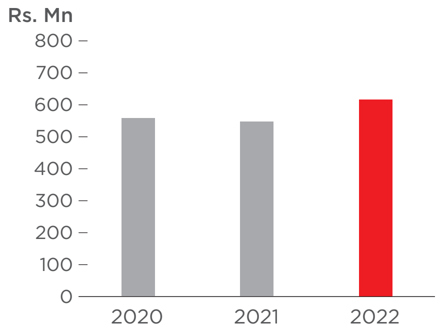
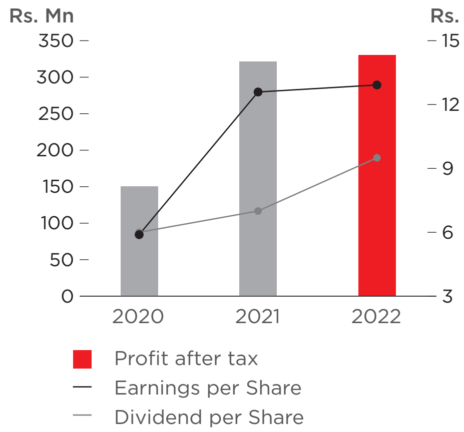
# STAKEHOLDER ENGAGEMENT

## LISTENING TO OUR STAKEHOLDERS

The considerable shifts in external conditions during the year necessitated a proactive and deeper understanding of the concerns of our stakeholders. This was achieved through holistic stakeholder engagement programs which enabled us to identify the issues that mattered most to our stakeholders while formulating strategy in a manner that effectively addressed these concerns.

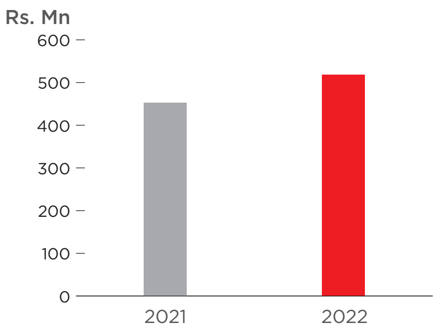
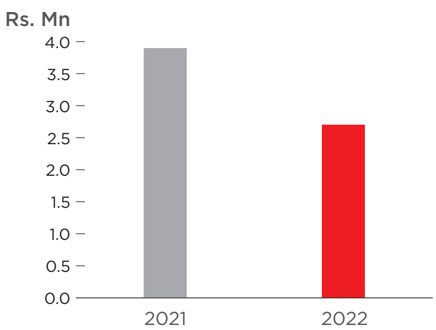
| Stakeholder Group | How We Engage | Topics and Concerns Raised in 2021/22 |
|---|---|---|
| **CONSUMERS**<br>Island wide network of discerning customers who consume our products. | • Customer satisfaction surveys (periodic)<br>• Customer hotline (continuous)<br>• Social media engagement (continuous)<br>• Website<br>• Marketing communications (continuous)<br>• Mystery Shopper audits (periodic) | • Product availability<br>• Pricing and value for money<br>• Quality and taste<br>• Product range<br>• Convenience |
| **EMPLOYEES**<br>Our team of 572 motivated and skilled employees | • Employee satisfaction surveys -Voice of Employee and Great Place to Work (annual)<br>• Performance appraisals (annual)<br>• Work-life balance initiatives<br>• Open door communication policy (continuous)<br>• Digital platforms including staff intranet (continuous) | • Physical and mental well-being<br>• Rewards and recognition<br>• Safe working environment<br>• Opportunities for skill and career progression<br>• Freedom of association |
| **SHAREHOLDERS**<br>John Keells Holdings 89.95%<br>Other institutional investors: 6.02%<br>Individual shareholders: 4.03% | • Annual General Meeting and publication of Annual Report (annually)<br>• Interim Financial Statements (quarterly)<br>• Announcements to the Colombo Stock Exchange (continuous basis)<br>• Corporate website (continuous basis)<br>• Press releases (continuous basis)<br>• One-to-one engagement (when required) | • Implications of external conditions on performance and stability<br>• Relevance of strategy<br>• Commercial, social and environmental sustainability<br>• Returns commensurate with the risks undertaken<br>• Timely and transparent communication<br>• Robust Corporate Governance practices |

When selecting which stakeholders to engage with, the Group considers individuals, organisations, and communities which have the most significant influence over our operations and/or could be substantially impacted by our decisions. The results of the Group's stakeholder engagement for 2021/22 is given below:

| Our Response | Track Record of Value Creation |
|---|---|
| The Group continued its strategy of increasing penetration across the General Trade, thereby increasing availability of its products across the island. We also strengthened the value proposition for the price sensitive market through launching small-sized packages | **PROCESSED MEAT PENETRATION IN THE GENERAL TRADE OUTLETS**<br><br><br>• Compliance to leading quality and food safety certifications<br>• Introduction of two small-sized packs to the market |
| Focus on ensuring physical and mental well-being of employees while conducting a range of virtual engagement programs | **SALARIES AND BENEFITS PAID**<br><br><br>• Remuneration per Employee: Rs. 1.08 million (per annum) |
| We proactively and continuously assessed the impact of the market conditions on the Group's performance and liquidity profile. | **SHAREHOLDER RETURNS**<br><br> |

# STAKEHOLDER ENGAGEMENT

| Stakeholder Group | How We Engage | Topics and Concerns Raised in 2021/22 |
|---|---|---|
| **DISTRIBUTORS**<br>Island wide network of over 50 distributors who drive market access | • Distributor Management System - Surge (continuous)<br>• Distributor conventions (annual)<br>• Audits and site visits (periodic)<br>• Trade monitoring surveys on freezer utilisation (periodic)<br>• Sales team engagement with retailers on an ongoing basis | • Opportunities for mutual growth<br>• Continuous supply of products despite conditions that prevailed<br>• Ease of transaction<br>• Equitable terms and conditions<br>• Financial viability |
| **SUPPLIERS**<br>We engage with over 200 suppliers through whom we procure pork, poultry, vegetables and spices among others. | • Site visits and audits (periodic)<br>• Supplier selection process (as required)<br>• Ongoing dialogue through formal meetings, telephone and electronic communication<br>• Training programmes (ongoing)<br>• Supplier financing | • Continuity of supply<br>• Opportunities for mutual growth<br>• Responsible procurement practices<br>• Timely payments<br>• Equitable terms of trade<br>• Support in obtaining clearance to operate during the pandemic |
| **REGULATORS**<br>The Group's key regulators are Department of Inland Revenue, Central Environment Authority, Consumer Affairs Authority, Sri Lanka Customs, Colombo Stock Exchange, Securities and Exchange Commission, Central Bank, Ministry of Health, Registrar of Companies etc. | • On-site surveillance and factory visits (periodic)<br>• Directives and circulars (continuous)<br>• One-to-one engagement (when required)<br>• Press releases (continuous) | • Compliance with relevant regulations and guidelines<br>• Payment of taxes on a full and timely basis<br>• Minimise adverse environmental impacts |
| **COMMUNITIES**<br>The communities in and around our operating locations | • Community engagement initiatives (continuous)<br>• Public events (continuous)<br>• Social media interactions and press releases (continuous)<br>• CSR projects in partnership with John Keells Foundation | • Livelihood development<br>• Meaningful CSR projects<br>• Employment creation<br>• Minimising adverse environmental impacts of operations<br>• Contribution towards community development |

| Our Response | Track Record of Value Creation |
|---|---|
| Expanded our distributor network in both urban and rural areas during the year. Continued to support distributor partners during the pandemic through extending credit and enhanced redistribution allowances. | • Financial assistance granted to the distributors<br>• Investment made towards 405 freezers at a cost of Rs. 54 million |
| Disruptions to supply chains was a key challenge faced during the year and we proactively engaged and expanded our supplier base to secure required supplies. | • Rs. 3,363 million payments to suppliers (+34%)<br>• 11 new suppliers added during the year |
| The Group was fully compliant with all relevant regulations during the year and continued to engage with regulators and industry stakeholders to ensure continuity of operations | **TAX PAYMENTS**<br> |
| Despite the challenges that prevailed we continued to engage with communities, supporting their well-being during the pandemic | • Rs. 2.7 million Investment in CSR activities reaching 340 beneficiaries<br>**CSR PAYMENTS**<br> |

# DETERMINING MATERIALITY

We define material matters as issues that are of greatest importance to our stakeholders and potentially have the most significant impact on our value creation. Material matters are determined following an analysis of all relevant internal and external factors as graphically illustrated below. The Group's material matters form the anchor of this Report as it determines the key information needs of our stakeholders. The material topics given below are a combination of those prescribed by the GRI guidelines and factors specific to our operating environment, value creation model and strategy.

The process we adopt in determining these issues is illustrated below;

**IDENTIFICATION OF ISSUES**

- Assessment of external environment
- Results of stakeholder engagement
- The Group's strategic aspirations

**ASSESSMENT**

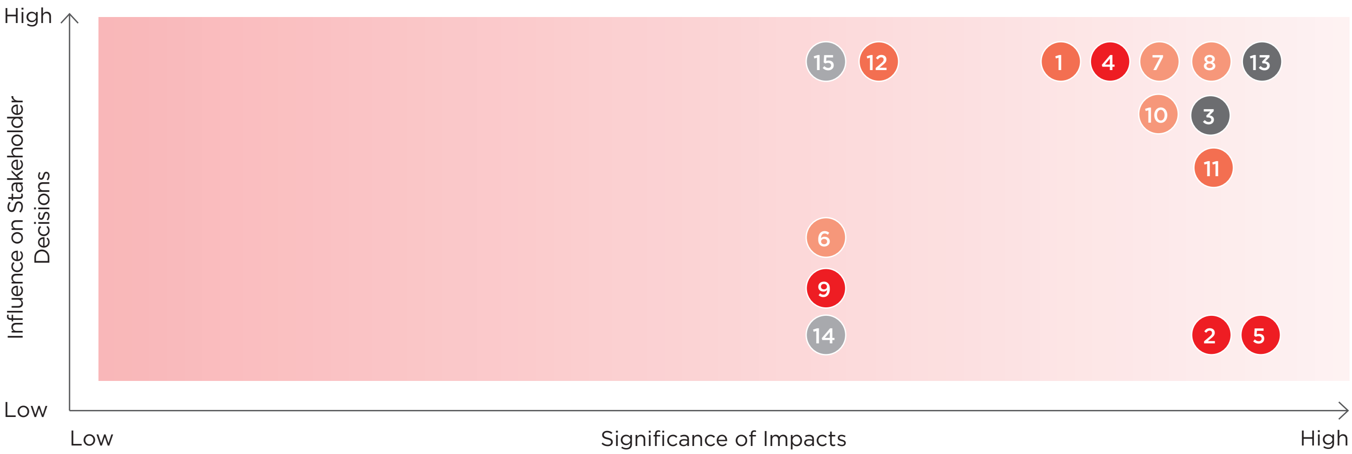
- Assess potential impact on the Group's performance, stability and key stakeholder groups

**PRIORITISATION**

- Prioritise matters based on relative significance and likelihood of impact

**SELECTION AND VALIDATION**

- Determine material aspects to be included in the Report




| | | | | |
|---|---|---|---|---|
| Sustainable Growth | Empowered Team | Quality and Innovation | Channel and Supplier Relationships | Sustainability |

**CHANGES IN MATERIAL TOPICS**

- Increased importance of Macro-economic conditions and policy developments
- Optimising distribution channels
- Innovation
- Effective management of supply chain

| Material Topic | Change in materiality compared to 2020/21 | Corresponding GRI topic | Topic Boundary |
|---|---|---|---|
| (1) Employee health and safety | - | GRI 403: Occupational health and safety | Relates to the Group's permanent and contract employees |
| (2) Efficiency and cost management | - | - | Relates to the Group's operations |
| (3) Macro-economic conditions including shortage in foreign exchange and policy developments. | ↑ | - | - |
| (4) Financial performance and stability | - | GRI 201: Economic Performance | Group financial performance |
| (5) Market share | - | - | - |
| (6) Responsible production and marketing | - | GRI 417: Marketing and labelling | Relates to the Group's operations |
| (7) Superior quality | - | GRI 416: Customer health and safety | Relates to the Group's operations |
| (8) Optimising distribution channels | ↑ | - | The Group's distribution networks |
| (9) Manufacturing capabilities | - | - | Relates to the Group's operations |
| (10) Innovation | ↑ | - | Relates to the Group's operations |
| (11) Talent management | - | GRI 401: Employment<br>GRI 404: Training and education<br>GRI 402: Labour management relations | Relates to the Group's operations |
| (12) Organisational culture and compliance | - | GRI 307: Environmental Compliance<br>GRI 419: Socioeconomic compliance | Relates to the Group's operations |
| (13) Effective management of supply chain | ↑ | GRI 204: Procurement practices | Relates to the Group's supply chain partners |
| (14) Managing environmental impacts | - | GRI 301: Raw materials<br>GRI 302: Energy<br>GRI 303: Water<br>GRI 305: Emissions<br>GRI 306: Waste and effluents | Relates to the Group's operations |
| (15) Community engagement | - | GRI 413: Local communities | Relates to the Group's operations |

# STRATEGY AND RESOURCE ALLOCATION

The Group's corporate strategy centres on 5 key pillars, which seek to address its long-term commercial, social and environmental aspirations. While our focus on these strategic pillars remained unchanged, unprecedented shifts in the operating landscape necessitated refinement of these strategies to ensure relevance to emerging dynamics.

| Strategic pillar | Priorities in 2021/22 |
|---|---|
| SUSTAINABLE GROWTH | Drive sustainable growth in revenue and profitability through ensuring uninterrupted manufacturing and pursuing aggressive penetration across the island. |
| QUALITY AND INNOVATION | Maintain the highest standards of product quality while exploring innovative product formulations to address supply chain disruptions |
| EMPOWERED TEAM | Enhance the employee value proposition through creating a diverse and inclusive culture, offering opportunities for skill development and career progression and nurturing a conducive work environment. |
| CHANNEL AND SUPPLIER RELATIONSHIPS | Optimise our distribution channels and supporting the commercial sustainability of our distribution partners. Proactively engaging with suppliers in securing access to input materials. |
| SUSTAINABILITY | Embed social and environmental consciousness across our processes, operations and decision-making, in driving meaningful change. |

# DELIVERING OUR STRATEGY

| SUSTAINABLE GROWTH | |
|---|---|
| Developments in 2021/22 | • Continued strategy of pursuing aggressive growth in the retail category through the General Trade channel, increasing deployment of vehicles, expanding into new geographical areas and outlets<br>• Differentiated pricing strategies to drive higher penetration in selected segments<br>• Efficiency and cost rationalisation measures<br>• Targeted growth in profitable SKUs<br>• Enhance value proposition in value for money segment through small-sized packaging |
| KPI | • 12% volume growth in processed meats led by,<br>  • Retail sausages: 16%<br>  • Meatballs: 17%<br>  • Bulk sausages: 15%<br>• +3,000 new outlets added |
| Resource allocation and trade-offs | • Increased fleet of distribution vehicles<br>• Incentive schemes for distribution partners<br>• Product re-engineering to explore the use of alternate input materials<br>• Expansion of retail outlets |
| Outlook for 2022/23 | • Capacity expansion in the skinless and skin-on range<br>• Pursue continued penetration of the General Trade and Modern Trade channels |

| QUALITY AND INNOVATION | |
|---|---|
| Developments in 2021/22 | • Product re-engineering in view of increased price sensitivity<br>• Expansion of the Soya range with the launch of regular and cuttle fish variants<br>• Explore alternative ingredients given disruptions to supply chains |
| KPI | • Maintained market leadership position<br>• Annual product tracker for sausages and meat balls<br>• New products/variants launched: 5 |
| Resource allocation and trade-offs | • Investments in R&D - Rs. 4.4 million<br>• Collective knowledge in pursuing new formulations/ingredients |
| Outlook for 2022/23 | • Further expansion of the Soya category, while ezy Rice will be discontinued due to non-conducive market conditions.<br>• Strengthen value-for-money offerings through value engineering products<br>• Process innovation to drive cost effective manufacturing methods |

# DELIVERING OUR STRATEGY

## EMPOWERED TEAM

| | |
|---|---|
| Developments in 2021/22 | • Ensure employee well-being through comprehensive health and safety guidelines<br>• Agile work plans to facilitate uninterrupted operations<br>• Increased opportunities for training and development<br>• Strategic focus on creating a diverse and inclusive culture<br>• High-level of employee engagement |
| KPI | • 82% employee satisfaction rate<br>• 400 employees trained<br>• 85% retention rate<br>• 16% female representation rate |
| Resource allocation and trade-offs | • Payments to employees Rs. 616 million (+12.5%)<br>• Investment in training Rs. 1.3 million |
| Outlook for 2022/23 | • Strengthen the employer brand<br>• Increased focus on our Diversity, Equity and Inclusion agenda<br>• Organisation-wide initiative to drive the Living Values program |

## CHANNEL AND SUPPLIER RELATIONSHIPS

| | |
|---|---|
| Developments in 2021/22 | • Strategic focus on agility and flexibility of supply chain partners<br>• Continued support to distributor network including extended credit terms, incentives schemes and deploying freezers<br>• Expansion of retail outlets<br>• Proactive engagement with suppliers in ensuring continued supply of input materials<br>• Consolidation of processed meat and dry distribution channels, enabling more efficient resource allocation |
| KPI | • Increased product availability through the addition of 3,000 new retail outlets<br>• Ensured continuity of production despite supply chain disruptions |
| Resource allocation and trade-offs | • Payments to suppliers: Rs. 3,363 million (+34%)<br>• 11 new lorries added to the distribution fleet<br>• 3 new distributors added |
| Outlook for 2022/23 | • Maintain strategic focus on increasing penetration through the General Trade channel<br>• Ongoing efforts to diversify the supplier base to mitigate exposure to supply chain disruptions |

## SUSTAINABILITY

| | |
|---|---|
| **Developments in 2021/22** | • Ongoing project on supporting responsible waste management in selected schools<br>• Formulation of energy and water reduction goals for 2025<br>• Installation of rooftop solar panels in the Ja-Ela facility<br>• Employee engagement on reducing energy consumption through Kaizen projects |
| **KPI** | • 9.6% reduction in water intensity<br>• 340 beneficiaries from CSR activities during the year |
| **Resource allocation and trade-offs** | • Investment in environmental initiatives Rs. 7.3 million<br>• Investment in CSR initiatives Rs. 2.7 million |
| **Outlook for 2022/23** | • Action plan to drive reductions in energy and water intensity in line with our long-term goals |

# FINANCIAL CAPITAL

**FINANCIAL PERFORMANCE**

**26%**
Revenue growth driven by 12% volume growth

Effective cost management

**Rs. 330 million**
Profit after tax (3% Increase)

**SHAREHOLDER RETURNS**

**Rs. 12.92 (3% increase)**
Earnings per share

**Rs. 9.50 (2020/21: Rs. 7.00)**
Dividend per share

**Rs. 85.99**
Net asset value per share

**FINANCIAL POSITION**

**12%**
Asset growth to
**Rs. 3.44 billion**

Strong capital base with equity accounting for **87%** of total capital employed

**15.49%**
Gearing ratio

**STRATEGIC RELEVANCE**

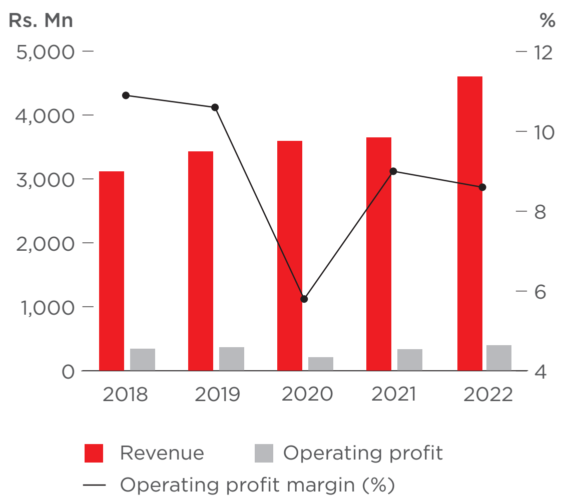
- Sustainable Growth
- Channel and Supplier Relationships

## FINANCIAL PERFORMANCE

### Revenue

The Group's relentless focus on pursuing penetration in the retail market paid rich dividends during the year, with Consolidated revenue increasing by 26% to Rs. 4.6 billion. This strategy enabled the Group to counter the slowdown in the Modern Trade channel through strong growth in General Trade and Hotels, while revenue growth was also supported by a general price increase. The Group achieved a 12% growth in volumes, a commendable achievement given pandemic-led disruptions and macro-economic challenges during the year. Volume growth was supported by an expansion in the retail network, targeted consumption building initiatives and a timely portfolio strategy, targeting retail sausages and meat balls.

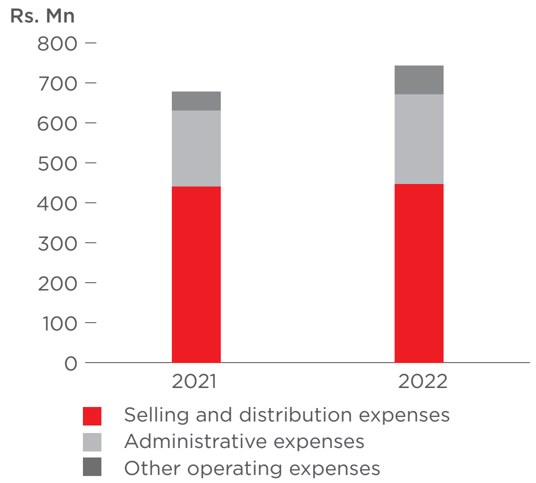
**REVENUE AND PROFITABILITY TREND**




### Cost Management

Cost escalations remained a key concern during the year, reflecting pandemic-led disruptions to supply chains, surge in freight rates and the increase in global commodity prices. Impact of the lack of foreign currency along with the depreciating Rupee, rise in inflation and interest rates hampered the sourcing of raw and packing materials. Given the macro-economic conditions and increasing competitive intensity, cost escalations were not fully passed on to customers. Resultantly, the Group's gross profit margin narrowed to 25% from 28% the previous year, while consolidated gross profit increased at a 14% to reach Rs. 1.1 billion.

**OPERATING EXPENSES**



# FINANCIAL CAPITAL

That being said, strategic focus on relatively high-margin products and channels enabled the Group to mitigate the impact of rising costs to a certain degree.

The Group continued to focus on driving productivity and efficiency improvements, which led to considerable cost savings during the year. Despite the increase in operational activity, the Group contained the increase in overhead expenses to 14% during the year. Administrative expenses increased by 17% mainly from people-related expenses while sales and distribution costs increased by a marginal 1% reflecting more effective allocation of resources across channels.

### Operating Profitability

Strong revenue growth together with prudent management of overhead costs resulted in the Group's Operating Profit increasing by 20% to Rs. 395 million during the year. Despite the contraction in GP margins, the Group's operating margins remained relatively unchanged at 9% compared to the previous year, attesting to the cost-conscious culture nurtured within the organisation.

### Pre and post tax profits

Consolidated net finance costs increased to Rs. 5.1 million, from Rs. 3.1 million in the previous year mainly due to increase in interest rate and the reduction in finance income. Pre tax profit increased by 19% to Rs. 390 million during the year, attesting to the Group's resilience and agility in a year of unprecedented challenges. Value created to the government in the form of corporate tax increased to Rs. 60 million. Resultantly, profit after tax increased by 3% to Rs. 330 million.

### Other Comprehensive Income (OCI)

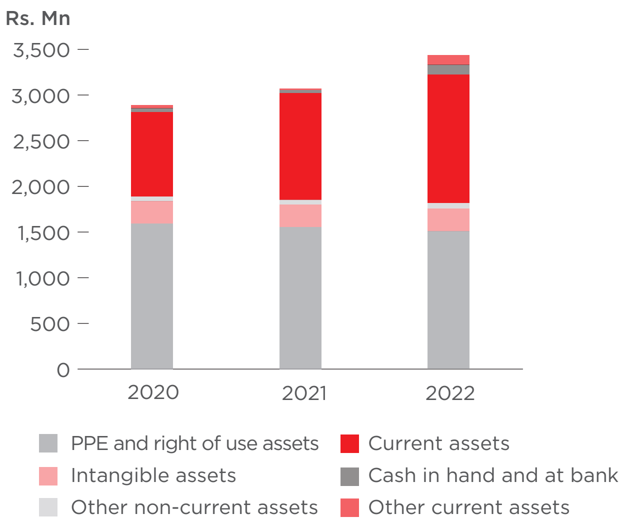
The Group's OCI primarily comprised of revaluation gains on land and building. OCI decreased by 52% to Rs. 27 million due to a normalisation of deferred tax reversals in 2020/21. Overall, the Group's total comprehensive income for the year recorded a decline of 5% to Rs. 356 million.

## FINANCIAL POSITION AND STABILITY

### Assets

Consolidated total assets increased by 12% to Rs. 3.44 billion during the year, as the Group directed increased investments towards working capital through building up buffer stocks. This strategy ensured continuity of production despite numerous disruptions to supply chains that prevailed during the year. Investments in working capital therefore increased by 19% to Rs. 939 million during the year end and accounted for 27% of total assets. Accordingly, the asset base tilted increasingly towards current assets, which accounted for 47% of total assets, compared to 40% of the previous year. Capital expenditure remained minimal given the conditions that prevailed during the year.

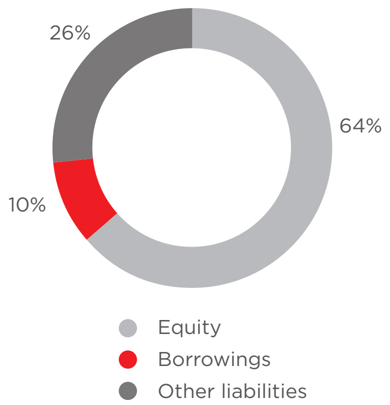
### ASSET COMPOSITION




### Liabilities

The Group's financial position and funding profile remained strong, reflected in an equity base of Rs. 2.19 billion which funded 64% of the total assets. Equity increased by 6% supported by profit retention during the year. The Group's exposure to borrowings increased by 14% during the year, mainly due to reliance on overdrafts to fund the working capital requirements. Despite this increase, the Group's gearing levels remain low, with gearing ratio clocking in at 15% by end-March 2022. Total liabilities recorded an increase of 26% to Rs. 1,247 million due to an increase in trade and other payables, as the Group increased its buffer levels in raw material.

## CAPITAL AND LIABILITIES




### Cashflow

The Group's operational cash flow strengthened in line with increased activity, with net cash inflow from operations increasing by 31% to Rs. 409 million. Net cash outflow from investing activities amounted to Rs. 127 million reflecting capital expenditure related to upkeep and maintenance of the production facilities. Net cash outflow from financing activities clocked in at Rs. 288 million mainly due to increased dividend payments, as the Group continued to deliver on its shareholder commitments. Resultantly, the Group's net change in cash and cash equivalents recorded a decline of Rs. 5.8 million.

### Shareholder returns

The effective implementation of a timely and smart strategy enabled KFP to consistently delivered on its shareholder commitments. Earnings per share increased to Rs. 12.92 (from Rs. 12.59), while dividend per share also increased to Rs. 9.50. Meanwhile, net asset value per share increased by 6% to Rs. 85.99 by end-March 2022.

| Shareholder Return Metric | 2022 | 2021 | 2020 |
|---|---|---|---|
| Earnings per share (Rs.) | **12.92** | 12.59 | 5.89 |
| Dividend per share (Rs.) | **9.50** | 7.00 | 6.00 |
| Net asset value per share (Rs.) | **85.99** | 81.43 | 73.57 |
| Return on equity (%) | **15.44** | 16.24 | 8.07 |
| Closing share price (Rs.) | **166.25** | 162.50 | 108.20 |

# MANUFACTURED CAPITAL

As an organisation with a significant manufacturing footprint, we have continued to invest in our manufactured capital to expand capacity, drive efficiencies and enhance product quality. Our manufactured capital comprises of production facilities, machinery and equipment, which accounted for 44% of our total assets by end-March 2022.

**Manufactured Capital Inputs**

**4**
Manufacturing facilities

**Rs. 1,503 million**
Property, Plant and Equipment

Quality Assurance Laboratory

Research and Development Laboratory

**VALUE TRANSFORMATION**

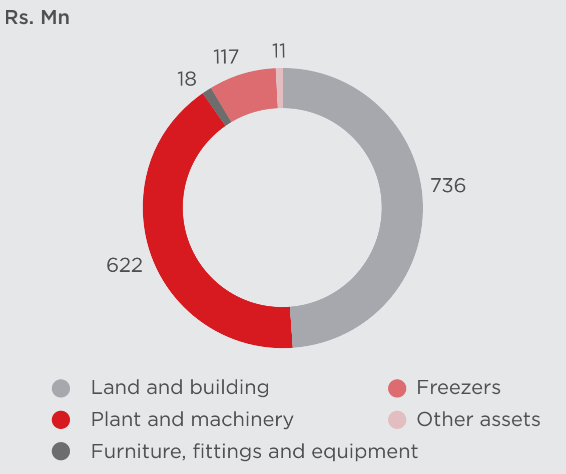
- Investment in CAPEX: Rs. 127 million
- Focus on improving efficiency through 5S and Kaizen implementation

**Outputs**

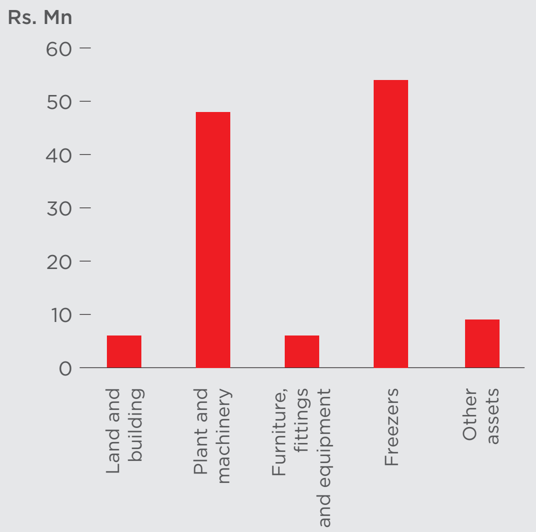
**12%**
Volume Growth

Capacity Utilisation rate:
**67%**

**PROPERTY, PLANT & EQUIPMENT (PPE)**




**CAPITAL EXPENDITURE DURING THE YEAR**




**STRATEGIC RELEVANCE**

| | | |
|---|---|---|
| • Sustainable Growth | • Quality and Innovation | • Sustainability |

## MANUFACTURING CAPABILITIES

KFP's ability to consistently manufacture a comprehensive portfolio of high-quality products is underpinned by the strength of its manufacturing capabilities. The state-of-the-art manufacturing facilities are designed to ensure compliance to relevant food safety standards and certifications, which in turn is a key source of competitive advantage. The Group has continued to invest in enhancing its manufacturing capabilities, including the infrastructure, technology and quality control processes in line with its strategic growth aspirations. An overview of the Group's manufactured capital is given below:

### PANNALA

**Contribution to Value Creation**

- Manufacturing a range of chicken and fish-based products
- Annual capacity over 5,000 MT

### PANNALA DRY PLANT

**Contribution to Value Creation**

- Manufacturing of dry range products
- Annual capacity over 500 MT

### JA-ELA: PLANT 1

**Contribution to Value Creation**

- Crumbed range of products including formed meat, chinese rolls, toppings and sauces
- Annual capacity over 1,000 MT

### Certifications/ Standards

ISO 22000: 2018 Food Safety Management

ISO 9001: 2015 Quality Management

ISO 45001: 2018 Occupational Health and Safety

Halal certified as per the Halal Accreditation Council

COVID-19 Health and Safety Certification

### JA-ELA: PLANT 2

**Contribution to Value Creation**

- Manufacture of the Elephant House range of processed meats and value-added raw meats
- Annual capacity over 1,000 MT

### QUALITY ASSURANCE LABORATORY

**Contribution to Value Creation**

- Ensures that all production batches are tested in line with the requirements of the certifications.

### R&D LAB (TEST KITCHEN)

**Contribution to Value Creation**

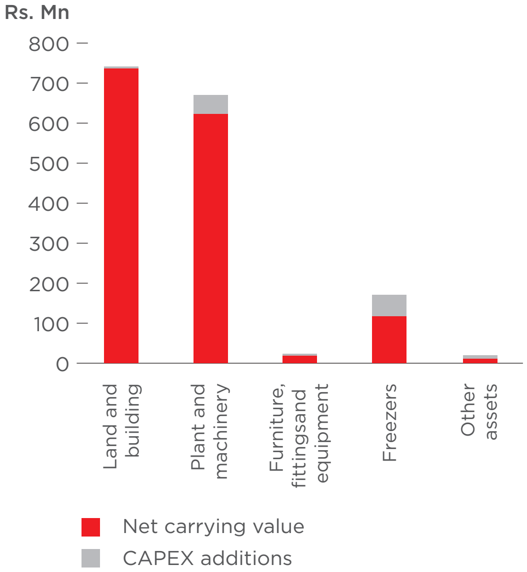
- R&D laboratory equipped with advanced food technology which is used to formulate, test and analyse recipes.

## CAPITAL EXPENDITURE IN 2021/22

Supply chain disruptions, escalation of input costs, erosion of margins and cash flow pressure compelled the Group to curtail capital expansion plans and focus on ensuring the continuity of manufacturing and distribution whilst managing the cash flow. Capital expenditure of Rs. 127 million consisted primarily of routine maintenance of the manufacturing facilities, resulting in the total property, plant and equipment amounting to Rs. 1,503 million.

# MANUFACTURED CAPITAL

MANUFACTURED CAPITAL




Linker Machine for Skinless line RS. 19 Mn

Electric Pallet Movers and Metal Detectors Rs. 11 Mn

Investment in Freezers Rs. 54 Mn

### OPERATIONAL EXCELLENCE

We continued to focus on productivity improvements and efficiency of operations in our manufacturing process. The implementation of 5S and Kaizen systems in our facilities have enabled considerable cost savings and improvements in quality, while reducing waste in the production process.

- Completed 80% of the 5S implementation in the Ja-Ela plant
- Conducted awareness programmes and training sessions towards nurturing a quality-conscious culture
- Obtain suggestions from employees in driving productivity improvements and energy saving through Kaizen

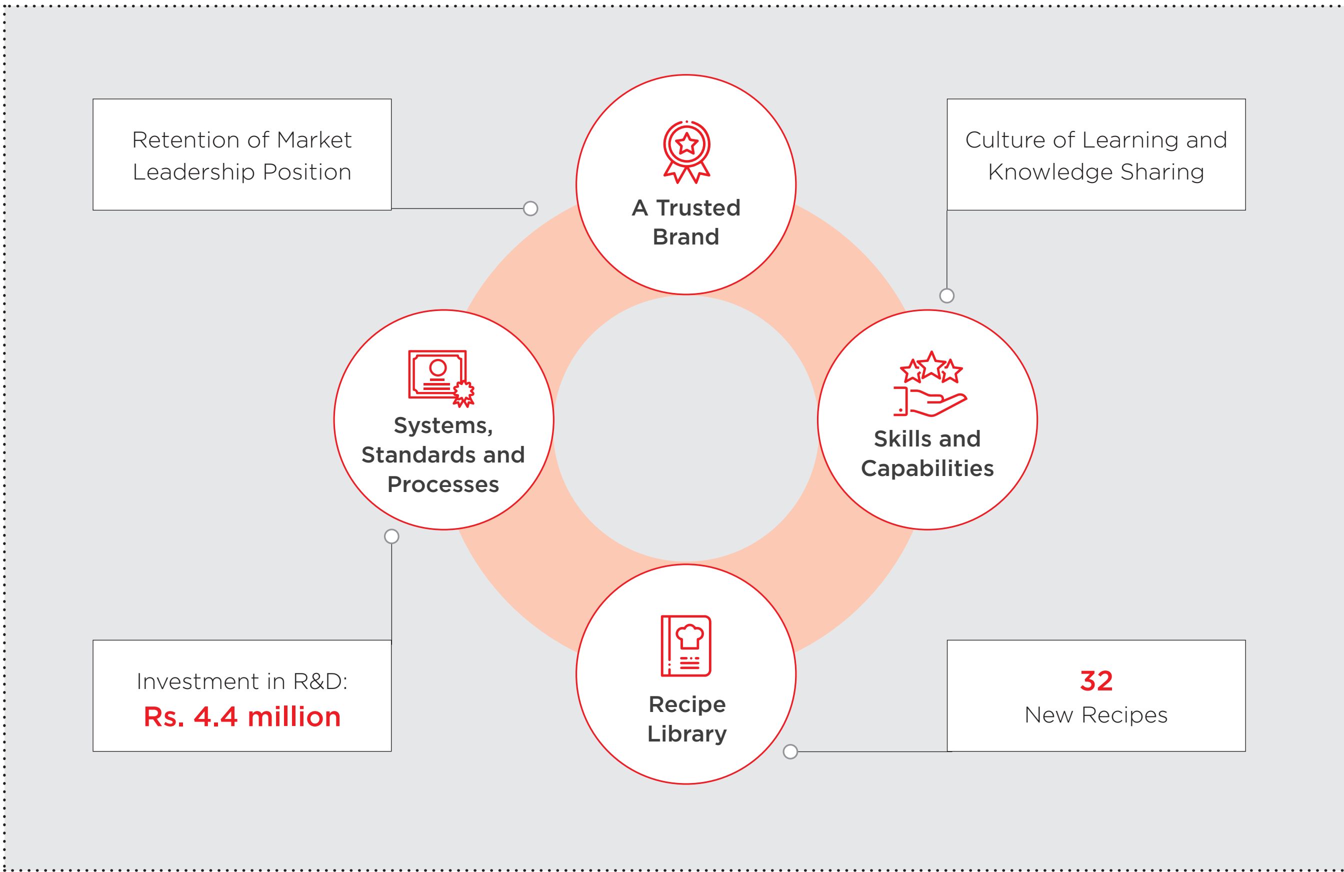
### WAY FORWARD

Our research and development capabilities, agile manufacturing methods and deep industry knowledge together with the manufacturing capabilities strongly position us to further strengthen our product offering and increase production. Our priorities for next year include:

- Proposed capacity expansion in the Pannala manufacturing plant for the skinless and skin-on range with a freezer facility.
- Increase capacity and production volumes by overcoming the raw material sourcing issues, by having alternative raw and packing material options as well as developing new suppliers locally and overseas.

# INTELLECTUAL CAPITAL

We have nurtured our Intellectual capital through a culture of learning and knowledge sharing, which has in turn enhanced our quality and capability for innovation and sharpened our competitive edge. The strength of our intellectual capital base has been a vital factor in supporting our resilience in the face of numerous operational challenges faced during the year.

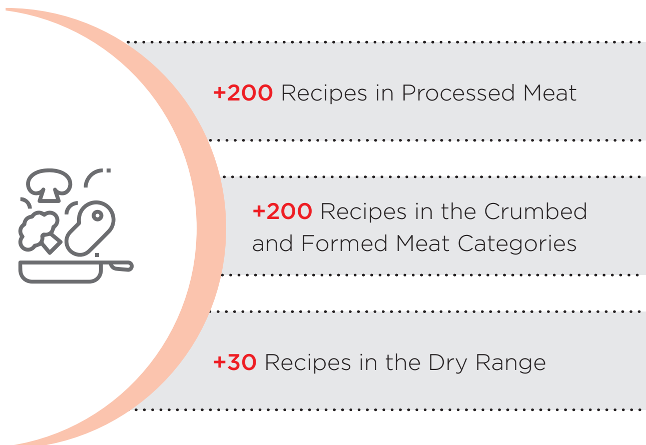



**STRATEGIC RELEVANCE**

- Sustainable Growth
- Quality and Innovation
- Sustainability

## RECIPE LIBRARY

Our recipe library consisting of over 500 tried and tested recipes is a key source of competitive strength and forms a significant part of our intangible asset base. Over the years, we have been able to experiment and evolve our recipe library to introduce a wide range of innovative offerings to cater to diverse and evolving customer needs. We have invested in world class capabilities and placed strategic emphasis on quality and innovation, thereby building brand loyalty and inspiring customer confidence. Although 32 new recipes were formulated during the year, the operational challenges that prevailed led us to focus mainly on consolidating our position through the existing product portfolio.



# INTELLECTUAL CAPITAL

## SKILLS AND CAPABILITIES

Our research capabilities are underpinned by state-of-the-art technology, infrastructure and a capable team which has enabled us to consistently deliver innovative products of superior quality to the market. Driving innovation as a cross-functional organisation wide process with key departments such as marketing, quality assurance, R&D along with the finance teams providing their input. The Group's Quality Assurance laboratory and test kitchen ensures that the highest standards of quality, health and safety as well as compliance is followed at every stage of the production process.

**Rs. 4.4 Mn**

**Investment in R&D**

Key developments attesting to the strength of the Group's intellectual capital during the year were:

- Ensured uninterrupted production despite raw material shortages and supply chain disruptions, exploring alternative ingredients without compromising on quality
- R&D capabilities directed towards serving customers' increased preference for convenience, longer-shelf life and ease of preparation resulting in the widening of the dry range with the launch of 2 new soya variants

## A TRUSTED BRAND

The Group's premium products are sold under the Elephant House brand which is owned by the JKH Group's sister Company Ceylon Cold Stores PLC. The brand is typically associated with quality and trust and is frequently ranked by independent parties among the most valuable brands in the country. KFP benefits from the strength of the Elephant House brand, by gaining better market reception from consumers for new products

## SYSTEMS, STANDARDS AND PROCESSES

We comply with a range of standards and certifications related to quality, safety and high standards of product responsibility which have strengthened our internal processes. Through the implementation of Kaizen and 5S systems within the manufacturing facilities, we have nurtured a productivity-conscious culture within the organisation. The systems, standards and processes in place also serve as a form of assurance to our stakeholders regarding the robustness and credibility of our operations. These are presented below:

**R&D Process**

Product brief by New Product Development Team and discussions with internal departments > Developing and testing a prototype > Product development at plant level and verified through chemical and physical testing > Conducting feasibility studies including cost-benefit analysis > Introduced at pre-commercial and commercial level

**The Way We Work - Certifications, Policies and Regulatory Acts**

**CONSUMER AFFAIRS AUTHORITY ACT**

**KFP QUALITY POLICY**

- Quality, safety, convenience and nutrition
- Timely delivery
- Continuous improvement
- Competency development

**ISO 9001:2015**

Assurance on processes implemented for ensuring the highest standard of quality across all operational aspects.

**ISO 22000:2018**

Assurance on the ability to control food safety hazards, ensuring suitability for human consumption.

**FOOD ACT NO. 26 OF 1980**

**KFP FOOD SAFETY POLICY**

- Manufacturing facilities
- Food safety practices
- Employee training
- Compliance

# HUMAN CAPITAL

Despite unprecedented uncertainty and turbulence in the operating environment, our pool of 572 employees ensured the continuity of our operations during the year. We in turn, remained steadfast in our commitment to nurturing our human capital providing them with an attractive value proposition.

**A SAFE WORKPLACE**

Certified ISO 45000: 2018 -Occupational Health and Safety Management System

**REMUNERATION AND OTHER BENEFITS**

**Rs. 616 Mn**
Salaries and benefits paid during the year

**EMPLOYEE ENGAGEMENT**

Virtual and physical events

**DIVERSE AND INCLUSIVE ENVIRONMENT**

**16%** Female representation

Agile and conducive organisational culture

**OPPORTUNITIES FOR TRAINING AND DEVELOPMENT**

**3,625** Hours of training

**Rs. 1.3 Mn** investment in training

**STRATEGIC RELEVANCE**

- Empowered Team
- Sustainability

## OUR MANAGEMENT APPROACH

Our Human Resource policies and procedures are aligned to that of our Parent entity, John Keells Holdings and have been developed in line with industry best practices. The well-defined governance structure and the comprehensive policy frameworks in place ensure that our employees are always treated in a fair and equitable manner. During the year under review, we implemented the Agile Work Policy, facilitating hybrid work models for selected roles as we sought to ensure continued operations while minimising the risk of cross infection. Aligned to the Parent entity's policy, this allowed employees to work from home for several days a week while the necessary technology infrastructure was provided to facilitate this transition.

