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# **PROSPECTUS**

## **INITIAL PUBLIC OFFERING OF KAPRUKA HOLDINGS LIMITED**

INITIAL PUBLIC OFFER THROUGH AN OFFER FOR SUBSCRIPTION OF  
THIRTY TWO MILLION EIGHT HUNDRED AND TWENTY SIX THOUSAND (32,826,000)  
ORDINARY VOTING SHARES AT LKR 15.40 PER SHARE

TO BE LISTED ON THE MAIN BOARD OF THE COLOMBO STOCK EXCHANGE  
[IPO.KAPRUKA.COM](http://IPO.KAPRUKA.COM)



Financial Advisor and Manager to the Issue



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INITIAL PUBLIC OFFER  
THROUGH AN OFFER FOR SUBSCRIPTION OF THIRTY-TWO MILLION EIGHT HUNDRED AND TWENTY-SIX  
THOUSAND (32,826,000) ORDINARY VOTING SHARES AT LKR 15.40 PER SHARE

All resident Applicants should indicate in the Application for Shares, their NIC number or the company registration number as the case may be, the passport number may be indicated only if the Applicant does not have an NIC number.

As per the Directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System (Private) Limited (CDS) dated November 30, 2010, all Shares allotted must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, in order to facilitate the uploading of allotted Shares to their CDS account.

Please note that upon the allotment of Shares under this Offer, the allotted Shares would be credited to the Applicant's CDS account so indicated. Please note that SHARE CERTIFICATES WILL NOT BE ISSUED.

In instances where there is a discrepancy between the CDS account details provided in the Application Form and records held by CDS, the information held in the CDS account will take precedence in order to mitigate risk of allotting shares to an incorrect party.

Any Application which does not carry a valid CDS account number or indicates a number of a CDS account which is not opened at the time of the closure of the subscription list or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment will be made.

You can open a CDS account through any member/trading member of the Colombo Stock Exchange (CSE) as set out in Annex E or through any Custodian Banks as set out in Annex F of this Prospectus.

**The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus. However, if there are any material changes in the affairs of the Company from the date of this Prospectus, till the Company's Shares are listed; such material changes will be duly disclosed through CSE.**

**If you are in doubt regarding the contents of this document or if you require any advice in this regard, you should consult your Stockbroker, Bank Manager, Lawyer or any other professional advisor.**

**This Prospectus is dated 14<sup>th</sup> December, 2021**

***The Colombo Stock Exchange (“CSE”) has taken reasonable care to ensure full and fair disclosure of the information in this Prospectus. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed, or reports included in the Prospectus. Moreover, the CSE does not regulate the pricing of the shares, which is decided solely by the Company/Issuer.***

This Prospectus has been prepared from information provided by Kapruka Holdings Limited (hereinafter referred to as “Kapruka” or “Company”) and its Directors and/or from publicly available sources. The Company and its Directors having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading.

Where representations regarding the future performance of the Company have been given in this Prospectus, such representations have been made after due and careful enquiry of the information available to the Company and making assumptions that are considered to be reasonable at the present point in time in their best judgment.

The Company accepts responsibility for the information contained in this Prospectus. While the Company has taken reasonable care to ensure full and fair disclosure of information, prospective applicants are advised to carefully read this Prospectus and rely on their own examination and assessment of the Company including the risks involved prior to making any investment decision.

No person is authorized to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorized by the Company.

## REGISTRATION OF THE PROSPECTUS

A copy of this Prospectus has been delivered to the Registrar General of Companies in Sri Lanka for registration in accordance with the provisions contained in the Companies Act No. 07 of 2007.

The following documents were also attached to the copy of the Prospectus delivered to the Registrar General of Companies.

- **The written consent of the Financial Advisor and Manager to the Issue**

The Financial Advisor and Manager to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Manager to the Issue and for the inclusion of their statements/declarations in the form in which it is included in the Prospectus.
- **The written consent of the Registrars to the Issue**

The Registrars to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Registrars to the Issue in the Prospectus.
- **The written consent of the Company Secretary**

The Company Secretary has given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Company Secretary in the Prospectus.
- **The written consent of the Auditors and Reporting Accountants to the Company**

The Auditors and Reporting Accountants to the Company have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Auditors and Reporting Accountants to the Company and for the inclusion of their report/statements in the form and context in which it is included in the Prospectus.
- **The written consent of the Lawyers to the Issue**

The Lawyers to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Lawyers to the Issue in the Prospectus.
- **The written consent of the Bankers to the Issue**

The Bankers to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their names as Bankers to the Issue in the Prospectus.
- A declaration made by each of the Directors of the Company in terms of the Companies Act No. 07 of 2007 confirming that each of them have read the provisions of the Companies Act and the CSE Listing Rules relating to the issue of the Prospectus and that those provisions have been complied with.

## **Registration of the Prospectus in Jurisdictions Outside of Sri Lanka**

This Prospectus has not been registered with any authority outside of Sri Lanka. Non-resident applicants may be affected by the laws of the jurisdictions of their residence. Such applicants are responsible for complying with the laws relevant to the country of residence and the laws of Sri Lanka, when making the investment.

## **Representation**

No person is authorized to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorized by the Company.

## **Forward Looking Statements**

Any statements included in this Prospectus that are not statements of historical fact constitute “Forward Looking Statements”. These can be identified by the use of forward-looking terms such as “expect”, “anticipate”, “intend”, “may”, “plan to”, “believe”, “could” and other similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward-Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Company operates and its ability to respond to them, the Company’s ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry; and further uncertainties that may or may not be in the control of the Company.

Such factors may cause actual results, performance and achievements to materially differ from any future results; and changes to performance or achievements expressed or implied by Forward Looking Statements contained herein. Forward Looking Statements are also based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future.

Given the risks and uncertainties that may cause the Company’s actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking Statements in this Prospectus, applicants are advised not to place sole reliance on such statements.

## **Investment Considerations**

It is important that this Prospectus is read carefully prior to making an investment decision. For information concerning certain risk factors, which should be considered by prospective applicants, see “Investment Considerations and Associated Risk Factors” in Section 11 of this Prospectus.

## **Presentation of Currency Information and Other Numerical Data**

The financial statements of the Company and currency values of economic data or industry data in a local context will be expressed in Sri Lanka Rupees. References in the Prospectus to “LKR”, “Rupees”, and “Rs.” are

references to the lawful currency of Sri Lanka. Reference to “USD” is with reference to United States Dollars, the official currency of the United States of America.

Certain numerical figures in the Prospectus have been subject to rounding adjustments; accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

#### **Presentation of Macroeconomic and Industry Data**

Economic and industry data used throughout this Prospectus are derived from the Central Bank of Sri Lanka and various other industry data sources, which the Company believes to be reliable, but the accuracy and completeness of that information is not guaranteed. Similarly, industry surveys and other publications, while believed to be reliable, have not been independently verified and neither the Company nor the Manager to the Issue make any representation as to the accuracy of such information.

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## ISSUE AT A GLANCE

<b>Company</b>	Kapruka Holdings Limited
<b>Number and Type of Securities to be Offered</b>	Thirty-Two Million Eight Hundred and Twenty-Six Thousand (32,826,000) new Ordinary Voting Shares of the Company
<b>Share Issue Price</b>	LKR 15.40 per Ordinary Voting Share
<b>Amount to be Raised</b>	Five Hundred and Five Million Five Hundred and Twenty Thousand Four Hundred (LKR 505,520,400)
<b>Minimum Subscription per Application</b>	Minimum subscription per Application is 1,000 Shares (LKR 15,400). Applications exceeding the minimum subscription should be in multiples of 100 Shares Each successful Application shall receive the minimum subscription
<b>Issue Opening Date</b>	22 <sup>nd</sup> December, 2021
<b>Issue Closing Date</b>	10 <sup>th</sup> January, 2022 or such earlier date on which the Issue of 32,826,000 new Ordinary Voting Shares is oversubscribed Refer Section 3.10 of this Prospectus for further details on the Closure Date
<b>Earliest Closing Date</b>	22 <sup>nd</sup> December, 2021
<b>Basis of Allotment</b>	As described in Section 4.7 of this Prospectus
<b>CSE Listing</b>	To be listed on the Main Board of the CSE subject to compliance with the CSE Listing Rules and SEC Directives (as applicable)

## DEFINITIONS/INTERPRETATIONS

The following definitions/interpretations apply throughout this Prospectus, unless the context otherwise requires:

<b>“Applicant/s”</b>	Any person who submits an Application Form under this Prospectus
<b>“Application Form”, “Application”</b>	The Application Form that constitutes part of this Prospectus through which Applicants may apply for the Shares on Offer
<b>“Articles of Association”</b>	Articles of Association of Kapruka Holdings Limited
<b>“Auditors and Reporting Accountants to the Company”</b>	Ernst & Young
<b>“AWPLR”</b>	Last quoted Average Weighted Prime Lending Rate published by the Central Bank of Sri Lanka
<b>B2B, B2C</b>	Business to business, Business to consumer
<b>“Bn”</b>	Billion
<b>“CAGR”</b>	Compounded Annual Growth Rate
<b>“CDS”</b>	Central Depository Systems (Private) Limited
<b>“Companies Act”</b>	Companies Act No. 07 of 2007
<b>“CSE”</b>	Colombo Stock Exchange
<b>“Directors”</b>	The Directors for the time being of the Company, unless otherwise stated
<b>“EPS”</b>	Earnings Per Share
<b>“ESC”</b>	Economic Service Charge
<b>“Float Adjusted Market Capitalisation”</b>	Public holding percentage of the Company multiplied by the market capitalization of the Company
<b>“FY”</b>	Financial Year
<b>“GDP”</b>	Gross Domestic Product
<b>“IMF”</b>	International Monetary Fund
<b>“IPO”, “Offering”, “Offer”, “Offer for Subscription”</b>	Initial Public Offering through an Offer for Subscription of Thirty-Two Million Eight Hundred and Twenty-Six Thousand (32,826,000) new Ordinary Voting Shares of the Company at LKR 15.40 per share
<b>“Issue Closing Date”, “Closure Date”</b>	The date of closure of the subscription list as set out in Section 3.10 of this Prospectus
<b>“Issue Opening Date”, “Opening Date”</b>	The date of opening of the subscription list as set out in Section 3.10 of this Prospectus
<b>“Issued and Paid up Ordinary Shares”, “Ordinary Voting Shares”, “New Ordinary Voting Shares”, “Ordinary Shares”</b>	Ordinary shares of the Company, with the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in dividends paid by the Company and the right to an equal share in the distribution of the surplus assets of the Company in liquidation
<b>“Kapruka”, “Company”</b>	Kapruka Holdings Limited
<b>“Kapruka Group”, “the Group”</b>	Kapruka Holdings Limited and its subsidiaries and associate companies as appropriate
<b>“KMP”</b>	Key Management Personnel
<b>“LKR”, “Rs.”, “Rupees”</b>	Sri Lankan Rupees
<b>“Local Time”</b>	Sri Lanka Time

<b>“Market Day”</b>	Any day on which the CSE is open for trading
<b>“Mn”</b>	Million
<b>“NAV”, “NAVPS”</b>	Net Asset Value, Net Asset Value Per Share
<b>“NBT”</b>	Nation Building Tax
<b>“NIC”</b>	National Identity Card
<b>“Offer for Subscription”</b>	An invitation to the public to purchase new Ordinary Shares of the Company in terms of Section 1.0 of this Prospectus
<b>“Offered Shares”</b>	Thirty-Two Million Eight Hundred and Twenty-Six Thousand (32,826,000) New Ordinary Voting Shares offered to the public at the Share Issue Price
<b>“P/E”</b>	Price Earnings Ratio
<b>“POA”</b>	Power of Attorney
<b>“Prospectus”</b>	This Prospectus dated 14 <sup>th</sup> December, 2021 issued by the Company
<b>“ROA”</b>	Return on Assets
<b>“ROE”</b>	Return on Equity
<b>“Shares”</b>	Ordinary Voting Shares
<b>“SEC”</b>	Securities and Exchange Commission of Sri Lanka
<b>“Share Issue Price”</b>	The price at which the New Ordinary Voting Shares will be issued to the public, as detailed in this Prospectus Share Issue Price of LKR 15.40 per Ordinary Voting Share
<b>“SLAS”, “SLFRS”</b>	Sri Lanka Accounting Standards, Sri Lanka Financial Reporting Standards
<b>“Stated Capital”</b>	The Stated Capital of Kapruka Holdings Limited
<b>“The Board”, “The Board of Directors”</b>	The Board of Directors of Kapruka Holdings Limited
<b>The “Company”</b>	Kapruka Holdings Limited
<b>“USA”, “United States”</b>	The United States of America
<b>“UK”</b>	United Kingdom
<b>“USD”</b>	United States Dollars
<b>“VAT”</b>	Value Added Tax
<b>“WHT”</b>	Withholding Tax
<b>7MFY22</b>	7 months of Financial Year ending March 2022 (i.e. 1st April to 31st October 2021)

## 1. CORPORATE INFORMATION

<b>Company</b>	<b>Kapruka Holdings Limited</b>	
<b>Registered Office</b>	No:237/22A, Vijaya Kumarathunga Mawatha, Colombo 05, Sri Lanka Tel: +94 11 2699822 Fax: +94 11 4209691	
<b>Date, Place and Authority of Incorporation</b>	Incorporated in Sri Lanka as a Private Limited Company on 07 February 2002 under the provisions of Companies Act No.17 of 1982 in the name Lanka Dot Info (Pvt) Limited. On January 07, 2005, the Company changed its name to Kapruka Dot Com (Private) Limited under the Companies Act No.07 of 1982 and re-registered under the provisions of Companies Act No. 7 of 2007 on July 29, 2008. The status of the Company was changed from Private Limited to a Public Limited Company under provisions of the Companies Act No. 07 of 2007 on 06th October 2021. The Company changed its name from Kapruka Dot Com Limited to Kapruka Holdings Limited on 20th November 2021.	
<b>Company Registration Number</b>	PB 00247881	
<b>Company Secretary</b>	<b>Kreston Corporate Services (Pvt) Ltd</b> No.74A, 02nd Floor, Advantage Building, Dharmapala Mawatha, Colombo 07, Sri Lanka Tel: +94 11 2323571	
<b>Auditors and Reporting Accountants to the Company</b>	<b>Messrs Ernst &amp; Young (Chartered Accountants)</b> 201, De Saram Place, P.O. Box 101, Colombo 10, Sri Lanka Tel: +94 11 2463500 Fax: +94 11 2697369	
<b>Board of Directors</b>	<b>Mr. D V Herath</b>	Chairman and CEO
	<b>Mrs. A Herath</b>	Non-Independent Non-Executive Director
	<b>Mrs. T Herath</b>	Non-Independent Non-Executive Director
	<b>Mr. S Alexander</b>	Non-Independent Executive Director
	<b>Mrs. D P Pieris</b>	Independent Non-Executive Director
	<b>Mr. T Subasinghe</b>	Independent Non-Executive Director
	<b>Mrs. Manohari Abeyesekera</b>	Independent Non-Executive Director

## 2. RELEVANT PARTIES TO THE ISSUE

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<b>Financial Advisor and Manager to the Issue</b>	<b>Acuity Partners (Private) Limited</b> 53, Dharmapala Mawatha Colombo 03, Sri Lanka Tel: +94 11 2206206 Fax: +94 11 2437149
<b>Lawyers to the Issue</b>	<b>Mrs. Priyanthi Pieris – Attorney at Law</b> 3/14D, Kynsey Road, Colombo 08, Sri Lanka Tel: +94 11 461 0476 Fax: +94 11 268 2538
<b>Auditors and Reporting Accountants to the Issue</b>	<b>Messrs Ernst &amp; Young (Chartered Accountants)</b> 201, De Saram Place, P.O. Box 101, Colombo 10, Sri Lanka Tel: +94 11 2463500 Fax: +94 11 2697369
<b>Registrars to the Issue</b>	<b>P W Corporate Secretarial (Pvt) Ltd</b> # 3/17 Kynsey Rd, Colombo 08 Tel: +94 11 4640360-3 Fax: +94 11 4740588
<b>Bankers to the Issue</b>	<b>Hatton National Bank PLC</b> 479, T B Jayah Mawatha Colombo 10, Sri Lanka Tel: +94 11 239 4250-2 Fax: +94 11 239 4353

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### 3. DETAILS OF THE ISSUE

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#### 3.1 The Issue

The Issue contemplated herein shall constitute an invitation made to the general public to purchase Thirty-Two Million Eight Hundred and Twenty-Six Thousand (32,826,000) New Ordinary Voting Shares of the Company at an Issue price of LKR 15.40.

#### 3.2 Nature of the New Ordinary Voting Shares

The Issued Shares shall, upon allotment, rank equal and *pari passu* in all respects with the existing Ordinary Shares of the Company and each New Share shall confer on the holder thereof the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in any dividend that may be paid by the Company after the allotment of the Issued Shares and the right to an equal share in the distribution of the surplus assets of the Company in a liquidation.

#### 3.3 Size of the Issue

If fully subscribed, the Issue would raise Sri Lanka Rupees Five Hundred and Five Million Five Hundred and Twenty Thousand Four Hundred (505,520,400).

#### 3.4 Share Issue Price

The Share Issue Price for Ordinary Voting Shares will be Fifteen Rupees and Forty Cents (LKR 15.40) per share. The Board of Directors of Kapruka is of the opinion that the Share Issue Price is fair and reasonable to the Company and to all existing shareholders of the Company as required by the Companies Act.

The Share Issue Price was determined by the Company in consultation with the Manager and Financial Advisor to the Issue, Acuity Partners (Private) Limited, in accordance with the Research Report prepared by the Manager and Financial Advisor to the Issue, in line with Rule 3.1.4 (c) of the CSE Listing Rules. A copy of the Research Report is enclosed as Annexure D of this Prospectus.

TABLE 3-1 : VALUATION SUMMARY

<i>Valuation method</i>	<i>Company value (LKR Mn)</i>	<i>Value per share (LKR)</i>	<i>Discount to the Share Offer Price</i>
Discounted Cash Flow Method	3,077	23.44	34%
Price to Earnings Method	2,053	15.63	2%
Price to Sales Method	2,996	22.82	33%
<b>Average</b>	<b>2,709</b>	<b>20.63</b>	<b>25%</b>

The Share Offer Price of LKR 15.40 per Share is at a 25% discount to the Average Value Per Share of LKR 20.63 derived from the weighted average of the three valuation techniques outlined above – Discounted Cash Flow, Price to Earnings and Price to Sales method. This IPO discount is provided to investors in order to provide a potential upside on their investment.

The Net Asset Value Per Share adjusted for the share split is LKR 3.91 as at 31<sup>st</sup> March 2021. The Issue Price is 3.94 times the net asset value.

TABLE 3-2 : NAV PER SHARE AND PBV

<b>As at</b>	<b>Net Asset Value (LKR Mn)</b>	<b>NAV Per share adjusted for share split*</b>	<b>PBV at share Issue Price</b>
31 <sup>st</sup> March 2020	184	1.40	10.99
31 <sup>st</sup> March 2021	512	3.91	3.94
30 <sup>th</sup> September 2021	664	4.90	3.13
31 <sup>st</sup> October 2021 (Group)	648	4.94	3.12

\*Post share split the number of shares are 131,304,360

Applicants should read the following summary with the risk factors included under Section 11 of this Prospectus and the details of the Company and its Financial Statements included in this Prospectus.

### 3.4.1 Quantitative Factors

The following quantitative aspects were also taken into consideration;

TABLE 3-3 : EARNINGS PER SHARE (EPS), RETURN ON EQUITY (ROE) AND PRICE EARNINGS RATIO (PER)

<b>For the Period Ended</b>	<b>Basic EPS as of the year end*</b>	<b>Diluted EPS as of the year end*</b>	<b>EPS adjusted for current no of shares****</b>	<b>Return on Equity***</b>	<b>PER****</b>
31 <sup>st</sup> March 2021	10.12	10.12	0.34	8.63%	45.65
31 <sup>st</sup> March 2020	44.07	44.07	0.17	11.98%	91.77
31 <sup>st</sup> March 2019	(78.71)	(78.71)	(-0.30)	(25.53%)	NM
<b>Average (adjusted**)</b>	0.07**	0.07**	0.07**	(1.64%)	224.91
6 months upto 30 <sup>th</sup> September 2021 – Unaudited	30.07	30.07	1.00	20.42%	15.37
7 months upto 31 <sup>st</sup> October 2021 – (with Limited review)	1.01	1.01	1.01	35.0%	15.26

\* Earnings Per Share = Net profit attributable to equity shareholders/Weighted average number of equity shares outstanding during the year or period

\*\* Current number of shares amount to 131,304,360, and the EPS has been adjusted for the same

\*\*\* Return on Equity = Net profit after tax/ Net assets as at the end of the year or period

Annualized ROE has been calculated by using the net asset value as at 30<sup>th</sup> September 2021 and 31<sup>st</sup> October, 2021 respectively and the annualised profit after tax

\*\*\*\*PER is based on EPS using current number of shares 131,304,360

### Price Earnings Ratio (P/E)

The P/E in relation to the Ordinary Voting Share Issue Price of LKR 15.40:

- Based on the adjusted basic and diluted EPS of LKR 0.34 for the year ended 31<sup>st</sup> March 2021, the P/E is 45.65.
- Based on the adjusted three year average EPS of LKR 0.07 for the last three (03) financial years, the P/E is 224.91.
- Based on the EPS of LKR 30.07 for the 06 months ended 30<sup>th</sup> September 2021, the P/E is 15.37.
- Based on the EPS of LKR 1.01 for the 07 months ended 31<sup>st</sup> October 2021, the P/E is 15.26.

TABLE 3-4 : THE PER RANGE OF THE INDUSTRY BENCHMARKS

The Company does not have directly comparable listed peers locally.

<b>As at 01<sup>st</sup> November 2021</b>	<b>Name of the Benchmark Company</b>	<b>PER</b>
Highest	Etsy Inc (USA)	72.17
Lowest	Vipshop Holdings Ltd (China)	7.98
Industry Average		33.16

Source – Seeking Alpha<sup>1</sup>, extracted on 01<sup>st</sup> Nov 2021

Sector Classification – E-commerce

#### Net Asset Value per share (NAVPS) and Price to Book Value (PBV)

The NAVPS and PBV are;

- Based on NAVPS of LKR 3.91 adjusted as at 31<sup>st</sup> March 2021, PBV is 3.94.
- Based on NAVPS of LKR 1.40 adjusted as at 31<sup>st</sup> March 2020, PBV is 10.99
- Based on NAVPS of LKR 4.90 adjusted as at 30<sup>th</sup> September 2021, PBV is 3.13
- Based on NAVPS of LKR 4.94 adjusted as at 31<sup>st</sup> October 2021, PBV is 3.12
- Post IPO the NAVPS would be LKR 7.03
- The Offer price is LKR 15.40

TABLE 3-5 : THE PBV RANGE OF THE INDUSTRY BENCHMARKS

The Company does not have directly comparable listed peers locally.

<b>As at 01<sup>st</sup> November 2021</b>	<b>Name of the Benchmark Company</b>	<b>PBV</b>
Highest	Mercadolibre Inc (South America)	908.60
Lowest	Baozun Inc (China)	1.41
Industry Composite**		105.97

Source – Seeking Alpha<sup>2</sup>, extracted on 01<sup>st</sup> Nov 2021

Sector Classification – E-commerce

#### Peer Entity Accounting Ratios

The Company does not have directly comparable listed peers locally. The selected international peers operate in the e-commerce industry however are different to the Company in terms of revenue and asset size, business model as well as geography.

<sup>1</sup> Weblink: <https://seekingalpha.com/> accessed on 01<sup>st</sup> November 2021

<sup>2</sup> Weblink: <https://seekingalpha.com/> accessed on 01<sup>st</sup> November 2021

TABLE 3-6 : PEER ENTITY ACCOUNTING RATIOS

<i>Peer Company</i>	<i>Net Asset Value per Share (USD)</i>	<i>Earnings per Share (EPS) (USD)</i>	<i>P/E</i>	<i>PBV</i>	<i>Return on Equity</i>
Alibaba Holdings Inc	55.72	8.24	16.01	2.97	16.60%
Amazon.com Inc	237.8	52.1	66.00	14.18	31.20%
Mercadolibre Inc	1.63	-0.05	NM	908.6	-0.10%
Sea Ltd	6.62	-3.56	NM	51.6	-81.50%
JD.com	21.63	3.54	NM	3.62	20.60%
58.com	15.42	8.09	NM	NM	33.20%
Groupon Inc	1.88	0.3	17.11	11.27	10.20%
Vipshop Holdings Inc	6.85	1.4	7.98	1.62	23.20%
Wayfair Inc	-14.89	3.5	38.74	NM	-
Ebay Inc	17.29	18.5	26.6	4.54	161.90%
Etsy Inc	4.19	3.84	72.17	59.76	91.40%
Baozun Inc	12.01	0.99	20.69	1.41	16.60%

Source – Seeking Alpha<sup>3</sup>, Bloomberg, extracted on 01<sup>st</sup> Nov 2021

Sector Classification – e-commerce

### 3.4.2 Qualitative Factors

The following qualitative factors were considered by the Company when arriving at the Share Issue Price;

- Kapruka is one of the pioneering e-commerce companies in Sri Lanka.
- The Group produces and sells their own-label products (e.g. cakes and flowers) through their own platform through its subsidiaries.
- The Group caters to foreign/ expatriate markets.
- Kapruka is a well-established household name in the country.
- Kapruka Group projects strong growth forecasts in a post-Covid environment.
- The Company and the Founder are recipients of many awards and accolades.

### 3.5 Objectives of the Issue

Kapruka proposes to invest the proceeds generated through the IPO in its fully owned subsidiary in the form of share or loan capital in order to fund the growth and expansion of operations of the Group. This involves upgrading existing platform as well as venturing into new platforms through its fully owned subsidiaries. The funds would be utilised by Kapruka E-commerce (Pvt) Limited, a fully owned subsidiary of Kapruka Holdings Limited, through an equity investment or loan and the Company has not decided the exact mode as of the date of this Prospectus. The Company will make a market disclosure when such method of infusion of funds are decided upon. The profile of Kapruka E-commerce is given in Section 5.3 of this Prospectus. Given the fact that the entire IPO proceeds are to be given to Kapruka E-commerce (Pvt) Limited, the company will comply with Section 9 of the CSE listing Rules as applicable. The key objectives of the Issue are;

#### 1. Upgrading existing technologies and infrastructure

Kapruka intends to upgrade its existing web and mobile platform with several enhanced features. LKR 100Mn of the IPO proceeds will be utilized to upgrade the existing technology and infrastructure.

<sup>3</sup> Weblink: <https://seekingalpha.com/> accessed on 01<sup>st</sup> November 2021

## **2. Launching Kapruka platform services**

Kapruka intends to launch several new platforms which would open new business verticals for Kapruka. LKR 405.5Mn of the IPO proceeds will be utilized to invest in 4 new platforms – Kapruka Partner Central, Used goods marketplace, Kapruka Wholesale Marketplace and Cross Border Exports.

The IPO proceeds of LKR 505.5 Mn will be sufficient to fulfill the aforesaid objectives.

The shareholders will be benefitted from the increased revenues and profits generated through the expansion of the existing business as well as venturing into new platforms. Upgrading the existing technological platforms will help create a better customer experience and acquire new customers. The new ventures will open up new revenue streams for the Group. Each project has a direct co-relation to e-commerce in Sri Lanka. With the tacit knowledge of operating e-commerce in Sri Lanka for over 18 years, Kapruka knows the “no-go” areas well enough. Further, scaling up the cross-border operations is also expected to increase revenue and profitability.

Kapruka does not intend to deviate from the objective mentioned above when utilizing the proceeds raised through the Offer for Subscription. However in the event the Company cannot proceed with the said objective and utilize the allocated funds due to slowdown/adverse macroeconomic conditions in the country, including the ongoing global pandemic situation at the time of investments or negative outcome of feasibility exercises in carrying out such expansion project, the Company would evaluate the next best alternative of investing such funds without undue delay, make a market announcement and obtain approval of the shareholders at an Extraordinary General Meeting prior to utilization of such funds in the decided course of action.

The sole shareholder and the Board, unanimously approved the utilization of funds as set out herein.

IPO proceeds will be invested in a short-term money market account or short-term fixed deposit at market interest rates until they are fully utilized.

In the event of an undersubscription of the Offer for Subscription where the funds raised are not adequate to finance the objectives mentioned above, Kapruka would use internally generated funds and/or external borrowings to finance balance funds required for such objectives.

The objectives are detailed out below

### **3.5.1 Upgrading Existing Technologies and Infrastructure**

The core systems of Kapruka will be overhauled to scale and support the upcoming expansions. The ultimate goal is to offer a world-class online purchasing experience to the end consumer via use of better technology. Web, Customer app, delivery agent tools, warehouse management system, AI-driven product suggestions, automated marketing campaigns will be upgraded to next-generation tech.

The funds will be utilized by Kapruka E-commerce (Pvt) Limited which is a fully owned subsidiary of Kapruka Holdings Limited.

Kapruka wishes to invest LKR 100Mn of the IPO proceeds for this purpose in Kapruka E-commerce (Pvt) Limited. The proceeds will be invested in the recruitment of highly skilled software/web engineers (fulltime staff) and hardware purchases related to building a world-class delivery experience to end-users with turn-by-turn tracking. The Company will also invest in a set of security layers to safeguard

sensitive data. Kapruka warehouse spaces will be upgraded with a new warehouse management system (WMS) software which is closely coupled to the ERP system. The warehouses will be upgraded with e-commerce specific features such as “pick-to-light” to increase the efficiency of warehouse staff for faster and accurate order fulfilment. Recruitments/acquisition of these assets (hardware and software) will be at market values and does not involve related party transactions. Hardware will be acquired and software will be developed in-house. Warehouse management and ERP are open-source products.

For the said objective, the investment of the IPO proceeds is expected to commence in 1Q2022 and the upgrading is expected to be complete in 1Q2023.

There are no specific approvals needed for this objective.

Some of the risks factors associated with this objective are changes in the technology, changes in the consumer buying patterns, IT system related risks. If the Company fails to invest the proceeds within the said time period, the risk would be delay in accrual of revenues from the new customer acquisitions arising from the upgraded web and mobile platform. The Company believes this risk is mitigated as it has over a decade of experience in implementing IT enabled projects supporting its business operations and experienced personnel to evaluate, plan and implement its proposed projects.

### **3.5.2 Launching Kapruka Platform Services**

Kapruka platform services include several new e-commerce business verticals that the Company wishes to expand into.

#### **Kapruka Partner Central**

Kapruka plans to introduce a premier marketplace platform for well-established brick and mortar shops in Sri Lanka. This platform will connect buyers and sellers and allow the sellers to choose multiple order fulfillment options including fulfillment by Kapruka. This is similar to the popular business model of FBA (Fulfillment by Amazon<sup>4</sup>). “Kapruka Partner Central” will differentiate itself from other marketplaces in Sri Lanka by handling the storage at seller’s premises, pick and packing, Island wide delivery, returns, exchanges, and exceptional customer service, all under one solution.

The Partner Central will be carried out via Kapruka E-commerce (Pvt) Limited which is a fully owned subsidiary of Kapruka Holdings Limited.

Kapruka wishes to invest LKR 200Mn of the IPO proceeds for this purpose in Kapruka E-commerce (Pvt) Limited. The proceeds will be invested in the recruitment of staff to design and develop the web application software, recruitment of account managers and marketing team, launching awareness campaigns, and seller acquisition-related costs such as joining discounts and introductory service fees. Recruitments/promotional expenses will be at market values and does not involve related party transactions.

For the said objective, the investment of the IPO proceeds is expected to commence in 2Q2022 and the development is expected to be completed by 2Q2024.

There are no specific approvals needed for this objective.

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<sup>4</sup> Source: <https://sell.amazon.com/fulfillment-by-amazon>

Some of the risks factors associated with this objective are changes in the technology, changes in the consumer buying patterns, low-quality products from third-party sellers resulting in product returns, pressure for lower commissions by seller groups, further import restrictions could affect the availability of inventories. If the Company fails to invest the proceeds within the said time period, the risk would be a delay in the accrual of revenues from the new customer acquisitions arising from the Partner Central. The Company believes this risk is mitigated as it has over a decade of experience in implementing IT enabled projects supporting its business operations and experienced personnel to evaluate, plan and implement its proposed projects.

### **Used-goods Marketplace**

Kapruka plans to launch a used goods marketplace as a fully owned new sub-brand - Soldout.lk. It is an e-commerce platform for pre-owned goods, connecting buyers and sellers with added features such as home delivery and order fulfillment. In Sri Lanka, automobiles and property have an active second-hand market which provides an attractive opportunity. Soldout.lk is also planned to be promoted in a weekly printed leaflet distributed with traditional newspapers. The company expects to establish a grassroots level social dealer network throughout the island under the new venture.

Soldout.lk will initially be a business unit under Kapruka E-commerce (Pvt) Limited and later would be separated into it's own company as the business matures.

Kapruka wishes to invest LKR 50Mn of the IPO proceeds for this purpose in Kapruka E-commerce (Pvt) Limited. The proceeds will be invested in recruiting a new operational team, developing the web applications, and marketing-related costs. Recruitments of staff and the said start-up expenses will be at market values and does not involve related party transactions.

For the said objective, the investment of the IPO proceeds is expected to commence in 2Q2022 and the development is expected to complete in 2Q2024.

There are no specific approvals needed for this objective.

Some of the risks factors associated with this objective are possible project implementations delays, IT system related risks, information security, challenges of retaining and motivating the grassroots level social dealer network. If the Company fails to invest the proceeds within the said time period, the risk would be delay in accrual of revenues from Soldout.lk. The Company believes this risk is mitigated as it has over a decade of experience in implementing IT enabled projects supporting its business operations and experienced personnel to evaluate, plan and implement its proposed projects.

### **Kapruka Wholesale Marketplace**

Kapruka B2B combines the bulk purchases, convenience, and value of Kapruka high-quality order fulfillment with features that help improve business purchasing for re-selling purposes. Grocery would be the primary category here while it will later expand to wholesale of fruit and vegetables.

The B2B operations will be carried out by Kapruka E-commerce (Pvt) Limited.

Kapruka wishes to invest LKR 55.5Mn of the IPO proceeds for this purpose in Kapruka E-commerce (Pvt) Limited. The proceeds will be invested in the recruitment of marketing and operational and support teams. Initial inventory purchase and marketing (Credit card promotions and other membership-based

initial discounts for customer acquisition). Recruitments and the said start-up expenses will be at market values and does not involve related party transactions.

For the said objective, the investment of the IPO proceeds is expected to commence in 1Q2023 and the development is expected to be completed by 1Q2024.

There are no specific approvals needed for this objective.

Some of the risks factors associated with this objective are delays in implementing the website, IT system related risks, Credit (collection) related risks if chosen to offer credit line to B2B buyers, inventory related risks such as slow movement of goods. If the Company fails to invest the proceeds within the said time period, the risk would be delay in accrual of revenues from the B2B operations. The Company believes this risk is mitigated as it has over a decade of experience in implementing IT enabled projects supporting its business operations and experienced personnel to evaluate, plan and implement its proposed projects

### **Kapruka - Cross Border Exports**

Kapruka has already established itself on global e-commerce platforms such as Amazon.com and eBay.com to sell Sri Lankan brands to international markets. Sri Lankan brands such as Dilmah, Akbar Tea, Link Samahan have already been tested by Kapruka on these platforms and are now ready to increase the scale of volumes and operations. An increasing number of Sri Lankan brands are looking for an “e-commerce distributor” who will manage, market, sell and ship their products primarily via Amazon and eBay. In addition to local brands, Kapruka also plans to sell private label “Kapruka” branded Ceylon Cinnamon on these global platforms. This is a dollar revenue stream and qualifies as an export business.

The cross-border operation is carried out via Kapruka E-commerce (Pvt) Limited which is a fully owned subsidiary of Kapruka Holdings Limited.

Kapruka wishes to invest LKR 100Mn of the IPO proceeds for this purpose in Kapruka E-commerce (Pvt) Limited. The proceeds will be invested in recruiting new staff, inventory acquisition and enhancing the storage and supply chain to Western markets. The total working capital (inventories and receivables minus trade payables) of Kapruka E-commerce (Pvt) Limited as 31 October 2021 is approximately LKR 239 million. The interim financial statements are provided in Annexure C of this Prospectus. The working capital requirements will continue to increase as the volume of sales increases. Recruitments/ working capital expenses relating to inventory acquisition will be at market values and does not involve related party transactions. If there is a gap between the total working capital requirement and the proceeds utilized, the Kapruka E-commerce (Pvt) Limited will use its internal funds and debt facilities available to the Group to bridge the gap. The total working capital requirement for this new initiative has not been assessed therefore a breakdown is not available at this point. Section 5.3 provides further details on the Group structure.

For the said objective, the investment of the IPO proceeds is expected to commence in 1Q2022 and is expected to be completed by 1Q2024.

No special approvals are needed for this operation as it’s a straightforward export business.

Some of the risk factors associated with this objective arise from factors relating to international trade such as transportation and logistical risks, possible worsening of the covid-19 pandemic. It’s possible to expect writing off of some stocks due to unforeseen slow movements in certain product lines in Western

markets as it's not viable to bring them back to Sri Lanka. The Company has established mutual understandings with producers to get credit vouchers or discounts for such stock that could become un-sellable. Further, If the Company fails to invest the proceeds within the said time period, the risk would be a delay in the accrual of revenues from the enhancement of cross-border operations. The Company believes these risk are mitigated as it has built up its expertise in cross border sales, transport, logistics and supply chain management including navigating the turbulent Covid-19 pandemic period. The Company routinely monitors potential risk factors in these areas with a view to taking timely action to mitigate such risks as they arise.

TABLE 3-7: SUMMARY OF USE OF PROCEEDS

<b>Objective</b>	<b>Amount to be utilized (LKR Mn)</b>	<b>Expected commencement</b>	<b>Expected completion</b>
<b>Existing Technologies and Infrastructure Upgrades</b>	<b>100.0</b>	1Q 2022	1Q 2023
<b>Launching Kapruka Platform Services</b>	<b>405.5</b>		
Kapruka Partner Central	200.0	2Q 2022	2Q 2024
Used-goods Marketplace	50.0	2Q 2022	2Q 2024
Kapruka Wholesale Marketplace	55.5	1Q 2023	1Q 2024
Kapruka Cross Border Exports	100.0	1Q 2022	1Q 2024
<b>TOTAL</b>	<b>505.5</b>		

Continuous Disclosure regarding status of utilisation of funds raised via IPO

IPO PROCEEDS UTILIZATION AS AT DD-MM-YYYY

<b>Objective Number</b>	<b>Objective as per Prospectus</b>	<b>Amount Allocated as per Prospectus in Rs.</b>	<b>Proposed Date of Utilisation as per Prospectus</b>	<b>Amount Allocated from Proceeds in Rs. (A)</b>	<b>% of Total Proceeds</b>	<b>Amounts Utilised in Rs. (B)</b>	<b>% of Utilisation Against Allocation (B/A)</b>	<b>Clarification if not fully utilised including where the funds are invested (eg: whether lent to related party/s etc)</b>

*If during the financial year the Entity has raised funds through an Initial Public Offering and/or a further issue of Securities (as applicable);*

- *The manner in which the funds of such issue/s have been utilized in conformity with the format provided by the Exchange from time to time;*
- *if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and*
- *Any material change in the use of funds raised through an issue of Securities.*

*In the event the funds raised through the Initial Public Offering and/or the further issue of Securities (as applicable) have been fully utilized by the Listed Entity as disclosed in the Prospectus and/or*

*Circular to shareholders between two financial periods, the Entity shall disclose such fact in the immediate succeeding Annual Report or the Interim Financial Statement, whichever is published first.*

### **3.6 Listing**

The Issue herein contemplated comprises of Thirty-Two Million Eight Hundred and Twenty-Six Thousand (32,826,000) new Ordinary Shares of the Company. If fully subscribed, the New Shares will amount to 20% of the Issued and Paid up Ordinary Shares of the Company, subsequent to the Issue.

An Application has been made to the CSE for permission for a listing of the entire Issued and Paid up Ordinary Voting Shares subsequent to the Issue.

Kapruka has already complied with Rule 2.1.2(i)(b) and Rule 2.1.2(i)(d) of the CSE Listing Rules.

The Company currently has a stated capital of LKR 272.5Mn. The Company intends to raise LKR 505.5Mn through the Offer for Subscription. As such, the Company is expected to comply with Rule 2.1.2(i)(a) pertaining to minimum stated capital requirement.

It is expected that the Company will also meet the minimum Public Holding requirement [Rule 2.1.2(i)(c) Option 5] of the CSE Listing Rules on the completion of the Issue upon which the listing of the entire Ordinary Shares of the Company will take place on the Main Board of the CSE. Accordingly, Kapruka will have a float adjusted market capitalisation of LKR 2,527,607,544, compliance with the minimum number of 500 shareholders and a public holding of 20% immediately after listing.

However, in the event where Kapruka unable to meet the requirement of Rule 2.1.2(i)(c) Option 5 of the CSE Listing Rules as mentioned above, upon closure of the Issue, the Ordinary Voting Shares of the Company will be listed on the Diri Savi Board of the CSE subject to meeting the public holding requirement as defined in Rule 2.1.2(ii)(c). In the event Kapruka is unable to meet the requirement of Rule 2.1.2(ii)(c) as well, the Ordinary Voting Shares of the Company will not be listed on the CSE pursuant to the Rule 1.1(b) of the CSE Listing Rules. In such an event the subscription amounts will be returned to the Applicants.

It should be noted that the aforesaid public holding requirements would be calculated by considering all Shares that are freely tradable, on the Date of Listing.

The shares mentioned in Section 9.2 will be locked in to be in compliance with CSE Listing Rules 2.1.1(d) and will not be available for trading. Refer Table 9.4 of this Prospectus for further information.

The Company has obtained the approval of the Colombo Stock Exchange for a listing of the said Shares. However, the CSE reserves the right to withdraw such approval, in the circumstances set out in Rule 2.3 of the Listing Rules.

In instances where disclosures/statements made over and beyond the CSE Listing Rules, the CSE Listing Rules shall prevail.

### **3.7 Cost of the Issue**

The total costs associated with the Issue are estimated to be approximately LKR 12.7 Mn. These include all direct costs and expenses associated with the Issue, inclusive of but not limited to, the initial listing fees to the CSE; management/advisory fees payable to the Financial Advisor and Manager to the Issue; brokerage commission; fees for the registrar function; legal, consultancy and accountancy fees. The costs will be met utilizing internal funds of the Company. The cost of the Issue amounts to 2.5% of the Issue size.

### **3.8 Brokerage**

Brokerage at the rate of zero decimal six per centum (0.60%) of the value of the Shares will be paid in respect of the number of New Shares allotted on Applications bearing the original seal of any bank operating in Sri Lanka or a member/trading member of the CSE or Acuity Partners or any other intermediary appointed by the Company involved in the marketing of the Issue.

### **3.9 Minimum Subscription and Underwriting**

There is no minimum amount required to be raised in this Issue.

The Company has not entered into any underwriting arrangement with regards to this Issue.

The Company shall seek a listing irrespective of whether the Issue is fully subscribed or not (subject to the Company satisfying the requirement of the CSE Listing Rules for such a listing as more fully described in Section 3.6 of this Prospectus). In the event of an undersubscription (subject to the Company satisfying the stated capital requirement stipulated under Rule 2.1.2(a), as applicable and minimum public holding requirement as stipulated in Rule 2.1.2(i)(c) or 2.1.2(ii)(c)), the subscribers will be allotted the Shares they have applied for and the funds raised will be utilised to meet the objectives in the priority mentioned above, as stipulated in Section 3.5 of this Prospectus.

However, in the event of an undersubscription, and if the Company is unable to satisfy the stated capital requirement stipulated under Rule 2.1.2(a), as applicable and/or to fulfil the minimum public holding requirement as stipulated in Rule 2.1.2(i)(c) or 2.1.2(ii)(c), the money collected will be returned to Applicants and the Company will not be listed on the CSE.

### **3.10 Opening of the Subscription List and Closure Date**

The Subscription List for the Shares will open at 9.00 a.m. on **22<sup>nd</sup> December, 2021** and shall, subject to the occurrence of the events in the following paragraph, remain open for fourteen (14) Market Days (including the date of opening) until closure at 4.30 p.m. on **10<sup>th</sup> January 2022** ("Issue Period").

The Issue shall close (a) at the end of the Issue Period; or (b) upon the Issue being oversubscribed; or (c) the Board deciding to close the Issue for any reason prior to the completion of the Issue Period. In the event of the closure of the Issue upon oversubscription, the Company shall inform the CSE in writing immediately of such fact and the closure shall take place at 4.30 pm on the day of oversubscription. If the Board decides to close the Issue prior to the end of the Issue Period (apart from an oversubscription) it shall give the CSE prior notice of one Market Day.

### 3.11 Inspection of Documents

The Articles of Association, Auditor's Reports and Audited Financial Statements for the five (05) financial years ended March 31, 2021 (i.e the five (05) financial years immediately preceding the date of this Prospectus), Interim Financial Statements for the seven (07) months ended October 31, 2021 of the Company and Group with a limited review by the Auditors to the Company, financial statements of the subsidiaries together with the Gap analyses, the research report by the Manager to the Issue, management agreements and all other relevant documents, will be made available for inspection by the public during normal working hours at the Registered Office of the Company, No:237/22A, Vijaya Kumarathunga Mawatha, Colombo 05 for a period not less than fourteen (14) Market Days as per Rule 3.1.19(a) of the CSE Listing Rules.

The Prospectus, Application Form, Articles of Association of the Company and Audited Financial Statements of the Company will be available on the website of the CSE ([www.cse.lk](http://www.cse.lk)), on the Company's website dedicated to the IPO ([ipo.kapruka.com](http://ipo.kapruka.com)), and on the websites of the Financial Advisor and Manager to the Issue ([www.acuity.lk](http://www.acuity.lk)) for a period of not less than fourteen (14) Market Days as stipulated in Rule 3.1.19(b) of the CSE Listing Rules.

The research report prepared by Acuity Partners (Private) Limited, the Financial Advisor and Manager to the Issue will be available on the website of the CSE ([www.cse.lk](http://www.cse.lk)), on the Company's website dedicated to the IPO ([ipo.kapruka.com](http://ipo.kapruka.com)) and on the websites of the Financial Advisor and Manager to the Issue ([www.acuity.lk](http://www.acuity.lk)) from the date hereof, for a period not less than two (02) months as stipulated in Rule 3.1.19(c) of the CSE Listing Rules.

Information relating to the IPO such as the Prospectus, Application form are displayed on a separate web portal dedicated to the IPO accessible at [ipo.kapruka.com](http://ipo.kapruka.com). This web portal can also be accessed via the Financial Advisor and Manager to the Issue ([www.acuity.lk](http://www.acuity.lk)).

### 3.12 Waiver from listing rule 2.4 (f)

The Company has obtained a waiver from the CSE on CSE Listing Rule 2.4. (f) not to print the Prospectus and softcopies of the Prospectus can be downloaded from the websites of the Colombo Stock Exchange ([www.cse.lk](http://www.cse.lk)), website of Acuity Partners ([www.acuity.lk](http://www.acuity.lk)) and the website dedicated to the IPO information ([ipo.kapruka.com](http://ipo.kapruka.com)). Only the softcopies of the Prospectus and the Application Form will be adequately available.

The Company is desirous of listing the shares on the CSE prior to 31st December 2021, in order to benefit from the tax concession eligible for companies who list prior to 31st December 2021.

In the month of December, there are only twenty-three (23) market days. From receiving the approval from the CSE, until the shares are listed in the Market, the maximum timelines as per the Listing Rules, without providing time for printing; is approximately forty (40) market days. The only reduction of days available is in the fourteen (14) market days the Offer will be kept open, and the twelve (12) market days of working time, namely banking/reconciling the account/refunds/crediting to investors account.

In this circumstances, the Company has sought a waiver of Rule 2.4 (f), to make available the soft copies of the final Prospectus and Application Forms relating to the Offer to the Members and Trading Members of the Exchange and the public at least for the ten (10) market days before the date of opening the subscription list and during the period the Offer is kept open.

The Company will make available a limited number of printed copies of the Application Forms with the Banker to the Offer/Managers to the Offer / Registrars to the Offer / Members and Trading Members.

## 4. PROCEDURE FOR APPLICATION

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### 4.1 Eligible Applicants

Applications are invited from the following categories of persons, **having a Valid Account in the Central Depository System (Private) Limited (CDS Account):**

- i. Citizens of Sri Lanka who are resident in or outside Sri Lanka and above 18 years of age; or
- ii. Companies, corporations or institutions incorporated or established within Sri Lanka; or
- iii. Corporate bodies incorporated or established outside Sri Lanka; or
- iv. Approved unit trusts licensed by the SEC; or
- v. Approved provident funds and contributory pension schemes registered/incorporated/established in Sri Lanka (in this case, Applications should be in the name of the Trustee/Board of Management in order to facilitate the opening of the CDS account); or
- vi. Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas); or
- vii. Global, regional and country funds approved by the SEC.

Applications made by **individuals less than 18 years of age** or those in the names of **sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies** will be rejected.

**Applications submitted under the Unit Trust Applicant Category should conform to the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/LEG/11/06/01) and CSE Listing Rules, 2.1.1(g)(ii)(b).**

Eligible Applicants may fall into one of the following categories;

- Retail Individual Applicant Category
- Unit Trust Applicant Category
- Non-Retail Applicant Category

Please refer Section 4.2.2 for the definitions of the aforementioned categories.

### 4.2 Availability of the Prospectus, Application Form and other IPO information

Limited copies of the Prospectus and the Application Forms could be made available free of charge from the collection points listed in Annex E (subject however that the Company being able to obtain the printed copies from printers based on any possible travel restrictions at such time in future). Please refer Section 3.12 for the waiver from the requirement to print the Prospectus.

The Prospectus and the Application form can also be downloaded from [www.cse.lk](http://www.cse.lk) , [ipo.kapruka.com](http://ipo.kapruka.com) and [www.acuity.lk](http://www.acuity.lk). **Investors are advised to download the softcopies free of charge from the said websites.**

**Details relating to the IPO and application procedure are available on the web portal dedicated for the IPO on [ipo.kapruka.com](http://ipo.kapruka.com). This web portal can also be accessed via the Financial Advisor and Manager to the Issue ([www.acuity.lk](http://www.acuity.lk)).**

#### 4.2.1 How to Apply

Applicants applying for the Shares should submit their applications in the manner set out in this Prospectus.

##### 1. Physical Delivery

The Application Form should be legibly completed and enclosed in a sealed envelope marked “Kapruka Holdings Limited – IPO” be sent by courier, post or hand delivered to the Registrars to the Issue, or can be hand delivered to the designated branch of Hatton National Bank PLC listed in Annexure E of this Prospectus before 4.30 pm on the Issue Closing Date. Applications that are supported by Cheques, Bank Guarantees and Bank Drafts **MUST** be physically delivered to,

P W Corporate Services (Pvt) Limited, 3/17, Kynsey Road, Colombo 08, Sri Lanka  
Tel: +94 11 464 0360-3, Fax: +94 11 474 0588

Care must be taken to follow the instructions on the reverse of the Application Form. Applications that do not strictly conform to such instructions and additional conditions set out hereunder will be rejected.

##### 2. Email to [kapruka.ipo@gmail.com](mailto:kapruka.ipo@gmail.com)

The applicant can electronically fill the Application Form and email it to the Registrars at [kapruka.ipo@gmail.com](mailto:kapruka.ipo@gmail.com) with the electronic fund transfer confirmation or clear image of the bank deposit slip and other supporting documents (e.g. Power of Attorney, Margin Trading Agreement, as applicable) required attached to the email. Scanned images of the physically filled Applications Forms are also accepted to be emailed provided that the scanned images are legible and clear. Emails that do not carry the completed Application Form, electronic fund transfer confirmation and other supporting document in the attachment will be rejected.

Electronic Applications must be supported by an electronic fund transfer payment proof or a clear image of a bank deposit slip. Applications supported by Cheques, Bank Guarantees and Bank Drafts must be physically delivered. Applications submitted via email with scanned images of Cheques, Bank Guarantees and Bank Drafts will be **rejected**.

##### 3. CSE Mobile app

Applicants who register with the CSE Mobile App, may complete the Application Form through such Mobile App, follow the instructions set out in the said Mobile App, and forward their Applications as per the instructions. Submission of digital Application Forms through the CSE Mobile App is limited to both citizens of Sri Lanka who are resident in or outside Sri Lanka and are above 18 years of age and, Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas) only.

The CSE mobile application can be downloaded from the Apple App Store (For Apple IOS Users) or the Google Play Store (For Google Android Users).

RESIDENT AND NON-RESIDENT INDIVIDUAL APPLICANTS WHO HAVE A VALID CDS ACCOUNT HAVE THE OPTION OF APPLYING FOR THE SHARES ON OFFER VIA CSE MOBILE APP IN THE MANNER SET OUT IN THIS SECTION.

Following individual applicants, however, are NOT permitted to apply via the CSE Mobile App:

- a) Applicants of a Joint Application
- b) Applicants holding a Power of Attorney (POA)
- c) Applicants applying under a margin trading account

The Applications submitted by the following parties set out in Section 3.0 also will not be accepted via CSE Mobile app.

