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Corporate Information

Name of Company	: Kotmale Holdings Limited
Legal Form	: Public Limited Liability Company listed on the Colombo Stock Exchange
Date of Incorporation	: 06 th January 1967
Registered Office	: No. 165, Kynsey Road, Colombo 00800.
Company Registration Number	: PBS 540
Board of Directors	: Mr. B. M. S. K. Haththotuwa (Chairman) Mr. H. N. De Silva (Managing Director) Mr. H. P. A. Gunawardana Mr. S. A. B. Rajapaksa
Secretaries	: Accounting Systems Secretarial Services Limited (Resigned w.e.f. 19 th July 2006) Mrs. R. M. C. L. K. Liyanaarachchi (Appointed w.e.f. 20 th July 2006)
Registrars	: SSP Corporate Services (Pvt) Limited, 101, Inner Flower Road, Colombo 00300.
Auditors	: M/s Nihal Hettiarachchi & Company. Chartered Accountants "RNH House" No. 622 B, Kotte Road, Kotte.
Bankers (In alphabetical order)	: DFCC Vardhana Bank Hatton National Bank Limited Hongkong and Shanghai Banking Corporation Limited Pan Asia Banking Corporation Limited Seylan Bank Limited

Report of the Directors

The Directors of Kotmale Holdings Limited have pleasure in presenting to the members, their Report together with the Audited Financial Statements for the year ended 31st December 2005.

Principal Activities

The principal activity is that of an investment company. Its subsidiaries are engaged in the manufacture of dairy products and packaging & distribution of milk powder.

Revenue

The Company achieved revenue of Rs. 541 million during the year, as against Rs. 430 million in the previous year.

Review of Business

Amidst the uncertainties occurring on the political environment and the stalled peace process, the company was able to increase its revenue by 26% from the previous year. Other highlights for the year include the investment of Rs. 30 million in December 2005 to acquire a 100% holding in Milife Foods Limited. A private placement was held in June 2005, whereby the proceeds were mainly used to modernise the factory at Mulleriyawa.

Property, Plant & Equipment

Acquisition of property, plant and equipment for the year amounted to Rs. 32.9 million.

Share Capital

A private placement was held in June 2005 whereby 12.56 million shares were offered to the public at Rs. 10 per share.

The issued share capital of the Company was increased from Rs. 188.4 million to Rs. 314 million due to the private placement held in June 2005.

The authorised share capital of the Company remained unchanged.

Reserves

The Group Reserves after appropriations are Rs. 25.7 million as against Rs. 31 million in the previous year.

Corporate Donations

No corporate donations were made during the period under review.

Directorate

Changes in the Directorate of the Company during the year under review and up to the date of this report is as follows:

Mr. C. T. A. Schaffter	-	(Resigned w.e.f. 22/08/2006)
Mr. T. R. Mirando	-	(Deceased on. 03/10/2005)
Mr. P. A. Schaffter	-	(Resigned w.e.f. 22/08/2006)
Mr. R. Schaffter	-	(Resigned w.e.f. 22/08/2006)
Mr. D. J. Joseph	-	(Resigned w.e.f. 22/08/2006)
Mr. B. M. S. K. Haththotuwa	-	(Appointed w.e.f. 22/08/2006)
Mr. H. N. De Silva	-	(Appointed w.e.f. 22/08/2006)
Mr. H. P. A. Gunawardana	-	(Appointed w.e.f. 22/08/2006)
Mr. S. A. B. Rajapaksa	-	(Appointed w.e.f. 05/01/2007)

The newly appointed Directors retire and offer themselves for re- election under Article 106 of the Articles of Association of the Company.

Directors' Interest in Contracts

The Directors' interest in the contracts of the Company are disclosed in Note 25 to the financial statements and have been declared at meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

Report of the Directors

Directors' Shareholdings

The shareholdings of the Directors as at 31st December 2005 are as follows:

Mr. P. A. Schaffter	5,449,238	17.33%
Mr. R. Schaffter	5,338,738	16.98%

Major Shareholders

Twenty largest shareholders as at 31st December, 2005.

	No. of Shares	%
Waldock Mackenzie Ltd./ Mr. D. Schaffter	5,614,938	17.86
Mr. P. A. Schaffter	5,449,238	17.33
Mr. R. Schaffter	5,338,738	16.98
Mrs. M. Mathews	4,877,038	15.51
Mr. P. Ganesan	1,141,900	3.63
Lanka Orix Finance Co. Ltd/ Mr. R. Schaffter	700,000	2.23
Janashakthi Finance and Investment Ltd	500,000	1.59
Mr. I. B. Issack	312,300	0.99
Associated Electrical Corporation Ltd	300,000	0.95
National Development Bank Ltd/ Mouldex Ltd	220,000	0.70
Mr. D.P. Nagendren	150,000	0.48
Mr. J. Dewage	150,000	0.48
Mrs. E.R. Wickramasinghe	150,000	0.48
Mr. M.P. Wickramasinghe	142,400	0.45
Merchant Bank of Sri Lanka Ltd/ C. Piyawardena	104,300	0.33
Mrs. J.S. Puvimanasinghe	100,000	0.32
Sanasa Development Bank Ltd	100,000	0.32
Mr. F.A.W. Irugalbandara	100,000	0.32
Mr. Y.K.B. Dissanayake	100,000	0.32
Mr. A.B.S. Herath	100,000	0.32

Shareholders

As at December 31st, 2005 there were 1699 registered shareholders and distribution is indicated on page 27. The percentage of shares held by the public as at 31st December 2005 was 28.26%

Dividends

The Directors do not recommend the payment of a dividend for the twelve months ended 31st December 2005.

Stock Market Information

Information relating to trading of shares of the Company is given under Shares Information on page 27 of the report.

Value of Share

The market value of Kotmale Holdings Limited ordinary shares as at 31st December 2005 was Rs. 9.75.

Post Balance Sheet Events

Significant post balance sheet events have been disclosed in Note 23 to the accounts.

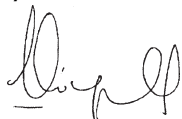
Corporate Governance

The Company is implementing procedures to ensure that good Governance is practiced. The Board emphasizes the maintenance of a good relationship and communication with shareholders. Detailed and accurate financial reports are presented to shareholders on a quarterly and annual basis. The Annual General Meeting provides a platform for shareholders to discuss and seek clarifications on the activities of the Company.

Re-appointment of Auditors

In accordance with the Companies Act No.17 of 1982, a resolution proposing the re-appointment of Messrs. Nihal Hettiarachchi and Company, Chartered Accountants, as Auditors to the Company will be submitted at the Annual General Meeting.