**RELEVANT HR POLICIES**

- Recruitment Policy
- Training and Development Policy
- Equal Opportunity Policy
- Non-Discrimination Policy

**NEW POLICIES INTRODUCED DURING THE YEAR**

- Agile Work Policy

## TEAM PROFILE

Our pool of 572 employees which comprised of both permanent and contract staff, operate from two locations, and are a key source of competitive strength to the organisation. We are an equal opportunity employer and strive to create an environment which does not discriminate our employees based on ethnic origin, religion, political opinion, gender, marital status or physical disability.

# HUMAN CAPITAL

**84%** Males

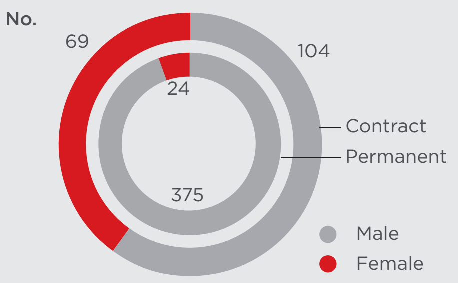
**16%** Females

**38** years average age of employees

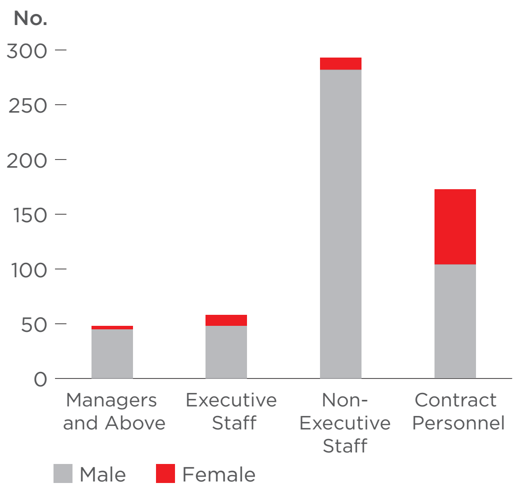
**35%** Trade Union representation

**55%** employees outside the Western Province

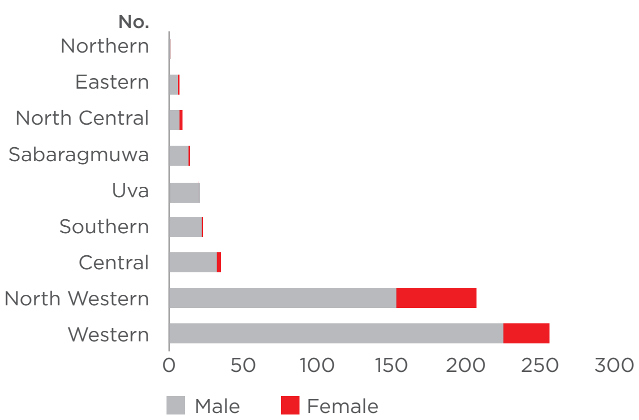
## EMPLOYEES BY CONTRACT AND GENDER




## EMPLOYEES BY CATEGORY AND GENDER



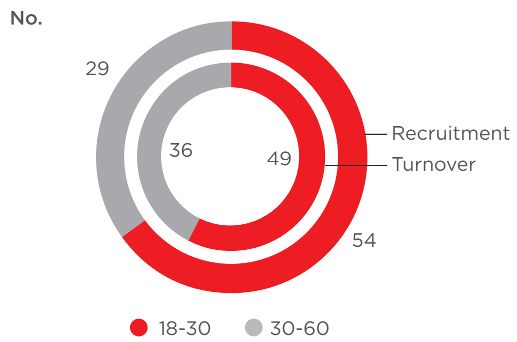

## EMPLOYEES BY REGION AND GENDER



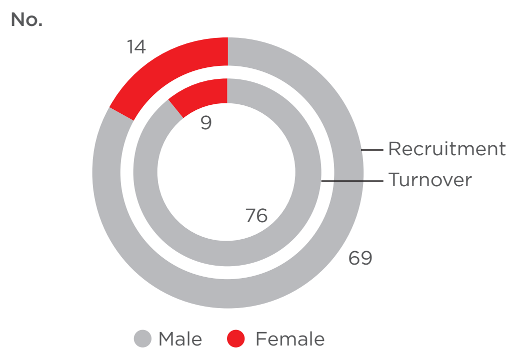

## MOVEMENTS IN OUR TEAM

We adopt a structured and transparent process for attracting, retaining and developing the right talent with the skills and experience required to drive our strategy. Given the uncertainty that prevailed during the year, KFP recruited 42 casual workers to ensure uninterrupted operations in manufacturing and logistics. The movements in our team are presented graphically below:

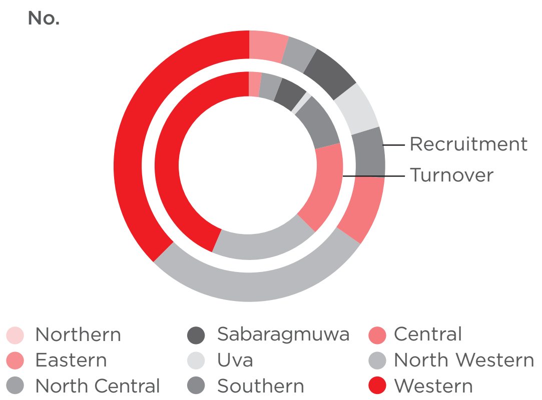
## RECRUITMENT AND TURNOVER BY AGE GROUP




## RECRUITMENT AND TURNOVER BY GENDER




## RECRUITMENT AND TURNOVER BY REGION



## A SAFE WORKPLACE

As a responsible employer, ensuring the health and safety of our employees remained a priority, particularly given the emergence of highly transmissible COVID-19 variants during the year. In addition to stringent health and hygiene measures to ensure physical well-being. We also placed emphasis on the employees' mental well-being during the year conducting several mental health awareness programmes to boost morale.

In addition to the measures adopted to curtail the spread of COVID-19, the Group has in place stringent health and safety procedures, particularly given its extensive manufacturing operations. We have also obtained the ISO 45000: 2018 Occupational Health and Safety Management System standard, which have strengthened our internal processes, standards and nurtured a safety - conscious culture.

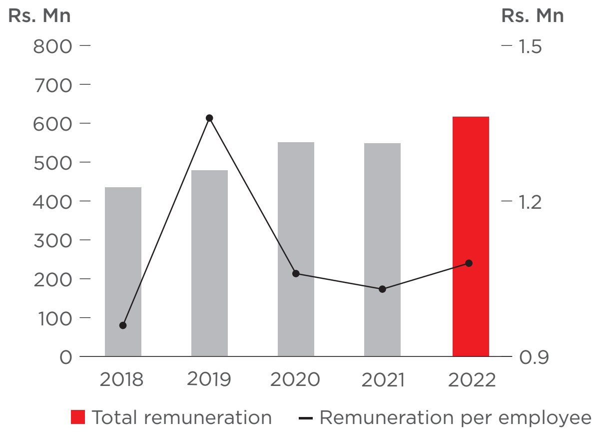
- Job rotations and a Work From Home arrangement were introduced for executive carder
- Random PCR tests and temperature monitoring was conducted at manufacturing facilities
- Conducted COVID-19 awareness sessions for all employees
- Employees were provided transport facilities to minimise the risk of exposure through public transport

| | 2022 | 2021 |
|---|---|---|
| Total number of injuries | 7 | 7 |
| Lost days | 87 | 2 |

## REMUNERATION AND BENEFITS

We provide our employees an attractive and competitive remuneration package and additional benefits which are in line with industry best practice in order to attract and retain the industry's top talent. Our remuneration structures also encourage a performance-driven culture, motivating employees to achieve organisational goals. Permanent employees are offered fixed and performance-based components with the latter is decided after a performance appraisal. A target-driven approach is adopted for the sales team who receive monthly performance incentives linked to pre-determined targets. During the year, Rs. 616 Mn was paid as remuneration and benefits to employees which is an increase of 13% when compared to last year.

### REMUNERATION AND BENEFITS




### RETIREMENT BENEFITS

- Contributions of 12% and 3% to EPF and ETF respectively
- Retirement gratuity for employees who have served 5 or more years

### INSURANCE

- Medical insurance for both inpatient and outpatient departments
- Workmen's compensation for injuries (non-executive)
- Personal accident cover for executive employees

### ALLOWANCES/ INCENTIVES

- Productivity and attendance incentives
- Special allowances

### OTHER

- Festival advances
- Company products at discounts
- Free transportation for factory staff

# HUMAN CAPITAL

In addition to the above, additional benefits relating to COVID-19 were provided to employees and their families and are presented below.

- Workers who were affected by COVID-19 were provided with hospital care
- Conducted vaccination drives
- Dry ration packs were provided to employees who tested positive for COVID-19

## EMPLOYEE RECOGNITION

We conduct numerous recognition schemes to identify and reward high-performing employees. During the year, 15 of our employees were awarded the BRAVO certificate -a reward scheme initiated by the John Keells Group recognising talented employees for their contribution towards achieving the Group's strategies and goals.

## EMPLOYEE ENGAGEMENT

Although physical engagement was restricted due to the COVID-19 pandemic, we conducted several activities to keep our employees motivated and engaged. Given the conditions that prevailed, we enhanced engagement through digital platforms, while a few activities were carried out physically. A few engagement activities conducted during the year are listed below:

## DIVERSITY AND INCLUSION AT KFP

In line with its commitment towards nurturing an inclusive workplace, the JKH Group launched ONE JKH Program- a brand driving the values of diversity, equality and inclusion. In line with the ONE JKH program, KFP also launched several new initiatives to enhance diversity and inclusion within its operations. This included,

- Appointment of a sector committee to drive diversity and inclusion initiatives. Agree on sector KPI for next ten years on diversity and inclusion.
- Sharing best practices with professionals in similar industries on how best to embed diversity and inclusion into corporate culture.
- Communication drive to address unconscious bias and raise awareness of how an inclusive culture enhances business performance and growth.
- Implementation of a new Standard Operating Procedure for recruitment which mandates the shortlisting of at least one female if there has been female applicants
- Female friendly work environment through the provision of day-care facilities for children and provision of hygiene products to female employees etc.

<table>
<tr><td>"Beat the pandemic" social dialogues were carried out via Microsoft Teams</td><td rowspan="2">Living Values Programme<br>Unique engagement initiative aimed at recognising and appreciating employees that demonstrate the core values of KFP in their daily activities. This was carried out through programmes such as<br>• Cheer the Peers<br>• Values Story Board<br>• Shine with Values Week<br>• Values Quizmasters</td></tr>
<tr><td>Poson card competition for employees and their children.</td></tr>
<tr><td>Celebrated Women's Day with the participation of employees emphasising the theme #BreakTheBias.</td><td>Keells Food Got Talent: The virtual talent show launched last year was continued this year as well, encouraging employees and their families to submit videos of themselves demonstrating any form of talent. Winners were judged by an acclaimed actor and awarded with cash prizes.</td></tr>
<tr><td>KFP Mastermind: An organisation-wide quiz competition was launched during the year, to enhance employee knowledge and engagement. Winners were awarded cash prizes.</td><td>Employee Satisfaction Survey which is conducted by the Group covering approximately 27% of our employees. The survey covers the following criteria.<br>• Work environment<br>• Rewards and recognition<br>• Opportunities for training<br>82%<br>Employee Satisfaction Rate</td></tr>
</table>

## RELATIONSHIPS WITH TRADE UNIONS

35% of our total employees are represented by a trade union and covered by collective bargaining agreements. During the year, we maintained cordial relationships with trade union representatives, and collaborate closely with them when determining work practices and employee health and safety, which aided in ensuring harmony within the Group. There were no instances of disruption to work on industrial disputes during the period under review.

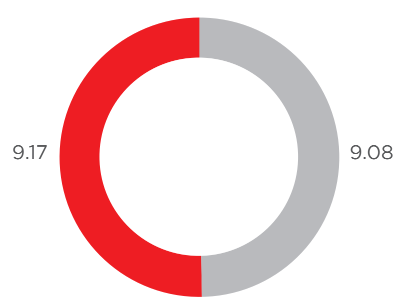
## EMPLOYEE PRODUCTIVITY

There is a concentrated effort to drive employee productivity and increase operational efficiencies within the Group. Factory level productivity is measured through production-related metrics, the Group's overall employee productivity is assessed through revenue and net profit per employee. During the year, we strived to increase productivity by focusing on employees' mental wellbeing which included sessions with medical professionals and providing access to counselling services. Productivity was also supported by improved operational excellence, following the implementation of 5S in the Ja-Ela factory.

## OPPORTUNITIES FOR TRAINING AND DEVELOPMENT

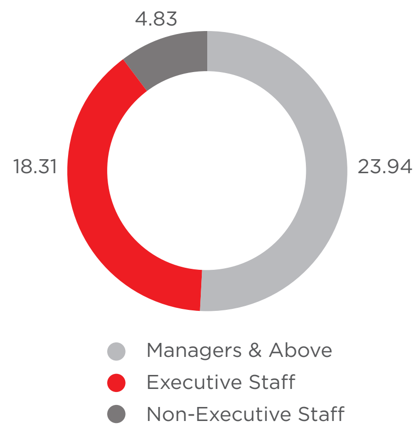
Training and development is a key aspect of our employee value proposition. We provide ongoing opportunities for development after identifying training needs through the annual performance appraisal. We offer a range of internal, external and on-the-job training opportunities which help our employees gain the right set of skills and knowledge to achieve both organisational and professional goals. Due to the pandemic and the need for social distancing, training programmes were shifted to digital platforms. During the year, total investment in training amounted to Rs. 1.3 Mn while a total of 400 employees underwent 3,625 hours of training.

### AVERAGE TRAINING HOURS BY GENDER

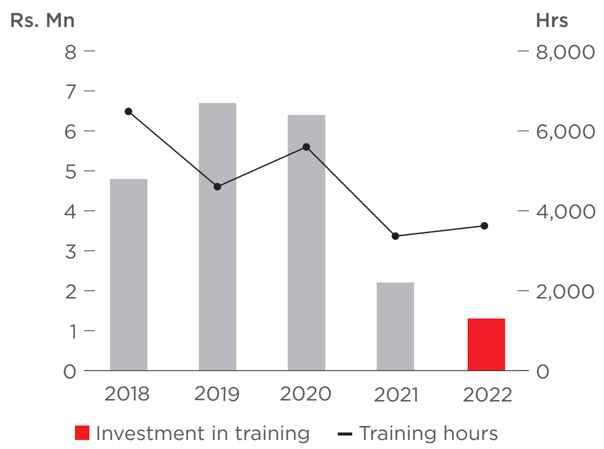



| Training Programmes | No. of Participants |
|---|---|
| KFP - KnowMo - Knowledge Sharing Forum | 60 |
| Live with Passion by Mr. Athula Kithsiri | 60 |
| Working Energised - By Mr. Suranjith Godagama | 54 |
| Passion to Perform - By Mr. Kelum Weligama | 52 |

### AVERAGE TRAINING HOURS BY CATEGORY




### TRAINING RECORD



# HUMAN CAPITAL

Coaching and motivational sessions carried out during the year include:

**KFP KNOWMO – KNOWLEDGE SHARING FORUM**
Monthly knowledge sharing session initiated with the intention of sharing operational knowledge across functions. The sessions were hosted by different departmental representatives within the organisation to share the unique business activities conducted during the pandemic to add value to the organisation

**SHINE WITH VALUE**
Implemented by the leaders of the sales team to showcase how they achieved success by amalgamating core values such as trust, care, integrity, innovation and excellence with the sales profession.

**SOFT SKILLS DEVELOPMENT PROGRAMME**
A series of training programmes were conducted for Executive and above staff in order to improve their soft skills. The programmes covered areas such as 'Leadership and Team-building', ' Energised Working' and 'Diving into Performing Passionately'

## WAY FORWARD

The Group's HR priorities for 2022/23 will centre broadly on three main themes,

- Driving the Group's Diversity, Equality and Inclusion agenda, with concerted efforts to enhance female representation and offer a more conducive work environment for females
- Strengthen employer branding through targeted communication and engagement methods
- Ongoing focus on the Living Values program

# SOCIAL AND RELATIONSHIP CAPITAL

The Company's continued success amidst the unprecedented challenges of the year, was underpinned by its ability to work proactively with its stakeholders in navigating these difficulties, thereby ensuring shared value creation and opportunities for mutual growth.

| CUSTOMER VALUE CREATION | CHANNEL PARTNERS | SUPPLIERS | COMMUNITY ENGAGEMENT |
|---|---|---|---|
| **5** New products introduced | **3** New distributors added | **Rs. 3,363 Mn** Payments to suppliers | **Rs. 2.7 Mn** Investment in communities |
| **+ 3,000** New outlets added supporting better availability | **Rs. 54 Mn** Investments in improving freezer infrastructure | **11** Supplier audits conducted during the year | |
| | **Rs. 288 Mn** Total incentives paid to distributors | | |

**STRATEGIC RELEVANCE**

| | |
|---|---|
| • Sustainability | • Channel and Supplier Relationships |

## CUSTOMER RELATIONSHIPS

KFP's customers comprise individuals and families as well as hotels, restaurants and catering establishments. During the year, we focused on strengthening relationships with our customers through reinforcing the key attributes of our value proposition, which include product availability, quality, trust, innovation and convenience. These standards and expectations are clearly set out in the Group's Food Safety and Quality Policies which underpin our production and delivery.

### Listening to our customers

KFP has implemented multiple platforms across its touch points to gauge customer satisfaction and identify evolving customer needs.

# SOCIAL AND RELATIONSHIP CAPITAL

**PRODUCT TRACKER**
Comparison of taste profiles of sausages and meatballs with key competitors across several touch points

**BRAND HEALTH TRACKER**
Provides insights on how customers perceive our brand

**RETAIL AUDIT**
Monthly estimate on volumes, penetration levels, market share and competitor dynamics conducted by a third party

**TASTING**
Household-based tasting studies conducted periodically

**KEY CONCERNS RAISED IN 2021/22**
- Higher levels of in-home consumption
- Concerns on affordability given escalation in inflationary pressures
- Increased need for convenient solutions

**Delivering Our Customer Promise in 2021/22**

**INNOVATION**

While primary focus of the year was consolidating our existing portfolio, the following value-additions were launched:
- Value engineering in the Bockwurst range to offer a skinless variety
- Launched 2 variants in the Soya range

**AFFORDABILITY**

- Differentiated pricing strategy across channels
- Introduced smaller-sized packs for several key products and increased penetration in the 100g pack offerings
- Value engineering to offer better product propositions for the price sensitive market

**AVAILABILITY**

- Sought increased penetration through the General Trade channel with the addition of over 3,000 outlets during the year
- Leveraging valuable data insights obtained from the Distributor Management System (Surge)

**QUALITY AND TRUST**

The Group's internal policies on food safety and quality as well as continued compliance to a range of certifications provide assurance to customers and other third parties on the robust processes, we have in place to ensure the highest standard of quality.

## RESPONSIBLE MARKETING AND LABELLING

Our product marketing and labeling is regulated by the Food Act No.26 of 1980, Food (labelling and advertising) Regulations 2005 and the Consumer Affairs Authority Act No.9 of 2003. Our marketing communications are also guided by the ICC Code of Advertising and Marketing Communications- a self-regulatory framework which promotes high standards of ethics in advertising. Our product labels include information pertaining to the product, date of manufacture, expiry date, weight and ingredients, among others.

During the year, there were no instances of non-compliance pertaining to any regulations/voluntary codes on product and service labelling and marketing communications among others.

## CHANNEL PARTNERS

KFP leverages its multi-channel distribution strategy in ensuring continued product accessibility across the country. In recent years, strategic emphasis has been placed on increasing penetration through the General Trade channel, resulting in significant progress in acquiring customers and increasing market share. Key developments and focus areas in each of our channels during the year are summarised below:

## DISTRIBUTOR VALUE CREATION

We have continued to offer a holistic value proposition to our distributors which includes sharing market insights, infrastructure development and attractive incentive schemes. Given persistent challenges in the operating landscape, we strengthened this proposition during the year, investing increased resources towards ensuring their commercial sustainability. Key developments during the year include the following:

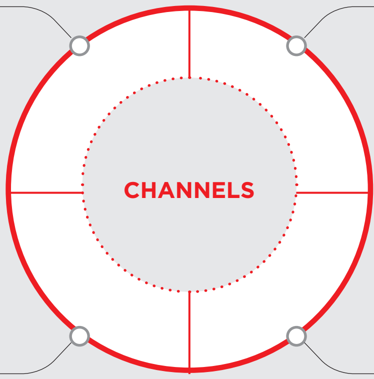
- Consolidated the distribution channels for the processed meat and dry product ranges with the aim of optimising resources, enhancing efficiency and contributing towards the commercial sustainability of the distributors
- Extension of credit periods during months impacted by pandemic-led lockdowns
- Capacity building workshops for distributors and retailers on food safety, hygiene and environmental considerations

### GENERAL TRADE

- Added 3,000 outlets to bring the total network to over 33,000 outlets
- 11 lorries added to the distribution fleet
- 13% increase in per day bill count, driven by increased penetration across the island

### MODERN TRADE

- Impacted by pandemic-led disruptions for around 3 months
- Focus on leveraging synergies with Keells retail outlets
- Sought increased penetration in the Small and Medium Modern Trade (SMMT) channels




### HORECA

- The channel continued to be impacted by pandemic-led disruptions
- Pursued a strategy of differentiation through expanding our hot dog offering across premium outlets

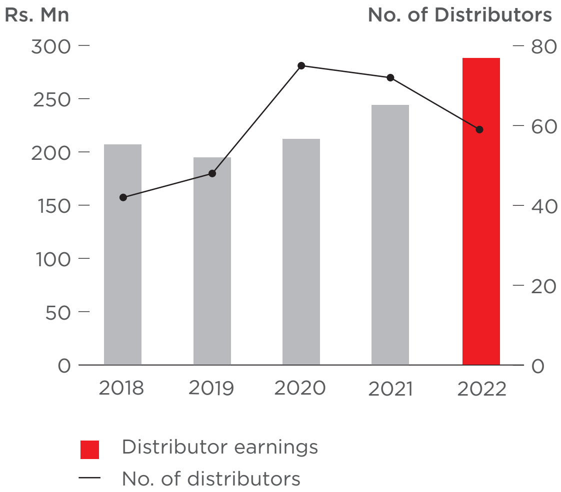
### HOTELS

- Leveraged relationships with hotels to drive volume growth
- Entered into exclusive partnerships with several leading hotel sector operators in Sri Lanka and Maldives

# SOCIAL AND RELATIONSHIP CAPITAL

- Sharing market insights obtained through the Distributor Management System (Surge) including demand trends, availability and sales information
- Rs. 54 million investments in infrastructure such as freezers

**DISTRIBUTOR EARNINGS**




### SUPPLIERS

Our supply chain consists of farmers, out-growers and suppliers who are classified into Tier 1 suppliers (corporates and large-scale farmers) and Tier II suppliers (small scale farmers and out-growers) for supply chain management purposes. As a sizable manufacturer, we are cognizant of the role we can play in supporting the development of small and medium scaled suppliers through consistent demand, fair pricing and capacity building opportunities. Nearly 86% of the Group's inputs materials are sourced locally.

Disruptions to both domestic and international supply chains remained a critical challenge during the year and strategic emphasis was placed on proactively negotiating pricing and continued supply of goods from our suppliers.

### QUALITY ACROSS THE SUPPLY CHAIN

As a food manufacturer, quality of the raw material we procure is critical in ensuring the quality of our finished products. Suppliers are therefore required to comply with a range of certifications (depending on the material procured) including ISO 22000, ISO 9000 and the Halal Certification.

Meanwhile, supplier audits are conducted regularly in order to ensure compliance to all relevant criteria and providing an opportunity for the Group to suggest continuous improvements. The assessment criteria include policies and child labour and forced labour and during the year under review, we found zero instances of suppliers at significant risk of employing child and/or forced labour. During the year, we screened 11 new suppliers and conducted 11 audits for existing suppliers.

**Value Creation Across Our Supply Chain**

**23 PORK SUPPLIERS**

**Payment of Rs. 310 Mn**
Technical support including facilitating engagement with veterinarians.

**9 POULTRY SUPPLIERS**

**Payment of Rs. 884 Mn**
Audits conducted at least once in 6 months to ensure compliance to quality standards

**1 VEGETABLE SUPPLIER**

**Payment of Rs. 47 Mn**

**3 SPICE SUPPLIERS**

**Payment of Rs. 105 Mn**

## COMMUNITY ENGAGEMENT

The Group's CSR agenda is broadly aligned to its Parent entity John Keells Holdings, which actions its community promises through its dedicated entity-John Keells Foundation. CSR projects are designed by the Foundation based on its vision `Empowering the Nation for Tomorrow' and the six areas of strategic focus while target beneficiaries are identified in collaboration with Group companies (including KFP) in relation to the respective localities in which they operate.

Despite pandemic-led disruptions, KFP continued to invest in empowering the communities in which it operates through the following CSR engagements during the year.

### ENGLISH LANGUAGE SCHOLARSHIP PROGRAMME IN COLLABORATION WITH JOHN KEELLS FOUNDATION (JKF)

This programme, implemented via Gateway Language Centre, provides an opportunity for underprivileged school children to enhance their English communication skills towards improving their higher learning and career opportunities. Its flagship `English for Teens' initiative is conducted as an ongoing program under the Foundation's Education pillar and during the year, its scope was further enhanced by facilitating learning through digital platforms.

- **4 schools in Ja-Ela and Pannala**
- **A total of 53 students registered**
- **20 volunteer hours**

### WASTE MANAGEMENT SYSTEMS IN NEIGHBOURING SCHOOLS

- KFP continued to support its ongoing initiative at the Makandura Vidyayathana Vidyalaya, which is in close proximity to the KFP factory, by establishing and maintaining waste management systems. In addition to its environmental benefit, this initiative has raised awareness among students on the responsible disposal of waste. KFP hopes to expand this project to Rahula Maha Vidyalaya, Nedalagamuwa in 2022/23.
- **112 volunteer hours**

### JOHN KEELLS PRAJA SHAKTHI JA-ELA IN PARTNERSHIP WITH JOHN KEELLS FOUNDATION (JKF)

John Keells Praja Shakthi is a business location-centric community empowerment program which aspires to catalyse multi-faceted and sustainable development including youth skills, women empowerment, school development, child protection and livelihood improvement.

During the year, KFP together with JKF:

- Initiated engagement with officials from the Ja-Ela Divisional Secretariat (DS) and community leaders from 3 GN Divisions to raise awareness, assess needs and drive collaboration for related initiatives.
- Conducted an awareness creation programme on Substance Abuse Prevention through early childhood education in collaboration with Humedica Lanka, benefiting a total of 48 government officers including subject officers attached to the Divisional Secretariat, Director of the Zonal Education Office, Grama Niladhari officers and community police officers.
- Identified two livelihood initiatives engaging interested community members - namely livestock farming and the production of spices - with the aim of increasing the yield and quality of production whilst expanding potential markets.
- **192 Volunteer hours**

## WAY FORWARD

While short-to-medium term challenges are expected in the current macro-economic conditions, the Group remains optimistic on the long-term outlook of the processed meat industry and will continue to focus on leveraging its R&D capabilities to offer an enhanced value proposition to its customers. Key priorities for next year will include,

- Pursue opportunities to widen our proposition in the kids' range
- Expansion of the Soya range by widening the product offering
- Discontinue the ezy rice offering due to limited volumes and non-conducive market conditions
- Ongoing value-engineering efforts to strengthen our value-for-money offerings

# NATURAL CAPITAL

We are conscious on the impact of our operations on the environment and are deeply committed to reducing our environmental footprint by optimising the use of our natural inputs and responsibly managing the outputs generated from our operations. Accordingly, we have concentrated our efforts on optimising energy, water and carbon footprint while taking responsibility for waste and effluents generated from our operations.

**WATER CONSUMPTION**

**89,937 $M^3$**

Reduction in Water intensity by **10%**

Effluents discharge reduced by **14%**

**ENERGY CONSUMED**

**30,650 GJ**

Increase in Energy intensity by **10%**

Increase in Carbon intensity by **8%**

**RAW MATERIALS**

Renewable input materials including vegetables and spices

Reduction in waste generated by **8%**

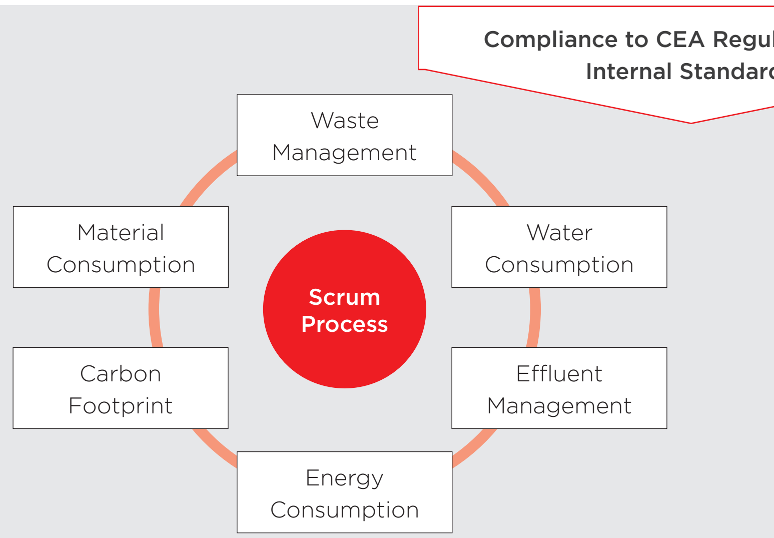
**STRATEGIC RELEVANCE**

- **Sustainability**

## MANAGING ENVIRONMENTAL IMPACTS

Our environmental management framework is aligned to that of John Keells Holdings and provides clear guidelines on identifying, measuring and managing environment related impacts. Robust and well-defined processes and procedures along with regular reporting to the Senior management and the Board of Directors ensures that environmental impacts are consistently measured, monitored and managed. In line with the John Keells Group's long-term environmental aspirations, KFP has also set targets and action plans for driving sustained reductions in key environmental impacts as demonstrated below;

**Environmental Management Framework**




**ENVIRONMENTAL TARGETS FOR 2025**

- **1%** reduction in Carbon Footprint
- **1.5%** reduction in Energy Intensity
- **1.5%** reduction in Water Intensity

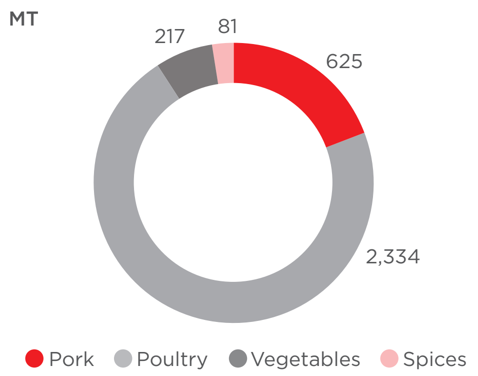
## ENVIRONMENTAL COMPLIANCE

We are bound by the environmental regulations of the Central Environmental Authority and have obtained the Environmental Protection License for all our manufacturing facilities. This is reviewed annually through internal audits and compliance reporting. During the year, there were no fines or penalties imposed for non-compliance with environmental regulations or laws.

## MATERIALS

In our manufacturing process, our raw materials are primarily renewable in nature with poultry, pork, vegetables, spices and other additives being the key input materials. We are cognisant of the critical need to move to responsible packaging and are exploring avenues to reduce the usage of polythene in our packaging. When selecting and suppliers, we screen them for environmental criteria and ensure that environmental awareness is inculcated throughout the supply chain. (Refer Social and Relationship Capital for more details) Material consumption during the year is presented below.

### RAW MATERIAL CONSUMPTION



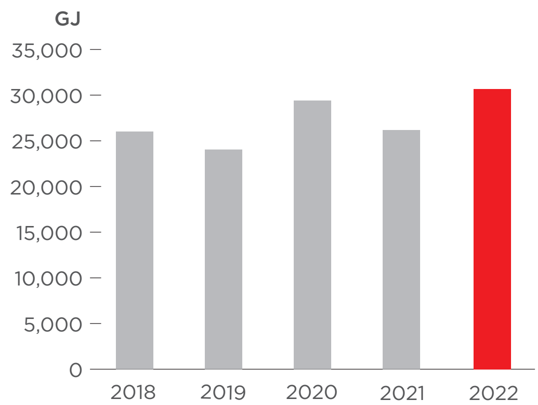

## ENERGY

As a manufacturing organisation, our operations are relatively energy intensive with furnace oil, diesel, LP gas and electricity being the primary sources of energy. Our energy consumption for the year under review increased by 17% while the energy intensity also increased by 10.4% due to the increase in diesel consumption as a result of frequent power cuts. We have actively pursued efforts to manage the consumption of non-renewable energy through various energy saving initiatives and consistent monitoring of energy usage. This is in line with the Group's environmental target of reducing energy intensity by 1.5% per kg by 2025. Key energy saving initiatives during the year are listed below:

- Installation of a solar rooftop panel at the Ja-Ela factory which has the capacity to generate 230 kw of electricity with the involvement of a third party investor.
- Ongoing monitoring of energy consumption through 10 sub-metering units that have been installed across all operations, any major deviations were investigated
- Few other initiatives were identified through ongoing Kaizen Project

| Energy Consumption | 2022 | 2021 | Change (%) |
|---|---|---|---|
| Furnace Oil (Liters) | **231,223** | 176,561 | 31% |
| Diesel (Liters) | **54,132** | 17,808 | 204% |
| Electricity (kwh) | **5,820,692** | 5,019,233 | 16% |
| LPG (Kgs) | **4,013** | 3,851 | 4% |
| Total Energy Consumption (GJ) | **30,650** | 26,207 | 17% |

### ENERGY




## WATER AND EFFLUENTS

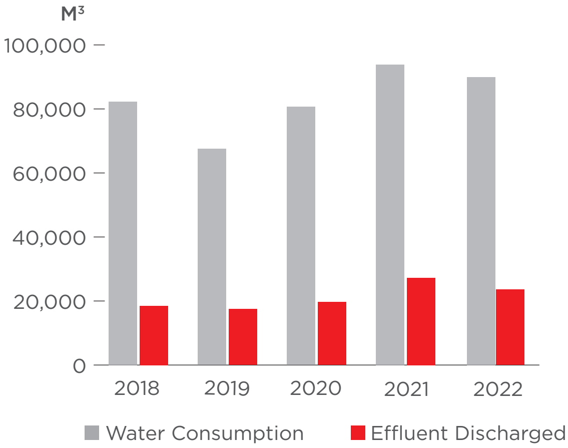
Hygiene and cleanliness are critical success factors in the food processing industry, which in turn have increased the water intensity of our operations. Accordingly, water is used primarily for cleaning input materials, machines and ancillary equipment as well as cooling and heating purposes. Our water requirements are fulfilled only through ground water source, and there is an ongoing effort to ensure that water usage is optimised and does not lead to water stress in the area. Currently we are in the process of formulating a plan to introduce the following initiatives to reduce the usage of water in our operations:

- Conducting a detailed analysis of water consumption by process and section to identify areas requiring high water usage
- Improving the type of hose used to optimise water consumption and reduce wastage

# NATURAL CAPITAL

Effluents discharged from our Ja-Ela plant is tested to ensure compliance with the prescribed limits prior to being released to the sewerage lines for disposal. At the Pannala factory, water discharge is re-used for gardening and cleaning purposes after undergoing treatment at the Effluent Treatment Plant. We continuously monitor the quality of the water discharged from our operations to ensure they are within the parameters specified by the Central Environmental Authority. During the year, 26% of water consumed was re-cycled and re-used in our operations. Consequently, the water intensity has come down by 10%.

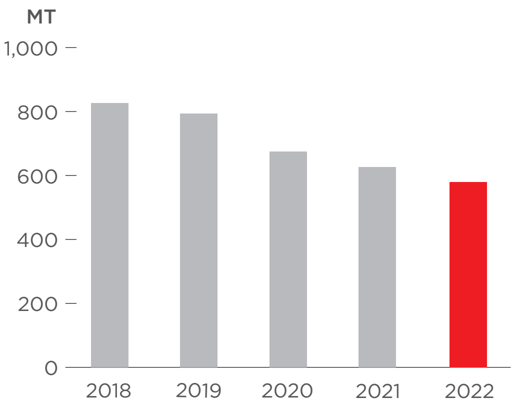
**WATER**

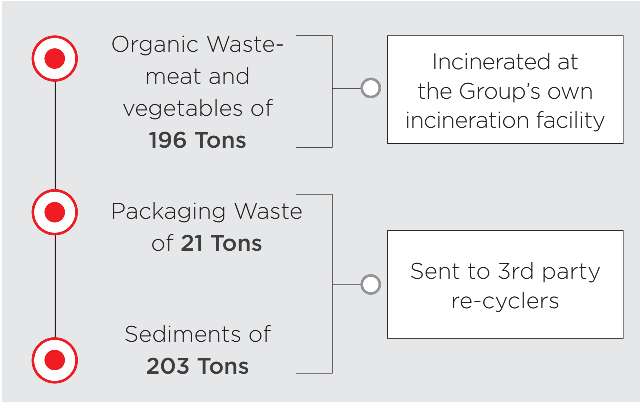



## WASTE

Solid waste generated from our operations are segregated and disposed responsibly, in compliance with all environmental regulations. Our waste management agenda centres on actively seeking to re-cycle, re-use and drive efficiencies in material consumption, thereby reducing landfill waste. During the year, waste generated per MT produced has come down by 13%. Details of waste and methods of disposal are given below:

**WASTE**

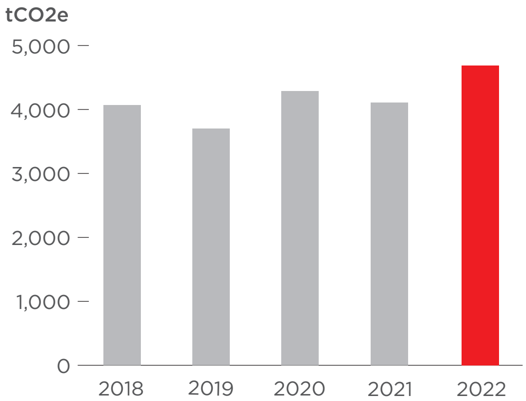



## CARBON FOOTPRINT

Risks associated with climate change have increased in both intensity and likelihood and affects KFP primarily through its impacts on agricultural supply chains as a result of natural disasters and erratic weather patterns. As a responsible corporate citizen, we are keen to drive down sustained reductions in our carbon footprint, which in turn would also strengthen the resilience of our business. Our approach centers on gradually reducing our carbon footprint through ongoing efforts to enhance energy efficiency and increase reliance on renewable energy through solar power generation as emission intensity has increased by 8% during the year. Given that 90% of the Group's emissions arise from electricity, this is estimated to support our ambitious in reducing emissions by 1% by 2025.

**EMMISSION**




## WAY FORWARD

As we implement action plans to achieve the environmental targets set for 2025, the Group will focus on the following objectives over the short-to-medium term:

- Obtain the ISO 14000-Environmental Management certification
- Strengthen energy and water monitoring mechanisms

# CORPORATE GOVERNANCE

**In furtherance of John Keells Group's sustainability and digitisation efforts, coupled with the need to strike a balance between the principles of conciseness and completeness in Integrated Reporting, the KFP Group has used a variety of reporting formats to meet diverse stakeholder requirements. Whilst the section that ensues discusses the key highlights for the year under review and the mandatory disclosures required under various regulatory frameworks, the Corporate Website entails a detailed and comprehensive discussion of the Corporate Governance Framework.**

Visit www.keellsfoods.com for the detailed Corporate Governance Commentary.

The John Keells Group's robust and comprehensive Corporate Governance framework, endeavours to create an enabling environment for growth in a structured and sustainable manner, to navigate through stable as well as volatile socio-economic environments. The Group's Corporate Governance philosophy is institutionalised across all its business units, and it is this philosophy that has continuously created value for all its stakeholders, notwithstanding the external environment and macro conditions.

Keells Food Products PLC (KFP or Company) and it's Subsidiary John Keells Food India (Private) Limited (collectively KFP Group) as members of the John Keells Group have their own set of internal policies, processes and structures, aimed at meeting and in many instances, exceeding accepted best practice, in addition to the 'triggers' which ensure compliance with mandatory regulatory requirements. This framework is regularly reviewed and updated to reflect evolving regulations, global best practice and dynamic stakeholder needs, whilst maintaining its foundational principles of accountability, participation, integrity and transparency.

## COMPLIANCE SUMMARY

### Regulatory Benchmarks

| Standard/ Principle / Code | Adherence |
|---|---|
| The Companies Act No. 07 of 2007 and regulations | Mandatory provisions - fully compliant |
| Listing Rules of the Colombo Stock Exchange (CSE) | Mandatory provisions - fully compliant |
| Securities and Exchange Commission of Sri Lanka(SEC) Act No. 19 of 2021, including applicable directives and circulars | Mandatory provisions - fully compliant |
| Code of Best Practices on Related Party Transactions (2013) advocated by the Securities and Exchange Commission of Sri Lanka (SEC) | Mandatory provisions - fully compliant |
| Code of Best Practices on Corporate Governance (2013) jointly advocated by the SEC and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) | Voluntary provisions - fully compliant |
| Code of Best Practices on Corporate Governance (2017) issued by the CA Sri Lanka | Voluntary provisions - compliant with the 2017 code to the extent of business exigency and as applicable to the KFP Group |

## KEY INTERNAL POLICIES

- Articles of Association of the Company
- Recruitment and selection policies
- Learning and development policies
- Policies on equal opportunities, non-discrimination, career management and promotions
- Rewards and recognition policy
- Leave, flexi-hours, tele-working and agile working policies including health and safety enhancements and protocols
- Code of conduct, which also includes policies on gifts, entertainment, facilitation payments, proprietary and confidential information
- Policies on diversity, equity and inclusion including gender
- Policy against sexual harassment
- Policies on forced, compulsory and child labour and child protection
- Disciplinary procedure
- Policy on grievance handling
- Policies on anti-fraud, anti-corruption and anti-money laundering and countering the financing of terrorism
- Policy on communications and ethical advertising
- Ombudsperson policy
- Group accounting procedures and policies
- Policies on enterprise risk management

# CORPORATE GOVERNANCE

- Policies on fund management and foreign exchange risk mitigation
- IT policies and procedures, including data protection, classification and security
- Group environmental and economic policies
- Whistleblower policy
- Policies on energy, emissions, water and waste management
- Policies on products and service

## KEY CORPORATE GOVERNANCE HIGHLIGHTS OF THE KFP GROUP FOR THE YEAR 2021/22

- The Group launched the Diversity, Equity and Inclusion (DE&I) policy - the overarching policy that underlies the Group's overall commitment to DE&I, in May 2021.

  The Group recognises that organisations that constitute diverse and inclusive workforces are best placed to innovate, retain talent and deliver better overall results, and firmly believes that it can achieve its highest potential through bringing together diverse perspectives and backgrounds. The Group is committed to advancing a culture of equitable inclusion amongst its workforce and value chain and ensuring that the dignity and diversity of all employees and value chain partners are recognised and respected.