- viii. Corporate bodies incorporated or established outside Sri Lanka; or
- ix. Approved unit trusts licensed by the SEC; or
- x. Approved provident funds and contributory pension schemes registered/incorporated/established in Sri Lanka (in this case, Applications should be in the name of the Trustee/Board of Management in order to facilitate the opening of the CDS account); or
- xi. Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas); or
- xii. Global, regional and country funds approved by the SEC.

**Important: Please note that the CSE Mobile App does not feature as a payment gateway hence the payments for shares applied should be made using an accepted mode of payment as permitted in this Prospectus. Individual applicants who wish to use the payment modes of CEFT/SLIPS transfers or RTGS transfers must ensure to initiate such transfers prior to making the application using the CSE Mobile App, in order to attach the proof of payment which is a mandatory requirement in submitting their applications via CSE Mobile App.**

Payments in respect of Offered Shares should be made to the below mentioned IPO account either via

- I. Online Fund Transfer (CEFT/SLIPS/RTGS); or
- II. Direct Deposit of cheques & bank drafts to the “KAPRUKA HOLDINGS LIMITED – IPO” account.  
In the event of a direct deposit, please indicate your NIC/Passport/Company Reg. No. (as the case may be) as the reference details in the direct deposit paying-in-slip;

Bank guarantee (only for Applications above or inclusive of LKR 1,000,000). If an image of the Bank Guarantee is attached for an application submitted through the CSE mobile app, it is the responsibility of the applicant to submit the original bank guarantee to the Registrars to the Issue prior to the closing of the offer.

IMPORTANT – When CEFT, SLIPS, RTGS or Direct deposit of cheques & bank drafts are made, please ensure to enter the CDS account number of the applicant in the ‘beneficiary narration’ field to identify the payments. If the payment cannot be tracked due to the unavailability/insufficiency of reference details in the payment proof attached to the application, such applications may be rejected.

Any application submitted without a valid CDS account will be rejected

If the applicant is a first-time user of the CSE Mobile App, he/she has to go through the registration process by following the instructions prompted via the App and complete the user account creation process, prior to making an application. A first-time user requires authenticating his/her email address and mobile phone number in order to setup a biometric/Personal Identification Number (PIN) access to the App. Existing users can directly proceed to apply after biometric/PIN verification.

More details on how to apply via email and CSE Mobile app will be available on the web portal dedicated to the IPO – [ipo.kapruka.com](http://ipo.kapruka.com)

#### 4.2.2 Applicant categories

**APPLICANTS SHOULD APPLY ONLY THROUGH ONE APPLICANT CATEGORY (INCLUDING JOINT APPLICANTS) AND WOULD BE PERMITTED TO SUBMIT ONLY ONE APPLICATION FORM. TWO OR MORE APPLICATIONS SUBMITTED BY THE SAME APPLICANT, EITHER UNDER THE SAME CATEGORY OR DIFFERENT CATEGORY WILL BE CONSTRUED AS MULTIPLE APPLICATIONS AND WILL BE REJECTED.**

Only one Application should be made by an Applicant under the **Unit Trust Category**.

Applicants must apply for the Shares on the Application Form, which constitutes part of this Prospectus. The Application Form should be legibly completed and be received by the Registrars to the Issue.

##### **Retail Individual and Non-Retail Applicant Category**

Applicants falling under the **Retail Individual and Non-Retail Applicant Categories** should apply for the Shares on the Retail Application Form printed or electronically filled for this purpose, which constitutes part of this Prospectus. Such Application Forms will be made available from the collection points listed in Annex E and can also be downloaded from [www.cse.lk](http://www.cse.lk), [ipo.kapruka.com](http://ipo.kapruka.com) and [www.acuity.lk](http://www.acuity.lk). **Exact size copies of the Application form printed on a clear paper as specified herein will also be permissible under the Retail Individual and Non-Retail Applicant Categories.** The completed Application Forms should be submitted to the Registrars to the Issue.

‘Retail Individual Applicant’ as defined by the CSE Listing Rules, shall mean, an individual Applicant who subscribes for a maximum of 6,400 shares or a value of not more than LKR 100,000 in a particular share class, whichever is higher.

##### **Unit Trust Applicant Category**

Applicants applying under the **Unit Trust Applicant Category** must apply for the Shares using the separate Application Form printed or electronically filled for this purpose, which constitutes part of this Prospectus. Such Application Forms will be made available through the registered office of the Company, No:237/22A, Vijaya Kumarathunga Mawatha, Colombo 05, and Financial Advisor and Manager to the Issue, Acuity Partners (Private) Limited, 53, Dharmapala Mawatha, Colombo 3. **Exact size copies of the Application Form as specified herein will also be permissible under the Unit Trust Applicant Category.** The completed Application Forms can be submitted directly to the Financial Advisor and Manager to the Issue who will forward the same to the Registrars to the Issue.

**Applications submitted under the Unit Trust Applicant Category should submit a confirmation by the Trustee confirming that such unit trust is in conformity with the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/Leg/11/06/01) and CSE Listing Rules 2.1.1(g)(ii)(b).**

Applicants applying under the Retail Individual and Non-Retail Applicant categories can submit their Application Forms to the Registrars to the Issue in terms of Section 4.2.1 of this Prospectus.

Applications under the Unit Trust Applicant category can also submit their Application Forms to the Financial Advisor and Manager to the Issue.

An Applicant of a Joint Application, applying through another Application Form is deemed to have made multiple Applications and will be rejected.

An Applicant who has made an Application under a margin trading account should not apply individually or jointly on a separate Application Form. Such Applications will also be construed as multiple Applications and will be rejected.

Subject to the above, the Company/Financial Advisor and Manager/Registrars to the Issue reserve the right to reject multiple Applications and suspected multiple Applications which are not allowed or to accept only one Application Form at their discretion.

***Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to refuse any Application or to accept any Application in full or part, for whatsoever reason.***

***Please note that Applicant information such as full name, address, NIC number/passport number and residency will be downloaded from the database of CDS, based on the CDS account number indicated in the Application Form. Such information shall take precedence over information provided in the Application Form.***

***Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts will be rejected.***

***Care must be taken to follow the instructions on the reverse of the Application Form. Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.***

**PLEASE NOTE THAT AN ALLOTMENT OF SHARES WILL ONLY BE MADE IF YOU HAVE A VALID CDS ACCOUNT AT THE TIME OF SUBMISSION OF APPLICATION.**

Applicants have the option of having their Shares 'locked' in the CDS. Shares that are 'locked' will not be available for trading purposes and will not be visible to the participant. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her 'locked' balance in the CDS account, the said Shares would be deposited to Applicant's 'trading' balance in the CDS account.

#### **Operation of a 'locked' balance in the CDS**

In order to preserve the confidentiality of shareholder information and to ensure that securities are not made available for trading for those shareholders who do not want to trade the securities, the CDS provides a mechanism where securities can be 'locked' in the CDS account.

The CDS maintains two balances for each CDS account, namely a 'trading' balance and a 'locked' balance. The trading balance would be visible to the CDS participant and all dealings and trading would be permitted on the said trading balance, as done normally.

As opposed to the trading balance, the locked balance will not be visible to the CDS participant and all dealings on such locked balance would be suspended thereby maintaining the confidentiality of the information and also safeguarding the account holder from any unauthorised sale by a broker.

At the option and request of an account holder, the CDS would transfer a named quantity of securities from the locked balance to the trading balance of a CDS account and/or from the trading balance to the locked balance.

#### 4.2.3 Number of Shares Applied

Application should be made for a minimum of One Thousand (1,000) Shares [for a value of Sri Lankan Rupees Fifteen Thousand Four Hundred (LKR 15,400/-)] and in multiples of One Hundred (100) Shares thereof.

Applications made for less than One Thousand (1,000) Shares or for a number which is not in multiples of One Hundred (100) Shares will be rejected and the accompanying cheques, bank drafts or bank guarantees will not be sent for clearing but be returned via ordinary post at the risk of the Applicant, or in the case of Joint Applicants, the first named Applicant. **The cheque or bank draft or bank guarantee or online fund transfer confirmation or Real Time Gross Settlements (RTGS) transfer or Common Electronic Fund Transfer Switch (CEFT) transfer or Sri Lanka Inter-bank Payment System (SLIPS) transfer should be issued/carried out to the exact value of the number of Shares applied for, multiplied by the Share Issue Price.** Cheques, bank drafts, bank guarantees or electronic fund transfer confirmations not conforming to the above requirement will be rejected at the outset.

Please refer Section 4.3.1 for details with respect to the mode of remittance.

#### 4.2.4 Identification Information

All Applicants should disclose their identification/registration information by filling in the space provided in the Application Form for this purpose.

**Applicants are requested to state their residency and nationality in the appropriate spaces provided in the Application Form.**

**The NIC, passport, or company registration number as the case may be, must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected.**

Resident Applicants may use the passport for purposes of identification only if they do not have an NIC number.

Tabulated below is the relevant identification information that a prospective Applicant should provide depending on the legal status:

TABLE 4-1 : IDENTIFICATION FOR PROSPECTIVE CLIENTS

<i>Citizenship/Legal Form</i>	<i>Identification Information</i>			
	<b>NIC Number</b>	<b>Passport Number</b>	<b>Company Registration Number</b>	<b>Common Seal or Rubber Stamp</b>
<b>Sri Lanka Citizens</b>	✓			
<b>Sri Lanka Citizens with no NIC Number*</b>		✓		
<b>Foreign Citizens**</b>		✓		
<b>Corporate Entities***</b>			✓	✓

\* In the case of Sri Lankan citizens, the passport number will be accepted only when the NIC number is not available. The CDS account must be for the same passport number.

\*\* Foreign citizens must state the passport number in the space provided.

\*\*\* The company registration number must be provided. The common seal or rubber stamp should be affixed and the Application Form duly signed as stipulated in the constitutional documents of such Applicants.

A valid CDS account number must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected. All non-resident Applicants and corporate Applicants should ensure that the passport number/company registration number and the CDS Identification Number (CDS ID) are stated in the relevant cages of the Application Form. All information about the Applicant (i.e. name, address, nationality and NIC or passport number) will be downloaded from the database of the CDS, based on the number given in the Application Form. In the event of any discrepancy between the information in the CDS and in the Application Form, the information in the CDS shall take precedence.

If the CDS account number is not indicated in the Application Form, or the number indicated in the form is found to be inaccurate/incorrect, or the account number indicated is not opened at the time of closing the Offering, such Applications will be rejected and no allotment of Shares will be made.

#### **4.2.5 Key Responsibility of a Non-Resident Applicant**

Non-resident Applicants may be affected by the laws of the jurisdiction of their residence. If non-resident Applicants wish to apply for the Shares, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

#### **4.2.6 Margin Trading**

Applicants who wish to apply through their margin trading account should submit the Applications in the name of the “margin provider/Applicant’s name” signed by the margin provider.

The Applicants should state the relevant CDS account number relating to the margin trading account in the space provided for the CDS account number in the Application Form. The Shares shall be uploaded to the CDS account indicated in the Application Form.

The NIC, passport, or company registration number of the Applicant as the case may be, must be stated in the Application Form.

Resident Applicants may use the passport for purposes of identification, only if they do not have an NIC number.

A photocopy (or a scanned copy in the case of an electronic application) of the margin trading agreement must be submitted along with the Application.

Please note that the margin provider can apply under its own name and such Applications will not be construed as multiple Applications. Details of multiple Applications are available under Section 4.2.2.

Please note that CSE Mobile App does not facilitate an Application by Applicants through a margin trading facility.

#### 4.2.7 Applications made under Power of Attorney

In the case of Applications made under Power of Attorney (POA), a copy of the said POA, **certified by a Notary Public** to be a true copy of the original, should be lodged with the Registrars to the Issue along with the Application Form. **The original POA should not be attached.** A scanned copy of the same can be attached in the case of an electronic application.

#### 4.2.8 Joint Applications

If the ownership of the Shares is desired in the name of one Applicant, full details should be given only under the heading, **SOLE/FIRST APPLICANT** in the Application Forms. In the case of joint Applicants, the signatures and particulars in respects of all Applicants must be given under the relevant headings in the Application Form.

Joint Application Forms are permitted only for natural persons not exceeding three Applicants. Joint Applicants should note that there should not be a combination of residents of Sri Lanka and non-residents. An Applicant of a joint Application shall not apply through a separate Application Form either individually or jointly.

Please note that CSE Mobile App does not facilitate an Application by Joint Applicants.

#### 4.2.9 Submission of Application Forms

Physical Application Forms properly and legibly filled in accordance with the instructions thereof, along with the applicable remittance (cheque or bank draft or bank guarantee or RTGS transfer only) for the full amount payable on Application should be enclosed in a sealed envelope marked **“Kapruka Holdings Limited – IPO”** on the top left-hand corner and be addressed and dispatched by post or courier or delivered by hand to the Registrars to the Issue at the following address **prior to 4.30 p.m. Local Time on the Issue Closing Date;**

**PW Corporate Secretarial (Private) Limited, 3/17, Kynsey Road, Colombo 08,**

Applications may also be handed over to the Financial Advisor and Manager to the Issue, designated branches of Bankers to the Issue (Hatton National Bank PLC) mentioned in Annexure E, members and trading members of the CSE as set out in Annex F **prior to 4.30 p.m. Local Time on the Issue Closing Date.**

In the case of Applications dispatched by courier or post, such Applications should reach the Registrars to the Issue **no later than 4.30 p.m. Local Time on the Market Day immediately following the Issue Closing Date.** Any Applications received after the above deadline shall be rejected even though the courier or post mark is dated prior to the Issue Closing Date.

Electronically filled or scanned Application Forms with clear and legible images should be emailed to [kapruka.ipo@gmail.com](mailto:kapruka.ipo@gmail.com) with all necessary attachments including online fund transfer confirmation/payment confirmations and any other supporting documents required as instructed in this Prospectus.

Applicants applying under the Unit Trust Applicant category should submit their Application Forms directly to the Financial Advisor and Manager to the Issue.

### 4.3 Payment of Application Monies

#### 4.3.1 Mode of Remittance

- (a) Payment in full for the total value of Shares applied for should be made separately in respect of each Application either by cheque or bank draft or bank guarantee drawn upon a Licensed Commercial Bank operating in Sri Lanka or RTGS/CEFT/SLIPS transfer directed through any a Licensed Commercial Bank operating in Sri Lanka, as the case may be subject to (b) and (c) below. When making payment via RTGS/CEFT/SLIPS, enter the NIC number of the applicant for identification purposes on the deposit slips.
- (b) The amount payable should be calculated by multiplying the number of Shares applied for under a particular category by the Share Issue Price of LKR 15.40. If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee or proof of payment for RTGS/CEFT/SLIPS transfer, the Application will be rejected.
- (c) CEFT/SLIPS transfers are subject to a maximum limit of Sri Lanka Rupees Five Million (LKR 5,000,000/-) imposed by the CBSL.
- (d) **Payments for Applications for Shares of a value below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) may be supported by a cheque or bank draft or bank guarantee or single RTGS/CEFT/SLIPS transfer (only for Applications over LKR 1,000,000/-) on the Issue Opening Date.** In such instances, Application Forms should be accompanied by only one cheque or bank draft or bank guarantee or **one RTGS/CEFT/SLIPS transfer confirmation** and should be issued for the **full amount** indicated in the Application Form. **Any Application for Shares of a value below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) accompanied by two or more cheques or bank drafts or bank guarantees or RTGS/CEFT/SLIPS transfers will be rejected at the outset. Payments for Applications through bank guarantee would be accepted only for Applications over the value of Sri Lanka Rupees One Million (LKR 1,000,000/-)**
- (e) **Applicants making Applications for Shares of a value above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) will be permitted to submit multiple bank drafts (not cheques) or bank guarantee or single RTGS transfer on the Issue Opening Date.** Such Applicants are required to attach a list to the Application Form giving details of payment, such as the amount of bank draft/bank guarantee, name of bank, name of branch and bank draft number/bank guarantee number. A confirmation as per Section 4.3.4 must be attached to the Application Form.
- (f) Payment in full for the total value of Shares applied for can be deposited directly to the bank account in the name of “Kapruka Holdings Limited – IPO” at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154. **The Applicant should clearly state the CDS account number and the NIC number in the deposit slip. Cash or cheque deposits to the bank accounts are accepted.**

**Applications for Shares of a value above Sri Lanka Rupees One Hundred Million (LKR 100,000,000/) accompanied by multiple bank drafts or multiple bank guarantees will not be rejected.**

The remittances on Applications will be deposited in a separate bank account in the name of “**Kapruka Holdings Limited – IPO**” at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154.

**Cash will not be accepted.** Anyone wishing to pay cash should obtain a bank draft from a Licensed Commercial Bank in Sri Lanka.

#### **4.3.2 Cheques or Bank Drafts – Resident Sri Lankan Applicants**

Cheques or bank drafts should be drawn on any Licensed Commercial Bank in Sri Lanka and crossed “**Account Payee Only**” and made payable to “**Kapruka Holdings Limited – IPO**” at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154.

Cheques or bank drafts accompanying Application Forms made for less than One Thousand (1,000) Shares, i.e for a value of Sri Lankan Rupees Fifteen Thousand Four hundred (LKR 15,400/-) or for a number which is not in multiples of One Hundred (100) Shares (as mentioned in Section 4.2.3) will not be sent for clearing and shall be returned via ordinary post at the risk of the Applicant, or in the case of Joint Applicants, to the first named Applicant.

In the event that cheques are not realized within two (02) Market Days from the date of presenting the same to the bank for clearing, the Directors reserve the right to reject the Applications and return the Application monies. No allocation of Shares will be made to such Applicants.

**Applicants residing in outstation areas from which cheque clearance may take over two (02) Market Days are advised to make payment via bank drafts to avoid any delays.**

Cheques must be honoured on the first presentation to the bank for the Application to be valid. Applications supported by cheques which are not honoured on first presentation will be rejected.

#### **4.3.3 Bank Guarantees – Resident Sri Lankan Applicants**

Applications made by resident Sri Lankan applicants backed by bank guarantees presented in line with the requirements set out in Section 4.2.1 will be accepted. Bank guarantees will be presented to the respective banks only after the Offered Shares have been allotted. Bank guarantees should be issued by any Licensed Commercial Bank in Sri Lanka and in favour of “**Kapruka Holdings Limited – IPO**” in a manner acceptable to the Company and payable on demand.

**Bank guarantees should be valid for a minimum of one (01) month from Issue Opening Date (i.e. 22<sup>nd</sup> December, 2021).**

Applicants are advised to ensure that sufficient funds/facilities are available in order to honour the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Issue. It is advisable that the Applicants discuss with their respective bankers the matters with regard to the issuance of bank guarantees and all charges involved. All expenses with regard to such bank guarantees should be borne by the Applicants.

**Payments for Applications through bank guarantee would be accepted only for Applications over the value of Sri Lanka Rupees One Million (LKR 1,000,000/-)**

#### 4.3.4 RTGS/CEFT/SLIPS Transfers – Resident Sri Lankan Investors

In case of CEFT/SLIPS transfers, such transfers should be made to the credit of “**Kapruka Holdings Limited – IPO**” at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154, with value on the Issue Opening Date (i.e., the funds to be made available to the above account).

In case of RTGS transfers (only for Application valued above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-)), such transfers should be made to the credit of “**Kapruka Holdings Limited – IPO**” at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154 with value on the Issue Opening Date (i.e. the funds to be made available to the above account/s).

The Applicants should obtain a confirmation from the Applicant’s bank, to the effect that arrangements have been made to transfer payment in full for the total value of Shares applied for to the credit of “**Kapruka Holdings Limited – IPO**” at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154 with value on Issue Opening Date (i.e. the fund to be made available to the above account on the Issue Opening Date and should be attached to the Application Form).

#### 4.3.5 Foreign Currency Remittances

This section is applicable to;

- Citizens of Sri Lanka who are above 18 years of age and resident overseas;
- Corporate bodies incorporated or established outside Sri Lanka;
- Regional or country funds approved by the SEC; and
- Foreign citizens (irrespective of whether they are resident in Sri Lanka or overseas) who are above 18 years of age.

The abovementioned Applicants should make their payments using one of the following methods as the case may be.

- (a) A foreign Applicant may invest through an “Inward Investment Account” (IIA) maintained with any Licensed Commercial Bank in Sri Lanka. The procedure for arranging payments through an IIA is presented below;
  - A Foreign Applicant may use the services of a custodian bank as an intermediary when investing in the Sri Lankan securities market;
  - The intermediary may open an IIA, on an Applicant’s behalf;
  - In conjunction with the IIA, an account with the CDS must be opened in case the Applicant does not already have a valid CDS account;
  - In respect of regional or country funds investing for the first time in Sri Lanka, the intermediary will facilitate the approval process regulated by the SEC;
  - Payment for Shares should be made through a bank draft or bank guarantee issued by a Licensed Commercial Bank in Sri Lanka against the funds arranged through the IIA and made payable to “**Kapruka Holdings Limited – IPO**” at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154 prior to 4.30 p.m. local time on the Issue Closing Date.
- (b) A foreign Applicant may invest through inward remittances of foreign currency held in a Foreign Currency Banking Unit (FCBU) account of the Applicant maintained with any Licenced Commercial

Bank in Sri Lanka. The procedure for arranging payments through an FCBU account is presented below;

- The Applicant should forward the Application Form supported by an unconditional bank guarantee drawn on the Applicant's FCBU account pending allotment of the Offered Shares with confirmation from the Licenced Commercial Bank that upon notification of the allotment of Shares, the transfer value would be remitted through the Applicant's IIA.
- Upon allotment of Offered Shares, foreign currency to the extent of the Sri Lanka Rupee equivalent value of Offered Shares allotted would be called on the bank guarantee drawn on the Applicant's FCBU account.
- The requisite funds would then be credited to an IIA opened in favour of the Applicant via the aforementioned FCBU account. This procedure would protect a prospective Applicant from any losses accruing due to fluctuating exchange rates.

- (c) In addition to the payments made through IIA and FCBU as mentioned above, a foreign citizen resident in Sri Lanka under the Resident Guest Scheme may invest through a Resident Guest Foreign Currency Account (RGFCA) or Resident Guest Rupee Current Account (RGRCA) that Applicants maintain with any Licenced Commercial Bank in Sri Lanka. An Applicant who wishes to avail him/herself of this facility should make the payment for Offered Shares through a bank draft or an unconditional bank guarantee in Sri Lanka Rupees or by converting foreign currency funds available in the RGFCA/RGRCA, as the case maybe based on the guidelines provided by the Exchange Control Department of the CBSL, and made payable to "**Kapruka Holdings Limited – IPO**" at Hatton National Bank PLC, Nawam Mawatha Branch (Branch code – 701), a/c number 701010014154.

**Cheques or bank drafts or bank guarantees or RTGS/CEFT/SLIPS transfers should be endorsed by the issuing custodian bank, to the effect that, arrangements have been made to facilitate such payment to be made against funds available in the individual's IIA account. The endorsement must be clearly indicated on the cheque or bank draft or the bank guarantee. Alternatively, a document detailing the endorsement could be submitted along with the payment and Application.**

**Any refund payments to Foreign Applicants are made in terms of Section 4.8 of this Prospectus.**

**Applications supported by foreign currency remittances should be made in conformity with requisite declarations accompanied by the documentation stipulated by the Controller of Exchange of the Central Bank of Sri Lanka.**

#### **4.3.6 Restrictions Applicable to Foreign Citizens Resident in Sri Lanka**

Foreign citizens resident in Sri Lanka may make payments through Sri Lanka Rupee Accounts, only if they possess dual citizenship where one such citizenship is Sri Lankan. **Foreign citizens having Sri Lankan citizenship should attach a certified copy of the citizenship certificate with the Application Form.**

Foreign citizens residing in Sri Lanka having valid residency visas should note that they cannot make remittances via cheques or bank drafts or bank guarantees or RTGS transfers drawn upon Sri Lanka Rupee accounts maintained with any Licensed Commercial Bank in Sri Lanka but may do so via an IIA account as detailed in Section 4.3.5 above. **Applications made by foreign citizens not in accordance to the foregoing shall be rejected.**

#### 4.4 Rejection of Applications

- Application Forms which are incomplete in any way and/or are not in accordance with the terms and conditions set out in this Prospectus will be rejected at the absolute discretion of the Company/ Financial Advisor and Manager/Registrars to the Issue.
- Any Application Form which does not provide the NIC, passport (where NIC is not available) or company registration number as the case may be, will be rejected.
- Applications delivered by hand or by courier after 4.30 p.m. Local Time on the Issue Closing Date will be rejected. Applications received by courier/post after 4.30 p.m. Local Time on the succeeding Market Day immediately following the Issue Closing Date, will also be rejected even if they carry a courier acceptance date/postmark date earlier than the Issue Closing Date.
- Physical applications that are illegibly written or electronic applications carrying images that are unclear or illegible will be rejected
- Physical or Electronic applications where all of the supporting documents are missing in the attachment will be rejected
- Applications made for less than One Thousand (1,000) Shares or for a number which is not in multiple of One Hundred (100) Shares will be rejected.
- **An Application which does not carry a CDS account number, or indicates a number of a CDS account which is not opened at the time of the closure of the subscription list (either at the time fixed for closing or on the date on which the Offering is subscribed), or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment of Shares will be made.**
- Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts, will be rejected.
- Applicants should apply only through one Applicant category and would be permitted to submit only one Application Form. Two or more Applications submitted by the same Applicant either under the same category or different categories will be construed as multiple Applications and will be rejected.
- Application Forms submitted under a respective Applicant category, using the incorrect Application Forms will be rejected.
- The company reserves the right to reject multiple Applications and suspected multiple Applications which are not allowed, as mentioned in Section 4.2.2.
- Payment for Applications of Shares of a value below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) accompanying two or more cheques, bank drafts or bank guarantees or RTGS/CEFT/SLIPS transfers as mentioned in Section 4.3.1, will be rejected at the outset.
- Applications made by individuals below 18 years of age or those in the names of sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected.
- Physical application forms handed over to Hatton National Bank branches other than those designated in Annexure E of this Prospectus will be rejected

***Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to refuse any Application or to accept any Application in full or part for any reason.***

#### 4.5 Banking of Payments

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Market Day after the Closure Date of the Subscription List, in terms of the CSE Listing Rules.

#### 4.6 Returning of Monies on Rejected Applications

Where an Application Form is rejected, the cheque or bank draft or bank guarantee received in respect of the Application will be returned via ordinary post at the risk of the Applicant. In the case of Joint Applicants, the cheque or bank draft or bank guarantee received in respect of the Application will be returned to the first named Applicant.

Where the Application Form is accepted and the cheque or bank draft or bank guarantee is not honoured by the bank at the first presentation, the Application will also be rejected and the dishonoured cheque or bank draft or bank guarantee will be returned via ordinary post at the risk of the Applicant. In the case of Joint Applicants, the dishonoured cheque or bank draft or bank guarantee will be returned to the first named Applicant.

#### 4.7 Basis of Allotment

The allotment of the Offered Shares will be made to the various categories of Applicants, as set out below:

TABLE 4-2 : ALLOTMENT OF ISSUED SHARES

<b><i>Applicant Category</i></b>	<b><i>Percentage of Offer (%)</i></b>
Unit Trusts *	10%
Retail Individual	40%
Non-Retail	50%
	<b>100%</b>

*\* Unit Trust Applicants should be growth or balanced unit trusts operated by managing companies licensed by the SEC, where such unit trusts comprise of not less than 500 unit holders resident in Sri Lanka who together hold at least 50% of that fund as per the Direction issued by the SEC (Ref: SEC/LEG/11/03/36 of 10 March 2011). Only one Application should be made under each category.*

Applications submitted under the Unit Trust Applicant Category should accompany a confirmation by the trustee confirming that such unit trust is in conformity with the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/Leg/11/06/01) and CSE Listing Rules, 2.1.1(g)(ii)(b).

Local and foreign individual Applicant/s who apply for up to a maximum of 6,400 Shares (value of not more than LKR 100,000) will be deemed as Retail Individual applicants for share allotment purposes.

Applicants who do not fall under the Retail Individual Applicant definition stated above will be deemed as Non-Retail applicants for Share allotment purposes. (All corporate bodies incorporated or established in Sri Lanka or outside Sri Lanka, global, regional or country funds approved by the SEC, shall fall under the Non-Retail category irrespective of the quantum of Shares applied for).

The Applicant categories have been selected to ensure the broadest possible spread of shareholders while treating all Applicants in a fair manner as may be decided by the Board at its discretion.

In the event of an under-subscription in the Unit Trust Applicant category, the Retail Individual Applicant category shall be given first priority, in allotment of the undersubscribed Shares.

In the event of an under-subscription in the Retail Individual Applicant category, the Unit Trust Applicant category shall be given first priority, in allotment of the undersubscribed Shares.

In the event of an under-subscription in the Non-Retail Applicant category, Retail Individual Applicant category will be given first priority followed by Unit Trust Applicant category in the allotment of the undersubscribed Shares.

Redistribution will not apply in the event of an oversubscription or undersubscription in all three categories stated above.

Subject to the above, the Board of Directors of the Company will endeavour to decide and announce to the CSE the basis of allotment as soon as practicable so as to ensure compliance with the CSE Listing Rules. Upon the allotment being decided, an announcement will be made to the CSE.

Out of the 50% of Shares on Offer (that amounts to 16,413,000 Shares) allocated to the Non-Retail Investor Category, 8,206,500 Shares would be allotted to strategic investors on a preferential basis. The 8,206,500 Shares to be preferentially allotted to the said strategic investors would be 50.00% of the total number of Shares allotted to Non-Retail Investor Category and such preferential allotment to the said strategic investors would represent 25.0% of the total Shares on offer through the IPO. Hence, the post-IPO number of Shares to be held by the said strategic investors would represent 5.0% of the issued quantity of the Company.

In the event of an oversubscription, the Board will endeavour to decide the basis of allotment in a fair manner as soon as practicable so as to ensure compliance with the CSE Listing Rules. The maximum allocation under preferential allotment would be 25.0% out of the total IPO quantity.

**In the event of an over subscription of any one or all three categories mentioned above, the basis of allotment will be decided by the Board of Directors of the Company in a fair and equitable manner.**

#### **4.8 Refunds on Applications**

Where an Application is accepted only in part or rejected in its entirety subsequent to cheques being realized, the balance/entirety of the monies received on Application as the case may be, will be refunded, such refunds will be made on or before the expiry of eight (08) Market Days from the Closure Date (excluding the Closure Date) as required by the CSE Listing Rules. As required by Section 2.4(I) of the CSE Listing Rules, Applicants would be entitled to receive interest at the rate of last quoted Average Weighted Prime Lending Rate (AWPLR) published during the immediately preceding week by the Central Bank of Sri Lanka or any other authority (in the event Central Bank of Sri Lanka ceases to publish the AWPLR) plus five per centum (5.0%) for the delayed period on any refunds not made by the expiry of the aforementioned period.

- The Applicants may indicate the preferred mode of refund payments in the Application Form (i.e. direct transfer via SLIPS/RTGS or cheque)
- If the Applicant has provided accurate and complete details of his/her bank account in the Application, the Bankers to the Issue with the instructions of the Registrars to the Issue will make refund payments up to and inclusive of Rupees Five Million (LKR 5,000,000/-) to the bank account specified by the Applicant, through SLIPS and a payment advice will be sent.

- In the event of refunds over Rupees Five Million (LKR 5,000,000/-), if the Applicant has provided accurate and correct details of his/her bank account refunds will be made via RTGS or if the Applicant has not provided accurate and correct details of his/her bank account in the Application or if the Applicant has not provided details of the bank account in the Application Form, the refund payments will be made to the Applicant by way of a crossed cheque/s in favour of the Applicant and sent by post at the risk of the Applicant.
- Funds received via IIA accounts will be refunded via IIA accounts in the event there are refunds to be made. It is the responsibility of non-residents/Foreign Investors to ensure that their IIA details are accurately provided
- In the event the refund payment is effected via SLIPS or RTGS based on the bank account details provided by the Applicant in the Application Form, but is rejected by the Applicant's bank due to inaccurate or incomplete information, such refund payments would be made via a crossed cheque/s in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In such instances, the Company together with the Registrars to the Issue will send the refund cheques to such Applicants at the earliest possible time and the Applicant should not hold the Company or the Registrars to the Issue accountable for such delays.
- If the Applicant has not provided details of the bank account in the Application Form or has provided inaccurate or incomplete details of the bank account with respect to refunds via SLIPS, the refund payment will be made by a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. **In the case of a Joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Application Form.**

Bank codes and branch codes could be obtained from the following website, through the Quick Links access;

[http://www.lankaclear.com/products\\_and\\_services/sl\\_interbank\\_payment\\_system\\_guideline.php](http://www.lankaclear.com/products_and_services/sl_interbank_payment_system_guideline.php)

#### 4.9 Successful Applicants and CDS Lodgement

The Shares allotted will be directly uploaded to the respective CDS accounts given in the Application Form before the expiry of Twelve (12) Market Days from the Issue Closure Date as requested by the CSE Listing Rules.

A written confirmation, upon the completion of crediting the respective CDS accounts will be sent to the shareholder within Two (02) Market Days of crediting the CDS accounts by ordinary post to the address provided by each shareholder in their respective Applications.

Applicants have the option of having their Shares 'locked' in the CDS. Shares that are 'locked' will not be available for trading purposes and will not be visible to the participant. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her 'locked' balance in the CDS account, the said Shares would be deposited to Applicant's 'trading' balance in the CDS account.

Refer Section 7.3 for the definition of 'locked'.

Offered Shares shall not be transferable by the shareholders during the period between the date of allotment of the Offered Shares and up to the date of listing (excluding the date of listing) of the Ordinary Shares on the CSE. Further, the Company shall not allot any Shares of the Company (other than the

allotment of the Offered Shares) or transfer existing Ordinary Voting Shares during the interim period between the date of the Initial Listing Application and the date of Listing of the Shares of the Company.

Upon the Ordinary Shares being listed on the CSE, such Shares shall be freely transferable except for those Shares mentioned in Section 9.2 of this Prospectus, which will be locked-in to be in compliance with CSE Listing Rules 2.1.1(d).

#### **4.10 Declaration to the CSE and Secondary Market Trading**

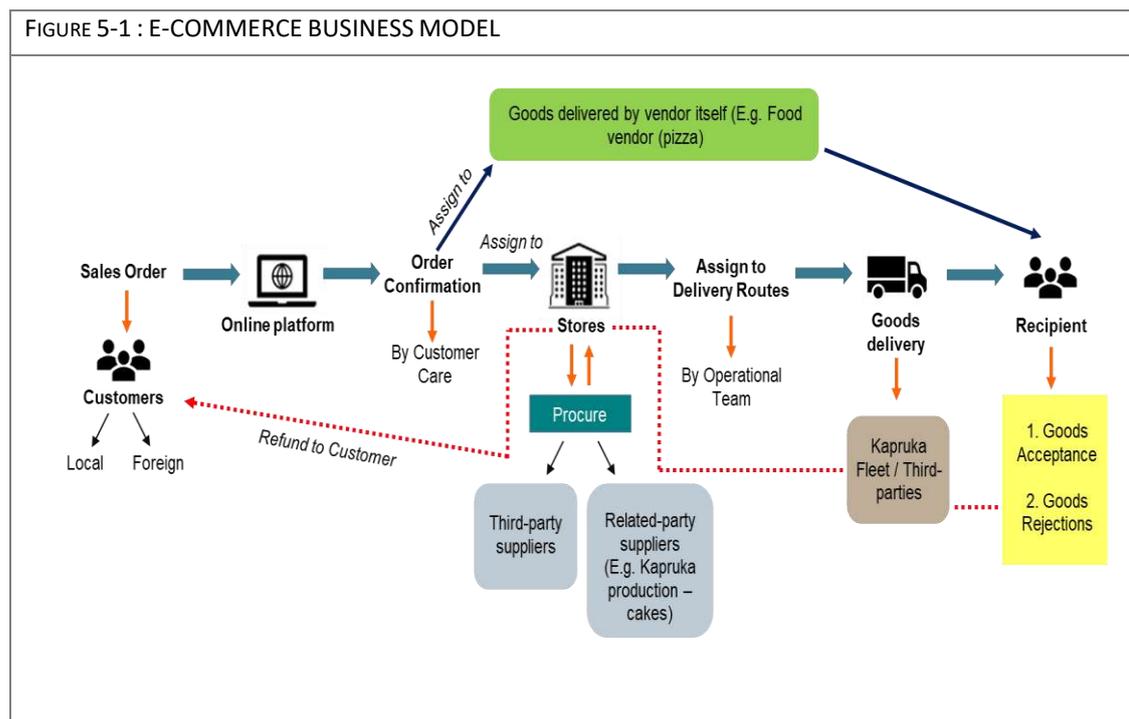
The Company will submit to the CSE a “Declaration” on the Market Day immediately following the day on which the Applicants’ CDS accounts are credited with the Offered Shares. Trading of the Ordinary Shares on the secondary market will commence on or before the third (3<sup>rd</sup>) Market Day from the receipt of the Declaration by the CSE as per the CSE Listing Rules.

## 5. BUSINESS OPERATIONS OF KAPRUKA HOLDINGS LIMITED

### 5.1 Company overview

Kapruka is Sri Lanka’s first and possibly the largest locally owned e-commerce enterprise<sup>5</sup>. The Company, through its website under Kapruka E-commerce (Pvt) Limited, facilitates online purchase of goods to the Sri Lankan and expatriate consumer base. The Company has successfully backward integrated and sells its own-label products, predominantly, Kapruka cakes, flowers and value-added fruits and vegetables which are produced under Kapruka Productions (Pvt) Limited. The Group partners with over 500 high end brands and executes order fulfilment and last mile delivery for its online orders. Kapruka strives to provide a non-marketplace model and a superior online shopping experience to consumers.

The Group caters to over 1.1 Mn expatriate Sri Lankans customer base predominantly in USA who regularly use Kapruka to send gifts to their family and friends in Sri Lanka. Further, the Group offers Sri Lankan brands on global e-commerce platforms such as Amazon, eBay, Etsy and Walmart, becoming the exclusive e-distributor/e-commerce retailer for well-established brands such as Dilmah, Akbar, Link Samahan, etc<sup>6</sup>. Kapruka generates a dollar revenue stream, serving expatriate Sri Lankan and global customers<sup>7</sup>. The Company has its central office located in Colombo and has offices in the USA, the UK and Australia.



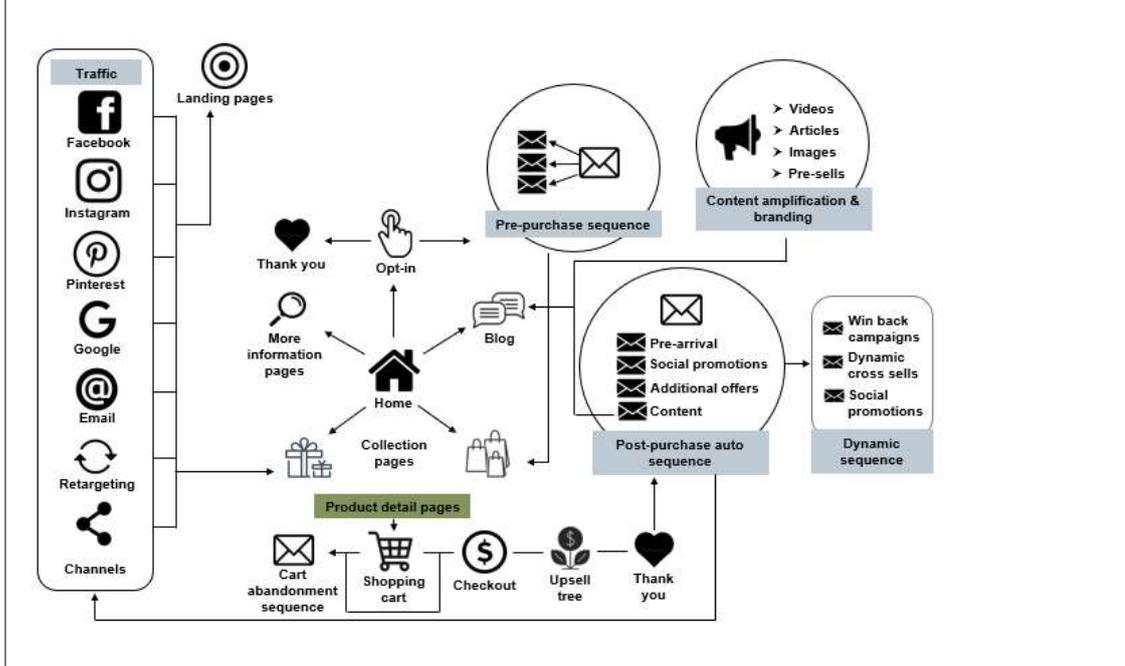
Source: Kapruka Management Information

<sup>5</sup> Source: <https://www.similarweb.com/website/kapruka.com/> accessed on 04<sup>th</sup> November 2021

<sup>6</sup> Kapruka has exclusive agreements with the said brands

<sup>7</sup> Source: Kapruka Management Information

FIGURE 5-2 : ECOMMERCE ECOSYSTEM AND SALE PROCESS

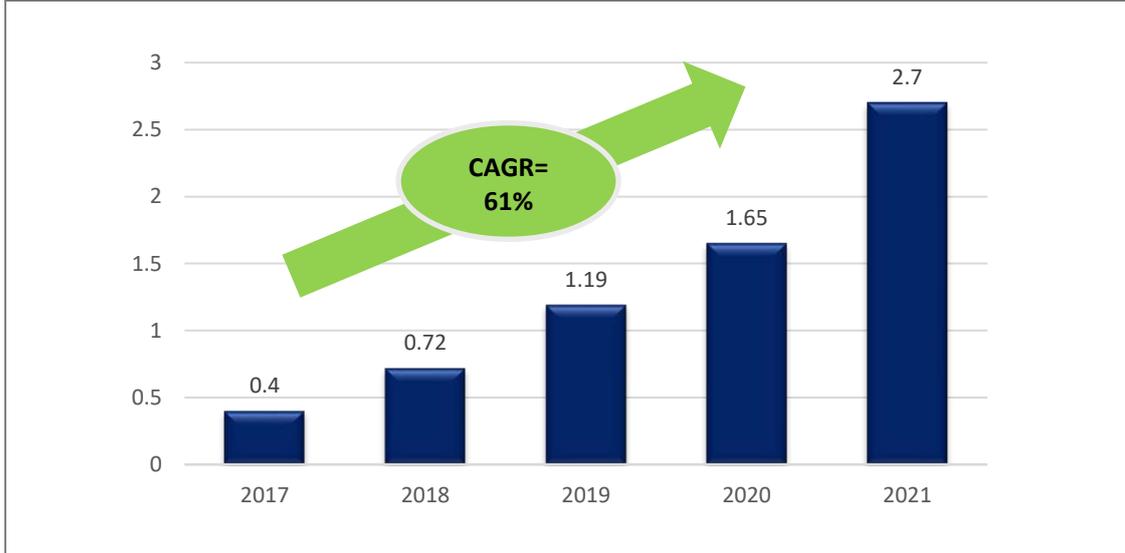


Source: Kapruka Management Information, openPR<sup>8</sup>

### Growth in customer base

The Company has seen a strong growth in its customer base over the years. The pandemic has accelerated the growth of the customer base as more and more people started purchasing online.

FIGURE 5-3 : CUSTOMER BASE 2017-2021 (IN MILLIONS)



Source: Kapruka Management Information

<sup>8</sup> Source: <https://www.openpr.com/news/1811916/e-commerce-ecosystem-market-top-key-players-are-alibaba> accessed on 02nd November 2021

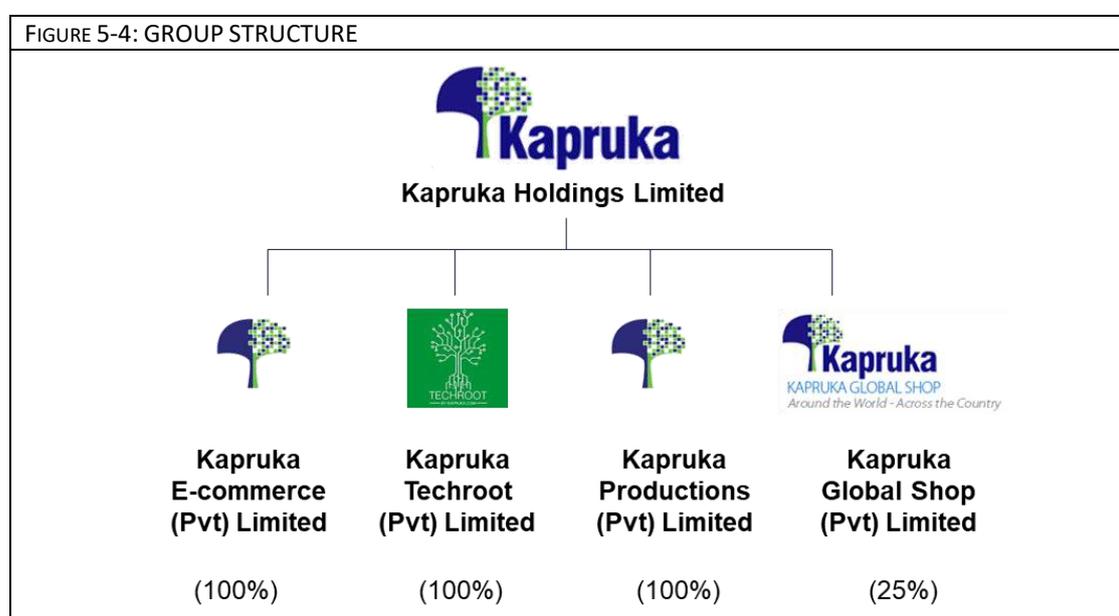
## 5.2 Business Verticals of Kapruka

**E-commerce** – Kapruka sells thousands of goods in almost all retail categories including fresh produce. It's unique non-marketplace e-commerce business model carries over 500 top end Sri Lankan brands.

**Cross Border** – Cross Border e-commerce focuses on selling local products in international e-commerce platforms. The platform is set to promote Sri Lankan products in the global market. Kapruka is Amazon USA's master seller in Sri Lanka<sup>9</sup>, enabling local producers to sell using Amazon.com. The stocks catering to overseas customers are sent to Amazon USA fulfilment centres by Kapruka's global office. This is operating as a foreign operation.

**Manufacturing** – Kapruka also has a production arm, which produces cakes, flowers and value-added fruits and vegetables under Kapruka Brand.

## 5.3 Group structure



The Company restructured its operations in October 2021.

The Company acquired 100% of Techroot (Pvt) Limited and Kapruka Productions (Pvt) Limited on 13<sup>th</sup> October 2021 which are fully owned subsidiaries. It also acquired 25% of Kapruka Global Shop (Pvt) Limited which is an Associate Company under Kapruka Holdings Limited. The balance 75% shareholding of Kapruka Global Shop (Pvt) Limited is owned by Mr. Dulith Herath (37.5%) and Mrs. A Herath (37.5%). Further, a 100% owned subsidiary named Kapruka E-commerce (Pvt) Limited was created on 29<sup>th</sup> October 2021 and certain assets and liabilities of Kapruka Holdings Limited were transferred to the newly formed subsidiary.

Post the restructuring, the Company changed its name to Kapruka Holdings Limited from its previous name Kapruka Dot Com Limited on 20<sup>th</sup> November 2021. Kapruka Holdings Limited, the entity which is

<sup>9</sup> Source: <https://www.ft.lk/Front-Page/Kapruka-com-and-Grasshoppers-to-open-export-market-for-Lankan-producers-via-Amazon-com/44-642622> accessed on 29th October 2021

being listed, will operate as a Holding Company going forward. The ecommerce business carried out by Kapruka Holdings Limited prior to restructuring will continue to be carried out by the fully owned subsidiary Kapruka E-Commerce (Pvt) Limited. The objective of the restructuring is to bring the technological, production and e-commerce arms under one umbrella and develop them under Kapruka Holdings Limited. The Company will be benefitted as these individual operations are enhanced and grown under the Group.

The subsidiaries and the associate Companies are carrying out the following business activities

1. Kapruka E-commerce (Private) Ltd: Provides e-commerce services to Sri Lanka and foreign markets.
2. Kapruka Techroot (Pvt) Ltd: Provides technology services. This was incorporated on 04<sup>th</sup> November 2011
3. Kapruka Productions (Pvt) Ltd: Manufactures cakes/ flowers under Kapruka brand. This was incorporated on 07<sup>th</sup> July 2018
4. Kapruka Global Shop (Pvt) Ltd: Provides cross border shopping services. This was incorporated on 27<sup>th</sup> June 2013.

#### **Incorporation of Kapruka E-commerce (Pvt) Limited**

Kapruka E-commerce (Pvt) Limited was incorporated on 29<sup>th</sup> October 2021 as a 100% owned subsidiary of the Kapruka Holdings. The retail/ wholesale related merchandise inventory and associated liabilities were transferred to Kapruka E-commerce from Kapruka Holdings based on a stock count as at the date of transfer and shares were issued to Kapruka Holdings for the value of the net assets transferred. The billing of revenues from e-commerce related activities is now undertaken by Kapruka E-commerce. The Company does not believe this transaction will have a material impact on the consolidated financials of the Kapruka Holdings post the date of restructuring for the following reasons.

I. Kapruka E-commerce is solely a continuation of the operating activities carried out by Kapruka Holdings prior to the date of restructuring and all the assets and liabilities (and revenues and earnings derived from the same) of Kapruka E-commerce was already reflected in the standalone audited and interim accounts of Kapruka Holdings as at the 31 March 2021 and 30 September 2021, and will continue to be reflected in the consolidated financial statements produced after the date of restructuring.

II. As a 100% owned subsidiary of the Kapruka Holdings, any other routine financial dealings between the two companies in the nature of a holding company and wholly owned subsidiary is netted off in the consolidated financial statements post the date of restructuring.

#### **Acquisition of Kapruka Productions (Pvt) Ltd, Techroot (Pvt) Ltd, and Kapruka Global Shop (Pvt) Ltd**

Kapruka Holdings acquired 100% of Kapruka Productions (Pvt) Limited, 100% of Techroot (Pvt) Limited and 25% of Kapruka Global Shop (Pvt) Limited on 13<sup>th</sup> October 2021.

A summary of the assets and liabilities of the acquired companies are given below as at 31st March 2021 (audited).

<i>Company</i>	<i>Total Equity</i>	<i>Total assets</i>	<i>Revenue</i>	<i>Net income</i>	<i>Stake held by Kapruka Holdings Limited</i>	<i>Subsidiary total assets as a % of Kapruka Holdings Limited Total assets</i>
Kapruka Techroot (Pvt) Ltd	(5,481,988)	1,549,313	6,211,500	(2,897,419)	100%	0.2%
Kapruka Productions (Pvt) Ltd	5,370,886	22,992,728	109,479,259	(475,996)	100%	2.6%
Kapruka Global Shop (Pvt) Ltd	(8,092,523)	31,449,710	94,186,482	(3,003,963)	25%	0.0%

The Company believes the above acquisitions by Kapruka Holdings will not result in any material changes to the consolidated financial position of Kapruka Holdings Limited and that the pre-consolidated and post consolidated financial position will not indicate a significant difference for the following reasons.

- I. Both the total consideration paid by Kapruka Holdings for the acquisitions and the net assets of the entities that were acquired constitute a negligible percentage of Kapruka Holdings' total assets.
- II. Kapruka Productions (Pvt) Ltd and Techroot (Pvt) Ltd derives their revenues solely from sales to Kapruka E-Commerce. These sales will be netted off in the consolidation.
- III. The net earnings/loss of Kapruka Productions (Pvt) Ltd and Techroot (Pvt) Ltd is negligible in relation to the total earnings of Kapruka Holdings.
- IV. Kapruka Global Shop (Pvt) Ltd will be consolidated as an associate company based on the share of income methodology. The share of income/loss accruing to Kapruka Holdings post consolidation is negligible in relation to the Company's total earnings.

The Company believe that the interim consolidated financials of Kapruka Holdings for the period ending 31 October 2021 will provides sufficient validation of the matters that highlighted above.

The Company has requested for a waiver under Listing Rule 2.1.2 (i) (b) and the details are set out in Section 8.11 of this Prospectus.

#### **5.4 Awards and Accolades**

The below awards and accolades are achieved by the Company and its Founder

**Eisenhower Fellowship** – Mr. Dulith Herath received the prestigious Eisenhower Fellowship in 2017.

**Online Brand of the Year Award** - Kapruka won the prestigious SLIM Brand Excellence – Online Brand of the Year Award in 2015.

**Asia Pacific Young Entrepreneur of the Year Award** - Dulith Herath won the Asia Pacific Young Entrepreneur of the Year Award in 2013.

**Most Innovative Exporter Gold Award** - National Chamber of Exports (NCE) awarded the 'Most Innovative Exporter Gold Award' to Kapruka in 2011.

**Sri Lanka's Best E-commerce Application**- in year 2011, Information Communication Technology Agency of Sri Lanka (ICTA) awarded Kapruka, Sri Lanka's best e-commerce application. Uniquely, this e-Swabhimani award recognises excellence in digital content creation.

**Entrepreneur of the Year Award** - Dulith Herath, the Chairman and CEO of Kapruka, was conferred with the Sri Lankan Entrepreneur of the Year award at the 15th annual national awards held in 2010. The awards conducted by the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) sought to recognize the most successful Sri Lankans of the year.

## 5.5 Human Resources

The Group serves its clients with 223 employees as at 25<sup>th</sup> November 2021. As at the date of this Prospectus, there were no labour unions, significant agreements entered into between the labour unions and the Company or actions pending against the Company in the Labour Tribunal.