By Order of the Board



Ms. R. M. C. L. K. Liyanaarachchi
Secretary

Colombo 15th February, 2007

Report of the Auditors

REPORT OF THE AUDITORS TO THE MEMBERS OF KOTMALE HOLDINGS LIMITED

1. We have audited the Balance Sheet of Kotmale Holdings Ltd., as at 31st December, 2005, the Consolidated Balance Sheet of the Company and its Subsidiaries as at that date, and the related Statements of Income, Changes in Equity and Cash Flows for the year then ended, together with the Accounting Policies and Notes as set out on pages 12 to 26.

2. Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these Financial Statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these Financial Statements, based on our audit.

3. Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said Financial Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said Financial Statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the Financial Statements, and determining whether the said Financial Statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

The accounts of the subsidiaries have been audited by a firm of accountants in public practice appointed by the members of the respective companies.

4. Opinion

Company

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st December, 2005 and to the best of our information and according to explanations given to us, the said Balance Sheet and the related Statements of Income, Changes in Equity and Cash Flows and

the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st December, 2005 and its Profits and Cash Flows for the year then ended.

Group

In our opinion, the Consolidated Balance Sheet and Statements of Income, Changes in Equity and Cash Flows and the Accounting Policies and Notes thereto, have been prepared and presented in accordance with the Companies Act No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st December 2005 and the Loss and Cash Flows for the year then ended of the Company and its Subsidiaries dealt with thereby, so far as concerns the members of the Company.

5. Directors Interests in Contracts with the Company

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in any contracts with the Company during the year ended 31st December, 2005 except, as stated in Note 25 to these Financial Statements.



NIHAL HETTHARACHCHI & Co
February 15, 2007

Consolidated Income Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2005.

	NOTE	Company		Group	
		31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
Revenue		-	-	541,325,482	429,953,652
Cost of Sales		-	-	(455,696,407)	(322,477,593)
Gross Profit		-	-	85,629,075	107,476,059
Dividend Income		10,000,000	-	-	-
Amortisation of Grant		-	-	1,910,904	1,910,900
Other Operating Income		9,092,696	-	11,848,515	2,056,445
		19,092,696	-	99,388,494	111,443,404
Distribution Costs		-	-	(51,805,704)	(35,018,234)
Administration Expenses		(460,159)	(246,723)	(30,925,348)	(28,849,497)
Amortisation of Goodwill		-	-	(4,121,733)	(4,121,733)
		(460,159)	(246,723)	(86,852,785)	(67,989,464)
Profit / (Loss) from Operating Activities (03)		18,632,537	(246,723)	12,535,709	43,453,940
Finance Costs		(571,112)	-	(11,127,681)	(21,867,666)
Net Profit / (Loss) before Taxation		18,061,425	(246,723)	1,408,028	21,586,274
Taxation	(04)	(1,707,233)	-	(6,733,254)	(804,665)
NET PROFIT / (LOSS)		16,354,192	(246,723)	(5,325,226)	20,781,609
Earnings Per Share	(05)	0.65	(0.01)	(0.21)	1.10

Consolidated Balance Sheet

	NOTES	Company		Group (Restated)	
		31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	(06)	-	-	240,499,929	229,863,476
Intangible Assets	(07)	-	-	85,408,033	74,191,190
Investments	(08)	215,400,000	185,400,001	-	1
Biological Assets	-	-	-	1,500,000	-
		<u>215,400,000</u>	<u>185,400,001</u>	<u>327,407,962</u>	<u>304,054,667</u>
Current Assets					
Inventories	(09)	-	-	39,313,408	35,608,720
Trade and other receivables	(10)	10,000,000	-	118,379,810	86,115,369
Prepayments, Deposits and Advances				8,569,525	4,351,437
Amounts due from related Companies	(11)	69,807,194	-	31,001,979	54,286,905
Short Term Investment	(12)	16,306,362	-	16,306,362	-
Cash and Bank balances		2,869,169	-	21,410,871	1,450,491
		<u>98,982,725</u>	<u>-</u>	<u>234,981,955</u>	<u>181,812,922</u>
Total Assets		<u>314,382,725</u>	<u>185,400,001</u>	<u>562,389,917</u>	<u>485,867,589</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	(13)	314,000,000	188,400,000	314,000,000	188,400,000
Reserves	(14)	7,830,946	(8,523,246)	25,698,392	31,023,618
		<u>321,830,946</u>	<u>179,876,754</u>	<u>339,698,392</u>	<u>219,423,618</u>
Shareholders' funds		<u>321,830,946</u>	<u>179,876,754</u>	<u>339,698,392</u>	<u>219,423,618</u>
Share issue expenses		<u>(8,898,913)</u>	<u>-</u>	<u>(8,898,913)</u>	<u>-</u>
		<u>312,932,033</u>	<u>179,876,754</u>	<u>330,799,479</u>	<u>219,423,618</u>
Non - Current Liabilities					
Deferred liability	(15)	-	-	12,420,846	14,331,750
Long term borrowings	(16)	-	5,295,591	52,212,460	119,015,157
Retirement benefit obligations	(17)	-	-	5,451,099	4,282,925
		<u>-</u>	<u>5,295,591</u>	<u>70,084,405</u>	<u>137,629,832</u>
Current Liabilities					
Trade and other payables	(18)	1,450,692	161,873	110,705,866	84,140,262
Amount due to related Companies	(19)	-	65,783	11,986,139	4,990,000
Short term borrowings	(20)	-	-	18,939,527	21,586,036
Bank overdrafts		-	-	19,874,501	18,097,841
		<u>1,450,692</u>	<u>227,656</u>	<u>161,506,033</u>	<u>128,814,139</u>
Total Liabilities		<u>1,450,692</u>	<u>5,523,247</u>	<u>231,590,438</u>	<u>266,443,971</u>
Total Equity and Liabilities		<u>314,382,725</u>	<u>185,400,001</u>	<u>562,389,917</u>	<u>485,867,589</u>

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

Signed for and on behalf of the Board.