  The DE&I policy is based on the key principles of:

  - Empowerment and inclusion
  - ZERO tolerance for discrimination
  - Equal opportunity
  - Equal participation
  - Diverse value chains

- The following key initiatives and targets were rolled out, in furtherance of the Group's emphasis on creating an inclusive, diverse and equitable work environment;

  - Various initiatives such as the introduction of subsidised crèche facilities, implementation of the first phase of the "SanNap" programme whereby free sanitary napkins were provided free-of-charge to all females employees of the Group.

  - As noted in the 2020/21 Annual Report, the Group has a goal of increasing women participation up to 40% by the end of 2025/26.

- The Group continued with its multi-pronged approach to internal audits and process reviews by augmenting its integrated fraud deterrent and investigation framework to foster synergy and collaboration efficiencies between components that deliver governance and assurance and related services, in facilitating business strategies. Central to this approach is the business strategy and how the current processes, systems, and people, are geared to efficiently and effectively handle the deliverables. This approach focuses on identifying opportunities for continuous improvement through a rigorous review, to determine the degree of alignment and interplay between processes, technologies, and people, in optimally facilitating each business strategy to handle consequent transactional events for better outcomes.

- The Group continued to strengthen the Group's IT governance framework through the adoption of a Zero Trust Policy Framework effective 1st April 2022, a shift to hybrid-cloud infrastructure as well as a Software Defined Wide Area Network (SD-WAN) to ensure real-time data accessibility, and implementation of a revamped Smart Office platform across the Group.

- Given the significant macroeconomic challenges and developments prevailing in the country – the Board of Directors and the Group Executive Committee (GEC) frequently deliberated and evaluated the resilience of the Group under multiple stress tested scenarios.

- Cognisant of the economic hardships faced by the Group employees on account of rising prices and the scarcity of essential items, JKH provided a one-off, uniform financial care package in the form of an ex-gratia payment, to all eligible Group employees in April 2022.

- Further, a set of initiatives and programmes in the form of non-financial and indirect financial support are to be rolled out. These include awareness sessions and webinars on managing personal finances in the current economic climate, emotional support with counsellors and employee supplier catalogues to name a few.

- Mr. S I Thanthirigoda resigned from the post of Chief Executive Officer (CEO) on 1st April 2022 and Mr. V I Wickramaratne was appointed as the CEO w.e.f. 1st of April 2022.

- The KFP Board declared a final dividend of Rs. 2.50 per share in May 2021 for the financial year 2020/21.

- For the year under review, the Board declared and paid an interim dividend of Rs. 7.00 per share in February 2022.

- A final dividend of Rs. 0.50 per share has been declared by the Board in May 2022, for the financial year 2021/22 to be paid in June 2022.

## The Corporate Governance System

| Level | Internal Governance Structure | Integrated Governance | Assurance Mechanisms | Regulatory Mechanisms |
| --- | --- | --- | --- | --- |

**Internal Governance Structure**

Board of Directors and Senior Management Committees


| Level | Internal Governance Structure |
| --- | --- |
| Group | Board of Directors and Senior Management Committees; Chairman |
| Group + Industry/ Function | Group Executive Committee (GEC) |
| Industry/ Function | Group Operating Committee (GOC); Group Management Committee (GMC) |
| Sector/ Function/ Sub- sector | Sector Committee (SC) |
| Business/ Function/ BU / Department | Chief Executive Officer (CEO); Management Committee; Employee Empowerment |

**Integrated Governance** — Integrated Governance Systems and Procedures

- Strategy Formulation and Decision Making Process
- Human Resource Governance
- Integrated Risk Management
- IT Governance
- Tax Governance
- Stakeholder Management and Effective Communication
- Sustainability Governance

**Assurance Mechanisms**

- JKH Code of Conduct
- Senior Independent Director
- Board Committee
- Employee Participation
- Internal Control
- Ombudsperson
- External Assurance

**Regulatory Mechanisms**

- Companies Act No.07 of 2007 — *Mandatory compliance*
- Listing Rules of the Colombo Stock Exchange (CSE) — *Mandatory compliance*
- Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021, including directives and circulars — *Mandatory compliance*
- Code of best practices on Related Party Transactions (2013) advocated by Securities and Exchange Commission (SEC) — *Mandatory compliance*
- The Code of Best Practice on Corporate Governance (2013) as published by the Securities and Exchange Commission and the Institute of Chartered Accountants, Sri Lanka — *Voluntary compliance*
- Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka — *Voluntary compliance with almost the full 2017 Code to the extent of business exigency and as required by the John Keells Group*

The above diagram illustrates the key components of the Corporate Governance System of the John Keells Group. It depicts the internal governance structure, from the Board of Directors cascading down to employee level, the integrated governance systems and procedures within the John Keells Group, the Assurance Mechanisms in place and the various regulatory frameworks the John Keells Group is compliant with from a Governance standpoint.

# CORPORATE GOVERNANCE

- Except the Audit Committee, the other four Boards Sub-Committees of JKH, act on behalf of KFP and are chaired by Independent Directors appointed by the JKH Board. The Audit committee is appointed by the KFP Board.
- The Chairman is present at all Human Resources and Compensation Committee meetings unless the Chairman's performance assessment or remuneration is under discussion. The Deputy Chairman/ Group Finance Director is invited as necessary.
- Audit Committee meetings are attended by the President overseeing the Consumer Foods industry group of JKH, the Chief Financial Officer, the Cheif Executive Officer and the Head of Group Business Process Review, Internal and External Auditors are regular attendees.
- The GOC acts as the binding agent to the various businesses within the KFP Group towards identifying and extracting KFP Group synergies.
- Due to space constraints only the key components are depicted in the above diagram.

## THE BOARD OF DIRECTORS

### Board Composition

As at 31st March 2022, the Board comprised of 8 Directors, with 4 of them being Non-Executive Independent (NED/ID), 4 of them being Non-Executive Non-Independent (NED/NID). The Group policy is to maintain a healthy balance between Non-Executive Directors (NED) and Independent Directors (ID), in keeping with the applicable rules and codes, with the NED/NIDs bringing in deep knowledge of the businesses and the NED/IDs bringing in experience, objectivity and independent oversight.

There were no changes to the Board composition during the year under review.

### Managing Conflicts of Interest and Ensuring Independence

The KFP Group takes necessary steps to ensure that Directors avoid situations in which they have, or could have, a direct or indirect interest which conflicts with, or might possibly conflict with, the interests of the KFP Group.

In order to avoid such potential conflicts or biases, the Directors make a general disclosure of interests, as illustrated below, at appointment, at the beginning of every financial year and during the year as required. Such potential conflicts are reviewed by the Board from time to time to ensure the integrity of the Board's independence. Details of Companies in which Board members hold Board or Board Committee membership are available with the Company Secretary for inspection by shareholders, on request.

**PRIOR TO APPOINTMENT**

- Nominees are requested to make known their various interests

**ONCE APPOINTED**

- Directors obtain Board clearance prior to:
  - Accepting a new position
  - Engaging in any transaction that could create or potentially create a conflict of interest
- All NEDs are required to notify the Chairman of any changes to their current Board representations or interests and a new declaration is made annually.

**DURING BOARD MEETINGS**

- Directors who have an interest in a matter under discussion:
  - Excuse themselves from deliberations on the subject matter
  - Abstain from voting on the subject matter (abstention from decisions are duly minuted)

The independence of all its Independent Non-Executive Directors was reviewed on the basis of criteria summarised below.

| Criteria for Defining Independence | Status of Conformity of NEDs |
|---|---|
| 1. Shareholding carrying not less than 10% of voting rights | None of the individual NED/NIDs or NED/IDs shareholdings exceed 1% |
| 2. Director of another Company* | None of the NED/IDs are Directors of another related party Company as defined |
| 3. Income/ non-cash benefit equivalent to 20% of the Director's income | NED/ID income/ cash benefits are less than 20% of an individual Director's income |
| 4. Employment at KFP Group and/or material business relationship with KFP Group, currently or in the two years immediately preceding appointment as Director | None of the NED/IDs are employed or have been employed at KFP Group or any of its subsidiaries or JKH Group |
| 5. Close family member is a Director or a Key Management Personnel | No family member of the NED/NIDs or NED/IDs is a Director of a related party Company |
| 6. Has served on the Board continuously for a period exceeding nine years from the date of the first appointment | No NED/ID has served on the Board for more than nine years |
| 7. Is employed, has a material business relationship and/or significant shareholding in other companies*. Also entails other companies that have significant shareholding in KFP Group and/ or KFP Group has a business connection with | None of the NED/IDs are employed, have a material business relationship or a significant shareholding of another related party Company as defined |

*Other Companies in which a majority of the other Directors of the listed Company are employed or are Directors or have a significant shareholding or have a material business relationship.

None of the NED/IDs has a conflict of interest as per the criteria for independence outlined above.

## BOARD MEETINGS

During the financial year under review, there were four (4) pre-scheduled Board meetings. In addition to these Board meetings, where issues of strategic importance requiring extensive discussions are considered, the Board of Directors communicate, as appropriate, when issues of strategic importance requiring extensive discussions arise.

The attendance at the Board meetings held during the financial year 2021/22 is given below:

| Name of the Directors | Board Meeting Attendance | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year of Appointment | 20/04/2021 | 15/07/2021 | 26/10/2021 | 12/01/2022 | Eligibility | Attended |
| **Independent Non-Executive** | | | | | | | |
| Mr. P D Samarasinghe | 2016 | ✓ | ✓ | ✓ | ✓ | 4 | 4 |
| Ms. S De Silva | 2016 | ✓ | ✓ | ✓ | ✓ | 4 | 4 |
| Mr. A E H Sanderatne | 2016 | ✓ | ✓ | ✓ | ✓ | 4 | 4 |
| Mr. I Samarajiva | 2016 | ✓ | ✓ | ✓ | ✓ | 4 | 4 |
| **Non-Independent Non-Executive** | | | | | | | |
| Mr. K N J Balendra | 2018 | ✓ | ✓ | ✓ | ✓ | 4 | 4 |
| Mr. J G A Cooray | 2018 | ✓ | ✓ | ✓ | x | 4 | 3 |
| Mr. D P Gamlath | 2017 | ✓ | ✓ | ✓ | ✓ | 4 | 4 |
| Ms. P N Fernando | 2021 | ✓ | ✓ | ✓ | ✓ | 4 | 4 |

# CORPORATE GOVERNANCE

## BOARD SUB-COMMITTEES

The Board has delegated certain functions to the Board Sub-Committees, while retaining final decision rights. Members of these Sub- Committees focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise.

The five (5) Board Sub-Committees are as follows:

i. Audit Committee

ii. Human Resources and Compensation Committee of the Parent Company – JKH

iii. Nominations Committee of the Parent Company – JKH

iv. Related Party Transactions Review Committee of the Parent Company – JKH

v. Project Risk Assessment Committee of the Parent Company – JKH

### Audit Committee

No. of meetings four (4) (Attendance of the members are indicated in the Audit Committee Report of the Annual Report)

| | |
|---|---|
| COMPOSITION | All members to be Non-Executive Independent Directors, with at least one member having significant, recent and relevant financial management and accounting experience and a professional accounting qualification. |
| | The Industry Group President, Industry Group Chief Financial Officer and Head of Group Business Process Review of JKH are permanent invitees for all Committee meetings. |
| SCOPE | Review the quarterly and annual Financial Statements, including quality, transparency, integrity, accuracy and compliance with accounting standards, laws and regulations. |
| | Assess the adequacy and effectiveness of the internal control environment in the KFP Group and ensure appropriate action is taken on the recommendation of the internal auditors. |
| | Evaluate the competence and effectiveness of the risk management systems of the KFP Group and ensure robustness and effectiveness in monitoring and controlling risks. |
| | Review the adequacy and effectiveness of internal audit arrangements. |
| | Recommend the appointment, re-appointment and removal of the External Auditors including their remuneration and terms of engagement by assessing qualifications, expertise, resources and independence. |

The KFP Group's Audit Committee comprise of four (4) Non-Executive Independent Directors with one of them having current membership of a reputed accountancy body. The KFP Group's Audit Committee had four (4) meetings during the year and attendance of the Audit Committee members is indicated in the Audit Committee Report.

The Audit Committee consisted of the following members;

| Members |
|---|
| • Mr. P D Samarasinghe -Chairman |
| • Mr. I Samarajiva |
| • Ms. S De Silva |
| • Mr. A E H Sanderatne |

### Human Resources and Compensation Committee of the Parent Company – JKH

No. of meetings – 02

| | |
|---|---|
| COMPOSITION | Committee to comprise exclusively of NED, a majority of whom shall be independent. |
| | The Chairman of the Committee must be a NED. |
| | The Chairman and Deputy Chairman/ Group Finance Director of JKH are present at all Committee meetings unless the Chairman or Executive Director remuneration is under discussion respectively. |
| | The Deputy Chairman/Group Finance Director, is the Secretary of the Committee. |
| SCOPE | Review and recommend overall remuneration philosophy, strategy, policies and practice and performance- based pay plans for the John Keells Group. |
| | Determine and agree with the Board a framework for the remuneration of the Chairman and Executive Directors based on performance targets, benchmark principles, performance related pay schemes, industry trends and past remuneration. |
| | Succession planning of Key Management Personnel. |
| | Determining compensation of NEDs are not under the scope of this Committee. |

The Human Resources and Compensation Committee as of 31st March 2022 consisted of the following members;

| Members |
|---|
| • Mr. D A Cabraal - Chairman |
| • Mr. M A Omar |
| • Dr. S S H Wijayasuriya |
| **By Invitation** |
| • Mr. K N J Balendra |
| • Mr. J G A Cooray |

### REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resource and Compensation Committee forms a key part of the governance framework of the Group and carries the mandate to oversee the compensation and benefits policies adopted by the Group, and in doing so, review and recommend overall remuneration philosophy, strategy, policies and practice and, performance-based pay plans. Furthermore, it reviews performance, compensation and benefits of the Chief Executive Office ("CEO"), the other Executive Directors, and key executives who support and implement decisions at an apex level, the overall business strategy and make recommendation thereon to the Board of Directors. The Committee also reviews and monitors the performance of the Group's top talent for purposes of organisational growth and succession planning, with particular emphasis on succession at key executive level.

In performing this role, the Committee is conscious of the need to ensure that stakeholder interests are aligned, the Group is able to attract, motivate and retain talent and ensure their loyalty; the integrity of the Group's compensation and benefits programme is maintained and importantly, that the compensation policy and schemes are compliant with applicable laws and regulations.

In this context, the Committee determined the remuneration of the Executive Directors including the Chairman-CEO in terms of the methodology set out by the Board, upon an evaluation of their performance by the Non-Executive Directors. The evaluation of the members of the Group Executive Committee (GEC) were considered by the Committee and remuneration was determined based on performance, market comparators for similar positions and in accordance with the Company's Compensation and Benefits policy.

As per the mandate outlined, the report from the Chairman of the Human Resources and Compensation Committee continues to be a standing agenda item at the quarterly Board meetings. The Chairman of the Committee reports on the developments which have taken place since the last Board meeting, if any, and updates the Board on various matters, as relevant and requested.

The Committee wishes to report that the Company has complied with the Companies Act in relation to remuneration of Directors. The annual performance appraisal scheme, the calculation of short-term incentives, and the award of ESOPs were executed in accordance with the approvals given by the Board, based on discussions conducted between the Committee and the Management.

A. Cabraal

**D A Cabraal**
Chairman of the Human Resources and Compensation Committee

20th May 2022

## DIRECTOR REMUNERATION

### Non-Executive Director Remuneration

The compensation of NEDs is determined in reference to fees paid to other NEDs of comparable Companies, and adjusted, where necessary, in keeping with the complexity of the KFP Group.

It is noted that fees payable to Non-Executive nominees of JKH are paid to JKH and not to individual Directors.

Total aggregate of NED remuneration for the year was Rs. 7.2 million. (2020/21 - Rs. 6.5 million)

### Nominations Committee of the Parent Company – JKH

No. of meetings - 03

| | |
|---|---|
| COMPOSITION | Majority of the members of the Committee shall be NEDs together with the Chairman. |
| | The Chairman of the Committee must be a NED/ID. |
| | The Secretary to the Board is the Secretary of the Committee. |
| SCOPE | Assess skills required on the Board given the needs of the businesses. |
| | From time to time assess the extent to which the required skills are represented at the Board. |
| | Prepare a clear description of the role and capabilities required for a particular appointment. |
| | Identify and recommend suitable candidates for appointments to the Board. |
| | Ensure, on appointment to Board, NEDs receive a formal letter of appointment specifying clearly expectation in terms of time commitment, involvement outside of the formal Board meetings, participation in Committees, amongst others. |
| | Ensure that every appointee undergoes an induction to the Group. |
| | The appointment of the Chairperson and Executive Directors is a collective decision of the Board. |

Nominations Committee as at 31st March 2022 consists of following Members;

| Members |
|---|
| • Mr. M A Omar - Chairman |
| • Dr. S S H Wijayasuriya |
| • Mr. K N J Balendra |
| • Ms. M P Perera |

## REPORT OF THE NOMINATIONS COMMITTEE

In its annual self-review, the Nominations Committee reaffirmed its mandate as follows:

- Recommend to the Board the process of selecting the Chairman and Deputy Chairman.
- Assess the skills required for each business, based on the strategic demands to be met by JKH and other Listed Companies of the Group.
- Identify suitable persons to be appointed as Non-Executive Directors to the Board of JKH and make recommendations to other Listed Companies in the Group.
- Review the structure, size, composition and skills of each Board.
- Ensure that every appointee undergoes an induction.
- Make recommendations on matters referred to it by the Board.

During the reporting period, the following appointments and contract renewals were made consequent to the recommendation made by the Committee:

**Asian Hotels and Properties PLC:**

- Ms. A Nanayakkara (new appointment)
- Mr J Durairatnam (renewal)
- Mr A S de Zoysa (renewal)

**Ceylon Cold Stores PLC:**

- Mr. M Hamza (renewal)

**Tea Smallholder Factories PLC:**

- Mr. S K L Obeysekere (renewal)
- Mr. A S Jayatilleke (renewal)

**Trans Asia Hotels PLC:**

- Mr. H A J de Silva Wijeratne (new appointment)

**Union Assurance PLC:**

- Mr. D H Fernando (renewal)
- Mr. S A Appleyard (renewal)

The Committee reports its activities at each Board Meeting.

The Committee continues to work with the Board on reviewing its skills mix, based on the immediate and emerging needs of JKH. Further, the Committee discusses with the Board the outputs of the Annual JKH Board Evaluation.

**M A Omar**
Chairman of the Nominations Committee

20th May 2022

### Related Party Transactions Review Committee of the Parent Company – JKH

No. of meetings - 04

| | |
|---|---|
| COMPOSITION | The Chairman must be a NED. |
| | May include one Executive Director. |
| SCOPE | The JKH has broadened the scope of the Committee to include senior decision makers in the list of key management personnel, whose transactions with John Keells Group companies also get reviewed by the Committee, in addition to the requisitions of the CSE. |
| | Develop and recommend for adoption by the Board of Directors of JKH and its listed subsidiaries, a Related Party Transaction Policy which is consistent with the operating model and the delegated decision rights of the John Keells Group. |
| | Update the Board on related party transactions of each of the listed companies of the John Keells Group on a quarterly basis. |
| | Define and establish the threshold values for each of the subject listed companies in setting a benchmark for related party transactions, related party transactions which have to be pre-approved by the JKH Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies. |

Related Party Transactions Review Committee as of 31st March 2022 consists of the following members;

| Members |
|---|
| • Ms. M P Perera - Chairperson |
| • Mr. D A Cabraal |
| • Mr. A N Fonseka |
| **By Invitation** |
| • Mr. J G A Cooray |
| • Mr. K N J Balendra |

### REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE 2021/22

The following Directors served as members of the Committee during the financial year:
Ms. M P Perera
Mr. A N Fonseka
Mr. D A Cabraal

The Chairman-CEO, Deputy Chairman/Group Finance Director, and Group Financial Controller attended meetings by invitation. The Head of Group Business Process Review served as the Secretary to the Committee.

The objective of the Committee is to exercise oversight on behalf of the Board of John Keells Holdings PLC and its listed Subsidiaries, to ensure compliance with the Code on Related Party Transactions, as issued by the Securities and Exchange Commission of Sri Lanka ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the Institute of Chartered Accountants of Sri Lanka.

The Committee in discharging its functions primarily relied on processes that were validated from time to time and periodic reporting by the relevant entities and Key Management Personnel (KMP) with a view to ensuring that:

- there is compliance with "the Code"and the Listing Rules of the CSE
- shareholder interests are protected; and
- fairness and transparency are maintained.

The Committee reviewed and pre-approved all proposed non-recurrent Related Party Transactions (RPTs) of the parent, John Keells Holdings PLC, and all its listed subsidiaries, namely: John Keells PLC, Tea Smallholder Factories PLC, Asian Hotels and Properties PLC, Trans Asia Hotels PLC, John Keells Hotels PLC, Ceylon Cold Stores PLC, Keells Food Products PLC, and Union Assurance PLC.

Recurrent RPTs as well as the disclosures & assurances provided by the senior management of the listed companies in the Group in relation to such transactions, in terms of formulated guidelines so as to validate compliance with sec 9.5(a) of the listing rules and thus exclusion from the mandate for review & pre-approval by the Committee, were reviewed annually by the Committee.

Other significant transactions of non-listed subsidiaries were presented to the Committee for information.

In addition to the Directors, all Presidents, Executive Vice Presidents, Chief Executive Officers, Chief Financial Officers and Financial Controllers of respective companies/sectors have been designated as KMPs in order to increase transparency and enhance good governance. Annual disclosures from all KMPs setting out any RPTs they were associated with, if any, were obtained and reviewed by the Committee.

The Committee held four meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below.

The activities and views of the Committee have been communicated to the Board of Directors, quarterly, through verbal briefings, and by tabling the minutes of the Committee's meetings.

**M P Perera**
Chairperson of the Related Party Transaction Review Committee

20th May 2022

### Project Risk Assessment Committee of the Parent Company – JKH

No. of meetings - 01

| | |
|---|---|
| COMPOSITION | Should comprise of a minimum of four (4) Directors. |
| | Must include the Chairman and Group Finance Director. |
| | Must include two NEDs. |
| | The Chairman must be a NED. |
| SCOPE | Review and assess risk associated with large-scale investments and the mitigatory plans thereto, if mitigation is possible and identify risk that cannot be mitigated. |
| | Ensure stakeholder interest are aligned, as applicable, in making investment decision. |
| | Where appropriate, obtain specialised expertise from external sources to evaluate risks, in consultation with the Group Finance Director. |
| | Recommend to the board, necessary action required, to mitigation risks that are identified in the course of evaluating a project in order to ensure that those risks are captured by the Group Risk Matrix for monitoring and mitigation. |

Note that the Committee shall convene only when there is a need to transact in business as per the terms of its mandate.

The Project Risk Assessment Committee as of 31st March 2022 consists of the following members;

| Members |
|---|
| • Dr. S S H Wijayasuriya - Chairman |
| • Ms. M P Perera |
| • Mr. K N J Balendra |
| • Mr. J G A Cooray |

The Project Risk Assessment Committee was established to further augment the John Keells Group's Investment Evaluation Framework. The committee provides the Board of John Keells Holdings PLC (JKH) with enhanced illumination of risk perspectives with respect to large-scale new investments, and assess the potential impact of risks associated with such investments. Investments which are referred to the committee are those which exceed a Board-agreed threshold in terms of quantum of investment and/or potential impact to the John Keells Group. Accordingly, the committee provides early-stage recommendations to the Board with regard to the extent of risk and adequacy of mitigation strategies.

Whilst the sub-committee convened once during the year under review to discuss other investments of the John Keells Group, no meetings were convened in relation to investments made by Keells Food Products PLC.

Given the impact of the pandemic on Group businesses and the challenging macroeconomic uncertainties and volatilities during the latter part of the year, the JKH Board held frequent discussions affording the opportunity for matters pertaining to Group investments and risk assessments to be deliberated by all Board members.

### Outlook

The need for maintaining a robust and well-grounded Corporate Governance framework has become vital when operating in a dynamic socio-economic environment, exacerbated by of dynamic corporate change and global volatility. A strong governance mechanism is pivotal in enhancing accountability to diverse stakeholders, ensuring corporate transparency, fairmindedness and creating sustainable value. In this light, the Group will continue to stay abreast of governance best practice and assess its level of preparedness and its capability in meeting and managing evolving external challenges.

The pursuit of continuous improvement in governance, emphasis on environmental and social considerations and a call for increased accountability and transparency continue to influence and shape the role of board governance aspects. The primary areas of focus and challenges, amongst many others, being recurrently addressed by JKH are detailed in the ensuing section.

- Board Diversity
- Board Independence
- Anti-fraud, anti-corruption and anti-bribery
- Increasing emphasis on Environmental, Social and Governance (ESG) aspects
- Continual Strengthening of Internal Controls
- Digital Oversight and Cyber Security
- Data Protection, Information Management and Adoption
- Greater Employee Involvement in Governance

### Board Diversity

KFP Group acknowledges the need for diversity in Boards and is conscious of the need to attract appropriately skilled Directors who reflect the values and requirements of its businesses and vision. Whilst the Group is of the view that diversity ranging across demographic attributes, backgrounds, experiences and social networks improve a Board's understanding of its vast pool of stakeholders, providing diverse connections with the external environment and aiding the Group in addressing stakeholders' claims in a more responsive manner, KFP Group is also conscious of the need to maintain a strong culture of meritocracy, ensuring that Board diversity does not come at the expense of Board effectiveness. In this regard, every effort will be made to attract suitably qualified personnel from diverse demographics and backgrounds.

In furtherance of this initiatives, and to amplify the Group's emphasis on creating an inclusive, diverse, and equitable work environment, headway was made on the gender diversity front with 2 females representing the Board.

### Board Independence

There is an increased emphasis on board independence by stakeholders, stock exchange and regulatory bodies worldwide. In order for a Board to be effective, KFP Group is of the view that Companies must take steps, both in their structures and in their nominating procedures, to ensure fostering of independent decision-making and mitigating potential conflicts of interest which may arise.

The criteria for defining independence of boards vary significantly across countries. The KFP Group is of the view that the intended vision of achieving improved governance and higher independence can be achieved through various checks and balances, whilst not compromising on the underlying operating model of a corporate. These checks and balances may entail, among others, establishment of various assurance mechanisms and the use of systematic and comprehensive board evaluation processes and independent director lead engagement. To this end, the KFP Group will continue to place emphasis on further augmenting the Board's independence whilst striking a balance with the Group's operating model, which addresses the complexities and intricacies of a diversified conglomerate setting.

### Anti-fraud, Anti-corruption and Anti-bribery

The Group places the highest value on ethical practices and has promulgated a zero-tolerance policy towards corruption and bribery in all its transactions and strives to maintain a culture of honesty as opposition to fraud and corruption. Based on this commitment, the Code of Conduct, anti-fraud, fraud prevention, anti-corruption, anti-bribery, validation, audit and transparency policies, amongst many others, outline the principles to which the Group is committed in relation to preventing, reporting and managing fraud and corruption. It covers inter alia, theft, embezzlement, overriding controls, giving or receiving kickbacks, bribery, allowing oneself to be placed in situations of conflict of interest and statements (financial or non-financial) dishonestly and recklessly made contrary to the factual position.

The Group seeks to ensure that ethical business practices are the norm from the business unit level, down to the individual employee. Its transparent control and prevention mechanisms also extend to its value chain, to its customers, suppliers and business partners.

The Group will continue its stance of zero-tolerance towards corruption and bribery in all its transactions and foster transparency and honesty in all business dealings, whilst continually developing its governance frameworks in line with international best practice.

### Increasing Emphasis on Environmental, Social and Governance (ESG) Aspects

ESG analysis and investing continue to gain traction amongst Governments, investment professionals and high net worth investors, given the aim of reducing negligent and irresponsible corporate behaviour that may have an adverse impact on the environment, harm human rights and foster corruption and bribery, among others, and disintegrate the corporate in the long-term. The unprecedented nature of the COVID-19 pandemic and its impacts globally have accelerated and intensified such discussions on the inter-linkages between sustainability considerations and financial performance.

The KFP Group is of the view that emphasis on ESG fosters a 360-degree analysis of performance and enables a sustainable business model, which can derive value to all stakeholders. Various measures have been, and are, in place, to ensure a holistic view of performance including managing scare natural resources, enhancing the wellbeing of all stakeholders and ensuring effective governance mechanisms. Such metrics are revisited regularly during decision-making. Initiatives such as the launch of Sustainability Goals 2025, roll-out of the DE&I Policy and strengthening of internal controls are implemented with a view of ensuring a strong ESG framework. The KFP Group will stay abreast of developments in this regard and continue to integrate ESG elements with business strategy, operations and in reporting.

### Continual Strengthening of Internal Controls

Augmenting transactional and financial internal controls with operational aspects, in line with international best practice, remains a medium-term priority for the KFP Group. Continuous strengthening of internal controls through a streamlined process that optimises and facilitates process audit information, life cycle management and related processes are expected to:

- eliminate inefficiencies inherent in manual processes.
- provide a platform based on process enforcement.

# CORPORATE GOVERNANCE

- enable management follow-up based on centrally held data in a compliance repository.
- identify trends, action taken, effectiveness and opportunities for process improvement by analysing movement of the compliance posture.

### Digital Oversight and Cyber Security

Whilst the rapidly advancing nature of technology and the continual integration of the Group's operations with technological progress has enhanced and streamlined processes and controls across the Group and opened up opportunities, it has resulted in increased vulnerability for the Group from a digital standpoint. As a result, the Board places significant emphasis on ensuring that the Group's soft and hard infrastructure is designed in a manner and adequate, to deal with a potential breach. Data protection and cyber security are regularly addressed during the Risk Management and Audit Committee meetings and periodically discussed at a Board level.

### Data Protection, Information Management and Adoption

The presence of continuously evolving IT infrastructure and platforms to meet requirements of day-to-day business, augured well for the Group, particularly given restrictions in movement during the year and social distancing measures in light of the COVID-19 pandemic. The Group witnessed an acceleration of digitisation and better user adoption. Despite this, adoption of such systems and features remain at a relatively early stage across the Group and is a key focus area for the Group.

Given the emergence of regulations such as European Union General Data Protection Regulation (GDPR) and the Sri Lankan Personal Data Protection Act, No. 9 of 2022, data security, integrity and information management will be pivotal. In addition to this, the Group's initiatives on advanced data analytics also necessitate an established governance framework to manage the flow of data. To this end, the Group will continue to strengthen its data governance structure to ensure ownership and accountability of clearly articulated data governance policies and processes and Group wide data quality standards.

### Greater Employee Involvement in Governance

Whilst all necessary compliance and assurance frameworks are believed to be in place, the KFP Group recognises the pivotal role played by employees in reinforcing an effective governance system across the Group. The KFP Group will continue to encourage greater employee participation through:

- a further strengthened continuous performance management process, which envisages continuous feedback and enhanced engagement via the newly implemented employee information systems.
- engagement and empowerment via greater delegation of authority.
- increased communication and collaboration.
- adoption of differentiated means of communication based on the age dynamics of employee segments.

A detailed discussion of each of the above components is found on the corporate website www.keellsfoods.com.

**Statement of Compliance under Section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) on Annual Report Disclosure**

**MANDATORY PROVISIONS - FULLY COMPLIANT**

| Rule | | Compliance Status | Reference in Annual Report |
|---|---|---|---|
| (i) | Names of persons who were Directors of the Entity | Yes | Board of Directors |
| (ii) | Principal activities of the entity and its subsidiaries during the year, and any changes therein | Yes | Management Discussion and Analysis, Annual Report of Board of Directors and Financial Statements |
| (iii) | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held | Yes | Your Share in Detail |
| (iv) | The float adjusted market capitalisation, public Holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement | Yes | Your Share in Detail |
| (v) | A statement of each Director's Holding and Chief Executive Officer's Holding in shares of the Entity at the beginning and end of each financial year | Yes | Annual Report of the Board of Directors |
| (vi) | Information pertaining to material foreseeable risk factors of the Entity | Yes | Enterprise Risk Management Report |
| (vii) | Details of material issues pertaining to employees and industrial relations of the Entity | Yes | During the year 2021/22, there were no material issues pertaining to employees and industrial relations of the Group |
| (viii) | Extents, locations, valuations and the number of buildings of the Entity's land Holdings and investment properties | Yes | Group Real Estate Portfolio |
| (ix) | Number of shares representing the Entity's stated capital | Yes | Your Share in Detail |
| (x) | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total Holdings | Yes | Your Share in Detail |
| (xi) | Financial ratios and market price information | Yes | Your Share in Detail and Key Figures and Ratios |
| (xii) | Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year | Yes | Notes to the Financial Statements |
| (xiii) | Details of funds raised through a public issue, rights issue and a private placement during the year | N/A | |
| (xiv) | Information in respect of Employee Share Ownership or Stock Option Schemes | Yes | Annual Report of the Board of Directors and Notes to the Financial Statements |
| (xv) | Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules | Yes | Corporate Governance report |
| (xvi) | Related Party transactions exceeding 10 per cent of the equity or 5 per cent of the total assets of the Entity as per audited Financial Statements, whichever is lower | Yes | Corporate Governance Commentary/Note 38 of the Notes to the Financial Statements |

# CORPORATE GOVERNANCE

**STATEMENT OF COMPLIANCE UNDER SECTION 7.10 OF THE LISTING RULES OF THE CSE ON CORPORATE GOVERNANCE**

MANDATORY PROVISIONS - FULLY COMPLIANT

| CSE Rule | | Compliance Status | Reference in Annual Report |
|---|---|---|---|
| **7.10 Compliance** | | | |
| a./b./c. | Compliance with Corporate Governance Rules | Yes | KFP Group is in compliance with the Corporate Governance Rules and any deviations are explained where applicable. |
| **7.10.1 Non-Executive Directors (NED)** | | | |
| a./b./c. | At least 2 members or 1/3 of the Board, whichever is higher should be NEDs | Yes | All Board members are NEDs. The KFP Group is conscious of the need to maintain an appropriate mix of skills and experience in the Board and to refresh progressively its composition over time. |
| **7.10.2 Independent Directors** | | | |
| a. | 2 or 1/3 of NEDs, whichever is higher shall be "independent" | Yes | 4 out of the 8 NEDs are Independent. |
| b. | Each NED to submit a signed and dated declaration of his/her independence or non-independence | Yes | Independence of the Directors has been determined in accordance with CSE Listing Rules and the 4 Independent NEDs have submitted signed confirmation of their independence. |
| **7.10.3 Disclosures Relating to Directors** | | | |
| a./b. | Board shall annually determine the independence or otherwise of NEDs | Yes | Each NED discloses a formal declaration to the Board of all their interests on an annual basis |
| c. | A brief resume of each Director should be included in the annual report including the directors' experience | Yes | Board of Directors section of the Annual Report |
| d. | Provide a resume of new Directors appointed to the Board along with details | Yes | Board of Directors section of the Annual Report, Detailed resumes of the new NEDs appointed are submitted to the CSE. |
| **7.10.4 Criteria for Defining Independence** | | | |
| a. to h. | Requirements for meeting the criteria to be an Independent Director | Yes | Corporate Governance - Section - Managing Conflicts of Interests and Ensuring Independence |
| **7.10.5 Remuneration Committee** | | | |
| a.1 | Remuneration Committee shall comprise of NEDs, a majority of whom will be independent | Yes | The Human Resources and Compensation Committee of the Parent Company (equivalent of the Remuneration Committee with a wider scope) only comprises of Independent NEDs. |
| a.2 | One NED shall be appointed as Chairman of the Committee by the Board of Directors | Yes | The Senior Independent NED is the Chairman of the Committee. |
| b. | Remuneration Committee shall recommend the remuneration of the Chairman and the Executive Directors | Yes | The remuneration of the Chairman and the Executive Directors are determined as per the remuneration principles of the JKH Group, and as recommended by the Human Resources and Compensation Committee. |
| c.1 | Names of Remuneration Committee members | Yes | Corporate Governance Report – The Human Resources and Compensation Committee |

| CSE Rule | | Compliance Status | Reference in Annual Report |
|---|---|---|---|
| c.2 | Statement of Remuneration policy | Yes | Corporate Governance Report – The Human Resources and Compensation Committee |
| c.3 | Aggregate remuneration paid to EDs and NEDs | Yes | Corporate Governance Report and Financial Statements |
| **7.10.6 Audit Committee** | | | |
| a.1 | Audit Committee (AC) shall comprise of NEDs, a majority of whom should be independent | Yes | The Audit Committee comprises only of Independent NEDs. |
| a.2 | A NED shall be the Chairman of the committee | Yes | Chairman of the Audit Committee is an Independent NED. |
| a.3 | CEO and CFO should attend AC meetings | Yes | The Industry Group President, Chief Financial Officer and CEO are permanent invitees to all Audit Committee meetings. |
| a.4 | The Chairman of the AC or one member should be a member of a recognised professional accounting body | Yes | The Chairman of the AC is a member of a recognised professional accounting body. |
| b. | The Functions of the Audit Committee | Yes | The Audit Committee carries out all the functions prescribed in this section. |
| b.1 | Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with SLFRS/LKAS | Yes | Refer the Report of the Audit Committee |
| b.2 | Overseeing the compliance with financial reporting requirements, information requirements as per laws and regulations | Yes | Refer the Report of the Audit Committee |
| b.3 | Overseeing the process to ensure the internal and risk management controls, are adequate, to meet the requirements of the SLFRS/LKAS | Yes | Refer the Report of the Audit Committee |
| b.4 | Assessment of the independence and performance of the Entity's External Auditors | Yes | Refer the Report of the Audit Committee |
| b.5 | Make recommendations to the Board pertaining to External Auditors | Yes | Refer the Report of the Audit Committee |
| c.1 | Names of the Audit Committee members shall be disclosed | Yes | Refer the Report of the Audit Committee |
| c.2 | Audit Committee shall make a determination of the independence of the external auditors | Yes | Refer the Report of the Audit Committee |
| c.3 | Report on the manner in which the Audit Committee carried out its functions. | Yes | Refer the Report of the Audit Committee |

# CORPORATE GOVERNANCE

## STATEMENT OF COMPLIANCE UNDER SECTION 9.3.2 OF THE LISTING RULES OF THE CSE ON CORPORATE GOVERNANCE

### MANDATORY PROVISIONS - FULLY COMPLIANT

| Rule | | Compliance Status | Reference in Annual Report |
|---|---|---|---|
| (a) | Details pertaining to Non-Recurrent Related Party Transactions (RPT) | Yes | Annual Report of the Board of Directors and Notes to the Financial Statements |
| (b) | Details pertaining to Recurrent Related Party Transactions | Yes | Annual Report of the Board of Directors and Notes to the Financial Statements |
| (c) | Report of the Related Party Transactions Review Committee | Yes | Corporate Governance, Report of the Related Party Transactions Review Committee |
| (d) | Declaration by the Board of Directors in the Annual Report as an affirmative statement of compliance with the rules pertaining to RPT, or a negative statement otherwise | Yes | Annual Report of the Board of Directors |

## STATEMENT OF COMPLIANCE PERTAINING TO COMPANIES ACT NO. 7 OF 2007

### MANDATORY PROVISIONS - FULLY COMPLIANT

| Rule | | Compliance Status | Reference in Annual Report |
|---|---|---|---|
| 168 (1) (a) | The nature of the business together with any change thereof | Yes | Notes to the Financial Statements |
| 168 (1) (b) | Signed Financial Statements of the Group and the Company | Yes | Financial Statements |
| 168 (1) (c) | Auditors' Report on Financial Statements | Yes | Independent Auditors' Report |
| 168 (1) (d) | Accounting policies and any changes therein | Yes | Notes to the Financial Statements |
| 168 (1) (e) | Particulars of the entries made in the Interests Register | Yes | Annual Report of Board of Directors |
| 168 (1) (f) | Remuneration and other benefits paid to Directors of the Company | Yes | Notes to the Financial Statements |
| 168 (1) (g) | Corporate donations made by the Company | Yes | Notes to the Financial Statements |
| 168 (1) (h) | Information on the Directorate of the Company and its subsidiaries during and at the end of the accounting period | Yes | Annual Report of Board of Directors |
| 168 (1) (i) | Amounts paid/ payable to the External Auditor as audit fees and fees for other services rendered | Yes | Notes to the Financial Statements |
| 168 (1) (j) | Auditors' relationship or any interest with the Company and its Subsidiaries | Yes | Report of the Audit Committee/ Financial Statements |
| 168 (1) (k) | Acknowledgement of the contents of this Report and signatures on behalf of the Board | Yes | Financial Statements/ Annual Report of the Board of Directors |
| 168 (2) | Information specified in paragraphs (b) to (j) of subsection (1) in relation to Subsidiaries. | Yes | Financial Statements / Annual Report of the Board of Directors |

# BOARD OF DIRECTORS

## KRISHAN BALENDRA

**Non-Independent – Non-Executive Director, Chairman**

Mr. Balendra was appointed to the Board of Keells Food Products PLC from the 1st of January 2018.

Krishan Balendra is the Chairman of John Keells Holdings PLC. He is the Deputy Vice Chairman of the Ceylon Chamber of Commerce and the Hon. Consul General of the Republic of Poland in Sri Lanka. He is a former Chairman of Nations Trust Bank and the Colombo Stock Exchange. Krishan started his career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. He joined JKH in 2002. Krishan holds a law degree (LLB) from the University of London and an MBA from INSEAD.

## GIHAN COORAY

**Non-Independent – Non-Executive Director**

Mr. Cooray was appointed to the Board of Keells Food Products PLC from the 1st of January 2018.

Gihan Cooray is the Deputy Chairman/Group Finance Director and has overall responsibility for the Group's Finance and Accounting, Taxation, Corporate Finance and Strategy, Treasury, Information Technology function and Corporate Communication. He is the Chairman of Nations Trust Bank PLC. Gihan holds an MBA from the Jesse H. Jones Graduate School of Management at Rice University, Houston, Texas. He is a Fellow member of the Chartered Institute of Management Accountants, UK, a certified management accountant of the Institute of Certified Management Accountants, Australia and has a Diploma in Marketing from the Chartered Institute of Marketing, UK. He serves as a committee member of The Ceylon Chamber of Commerce.

## AMAL SANDERATNE

**Independent – Non-Executive Director**

Mr. Sanderatne was appointed to the Board of Keells Food Products PLC from the 10th of June 2016 and is a member of the Audit Committee.

He is the founder and CEO of Frontier Research a provider of time efficient economic, industry and Company research and curated information services. Frontier was founded in 2003. Prior to founding Frontier Research, he worked as a consultant for DFCC bank as the senior transaction advisor for the Sri Lanka Telecom IPO in 2002.

He was the Head of Research of JP Morgan/Jardine Fleming in Sri Lanka. He was later transferred to Singapore and headed JP Morgan's Asia Pacific ADR research and also managed the research of the Hong Kong based Access Products Group. He is a graduate in Economics from the London School of Economics and is a CFA Charterholder.

## DAMINDA GAMLATH

**Non-Independent – Non-Executive Director**

Mr. Gamlath was appointed to the Board of Keells Food Products PLC from the 1st of November 2017.

Daminda Gamlath is the President of the Consumer Foods industry group and has been with the John Keells Group since 2002. He was the Sector Financial Controller for the Information Technology sector and then the Consumer Foods sector before he was appointed as the Head of Beverages in 2013 and the Sector Head in 2017. Prior to joining the John Keells Group, he worked at the Hayleys Group. Daminda holds a B.Sc. in Engineering from the University of Moratuwa, an MBA from the University of Colombo and is a passed finalist of the Chartered Institute of Management Accountants UK.