TABLE 5-1 : STAFF BREAKDOWN

<b>Type</b>	<b>Kapruka Holdings Limited</b>	<b>Group</b>
Senior Manager	5	6
Manager	5	15
Assistant Manager	3	17
Executive	11	53
Officer	11	62
Other	7	70
<b>Total</b>	<b>42</b>	<b>223</b>

Source: Kapruka Management Information

## 5.6 Future plans

### 5.6.1 Enhancing Kapruka e-commerce platform

The Kapruka website is planned to be upgraded adding several features to it. The new features will enable both the customer and the supplier to track the order with greater visibility. It will also have features such as WhatsApp integrated notifications or SMS and automated billing emails. After the upgrade, suppliers will enjoy a better Customer Relationship Management (CRM) system and have access to analytical data such as repeat purchase patterns and purchase abandonment patterns.

The Company also plans to upgrade Kapruka app experience. Kapruka is currently heavily relying on the website for the e-commerce sales. The app, although it's developed and operational, requires enhancement in its features. Given the increasing availability and usage of smartphones, the Company understands the need for advance features for the mobile and desktop app, to provide greater convenience for customers.

#### **Further integrate backwards**

The Company plans to further strengthen its subsidiaries, network on the supply side, as it plans to acquire a stake of Grasshoppers (Pvt) Ltd at a suitable time in future. Grasshoppers provide e-commerce

fulfilment and delivery and is a related Company of Kapruka Holdings Limited, founded by Mr. Dulith Herath. Kapruka will get a competitive advantage to offer logistics services to other small e-commerce players in the industry via Grasshoppers. Grasshoppers being an e-commerce last mile delivery service in Sri Lanka brings a unique set of data to Kapruka. Kapruka will be able to understand trends and undercurrents of e-commerce movements in Sri Lanka directly via Grasshoppers. The Company has not decided on the date of such acquisition of source of funds as of the date of this Prospectus. Grasshoppers is currently owned jointly by three shareholders, including Mr. D V Herath (50%) and Mr. S Alexander (10%).

## 5.6.2 Venturing into new business verticals

Kapruka plans to venture into several new business verticals through its fully owned subsidiary Kapruka E-commerce (Pvt) Ltd.

**Kapruka Partner Central:** The Company, through its subsidiary plans to introduce a premier marketplace platform for well-established brick and mortar shops in Sri Lanka. This platform will connect buyers and sellers and allow the sellers to choose multiple order fulfilment options including fulfilment by Kapruka.

**Used goods marketplace:** Kapruka, through its subsidiary plans to launch a used goods marketplace as a fully owned new sub-brand - Soldout.lk. It is an e-commerce platform for pre-owned goods, connecting buyers and sellers, with added features such as home delivery and order fulfilment.

**Kapruka Wholesale Marketplace:** Kapruka Business to Business (B2B) combines the bulk purchases, convenience, and value of Kapruka high-quality order fulfilment with features that help improve business purchasing for re-selling purposes.

**Kapruka Cross Border Exports:** Kapruka has already established itself on global e-commerce platforms such as Amazon.com and eBay.com to sell Sri Lankan brands to international markets. Sri Lankan brands such as Dilmah, Akbar Tea, Link Samahan have already been tested by Kapruka on these platforms and are now ready to scale.

## 5.7 Assumptions related to Future plans

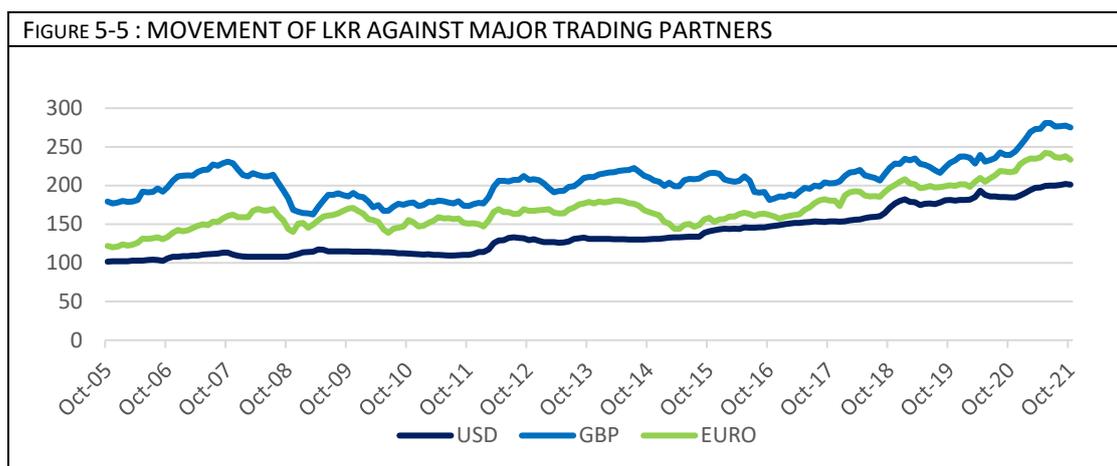
The above-mentioned future plans of the Kapruka would depend on market and industry conditions prevailing at the time of execution. The following assumptions were made when developing the future plans.

### **Consumer behaviour**

Due to the pandemic, many consumers increasingly prefer to shop online. This consumer behaviour is not expected to undergo any material changes for the foreseeable future. Online orders are mostly placed through mobile devices and given the increasing affordability and penetration of smartphone among Sri Lankans, this trend is only expected to improve going forward.

### **Rupee depreciation:**

The Sri Lankan rupee has seen a rapid depreciation against all the major currencies during the past 2-3 years. The export competitiveness of the export products is benefitted due to the rupee depreciation. It is expected that the rupee will continue to depreciate in the foreseeable future.



Source: CBSL

## 5.8 Risks related to Future plans

### Import restrictions:

The first half of 2021 saw many restrictions on imported good. Given the dollar reserve crisis Sri Lanka is currently facing, there could be further curtailments on imports. Increased import restrictions may affect the sourcing and distribution of the imported products in the Kapruka product portfolio.

### Delays in implementing

Objectives relating to new product development carries the risk of the project not completing on time. The delays will result in a delay in accruing revenues expected from the project.

### Changes in technology:

The technology keeps changing and evolving over time. Advent of new technology may demand changes or modifications to the launch of new tech platforms and upgrades Kapruka has planned for.

The Company does not foresee any risks that may arise due to the fact that a newly created entity, namely Kapruka E-commerce (Pvt) Limited, is to carry out the IPO objectives. As explained in Section 5.3, the new entity will carry out the business/ operating activities previously carried out by Kapruka Holdings Limited prior to restructuring.

## 5.9 Impact of COVID-19 on Business Operations

The COVID-19 had both positive and negative effects on Kapruka's business operations.

The surge in demand for online ordering and delivering of goods created a huge business opportunity for Kapruka. The customer base grew by 64% from 2020 to 2021.

Due to COVID-19 the sourcing of products from the local small suppliers was also disrupted as they were affected by the pandemic.

COVID-19 posed several challenges to cross border operations related to logistics. The sourcing and delivery of the goods was affected due to the port and airport closures for several months in 2020. The situation was mitigated when the ports and airports opened in the first half of 2021.

COVID-19 also affected regular local business operations. The staff were requested to work on a roster basis and a work from home concept had to be adopted as per the health guidelines.

With the vaccination programs rolling-out and the advancement in research and development globally to find new medications for the virus, we expect the effects of the pandemic will be reduced to a manageable level in Sri Lanka by the mid to end 2022.

#### 5.10 Customers and Degree of Dependence

Company’s business model has both Business to Consumer (B2C) and Business to Business (B2B) elements. B2C revenue accounts for 97% of total revenue (for the year ended 31st March 2021) of Kapruka Holdings Limited and the balance revenues are generated by corporate customers. The retail sales are spread out across a large consumer base, therefore Company’s revenues does not have any material dependency on any single customer.

TABLE 5-2 : DEPENDANCY OF KEY CUSTOMERS

<i>Category</i>	<i>% of revenues dependent on the client for the year ended 31<sup>st</sup> Mar 2021</i>
Retail	97%
Corporate	3%

Source: Kapruka Management Information

#### 5.11 Suppliers and Degree of Dependence

Kapruka together with its subsidiaries provides more than 135,000 products on its platform and have managed to establish partnerships with more than 500 brands. The Company has a tight control over its suppliers as it has direct buying arrangements with them. Unlike the marketplace e-commerce models where that rely on a scattered assemble of suppliers, Kapruka has established long-lasting relationships with the suppliers as a well-known B2B buyer which has encouraged the suppliers to prioritise Kapruka. This has ensured Kapruka of a continued supply and sourcing of goods. Therefore, there is no material dependency on suppliers in terms of the overall business operations of the Company. Furthermore, Kapruka has an exceptional track record of timely payments to its suppliers during the last 15+ years which has built trust and confidence in suppliers.

## 6. CORPORATE STRUCTURE

### 6.1 Board of Directors

The Board of Directors guide and supervise the business and operations of the Company. The Board consists of three (03) Independent Non-Executive Directors, two (02) Non-Independent Non-Executive Directors, and two (02) Executive Directors including the Chairman/CEO. As at the date of this Prospectus, the composition of the Board is as follows.

TABLE 6-1 : DETAILS OF KAPRUKA HOLDINGS LIMITED BOARD OF DIRECTORS

<b>Name</b>	<b>Designation</b>
<b>Mr. D V Herath</b>	Chairman and CEO
<b>Mrs. A Herath</b>	Non-Independent Non- Executive Director
<b>Mrs. T Herath</b>	Non-Independent Non-Executive Director
<b>Mr. S Alexander</b>	Non-Independent Executive Director
<b>Mrs. D P Pieris</b>	Independent Non-Executive Director
<b>Mr. T Subasinghe</b>	Independent Non-Executive Director
<b>Mrs. Manohari Abeysekera</b>	Independent Non-Executive Director

### 6.2 Profiles of the Board of Directors

#### **Mr. D V Herath – Chairman and CEO**

Mr. D V Herath is an entrepreneur, web-technology specialist, Chairman and CEO of Kapruka. He possesses strong technical skills that fuse innovation and new technology-based business models in Sri Lanka. Mr. Herath is also an advocate for improving government policies on tech start-ups and intellectual properties. Incidentally, he is a recipient of the prestigious Eisenhower Fellowship.

Before forming Kapruka, Mr. Herath served as a Development Specialist at Dell Perot Systems where he designed robust software/web applications for DELL client’s use with the aim of optimizing operational efficiency. Additionally, he worked as an Application Architect at Microsoft. There he directed and designed new applications from conception to completion while overseeing the technical staff involved with development projects. Mr. Herath is a graduate of the University of Kentucky, USA with a Bachelor of Science Degree in Computer Science.

#### **Mrs. A Herath – Non-Independent Non- Executive Director**

Mrs. Herath has a Bachelor of Commerce from the Bangalore University, India and an MBA from the Eastern Kentucky University, USA. Prior to joining Kapruka, she worked at the University of Kentucky Federal Credit Union, USA. She is also an entrepreneur on her own and found a well known Sri Lankan coffee house chain - Java Lounge. She possesses strong domain knowledge of US based e-commerce platforms and cross border e-commerce opportunities.

#### **Mrs. T Herath – Non-Independent Non-Executive Director**

With over 35 years of entrepreneurial experience she possesses strong leadership and human resource management skills. She is a founding member of many businesses in Sri Lanka in the fields of construction, feng-shui science, Health (Island Pharmacy chain) education (Asian International School).

**Mr. S Alexander - Non-Independent Executive Director**

Mr. S Alexander has over 16 years of experience in e-commerce and fulfilment. Prior to working at Kapruka, he served as the Trading Manager at SN Entertainment. He holds an MBA from the Cardiff Metropolitan University, UK.

**Mrs. Priyanthi Pieris - Independent Non-Executive Director**

Mrs. Priyanthi Pieris is an Attorney-at-Law of the Supreme Court of Sri Lanka, a Solicitor of England and Wales. With over 40 years of experience in the field of Corporate/Securities Law, Mrs. Pieris' expertise spans across handling corporate restructuring, privatizations, capital market transactions, take-overs, mergers, and amalgamations. Mrs. Pieris also serves on the Boards of JAT Holdings PLC, Associated Electrical Corporation Ltd, MTN Corporate Consultants (Pvt) Ltd and is the current Chairperson / Consultant of P W Corporate Secretarial (Pvt) Ltd – a firm that provides capital market-related services to listed companies. Mrs. Pieris has also served as the Legal Adviser to the Ministry of Finance from 2002 to 2004. She was a Legal consultant to the Colombo Stock Exchange (2004-2011). She also served as a Member of the Committee of the Securities and Exchange Commission of Sri Lanka on Takeovers and Mergers Code and as a Member of the Corporate Governance Committee of the Institute of Chartered Accountants; she is a Member of the Law Commission. She has served on the Boards of Asia Asset Finance PLC (2012-2021), Abans Electricals PLC (2012-2021), and LOLC Finance PLC (2012-2021).

**Mr. Tishan Subasinghe - Independent Non-Executive Director**

Mr. Tishan Subasinghe is the Managing Director and Joint Managing Partner of Moore Stephens Consulting (Private) Limited and Moore Stephens Aiyar, respectively. Additionally, he is a Council Member of the University of Moratuwa, the Chairman of the Sanasa General Insurance Company Limited and is a Director at Amana Bank PLC, having previously served as the Head of Audit and Assurance at BDO Partners. Mr. Subasinghe is a specialist in information systems auditing and is a Certified Information Systems Auditor (CISA-USA) and also holds an MBA in Finance from the University of Colombo. His influence and expertise are global as he maintains working relationships with PwC in New York, Philadelphia and Botswana, having received international training in the USA, Hong Kong, Bangkok, Hyderabad, Mumbai, Malaysia, Indonesia, Rome and others in areas such as Sarbanes Oxley section 404 integrated audits, audit software and the adoption of IFRSs. He is also a visiting lecturer and trainer at leading local and foreign universities, while also being a member of the Presidential Commission for the Simplification of Laws and Regulations, and the CBSL's Advisory Committee for the revival of failed Licensed Finance Companies.

**Mrs. Manohari Abeysekera**

Manohari Abeysekera was appointed in January 2020 as an Independent Non-Executive Director/ Chairperson - Audit Committee of the National Savings Bank (NSB), a State Owned Savings Bank. Previously, Manohari served the Hayleys Group in multiple leadership roles in her 18 year stint (Year 2002-2020). She was attached to Hayleys PLC, the parent company, and served as the Head – Strategic Business Development until May 2019. She was responsible for the Group's acquisitions exceeding US \$ 200 Mn, listing subsidiaries in the Colombo Stock Exchange and restructuring loss making entities. Manohari was the focal point of contact at Hayleys Group for Embassies, Chambers and UN Global Compact. She also was involved in project financing liaising with multi-lateral development agencies such as Asian Development Bank (ADB), International Finance Corporation (IFC) and DEG Bank Germany. In May 2019, Manohari was seconded as the Director – Strategy & Business Development at Fentons Limited, the engineering arm of Hayleys Group. Manohari also served as a Director Hayleys Group Services (Pvt.) Ltd, the Group's Company Secretarial arm from year 2012- 2020. Manohari is a Council Member and a Member of the Audit Committee of the Sri Lanka Institute of Directors. She successfully completed the Board Leadership Program conducted by SLID – IFC in December 2017; An Alumna of

KPMG, Manohari is a Fellow of Chartered Institute of Management Accountant (CIMA-UK) and the Institute of Chartered Accountants of Sri Lanka. She read for the MBA from University of Colombo topping the batch winning three gold medals – Overall Excellence, Quantitative Techniques and Management Accounting. Her first degree is in Biology (1st Class Honours) from University of Colombo. A Prizewinner at CIMA Finals - Strategic Financial Management, Manohari was adjudged as CIMA Young Star (Silver) by CIMA Sri Lanka Janashakthi Pinnacle Awards held in 2004. Manohari read for the Post Graduate Diploma in International Relations conducted by the Bandaranaike International Diplomatic Training Institute, where she was awarded the Vernon Mendis Memorial Award for excellent results in 2018. Manohari had her primary education at Sujatha Vidyalaya Colombo, and secondary education at St. Paul's Milagiriya.

### 6.3 Other Directorships Held by the Board

TABLE 6-2 : OTHER DIRECTORSHIPS

<b>Name</b>	<b>Directorships in Other Institutions</b>
<b>Mr. D V Herath</b>	Chairman and CEO - Kapruka Holdings Limited Founder and Chairman - Grasshoppers (Pvt) Ltd Founder and Chairman - Java Lounge (Pvt) Ltd Founder and Chairman - Kapruka Techroot (Pvt) Ltd Founder and Chairman - Global Shop (Pvt) Ltd Founder and Chairman - Kapruka Production (Pvt) Ltd Founder and Chairman - Kapruka Goodwill Foundation Executive Director – Lexington Residencies (Pvt) Ltd Director – Kapruka E-commerce (Pvt) Ltd Independent Non-Executive Director - Centre for Poverty Analysis Director – Kapruka Web Solutions (Pvt) Limited Director – Superbox (Pvt) Limited Single Member – Kapruka LLC
<b>Mrs. A Herath</b>	Managing Directress - Java Lounge (Pvt) Ltd Executive Directress - Kapruka Holdings Ltd Executive Directress - Kapruka Goodwill Foundation Executive Directress - Kapruka Production (Pvt) Ltd Executive Director – Lexington Residencies (Pvt) Ltd Directress – Kapruka E-commerce (Pvt) Ltd
<b>Mrs. T Herath</b>	Executive Directress - Kapruka Holdings Ltd Executive Directress - Nirmana Consultant (Pvt) Ltd Executive Directress - Java Lounge (Pvt) Ltd Executive Directress - Kapruka Production (Pvt) Ltd Executive Directress - Kapruka Techroot (Pvt) Ltd Executive Directress - Global Shop (Pvt) Ltd Executive Directress – Lexington Residencies (Pvt) Ltd Directress – Kapruka E-commerce (Pvt) Ltd
<b>Mr. S Alexander</b>	Executive Director - Grasshoppers (Pvt) Ltd Executive Director - Kapruka Holdings Ltd Director – Kapruka E-commerce (Pvt) Ltd
<b>Mrs. D P Pieris</b>	Directress - JAT Holdings PLC Directress - Associated Electrical Corporation Ltd Directress - MTN Corporate Consultants (Pvt) Ltd Chairperson - P W Corporate Secretarial (Pvt) Ltd
<b>Mr. T Subasinghe</b>	Chairman- Sanasa General Insurance Company Ltd Managing Director - Moore Stephens Consulting (Pvt) Ltd Joint Managing Partner - Moore Stephens Aiyar Director - Amana Bank PLC.
<b>Mrs. Manohari Abeyesekera</b>	Independent Non-Executive Director - National Savings Bank

## 6.4 Directors' Interests

### 6.4.1 Directors' Direct and Indirect Shareholdings in the Company

Mr. D V Herath, Chairman and CEO holds 131,304,360 Ordinary Voting Shares representing 100% of the Shareholding of Kapruka Holdings Limited.

No other Directors have interest in Shares of the Company.

### 6.4.2 Sale or Purchase of Shares by the Directors

There were no sales, transfers or purchases of shares made by the Directors of the Company during the last 12 months prior to the date of this Prospectus.

### 6.4.3 Directors' Interest in Assets

The Company acquired the below entities from Mr D V Herath, Chairman & CEO and Mrs. A Herath on 13<sup>th</sup> October 2021.

TABLE 6-3 : DIRECTORS' INTEREST IN ASSETS ACQUIRED

<i>Name of the entity acquired</i>	<i>Name of the Director who sold shares</i>	<i>Date of share transfer</i>	<i>Total consideration paid by Kapruka Holdings Limited (LKR)</i>	<i>No of shares purchased</i>
Kapruka Techroot (Pvt) Limited	D V Herath	13 <sup>th</sup> October 2021	10	01
Kapruka Techroot (Pvt) Limited	A Herath	13 <sup>th</sup> October 2021	10	01
Kapruka Productions (Pvt) Limited	D V Herath	13 <sup>th</sup> October 2021	5,370,000	10,000
Kapruka Global Shop (Pvt) Limited	D V Herath	13 <sup>th</sup> October 2021	10	10
Kapruka Global Shop (Pvt) Limited	A Herath	13 <sup>th</sup> October 2021	10	10

There is no other interest in assets acquired, disposed of or leased by the Company during the two years preceding the date of this Prospectus. Furthermore, it is not proposed that the Directors will hold any interest in assets to be acquired, disposed of or leased by the Company in the two years subsequent to the IPO.

### 6.4.4 Directors' Interest in Material Contracts

There are no contracts or arrangements in force as at the date of this Prospectus in which the Directors of the Company are materially interested in relation to the business of the Company.

### 6.4.5 Statement - Board of Directors

No Director or a person nominated to become a Director of the Company is or was involved in any of the following events:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

## **6.5 Corporate Governance Practices**

Corporate Governance involves the methods and systems through which companies are primarily directed and controlled, whereby the composition, role and remuneration of the board of directors, shareholder relations, accountability and audit are the main components. As per the corporate governance principles adopted in Sri Lanka, the company should be headed by an effective board of directors who should direct, lead and control the company. In light of this, the board of directors of Kapruka Holdings Ltd was reconstituted in October 2021 with the appointment of Independent Non-Executive Directors with the relevant professional expertise as well as to include the board sub committees to be in line with the requirements of the CSE Listing Rules.

The following board subcommittees are in place to support the governance of the Company;

1. Audit Committee
2. Related Party Transaction Review Committee
3. Remuneration Committee

### **6.5.1 Audit Committee**

The audit committee constitutes the following directors;

- Mr. T Subasinghe – Chairman (Independent Non-Executive Director)
- Mrs. Manohari Abeyesekera – Member (Independent Non-Executive Director)

The audit committee has been formed with the following terms of reference;

- Overseeing the preparation, presentation and adequacy of disclosures in the financial statements in accordance with the Sri Lanka Accounting Standards.
- Overseeing of the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.
- Overseeing the processes to ensure that the Company's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards.
- Assessment of the independence and performance of the external auditors.
- To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.

The committee meets regularly and adequately throughout the financial year to discharge its duties.

### **6.5.2 Related Party Transaction Review Committee**

The Related Party Transaction Review Committee constitutes the following directors;

- Mrs. Manohari Abeyesekera – Chairperson (Independent Non-Executive Director)
- Mrs. A Herath – Member (Non-Independent Non-Executive Director)

The purpose of the Committee is to review all proposed related party transactions other than those transactions explicitly exempted in the CSE Listing Rules. Accordingly, except for transactions mentioned under Rule 9.5 of the CSE Listing Rules, all other related party transactions require review by the Committee either prior to entering into a transaction or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

The scope of the Committee includes the following;

- Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures.
- Reviewing in advance all proposed related party transactions of the Company except those explicitly exempted by the Rule 9.5 of the CSE Listing Rules.
- Determining whether related party transactions to be entered into by the Company require Board or shareholder approval.
- Establishing a set of guidelines as explained in the CSE Listing Rules where related party transactions are “recurrent in nature”, for the senior management to follow in their continuing dealings with the relevant related party.
- Ensuring that no Director of the Company participates in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the related party transaction to the Committee.
- If there is any potential conflict in any related party transaction, the Committee may recommend the creation of a special committee (including an independent consultant if necessary) to review and approve the proposed related party transaction.
- Ensuring that immediate market and Annual Report disclosures are made in a timely and detailed manner as required by the CSE Listing Rules.

The committee meets at minimum on a quarterly basis.

### **6.5.3 Remuneration Committee**

The remuneration committee constitutes the following directors;

- Mrs. D. P. Pieris – Chairperson (Independent Non-Executive Director)
- Mr. T Subasinghe – Member (Independent Non-Executive Director)

The scope of the Committee includes the following;

- Recommending and approving total remuneration package and incentivisation packages of the executive directors including the managing director.
- Considering and recommending to the board, the broad policy for the remuneration and incentivisation package of Executive Directors and Key Corporate Management.
- Reviewing Company’s remuneration practices and policies to ensure fairness in directors’ remuneration.
- Determining the policy for the terms of employment of the executive Directors.
- Monitoring the performance conditions subject to which any long-term incentive awards may be granted under the schemes adopted by the Company and approving grant of long term incentive awards, such as share appreciation rights and performance shares for Executive Directors and Key Corporate Management.
- Reviewing the design of all share incentive schemes.
- Bearing the responsibility for selecting and appointing any remuneration consultants who advises the committee.

## 6.6 Corporate Management

The key management personnel set out below are employees of the Company and are responsible for managing the affairs of Kapruka Holdings Limited according to the key responsibilities allocated to each individual.

### **Mr. Suresh Eranda - General Manager**

Suresh has over 11 years of experience in leadership, e-commerce functions, sales & marketing, brand management. He has gained this tacit knowledge at Kapruka by joining as a junior executive and climbing his way all the way to the top management. He has also played an instrumental role in engineering the unique work culture of Kapruka where there is a good mix of blue and white collar staff working hand in hand.

He holds a Higher National Diploma in Brand Management from Sri Lanka Institute of Marketing. Suresh has also completed the intermediate level of Chartered Accountants program.

### **Ms. Gayathri Banneheka - Chief Technology Officer**

Gayathri has over 6 years of experience in Software engineering, E-Commerce technologies, Data modeling and database design, ERP systems, IT security and Project management. She spearheads all the technology teams at Kapruka. Tech Root Pvt Ltd (fully owned subsidiary of Kapruka Holdings) is now a brain child of Gayatri and provides technology services to all subsidiaries of Kapruka Holdings.

Gayathri holds a PGD in IT from British Computer society, BSc(Hons) Software engineering from Anglia Ruskin University, Master of Business Administration from Cardiff Metropolitan University. She is also an associate member of the British Computer Society.

### **Mr. Manjula Kumara – Head of Internal Audit**

Manjula has over 10 years' of experience as an accountant and an internal auditor in Kapruka. In addition to strong audit skills, he possesses tacit knowledge gained at Kapruka on cross border export and import operations and regulations.

He holds a BSc Management (Special) Degree from University of Sri Jayawardenepura. Manjula is also a member (lifetime) of the Association of Accounting Technicians of Sri Lanka and have completed the intermediate level of Sri Lanka Chartered Accountants programme.

### **Mr. Thilina Chathuranga - Senior Manager – Finance**

Thilina is a professional with over 7 years of experience in financial planning, accounting & financial reporting, strategic decision making & Internal auditing in the field of financial services, retail & manufacturing sectors. He holds a BSc Finance (Special) Degree with Second-Upper Class honours from the University of Sri Jayawardenepura. He is also an Associate member of Chartered Accountants of Sri Lanka.

### **Mr. Dinesh Gamlath - Manager – FMCG**

Dinesh has over 20 years of experience in handling store related functions. He holds a Certificate in Management from Brandix College.

### **Mr. Joseph Miranda - Manager - Human Resources**

Joseph has over 8 years of experience in handling human resources and administration functions. He holds a Bachelor of Business Administration from Staffordshire University, UK and an Executive MSc in Strategic Marketing & Management from the Asia e University, Malaysia. Joseph has completed a Diploma in Business Administration from Asia Pacific Institute of Information Technology. He is a Fellow Member of Chartered institute of Marketing, UK.

**Ms. Thanura Kalehewaththa - Deputy Manager Finance**

Thanura is a finance professional with over 15 years of experience. She holds a BSc Management (Special) Degree from the University of Sabaragamuwa. Thanura also holds the full qualification from the Association of Accounting Technicians of Sri Lanka and has completed the intermediate level of Chartered Accountants programme.

**6.7 Statement – Chairman and CEO**

The Chairman and CEO of the Company has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

## 7. CAPITAL STRUCTURE

As at the date of this Prospectus, the Stated Capital of the Company is LKR 272,500,028 comprising of 131,304,360 fully paid-up Ordinary Voting Shares. The Company proposes to raise LKR 505,520,400 by issuing 32,826,000 Ordinary Voting Shares through an Initial Public Offering. As such, the Company will have a stated capital of LKR 778,020,428 comprising of 164,130,360 Ordinary Voting Shares post-IPO.

### 7.1 An Overview of the Capital Structure

The detailed breakdown of the Stated Capital of Kapruka Holdings Limited is given below.

TABLE 7-1 : STATED CAPITAL OF KAPRUKA HOLDINGS LIMITED

	<b>01<sup>st</sup> Nov 2021</b>	<b>31<sup>st</sup> Mar 2021</b>	<b>31<sup>st</sup> Mar 2020</b>	<b>31<sup>st</sup> Mar 2019</b>	<b>31<sup>st</sup> Mar 2018</b>
Stated Capital (LKR)	272,500,028	272,500,028	5,000,000	5,000,000	5,000,000
Number of Ordinary Voting Shares in Issue	131,304,360	4,376,812	500,000	500,000	500,000

A subdivision of shares was carried out on 31<sup>st</sup> October 2021 where one share was split into 30 shares. Prior to subdivision of shares, the cost per share (i.e. stated capital divided by number of shares) was LKR 62.26 to the existing shareholder. Post sub division the cost per share is LKR 2.07 to the existing shareholder.

There were no redemptions or repurchases during the two-year period immediately preceding the date of this Prospectus (14<sup>th</sup> December, 2021) in terms of Sections 63, 64, 66, 67, 68, 69, 93 and 100 of the Companies Act and of any reduction of Stated Capital in terms of Section 59 of the Companies Act.

There are no statutory restrictions on the free transferability of the Ordinary Voting Shares of the Company.

Given below are the changes in the Stated Capital during the past 02 years.

TABLE 7-2 : CHANGES IN THE STATED CAPITAL

	<b>Date of change</b>	<b>Consideration per share (LKR)</b>	<b>No of shares</b>	<b>Stated capital after the change (LKR)</b>
Balance as at 01 <sup>st</sup> November 2021			131,304,360	272,500,028
Share split (1 share split to 30)	31 <sup>st</sup> October 2021		131,304,360	272,500,028
Balance as at 31 <sup>st</sup> March 2021			4,376,812	272,500,028
Issue of shares to Mr. Dulith Herath	16 <sup>th</sup> October 2020	69	3,876,812	272,500,028
Balance as at 31 <sup>st</sup> March 2020			500,000	5,000,000
Balance as at 31 <sup>st</sup> March 2019			500,000	5,000,000

## 7.2 Shareholding Structure Pre and Post IPO

The current and the post IPO shareholding structures are as shown below.

TABLE 7-3 : SHAREHOLDING STRUCTURE - PRE AND POST IPO

<i>Name</i>	<i>Pre IPO</i>		<i>Post IPO</i>	
	<b>No. of Ordinary Voting Shares</b>	<b>%</b>	<b>No. of Ordinary Voting Shares</b>	<b>%</b>
Existing Shareholder – Mr. Dulith Herath	131,304,360	100%	131,304,360	80%
IPO Shareholders	NA	0%	32,826,000	20%
<b>Total</b>	<b>131,304,360</b>	<b>100%</b>	<b>164,130,360</b>	<b>100%</b>

In terms of CSE Listing Rule 2.1.1(d)(i), shares held by Non-Public Shareholders, namely the 131,304,360 Ordinary Voting Shares, held by Mr. Dulith Herath as shown in Table below, would be subject to a ‘lock-in’ for a period of six (06) months from the date of listing of Shares. As such these shares would not be available for secondary market trading on the CSE upon the Company obtaining listing of its shares subsequent to the IPO contemplated via this Prospectus until the expiry of the aforesaid six (06) month period from the respective date of listing.

Shares held by Public Shareholders prior to the date of the listing application shall not be locked-in. However, the Company does not have any public shareholders as of the date of this Prospectus.

There were no share allotments or share transfers during the period of twelve (12) months immediately preceding the date of the Initial Listing Application.

Pre-IPO Public Holding of the Ordinary Voting Shares is 0%. (Shares held by the ‘Public’ as a percentage of the total Pre-IPO number of Ordinary Voting Shares, as per the ‘Public’ definition provided in the, CSE Listing Rules 2.1.1)

TABLE 7-4 : SHARES LOCKED IN – POST-IPO

<i>Category of Shareholders (Post-Listing)</i>	<i>Locked-in Ordinary Voting Shares</i>	<i>The months after which the Ordinary Voting Shares will be Available for Trading</i>	<i>No. of Ordinary Voting Shares</i>	<i>No. of Ordinary Voting Shares as a percentage of Total Number of Ordinary Voting Shares in Issue (Pre-Listing)</i>
Non-Public	Locked-in	6 months from the date of listing	131,304,360	80%
Public	Not Locked-in	-	32,826,000	20%
<b>Total</b>			<b>164,130,360</b>	<b>100%</b>

*\*‘Public’ defined under the definition mentioned in CSE Listing Rules 2.1.1*

The Company hereby confirms that the information furnished herewith shall remain unchanged to the date of listing.

### 7.3 Free Transferability of Shares

In accordance with CSE Listing Rule 2.1.1(d):

- All Shares held by '**Non-Public Shareholders**'\* prior to the date of the Initial Listing Application shall be locked-in for a period of **six (06) months** from the date of listing of the Company.

*\* Non-Public Shareholders, shall mean the following parties who hold, directly or indirectly, shares of the Company;*

- a) *its parent, any subsidiary or associate companies or any subsidiaries or associates of its parent company,*
- b) *its Directors who are holding office as Directors of the entity and their close family members,*
- c) *Chief Executive Officer and his/her close family members,*
- d) *Key Management Personnel and their close family members,*
- e) *Any party acting in concert with the parties set out in a), b), c) and d) above,*
- f) *Shareholders whose shares are in a locked account with the CDS due to a statutory or regulatory requirement other than those shareholders exempted under (h) below and whose shares have been subject to a voluntary lock-in at the option of the shareholder,*
- g) *Employees of the Company, who have been allotted shares of a Listed Entity which are directly or indirectly controlled by the management or the majority shareholder of the Company,*
- h) *Any Entity or an individual or individuals jointly or severally holding 5% or more of the shares of the Listed Entity if the Company is a Main Board Entity and 10% or more of the shares if the Company is a Main Board Entity, except where such shareholder is;*
  - i. *a statutory institution managing funds belonging to contributors or applicants who are members of the public; or*
  - ii. *an entity established as a unit trust or any other investment fund approved by the SEC; or*
  - iii. *not a related party declared in terms of Sri Lanka Accounting Standards or a party acting in concert declared in terms of the Company Takeovers and Mergers Code.*

*'Close Family Member' shall mean the spouse or a financially dependent child.*

*'Key Management Personnel' shall mean those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.*

*\*\* Public Shareholders shall mean any party who hold Shares of the Company other than the parties identified as 'Non-Public Shareholders' abovementioned.*

The details of the lock-in periods for the shares are mentioned in Table 7-4 above and the shares that will be subject to a lock-in will not be available for trading.

### 7.4 Other Securities

The Company has not issued any convertible debt securities, preference shares or any other class of shares other than the shares stated above. Further, there are no securities of the same or other class subscribed or sold privately in conjunction with this IPO.

## 8. FINANCIAL SUMMARY AND DISCUSSION

### 8.1 Summarised Income Statement

TABLE 8-1 : SUMMARISED INCOME STATEMENTS

<i>(LKR Mn)</i> <i>For the year ended 31st March</i>	<i>FY 2019</i> <i>(Audited)</i>	<i>FY 2020</i> <i>(Audited)</i>	<i>FY 2021</i> <i>(Audited)</i>	<i>7M FY22 (Apr-Oct 2021)</i> <i>(Unaudited)</i>	
				<b>Group</b>	<b>Company</b>
Revenue	652.33	730.16	968.04	1,010.25	1,010.25
Cost of sales	(449.98)	(492.77)	(614.50)	(559.36)	(559.36)
<b>Gross Profit</b>	<b>202.34</b>	<b>237.39</b>	<b>353.55</b>	450.89	450.89
Other Income and Gain	56.40	18.13	14.24	25.07	25.07
Administrative Expenses	(103.99)	(96.39)	(123.00)	(131.23)	(131.23)
Selling and Distribution Expenses	(151.96)	(155.50)	(174.58)	(165.41)	(165.41)
<b>Operating Profit</b>	<b>2.79</b>	<b>3.64</b>	<b>70.21</b>	179.31	179.31
Finance Cost	(4.03)	(1.86)	(1.78)	(2.10)	(2.10)
<b>Profit /Loss Before tax</b>	<b>(1.24)</b>	<b>1.79</b>	<b>68.43</b>	177.21	177.21
Income Tax Expenses/Reversal	(38.12)	20.25	(24.14)	(44.70)	(44.70)
<b>Profit /Loss for the year</b>	<b>(39.36)</b>	<b>22.04</b>	<b>44.29</b>	132.51	132.51

The financial statements up to FY2021 (years ending March 31<sup>st</sup> 2021 and prior) are prepared as standalone company prior to restructuring. The 7M FY22 reflect the financial statements post restructuring for Group and Company separately. Please refer Annex C for interim financial statements for October 2021 and Limited Review by the Auditors. Kapruka E-commerce (Pvt) Limited was a newly incorporated entity and will carry forward the business operations that were previously conducted under Kapruka Holdings Limited which is now being Listed as mentioned in Section 5.3.

In the financial year ended March 2021, the Company's operations were temporarily disrupted by the sudden lockdowns that were imposed due to the Covid pandemic, which resulted in lower revenues and profitability. In the current post pandemic situation, sales orders have risen significantly compared to the previous year as e-commerce adoption has increased and more people are regularly ordering online than in the past. Further, the Company scaled up cross border operations this year, which contributed to increased sales and profitability. The Company is also benefitting from currency conversion on the orders placed by foreign expat customers. Administrative and distribution costs have increased with the higher volume of sales as the Company incurs additional expenditure on order fulfillment, such as labor, packaging, transport and other related costs.

## 8.2 Summarised Balance Sheet

TABLE 8-2 : SUMMARISED BALANCE SHEETS

<i>(LKR Mn)</i> <i>As at 31st March</i>	<i>FY 2019</i> <i>(Audited)</i>	<i>FY 2020</i> <i>(Audited)</i>	<i>FY 2021</i> <i>(Audited)</i>	<i>7M FY22 (Apr-Oct 2021)</i> <i>(Unaudited)</i>	
				<b>Group</b>	<b>Company</b>
Property plant and Equipment	416.97	455.01	521.14	535.91	525.58
Total Non current assets	434.37	485.02	552.63	609.21	975.14
Total current assets	289.40	397.48	348.05	587.53	164.98
Total assets	723.78	882.50	900.67	1,196.74	1,140.12
Total Equity	154.16	183.98	512.98	648.49	645.49
Total Non current liabilities	188.50	201.93	200.25	270.59	200.25
Total current liabilities	381.12	496.60	187.44	277.65	264.36
Total Equity and liabilities	723.78	882.50	900.67	1,196.74	1,140.12

## 8.3 Summarised Cash flow statement

TABLE 8-3 : SUMMARISED CASH FLOW STATEMENT

<i>(LKR Mn)</i> <i>As at 31st March</i>	<i>FY 2019</i> <i>(Audited)</i>	<i>FY 2020</i> <i>(Audited)</i>	<i>FY 2021</i> <i>(Audited)</i>	<i>7M FY22 (Apr-Oct 2021)</i> <i>(Unaudited)</i>	
				<b>Group</b>	<b>Company</b>
Net profit before tax	(1)	(9)	68	177.21	177.21
Operating profit/loss before working capital	24	28	96	170.40	170.40
Net Cash flow from operations	14	96	(41)	(12.12)	(12.12)
Net Cash flow from investing activities	(88)	(75)	(64)	(26.01)	(77.70)
Net Cash flow from financing activities	87	39	39	(6.93)	(6.93)
Net Increase /Decrease in Cash and Cash Equivalents	26	73	(56)	(25.03)	(76.72)
Cash And Cash Equivalents At the Beginning Of the Year	7	32	114	57.76	57.76
Cash And Cash Equivalents At the End Of the Year	32	106	58	(32.72)	(18.96)

#### 8.4 Key Group Company financials

Below are the details of key Group Companies as of March 31<sup>st</sup> 2021 (Audited)

TABLE 8-4 : KEY GROUP COMPANY FINANCIALS

<i>Company Name (Figures are in LKR Mn)</i>	<i>Kapruka Holdings Limited</i>	<i>Kapruka E-Commerce (Pvt) Limited</i>	<i>Kapruka Techroot (Pvt) Ltd</i>	<i>Kapruka Productions (Pvt) Ltd</i>	<i>Kapruka Global Shop (Pvt) Ltd</i>
Revenues	968	NA	6.2	109	94
Gross profit	354	NA	(1.7)	16	2
Net income	44	NA	(2.8)	(0.5)	(3)
Total assets	901	NA	1.5	23	31
Total equity	513	NA	(5.4)	5.3	(8)

Summarised Balance Sheet for Kapruka E-commerce (Pvt) Limited for 31<sup>st</sup> October 2021 is shown below.

TABLE 8-5 : KAPRUKA E-COMMERCE (PVT) LIMITED SUMMARISED BALANCE SHEET AS AT 31<sup>ST</sup> OCTOBER 2021

<i>(LKR Mn) As at 31st October 2021</i>	
Property plant and Equipment	3.7
Total Non current assets	10.7
Total current assets	446.67
Total assets	461.0
Total Equity	399.2
Total Non current liabilities	12.4
Total current liabilities	49.3
Total Equity and liabilities	461.0

## 8.5 Comparison of key ratios with peers

Kapruka does not have any listed peers locally. Yet, Kapruka has recorded strong profitability compared to its international peer averages.

TABLE 8-6 : KEY RATIOS AGAINST PEERS

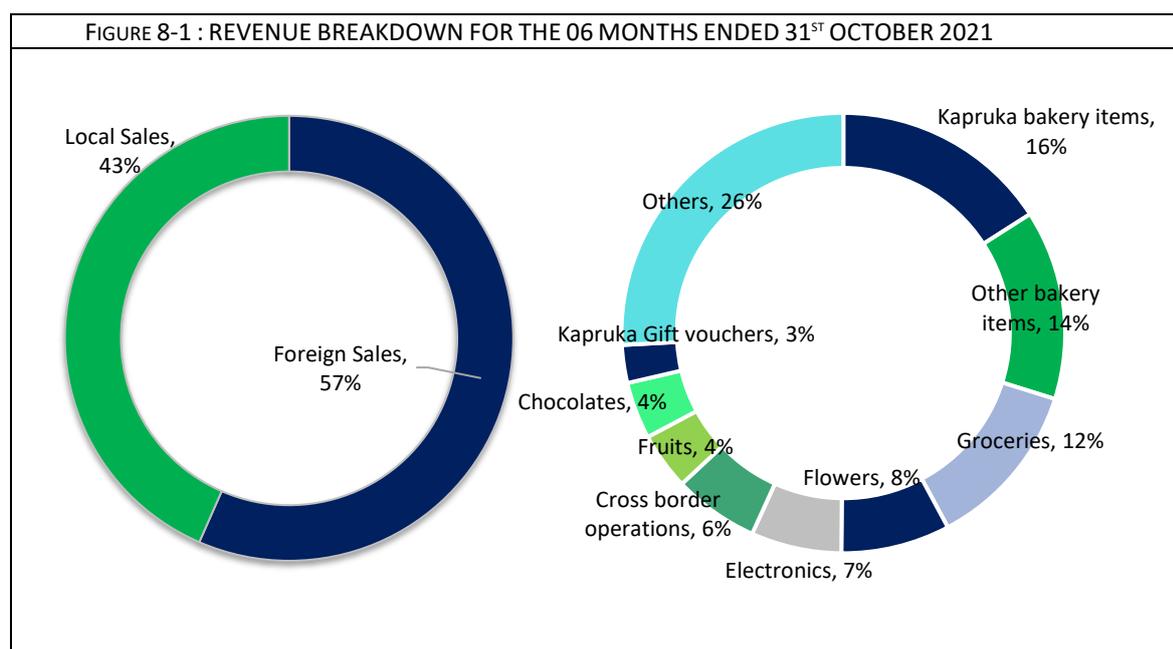
<i>Company Name</i>	<i>Category</i>	<i>Revenue growth</i>	<i>GP margin</i>	<i>EBITDA margin</i>	<i>EBIT margin</i>	<i>Net margin</i>	<i>ROE</i>
<b>Kapruka Holdings<sup>10</sup> (7MFY22)</b>		<b>118.8%</b>	<b>45.0%</b>	<b>19.3%</b>	<b>17.7%</b>	<b>13.1%</b>	<b>35.0%</b>
Peer Average (TTM)		33.2%	49.7%	9.6%	4.9%	11.9%	29.9%
<b>International Peers</b>							
Alibaba Group Holdings	E-commerce/Cloud services	40.7%	39.7%	20.1%	12.5%	17.3%	16.6%
Amazon.com Inc	E-commerce/Cloud services	30.0%	43.2%	13.8%	5.9%	6.9%	31.2%
<b>Average</b>		<b>37.5%</b>	<b>41.5%</b>	<b>17.0%</b>	<b>9.2%</b>	<b>12.1%</b>	<b>23.9%</b>
Mercadolibre Inc	E-commerce	53.5%	44.3%	6.9%	3.2%	4.3%	-0.1%
Sea Ltd	E-commerce/gaming	90.8%	40.8%	-24.0%	-29.8%	-18.6%	-81.5%
JD.com Inc	E-commerce	31.2%	12.5%	3.1%	1.7%	1.0%	20.6%
58.com Inc	E-commerce	36.4%	87.9%	21.9%	18.3%	80.3%	33.2%
Groupon Inc	E-commerce	-18.1%	72.9%	-11.5%	-19.6%	2.7%	10.2%
Vipshop Holdings Ltd	E-commerce	17.1%	20.1%	7.3%	5.8%	4.4%	23.2%
Wayfair Inc	E-commerce	37.4%	29.2%	5.7%	2.5%	3.4%	-
<b>Average</b>		<b>35.5%</b>	<b>44.0%</b>	<b>1.4%</b>	<b>-2.6%</b>	<b>11.1%</b>	<b>0.9%</b>
Ebay Inc	Marketplace	3.7%	74.8%	34.1%	26.4%	24.1%	161.9%
Etsy Inc	Marketplace	44.0%	71.8%	28.3%	24.6%	20.1%	91.4%
<b>Average</b>		<b>23.8%</b>	<b>73.3%</b>	<b>31.2%</b>	<b>25.5%</b>	<b>22.1%</b>	<b>126.7%</b>
Baozun Inc	E-commerce Services	26.9%	64.6%	10.1%	6.3%	4.0%	-

Source: Seeking Alpha<sup>11</sup>, extracted on 01<sup>st</sup> November 2021.

<sup>10</sup> Calculations are performed by Acuity in line with industry practice as per <https://www.wallstreetmojo.com/profitability-ratios-formula/> and <https://www.investopedia.com/ask/answers/070914/how-do-you-calculate-return-equity-roe.asp> accessed on 29<sup>th</sup> October 2021. The formula has been relied from the said sources for the calculations.

<sup>11</sup> Source: <https://seekingalpha.com/> accessed on 01<sup>st</sup> November 2021

## 8.6 Revenue breakdown



Source: Kapruka Management Information

## 8.7 Key ratios

TABLE 8-7 : KEY RATIOS OF KAPRUKA

	FY2019	FY2020	FY2021	7M FY22 (Apr-Oct 2021)	
				Group	Company
<b>Growth rates (YoY)</b>					
Revenue growth	10%	12%	33%	119%	119%
EBIT growth	-73%	30%	1828%	2136%	2136%
EBITDA growth	3%	4%	107%	678%	678%
Net income growth	-685%	156%	101%	12956%	12956%
<b>Profitability ratios</b>					
GP margin	31%	33%	37%	45%	45%
EBIT margin	0%	0%	7%	18%	18%
EBITDA margin	6%	6%	9%	19%	19%
Net margin	-6%	3%	5%	13%	13%
ROE	-26%	12%	9%	35%	35%
<b>Other ratios</b>					
Debt/ Debt + Equity	44%	46%	30%	25%	24%
Interest cover (x)	1	2	39	85	85
Current assets/ Current liabilities (x)	1	1	2	2	1
Intangible assets/ Total assets(x)	0.003	0.003	0.002	0.002	0.002

Source: Acuity estimates based on Kapruka audited and interim financial statements<sup>12</sup>

<sup>12</sup> Calculations are performed by Acuity in line with industry practice as outlined in <https://www.wallstreetmojo.com/profitability-ratios-formula/> and <https://www.investopedia.com/ask/answers/070914/how-do-you-calculate-return-equity-roe.asp>, <https://corporatefinanceinstitute.com/resources/knowledge/finance/financial-ratios/> accessed on 29<sup>th</sup> October 2021. The formula has been relied upon for the calculations

## 8.8 Dividend Policy

The Company may, subject to the provisions of the Articles of Association and the Companies Act No. 07 of 2007, make dividend payments by way of interim and final dividends to its shareholders in relation to the profits made from time to time. The Company believes that it can earn returns exceeding its cost of capital by deploying retained earnings into its business and future projects. In the event that it could not generate sufficient returns on capital deployed exceeding its cost of capital to the shareholders, the Company may pay a dividend out of the distributable profits to the shareholders of the Company, in respect of each financial year as determined by the Board of Directors subject to;

- The solvency requirements of the Companies Act No. 07 of 2007, and
- Cash flow position of the Company, return from operations, business prospects, current and expected obligations, funding needs for growth opportunities, maintenance of a strong capital structure and any other factor which the Board of Directors may deem relevant

The Company may consider payment of cash or script dividends as deemed appropriate.

## 8.9 Working Capital

The Board is of the opinion that the working capital is sufficient for the purpose of carrying out day to day operations of the Company.

## 8.10 Taxation

The Company paid a corporate tax rate of 24% for the financial year ended 31<sup>st</sup> March 2021. If the Company is able to obtain a listing on the Colombo Stock Exchange prior to 31<sup>st</sup> December 2021, the Company will receive a tax concession of 50% for the first year after listing on the Colombo Stock Exchange. Thereafter the Company will continue to pay a corporate tax rate of 14% for 3 years. If the Company is unable to list prior to 31<sup>st</sup> December 2021 and is not eligible for the said tax concession, the Company will continue to pay its corporate tax rate of 24%.

## 8.11 Waiver of Rule 2.1.2.(i) (b) of the CSE Listing Rules

The Company does not comply with the Listing Rule 2.1.2 (i) (b) to the extent where it should provide Audited Consolidated Financial Statements to assess listing requirements.

As at 31 March 2021, at which point the last Audited Accounts are available, the Company was a standalone entity engaged in the business of providing ecommerce services in Sri Lanka and foreign markets. The Company restructured its operations in October 2021 to bring in certain related companies under its umbrella and to convert its operations into a holding entity going forward. The Company effectively became a Group in October 2021. The details of the restructuring are provided in Section 5.3 of this Prospectus. In this connection, it is evident that the audited financial statements of the company for the year ended 31st March 2021 and the interim financial statements as at 30th September 2021 could not have been prepared on a consolidated basis, as required by the relevant Listing Rule since the company was not a parent entity as at such date.

In light of the said Group restructuring, and the unavailability of Audited Consolidated Financial Statements the Company has requested for a waiver of Listing Rule 2.1.2 (i) (b).

In order to provide the investing public a reasonable and an accurate description of the current financial position of the company, CSE in consultation with the SEC granted a waiver of Rule 2.1.2 (i) (b) of the

CSE Listing Rules to the company, to the extent of the 'definition' pertaining to audited financial statements, as set out in the Listing Rules, provided the company adheres to the following

- I. The company submitting to the CSE gap analyses in respect of the 3 subsidiaries acquired in October 2021, as such subsidiaries have prepared their respective audited financial statements (AFS) in compliance with SLFRSs for SMEs over the adaptation of LKASs prepared by the independent auditors of the company. The Audited Financial Statements of the subsidiaries and the respective Gap analyses are in Annexure B of this Prospectus.
- II. The company submitting to the CSE the unaudited consolidated financial statements as at 31st October 2021, together with a limited review prepared by the independent auditors of the company in respect of such consolidated financial statements. The said interim consolidated financial statements together with the Limited Review are in Annexure C of this Prospectus.
- III. The said items under (i) to (ii) above being attached to the Prospectus which the Company has complied with
- IV. The company making the required disclosures in the Prospectus by means of a summarized versions of the income statement, statement of financial position and statement of cash flows of the company for the year ended 31st March 2021 as a standalone company compared with the consolidated financial statements as at 31st October 2021 as a parent entity, for the information of prospective investors along with other disclosures pertaining the pre and post parent entity structure of the company graphically illustrated. The company has made the said disclosure in Section 8.1, 0, 8.3 and 5.3 of this Prospectus.

Further to obtaining the said waiver, the Company was required to demonstrate its ability to meet the below criteria as set out in Listing Rule 2.1.2 (i) (b). Accordingly, the Group had duly demonstrated its ability to meet the applicable criteria under the Listing Rule 2.1.2 (i) (b) I to the CSE. The Group recorded a net profit after tax of LKR 132.5Mn and a net asset value of LKR 648.48Mn as of the consolidated Limited Review as at 31<sup>st</sup> October 2021”

## **8.12 Other financial information**

### **Borrowing cost**

The Company started the construction of a new building in January 2019. A loan has been taken from Union Bank for the construction of the said building located at Mirihana. Parties to this loan arrangement are Kapruka Holdings Limited, Union Bank PLC and RN Constructions. The details of this borrowing cost are included in Note E to the Audited financial statements of Kapruka Holdings Limited (previously Kapruka Dot Com (Pvt) Limited) in Annexure B of this Prospectus.