Harsha N De Silva
Group Managing Director



Samantha A B Rajapaksa
Group Finance Director

15th February, 2007

Statement of Changes in Equity

Group	Share Capital Rs.	Revaluation Reserve Rs.	Other reserve Rs.	Accumulated Profit / (Loss) Rs.	Total Rs.
Balance as at 01 st January, 2004	188,400,000	23,471,170	3,054,017	(8,646,771)	206,278,416
Restatement	-	-	-	(7,636,407)	(7,636,407)
Balance as at 01 st January, 2004 (Restated)	188,400,000	23,471,170	3,054,017	(16,283,178)	198,642,009
Net Profit for the year	-	-	-	20,781,609	20,781,609
Balance as at 31 st December, 2004	188,400,000	23,471,170	3,054,017	4,498,431	219,423,618
Balance as at 01st January, 2005	188,400,000	23,471,170	3,054,017	4,498,431	219,423,618
Share Issued during the year	125,600,000	-	-	-	125,600,000
Net Loss for the year	-	-	-	(5,325,226)	(5,325,226)
Balance as at 31st December, 2005	314,000,000	23,471,170	3,054,017	(826,795)	339,698,392

Company	Share Capital Rs.	General reserve Rs.	Capital reserve Rs.	Accumulated Profit / (Loss) Rs.	Total Rs.
Balance as at 1st April , 2004	188,400,000	1,269,472	1,784,545	(11,330,540)	180,123,477
Net Loss for the year	-	-	-	(246,723)	(246,723)
Balance as at 31 st December, 2004	188,400,000	1,269,472	1,784,545	(11,577,263)	179,876,754
Balance as at 01 st January, 2005	188,400,000	1,269,472	1,784,545	(11,577,263)	179,876,754
Share issued during the year	125,600,000	-	-	-	125,600,000
Net profit for the year	-	-	-	16,354,192	16,354,192
Balance as at 31 st December, 2005	314,000,000	1,269,472	1,784,545	4,776,929	321,830,946

Cash Flow Statement

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
Net Profit / (Loss) before taxation	18,061,425	(246,723)	1,408,028	21,586,274
Adjustments for :	-	-	-	-
Amortisation of Grant	-	-	(1,910,904)	(1,910,904)
Exchange Loss	-	-	164,730	-
Amortisation of Goodwill	-	-	4,121,733	4,121,733
Interest expenses	-	-	10,962,951	17,726,276
Depreciation	-	-	21,619,085	18,812,853
Gratuity provision	-	-	1,975,022	1,228,620
Damage stock written off	-	-	-	232,734
Profit on sale of Fixed assets	-	-	(206,260)	(417,555)
Bad debts written off	-	-	4,859,334	3,600,000
Loans Written back	(5,295,590)	-	(5,295,590)	-
Operating Profit / (Loss) before working capital changes	12,765,835	(246,723)	37,698,129	64,980,031
Decrease / (Increase) in inventories	-	-	5,871,129	(26,525,497)
Increase in accounts receivables	(10,000,000)	-	(34,282,376)	(18,088,215)
Decrease / (Increase) in prepayments	-	-	(2,789,943)	571,554
Increase in Amounts due from related parties	(69,807,194)	-	(21,324,322)	(88,577)
Increase / (Decrease) in accounts payable	(87,873)	62,113	24,095,881	12,075,878
Increase/ (Decrease) in Amounts due to Related parties	(65,783)	65,783	(16,761,762)	(225,000)
Cash (absorbed in) / generated from operations	(67,195,015)	(118,827)	(7,493,264)	32,700,174
Interest paid	-	-	(10,962,951)	(14,692,996)
Gratuity paid	-	-	(806,848)	(388,773)
Withholding Tax paid	(1,705)	-	(1,705)	-
Notional Tax paid	(328,836)	-	(328,836)	-
Economic service charge (ESC) paid	-	-	(587,424)	-
	(330,541)	-	(12,687,764)	(15,081,769)
Net Cash flow from operating activities	(67,525,556)	(118,827)	(20,181,028)	17,618,405

Notes on pages 12 to 26 form an intergral part of these Financial Statements

Auditor's report, Page 5

Cash Flow Statement

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
B/F				
	(67,525,556)	(118,827)	(20,181,028)	17,618,405
Cash Flows from Investing Activities				
Payment for biological Assets	-	-	(1,500,000)	-
Acquisition of subsidiary net cash acquired (NOTE - A)	(30,000,000)	-	(26,442,741)	-
Purchase of Property, Plant and Equipment	-	-	(7,489,239)	(30,463,426)
Proceeds on sale of fixed assets	-	-	896,260	417,555
Increase in capital work in progress	-	-	(7,250,598)	-
Net Cash used in investing activities	<u>(30,000,000)</u>	<u>-</u>	<u>(41,786,318)</u>	<u>(30,045,871)</u>
Cash Flows from Financing Activities				
Proceeds from issue of shares	125,600,000	-	125,600,000	-
Repayment of leases	-	-	(1,591,975)	(23,035,706)
Movement in borrowings	-	118,827	(18,651,684)	41,785,064
Share issue expense	(8,898,913)	-	(8,898,913)	-
Net Cash Flow from Financing Activities	<u>116,701,087</u>	<u>118,827</u>	<u>96,457,428</u>	<u>18,749,358</u>
Net increase in cash and cash equivalents	19,175,531	-	34,490,082	6,321,896
Cash and cash equivalents at the beginning of the year (Note 21.1)	-	-	(16,647,350)	(22,969,246)
Cash and cash equivalents at the end of the year (Note 21.2)	<u>19,175,531</u>	<u>-</u>	<u>17,842,732</u>	<u>(16,647,350)</u>
Analysis of Cash and Cash Equivalents				
Favourable balances				
Cash at Bank	2,869,169	-	21,410,871	1,358,978
Cash in hand	-	-	-	91,513
Short term Investments	16,306,362	-	16,306,362	-
Unfavourable balances				
Bank overdraft	-	-	(19,874,501)	(18,097,841)
	<u>19,175,531</u>	<u>-</u>	<u>17,842,732</u>	<u>(16,647,350)</u>

Cash Flow Statement

31.12.2005
Rs.

NOTE - A ACQUISITION OF SUBSIDIARY

The fair value of Assets Acquired and Liabilities of Milife Foods Limited as follows,

Property, Plant and Equipment	18,205,700
Inventories	9,575,817
Trade and other receivables	11,623,591
Advance and prepayments	1,348,827
Cash and cash equivalents	3,557,259
Trade and other payables	(5,891,869)
Amount due to related parties	(23,757,901)
Total Net Assets	14,661,424
Goodwill on consolidation	15,338,576
Cash consideration paid on Acquisition of subsidiary	30,000,000
Cash and cash equivalents Acquired	(3,557,259)
Net cash outflow on Acquisiton of subsidiry	26,442,741

Notes to the Financial Statements

(01) CORPORATE INFORMATION

1.1. Domicile and Legal form

Kotmale Holdings Ltd., formerly known as Lambretta (Ceylon) Ltd., is a company incorporated as Lambretta (Ceylon) Ltd., and operating in Sri Lanka since 6th January, 1967 as a Quoted Public Company listed with the Colombo Stock Exchange. The registered office of the Company is located at level 4, No 2, Castle Lane, Colombo 04.

Issued ordinary shares of the Company are listed on the Colombo Stock Exchange.