## PRAVIR SAMARASINGHE

**Independent – Non-Executive Director**

Mr. Samarasinghe was appointed to the Board of Keells Food Products PLC from 10th of June 2016 and is the Chairman of the Audit Committee.

He has over 30 years of professional and commercial experience and serves on the Board of Directors of several Public Listed and Unlisted Companies.

He is a Member of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants UK and holds a Master's Degree in Business Administration.

He was the Past Chairman of the Sri Lanka Institute of Directors, Employers' Federation of Ceylon, Industrial Association of Sri Lanka and Condominium Developers Association of Sri Lanka. He was the Past President of the Chartered Institute of Management Accountants Sri Lanka Division and former Council Member, CIMA (UK). He was a Board member of the Ceylon Chamber of Commerce and Sri Lanka Accounting and Auditing Standards Monitoring Board.

# BOARD OF DIRECTORS

## SHEHARA DE SILVA

**Independent – Non-Executive Director**

Ms. De Silva was appointed to the Board of Keells Food Products PLC from the 10th of June 2016 and is a member of the Audit Committee.

She is an international branding and communication specialist with a track record of market development in East Asia and Sri Lanka. She has worked with Omnicom Group related companies as the Director Planning Naga DDB in Kuala Lumpur and later as the Managing Director of Interbrand Malaysia and Group Director Strategy of Foetus International. She was the Deputy Director General of the Board of Investment Sri Lanka and GM Marketing and Sales of Janashakthi Insurance PLC.

She currently Chairs the Advocacy Committee of the Sri Lanka Institute of Directors. She is a trustee of the Neelan Tiruchelvam Trust, and on the boards of Sarvodaya Development Finance PLC, Optima Design, Informatics Institute of Technology, Quickshaws Travel (Pvt) Ltd, Ex-pack Corrugated Cartons PLC, and Amana Takaful Life PLC. She was previously on the Boards of The Environment Foundation, the Arthur C Clarke Institute of Modern Technologies and Eagle Fund Management.

## INDRAJIT SAMARAJIVA

**Independent – Non-Executive Director**

Mr. Samarajiva was appointed to the Board of Keells Food Products PLC from the 10th of June 2016 and is a member of the Audit Committee.

He is a writer at www.indi.ca. Mr. Samarajiva co-founded and sold YAMU one of Sri Lanka's leading food content platforms to PickMe in 2019. At PickMe, Mr. Samarajiva launched their delivery product PickMe Food. He has experience moving organisations online, something he has helped to do at Dialog Axiata, The Sunday Leader, and Sarvodaya. He studied Cognitive Science at McGill University in Montreal, Canada.

## NELINDRA FERNANDO

**Non-Independent – Non-Executive Director**

Ms. Fernando was appointed to the Board of Keells Food Products PLC from the 01st of January 2021.

Nelindra Fernando is the Chief Financial Officer for the JKH Consumer Foods industry group. Nelindra joined the John Keells Group in 2013 as the Sector Financial Controller of the Consumer Foods Industry Group. Prior to joining the JKH Group, she worked at the MAS group and Ernst & Young, Chartered Accountants. She is a member of the Chartered Institute of Management Accountants of UK and the Institute of Chartered Accountants of Sri Lanka.

# MANAGEMENT TEAM

## CHIEF EXECUTIVE OFFICER

**Mr. V I Wickramaratne** (w.e.f 01/04/2022)
Vice President
Chief Executive Officer

## SALES AND MARKETING

### Sales

**Mr. N M Adams**
Assistant Vice President
Head of Sales & Distribution

**Mr. S Nanayakkara**
Manager - Sales Administration

**Mr. G W C G B Gonigoda**
Channel Manager

**Mr. M A W S S Maddumaarachchi**
Channel Manager

**Mr. S T B S Kumara**
Channel Manager

**Mr. S A S D Subasinghe**
Channel Manager

### Marketing

**Mr. R D J Valentine**
Brand Manager

## SUPPLY CHAIN

### Production

**Mr. W A V Boteju**
Manager - Head of Manufacturing

**Mr. K A V Fernando**
Factory Manager - Pannala

**Mr. C N Soza**
Factory Manager - Ekala

### Research and Development and Quality Assurance

**Mr. A A N Lalantha**
Assistant Vice President
Head of Quality Assurance and Research & Development - Consumer Foods Industry Group

**Mr. B M G M Basnayake**
Manager - Quality Assurance and Development Projects

### Procurement

**Mr. S V R Boteju**
Manager - Purchasing

### Engineering

**Mr. G G S Ramanayaka**
Manager - Engineering

### Logistics

**Mr. T H M A K Tennakoon**
Manager - Logistics

## HUMAN RESOURCES

**Ms. S M S N K Paranayapa**
Vice President
Head of Human Resources - Consumer Foods Industry Group

**Ms. M W C K Jayasooriya**
Manager - Human Resources

## FINANCE

**Ms. P N Fernando**
Director/ Executive Vice President
Chief Financial Officer - Consumer Foods Industry Group

**Ms. J D Kanagaraj**
Assistant Vice President
Financial Controller - Consumer Foods Industry Group

**Mr. D V T Abeygunawardena**
Assistant Vice President
Head of Financial Planning and Analysis - Consumer Foods Industry Group

**Ms. E M T M Wijewickrama**
Assistant Vice President
Head of Tax - Consumer Foods & Retail Industry Groups

**Mr. A C Morris**
Manager - Management Accounting

# GRI CONTEXT INDEX

| GRI Standard | Disclosure | Page number | Omission |
|---|---|---|---|
| **GRI 101: Foundation 2016 (does not include any disclosures)** | | | |
| **General Disclosures** | | | |
| **GRI 102: General Disclosures 2016** | 102-1 Name of Organisation | 9 | |
| | 102-2 Activities, brands, products and services | 15 | |
| | 102-3 Location of headquarters | 111 | |
| | 102-4 Location of operations | 15 | |
| | 102-5 Ownership and legal form | 111 | |
| | 102-6 Markets served | 47 | |
| | 102-7 Scale of the organisation | 4 | |
| | 102-8 Information on employees and other workers | 39 | |
| | 102-9 Supply chain | 48 | |
| | 102-10 Significant Changes to the organisation and its supply chain | 10 | |
| | 102-11 Precautionary principle | 78 | |
| | 102-12 External initiatives | 9 | |
| | 102-14 Statement from senior decision maker | 6 | |
| | 102-16 Values, principles, norms and standards of behaviour | 3 | |
| | 102-18 Governance Structure | 55 | |
| | 102-40 List of stakeholder groups | 28 | |
| | 102-41 Collective bargaining agreements | 43 | |
| | 102-42 Identifying and selecting stakeholders | 28 | |
| | 102-43 Approach to stakeholder engagement | 28 | |
| | 102-44 Key topics and concerns raised | 28 | |
| | 102-45 Entities included in the consolidated financial statements | 111 | |
| | 102-46 Defining report content and topic boundary | 10 | |
| | 102-47 Material topics | 26 | |
| | 102-48 Restatement of Information | 10 | |
| | 102-49 Changes in reporting | 10 | |
| | 102-50 Reporting period | 10 | |
| | 102-51 Date of most recent report | 10 | |
| | 102-52 Reporting cycle | 10 | |
| | 102-53 Contact point for questions regarding Report | 10 | |
| | 102-54 Claims of reporting in accordance with GRI Standards | 9 | |
| | 102-55 GRI context index | 74 | |
| | 102-56 External assurance | N/A | Company has not obtained External assurance on this report |

| GRI Standard | Disclosure | Page number | Omission |
|---|---|---|---|
| **Economic Performance** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 50 | |
| | 103-3 Evaluation of the Management Approach | 50 | |
| | 201-2 Financial Implications and other risks and opportunities due to climate change | 52 | |
| **Procurement Practices** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 48 | |
| | 103-3 Evaluation of the Management Approach | 48 | |
| **GRI 204: Procurement practices** | 204-1 Proportion of spending on local suppliers | 48 | |
| **Materials** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 51 | |
| | 103-3 Evaluation of the Management Approach | 51 | |
| **GRI 301: Raw materials** | 301-1: Raw materials used by weight or volume | 51 | |
| **Energy** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 51 | |
| | 103-3 Evaluation of the Management Approach | 51 | |
| **GRI 302: Energy 2016** | 302-1 Energy consumption within the organisation | 51 | |
| | 302-4 Reduction of energy consumption | 51 | |
| **Water & Effluents** | | | |
| **GRI 103: Management Approach** | 303-1 Interactions with water as a shared resource | 51 | |
| | 303-2 Management of water-discharge related impacts | 51 | |
| | 303-3 Water withdrawal | 51 | |
| **GRI 303: Water & Effluents 2018** | 303-4 Water discharge | 52 | |
| | 303-5 Water consumption | 52 | |
| **Emissions** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 52 | |
| | 103-3 Evaluation of the Management Approach | 52 | |
| **GRI 305 Emissions 2016** | 305-1 Direct (Scope 1) GHG emissions | 52 | |
| | 305-2 Energy Indirect ( Scope 2) GHG emissions | 52 | |
| | 305-5 Reduction in GHG emissions | 52 | |

# GRI CONTEXT INDEX

| GRI Standard | Disclosure | Page number | Omission |
|---|---|---|---|
| **Waste** | | | |
| **GRI 103: Management Approach** | 306-1: Waste generation and significant waste-related impacts | 52 | |
| | 306-2 Management of significant waste related impacts | 52 | |
| | 306-3 Waste generated | 52 | |
| **GRI 306 : Waste 2018** | 306-4 Water diverted from disposal | 52 | |
| | 306-5 Waste directed to disposal | 52 | |
| **Environmental Compliance** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 50 | |
| | 103-3 Evaluation of the Management Approach | 50 | |
| **GRI 307: Environmental Compliance 2016** | 307-1 Non-compliance with environmental laws and regulations | 51 | |
| **Employment** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 39 | |
| | 103-3 Evaluation of the Management Approach | 39 | |
| **GRI 401: Employment 2016** | 401-1 Employee hires and turnover | 40 | |
| **Labour Management Relations** | | | |
| **GRI 103: Management Approach** | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 43 | |
| | 103-3 Evaluation of the Management Approach | 43 | |
| **GRI 402: Labour Management Relations** | 402-1 Minimum notice periods regarding operational changes | 43 | |
| **Occupational Health and Safety** | | | |
| **GRI 103: Management Approach** | 403-1 Occupational health and safety management system | 41 | |
| | 403-2 Hazard identification, risk assessment and incident investigation | 41 | |
| | 403-3 Occupational health services | 41 | |
| | 403-4 Worker participation, consultation and communication on occupational health and safety | 41 | |
| | 403-5 Worker training on occupational health and safety | 41 | |
| | 403-6 Promotion of worker health | 41 | |
| | 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | 41 | |

| GRI Standard | Disclosure | Page number | Omission |
|---|---|---|---|
| GRI 403: Occupational Health and Safety 2018 | 403-9 Worker related injuries | 41 | |
| **Training and Education** | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 43 | |
| | 103-3 Evaluation of the Management Approach | 43 | |
| GRI 404: Training and education | 404-1 Average hours of training per year per employee | 5 | |
| | 404-2 Programs for upgrading skills and transition assistance programmes | 44 | |
| | 404-3 Percentage of employees receiving regular performance and career development reviews | 41 | |
| **Local Communities** | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 49 | |
| | 103-3 Evaluation of the Management Approach | 49 | |
| GRI 413: Local communities | 413-1 Operations with local community engagement, impact assessments and development programmes | 49 | |
| **Customer Health and Safety** | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 46 | |
| | 103-3 Evaluation of the Management Approach | 46 | |
| GRI 416: Customer Health and Safety | 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services | 47 | |
| **Marketing and Labelling** | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 46 | |
| | 103-3 Evaluation of the Management Approach | 47 | |
| GRI 417: Product and Service labelling | 417-2 Incidents of non-compliance concerning product and service information and labelling | 47 | |
| | 417-2 Incidents of non-compliance concerning marketing communications | 47 | |
| **Socio economic Compliance** | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 26 | |
| | 103-2 The Management Approach and its components | 49 | |
| | 103-3 Evaluation of the Management Approach | 49 | |
| GRI 419: Socio economic compliance | 419-1 Non-compliance with laws and regulations in the social and economic area | 47 | |

# ENTERPRISE RISK MANAGEMENT

The underlying principle of enterprise risk management practiced at KFP is to optimise risk and reward dynamics and thereby deliver shared and sustainable value to all stakeholders. Like any other business, KFP faces uncertainty and challenges stemming from both its external and internal operating landscapes. The management determines the degree to which such uncertainty should be accepted and managed whilst driving its strategic aspirations. Uncertainties present risks as well as opportunities, with the potential to erode or enhance value. Enterprise risk management enables the Company to effectively identify, measure and manage the uncertainties and associated risks, whilst optimising value through effectively deploying resources to capitalise emerging opportunities.

KFP's approach to risk management is aligned with the John Keells Group's Enterprise Risk Management (JKH ERM) Framework. The Enterprise Risk Management cycle begins in the first quarter of the year with the annual risk review of all Business Units by the JKH ERM Division. The Division assists the heads of Business Units and the respective heads of Departments to comprehensively assess, rate and set-up mitigation plans for structural, operational, financial, and strategic risks relevant to their operations based on past information and assessment of the operating landscape.

The Group Management Committee (GMC) and the Company's Board of Directors are the ultimate owners of its risks and are responsible for ensuring the effective management of risks, through quarterly review of the Risk Control Self-Assessment (RCSA) forms. Identified risks are revalidated at the GMC on a quarterly basis and presented to the Audit Committee on a bi-annual basis. The Company risk register is given due consideration by the JKH ERM division in consolidating risks for the John Keells Group. The risk management cycle is concluded with the presentation of a Group Risk Report containing risk profiling and analysis to the John Keells Group Audit Committee.

The risk management process and information flow adopted by JKH Group is depicted below in table 1.

**Table 1 - JKH Group Risk Management Process**

The ERM Framework adopted by the John Keells Group and implemented by the Company and its Subsidiary involves the following:

## 1. Identification of Types of Risk

**Risk Event-** Any event with a degree of uncertainty which, if it occurs, may result in the Organisation or Business Unit failing to meet its stated objectives.

**Core Sustainability Risks-** Core Sustainability Risks are defined as those risks having a catastrophic impact to the organisation but may have a very low or nil probability of occurrence.

## 2. Establishment of a Risk Register with Likelihood of Occurrence and Severity of Impact

Using the JKH Group guidelines, a risk grid is established for the Company and its Subsidiary. Every risk is analysed in terms of likelihood of occurrence and severity of impact and assigned a score ranging from 1 (low probability/impact) to 5 (high probability/ impact) to signify the probability of occurrence and the level of impact to the organisation. Please see Table 2 for further details.

## 3. Establishment of Level of Risk

Based on the values assigned for each individual risk, using the matrix given in Table 2, a level of risk is established by multiplying the likelihood of occurrence with severity of Impact.

**Table 2 -Guideline for Rating Risks**

| Impact / Severity | | | | | | |
|---|---|---|---|---|---|---|
| 5 | Catastrophic/ Extreme Impact | 5 | 10 | 15 | 20 | 25 |
| 4 | Major/ Very High Impact | 4 | 8 | 12 | 16 | 20 |
| 3 | Moderate/ High Impact | 3 | 6 | 9 | 12 | 15 |
| 2 | Minor Impact | 2 | 4 | 6 | 8 | 10 |
| 1 | Low/ Insignificant Impact | 1 | 2 | 3 | 4 | 5 |
| | | Rare/ Remote to Occur | Unlikely to Occur | Possible to Occur | Likely to Occur | Almost Certain to Occur |
| | | 1 | 2 | 3 | 4 | 5 |
| | | Occurrence/ Likelihood | | | | |

**The Colour Matrix implies the following;**

| | | | | | |
|---|---|---|---|---|---|
| Priority level | 5 | 4 | 3 | 2 | 1 |
| Colour code | Ultra High | High | Medium | Low | Insignificant |
| Score | 13-25 | 10-12 | 7-9 | 3-6 | 1-2 |

# ENTERPRISE RISK MANAGEMENT

## QUARTERLY REVIEW OF THE RISK IDENTIFIED USING RISK FRAMEWORK BY THE COMPANY

It is the responsibility of the Chief Executive Officer (CEO) and the Company Risk Management team to ensure that each risk item is reviewed on a quarterly basis and to ensure that the mitigation actions identified during the risk review process are being carried out adequately. This ensures that the Company has a 'living' document that is updated based on internal and external conditions, on a quarterly basis through the Group's online Enterprise Risk Management IT platform, facilitating a relevant and timely dynamic risk register.

## RISK UNIVERSE

The identified risks are broadly classified into the risk universe as identified by the John Keells Group. The risk universe for KFP is given in Table 3.

**Table 3 - Risk Universe**

| RISK UNIVERSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Headline Risk** | **External Environment** | **Business Strategies and Policies** | **Business Process** | **Organisation and People** | **Analysing and Reporting** | **Technology and Data** | **Sustainability and CSR** |
| Related Risks | Political | Reputation and Brand Image | Internal Business Process | Leadership/ Talent Pipeline | Performance Measurement and Reporting | Technology Infrastructure/ Architecture | Sustainability Strategy |
| | Competitor | Governance | Operations – Planning, Production, Process | Training and Development | Budgeting/ Financial Planning | Technology Reliability and Recovery | Biodiversity and Climate Change |
| | Catastrophic Loss | Capital and Finance | Operations – Technology, Design, Execution, Continuity | Human Resource Policies and Procedures | Accounting/ Tax | Data relevance, Processing and Integrity | Natural/ Sustainable Resource Utilisation |
| | Stakeholder Expectations | Strategy and Planning | Interdependency | Ethics | Internal/ External Reporting and Disclosures | Cyber Security | Community Investment and Philanthropy |
| | Macro Economic | Business/ Product Portfolio | Customer Satisfaction | Fraud and Abuse | | IT Processes | Financing and Tax |
| | Foreign Exchange and Interest Rates | Organisation Structure | Legal, Regulatory Compliance and Privacy | Attrition | | Cloud Computing | Oversight/ Monitoring/ Compliance |
| | Weather and Climate | Innovation and R&D | Property and Equipment Damage and Breakdown | Knowledge and Intellectual Capital | | | Goal Congruence/ Dependence |
| | | Investment, Mergers, Acquisitions and Divestments | Vendor/ Partner Reliance | Employee Relations and Welfare/ Health and Safety | | | |
| | | Treasury, Hedging and Insurance | | Performance Management and Compensation | | | |

## SUSTAINABLE RISK MANAGEMENT

The Company's risk management strategy is closely interwoven with its sustainability management framework and corporate social responsibility (CSR) functions, enabling a holistic approach towards the identification, management and mitigation of risk. Risk Management therefore extends beyond managing the operational and financial risks faced by the Company, to encompass broader environmental, community, employee, value chain and other non-financial risks related to the triple bottom-line approach of the Company, providing a foundation for productive engagements with internal and external stakeholders.

## RISK MANAGEMENT DURING THE REPORTING YEAR

Sri Lanka entered the second year of the pandemic, with the emergence of highly transmissible variants leading to 2 lockdowns during the 2nd and 3rd quarter of the year. Pandemic-led disruptions continued to feature prominently in the Company's risk landscape, although KFP demonstrated a high degree of adaptability and resilience to these challenges. The Company continued to follow stringent precautionary measures to ensure the safety of its employees, while leveraging the learnings obtained in 2020 to ensure continuity of operations in its manufacturing facilities and distribution channels. The Company continued to strengthen its risk identification, analysis, and evaluation processes in order to respond better to emerging and new risks, communicate to stakeholders, and better connect risk management with strategy. In addition, the crisis has underscored the importance of treating ERM not just as a required regulatory requirement but as part of the strategic process that generates value for an organisation.

Any high-level risks or core risks were reviewed by the Group Management Committee (GMC) headed by the President of the Industry Group as a means of validating the risk process at Business Unit level. The significant risk areas that impact the achievement of the strategic business objectives of the Company and the measures taken to address these risks during the year under review are discussed below.

● High ● Medium ● Low

| Risk Factor | Impact on Value Creation | Risk Mitigation Actions | Risk Rating | |
|---|---|---|---|---|
| | | | 2020/21 | 2021/22 |
| Risks associated with the COVID-19 pandemic | Increased vulnerability to health and safety risks of employees, particularly in our manufacturing facilities and in the field.<br><br>Implications on consumer demand, given the impacts on disposable income and disruptions to distribution channels. Meanwhile, raw material costs also escalated due to scarcity of raw/ packing materials, import restrictions and weakening of the exchange rate.<br><br>Pandemic induced pressure on liquidity stemming from reduced operational activity during the lockdown due to disruptions and the need to carry a higher working capital to safeguard a buffer stock.<br><br>Liquidity crises and operating challenges faced by distributor partners due to lower volumes and restriction to mobility.<br><br>In the event of factory or field staff contracting the virus, the brand could be adversely impacted thereby affecting business growth.<br><br>Increased costs associated with implementing safety measures across all locations of operations. | • Continued to align with the operational guidelines on preparedness and response to COVID-19 outbreak at workplaces issued by Ministry of Health since April 2020 in both factory and field level and maintained ongoing engagement with regulatory bodies and health authorities to ensure compliance to new developments.<br>• Developed a Company-specific, comprehensive standard operating procedure (SOP) on COVID-19, which clearly defines the proactive and reactive measures to be practiced by all the stakeholders in the factory premises. Similar guidelines were implemented for field staff operations as well.<br>• Successfully obtained the SLS 1672: 2020- COVID-19 Safety Management System for our manufacturing facility, thereby obtaining third party assurance on the stringency of our safety precautions.<br>• Conducted random PCR tests on a sample of employees covering all personnel categories/ work groups within the organisation, on a weekly basis.<br>• Improved infrastructure and workplace arrangements to minimise the risk of cross infection, such as provision of personal protective equipment (PPE), social distancing, hand washing, surface sanitation, etc.<br>• Continuous awareness programs for shop floor employees and staff to improve their knowledge on the existing situation. We also conducted Weekly awareness programmes for executive and above grades on the theme: 'NO ONE IS SAFE UNTIL EVERYONE IS SAFE'.<br>• Facilitated and encouraged employees to obtain full vaccination.<br>• Providing immune boosting herbal drinks to factory employees on daily basis. | ● | ● |

# ENTERPRISE RISK MANAGEMENT

● High ● Medium ● Low

| Risk Factor | Impact on Value Creation | Risk Mitigation Actions | Risk Rating | |
|---|---|---|---|---|
| | | | 2020/21 | 2021/22 |
| | | • Facilitating agile working policy (Work From Home (WFH) arrangements) for office employees.<br>• Maintain updated daily attendance sheet of all grades of employees.<br>• Premises restricted for visitors and access is given only for any essential services, with prior approvals based on their health declarations.<br>• Working in close coordination with area MOH offices and following their directions on any areas of concern.<br>• Freezing capital expenditure except for maintenance and replacements and re-negotiating prices and credit periods including the extension of Payments terms with the suppliers.<br>• Explored local sourcing of alternative raw materials, to address supply chain disruptions | | |
| Macro-Economic Environment, Changes in interest rate, exchange rate, taxes and tariffs | Macro-economic fundamentals such as inflation, GDP growth, interest rates, exchange rates and policy developments relating to duty structures and taxes directly impact the fixed and variable costs of the Company as well as consumer disposable income which in turn impacts sales volumes. The cost of locally sourced and imported raw material constitute a significant portion of our cost of production, due to which the depreciation of the Rupee, increase in borrowing rates and changes in duties and taxes have a considerable impact on our cost base. These cost escalations cannot readily be passed on to the customer, thereby having a direct impact on profitability. As the regulator allowed market forces to determine the exchange rate from March 2022, the sharp depreciation of the Rupee has significantly impacted the cost of production reflecting escalation in both direct and indirect imports. | • Continuous review of emerging macro- economic developments and consumer behaviour through market surveys.<br>• Strengthen local procurement through the development of local suppliers as a substitute to imported raw materials to mitigate the cost impact of certain imports.<br>• Proactive demand planning and frequent projections carried out due to uncertainty and the volatility in the market in order to meet the set targets.<br>• Strategic planning in sourcing and holding buffer inventory for the smooth execution of the production plan<br>• Proactively engaging with the government to create a conducive industry environment along with other leading manufacturers, retailers and suppliers.<br>• Fixed and variable rate borrowing options risk is managed by using a mix of fixed and variable rate and forward booking for imports to hedge against exchange rate risks.<br>• Working with JKH Group Treasury to leverage on its capabilities to manage the availability of foreign currency.<br>• Continuous monitoring of the existing banking facilities and re- negotiating on possible enhancements to the existing facilities.<br>• Obtaining short-term loans to fund WIC requirement or loan facilities to fund CAPEXes. | Medium | High |

| Risk Factor | Impact on Value Creation | Risk Mitigation Actions | Risk Rating | |
|---|---|---|---|---|
| | | | 2020/21 | 2021/22 |
| Volatility of material prices and inconsistency in supply of raw materials | The Company is exposed to price volatility in the market, especially in raw meat, packing material and fuel which are the key materials of the Company. During the year, the Company was adversely impacted by sharp and unexpected changes in material prices which cannot be readily passed on to the customer, thereby impacting profit margins.<br><br>The cost of imported materials has increased due to the depreciation of the Rupee against foreign currencies, increase in borrowing rates and restrictions on imports by the Government. Further, the cost of locally sourced materials also escalated in the short term due to constraints in production due to the operational challenges stemming from the pandemic.<br><br>Unfavourable weather conditions and the spread of various diseases impact the supply of chicken and pork in the market. Given limitations in supply, this could directly impact the Company's production<br><br>During the year the prices of animal feed increased which resulted in parallel increases in raw meats, which impacts the cost of production and profitability. | • Entering into long-term contracts with suppliers at guaranteed terms.<br>• Supporting suppliers through the provision of financial assistance at concessionary interest rates, and shorter credit period.<br>• Increasing the supplier base and, monitoring of material prices on a continuous basis.<br>• In house deboning of raw meat to mitigate price volatility.<br>• Ongoing focus on backward integration to mitigate the impact of input price volatilities<br>• Compliance to stringent quality criteria in material procurement.<br>• Capacity development of local farmers to share industry best practices.<br>• A portion of the cost increases are passed on to consumers by way of taking MRP increases.<br>• Pursued partnerships with alternative suppliers as a means of obtaining direct imports at a low cost.<br>• Development of alternative recipes and value engineering to mitigate the cost impact without compromising on the taste and the quality of the products.<br>• Carrying a buffer stock to face the unforeseen situations in the market. | | |

# ENTERPRISE RISK MANAGEMENT

● High ● Medium ● Low

| Risk Factor | Impact on Value Creation | Risk Mitigation Actions | Risk Rating | |
|---|---|---|---|---|
| | | | 2020/21 | 2021/22 |
| Vulnerabilities from IT related risks (Cyber Risk) | As the Company increasingly relies on IT and digital services, it is inevitably exposed to risks stemming from data privacy, cyber-crime and other ICT risks. | • Installing stringent access controls, firewalls, security software and dedicated user ID's.<br>• A Comprehensive disaster recovery plan is in place to ensure continuity of business operations.<br>• Availability of a dedicated Information Security and the use of appropriate software.<br>• Maintain up to date virus definition files and firewalls.<br>• Obtain daily, weekly, and monthly "on site" and "off-site" data backups, cloud storage for all users. | ● | ● |
| | During the pandemic, employees were given the opportunity to work from home (agile work policy) which in turn has escalated potential risks pertaining to network security, information leakage and device stability. | • Up to date anti-virus security systems.<br>• Installation of an open DNS security system (Umbrella Roaming Client).<br>• Continuous training to employees on information security. | | |
| Business process and product liability risk | The Company has identified Business Process and Product Liability as a core risk which can arise due to any defect in the product and/ or manufacturing process such as food contamination and poisoning. | • External assurance on the manufacturing processes including certifications such as ISO 9001:2015 and ISO 22000: 2018 and Halal Certificate.<br>• Adherence to Good Manufacturing Practice (GMP) and Food Safety standards.<br>• Fully compliant with rules and regulations which are imposed by the Consumer Affairs Authority's and other statutory bodies.<br>• Established a Complaint Management System (CMS).<br>• Implemented new test kits methods which are certified under AOAC and ISO certification which provides results within 24 hours with a greater accuracy.<br>• Deployed "Physical Quality Checkers" in the manufacturing facilities whose preliminary responsibility is to observe the entire manufacturing processes to ensure production is carried out according to the stipulated regulations and standards. | ● | ● |

| Risk Factor | Impact on Value Creation | Risk Mitigation Actions | Risk Rating | |
|---|---|---|---|---|
| | | | 2020/21 | 2021/22 |
| Meeting quality expectations, change in customer expectations | The food manufacturing industry is subject to general risks of food spoilage or contamination, consumer preferences with respect to nutrition and health related concerns, governmental regulations and consumer liability claims. These risk if materialised, may impact Company's reputation leading to loss of market share and possible litigation. | • The Company has put in place a comprehensive quality assurance system powered by qualified specialists using international benchmarks, which considers all product and process innovations to avoid any regulatory, health and nutrition related concerns.<br>• Validating all nutritional standards of the products with respect to Government regulations.<br>• Use of high-quality ingredients which satisfy international and local regulatory standards.<br>• Ensure compliance with the ISO 22000:2018 (food safety standard) and ISO 9001:2015 (Quality Management Systems).<br>• The effluent treatment plant at Pannala upgraded to match the latest technology and to address the specific requirements in relation to the water related quality standards.<br>• Recipe validation was done covering every product range to improve the consistency.<br>• Inspections at the distributor's cold chain facilities and strengthening the sites of raw material suppliers by visiting them on a regular basis.<br>• Introduction of Data loggers inside the delivery vehicles to monitor their freezer temperature and thereby to ensure consistent cold chain.<br>• A system folder with restricted access has been created to ensure data security and confidentiality of QA related documents in both Pannala and Ekala.<br>• Strengthened microbiology and sensory evaluation system covering entire product portfolio prior to market release.<br>• Continued monitoring of customer preferences and development of products to suit these emerging requirements. | ● | ● |
| | In order to proactively understand and meet emerging customer expectations, the Company is required to monitor and keep up to date with market trends to ensure a satisfied and loyal customer base and retain the competitive edge. | • Continuous upgrading of certain recipes of chicken meat balls and skinless chicken sausages category.<br>• Increased focus on strengthening our value-for-money offering, given customers' increased concerns on product affordability. This included value engineering of products and expanding the small-sized pack for several key products.<br>• Two new variants (Krest Regular Soya meat, Cuttlefish Soya meat) were added to the Soya range. | | |

# ENTERPRISE RISK MANAGEMENT

● High ● Medium ● Low

| Risk Factor | Impact on Value Creation | Risk Mitigation Actions | Risk Rating | |
|---|---|---|---|---|
| | | | 2020/21 | 2021/22 |
| Human Resources, Labour Relations, Talent Management, Health and Safety | Key Human Resource areas such as recruitment, career development, performance management, training and development, competency frameworks, coaching and mentoring, talent management, reward and recognition, compensation and benefits have been reviewed and revised to align with JKH Group policies and industry best practice.<br><br>The Company has 572 employees of which 35% are represented by unions. For KFP, weakening of labour relations could result in a significant increase in labour costs, disruption to operations, increase in production down time and could impact the image of the Company. | • Maintaining ongoing dialogue on a proactive basis with union representatives to maintain cordial industrial relations.<br>• Embedded various personnel development programs to develop skills and capabilities.<br>• The Company has obtained the ISO 45001: 2018 system certifications related to Occupation Health and Safety Management System (OHSMS) for both Pannala and Ekala Plant.<br>• Continued efforts to minimise cross infection through stringent hygiene protocols to comply with all the regulations which were imposed by the Government of Sri Lanka to mitigate and control COVID-19.<br>• The factories are registered with district factory inspecting engineer office to be comply with the new law introduced in 2019. | ● | ● |
| Environmental implications arising from effluent water, gas leaks and incinerator fumes | As a manufacturing organisation, KFP's environmental impacts include water discharge, incinerator fumes, disposal of waste and the possibility of gas or fuel leaks that could escape to the surrounding environment. These impacts can affect the Company's reputation which can have a prolonged adverse impact on operations.<br><br>Implications of climate change and adverse weather patterns could also impact the Company's supply chain, leading to unforeseen cost escalations. | • Comprehensive environmental management framework aligned to the Parent entity, which includes targets for reducing energy, water and carbon intensity.<br>• Responsible disposable of wastewater of the Ja-Ela manufacturing facility directly to the Central Waste-water Treatment plant which is maintained by National Water Supply and Drainage Board.<br>• The wastewater of the Pannala manufacturing facility is treated through an Effluent Treatment Plant within the factory before being irrigated in the land of the factory premises.<br>• A Dissolved Air Flotation system (DAF) was installed in Pannala facility which separates the solid waste and reduce the amount of effluent treated.<br>• Waste water quality checks are done on a fortnightly basis through accredited laboratories to ensure the treated water conforms to the COD and BOD levels that are stipulated under the EPL. | ● | ● |

| Risk Factor | Impact on Value Creation | Risk Mitigation Actions | Risk Rating | |
|---|---|---|---|---|
| | | | 2020/21 | 2021/22 |
| Natural disaster and fire | Natural disasters such as earthquakes, storms, floods and fire give rise to major adverse events which could be beyond a controllable proportion and can significantly affect the Company's business process by way of loss of life, loss and damage to property and disruption of operations. | • Obtaining adequate insurance covers on all properties.<br>• Implemented Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) with regular drills.<br>• The Company has factories in two separate locations, which can also serve as an alternative in the case of an emergency due to the occurrence of natural disasters or a fire.<br>• The Company has obtained "The Means of Escape" certificate from factory inspecting engineer which is a legal requirement that needs to be fulfilled according to the section no 39 of the factory ordinances No. 45 of 1942.<br>• Also, BCP is supported by an Occupational Health and Safety Management System (OHSMS). KFP obtained the ISO 45001:2018, which is integrated with our daily operations and it is supported by awareness, training, and system audits. KFP has also developed and trained the Emergency response plan (ERP) for employees.<br>• The Company is registered with the fire brigade. | | |
| Breakdown of internal controls | A set of robust internal controls ensures a smooth continuity of operations thereby limiting any opportunity to take undue advantage. | • Implementing a comprehensive authorisation matrix, clearly defining the authorities and responsibilities of each employee.<br>• Segregation of duties, definition of authority limits, operating manuals, detective and preventive controls and internal and external audit procedures.<br>• Continues control over Whistle blower policies. | | |
| Credit Risk | Credit facilities are offered to the Company's customers and distributors in keeping with the business environment. Hence, the Company is exposed to the risk of defaulting payments and increase in cost of operations due to bad debts. | • Continuous evaluation of credit worthiness to set up credit limits.<br>• Holding of bank guarantees.<br>• Granting approval on additional credit facilities by adequately safeguarding exposures with sufficient asset backed securities.<br>• Close monitoring of debtors and frequently ensuring the outstanding are settled on time despite of the contraction of the economic activities. | | |
| Terrorism, breakdown of law and order | In an act of terrorism, the Company will be equally impacted as any other business in the industry. The economic and social distress in the world or in the country caused by such disaster will also have a significant negative impact on the overall operations of the Group. The business disruption during such an event and the weakening of consumer sentiment in the aftermath can be catastrophic for the business. | • Systematic review of contingency planning and scenario modelling with external professionals have enabled a firm BCP for the manufacturing business.<br>• Company will ensure enhanced security measures done in consultation with officials and security experts. | | |

ENERGIZE

| Financial Calendar | Date |
|---|---|
| First Quarter Released on | 15th July 2021 |
| Second Quarter Released on | 26th October 2021 |
| Third Quarter Released on | 12th January 2022 |
| Fourth Quarter Released on | 20th May 2022 |
| Annual Report 2021/22 Released on | 20th May 2022 |
| Fortieth Annual General Meeting on | 22nd June 2022 |

## FINANCIAL INFORMATION

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Keells Food Products PLC (Company) has pleasure in presenting the 40th Annual Report of your Company which covers the Audited Financial Statements of the Company and its Subsidiary John Keells Foods India (Private) Limited (Subsidiary), Chairman's Review, Corporate Governance Commentary, Management Discussion and Analysis, Risk Management and all other relevant information for the year ended 31st March 2022.

In the year under review, KFP recorded volume and profitability growth, underpinned by the recovery momentum post the easing off of the restrictions, with the business reaching pre COVID-19 levels in operations. The management has formed judgment that the Group have adequate resources to continue in operational existence for the foreseeable future driven by the continuous application of risk mitigation initiatives and monitoring of business continuity and response plans by the operations, backed by the financial strength of the Group.

The content of this Annual Report has also considered the requirements of the Companies Act No. 07 of 2007 (Companies Act), the relevant Listing Rules of the Colombo Stock Exchange (CSE) and recommended best practices on reporting.

The Company was incorporated on the 5th November 1982 as a Public Limited Liability Company and the shares of the Company were listed on the Colombo Stock Exchange. Subsequently, in pursuant to the requirements of the Companies Act, the Company was re-registered and given a new Company number PQ 3 on 15th June 2007.

## CORPORATE VISION AND VALUES

A culture of innovation, integrity, excellence, caring and trust has been developed within the Group. By being aligned with these values the Directors and employees conduct their activities in accordance with the highest levels of ethical standards to achieve the vision, "Our passion is to deliver pleasure and nutrition throughout people's lives, through exciting and superior products, whenever and wherever they choose to eat and drink."

## PRINCIPAL ACTIVITIES

### Company

The principal activity of the Company is the manufacture and sale of processed meats, raw meats, crumbed products and other convenient food products, which remained unchanged during the year. The Company has taken a decision to cease commercial operations of its ezy rice products in the next financial year.

### Subsidiary

**John Keells Foods India (Private) Limited.**

The principal activity of John Keells Foods India (Private) Limited (JKFI) is the marketing of processed meat products in India. JKFI was incorporated on the 7th of April 2008. JKFI has not carried out any commercial operations during the year ended 31st March 2022.

### Ultimate Parent

The Company's ultimate Parent and controlling entity is John Keells Holdings PLC (JKH or Parent Company), which is incorporated in Sri Lanka.

## REVIEW OF BUSINESS SEGMENTS

A review of the financial and operational performance and future business developments of the Group is described in the Chairman's Review and the Management Discussion and Analysis section of the Annual Report. These reports form an integral part of the Annual Report of the Board of Directors and together with the Audited Financial Statements provide a fair review of the performance of the Company and its Subsidiary during the financial year ended 31st March 2022. The Segment-wise contribution to Group revenue, results, assets and liabilities are provided in Note 7 to the Financial Statements of this Annual Report.

## FINANCIAL STATEMENTS AND AUDITOR'S REPORT

Financial Statements of the Group and the Company for the year ended 31st March 2022, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) with the inclusion of the signatures of the Director/Group Finance Director, Non-Executive Director and Chief Financial Officer/ Non-Executive Director given as a part of the Integrated Annual Report.

| For the year ended 31 March | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|
| Profit after tax | **329,573** | 320,980 |
| Other adjustments | **(6,712)** | (5,591) |
| Balance brought forward from the previous year | **422,733** | 285,844 |
| Amount available for appropriation | **745,594** | 601,233 |
| Final dividend paid for the previous year | **(63,750)** | - |
| Interim dividend paid for the current year | **(178,500)** | (178,500) |
| Balance carried forward | **503,344** | 422,733 |

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## ACCOUNTING POLICIES
All the significant accounting policies based on the Accounting Standards (SLFRS/ LKAS) issued by the CA of Sri Lanka are provided in detail, in the notes to the Financial Statements on pages 111 to 163. There have been no changes in the accounting policies adopted by the KFP Group during the year under review other than disclosing Note 6 to the Financial Statements.

## REVENUE
The Revenue generated by the Group and the Company the for the financial year amounted to Rs. 4,601 million (Rs. 3,651 million in 2020/21). An analysis of the Revenue is given in Note 13 to the Financial Statements.

## PROFITS AND APPROPRIATIONS
The profit after tax of the Group profit attributable to equity holders of the Parent for the financial year was Rs. 330 million (2020/21 - Rs. 321 million) whilst for the Company, it was Rs. 331 million (2020/21 - Rs. 322 million).

The Group's total comprehensive income attributable to equity holders of the Parent was Rs. 356 million (2020/21 - Rs. 376 million), and the Company's total Comprehensive Income net of tax was Rs. 357 million (2020/21 - Rs. 377 million).

## DIVIDENDS
A Final Dividend of Rs. 2.50 per share for the financial year 2020/21 was paid on the 2nd of June 2021. An Interim Dividend of Rs. 7.00 per share for the financial year 2021/22 (Rs. 7.00 - 2020/21) was paid on the 18th of March 2022.

The Board of Directors has now approved a final dividend of Rs. 0.50 per share for the financial year 2021/22 to be paid on 20th of June 2022 to shareholders in the share register as of 30th May 2022, in accordance with Sri Lanka Accounting Standard 10 - Events After the Reporting Period. The declared dividend has not been recognised as a liability as at 31st March 2022.

As required by Section 56(2) of the Companies Act, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with section 57 of the Companies Act and a certificate has been obtained from the Auditors, prior to declaring all dividends.

Dividend per share has been computed for all periods based on the number of shares in issue at the time of the dividend payout. The dividends are paid out of taxable profits of the Company and will be subjected to a withholding tax at the rate prevailing on the date of payment.

## RESERVES
Total reserves as at 31st March 2022 for the Group amounted to  Rs. 898 million (Rs. 782 million as at 31st March 2021) whilst the Company was Rs. 902 million (Rs. 785 million as at 31st March 2021). The detailed movement of Reserves is given in the Statement of Changes in Equity on page 109 of this Annual Report.

## CAPITAL EXPENDITURE
The total capital expenditure on acquisition of Property, Plant and Equipment and Intangible Assets of the Group and the Company amounted to Rs. 127 million (Rs. 90 million in 2020/21) details of which are given in Note 20 and 22 to the Financial Statements. Capital expenditure approved but not provided in the Financial Statements for the KFP Group and Company is given in Note 40 to the Financial Statements.

## PROPERTY, PLANT AND EQUIPMENT
The value of Property, Plant and Equipment as at the reporting date amounted to Rs. 1,503 million (Rs. 1,546 million 2020/21) for the Group and the Company. The details of Property, Plant and Equipment and their movements are shown in Note 20 to the Financial Statements. The details of Intangible assets are shown in Note 22 to the Financial Statements.

## VALUATION OF LAND AND BUILDINGS
All Land and Buildings owned by the KFP Group were revalued by a professionally qualified independent valuer as at 31st December 2021. The valuation was carried out by Mr. P B Kalugalagedera Chartered Valuation Surveyor.

The Directors are of the opinion that the re-valued amounts are not in excess of the current market values of such properties.

The details of the re-valued land and buildings of the Company as well as the extent of land, location and the number of buildings along with the relevant accounting policies are given in Note 20 of the Financial Statements and the Real Estate Portfolio on page 168 of the Annual Report.

## INVESTMENTS

Details of investments held by the Company are disclosed in Note 23 to the Financial Statements.

## STATED CAPITAL

In compliance with the Companies Act, the Financial Statements reflect the Stated Capital of the Company. The Stated Capital is the total of all amounts received by the Company in respect of the issue of shares and calls on shares.

The total Stated Capital of the Company as at 31st March 2022 was Rs. 1,295 million (Rs. 1,295 million as at 31st March 2021) details of which are provided in Note 31 to the Financial Statements.