### **Assets pledged**

The Company has pledged a land with a carrying amount of LKR 41Mn against two loans from Union Bank PLC and a savings account amounting to LKR 8.3Mn against a Covid loan from Nations Trust Bank PLC. The details are given in Note 26 to the Audited financial statements of Kapruka Holdings Limited (previously Kapruka Dot Com (Pvt) Limited) in Annexure B of this Prospectus.

### **Related party transactions**

The details of the related party transactions are given in Note 27 to the Audited financial statements of Kapruka Holdings Limited (previously Kapruka Dot Com (Pvt) Limited) in Annexure B of this Prospectus. As of 31<sup>st</sup> March 2021, the amounts due from related parties was LKR 138Mn and amounts due to related parties was LKR 301Mn.

**Non quoted investments**

The Company has invested in non-quoted investments in convertible preference shares of Grasshoppers (Pvt) Limited as stated in Note 7 to the Audited financial statements of Kapruka Holdings Limited (previously Kapruka Dot Com (Pvt) Limited) in Annexure B of this Prospectus.

**Payables to Kapruka Goodwill Foundation**

Payable balance to Kapruka Goodwill Foundation consists donations by customers to Goodwill Foundation via Kapruka platform. Those money are collected by Kapruka and are paid to Goodwill Foundation.

**Kapruka LLC**

Kapruka LLC is a single-member entity, incorporated in the State of Kentucky, United States. Mr. Dulith Herath is the single member. Kapruka LLC assigned the loan receivables from Kapruka Holdings Limited to Mr. Dulith Herath, their sole shareholder.

## **9. OTHER MATERIAL INFORMATION**

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### **9.1 Litigation, Disputes and Contingent Liabilities**

There are no litigations or disputes and there are no contingent liabilities of the Company as at the date of this Prospectus.

### **9.2 Management Agreements**

There are no management agreements presently in force or currently being considered by the Company,

### **9.3 Material Contracts**

There are no material contracts entered into by the Company other than those contracts entered into in the ordinary course of business.

### **9.4 Details of Commissions Paid**

No commission has been paid in the two (02) years preceding the Issue or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any Shares of the Company.

### **9.5 Details of Benefits Paid to Promoters**

No benefit has been paid or given within the two (02) years preceding the Issue and there are no benefits intended to be paid or given to any promoter.

### **9.6 Details of Transactions Relating to Property**

There were no transactions relating to a property of the Company completed within the two (02) preceding years in which any vendor of the property to the Company or any person who is or was at the time of the transaction, a Promoter or a Director or proposed Director of the Company had any interest, direct or indirect.

### **9.7 Details of Penalties Imposed by Regulatory and State Institutions**

There are no penalties imposed or payable by the Company as at the date of this Prospectus.

### **9.8 Takeover Offers**

There have been no takeover offers by third parties in respect of the Company's shares during the past two years. The details of the acquisitions by the Company are given in Sections 5.3 and 6.4.3. There have been no other acquisitions by the Company within the last two years other than those mentioned in the aforesaid Sections.

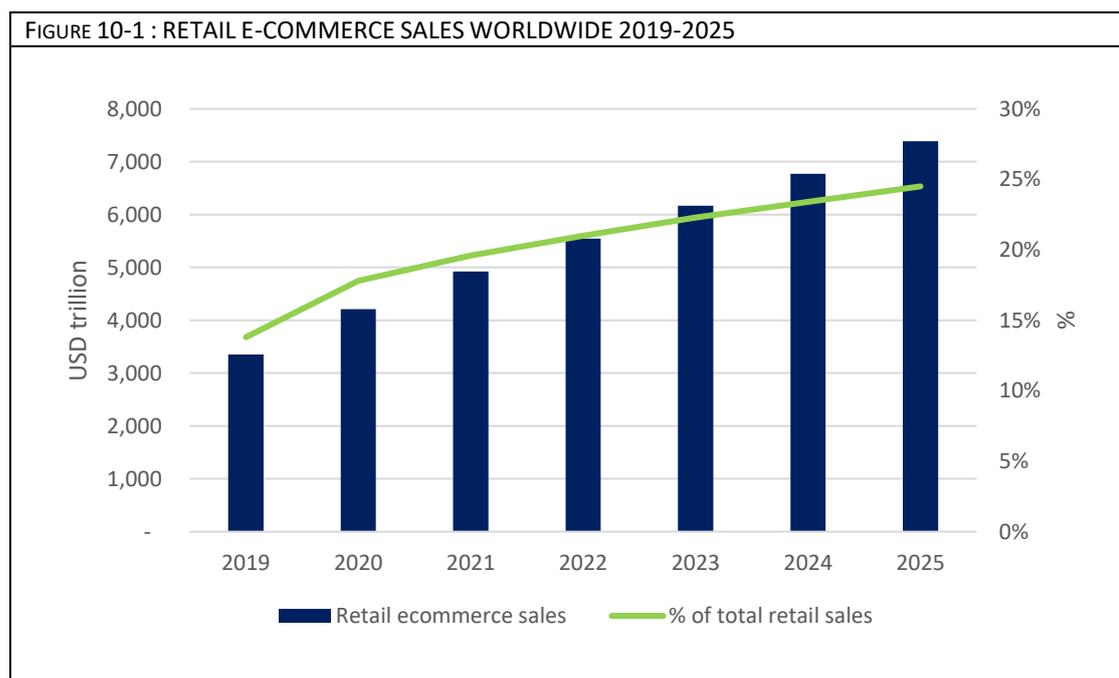
### **9.9 Licence**

The Company does not operate under a licence. The Company does not require any other approval from any other regulatory bodies apart from The Colombo Stock Exchange and the Securities and Exchange Commission to obtain a Listing.

## 10. E-COMMERCE SECTOR

### 10.1 Global E-commerce industry overview

E-commerce refers to selling of goods and services through online platforms. The global e-commerce space is dominated by giants such as Amazon, e-Bay, Alibaba. The global retail e-commerce market amounted to USD 4.2Tn in 2020 and has been growing at a CAGR of 21% per annum between 2014-2020 period (Source: Statista)<sup>13</sup>.



Note: Sales are in trillions of dollars

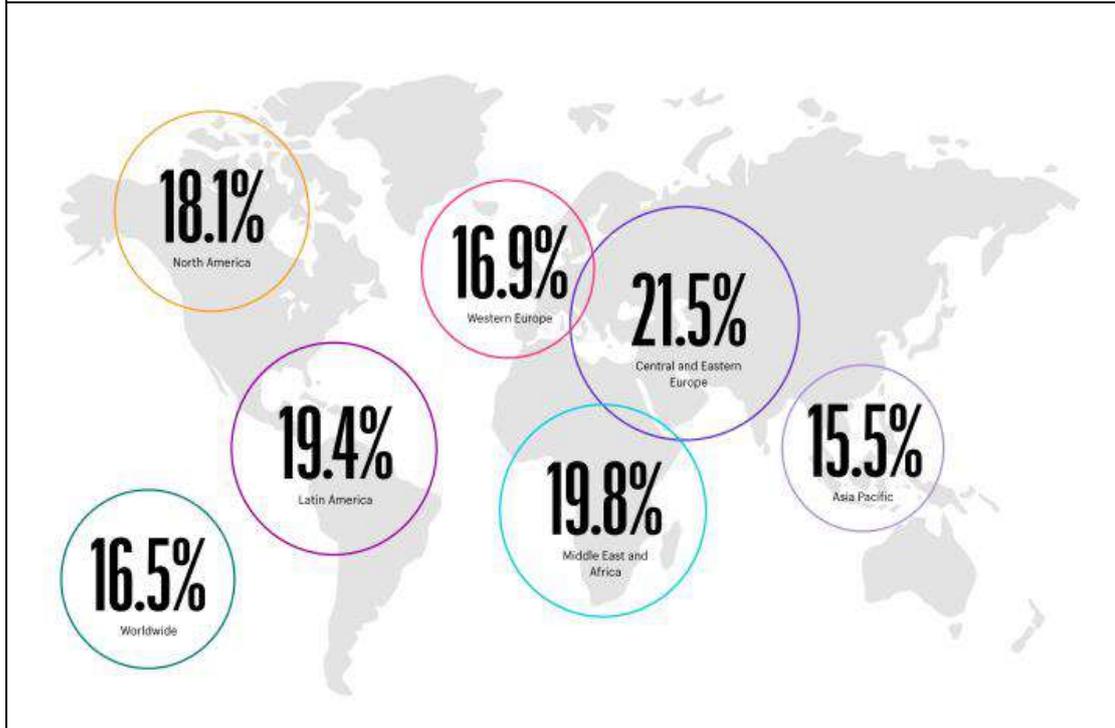
Source: eMarketer, May 2021

E-commerce sales skyrocketed in 2020 as consumers turned to their connected devices for their grocery, apparel, and home furnishing purchases during the covid-19 lockdowns. The convenience of e-commerce, combined with this change in consumer behaviour, reflects a stronger demand for online shopping, post-pandemic (Source: Shopify<sup>14</sup>).

<sup>13</sup> Web link: <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/> accessed on 01<sup>st</sup> November 2021

<sup>14</sup> Weblink: [https://enterprise.plus.shopify.com/rs/932-KRM-548/images/Shopify\\_Future\\_of\\_Commerce.pdf?utm\\_source=drift&utm\\_medium=content&utm\\_campaign=2020-12-future-ecommerce-report-2021](https://enterprise.plus.shopify.com/rs/932-KRM-548/images/Shopify_Future_of_Commerce.pdf?utm_source=drift&utm_medium=content&utm_campaign=2020-12-future-ecommerce-report-2021) accessed on 01<sup>st</sup> November 2021

FIGURE 10-2 : RETAIL E-COMMERCE SALES GROWTH WORLDWIDE BY REGION 2020



Source: Shopify<sup>15</sup>

### 10.1 Global e-commerce outlook post-pandemic

As countries locked down and retailers were forced to close, e-commerce reached an all-time high of 16.4% of total global retail sales. In addition to the Gen-Z and millennial population, the older generations has also moved to online shopping. According to a global survey across 11 markets by Shopify, 84% of consumers shopped online during the pandemic.

Lockdowns, travel bans, and retail closures forced the consumer online, and the world’s largest retailers soon followed, in some cases selling direct to consumer for the first time. Many new competitors were not equipped to compete on customer experience, a top differentiator online, giving an edge to brands with immersive omnichannel experiences. As legacy wholesalers go online and global retail giants like Walmart expand their e-commerce initiatives, the digital competition is heating up. Likewise, competitors in product categories not traditionally in demand online are also competing for e-commerce shoppers (Source: Shopify).

While a post-COVID-19 world is expected to recover more slowly than it did after the 2008–2009 global financial crisis, e-commerce is in an economic sweet spot as brands and consumers rush online. Nearly 150 million people shopped online for the first time in the pandemic, and the number of e-commerce buyers will only continue to rise (Source: Shopify). Tech-savvy consumers looking for quick, seamless purchasing options will continue to lean on e-commerce throughout the next few years—and more consumers will jump on the bandwagon. (Source: InsiderIntelligence<sup>16</sup>).

<sup>15</sup> Weblink: [https://enterprise.plus.shopify.com/rs/932-KRM-548/images/Shopify\\_Future\\_of\\_Commerce.pdf?utm\\_source=drift&utm\\_medium=content&utm\\_campaign=2020-12-future-e-commerce-report-2021](https://enterprise.plus.shopify.com/rs/932-KRM-548/images/Shopify_Future_of_Commerce.pdf?utm_source=drift&utm_medium=content&utm_campaign=2020-12-future-e-commerce-report-2021) accessed on 01<sup>st</sup> November 2021

<sup>16</sup> Weblink: <https://www.insiderintelligence.com/insights/ecommerce-industry-statistics/> accessed on 01<sup>st</sup> Nov 2021

## 10.2 Global market trends

Some of the growing trends in e-commerce are listed below

- I. Augmented Reality (AR) enhances the shopping experience.
- II. Artificial Intelligence (AI) plays an increasingly large role in improving user experience.
- III. Growing volume of voice search.
- IV. On-site personalization to create individualized experiences.
- V. Big data plays a big part in creating personalized experiences.
- VI. Chatbots improve the shopping experience.
- VII. Mobile shopping continuously growing.
- VIII. B2B market is growing.
- IX. Environmental Topics Influence Buyers.
- X. Customers respond to video/visual shopping is.

Source: bigcommerce.com<sup>17</sup>

## 10.3 Overview of the Sri Lankan e-commerce sector

Currently, e-commerce market in Sri Lanka is estimated to be valued at around USD 90 million, which is less than 1% of the total retail market size in the country. The market is estimated to grow to ~USD 500 million within the next 5-6 years (Source: Daily Mirror<sup>18</sup>).

Even though the local online retail sector has focused largely on consumer electronics thus far, new categories like fashion, healthcare and groceries are emerging. Social platforms are also rapidly becoming a powerful distribution channel for small businesses.

## 10.4 Sri Lanka's E-commerce market drivers

The Sri Lankan e-commerce space is driven by several critical factors.

### 10.4.1 Internet penetration

According to Telecommunications Regulatory Commission of Sri Lanka (TRCSL) the country had 13 Mn broadband connections as of 2020, comprising 11 Mn mobile broadband connections and 1.7 Mn fixed broadband connections. Considering a population of 21.6 Mn this suggests that total internet penetration stands at 60% while mobile internet penetration stands at 53% both figures on par with the world statistics. The country has seen a rapid increase in mobile broadband since its introduction in 2009. Between 2009-2020 the number of mobile broadband users have grown at a CAGR of 55% (Source: TRCSL, Acuity estimates<sup>19</sup>).

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<sup>17</sup> Weblink: <https://www.bigcommerce.com/> accessed on 01<sup>st</sup> November 2021

<sup>18</sup>Weblink: <https://www.dailymirror.lk/features/Redefining-e-commerce-in-Sri-Lanka-Prospects-post-COVID-19/185-187711> accessed on 01st November 2021

<sup>19</sup> Acuity estimated the CAGR in line with the industry practice as outlined in <https://www.investopedia.com/terms/c/cagr.asp> accessed on 04th November 2021. The formula has been relied upon from the said source.

#### 10.4.2 Affordability and the use of smartphones

Smartphones have become more affordable over the years. Increasingly available instalment payment schemes have enabled a large portion of the growing middle-income population to afford smartphones. The improved production efficiency techniques such as low-cost raw material and outsourced component manufacturing practiced by major smartphone manufacturers also have contributed to the decline in smartphone prices over the years. In addition, smartphones come with features such as ability to sync data among devices.

According to Digital 2020 report by we-are-social and Hootsuite 71% of the Sri Lankan internet users have smartphones<sup>20</sup>. Below is a summary of digital device ownership.

TABLE 10-1 : DIGITAL DEVICE OWNERSHIP IN SRI LANKA

<i>Category of people aged 5-69</i>	<i>Desktop/ Laptop</i>	<i>Smartphone</i>	<i>Tablet</i>	<i>Mobile phone</i>
<b>Sri Lanka</b>	<b>24.1</b>	<b>72.2</b>	<b>2.0</b>	<b>1.7</b>
<b>By sex</b>				
Male	13.3	39.2	1.1	0.9
Female	10.7	33	0.9	0.7
<b>By sector</b>				
Urban	8.3	19.8	0.6	0.3
Rural	15.7	51.1	1.4	1.4
Estate	0.1	1.3	0	0

Source: Department of Census and Statistics <sup>21</sup>

#### 10.4.3 Digital and computer literacy

Digital literacy is defined as the ability to use a computer/laptop/tablet or a smartphone on his or her own. According to the Department of Census and Statistics, Sri Lanka's digital literacy in 2019 stood at 46% (population aged between 5-69). The urban sector population has a digital literacy of 62% which is higher than Rural sector (44%) and estate sector (24%). Age groups between 15-29 shows the highest digital literacy rate between 73%-77%. The digital literacy in Sri Lanka is higher than the computer literacy which was 30.8% in 2019. Computer literacy is defined as the ability to use a computer on his or her own (Source: Department of Census and Statistics).

<sup>20</sup> Weblink: <https://datareportal.com/reports/digital-2020-global-digital-overview> accessed on 01st November 2021

<sup>21</sup> Weblink: <http://www.statistics.gov.lk/ComputerLiteracy/StaticInformation/Bulletins/2020-Annual> accessed on 01st November 2021

TABLE 110-2 : DIGITAL &amp; COMPUTER LITERACY IN SRI LANKA

<i>Category of people aged 5-69</i>	<i>Computer Literacy (%)</i>	<i>Digital Literacy (%)</i>
Sri Lanka	<b>30.8</b>	<b>46.0</b>
<b><i>By Sex</i></b>		
Male	32.9	49.7
Female	28.9	42.6
<b><i>By Sector</i></b>		
Urban	43.6	61.7
Rural	29.0	43.8
Estate	12.6	23.7
<b><i>By Age group (years)</i></b>		
5-9	14.3	28.4
10-14	42.2	54.7
15 - 19	64.9	77.8
20 - 24	58.8	78.6
25 - 29	51.7	73.4
30 - 34	40.6	63.1
35 - 39	29.8	53.5
40 - 49	22.0	40.2
50 - 59	12.8	22.8
60 - 69	6.6	12.3

Source: Department of Census and Statistics

#### 10.4.4 Advancing online payment infrastructure

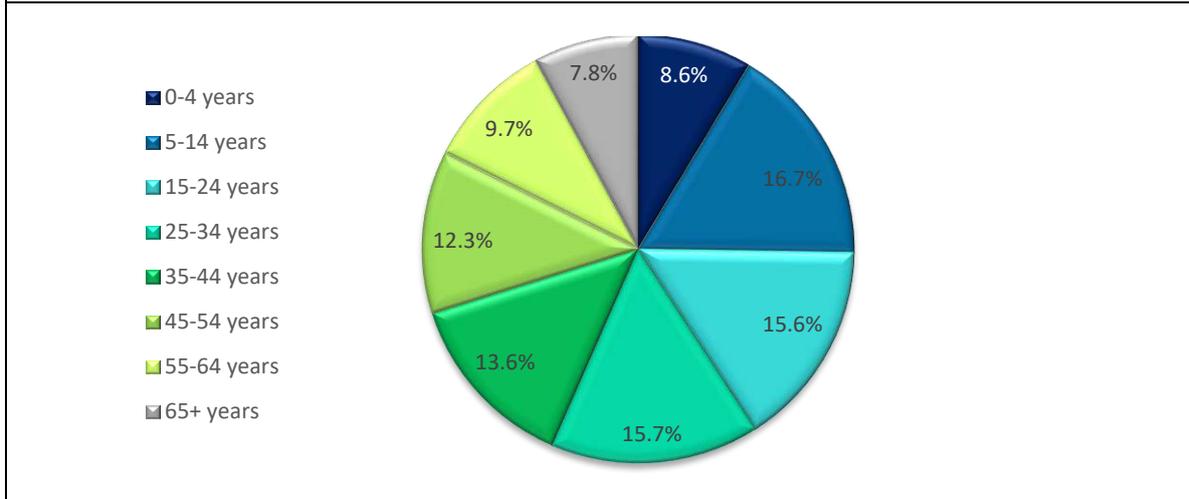
Cash on delivery (COD) still accounts for around 80% of online order payments in Sri Lanka, with the next go-to option for e-commerce being bank transfers. The heavy reliance on COD is mainly as a result of consumer scepticism, slow adoption of cashless payments, and debit/credit card issues.

However, online payment gateways through the local banks are steadily rising. Most of the commercial banks have also started partnering with e-commerce platforms in the recent years, leading to a growth in credit and debit card payments.

#### 10.4.5 Population demographics

The population falling between the age bracket of 25-40 years (c. 29% of the total Sri Lankan population in 2019), known as Generation Ys or Millennials, are more likely to use e-commerce platforms than other generations. This group prefers online shopping to traditional alternatives particularly because they are more tech-savvy and adapt easily to change. Further, Generation Z, who fall within the age bracket of 6-24 years (c. 32% of the Sri Lankan population in 2019), seem to be far more technologically advanced compared to their predecessors as they were born into the digital age.

FIGURE10-3 : SRI LANKAN POPULATION BY AGE GROUP IN 2020



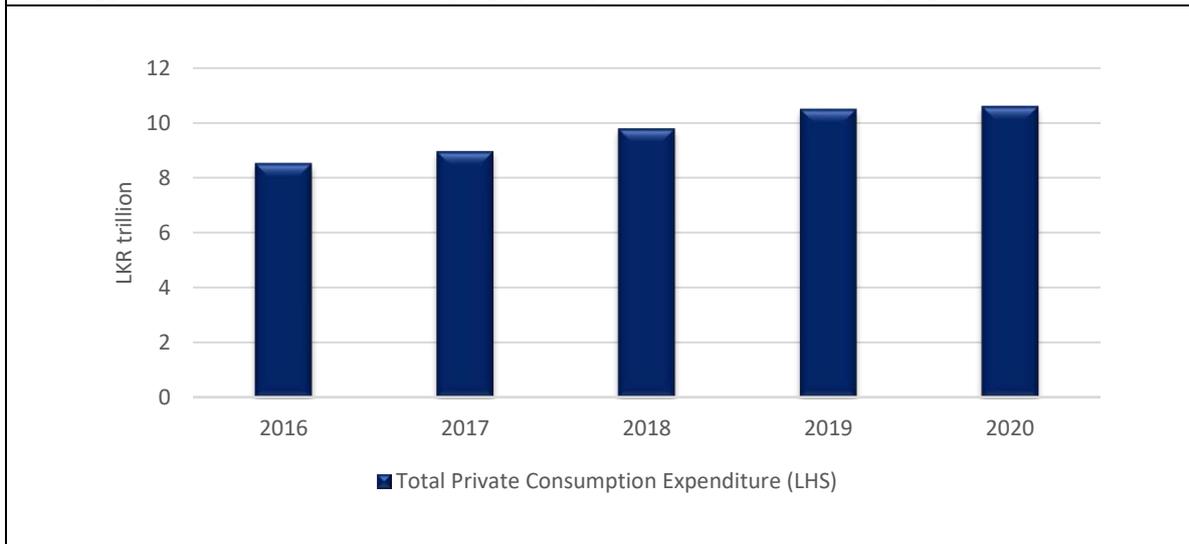
Source: Department of Census and Statistics

#### 10.4.6 Consumer disposable income

Total private consumption expenditure (PCE) in Sri Lanka witnessed a growth at a CAGR of c. 6% over 2016-2020. The recent slowdown in YoY growth was mainly as a result of the effect of the COVID-19 pandemic. The pandemic formed adverse conditions in many consumer markets during the year led by mobility restrictions, working-from-home arrangements and other health-related precautions which made consumers stay away from the markets, thereby contracting most expenditure categories such as transport, restaurants, hotels, clothing and footwear.

However, expenditure on essential goods and services such as food and non-alcoholic beverages, housing, water, electricity, gas and other fuels, health and communication categories have expanded during the year even amidst a pandemic.

FIGURE 110-4 : PRIVATE CONSUMPTION EXPENDITURE AT CURRENT MARKET EXPENSES



Source: Central Bank of Sri Lanka<sup>22</sup>

<sup>22</sup> Weblink:

[https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/publications/annual\\_report/2020/en/15\\_Appendix.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2020/en/15_Appendix.pdf)  
accessed on 02nd November 2021

## 10.5 COVID-19 Impact on the E-commerce Industry of Sri Lanka

The COVID-19 outbreak and its associated social distancing measures, has led to accelerated customer acquisition as market conditions favour certain segments, such as grocery retailing. The current pandemic experience is expected to potentially change customer behaviour in the long term, as a local survey carried out identified that the respondents will opt for online shopping in the months immediately following the lockdown.

## 10.6 Challenges to E-commerce Growth in Sri Lanka

Payments - While bank transfers are the go-to option for social commerce Cash on delivery (COD) account for around 80% of online order payments in Sri Lanka.

Consumer scepticism, slow adoption of cashless payments and debit/credit card issues (not all cards are automatically activated for online payments) fuel this reliance on COD. The prevalence of COD is also attributed to newly established merchants, who are unable to opt for expensive payment gateway set-ups. While local aggregators are offering plug-and-play platform solutions with secure payment gateway systems, adoption is slow and start-ups in this space are constrained by lack of investments. Although fintech remains ready for growth, the traction for mobile wallets has been slow locally.

## 10.7 Industry Players

The e-commerce space does not have any companies listed on the Colombo Stock Exchange. However, there is a large number of growing smaller unlisted players who offer products and services online. Under Sri Lankan e-commerce website category, Daraz.lk ranks first while Kapruka ranks second (source: similarweb<sup>23</sup>). Given below is a non-comprehensive list of e-commerce players in Sri Lanka.

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<sup>23</sup> Weblink: <https://www.similarweb.com/website/kapruka.com/> accessed on 01<sup>st</sup> Nov 2021. This website does not contain all companies in the E-commerce industry and the information provided are based on this website

TABLE 110-3 : INDUSTRY PLAYERS

Name	Description
	<ul style="list-style-type: none"> <li>• Daraz was acquired by Alibaba in 2018<sup>24</sup>.</li> <li>• It offers a diverse assortment in categories ranging from consumer electronics to household goods, beauty, fashion, sports equipment and groceries.</li> </ul>
	<ul style="list-style-type: none"> <li>• An e-commerce marketplace mainly focused on electronics.</li> <li>• The company was acquired by Ideal Group in 2020<sup>25</sup>.</li> </ul>
	<ul style="list-style-type: none"> <li>• Wasi offers discounted price on a variety of products including household goods, electronic devices, beauty and health products, and groceries<sup>26</sup></li> </ul>
	<ul style="list-style-type: none"> <li>• An e-commerce marketplace for high-end electronic products.</li> </ul>
	<ul style="list-style-type: none"> <li>• A platform which allows to buy and sell a range of used/new products.<sup>27</sup></li> </ul>
	<ul style="list-style-type: none"> <li>• An online gift delivery platform which sells flowers, cakes, jewelry and many other items online.<sup>28</sup></li> </ul>

Source: Company websites, press releases (see footnotes below)

<sup>24</sup> Weblink: <https://techcrunch.com/2018/05/08/alibaba-buys-rocket-internets-daraz/> accessed on 02nd Nov 2021

<sup>25</sup> Weblink: <https://island.lk/ideal-acquires-takas-for-an-undisclosed-price/> accessed on 02nd Nov 2021

<sup>26</sup> Weblink: <https://www.wasi.lk/> accessed on 02nd Nov 2021

<sup>27</sup> Weblink: <https://sambole.lk/> accessed on 02nd Nov 2021

<sup>28</sup> Weblink: <https://www.wishque.com/> accessed on 02nd Nov 2021

## 11. RISK FACTORS

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Prior to investing in the Offered Shares, prospective applicants should pay particular attention to the fact that the Company and its business activities are subject to a number of risk factors which may be within or outside the control of the Company.

### 11.1 Risks Related to the Sri Lankan E-commerce Sector

#### **Possible Regulatory Changes:**

At present, Sri Lanka does not have a local body to regulate e-commerce businesses. However, the Consumer Affairs Authority Act, No.9 of 2003 ('CAAA') provides general protection for consumers and traders by establishing the Consumer Affairs Authority in Sri Lanka. The primary objectives of the establishment of the Authority are to promote effective competition and the protection of consumers as well as to regulate internal trade. Thus, the Company is required to be aware of the CAAA and the related regulations which are mainly in place for protection of general consumers.

A key law which facilitates e-commerce in Sri Lanka is the Electronic Transactions Act No.19 of 2006 by eliminating legal barriers and ensuring legal certainty both within the country and internationally. Several other laws also support e-commerce such as the Evidence Act No. 14 of 1995, Payment and Settlement Systems Act No. 28 of 2005, Payment Devices Frauds Act No 30 of 2006, and the Computer Crimes Act of No 24 of 2007. Increased competition and cybercrimes may demand the government to consider regulating e-commerce businesses more tightly. The Company will have to adapt to any changes in the regulatory environment.

#### **Possible deterioration of Macroeconomic factors:**

Economic factors such as inflation, income levels, interest rates, commodity prices and exchange rates, pose a direct risk to the performance of e-commerce companies by impacting the consumer's purchasing power. Higher than expected inflation results in increased prices of goods and discourages the purchase of goods. A deterioration in consumer disposable income or increase in cost of living also affects the consumer demand especially for luxury consumer items. However, Kapruka's diversified product portfolio and its ability to quickly identify the consumer buying patterns and introduce innovative solutions quickly will enable it to stay ahead of the competition. For example, the company recognised a shortage of cooking gas during August 2021 and introduced firewood sales which was quickly embraced as an innovative solution by the online buyers.

Sri Lanka's foreign exchange rate has been highly volatile over the past year. The Sri Lankan rupee has witnessed a steep depreciation against its major trading partners. This may have a positive impact to the Company as local products marketed by Kapruka in global platforms (such as Amazon, Ebay, Etsy and Walmart) will be relatively cheap for foreign customers. However, imported products sold through the Kapruka platform may increase in price for local customers.

#### **Increasing competition and new entrants:**

The e-commerce industry in Sri Lanka has seen a rapid development recently, boosted by the COVID-19 pandemic which have forced companies to move online. Given the small market size, the possibility of large global companies entering Sri Lanka is low in the near term. However, more and more local

companies have started selling their products Direct to Customer (DTC) on social media platforms. After the pandemic, traditional brick and mortar companies have moved to offering their goods and service online. Kapruka has built brand loyalty and strong supplier relationships over the years in operation. Not only does Kapruka have the right infrastructure, but it has also gained an understanding of the dynamics of local consumer behaviour which will provide an edge over new entrants.

## 11.2 Risks Related to Business Operations

### **Possible online security breaches**

As an e-commerce business, Kapruka is vulnerable to online security breaches and cyber-attacks. Some of these online security risks can include phishing, website hacking, and unprotected web services. There are many hackers and spammers who can misuse personal data for spamming, identity theft, and unsolicited marketing. Kapruka has strong system security measures in place which take preventive measures against these risks.

### **Possible system reliability issues**

System reliability can be at risk if the system provides erroneous information, crashes or is slow to respond. System downtime can result in loss of sales while erroneous information may result in damage to reputation. Therefore, it is important to have a reliable IT infrastructure ecosystem that has the ability to overcome above issues. Kapruka engages qualified, knowledgeable developers for its systems maintenance.

### **Warehousing and Logistics**

Warehousing and logistics operations in e-commerce can become complicated under stressed situations. Consumers consider timely and error free delivery as a critical factor in shopping online. Logistics play a major role in timely delivery and order fulfilment. The efficient inventory management system established by the Company ensures that products sold through the platform do not go out of stock. Moreover, the Company has an added advantage due to the in-house delivery service (Grasshoppers) that would help in the timely delivery of the products to the right consumer in the right condition.

## 11.3 Risks Related to the IPO

**Price Volatility in the Secondary Market:** The price of the Shares may fluctuate due to and not limited to the following: variations in operating results, changes in the operating environment, transitions in the regulatory front, strategic alliances or acquisitions, industrial or environmental laws, fluctuations in the market prices for products or raw materials, macroeconomic factors, and external events. Price of Shares may follow general investor sentiment prevalent in the market at any given time. In addition, the price of the Shares in the market will fluctuate as a result of share trading volumes.

## 12. STATUTORY DECLARATIONS

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### Statutory Declaration by the Directors

14<sup>th</sup> December, 2021

We the undersigned, who are named in the Prospectus as Directors of Kapruka Holdings Limited, hereby declare and confirm that we have read the provisions of the CSE Listing Rules and of the Companies Act No. 07 of 2007 and any amendments to it relating to the issue of this Prospectus, and that those provisions have been complied with.

This Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of Kapruka Holdings Limited have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to Kapruka Holdings Limited and making assumptions that are considered to be reasonable at the present point in time by our best judgement.

<i><b>Name</b></i>	<i><b>Designation</b></i>	<i><b>Signature</b></i>
<b>Mr. D V Herath</b>	Chairman and CEO	Sgd.
<b>Mrs. A Herath</b>	Non-Independent Non-Executive Director	Sgd.
<b>Mrs. T Herath</b>	Non-Independent Non-Executive Director	Sgd.
<b>Mr. S Alexander</b>	Non-Independent Executive Director	Sgd.
<b>Mrs. D P Pieris</b>	Independent Non-Executive Director	Sgd.
<b>Mr. T Subasinghe</b>	Independent Non-Executive Director	Sgd.
<b>Mrs. Manohari Abeysekera</b>	Independent Non-Executive Director	Sgd.

### Statutory Declaration by the Financial Advisor and Manager to the Issue – Acuity Partners (Private) Limited

14<sup>th</sup> December, 2021

We, Acuity Partners (Private) Limited, of 53, Dharmapala Mawatha, Colombo 03 being the Financial Advisor and Manager to the Issue of Kapruka Holdings Limited, hereby declare and confirm that to the best of our knowledge and belief the Prospectus constitutes full and true disclosure of all material facts about the Issue and Kapruka, whose Ordinary Voting Shares are being Offered for subscription.

Sgd.  
Director

### **Statutory Declaration by the Company**

14<sup>th</sup> December, 2021

We, being Directors of Kapruka Holdings Limited hereby declare to the best of our knowledge and belief, for and on behalf of Kapruka Holdings Limited, that this Prospectus constitute full and fair disclosure of all material facts about the Offer for subscription and the Company.

An application has been made to the CSE for permission to deal in and for a listing for all of the Ordinary Voting of the Company and those Ordinary Voting Shares which are the subject of this Offer. Such permission will be granted when shares are listed on the CSE. The CSE assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the CSE is not to be taken as an indication of the merits of the Company or of the Shares Offered.

Sgd.  
Director

Sgd.  
Director

### 13. ANNEXURE A: ACCOUNTANT'S REPORT AND FIVE-YEAR SUMMARY

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**KAPRUKA HOLDINGS LIMITED  
(Previously Kapruka Dot Com (Pvt) Ltd)**

**FINANCIAL STATEMENT**

**31 MARCH 2017, 2018, 2019, 2020 AND 2021**



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

Tel : +94 11 2463500  
Fax Gen : +94 11 2697309  
Tax : +94 11 5978180  
eys@k.ey.com  
ey.com

WRHDS/IR/MHM

The Board of Directors  
Kapruka Holdings Limited  
237/22, Wijaya Kumarathunga Mawatha  
Colombo 05

21 November 2021

## Accountants' Report for Inclusion in the Prospectus on Proposed Issue of Ordinary Shares of Kapruka Holdings Limited (Previously referred to as Kapruka Dot Com (Private) Limited)

Dear Sirs/Madams

### Introduction

This report has been prepared for the inclusion in the Prospectus issued in connection with the proposed issuance of ordinary voting shares.

We have examined the financial statements of Kapruka Holdings Limited for the years ended 31 March 2017 to 31 March 2021 and report as follows.

### 1. Incorporation

Kapruka Holdings Limited ("Company") is a limited liability Company incorporated under Companies Act No 07 of 2007 and domiciled in Sri Lanka. The Company carries on the business of fulfilling orders placed by customers through its online platform, Kapruka.com.

The company changed its operating structure by transferring its operations to three fully owned subsidiaries namely Kapruka Production (Pvt) Ltd, Kapruka Techroot (Pvt) Ltd and Kapruka E-Commerce (Pvt) Ltd in the month of October 2021, whilst Kapruka Holdings Limited continues to function as an investment holding company.

### 2. Financial Statements

#### 2.1 Five-Year Summary of Audited Financial Statements

The summary of Statements of Financial Position, Statements of Profit or Loss, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flow of Kapruka Holdings Limited (Previously referred to as Kapruka Dot Com (Private) Limited) for year ended 31 March 2017, 31 March 2018, 31 March 2019, 31 March 2020 and 31 March 2021 and summary of Financial Position, are based on the audited financial statements for the respective years.

The summary of Statements of Financial Position for the year ended 31 March 2020, together with the Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flow for the year ended 31 March 2020 have been based on restated comparatives in accordance with Sri Lanka Accounting Standards reflected in the audited financial statements for the year ended 31 March 2021.

EY2021121011143

Partners: H.K.A. Jayasinghe FCA FCMA, R.N. de Saram ACA FCMA, M.L.N.A. de Silva FCA, W.D. de Silva ACA ACMA, M.L.T.A. De Silva FCA, M.L.K.P. Hettimasinghe FCA ACMA, N.T.H.L. Fernando ACA, M.K.S.P. Fernando FCA FCMA, M.L.L.H.L. Fonseka FCA, D.N. Gamage ACA ACMA, J.P.A. Gunasekera FCA FCMA, A. Harsh FCA, D.K. Hasingkumar FCA FCMLLS (Laud), M.L.S.L. Jayasinghe FCA FCMA, M.L.S.S. Mahalinga FCA, S.S.J.R. Perera ACA ACMA, M.L.P.V.R.H. Seneviratne FCA, M.M. Subraman ACA ACMA, S.D. Wickramaratne FCA FCMA

Principals: D.S. Jayaratne ACA, M.L.P.B. Perera ACA FCMLLS (Colombo), T.P.R. Suberuf FCA FCCA, C.A. Weerapala ACMA

A member firm of Ernst & Young Global Limited

## **2.2 Audited Financial Statements for the Year Ended 31 March 2021**

Our Independent auditors' report on the Financial Statements of the Company for the year ended 31 March 2021 together with such financial statements comprising Statement of Financial Position, Statement of Profit and Loss, Statement of Comprehensive income, Statements of Changes in Equity and Statement of Cash Flows along with the accounting policies and notes thereon is given on the Prospectus.

## **2.3 Audit Opinions for the years ended 31 March 2017, 2018, 2019, 2020 and 2021**

We have audited the Financial Statements of the Company for the year ended 31 March 2018 to 31 March 2021. Unmodified audit opinions have been issued for the said financial years by our report dated 14 February 2019, 30 October 2019, 02 December 2020 and 26 October 2021 respectively.

With regard to Financial Statements of the Company for the year ended 31 March 2017, Messrs. Shantha Adikari & Company has issued an unmodified audit opinion by way of their auditor's report dated 28 December 2017.

## **2.4 Accounting Policies used for the years ended 31 March 2017, 2018, 2019, 2020 and 2021**

The Accounting policies of the Company up to and including year ended 31 March 2020 complied with Sri Lanka Financial Reporting Standards for SMEs. The Accounting policies of the Company for the year ended 31 March 2021 complied with Sri Lanka Accounting Standards. These accounting policies are stated in the audited financial statements of Kapruka Holdings Limited for the years ended 31 March 2017 to 31 March 2021.

## **2.5 Dividends**

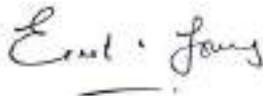
The Company has not paid any dividend for the years ended 31 March 2017 to 31 March 2021.

## **2.6 Events after Reporting Date**

The company changed its operating structure by transferring its operations to three fully owned subsidiaries namely Kapruka Production (Pvt) Ltd, Kapruka Techroot (Pvt) Ltd and Kapruka E-Commerce (Pvt) Ltd in the month of October 2021, whilst Kapruka Holdings Limited continues to function as an investment holding company.

There were no other material events that have taken place since 31 March 2021 that require disclosure or and adjustments in the financial statements for the year ended 31 March 2021.

Yours faithfully

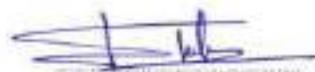


Kapruka Holdings Limited (Previously Kapruka Dot Com (Pvt) Ltd)  
Five Year Summary

STATEMENTS OF FINANCIAL POSITION

As at	2021.03.31	2020.03.31	2019.04.01*	2019.03.31	2018.03.31	2017.03.31
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>						
<b>Non-current assets</b>						
Property, Plant and Equipment	521,137,058	455,007,710	416,973,142	250,683,814	202,661,356	109,932,931
Right of Use Asset	25,157,391	10,754,443	15,216,049	-	-	-
Intangible Assets	1,881,471	2,390,353	2,184,358	2,184,358	2,000,901	1,396,812
Investment In Fixed Deposit	-	-	-	17,668,606	-	-
Other Non-current Financial Assets	4,450,000	16,867,621	-	-	11,159,957	8,273,022
	<u>552,625,920</u>	<u>485,020,127</u>	<u>434,373,549</u>	<u>270,536,778</u>	<u>215,822,214</u>	<u>119,602,765</u>
<b>Current Assets</b>						
Inventories	66,046,462	77,038,373	52,569,926	52,569,926	40,370,453	46,383,626
Trade and Other Receivables	70,857,551	53,587,037	43,254,737	43,354,737	23,872,989	1,307,703
Amount Due From Related Parties	115,180,012	126,725,680	138,153,903	138,153,903	103,238,616	92,920,841
Deposits & Prepayments	8,027,549	7,163,284	4,749,368	4,749,368	4,481,547	4,102,379
Income Tax Receivable	-	263,296	-	-	-	-
Short Term Investments	12,856,835	18,784,356	17,668,606	-	-	-
Cash and Cash Equivalents	75,080,415	113,919,016	33,004,997	<u>33,004,997</u>	22,390,637	17,606,414
	<u>348,048,824</u>	<u>397,481,042</u>	<u>289,401,537</u>	<u>271,832,931</u>	<u>194,354,243</u>	<u>162,320,962</u>
<b>Total Assets</b>	<u>900,674,744</u>	<u>882,501,169</u>	<u>723,775,086</u>	<u>542,369,709</u>	<u>410,176,458</u>	<u>281,923,728</u>
<b>Equity</b>						
Stated Capital	272,500,028	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
General Reserve	-	-	-	-	-	600,000
Revaluation Reserve	150,999,423	132,338,485	123,044,725	30,126,380	41,547,741	-
Retained Earnings	89,477,555	46,639,996	26,114,357	<u>(12,670,832)</u>	15,264,349	8,534,404
<b>Total Equity</b>	<u>512,977,006</u>	<u>183,978,481</u>	<u>154,159,082</u>	<u>22,455,548</u>	<u>61,812,090</u>	<u>14,134,404</u>
<b>Non-Current Liabilities</b>						
Interest Bearing Loans and Borrowings	130,901,024	134,410,374	99,912,983	92,466,259	11,678,501	22,178,417
Retirement Benefit Obligation	17,151,943	13,633,252	9,534,755	8,075,875	7,636,296	7,115,483
Deferred Tax Liability	52,201,524	53,883,274	79,048,364	40,629,900	10,931,988	-
	<u>200,254,491</u>	<u>201,926,900</u>	<u>188,496,102</u>	<u>141,172,033</u>	<u>30,246,785</u>	<u>29,293,900</u>
<b>Current Liabilities</b>						
Interest Bearing Loans and Borrowings	90,920,072	24,255,595	22,552,978	20,075,204	28,344,222	41,487,541
Trade and Other Payables	34,153,346	49,632,103	28,492,369	28,492,369	32,793,571	92,107,523
Amount Due to Related Party	911,231	327,748,728	301,282,987	301,282,987	231,551,459	-
Advance Received From Customers	18,916,396	79,332,515	6,081,949	6,081,948	7,230,702	86,710,125
Income tax Payable	17,110,569	-	5,486,508	5,456,508	1,811,232	2,232,134
Provision and Accrued Expenses	25,431,632	15,626,845	17,223,111	<u>17,223,111</u>	16,386,397	15,958,101
	<u>187,443,246</u>	<u>496,595,786</u>	<u>381,119,902</u>	<u>378,612,127</u>	<u>318,117,583</u>	<u>238,495,424</u>
<b>Total Equity and Liabilities</b>	<u>900,674,744</u>	<u>882,501,169</u>	<u>723,775,086</u>	<u>542,239,709</u>	<u>410,176,458</u>	<u>281,923,728</u>

\*The Company transitioned from the application of Sri Lanka Accounting Standards for Small and Medium sized entities (SLFRS for SMEs) to Sri Lanka Accounting Standards (SLFRS/LKAS) on 1 April 2019. Amounts reported as at 1 April 2019 represent the Statement of Financial Position immediately after the transition.

  
Finance Manager

Summarised financial information and its extraction from audited financial statements, as set out in pages 01 to 07 is the responsibility of the Board of Directors. Signed for and on behalf of the Board of Directors by :

  
Director

  
Director



21 November 2021  
Colombo

Kapruka Holdings Limited (Previously Kapruka Dot Com (Pvt) Ltd)

Five Year Summary

STATEMENTS OF PROFIT OR LOSS

For the year ended 31 March	2021 Rs.	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.
<b>Revenue</b>	968,041,555	730,163,787	652,329,538	591,030,105	506,229,200
Cost of Sales	(614,496,168)	(492,769,932)	(449,984,709)	(393,829,820)	(337,832,481)
<b>Gross Profit</b>	<b>353,545,387</b>	<b>237,393,855</b>	<b>202,344,829</b>	<b>197,200,285</b>	<b>168,396,719</b>
Other Income	14,244,760	18,132,329	56,401,214	39,598,851	6,732,026
Administrative Expenses	(122,998,190)	(96,388,054)	(103,994,606)	(106,772,738)	(91,173,851)
Selling and Distribution Expenses	(174,581,290)	(155,496,019)	(151,959,034)	(116,380,451)	(70,147,547)
Finance Cost	(1,782,173)	(1,856,276)	(4,033,683)	(10,053,079)	(7,015,862)
<b>Profit/ (Loss) Before tax</b>	<b>68,428,494</b>	<b>1,785,835</b>	<b>(1,241,280)</b>	<b>3,592,867</b>	<b>6,791,485</b>
Income Tax Reversal/(Expense)	(24,135,210)	20,249,572	(38,115,263)	3,137,078	(2,232,134)
<b>Profit/ (Loss) for the year</b>	<b>44,293,284</b>	<b>22,035,407</b>	<b>(39,356,542)</b>	<b>6,729,945</b>	<b>4,559,351</b>
<b>Profit for the year attributable to Owners of the Parent</b>	<b>44,293,284</b>	<b>22,035,407</b>	<b>(39,356,542)</b>	<b>6,729,945</b>	<b>4,559,351</b>
Earnings Per Share	19.39	44.07	(78.71)	13.46	9.12



Kapruka Holdings Limited (Previously Kapruka Dot Com (Pvt) Ltd)  
Five Year Summary

STATEMENTS OF COMPREHENSIVE INCOME

	2021 Rs.	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.
<b>Profit/ (Loss) for the year</b>	44,293,284	22,035,407	(39,356,542)	6,729,945	4,559,351
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>					
Revaluation of Property Plant and Equipment	14,880,000	12,908,000	-	57,705,196	-
Actuarial Gain/(Loss) on Retirement Benefit Obligation	(1,754,881)	(2,657,347)	-	-	-
Income Tax on Other Comprehensive Income	4,080,094	(2,466,661)	-	(16,157,455)	-
	-	-	-	-	-
<b>Other Comprehensive Income, net of tax</b>	17,205,213	7,783,992	-	41,547,741	-
<b>Total Comprehensive Income</b>	61,498,497	29,819,399	(39,356,542)	48,277,686	4,559,351
<b>Total Comprehensive Income attributable to Owners of the Parent</b>	61,498,497	29,819,399	(39,356,542)	48,277,686	4,559,351
	61,498,497	29,819,399	(39,356,542)	48,277,686	4,559,351



Kapruka Holdings Limited (Previously Kapruka Dot Com (Pvt) Ltd)  
Five Year Summary

STATEMENTS OF CASH FLOWS

For the year ended 31 March	2021 Rs.	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.
<b>Cash Flows From / (Used in) Operating Activities</b>					
Profit/ (Loss) before Tax from continuing operations	68,428,494	1,785,835	(1,241,280)	3,592,867	6,791,485
Adjustments for					
Interest Expenses	1,643,054	1,676,933	2,759,527	3,213,185	4,530,107
Interest Income	(3,264,197)	(3,759,318)	(2,267,371)	(1,462,632)	-
Profit/(Loss) on Disposal of Fixed Assets	(60,000)	(339,915)	(3,904,353)	(208,598)	(5,773,251)
Depreciation of Property, Plant & Equipment	19,662,377	38,125,944	39,009,235	30,721,525	20,044,003
Depreciation of Right-of-use Assets	7,156,542	4,461,606	-	-	-
Foreign Currency Exchange ( Gain)/Loss	(10,920,563)	(13,308,687)	(12,454,310)	-	-
Amortization	508,882	495,387	403,273	-	-
Allowance for Expected Credit Loss	4,538,017	-	-	-	-
Bad Debt Write off	-	-	-	424,721	-
Provision for Slow Moving Inventory	5,832,037	-	-	-	-
Reversal of General Reserve	-	-	-	(600,000)	-
Provision for Retirement Benefit Obligation	2,000,410	1,806,150	1,230,830	2,288,588	-
Operating Profit/(Loss) before Working Capital Changes	95,525,053	30,943,935	23,535,550	37,969,656	25,592,344
(Increase) / Decrease in Inventories	5,159,873	(24,468,447)	(12,199,473)	6,013,173	(12,530,215)
(Increase) / Decrease in Trade and Other Receivables	(21,579,267)	(9,411,303)	(19,381,747)	(22,990,008)	(169,232)
(Increase) / Decrease in Deposits & Prepayment	(864,264)	(2,413,917)	(267,821)	(606,328)	(392,534)
Increase / (Decrease) in Trade Creditors	(5,673,971)	19,543,469	(4,301,202)	(59,313,952)	(3,698,751)
Increase / (Decrease) in Customer Advance	(60,416,120)	73,250,567	(1,148,754)	(79,479,423)	16,958,424
Increase / (Decrease) in Other Payable	-	-	-	-	(740,752)
Increase / (Decrease) in Accrued Expenses	-	-	(393,525)	428,296	(382,905)
(Increase) / Decrease in Amount Due To Related Parties	(59,337,469)	26,465,742	69,731,528	231,551,459	-
(Increase) / Decrease in Amount Due From Related Parties	11,545,666	11,428,224	(34,915,287)	(10,317,775)	(5,046,797)
Cash Generated from Operations	(35,640,499)	125,338,270	20,659,270	103,255,097	19,589,583
Interest Paid	(1,219,648)	(1,063,175)	(1,529,287)	(3,213,185)	(4,530,107)
Income Tax Paid	(4,362,998)	(13,131,983)	(4,742,073)	(2,282,134)	(2,615,039)
Retirement benefit obligation	(236,600)	(365,000)	(791,251)	(1,767,775)	(454,151)
Net Cash From/(Used in) Operating Activities	(41,459,745)	110,778,112	13,596,658	95,992,003	11,990,287
<b>Cash Flows from / (Used in) Investing Activities</b>					
Acquisition of Property, Plant and Equipment	(70,911,724)	(64,421,034)	(112,263,417)	(68,853,430)	(43,750,979)
Acquisition of Intangible Assets	-	(701,382)	(586,730)	-	-
Advance Payment for Leased Assets	(6,891,990)	-	-	-	-
Sale Proceed on Disposal of Property, Plant and Equipment	60,000	1,508,437	30,366,317	965,548	5,773,251
Interest Income	3,034,933	2,838,321	1,333,380	1,462,632	-
Repayment of Finance Lease	(8,014,187)	(7,081,899)	-	-	-
Net Investment in Fixed Deposits	5,927,521	(1,115,750)	(6,508,648)	(2,886,935)	1,246,629
Investment in Other Assets	12,417,621	(16,867,621)	-	-	-
Net Cash Flows from/(Used in) Investing Activities	(64,377,826)	(85,840,928)	(87,659,098)	(69,312,185)	(36,731,100)
<b>Cash Flows from (Used in) Financing Activities</b>					
Proceeds From Interest Bering Loan & Borrowings	212,237,090	57,693,065	100,225,363	-	6,135,585
Repayment of Interest Bering Loan & Borrowings	(173,314,916)	(14,625,027)	(12,793,729)	(12,300,712)	(6,666,537)
Net Cash Flows from/(Used in) Financing Activities	38,922,174	43,068,038	87,431,634	(12,300,712)	(530,952)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	10,920,563	13,308,687	12,158,060	5,321,919	-
Net Increase/(Decrease) in Cash and Cash Equivalents	(55,994,834)	81,313,909	25,527,254	19,701,026	(25,271,764)
<b>Cash and Cash Equivalents at the beginning of the Year</b>	113,750,271	32,436,362	6,909,108	(12,791,918)	12,479,846
<b>Cash and Cash Equivalents at the end of the Year</b>	57,755,437	113,750,271	32,436,362	6,909,108	(12,791,918)



Kapruka Holdings Limited (Previously Kapruka Dot Com (Pvt) Ltd)

Five Year Summary

STATEMENTS OF CHANGES IN EQUITY

Company	Stated Capital Rs.	General Reserve Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
<b>As at 31 March 2016</b>	5,000,000	600,000	-	3,975,053	9,575,053
Profit for the Year	-	-	-	4,559,351	4,559,351
<b>As at 31 March 2017</b>	5,000,000	600,000	-	8,534,404	14,134,404
Profit for the Year	-	-	-	6,729,945	6,729,945
Reversal of General Reserves	-	(600,000)	-	-	(600,000)
Revaluation Gain	-	-	57,705,196	-	57,705,196
Income Tax on Other Comprehensive Income	-	-	(16,157,455)	-	(16,157,455)
<b>As at 31 March 2018</b>	5,000,000	-	41,547,741	15,264,349	61,812,090
Profit for the Year	-	-	-	(39,356,542)	(39,356,542)
Transfer From Revaluation Gain to Retained Earnings	-	-	(15,863,001)	15,863,001	-
Transfer of Income Tax effect on Other Comprehensive Income	-	-	4,441,640	(4,441,640)	-
<b>As at 31 March 2019</b>	5,000,000	-	30,126,380	(12,670,832)	22,455,548
Adjustments on First time adoption of Sri Lanka Accounting Standard	-	-	92,918,345	38,785,189	131,703,534
<b>As at 01 April 2019</b>	5,000,000	-	123,044,725	26,114,357	154,159,082
Profit for the Year	-	-	-	22,035,407	22,035,407
Transfer From Revaluation Gain to Retained Earnings	-	-	-	(2,657,347)	(2,657,347)
Revaluation Gain/(Loss) on Land	-	-	12,908,000	-	12,908,000
Income Tax on Other Comprehensive Income	-	-	(3,614,240)	1,147,579	(2,466,661)
<b>As at 31 March 2020</b>	5,000,000	-	132,338,485	46,639,996	183,978,481
Profit for the Year	-	-	-	44,293,284	44,293,284
Issuance of Shares	267,500,028	-	-	-	267,500,028
Actuarial Gain/(Loss) on Retirement Benefit Obligations	-	-	-	(1,754,881)	(1,754,881)
Revaluation Gain/(Loss) on Land	-	-	14,880,000	-	14,880,000
Income Tax on Other Comprehensive Income	-	-	3,780,938	299,156	4,080,094
<b>As at 31 March 2021</b>	272,500,028	-	150,999,423	89,477,555	512,977,006



**14. ANNEXURE B: INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS AND AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31st MARCH 2021 FOR KAPRUKA HOLDINGS LIMITED, KAPRUKA PRODUCTION (PVT) LIMITED, KAPRUKA TECHROOT (PVT) LIMITED AND KAPRUKA GLOBAL SHOP (PVT) LIMITED WITH THE GAP ANALYSIS**

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**KAPRUKA DOT COM (PRIVATE) LIMITED**

**FINANCIAL STATEMENTS**

**31 MARCH 2021**



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

Tel : +94 11 2463500  
Fax Gen : +94 11 2697389  
Tel : +94 11 5578189  
eysh@k.ey.com  
ey.com

WRHDS/IR/MHM

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF KAPRUKA DOT COM (PRIVATE) LIMITED**

Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of Kapruka Dot Com (Private) Limited which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and other 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 for the period ended 31 March 2021 are prepared in all material respects, in accordance with Sri Lanka Accounting Standards.