1.2. Principle activities and nature of operation

Kotmale Holdings Ltd., became the holding Company of the group during the Financial year ended 31st December, 2003. The principle activity of the Subsidiaries is to engage in the manufacture of dairy products, packeting and distribution of milk powder. As at 31st December, 2005 group employed 424 persons, (2004 - 231)

1.3 Subsidiary Enterprises

Kotmale Products Ltd and Milife Foods Ltd., are fully owned subsidiaries of Kotmale Holdings Ltd.

Following Companies which are fully owned subsidiaries of Kotmale Products Ltd., have also been included in this Consolidated Financial Statements.

- Swiss Cheese Co. (Pvt) Ltd.
- Kotmale Milk Products Ltd.
- Kotmale Kiri (Pvt) Ltd.
- Kotmale Marketing (Pvt) Ltd.

Kotmale Marketing (Pvt) Limited has ceased operations on 31st March, 2001. Kotmale Holdings Ltd., has acquired Milife Foods Ltd., on 30th November, 2005.

1.4 Directors Responsibilities

The Board of Directors of the Company are responsible for the preparation and presentation of Financial Statements. The consolidated Financial Statements of the group for the year ended 31st December, 2005 were authorised for issue by the Directors on 15th February, 2007.

(02) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1. Basis of Preparation

The Balance sheet, statement of Income, Statement of Changes in equity and the cash flow statement, together with the accounting policies and notes (the "Financial Statements") of the group as at 31st December, 2005 and for the year then ended comply with Sri Lanka Accounting Standards (SLAS)

The Financial Statements presented in Sri Lankan rupees have been prepared on a historical cost basis except for certain Property, Plant and Equipment which have been revalued.

2.1.2 Changes in Accounting policies

The Provisions of SLAS 25 "Business combinations" (revised 2004) have been adopted in accounting for business combinations after 1st June, 2005.

2.1.3 Comparative information

The accounting policies applied by the Company and the group are, unless otherwise stated, consistent with those used in the previous year. Previous years figures and phrases have been re-arranged, wherever necessary, to conform to the current years presentation.

Notes to the Financial Statements

2.1.4 Consolidation policy

a) Principles of Consolidation

The group Financial Statement comprise a consolidation of the Financial Statements of the Company and its subsidiaries in terms of the Sri Lanka Accounting Standards No - "26 consolidated Financial Statement and Accounting for investment in subsidiaries." All the Companies in the group have a common Financial year, which ends on 31st December.

The Financial Statements of the Group represents the consolidation of the Financial Statements of the Company, its Subsidiaries after elimination of all material intra group transactions.

Subsidiaries are controlled from the date the parent obtains control until such time as control ceases.

Acquisition of Subsidiaries are accounted for using the purchase method of accounting. The total profits and losses for the year of the Company and of its Subsidiaries included in the consolidation are shown in the consolidated Income Statement.

All assets and liabilities of the Company and of its Subsidiaries included in the consolidation are shown in the Consolidated Balance Sheet.

b) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, as at the date of acquisition. As required by SLAS 25, goodwill is amortised on a straight line basis, over the useful economic life of the acquisitions up to a presumed maximum of twenty years, based on factors such as the foreseeable life of the business, etc. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortisation. In accordance with SLAS 25 (revised 2004), goodwill arising on business combinations after 01st June, 2005 are not amortised, but tested for impairment annually.

2.1.5 Foreign Currency transactions

Transactions arising in foreign currencies are converted into Sri Lanka rupees at the rate of exchange prevailing at the time the transactions were effected. All monetary assets and liabilities in foreign currencies are remeasured into Sri Lanka rupees at the rate of exchange prevailing as at balance sheet date. The resulting gains or losses arising are dealt with in the Income Statement.

2.1.6 Taxation

(a) Current Tax

The group is liable for income tax in accordance with the Inland Revenue Act No 38 of 2000 and amendments thereto.

Kotmale Milk Products Ltd., a subsidiary Company is exempted from income tax for a period of 5 years commencing from the year of assessment 2002/03 under section 17 (2) of the BOI Law of Sri Lanka No. 04 of 1978.

(b) Deferred Taxation

Deferred Taxation is provided for on the liability method. The effect of all timing differences which occur as a result of items being allowed for income tax purposes during the year different from that, when they are recognised in the Financial Statements, is included as a provision for deferred taxation which would prevail at the time of difference reverses. However, deferred taxation is not provided during the year.

Notes to the Financial Statements

2.2 Valuation of Assets and their basis of measurement

2.2.1 Property, Plant and Equipment

a) Cost and valuation

All items of property, plant and equipment are initially recorded at cost. Where items of property, plant and equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values as at the balance sheet date. Subsequent to the initial recognition as an assets at cost, property, plant and equipment, if revalued, are carried at revalued amounts less any subsequent depreciation thereon. Additions subsequent to the last revaluation are disclosed at cost. All other property, plant and equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus, unless it reverse a previous revaluation decrease relating to the same assets, which had previously been recognised as an expense. In these circumstances, the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount decrease as a result of a revaluation, the decrease is recognised as an expense, unless it reverse a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same assets. Any balance remaining in the revaluation surplus in respect of assets, is transferred directly to retained profits on retirement or disposal of the assets.

b) Restoration Costs

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognized as an expense when incurred.

c) Depreciation

Provision for depreciation is calculated by using a straight line method on the cost or valuation of all Property, Plant and Equipment, in order to write off such amounts over the estimated useful economic lives of such assets. Generally, depreciation is provided for in the year of purchase and no depreciation is provided for the year of sale.

Kotmale Holdings Ltd., Kotmale Porducts Ltd., and Kotmale Kiri (Pvt) Ltd., do not own any Property, Plant and Equipment.

Kotmale Milk Products Ltd., Swiss Cheese Co. (Pvt) Ltd., and Milife Foods Ltd., depreciate its Property, Plant and Equipment as follows.

Assets	Depreciation rate
	%
Building	2.5
Premises - Mulleriyawa	5
Building improvements	20
Cool Room and Cooling Plant	10
Cooling Unit on lease Lorry	12.5
Plant, Machinery and Equipment	10
Office Furniture, Fittings & Equipment	25
Motor Vehicles	25

Notes to the Financial Statements

(d) Leased Assets

Where assets are financed by an agreement under which substantially all the risk and rewards of the ownership are transferred to the lessee, such assets are recorded in the balance sheet as Property, Plant and Equipment at their cash price.

The total interest payable is accounted as interest in suspense, and the corresponding credit is recorded as an amount payable to the lessor, the installments paid are used to reduce this liability.

An amount equal to the interest charges for the year is transferred from the interest in suspense account to the income statement.