## PROVISION FOR TAXATION

Provision for taxation has been computed at the rates given in Note 19 to the Financial Statements.

### Surcharge Tax

Surcharge Tax Act No. 14 of 2022 was enacted on 8th April 2022 and is applicable to the John Keells Group as the collective taxable income of Companies belonging to the Group, calculated in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, exceeds Rs. 2,000 million, for the year of assessment 2020/21. The liability is computed at the rate of 25% on the taxable income of the individual Company within the Group of Companies, net of dividends from Subsidiaries.

As the Act was certified by the Speaker of Parliament after the financial reporting date, no liability has been recognised in the financial year 2021/22 on account of the one-off Surcharge Tax as the law had not been enacted as at 31st March 2022.

Total Surcharge Tax liability of Rs. 96 million will be recognised in the Financial Statements of financial year 2022/23 for the Company as an adjustment to the 1st April 2021 retained earnings in the Statement of Changes in Equity as per the Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka. On 20th April 2022, the Company paid Rs. 48 million as the first instalment of the Surcharge Tax liability with the balance payable on 20th July 2022.

## DONATIONS

Total donations made by the KFP Group during the year amounted to Rs. 2.7 million (Rs. 3.9 million in 2020/21). The KFP Group made this donation to the John Keells Foundation which is funded by JKH and its Subsidiaries and handles most of the JKH Group's CSR initiatives and activities.

## CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no material Contingent Liabilities or Capital Commitments as at 31st March 2022 except those disclosed in Note 39 to 40 to the Financial Statements.

## RELATED PARTY TRANSACTIONS

The Company did not engage in any Non-Recurrent Related Party Transactions during the year under review. Recurrent Related Party Transactions exceeding 10% of the consolidated revenue as per the Audited Financial Statements as at 31st March 2021 have been disclosed in the table below;

| Name of Related Party | Relationship | Nature of the Transactions | Aggregate Value of Related Party Transactions entered into During the Financial Year | Aggregate Value of Related Party Transactions as a % of Net Revenue | Terms and Conditions of the Related Party Transactions |
|---|---|---|---|---|---|
| Jaykay Marketing Services (Private) Limited | Company under common control | Sale of goods | Rs. 1,181,156,438.34 | 32.35 | Ordinary course of business on an arm's length basis |

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Directors confirm that transactions with Related Parties in terms of the Sri Lanka Accounting Standard LKAS 24- Related Party Disclosures have been detailed in Note 38 to the Financial Statements, as well as that the requirements as per the listing rules of the CSE has been complied with.

## OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company lawyers, litigations currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company.

## SHARE INFORMATION

An Ordinary Share of the Company was quoted on the CSE at Rs. 166.25 as at 31st March 2022 (Rs. 162.50 as at 31st March 2021). Information relating to earnings, dividends, net assets and market value per share is given in the Ten-Year Information at a Glance section on page 166, Key Figures and Ratios are given on page 167 of this report.

## SHAREHOLDINGS

There were 1,268 registered shareholders, holding ordinary voting shares as at 31st March 2022 (1,290 registered shareholders as at 31st March 2021). The distribution of shareholdings including the percentage held by the public is given on page 164 of this report. The Company is listed in the Diri Savi Board of CSE.

## FLOAT ADJUSTED MARKET CAPITALISATION

As at 31 March 2022 Keells Food Products PLC had a float adjusted market capitalisation of Rs. 426 million, 10.05% Public shareholding which includes 1,266 Public shareholders. Thus, the Company is compliant under option 2 of the minimum threshold requirements for the Diri Savi Board of the CSE, as per section 7.6 of the listing rules of the CSE.

## MAJOR SHAREHOLDERS

The list of the top twenty shareholders is given on page 165 of this report.

## INFORMATION TO SHAREHOLDERS

The Board strives to be transparent and provide accurate information to shareholders in all published material. The quarterly financial information during the year has been sent to the CSE in a timely manner.

## EQUITABLE TREATMENT TO ALL SHAREHOLDERS

The Company has made every endeavour to ensure the equitable treatment to all shareholders and has adopted adequate measures to prevent information asymmetry.

## DIRECTORATE

The Board of Directors of the Company who served during the year and as at the end of the Financial Year are given below:

- Mr. K N J Balendra (Non-Executive, Non-Independent)
- Mr. J G A Cooray (Non-Executive, Non-Independent)
- Mr. D P Gamlath (Non-Executive, Non-Independent)
- Ms. P N Fernando (Non-Executive, Non-Independent)
- Mr. P D Samarasinghe (Non-Executive, Independent)
- Ms. S De Silva (Non-Executive, Independent)
- Mr. I Samarajiva (Non-Executive, Independent)
- Mr. A E H Sanderatne (Non-Executive, Independent)

No other Director held office during the period under review.

Brief Profiles of the Directors as at 31st March 2022, appear on pages 71 to 72 of this Annual Report.

The Board of Directors of John Keells Foods India (Private) Limited who served during the year and as at the end of the Financial Year are given below.

- Mr. D P Gamlath (Non-Executive, Non-Independent)
- Ms. P N Fernando (Non-Executive, Non-Independent)

No other Director held office during the period under review.

## REVIEW OF THE PERFORMANCE OF THE BOARD

The performance of the Board has been appraised through a formalised process, where each individual Director anonymously comments on the dynamics of the Board. The process is described in the Corporate Governance Commentary section of the Annual Report.

## BOARD SUB-COMMITTEES

### Audit Committee

The Audit Committee of Keells Food Products PLC consists of four (4) Non-Executive Independent Directors:

Mr. P D Samarasinghe (Chairman), Ms. S De Silva, Mr. A E H Sanderatne and Mr. I Samarajiva

The report of the Audit Committee is given on pages 97 to 99 of this Annual Report. The Audit Committee has reviewed all other services provided by the External Auditors to the Group to ensure that their independence as Auditor has not been compromised.

### Human Resources and Compensation Committee

As permitted by the Listing Rules of the CSE, the Human Resources and Compensation Committee of JKH, the Parent Company of Keells Food Products PLC, functions as the Human Resources and Compensation Committee of the Company.

The mandate and the scope of the Human Resources and Compensation Committee is set out in pages 59 to 60 of this Annual Report.

The Human Resources and Compensation Committee of JKH, the Parent Company comprises of three Independent Non- Executive Directors:

Mr. D A Cabraal (Chairman), Mr. M A Omar and Dr. S S H Wijayasuriya.

Mr. K N J Balendra and Mr. J G A Cooray attended meetings by invitation. The Remuneration Policy of the Company is detailed in the Corporate Governance Report of this Annual Report.

### Nominations Committee

The Nominations Committee of JKH, the Parent Company of Keells Food Products PLC, functions as the Nominations Committee of the Company. The mandate and the scope of the Nominations Committee is set out in pages 60 to 61 of this Annual Report.

The Nominations Committee members of JKH, the Parent Company are as follows;

Mr. M A Omar (Chairman), Dr. S S H Wijayasuriya, Ms. M P Perera and Mr. K N J Balendra

### Related Party Transactions Review Committee

As permitted by the Listing Rules of the CSE, the Related Party Transactions Review Committee of JKH, the Parent Company of Keells Food Products PLC, functions as the Related Party Transactions Review Committee of the Company and its Subsidiary.

The Related Party Transactions Review Committee members of the Parent Company are as follows;

Ms. M P Perera (Chairperson), Mr. A N Fonseka and Mr. D A Cabraal

Mr. K N J Balendra, and Mr. J G A Cooray attended meetings by invitation.

The mandate and the scope of the Related Party Transactions Review Committee is set out in pages 62 to 63 of this Annual Report.

### Project Risk Assessment Committee

Project Risk Assessment Committee of JKH, the Parent Company of Keells Food Products PLC, functions as the Project Risk Assessment Committee of the Company and its Subsidiary. The Project Risk Assessment committee members of the Parent Company are as follows;

Dr. S S H Wijayasuriya (Chairman), Mr. K N J Balendra, Mr. J G A Cooray and Ms. M P Perera

The Project Risk Assessment Committee policy is set out in page 63 to 64 of this Annual Report.

### DIRECTORS INTEREST IN SHARES

The Director's (Including their spouses) Individual shareholdings in the Company as at 31st March 2022 and 31st March 2021 were as follows;

### DIRECTORS INTEREST IN SHARES

| Name of the Directors | 31/03/2022 No. of Shares | 31/03/2021 No. of Shares |
|---|---|---|
| Mr. K N J Balendra - Chairman | - | - |
| Mr. J G A Cooray | - | - |
| Mr. D P Gamlath | - | - |
| Mr. P D Samarasinghe | - | - |
| Ms. S De Silva | - | - |
| Mr. A E H Sanderatne | - | - |
| Mr. I Samarajiva | - | - |
| Ms. P N Fernando | - | - |

### CEO'S INTEREST IN SHARES

| CEO | 31/03/2022 No. of Shares | 31/03/2021 No. of Shares |
|---|---|---|
| Mr. S I Thanthirigoda* | - | - |

*Mr. S I Thanthirigoda resigned from the post of Chief Executive Officer (CEO) w.e.f. 1st April 2022

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## RETIREMENT OF DIRECTORS BY ROTATION OR OTHERWISE AND THEIR RE-ELECTION

Mr. A E H Sanderatne and Mr. I Samarajiva who retire by rotation in terms of Article 83 of the Articles of Association of the Company and being eligible offer themselves for re-election.

## REMUNERATION TO DIRECTORS

Directors' remuneration is established within a framework approved by the Board of KFP and the Human Resources and Compensation Committee of JKH. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The remuneration of the Non- Executive Directors is determined according to scales of payment decided upon by the Board previously. Details of Directors' fees and emoluments paid during the year are disclosed in the Note 16 and Note 38.5 to the Financial Statements.

## DIRECTORS' MEETINGS

Details of Directors' meetings is presented on page 57 of this report.

## INTERESTS REGISTER

The Company has maintained an Interests Register as contemplated by the Companies Act. In compliance with the requirements of the Companies Act this Annual Report contains particulars of entries made in the Interests Register. Particulars of entries in the Interests Register for the Financial Year 2021/22;

### Interest in Contracts

The Directors have all made a General Disclosure to the Board of Directors as permitted by Section 192 (2) of the Companies Act and no additional interests have been disclosed by any Director.

### Indemnities and Remuneration

There have been no new disclosures made in respect of indemnities and remuneration in the Interests Register for the year ended 31st March 2022.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Group and the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No.07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Listing Rules of the CSE and Code of Best Practice on Corporate Governance (2013) jointly issued by the SEC and CA Sri Lanka.

## EMPLOYEE SHARE OPTION SCHEME (ESOP)

The Company does not offer its shares under an ESOP Scheme. The ESOP Scheme made available to the Senior Executives of the Company is from the Parent Company, JKH. The Company has not directly or indirectly provided funds to its employees to purchase shares under ESOP Scheme.

## EMPLOYMENT

The Group has an equal opportunity policy and these principles are enshrined in specific selection, training, development and promotion policies, ensuring that all decisions are based on merit. The Group practices equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability. During the year the Group instituted a Diversity, Equity and Inclusion team towards increasing the diversity of its workforce. The KFP Group is part of the 'ONE JKH' brand that consolidates its efforts towards diversity, equity and inclusion and reinforce its position on non-discrimination and equal opportunity.

Details of the Group's human resource initiatives are detailed in the Human Capital section of the Management Discussion and Analysis section of the Annual Report.

The number of persons directly employed by the Company and Group as at 31st March 2022 was 399 (2021- 399). There have been no material issues pertaining to employees and industrial relations of the Company and the Group.

## SUPPLIER POLICY

The KFP Group applies an overall policy of agreeing and clearly communicating the terms of payment as part of the commercial agreements negotiated with suppliers, and endeavours to pay for all items in accordance with these agreed terms. As at 31st March 2022, the trade and other payables of the Group and the Company amounted to Rs. 527 million (Rs. 367 million as at 31st March 2021) and Rs. 522 million (Rs. 365 million as at 31st March 2021), respectively.

The KFP Group strives to integrate principles of sustainable practices and policies in its value chain through extensive stakeholder consultations, the findings of which are integrated into work-plans.

## RATIOS AND MARKET PRICE INFORMATION

The ratios relating to equity, debt and market price information as required by the listing requirements of the Colombo Stock Exchange are given under the Key Figures and Ratios of this Report on page 167.

## CORPORATE GOVERNANCE

Corporate Governance practices and principles with respect to the management and operations of the KFP Group are set out on pages 53 to 70 of this Annual Report. The Directors confirm that the KFP Group is in compliance with the rules on Corporate Governance as per the listing rules of the CSE.

The Directors declare that:

- The Company and its Subsidiary have not engaged in any activities, which contravene laws and regulations.
- The Directors have declared all material interests in contracts involving the Company and its Subsidiary and refrained from voting on matters in which they were materially involved.
- The Company has made all endeavours to ensure the equitable treatment to all shareholders.
- The Company, being listed on the CSE, is compliant with the rules on Corporate Governance under the Listing Rules of the CSE with regard to the composition of the Board and its Sub Committees.
- A review of internal controls covering financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained a reasonable assurance of their effectiveness and successful adherence.
- The Company is in compliance with the Code of Best Practice on Corporate Governance (2013) jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and CA Sri Lanka.

The Board of Directors is committed to maintaining an effective Corporate Governance structure and process. A full report on Corporate Governance is given on pages 53 to 70.

## SUSTAINABILITY

This is the KFP Group's 7th Integrated Annual Report, which presents a comprehensive discussion on its financial and non-financial performance, in a bid to provide its stakeholders with holistic information relating to its value creation proposition through the six forms of capital reported under the International <IR> Framework.

The KFP Group pursues its business goals based on a model of stakeholder governance and findings from continuous stakeholder engagements have enabled the Group to focus on material issues and encapsulate a sustainable strategy.

## RESEARCH AND DEVELOPMENT

The Group has an active approach to research and development and recognises the contribution that it can make to Group's intellectual property and operations. Significant expenditure has taken place over the years and substantial efforts will continue to be made to introduce intellectual property rights, develop new products and processes and to improve the existing products.

## ENVIRONMENTAL PROTECTION

The Group complies with the relevant environmental laws, regulations and endeavours to comply with best practices applicable in the country of operation.

## STATUTORY PAYMENTS

The Directors confirm to the best of their knowledge all taxes, duties and levies payable by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and all other known statutory dues as were due and payable by the Group as at the end of the reporting period have been paid or where relevant provided for.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group and the Company have complied with all applicable laws and regulations. A compliance checklist is signed on a quarterly basis by responsible officers and any violations are reported to the Audit Committee and Board of Directors.

## ENTERPRISE RISK MANAGEMENT

The Board confirms that there is an ongoing process of identifying, evaluating and managing any significant risk faced by the Group, where annual risk reviews are carried out by the JKH Enterprise Risk Management Division and the risks are further reviewed each quarter by the Group and the headline risks are presented to the Audit Committee.

## INTERNAL CONTROLS AND ASSURANCE

The Board, through the involvement of the JKH Business Process Review Division, takes steps to gain assurance on the effectiveness over the financial, operational and risk management control systems in place. The Audit Committee receives regular reports on the adequacy

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

and effectiveness of internal controls in the Group, compliance with laws and regulations and established policies and procedures of the Group. The head of the JKH Business Process Review Division has direct access to the Chairman of the Audit Committee. Reports of the outsourced internal auditors are also reviewed by the Committee.

## EVENTS AFTER THE REPORTING PERIOD

There have been no events subsequent to the reporting period, which would have any material effect on the Company or on the Group other than those disclosed in Note 41 to the Financial Statements.

## GOING CONCERN

In determining the basis of preparing the Financial Statements for the year ended 31st March 2022, based on available information, the management has assessed the prevailing macroeconomic challenges impacting the Group and the appropriateness of the use of the going concern basis.

It is the view of the management, there are no material uncertainties that may cast significant doubt on the KFP Group's ability to continue to operate as a going concern. In determining the above, significant management judgements, estimates and assumptions including the impact of the current macroeconomic challenges has been considered. The Group's outlook has been presented in the Chairman's Message on page 8 and the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and hence adopting the going concern basis in preparing and presenting these Financial Statements.

## AUDITORS

The Financial Statements for the year has been audited by Messrs. Ernst & Young, Chartered Accountants. The retiring Auditors, Messrs. Ernst & Young, Chartered Accountants, are willing to continue as Auditors of the Company, and a resolution proposing their reappointment will be tabled at the Annual General Meeting.

The Audit Committee reviews the appointment of the Auditor, its effectiveness, its independence and its relationship with the Group, including the level of audit and non-audit fees paid to the Auditor.

The Group works with two firms of Chartered Accountants namely, Ernst & Young, Luthra & Luthra Chartered Accountants. Details of audit fees are set out in Note 16 to the Financial Statements. The Auditors do not have any relationship (other than that of an Auditor) with the Company or any of its subsidiaries.

Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report.

## INDEPENDENT AUDITOR'S REPORT

The Independent Auditors' Report is found in the Financial Statements section of the Annual Report on pages 101 to 103.

## APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors approved the Integrated Annual Report on the 20th May 2022. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held as a virtual meeting on 22nd June 2022 at 10.30 a.m.

This Annual Report is signed for and on behalf of the Board of Directors.

By order of the Board.

**D P Gamlath**
Director

**J G A Cooray**
Director

**Keells Consultants (Private) Limited**
Secretaries

20th May 2022

# AUDIT COMMITTEE REPORT

The powers and responsibilities of the Audit Committee are governed by the Audit Committee Charter which is approved and adopted by the Board. The terms of reference comply with the requirements of the Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE). The Audit Committee's functions and scope are in compliance with the requirements of the Code of Best Practice on Audit Committees and conducted it's affairs in compliance with the requirements of the Code of Best Practice on Audit Committees.

The Committee is tasked with assisting the Board in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community and other stakeholders in relation to the integrity of the Financial Statements of the Group, ensuring that a good financial reporting system is in place and is well managed in order to give accurate, appropriate and timely information, that it is in accordance with the Companies Act and other legislative reporting requirements and that adequate disclosures are made in the Financial Statements in accordance with the Sri Lanka Accounting Standards.

The Audit Committee reviews the design and operational effectiveness of internal controls and implement changes where required and ensures that the risk management processes are effective and adequate to identify and mitigate risks.

The Audit Committee also ensures that the conduct of the business is in compliance with applicable laws and regulations and policies of the Group.

The Audit Committee also assesses the Group's ability to continue as a going concern in the foreseeable future.

The Committee evaluates the performance and the independence of the Internal Auditors and the External Auditors. The Committee is also tasked with the responsibility of recommending to the Board the re-appointment and change of External Auditors and to recommend their remuneration and terms of engagement.

In fulfilling its purpose, it is the responsibility of the Audit Committee to maintain a free and open communication with the Independent External Auditors, the outsourced Internal Auditors and the management of the Company and to ensure that all parties are aware of their responsibilities.

The Audit Committee is empowered to carry out any investigations it deems necessary and review all internal control systems and procedures, compliance reports, risk management reports etc. to achieve the objectives as stated above. The Committee has reviewed and discussed with management and Internal and External Auditors, the Audited Financial Statements, the quarterly unaudited Financial Statements as well as matters relating to the Company's internal control over financial reporting, key judgments and estimates in the preparation of Financial Statements and the processes that support certification of the Financial Statements by the Directors and the CFO.

## COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is a sub-committee of the Board of Directors, appointed by and responsible to the Board of Directors.

The Audit Committee consists of four Independent, Non-Executive Directors in conformity with the Listing Rules of The Colombo Stock Exchange.

- Mr. P D Samarasinghe – Chairman
- Ms. S De Silva
- Mr. A E H Sanderatne
- Mr. I Samarajiva

The Audit Committee comprises of individuals with extensive experience and expertise in the fields of Finance, Corporate Management and Marketing. The Chairman of the Audit Committee is a Chartered Accountant.

A brief profile of each member of the Audit Committee is given on pages 71 and 72 of this report under the section the Board of Directors.

## MEETINGS OF AUDIT COMMITTEE

The Audit Committee meets as often as may be deemed necessary or appropriate in its judgment and at least quarterly each year. During the year under review there were four (4) meetings and the attendance of the committee members are given in the table below.

The Chief Executive Officer, the industry group President, the Chief Financial Officer and the Head of JKH Group Business Process Review attended such meetings by invitation and briefed the committee on specific issues. The External Auditors and the Internal Auditors were also invited to attend meetings when necessary. The proceedings of the Audit Committee are reported to the Board of Directors by the Chairman of the Audit Committee.

### Audit Committee Attendance

| Members | 29/4/21 | 14/7/21 | 21/10/21 | 11/01/22 |
|---|---|---|---|---|
| Mr. P D Samarasinghe | ✓ | ✓ | ✓ | ✓ |
| Ms. S De Silva | ✓ | ✓ | x | ✓ |
| Mr. A E H Sanderatne | ✓ | ✓ | ✓ | ✓ |
| Mr. I Samarajiva | ✓ | ✓ | ✓ | ✓ |

## SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

### Oversight of Company and Consolidated Financial Statements

On the 29th April 2022 the Committee along with the Independent External Auditors, who are responsible for expressing an opinion on the truth and fairness of the Financial Statements reviewed the Financial Statements of the Company and the Group and their conformity with the Sri Lanka Financial Reporting Standards (SLFRS) and the Sri Lanka Accounting Standards (LKAS).

The Committee also reviewed the Accounting Policies of the Company and such other matters as are required to be discussed with the Independent External Auditors in compliance with Sri Lanka Auditing Standard 260 – Communication of Audit Matters with those charged with Governance. The quarterly Financial Statements were also reviewed by the Committee and recommended their adoption to the Board.

The Committee also evaluated the process to assess the effectiveness of the internal financial controls that have been designed to provide reasonable assurance to the Directors that the Financial Reporting System can be relied upon in preparation and presentation of the Financial Statements of the Company and the Group.

## INTERNAL AUDIT

The Committee monitors the effectiveness of the internal audit function and is responsible for approving their appointment or removal and for ensuring they have adequate access to information required to conduct their audits.

The internal audit function of the Company has been outsourced to Messrs. PricewaterhouseCoopers (PWC) Private Limited, a firm of Chartered Accountants. The Audit Committee has agreed with the Internal Auditor as to the frequency of audits to be carried out, the scope of the audit, the areas to be covered and the fee to be paid for their services.

During the year under review, the Audit Committee has met the Internal Auditors to consider their reports, management responses and matters requiring follow up on the effectiveness of the internal controls and audit recommendations.

The internal audit frequency depends on the risk profile of each area, higher risk areas being on a shorter audit cycle. The Audit Committee is of the opinion that the above approach provides an optimal balance between the need to manage risk and the costs thereof.

## RISK AND CONTROL REVIEW

The Audit Committee has reviewed the Business Risk Management Process and Procedures adopted to manage and mitigate the effects of such risks and observed that the risk analysis exercise has been conducted. The key risks that could impact operations have been identified and wherever necessary, appropriate action has been taken to mitigate their impact to the minimum extent.

## EXTERNAL AUDIT

The External Auditors of the Company Messrs. Ernst & Young Chartered Accountants submitted a detailed audit plan for the financial year 2021/22, which specified, inter alia, the areas of operations to be covered in respect of the Company. The audit plan specified 'areas of special emphasis' which had been identified from the last audit and from a review of current operations. The Audit committee had meetings with the External Auditor to review the scope, timelines of the audit plan and approach for the audits.

The areas of special emphasis have been selected due to the probability of error and the material impact it can have on the Financial Statements. At the conclusion of the audit, the External Auditors met with the Audit Committee to discuss and agree on the treatment of any matter of concern discovered in the course of the audit and also to discuss the Audit Management Letters.

Actions taken by the Management in response to the issues raised were discussed with the Audit Committee. There were no issues of significant importance during the year under review.

The Audit Committee also reviewed the audit fees of the External Auditors of the Company and recommended its adoption by the Board. It also reviewed the other services provided by the Auditors in ensuring that their independence as Auditors was not compromised.

The Audit Committee has received a declaration from Messrs. Ernst & Young, as required by the Companies Act No.07 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka.

The Audit Committee has proposed to the Board of Directors that Messrs. Ernst & Young, Chartered Accountants, be recommended for re-appointment as Auditors of the Company for the financial year commencing 1st April 2022, at the next Annual General Meeting.

## COMPLIANCE WITH FINANCIAL REPORTING AND STATUTORY REQUIREMENTS

The Audit Committee receives a quarterly declaration from the President and the Chief Financial Officer, listing any departures from financial reporting, statutory requirements and Group policies. Reported exceptions, if any, are followed up to ensure that appropriate corrective action has been taken.

With the view of ensuring uniformity of reporting, the Group has adopted the standardised format of Annual Financial Statements developed by the ultimate Parent Company.

## POTENTIAL FINANCIAL IMPLICATIONS ARISING FROM MACRO ECONOMIC CHALLENGES IN THE COUNTRY TO THE COMPANY

The Audit Committee reviewed the risk and going concern assessment carried out by the Board after considering the existing and potential financial implications in the macro-economy such as Sri Lanka rupee devaluation, hyperinflation, significant cost escalations, fuel rate increase, and interest rate hikes. Further, the Committee is also satisfied that the Company has made adequate disclosures in the Financial Statements in relation to the above.

## SUPPORT TO THE COMMITTEE

The Committee received excellent support and timely information at all times from the Management during the year to enable them to carry out its duties and responsibilities effectively.

## EVALUATION OF COMMITTEE

The Audit Committee formally evaluated the performance of the Committee as well as the individual contribution of each member. Steps have been taken to address the matters highlighted following such evaluation.

## CONCLUSION

The Audit Committee is satisfied that the effectiveness of the organisational structure of the Group in the implementation of the accounting policies and operational controls, provide reasonable assurance that the affairs of the Group are managed in accordance with accepted policies and that assets are properly accounted for and adequately safeguarded. The Committee is also satisfied that the Group's Internal and External Auditors have been effective and independent throughout the period under review.

**P D Samarasinghe**
Chairman, Audit Committee

20th May 2022

# STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements prepared in accordance with the provisions of the Companies Act No. 07 of 2007 ('Companies Act'), is set out in the Independent Auditors Report.

As per the provisions of the Companies Act No. 07 of 2007 the Directors are required to prepare, for each financial year and place before a general meeting, Financial Statements which comprise of;

- A Statement of Income, which presents a true and fair view of the profit or loss of the Company for the financial year; and
- A Statement of Other Comprehensive Income; and
- A Statement of Financial Position, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year.

The Directors have ensured that, in preparing these Financial Statements:

- Appropriate accounting policies, have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained; and
- All applicable accounting standards as relevant have been applied; and
- Reasonable and prudent judgements and estimates have been made so that the form and substance of transactions are properly reflected; and
- Provides the information required by and otherwise comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are also required to ensure that the Company and its Subsidiary have adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Company and its Subsidiary maintain sufficient accounting records to disclose, with reasonable accuracy of the Financial Position of the Company and of the Group.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and its Subsidiary, and in this regard to give a proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider being appropriate to enable them to give their audit opinion.

Further, as required by section 56(2) of the Companies Act, No. 07 of 2007 the Board of Directors confirm that the Company, satisfies the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the Auditors, prior to declaring for all the dividend paid during the year ended 31st March 2022.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

## COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its Subsidiary, all contributions, levies and taxes payable on behalf of the employees of the Company and its Subsidiary, and all other known statutory dues as were due and payable by the Company and its Subsidiary as at the date of the Statement of Financial Position have been paid or, where relevant provided for except as specified in Note 39 to the Financial Statements covering contingent liabilities.

By Order of the Board

**Keells Consultants (Private) Limited**
Secretaries

20th May 2022

# INDEPENDENT AUDITOR'S REPORT

Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

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## TO THE SHAREHOLDERS OF KEELLS FOOD PRODUCTS PLC

**Report on the audit of the Financial Statements**

### Opinion

We have audited the Financial Statements of Keells Food Products PLC ("the Company"), and the consolidated Financial Statements of the Company and its Subsidiary ("the Group"), which comprise the statement of financial position as at 31st March 2022, and the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31st March 2022, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Assessment of Impairment of Goodwill**<br>The Group's Statement of Financial Position includes an amount of Rs. 242 Mn relating to Goodwill acquired through the purchase of the manufacturing facility at Pannala Cash Generating Unit (CGU).<br>The CGU with goodwill is tested annually for impairment based on its recoverable amount. The recoverable amount is estimated using value in use (VIU) computations prepared by Management based on discounted future cash-flows.<br>Assessment of impairment of this CGU with goodwill was a key audit matter due to:<br>• The degree of assumptions, judgements and estimates associated with deriving the estimated future cash flows used for value in use calculations considering current economic conditions.<br>As disclosed in Note 22.2, key areas of significant judgments, estimates and assumptions included key inputs and assumptions related to the value in use computations of future cash flows, growth rate over forecast period, discount rate and terminal growth rate including the potential impacts of the current economic conditions prevailing in the country. | Our audit procedures included the following:<br>• We gained an understanding of how Management has forecast its discounted future cash flows. Our procedures included how management has considered the potential impact of the current economic conditions prevailing in the country.<br>• We checked the calculations of the discounted future cash flows and cross checked the data used by Management to relevant underlying accounting records, to evaluate their completeness and accuracy.<br>• Based on the best available information up to the date of our report, we assessed the reasonableness of significant assumptions used by the Group, in particular those relating to the growth rates and discount rate of the estimated future cash flows.<br>• We assessed the adequacy of the disclosures made in Note 22.2 in the Financial Statements. |

# INDEPENDENT AUDITOR'S REPORT

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Fair Value Assessment of Land and Building**<br>Property, Plant and Equipment include land and buildings carried at fair value. The fair values of land and buildings were determined by an external valuer engaged by the Group.<br><br>This was a key audit matter due to:<br><br>• Materiality of the reported land and buildings balances which amounted to Rs. 735 Mn and represent 21% of the total assets.<br>• The degree of assumptions, judgements and estimation uncertainties associated with fair valuation of land and buildings such as reliance on comparable market transactions and current market conditions.<br><br>Key areas of significant judgments, estimates and assumptions used in the valuation of the land and buildings included the following:<br>• Estimate of per perch value of the land<br>• Estimate of the per square foot value of the buildings | Our audit procedures focused on the valuations performed by the external valuer engaged by the Group, and included the following;<br>• We assessed the competency, capability and objectivity of the external valuer engaged by the Group.<br>• We read the external valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property.<br>• We assessed the reasonableness of the significant judgements made by the valuer and valuation techniques, per perch price and value per square foot used by the valuer in the valuation of each property.<br>• We have also assessed the adequacy of the disclosures made in Note 20.2 in the Financial Statements relating to the significant judgements, valuation techniques and estimates used by the external valuer. |

## OTHER INFORMATION INCLUDED IN THE GROUP'S 2021/22 ANNUAL REPORT

Other information consists of the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Management is responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.
- 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 Group'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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 ethical requirements in accordance with the Code of Ethics 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 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.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is 2097.

Ernst & Young

20th May 2022
Colombo

# INCOME STATEMENT

| For the year ended 31st March | Notes | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|
| Continuing operations | | | | | |
| Goods transferred at a point in time | 13.1 | **4,601,230** | 3,651,241 | **4,601,230** | 3,651,241 |
| **Total Revenue from contracts with customers** | | **4,601,230** | 3,651,241 | **4,601,230** | 3,651,241 |
| | | | | | |
| Cost of sales | | **(3,459,894)** | (2,646,053) | **(3,459,894)** | (2,646,053) |
| | | | | | |
| **Gross profit** | | **1,141,336** | 1,005,188 | **1,141,336** | 1,005,188 |
| Other operating income | 14.1 | **28,314** | 2,381 | **28,314** | 2,366 |
| Selling and distribution expenses | | **(447,018)** | (441,215) | **(447,018)** | (441,215) |
| Administrative expenses | | **(222,002)** | (189,961) | **(220,411)** | (188,883) |
| Other operating expenses | 14.2 | **(105,734)** | (47,089) | **(105,734)** | (47,082) |
| **Results from operating activities** | | **394,896** | 329,304 | **396,487** | 330,374 |
| | | | | | |
| Finance cost | 15.1 | **(12,376)** | (12,581) | **(12,376)** | (12,581) |
| Finance income | 15.1 | **7,245** | 9,518 | **7,245** | 9,366 |
| Net finance cost | | **(5,131)** | (3,063) | **(5,131)** | (3,215) |
| | | | | | |
| **Profit before tax** | 16 | **389,765** | 326,241 | **391,356** | 327,159 |
| | | | | | |
| Tax expense | 19.1 | **(60,192)** | (5,261) | **(60,192)** | (5,261) |
| **Profit for the year** | | **329,573** | 320,980 | **331,164** | 321,898 |
| | | | | | |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **329,573** | 320,980 | | |
| | | **329,573** | 320,980 | | |
| | | | | | |
| **Earnings per share** | | | | | |
| Basic (Rs.) | 17.1 | **12.92** | 12.59 | | |
| Diluted (Rs.) | 17.2 | **12.92** | 12.59 | | |
| | | | | | |
| Dividend per share (Rs.) | 18.1 | **9.50** | 7.00 | | |

Figures in brackets indicate deductions.
The accounting policies and notes as set out in pages 111 to 163 form an integral part of these Financial Statements.

# STATEMENT OF COMPREHENSIVE INCOME

| | | Group | | Company | |
|---|---|---|---|---|---|
| For the year ended 31st March | Notes | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| Profit for the year | | **329,573** | 320,980 | **331,164** | 321,898 |
| | | | | | |
| **Other comprehensive income** | | | | | |
| **Other comprehensive income to be reclassified to Income Statement in subsequent periods** | | | | | |
| Currency translation of foreign operations | | **713** | (68) | **-** | - |
| **Net other comprehensive gain/ (loss) to be reclassified to Income Statement in subsequent periods** | | **713** | (68) | **-** | - |
| **Other comprehensive income not to be reclassified to Income Statement in subsequent periods** | | | | | |
| Revaluation gain on land and buildings | | **40,022** | 32,460 | **40,022** | 32,460 |
| Re-measurement loss on defined benefit plans | 35.3 | **(8,186)** | (6,418) | **(8,186)** | (6,418) |
| **Net other comprehensive income not to be reclassified to Income Statement in subsequent periods** | | **31,836** | 26,042 | **31,836** | 26,042 |
| | | | | | |
| Tax (charge) / credit on other comprehensive income | 19.2 | **(5,730)** | 29,357 | **(5,730)** | 29,357 |
| | | | | | |
| **Other comprehensive income for the year, net of tax** | | **26,819** | 55,331 | **26,106** | 55,399 |
| | | | | | |
| **Total comprehensive income for the year, net of tax** | | **356,392** | 376,311 | **357,270** | 377,297 |
| | | | | | |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **356,392** | 376,311 | | |
| | | **356,392** | 376,311 | | |

Figures in brackets indicate deductions.
The accounting policies and notes as set out in pages 111 to 163 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

| As at 31st March | Notes | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 20.1 | **1,502,851** | 1,546,009 | **1,502,851** | 1,546,009 |
| Right-of-use assets | 21.1 | **7,437** | 8,898 | **7,437** | 8,898 |
| Intangible assets | 22.1 | **247,621** | 244,678 | **247,621** | 244,678 |
| Investment in Subsidiary | 23.1 | **-** | - | **-** | 1,894 |
| Non-current financial assets | 24 | **51,284** | 45,140 | **51,284** | 45,140 |
| Other non-current assets | 25 | **8,421** | 9,120 | **8,421** | 9,120 |
| | | **1,817,614** | 1,853,845 | **1,817,614** | 1,855,739 |
| | | | | | |
| **Current assets** | | | | | |
| Inventories | 26 | **585,727** | 543,139 | **585,727** | 543,139 |
| Trade and other receivables | 27 | **621,526** | 463,473 | **621,526** | 463,473 |
| Amounts due from related parties | 38.1 | **196,158** | 162,819 | **196,158** | 162,819 |
| Other current assets | 28 | **108,608** | 14,865 | **108,608** | 14,865 |
| Short-term investments | 29 | **-** | 514 | **-** | - |
| Cash in hand and at bank | 30 | **109,901** | 29,979 | **108,787** | 29,406 |
| | | **1,621,920** | 1,214,789 | **1,620,806** | 1,213,702 |
| **Total assets** | | **3,439,534** | 3,068,634 | **3,438,420** | 3,069,441 |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity attributable to equity holders of the parent** | | | | | |
| Stated capital | 31 | **1,294,815** | 1,294,815 | **1,294,815** | 1,294,815 |
| Revenue reserves | 32 | **503,344** | 422,733 | **502,565** | 420,363 |
| Other components of equity | 33 | **394,472** | 358,834 | **399,081** | 364,156 |
| **Total equity** | | **2,192,631** | 2,076,382 | **2,196,461** | 2,079,334 |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Interest- bearing loans and borrowings | 34.2 | **42,213** | 85,668 | **42,213** | 85,668 |
| Lease liabilities | 21.2 | **7,448** | 8,720 | **7,448** | 8,720 |
| Deferred tax liabilities | 19.4 | **150,551** | 158,007 | **150,551** | 158,007 |
| Employee benefit liabilities | 35.1 | **144,120** | 121,361 | **144,120** | 121,361 |
| | | **344,332** | 373,756 | **344,332** | 373,756 |
| | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 36 | **527,166** | 366,811 | **522,222** | 364,666 |
| Amounts due to related parties | 38.2 | **21,856** | 9,279 | **21,856** | 9,279 |
| Income tax liabilities | 19.3 | **40,153** | 19,273 | **40,153** | 19,273 |
| Interest- bearing loans and borrowings | 34.2 | **43,455** | 43,455 | **43,455** | 43,455 |
| Lease liabilities | 21.2 | **1,243** | 1,041 | **1,243** | 1,041 |
| Other current liabilities | 37 | **23,437** | 17,857 | **23,437** | 17,857 |
| Bank overdrafts | 30 | **245,261** | 160,780 | **245,261** | 160,780 |
| | | **902,571** | 618,496 | **897,627** | 616,351 |
| **Total equity and liabilities** | | **3,439,534** | 3,068,634 | **3,438,420** | 3,069,441 |

I certify that the Financial Statements comply with the requirements of the Companies Act No. 07 of 2007.

**P N Fernando**
Chief Financial Officer/ Director

The Board of Directors is responsible of these Financial Statements.

**D P Gamlath**
Director

**J G A Cooray**
Director

20th May 2022
Colombo

The accounting policies and notes as set out in pages 111 to 163 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

| | | Group | | Company | |
|---|---|---|---|---|---|
| For the year ended 31st March | Note | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit before working capital changes | A | **630,632** | 518,246 | **634,117** | 519,316 |
| | | | | | |
| (Increase) / Decrease in inventories | | **(46,266)** | (149,919) | **(46,266)** | (149,919) |
| (Increase) / Decrease in trade and other receivables | | **(159,979)** | (61,379) | **(159,979)** | (61,379) |
| (Increase) / Decrease in amounts due from related parties | | **(33,339)** | (35,219) | **(33,339)** | (35,219) |
| (Increase) / Decrease in other current assets | | **(93,743)** | 8,469 | **(93,743)** | 8,469 |
| Increase / (Decrease) in trade and other payables | | **160,355** | 81,178 | **157,556** | 81,079 |
| Increase / (Decrease) in amounts due to related parties | | **12,577** | (4,111) | **12,577** | (4,111) |
| Increase / (Decrease) in other current liabilities | | **5,580** | 11,549 | **5,580** | 11,613 |
| **Cash generated from operations** | | **475,817** | 368,814 | **476,503** | 369,849 |
| | | | | | |
| Finance income received | | **3,727** | 5,388 | **3,727** | 5,236 |
| Finance cost paid | | **(11,322)** | (11,440) | **(11,322)** | (11,440) |
| Tax paid | 19.3 | **(52,498)** | (42,063) | **(52,498)** | (42,063) |
| Gratuity paid/transfers | 35.3 | **(7,010)** | (9,251) | **(7,010)** | (9,251) |
| **Net cash flow from operating activities** | | **408,714** | 311,448 | **409,400** | 312,331 |
| | | | | | |
| CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | | | | |
| Purchase and construction of property, plant and equipment | 20.1 | **(123,486)** | (87,694) | **(123,486)** | (87,694) |
| Purchase of intangible assets | 22.1 | **(3,345)** | (2,410) | **(3,345)** | (2,410) |
| Proceeds from sale of property, plant and equipment | | **160** | 154 | **160** | 154 |
| **Net cash flow used in investing activities** | | **(126,671)** | (89,950) | **(126,671)** | (89,950) |
| | | | | | |
| CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | | | | |
| Dividend paid | 18.1 | **(242,250)** | (178,500) | **(242,250)** | (178,500) |
| Repayment of long term interest bearing loans and borrowings | 34.1 | **(43,455)** | (36,213) | **(43,455)** | (36,213) |
| Payment of lease liabilities | 21.2 | **(2,124)** | (2,093) | **(2,124)** | (2,093) |
| **Net cash flow used in financing activities** | | **(287,829)** | (216,806) | **(287,829)** | (216,806) |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | **(5,786)** | 4,692 | **(5,100)** | 5,575 |

# STATEMENT OF CASH FLOWS

| For the year ended 31st March | Note | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|
| CASH AND CASH EQUIVALENTS AT THE BEGINNING | | **(130,287)** | (134,911) | **(131,374)** | (136,949) |
| Effect of exchange rate changes | | **713** | (68) | **-** | - |
| CASH AND CASH EQUIVALENTS AT THE END | | **(135,360)** | (130,287) | **(136,474)** | (131,374) |
| | | | | | |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | | | | |
| **Favourable balances** | | | | | |
| Short-term investments | 29 | **-** | 514 | **-** | - |
| Cash in hand and at bank | 30 | **109,901** | 29,979 | **108,787** | 29,406 |
| **Unfavourable balances** | | | | | |
| Bank overdrafts | 30 | **(245,261)** | (160,780) | **(245,261)** | (160,780) |
| **Cash and cash equivalents** | | **(135,360)** | (130,287) | **(136,474)** | (131,374) |
| | | | | | |
| Note A | | | | | |
| **Profit before working capital changes** | | | | | |
| Profit before tax | | **389,765** | 326,241 | **391,356** | 327,159 |
| **Adjustments for:** | | | | | |
| Finance income | 15.1 | **(7,245)** | (9,518) | **(7,245)** | (9,366) |
| Finance cost | 15.1 | **12,376** | 12,581 | **12,376** | 12,581 |
| Depreciation of property, plant and equipment | 20.1 | **174,733** | 156,832 | **174,733** | 156,832 |
| Amortisation of right-of-use assets | 21.1 | **1,461** | 1,387 | **1,461** | 1,387 |
| Amortisation of intangible assets | 22.1 | **402** | 40 | **402** | 40 |
| Loss on sale of property, plant and equipment | 16 | **376** | 678 | **376** | 678 |
| Employees benefit provisions and related costs | 35.2 | **21,583** | 21,428 | **21,583** | 21,428 |
| Provision for slow moving inventory | | **3,678** | 5,994 | **3,678** | 5,994 |
| Provision for impairment/(reversal) of trade receivable | | **(1)** | 2 | **(1)** | 2 |
| Impairment of plant, machinery and equipment | 14.2 | **31,397** | - | **31,397** | - |
| Impairment of investment in Subsidiary | 14.2 | **-** | - | **1,894** | - |
| Share based payment expense | 33.3 | **2,107** | 2,581 | **2,107** | 2,581 |
| | | **630,632** | 518,246 | **634,117** | 519,316 |

Cash and cash equivalents in the Statement of Financial Position comprises of cash at banks and in hand and short-term deposits with a maturity of three months or less. For the purpose of the Cash Flow Statement, cash and cash equivalents consists of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Figures in brackets indicate deductions.
The accounting policies and notes as set out in pages 111 to 163 form an integral part of these Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Stated capital Rs. '000 | Revaluation reserve Rs. '000 | Foreign currency translation reserve Rs. '000 | Other capital reserve Rs. '000 | Revenue reserves Rs. '000 | Total equity Rs. '000 |
| **Group** | | | | | | |
| **As at 1st April 2020** | 1,294,815 | 244,466 | (5,254) | 56,119 | 285,844 | 1,875,990 |
| Profit for the year | - | - | - | - | 320,980 | 320,980 |
| Other comprehensive gain/(loss) | - | 60,990 | (68) | - | (5,591) | 55,331 |
| **Total comprehensive gain/(loss)** | - | 60,990 | (68) | - | 315,389 | 376,311 |
| Share based payment transactions | - | - | - | 2,581 | - | 2,581 |
| Interim dividend paid -2020/21 | - | - | - | - | (178,500) | (178,500) |
| **As at 31st March 2021** | 1,294,815 | 305,456 | (5,322) | 58,700 | 422,733 | 2,076,382 |
| Profit for the year | - | - | - | - | 329,573 | 329,573 |
| Other comprehensive gain/(loss) | - | 32,818 | 713 | - | (6,712) | 26,819 |
| **Total comprehensive gain** | - | 32,818 | 713 | - | 322,861 | 356,392 |
| Share based payment transactions | - | - | - | 2,107 | - | 2,107 |
| Final dividend paid - 2020/21 | - | - | - | - | (63,750) | (63,750) |
| Interim dividend paid -2021/22 | - | - | - | - | (178,500) | (178,500) |
| **As at 31st March 2022** | 1,294,815 | 338,274 | (4,609) | 60,807 | 503,344 | 2,192,631 |

| | Stated capital Rs. '000 | Revaluation reserve Rs. '000 | Other capital reserve Rs. '000 | Revenue reserves Rs. '000 | Total equity Rs. '000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **As at 1st April 2020** | 1,294,815 | 244,466 | 56,119 | 282,556 | 1,877,956 |
| Profit for the year | - | - | - | 321,898 | 321,898 |
| Other comprehensive gain/(loss) | - | 60,990 | - | (5,591) | 55,399 |
| **Total comprehensive income** | - | 60,990 | - | 316,307 | 377,297 |
| Share based payment transactions | - | - | 2,581 | - | 2,581 |
| Interim dividend paid -2020/21 | - | - | - | (178,500) | (178,500) |
| **As at 31st March 2021** | 1,294,815 | 305,456 | 58,700 | 420,363 | 2,079,334 |
| Profit for the year | - | - | - | 331,164 | 331,164 |
| Other comprehensive gain/(loss) | - | 32,818 | - | (6,712) | 26,106 |
| **Total comprehensive income** | - | 32,818 | - | 324,452 | 357,270 |
| Share based payment transactions | - | - | 2,107 | - | 2,107 |
| Final dividend paid - 2020/21 | - | - | - | (63,750) | (63,750) |
| Interim dividend paid -2021/22 | - | - | - | (178,500) | (178,500) |
| **As at 31st March 2022** | 1,294,815 | 338,274 | 60,807 | 502,565 | 2,196,461 |

Figures in brackets indicate deductions.
The accounting policies and notes as set out in pages 111 to 163 form an integral part of these Financial Statements.