*Basis for opinion*

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

*Responsibilities of management and those charged with governance for the financial statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

*Auditor's responsibilities for the audit of the financial statements*

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

(Contd...2/)

EY2021102610197

Partners: H.A.A. Jayasinghe FCA FCPA, Brijesh Jayaram ACA FCPA, Mr. H.A. De Silva FCA, W.R.H. De Silva ACA ACMA, Ms. Y.A. De Silva FCA, Ms. K.R.H. Fernando FCA ACMA, N.Y.L. Fernando ACA, N.R.B.P. Fernando FCA FCPA, Ms. L.R.H.L. Fonseka FCA, J.D.N. Gamage ACA ACMA, A.P.A. Gunaratne FCA FCPA, A. Parakk FCA, D.K. Gunaratne FCA FCPA LLB (Local), Ms. A.A. Laksanayake FCA FCPA, Ms. S.S.S. Manjanga FCA, A.A.J.P. Perera ACA ACMA, Ms. P.V.N.N. Rajeswari FCA, N.M. Subraman ACA ACMA, B.L. Wijesuriya FCA FCPA

Principals: G.B. Gunawardena MA, Mr. P.S. Perera B.Com. LLB (Company), T.P.M. Rajaratne FCPA FCPA, J.A. YASODAN, B.Com.

Member Firm: Ernst & Young Global Limited

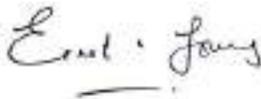
As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### **Report on other legal and regulatory requirements**

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



26 October 2021  
Colombo

Kapruka Dot Com (Private) Limited  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 March 2021

	Note	2021.03.31	2020.03.31	2019.04.01
		Rs.	Rs.	Rs.
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, Plant and Equipment	3	521,137,058	455,097,710	416,973,142
Right-of-use Assets	4	25,157,391	10,754,483	15,216,049
Intangible Assets	5	1,881,471	2,390,353	2,184,358
Other Non-current Financial Assets	7	4,450,000	16,867,621	-
		<u>552,625,920</u>	<u>485,020,127</u>	<u>434,373,549</u>
<b>Current Assets</b>				
Inventories	8	66,046,462	77,058,373	52,168,926
Trade & Other Receivables	9	70,857,551	53,587,037	48,294,737
Amounts Due From Related Parties	10	115,180,012	126,725,680	138,153,903
Deposits & Prepayments	12	8,027,549	7,163,284	4,748,368
Income Tax Receivable		-	263,296	-
Short Term Investments	6	12,856,835	18,284,356	17,668,606
Cash & Cash Equivalents	11	75,080,415	113,919,016	33,004,997
		<u>348,048,824</u>	<u>397,481,062</u>	<u>289,403,537</u>
<b>Total Assets</b>		<u>900,674,744</u>	<u>882,501,189</u>	<u>723,775,086</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Stated Capital	13	272,100,028	5,000,000	5,000,000
Revaluation Reserve		150,999,423	132,338,485	123,044,725
Retained Earnings		89,477,555	46,639,996	26,114,357
<b>Total Equity</b>		<u>512,577,006</u>	<u>183,978,481</u>	<u>154,158,082</u>
<b>Non-Current Liabilities</b>				
Interest Bearing Loans and Borrowings	14	130,801,024	134,410,374	99,912,983
Retirement Benefit Obligation	15	17,151,943	13,633,252	9,554,755
Deferred Tax Liability	23.2	52,301,524	53,883,274	79,648,364
		<u>200,254,491</u>	<u>201,926,900</u>	<u>188,496,102</u>
<b>Current Liabilities</b>				
Interest Bearing Loans and Borrowings	14	90,920,072	24,255,595	22,552,978
Trade & Other Payables	16	34,153,546	49,632,103	28,492,369
Amounts Due To Related Party	18	911,231	327,748,728	301,282,987
Advances Received From Customers		18,916,396	79,332,515	6,081,949
Income Tax Payable		17,110,569	-	5,486,508
Provisions and Accrued Expenses	17	25,431,632	15,626,845	17,223,111
		<u>187,493,246</u>	<u>496,995,786</u>	<u>381,118,902</u>
<b>Total Equity and Liabilities</b>		<u>900,674,744</u>	<u>882,501,189</u>	<u>723,775,086</u>

These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

  
Financial Manager

The Board of Directors are responsible for these financial statements. Signed for and on behalf of the Board by:

  
Director

  
Director

The accounting policies and notes on pages 07 through 42 form an integral part of these financial statements.

26 October 2021  
Colombo



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2021

	Note	2021 Rs.	2020 Rs.
<b>Revenue from Contracts with Customers</b>	19	968,041,555	730,163,787
Cost of Sales		(614,496,168)	(492,769,932)
Gross Profit		<u>353,545,387</u>	<u>237,393,855</u>
Other Income	20	14,244,760	18,132,329
Administrative Expenses		(122,998,190)	(96,388,054)
Selling and Distribution Expenses		(174,581,290)	(155,496,019)
Finance Costs	21	(1,782,173)	(1,856,276)
<b>Profit before tax</b>		<u>68,428,494</u>	<u>1,785,835</u>
Income Tax (Expense)/Reversal	23	(24,135,210)	20,249,572
<b>Profit for the year</b>		<u>44,293,284</u>	<u>22,035,407</u>
<b>Other Comprehensive Income</b>			
<b>Other Comprehensive Income that will not be reclassified to Profit or Loss in subsequent periods</b>			
Actuarial Gain/(Loss) on Retirement Benefit Obligation	15	(1,754,881)	(2,657,347)
Revaluation Gain/(Loss) on Land		14,880,000	12,908,000
Income Tax on Other Comprehensive Income	23.2	4,080,094	(2,466,661)
<b>Other Comprehensive Income for the year, net of tax</b>		<u>17,205,213</u>	<u>7,783,992</u>
<b>Total Comprehensive Income for the year, net of Tax</b>		<u>61,498,497</u>	<u>29,819,399</u>
Earnings Per Share	24	10.12	44.07

The accounting policies and notes on pages 07 through 42 form an integral part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2021

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
<b>As at 01 April 2019</b>	5,000,000	123,044,725	26,114,357	154,159,082
Profit For The Year	-	-	22,035,407	22,035,407
Actuarial Gain/(Loss) on Retirement Benefit Obligations	-	-	(2,657,347)	(2,657,347)
Revaluation Gain/(Loss) on Land	-	12,908,000	-	12,908,000
Income Tax on Other Comprehensive Income	-	(3,614,240)	1,147,579	(2,466,661)
<b>As at 31 March 2020</b>	<u>5,000,000</u>	<u>132,338,485</u>	<u>46,639,996</u>	<u>183,978,481</u>
Profit For The Year	-	-	44,293,284	44,293,284
Issuance of Shares	267,500,028	-	-	267,500,028
Actuarial Gain/(Loss) on Retirement Benefit Obligations	-	-	(1,754,881)	(1,754,881)
Revaluation Gain/(Loss) on Land	-	14,880,000	-	14,880,000
Income Tax on Other Comprehensive Income	-	3,780,938	299,156	4,080,094
<b>As at 31 March 2021</b>	<u><u>272,500,028</u></u>	<u><u>150,999,423</u></u>	<u><u>89,477,555</u></u>	<u><u>512,977,006</u></u>

The accounting policies and notes on pages 07 through 42 form an integral part of these financial statements.



# Kapruka Dot Com (Private) Limited

## STATEMENT OF CASH FLOW

Year ended 31 March 2021

	Note	2021 Rs.	2020 Rs.
<b>Cash Flows From Operating Activities</b>			
Profit/(Loss) Before Income Tax Expense		68,428,494	1,785,835
Adjustments for,			
Interest Expenses		1,643,054	1,676,933
Interest Income	20	(3,264,197)	(3,759,318)
Disposal Gain		(60,000)	(339,915)
Depreciation of Property, Plant & Equipment	3	19,662,377	38,125,944
Depreciation of Right-of-use Assets	4	7,156,542	4,461,606
Foreign Currency Exchange Gain	20	(10,920,563)	(13,308,687)
Amortization for Intangible Assets	5	508,882	495,387
Allowance for Doubtful Debts		4,538,017	-
Provision for Slow Moving Inventory		5,832,037	-
Provision for Retirement Benefit Obligations	15	2,000,410	1,806,150
<b>Operating Profit before Working Capital Changes</b>		<u>95,525,053</u>	<u>30,943,935</u>
(Increase) / Decrease in Inventory		5,159,873	(24,468,447)
(Increase) / Decrease Trade & Other Receivables		(21,579,267)	(9,411,303)
(Increase) / Decrease in Deposits & Prepayment		(864,264)	(2,413,917)
Increase / (Decrease) in Trade Creditors		(5,673,971)	19,543,469
Increase / (Decrease) in Customer Advance		(60,416,120)	73,250,567
(Increase) / Decrease in Amount Due to Related Parties		(59,337,469)	26,465,742
(Increase) / Decrease in Amount Due From Related Parties		11,545,666	11,428,224
<b>Cash Flows from Operations</b>		<u>(35,640,499)</u>	<u>125,338,270</u>
Interest Paid		(1,219,648)	(1,063,175)
Income Tax Paid		(4,362,998)	(13,131,983)
Retirement Benefit Obligation	15	(236,600)	(365,000)
<b>Net Cash Flows from Operating Activities</b>		<u>(41,459,745)</u>	<u>110,778,112</u>
<b>Cash Flows Used in Investing Activities</b>			
Acquisition of Property, Plant and Equipment	3	(70,911,724)	(64,421,034)
Acquisition of Intangible Assets	4	-	(701,382)
Advance Payment for Leased Assets		(6,891,990)	-
Sale Proceed on Disposal of Property, Plant and Equipment		60,000	1,508,437
Interest Income		3,034,933	2,838,321
Repayment of Finance Lease		(8,014,187)	(7,081,899)
Gross Investment in Fixed Deposits		5,927,521	(1,115,750)
Investment in Other Financial Assets		12,417,621	(16,867,621)
Net Cash Flows Used in Investing Activities		<u>(64,377,826)</u>	<u>(85,840,928)</u>
<b>Cash Flows Used in Financing Activities</b>			
Proceeds From Interest Bearing Loans & Borrowings		212,237,090	57,693,065
Repayment of Interest Bearing Loans & Borrowings		(173,314,916)	(14,625,027)
Net Cash Flow Used in / Generated from Financing Activities		<u>38,922,174</u>	<u>43,068,038</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents		10,920,563	13,308,687
Net Increase/(Decrease) in Cash and Cash Equivalents		(55,994,834)	81,313,909
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	11	<u>113,750,271</u>	<u>32,436,362</u>
<b>Cash and Cash Equivalents at the End of the Year</b>	11	<u>57,755,437</u>	<u>113,750,271</u>

The accounting policies and notes on pages 07 through 42 form an integral part of these financial statements.



**1. CORPORATE INFORMATION**

**1.1 General**

Kapruka Dot Com (Private) Limited, (“Company”) is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at Vijaya Kumarathunga Mawatha, Colombo 05.

**1.2 Principal Activities and Nature of Operations**

During the year, the principal activities of the Company were to provide Electronic Commerce Services.

The Company is preparing towards an Initial Public Offer of Shares to be listed in the Colombo Stock Exchange and is in the process of completing administrative and regulatory procedures in connection with the same.

**1.3 Parent Enterprise and Ultimate Parent Enterprise**

Kapruka Dot Com (Private) Limited does not have an identifiable parent undertaking of its own.

**1.4 Date of Authorization for Issue**

The financial statements of Kapruka Dot Com (Private) Limited for the year ended 31 March 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 26 October 2021.



## 2. BASIS OF PREPARATION

The Financial Statements have been prepared on a historical cost basis. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

### 2.1 Statement of Compliance

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the Companies Act No 07 of 2007.

### 2.2 Materiality and Aggregation

Each material class of similar items is presented separately 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.

Notes to the financial statements are presented in a systematic manner which ensures the understandability and comparability of financial statements of the Company. Understandability of the financial statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

### 2.3 First Time Adoption of Sri Lanka Accounting Standards

These financial statements, for the year ended 31 March 2021, are the first the Company has prepared in accordance with Sri Lanka Accounting Standards comprising of SLFRSs and LKASs (SLFRS). For periods up to and including the year ended 31 March 2021, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SME’s).

Accordingly, the Company has prepared financial statements that comply with SLFRS applicable as at 31 March 2021, together with the comparative period data for the year ended 31 March 2021, as described in the summary of significant accounting policies. In preparing the financial statements, the Company’s opening statement of financial position was prepared as at 1 April 2019, the Company’s date of transition to SLFRS.

This note explains the principal adjustments made by the Company in restating its SLFRS for SME financial statements, including the statement of financial position as at 1 April 2019 and the financial statements as of, and for the year ended 31 March 2020.



**2.3.1 Reconciliation of Equity as at 1 April 2019 (Date of Transition to SLFRS/LKAS)**

	Notes	As Per SLFRS for SME's	Reclassification and Remeasurement	As Per SLFRS/LKAS 01.04.2019
<b>Assets</b>				
<b>Non-current assets</b>				
Property, Plant and Equipment	A&E	250,683,814	166,289,328	416,973,142
Right-of-use Assets	B	-	15,216,049	15,216,049
Intangible Assets		2,184,358	-	2,184,358
		<u>252,868,173</u>	<u>181,505,377</u>	<u>434,373,549</u>
<b>Current assets</b>				
Inventories		52,569,926	-	52,569,926
Trade & Other Receivables		43,254,737	-	43,254,737
Amounts Due From Related Parties		138,153,903	-	138,153,903
Deposits & Prepayments		4,749,368	-	4,749,368
Short Term Investments		17,668,606	-	17,668,606
Cash & Cash Equivalents		33,004,997	-	33,004,997
		<u>289,401,537</u>	<u>-</u>	<u>289,401,537</u>
<b>Total Assets</b>		<b><u>542,269,710</u></b>	<b><u>181,505,377</u></b>	<b><u>723,775,086</u></b>
<b>Equity and Liabilities</b>				
Stated Capital		5,000,000	-	5,000,000
Revaluation Reserve	A	30,126,380	92,918,345	123,044,725
Retained Earnings	A,C,D,E	(12,670,832)	38,785,189	26,114,357
<b>Total Equity</b>		<u>22,455,548</u>	<u>131,703,535</u>	<u>154,159,082</u>
<b>Non-current liabilities</b>				
Interest Bearing Loans and Borrowings	B	92,466,259	7,466,724	99,912,983
Retirement Benefit Obligation	C	8,075,875	1,458,880	9,534,755
Deferred Tax Liability	D	40,629,900	38,418,463	79,048,364
		<u>141,172,033</u>	<u>47,324,068</u>	<u>188,496,102</u>
<b>Current liabilities</b>				
Interest Bearing Loans and Borrowings	B	20,075,204	2,477,775	22,552,978
Trade & Other Payables		28,492,369	-	28,492,369
Amount Due To Related Party		301,282,987	-	301,282,987
Advance Received From Customers		6,081,949	-	6,081,949
Income Tax Payable		5,486,508	-	5,486,508
Provisions and Accrued Expenses		17,223,111	-	17,223,111
		<u>378,672,128</u>	<u>2,477,775</u>	<u>381,119,902</u>
<b>Total Liabilities and Equity</b>		<b><u>542,269,710</u></b>	<b><u>181,505,377</u></b>	<b><u>723,775,086</u></b>



2.3.2 Reconciliation of Equity as at 31 March 2020

	Notes	As Per SLFRS for SME's	Reclassification and Remeasurement	As Per SLFRS/LKAS 31.03.2020
<b>Assets</b>				
<b>Non-current assets</b>				
Property, Plant and Equipment	A&E	262,732,018	192,275,692	455,007,710
Right-of-use Assets	B	-	10,754,443	10,754,443
Intangible Assets		2,390,353	-	2,390,353
Other Non-current Financial Assets		24,870,830	(8,003,209)	16,867,621
		<u>289,993,201</u>	<u>195,026,927</u>	<u>485,020,127</u>
<b>Current assets</b>				
Inventories		77,038,373	-	77,038,373
Trade & Other Receivables		53,587,037	-	53,587,037
Amount Due From Related Parties		126,725,680	-	126,725,680
Deposits & Prepayments		7,163,284	-	7,163,284
Income Tax Receivable		263,296	-	263,296
Short Term Investments		18,784,356	-	18,784,356
Cash & Cash Equivalent		105,915,807	8,003,209	113,919,016
		<u>389,477,833</u>	<u>8,003,209</u>	<u>397,481,042</u>
<b>Total Assets</b>		<b><u>679,471,033</u></b>	<b><u>203,030,136</u></b>	<b><u>882,501,169</u></b>
<b>Equity and Liabilities</b>				
Stated Capital		5,000,000	-	5,000,000
Revaluation Reserve	A	28,935,687	103,402,798	132,338,485
Retained Earnings	A,C,D,E	632,783	46,007,213	46,639,996
<b>Total Equity</b>		<u>34,568,470</u>	<u>149,410,012</u>	<u>183,978,481</u>
<b>Non-current liabilities</b>				
Interest Bearing Loans and Borrowings	B	129,939,910	4,470,464	134,410,374
Retirement Benefit Obligation	C	9,547,250	4,086,002	13,633,252
Deferred Tax Liability	D	11,795,874	42,087,400	53,883,274
		<u>151,283,034</u>	<u>50,643,867</u>	<u>201,926,900</u>
<b>Current liabilities</b>				
Interest Bearing Loans and Borrowings	B	21,279,334	2,976,261	24,255,595
Trade & Other Payables		49,632,103	-	49,632,103
Amount Due To Related Party		327,748,728	-	327,748,728
Advance Received From Customers		79,332,515	-	79,332,515
Provisions and Accrued Expenses		15,626,845	-	15,626,845
		<u>493,619,528</u>	<u>2,976,261</u>	<u>496,595,786</u>
<b>Total Liabilities and Equity</b>		<b><u>679,471,033</u></b>	<b><u>203,030,140</u></b>	<b><u>882,501,169</u></b>



**2.3.3 Reconciliation of Total Comprehensive Income for the year ended 31 March 2020**

	Notes	As Per SLFRS for SME's	Reclassification and Remeasurement	As Per SLFRS/LKAS
<b>Revenue</b>		689,647,037	40,516,750	730,163,787
Cost of Sales		(492,769,932)	-	(492,769,932)
Gross Profit		196,877,105	40,516,750	237,393,855
Other Income		58,649,079	(40,516,750)	18,132,329
Administrative Expenses	<b>B&amp;C</b>	(96,491,356)	103,303	(96,388,054)
Selling and Distribution Expenses		(155,496,019)	-	(155,496,019)
Finance Costs	<b>B&amp;E</b>	(12,877,732)	11,021,455	(1,856,276)
<b>Profit Before Tax</b>		(9,338,923)	11,124,758	1,785,835
Income Tax (Expense)/Reversal	<b>D</b>	21,451,848	(1,202,276)	20,249,572
<b>Profit for the Year</b>		12,112,925	9,922,482	22,035,407
<b>Other Comprehensive Income</b>				
Actuarial Gain/(Loss) on Post Employment Benefit Liability	<b>C</b>	-	(2,657,347)	(2,657,347)
Fair Value Gain on Revaluation of Land	<b>A</b>	-	12,908,000	12,908,000
Income Tax on Other Comprehensive Income		-	(2,466,661)	(2,466,661)
<b>Other Comprehensive Income for the year, net of tax</b>		-	<b>7,783,992</b>	<b>7,783,992</b>
<b>Total Comprehensive Income for the year, net of Tax</b>		<b>12,112,925</b>	<b>17,706,474</b>	<b>29,819,399</b>

**Notes**

**A Property, Plant and Equipment**

The Company has elected to measure Land at fair value at the date of transition to SLFRS. At the date of transition to SLFRS, the aggregate of those fair values was Rs. 170,895,452 (31 March 2020 : Rs. 183,803,452). This amount has been recognized in the Revaluation Reserve.

The gain on revaluation recognized in the statement of other comprehensive income for the year ended 31 March 2020 amounted to Rs. 12,908,000.



**B Right-of-use Assets/Lease liability**

Under SLFRS for SMEs, a lease is classified as a finance lease or an operating lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term. Under SLFRS, as explained in Note 2.3.11, a lessee applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets and recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At the date of transition to SLFRS, the Company measured lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition to SLFRS. Right-of-use assets were measured at the amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued lease payments. As a result, the Company recognised an increase of Rs. 17,317,443 (31 March 2020: Rs. 6,468,141) of lease liabilities included under interest-bearing loans & borrowings and Rs. 15,216,049 (31 March 2020: Rs. 4,461,606) of right-of-use assets.

Under SLFRS for LKAS, assets held under finance leases were capitalized and included in property, plant and equipment. Under SLFRS, they are presented under right-of-use assets. At the date of transition to SLFRS, Rs.5,291,550 (31 March 2020: Rs. 3,848,400) was reclassified from property, plant and equipment to right-of-use assets.

**C Retirement Benefit Obligation**

Under SLFRS for SME, the Company previously recognized retirement benefit obligations on a simplified method. Under SLFRS/LKAS, the Company engaged an actuary in order to establish the liability as at the transition date. As a result, the Company recognised an increase of Rs. 1,458,880 (31 March 2020: Rs. 4,086,002) of Retirement Benefit Obligation and Retained Earnings on the transition date.

Consequently, the charge recognized in the statement of profit or loss relating to retirement benefit obligations decreased by Rs. 30,225 and actuarial loss of Rs. 2,627,122 was recognized in other comprehensive income for the year ended 31 March 2020.

**D Deferred Tax Liability**

Transitional adjustments reflected in A, B and C resulted in various temporary differences. According to the accounting policies in Note 24.2, the Company recognized the tax effects of such differences. Deferred tax adjustments are recognised in correlation to the underlying transaction either in retained earnings or a separate component of equity.

**E Borrowing Cost**

The Company has applied LKAS 23 Borrowing Costs and capitalized borrowing costs relating to all qualifying assets after the date of transition.

The Company started the construction of a new Building in January 2019. This project is expected to be completed in December 2021. The carrying amount of the Building at 31 March 2021 was Rs. 195,055,835 (2020: Rs. 144,133,258 and 1 April 2019: Rs. 88,541,648). The Building is financed by a third party in a common arrangement. The amount of borrowing cost capitalised on the date of transition was Rs. 685,426 (2020: Rs. 12,320,640).

Consequently, finance costs recognized in profit or loss for the year ended 31 March 2020 decreased by Rs. 11,635,214.



## 2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future.

### Fair value of Land

The Company measures the land (classified as property, plant and equipment) at revalued amounts, with changes in fair value being recognised in OCI. The lands were valued by reference to transactions involving properties of a similar nature, location and condition.

The Company engaged a valuation specialist to assess fair values as at 1 April 2019, 31 March 2020 and 31 March 2021 for the lands. The key assumptions used to determine the fair value of the properties are provided in Note 3.2 to the Financial Statements.

### Going Concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

### Taxation

Uncertainties exist with respect to the interpretation of complex tax regulation, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and the 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. The Company establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.5.1 Revenue from Contracts with Customers

The Company, as explained in Note 1.2, is in the business of fulfilling orders placed by customers through its online platform, Kapruka.com. The fulfilment of orders are predominantly trade nature transactions for which the Company acts as principal, in addition to which the Company also generates revenue through provision of services such as delivery.



**a) Sale of Goods**

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery. Transactions entered with retail customers are generally settled in advance or at the point of delivery whilst transactions with corporate customers are settled within a credit period of 60 to 90 days.

In determining the transaction price for the sale of goods and the services the Company considers the effects of variable consideration the existence of significant financing, non-cash considerations and consideration payable to customer (if any). However,

- The Company does not offer discounts, warranties or incentives to its customers.
- The Company does not receive long-term advances from its customers for the services which entails a financing element.
- The period between the transfer of the promised service to the customer and when the customer pays for that good will be one year or less

**b) Rendering of Services**

Revenue from rendering of services, particularly relating to delivery are identified as performance obligations satisfied at a point in time and is recognized at the point of delivery.

**c) Presentation and disclosure requirements**

As required for the financial statements, the Company disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

**d) Trade receivables**

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial instruments – initial recognition and subsequent measurement.

**e) Contract Liabilities**

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Company transfers the related goods or services. Contract liabilities are recognised as revenue when the Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

**2.5.2 Expenditure Recognition**

Expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the earnings of specific items of income.

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Repairs and renewals are charged to statement of profit or loss in the year in which the expenditure is incurred.



### 2.5.3 Finance Income and Finance Costs

Finance income comprises interest income on funds invested. Interest income is recognised based on the EIR in the Statement of Profit or Loss.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in the statement of profit or loss.

The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### 2.5.4 Borrowing Cost

Borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of that asset. The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with the in LKAS 23 - Borrowing Costs. The amount so capitalised and the capitalisation rates are disclosed in the Financial Statements.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

### 2.5.5 Fair Value Measurement

The Company measures financial instruments such as financial assets at fair value through profit or loss, and non-financial assets such as Land, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarized in the Note 29

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 Company.

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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as Land. Involvement of external values is decided upon annually by the. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

The Management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Management, in conjunction with the Company's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company 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.

### 2.5.6 Property, Plant and Equipment

The Company applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its owned assets which are held for and use in the provision of the services or for administration purpose and are expected to be used for more than one year.

#### **Basis of recognition**

Property, plant and equipment is recognised if it is probable that future economic benefit associated with the assets will flow to the Company and cost of the asset can be reliably measured.

#### **Basis of measurement**

Items of property, plant & equipment including construction in progress are measured at cost net of accumulated depreciation and accumulated impairment losses, if any, except for land which is measured at fair value.



### Owned assets

The cost of property, plant & equipment includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and includes the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.

When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives.

Revaluation of land is done with sufficient frequency to ensure that the fair value of the land does not differ materially from its carrying amount, and is undertaken by professionally qualified valuers.

Any revaluation surplus is recorded in Other Comprehensive Income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the Statement of Profit or Loss, the increase is recognised in the Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

### Subsequent costs

The cost of replacing a component of an item of property, plant & equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised in accordance with the derecognition policy given below.

The costs of the repair and maintenance of property, plant & equipment are recognised in the Statement of Profit or Loss as incurred.

### Derecognition

The carrying amount of an item of property, plant & equipment is derecognised on disposal; or when no future economic benefits are expected from its use. Any gains and losses on derecognition are recognised (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) in the Statement of Profit or Loss. Gains are not classified as revenue.

### Depreciation

The Provision for depreciation is calculated on the cost or valuation of fixed assets in order to write off such amounts over the estimated useful lives by equal instalments as follows:

Buildings	50 Years
Motor Vehicle	4 Years
Computers	4 Years
Furniture & Fittings	5 Years
Office Equipment	4 Years
Machinery & Equipment	4 Years
Computer Software	10 Years

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised. The asset's residual values, useful lives are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate.



**2.5.7 Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in comprehensive income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as finite.

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 are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

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 statement of comprehensive income when the asset is derecognised.

**2.3.5 Inventories**

Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the Weighted Average Cost (WAC) method. Cost includes direct materials and a portion of manufacturing overhead cost based on normal operating capacity.

The cost incurred in bringing inventories to its present location and conditions are accounted using the following cost formulae.

Trading Items	- At actual cost on weighted average basis.
Finished Goods	- At actual cost on weighted average basis.
Raw Materials	- At actual cost on weighted average basis.

**2.3.6 Financial Instruments**

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

**2.3.6.1 Financial Assets****a) Financial Assets - Initial Recognition and Subsequent Measurement**

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

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

Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under SLFRS 15.



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

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

**b) Subsequent Measurement**

For purposes of subsequent measurement, financial assets are classified in four categories;

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

**Financial assets at amortised cost (debt instruments)**

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

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

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

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

**Financial assets at fair value through OCI (debt instruments)**

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.



**Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

The Company's financial assets at fair value through profit or loss include investment in quoted equity instruments and investment in un-quoted equity instruments under other non-current financial assets.

**c) Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognised when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.



**d) Impairment of Financial Assets**

Further disclosure relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions
- Trade receivables, including contract assets

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

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**2.3.6.2 Financial liabilities**

**a) Initial Recognition and Measurement**

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

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

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

**b) 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 includes derivative financial instruments entered into by the Company 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 Statement of Profit or Loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss so designated at the initial date of recognition, and only if criteria of SLFRS 9 are satisfied. The Company has not designated any financial liability at fair value through profit or loss.



### Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised 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 in finance costs in the Statement of Profit or Loss.

#### c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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 statement of profit or loss.

#### 2.3.6.3 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if;

- There is a currently enforceable legal right to offset the recognised amounts and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### 2.3.6.4 Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.

Such techniques may include:

- Using recent arm's length market transactions.
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

#### 2.3.7 Trade payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into Sri Lankan Rupees using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

#### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.



### 2.3.8 Cash and Cash Equivalents

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

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

### 2.3.9 Retirement Benefit Obligations

The company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. A defined benefit plans define an amount of pension benefit that an employee will receive on retirement, based on the years of service and compensation.

#### **Defined Contribution Plans – Employees’ Provident Fund and Employees’ Trust Fund**

All employees are eligible for Employees’ Provident Fund and Employees’ Trust Fund contributions in line with the prevalent statutes and regulations. The company contributes 12% and 3% of gross employee emoluments to EPF and ETF respectively.

#### **Defined Benefit Plans - Gratuity**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated internally by the Company. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the defined retirement benefit obligations are given in Note 15. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The gratuity liability is not funded in the planned assets.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with LKAS 19 on employee benefits. However, 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.

### 2.3.10 Provisions

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

### 2.3.11 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### 2.3.11.1 Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.



### 2.3.11.2 Right-of-Use Assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Right-of-Use Assets - 1 to 4 years (approximated)

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

### 2.3.11.3 Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

### 2.3.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for Income Tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.



### Deferred Taxation

Deferred tax is provided 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 recognized for all temporary differences, except:

- Where the deferred tax liability arises from an asset or liability in a transaction that affects neither the accounting profit nor the taxable profit.
- Deferred tax assets are recognized for all deductible differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:
- Where the deferred tax assets relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that affects neither the accounting profit nor the taxable profit.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognised outside the Statement of Comprehensive Income is recognised outside the Statement of Comprehensive Income. Deferred tax items are recognised in correlation to the underlying transaction either in the Statement of Comprehensive Income or Statement of Other Comprehensive Income.

### Sales Tax

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable

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

## 2.6 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The following SLFRS have 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.

### SLFRS 17: Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

SLFRS 17 is effective for annual reporting periods beginning on or after 01 January 2023.



**Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)**

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021.

**Amendments to SLFRS 16 - COVID – 19 Related Rent Concessions**

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 Pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from Covid-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 01 June 2020.

**Amendments to SLFRS 3**

The amendments update SLFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to SLFRS 3 a requirement that, for obligations within the scope of LKAS 37, an acquirer applies LKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to LKAS 16**

In March 2021, the ICASL adopted amendments to LKAS16-Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.



**Onerous Contracts - Costs of Fulfilling a Contract – Amendments to LKAS 37**

In March 2021, the ICASL adopted amendments to LKAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

**Amendments to LKAS 1: Classification of Liabilities as Current or Non-current**

In March 2021, ICASL adopted amendments to paragraphs 69 to 76 of LKAS 1 which specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively.

None of the new or amended pronouncements are expected to have a material impact on the consolidated financial statements of the Company in the foreseeable future.



Kapruka Dot Com (Private) Limited  
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

3. PROPERTY, PLANT AND EQUIPMENT

Gross Carrying Amounts	Land	Buildings	Motor Vehicle	Computers	Furniture & Fittings	Office Equipment	Machinery & Equipment	Building in the Course of Construction	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>At Cost/Revaluation</b>									
As at 1st April 2019	227,332,000	41,940,112	76,409,395	5,633,643	4,376,604	9,954,072	2,143,539	88,541,648	456,331,013
Additions	-	-	2,934,750	1,417,425	1,917,690	2,559,558	-	55,591,610	64,421,034
Revaluation	12,908,000	-	-	-	-	-	-	-	12,908,000
Disposals made during the year	-	-	(1,100,000)	(66,250)	-	(138,858)	-	-	(1,305,108)
As at 31 March 2020	240,240,000	41,940,112	78,244,145	6,984,818	6,294,295	12,374,773	2,143,539	144,133,258	532,354,940
Additions	-	-	16,572,002	2,251,367	89,114	1,076,664	-	50,922,576	70,911,724
Revaluation	14,880,000	-	-	-	-	-	-	-	14,880,000
Disposals made during the year	-	-	(100,000)	-	-	-	-	-	(100,000)
As at 31 March 2021	255,120,000	41,940,112	94,716,147	9,236,185	6,383,409	13,451,437	2,143,539	195,055,835	618,046,664

**Depreciation**

At Cost/Revaluation	Land	Buildings	Motor Vehicle	Computers	Furniture & Fittings	Office Equipment	Machinery & Equipment	Building in the Course of Construction	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1st April 2019	-	5,987,294	25,812,974	1,323,452	1,215,407	4,323,253	695,491	-	39,357,871
Charge for the year	-	838,744	28,787,399	2,242,366	1,925,681	3,702,599	629,156	-	38,125,944
Disposals made during the year	-	-	(29,167)	(24,045)	-	(83,374)	-	-	(136,585)
As at 31 March 2020	-	6,826,038	54,571,206	3,541,773	3,141,088	7,942,478	1,324,647	-	77,347,229
Charge for the year	-	838,744	13,893,185	1,670,228	985,041	1,909,421	365,757	-	19,662,377
Disposals made during the year	-	-	(100,000)	-	-	-	-	-	(100,000)
As at 31 March 2021	-	7,664,782	68,364,391	5,212,001	4,126,129	9,851,899	1,690,405	-	96,909,605

As at 01 April 2019	227,332,000	35,952,818	50,596,421	4,310,191	3,161,197	5,630,819	1,448,048	88,541,648	416,973,142
As at 31 March 2020	240,240,000	35,114,074	23,672,939	3,443,045	3,153,207	4,432,295	818,892	144,133,258	455,007,710
As at 31 March 2021	255,120,000	34,275,330	26,351,756	4,024,184	2,257,280	3,599,538	453,135	195,055,835	521,137,058



**3. PROPERTY, PLANT AND EQUIPMENT (Contd...)**

- 3.1** During the financial period, Company has acquired Property, Plant and Equipment to the aggregate value Rs. 70,911,724 (2020 - Rs. 64,421,034) Cash payments amounting to Rs.70,911,724 (2020 - Rs. 64,421,034) were made during the period for acquisition of Property, Plant and Equipment.
- 3.2** As part of the company's impairment assessment over Property Plant and Equipment, the Company engaged W.A.T.I.P Jayatilaka an accredited independent valuer, to determine the fair value of its land. Fair value is determined by reference to market-based evidence. Valuations are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. Valuations (Level 3) have been carried out effective 1 April 2019, 31 March 2020 and 31 March 2021 as reflected in the below note.

Description	Valuation Technique	Significant Unobservable Input	Range Rs.			Fair Value Rs.		
			31 March 2021	31 March 2020	01 April 2019	31 March 2021	31 March 2020	01 April 2019
Land	Market Approach	Price per Perch	6,000,000 - 5,350,000	5,000,000 - 5,750,000	4,750,000 - 5,350,000	255,120,000	240,240,000	227,332,000

**4. LEASES**

**4.1 Right of Use Asset**

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability (present value of future lease payments discounted using the Company's incremental borrowing rate) adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The movement of Right of Use Lease assets of the Company is as follows;

At Gross Value	Land/Building			Motor Vehicles	Total
	Udahamulla Rs.	Nawala Rs.	Raththanapitiya Rs.		
As at 01.04.2019	-	-	-	5,772,600	5,772,600
Recognized on first time adoption As at 01.04.2019	4,478,001	3,389,727	2,056,771	-	9,924,499
Balance As at 31.03.2020	4,478,001	3,389,727	2,056,771	5,772,600	15,697,099
Additions	-	-	-	14,667,500	14,667,500
Advance Payment for Leases	-	-	-	6,891,990	6,891,990
Balance As at 31.03.2021	4,478,001	3,389,727	2,056,771	27,332,090	37,256,589

Depreciation	Land/Building			Motor Vehicles	Total
	Udahamulla Rs.	Nawala Rs.	Raththanapitiya Rs.		
As at 01.04.2019	-	-	-	481,050	481,050
Recognized on first time adoption As at 01.04.2019	-	-	-	-	-
Charge for the year	1,414,106	753,273	851,078	1,443,150	4,461,606
Balance As at 31.03.2020	1,414,106	753,273	851,078	1,924,200	4,942,656
Charge for the year	1,414,106	753,273	851,078	4,138,086	7,156,542
Balance As at 31.03.2021	2,828,211	1,506,545	1,702,156	6,062,286	12,099,198

Net book values	Land/Building			Motor Vehicles	Total
	Udahamulla Rs.	Nawala Rs.	Raththanapitiya Rs.		
Balance As at 01.04.2019	4,478,001	3,389,727	2,056,771	5,291,550	15,216,049
Balance As at 31.03.2020	3,063,896	2,636,454	1,205,694	3,848,400	10,754,443
Balance As at 31.03.2021	1,649,790	1,883,181	354,616	21,269,804	25,157,391



## 4. INITIAL APPLICATION OF SLFRS 16 - LEASES (Contd...)

## 4.2 Lease Liability/Lease Creditor

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate can not be readily determined, the Company's incremental borrowing rate. The movement of Lease creditor for the period is as follows;

	Land/Building			Motor Vehicles Rs.	Total Rs.
	Udahamulla Rs.	Nawala Rs.	Raththanapitiya Rs.		
As at 01.04.2019	-	-	-	7,392,944	7,392,944
Recognized on first time adoption As at 01.04.2019	4,478,001	3,389,727	2,056,771	-	9,924,499
Interest Expense Recognised in Profit or Loss	274,727	218,976	120,055	755,302	1,369,061
Repayment of Liability	(1,430,000)	(776,533)	(885,000)	(3,990,366)	(7,081,899)
Balance As at 31.03.2020	3,322,729	2,832,170	1,291,826	3,402,578	10,849,303
Additions	-	-	-	14,667,500	14,667,500
Interest Expense Recognised in Profit or Loss	187,510	174,561	61,336	913,890	1,337,296
Repayment of Liability	(1,573,000)	(866,667)	(960,000)	(4,614,521)	(8,014,187)
Balance As at 31.03.2021	1,937,238	2,140,064	393,162	13,455,557	17,926,021

	Land/Building			Motor Vehicles Rs.	Total Rs.
	Udahamulla Rs.	Nawala Rs.	Raththanapitiya Rs.		
<b>As at 01.04.2019</b> Amount repayable within 1 year	1,155,273	557,557	764,945	3,990,366	6,468,141
Amount repayable after 1 year	3,322,729	2,832,170	1,291,826	3,402,578	10,849,303
	4,478,001	3,389,727	2,056,771	7,392,944	17,317,443
<b>As at 31.03.2020</b> Amount repayable within 1 year	1,385,490	692,106	898,664	2,041,700	5,017,961
Amount repayable after 1 year	1,937,238	2,140,064	393,162	1,360,878	5,831,342
	3,322,729	2,832,170	1,291,826	3,402,578	10,849,303
<b>As at 31.03.2021</b> Amount repayable within 1 year	1,646,935	785,586	393,162	5,549,654	8,375,337
Amount repayable after 1 year	290,303	1,354,478	-	7,905,904	9,550,684
	1,937,238	2,140,064	393,162	13,455,557	17,926,021

## 5. INTANGIBLE ASSETS

## Computer Software

## 5.1 Cost

	2021.03.31 Rs.	2020.03.31 Rs.	2019.04.01 Rs.
As at 1st April	6,323,777	5,622,395	5,035,665
Additions	-	701,382	586,730
Total Gross Carrying Amount As at 31 March	6,323,777	6,323,777	5,622,395

## 5.2 Amortization

As at 1st April	3,933,424	3,438,037	3,034,764
Amortization for the year	508,882	495,387	403,273
As at 31 March	4,442,306	3,933,424	3,438,037

## 5.3 Net Book Value

	1,881,471	2,390,353	2,184,358
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6. SHORT TERM INVESTMENT IN FIXED DEPOSIT			2021.03.31	2020.03.31	2019.04.01
			Rs.	Rs.	Rs.
Nations Trust Bank PLC			12,856,835	11,284,356	10,168,606
Siyapatha Finance PLC			-	7,500,000	7,500,000
			<u>12,856,835</u>	<u>18,784,356</u>	<u>17,668,606</u>
7. OTHER NON CURRENT FINANCIAL ASSETS			2021.03.31	2020.03.31	2019.04.01
			Rs.	Rs.	Rs.
7.1 Quoted Investments	Institution	No.of Units			
Investment in Commercial Papers	LOLC Holdings PLC	-	-	7,967,621	-
			<u>-</u>	<u>7,967,621</u>	<u>-</u>
7.2 Non-Quoted Investments		No. of Shares	2021.03.31	2020.03.31	2019.04.01
Convertible Preference Shares	Grasshoppers (Pvt) Ltd	8,900	8,900,000	8,900,000	-
Less : Provision for Impairment			(4,450,000)	-	-
			<u>8,900</u>	<u>4,450,000</u>	<u>8,900,000</u>
			<u>4,450,000</u>	<u>16,867,621</u>	<u>-</u>
8. INVENTORIES			2021.03.31	2020.03.31	2019.04.01
			Rs.	Rs.	Rs.
Trading Items			58,039,404	58,976,401	35,684,480
Finish Goods			453,223	-	215,754
Raw Materials			13,385,873	18,061,972	16,669,692
			<u>71,878,500</u>	<u>77,038,373</u>	<u>52,569,926</u>
Less: Provision for Slow Moving Inventory			(5,832,037)	-	-
			<u>66,046,462</u>	<u>77,038,373</u>	<u>52,569,926</u>
9. TRADE AND OTHER RECEIVABLES			2021.03.31	2020.03.31	2019.04.01
			Rs.	Rs.	Rs.
Trade Receivables			20,918,304	27,176,646	29,092,279
Less: Allowance for Expected Credit Losses			(4,196,527)	-	-
			<u>16,721,778</u>	<u>27,176,646</u>	<u>29,092,279</u>
Staff Debtors			189,756	958,599	1,312,521
Welfare Receivable			149,500	1,104,315	629,973
Advance Payments to Suppliers			53,106,691	21,107,865	10,847,677
Interest Receivable			229,264	920,997	933,991
ESC Receivable			-	2,232,136	-
VAT Receivable			-	-	438,295
Other Receivables			460,562	86,478	-
			<u>70,857,551</u>	<u>53,587,037</u>	<u>43,254,737</u>
10. AMOUNT DUE FROM RELATED PARTIES			2021.03.31	2020.03.31	2019.04.01
			Rs.	Rs.	Rs.
Kapruka Web Solutions (Private) Limited	Affiliate		5,795,983	3,102,442	2,026,115
Java Lounge (Private) Limited	Affiliate		71,875,587	74,451,643	79,086,508
Kapruka Global Shop (Private) Limited	Affiliate		26,936,979	42,593,986	43,849,753
Grasshoppers (Private) Limited	Affiliate		7,921,472	3,061,472	1,588,690
Kapruka Productions (Private) Limited	Affiliate		2,410,175	3,516,136	11,602,838
Lexington Residencies (Private) Limited	Affiliate		69,900	-	-
Superbox (Private) Limited	Affiliate		169,916	-	-
			<u>115,180,012</u>	<u>126,725,680</u>	<u>138,153,903</u>

The above amounts are unsecured and have no credit periods attached to the same.



11. CASH AND CASH EQUIVALENTS

	2021.03.31	2020.03.31	2019.04.01
<b>11.1 Favorable Cash and Cash Equivalents Balance</b>			
Cash and Bank Balances	75,080,415	113,919,016	33,004,997
<b>11.2 Unfavorable Cash and Cash Equivalent Balances</b>			
Bank Overdraft	(17,324,978)	(168,745)	(568,635)
<b>Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement</b>	<b>57,755,437</b>	<b>113,750,271</b>	<b>32,436,362</b>

12. DEPOSITS AND PREPAYMENTS

	2021.03.31	2020.03.31	2019.04.01
	Rs.	Rs.	Rs.
Office Insurance	126,859	123,064	87,626
Service Agreement	451,438	446,890	505,908
Advertisement	42,866	30,611	27,792
Medical and Workman Insurances	128,537	117,374	131,745
Prepayment For Vehicle Insurance	918,058	1,243,870	954,290
Rent Deposits	4,267,745	3,132,995	2,142,995
Refundable Deposits	95,500	95,500	95,500
Assessments Tax	151,209	151,209	58,425
Prepayment For Membership Fee	419,878	414,128	183,003
Investment - Head Office	658,095	658,095	558,333
	<b>8,027,549</b>	<b>7,163,284</b>	<b>4,749,368</b>

13. STATED CAPITAL

	2021		2020		2019	
	Number	Rs.	Number	Rs.	Number	Rs.
Fully Paid Ordinary Shares						
Balance at the Beginning of the Year	500,000	5,000,000	500,000	5,000,000	500,000	5,000,000
Issued During The Year	3,876,812	267,500,028	-	-	-	-
Balance at the End of the Year	<b>4,376,812</b>	<b>272,500,028</b>	<b>500,000</b>	<b>5,000,000</b>	<b>500,000</b>	<b>5,000,000</b>

14. INTEREST BEARING LOANS AND BORROWINGS

	2021.03.31			2020.03.31			2019.04.01		
	Amount Repayable Within 1 Year	Amount Repayable After 1 Year	Total	Amount Repayable Within 1 Year	Amount Repayable After 1 Year	Total	Amount Repayable Within 1 Year	Amount Repayable After 1 Year	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank Loans (14.1)	65,219,756	121,350,339	186,570,096	19,068,890	128,579,032	147,647,922	15,516,203	89,063,680	104,579,883
Lease Liabilities	8,375,337	9,550,684	17,926,021	5,017,961	5,831,342	10,849,303	6,468,141	10,849,303	17,317,443
Bank Overdraft	17,324,978	-	17,324,978	168,745	-	168,745	568,635	-	568,635
	<b>90,920,072</b>	<b>130,901,024</b>	<b>221,821,095</b>	<b>24,255,595</b>	<b>134,410,374</b>	<b>158,665,969</b>	<b>22,552,978</b>	<b>99,912,983</b>	<b>122,465,961</b>

14.1 Loans and Borrowings

	As at 01.04.2019	New Loans Obtained	Repayment	Exchange (Gain)/Loss	As at 01.04.2020	New Loans Obtained	Repayment	Exchange (Gain)/Loss	As at 31.03.2021
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Union Bank of Colombo PLC	99,548,530	46,415,396	(9,593,673)	11,277,669	147,647,922	204,782,300	(170,231,875)	(2,045,209)	180,153,137
Nations Trust Bank PLC	5,031,354	-	(5,031,354)	-	-	9,500,000	(3,083,041)	-	6,416,959
	<b>104,579,884</b>	<b>46,415,396</b>	<b>(14,625,027)</b>	<b>11,277,669</b>	<b>147,647,922</b>	<b>214,282,300</b>	<b>(173,314,916)</b>	<b>(2,045,209)</b>	<b>186,570,096</b>

15. RETIREMENT BENEFIT OBLIGATIONS - GRATUITY

	2021.03.31	2020.03.31
	Rs.	Rs.
Balance as at the Beginning of the Year	13,633,252	9,534,755
Current Service Cost	1,387,139	1,312,019
Interest Cost	613,271	494,131
Actuarial (Gain)/Loss	1,754,881	2,657,347
Payments During the Year	(236,600)	-
	<b>16,152,943</b>	<b>14,008,252</b>



Kapruka Dot Com (Private) Limited  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 March 2021

**15. RETIREMENT BENEFIT OBLIGATIONS - GRATUITY (Contd...)**

An actuarial valuation of the retirement gratuity payable was carried out as at 1 April 2019, 31 March 2020 and 31 March 2021 internally by the Company using the “Projected Unit Credit Method (PUC)”, the method recommended by the Sri Lanka Accounting Standard - LKAS 19 on “Employee Benefits”.

**15.1 The Principal Assumptions used in determining Defined Benefit Obligation are shown below:**

	2021.03.31	2020.03.31	2019.04.01
Discount Rate	6.75%	6.39%	9.33%
Salary Increment	6.00%	8.61%	6.00%
Staff Turnover	20.20%	19.40%	35.75%
Retirement Age	60 Years	60 Years	60 Years

**15.2 A Sensitivity was carried out as follows,**

	Effect on Comprehensive Income Increase / (reduction)		Effect on employee benefit obligation Increase / (reduction) in the Liability	
	Rs.		Rs.	
	+ 1 %	- 1 %	+ 1 %	- 1 %
<b>Sensitivity to Discount Rate</b>				
31 March 2021	574,191	(606,497)	(574,191)	606,497
31 March 2020	552,900	(585,045)	(552,900)	585,045
1 April 2019			(218,839)	226,521
<b>Sensitivity to Salary Increment Rate</b>				
31 March 2021	(605,040)	583,498	605,040	(583,498)
31 March 2020	(567,379)	546,804	567,379	(546,804)
1 April 2019			231,542	(227,703)

**16. TRADE AND OTHER PAYABLES**

	2021.03.31	2020.03.31	2019.04.01
	Rs.	Rs.	Rs.
Trade Creditors - Related Parties (Note 16.1)	-	3,032,419	7,429,086
Others	34,153,346	46,599,684	21,063,282
	<u>34,153,346</u>	<u>49,632,103</u>	<u>28,492,369</u>

**16.1 Trade Payables - Related Parties**

	2021.03.31	2020.03.31	2019.04.01
	Rs.	Rs.	Rs.
Kapruka Productions (Pvt) Ltd	-	2,235,353	5,444,625
Kapruka Global Shop (Pvt) Ltd	-	797,066	38,182
Java Lounge (Pvt) Ltd	-	-	1,946,280
	<u>-</u>	<u>3,032,419</u>	<u>7,429,086</u>

The above amounts are unsecured and have no credit periods attached to the same.

**17. PROVISIONS AND ACCRUED EXPENSES**

	2021.03.31	2020.03.31	2019.04.01
	Rs.	Rs.	Rs.
Provisions	998,112	669,598	6,163,406
Accrued Expenses	24,433,520	14,957,248	11,059,705
	<u>25,431,632</u>	<u>15,626,845</u>	<u>17,223,111</u>



18. AMOUNT DUE TO RELATED PARTY	Relationship	2021.03.31 Rs.	2020.03.31 Rs.	2019.04.01 Rs.
Kapruka LLC	Affiliate	-	324,772,411	300,278,273
Kapruka Goodwill Foundation	Affiliate	911,231	2,976,317	1,004,713
		<u>911,231</u>	<u>327,748,728</u>	<u>301,282,987</u>

The above amounts are unsecured and have no credit periods attached to the same.