(e) Impairment of Property, Plant and Equipment

The carrying value of Property, Plant and Equipment are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value is less than recoverable amount. If any such indications exist, and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the Income statement unless it reverse a previous revaluation surplus for the same assets.

2.2.2 Intangible assets

Intangible assets are recognized if it is probable that future economic benefit will flow to the enterprise, and the cost of the assets can be measured reliably.

2.2.3 Investments

Investment in subsidiaries have been accounted for at cost, net of any impairment which is charged to the income statement Kotmale Holdings Ltd., acquired Kotmale Products Ltd., as wholly owned subsidiary on 2nd May, 2003, and Milife Foods Ltd., acquired by Kotmale Holdings Ltd on 30th November, 2005.

Swiss Cheese Co. (Pvt) Ltd., Kotmale Kiri (Pvt) Ltd., Kotmale Milk Products Ltd., and Kotmale Marketing (Pvt) Ltd., are wholly owned subsidiaries of the Kotmale Products Ltd.

2.2.4 Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Net realizable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are valued according to the basis given below.

Finished goods are valued at direct cost.

Total direct cost includes:

- I. Basis Cost - This include the purchase of cost of milk and other raw materials
- II. Packing Cost
- III. Flavour Cost

Chemical, Other Raw Materials and Packing Materials are valued at cost.

2.2.5 Trade and other receivables

Trade and other receivables are stated at the amounts that they are estimated to realize.

2.2.6 Short - Term investment

Short-Term Investment represents the investment in "REPO"

2.2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits in bank and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changing value.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand and deposits in bank net of outstanding bank overdraft.

The cash flow statement is prepared based on the indirect method.

Notes to the Financial Statements

2.3 Liabilities and provisions

2.3.1 Liabilities

Liabilities classified as current liabilities in the balance sheet are those obligations payable on demand or within one year from the balance sheet date. Liabilities classified as non current liabilities are those obligations that extend beyond a period of one year of the balance sheet date.

2.3.2 Provisions

Provisions are recognized when the Company has a legal or constructive obligation, as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.3.3 Retirement benefit cost

(a) Defined benefit plan - Retirement gratuity

Full provision has been in the Financial Statements for all employees in conformity with Sri Lanka Accounting Standards No. 16 - Retirement Benefit Cost, at one half months salary for each completed year of service. However, according to the payment of Gratuity act No. 12 of 1983, the liability for gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company. This liability, which is classified as a non current liability, is not externally funded or actuarially valued.

(b) Defined contribution plans - Employees Provident Fund and Employees Trust Fund.

All the employees who are eligible for Employees Provident Fund and Employees Trust Fund contributions are covered by relevant contribution funds in line with respective statutes and regulations.

Contribution to provident fund and trust fund covering the employees are recognized as expenses in the income statement in the period in which it is incurred.

2.3.4 Capital Grants

Grants represent funds received in the form of the plant. Grants are amortized on a straight line basis over useful life of such assets.

2.4 Share issue expenditure

The Company has incurred Rs. 8,898,913/- in respect of shares issued through private placement on 21st June, 2005. Urgent Issues Task Force (UITF) of the Institute of Chartered Accountants of Sri Lanka has issued a ruling to the Company stating that share issue expenditure can be shown as net of total equity without it being charged to Income Statement. The Directors have decided to write off the share issue expenditure over period of 3 years commencing from the year 2006.

2.5 Income Statements

2.5.1 Presentation

The Income statement is presented on the "function of expenses" format as prescribed by Sri Lanka Accounting Standard No. 3.

2.5.2 Turnover

The turnover of the group and the Company represents the invoiced value of goods, net of discounts and returns. Inter group sales are excluded in computing group turnover.

2.5.3 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured.

2.5.4 Expenditure recognition

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

Notes to the Financial Statements

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(03) PROFIT / (LOSS) FROM OPERATING ACTIVITIES				
Stated after charging / (Crediting),				
Amortization of Goodwill	-	-	4,121,733	4,121,733
Amortization of Grant	-	-	(1,910,904)	(1,910,900)
Auditors' remuneration	70,000	61,500	467,646	331,259
Define Contribution plan cost EPF/ ETF	-	-	3,188,985	4,011,061
Depreciation	-	-	21,619,085	18,812,853
Retirement benefit plan cost - Gratuity	-	-	1,975,022	1,228,620
Staff expenses	-	-	25,084,166	36,427,770

(04) RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE ON ORDINARY ACTIVITIES

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
Accounting Profit / (Loss) Before Tax	18,061,425	(246,723)	1,408,028	21,586,275
Income not subject to Tax	(10,000,000)	-	(16,891,935)	(16,246,596)
Aggregate Disallowed Items	-	-	16,294,561	15,297,876
Aggregate Allowed expenses	-	-	(8,294,087)	(31,741,996)
	8,061,425	(246,723)	(7,483,433)	(11,104,441)
Other Income	3,797,106	-	4,287,089	1,436,339
Taxable Profit (excluding other income)	4,264,319	-	19,817,338	3,089,703
Utilisation of Tax Losses	(2,821,499)	-	(3,315,403)	(502,719)
	5,239,926	-	20,789,024	4,023,323
Current Income Tax Expenses				
20%	-	-	63,698	804,665
32.5%	1,702,976	-	6,652,924	-
	1,702,976	-	6,716,622	804,665
Social Responsibility Levy	4,257	-	16,632	-
Total Tax Liability	1,707,233	-	6,733,254	804,665

Notes to the Financial Statements

(4.1) TAX LOSSES CARRIED FORWARD

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
Tax losses brought forward	8,816,928	8,570,205	94,564,229	94,252,372
Tax losses arising during the year	-	246,723	38,728,348	9,936,815
Utilisation of Tax losses	(2,821,499)	-	(10,111,111)	(9,624,958)
	5,995,429	8,816,928	123,181,466	94,564,229

(05) EARNINGS PER SHARE

Basic Earnings per share is calculated by dividing the net profit for the period attributable to Ordinary shareholders of the company by Weighted Average number of Ordinary shares in issue during the year.