# INDEX TO NOTES

# NOTES TO THE FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

### Reporting entity

Keells Food Products PLC (PQ3) is a Public Limited Liability Company incorporated and domiciled in Sri Lanka and is listed on the Colombo Stock Exchange. The registered office of the Company is located at No. 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 2, and the principal place of business is at No. 16, Minuwangoda Road, Ekala, Ja-Ela. The Company also has a manufacturing facility at the Makandura Industrial Estate in Pannala.

Ordinary shares of the Company are listed on the Colombo Stock Exchange.

### Consolidated Financial Statements

The Financial Statements for the year ended 31st March 2022, comprise “the Company” referring to Keells Food Products PLC as the Holding Company and “the Group” referring to the Company that has been consolidated therein.

### Approval of Consolidated Financial Statements

The Consolidated Financial Statements of the Group for the year ended 31st March 2022 were authorised for issue by the Board of Directors on 20th May 2022.

### Principal activities and nature of operations

**Company**

The principal activity of the Company is the manufacture and sale of processed meats, raw meats, crumbed products and other convenient food products, which remained unchanged during the year. The Company has taken a decision to cease commercial operations of its ezy rice products in the next financial year.

**Subsidiary**

The principal activity of John Keells Foods India (Private) Limited is marketing of processed and formed meat products, which remained unchanged during the year.

The Subsidiary did not carry out commercial operations during the year ended 31st March 2022.

### Responsibility for Financial Statements

The responsibility of the Board of Directors in relation to the Financial Statements is set out in the Statement of Directors’ Responsibility report in this Annual report.

### Statements of compliance

The Financial Statements which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the Statement of Cash Flows, together with the accounting policies and notes (the “Financial Statements”) 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 in compliance with the Companies Act No.07 of 2007.

## 2. GROUP INFORMATION

### Parent Enterprise and Ultimate Parent Enterprise

The Company’s Parent undertaking is John Keells Holdings PLC. The Directors are of the opinion that the Company’s Ultimate Parent undertaking and controlling party is John Keells Holdings PLC which is incorporated in Sri Lanka.

## 3. BASIS OF PREPARATION

The Consolidated Financial Statements have been prepared on an accrual basis and under the historical cost convention except for Land and Buildings that has been measured at fair value through Other Comprehensive Income.

### Going concern

The Group has prepared the Financial Statements for the year ended 31st March 2022 on the basis that it will continue to operate as a going concern.

In determining the basis of preparing the Financial Statements for the year ended 31st March 2022, based on available information, the management has assessed the prevailing macroeconomic conditions and its effect on the Group Companies and the appropriateness of the use of the going concern basis.

It is the view of the management that there are no material uncertainties that may cast significant doubt on the KFP Group’s ability to continue to operate as a going concern. In determining the above, significant management judgements, estimates and assumptions including the impact of the current macroeconomic challenges has been considered as of the reporting date and specific disclosures have been made under the relevant notes in the Financial Statements. The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and hence adopting the going concern basis in preparing and presenting these Financial Statements.

### Presentation and functional currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.), which is the Group's functional and presentation currency, which is the primary economic environment in which the Holding Company operates. Each entity in the Group uses the currency of the primary economic environment in which they operate as their functional currency.

Each material class of similar items is presented cumulatively in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

All financial information presented in Sri Lankan Rupees has been rounded to the nearest rupees thousand (Rs. '000) except when otherwise indicated.

### Comparative information

The presentation and classification of the Financial Statements of the previous years have been amended if necessary, where relevant for better presentation and to be comparable with those of the current year.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of significant accounting policies have been disclosed along with the relevant individual notes in the subsequent pages.

Those accounting policies presented with each note, have been applied consistently by the Group.

### Other Significant accounting policies not covered with individual notes

Following accounting policies which have been applied consistently by the Group, are considered to be significant but are not covered in any other sections.

### Current versus non-current classification

The Group presents assets and liabilities in the Statement of Financial Position based on current/ non-current classification. An asset is considered as current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is considered as current when:

- it is expected to be settled in normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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

### Foreign currency translation, foreign currency transactions and balances

The Consolidated Financial Statements are presented in Sri Lanka Rupees (Rs.), which is the Company's functional and presentation currency.

The functional currency is the currency of the primary economic environment in which the entities of the Group operate.

All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are effected.

Monetary assets and liabilities denominated in foreign currency are retranslated to functional currency equivalents at the spot exchange rate prevailing at the reporting date.

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 assets and liabilities are translated using exchange rates that existed when the values were determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on changing fair value of the item.

#### Foreign operations

The Statement of Financial Position and Income Statement of the overseas Subsidiary which is deemed to be foreign operation is translated to Sri Lankan Rupees at the rate of exchange prevailing as at the reporting date and at the average annual rate of exchange for the period respectively.

The exchange differences arising on the translation are taken directly to Other Comprehensive Income. On disposal of a foreign entity, the deferred cumulative amount recognised in Other Comprehensive Income relating to that particular foreign operation is recognised in the Income Statement.

Any goodwill arising on the acquisition of a foreign operation subsequent to 1st April 2012 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Prior to 1st April 2012, the date of transition to SLFRS/ LKAS, the Group treated goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition as assets and liabilities of the Parent. Therefore, those assets and liabilities are non-monetary items already expressed in the functional currency of the Parent and no further translation differences occur.

During the year the extent of fluctuation in the Sri Lankan Rupee exchange rate to the Indian Rupee can be observed by looking at the two extremes in the exchange rates that prevailed during the year which is the highest and lowest rate set during the year. This is especially important when deducting the potential foreign currency translation impact that could affect the Group's Financial Statements.

The exchange rates applicable during the period were as follows:

| | Statement of Financial Position | | Income Statement | |
|---|---|---|---|---|
| **Currency** | **Closing rate as at 31st March** | | **Average rate** | |
| | **2022 Rs.** | **2021 Rs.** | **2022 Rs.** | **2021 Rs.** |
| Indian Rupee | 4.02 | 2.73 | 2.80 | 2.55 |

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements of the Group requires the management to make judgments, estimates and assumptions, which may affect the amounts of income, expenditure, assets , 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 assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the Consolidated Financial Statements have been discussed in the individual notes of the related Financial Statement line items.

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 also described in the individual notes to the Financial Statements. The Group has based its assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The line items which have most significant effect on accounting, judgements, estimate and assumptions are as follows;

a) Valuation of property, plant and equipment - Note 20

b) Impairment of non-financial assets - Note 23 and 22.2

c) Taxes - Note 19

d) Employee benefit liability - Note 35

e) Share based payments - Note 33.3

f) Goodwill - Note 22.2

g) Provision for expected credit losses of trade receivables and contract assets - Note 10.1.4

h) Leases - Estimating the incremental borrowing rate - Note 21

i) Going Concern- Note 3

## 6. CHANGES IN ACCOUNTING STANDARDS AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

### 6.1 Changes in accounting standards

The Group applied below standards for the first-time, which are effective for annual periods beginning on or after 1st January 2021.

The following amendments and improvements did not have a significant impact on the Group's Financial Statements.

Amendments to SLFRS 7, SLFRS 9, LKAS 39, SLFRS 4 and SLFRS 16 : Interest Rate Benchmark Reform - Phase 02

### 6.2 Standards Issued but not yet effective

The following SLFRS has been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRS's will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements. The Group intends to adopt these standards, if applicable, When they become effective.

- Amendments to SLFRS 1: Subsidiary as a first-time adopter
- Amendments to SLFRS 9: Fees in the '10 per cent' test for de-recognition of financial liabilities
- Amendments to SLFRS 3: Reference to the Conceptual Framework.
- Amendments to LKAS 1 : Classification of liabilities as Current or Non-current.
- Amendments to LKAS 16 : Property, Plant & Equipment - Proceeds before Intended Use
- Amendments to LKAS 37 : Onerous Contracts - Cost of Fulfilling a Contract.

## 7 OPERATING SEGMENT INFORMATION

### Accounting Policy

The Group's internal organisation and management is structured based on individual products and services which are similar in nature and process and where the risks and returns are similar. The operating segments represent this business structure.

In addition, segments are determined based on the Group's geographical spread of operations as well. The geographical analysis of turnover and profits are based on location of customers and assets respectively.

As such for management purposes, the Group is organised into business units based on their products and services and has two operating business segments as manufacturing and Trading.

The measurement policies the Group uses for segment reporting under SLFRS 8 are the same as those used in its Financial Statements.

## Segment information

Segment information has been prepared in conformity with the Accounting Policies adopted for preparing and presenting the Financial Statements of the Group.

All Inter-Segment transfers are carried out at arm's length prices.

### 7.1 BUSINESS SEGMENT ANALYSIS -GROUP

The following tables present revenue and profit information regarding the Group's operating segments.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| For the year ended 31st March | Manufacturing Rs. '000 | Trading Rs. '000 | Total Rs. '000 | Manufacturing Rs. '000 | Trading Rs. '000 | Total Rs. '000 |
| Goods transferred at a point in time | **4,255,116** | **346,114** | **4,601,230** | 3,393,188 | 258,053 | 3,651,241 |
| **Total segment revenue from contracts with customers** | **4,255,116** | **346,114** | **4,601,230** | 3,393,188 | 258,053 | 3,651,241 |
| **Segment results** | **1,033,600** | **107,736** | **1,141,336** | 938,713 | 66,475 | 1,005,188 |
| | | | | | | |
| Other operating income | **28,314** | **-** | **28,314** | 2,381 | - | 2,381 |
| Selling and distribution expenses | **(413,192)** | **(33,826)** | **(447,018)** | (414,801) | (26,414) | (441,215) |
| Administrative expenses | **(203,221)** | **(18,781)** | **(222,002)** | (173,707) | (16,254) | (189,961) |
| Other operating expenses | **(73,296)** | **(1,041)** | **(74,337)** | (46,291) | (798) | (47,089) |
| Impairment of plant, machinery and equipment | **(31,397)** | **-** | **(31,397)** | - | - | - |
| **Operating profit** | **340,808** | **54,088** | **394,896** | 306,295 | 23,009 | 329,304 |
| | | | | | | |
| Finance cost | **(12,376)** | **-** | **(12,376)** | (12,581) | - | (12,581) |
| Finance income | **7,245** | **-** | **7,245** | 9,518 | - | 9,518 |
| Net finance cost | **(5,131)** | **-** | **(5,131)** | (3,063) | - | (3,063) |
| | | | | | | |
| **Profit before tax** | **335,677** | **54,088** | **389,765** | 303,232 | 23,009 | 326,241 |
| | | | | | | |
| Tax expense | **(47,211)** | **(12,981)** | **(60,192)** | (688) | (4,573) | (5,261) |
| | | | | | | |
| **Profit after tax** | **288,466** | **41,107** | **329,573** | 302,544 | 18,436 | 320,980 |
| | | | | | | |
| Segment assets | **3,376,452** | **63,082** | **3,439,534** | 3,003,376 | 65,258 | 3,068,634 |
| Segment liabilities | **1,213,437** | **33,466** | **1,246,903** | 964,940 | 27,312 | 992,252 |
| Purchase and construction of PPE* | **123,486** | **-** | **123,486** | 87,694 | - | 87,694 |
| Addition to IA** | **3,345** | **-** | **3,345** | 2,410 | - | 2,410 |
| Depreciation of PPE* | **174,733** | **-** | **174,733** | 156,832 | - | 156,832 |
| Amortisation of IA** | **402** | **-** | **402** | 40 | - | 40 |
| Amortisation of ROUA*** | **1,461** | **-** | **1,461** | 1,387 | - | 1,387 |
| Employee benefit provisions and related costs | **21,583** | **-** | **21,583** | 21,428 | - | 21,428 |

**PPE*** - Property plant and equipment **IA**** - Intangible assets **ROUA***** - Right-of-use assets

Non-current assets have not been allocated to the trading segment.

The presentation and classification of the Business Segment Analysis at the previous year have been amended, where relevant for the better presentation and to be comparable with those of the current year.

## 8. BASIS OF CONSOLIDATION

### Accounting Policy

The Consolidated Financial Statements comprise the Financial Statements of the Company and its Subsidiary as at the end of the reporting period. The Financial Statements of the Subsidiary is prepared in compliance with the Group's accounting policies unless otherwise stated.

### Control over an investee

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The following Companies have been consolidated based on above criteria.

| Name of the Company | Effective Holding |
|---|---|
| John Keells Foods India (Pvt) Ltd | 100% |

John Keells Foods India (Pvt) Ltd was incorporated in India on the 7th of April 2008.

### Subsidiaries

The Subsidiary is fully consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The Financial Statements of the Subsidiary is prepared for the same reporting period as the Company, which is 12 months ending 31st March, using consistent accounting policies.

The total profits and losses for the year of the Company and of its Subsidiary included in consolidation are shown in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income and all assets and liabilities of the Company and of its Subsidiary included in consolidation are shown in the Consolidated Statement of Financial Position.

The Consolidated Statements of Cash Flows includes the Cash Flows of the Company and the Subsidiary.
A change in the ownership interest of a Subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a Subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the Subsidiary.
- De-recognises the carrying amount of any non-controlling interest.
- De-recognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the Parent's share of components previously recognised in Other Comprehensive Income to profit or loss or retained earnings, as appropriate.

Non-controlling interest which represents the portion of profit or loss and net assets not held by the Group, are shown as a component of profit for the year in the Consolidated Income Statement and Statement of Comprehensive Income and as a component of equity in the Consolidated Statement of Financial Position, separately from Parent's shareholders' equity.

## 9. BUSINESS COMBINATIONS AND GOODWILL

### Accounting Policy

Business combinations are accounted for using the acquisition method of accounting. The Group measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree is lower than the fair value of net assets acquired, a gain is recognised immediately in the Income Statement. The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of SLFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the Income Statement, in accordance with SLFRS 9. Other contingent consideration that is not within the scope of SLFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## 9. BUSINESS COMBINATIONS AND GOODWILL (CONTD.)

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets on pro-rata basis to the carrying amount of each asset in the unit.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation, goodwill disposed in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

### Common Control Business Combinations

SLFRS 3 – Business Combination scopes out common control business combinations. LKAS 8 – Accounting policies, Changes in Accounting estimates and errors – requires that in the absence of specific guidance in SLFRS, management should use its judgment in developing and applying an accounting policy that is relevant and reliable. Accordingly, The Group selected pooling of interest method as the most appropriate method for accounting the business combinations involving business under common control.

The concept underlying the use of pooling of interest method to account for a business combination is that no acquisition has occurred and there has been a continuation of the risks and benefits to the controlling party (or parties) that existed prior to the business combination.

Under the pooling of interest method, the net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. The assets and liabilities of the acquired entity are recorded at the book values as stated in the Financial Statements of the controlling party.

The amount has been recognised as the consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. (Note 22.2)

### Impairment of goodwill

Goodwill is tested for impairment annually (as at 31st March) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has loans and other receivables, trade and other receivable and cash and short-term deposits that arise directly from its operations.

The Group's principal financial liabilities, comprise of loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support it's operations.

The financial risk governance framework provides assurance to the senior management that the financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group is exposed to market risk, credit risk and liquidity risk.

### 10.1 Credit risk

Credit risk is the risk that a counter party 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 trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, such as cash and cash equivalents the Group's exposure to credit risk arises from default of the counter-party. The Group manages its operations to avoid any excessive concentration of counter-party risk and the Group takes all reasonable steps to ensure the counter-parties, fulfil their obligations.

The Group's exposure to credit risk is influenced by the individual characteristics of each customer. The individual receivable balances were re-assessed, specific provisions were made wherever necessary, existing practice on the provisioning of trade receivables were re-visited and adjusted to reflect the different rearrangement of homogeneous groups. Receivable balances are monitored on an ongoing basis to minimise bad debt risk and to ensure default rates are kept very low, whilst the improved operating environment resulted in improved collections during the financial year although there could be stresses in the ensuing year on account of the macroeconomic uncertainty and related impacts to our customers on account of elevated inflation and interest rates and the possible impact on consumer discretionary spend.

### 10.1.1 Credit risk exposure

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts (without consideration of collateral, if available).

The following table shows the maximum risk positions;

| As at 31st March 2022 | Notes | Non-current financial assets Rs. '000 | Cash in hand and at bank Rs. '000 | Trade and other receivables Rs. '000 | Short-term investments Rs. '000 | Amounts due from related parties Rs. '000 | Total Rs. '000 | % of allocation |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| Deposits with bank | 10.1.2 | - | - | - | - | - | - | - |
| Loans to executives | 10.1.3 | 51,284 | - | 18,843 | - | - | 70,127 | 7 |
| Trade and other receivables | 10.1.4 | - | - | 602,683 | - | - | 602,683 | 62 |
| Amounts due from related parties | 10.1.5 | - | - | - | - | 196,158 | 196,158 | 20 |
| Cash in hand and at bank | 10.1.6 | - | 109,901 | - | - | - | 109,901 | 11 |
| **Total credit risk exposure** | | 51,284 | 109,901 | 621,526 | - | 196,158 | 978,869 | 100 |

### 10.1.1 Credit risk exposure (Contd.)

| As at 31st March 2021 | Notes | Non-current financial assets Rs. '000 | Cash in hand and at bank Rs. '000 | Trade and other receivables Rs. '000 | Short-term investments Rs. '000 | Amounts due from related parties Rs. '000 | Total Rs. '000 | % of allocation |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| Deposits with bank | 10.1.2 | - | - | - | 514 | - | 514 | - |
| Loans to executives | 10.1.3 | 45,140 | - | 17,790 | - | - | 62,930 | 9 |
| Trade and other receivables | 10.1.4 | - | - | 445,683 | - | - | 445,683 | 64 |
| Amounts due from related parties | 10.1.5 | - | - | - | - | 162,819 | 162,819 | 23 |
| Cash in hand and at bank | 10.1.6 | - | 29,979 | - | - | - | 29,979 | 4 |
| **Total credit risk exposure** | | 45,140 | 29,979 | 463,473 | 514 | 162,819 | 701,925 | 100 |

| As at 31st March 2022 | Notes | Non-current financial assets Rs. '000 | Cash in hand and at bank Rs. '000 | Trade and other receivables Rs. '000 | Short-term investments Rs. '000 | Amounts due from related parties Rs. '000 | Total Rs. '000 | % of allocation |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| Loans to executives | 10.1.3 | 51,284 | - | 18,843 | - | - | 70,127 | 7 |
| Trade and other receivables | 10.1.4 | - | - | 602,683 | - | - | 602,683 | 62 |
| Amounts due from related parties | 10.1.5 | - | - | - | - | 196,158 | 196,158 | 20 |
| Cash in hand and at bank | 10.1.6 | - | 108,787 | - | - | - | 108,787 | 11 |
| **Total credit risk exposure** | | 51,284 | 108,787 | 621,526 | - | 196,158 | 977,755 | 100 |

| As at 31st March 2021 | Notes | Non-current financial assets Rs. '000 | Cash in hand and at bank Rs. '000 | Trade and other receivables Rs. '000 | Short-term investments Rs. '000 | Amounts due from related parties Rs. '000 | Total Rs. '000 | % of allocation |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| Loans to executives | 10.1.3 | 45,140 | - | 17,790 | - | - | 62,930 | 9 |
| Trade and other receivables | 10.1.4 | - | - | 445,683 | - | - | 445,683 | 64 |
| Amounts due from related parties | 10.1.5 | - | - | - | - | 162,819 | 162,819 | 23 |
| Cash in hand and at bank | 10.1.6 | - | 29,406 | - | - | - | 29,406 | 4 |
| **Total credit risk exposure** | | 45,140 | 29,406 | 463,473 | - | 162,819 | 700,838 | 100 |

### 10.1.2 Deposits with bank

Deposits with banks mainly consist of fixed and call deposits.

As at 31st March 2022, Group and the Company do not carry any fixed and call deposits (2020/21-100% rated "AAA" Rs. 0.5 Mn).

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| As at 31st March | 2022 | | 2021 | | 2022 | | 2021 | |
| | Rs. '000 | Rating % of total | Rs. '000 | Rating % of total | Rs. '000 | Rating % of total | Rs. '000 | Rating % of total |
| AAA* | - | - | 514 | 100 | - | - | - | - |
| **Total** | - | - | 514 | 100 | - | - | - | - |

* Rating agency-Fitch

### 10.1.3 Loans to executives

Loans to executives is made up of vehicle loans which are given to staff at assistant manager level and above. The Company has obtained the necessary Power of Attorney/promissory notes as collateral for the loans granted.

### 10.1.4 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| **Neither past due nor impaired** | | | | |
| 01-60 days | **583,546** | 412,655 | **583,546** | 412,655 |
| **Past due but not impaired** | | | | |
| 61-90 days | **17,192** | 29,463 | **17,192** | 29,463 |
| 91-120 days | **191** | 1,922 | **191** | 1,922 |
| 121-180 days | **261** | - | **261** | - |
| **Past due and impaired** | **1,221** | 1,222 | **1,221** | 1,222 |
| **Gross carrying value** | **602,411** | 445,262 | **602,411** | 445,262 |
| **Less: Allowance for expected credit losses** | | | | |
| Individually assessed allowance for expected credit losses | **(1,221)** | (1,222) | **(1,221)** | (1,222) |
| **Total** | **601,190** | 444,040 | **601,190** | 444,040 |

The requirement for an impairment is analysed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group has obtained bank guarantees from all distributors as collateral by reviewing their past performance and credit worthiness. 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 homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

### 10.1.5 Amounts due from related parties

This balance consists of amounts due from the Parent, Companies under common control, Joint Ventures and Associates of the Parent.

**10.1.6 Credit risk relating to cash and cash equivalents**

In order to mitigate the concentration, settlement and operational risks related to cash and cash equivalents, the Group consciously manages the exposure to a single counter-party taking into consideration, where relevant, the rating or financial standing of the counter-party, where the position is reviewed as and when required, the duration of the exposure in managing such exposures and the nature of the transaction and agreement governing the exposure. The Group held a negative cash and cash equivalents of Rs. 135 Mn as at 31st March 2022 (2020/21 negative cash and cash equivalents of Rs. 130 Mn). The Company held a negative cash and cash equivalents of Rs. 136 Mn as at 31st March 2022 (2020/21 negative cash and cash equivalents of Rs.131 Mn).

## 10.2 Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that there is available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bank loans and overdrafts over a broad spread of maturities.

**10.2.1 Net debt/ (cash)**

| | | Group | | Company | |
|---|---|---|---|---|---|
| As at 31st March | Notes | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Short-term investments | 29 | **-** | 514 | **-** | - |
| Cash in hand and at bank | 30 | **109,901** | 29,979 | **108,787** | 29,406 |
| Total liquid Assets | | **109,901** | 30,493 | **108,787** | 29,406 |
| Interest-bearing borrowings - non-current | 34.1 | **42,213** | 85,668 | **42,213** | 85,668 |
| Interest-bearing borrowings - current | 34.1 | **43,455** | 43,455 | **43,455** | 43,455 |
| Bank overdrafts | 30 | **245,261** | 160,780 | **245,261** | 160,780 |
| Total liquid liabilities | | **330,929** | 289,903 | **330,929** | 289,903 |
| Net debt | | **221,028** | 259,410 | **222,142** | 260,497 |

When calculating the net debt position of the Company and Group the lease liabilities of Rs. 8.7 Mn has been excluded (Rs. 9.7 Mn in 2020/21).

**10.2.2 Liquidity risk management**

Group has implemented a mixed approach that combines elements of the cash flow matching approach and the liquid assets approach. The Group attempt to match cash outflows in each time bucket against the combination of contractual cash inflows plus other inflows that can be generated through the sale of assets or other borrowings.

The Group continued to place emphasis on ensuring that cash and undrawn committed facilities are sufficient to meet the short, medium and long-term funding requirements, unforeseen obligations as well as unanticipated opportunities. Constant dialogue between Group Companies and banks regarding financing requirements, ensures that availability within each single borrower limit is optimised by efficiently reallocating under-utilised facilities within the Group.

The daily cash management processes at the business units include active cash flow forecasts and matching the duration and profiles of assets and liabilities, thereby ensuring a prudent balance between liquidity and earnings.

**Maturity analysis - Group**

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted (principle plus interest) payments.

| As at 31st March 2022 | Within 1 year Rs. '000 | Between 1-2 years Rs. '000 | Between 2-3 years Rs. '000 | Between 3-4 years Rs. '000 | Between 4-5 years Rs. '000 | More than 5 years Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 51,510 | 44,579 | - | - | - | - | 96,089 |
| Lease liability | 2,252 | 2,345 | 2,442 | 1,264 | 393 | 8,265 | 16,961 |
| Trade and other payables | 527,166 | - | - | - | - | - | 527,166 |
| Amounts due to related parties | 21,856 | - | - | - | - | - | 21,856 |
| Bank overdrafts | 245,261 | - | - | - | - | - | 245,261 |
| | 848,045 | 46,924 | 2,442 | 1,264 | 393 | 8,265 | 907,333 |

| As at 31st March 2021 | Within 1 year Rs. '000 | Between 1-2 years Rs. '000 | Between 2-3 years Rs. '000 | Between 3-4 years Rs. '000 | Between 4-5 years Rs. '000 | More than 5 years Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 50,941 | 47,962 | 43,749 | - | - | - | 142,652 |
| Lease liability | 1,109 | 1,331 | 1,584 | 1,871 | 879 | 13,545 | 20,319 |
| Trade and other payables | 366,811 | - | - | - | - | - | 366,811 |
| Amounts due to related parties | 9,279 | - | - | - | - | - | 9,279 |
| Bank overdrafts | 160,780 | - | - | - | - | - | 160,780 |
| | 588,920 | 49,293 | 45,333 | 1,871 | 879 | 13,545 | 699,841 |

**Maturity analysis - Company**

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted (principle plus interest) payments.

| As at 31st March 2022 | Within 1 year Rs. '000 | Between 1-2 years Rs. '000 | Between 2-3 years Rs. '000 | Between 3-4 years Rs. '000 | Between 4-5 years Rs. '000 | More than 5 years Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 51,510 | 44,579 | - | - | - | - | 96,089 |
| Lease liability | 2,252 | 2,345 | 2,442 | 1,264 | 393 | 8,265 | 16,961 |
| Trade and other payables | 522,222 | - | - | - | - | - | 522,222 |
| Amounts due to related parties | 21,856 | - | - | - | - | - | 21,856 |
| Bank overdrafts | 245,261 | - | - | - | - | - | 245,261 |
| | 843,101 | 46,924 | 2,442 | 1,264 | 393 | 8,265 | 902,389 |

### 10.2.2 Liquidity risk management (Contd.)

| As at 31st March 2021 | Within 1 year Rs. '000 | Between 1-2 years Rs. '000 | Between 2-3 years Rs. '000 | Between 3-4 years Rs. '000 | Between 4-5 years Rs. '000 | More than 5 years Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 50,941 | 47,962 | 43,749 | - | - | - | 142,652 |
| Lease liability | 1,109 | 1,331 | 1,584 | 1,871 | 879 | 13,545 | 20,319 |
| Trade and other payables | 364,666 | - | - | - | - | - | 364,666 |
| Amounts due to related parties | 9,279 | - | - | - | - | - | 9,279 |
| Bank overdrafts | 160,780 | - | - | - | - | - | 160,780 |
| | 586,775 | 49,293 | 45,333 | 1,871 | 879 | 13,545 | 697,696 |

### 10.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises of the following risks:

* Interest rate risk
* Currency risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The sensitivity analysis in the following sections relate to the position as at 31st March in 2022 and 2021.

The analysis excludes the impact of movements in market variables on the carrying values of other post-retirement obligations; provisions; and the non-financial assets and liabilities.

The following assumptions have been made in calculating the sensitivity analyses;

- The sensitivity of the relevant Income Statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31st March 2022 and 2021.

### 10.3.1 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 Group's exposure to the risk of changes in market interest rates relates primarily to the Group's and Company's long-term debt obligations with floating interest rates.

Most lenders grant loans under floating interest rates.

The Central Bank of Sri Lanka adopted a tightening monetary policy stance during the latter part of the financial year, resulting in an upward trend in interest rates. Elevated pressures on inflation on account of many factors including increases in global commodity prices, food supply and the sharp depreciation of the currency in March 2022 have resulted in strong policy actions by the CBSL on monetary policy post the end of the reporting period. Such actions have raised monetary policy rates significantly and helped to bridge the gap between policy and market interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. (through the impact on floating rate borrowings).

| Rupee borrowings | Increase/ (decrease) in basis points | Group Rs. '000 | Company Rs. '000 |
|---|---|---|---|
| | | Effect on profit before tax | |
| **For the year ended 31st March** | | | |
| **2022** | **+270** | **2,299** | **2,299** |
| | **-270** | **(2,299)** | **(2,299)** |
| | | | |
| **2021** | +100 | 1,383 | 1,383 |
| | -100 | (1,383) | (1,383) |

The assumed spread of basis points for the interest rate sensitivity analysis is based on the currently observable market environment changes to base floating interest rates.

**10.3.2 Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has exposure to foreign currency risk where it has cash flows in overseas operations and foreign currency transactions which are affected by foreign exchange movements. Group treasury (JKH) analyses the market condition of foreign exchange and provides market updates to the JKH Group Executive Committee (GEC), with the use of external consultants' advice. Based on the suggestions made by JKH Group treasury, the GEC takes decisions on whether to hold, sell, or make forward bookings of foreign currency as per decisions rights given by the Board of Directors.

The Sri Lankan Rupee witnessed significant volatility, particularly during the latter part of the year. Whilst the exchange rate was maintained at stable levels during the year, as per the guidelines issued to the banks by the Central Bank of Sri Lanka (CBSL), the currency depreciated sharply in March 2022 once the CBSL allowed a free float of the currency which resulted in a steep depreciation of the rupee by 31st March 2022. In addition to the depreciation of the currency, there were significant challenges in the foreign currency market on the back of a marked reduction in liquidity amidst declining confidence and a depletion of foreign currency reserves in the country. This resulted in a series of measures such as the continuation of certain import controls and stipulations on foreign currency conversions and remittances. The lack of confidence in the market however resulted in a sharp reduction in foreign currency employment remittances which exacerbated the liquidity situation. The Group adopted prudent measures, as and when required, to manage the financial impacts arising from the liquidity constraints and currency fluctuations by matching liabilities with corresponding inflows. At a Group level, the translation risk on foreign currency debt is largely hedged "naturally" as a result of the conscious strategy of maintaining US Dollar cash balances at the Holding Company whilst also ensuring obligations can be managed through US Dollar denominated revenue streams. The Group was able to navigate the liquidity challenges through matching its obligations with foreign currency inflows as far as possible while also using the strength of the Group Balance Sheet to manage the situation.

### 10.3.2.1 Effects of currency translation

For purposes of Keells Food Products PLC's Consolidated Financial Statements, the income and expenses and the assets and liabilities of the Subsidiary located outside Sri Lanka are converted into Sri Lankan Rupees (Rs.). Therefore, period-to-period changes in average exchange rates may cause translation effects that have a significant impact on, for example, revenue, segment results (earnings before interest and taxes –EBIT) and assets and liabilities of the Group. Unlike exchange rate transaction risk, exchange rate translation risk does not necessarily affect future cash flows. The Group's equity position reflects changes in book values caused by exchange rates.

| | Group | | |
|---|---|---|---|
| Exchange rate | Increase/ (decrease) in exchange rate | Effect on profit before tax (Rs.) | Effect on equity (Rs.) |
| **2022** | | | |
| **INR** | **0.08%** | **(106)** | **(1,155)** |
| | **-0.08%** | **106** | **1,155** |
| **2021** | | | |
| **INR** | 5.73% | (52,604) | (59,061) |
| | -5.73% | 52,604 | 59,061 |

**Assumptions**

The assumed movement, in the spread of the exchange rate sensitivity analysis, is based on the current observable market environment.

### 10.4 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, have a rights issue or buy back of shares.

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Debt/ Equity | **15.49%** | 14.43% | **15.46%** | 14.41% |

## 11 FAIR VALUE MEASUREMENT AND RELATED FAIR VALUE DISCLOSURES

### Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are only disclosed are reflected in this note. Beside this note, additional fair value related disclosures, including the valuation methods, significant estimates and assumptions are also provided in:

- Investment in Subsidiary - Note 23.1
- Property, plant and equipment under revaluation model - Note 20
- Financial instruments and related policies (including those carried at amortised cost) - Note 12

### Accounting Policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either.

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets fair value through Other Comprehensive Income, and for non-recurring measurements, such as assets held for sale in discontinued operations.

External valuers are involved for valuation of significant assets, such as land and buildings, and significant liabilities. Selection criteria for external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides after discussion with the external valuers, which valuation techniques and inputs to used for individual assets and liabilities.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Fair Value Hierarchy**

## 11.1 Non-Financial Assets -Group and Company

| As at 31st March | Notes | Level 1 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|---|
| | | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| **Assets measured at fair value (Rs. '000)** | | | | | | | |
| Land and buildings on freehold land | 20.1 | **-** | - | **-** | - | **422,188** | 394,300 |
| Buildings on leasehold land | 20.1 | **-** | - | **-** | - | **313,227** | 310,278 |
| Total | | **-** | - | **-** | - | **735,415** | 704,578 |

In determining the fair value, highest and best use of the property has been considered including the current condition of the properties, future usability and associated redevelopment requirements have been considered. Also, the valuers have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values.

## 12 FINANCIAL INSTRUMENTS AND RELATED POLICIES

### Accounting Policy

**Financial instruments — initial recognition and subsequent measurement**

**Financial Assets- Initial recognition and measurement**

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. This assessment is referred to as the SPPI test and is performed at an instrument level. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables and unquoted financial instruments.

**Subsequent measurement**
For purposes of subsequent measurement, financial assets are classified in four categories;

- Financial assets at amortised cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets designated at fair value through OCI with no re-cycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

**Debt Instruments**
**Financial assets at amortised cost**
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The Group 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 Rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is de-recognised, modified or impaired.

The Group's financial assets at amortised cost is disclosed under note 12.1.

**Financial assets-de-recognition**
Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

**Impairment of financial assets**
From 1st April 2021, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by SLFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group 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.

## 12 FINANCIAL INSTRUMENTS AND RELATED POLICIES (CONTD.)

**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 Group’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

**Financial liabilities-Subsequent measurement**

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

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by SLFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the Income Statement.

**Loans and borrowings**

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised as well as through the 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 as finance costs in the Income Statement.

**De-recognition**

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

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

## 12.1 Financial assets and liabilities by categories

Financial assets and liabilities in the tables below are split into categories in accordance with SLFRS 9 .

**Financial assets at amortised cost**

| | | Group | | Company | |
|---|---|---|---|---|---|
| As at 31st March | Notes | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| **Financial instruments in non-current assets** | | | | | |
| Non-current financial assets | 24 | **51,284** | 45,140 | **51,284** | 45,140 |
| | | | | | |
| **Financial instruments in current assets** | | | | | |
| Trade and other receivables | 27 | **621,526** | 463,473 | **621,526** | 463,473 |
| Amounts due from related parties | 38.1 | **196,158** | 162,819 | **196,158** | 162,819 |
| Short-term investments | 29 | **-** | 514 | **-** | - |
| Cash in hand and at bank | 30 | **109,901** | 29,979 | **108,787** | 29,406 |
| | | **927,585** | 656,785 | **926,471** | 655,698 |
| Total | | **978,869** | 701,925 | **977,755** | 700,838 |

**Financial liabilities at amortised cost**

| | | Group | | Company | |
|---|---|---|---|---|---|
| As at 31st March | Notes | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| **Financial instruments in non-current liabilities** | | | | | |
| Interest-bearing loans and borrowings | 34.2 | **42,213** | 85,668 | **42,213** | 85,668 |
| Lease liabilities | 21.2 | **7,448** | 8,720 | **7,448** | 8,720 |
| | | **49,661** | 94,388 | **49,661** | 94,388 |
| | | | | | |
| **Financial instruments in current liabilities** | | | | | |
| Trade and other payables | 36 | **527,166** | 366,811 | **522,222** | 364,666 |
| Amounts due to related parties | 38.2 | **21,856** | 9,279 | **21,856** | 9,279 |
| Interest-bearing loans and borrowings | 34.2 | **43,455** | 43,455 | **43,455** | 43,455 |
| Lease liabilities | 21.2 | **1,243** | 1,041 | **1,243** | 1,041 |
| Bank overdrafts | 30 | **245,261** | 160,780 | **245,261** | 160,780 |
| | | **838,981** | 581,366 | **834,037** | 579,221 |
| Total | | **888,642** | 675,754 | **883,698** | 673,609 |

**The following methods and assumptions were used to estimate the fair values;**

The fair value of loans and receivables is not significantly different from the value based on amortised cost methodology.

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current financial liabilities approximate their carrying amounts largely due to short-term maturities of these instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in ordinary transaction between market participants at the measurement date.

### 12.1 Financial assets and liabilities by categories (Contd.)

**Accounting judgements, estimates and assumptions**

**Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The input to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgement include consideration of input such as liquidity risk, credit risk and volatility.

## 13 REVENUE

### Accounting Policy

**Revenue from contracts with customers**

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

**Goods transferred at a point in time**

Under SLFRS 15, revenue is recognised upon satisfaction of performance obligation. The revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

**Services transferred overtime**

Under SLFRS 15, the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time. For each performance obligation satisfied overtime, the Group recognises the revenue over time by measuring the progress towards complete satisfaction of that performance obligation.

**Turnover based taxes**

Turnover based taxes include Value Added Tax. The Company pays such taxes in accordance with the respective statutes.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | For the year ended 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| 13.1 | Goods transferred at a point in time | **4,601,230** | 3,651,241 | **4,601,230** | 3,651,241 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | For the year ended 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| 13.2 | **Disaggregation of revenue** | | | | |
| | Geographical segment analysis (by location of customers) | | | | |
| | Sri Lanka | **4,539,730** | 3,617,388 | **4,539,730** | 3,617,388 |
| | Others | **61,500** | 33,853 | **61,500** | 33,853 |
| | Total Revenue | **4,601,230** | 3,651,241 | **4,601,230** | 3,651,241 |

### 13.3 Reconciliation of revenue

Reconciliation between Revenue from contracts with customers and revenue information that is disclosed for each reportable segment has been provided in the operating segment information section.

## 13.4 Contract balances

**Contract assets**

Contract assets are Group's right to consideration in exchange for goods or services that the Group has transferred to a customer, with rights that are conditioned on some criteria other than the passage of time. Upon satisfaction of the conditions, the amounts recognised as contract assets are reclassified to trade receivables. The Group has not held any contract assets at the reporting date.

**Contract liabilities**

Contract liabilities are Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or the amount is due) from the customer. Contract liabilities include long-term advances received to deliver goods and services, short-term advances received to render certain services. The Group has not held contract liabilities at the reporting date.

## 13.5 Performance obligations and significant judgements

The Group's performance obligations and significant judgements are summarised below:

**Manufacturing and trading**

Manufacturing and Trading segments focus on manufacturing of a wide range of processed meat products and other convenient food products. Revenue is recognised at the point in time when the control of the asset is transferred to the customer, which is generally upon delivery of the goods. Revenue is measured based on actual sales, and therefore the output method is used for revenue recognition.

# 14 OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

## Accounting Policy

**Gains and losses**

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets are accounted for in the Income Statement, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Gains and losses arising from activities incidental to the main revenue generating activities and those arising from a group of similar transactions, which are not material are aggregated, reported and presented on a net basis.

**Other income and expense**

Other income and expenses are recognised on an accrual basis.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | For the year ended 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| 14.1 | Other operating income | | | | |
| | Exchange gain | **24,828** | 15 | **24,828** | - |
| | Unclaimed dividend | **515** | 258 | **515** | 258 |
| | Sundry income | **2,971** | 2,108 | **2,971** | 2,108 |
| | | **28,314** | 2,381 | **28,314** | 2,366 |

# NOTES TO THE FINANCIAL STATEMENTS

| | For the year ended 31st March | Notes | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| 14.2 | **Other operating expenses** | | | | | |
| | Spoilage and wastage | | **54,894** | 44,669 | **54,894** | 44,669 |
| | Bank charges | | **1,804** | 977 | **1,804** | 970 |
| | Exchange loss | | **-** | 765 | **-** | 765 |
| | Loss on disposal of property, plant and equipment | | **376** | 678 | **376** | 678 |
| | Provision for closure expenses of Subsidiary | | **17, 263** | - | **15,369** | - |
| | Impairment of investment in Subsidiary | | **-** | - | **1,894** | - |
| | Impairment of plant, machinery and equipment | 20 | **31,397** | - | **31,397** | - |
| | | | **105,734** | 47,089 | **105,734** | 47,082 |

## 15 NET FINANCE INCOME/ (COST)

### Accounting Policy

**Finance income**

Finance income comprises interest income on funds invested, dividend income, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree that are recognised in the income statement

Finance income from financial instruments includes, notional interest pertaining to loan granted to executive staff.