19. REVENUE FROM CONTRACTS WITH CUSTOMERS	2021 Rs.	2020 Rs.
<b>19.1 Disaggregation of Revenue</b>		
<b>Sale of Goods</b>		
Cakes	301,286,157	219,815,331
Flowers	98,022,885	126,023,739
Fruit Gift Items	45,129,905	38,583,572
Other Gift Items	446,248,780	295,133,366
Merchandising	343,057	3,893,691
	<u>891,030,785</u>	<u>683,449,699</u>
<b>Rendering of Services</b>		
Delivery Income	70,945,512	40,516,750
Other services	6,065,259	6,197,338
	<u>77,010,771</u>	<u>46,714,088</u>
	<u>968,041,555</u>	<u>730,163,787</u>
<b>19.2 Revenue from Customer Segments</b>		
Retail Customers	934,556,641	679,670,963
Corporate Customers	33,484,914	50,492,824
	<u>968,041,555</u>	<u>730,163,787</u>
<b>19.3 Contract balances</b>		
Trade Receivables	16,721,778	27,176,646
Contract Liabilities	18,916,396	79,332,515

Contract liabilities include advances received from customers to deliver related goods or services

20. OTHER INCOME	2021 Rs.	2020 Rs.
Profit on Disposal of Assets	60,000	339,915
Interest Income	3,264,197	3,759,318
Vehicle Rent Income	-	720,000
Exchange Gain	10,920,563	13,308,687
Other Income	-	4,408
	<u>14,244,760</u>	<u>18,132,329</u>



21. FINANCE COST	2021 Rs.	2020 Rs.
Overdraft Interest	72,136	103,893
Bank Loan Interest	233,622	203,980
Leasing Interest	1,337,296	1,369,061
Other Finance Expenses	139,120	179,343
	<u>1,782,173</u>	<u>1,856,276</u>
22. PROFIT/(LOSS) FROM BEFORE TAX	2021 Rs.	2020 Rs.
Stated after Charging /(Crediting)		
<b>Included in Direct Expense</b>		
Depreciation	365,757	629,156
<b>Included in Administrative Expenses</b>		
Employees Benefits including the following		
- Defined Benefit Plan Costs - Gratuity	2,000,410	1,836,376
- Defined Contribution Plan Costs - EPF & ETF	2,369,890	2,571,029
Directors' Fee and Emoluments	8,776,786	9,650,882
Depreciation	8,930,773	9,206,676
Allowance for Expected Credit Losses	4,196,527	-
Auditors Remuneration	600,000	442,186
<b>Included in Selling and Distribution Costs</b>		
Depreciation	13,893,185	30,230,549
Advertising and Promotional Expenses	131,912	109,121
23. INCOME TAX EXPENSE	2021 Rs.	2020 Rs.
<b>Current Income Tax</b>		
Current Income Tax Charge (23.1)	22,352,177	6,974,551
Under/(Over) Provision of current taxes in respect of prior years	(615,310)	407,628
	<u>21,736,867</u>	<u>7,382,179</u>
Deferred Tax Charge /(Reversal) (23.2)	2,398,343	(27,631,750)
<b>Income Tax Expense reported in the Income Statement</b>	<u>24,135,210</u>	<u>(20,249,572)</u>



## 23. INCOME TAX EXPENSE (Contd...)

## 23.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :

	2021 Rs.	2020 Rs.
Accounting Profit/(Loss) Before Tax	68,428,494	1,785,835
Aggregate Disallowed Income	(5,012,497)	(13,399,061)
Aggregate Disallowed Expenses	51,393,319	67,301,724
Aggregate Allowed Income	-	-
Aggregate Allowable Expenses	(24,939,443)	(22,464,485)
<b>Business Income</b>	<b>89,869,873</b>	<b>33,224,013</b>
<b>Income From Other Sources</b>	<b>3,264,197</b>	<b>3,732,414</b>
Total Statutory/Assessable Income	93,134,071	36,956,427
Less: Qualifying payments	-	-
<b>Assessable Income / Taxable Income</b>	<b>93,134,071</b>	<b>36,956,427</b>
Income Tax at 28% on Taxable Profit	-	7,760,850
Income Tax at 24% on Taxable Profit	22,352,177	2,217,386
Current Income Tax Expense	22,352,177	9,978,235

## 23.2 Deferred Tax

	Statement of Financial Position			Statement of Comprehensive Income		Income Statement	
	2021 Rs.	2020 Rs.	2019 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
<b>Deferred Tax Liability</b>							
Accelerated Depreciation on Property, Plant and Equipment	9,305,288	6,262,179	34,455,759	-	-	3,043,109	(28,193,580)
Revaluation on Properties and Equipments	47,684,028	51,464,967	47,850,727	(3,780,938)	3,614,240	-	-
Leases	1,735,529	-	-	-	-	1,735,529	-
	<u>58,724,845</u>	<u>57,727,145</u>	<u>82,306,485</u>	<u>(3,780,938)</u>	<u>3,614,240</u>	<u>4,778,638</u>	<u>(28,193,580)</u>
<b>Deferred Tax Assets</b>							
Defined Benefit Plans	(4,116,466)	(3,817,311)	(2,669,731)	(299,156)	(1,147,579)	-	-
Allowance for Expected Credit	(1,007,166)	-	-	-	-	(1,007,166)	-
Provision for Slow Moving	(1,399,689)	-	-	-	-	(1,399,689)	-
Leases	-	(26,561)	(588,390)	-	-	26,561	561,830
	<u>(6,523,322)</u>	<u>(3,843,871)</u>	<u>(3,258,122)</u>	<u>(299,156)</u>	<u>(1,147,579)</u>	<u>(2,380,295)</u>	<u>561,830</u>
Net Deferred Tax Liabilities	<u>52,201,524</u>	<u>53,883,274</u>	<u>79,048,364</u>	<u>(4,080,094)</u>	<u>2,466,661</u>	<u>2,398,343</u>	<u>(27,631,750)</u>

The deferred tax has been computed at the effective tax rate of 24% (2020 & 2019 - 28%)

Revised income tax rates were proposed to the Inland Revenue Act, No. 24 of 2017 and was implemented with effect from January 01, 2020. CA Sri Lanka issued Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 Income Tax to provide an interpretation on the application of tax rates. Consequent to the change in tax rate from 28% to 24%, a charge of Rs. 585,790 was recognized in the income statement and a reversal of Rs. 7,261,260 was recognized in the statement of other comprehensive income.



**24. EARNINGS PER SHARE**

**24.1** Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

**24.2** The following reflects the Income and Share data used in the Basic Earnings Per Share computations.

<b>Amount Used as the Numerator:</b>	<b>2021 Rs.</b>	<b>2020 Rs.</b>
Profit for the Year	44,293,284	22,035,407
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	<u>44,293,284</u>	<u>22,035,407</u>
<b>Number of Ordinary Shares Used as Denominator:</b>	<b>2021 Number</b>	<b>2020 Number</b>
Weighted Average number of Ordinary Shares	<u>4,376,812</u>	<u>500,000</u>
<b>Earnings Per Share</b>	<u><b>10.12</b></u>	<u><b>44.07</b></u>

**25. COMMITMENTS AND CONTINGENCIES****Capital Expenditure Commitments**

The company has commitment for construct of Building incidental to the ordinary course of business as at 31st march 2021.

	<b>2021 Rs.</b>	<b>2020 Rs.</b>
Contracted but not provided for	<u>180,153,137</u>	<u>195,747,314</u>
	<u>180,153,137</u>	<u>195,747,314</u>

**26. ASSETS PLEDGED**

The following assets have been pledged as security for liabilities:

<b>Nature of Assets</b>	<b>Nature of Liability</b>	<b>Carrying Amount Pledged</b>		<b>Included Under</b>
		<b>2021 Rs.</b>	<b>2020 Rs.</b>	
Land (31.08 Perches Land)	1.32 Mn USD Loan from Union Bank 225 Mn LKR Loan from Union Bank	41,521,750	41,521,750	Land
NTB Savings Account	9.5 Mn LKR Covid Loan from Nations Trust Bank	8,397,618	-	Cash and Cash Equivalents



Kapruka Dot Com (Private) Limited  
NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 2021

27. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

27.1 Relationship	Kapruka Web Solutions (Pvt) Ltd		Affiliate Company Java Lounge (Pvt) Ltd		Affiliate Company Kapruka Global Shop (Pvt) Ltd		Affiliate Company Kapruka Goodwill Foundation (Pvt) Ltd		Affiliate Company Kapruka Productions (Pvt) Ltd		Affiliate Company Grasshoppers (Pvt) Ltd		Affiliate Company Kapruka LLC		Affiliate Company Superbox		Affiliate Company Lexington Residences (Pvt) Ltd		
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	
Nature of the Transaction	3,102,442	2,026,115	74,451,643	79,086,508	41,735,902	43,849,753	(2,976,317)	(1,004,713)	1,280,782	11,602,838	3,016,173	1,588,690	(324,772,411)	(300,278,273)	-	-	-	-	
As at 01 April	(5,875,000)	(2,400,000)	(21,356,225)	(12,340,362)	(3,357,452)	1,122,353	(1,462,217)	-	(109,467,779)	(120,971,879)	-	-	-	(24,494,138)	-	-	-	-	
Share Issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Payments Made/Received	7,295,000	3,100,000	12,353,103	(37,569,471)	(7,921,425)	(4,377,867)	2,297,170	(3,986,423)	103,119,642	88,873,914	4,500,000	(483,537)	267,500,028	-	-	-	-	-	
Consultancy Charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Expenses incurred on behalf	1,273,541	376,328	6,427,065	45,274,968	(3,520,046)	1,141,662	1,230,133	2,014,819	7,477,529	21,775,910	385,312	1,911,020	52,272,383	-	169,916	-	69,900	-	
Exchange (Gain) / Loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
As at 31 March	5,795,983	3,102,442	71,875,587	74,451,643	26,936,979	41,735,902	(911,231)	(2,976,317)	2,410,175	1,280,782	7,901,485	3,016,173	(5,000,000)	(324,772,411)	169,916	-	69,900	-	
As at 31 March	5,795,983	3,102,442	71,875,587	74,451,643	26,936,979	42,593,986	-	-	2,410,175	3,516,136	7,901,485	3,016,173	-	(324,772,411)	169,916	-	69,900	-	
Amounts Receivables	-	-	-	-	-	(858,084)	(911,231)	(2,976,317)	-	-	-	-	-	-	-	-	-	-	-
Amounts Payables	5,795,983	3,102,442	71,875,587	74,451,643	26,936,979	41,735,902	(911,231)	(2,976,317)	2,410,175	1,280,783	7,901,485	3,016,173	(324,772,411)	(324,772,411)	169,916	-	69,900	-	

27.2 Transactions with Key Management Personnel of the Company

The Key Management Personnel of the Company are the members of its Board of Directors.

Key Management Personnel Compensation

	2021 Rs.	2020 Rs.
Short Term Employee Benefits	10,786,405	11,144,335
Post Employment and Termination Benefits	159,912	294,911
	<u>10,946,317</u>	<u>11,439,246</u>

28. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no significant events occurring after the reporting date that require adjustments to or disclosure in the financial statements.



Kapruka Dot Com (Private) Limited  
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

29. FAIR VALUE MEASUREMENT

The fair value is the price that would be received to sell an assets or paid to transfer a liability in an orderly transaction between market participants of the measurement date.

29.1 Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments and certain non-financial asset that are carried in the Financial Statements.

	Carrying Amount		Fair Value	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
<b>Financial Assets</b>				
Equity instrument designated at fair value through profit or loss				
- Un-Quoted equity shares	8,900,000	8,900,000	8,900,000	8,900,000
Other financial instruments designated at fair value through profit or loss				
- Money Market Funds	-	7,967,621	-	7,967,621
Financial Assets Carried at Amortized Costs				
- Trade and Other Receivables	70,857,551	53,587,037	70,857,551	53,587,037
- Amount Due From Related Parties	115,180,012	126,725,680	115,180,012	126,725,680
Cash and Short Term Deposits	87,937,251	132,703,372	87,937,251	132,703,372
<b>Total</b>	<b>282,874,813</b>	<b>329,883,709</b>	<b>282,874,813</b>	<b>329,883,709</b>
<b>Non-Financial Assets</b>				
Land	255,120,000	240,240,000	255,120,000	240,240,000
<b>Total</b>	<b>255,120,000</b>	<b>240,240,000</b>	<b>255,120,000</b>	<b>240,240,000</b>
<b>Financial Liabilities</b>				
Interest-bearing Loans and Borrowings				
- Obligations under Finance Leases	13,455,557	3,402,578	13,455,557	3,402,578
- Long Term Loans	130,901,024	134,410,374	130,901,024	134,410,374
- Short Term Loans and Bank Overdraft	90,920,072	24,255,595	90,920,072	24,255,595
Trade and Other Payables	34,153,346	49,632,103	34,153,346	49,632,103
Amount Due to Related parties	911,231	327,748,728	911,231	327,748,728
<b>Total</b>	<b>270,341,229</b>	<b>539,449,378</b>	<b>270,341,229</b>	<b>539,449,378</b>

29.2 The following methods and assumptions were used to estimate the fair values:

Cash and short term deposits, trade and other receivables, amounts due to/from related parties and trade payables approximate their carrying amounts largely due to the short term maturities of these instruments.

Long term loans and financial leases approximate their carrying amount as majority of the loan portfolio consist of loans obtained at variable interest rates.

29.3 Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments and non financial assets by valuation technique:  
Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 : Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March the Company held the following financial assets and other non-financial assets carried at fair value in the Statement of Financial Position:

Fair value measurement hierarchy for assets as at 31 March 2021:

	Date of valuation	Fair Value Measurement Using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Property Plant &amp; Equipment</b>					
Land	31 March 2021	240,240,000	-	-	240,240,000
<b>Investments</b>					
Investment In Non-Quoted Shares		4,450,000	-	-	4,450,000
		<b>244,690,000</b>	<b>-</b>	<b>-</b>	<b>244,690,000</b>

During the reporting period ended 31 March 2021 there were no transfers between Level 1 fair value measurements



**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's principal financial liabilities, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company has loans and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk.

The Company's senior management oversees the management of these risks. The senior management is supported by the Board of Directors (BOD) that advises on financial risks and the appropriate financial risk governance framework for the Company. BOD provides assurance to the Company's senior management that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite. It is the Company's policy that all activities for risk management purposes are required to be approved by Board of Directors of Kapruka Dot Com (Pvt) Ltd.

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

**30.1 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 prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits and available-for-sale investments.

The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the entity's financial performance.

**30.1.1 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 Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with fixed interest rates.

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Company's policy is to maintain an appropriate balance between fixed and variable rate borrowings.

**30.1.2 Interest Rate Sensitivity**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase / decrease in basis points	Increase / decrease Rate	Effect on profit before tax LKR
<b>As at 31 March 2021</b>	+ 50	+ 0.5%	(900,766)
	- 50	- 0.5%	900,766
<b>As at 31 March 2020</b>	+ 50	+ 0.5%	(738,240)
	- 50	- 0.5%	738,240
<b>As at 01 April 2019</b>	+ 50	+ 0.5%	(497,743)
	- 50	- 0.5%	497,743

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

**30.1.3 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 Company's exposure to the risk of changes in foreign exchange rates relates primarily to the import of raw materials, finished goods and packing materials.



**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)****30.1.4 Foreign currency sensitivity**

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Company's pre-tax equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax LKR
<b>As at 31 March 2021</b>	+ 5%	979,913
	- 5%	(979,913)
<b>As at 31 March 2020</b>	+ 5%	1,741,036
	- 5%	(1,741,036)
<b>As at 01 April 2019</b>	+ 5%	644,217
	- 5%	(644,217)

**30.2 Credit Risk**

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

**30.2.1 Trade Receivables**

Customer credit risk is managed by each company subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on the established credit risk evaluation policy and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored.

Minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

Management has assessed the existing and anticipated effect of COVID -19 on recoverability of trade and other receivable and concluded that Company don't have significant doubt on recoverability of trade and other receivable. Therefore, no incremental impairment allowance has been recognised.

**The Aging Analysis of Trade Receivables is as follows:**

As at 31 March	Total	Neither past due nor impaired	0-60 days	60-180 days	180-365 days	> 365 days
Balance as at 31 March 2021	20,918,304	4,613,990	1,990,249	5,561,874	3,085,259	5,666,932
Balance as at 31 March 2020	27,176,646	2,162,096	4,324,192	10,486,289	9,970,798	233,270
Balance as at 1 April 2019	48,012,758	11,678,779	10,813,684	24,006,379	865,095	648,821



**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)****30.2.2 Cash Deposits**

Credit risk from balances with banks is managed in accordance with the Company treasury policy. Investments of surplus funds are made only with approved counterparties as per this policy.

**30.3 Liquidity Risk**

The Company monitors its risk to a shortage of funds by setting up a minimum liquidity level. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and finance leases. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

Year ended 31 March 2021	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bank Loans	-	17,324,978	65,219,756	121,350,339	-	203,895,074
Lease Liability	-	2,093,834	6,281,503	9,550,684	-	17,926,021
<b>Year ended 31 March 2020</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Bank Loans	-	168,745	19,068,890	134,410,374	-	153,648,008
Lease Liability	-	1,254,490	3,763,470	5,831,342	-	10,849,303
<b>Year ended 31 March 2019</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Bank Loans	-	568,635	15,516,203	89,063,680	-	105,148,518
Lease Liability	-	997,592	5,470,549	10,849,303	-	17,317,443

Management has assessed the existing and anticipated effect of COVID -19 on liquidity of the Company to settle liabilities when it is due and management are satisfied that the Company don't have significant concerns relating to the Company's liquidity.

**30.3.1 Capital Management**

Capital includes ordinary shares. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

As at 31 March	2021	2020	2019
Debt/Equity Ratio	43%	86%	79%



**KAPRUKA DOT COM (PRIVATE) LIMITED**

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



# Kapruka Dot Com (Private) Limited

## DETAILED INCOME STATEMENT

Year ended 31 March 2021

<b>STATEMENT - I</b>	<b>2021</b>	<b>2020</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>COST OF SALES - DIRECT EXPENSES</b>		
Purchase Expenses	2,157,282	2,227,086
Direct Salaries and Wages	17,784,096	18,940,761
Employee's Provident Fund	1,323,859	1,322,103
Employee's Trust Fund	328,717	330,526
Staff Transport	156,143	412,658
Electricity	6,063	4,893
Water	30,660	6,899
Machinery Depreciation	365,757	629,156
Out Labour Expenses	1,297,154	1,165,381
	<u>23,449,731</u>	<u>25,039,462</u>

<b>STATEMENT - II</b>	<b>2021</b>	<b>2020</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>SELLING AND DISTRIBUTION EXPENSES</b>		
Salaries and Allowances	42,610,117	50,188,056
Employee's Provident Fund	3,892,140	5,195,649
Employee's Trust Fund	972,897	1,298,912
Fuel Expenses	13,863,554	13,438,584
Advertisement	131,912	109,121
Packing and Printing	1,112,878	1,709,776
Repair and Maintenance Motor Vehicles	4,457,069	4,089,639
Distribution Expenses	54,243,226	36,340,616
Insurance and License Renewal	1,539,694	1,678,632
Sample Test Expenses	-	102,113
Rental Car Expenses	-	4,025
Other Expenses	2,240,565	1,134,008
Depreciation	13,893,185	28,787,399
Depreciation of Right-of-use Assets	4,138,086	1,443,150
Staff Welfare	1,327,058	2,924,460
Staff Entertainment	373,500	521,588
Staff Transport	453,573	1,063,460
Staff Training and Motivation	-	181,554
Travelling	614,958	511,249
Out Labour Expenses	2,905,641	1,916,840
Sales Commission	-	392,701
Allowance for Expected Credit Loss	4,538,017	-
Bad Debt Write-off	1,721,554	-
Business Promotion Expenses	19,099,693	1,524,954
Print and Stationary	451,973	939,534
	<u>174,581,290</u>	<u>155,496,019</u>



# Kapruka Dot Com (Private) Limited

## DETAILED INCOME STATEMENT

Year ended 31 March 2021

### STATEMENT - III

ADMINISTRATIVE EXPENSES	2021 Rs.	2020 Rs.
Salaries and Allowances	22,167,709	22,057,821
Employee's Provident Fund	1,895,133	2,056,692
Employee's Trust Fund	474,757	514,337
Gratuity Expenses	2,000,410	1,806,150
Directors' Fee and Emoluments	8,776,786	9,650,882
Audit Fee	600,000	442,186
Electricity	3,330,661	3,719,506
Office Fire and Burglary Insurances	131,546	141,119
Office Security	1,427,880	1,196,490
Office Maintenance	1,349,255	1,579,080
Office Rent	900,800	915,500
Donation	38,184	30,280
Bonus	5,121,785	-
Postage expenses	209,144	315,818
Water expenses	196,551	238,267
Telephone expenses	5,675,114	6,213,080
Stationary	684,291	904,215
Staff Welfare	8,248,557	6,371,160
Staff Entertainment	695,393	857,439
Office Equipment Maintenance	1,474,640	1,651,990
Professional fee	2,551,295	3,434,956
Depreciation	5,912,316	9,206,676
Depreciation of Right-of-use Assets	3,018,456	3,018,456
Staff Training and Motivation	153,820	186,934
Rent and Rates	201,581	108,828
Fuel	599,201	658,309
Staff Transport	1,015,262	497,624
Travelling	540,053	1,066,937
Other Expenses	3,190,433	1,798,226
IT Equipment Maintenance	359,616	260,123
Legal Fees	774,782	256,364
Repair and Maintenance Motor Vehicles	912,506	1,669,049
Out Labour Expenses	1,076,500	224,514
Bank Charges	12,308,916	5,821,983
Nation Building Tax Expenses	-	3,593,236
License and Renewals	1,132,994	877,000
Recreation Club Expenses	3,283,500	2,635,359
Inventory Write-Off	-	411,468
Provision for Slow Moving Inventory	5,832,037	-
Technical Expenses	7,548,737	-
Write-off of ESC Receivable	2,737,589	-
Impairment of Investment in Convertible Preference Shares	4,450,000	-
	<u>122,998,190</u>	<u>96,388,054</u>



# FINANCIAL STATEMENTS

## KAPRUKA PRODUCTION (PRIVATE) LTD

For the Year ended  
31<sup>st</sup> March 2021.



No. 85, Senanayaka Avenue, Nawala, Rajagiriya, Sri Lanka.

Tel :- 011-2199052

E-mail:- [infor@adikariassociates.com](mailto:infor@adikariassociates.com)

## KAPRUKA PRODUCTION (PRIVATE) LIMITED

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Statement of Comprehensive Income	04
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## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF KAPRUKA PRODUCTIONS (PVT) LTD

#### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Kapruka Productions (Pvt) Ltd ("the Company"), which comprise the Statement of Financial Position as at March 31, 2021, and the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at March 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities.

#### Basis for Opinion

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

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities (SLFRS for SMEs) and for such internal controls as the management determines are 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, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Company either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



(Contd...)

## INDEPENDENT AUDITOR'S REPORT (Contd..)

### 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standard Committees website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of auditor's report.

### 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.

*Adikari Associates*

ADIKARI ASSOCIATES  
CHARTERED ACCOUNTANTS  
Colombo



30<sup>th</sup> August 2021

**KAPRUKA PRODUCTION (PVT) LTD**

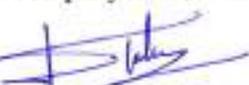
NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT OF FINANCIAL POSITION**

AS AT MARCH 31

	Note	2021 Rs.	2020 Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property Plant & Equipment	02	3,229,780	4,743,150
WIP - Building Improvements		118,350	-
<b>Total Non Current Assets</b>		<b>3,348,130</b>	<b>4,743,150</b>
<b>CURRENT ASSETS</b>			
Inventory	03	10,549,032	10,405,030
Trade Receivables		8,583,490	2,245,641
Income Tax Refund		392,765	-
Prepayments	04	35,339	35,340
Cash and Cash Equivalents	05	83,971	98,179
<b>Total Current Assets</b>		<b>19,644,598</b>	<b>12,784,190</b>
<b>Total Assets</b>		<b>22,992,728</b>	<b>17,527,340</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL &amp; RESERVES</b>			
Stated Capital		100,000	100,000
Retained Earnings		5,270,886	5,746,882
<b>Total Equity</b>		<b>5,370,886</b>	<b>5,846,882</b>
<b>CURRENT LIABILITIES</b>			
Amounts Due to Related Parties	06	10,821,755	3,344,225
Trade Payable		6,158,178	7,133,394
Accrued Expenses	07	422,448	652,395
Income Tax Payable		-	227,020
Bank Overdraft	08	219,461	323,423
<b>Total Current Liabilities</b>		<b>17,621,841</b>	<b>11,680,457</b>
<b>Total Equity and Liabilities</b>		<b>22,992,728</b>	<b>17,527,340</b>

I certify that the financial statements have been prepared in compliance with the requirements of the Company's Act, No. 07 of 2007;



Finance Manager

The Board of Directors is responsible for the preparation and presentation of these Financial statements. Approved and signed for and on behalf of the Board of Director;



Director

Date:30/08/2021




Director

Date:30/08/2021

**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST MARCH**

	Note	2021 Rs.	2020 Rs.
Revenue	09	109,479,259	103,944,326
Cost of Sale	10	(93,629,867)	(84,668,572)
<b>Gross Profit</b>		<b>15,849,391</b>	<b>19,275,754</b>
Administrative Expenses	11	(16,307,975)	(15,787,606)
<b>Profit From Operations</b>		<b>(458,583)</b>	<b>3,488,148</b>
Distribution Cost	12	-	(4,185)
Finance Cost	13	(17,413)	(19,675)
<b>Profit/(Loss) Before Taxation</b>		<b>(475,996)</b>	<b>3,464,289</b>
Income Tax for the Year		-	(617,750)
<b>Net Profit/(Loss) for the Year</b>		<b>(475,996)</b>	<b>2,846,539</b>



**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST MARCH 2021**

	Stated Capital Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01st April 2019	100,000	2,900,344	3,000,344
Profit for the Year	-	2,846,539	2,846,539
Balance as at 31st March 2020	100,000	5,746,882	5,846,882
Profit for the Year	-	(475,996)	(475,996)
Balance as at 31st March 2021	100,000	5,270,886	5,370,886



**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT FOR CASH FLOW**

FOR THE YEAR ENDED 31ST MARCH

	2021 Rs.	2020 Rs.
<b>Cash Flow From Operating Activities</b>		
Net Profit/(Loss) Before Taxation	(475,996)	3,464,289
<b>Adjustments For:</b>		
Depreciation	1,621,145	1,534,861
Disposal Loss	-	13,704
<b>Operating Profit/(Loss) Before Working Capital Changes</b>	<b>1,145,149</b>	<b>5,012,854</b>
<b>Changes in Working Capital</b>		
(Increase)/Decrease In Inventories	(144,002)	(2,559,022)
(Increase)/Decrease In Trade Receivables	(6,337,848)	3,198,984
(Increase)/Decrease In Prepayments	-	(1,717)
Increase/(Decrease) In Amounts due to Related Parties	7,477,529	(4,656,823)
Increase/(Decrease) In Trade Payables	(975,217)	(1,182,651)
Increase/(Decrease) In Accrued Expenses	(229,947)	(77,522)
<b>Cash Generated From Operating Activities</b>	<b>935,664</b>	<b>(265,897)</b>
<b>Less:</b>		
Income Tax Paid	(619,785)	(645,936)
<b>Net Cash Flows From / (Used in) Operating Activities</b>	<b>315,879</b>	<b>(911,833)</b>
<b>Cash Flows From Investing Activities</b>		
Sales proceeds from Disposal of PPE	-	132,825
WIP - Building Improvements	(118,350)	-
Acquisition of Property , Plant & Equipment	(107,776)	(889,953)
<b>Net Cash Flows From / (Used in) Investing Activities</b>	<b>(226,126)</b>	<b>(757,128)</b>
<b>Increase in Cash and Cash Equivalents</b>		
Net Increase/(Decrease) in Cash & Cash Equivalents	89,753	(1,668,961)
Cash & Cash Equivalents at the Beginning of the Year	(225,243)	1,443,718
<b>Cash &amp; Cash Equivalents at the End of the Year (Note-1)</b>	<b>(135,490)</b>	<b>(225,243)</b>
<b>Note - 01</b>		
<b>Cash &amp; Cash Equivalents at the End of the Year</b>		
Cash In Hand	83,971	98,179
Sampath Bank	(219,461)	(323,423)
	<b>(135,490)</b>	<b>(225,243)</b>



**KAPRUKA PRODUCTIONS (PRIVATE) LIMITED**  
NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 ST MARCH 2021

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**NOTE 01**  
**SIGNIFICANT ACCOUNTING POLICIES**

**1.1 CORPORATE INFORMATION**

**1.1.1 General**

The Company is a limited liability Company Incorporated and domiciled in Sri Lanka. The Registered Office and principle place of the business of the Company are located at No. 237/22A, Vijaya Kumarathunga Mawatha, Colombo 05.

**1.1.2 Principal Activities and Nature of Operations**

The Company is engaged in Manufacturing and distribution of cakes, chocolates and baked food products.

**1.2 GENERAL ACCOUNTING POLICIES**

**1.2.1 Basis of Preparation**

The Financial Statements have been prepared on a historical cost basis and are presented in Sri Lankan Rupees. The preparation and presentation of these Financial Statements comply with the requirement of the Companies Act. No. 07 of 2007.

**1.2.2 Statement of Compliance**

These Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities (SLFRS for SMEs) issued by the Institute of Chartered Accountants of Sri Lanka.

**1.2.3 Going Concern**

The board of directors has made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading. Therefore, the financial statements are prepared on the going concern basis.

The Corona Virus ("Covid-19") is expected to have an impact on the Company's business performance. The Management monitors and controls spending in anticipation of an eventual recovery of the marketplace. Based on the prevailing uncertain market conditions, the management has deferred their non-essential expenditure, recruitments, advertising/promotional expenditure in preparation for any uncertainties. As a result, the Company's financial performance in the short term is expected to correspond with the prevailing negative business environment, which will continue for a near future.

The Management is of the opinion that the Company is in a position to arrange credit facilities if required to meet any contingencies to ensure seamless operation. The management is confident that all their decisions and measures will ensure the Company remains viable as an entity through these uncertain times.

**1.2.4 Events after the Reporting Date.**

All material events occurring after the reporting date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the financial statements.

**1.2.5 Materiality and Aggregation**

Each material class of similar items is presented separately in the financial statement. Items of a dissimilar nature or function are presented separately unless they are immaterial.

**1.2.6 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets liabilities and the disclosure of contingent liabilities at reporting date.



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 ST MARCH 2021**

---

**NOTE 01**  
**SIGNIFICANT ACCOUNTING POLICIES**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected.

**1.2.7 Taxation**

Current Income tax assets & liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No.24 of 2017.

**1.2.8 Accounts Receivables**

Accounts Receivables are stated at the amounts they are estimated to realize net of allowance for bad and doubtful receivables.

**Allowance for Doubtful Receivables**

Company reviews at each reporting date all receivables to assess whether an allowance should be recorded in the Income Statement. Management uses judgment in estimating such allowance considering the duration of outstanding and any other factors management is aware of that indicates uncertainty in recoverability.

**1.2.9 Cash and Cash Equivalent**

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

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

**1.2.10 Property Plant and Equipment**

The Property plant & Equipment are recorded at cost less accumulated depreciation and impairment. The cost includes cost of acquisition together with any incidental expenses thereon and the cost of internally constructed assets includes cost of materials and direct labor, other direct cost to bringing the assets to working conditions for their intended use.

Expenditure incurred to replace a component of item of property, plant and equipment that is accounted for separately, is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. The carrying amount of the replaced part is derecognized. All other expenditure is recognized in the statement of income as an expense as and when incurred.

**Depreciation**

Items of Property Plant and equipment are depreciated from the date they are available to use. Depreciation is calculated using straight line basis over their estimated useful life of the assets. The estimated useful life of the items of property plant and equipment are as follows:



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 ST MARCH 2021**

**NOTE 01**  
**SIGNIFICANT ACCOUNTING POLICIES**

Class of Property Plant and Equipment	Useful Life (Years)
Machinery and Equipment	4
Software	10
Office Equipment	4
Computer & Accessories	5
Furniture and Fittings	5

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment.

The carrying values of Property, Plant and Equipment are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

**1.2.11 Inventories**

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred in acquiring the Inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**1.2.12 Provisions**

Provision are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**1.2.13 Trade and Other Payables**

Trade and Other Payables are stated at the cost.

**1.2.14 Retirement Benefit Obligations**

**Defined Benefit Plan – Gratuity**

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the Statement of Financial Position, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year net of payments made, and the carried forward provision at the end of a year is dealt with in the Statement of Profit or Loss. The gratuity liability is neither funded nor actuarial valued.



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 ST MARCH 2021**

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**NOTE 01**  
**SIGNIFICANT ACCOUNTING POLICIES**

**Defined Contribution Plan –Employees’ Provident Fund & Employees’ Trust Fund**

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

**1.2.15 Related Party Transaction**

For the purpose of these Financial Statements, parties are considered to be related to the Company if the Company has the ability directly or indirectly, to control the party or exercise significant influence over the party or vice versa. The relevant disclosure notes are provided in the Financial Statements.

**1.2.16 Interest Bearing Borrowing**

Interest Bearing Loans & Borrowings are recognized initially at cost. Borrowing costs are recognized as an expense in the period in which they are incurred.

**1.2.17 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific criteria are used for the purpose of recognition of revenue.

**Sale of Goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods (i.e. the company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts

**Other Income**

Other Income is recognized on an accrual basis. Gains and losses arising from incidental activities to 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.

**1.2.18 Expenditure**

Expenses are recognized in Profit and Loss on the basis of a direct association between the cost incurred and the earning of specific items of Income

All expenditure incurred in the operation of the business and in the maintaining the property plant and equipment in a state of efficiency have been charged to income in arriving at the profit for the year.



**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH 2021****Note - 02****Property Plant & Equipment**

	Balance as at 01/04/2020	Additions During the Year	Balance as at 31/03/2021
<u>Cost / Valuation</u>	Rs.	Rs.	Rs.
Computers	499,552	-	499,552
Furniture & Fittings	605,951	65,000	670,951
Machinery & Equipment	2,737,048	18,900	2,755,948
Office Equipment	2,348,210.28	23,876	2,372,086
Software	901,278	-	901,278
	<u>7,092,040</u>	<u>107,776</u>	<u>7,199,815</u>

	Balance as at 01/04/2020	Charge for the Year	Balance as at 31/03/2021
<u>Depreciation</u>	Rs.	Rs.	Rs.
Computers	82,010	124,888	206,898
Furniture & Fittings	173,667	122,273	295,941
Machinery & Equipment	1,133,588	687,018	1,820,606
Office Equipment	837,813	596,837	1,434,651
Software	121,811	90,128	211,939
	<u>2,348,890</u>	<u>1,621,145</u>	<u>3,970,035</u>

**Written Down Value**

	Balance as at 31/03/2020	Balance as at 31/03/2021
	Rs.	Rs.
Computers	417,542	292,654
Furniture & Fittings	432,284	375,010
Machinery & Equipment	1,603,460	935,342
Office Equipment	1,510,397	937,435
Software	779,467	689,339
	<u>4,743,150</u>	<u>3,229,780</u>



**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH**

	2021 Rs.	2020 Rs.
<b>Note - 03</b>		
<b><u>Inventory</u></b>		
Inventory	9,126,512	9,414,823
Work in Progress	1,422,520	990,207
	<u>10,549,032</u>	<u>10,405,030</u>
<b>Note - 04</b>		
<b><u>Prepayments</u></b>		
Insurance Pre-Payment	35,339	35,340
	<u>35,339</u>	<u>35,340</u>
<b>Note - 05</b>		
<b><u>Cash &amp; Cash Equivalent</u></b>		
Cash in Hand	83,971	98,179
	<u>83,971</u>	<u>98,179</u>
<b>Note - 06</b>		
<b><u>Amounts Due to Related Parties</u></b>		
Kapruka Dot Com (Pvt) Ltd	10,821,755	3,344,225
	<u>10,821,755</u>	<u>3,344,225</u>
<b>Note - 07</b>		
<b><u>Accrued Expenses</u></b>		
ESC Payable	-	120,054
Allowance Payables	13,700	-
Electricity Payable	131,396	131,665
Insurance & License Due Payable	37,090	37,090
Other Payables	168,208	92,600
Purchase Accrual	-	199,135
Telephone Bill	6,959	3,104
Water Bill	30,095	33,747
Audit Fee	35,000	35,000
	<u>422,448</u>	<u>652,395</u>
<b>Note - 08</b>		
<b><u>Bank Overdraft</u></b>		
Sampath Bank	219,461	323,423
	<u>219,461</u>	<u>323,423</u>
<b>Note - 09</b>		
<b><u>Revenue</u></b>		
Income	109,479,259	103,944,326
	<u>109,479,259</u>	<u>103,944,326</u>



**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH**

	2021 Rs.	2020 Rs.
<b>Note - 10</b>		
<b><u>Cost of Sales</u></b>		
Cost of Material	75,367,992	66,229,974
<b><u>Direct Expenses</u></b>		
Salaries, Wages, EPF & ETF	17,270,199	16,949,921
Normal Loss	957,297	1,412,261
Stock Cost Variance	813	51,409
Staff Welfare	13,565	-
Purchasing Expenses	1,050	21,717
New Item Implementation Cost	18,951	3,290
	<u>93,629,867</u>	<u>84,668,572</u>
<b>Note - 11</b>		
<b><u>Administrative Expenses</u></b>		
Staff welfare	3,460,271	3,166,891
Office Maintenance	411,606	343,002
Office Equipment Maintenance	390,276	175,055
Janitorial, Cleaning and Pest Control Expenses	1,013,841	1,331,492
Office Rent	4,197,000	2,680,000
Bakery Equipment Maintenance	61,170	202,405
Tools & Equipments	-	209,093
Uniform	715,341	316,215
Electricity	1,632,626	1,715,075
Depreciation	1,621,145	1,534,861
Out Labour Expenses	747,926	1,466,262
Staff Entertainment	135,184	539,675
Water Expenses	364,168	342,176
Telephone Expenses	98,169	17,524
Audit Fee	35,000	35,000
Professional Fees	61,491	-
Staff Transport	180,520	222,676
Travelling	196,116	236,913
Staff Training	-	19,444
Security Charges	722,700	155,824
Other Expenses	58,891	91,365
Stationery	162,143	63,113
Statutory Fees	-	-
Office Fire & Burglary Insurance	23,869	25,690
Legal Fees	5,300	-
Office Money Insurance	13,221	14,570
Donation	-	5,000
NBT Expense	-	859,581



**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH**

	2021 Rs.	2020 Rs.
Disposal Loss	-	13,704
Under Provision of Audit Fees	-	5,000
	<u>16,307,975</u>	<u>15,787,606</u>
<b>Note - 12</b>		
<b><u>Distribution Cost</u></b>		
Vehicle Maintenance	-	4,185
	-	4,185
<b>Note - 13</b>		
<b><u>Finance Cost</u></b>		
Bank Chargers	17,413	19,675
	<u>17,413</u>	<u>19,675</u>



**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

TIN : 102213173

**TAX COMPUTATION FOR THE YEAR OF ASSESSMENT 2020/2021**

		Rs.									
Adjusted Business Income	Schedule A	(298,179.17)									
Less :Qualifying Payments		-									
Assessable Income / Taxable Income		<u>NIL</u>									
Less : Deduction under sec 19											
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Loss : B/F from Y/ A 2019/2020</td> <td style="text-align: right;">-</td> <td></td> </tr> <tr> <td>Incurring During the year</td> <td style="text-align: right;">(298,179)</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Loss : C/F to Y/ A 2021/2022</td> <td style="text-align: right;">(298,179)</td> <td style="text-align: right;">-</td> </tr> </table>			Loss : B/F from Y/ A 2019/2020	-		Incurring During the year	(298,179)	-	Loss : C/F to Y/ A 2021/2022	(298,179)	-
Loss : B/F from Y/ A 2019/2020	-										
Incurring During the year	(298,179)	-									
Loss : C/F to Y/ A 2021/2022	(298,179)	-									
Tax payable @ 14%		-									
<b><u>Tax Credit</u></b>											
Less : ESC Paid		-									
<b>Total Tax Expense for the Year of Assessment 2020/2021</b>		<u>-</u>									
Less : Tax Credits											
14/08/2020	20211	196,382.00									
13/11/2020	20212	196,382.00									
		(392,764.00)									
<b>Total Tax Payable for the Year of Assessment 2020/2021</b>		<u>(392,764.00)</u>									

**Schedule A****STATEMENT OF ADJUSTED PROFIT / (LOSS) FOR THE YEAR OF ASSESSMENT 2020/2021**

		Rs.
Net Profit as per Accounts		(475,996.29)
<b><u>Add : Disallowable Expenses</u></b>		
Depreciation		1,621,145.08
Stock Cost Variance		812.86
Donation		-
Staff Entertainment		135,184.00
		<u>1,281,145.65</u>
<b><u>Less: Allowable Expenses</u></b>		
Capital Allowances - Schedule B		(1,579,324.82)
<b>Adjusted Business Profit / (Loss) for the Year</b>		<u>(298,179.17)</u>

**KAPRUKA PRODUCTION (PVT) LTD**

NO.237/22 / A, VIJAYA KUMARATHUNGA MAWATHA, COLOMBO 05.

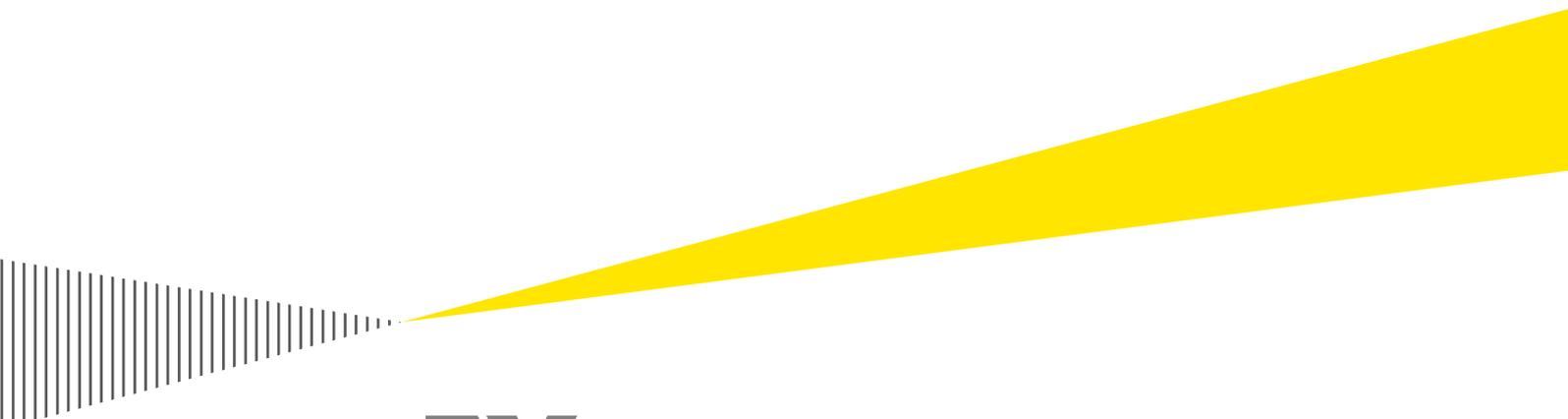
**Schedule B  
CAPITAL ALLOWANCES**

Asset	Rate	Depreciation Basis as at 01/04/2020		Repair & Improve ments		Disposal During The Year		Depreciation Basis for 2020/2021		Claimed up to 01/04/2020		Disposal During The Year		Claimed for the year		To be Claimable 31/03/2021		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>2018/2019</b>																		
Computers	20%	149,649	-	-	-	-	-	149,649	59,860	-	-	29,930	59,860	-	-	29,930	59,860	-
Furniture & Fittings	20%	519,261	-	-	-	-	-	519,261	207,704	-	-	103,852	207,704	-	-	103,852	207,704	-
Machinery & Equipment	20%	2,720,749	212,527	-	-	-	-	2,933,276	1,088,300	-	-	586,655	1,258,321	-	-	586,655	1,258,321	-
Office Equipment	20%	2,159,406	67,860	-	-	-	-	2,227,266	863,762	-	-	445,453	918,050	-	-	445,453	918,050	-
Software	20%	901,278	-	-	-	-	-	901,278	360,511	-	-	180,256	360,511	-	-	180,256	360,511	-
Tools & Equipment	20%	168,166	-	-	-	-	-	168,166	67,266	-	-	33,633	67,266	-	-	33,633	67,266	-
<b>2019/2020</b>																		
Computers	20%	349,903	-	-	-	-	-	349,903	69,981	-	-	69,981	209,942	-	-	69,981	209,942	-
Furniture & Fittings	20%	86,690	-	-	-	-	-	86,690	17,338	-	-	17,338	52,014	-	-	17,338	52,014	-
Machinery & Equipment	20%	16,299	-	-	-	-	-	16,299	3,260	-	-	3,260	9,780	-	-	3,260	9,780	-
Office Equipment	20%	437,061	-	-	-	-	-	437,061	87,412	-	-	87,412	262,236	-	-	87,412	262,236	-
<b>2020/2021</b>																		
Furniture & Fittings	20%	65,000	-	-	-	-	-	65,000	-	-	-	13,000	52,000	-	-	13,000	52,000	-
Machinery & Equipment	20%	18,900	-	-	-	-	-	18,900	-	-	-	3,780	15,120	-	-	3,780	15,120	-
Office Equipment	20%	23,876	-	-	-	-	-	23,876	-	-	-	4,775	19,100	-	-	4,775	19,100	-
		<b>7,616,237</b>	<b>280,387</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,896,624</b>	<b>2,825,394</b>	<b>-</b>	<b>-</b>	<b>1,579,325</b>	<b>3,491,905</b>	<b>-</b>	<b>-</b>	<b>1,579,325</b>	<b>3,491,905</b>	<b>-</b>

# Kapruka Production (Pvt) Ltd

## Gap Report on Financial Statements and the Requirements of Sri Lanka Accounting Standards (SLFRSs/LKASs)

December 2021



JRP/PS/SP

2nd December 2021

Mr. Thilina Chathuranga  
Finance Manager  
Kapruka Holdings Limited  
237/22, Vijaya Kumarathunga Mawatha,  
Colombo 05.

Dear Sir,

**Educate the Management to Perform Gap Assessment on Financial Statements of Kapruka Production (Pvt) Ltd and the Requirements of Sri Lanka Accounting Standards (SLFRSs/LKASs)**

We have completed our engagement on educate the Management to perform gap assessment on the financial statements of Kapruka Production (Pvt) Ltd (the Company) prepared in line with SLFRS for SMEs against the requirements of SLFRSs/LKASs. Our engagement was performed in accordance with our Statement of Work (SOW) under our Agreement, and our procedures were limited to those described in the SOW.

Results of our work

Based on our procedures performed during the months of November to December 2021, we prepared the report to educate the Management to perform gap assessment on the financial statements of Kapruka Production (Pvt) Ltd (the Company) prepared in line with SLFRS for SMEs against the requirements of SLFRSs/LKASs for your use and it is attached herewith. The management of Kapruka Holdings Limited (previously known as Kapruka Dot Com (Private) Limited) reviewed these documents for completeness, accuracy and reasonableness. The final decision regarding the application or implementation of those gaps will be made solely by the Company's management.

Background

The management of Kapruka Holdings Limited required to determine the gaps on the financial statements of Kapruka Production (Pvt) Ltd in line with requirements of Sri Lanka Accounting Standards.

Scope of our work

In connection with our engagement, we held discussions with and made inquiries of the company's finance personnel for the purpose of obtaining the information we deemed necessary to educate the Management to perform gap assessment. The detailed list of procedures performed by us is included in our SOW under our Agreement.

Our work was performed under the direction of Kapruka Holdings Limited management and was based on inquiries of, and discussions with, management of the Company. We have not sought to confirm the accuracy of the data or the information and explanations provided by management.

The procedures that we performed were advisory in nature and do not constitute an audit or review in accordance with Sri Lanka Auditing Standard, nor do they constitute a related service in accordance with Sri Lanka Other Audit Pronouncement. Additionally, the procedures do not address the effectiveness of internal controls over financial reporting. EY did not conclude on the appropriate accounting treatment based on specific facts or recommend which accounting policy or treatment the Company should select or adopt.

The observations relating to accounting matters that EY provided to the Company were designed to assist Kapruka Holdings Limited's management in reaching its own conclusions and do not constitute our concurrence with or support of the Company's accounting or reporting. The Company alone is responsible for the preparation of its financial statements, including all of the judgments inherent in preparing them.

While we believe the information obtained is substantially responsive to your request, we are not in a position to assess its sufficiency for your purposes. In addition, we have no responsibility to update the work product for events or circumstances occurring after the date of the work product.

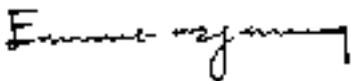
Our work has been limited in scope and time, and more detailed procedures may reveal issues that this engagement has not.

Restrictions on the use of our work product(s)

Educate the Management to perform gap assessment on the financial statements of the company and the requirements of SLFRSs/LKASs is intended solely for the information of the Kapruka Holdings Limited. Therefore, our work product, or portions thereof, should not be referred to or distributed to any other person or entity, other than the Company's auditors and legal counsel. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement or other agreement or document without our prior written approval.

We appreciate the cooperation and assistance provided to us during the course of our work. If you have any questions, please call Rajith Perera on 0115 578 604.

Very truly yours,



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2. Gap Analysis - Statement of Comprehensive Income .....	6
3. Gap Analysis - Statement of Financial Position.....	12
4. Gap Analysis - Disclosure Requirements .....	26

## 1. Introduction

Kapruka Production (Pvt) Ltd (hereinafter referred as the “Company” or “Entity”) is a limited liability company is engaged in Manufacturing and distribution of cakes, chocolates and baked food products.

Current accounting practice of the Company is to prepare financial statements in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs).

Financial statements for the year ended 31<sup>st</sup> March 2021 have considered in preparing this Gap Analysis, the management have compared the company’s current accounting practice under SLFRS for SMEs against the recommended accounting treatment under SLFRSs/LKASs, as issued by the Institute of Chartered Accountants of Sri Lanka. Conclusions based on the Gap Analysis are given in the “Management Evaluation” section for the respective financial statement areas.