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
Amount Used as the Numerator				
Profit / (Loss) attributable to ordinary shareholders (Rs.)	16,354,192	(246,723)	(5,325,226)	20,781,669
Amount Used as Denominator				
Number of Ordinary shares	25,120,000	18,840,000	25,120,000	18,840,000
Earnings Per Share (Rs.)	0.65	(0.01)	(0.21)	1.10

(06) PROPERTY, PLANT AND EQUIPMENT

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
Freehold Property, Plant and Equipment (Note 6.1)	-	-	187,988,125	170,588,731
Leasehold Property, Plant and Equipment (Note 6.2)	-	-	52,511,804	59,274,745
	-	-	240,499,929	229,863,476

Notes to the Financial Statements

6.1. FREEHOLD PROPERTY, PLANT AND EQUIPMENT GROUP

COST/REVALUATION	Land and Building	Plant, Machinery and Equipment	Motor Vehicles	Office Furniture, Fittings and Equipment	Computers	Capital work in Progress	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01.01. 2005	71,822,015	131,737,861	19,044,723	2,594,654	1,994,788	-	227,194,041
Additions during the year	14,706,221	10,211,071	270,276	366,222	141,150	7,250,598	32,945,538
Disposals	-	(90,000)	(800,000)	-	-	-	(890,000)
Balance as at 31.12.2005	86,528,236	141,858,932	18,514,999	2,960,876	2,135,938	7,250,598	259,249,579

DEPRECIATION

Balance as at 01.01.2005	4,301,115	38,384,650	11,212,847	1,642,768	1,063,930	-	56,605,310
Charge for the year	754,666	10,920,286	2,478,194	357,425	345,573	-	14,856,144
Disposals	-	-	(200,000)	-	-	-	(200,000)
Balance as at 31.12.2005	5,055,781	49,304,936	13,491,041	2,000,193	1,409,503	-	71,261,454

WRITTEN DOWN VALUE

Balance as at 31.12.2005	81,472,455	92,553,996	5,023,958	960,683	726,435	7,250,598	187,988,125
Balance as at 31.12.2004	67,520,900	93,353,211	7,831,876	951,886	930,858	-	170,588,731

6.2. LEASEHOLD PROPERTY, PLANT AND EQUIPMENT

GROUP COST / REVALUATION	Plant, Machinery and Equipment Rs.	Motor Vehicles Rs.	Computers Rs.	Total Rs.
Balance as at 01.01.2005	62,023,766	1,705,000	-	63,728,766
Additions during the year	-	-	-	-
Balance as at 31.12.2005	62,023,766	1,705,000	-	63,728,766

DEPRECIATION

Balance as at 01.01.2005	4,027,771	426,250	-	4,454,021
Charge for the year	6,336,691	426,250	-	6,762,941
Balance as at 31.12.2005	10,364,462	852,500	-	11,216,962

WRITTEN DOWN VALUE

Balance as at 31.12.2005	51,659,304	852,500	-	52,511,804
Balance as at 31.12.2004	57,995,995	1,278,750	-	59,274,745

Out of the total balance of Plant, Machinery and Equipment (Rs. 51,659,304) shown in the note number 6.2 to these Financial Statements, Rs. 26,849,600 reflects the assets obtained under a special agreement with Tetra Pack Singapore and Emerging Markets under which the Company has to produce 45 million packs in four years of commercial operation.

Company		Group	
31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.

(6.3) CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT

At Cost	-	-	218,304,262	205,805,057
At Valuation	-	-	17,313,740	18,078,670
On Finance Lease	-	-	4,881,927	5,979,749
	-	-	240,499,929	229,863,476

Property, Plant and Equipment of the Swiss Cheese Co. (Pvt) Ltd and Kotmale Milk Products Ltd., subsidiaries has been revalued by a professional valuer, Mr. A. Rahim as at 31st December 2003. Property, Plant and Equipment of Milife Foods Ltd has been revalued by a professional valuer, Mr. G. Henry in July 2006, and values incorporated as at 31st December 2005.

Notes to the Financial Statements

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(07) INTANGIBLE ASSETS - GOODWILL				
Cost				
At the beginning of the year	-	-	82,434,656	82,434,656
Additions	-	-	15,338,576	-
At the end of the year	-	-	97,773,232	82,434,656
Accumulated Amortisation				
At the beginning of the year	-	-	(8,243,466)	(4,121,733)
Amortisation	-	-	(4,121,733)	(4,121,733)
At the end of the year	-	-	(12,365,199)	(8,243,466)
Net Carrying value	-	-	85,408,033	74,191,190

	Group Holdings	No. of Shares	Company		Group	
			31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(08) INVESTMENTS						
Subsidiaries						
Kotmale Products Ltd	100%	10,372,560	185,400,000	185,400,000	-	-
Milife Foods Ltd.	100%	64	30,000,000	-	-	-
Others						
Quest Advertising Services Ltd			-	1	-	1
			215,400,000	185,400,001	-	1

Notes to the Financial Statements

	Company		Group	
	31.12.2005 Rs.	31.03.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(09) INVENTORIES				
Finished goods	-	-	13,332,928	16,673,815
Raw materials	-	-	10,020,438	5,750,505
Packing materials	-	-	14,414,870	10,899,299
Crates	-	-	-	1,592,777
Others	-	-	1,545,172	692,324
	-	-	39,313,408	35,608,720
(10) TRADE AND OTHER RECEIVABLE				
Trade debtors	-	-	94,311,735	51,758,614
Staff debtors (NOTE 10.1)	-	-	311,543	734,570
Other receivables (NOTE 10.2)	-	-	23,756,532	33,622,185
Dividend receivable	10,000,000	-	-	-
	10,000,000	-	118,379,810	86,115,369
(10.1) STAFF DEBTORS				
Balance at the beginning of the year	-	-	734,570	344,180
Loans granted during the year	-	-	1,642,834	390,390
Repayment during the year	-	-	(2,065,861)	-
Balance as at end of the year	-	-	311,543	734,570
(10.2) OTHER RECEIVABLES				
Interest Receivable	-	-	15,957,648	15,957,648
Other Debtors	-	-	3,478,828	6,527,385
Freezers Debtors	-	-	-	1,296,639
VAT Recoverable	-	-	-	4,596,108
Advance to Farmers	-	-	4,320,056	5,244,405
	-	-	23,756,532	33,622,185
(11) AMOUNTS DUE FROM RELATED COMPANIES				
Milife Foods Ltd.	21,300,000	-	-	-
Second Janashakthi Investment Trust Ltd	-	-	-	43,725,670
Acland Holdings Ltd	-	-	-	10,311,235
Kotmale Product Ltd	-	-	250,000	250,000
Agrisquad (Pvt) Ltd.	17,609,162	-	21,725,503	-
Kotmale Livestock Agricultural Co. Ltd.	7,300,000	-	7,916,476	-
Swiss Cheese Co. (Pvt) Ltd.	18,598,032	-	-	-
Kotmale Milk Products Ltd.	5,000,000	-	-	-
Janashakthi Ltd.	-	-	1,110,000	-
	69,807,194	-	31,001,979	54,286,905