Interest income is recorded as it accrues using the Effective Interest Rate (EIR), which is the rate that exactly discounts the estimated future cash receipt though the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset. Interest income is included under finance income in the Income Statement.

**Finance cost**

Finance cost comprise interest expense on borrowings, unwinding of the discount on provisions, fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade receivables) that are recognised in the Income Statement.

Interest expense is recorded as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability.

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

| | For the year ended 31st March | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|
| 15.1 | **Finance Income/ (cost)** | | | | |
| | **Finance Income** | | | | |
| | Interest income | **471** | 2,363 | **471** | 2,211 |
| | Finance income from other financial instruments | **6,774** | 7,155 | **6,774** | 7,155 |
| | Total finance income | **7,245** | 9,518 | **7,245** | 9,366 |
| | | | | | |
| | **Finance cost** | | | | |
| | Interest expense on lease liabilities | **(1,054)** | (1,141) | **(1,054)** | (1,141) |
| | Interest expense on borrowings - Long-term | **(7,527)** | (9,485) | **(7,527)** | (9,485) |
| | Interest expense on borrowings - Short-term | **(3,795)** | (1,955) | **(3,795)** | (1,955) |
| | Total finance cost | **(12,376)** | (12,581) | **(12,376)** | (12,581) |
| | Net finance Cost | **(5,131)** | (3,063) | **(5,131)** | (3,215) |

## 16 PROFIT BEFORE TAX

### Accounting Policy

**Expenditure recognition**

Expenses are recognised 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 and equipment in a state of efficiency has been charged to the Income Statement.

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 and Group's performance.

| | Group | | Company | |
|---|---|---|---|---|
| For the year ended 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| **Profit before tax** | | | | |
| Profit before tax is stated after charging all expenses including the following; | | | | |
| Remuneration to Non- Executive Directors | **7,200** | 6,480 | **7,200** | 6,480 |
| Auditors' fees and expenses - Audit Service | **748** | 869 | **748** | 719 |
| - Non-Audit Service | **202** | 515 | **202** | 515 |
| **Costs of defined employee benefits** | | | | |
| Employee benefit provisions and related cost | **21,583** | 21,428 | **21,583** | 21,428 |
| Defined contribution plan cost - EPF and ETF | **45,398** | 40,167 | **45,398** | 40,167 |
| Staff expenses | **542,106** | 479,460 | **542,106** | 479,460 |
| Depreciation of property, plant and equipment | **174,733** | 156,832 | **174,733** | 156,832 |
| Amortisation of right-of-use assets | **1,461** | 1,387 | **1,461** | 1,387 |
| Amortisation of intangible assets | **402** | 40 | **402** | 40 |
| Donations | **2,693** | 3,933 | **2,693** | 3,933 |
| Loss on disposal of property, plant and equipment | **376** | 678 | **376** | 678 |
| Impairment of investment in Subsidiary | **-** | - | **1,894** | - |
| Impairment of plant, machinery and equipment | **31,397** | - | **31,397** | - |

## 17 EARNINGS PER SHARE (EPS)

### Accounting Policy

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for outstanding share options) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

| | | | Group | |
|---|---|---|---|---|
| | For the year ended 31st March | Notes | 2022 | 2021 |
| 17.1 | **Basic earnings per share** | | | |
| | Profit attributable to equity holders of the parent (Rs.'000) | | **329,573** | 320,980 |
| | Weighted average number of ordinary shares (No.'000) | 17.3 | **25,500** | 25,500 |
| | Basic earnings per share (Rs.) | | **12.92** | 12.59 |

| | | | Group | |
|---|---|---|---|---|
| | For the year ended 31st March | Notes | 2022 | 2021 |
| 17.2 | **Diluted earnings per share** | | | |
| | Profit attributable to equity holders of the parent (Rs. '000) | | **329,573** | 320,980 |
| | Adjusted weighted average number of ordinary shares (No. '000) | 17.3 | **25,500** | 25,500 |
| | Diluted earnings per share (Rs.) | | **12.92** | 12.59 |

| | For the year ended 31st March | Group 2022 No. '000 | 2021 No. '000 |
|---|---|---|---|
| 17.3 | **Amount used as denominator** | | |
| | Ordinary shares at the beginning of the year | **25,500** | 25,500 |
| | Ordinary shares at the end of the year | **25,500** | 25,500 |
| | Weighted average number of ordinary shares outstanding during the year | **25,500** | 25,500 |
| | Adjusted Weighted average number of ordinary shares* | **25,500** | 25,500 |

* There are no effects of dilution to the weighted average number of shares at present.

## 18 DIVIDEND PER SHARE (DPS)

| | For the year ended 31st March | Group 2022 Rs. | 2022 Rs. '000 | 2021 Rs. | 2021 Rs. '000 |
|---|---|---|---|---|---|
| 18.1 | **Declared and paid during the year** | | | | |
| | Final dividend* | **2.50** | **63,750** | - | - |
| | Interim dividend | **7.00** | **178,500** | 7.00 | 178,500 |
| | Total dividend | **9.50** | **242,250** | 7.00 | 178,500 |

*Previous years' final dividend paid in the current year.

## 19 TAXES

### Accounting Policy

**Current tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognised directly in equity, is recognised in equity and for items recognised in Other Comprehensive Income is recognised in Other Comprehensive Income and not in the Income Statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

The management has used its judgement on the application of tax laws including transfer pricing regulations involving identification of associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanisms.

The Group has confirmed with the arm's length principles relating to Transfer Pricing, as prescribed in the Inland Revenue Act.

### Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in Subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and unused tax credits and tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and tax losses carried forward can be utilised except;

Where the deferred tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deducible temporary differences associated with investments in Subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.
- Deferred tax relating to items recognised outside the Income Statement is recognised outside the Income Statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

### Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of an asset or service 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 and;
- Where receivables and payables that 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.

### Surcharge tax

Surcharge Tax Act No. 14 of 2022 was enacted on 8th April 2022 and is applicable to the John Keells Group as the collective taxable income of Companies belonging to the Group, calculated in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, exceeds Rs. 2,000 Mn, for the year of assessment 2020/21. The liability is computed at the rate of 25% on the taxable income of the individual Company within the Group of Companies, net of dividends from subsidiaries.

As the Act was certified by the Speaker of Parliament after the financial reporting date, no liability has been recognised in the financial year 2021/22 on account of the one-off Surcharge Tax as the law had not been enacted as at 31st March 2022.

Total Surcharge Tax liability of Rs. 96 Mn will be recognised in the Financial Statements of financial year 2022/2023 for the Company as an adjustment to the 1st April 2021 retained earnings in the Statement of Changes in Equity as per the Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka.

On 20th April 2022, the Company paid Rs. 48 Mn as the first instalment of the Surcharge Tax liability with the balance payable on 20th July 2022.

| | For the year ended 31st March | Notes | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| 19.1 | Tax expense | | | | | |
| | **Income tax** | | | | | |
| | Tax charge for the period | 19.5 | **72,972** | 69,726 | **72,972** | 69,726 |
| | Under/ (over) provision for previous years | 19.5 | **406** | (589) | **406** | (589) |
| | | | **73,378** | 69,137 | **73,378** | 69,137 |
| | **Deferred Tax** | | | | | |
| | Relating to origination and reversal of temporary differences | 19.2 | **(13,186)** | (63,876) | **(13,186)** | (63,876) |
| | | | **60,192** | 5,261 | **60,192** | 5,261 |

**Applicable Rates of Income Tax**
The tax liability of the Company is computed at the Standard Rate of 24% and lower rates of 18% and 14% (2020/21 - 24%, 18% and 14%).

| | For the year ended 31st March | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|
| 19.2 | Deferred tax expense | | | | |
| | **Income Statement** | | | | |
| | Deferred tax expense arising from; | | | | |
| | Accelerated depreciation for tax purposes | **(7,615)** | (64,532) | **(7,615)** | (64,532) |
| | Employee benefit liability | **(5,571)** | 656 | **(5,571)** | 656 |
| | Deferred tax Reversal directly to Income Statement | **(13,186)** | (63,876) | **(13,186)** | (63,876) |
| | | | | | |
| | **Other Comprehensive Income** | | | | |
| | Deferred tax expense arising from; | | | | |
| | Actuarial loss | **(1,474)** | (827) | **(1,474)** | (827) |
| | Revaluation of building | **2,606** | (8,842) | **2,606** | (8,842) |
| | Capital gain in revaluation of land | **4,598** | (19,688) | **4,598** | (19,688) |
| | Deferred tax charge/ (reversal) directly to other comprehensive income | **5,730** | (29,357) | **5,730** | (29,357) |
| | Total deferred tax reversal | **(7,456)** | (93,233) | **(7,456)** | (93,233) |

Deferred tax has been computed at the rate of 18% (2020/21-18%).

| | As at 31st March | Notes | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| 19.3 | Income tax liabilities | | | | | |
| | At the beginning of the year | | **19,273** | (7,801) | **19,273** | (7,801) |
| | Charge for the year | 19.5 | **73,378** | 69,137 | **73,378** | 69,137 |
| | Payments during the year | | **(52,498)** | (42,063) | **(52,498)** | (42,063) |
| | At the end of the year | | **40,153** | 19,273 | **40,153** | 19,273 |

| As at 31st March | Notes | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|---|
| **19.4 Deferred tax liabilities** | | | | | |
| At the beginning of the year | | **158,007** | 251,240 | **158,007** | 251,240 |
| Reversal for the year | 19.2 | **(7,456)** | (93,233) | **(7,456)** | (93,233) |
| At the end of the year | | **150,551** | 158,007 | **150,551** | 158,007 |
| | | | | | |
| The closing deferred tax asset and liability balances relate to the following; | | | | | |
| Accelerated depreciation for tax purposes | | **98,214** | 105,832 | **98,214** | 105,832 |
| Employee benefit liability | | **(22,580)** | (15,538) | **(22,580)** | (15,538) |
| Revaluation of buildings to fair value | | **22,006** | 19,400 | **22,006** | 19,400 |
| Revaluation of land to fair value | | **52,911** | 48,313 | **52,911** | 48,313 |
| At the end of the year | | **150,551** | 158,007 | **150,551** | 158,007 |

**Accounting judgement, estimates and assumptions**

The Group is subject to income tax and other taxes including VAT. Significant judgment was required to determine the total provision for current, deferred and other taxes due to uncertainties that exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

Uncertainties also with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Where the final tax outcome of such matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

| For the year ended 31st March | Group 2022 Rs. '000 | Group 2021 Rs. '000 | Company 2022 Rs. '000 | Company 2021 Rs. '000 |
|---|---|---|---|---|
| **19.5 Reconciliation between current tax charge and the accounting profit** | | | | |
| Profit before tax | **389,765** | 326,241 | **391,356** | 327,159 |
| Income not liable for income tax | **(515)** | (923) | **(515)** | (923) |
| Other consolidated adjustments | **1,591** | 918 | **-** | - |
| **Adjusted accounting profit chargeable to income taxes** | **390,841** | 326,236 | **390,841** | 326,236 |
| Disallowable expenses | **268,922** | 199,728 | **268,922** | 199,728 |
| Allowable expenses | **(263,560)** | (144,499) | **(263,560)** | (144,499) |
| Taxable income | **396,203** | 381,465 | **396,203** | 381,465 |
| | | | | |
| Income tax charged at; | | | | |
| Standard rate - 24% | **7,459** | 4,813 | **7,459** | 4,813 |
| Other concessionary rates - 18% | **64,774** | 64,420 | **64,774** | 64,420 |
| 14% | **739** | 493 | **739** | 493 |
| Tax charge for the period | **72,972** | 69,726 | **72,972** | 69,726 |
| Under/ (over) provision for previous years | **406** | (589) | **406** | (589) |
| Current tax charge | **73,378** | 69,137 | **73,378** | 69,137 |

# NOTES TO THE FINANCIAL STATEMENTS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | For the year ended 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| 19.6 | **Reconciliation between tax expense and the product of accounting profit** | | | | |
| | Adjusted accounting profit chargeable to income taxes | **390,843** | 326,236 | **390,843** | 326,236 |
| | | | | | |
| | Tax effect on chargeable profits | **72,006** | 59,785 | **72,006** | 59,785 |
| | Tax effect on non deductible expenses | **10,344** | 2,043 | **10,344** | 2,043 |
| | Under/ (over) provision for previous years | **406** | (589) | **406** | (589) |
| | Tax effect on gratuity transfers | **34** | 141 | **34** | 141 |
| | Tax effect on deductions claimed | **(14,462)** | (1,344) | **(14,462)** | (1,344) |
| | Net tax effect on rate differentials | **-** | (55,686) | **-** | (55,686) |
| | Net tax effect of unrecognised deferred tax assets for the year | **(8,137)** | 911 | **(8,137)** | 911 |
| | Tax expense | **60,191** | 5,261 | **60,191** | 5,261 |

### 19.7 Income tax rates of off-shore Subsidiaries

| Country of incorporation | Company | Rate |
|---|---|---|
| India | John Keells Foods India (Pvt) Ltd | 25% |

## 20 PROPERTY, PLANT AND EQUIPMENT

### Accounting Policy

**Basis of recognition**

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

**Basis of measurement**

Property, plant and equipment except for land and buildings are stated at cost less accumulated depreciation and any accumulated impairment loss. Such cost includes the cost of replacing component parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group de-recognises the 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. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charged subsequent to the date of the revaluation.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Any revaluation surplus is recognised in Other Comprehensive Income and Changes in Equity under asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Where land and buildings are subsequently revalued, the entire class of such assets is revalued at fair value on the date of revaluation. The Group has adopted a policy of revaluing Land and Building by a professional valuer at least once every 5 years.

Capital Work-in-Progress is stated at cost including borrowing cost capitalised where applicable.

**De-recognition**
An item of property, plant and equipment is de-recognised upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the Income Statement in the year the asset is de-recognised.

**Depreciation**
Depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic life of such assets.

Depreciation commences in the month following the purchase/commissioning of the assets and ceases in the month of disposal/scrapped.

The estimated useful life of assets is as follows:

| Assets | Years |
|---|---|
| Buildings on freehold land | 30 |
| Buildings on leasehold land | 20-26 |
| Plant and machinery | 2-20 |
| Computer equipment | 5 |
| Furniture and fittings | 8 |
| Motor vehicles | 5 |
| Freezers | 10-12 |
| Office equipment | 6 |
| Other equipment | 2 |

## 20 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

**Borrowing costs**

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

**Impairment of property, plant and equipment**

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

Impairment losses are recognised in the Income Statement, except that, impairment losses in respect of property, plant and equipment previously revalued are recognised against the revaluation reserve through the Statement of Other Comprehensive Income to the extent that it reverses a previous revaluation surplus.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased if such indication exists the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value on a systematic basis or its remaining useful life.

Businesses continued to respond with specific plans to enable smooth and uninterrupted functioning of businesses and operations, despite some of the immediate term challenges due to constraints on supply chains and electricity and fuel disruptions, whilst maintaining strict adherence to Government directives and health and safety considerations. The Group managed to circumvent these issues without a significant impact on output.

However, The Company has taken a decision to cease commercial operations of its ezy rice products in the next financial year. As at 31st March 2022, the assets of the rice manufacturing plant had a total carrying amount of Rs. 170 Mn of which Rs. 31.4 Mn was recognised as an impairment loss and the remaining assets were included in the CGU at Pannala. Accordingly, the impairment test has been carried out with respect to the Pannala CGU including the assets transferred from the rice manufacturing facility (Note 22.2).

## 20 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

### 20.1 Group and Company

| As at 31st March | Land and buildings Rs. '000 | Buildings on leasehold land Rs. '000 | Plant and machinery Rs. '000 | Furniture, fittings and equipment Rs. '000 | Motor vehicles Rs. '000 | Freezers Rs. '000 | Other assets Rs. '000 | Capital work-in-progress Rs. '000 | Total 2022 Rs. '000 | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | | |
| At the beginning of the year | 396,224 | 317,885 | 1,491,194 | 65,462 | 674 | 117,819 | 30,660 | - | **2,419,918** | 2,322,885 |
| Additions | 2,020 | 3,764 | 48,384 | 6,128 | - | 54,178 | 5,960 | 3,052 | **123,486** | 87,694 |
| Disposals | - | - | - | (242) | - | (2,462) | - | - | **(2,704)** | (5,431) |
| Impairment* | - | - | (41,509) | - | - | - | (787) | - | **(42,296)** | |
| Transfers on revaluation | (6,079) | (13,304) | - | - | - | - | - | - | **(19,383)** | (17,690) |
| Revaluations | 31,623 | 8,399 | - | - | - | - | - | - | **40,022** | 32,460 |
| At the end of the year | 423,788 | 316,744 | 1,498,069 | 71,348 | 674 | 169,535 | 35,833 | 3,052 | **2,519,043** | 2,419,918 |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| At the beginning of the year | (1,480) | (3,080) | (757,994) | (47,060) | (674) | (41,613) | (22,008) | - | **(873,909)** | (739,366) |
| Charge for the year | (6,199) | (13,441) | (128,660) | (6,789) | - | (12,933) | (6,711) | - | **(174,733)** | (156,832) |
| Disposals | - | - | - | 102 | - | 2,066 | - | - | **2,168** | 4,599 |
| Impairment* | - | - | 10,430 | - | - | - | 469 | | **10,899** | |
| Transfers on revaluation | 6,079 | 13,304 | - | - | - | - | - | - | **19,383** | 17,690 |
| At the end of the year | (1,600) | (3,217) | (876,224) | (53,747) | (674) | (52,480) | (28,250) | - | **(1,016,192)** | (873,909) |
| | | | | | | | | | | |
| **Carrying value** | | | | | | | | | | |
| **As at 31st March 2022** | | | | | | | | | | |
| At Valuation | 422,188 | 313,227 | - | - | - | - | - | - | **735,415** | |
| At Cost | - | 300 | 621,845 | 17,601 | - | 117,055 | 7,583 | 3,052 | **767,436** | |
| | 422,188 | 313,527 | 621,845 | 17,601 | - | 117,055 | 7,583 | 3,052 | **1,502,851** | |
| | | | | | | | | | | |
| **Carrying value** | | | | | | | | | | |
| **As at 31st March 2021** | | | | | | | | | | |
| At Valuation | 394,300 | 310,278 | - | - | - | - | - | - | | 704,578 |
| At Cost | 444 | 4,527 | 733,200 | 18,402 | - | 76,206 | 8,652 | - | | 841,431 |
| | 394,744 | 314,805 | 733,200 | 18,402 | - | 76,206 | 8,652 | - | | 1,546,009 |

* The impairment loss of Rs. 31.4 Mn represented the written down value of assets to the recoverable amount as the Company has taken a decision to cease commercial operations of its ezy rice manufacturing plant which was acquired in November 2019, as a result of reduction in demand due to the pandemic. This has been recognised in the Income Statement. The recoverable amount of Rs. 6 Mn as at 31st March 2022 was based on the higher of value in use and fair value less cost to sell and was determined at the level of the CGU.

### 20.2 Revaluation of land and buildings

**Accounting judgements, estimates and assumptions**

The Group / Company uses the revaluation model of measurement of land and buildings. The Group / Company engaged independent expert valuers to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence of transaction prices for similar properties. Valuations are based on open market prices, adjusted for any difference in the nature, location, or condition of the specific property. These valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The date of the most recent revaluation was carried out on 31st December 2021.

The valuations as of 31st December 2021 contained a higher estimation uncertainty as there were fewer market transactions which are ordinarily a strong source of evidence regarding fair value. The value reflected represents the best estimate based on the market conditions that prevailed, which in valuers' considered opinion, meets the requirements in SLFRS-13 Fair Value Measurement.

The changes in fair value recognised in Other Comprehensive Income and in the Statement of Changes in Equity.

Details of Land and Building stated at valuation are indicated below;

| Property | Location | Method of valuation | Effective date of valuation | Independent Valuer |
|---|---|---|---|---|
| Land and Building at Keells Food Products PLC | Ja-Ela | Open market value | 31st December 2021 | Messrs. P.B Kalugalagedera Chartered Valuation Surveyor |
| Land and Building at Keells Food Products PLC | Pannala | Open market value | 31st December 2021 | |

| Type of Asset | Valuation technique | Significant unobservable inputs | Group and Company Estimates for unobservable inputs 2022 | 2021 | Co-relation to fair value |
|---|---|---|---|---|---|
| Land- Ja-Ela | Open market value* | Estimated price per perch | Rs. 600,000/- | Rs. 550,000/- | Positively correlated sensitivity |
| Land- Pannala | Open market value | Estimated price per perch | Rs. 65,000/- | Rs. 62,500/- | |
| Buildings on freehold land | Open market value | Estimated price per square feet | Rs. 400/- Rs. 3,150/- | Rs. 400/- Rs. 3,150/- | |
| Buildings on leasehold land | Open market value | Estimated price per square feet** | Rs.150/- Rs.10,000/- | Rs.400/- Rs.10,000/- | |

**Summary description of valuation methodology;**

***Open Market Value method (OMV)**

Open market value method uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities, such as a business.

**The impact of the lease on the land, has been adjusted in arriving at the final valuation of building on leasehold land at Pannala.

### 20.3 Carrying value of total assets

The carrying amount of revalued buildings if they were carried at cost less depreciation, would be as follows;

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| Cost | **394,782** | 388,998 | **394,782** | 388,998 |
| Accumulated Depreciation | **(124,760)** | (108,667) | **(124,760)** | (108,667) |
| Carrying value | **270,022** | 280,331 | **270,022** | 280,331 |

**20.4** Property, plant and equipment with a cost of Rs. 232 Mn (2021 -Rs. 200 Mn) have been fully depreciated as at 31st March 2022 and continue to be in use by the Group and the Company.

**20.5** During the financial year, the Group and the Company acquired property, plant and equipment to the aggregate value of Rs. 123 Mn (2020/21 -Rs. 88 Mn) and cash payments amounting to Rs. 123 Mn (2020/21 -Rs. 88 Mn) were made during the year for purchase of property, plant and equipment.

## 21 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

### Accounting policy

**Right-of-use assets**

The Group recognises right-of-use assets when the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. Right-of-use assets are subject to impairment.

**Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group uses 6 months AWPLR based plus margin when calculating the incremental borrowing rate which reflects the average rate of borrowings in the Group. Quarterly calculated incremental borrowing rates were used to discount new leases obtained during the year.

# NOTES TO THE FINANCIAL STATEMENTS

## 21 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTD.)

**Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Businesses continued to respond with specific plans to enable smooth and uninterrupted functioning of businesses and operations, despite some of the immediate term challenges due to constraints on supply chains and electricity and fuel disruptions, whilst maintaining strict adherence to Government directives and health and safety considerations. The Group managed to circumvent these issues without a significant impact on output. As such, the Group has not determined impairment as at the reporting date.

### Amounts recognised in the Statement of Financial Position and Income Statement

Set out below, are the carrying amounts of the Group and Company's right-of-use assets and the movements for the year ended 31st March.

| | Group and Company | |
|---|---|---|
| As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| **21.1 Right-of-use assets** | | |
| Cost | | |
| At the beginning of the year | **11,568** | 10,679 |
| Additions | **-** | 889 |
| At the end of the year | **11,568** | 11,568 |
| | | |
| **Accumulated amortisation** | | |
| At the beginning of the year | **(2,670)** | (1,283) |
| Amortisation | **(1,461)** | (1,387) |
| At the end of the year | **(4,131)** | (2,670) |
| | | |
| Carrying value | **7,437** | 8,898 |

Set out below, are the carrying amounts of the Group and Company's lease liabilities and the movements for the year ended 31st March.

| | Group and Company | |
|---|---|---|
| **As at 31st March** | **2022 Rs. '000** | **2021 Rs. '000** |
| **21.2 Lease liabilities** | | |
| **Lease Liabilities** | | |
| At the beginning of the year | **9,761** | 9,824 |
| Additions | **-** | 889 |
| Interest expense | **1,054** | 1,141 |
| Payments | **(2,124)** | (2,093) |
| At the end of the year | **8,691** | 9,761 |
| | | |
| Payable within one year | **1,243** | 1,041 |
| Payable after one year | **7,448** | 8,720 |
| Total lease liability | **8,691** | 9,761 |

The following are the amounts recognised in Income Statement

| | Group and Company | |
|---|---|---|
| **For the year ended** | **2022 Rs. '000** | **2021 Rs. '000** |
| Amortisation expense of right-of-use assets | **1,461** | 1,387 |
| Interest expense on lease liabilities | **1,054** | 1,141 |
| Total amount recognised in Income Statement | **2,515** | 2,528 |

During the year the Company hasn't recognised expenses relating to short-term leases and leases of low value assets in Income Statement.

The maturity analysis of lease liabilities is disclosed in Note 10.2.2

## 22 INTANGIBLE ASSETS

### Accounting Policy

**Basis of recognition**

An Intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the Company and the cost of the asset can be reliably measured.

**Basis of measurement**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is charged against Income Statement in the year in which the expenditure is incurred.

**Useful economic lives, amortisation and impairment**

The useful lives of intangible assets are assessed as either finite or indefinite lives. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end and treated as accounting estimates. The amortisation is calculated by using the straight-line method on the cost of all the intangible assets and the amortisation expense on intangible assets with finite lives is recognised in the Income Statement.

## 22 INTANGIBLE ASSETS (CONTD.)

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

**Purchased software**

Purchased software is recognised as an intangible asset and is amortised on a straight line basis over its useful life.

**Software license**

Software license costs are recognised as an intangible asset and amortised over the period of the related license.

A summary of the policies applied to the Company's intangible assets are as follows;

| Intangible Assets | Useful life | Acquired/ Internally generated | Impairment testing |
|---|---|---|---|
| Purchased Software | 4-6 years | Acquired | When indicators of impairment exists, the amortisation method is reviewed at each financial year end. |
| Software License | 4-6 years | Acquired | |

**De-recognition**

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is de-recognised.

| | Group and Company | | | |
|---|---|---|---|---|
| As at 31st March | Purchased software Rs. '000 | Goodwill Rs. '000 | 2022 Total Rs. '000 | 2021 Total Rs. '000 |
| **22.1 Intangible assets** | | | | |
| **Cost** | | | | |
| At the beginning of the year | 3,675 | 242,268 | **245,943** | 247,110 |
| Additions | 3,345 | - | **3,345** | 2,410 |
| Disposals | - | - | **-** | (3,577) |
| At the end of the year | 7,020 | 242,268 | **249,288** | 245,943 |
| **Accumulated amortisation and impairment** | | | | |
| At the beginning of the year | (1,265) | - | **(1,265)** | (4,802) |
| Amortisation | (402) | - | **(402)** | (40) |
| Disposals | - | - | **-** | 3,577 |
| At the end of the year | (1,667) | - | **(1,667)** | (1,265) |
| **Carrying value** | | | | |
| **As at 31st March 2022*** | 5,353 | 242,268 | **247,621** | |
| As at 31st March 2021 | 2,410 | 242,268 | | 244,678 |

*The recoverable amount of the cash generating unit relevant to the goodwill is more than the carrying value amount at the end of the reporting period. Therefore, no impairment loss is recognised in respect of goodwill as at 31st March 2022.

Group's Intangible assets with a cost of Rs. 1.3 Mn (2021 - Rs. 1.3 Mn) have been fully amortised as at 31st March 2022 and continue to be in use.

| | Group and Company | |
|---|---|---|
| As at 31st March | Net carrying value of goodwill 2022 Rs. '000 | Net carrying value of goodwill 2021 Rs. '000 |
| 22.2 Goodwill | **242,268** | 242,268 |

### Accounting judgements, estimates and assumptions

Goodwill acquired through business combination is due to the purchase of the manufacturing facility at Pannala (CGU) of D&W Food Products (Pvt) Ltd and goodwill is tested for impairment as follows;

**Impairment of Goodwill**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value and its cost to sell or its Value In Use (VIU) the fair value and cost to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental cost from disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include the restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

The key assumptions used to determine the recoverable amount for the cash generating units as follows;

**Gross margins**

The basis used to determine the value assigned to the budgeted gross margins, is the gross margins achieved in the year preceding the budgeted year adjusted for projected market conditions.

**Discount rates**

The discount rate used is the risk free rate adjusted by the addition of an appropriate risk premium.

**Inflation**

The basis used to determine the value assigned to the budgeted cost inflation is the inflation rates based on projected economic conditions.

**Volume growth**

A volume growth has been budgeted on a reasonable and realistic basis by taking into account the growth rates of one to four years immediately subsequent to the budgeted year based on industry growth rates. Cash flows beyond the five year period are extrapolated using reasonable growth rate.

**Sensitivity of assumptions used**

The Management tested several scenarios based calculations on possible changes of the assumptions due to the prevailing macroeconomic conditions. Based on those calculations, the management has concluded that there is no material impact to Value in Use which was computed.

# NOTES TO THE FINANCIAL STATEMENTS

## 23 INVESTMENTS IN SUBSIDIARY

### Accounting Policy

Investment in Subsidiary is initially recognised at cost in the Financial Statements of the Company. Any transaction cost relating to acquisition of an investment in Subsidiary is immediately recognised in the Income Statement. Following the initial recognition, the Investment in Subsidiary is carried at cost less any accumulated impairment losses.

| | | Company | |
|---|---|---|---|
| | As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| 23.1 | **Carrying value** | | |
| | Investments in Subsidiary | **220,292** | 220,292 |
| | | | |
| | **Less** | | |
| | Allowance for impairment of investment | **(220,292)** | (218,398) |
| | Carrying Value | **-** | 1,894 |
| | | | |
| | Effective Holding % | **100%** | 100% |

The Subsidiary Company John Keells Foods India (Private) Limited was restructured in June 2010. The carrying value of investment was fully impaired during the financial year 2021/22.

## 24 NON-CURRENT FINANCIAL ASSETS

### Accounting Policy

Non-current financial assets within the scope of SLFRS 9 are classified as financial assets at initial recognition.

| | | | Group | | Company | |
|---|---|---|---|---|---|---|
| | As at 31st March | Notes | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| | Loans to executives | 24.1 | **51,284** | 45,140 | **51,284** | 45,140 |
| | | | **51,284** | 45,140 | **51,284** | 45,140 |
| | | | | | | |
| 24.1 | **Loans to executives** | | | | | |
| | At the beginning of the year | | **62,930** | 59,344 | **62,930** | 59,344 |
| | Loans granted | | **34,025** | 24,723 | **34,025** | 24,723 |
| | Recoveries | | **(26,828)** | (21,137) | **(26,828)** | (21,137) |
| | At the end of the year | | **70,127** | 62,930 | **70,127** | 62,930 |
| | | | | | | |
| | **Receivable within one year** | 27 | **18,843** | 17,790 | **18,843** | 17,790 |
| | | | | | | |
| | **Receivable after one year** | | | | | |
| | Receivable between one and five years | 24 | **51,284** | 45,140 | **51,284** | 45,140 |
| | | | **70,127** | 62,930 | **70,127** | 62,930 |

## 25 OTHER NON-CURRENT ASSETS

### Accounting Policy

Group classifies all non-financial non-current assets that are not expected to be realised within twelve months under other non current assets.

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| Pre-paid staff cost* | 8,421 | 9,120 | 8,421 | 9,120 |
| | 8,421 | 9,120 | 8,421 | 9,120 |

*Prepaid staff cost represents the prepaid potion of the loans granted to the staff.

## 26 INVENTORIES

### Accounting Policy

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale.

Inventory provisions are recognised in cases where the expected net realisable value of inventory is lower than its carrying amount, including provisions for obsolete, slow moving stock and waste. The provision is based on periodical reviews performed by the Group. All inventory provisioning requires a level of judgement on how the condition of inventory is impacted by spoilages, shelf – life of products and other industry factors.

The costs incurred in bringing inventories to its present location and condition, are accounted for as follows:

| Inventory | Basis of Valuation |
|---|---|
| Raw materials,machinery spares and other inventories | At actual cost on weighted average basis |
| Manufactured finished goods, retail inventories and work-in-progress | At the actual cost of direct materials, direct labour and an appropriate portion of fixed production overheads based on normal operating capacity but excluding borrowing cost |

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| **Inventories** | | | | |
| Raw materials | **301,599** | 153,279 | **301,599** | 153,279 |
| Work-in-progress | **43,031** | 33,086 | **43,031** | 33,086 |
| Finished goods | **132,472** | 220,540 | **132,472** | 220,540 |
| Spare parts | **122,055** | 146,317 | **122,055** | 146,317 |
| Other inventories | **883** | 552 | **883** | 552 |
| | **600,040** | 553,774 | **600,040** | 553,774 |
| Provision for slow-moving inventories | **(14,313)** | (10,635) | **(14,313)** | (10,635) |
| | **585,727** | 543,139 | **585,727** | 543,139 |

The amount recognised as an expense for inventories carried at net realisable value of Rs. 54.9 Mn (2020/21 - Rs. 44.9 Mn) by the Group and the Company. This is recognised as other operating expenses (Note 14.2).

## 27 TRADE AND OTHER RECEIVABLES

### Accounting Policy

Trade receivables are classified as current assets if payment is due within one year.

A receivable represents the Group's right to an amount of consideration that is unconditional. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. In 2021/22, Rs. 1,220,829/- (2020/21 Rs. 1,221,807/-) was recognised as provision for expected credit losses on trade receivables.

| | | Group | | Company | |
|---|---|---|---|---|---|
| As at 31st March | Notes | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Trade Receivables | | **602,411** | 445,262 | **602,411** | 445,262 |
| Less: Allowance for expected credit losses | | **(1,221)** | (1,222) | **(1,221)** | (1,222) |
| | | **601,190** | 444,040 | **601,190** | 444,040 |
| Other receivables | | **1,493** | 1,643 | **1,493** | 1,643 |
| Loans to executives | 24.1 | **18,843** | 17,790 | **18,843** | 17,790 |
| | | **621,526** | 463,473 | **621,526** | 463,473 |

## 28 OTHER CURRENT ASSETS

### Accounting Policy

Group classifies all non-financial current assets under other current assets.

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Pre-payment and non-cash receivables | 108,608 | 14,865 | 108,608 | 14,865 |
| | 108,608 | 14,865 | 108,608 | 14,865 |

## 29 SHORT-TERM INVESTMENTS

### Accounting Policy

Group classifies investment in government securities, other short-term investments and term deposits with a maturity of 12 months or less, under short-term investments.

| | Group | | Company | |
|---|---|---|---|---|
| **As at 31st March** | **2022<br>Rs. '000** | **2021<br>Rs. '000** | **2022<br>Rs. '000** | **2021<br>Rs. '000** |
| **Less than 3 months** | | | | |
| Deposits at Bank | - | 514 | - | - |
| Reported in Statement of Cash Flow | - | 514 | - | - |
| | - | 514 | - | - |

| | Group | | Company | |
|---|---|---|---|---|
| **As at 31st March** | **2022<br>Rs. '000** | **2021<br>Rs. '000** | **2022<br>Rs. '000** | **2021<br>Rs. '000** |
| **30 CASH IN HAND AND AT BANK** | | | | |
| Cash in hand | **967** | 1,007 | **967** | 1,007 |
| Cash at bank | **108,934** | 28,972 | **107,820** | 28,399 |
| **Cash in hand and at bank - favourable** | **109,901** | 29,979 | **108,787** | 29,406 |
| Bank overdraft | **(245,261)** | (160,780) | **(245,261)** | (160,780) |
| **Cash in hand and at bank - unfavourable** | **(245,261)** | (160,780) | **(245,261)** | (160,780) |

Security and repayment terms of short-term borrowings - Group and Company

| Type of facility | Nature of facility | Facility amount Rs. '000 | Security | Repayment terms |
|---|---|---|---|---|
| Short-term | Bank overdraft | 266,000 | Clean basis | On demand |

| | 2022 | | 2021 | |
|---|---|---|---|---|
| **As at 31st March** | **Number of shares No. '000** | **Value of shares Rs. '000** | **Number of shares No. '000** | **Value of shares Rs. '000** |
| **31 STATED CAPITAL** | | | | |
| **Fully paid ordinary shares** | | | | |
| At the beginning of the year | **25,500** | **1,294,815** | 25,500 | 1,294,815 |
| At the end of the year | **25,500** | **1,294,815** | 25,500 | 1,294,815 |

The issued ordinary shares of the Company are listed on the Colombo Stock Exchange.

# NOTES TO THE FINANCIAL STATEMENTS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| 32 | **REVENUE RESERVES** | | | | |
| | Retained Earnings | **503,344** | 422,733 | **502,565** | 420,363 |
| | | **503,344** | 422,733 | **502,565** | 420,363 |

| | | | Group | | Company | |
|---|---|---|---|---|---|---|
| | As at 31st March | Notes | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| 33 | **OTHER COMPONENTS OF EQUITY** | | | | | |
| | Revaluation reserve | 33.1 | **338,274** | 305,456 | **338,274** | 305,456 |
| | Foreign currency translation reserve | 33.2 | **(4,609)** | (5,322) | **-** | - |
| | Employee share option plan reserve | 33.3 | **60,807** | 58,700 | **60,807** | 58,700 |
| | | | **394,472** | 358,834 | **399,081** | 364,156 |

33.1 Revaluation reserve consists of the surplus on the revaluation of property, plant and equipment net of deferred tax effect.

33.2 Foreign currency translation reserve comprises the net exchange movement arising on the currency translation of the foreign Subsidiary into Sri Lanka rupees.

### 33.3 Share-based payment plans

**Accounting Policy**

**Employee Share Option Plan- Equity-settled transactions**

Employees receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of the employee services received in respect of the shares or share options granted is recognised in the Income Statement over the period that employees provide services, from the time when the award is granted up to the vesting date of the options. The overall cost of the award is calculated using the number of share options expected to vest and the fair value of the options at the date of grant.

In accounting for employee remuneration in the form of shares, SLFRS 2- Share Based Payments, is effective for the Company, from the financial year beginning 2013/14.

The employee remuneration expense resulting from the John Keells Group's Employees share option (ESOP) scheme to the employees of Keells Food Products PLC is recognised in the Income Statement of the Company. This transaction does not result in a cash outflow and the expense recognised is met with a corresponding Equity reserve increase, thus having no impact on the Statement of Financial Position (SOFP).

The fair value of the options granted is determined by using an option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The Income Statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in the share based payment plan.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled transaction award is modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled award and the new award are treated as if they were a modification of the original award, as described in the previous paragraph.

**Employee Share Option Scheme**

Under the John Keells Group's Employees share option scheme (ESOP), share options of the Parent Company are granted to Senior Executives with more than 12 months of service. The exercise price of the share options is equal to the 30 day volume weighted average market price of the underlying shares on the date of grant. The share options vest over a period of four years and is dependent on a performance criteria and a service criteria. The performance criteria being a minimum performance achievement of "Met Expectations" and service criteria being that the employee has to be in employment at the time the share options vest. The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The contractual term for each option granted is five years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

**Accounting judgements, estimates and assumptions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome either.

The expense recognised for employee services received during the year is shown in the following table:

| | | Group | | Company | |
|---|---|---|---|---|---|
| **As at 31st March** | **Notes** | **2022** | **2021** | **2022** | **2021** |
| | | **Rs. '000** | **Rs. '000** | **Rs. '000** | **Rs. '000** |
| At the beginning of the year | | **58,700** | 56,119 | **58,700** | 56,119 |
| Expense arising from equity-settled share-based payment transactions | | **2,107** | 2,581 | **2,107** | 2,581 |
| At the end of the year | 33 | **60,807** | 58,700 | **60,807** | 58,700 |

## 33.3 Share-based payment plans (Contd.)

**Movements in the year**

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 No. | 2022 WAEP Rs. | 2022 No. | 2022 WAEP Rs. |
| ESOP PLAN 8 | | | | |
| Outstanding at the beginning of the year | 548,624 | 151.34 | 548,624 | 151.34 |
| Granted during the year | 67,200 | 136.64 | 67,200 | 136.64 |
| Lapses/ forfeited | (174,993) | 144.11 | (174,993) | 144.11 |
| **Outstanding at the end of the year** | 440,831 | 151.97 | 440,831 | 151.97 |
| Vested as at 31st March | 270,181 | 160.20 | 270,181 | 160.20 |

**Fair value of the share option and assumptions**

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The valuation takes into account factors such as stock price, expected time to maturity, exercise price, expected volatility of share price, expected dividend yield and risk free interest rate.

## 34 INTEREST -BEARING LOANS AND BORROWINGS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | As at 31st March | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| 34.1 | Movement | | | | |
| | At the beginning of the year | 129,123 | 165,336 | 129,123 | 165,336 |
| | **Cash movements** | | | | |
| | Repayments | (43,455) | (36,213) | (43,455) | (36,213) |
| | | | | | |
| | **Movements** | - | - | - | - |
| | At the end of the year | 85,668 | 129,123 | 85,668 | 129,123 |
| | | | | | |
| 34.2 | Total Borrowings | | | | |
| | Repayable within one year | 43,455 | 43,455 | 43,455 | 43,455 |
| | Repayable after one year | 42,213 | 85,668 | 42,213 | 85,668 |
| | Total Interest -bearing loans and borrowings | 85,668 | 129,123 | 85,668 | 129,123 |

**Security and repayment terms-Group and Company**

| Nature of facility | Interest rate and security | Year of Maturity | Repayment Terms | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|---|---|---|
| Project loan | One month Cost of Funds+Margin on a clean basis | March 2024 | 60 monthly instalments commencing from February 2019 | **85,668** | 129,123 |

## 35 EMPLOYEE BENEFIT LIABILITIES

### Accounting Policy

**Defined contribution plan - Employees' Provident Fund and Employees' Trust Fund**

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Company contribute the defined percentages of gross emoluments of employees to an approved Employees' Provident Fund and to the Employees' Trust Fund respectively, which are externally funded.

**Employee defined benefit plan - gratuity**

The liability recognised in the Statement of Financial Position is the present value of the defined benefit obligation as at the reporting date using the projected unit credit method. Any actuarial gains or losses arising are recognised immediately in Other Comprehensive Income. Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The obligation is not externally funded.

**Other long-term employee benefits**

A new Long-Term Incentive Plan (LTI) has been launched for senior employees of the Group. The overall incentive will be paid in cash as a lump sum payment upon achievement of key performance indicators linked to the five year strategic plan in place.