## 2. Gap Analysis - Statement of Comprehensive Income

## 2.1.1 Sale of Goods

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p>The company recognize the revenue from the sale of goods when the significant risk and rewards of ownership of goods have passed to the buyer at the point of dispatch.</p>	<p><b>SLFRS 15.31</b> An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.</p> <p><b>Performance obligations satisfied over time</b> <b>SLFRS 15.35</b> An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:</p> <ul style="list-style-type: none"> <li>(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;</li> <li>(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or</li> <li>(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.</li> </ul> <p><b>Performance obligations satisfied at a point in time</b> <b>SLFRS 15.38</b> If a performance obligation is not satisfied over time in accordance with SLFRS 15.35, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>(a) The entity has a present right to payment for the asset</li> <li>(b) The customer has legal title to the asset</li> <li>(c) The entity has transferred physical possession of the asset</li> <li>(d) The customer has the significant risks and rewards of ownership of the asset</li> <li>(e) The customer has accepted the asset</li> </ul>	<p>The company is engaged in Manufacturing and distribution of cakes, chocolate and baked food products.</p> <p>SLFRS 15 requires recognizing the revenue when the Company entity satisfies a performance obligation by transferring a promised good or service.</p> <p>The performance obligation of the entity satisfied when customer has accepted the products (cakes, chocolate and baked food products) in line with SLFRS 15.38(e).</p> <p>Therefore, the company can recognize the revenue at the point when products are delivered to the customer.</p> <p>Therefore, the company can continue current revenue recognition policy. There are no adjustments required under SLFRS/LKAS for revenue recognition for the year ended 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020.</p>

Measurement	Revenue is measured at the fair value of the consideration received or receivable, net of trade discount.	<b>SLFRS 15.46</b> When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58 in SLFRS 15) that is allocated to that performance obligation.	The company currently measures its revenue at transaction price. Therefore, no adjustment is required on the financial statements presented for the year ended 31 <sup>st</sup> March 2021.
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## 2.2 Cost of Sales

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p><b>SLFRS for SMEs 2.42</b> The recognition of expense results directly from the recognition and measurement of assets and liabilities. An entity shall recognize the expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an asset or an increase of a liability has arisen that can be measured reliably.</p> <p><b>SLFRS for SMEs 13.20</b> When inventories are sold, the entity shall recognize the carrying amount of those inventories as an expense in the period in which the related revenue is recognized.</p>	<p><b>Conceptual Framework 5.4(b)</b> The recognition of expenses occurs at the same time as:</p> <ol style="list-style-type: none"> <li>Initial recognition of a liability, or an increase in the carrying amount of the liability; or</li> <li>The derecognition of an asset or a decrease in the carrying amount of an asset</li> </ol> <p><b>SLFRS 15.95</b> If the cost incurred in fulfilling a contract with a customer are not within the scope of another standard, an entity shall recognize an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:</p> <ol style="list-style-type: none"> <li>The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.</li> <li>The costs generate or enhance resource of the entity that will be used in satisfying performance obligations in the future; and</li> <li>The costs are expected to be recovered</li> </ol> <p><b>SLFRS 15.97</b> Costs are related directly to a contract include any of the following:</p> <ol style="list-style-type: none"> <li>Direct labour</li> <li>Direct materials</li> <li>Allocation of costs that relate directly to the contract or contract activities</li> <li>Costs that are explicitly chargeable to the customer under the contract; and</li> <li>Other costs that are incurred only because an entity entered into the contract.</li> </ol>	<p>The company has recognized the cost of sales on the items sold during the period which comprises following expenses,</p> <ul style="list-style-type: none"> <li>• Cost of Materials</li> <li>• Direct salaries, wages, EPF and ETF</li> <li>• Normal Loss</li> <li>• Other direct expenses</li> <li>• New item implementation cost</li> </ul> <p>“New item implementation costs” include expenses on sample testing when implementing a new product.</p> <p>Since the “new item implementation cost” is not incurred in fulfilling a contract with a customer, that expense needs to be recognized outside the frame of cost of sales.</p>

## 2.3.1 Administration Expenses- Office Rent and Depreciation

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <p>(a) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</p> <p>(b) The item has a cost or value that can be measured reliably.</p> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p> <p><b>SLFRS for SMEs 20.15</b> A lessee shall recognize lease payments under operating leases as an expense over the lease term.</p>	<p><b>Conceptual Framework 4.69</b> Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p> <p><b>SLFRS 16.22</b> At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.</p>	<p><b>Office Rent</b> The company has recognized the lease rentals paid on office building as an expense in line with the requirements of SLFRS for SMEs 20.15.</p> <p>However, SLFRS 16 requires to recognize right of use asset and corresponding lease liability on all lease contracts unless lessee elect to apply recognition exemption on</p> <p>(a) Short-term leases, and</p> <p>(b) Leases for which the underlying asset is of low value.</p> <p>[Refer the detail Gap mentioned in 3.1.1.2 of this report]</p> <p><b>Depreciation</b> Current practice is to review the residual value, useful life and depreciation method only if there are indicators that it has changed since the most recent annual reporting date. However, under LKAS 16, the review should be made at least at each financial year-end even if there are no such indicators.</p> <p>This may cause change in the depreciation amount recognized during the period.</p> <p>[Refer the detail Gap mentioned in 3.1.1 of this report]</p>

## 2.3.2 Finance Cost

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
<p>Recognition &amp; Measurement</p>	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <ul style="list-style-type: none"> <li>(c) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</li> <li>(d) The item has a cost or value that can be measured reliably.</li> </ul> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p>	<p><b>Conceptual Framework 4.69</b> Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p> <p><b>SLFRS 16.49</b> In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of LKAS 1 Presentation of Financial Statements requires to be presented separately in the statement of profit or loss and other comprehensive income.</p>	<p>It is required to recognize interest expense on lease liability resulted due to Right of use asset (leasehold office building) as a finance cost. [Refer the detail Gap mentioned in 3.1.2 of this report]</p> <p>Amounts due to related parties reflects the balances which are payable on demand. However, if there are significant long outstanding stagnant balances, such balances may qualify for fair value requirements.</p>

### 2.3.3 Income Tax Expense

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p>Current income tax assets &amp; liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No.24 of 2017.</p>	<p><b>LKAS 12 Objective</b> LKAS 12 Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss</p> <p><b>LKAS 12.2</b> Income taxes include all domestic and foreign taxes which are based on taxable profits.</p> <p><b>LKAS 12.77</b> The tax expense (income) related to profit or loss from ordinary activities shall be presented as part of profit or loss in the statement(s) of profit or loss and other comprehensive income.</p>	<p>There are no adjustments required under SLFRS/LKAS for current tax expense as the basis for the recognition and measurement is similar to SLFRS for SMEs.</p> <p>However, detailed gap identified in Section 3.3.3 of this report may result income tax charge/reversal for the period.</p>

### 3. Gap Analysis - Statement of Financial Position

## 3.1 Assets

### 3.1.1 Property Plant and Equipment

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 17.4</b> An entity shall apply the recognition criteria in SLFRS 2.27 in determining whether to recognize an item of property, plant or equipment. Consequently, the entity shall recognize the cost of an item of property, plant and equipment as an asset if, and only if:</p> <p>(a) It is probable that future economic benefits associated with the item will flow to the entity; and</p> <p>(b) The cost of the item can be measured reliably</p>	<p><b>LKAS 16.7</b> The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if,</p> <p>(a) It is probable that future economic benefits associated with the item will flow to the entity; and</p> <p>(b) The cost of the item can be measured reliably.</p>	There are no adjustments required as the current accounting treatment is similar to the accounting treatment recommended under SLFRS/LKAS.
Initial Measurement	<p><b>SLFRS for SMEs 17.9 &amp; 17.10</b> PPE is initially measured at cost. Cost includes:</p> <ul style="list-style-type: none"> <li>• Purchase price</li> <li>• Any Directly attributable cost to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management</li> <li>• The initial estimate of costs of dismantling and removing the item and restoring the site on which it is located.</li> </ul> <p><b>SLFRS for SMEs 25.2</b> Borrowing cost are recognized as an expense.</p>	<p><b>LKAS 16.15</b> An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.</p> <p><b>LKAS 16.23</b> The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with LKAS 23.</p>	<p>There are no differences between LKAS 16 and SLFRS for SMEs (company policy) except the requirement on capitalization of borrowing costs on acquisition, construction or production of a qualifying asset.</p> <p>However, the company had not incurred any borrowing cost on qualifying assets for the year ended 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020. Therefore, no adjustment required for the amounts presented in the financial statements.</p>
Reassessment of Residual value, useful life and depreciation method	<p><b>SLFRS for SMEs 17.19</b> If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.</p>	<p><b>LKAS 16.51</b> The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p>	<p>Current practice is to review the residual value, useful life and depreciation method only if there are indicators that it has changed since the most recent annual reporting date. However, under LKAS 16, the review should be made at least at each financial year-end even if there are no such indicators.</p>

			<p><b>LKAS 16.61</b> The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with LKAS 8.</p>	<p>This may result the changes in carrying value of Property, plant &amp; equipment and depreciation charges thereon.</p>
Subsequent Measurement	<p><b>SLFRS for SMEs 17.15</b> An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.</p>	<p><b>LKAS 16.29 and 16.31</b> In addition to the cost model, the revaluation model is an option, in which classes of PPE are carried at a revalued amount less any accumulated depreciation and subsequent accumulated impairment loss.</p>	<p>Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Hence, no gap identified.</p>	
Presentation	<p>Property plant &amp; equipment and intangible assets (Software) presented in single line item of statement of financial position.</p>	<p><b>LKAS 1.54</b> LKAS 1 required the present "Intangible Assets" separately in the statement of financial position.</p>	<p>The company is required to present Property, plant &amp; equipment and Intangible assets in separate line items in statement of financial position.</p>	

### 3.1.2 Leases- Kapruka Production (Pvt) Ltd as a lessee

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Classification & Recognition	<p><b>SLFRS for SMEs 20.4</b> A lease is classified as a finance lease if it transfers substantially all the risk and rewards incidentals to ownership. Lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership.</p> <p><b>SLFRS for SMEs 20.9</b> At the commencement of the lease term, a lessee shall recognize its right of use and obligations under finance</p>	<p><b>SLFRS 16 Appendix A</b> An asset that represents a lessee's right to use an underlying asset for the lease term</p> <p><b>SLFRS 16.5</b> A lessee may elect not to apply the recognitions requirements in SLFRS 16 to: (a) short-term leases; and</p>	<p>According to SLFRS for SMEs, rented office building is classified as an operating lease since it does not transfer substantially all the risks and rewards incidental to ownership.</p> <p>Accordingly, company recognised lease rentals paid on office building as an expense.</p>

	<p>leases as assets and liabilities in its statement of financial position.</p>	<p>(b) leases for which the underlying asset is of low value.</p> <p><b>SLFRS 16.9</b> At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p> <p><b>SLFRS 16.22</b> At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.</p>	<p>However, SLFRS 16 requires to recognize right of use asset and corresponding lease liabilities on all lease contracts unless lessee elect to apply recognition exemption on</p> <p>(a) Short-term leases, and (b) Leases for which the underlying asset</p> <p>Accordingly, the company, as a lessee needs neither classify the lease arrangement as a finance lease nor operating lease.</p>
<p>Initial Measurement</p>	<p><b>SLFRS for SMEs 20.9</b> An entity shall measure finance lease assets and liabilities at an amount equal to the fair value of leased property or, if lower the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct cost of the lessee (incremental cost that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.</p> <p><b>SLFRS for SMEs 20.15</b> A lessee shall recognize lease payments under operating leases as an expense over the lease term.</p>	<p><b>SLFRS 16.23</b> At the commencement date, a lessee shall measure the right-of-use asset at cost.</p> <p><b>SLFRS 16.24</b> The cost of the right-of-use asset shall comprise:</p> <p>(a) the amount of the initial measurement of the lease liability, as described in SLFRS 16.26</p> <p>(b) any lease payments made at or before the commencement date, less any lease incentives received;</p> <p>(c) any initial direct costs incurred by the lessee; and</p> <p>(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The</p>	<p>The initial measurement of the Right of use asset shall comprise the following;</p> <p>(a) the amount of the initial measurement of the lease liability</p> <p>(b) any lease payments made at or before the commencement date, less any lease incentives received;</p> <p>(c) Directly attributable costs</p> <p>(d) Dismantling or removing costs</p> <p>At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily</p>

	<p>lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.</p> <p><b>SLFRS 16.26</b> At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.</p> <p><b>SLFRS 16.27</b> At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:</p> <ul style="list-style-type: none"> <li>(a) fixed payments, less any lease incentives receivable</li> <li>(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date</li> <li>(c) amounts expected to be payable by the lessee under residual value guarantees;</li> <li>(e) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and</li> <li>(f) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.</li> </ul>	<p>determined, the lessee shall use the lessee's incremental borrowing rate.</p> <p>Accordingly, the company required to recognize right of use asset and corresponding lease liability except for short term leases and low value leases.</p>
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Subsequent measurement	<p><b>SLFRS for SMEs 20.9 - 20.12</b> Assets are depreciated in accordance with relevant SLFRS for SMEs section or over the lease term if shorter. The lessee apportions minimum lease payments between finance charge and reduction of outstanding liability.</p>	<p><b>SLFRS 16.29</b> After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraph 34 &amp; 35 of SLFRS 16.</p> <p><b>SLFRS 16.36</b> After the commencement date, a lessee shall measure the lease liability by:</p> <ul style="list-style-type: none"> <li>(a) increasing the carrying amount to reflect interest on the lease liability;</li> <li>(b) reducing the carrying amount to reflect the lease payments made; and</li> <li>(c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.</li> </ul>	<p>The company shall apply the requirements of SLFRS 16.29 and SLFRS 16.36 for all right of use assets and lease liabilities.</p> <p>Accordingly, it is required to recognize the depreciation on right of use asset and finance cost on lease liability as an expense in period that are incurred.</p>
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### 3.1.3 Inventory

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Measurement	<p><b>SLFRS for SMEs 13.4</b> Inventories are measured at lower of cost and estimated selling price less costs to complete and sell.</p> <p><b>SLFRS for SMEs 13.5</b> Cost of inventories are all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.</p>	<p><b>LKAS 2.9</b> Inventories shall be measured at the lower of cost and net realizable value.</p> <p><b>LKAS 2.10</b> The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.</p>	<p>Management shall measure inventories at lower of cost or net realizable value which is consistent with SLFRS for SMEs.</p>
Borrowing Cost	<p><b>SLFRS for SMEs 25.2</b> Borrowing costs are recognized as an expense</p>	<p><b>LKAS 2.17</b> LKAS 23 Borrowing costs identifies limited circumstances where borrowing costs are included in the cost of inventories.</p>	<p>The company doesn't identify inventories as a qualifying asset. Therefore, it is not required to adjust the impact from borrowing cost on inventory value as of 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020.</p>

Impairment of Inventories	<p><b>SLFRS for SMEs 13.19</b> SLFRS for SMEs require an entity to assess at the each reporting period whether any inventories impaired, ie the carry amount is not fully recoverable (for example, because of damage, obsolescence or decline in selling prices). If an item (or group of item) of inventory is impaired, SLFRS for SMEs require the entity to measure the inventory at its selling price less cost to complete and sell and to recognize an impairment loss. It also require a reversal of a prior impairment in some circumstances.</p>	<p><b>LKAS 2.28</b> The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.</p>	The company required to make provisions on slow moving and obsolete inventories if any.
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### 3.1.4 Trade receivables

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Classification and Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity become a party to the contractual provision of the instrument.</p>	<p><b>SLFRS 9.4.1.2</b> A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.</p>	The company classified the trade receivable as financial assets measure at amortised cost. However, in accordance with SLFRS 9 it is required to measure financial asset at amortised cost if it meets the conditions of SLFRS 9.4.1.2.

		<p><b>SLFRS 9.3.1.1.1</b> An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.</p> <p><b>SLFRS 9.5.1.3</b> At initial recognition, an entity shall measure trade receivables at their transaction price (as defined in SLFRS 15) if the trade receivables do not contain a significant financing component in accordance with SLFRS 15.</p>	<p>There are no adjustments required under SLFRS/LKAS as the current accounting treatment is similar to the accounting treatment recommended under SLFRS/LKAS.</p>
Initial measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Assets are initially measured at the transaction price including transactions cost.</p>	<p><b>SLFRS 9.5.2.1</b> After initial recognition, an entity shall measure a financial asset at</p> <ul style="list-style-type: none"> <li>(e) Amortized cost</li> <li>(f) Fair value through other comprehensive income: or</li> <li>(g) Fair value through profit or loss</li> </ul> <p><b>SLFRS 9.4.1.2</b> A financial asset shall be measured at amortized cost if both of the following conditions are met:</p> <ul style="list-style-type: none"> <li>(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and</li> <li>(b) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.</li> </ul>	<p>The company has only trade receivables other than cash and cash equivalents as a financial asset in the financial statements as at 31<sup>st</sup> March 2021.</p> <p>However, trade receivables are met with the conditions applied on financial asset which are required to be measured at amortized cost in line with SLFRS 9.4.1.2. Therefore, there are no adjustments required for trade receivables except the impairment provisions discussed below.</p>
Subsequent measurement	<p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>		

Impairment provision	<p><b>SLFRS for SMEs 11.21</b> At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortized cost. If there is objective evidence of impairment, the entity shall recognize an impairment loss in profit or loss immediately.</p>	<p><b>SLFRS 9.5.5.1</b> An entity shall recognize a loss allowance for expected credit losses on a financial asset at amortized cost.</p>	<p>The company has recognized an impairment loss in profit or loss if there is objective evidence of impairment (incurred loss model). However, the company is required to recognize a loss allowance for expected credit losses on trade receivables as per SLFRS 9.5.5.1</p>
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### 3.1.5 Cash and cash Equivalents

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.</p>	<p><b>SLFRS 9.3.1.1</b> Similar to SLFRS for SMEs</p>	<p>There are no changes to cash and cash equivalents under SLFRS/LKAS.</p>

### 3.2 Equity

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
<p>Definition and equity share issue</p>	<p><b>SLFRS for SMEs 22.3</b> Equity is the residual interest in the entity's assets after deducting all its liabilities. Equity includes:</p> <ul style="list-style-type: none"> <li>• Investments by the owners of the entity</li> <li>• Plus, additions to those investments earned through profitable operations and retained for use in the entity's operations</li> <li>• Less reductions to owner's investments as a result of unprofitable operations and distributions to owners.</li> </ul> <p><b>SLFRS for SMEs 22.8</b> Equity instruments are measured at the fair value of the consideration received or receivable, net of direct issue costs.</p>	<p><b>SLFRS Glossary</b> Residual interest in the assets of the entity after deducting all liabilities.</p>	<p>There are no changes in the definition of the equity under both reporting frameworks.</p> <p>However, Retained earnings reported in the financial statements may change due to the gaps identified in Section 2, Section 3.1 and Section 3.3 of this report.</p>

### 3.3 Liabilities

#### 3.3.1 Amount due to related parties

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Liabilities are initially measured at the transaction price including transactions cost.</p> <p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>	<p><b>SLFRS 9.5.1.1</b> At initial recognition, an entity shall measure a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition or issue of the financial liability.</p> <p><b>SLFRS 9.5.3.1</b> After initial recognition, an entity shall measure a financial liability at amortized cost except for:</p> <ul style="list-style-type: none"> <li>(a) financial liabilities at fair value through profit or loss</li> <li>(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.</li> <li>(c) financial guarantee contracts</li> <li>(d) commitments to provide a loan at a below-market interest rate.</li> <li>(e) contingent consideration recognized by an acquirer in a business combination to which SLFRS 3 applies.</li> </ul>	<p>Amounts due to related parties reflects the balances which are payable on demand. However, if there are significant long outstanding stagnant balances, such balances may qualify for fair value requirements.</p>

### 3.3.2 Trade Payables and Accrued Expenses

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provision of the instrument.</p>	<p><b>SLFRS 9.3.1.1</b> Similar to SLFRS for SMEs</p>	<p>There are no adjustments required under SLFRS/LKAS.</p>
Measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Liabilities are initially measured at the transaction price including transactions cost.</p> <p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>	<p><b>SLFRS 9.5.1.1</b> At initial recognition, an entity shall measure a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition or issue of the financial liability.</p> <p><b>SLFRS 9.5.3.1</b> After initial recognition, an entity shall measure a financial liability at amortized cost except for:</p> <ul style="list-style-type: none"> <li>(a) financial liabilities at fair value through profit or loss</li> <li>(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.</li> <li>(c) financial guarantee contracts</li> <li>(d) commitments to provide a loan at a below-market interest rate.</li> <li>(e) contingent consideration recognized by an acquirer in a business combination to which SLFRS 3 applies.</li> </ul>	<p>There are no adjustments required under SLFRS/LKAS.</p>

### 3.3.3 Deferred Tax Asset/Liability

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 29.8</b> An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the entity's assets and liabilities in the statement of financial position and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.</p> <p>However, the company has not recognized deferred tax asset/ liability in the financial statements as at 31<sup>st</sup> March 2021.</p>	<p><b>LKAS 12.15</b> A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: (a) the initial recognition of goodwill; or (b) the initial recognition of an asset or liability in a transaction which: (i) is not a business combination; and (ii) (at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p> <p><b>LKAS 12.24</b> A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: (a) is not a business combination; and (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p>	<p>The company has not recognized the deferred tax asset/liability in the financial statements as that is immaterial.</p> <p>However, the company required to revisit their current practice in order to fulfil the requirements of LKAS 12.</p>

### 3.3.4 Income Tax Payable

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Current taxes recognition	<b>SLFRS for SMEs 29.4 - 29.5</b> Unpaid current tax for current and prior periods is recognized as a liability. If the amount already paid exceeds the amount due for those periods, the excess is recognized as an asset. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognized as an asset.	<b>LKAS 12.12 - 12.13</b> Similar to SLFRS for SMEs	There is no impact as the accounting treatment is the same under each accounting framework.
Measurement	<b>SLFRS for SMEs 29.6, 29.23 - 29.24</b> Current tax liabilities (assets) for the current and prior periods and related tax expense (income) are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. Current taxes are not discounted	<b>LKAS 12.46</b> Similar to SLFRS for SMEs except that LKAS 12 is silent on the discounting current tax	There is no impact as the accounting treatment is same under each accounting framework.

### 3.3.5 Bank Overdraft

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial liability only when the entity becomes a party to the contractual provisions of the instrument.	<b>SLFRS 9.3.1.1</b> Similar to SLFRS for SMEs	There are no changes to the recognition of bank overdraft under SLFRS/LKAS.

#### 4. Gap Analysis - Disclosure Requirements

## Disclosure Requirements

Following disclosures shall be made under SLFRSs/LKASs in addition to the disclosures made under SLFRS for SMEs.

### 4.1 LKAS 2- Inventories

- The accounting policies for cost formula used in measuring inventories [LKAS 2.36]

### 4.2 LKAS 12- Income Taxes

- Components of tax expense (income) may include:
  - (a) The deferred tax expense (income) relating to the origination and reversal of temporary differences
  - (b) The deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes
  - (c) The benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense
  - (d) Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset [LKAS 12.80]
- Relationship between tax expense (income) and accounting profit or loss
  - (a) The relationship between tax expense (income) and accounting profit or loss in either or both of the following forms:
    - (i) A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) compute, Or
    - (ii) A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed
  - (b) For deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position:
    - (i) The amount
    - (ii) expiry date, if any

[LKAS 12.81]

#### 4.3 LKAS 16- Property, Plant & Equipment

- Information about fully depreciated assets and temporary idle assets:
  - (a) The carrying amount of temporarily idle property, plant and equipment
  - (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use
  - (c) The carrying amount of property, plant and equipment retired from active use and not classified as held for sale
  - (d) If the cost model is used, the fair value of property, plant and equipment, if this is materially different from the carrying amount

[LKAS 16.79]

#### 4.4 LKAS 24- Related Party Disclosures

- Information about the related party transactions during the reporting period covered by the financial statements:
  - (a) The nature of the related party relationship
  - (b) Information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements, including the following disclosures:
    - (i) The amount of the transactions
    - (ii) The amount of outstanding balances, including commitments
      - Their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement
      - Details of any guarantees given or received
    - (iii) Provisions for doubtful debts related to the amount of outstanding balances
    - (iv) The expense recognised during the reporting period for bad or doubtful debts due from related parties

[LKAS 24.18]

- Disclose the information required by LKAS 24.18 separately for each of the following categories:
  - (a) The parent
  - (b) Entities with joint control or significant influence over the entity
  - (c) Subsidiaries
  - (d) Associates
  - (e) Joint ventures in which the entity is a venturer
  - (f) Key management personnel of the entity or its parent
  - (g) Other related parties

[LKAS 24.19]

- Information on nature of transactions if they are with a related party:

- Purchases or sales of goods (finished or unfinished)
- Purchases or sales of property and other assets
- Rendering or receiving of services
- Leases
- Transfer of research and development
- Transfer under license agreements
- Transfers under finance arrangements (including loans and equity contributions in cash or in kind)
- Provision of guarantees or collateral
- Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised)
- Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party

[LKAS 24.21]

#### 4.5 LKAS 38- Intangible Assets

- Information on gross carrying value, impairment and amortization of intangible assets
  - Gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning of the reporting period and at the end of the reporting period
  - A reconciliation of the carrying amount at the beginning and end of the reporting period, showing:
    - Additions during the period, indicating separately those from internal development, those acquired separately, and those acquired through business combinations
    - Impairment losses recognised in profit or loss during the reporting period under LKAS 36, if any
    - Impairment losses reversed in profit or loss during the reporting period under LKAS 36, if any
    - Any amortisation recognised during the reporting period
    - Other changes in the carrying amount during the reporting period

[LKAS 38.118]

#### 4.6 SLFRS 7- Financial Instruments: Disclosures

- The carrying amounts of each of the following categories, as specified in SLFRS 9, shall be disclosed either in the statement of financial position or in the notes:
  - financial assets measured at amortised cost.
  - financial liabilities measured at amortised cost.

[SLFRS 7.8]
- Maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
 

[SLFRS 7.39]

#### Nature and extent of risks arising from financial instruments

- An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.  
[SLFRS 7.31]
- The disclosures required by SLFRS 7 paragraphs 33-42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.  
[SLFRS 7.32]
- Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.  
[SLFRS 7.32A]

#### Qualitative disclosures

- For each type of risk arising from financial instruments, an entity shall disclose:
  - (a) the exposures to risk and how they arise;
  - (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
  - (c) any changes in (a) or (b) from the previous period.  
[SLFRS 7.33]
- For each type of risk arising from financial instruments, an entity shall disclose:
  - (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in LKAS 24 Related Party Disclosures), for example the entity's board of directors or chief executive officer.
  - (b) the disclosures required by paragraphs 35A-42, to the extent not provided in accordance with (a).
  - (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).  
[SLFRS 7.34]
- If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.  
[SLFRS 7.35]

#### 4.7 SLFRS 15- Revenue from Contracts with Customers

- The opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed.  
[SLFRS 15.116]
- An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.  
[SLFRS 15.118]
- An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:
  - (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement
  - (b) the significant payment terms
  - (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services
  - (d) obligations for returns, refunds and other similar obligations.  
[SLFRS 15.119]
- For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.  
[SLFRS 15.125]
- An entity shall disclose information about the methods, inputs and assumptions used for all of the following:
  - (a) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and
  - (b) measuring obligations for returns, refunds and other similar obligations.  
[SLFRS 15.126]

#### 4.8 SLFRS 16- Leases

- A lessee shall disclose the following amounts for the reporting period:
  - (a) depreciation charge for right-of-use assets by class of underlying asset;
  - (b) interest expense on lease liabilities;
  - (c) the expense relating to short-term leases accounted for applying SLFRS 16 paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;

- (d) the expense relating to leases of low-value assets accounted for applying SLFRS 16 paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in SLFRS 16 paragraph 53(c);
  - (e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
  - (f) income from subleasing right-of-use assets;
  - (g) total cash outflow for leases;
  - (h) additions to right-of-use assets;
  - (i) gains or losses arising from sale and leaseback transactions; and
  - (j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.
- [SLFRS 16.53]
- A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of SLFRS 7 Financial Instruments: Disclosures separately from the maturity analyses of other financial liabilities.
- [SLFRS 16.58]
- In addition to the disclosures required in paragraphs 53-58 of SLFRS 16, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 of SLFRS 16. This additional information may include, but is not limited to, information that helps users of financial statements to assess:
    - (a) the nature of the lessee's leasing activities;
    - (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
      - (i) variable lease payments;
      - (ii) extension options and termination options;
      - (iii) residual value guarantees; and
      - (iv) leases not yet commenced to which the lessee is committed.
    - (c) restrictions or covenants imposed by leases; and
    - (d) sale and leaseback transactions (as described in paragraph B52).
- [SLFRS 16.59]

# FINANCIAL STATEMENTS

## KAPRUKA TECH ROOT (PRIVATE) LTD

For the Year ended  
31<sup>st</sup> March 2021.



No. 85, Senanayaka Avenue, Nawala, Rajagiriya, Sri Lanka.

Tel :- 011-2199052

E-mail:- [infor@adikariassociates.com](mailto:infor@adikariassociates.com)

## KAPRUKA TECH ROOT (PRIVATE) LIMITED

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## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF KAPRUKA TECH ROOT (PRIVATE) LTD

#### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Kapruka Tech Root (Private) Ltd ("the Company"), which comprise the Statement of Financial Position as at March 31, 2021, and the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at March 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities.

#### Basis for Opinion

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

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities (SLFRS for SMEs) and for such internal controls as the management determines are 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, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Company either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



(Contd...)

## INDEPENDENT AUDITOR'S REPORT (Contd...)

### 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standard Committees website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of auditor's report.

### 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.

*Adi Kari Associates*

**ADIKARI ASSOCIATES**  
**CHARTERED ACCOUNTANTS**  
Colombo



30<sup>th</sup> August 2021

**KAPRUKA TECH ROOT (PRIVATE) LIMITED**

NO.237/22 /C ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT OF FINANCIAL POSITION**

AS AT MARCH 31

	Note	2021 Rs.	2020 Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property Plant & Equipment	02	870,859	320,241
<b>Total Non Current Assets</b>		<b>870,859</b>	<b>320,241</b>
<b>Current Assets</b>			
Accounts Receivables		538,000	57,000
Prepayments	03	31,059	4,524
Cash at Bank		109,394	65,561
<b>Total Current Assets</b>		<b>678,453</b>	<b>127,085</b>
<b>Total Assets</b>		<b>1,549,313</b>	<b>447,326</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital &amp; Reserves</b>			
Stated Capital		20	20
Retained Earnings		(5,482,008)	(2,584,589)
<b>Total Equity</b>		<b>(5,481,988)</b>	<b>(2,584,569)</b>
<b>Current Liabilities</b>			
Amounts Due to Related Parties		5,795,982	2,702,442
Accrued Expenses		1,235,318	329,453
<b>Total Current liabilities</b>		<b>7,031,301</b>	<b>3,031,895</b>
<b>Total Equity and Liabilities</b>		<b>1,549,313</b>	<b>447,326</b>



I certify that the financial statements have been prepared in compliance with the requirements of the Company's Act, No. 07 of 2007.

  
Finance Manager

The Board of Directors is responsible for the preparation and presentation of these Financial statements. Approved and signed for and on behalf of the Board;

  
Director  
Date: 30/08/2021

  
Director  
Date: 30/08/2021

**KAPRUKA TECH ROOT (PRIVATE) LIMITED**

NO.237/22 /C ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST MARCH**

	Note	2021 Rs.	2020 Rs.
Revenue	06	6,211,500	3,436,500
Cost of Service	07	(7,932,011)	(3,775,514)
<b>Gross Loss</b>		<u>(1,720,511)</u>	<u>(339,014)</u>
Administrative Expenses	08	(1,153,158)	(593,781)
Finance Cost	09	(23,750)	(61,900)
<b>Profit/(Loss) Before Taxation</b>		<u>(2,897,419)</u>	<u>(994,695)</u>
Income Tax for the Year		-	-
<b>Net Profit/(Loss) for the Period</b>		<u>(2,897,419)</u>	<u>(994,695)</u>



**KAPRUKA TECH ROOT (PRIVATE) LIMITED**  
 NO.237/22 /C ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31ST MARCH 2021**

	Stated Capital Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01st April 2019	20	(1,589,894)	(1,589,874)
Loss for the Year	-	(994,695)	(994,695)
Balance as at 31st March 2020	<u>20</u>	<u>(2,584,589)</u>	<u>(2,584,569)</u>
Loss for the Year	-	(2,897,419)	(2,897,419)
Balance as at 31st March 2021	<u>20</u>	<u>(5,482,008)</u>	<u>(5,481,988)</u>



**KAPRUKA TECH ROOT (PRIVATE) LIMITED**  
 NO.237/22 /C ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**STATEMENT FOR CASH FLOWS**

FOR THE YEAR ENDED 31ST MARCH

	2021	2020
	Rs.	Rs.
<b><u>Cash Flows From Operating Activities</u></b>		
Net Loss Before Taxation	(2,897,419)	(994,695)
<b>Adjustments For:</b>		
Depreciation	201,999	137,747
<b>Operating Profit/(Loss) Before Working Capital Changes</b>	<b>(2,695,420)</b>	<b>(856,947)</b>
<b><u>Changes in Working Capital</u></b>		
Increase/(Decrease) In Amounts Due to Related Parties	3,093,541	477,328
Increase/(Decrease) In Accrued Expenses	905,865	107,697
(Increase)/Decrease In Accounts Receivables	(481,000)	62,000
(Increase)/Decrease In Prepayments	(26,536)	45,435
<b>Cash Generated from/(used in) operating Activities</b>	<b>796,450</b>	<b>(164,488)</b>
<b>Less:</b>		
Income Tax Paid	-	-
<b>Net Cash Flows From / (Used in) Operating Activities</b>	<b>796,450</b>	<b>(164,488)</b>
<b><u>Cash Flows From Investing Activities</u></b>		
Acquisition of Property , Plant & Equipment	(752,618)	(11,635)
<b>Net Cash Flows From / (Used in) Investing Activities</b>	<b>(752,618)</b>	<b>(11,635)</b>
<b>Net Increase/(Decrease) in Cash &amp; cash equivalents</b>	<b>43,833</b>	<b>(176,123)</b>
Cash & cash equivalents at the beginning of the year	65,561	241,684
<b>Cash &amp; cash equivalents at the end of the year (Note-1)</b>	<b>109,394</b>	<b>65,561</b>
	<b>2021</b>	<b>2020</b>
	<b>Rs.</b>	<b>Rs.</b>
<b><u>Not - 01 Cash &amp; Cash Equivalent</u></b>		
Cash at Bank (Sampath Bank)	109,394	65,561
<b>Closing Cash and Cash Equivalent</b>	<b>109,394</b>	<b>65,561</b>



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 ST MARCH 2021

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NOTE 01  
**SIGNIFICANT ACCOUNTING POLICIES**

**1.1 CORPORATE INFORMATION**

**1.1.1 General**

The Company is a limited liability Company Incorporated and domiciled in Sri Lanka. The Registered Office and principle place of business of the Company is located at No. 237/22/C, Vijaya Kumarathunga Mawatha, Colombo 05.

The Company changed its name from "Kapruka Web Solutions (Private) Limited" to "Kapruka Tech Root (Private) Limited" with effect from July 23, 2020.

**1.1.2 Principal Activities and Nature of Operations**

The company is a registered Internet Service Provider (ISP). The company is also engaged in IT consultancy Services

**1.2 GENERAL ACCOUNTING POLICIES**

**1.2.1 Basis of Preparation**

The Financial Statements have been prepared on a historical cost basis and are presented in Sri Lankan Rupees. The preparation and presentation of these Financial Statements comply with the requirement of the Companies Act, No. 07 of 2007.

**1.2.2 Statement of Compliance**

These Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities (SLFRS for SMEs) issued by the Institute of Chartered Accountants of Sri Lanka.

**1.2.3 Going Concern**

The board of directors has made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading. Therefore the financial statements are prepared on the going concern basis.

**1.2.4 Events after the Reporting Date.**

All material events occurring after the reporting date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the financial statements.

**1.2.5 Materiality and Aggregation**

Each material class of similar items is presented separately in the financial statement. Items of a dissimilar nature or function are presented separately unless they are immaterial.

**1.2.6 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets liabilities and the disclosure of contingent liabilities at reporting date.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected.



NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 ST MARCH 2021

NOTE 01  
**SIGNIFICANT ACCOUNTING POLICIES**

1.2.7 **Taxation**

Current Income tax assets & liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No.24 of 2017.

1.2.8 **Accounts Receivables**

Accounts Receivables are stated at the amounts they are estimated to realize net of allowance for bad and doubtful receivables.

**Allowance for Doubtful Receivables**

Company reviews at each reporting date all receivables to assess whether an allowance should be recorded in the Income Statement. Management uses judgment in estimating such allowance considering the duration of outstanding and any other factors management is aware of that indicates uncertainty in recoverability.

1.2.9 **Cash and Cash Equivalent**

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

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

1.2.10 **Property Plant and Equipment**

The Property plant & Equipment are recorded at cost less accumulated depreciation and impairment. The cost includes cost of acquisition together with any incidental expenses thereon and the cost of internally constructed assets includes cost of materials and direct labour, other direct cost to bringing the assets to working conditions for their intended use.

Expenditure incurred to replace a component of item of property, plant and equipment that is accounted for separately, is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. The carrying amount of the replaced part is derecognized. All other expenditure is recognized in the statement of income as an expense as and when incurred.

**Depreciation**

Items of Property Plant and equipment are depreciated from the date they are available to use. Depreciation is calculated using straight line basis over their estimated useful life of the assets. The estimated useful life of the items of property plant and equipment are as follows:

Class of Property Plant and Equipment	Useful Life (Years)
Office Equipment	4
Computer & Accessories	4
Furniture and Fittings	4



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 ST MARCH 2021

NOTE 01  
**SIGNIFICANT ACCOUNTING POLICIES**

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment.

The carrying values of Property, Plant and Equipment are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

**1.2.11 Provisions**

Provision are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**1.2.12 Trade and Other Payables**

Trade and Other Payables are stated at the cost.

**1.2.13 Retirement Benefit Obligations**

**Defined Benefit Plan – Gratuity**

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the Statement of Financial Position, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year net of payments made, and the carried forward provision at the end of a year is dealt with in the Statement of Profit or Loss.

The gratuity liability is neither funded nor actuarial valued.

**Defined Contribution Plan –Employees' Provident Fund & Employees' Trust Fund**

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

**1.2.14 Related Party Transaction**

For the purpose of these Financial Statements, parties are considered to be related to the Company if the Company has the ability directly or indirectly, to control the party or exercise significant influence over the party or vice versa. The relevant disclosure notes are provided in the Financial Statements.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 ST MARCH 2021

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NOTE 01

**SIGNIFICANT ACCOUNTING POLICIES**

**1.2.15 Interest Bearing Borrowing**

Interest Bearing Loans & Borrowings are recognized initially at cost. Borrowing costs are recognized as an expense in the period in which they are incurred.

**1.2.16 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific criteria are used for the purpose of recognition of revenue.

**Revenue of Services**

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed

**Other Income**

Other Income is recognized on an accrual basis. Gains and losses arising from incidental activities to 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

**1.2.17 Expenditure**

Expenses are recognized in Profit and Loss on the basis of a direct association between the cost incurred and the earning of specific items of Income

All expenditure incurred in the operation of the business and in the maintaining the property plant and equipment in a state of efficiency have been charged to income in arriving at the profit for the year.



**KAPRUKA TECH ROOT (PRIVATE) LIMITED**

NO.237/22 /C ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH 2021****Note - 02****Property Plant & Equipment**

	Balance as at 01/04/2020	Additions During the Year	Balance as at 31/03/2021
<u>Cost/Valuation</u>	Rs.	Rs.	Rs.
Computers	555,838	661,049	1,216,886
Furniture & Fittings	-	34,569	34,569
Office Equipment	-	57,000	57,000
	<u>555,838</u>	<u>752,618</u>	<u>1,308,455</u>
	Balance as at 01/04/2020	Charge for the Year	Balance as at 31/03/2021
<u>Depreciation</u>	Rs.	Rs.	Rs.
Buildings			
Motor Vehicle			
Computers	235,596	191,994	427,590
Furniture & Fittings	-	2,881	2,881
Office Equipment	-	7,125	7,125
	<u>235,596</u>	<u>201,999</u>	<u>437,596</u>
		Balance as at 01/04/2020	Balance as at 31/03/2021
<u>Written Down Value</u>		Rs.	Rs.
Computers		320,241	789,296
Furniture & Fittings		-	31,688
Office Equipment		-	49,875
		<u>320,241</u>	<u>870,859</u>



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH

	2021 Rs.	2020 Rs.
<b>Note - 03</b>		
<b><u>Prepayments</u></b>		
SIPG Chargers Prepayment	28,125	-
Prepayment for Insurance	2,934	4,524
	<u>31,059</u>	<u>4,524</u>
<b>Note - 04</b>		
<b><u>Amounts Due to Related Parties</u></b>		
Kapruka Dot Com (Pvt) Ltd	5,795,982	2,702,442
	<u>5,795,982</u>	<u>2,702,442</u>
<b>Note - 05</b>		
<b><u>Accrued Expenses</u></b>		
Salary	844,763	178,464
Provision for Bonus	112,500	-
Salary Advance Payable (Kapruka Dot Com)	108,408	-
Audit Fee	25,000	25,000
EPF	127,067	105,190
ETF	14,830	11,549
Welfare	2,750	4,050
Paye Tax Payable	-	5,200
	<u>1,235,318</u>	<u>329,453</u>
<b>Note - 06</b>		
<b><u>Revenue</u></b>		
Income	6,211,500	3,436,500
	<u>6,211,500</u>	<u>3,436,500</u>
<b>Note - 07</b>		
<b><u>Cost of Service</u></b>		
Salary	7,153,748	3,349,596
EPF	622,611	340,734
ETF	155,653	85,184
	<u>7,932,011</u>	<u>3,775,514</u>
<b>Note - 08</b>		
<b><u>Administrative Expenses</u></b>		
Bonus & Other Allowances	663,039	14,044
Staff welfare	27,344	70,145
Depreciation Computer	191,994	137,747
Depreciation Furniture & Fittings	2,881	-
Depreciation Office Equipment	7,125	-
Insurance	19,934	-
Prepayment written off	3,773	-
Telephone Expenses	66,257	57,592



**KAPRUKA TECH ROOT (PRIVATE) LIMITED**

NO.237/22 /C,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31ST MARCH

	2021	2020
	Rs.	Rs.
SIPG Chargers	9,375	47,500
Other Expenses	-	3,200
Accounts Fee	27,296	30,910
Audit Fee	25,000	25,000
Computers Maintenance	-	750
Office Equipment Maintenance	19,350	-
Professional Fees	71,550	17,846
HR Expense	11,123	-
Technical Expenses	-	1,990
Office Stationary	26	1,700
Staff Training & Motivate	-	8,656
Travelling	7,092	3,200
Over Provision of Audit Fees	-	(5,000)
Software Development Cost	-	178,500
	<u>1,153,158</u>	<u>593,781</u>
<b>Note - 09</b>		
<b>Finance Cost</b>		
Bank Chargers	23,750	61,900
	<u>23,750</u>	<u>61,900</u>



**KAPRUKA TECH ROOT (PRIVATE) LIMITED**  
 NO.237/22 /C,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

YEAR OF ASSESSMENT 2020/2021  
 COMPUTATION OF INCOME TAX  
 TIN : 114823384

		Rs.
Adjusted Business Income	Schedule A	(2,848,936)
<b>Assessable Income</b>		<u>NIL</u>
<b>Less : Deduction under sec 19</b>		-
Loss : B/F from Y/A 2019/2020	2,528,244	
Incurred During the year	<u>2,848,936</u>	-
Loss : C/F to Y/A 2021/2022	5,377,180	
		<u>-</u>
Tax payable @ 14%		-
<b>Total Tax Payable for the Year of Assessment 2020/2021</b>		<u>-</u>

Schedule A

**STATEMENT OF ADJUSTMENT PROFIT / (LOSS) FOR THE YEAR OF ASSESSMENT 2020/2021**

		Rs.
Net Profit as per Accounts		(2,897,419)
<b>Add : Disallowable Expenses</b>		
Provision for Bonus		112,500
Prepayment written off		3,773
Depreciation		<u>201,999</u>
		(2,579,146)
<b>Less: Allowable Expenses</b>		
Capital Allowances	Schedule B	(269,790)
<b>Business Profit/ (Loss) For The Year</b>		<u>(2,848,936)</u>

**KAPRUKA TECH ROOT (PRIVATE) LIMITED**

NO.237/22 /C ,VIJAYA KUMARATHUNGA MAWATHA,COLOMBO 05.

**Schedule B**

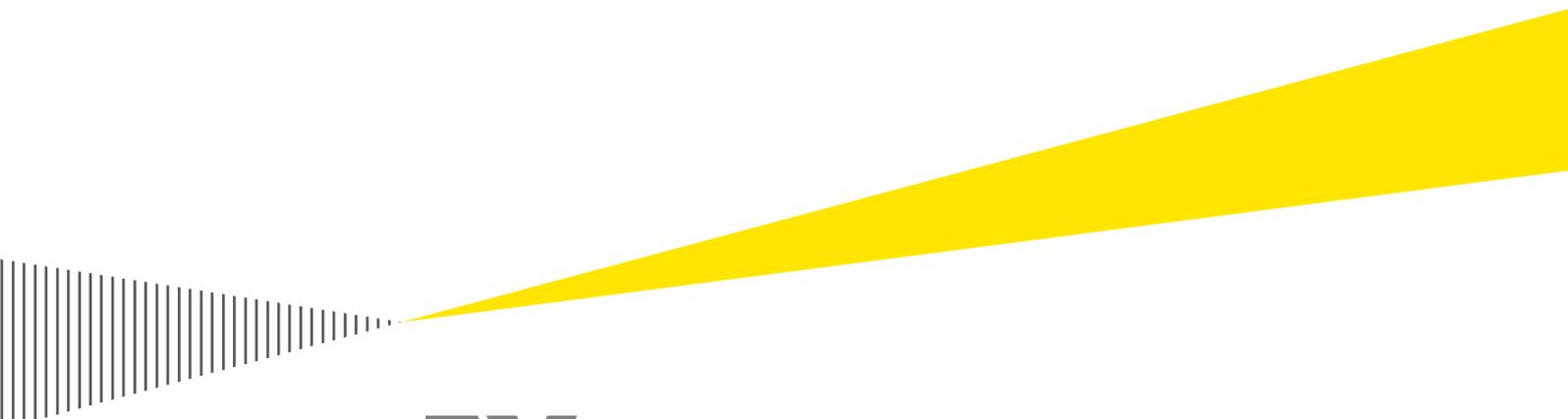
**CAPITAL ALLOWANCES**

Purchase Year	Asset	Rate	Cost	Excess from Sec 14	Depreciation Basis for 2020/2021	Claimed Up to 31/03/2020	Claimed for the year	To be Claimable 31/03/2021
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2017/2018	Computers	25%	152,952	-	152,952	114,714	38,238	-
			<u>152,952</u>	<u>-</u>	<u>152,952</u>	<u>114,714</u>	<u>38,238</u>	<u>-</u>
2018/2019	Computers	20%	391,251	2,256	393,507	156,500	78,701	158,305
2019/2020	Computers	20%	11,635	-	11,635	2,327	2,327	6,981
2020/2021	Computers	20%	661,049		661,049	-	132,210	528,839
2020/2021	Furniture & Fittings	20%	34,569		34,569	-	6,914	27,655
2020/2021	Office Equipment	20%	57,000		57,000	-	11,400	45,600
			<u>1,155,504</u>	<u>2,256</u>	<u>1,157,760</u>	<u>158,827</u>	<u>231,552</u>	<u>767,381</u>
			<u>1,308,456</u>	<u>2,256</u>	<u>1,310,712</u>	<u>273,541</u>	<u>269,790</u>	<u>767,381</u>

# Kapruka Tech Root (Pvt) Ltd

Gap Report on Financial Statements and the Requirements of Sri Lanka Accounting Standards (SLFRSs/LKASs)

December 2021





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

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578780  
eysl@lk.ey.com  
ey.com

JRP/PS/SP

2nd December 2021

Mr. Thilina Chathuranga  
Finance Manager  
Kapruka Holdings Limited  
237/22, Vijaya Kumarathunga Mawatha,  
Colombo 05.

Dear Sir,

**Educate the Management to Perform Gap Assessment on Financial Statements of Kapruka Tech Root (Pvt) Ltd and the Requirements of Sri Lanka Accounting Standards (SLFRSs/LKASs)**

We have completed our engagement on educate the Management to perform gap assessment on the financial statements of Kapruka Tech Root (Pvt) Ltd (the Company) prepared in line with SLFRS for SMEs against the requirements of SLFRSs/LKASs. Our engagement was performed in accordance with our Statement of Work (SOW) under our Agreement, and our procedures were limited to those described in the SOW.

**Results of our work**

Based on our procedures performed during the months of November to December 2021, we prepared the report to educate the Management to perform gap assessment on the financial statements of Kapruka Tech Root (Pvt) Ltd (the Company) prepared in line with SLFRS for SMEs against the requirements of SLFRSs/LKASs for your use and it is attached herewith. The management of Kapruka Holdings Limited (previously known as Kapruka Dot Com (Private) Limited) reviewed these documents for completeness, accuracy and reasonableness. The final decision regarding the application or implementation of those gaps will be made solely by the Company's management.

**Background**

The management of Kapruka Holdings Limited required to determine the gaps on the financial statements of Kapruka Tech Root (Pvt) Ltd in line with requirements of Sri Lanka Accounting Standards.

**Scope of our work**

In connection with our engagement, we held discussions with and made inquiries of the company's finance personnel for the purpose of obtaining the information we deemed necessary to educate the Management to perform gap assessment. The detailed list of procedures performed by us is included in our SOW under our Agreement.

Our work was performed under the direction of Kapruka Holdings Limited management and was based on inquiries of, and discussions with, management of the Company. We have not sought to confirm the accuracy of the data or the information and explanations provided by management.

The procedures that we performed were advisory in nature and do not constitute an audit or review in accordance with Sri Lanka Auditing Standard, nor do they constitute a related service in accordance with Sri Lanka Other Audit Pronouncement. Additionally, the procedures do not address the effectiveness of internal controls over financial reporting. EY did not conclude on the appropriate accounting treatment based on specific facts or recommend which accounting policy or treatment the Company should select or adopt.

The observations relating to accounting matters that EY provided to the Company were designed to assist Kapruka Holdings Limited's management in reaching its own conclusions and do not constitute our concurrence with or support of the Company's accounting or reporting. The Company alone is responsible for the preparation of its financial statements, including all of the judgments inherent in preparing them.

While we believe the information obtained is substantially responsive to your request, we are not in a position to assess its sufficiency for your purposes. In addition, we have no responsibility to update the work product for events or circumstances occurring after the date of the work product.

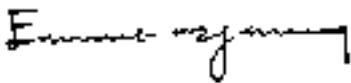
Our work has been limited in scope and time, and more detailed procedures may reveal issues that this engagement has not.

Restrictions on the use of our work product(s)

Educate the Management to perform gap assessment on the financial statements of the company and the requirements of SLFRSs/LKASs is intended solely for the information of the Kapruka Holdings Limited. Therefore, our work product, or portions thereof, should not be referred to or distributed to any other person or entity, other than the Company's auditors and legal counsel. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement or other agreement or document without our prior written approval.

We appreciate the cooperation and assistance provided to us during the course of our work. If you have any questions, please call Rajith Perera on 0115 578 604.

Very truly yours,



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## 1. Introduction

Kapruka Tech Root (Pvt) Ltd (hereinafter referred as the “Company” or “Entity”) is a limited liability company and It is a registered Internet Service Provider (ISP). The company is also engaged in IT consultancy services.

Current accounting practice of the Company is to prepare financial statements in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs).

Financial statements for the year ended 31<sup>st</sup> March 2021 have considered in preparing this Gap Analysis, the management have compared the company’s current accounting practice under SLFRS for SMEs against the recommended accounting treatment under SLFRSs/LKASs, as issued by the Institute of Chartered Accountants of Sri Lanka. Conclusions based on the Gap Analysis are given in the “Management Evaluation” section for the respective financial statement areas.

## 2. Gap Analysis - Statement of Comprehensive Income

## 2.1.1 Sale of Goods

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p>The company recognize the revenue from rendering of services in the accounting period when the services are rendered or performed.</p>	<p><b>SLFRS 15.31</b> An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.</p> <p><b>Performance obligations satisfied over time</b> <b>SLFRS 15.35</b> An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:</p> <ul style="list-style-type: none"> <li>(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;</li> <li>(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or</li> <li>(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.</li> </ul> <p><b>Performance obligations satisfied at a point in time</b> <b>SLFRS 15.38</b> If a performance obligation is not satisfied over time in accordance with SLFRS 15.35, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>(a) The entity has a present right to payment for the asset</li> <li>(b) The customer has legal title to the asset</li> <li>(c) The entity has transferred physical possession of the asset</li> <li>(d) The customer has the significant risks and rewards of ownership of the asset</li> <li>(e) The customer has accepted the asset</li> </ul>	<p>The company is a registered Internet Service Provider (ISP) such as website development. The company is also engaged in IT consultancy services.</p> <p>SLFRS 15 requires recognizing the revenue when the entity satisfies a performance obligation by transferring a promised good or service.</p> <p>The company provides IT consultancy service to companies within the Kapruka Group and revenue is recognized over the period since the service is providing throughout the contract period.</p> <p>Revenue on other services such as Website developments recognized at the point in time soon after the performance obligation is satisfied in line with the requirements of SLFRS 15.</p>

Measurement	Revenue is measured at the fair value of the consideration received or receivable.	<b>SLFRS 15.46</b> When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56-58 in SLFRS 15) that is allocated to that performance obligation.	The company currently measures its revenue at fair value. Therefore, no adjustment is required on the financial statements presented for the year ended 31 <sup>st</sup> March 2021.
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## 2.2 Cost of Services

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<b>SLFRS for SMEs 2.42</b> The recognition of expense results directly from the recognition and measurement of assets and liabilities. An entity shall recognize the expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an asset or an increase of a liability has arisen that can be measured reliably.	<b>Conceptual Framework 5.4(b)</b> The recognition of expenses occurs at the same time as: (i) Initial recognition of a liability, or an increase in the carrying amount of the liability; or (ii) The derecognition of an asset or a decrease in the carrying amount of an asset  <b>SLFRS 15.95</b> If the cost incurred in fulfilling a contract with a customer are not within the scope of another standard, an entity shall recognize an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria: (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify. (b) The costs generate or enhance resource of the entity that will be used in satisfying performance obligations in the future; and (c) The costs are expected to be recovered  <b>SLFRS 15.97</b> Costs are related directly to a contract include any of the following: (a) Direct labour (b) Direct materials (c) Allocation of costs that relate directly to the contract or contract activities (d) Costs that are explicitly chargeable to the customer under the contract; and (e) Other costs that are incurred only because an entity entered into the contract.	The company has recognized the cost of services on the items sold during the period which comprises following expenses, <ul style="list-style-type: none"> <li>• Salaries</li> <li>• EPF and</li> <li>• ETF</li> </ul> Therefore, no adjustments required under SLFRSs/ LKASs on services for the year ended 31 <sup>st</sup> March 2021 and 31 <sup>st</sup> March 2020.