Notes to the Financial Statements

	Company		Group	
	31.12.2005 Rs.	31.03.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(12) SHORT TERM INVESTMENT				
Investment in "repo"	16,306,362	-	16,306,362	-
(13) SHARE CAPITAL				
Authorised				
50,000,000 Ordinary shares of Rs.10/- each	500,000,000	500,000,000	500,000,000	500,000,000
Issued and fully paid				
At the beginning of the year	188,400,000	188,400,000	188,400,000	188,400,000
18,840,000 Ordinary shares Rs.10/- each				
Issued during the year				
12,560,000 Ordinary Shares of Rs. 10 each	125,600,000	-	125,600,000	-
31,400,000 Ordinary Shares of Rs. 10/- each	314,000,000	188,400,000	314,000,000	188,400,000
(14) RESERVES				
Revaluation reserves	-	-	23,471,170	23,471,170
Capital reserves	1,784,545	1,784,545	1,784,545	1,784,545
General reserves	1,269,472	1,269,472	1,269,472	1,269,472
Accumulated Profit / (Loss)	4,776,929	(11,577,263)	(826,795)	4,498,431
	7,830,946	(8,523,246)	25,698,392	31,023,618
(15) DEFERRED LIABILITY				
Grant Received -Tetra Pack Filling Machine				
Balance at the beginning of the year	-	-	14,331,750	16,242,650
Amortisation for the year	-	-	(1,910,904)	(1,910,900)
Balance at the end of the year			12,420,846	14,331,750
(16) LONG TERM BORROWINGS				
Term Loan	(Note 16.1)	-	-	-
Other Loan	(Note 16.2)	-	22,214,974	36,772,595
Janashakthi Investment Trust Ltd.		5,295,591	-	5,295,591
Acland Holdings Ltd.		-	25,000,000	68,909,958
Hatton National Bank		-	1,800,000	3,000,000
Lease creditors		-	3,197,486	5,037,013
		5,295,591	52,212,460	119,015,157

Notes to the Financial Statements

	Company		Group	
	31.12.2005 Rs.	31.03.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(16.1) TERM LOAN				
Seylan Bank Ltd				
Balance at the beginning of the year	-	-	-	916,625
Settlements made	-	-	-	(916,625)
Short term portion	-	-	-	-
Balance at the end of the year	-	-	-	-
(16.2) OTHER LOAN				
Tetra Pack Singapore and Emerging Markets				
Balance at the beginning of the year	-	-	36,772,595	24,425,873
Loan received during the year	-	-	-	22,780,541
Settlements made	-	-	(14,557,621)	(10,433,819)
Balance at the end of the year	-	-	22,214,974	36,772,595

Note :-

The settlement of the above loan is based on the number of packages imported by the Company from Tetra Pack, Singapore.

(16.3) SECURITIES

(a) Swiss Cheese Company (Pvt) Ltd.

The Following assets have been pledged as securities for liabilities.

Nature of Gurantee	Nature of Liability	Amount Rs.	Included under
Immovable Property at No. 30, Kelanimulla	collateral for bank overdraft obtained from Seylan Bank Cinnamon Gardens	6 Mn	Property, Plant and Equipment
Plant and Machinery at No. 20, Sri Sumana Mawatha, Mulleriyawa	Term Loan Facility - HNB	3 Mn Equipment	Property, Plant and Equipment

(b) Corporate Guarantee from Janashakthi Insurance Company Limited for Rs. 5 Million.

Notes to the Financial Statements

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(17) RETIREMENT BENEFIT OBLIGATIONS				
Balance at the beginning of the year	-	-	4,282,925	3,443,077
Charge for the year	-	-	1,975,022	1,228,620
Payments for the year	-	-	(806,848)	(388,772)
Balance at the end of the year	-	-	5,451,099	4,282,925
(18) TRADE AND OTHER PAYABLE				
Trade Creditors	-	-	40,552,163	38,486,690
Sundry Creditors (Note 18.1)	-	-	47,816,289	31,885,031
Accrued Expenses	74,000	161,873	8,331,475	5,327,469
Income tax payable	1,376,692	-	6,369,532	804,665
GST Payable	-	-	7,636,407	7,636,407
	1,450,692	161,873	110,705,866	84,140,262
(18.1) SUNDRY CREDITORS				
M Factor	-	-	9,183,043	10,511,236
Other payables	-	-	36,782,523	18,734,323
Deposits - Distributor Guarantee	-	-	1,645,000	2,385,000
Distributor - Crates deposits	-	-	205,723	254,472
	-	-	47,816,289	31,885,031
(19) AMOUNT DUE TO RELATED COMPANIES				
Lackcow (Pvt) Ltd.	-	-	6,996,139	-
Swiss Cheese Company (Pvt) Ltd	-	65,783	-	-
The Montessori Workshop (Pvt) Ltd.	-	-	4,990,000	4,990,000
	-	65,783	11,986,139	4,990,000
(20) SHORT TERM BORROWINGS				
Lease creditors	-	-	1,839,527	1,591,973
Temporary loan	-	-	-	19,994,063
Seylan Bank	-	-	16,500,000	-
Hatton National Bank	-	-	600,000	-
	-	-	18,939,527	21,586,036

Notes to the Financial Statements

	Company		Group	
	31.12.2005 Rs.	31.12.2004 Rs.	31.12.2005 Rs.	31.12.2004 Rs.
(21) NOTES TO THE CASH FLOW STATEMENTS				
(21.1) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR				
Cash at bank	-	-	1,358,978	2,082,191
Cash in hand	-	-	91,513	230,108
Bank overdraft	-	-	(18,097,841)	(25,281,545)
	-	-	(16,647,350)	(22,969,246)
(21.2) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR				
Cash at bank	2,869,169	-	21,410,871	1,358,978
Cash in hand	-	-	-	91,513
Short term investment	16,306,362	-	16,306,362	-
Bank overdraft	-	-	(19,874,501)	(18,097,841)
	19,175,531	-	17,842,732	(16,647,350)

(22) CAPITAL COMMITMENTS

There were no material capital commitments as at 31st December, 2005.

(23) POST BALANCE SHEET EVENTS

There have been no material events occurring after the balance sheet date.

(24) COMPARATIVE INFORMATION

Retained earnings of the group as at 31st December, 2003 has been restated to include taxes unpaid on account of Goods and services tax by Swiss Cheese Company (Pvt) Ltd., amounting to Rs. 7,636,407 in respect of taxable supplies made up to 31st December, 1999.