The Liability recognised in respect other long-term employee benefits are measured as the present value of the estimated future cash outflows expected to be made by the Group in relation to the performance and the services of the relevant employees, up to the reporting date.

| | | | Group | | Company | |
|---|---|---|---|---|---|---|
| | As at 31st March | Notes | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| 35.1 | **Total employee benefit liabilities** | | | | | |
| | Employee defined benefit plan- gratuity | 35.3 | **133,993** | 114,130 | **133,993** | 114,130 |
| | Other long-term employee benefits | 35.4 | **10,127** | 7,231 | **10,127** | 7,231 |
| | At the end of the year | | **144,120** | 121,361 | **144,120** | 121,361 |

| | | | Group | | Company | |
|---|---|---|---|---|---|---|
| | For the year ended 31st March | Notes | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| 35.2 | **Employee benefit provisions and related costs** | | | | | |
| | Employee defined benefit plan- gratuity | 35.3 | **18,687** | 18,466 | **18,687** | 18,466 |
| | Other long-term employee benefits | 35.4 | **2,896** | 2,962 | **2,896** | 2,962 |
| | | | **21,583** | 21,428 | **21,583** | 21,428 |

| | | | Group | | Company | |
|---|---|---|---|---|---|---|
| | As at 31st March | Notes | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| 35.3 | **Employee defined benefit plan- gratuity** | | | | | |
| | At the beginning of the year | | **114,130** | 98,497 | **114,130** | 98,497 |
| | Current service cost | | **7,866** | 7,631 | **7,866** | 7,631 |
| | Past service cost | | **1,686** | - | **1,686** | - |
| | Interest cost on benefit obligation | | **9,135** | 10,835 | **9,135** | 10,835 |
| | | | **18,687** | 18,466 | **18,687** | 18,466 |
| | Transfers in | | **190** | 141 | **190** | 141 |
| | Payments | | **(7,200)** | (9,392) | **(7,200)** | (9,392) |
| | | | **(7,010)** | (9,251) | **(7,010)** | (9,251) |
| | Loss arising from changes in assumptions | | **8,186** | 6,418 | **8,186** | 6,418 |
| | At the end of the year | 35.1 | **133,993** | 114,130 | **133,993** | 114,130 |
| | | | | | | |
| | The expenses are recognised in the Income Statement in the following line items; | | | | | |
| | Cost of sales | | **12,772** | 12,276 | **12,772** | 12,276 |
| | Selling and distribution expenses | | **1,711** | 1,984 | **1,711** | 1,984 |
| | Administrative expenses | | **4,204** | 4,206 | **4,204** | 4,206 |
| | | 35.2 | **18,687** | 18,466 | **18,687** | 18,466 |

During the year 2021/22, the gratuity arrangement for employees were adjusted to reflect new legal requirement as per minimum retirement age of Workers Act No. 28 of 2021 regarding the retirement age. As a result of the plan amendment, the Group defined benefit obligation increased by Rs. 1.6 Mn. (2020/21 - Nil), and the corresponding past service cost was recognised in Income Statement during the year 2021/22.

The employee benefit liabilities of the Group is based on the actuarial valuations carried out by Messrs. Smiles Global (Pvt) Ltd.

| | | | Group | | Company | |
|---|---|---|---|---|---|---|
| | As at 31st March | Notes | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| 35.4 | **Other long-term employee benefits** | | | | | |
| | At the beginning of the year | | **7,231** | 4,269 | **7,231** | 4,269 |
| | Current service cost | 35.2 | **2,896** | 2,962 | **2,896** | 2,962 |
| | At the end of the year | | **10,127** | 7,231 | **10,127** | 7,231 |

## 35.5 Accounting judgements, estimates and assumptions

**Employee Benefit Liability**

The employee benefit liability of the Group and Company is based on the actuarial valuation carried out by Independent Actuarial Specialists. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long-term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

| The principal assumptions used in determining the cost of employee benefits were: | 2022 | 2021 |
|---|---|---|
| **Discount rate** | **9% p.a** | 8% p.a |
| **Future salary increases:** | | |
| Executives | **8%** | 7% |
| Non-executives | **11%** | 8% |
| **Retirement age** | | |
| As of 17 Nov 2021, employees who have attained the age of; | | |
| Less than 52 years | **60 years** | 55 years |
| 53 years | **59 years** | 55 years |
| 54 years | **58 years** | 55 years |
| 55 years | **57 years** | 55 years |

## 35.6 Sensitivity of assumptions used

A percentage point change in the assumptions would have the following effects to employee benefit plan - gratuity;

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| **Discount rate** | | | | |
| 1% Increase | **(6,711)** | (4,593) | **(6,711)** | (4,593) |
| 1% Decrease | **7,355** | 4,972 | **7,355** | 4,972 |
| **Salary increment rate** | | | | |
| 1% Increase | **7,277** | 4,998 | **7,277** | 4,998 |
| 1% Decrease | **(6,763)** | (4,699) | **(6,763)** | (4,699) |

The Management tested several scenarios based calculations on possible changes of the assumptions due to the prevailing macroeconomic conditions. Based on those calculations, the management has concluded that there is no material impact to retirement benefit obligations liability of the Group.

**Maturity analysis of the payments**

The following payments are expected on employee benefit liabilities in future years;

| | Group and Company | |
|---|---|---|
| As at 31st March | 2022 Rs. '000 | 2021 Rs. '000 |
| Within the next 12 months | **-** | 3,959 |
| Between 1 and 2 years | **1,658** | 6,515 |
| Between 2 and 5 years | **26,469** | 59,874 |
| Between 5 and 10 years | **105,866** | 43,782 |
| **Total expected payments** | **133,993** | 114,130 |
| Weighted average duration of the defined benefit plan obligation in years | **6.71** | 6.32 |

## 36 TRADE AND OTHER PAYABLES

### Accounting Policy

Trade payables are aggregate amount of obligations to pay for goods or services, that have been acquired in the ordinary course of business. Trade and other payables are normally non-interest bearing and settled within one year.

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| Trade payables | **353,346** | 184,591 | **353,346** | 184,591 |
| Sundry creditors including accrued expenses | **173,820** | 182,220 | **168,876** | 180,075 |
| | **527,166** | 366,811 | **522,222** | 364,666 |

For further explanation on the Group's liquidity risk management process refer note 10.2.2.

## 37 OTHER CURRENT LIABILITIES

### Accounting Policy

Group and Company classifies all non-financial current liabilities under other current liabilities.

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| Other taxes payable | **23,437** | 17,857 | **23,437** | 17,857 |

## 38 RELATED PARTY TRANSACTIONS

**Terms and conditions of transactions with related parties**

Transactions with related parties are carried out in the ordinary course of the business on an arm's length basis. Outstanding current account balances as at year end are unsecured, interest free and settlement occurs in cash. There are no related party transactions other than that, which have been disclosed below;

**Non-recurrent related party transactions**

There were no non-recurrent related party transactions which in aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31st March 2021 Audited Financial Statements, which requires additional disclosures in the 2021/22 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

**Recurrent related party transactions**

Recurrent related party transactions which have an aggregate value exceeding 10% of the Consolidated revenue of the Group as per the Audited Financial Statements as at 31st March 2021 which requires additional disclosures in the 2021/22 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

| | | |
|---|---|---|
| Name of related party | :- | Jaykay Marketing Services (Pvt) Ltd |
| Relationship | :- | Company under common control |
| Nature of the transaction | :- | Sale of goods |
| Aggregate value of related party transactions entered into during the financial year | :- | Rs. 1,181 Mn |
| Aggregate value of related party transactions as a % of net revenue | :- | 32.35% |
| Terms and Conditions of the related party transaction | :- | Ordinary course of business on an arm's length basis |

| 38.1 | As at 31st March | Notes | Group and Company 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|---|---|
| 38.1 | **Amounts due from related parties** | 38.3 | | |
| | Ultimate Parent | | **-** | - |
| | Subsidiary | | **-** | - |
| | Companies under common control | | **196,158** | 162,819 |
| | Equity accounted investees of the Parent | | **-** | - |
| | | | **196,158** | 162,819 |

The Company has not recognised a provision for expected credit losses for amounts due from related parties as such recoverabilities are certain.

| | As at 31st March | Notes | Group and Company 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|---|---|
| 38.2 | **Amounts due to related parties** | 38.3 | | |
| | Ultimate Parent | | **4,029** | 3,947 |
| | Subsidiary | | **-** | - |
| | Companies under common control | | **17,756** | 5,245 |
| | Equity accounted investees of the Parent | | **71** | 87 |
| | | | **21,856** | 9,279 |

| | As at 31st March | Group and Company Amounts due from 2022 Rs. '000 | Amounts due from 2021 Rs. '000 | Amounts due to 2022 Rs. '000 | Amounts due to 2021 Rs. '000 |
|---|---|---|---|---|---|
| 38.3 | | | | | |
| | **Ultimate Parent** | | | | |
| | John Keells Holdings PLC | **-** | - | **4,029** | 3,947 |
| | | | | | |
| | **Subsidiary** | | | | |
| | John Keells Foods India (Pvt) Ltd | **-** | - | **-** | - |
| | | | | | |
| | **Companies under common control** | | | | |
| | Ceylon Cold Stores PLC | **156** | 345 | **9,086** | 3,822 |
| | InfoMate (Pvt) Ltd | **-** | - | **425** | 354 |
| | Jaykay Marketing Services (Pvt) Ltd | **196,002** | 162,474 | **5,454** | - |
| | John Keells Office Automation (Pvt) Ltd | **-** | - | **258** | 216 |
| | John Keells PLC | **-** | - | **155** | 155 |
| | Keells Consultants (Pvt) Ltd | **-** | - | **155** | 144 |
| | Kandy Walk Inn Ltd | **-** | - | **-** | 304 |
| | Mack International Freight (Pvt) Ltd | **-** | - | **1,724** | 250 |
| | John Keells Maldivian Resorts (Pvt) Ltd | **-** | - | **63** | - |
| | John Keells Logistics (Pvt) Ltd | **-** | - | **196** | - |
| | The Colombo Ice Company (Pvt) Ltd | **-** | - | **240** | - |
| | | | | | |
| | **Equity accounted investees of the Parent** | | | | |
| | DHL Keells (Pvt) Ltd | **-** | - | **23** | - |
| | Fairfirst Insurance Ltd | **-** | - | **48** | 87 |
| | | **196,158** | 162,819 | **21,856** | 9,279 |

# NOTES TO THE FINANCIAL STATEMENTS

| | Group | | Company | |
|---|---|---|---|---|
| For the year ended 31st March | 2022<br>Rs.'000 | 2021<br>Rs.'000 | 2022<br>Rs.'000 | 2021<br>Rs.'000 |
| **38.4 Transactions with related parties** | | | | |
| **Ultimate Parent Company - John Keells Holdings PLC** | | | | |
| Receiving of services | **(43,439)** | (38,554) | **(43,439)** | (38,554) |
| | | | | |
| **Subsidiary** | **-** | - | **-** | - |
| | | | | |
| **Companies under common control** | | | | |
| Sales of goods | **1,181,156** | 1,105,067 | **1,181,156** | 1,105,067 |
| Purchase of goods | **(168)** | (309) | **(168)** | (309) |
| Receiving of services | **(51,351)** | (51,257) | **(51,351)** | (51,257) |
| | | | | |
| **Equity accounted investees of the Parent** | | | | |
| Sale of goods | **-** | - | **-** | - |
| Receiving of services | **(108)** | (2,400) | **(108)** | (2,400) |
| Interest received | **-** | - | **-** | - |
| | | | | |
| **Key Management Personnel (KMP)** | | | | |
| Sales of goods | **-** | - | **-** | - |
| | | | | |
| **Close family members of KMP** | | | | |
| Sales of goods | **-** | - | **-** | - |
| | | | | |
| **Companies controlled / jointly controlled / significantly influenced by KMP and their close family members** | **-** | - | **-** | - |
| | | | | |
| **Post Employment Benefit** | | | | |
| Contribution to provident fund | **(2,551)** | (2,681) | **(2,551)** | (2,681) |

Governance structure, nature of the entity's relationships, principal place of business and the country of incorporation have been disclosed in the "Report of the Related Party Transaction Review Committee".

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

### 38.5 Compensations to Key Management Personnel

Key management personnel include members of the Board of Directors of the Group.

| | Group | | Company | |
|---|---|---|---|---|
| For the year ended 31st March | 2022<br>Rs.'000 | 2021<br>Rs.'000 | 2022<br>Rs.'000 | 2021<br>Rs.'000 |
| Short-term employee benefits | **(7,200)** | (6,480) | **(7,200)** | (6,480) |

The governance structure, nature of the entity's relationships, principal place of business and the country of incorporation have been disclosed in the "Report of the Related Party Transaction Review Committee" under Corporate Governance Commentary in this Annual Report and the Corporate Information in Note 1 in the Financial Statements.

## 39 CONTINGENT LIABILITIES

### Accounting Policy

**Provisions, contingent assets and contingent liabilities**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, 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 discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

All contingent liabilities are disclosed as a note to the Financial Statements unless the outflow of resources is remote. A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of:

- The amount that would be recognised in accordance with the general guidance for provisions above (LKAS 37)

or

- The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition (SLFRS 15)

Contingent assets are disclosed, where inflow of economic benefit is probable.

There were no contingent liabilities for the Group at the end of reporting period.

## 40 CAPITAL AND OTHER COMMITMENTS

### 40.1 Capital Commitments

Capital Commitments approved but not provided for as at the reporting date is as follows;

| | Group | | Company | |
|---|---|---|---|---|
| As at 31st March | 2022<br>Rs.'000 | 2021<br>Rs.'000 | 2022<br>Rs.'000 | 2021<br>Rs.'000 |
| Approved and contracted but not provided for | **29,446** | 35,373 | **29,446** | 35,373 |
| | **29,446** | 35,373 | **29,446** | 35,373 |

## 41 EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the Statement of Financial Position date that require adjustments to or disclosure in the Financial Statements other than the following:

**Surcharge Tax**

Surcharge Tax Act No.14 of 2022 was enacted on 8th April 2022. Financial impact arising from the same is discussed in Note 19.

**Dividends**

The Board of Directors has approved the payment of the final dividend of Rs. 0.50 per share to be paid on 20th June 2022.

As required by section 56(2) or the Companies Act No.07 of 2007, the board of Directors has confirmed that the Company satisfies the solvency test in accordance with section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the Auditors, prior to approving the final dividend.

# YOUR SHARE IN DETAIL

### ORDINARY SHAREHOLDING

**Number of Ordinary Shares - 25,500,000**

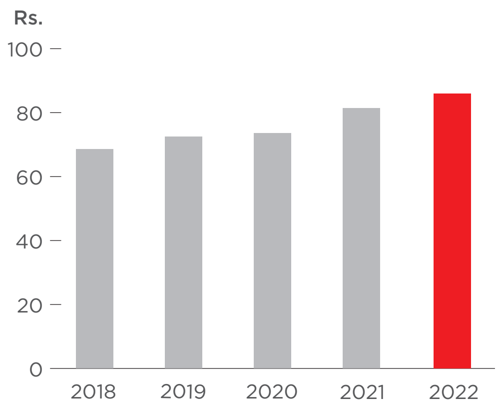
**Distribution of Shareholders**

| | As at 31st March 2022 | | | As at 31st March 2021 | | |
|---|---|---|---|---|---|---|
| Shareholding Range | No. of Shareholders | No. of Shares Held | % | No. of Shareholders | No. of Shares Held | % |
| Less than or equal to 1,000 | **1,113** | **165,498** | **0.65** | 1,114 | 178,409 | 0.70 |
| 1,001 to 10,000 | **122** | **352,146** | **1.38** | 139 | 422,690 | 1.66 |
| 10,001 to 100,000 | **26** | **800,882** | **3.14** | 30 | 924,466 | 3.62 |
| 100,001 to 1,000,000 | **5** | **1,244,224** | **4.88** | 5 | 1,037,185 | 4.07 |
| Over 1,000,001 | **2** | **22,937,250** | **89.95** | 2 | 22,937,250 | 89.95 |
| | **1,268** | **25,500,000** | **100.00** | 1,290 | 25,500,000 | 100.00 |

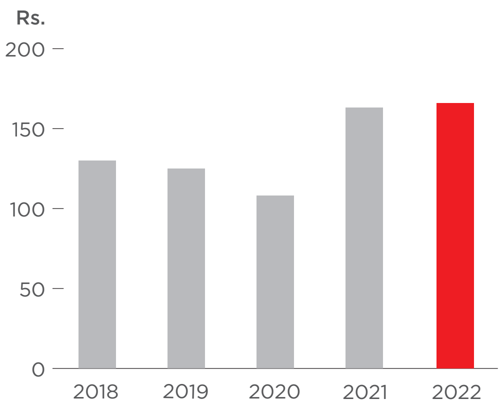
| | As at 31st March 2022 | | | As at 31st March 2021 | | |
|---|---|---|---|---|---|---|
| Categories of Shareholders | No. of Shareholders | No. of Shares Held | % | No. of Shareholders | No. of Shares Held | % |
| John Keells Holdings PLC and Subsidiaries | **2** | **22,937,250** | **89.95** | 2 | 22,937,250 | 89.95 |
| Directors and Spouses | **-** | **-** | **-** | - | - | - |
| CEO and Spouse | **-** | **-** | **-** | - | - | - |
| Shareholders Holding more than 10% | **-** | **-** | **-** | - | - | - |
| Public | **1,266** | **2,562,750** | **10.05** | 1,288 | 2,562,750 | 10.05 |
| Total | **1,268** | **25,500,000** | **100.00** | 1,290 | 25,500,000 | 100.00 |
| | | | | | | |
| Sri Lankan Residents | **1,248** | **25,266,278** | **99.08** | 1,272 | 25,262,726 | 99.07 |
| Non-Residents | **20** | **233,722** | **0.92** | 18 | 237,274 | 0.93 |
| Total | **1,268** | **25,500,000** | **100.00** | 1,290 | 25,500,000 | 100.00 |

The Company had a float adjusted market Capitalisation of Rs. 426 million, 10.05% public shareholding which includes 1,266 public shareholders. Therefore, the Company is compliant under option 2 of the minimum threshold requirements for the Diri Savi Board of the CSE, as per section 7.6 of the listing rules of the CSE.

**NET ASSET PER SHARE**



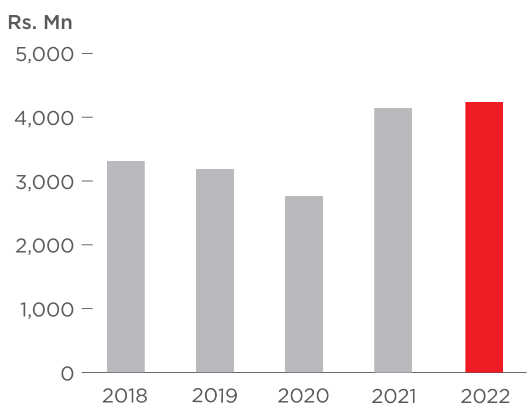

**MARKET PRICE PER SHARE**



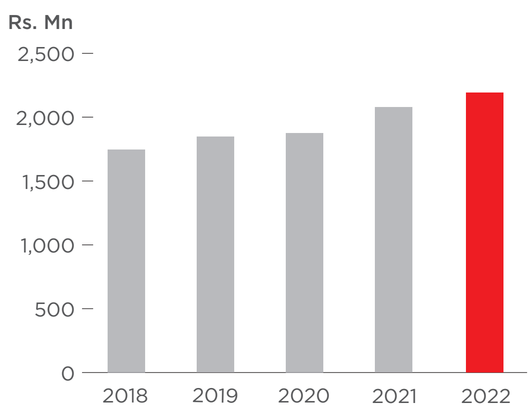
| Top 20 Shareholders | As at 31st March 2022 No. of Shares Held | As at 31st March 2022 % of Issued Capital | As at 31st March 2021 No. of Shares Held | As at 31st March 2021 % of Issued Capital |
|---|---|---|---|---|
| John Keells Holdings PLC | **20,364,054** | **79.86** | 20,364,054 | 79.86 |
| John Keells PLC | **2,573,196** | **10.09** | 2,573,196 | 10.09 |
| Usui Lanka (Pvt) Ltd | **587,705** | **2.30** | 350,000 | 1.37 |
| People's Leasing & Finance PLC/ L P Hapangama | **214,046** | **0.84** | 220,712 | 0.87 |
| Merchant Bank of Sri Lanka & Finance PLC/ R N Machado | **196,000** | **0.77** | - | - |
| People's Leasing & Finance PLC/ L H L M P Haradasa | **141,753** | **0.56** | 141,753 | 0.56 |
| Mr. J B Hirdaramani | **104,720** | **0.41** | 104,720 | 0.41 |
| Miss. N Harnam | **82,844** | **0.32** | 82,844 | 0.32 |
| Enterprise Ceylon Capital (Pvt) Ltd | **61,843** | **0.24** | 500 | 0.00 |
| Mr. N Muhunthan | **49,500** | **0.19** | 49,500 | 0.19 |
| Employees Trust Fund Board | **48,842** | **0.19** | 6,000 | 0.02 |
| Deutsche Bank AG Singapore A/C 2 | **47,469** | **0.19** | 47,469 | 0.19 |
| Mrs. J M Blackler | **46,686** | **0.18** | 90,000 | 0.35 |
| T R L Holdings (Pvt) Ltd | **43,241** | **0.17** | 41,111 | 0.16 |
| Harnam Holdings SDN BHD | **40,000** | **0.16** | - | - |
| Mr. A J M Jinadasa | **36,000** | **0.14** | 30,675 | 0.12 |
| Mrs. G J E S De Fonseka | **33,240** | **0.13** | 33,240 | 0.13 |
| Mr. D H N Kandamudali | **29,371** | **0.12** | 29,371 | 0.12 |
| People's Leasing & Finance PLC/ L H L Noris De Silva & Son (Pvt) Ltd | **28,273** | **0.11** | 33,273 | 0.13 |
| Akbar Brothers (Pvt) Ltd A/C No 1 | **26,023** | **0.10** | 26,023 | 0.10 |

| Share Prices - (Rs.) | 2022 | | 2021 | |
|---|---|---|---|---|
| Beginning of the year (As at 01st April) | **162.50** | | 108.20 | |
| Highest for the year | **189.75** | **(10-02-2022)** | 175.00 | (09-03-2021) |
| Lowest for the year | **141.00** | **(10-02-2022)** | 97.00 | (28-08-2020) |
| End of the year (As at 31st March) | **166.25** | | 162.50 | |

**MARKET CAPITALISATION**




**SHAREHOLDERS FUNDS**



# TEN YEAR INFORMATION AT A GLANCE

| For the year ended 31st March | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | **4,601,230** | 3,651,241 | 3,590,579 | 3,429,791 | 3,118,976 | 3,048,594 | 3,030,204 | 2,617,980 | 2,280,142 | 2,197,482 |
| **Profit / (loss) from operating activities** | **394,896** | 329,304 | 207,667 | 362,892 | 338,884 | 380,354 | 426,782 | 338,353 | (33,593) | 64,959 |
| Net finance (cost) / income | **(5,131)** | (3,063) | (2,949) | 14,892 | 10,521 | 11,460 | 6,606 | (6,938) | 21,639 | 50,255 |
| **Profit / (loss) before Tax** | **389,765** | 326,241 | 204,718 | 377,784 | 349,404 | 391,814 | 433,388 | 331,415 | (11,954) | 115,214 |
| Income Tax (expense) / reversal | **(60,192)** | (5,261) | (54,543) | (110,651) | (105,801) | (116,395) | (98,682) | (70,126) | 12,421 | (24,331) |
| Net profit after tax | **329,573** | 320,980 | 150,175 | 267,133 | 243,603 | 275,419 | 334,706 | 261,289 | 467 | 90,883 |

| As at 31st March | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| WHAT WE OWNED | | | | | | | | | | |
| Property, plant and equipment | **1,502,851** | 1,546,009 | 1,583,519 | 1,250,470 | 1,183,804 | 1,183,711 | 1,160,902 | 1,152,592 | 1,158,501 | 878,975 |
| Non Current assets (Including Goodwill) | **314,763** | 307,836 | 305,978 | 294,164 | 293,376 | 298,659 | 273,156 | 276,403 | 274,063 | 278,858 |
| Short- term investments | **-** | 514 | 1,795 | 37,466 | 108,095 | 137,558 | 285,561 | 263,452 | 100,568 | 766,592 |
| Inventories | **585,727** | 543,139 | 399,214 | 337,117 | 309,081 | 294,587 | 234,182 | 224,170 | 198,199 | 253,657 |
| Trade and other receivable including dues from related parties | **817,684** | 626,292 | 525,552 | 559,104 | 446,172 | 446,986 | 401,885 | 356,254 | 309,624 | 275,479 |
| Other current assets (Including income tax refunds) | **218,509** | 44,844 | 70,709 | 89,970 | 91,574 | 46,921 | 56,555 | 45,633 | 50,388 | 38,447 |
| **Total Assets** | **3,439,534** | 3,068,634 | 2,886,767 | 2,568,291 | 2,432,102 | 2,408,422 | 2,412,241 | 2,318,504 | 2,091,343 | 2,492,008 |
| | | | | | | | | | | |
| WHAT WE OWED | | | | | | | | | | |
| Stated capital | **1,294,815** | 1,294,815 | 1,294,815 | 1,294,815 | 1,294,815 | 1,294,815 | 1,294,815 | 1,294,815 | 1,294,815 | 1,294,815 |
| Revenue reserves | **503,344** | 422,733 | 285,844 | 286,241 | 220,510 | 128,747 | 279,707 | 230,807 | 101,092 | 154,356 |
| Other components of equity | **394,472** | 358,834 | 295,331 | 266,119 | 231,538 | 246,567 | 196,616 | 173,184 | 153,623 | 148,445 |
| Total equity | **2,192,631** | 2,076,382 | 1,875,990 | 1,847,175 | 1,746,863 | 1,670,129 | 1,771,138 | 1,698,806 | 1,549,530 | 1,597,616 |
| Non-current liabilities | **344,332** | 373,756 | 484,751 | 351,490 | 325,922 | 306,688 | 317,639 | 285,806 | 254,454 | 324,108 |
| Interest bearing borrowings - current | **43,455** | 43,455 | 43,455 | 4,629 | 33,495 | 50,000 | 50,000 | 50,000 | 51,102 | 18,331 |
| Lease liabilities - current | **1,243** | 1,041 | 960 | - | - | - | - | - | - | - |
| Bank overdrafts | **245,261** | 160,780 | 176,280 | 15,632 | 1,332 | 39,471 | 10,435 | 28,661 | 12,561 | 13,070 |
| Trade and other payables including dues to related parties and other current liabilities | **572,459** | 393,947 | 305,331 | 315,794 | 282,080 | 276,642 | 240,658 | 255,231 | 223,696 | 538,883 |
| Income tax payable | **40,153** | 19,273 | - | 33,571 | 42,410 | 65,492 | 22,371 | - | - | - |
| **Total equity and liabilities** | **3,439,534** | 3,068,634 | 2,886,767 | 2,568,291 | 2,432,102 | 2,408,422 | 2,412,241 | 2,318,504 | 2,091,343 | 2,492,008 |

The above indicates the simplified Income Statement and the Statement of Financial Position of the Group.
The Statement of Financial Position is categorised in to its key Assets and Liabilities.
All figures are given in Rs. '000s unless otherwise stated.

# KEY FIGURES AND RATIOS

| For the year ended 31st March | | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **KEY INDICATORS** | | | | | | | | | | | |
| **(A) PROFITABILITY and RETURN TO SHAREHOLDERS** | | | | | | | | | | | |
| Net profit ratio | % | **7.16** | 8.79 | 4.18 | 7.79 | 7.81 | 9.03 | 11.05 | 9.98 | 0.02 | 4.14 |
| Earnings per share | Rs. | **12.92** | 12.59 | 5.89 | 10.48 | 9.55 | 10.80 | 13.13 | 10.25 | 0.02 | 4.82 |
| Return on equity | % | **15.44** | 16.24 | 8.07 | 14.87 | 14.26 | 16.01 | 19.29 | 16.09 | 0.03 | 8.87 |
| Return on capital employed | % | **16.15** | 14.37 | 10.12 | 19.79 | 18.96 | 20.51 | 22.31 | 18.25 | (1.84) | 5.41 |
| Dividend per share | Rs. | **9.50** | 7.00 | 6.00 | 8.00 | 6.00 | 16.75 | 11.00 | 5.00 | 2.00 | 2.00 |
| Debt equity ratio | % | **15.49** | 14.43 | 18.73 | 2.10 | 1.99 | 7.38 | 8.14 | 12.51 | 15.94 | 16.57 |
| Shareholder equity ratio* | % | **63.75** | 67.66 | 64.99 | 71.92 | 71.83 | 69.35 | 73.42 | 73.27 | 74.09 | 64.11 |
| **(B) LIQUIDITY** | | | | | | | | | | | |
| Current ratio | Times | **1.80** | 1.96 | 1.90 | 2.77 | 2.66 | 2.15 | 3.02 | 2.66 | 2.29 | 2.34 |
| Quick ratio | Times | **1.15** | 1.09 | 1.14 | 1.86 | 1.80 | 1.46 | 2.30 | 1.99 | 1.60 | 1.89 |
| Interest cover | Times | **31.91** | 26.17 | 16.97 | 229.63 | 42.47 | 30.38 | 31.70 | 17.25 | (0.94) | 2.46 |
| **(C) INVESTOR'S RATIO** | | | | | | | | | | | |
| Price earnings ratio | Times | **12.87** | 12.91 | 18.37 | 11.91 | 13.60 | 13.43 | 12.95 | 10.57 | 2,750 | 14.52 |
| Dividend cover | Times | **1.36** | 1.80 | 0.98 | 1.31 | 1.59 | 0.64 | 1.19 | 2.05 | 0.01 | 2.41 |
| Dividend payout | % | **73.50** | 55.61 | 101.88 | 76.37 | 62.81 | 155.08 | 83.80 | 48.80 | 10,911.61 | 18.71 |
| Dividend yield | % | **5.71** | 4.31 | 5.55 | 6.41 | 4.62 | 11.55 | 6.47 | 4.62 | 3.64 | 2.86 |
| Earnings yield | % | **7.77** | 7.75 | 5.44 | 8.40 | 7.35 | 7.45 | 7.72 | 9.46 | 0.04 | 6.89 |
| Net assets per share | Rs. | **85.99** | 81.43 | 73.57 | 72.44 | 68.50 | 65.50 | 69.46 | 66.62 | 60.77 | 62.65 |
| **(D) SHARE VALUATION** | | | | | | | | | | | |
| Market value per share | Rs. | **166.25** | 162.50 | 108.20 | 124.80 | 129.90 | 145.00 | 170.00 | 108.30 | 55.00 | 70.00 |
| **(E) OTHER INFORMATION** | | | | | | | | | | | |
| Number of permanent employees | No | **399** | 399 | 383 | 352 | 339 | 343 | 322 | 301 | 299 | 448 |
| Turnover per permanent employee | Rs.'000 | **11,532** | 9,151 | 9,375 | 9,744 | 9,201 | 8,888 | 9,411 | 8,698 | 7,126 | 4,905 |
| Value added per permanent employee | Rs.'000 | **4,125** | 3,726 | 4,097 | 4,803 | 4,536 | 3,844 | 3,887 | 3,593 | 2,683 | 1,824 |

The above ratio are based on the Income Statement and the Statement of Financial Position of the Group.

*Also known as Equity assets ration

# REAL ESTATE PORTFOLIO

| Location | Number of Buildings | Buildings in Sq. Feet | Land in Acres Freehold | Land in Acres Leasehold | Net Book Value 2022 Rs. '000 | Net Book Value 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **KEELLS FOOD PRODUCTS PLC** | | | | | | |
| 16, Minuwangoda Road, Ekala, Ja-Ela | 5 | 44,578 | 3.00 | - | **376,778** | 351,197 |
| 16, Minuwangoda Road, Ekala, Ja-Ela | 3 | 8,120 | - | 1.00 | **11,971** | 10,697 |
| Industrial Estate, Makadura, Gonawila, Pannala | 4 | 41,166 | - | 4.08 | **301,556** | 304,108 |
| Industrial Estate, Makadura, Gonawila, Pannala | - | - | 3.86 | - | **45,410** | 43,547 |
| | | | | | **735,715** | 709,549 |

# GLOSSARY OF FINANCIAL TERMINOLOGY

**ACCRUAL BASIS**
Recording Revenues and Expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

**CAPITAL EMPLOYED**
Shareholders' Fund plus Debt.

**CASH EARNINGS PER SHARE**
Profit After Tax attributable to Ordinary Shareholding adjusted for non-cash items over by weighted average number of shares in issue during the year.

**CONTINGENT LIABILITIES**
A condition or situation existing at the end of the reporting period due to past events, where the financial effect is not recognised because:

1. The obligation is crystallised by the occurrence or non-occurrence of one or more future events or,
2. A probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability.

**CURRENT RATIO**
Current Assets over Current Liabilities.

**DEBT/ EQUITY RATIO (GEARING)**
Debt as a percentage of Shareholders' Funds.

**DIVIDEND PAYABLE**
Final dividend per share multiplied by the latest available total number of shares as at the reporting date.

**DIVIDEND PER SHARE**
Gross Dividends paid to ordinary shareholders divided by Number of Ordinary Shares issued.

**DIVIDEND COVER**
Earnings per Share over by Dividend per Share.

**DIVIDEND PAYOUT RATIO**
Total Dividend as a percentage of Profit After Tax.

**DIVIDEND YIELD**
Dividend per Share as a percentage of Market Price of Share at the end of the period.

**EARNINGS PER SHARE (EPS)**
Profit After Tax attributable to Ordinary Share Holding over weighted average number of shares in issue during the period.

**ENTERPRISE VALUE**
Market Capitalisation plus Debt minus Total Cash and Cash Equivalents.

**EARNINGS YIELD**
Earnings per Share as a percentage of Market Price per Share at the end of the period.

**EBIT**
Earnings before interest and tax (includes other operating income).

**EBITDA**
Earning before interest, tax, depreciation and amortisation

**EFFECTIVE RATE OF TAXATION**
Income Tax including Deferred Tax over Profit Before Tax.

**INTEREST COVER**
Profit Before Interest and Tax over Finance Expenses.

**MARKET CAPITALISATION**
Number of Shares in issue at the end the of period multiplied by the share price at end of the period.

**NET ASSETS**
Total Assets minus Current Liabilities minus Long Term Liabilities minus Minority interest.

**NET ASSET PER SHARE**
Net Assets divided by number of Ordinary Shares in issue at the end of the period.

**NET DEBT**
Debt minus Cash and Short-Term Deposit.

**NET PROFIT MARGIN**
Profit after tax attributable to equity holders of the Parent divided by total revenue.

**NET WORKING CAPITAL**
Current Assets - Current Liabilities.

**NET TURNOVER PER PERMANENT EMPLOYEE**
Net Turnover over average number of permanent employees.

**PRICE EARNINGS RATIO**
Market Price of Share over Earnings per Share.

**PUBLIC HOLDING**
Percentage of shares held by the public calculated as per the Colombo Stock Exchange Listing Rules as at the date of the Report

**QUICK RATIO**
Cash plus Short-Term Investments plus Receivables over Current Liabilities.

**RETURN ON ASSETS**
Profit After Tax over Average Total Assets.

**RETURN ON CAPITAL EMPLOYED**
Earnings Before Interest and Tax as a Percentage of Average of Shareholders' Funds plus Average Total Debt.

**RETURN ON EQUITY**
Consolidated Profit after Tax as a Percentage of Average Shareholders' Funds.

**SHAREHOLDERS' FUND**
Stated Capital, Other Components of Equity and Revenue Reserves.

**SHAREHOLDERS' EQUITY RATIO/ EQUITY ASSETS RATIO**
Total Equity over Total Assets.

**TOTAL ASSETS**
Fixed Assets plus Investment plus Non-Current Assets Plus Current Assets.

**TOTAL DEBTS**
Long-Term Loans plus Short-Term Loans and Overdraft.

**TOTAL DEBTS/ TOTAL ASSETS**
Total Debts over Total Assets.

**TOTAL VALUE ADDED**
The difference between Revenue (Including Other Income) and Expenses, Cost of Materials and Services purchased from External Sources.

**VALUE ADDED PER EMPLOYEE**
Total value added divided by no. of permanent employees

**WORKING CAPITAL**
Trade Receivables + Inventory + Cash in Hand and at Bank - Trade and Other Payables - Short-Term Borrowings - Bank Overdrafts.

# NOTES

# NOTES

# NOTES

# NOTICE OF MEETING

Notice is hereby given that the 40th **Annual General Meeting (Meeting) of Keells Food Products PLC** (Company) will be held as a virtual meeting on Wednesday, 22nd June 2022 at 10.30 a.m.

The business to be brought before the Meeting will be:

1. To read the Notice Convening the Meeting.

2. To receive and consider the Annual Report and Financial Statements for the Financial Year ended 31st March 2022 with the Report of the Auditors thereon.

3. To re-elect as a Director, Mr. A E H Sanderatne who retires in terms of Article 83 of the Articles of Association of the Company. A brief profile of Mr. A E H Sanderatne is contained in the Board of Directors' section in the Annual Report.

4. To re-elect as a Director, Mr. I Samarajiva who retires in terms of Article 83 of the Articles of Association of the Company. A brief profile of Mr. I Samarajiva is contained in the Board of Directors' section in the Annual Report.

5. To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors of the Company for the year 2022/23 and to authorise the Directors to determine their remuneration.

6. To consider any other business of which due notice has been given in terms of the relevant laws and regulations.

The Annual Report and Financial Statements of the Company are available on the:

**(1) Corporate Website -** https://www.keellsfoods.com/downloads

**(2) The Colombo Stock Exchange Website -** https://www.cse.lk/Search Company - Keells Food Products PLC - (KFP.N0000)

Members may also access the Annual Report and Financial Statements on their electronic devices by scanning the following QR code.

By Order of the Board
Keells Food Products PLC

**Keells Consultants (Private) Limited**
Secretaries

20th May 2022

# NOTICE OF MEETING

For clarifications on how to download and/or access the Annual Report and Financial Statements, please contact Ms. Jehani Kanagaraj on +94 773856941 during normal office hours (8.30 a.m. to 4.30 p.m.) or e-mail jehani.ccs@keells.com.

Should any Members wish to obtain a hard copy of the Annual Report, they may send a written request to No.148, Vauxhall Street, Colombo 2 or facsimile No. +94 11 2447422 by filling the request form attached to the Form of Proxy. A printed copy of the Annual Report will be forwarded by the Company within eight (8) market days from the date of receipt of the request.

**Notes:**

a. A Member unable to attend is entitled to appoint a Proxy to attend and vote in his/her place.

b. A proxy need not be a member of the Company.

c. A Member wishing to vote by Proxy at the meeting may use the Form of Proxy enclosed.

d. Members are encouraged to vote by proxy through the appointment of a member of the Board of Directors to vote on their behalf and to include their voting preferences on the resolutions to be taken up at the Meeting in the Form of Proxy.

e. In order to be valid, the completed Form of Proxy must be lodged at the registered office of the Company or forwarded to the e-mail address: keellsconsultants@keells.com or facsimile No. +94 11 2439037 not less than 48 hours before the Meeting.

f. A vote can be taken on a show of hands or by a poll, If a poll is demanded, each share is entitled to one vote. Votes can be cast in person, by proxy or corporate representatives. In the event an individual Member and his/her proxy holder are both present at the Meeting, only the Member's vote is counted. If the proxy holder's appointor has indicated the manner of voting, only the appointor's indication of the manner to vote will be used.

# FORM OF PROXY

I/We.........................................................................................................................................................................................................of

...............................................................................................................................being a shareholder/s of Keells Food Products PLC,

hereby appoint: ..................................................................................................................................................................................of

........................................................................................................................................... or failing him/her

| | |
|---|---|
| Mr. Krishan Niraj Jayasekara Balendra | or failing him |
| Mr. Joseph Gihan Adisha Cooray | or failing him |
| Mr. Daminda Prabhath Gamlath | or failing him |
| Ms. Shehara De Silva | or failing her |
| Mr. Pravir Dhanoush Samarasinghe | or failing him |
| Mr. Amal Eran Herath Sanderatne | or failing him |
| Mr. Indrajit Samarajiva | or failing him |
| Ms. Payagalage Nelindra Fernando | |

as my/our proxy to represent me/us and vote for me/us on my/our behalf at the Fortieth Annual General Meeting of the Company to be held on Wednesday, 22nd June 2022 at 10.30 a.m. and at any postponement or adjournment thereof, and at every poll which may be taken in consequence thereof.

I/We, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified Resolution as indicated by the letter "X" in the appropriate cage:

| | FOR | AGAINST |
|---|---|---|
| To re-elect as a Director, Mr. A E H Sanderatne, who retires in terms of Article 83 of the Articles of Association of the Company. | | |
| To re-elect as a Director, Mr. I Samarajiva, who retires in terms of Article 83 of the Articles of Association of the Company. | | |
| To re-appoint the Auditors and to authorise the Directors to determine their remuneration. | | |

Signed on this .................... day of ....................... Two Thousand and Twenty Two (2022).

..........................................................

Signature/s of shareholder/s

NOTE: INSTRUCTIONS AS TO COMPLETION OF THE FORM OF PROXY ARE NOTED ON THE REVERSE

# FORM OF PROXY

### INSTRUCTIONS AS TO COMPLETION OF PROXY

1. Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.

2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 2, or forwarded to the email address: keellsconsultants@keells.com or facsimile No. +94 11 2439037 no later than 48 hours before the time appointed for the Holding of the Meeting.

3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

4. If the appointor is a Company or corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the Company or corporation in accordance with its Articles of Association or Constitution.

5. If this Form of Proxy is returned without any indication of how the person appointed as Proxy shall vote, then the Proxy shall exercise his/her discretion as to how he/she votes or, whether or not he/she abstains from voting.

Please fill in the following details:

Name : ..........................................................................................................

Address : ..........................................................................................................

Jointly with : ..........................................................................................................

Share Folio No/ CDS Account No : ..........................................................................................

National Identity Card No. ..........................................................................................

# CORPORATE INFORMATION

## NAME OF COMPANY
Keells Food Products PLC

## COMPANY REGISTRATION NUMBER
PQ 3

## LEGAL FORM
Public Limited Liability Company Established in 1982

## REGISTERED OFFICE OF THE COMPANY
No. 117, Sir Chittampalam A. Gardiner Mawatha,
Colombo 02, Sri Lanka.
Tel: +94 11 2421101

## EKALA FACTORY
No. 16, Minuwangoda Road,
Ekala, Ja-Ela, Sri Lanka.
Tel: +94 11 2236317
Fax: +94 11 2236359
E-mail: foods@keells.com
Web: www.keellsfoods.com

## PANNALA FACTORY
P.O. Box 14, Industrial State, Makadura,
Gonawila (NWP), Sri Lanka.
Tel: +94 37 4933248-51
Fax: +94 31 2298195

## BOARD OF DIRECTORS
Mr. K N J Balendra (Chairman)
Mr. J G A Cooray
Mr. D P Gamlath
Ms. P N Fernando
Ms. S De Silva
Mr. P D Samarasinghe
Mr. I Samarajiva
Mr. A E H Sanderatne

## AUDIT COMMITTEE
Mr. P D Samarasinghe (Chairman)
Ms. S De Silva
Mr. A E H Sanderatne
Mr. I Samarajiva

## SECRETARIES AND REGISTRARS
Keells Consultants (Pvt) Ltd
No. 117, Sir Chittampalam A. Gardiner Mawatha,
Colombo 02, Sri Lanka.
Tel: +94 11 2306245
Fax: +94 11 2439037

## EXTERNAL AUDITORS
Ernst & Young, Chartered Accountants,
201, De Saram Place, P.O. Box 101, Colombo 10,
Sri Lanka.

## INTERNAL AUDITORS
PricewaterhouseCoopers, Chartered Accountants,
100, Braybrooke Place, Colombo 02,
Sri Lanka.

## BANKERS
Bank of Ceylon
Commercial Bank of Ceylon PLC
Deutsche Bank AG
DFCC Bank PLC
Hongkong & Shanghai Banking Corporation Ltd
Nation Trust Bank PLC

## STOCK EXCHANGE LISTING
The Ordinary Shares of the Company are Listed
with the Colombo Stock Exchange of Sri Lanka

## SUBSIDIARY COMPANY
John Keells Foods India (Pvt) Ltd

Designed & produced by
emagewise
Printed by Printel (Pvt) Limited.

KEELLS

KREST