Notes to the Financial Statements

(25) DIRECTORS INTEREST IN CONTRACTS / RELATED PARTY TRANSACTIONS

- (a) Mr. C. T. A. Schaffter, Mr. T. R. Mirando, Mr. P. A. Schaffter, Mr. R. Schaffter, and Mr. D. J. Joseph were Directors of the Company and details of their Directorates in other Companies are as follows :

	Mr. C. T. A. Schaffter	Mr. T. R. Mirando	Mr. P. A. Schaffter	Mr. R. Schaffter	Mr. D. J. Joseph
Kotmale Products Ltd.	x	x	x	x	x
Protection & Indemnity Co. Ltd.	x	x	x	-	-
Kotmale Marketing (Pvt) Ltd.	x	x	x	x	-
Acland Holdings Ltd.	x	x	x	x	-
Insurance Management Services Ltd.	-	x	-	x	-
Swiss Cheese Company (Pvt) Ltd.	x	x	x	x	x
The Montessori Workshop (Pvt) Ltd.	x	x	x	-	-
Kotmale Milk Products Ltd.	x	x	x	x	x
Kotmale Kiri (Pvt) Ltd.	x	x	x	x	x
Janashakthi Insurance Company Ltd.	x	-	x	x	-
Milife Foods Limited	x	-	-	x	x
Kotmale Livestock Agricultural Company Ltd.	-	x	-	x	-

Mr. T.R. Mirando deceased on 3rd October, 2005

- (b) Mr. C. T. A. Schaffter, Mr. P. A. Schaffter, Mr. R. Schaffter and Mr. D. J. Joseph, resigned from Directorship of Kotmale Holdings Ltd. w. e. f. 22nd August, 2006.

Information of Shareholders and Investors

SHARE PRICES FOR THE YEAR

	Price	Date
Highest during the year	Rs. 42.00	08.07.05
Lowest during the year	Rs. 7.50	25.12.05
Closing Value	Rs. 9.75	30.12.05

DISTRIBUTION OF SHAREHOLDING

No of Shares held as at 31st December 2005

	No. of Holders	%	No. of Shares	%
less than 1,000	1058	62.27	467,620	1.49
1,001 - 5,000	398	23.43	1,077,678	3.43
5,001 - 10,000	102	6.00	865,700	2.76
10,001 - 50,000	114	6.71	2,850,050	9.08
50,001 - 100,000	12	0.71	988,100	3.15
100,001 - 500,000	9	0.53	2,029,000	6.46
500,001 - 1,000,000	1	0.06	700,000	2.23
over 1,000,001	5	0.29	22,421,852	71.40
TOTAL	1699	100	31,400,000	100

CATEGORIES OF SHAREHOLDERS	No. of Shareholders	No. of Shares
Resident	1683	31,100,970
Non Resident	16	299,030
Individual	1618	22,952,522
Institutional	81	8,447,478

	Number of Shares	%
Shares held by the Public	8,875,148	28.26%

Instructions for the Completion of the Form of Proxy

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address, by signing in the space provided and filling the date of signature and your National Identity Card Number.
2. The completed form of Proxy should be deposited at the Office of the **Company Secretary, No. 165, Kynsey Road, Colombo 00800**, 48 hours before the time appointed for the holding of the meeting.
3. If an Attorney has signed the Form of Proxy, the relative Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the Shareholder is a company or a corporate body, the Proxy should be executed under its Common Seal in accordance with its Articles of Association or constitution.
5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

Report of the Directors

For presentation at the Thirty Ninth Annual General Meeting of the Shareholders of Kotmale Holdings Limited.

The Directors have pleasure in presenting there Report together with the Audited Financial Statements of Kotmale Holdings Limited for the year ended 31 December 2005.

Principal Activities

The principal activity is that of an investment company. Its subsidiaries are engaged in the manufacture of dairy products and packaging and distribution of milk powder.

Review of Business

The Managing Director's review describes in brief the Company and its subsidiaries affairs and refers to important events of the year.

Turnover

The consolidated turnover was Rs. 539 million (2004 : Rs. 430 million).

Property, Plant & Equipment

Acquisition of property, plant and equipment for the year amounted to Rs. 6.1 million (2004 : Rs. 30.5 million).

Share Capital

A private placement was held in June 2005 whereby 12.56 million shares were offered to the public at Rs. 10 per share.

The issued share capital of the Company was increased from Rs. 188.4 million to Rs. 314 million due to the private placement held in June 2005.

The authorised share capital of the Company remained unchanged.

Reserves

The Group Reserves after appropriations are Rs. 67.6 mn (2004 : Rs. 38.7 mn)

Directors

The Board of Directors of Kotmale Holdings Ltd are disclosed under Corporate Information.

In terms of the Articles of Association, Mr. C.T.A. Schaffter retires by rotation and being eligible offers himself for re – election.

Directors' Shareholding

The Directors' holding in the shares of the Company are, R. Schaffter – 6,038,738 ordinary shares (2004 : nil) and P.A. Schaffter – 5,449,238 ordinary shares (2004 : nil).

Directors' Interests in Contracts

The Directors were not either directly or indirectly interested in any contract or proposed contract with the Company except as stated in Note 19 to these financial statements.

Post Balance Sheet Events

All material events occurring after the Balance Sheet date are considered and where necessary adjustments have been made to the Financial Statements.

Dividend

No. dividend is recommended for the year 2005.

Auditors

Messrs. Nihal Hettiarchchi & Company, Chartered Accountants, Auditors to the Company retire and being eligible offer themselves for re – appointment.

By Order of the Board
Sgd.

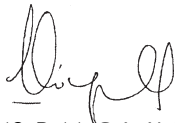
Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Kotmale Holdings Limited will be held on 28th May, 2007 at 4.00 p.m. at the ground floor Auditorium of the Ceylon Chamber of Commerce No. 50, Nawam Mawatha, Colombo 00200 for the following purposes:

1. To receive and adopt the Report of the Board of Directors and the Audited Accounts of the Company for the year ended 31st December 2005 together with the Report of the Auditors thereon.
2. To re-appoint Mr. Bharatha Manju Sri Kumar Haththotuwa, who retires in terms of Article 106 of the Articles of Association as a Director of the Company.
3. To re-appoint Mr. Harsha Nilantha De Silva, who retires in terms of Article 106 of the Articles of Association as a Director of the Company.
4. To re-appoint Mr. Hetti Pathirannehelage Ajith Gunawardana, who in terms of Article 106 of the Articles of Association as a Director of the Company.
5. To re-appoint Mr. Samantha Aruna Bandara Rajapaksa, who in terms of Article 106 of the Articles of Association as a Director of the Company.
6. To re-appoint Messrs Nihal Hettiarachchi & Company, as Auditors of the Company for the ensuing year and authorize the Board of Directors to determine their remuneration.

BY ORDER OF THE BOARD

(Sgd)



MS. R. M. C. L. K. LIYANAARACHCHI,
COMPANY SECRETARY

Colombo

Date: 15th February 2007