## 2.3.1 Administration Expenses- Depreciation

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <p>(a) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</p> <p>(b) The item has a cost or value that can be measured reliably.</p> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p>	<p><b>Conceptual Framework 4.69</b> Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p>	<p><b>Depreciation</b> Current practice is to review the residual value, useful life and depreciation method only if there are indicators that it has changed since the most recent annual reporting date. However, under LKAS 16, the review should be made at least at each financial year-end even if there are no such indicators.</p> <p>This may cause change in the depreciation amount recognized during the period.</p> <p>[Refer the detail Gap mentioned in 3.1.1 of this report]</p>

## 2.3.2 Finance Cost

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
<p>Recognition &amp; Measurement</p>	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <ul style="list-style-type: none"> <li>(c) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</li> <li>(d) The item has a cost or value that can be measured reliably.</li> </ul> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p>	<p><b>Conceptual Framework 4.69</b> Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p>	<p>Amounts due to related parties reflects the balances which are payable on demand. However, if there are significant long outstanding stagnant balances, such balances may qualify for fair value requirements.</p>

### 2.3.3 Income Tax Expense

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p>Current income tax assets &amp; liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No.24 of 2017.</p>	<p><b>LKAS 12 Objective</b> LKAS 12 Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss</p> <p><b>LKAS 12.2</b> Income taxes include all domestic and foreign taxes which are based on taxable profits.</p> <p><b>LKAS 12.77</b> The tax expense (income) related to profit or loss from ordinary activities shall be presented as part of profit or loss in the statement(s) of profit or loss and other comprehensive income.</p>	<p>There are no adjustments required under SLFRS/LKAS for current tax expense as the basis for the recognition and measurement is similar to SLFRS for SMEs.</p> <p>However, detailed gap identified in Section 3.3.3 of this report may result income tax charge/reversal for the period.</p>

### 3. Gap Analysis - Statement of Financial Position

## 3.1 Assets

### 3.1.1 Property Plant and Equipment

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 17.4</b> An entity shall apply the recognition criteria in SLFRS 2.27 in determining whether to recognize an item of property, plant or equipment. Consequently, the entity shall recognize the cost of an item of property, plant and equipment as an asset if, and only if:</p> <p>(a) It is probable that future economic benefits associated with the item will flow to the entity; and</p> <p>(b) The cost of the item can be measured reliably</p>	<p><b>LKAS 16.7</b> The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if,</p> <p>(a) It is probable that future economic benefits associated with the item will flow to the entity; and</p> <p>(b) The cost of the item can be measured reliably.</p>	There are no adjustments required as the current accounting treatment is similar to the accounting treatment recommended under SLFRS/LKAS.
Initial Measurement	<p><b>SLFRS for SMEs 17.9 &amp; 17.10</b> PPE is initially measured at cost. Cost includes:</p> <ul style="list-style-type: none"> <li>• Purchase price</li> <li>• Any Directly attributable cost to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management</li> <li>• The initial estimate of costs of dismantling and removing the item and restoring the site on which it is located.</li> </ul> <p><b>SLFRS for SMEs 25.2</b> Borrowing cost are recognized as an expense.</p>	<p><b>LKAS 16.15</b> An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.</p> <p><b>LKAS 16.23</b> The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with LKAS 23.</p>	<p>There are no differences between LKAS 16 and SLFRS for SMEs (company policy) except the requirement on capitalization of borrowing costs on acquisition, construction or production of a qualifying asset.</p> <p>However, the company had not incurred any borrowing cost on qualifying assets for the year ended 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020. Therefore, no adjustment required for the amounts presented in the financial statements.</p>
Reassessment of Residual value, useful life and depreciation method	<p><b>SLFRS for SMEs 17.19</b> If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.</p>	<p><b>LKAS 16.51</b> The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p>	<p>Current practice is to review the residual value, useful life and depreciation method only if there are indicators that it has changed since the most recent annual reporting date. However, under LKAS 16, the review should be made at least at each financial year-end even if there are no such indicators.</p>

			<p><b>LKAS 16.61</b> The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with LKAS 8.</p>	<p>This may result the changes in carrying value of Property, plant &amp; equipment and depreciation charges thereon.</p>
Subsequent Measurement	<p><b>SLFRS for SMEs 17.15</b> An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.</p>	<p><b>LKAS 16.29 and 16.31</b> In addition to the cost model, the revaluation model is an option, in which classes of PPE are carried at a revalued amount less any accumulated depreciation and subsequent accumulated impairment loss.</p>	<p>Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Hence, no gap identified.</p>	

### 3.1.2 Accounts receivables

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Classification and Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity become a party to the contractual provision of the instrument.</p>	<p><b>SLFRS 9.4.1.2</b> A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on</p>	<p>The company classified the "accounts receivables" as financial assets measure at amortised cost. However, in accordance with SLFRS 9 it is required to measure financial asset at amortised cost if it meets the conditions of SLFRS 9.4.1.2.</p>

		<p>the principal amount outstanding.</p> <p><b>SLFRS 9.3.1.1.1</b> An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.</p> <p><b>SLFRS 9.5.1.3</b> At initial recognition, an entity shall measure trade receivables at their transaction price (as defined in SLFRS 15) if the trade receivables do not contain a significant financing component in accordance with SLFRS 15.</p>	<p>There are no adjustments required under SLFRS/LKAS as the current accounting treatment is similar to the accounting treatment recommended under SLFRS/LKAS.</p>
Initial measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Assets are initially measured at the transaction price including transactions cost.</p>	<p><b>SLFRS 9.5.2.1</b> After initial recognition, an entity shall measure a financial asset at</p> <ul style="list-style-type: none"> <li>(a) Amortized cost</li> <li>(b) Fair value through other comprehensive income: or</li> <li>(c) Fair value through profit or loss</li> </ul> <p><b>SLFRS 9.4.1.2</b> A financial asset shall be measured at amortized cost if both of the following conditions are met:</p> <ul style="list-style-type: none"> <li>(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and</li> <li>(b) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.</li> </ul>	<p>The company has only "accounts receivables" other than cash and cash equivalents as a financial asset in the financial statements as at 31<sup>st</sup> March 2021.</p> <p>However, "accounts receivables" are met with the conditions applied on financial asset which are required to be measured at amortized cost in line with SLFRS 9.4.1.2. Therefore, there are no adjustments required for trade receivables except the impairment provisions discussed below.</p>
Subsequent measurement	<p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>		

Impairment provision	<p><b>SLFRS for SMEs 11.21</b> At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortized cost. If there is objective evidence of impairment, the entity shall recognize an impairment loss in profit or loss immediately.</p>	<p><b>SLFRS 9.5.5.1</b> An entity shall recognize a loss allowance for expected credit losses on a financial asset at amortized cost.</p>	<p>The company has recognized an impairment loss in profit or loss if there is objective evidence of impairment (incurred loss model). However, the company is required to recognize a loss allowance for expected credit losses on trade receivables as per SLFRS 9.5.5.1</p>
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### 3.1.3 Cash and cash Equivalents

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.</p>	<p><b>SLFRS 9.3.1.1</b> Similar to SLFRS for SMEs</p>	<p>There are no changes to cash and cash equivalents under SLFRS/LKAS.</p>

### 3.2 Equity

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Definition and equity share issue	<p><b>SLFRS for SMEs 22.3</b> Equity is the residual interest in the entity's assets after deducting all its liabilities. Equity includes:</p> <ul style="list-style-type: none"> <li>• Investments by the owners of the entity</li> <li>• Plus, additions to those investments earned through profitable operations and retained for use in the entity's operations</li> <li>• Less reductions to owner's investments as a result of unprofitable operations and distributions to owners.</li> </ul>	<p><b>SLFRS Glossary</b> Residual interest in the assets of the entity after deducting all liabilities.</p>	<p>There are no changes in the definition of the equity under both reporting frameworks.</p> <p>However, Retained earnings reported in the financial statements may change due to the gaps identified in Section 2, Section 3.1 and Section 3.3 of this report.</p>

### 3.3 Liabilities

#### 3.3.1 Amount due to related parties

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Liabilities are initially measured at the transaction price including transactions cost.</p> <p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>	<p><b>SLFRS 9.5.1.1</b> At initial recognition, an entity shall measure a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition or issue of the financial liability.</p> <p><b>SLFRS 9.5.3.1</b> After initial recognition, an entity shall measure a financial liability at amortized cost except for:</p> <ul style="list-style-type: none"> <li>(a) financial liabilities at fair value through profit or loss</li> <li>(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.</li> <li>(c) financial guarantee contracts</li> <li>(d) commitments to provide a loan at a below-market interest rate.</li> <li>(e) contingent consideration recognized by an acquirer in a business combination to which SLFRS 3 applies.</li> </ul>	<p>Amounts due to related parties reflects the balances which are payable on demand. However, if there are significant long outstanding stagnant balances, such balances may qualify for fair value requirements.</p>

### 3.3.2 Accrued Expenses

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provision of the instrument.</p>	<p><b>SLFRS 9.3.1.1</b> Similar to SLFRS for SMEs</p>	<p>There are no adjustments required under SLFRS/LKAS.</p>
Measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Liabilities are initially measured at the transaction price including transactions cost.</p> <p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>	<p><b>SLFRS 9.5.1.1</b> At initial recognition, an entity shall measure a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition or issue of the financial liability.</p> <p><b>SLFRS 9.5.3.1</b> After initial recognition, an entity shall measure a financial liability at amortized cost except for:</p> <ul style="list-style-type: none"> <li>(a) financial liabilities at fair value through profit or loss</li> <li>(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.</li> <li>(c) financial guarantee contracts</li> <li>(d) commitments to provide a loan at a below-market interest rate.</li> <li>(e) contingent consideration recognized by an acquirer in a business combination to which SLFRS 3 applies.</li> </ul>	<p>There are no adjustments required under SLFRS/LKAS.</p>

### 3.3.3 Deferred Tax Asset/Liability

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 29.8</b> An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the entity's assets and liabilities in the statement of financial position and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.</p> <p>However, the company has not recognized deferred tax asset/ liability in the financial statements as at 31<sup>st</sup> March 2021.</p>	<p><b>LKAS 12.15</b> A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: (a) the initial recognition of goodwill; or (b) the initial recognition of an asset or liability in a transaction which: (i) is not a business combination; and (ii) (at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p> <p><b>LKAS 12.24</b> A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: (a) is not a business combination; and (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p>	<p>The company has not recognized the deferred tax asset/liability in the financial statements as that is immaterial.</p> <p>However, the company required to revisit their current practice in order to fulfil the requirements of LKAS 12.</p>

#### 4. Gap Analysis - Disclosure Requirements

## Disclosure Requirements

Following disclosures shall be made under SLFRSs/LKASs in addition to the disclosures made under SLFRS for SMEs.

### 4.1 LKAS 12- Income Taxes

- Components of tax expense (income) may include:
  - (a) The deferred tax expense (income) relating to the origination and reversal of temporary differences
  - (b) The deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes
  - (c) The benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense
  - (d) Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset [LKAS 12.80]
- Relationship between tax expense (income) and accounting profit or loss
- (a) The relationship between tax expense (income) and accounting profit or loss in either or both of the following forms:
  - (i) A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) compute, Or
  - (ii) A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed

(b) For deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position:

- (i) The amount
- (ii) expiry date, if any

[LKAS 12.81]

### 4.2 LKAS 16- Property, Plant & Equipment

- Information about fully depreciated assets and temporary idle assets:
  - (a) The carrying amount of temporarily idle property, plant and equipment
  - (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use
  - (c) The carrying amount of property, plant and equipment retired from active use and not classified as held for sale
  - (d) If the cost model is used, the fair value of property, plant and equipment, if this is materially different from the carrying amount [LKAS 16.79]

#### 4.3 LKAS 24- Related Party Disclosures

- Information about the related party transactions during the reporting period covered by the financial statements:
  - (a) The nature of the related party relationship
  - (b) Information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements, including the following disclosures:
    - (i) The amount of the transactions
    - (ii) The amount of outstanding balances, including commitments
      - Their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement
      - Details of any guarantees given or received
    - (iii) Provisions for doubtful debts related to the amount of outstanding balances
    - (iv) The expense recognised during the reporting period for bad or doubtful debts due from related parties
- [LKAS 24.18]
- Disclose the information required by LKAS 24.18 separately for each of the following categories:
  - (a) The parent
  - (b) Entities with joint control or significant influence over the entity
  - (c) Subsidiaries
  - (d) Associates
  - (e) Joint ventures in which the entity is a venturer
  - (f) Key management personnel of the entity or its parent
  - (g) Other related parties
- [LKAS 24.19]
- Information on nature of transactions if they are with a related party:
  - (a) Purchases or sales of goods (finished or unfinished)
  - (b) Purchases or sales of property and other assets
  - (c) Rendering or receiving of services
  - (d) Leases
  - (e) Transfer of research and development
  - (f) Transfer under license agreements
  - (g) Transfers under finance arrangements (including loans and equity contributions in cash or in kind)
  - (h) Provision of guarantees or collateral
  - (i) Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised)
  - (j) Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party
- [LKAS 24.21]

#### 4.4 SLFRS 7- Financial Instruments: Disclosures

- The carrying amounts of each of the following categories, as specified in SLFRS 9, shall be disclosed either in the statement of financial position or in the notes:
  - (a) financial assets measured at amortised cost.
  - (b) financial liabilities measured at amortised cost. [SLFRS 7.8]
- Maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities. [SLFRS 7.39]

##### Nature and extent of risks arising from financial instruments

- An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. [SLFRS 7.31]
- The disclosures required by SLFRS 7 paragraphs 33-42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk. [SLFRS 7.32]
- Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks. [SLFRS 7.32A]

##### Qualitative disclosures

- For each type of risk arising from financial instruments, an entity shall disclose:
  - (a) the exposures to risk and how they arise;
  - (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
  - (c) any changes in (a) or (b) from the previous period.

[SLFRS 7.33]

- For each type of risk arising from financial instruments, an entity shall disclose:
  - (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in LKAS 24 Related Party Disclosures), for example the entity's board of directors or chief executive officer.
  - (b) the disclosures required by paragraphs 35A-42, to the extent not provided in accordance with (a).
  - (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b). [SLFRS 7.34]
- If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative. [SLFRS 7.35]

#### 4.5 SLFRS 15- Revenue from Contracts with Customers

- The opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. [SLFRS 15.116]
- An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.
- An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:
  - (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement
  - (b) the significant payment terms
  - (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services
  - (d) obligations for returns, refunds and other similar obligations. [SLFRS 15.119]
- For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services. [SLFRS 15.125]
- An entity shall disclose information about the methods, inputs and assumptions used for all of the following:
  - (a) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and
  - (b) measuring obligations for returns, refunds and other similar obligations. [SLFRS 15.126]

# FINANCIAL STATEMENTS

## KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED

For the Year ended  
31<sup>st</sup> March 2021.



No. 85, Senanayaka Avenue, Nawala, Rajagiriya, Sri Lanka.

Tel :- 011-2199052

E-mail:- infor@adikariassociates.com

## KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED

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## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED

#### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Kapruka Global Shop (Private) Limited ("the Company"), which comprise the Statement of Financial Position as at March 31, 2021, and the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at March 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities.

#### Basis for Opinion

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

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities (SLFRS for SMEs) and for such internal controls as the management determines are 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, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Company either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



## INDEPENDENT AUDITOR'S REPORT (Contd...)

### 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standard Committees website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of auditor's report.

### 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.

A handwritten signature in blue ink, appearing to read 'Adikari Associates', is written over a circular official stamp. The stamp contains the text 'Chartered Accountants' and '1957'.

**ADIKARI ASSOCIATES**  
CHARTERED ACCOUNTANTS  
Colombo

14<sup>th</sup> October 2021

**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**  
NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**STATEMENT OF FINANCIAL POSITION**  
AS AT 31ST MARCH

	Note	2021 Rs.	2020 Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property , Plant & Equipment	02	230,622	421,903
<b>Total Non Current Assets</b>		<b>230,622</b>	<b>421,903</b>
<b>CURRENT ASSETS</b>			
Inventories		21,305,620	19,911,687
Trade & Other Receivables	03	572,896	13,954,944
Amounts Due from Related Parties	04	1,666,470	924,435
Cash & Cash Equivalents	05	7,674,102	5,242,887
<b>Total Current Assets</b>		<b>31,219,088</b>	<b>40,033,953</b>
<b>Total Assets</b>		<b>31,449,710</b>	<b>40,455,856</b>
<b>EQUITY &amp; LIABILITIES</b>			
<b>CAPITAL &amp; RESERVES</b>			
Stated Capital		20	20
Retained Earnings		(8,092,543)	(5,088,580)
<b>Total Equity</b>		<b>(8,092,523)</b>	<b>(5,088,560)</b>
<b>CURRENT LIABILITIES</b>			
Amounts Due to Related Parties	06	27,064,325	42,058,014
Trade Creditors	07	12,082,457	3,192,849
Accrued Expenses	08	395,451	293,553
<b>Total Liabilities</b>		<b>39,542,233</b>	<b>45,544,416</b>
<b>Total Equity and Liabilities</b>		<b>31,449,710</b>	<b>40,455,856</b>

I certify that these financial statements are in compliance with the requirements of the companies, Act No. 07 of 2007.

  
Finance Manager

The Board of Directors is responsible for preparation and presentation of these financial statements, Signed for and on behalf of the Board of Directors.

  
Director  
14/10/2021

  
  
Director  
14/10/2021

**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST MARCH**

	Note	2021 Rs.	2020 Rs.
Turnover	09	94,186,482	101,152,868
Cost of Sales	10	<u>(91,913,541)</u>	<u>(92,771,812)</u>
Gross Profit		2,272,941	8,381,056
Other Income	11	3,663,990	2,653,562
Administrative Expenses	12	(6,433,007)	(12,214,585)
Distribution Expenses	13	(1,734,058)	(2,231,134)
Financial Cost	14	(773,829)	(741,542)
Net Profit / (Loss) Before Taxation		<u>(3,003,963)</u>	<u>(4,152,643)</u>
Taxation		-	-
Net Profit / (Loss) for the Year		<u><u>(3,003,963)</u></u>	<u><u>(4,152,643)</u></u>



**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST MARCH 2021**

	<b>Stated Capital Rs.</b>	<b>Retained Earnings Rs.</b>	<b>Total Rs.</b>
Balance as at 01st April 2019	20	(935,936)	(935,916)
Net Profit / (Loss) for the Year	-	(4,152,643)	(4,152,643)
Balance as at 31st March 2020	<u>20</u>	<u>(5,088,580)</u>	<u>(5,088,560)</u>
Net Profit / (Loss) for the Year	-	(3,003,963)	(3,003,963)
Balance as at 31st March 2021	<u>20</u>	<u>(8,092,543)</u>	<u>(8,092,523)</u>



**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST MARCH**

	2021 Rs.	2020 Rs.
<b><u>Cash Flows From Operating Activities</u></b>		
Net Profit/Loss before Taxation	(3,003,963)	(4,152,642)
Adjustment For :		
Depreciation	229,281	313,477
<b>Operating Profit / (Loss) Before Working Capital Changes</b>	<b>(2,774,682)</b>	<b>(3,839,165)</b>
<b><u>Changes in Working Capital</u></b>		
(Increase) / Decrease in Inventory	(1,393,933)	(206,671)
(Increase) / Decrease in Trade & Other Receivables	13,382,047	8,850,355
(Increase) / Decrease in Amounts Due from Related Parties	(742,035)	(924,435)
Increase / (Decrease) in Amounts Due to Related Parties	(14,993,689)	(1,591,018)
Increase / (Decrease) in Trade Creditors	8,889,608	1,882,834
Increase / (Decrease) in Accrued Expenses	101,898	(606,041)
<b>Cash Generated From / (used in) Operating Activities</b>	<b>2,469,215</b>	<b>3,565,859</b>
Less:		
Income Tax Paid	-	-
<b>Net Cash Flows From / (used in) Operating Activities</b>	<b>2,469,215</b>	<b>3,565,859</b>
<b><u>Cash Flows From Investing Activities</u></b>		
Acquisition of Property , Plant & Equipment	(38,000)	(123,109)
<b>Net Cash Flows From / (Used in) Investing Activities</b>	<b>(38,000)</b>	<b>(123,109)</b>
Net Increase / (Decrease ) in Cash & Cash Equivalents	2,431,215	3,442,750
Cash & Cash Equivalents at the Beginning of the Year	5,242,887	1,800,139
Cash & Cash Equivalents at the End of the Year (Note - 01)	7,674,102	5,242,889
<b><u>Note - 01</u></b>		
<b><u>Cash &amp; Cash Equivalents as at 31st March 2021</u></b>		
Cash at Bank	6,875,175	3,851,293
Cash in Hand	798,927	1,391,564
	<b>7,674,102</b>	<b>5,242,887</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 ST MARCH 2021**

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**NOTE 01**  
**SIGNIFICANT ACCOUNTING POLICIES**

**1.1 CORPORATE INFORMATION**

**1.1.1 General**

The Company is a limited liability Company Incorporated and domiciled in Sri Lanka. The Registered Office and principle place of the business of the Company are located at No. 237/22A, Vijaya Kumarathunga Mawatha, Colombo 05.

**1.1.2 Principal Activities and Nature of Operations**

The Principal business activity is to provide Electronic Commerce and Online Trading, import and export goods and services, E Ticketing and booking of seats on any means of transport and any charter conveyances in any part of the world, and act as agent for principals engaged in courier services in any part of the world.

**1.2 GENERAL ACCOUNTING POLICIES**

**1.2.1 Basis of Preparation**

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

**1.2.2 Statement of Compliance**

These Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities (SLFRS for SMEs) issued by the Institute of Chartered Accountants of Sri Lanka.

**1.2.3 Going Concern**

The directors have made an assessment of the Company's ability to continue as a Going concern and they do not intend either to liquidate or to cease trading.

The Corona Virus ("Covid-19") is expected to have an impact on the Company's business performance. The Management monitors and controls spending in anticipation of an eventual recovery of the marketplace. Based on the prevailing uncertain market conditions, the management has deferred their non-essential expenditure, recruitments, advertising/promotional expenditure in preparation for any uncertainties. As a result, the Company's financial performance in the short term is expected to correspond with the prevailing negative business environment, which will continue for a near future.

The Management is of the opinion that the Company is in a position to arrange credit facilities if required to meet any contingencies to ensure seamless operation. The management is confident that all their decisions and measures will ensure the Company remains viable as an entity through these uncertain times.

**1.2.4 Comparative Information**

The Accounting Policies have been consistently applied by the company and are consistent with those of the previous Year. The previous year's figures and phrases have been rearranged wherever to conform to the current year's presentation

**1.2.5 Events after the Reporting Date**

All material events occurring after the reporting date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 ST MARCH 2021**

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**NOTE 01**  
**SIGNIFICANT ACCOUNTING POLICIES**

**1.2.6 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets liabilities and the disclosure of contingent liabilities at reporting date.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected.

**1.2.7 Taxation**

Current Income tax assets & liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No.24 of 2017.

**1.2.8 Accounts Receivables**

Accounts Receivables are stated at the amounts they are estimated to realize net of allowance for bad and doubtful receivables.

**Allowance for Doubtful Receivables**

Company reviews at each reporting date all receivables to assess whether an allowance should be recorded in the Income Statement. Management uses judgment in estimating such allowance considering the duration of outstanding and any other factors management is aware of that indicates uncertainty in recoverability.

**1.2.9 Cash and Cash Equivalent**

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

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

**1.2.10 Property, Plant and Equipment**

**Fixed Assets**

The Property plant & Equipment are recorded at cost less accumulated depreciation and impairment. The cost includes cost of acquisition together with any incidental expenses thereon and the cost of internally constructed assets includes cost of materials and direct labor, other direct cost to bringing the assets to working conditions for their intended use.

Expenditure incurred to replace a component of item of property, plant and equipment that is accounted for separately, is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. The carrying amount of the replaced part is derecognized. All other expenditure is recognized in the statement of income as an expense as and when incurred.

**Leased Assets**

The assets under finance lease are capitalized at cost. Depreciation and finance charges arising as such leased assets are charged to the profit and loss account and the lease rental payment are recognized to reduce the lease liability.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 ST MARCH 2021**

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**NOTE 01**

**SIGNIFICANT ACCOUNTING POLICIES**

**Depreciation**

Items of Property Plant and equipment are depreciated from the date they are available to use. Depreciation is calculated using straight line basis over their estimated useful life of the assets. The estimated useful life of the items of property plant and equipment are as follows:

Class of Property Plant & Equipment (Years)	Useful Life
Furniture & Fittings	4
Computer & Equipment	4
Office Equipment	4
Software	5

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment.

The carrying values of Property, Plant and Equipment are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

**1.2.11 Inventories**

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred in acquiring the Inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**1.2.12 Trade and Other payables**

Trade and Other Payables are stated at the cost.

**1.2.13 Provisions**

Provision are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 ST MARCH 2021**

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**NOTE 01**  
**SIGNIFICANT ACCOUNTING POLICIES**

**1.2.14 Retirement Benefit Obligations**

**Define Benefit Plan-Gratuity**

Gratuity is a defined plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, based on a half month's salary as of the last month of the financial year, of all employees for each completed year of service, commencing from the first year of service. The resulting difference between the provision brought forward at the beginning of a year and the provision carried forward at the end of a year is dealt with in the income statement.

**Defined Contribution Plan -Employees' Provident Fund & Employees' Trust Fund**

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

**1.2.15 Related Party Transaction**

For the purpose of these Financial Statements, parties are considered to be related to the Company if the Company has the ability directly or indirectly, to control the party or exercise significant influence over the party or vice versa. The relevant disclosure notes are provided in the Financial Statements.

**1.2.16 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific criteria are used for the purpose of recognition of revenue.

**Sale of Goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods (i.e. the company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts

**Other Income**

Other Income is recognized on an accrual basis. Gains and losses arising from incidental activities to 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.

**1.2.17 Expenditure**

Expenses are recognized in Profit and Loss on the basis of a direct association between the cost incurred and the earning of specific items of Income

All expenditure incurred in the operation of the business and in the maintaining the property plant and equipment in a state of efficiency have been charged to income in arriving at the profit for the year.



**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH 2020**

**Note - 02**

<u>Property Plant &amp; Equipment</u>	Balance as at 01/04/2020	Additions During the Year	Balance as at 31/03/2021
<u>Cost / Valuation</u>	Rs.	Rs.	Rs.
Computers	1,234,676	-	1,234,676
Furniture & Fittings	365,067	-	365,067
Office Equipment	1,342,949	38,000	1,380,949
Software	185,000	-	185,000
	<u>3,127,692</u>	<u>38,000</u>	<u>3,165,692</u>
	Balance as at 01/04/2020	Charge for the Year	Balance as at 31/03/2021
	Rs.	Rs.	Rs.
<u>Depreciation</u>			
Computers	1,060,944	108,372	1,169,316
Furniture & Fittings	336,229	16,022	352,251
Office Equipment	1,159,616	92,887	1,252,503
Software	149,000	12,000	161,000
	<u>2,705,789</u>	<u>229,281</u>	<u>2,935,070</u>
	Balance as at 01/04/2020	Balance as at 31/03/2021	
	Rs.	Rs.	
<u>Written Down Value</u>			
Computers	173,733	65,360	
Furniture & Fittings	28,837	12,816	
Office Equipment	183,333	128,446	
Motor Vehicle	36,000	24,000	
	<u>421,903</u>	<u>230,622</u>	



**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH**

	2021 Rs.	2020 Rs.
<b>Note - 03</b>		
<b><u>Trade &amp; Other Receivables</u></b>		
Trade Receivables	(2,249,983)	11,044,891
ESC Receivable	951,159	951,159
Building Rent-Refundable Deposit	825,000	825,000
Prepayment For Office Rent	566,667	1,103,000
Prepayments	302	10,987
Credit Card Receivables	64,539	-
Prepayments for Office Insurance	17,408	16,185
Rewards Point Receivable	379,554	-
Medical & Workmen Ins. Prepayment	18,250	3,721
	<u>572,896</u>	<u>13,954,944</u>
<b>Note - 04</b>		
<b><u>Amounts Due from Related Parties</u></b>		
Intercompany- Java	1,666,470	924,435
	<u>1,666,470</u>	<u>924,435</u>
<b>Note - 05</b>		
<b><u>Cash &amp; Cash Equivalents</u></b>		
NTB PLC - C/A 503100014117	42,178	2,518,734
Sampath Bank PLC-A/C 6070-00	6,832,997	1,332,559
Cash in Hand	798,927	1,391,594
	<u>7,674,102</u>	<u>5,242,887</u>
<b>Note - 06</b>		
<b><u>Amounts Due to Related parties</u></b>		
Kapruka Dot Com (Pvt) Ltd	27,064,325	42,058,014
	<u>27,064,325</u>	<u>42,058,014</u>
<b>Note - 07</b>		
<b><u>Trade Creditors</u></b>		
Trade Creditors	12,082,457	3,192,849
	<u>12,082,457</u>	<u>3,192,849</u>
<b>Note - 08</b>		
<b><u>Accrued Expenses</u></b>		
Electricity Payable	113,622	321,111
Audit Fees	40,000	40,000
Administration Fee Payable	-	38,250
EPF	31,515	68,413
ETF	4,727	10,262
Insurance & licence Due	18,377	17,362
Telephone Payable	9,845	24,249
Allowance Payable	14,736	4,000
Sales Commission Payable	25,286	9,955

Figures in brackets indicate deductions.

**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**  
NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH**

	2021 Rs.	2020 Rs.
<b>Note - 08</b>		
<b><u>Accrued Expenses(contd..)</u></b>		
Secretary Fee Payable	20,000	12,000
Salary Payable	127,409	(48,241)
Office Rent Due	-	(192,992)
VAT Payable	(10,817)	(10,817)
Welfare Fee Payable	750	-
	<u>395,451</u>	<u>293,553</u>
<b>Note - 09</b>		
<b><u>Turnover</u></b>		
Revenue	<u>94,186,482</u>	<u>101,152,868</u>
	<u>94,186,482</u>	<u>101,152,868</u>
<b>Note - 10</b>		
<b><u>Cost of Sales</u></b>		
Opening Stock	19,911,687	19,705,016
Purchases	88,138,831	84,067,188
Stock Adjustments	(537,829)	74,617
Shipment Handling Fee	5,706,471	8,836,678
	<u>113,219,161</u>	<u>112,683,499</u>
Closing Stock	<u>(21,305,620)</u>	<u>(19,911,687)</u>
	<u>91,913,541</u>	<u>92,771,812</u>
<b>Note - 11</b>		
<b><u>Other Income</u></b>		
Discount Income	3,168,593	2,489,473
Financial Charge	136,741	164,089
Exchange Rate of FL P/L	29,738	-
Amazon compensation	328,919	-
	<u>3,663,990</u>	<u>2,653,562</u>
<b>Note - 12</b>		
<b><u>Administrative Expenses</u></b>		
Office Rent	1,992,050	2,745,000
Salaries & Allowances	1,141,061	2,654,768
Office Maintenance	260,030	569,035
Professional Fees	11,991	50,000
Staff Transport	19,568	337,742
Office Electricity	219,326	634,467
Travelling	87,722	251,384
Telephone	289,708	388,148
Office Security	-	20,218
Depreciation	229,281	313,477



**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH**

	2021 Rs.	2020 Rs.
<b>Note - 12</b>		
<b><u>Administrative Expenses (Contd..)</u></b>		
Staff Welfare	15,860	179,883
EPF	99,205	241,044
ETF	24,801	60,261
Staff Bonus	131,250	-
Other Administration Expenses	108,145	174,397
Legal Fee	150,000	767,183
Office Stationary	94,674	38,264
Technical Expenses	63,500	72,572
Secretarial Fees	18,000	50,500
Audit Fee	40,000	40,000
Office Equipment Maintenance	20,183	14,872
Office Fire & Burglary Insurance	17,154	16,376
Medical Insurance - Staff	7,309	23,771
Office Postage	12,238	18,060
Online Transaction Commission	1,045,515	978,794
Exchange Rate of FL P/L	-	751,513
Outsourced Staff Cost	334,435	793,657
Penalties	-	22,719
Staff Training & Motivation	-	6,481
	<u>6,433,007</u>	<u>12,214,585</u>
<b>Note - 13</b>		
<b><u>Distribution Expenses</u></b>		
Nation Building Tax	-	660,598
Discount Given & Complement	65,248	279,444
Credit Card Commission	362,538	392,613
Distribution Expenses	708,916	371,209
Operation Losses	22,452	63,182
Packing & Printing	130,618	358,404
Sales Commission	232,623	49,555
Advertising	190,380	50,829
Other Distribution Expenses	21,284	5,300
	<u>1,734,058</u>	<u>2,231,134</u>
<b>Note - 14</b>		
<b><u>Financial Cost</u></b>		
Bank charges	773,829	741,542
Other Expense	-	-
	<u>773,829</u>	<u>741,542</u>

Figures in brackets indicate deductions.

**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

YEAR OF ASSESSMENT 2020/2021

2021

COMPUTATION OF INCOME TAX- (TIN 174932840-0000)

Rs.

Adjusted Business Loss	Schedule A	(3,253,247)
Less: Qualifying Payment		
<b>Total Assessable Income</b>		<b>NIL</b>
Less: Deduction Under Section 19		-
<b>Total Taxable Income</b>		
Income Tax @ 14%		-
<b>Total Income Tax Payable</b>		<b>-</b>
Tax Credits		-
<b>Balance Tax Payable</b>		<b>-</b>
<b>Schedule A</b>		
<b>ADJUSTED BUSINESS INCOME /(LOSS) FOR THE YEAR ENDED 31/03/2021</b>		
Net Profit / (Loss) as Per Accounts		(3,003,963)
<b>Add: <u>Disallowable Expenses</u></b>		
Penalties		-
Stock Adjustments	(537,829)	
Legal Fee	150,000	
Operation Losses	22,452	
Discount Given & Complement	65,248	
Depreciation	229,281	(70,848)
		<b>(3,074,811)</b>
<b>Less: <u>Allowable Expenses</u></b>		
Capital Allowance	Schedule B	178,436
		<b>(178,436)</b>
		<b>(3,253,247)</b>
<b>Business Income / (Loss) For The Year</b>		<b>(3,253,247)</b>

Tax Losses Carried Forward

Rs

2018/19	3,096,694
2019/20	2,969,267
2020/21	3,253,247
<b>Total</b>	<b>9,319,208</b>

Figures in brackets indicate deductions.

**KAPRUKA GLOBAL SHOP (PRIVATE) LIMITED**

NO. 237/22A, VIJAYA KUMARATUNGA MAWATHA, COLOMBO 05.

YEAR OF ASSESSMENT 2020/2021

Schedule B

**CAPITAL ALLOWANCES**

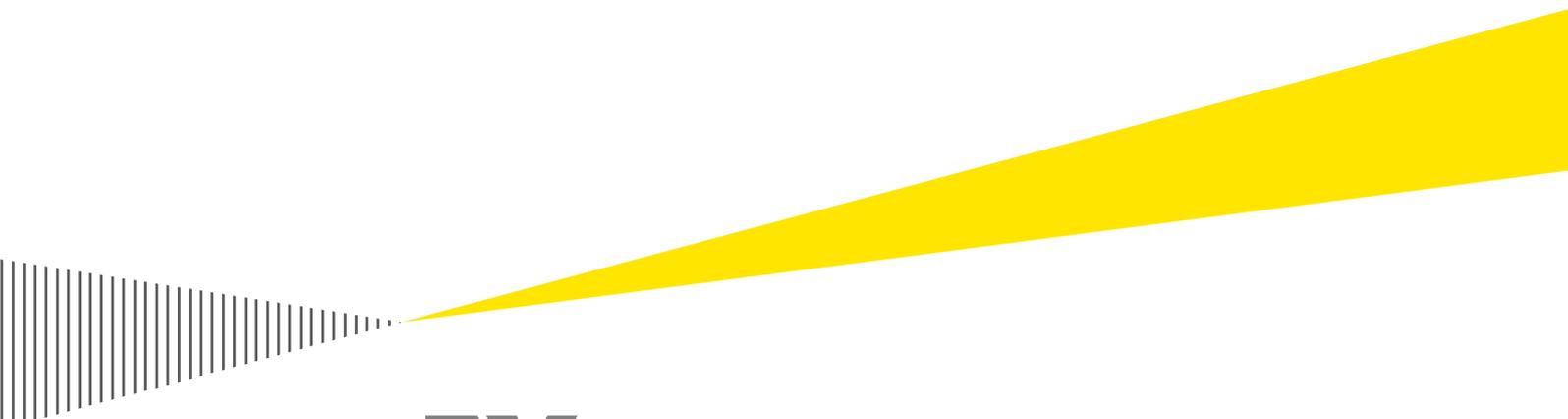
Description	Rate	Cost	Claimed up to 31/03/2020	Claimed for the year	WDV as at 31/03/2021
		Rs.	Rs.	Rs.	Rs.
Furniture & Fittings	20%	9,977	7,982	1,995	-
<b>2017/2018</b>					
Office Equipment	25%	116,066	87,050	29,017	-
Furniture & Fittings	20%	43,120	25,872	8,624	8,624
Software	25%	60,000	45,000	15,000	-
Computers	25%	286,845	215,134	71,711	-
		<b>516,008</b>	<b>381,037</b>	<b>126,347</b>	<b>8,624</b>
<b>2018/2019</b>					
Office Equipment	20%	82,377	32,951	16,475	32,951
Furniture & Fittings	20%	16,958	6,783	3,392	6,783
<b>2019/2020</b>					
Office Equipment	20%	79,358	15,872	15,872	47,615
Computers	20%	43,750	8,750	8,750	26,250
<b>2020/2021</b>					
Office Equipment	20%	38,000	-	7,600	30,400
		<b>260,444</b>	<b>64,356</b>	<b>52,089</b>	<b>143,999</b>
<b>Total</b>		<b>776,452</b>	<b>445,393</b>	<b>178,436</b>	<b>152,623</b>

Figures in brackets indicate deductions.

# Kapruka Global Shop (Pvt) Ltd

Gap Report on Financial Statements and the Requirements of Sri Lanka Accounting Standards (SLFRSs/LKASs)

December 2021





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

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578780  
eysl@lk.ey.com  
ey.com

JRP/PS/SP

2nd December 2021

Mr. Thilina Chathuranga  
Finance Manager  
Kapruka Holdings Limited  
237/22, Vijaya Kumarathunga Mawatha,  
Colombo 05.

Dear Sir,

**Educate the Management to Perform Gap Assessment on Financial Statements of Kapruka Global Shop (Pvt) Ltd and the Requirements of Sri Lanka Accounting Standards (SLFRSs/LKASs)**

We have completed our engagement on educate the Management to perform gap assessment on the financial statements of Kapruka Global Shop (Pvt) Ltd (the Company) prepared in line with SLFRS for SMEs against the requirements of SLFRSs/LKASs. Our engagement was performed in accordance with our Statement of Work (SOW) under our Agreement, and our procedures were limited to those described in the SOW.

**Results of our work**

Based on our procedures performed during the months of November to December 2021, we prepared the report to educate the Management to perform gap assessment on the financial statements of Kapruka Global Shop (Pvt) Ltd (the Company) prepared in line with SLFRS for SMEs against the requirements of SLFRSs/LKASs for your use and it is attached herewith. The management of Kapruka Holdings Limited (previously known as Kapruka Dot Com (Private) Limited) reviewed these documents for completeness, accuracy and reasonableness. The final decision regarding the application or implementation of those gaps will be made solely by the Company's management.

**Background**

The management of Kapruka Holdings Limited required to determine the gaps on the financial statements of Kapruka Global Shop (Pvt) Ltd in line with requirements of Sri Lanka Accounting Standards.

**Scope of our work**

In connection with our engagement, we held discussions with and made inquiries of the company's finance personnel for the purpose of obtaining the information we deemed necessary to educate the Management to perform gap assessment. The detailed list of procedures performed by us is included in our SOW under our Agreement.

Our work was performed under the direction of Kapruka Holdings Limited management and was based on inquiries of, and discussions with, management of the Company. We have not sought to confirm the accuracy of the data or the information and explanations provided by management.

The procedures that we performed were advisory in nature and do not constitute an audit or review in accordance with Sri Lanka Auditing Standard, nor do they constitute a related service in accordance with Sri Lanka Other Audit Pronouncement. Additionally, the procedures do not address the effectiveness of internal controls over financial reporting. EY did not conclude on the appropriate accounting treatment based on specific facts or recommend which accounting policy or treatment the Company should select or adopt.

The observations relating to accounting matters that EY provided to the Company were designed to assist Kapruka Holdings Limited's management in reaching its own conclusions and do not constitute our concurrence with or support of the Company's accounting or reporting. The Company alone is responsible for the preparation of its financial statements, including all of the judgments inherent in preparing them.

While we believe the information obtained is substantially responsive to your request, we are not in a position to assess its sufficiency for your purposes. In addition, we have no responsibility to update the work product for events or circumstances occurring after the date of the work product.

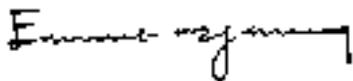
Our work has been limited in scope and time, and more detailed procedures may reveal issues that this engagement has not.

Restrictions on the use of our work product(s)

Educate the Management to perform gap assessment on the financial statements of the company and the requirements of SLFRSs/LKASs is intended solely for the information of the Kapruka Holdings Limited. Therefore, our work product, or portions thereof, should not be referred to or distributed to any other person or entity, other than the Company's auditors and legal counsel. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement or other agreement or document without our prior written approval.

We appreciate the cooperation and assistance provided to us during the course of our work. If you have any questions, please call Rajith Perera on 0115 578 604.

Very truly yours,



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## 1. Introduction

Kapruka Global Shop (Pvt) Ltd (hereinafter referred as the “Company” or “Entity”) is a limited liability company is engaged in import and sale of goods to the customers.

Current accounting practice of the Company is to prepare financial statements in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs).

Financial statements for the year ended 31<sup>st</sup> March 2021 have considered in preparing this Gap Analysis, the management have compared the company’s current accounting practice under SLFRS for SMEs against the recommended accounting treatment under SLFRSs/LKASs, as issued by the Institute of Chartered Accountants of Sri Lanka. Conclusions based on the Gap Analysis are given in the “Management Evaluation” section for the respective financial statement areas.

## 2. Gap Analysis - Statement of Comprehensive Income

## 2.1.1 Sale of Goods

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p>The company recognize the revenue from the sale of goods when the significant risk and rewards of ownership of goods have passed to the buyer at the point of dispatch.</p>	<p><b>SLFRS 15.31</b> An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.</p> <p><b>Performance obligations satisfied over time</b> <b>SLFRS 15.35</b> An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:</p> <ul style="list-style-type: none"> <li>(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;</li> <li>(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or</li> <li>(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.</li> </ul> <p><b>Performance obligations satisfied at a point in time</b> <b>SLFRS 15.38</b> If a performance obligation is not satisfied over time in accordance with SLFRS 15.35, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>(a) The entity has a present right to payment for the asset</li> <li>(b) The customer has legal title to the asset</li> <li>(c) The entity has transferred physical possession of the asset</li> <li>(d) The customer has the significant risks and rewards of ownership of the asset</li> <li>(e) The customer has accepted the asset</li> </ul>	<p>The company is engaged in import and sale of electronic items to the customers.</p> <p>SLFRS 15 requires recognizing the revenue when the Company entity satisfies a performance obligation by transferring a promised good or service.</p> <p>The performance obligation of the entity satisfied when customer has accepted the electronic items in line with SLFRS 15.38(e).</p> <p>Therefore, the company can recognize the revenue at the point when electronic items are delivered to the customer.</p> <p>Therefore, the company can continue current revenue recognition policy. There are no adjustments required under SLFRS/LKAS for revenue recognition for the year ended 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020.</p>

Measurement	Revenue is measured at the fair value of the consideration received or receivable, net of trade discount.	<b>SLFRS 15.46</b> When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56-58 in SLFRS 15) that is allocated to that performance obligation.	The company currently measures its revenue at fair value. Therefore, no adjustment is required on the financial statements presented for the year ended 31 <sup>st</sup> March 2021.
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## 2.2 Cost of Sales

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p><b>SLFRS for SMEs 2.42</b> The recognition of expense results directly from the recognition and measurement of assets and liabilities. An entity shall recognize the expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an asset or an increase of a liability has arisen that can be measured reliably.</p> <p><b>SLFRS for SMEs 13.20</b> When inventories are sold, the entity shall recognize the carrying amount of those inventories as an expense in the period in which the related revenue is recognized.</p>	<p><b>Conceptual Framework 5.4(b)</b> The recognition of expenses occurs at the same time as:</p> <ul style="list-style-type: none"> <li>(i) Initial recognition of a liability, or an increase in the carrying amount of the liability; or</li> <li>(ii) The derecognition of an asset or a decrease in the carrying amount of an asset</li> </ul> <p><b>SLFRS 15.95</b> If the cost incurred in fulfilling a contract with a customer are not within the scope of another standard, an entity shall recognize an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:</p> <ul style="list-style-type: none"> <li>(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.</li> <li>(b) The costs generate or enhance resource of the entity that will be used in satisfying performance obligations in the future; and</li> <li>(c) The costs are expected to be recovered</li> </ul> <p><b>SLFRS 15.97</b> Costs are related directly to a contract include any of the following:</p> <ul style="list-style-type: none"> <li>(a) Direct labour</li> <li>(b) Direct materials</li> <li>(c) Allocation of costs that relate directly to the contract or contract activities</li> <li>(d) Costs that are explicitly chargeable to the customer under the contract; and</li> <li>(e) Other costs that are incurred only because an entity entered into the contract.</li> </ul>	<p>The company has recognized the cost of sales on the items sold during the period which comprises following expenses,</p> <ul style="list-style-type: none"> <li>• Purchases adjusted for opening and closing inventories</li> <li>• Shipment handling fee</li> </ul> <p>There are no adjustments required under SLFRS/LKAS.</p>

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <p>(a) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</p> <p>(b) The item has a cost or value that can be measured reliably.</p> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p>	<p><b>Conceptual Framework 4.68</b> Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p>	<p>Other Income comprises gains and losses arising from incidental activities to main revenue generating activities. Other Income is recognized on accrual basis.</p> <p>Recognition and measurement basis for Other Income is same under both accounting frameworks, hence no adjustment required.</p>

## 2.4.1 Administration Expenses- Office Rent and Depreciation

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <p>(c) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</p> <p>(d) The item has a cost or value that can be measured reliably.</p> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p> <p><b>SLFRS for SMEs 20.15</b> A lessee shall recognize lease payments under operating leases as an expense over the lease term.</p>	<p><b>Conceptual Framework 4.69</b> Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p> <p><b>SLFRS 16.22</b> At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.</p>	<p><b>Office Rent</b> The company has recognized the lease rentals paid on office building as an expense in line with the requirements of SLFRS for SMEs 20.15.</p> <p>However, SLFRS 16 requires to recognize right of use asset and corresponding lease liability on all lease contracts unless lessee elect to apply recognition exemption on</p> <p>(a) Short-term leases, and (b) Leases for which the underlying asset is of low value.</p> <p>[Refer the detail Gap mentioned in 3.1.2 of this report]</p> <p><b>Depreciation</b> Current practice is to review the residual value, useful life and depreciation method only if there are indicators that it has changed since the most recent annual reporting date. However, under LKAS 16, the review should be made at least at each financial year-end even if there are no such indicators.</p> <p>This may cause change in the depreciation amount recognized during the period.</p> <p>[Refer the detail Gap mentioned in 3.1.1 of this report]</p>

## 2.4.2 Distribution Expenses

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <ul style="list-style-type: none"> <li>(e) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</li> <li>(f) The item has a cost or value that can be measured reliably.</li> </ul> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p>	<p><b>Conceptual Framework 4.69</b> Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p>	Recognition and measurement basis for the Distribution Expenses is same under both accounting frameworks, and hence no adjustment is required in respect of this.

## 2.4.3 Finance Cost

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
<p>Recognition &amp; Measurement</p>	<p><b>SLFRS for SMEs 2.27</b> Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:</p> <ul style="list-style-type: none"> <li>(g) It is probable that any future economic benefit associated with the item will flow to or from the entity; and</li> <li>(h) The item has a cost or value that can be measured reliably.</li> </ul> <p><b>SLFRS for SMEs 2.36</b> Entity prepares its financial statements, except for cashflow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.</p>	<p><b>Conceptual Framework 4.69</b> Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p><b>Conceptual Framework 6.1</b> Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.</p> <p><b>SLFRS 16.49</b> In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of LKAS 1 Presentation of Financial Statements requires to be presented separately in the statement of profit or loss and other comprehensive income.</p>	<p>It is required to recognize interest expense on lease liability resulted due to Right of use asset (leasehold office building) as a finance cost. [Refer the detail Gap mentioned in 3.1.2 of this report]</p> <p>Amounts due to related parties reflects the balances which are payable on demand. However, if there are significant long outstanding stagnant balances, such balances may qualify for fair value requirements.</p>

## 2.4.5 Income Tax Expense

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition & Measurement	<p>Current income tax assets &amp; liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No.24 of 2017.</p>	<p><b>LKAS 12 Objective</b>            LKAS 12 Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss</p> <p><b>LKAS 12.2</b>            Income taxes include all domestic and foreign taxes which are based on taxable profits.</p> <p><b>LKAS 12.77</b>            The tax expense (income) related to profit or loss from ordinary activities shall be presented as part of profit or loss in the statement(s) of profit or loss and other comprehensive income.</p>	<p>There are no adjustments required under SLFRS/LKAS for current tax expense as the basis for the recognition and measurement is similar to SLFRS for SMEs.</p>

### 3. Gap Analysis - Statement of Financial Position

## 3.1 Assets

### 3.1.1 Property Plant and Equipment

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 17.4</b> An entity shall apply the recognition criteria in SLFRS 2.27 in determining whether to recognize an item of property, plant or equipment. Consequently, the entity shall recognize the cost of an item of property, plant and equipment as an asset if, and only if:</p> <p>(a) It is probable that future economic benefits associated with the item will flow to the entity; and</p> <p>(b) The cost of the item can be measured reliably</p>	<p><b>LKAS 16.7</b> The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if,</p> <p>(a) It is probable that future economic benefits associated with the item will flow to the entity; and</p> <p>(b) The cost of the item can be measured reliably.</p>	There are no adjustments required as the current accounting treatment is similar to the accounting treatment recommended under SLFRS/LKAS.
Initial Measurement	<p><b>SLFRS for SMEs 17.9 &amp; 17.10</b> PPE is initially measured at cost. Cost includes:</p> <ul style="list-style-type: none"> <li>• Purchase price</li> <li>• Any Directly attributable cost to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management</li> <li>• The initial estimate of costs of dismantling and removing the item and restoring the site on which it is located.</li> </ul> <p><b>SLFRS for SMEs 25.2</b> Borrowing cost are recognized as an expense.</p>	<p><b>LKAS 16.15</b> An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.</p> <p><b>LKAS 16.23</b> The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with LKAS 23.</p>	<p>There are no differences between LKAS 16 and SLFRS for SMEs (company policy) except the requirement on capitalization of borrowing costs on acquisition, construction or production of a qualifying asset.</p> <p>However, the company had not incurred any borrowing cost on qualifying assets for the year ended 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020. Therefore, no adjustment required for the amounts presented in the financial statements.</p>
Reassessment of Residual value, useful life and depreciation method	<p><b>SLFRS for SMEs 17.19</b> If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.</p>	<p><b>LKAS 16.51</b> The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p>	Current practice is to review the residual value, useful life and depreciation method only if there are indicators that it has changed since the most recent annual reporting date. However, under LKAS 16, the review should be made at least at each financial year-end even if there are no such indicators.

			<p><b>LKAS 16.61</b> The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with LKAS 8.</p>	<p>This may result the changes in carrying value of Property, plant &amp; equipment and depreciation charges thereon.</p>
Subsequent Measurement	<p><b>SLFRS for SMEs 17.15</b> An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.</p>	<p><b>LKAS 16.29 and 16.31</b> In addition to the cost model, the revaluation model is an option, in which classes of PPE are carried at a revalued amount less any accumulated depreciation and subsequent accumulated impairment loss.</p>	<p>Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Hence, no gap identified.</p>	
Presentation	<p>Property plant &amp; equipment and intangible assets (Software) presented in single line item of statement of financial position.</p>	<p><b>LKAS 1.54</b> LKAS 1 required the present "Intangible Assets" separately in the statement of financial position.</p>	<p>The company is required to present Property, plant &amp; equipment and Intangible assets in separate line items in statement of financial position.</p>	

### 3.1.2 Leases- Kapruka Global Shop (Pvt) Ltd as a lessee

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Classification & Recognition	<p><b>SLFRS for SMEs 20.4</b> A lease is classified as a finance lease if it transfers substantially all the risk and rewards incidentals to ownership. Lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership.</p> <p><b>SLFRS for SMEs 20.9</b> At the commencement of the lease term, a lessee shall recognize its right of use and obligations under finance</p>	<p><b>SLFRS 16 Appendix A</b> An asset that represents a lessee's right to use an underlying asset for the lease term</p> <p><b>SLFRS 16.5</b> A lessee may elect not to apply the recognitions requirements in SLFRS 16 to: (a) short-term leases; and</p>	<p>According to SLFRS for SMEs, rented office building is classified as an operating lease since it does not transfer substantially all the risks and rewards incidental to ownership.</p> <p>Accordingly, company recognised lease rentals paid on office building as an expense.</p>

	<p>leases as assets and liabilities in its statement of financial position.</p>	<p>(b) leases for which the underlying asset is of low value.</p> <p><b>SLFRS 16.9</b> At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p> <p><b>SLFRS 16.22</b> At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.</p>	<p>However, SLFRS 16 requires to recognize right of use asset and corresponding lease liabilities on all lease contracts unless lessee elect to apply recognition exemption on</p> <p>(a) Short-term leases, and (b) Leases for which the underlying asset</p> <p>Accordingly, the company, as a lessee needs neither classify the lease arrangement as a finance lease nor operating lease.</p>
<p>Initial Measurement</p>	<p><b>SLFRS for SMEs 20.9</b> An entity shall measure finance lease assets and liabilities at an amount equal to the fair value of leased property or, if lower the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct cost of the lessee (incremental cost that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.</p> <p><b>SLFRS for SMEs 20.15</b> A lessee shall recognize lease payments under operating leases as an expense over the lease term.</p>	<p><b>SLFRS 16.23</b> At the commencement date, a lessee shall measure the right-of-use asset at cost.</p> <p><b>SLFRS 16.24</b> The cost of the right-of-use asset shall comprise:</p> <p>(a) the amount of the initial measurement of the lease liability, as described in SLFRS 16.26</p> <p>(b) any lease payments made at or before the commencement date, less any lease incentives received;</p> <p>(c) any initial direct costs incurred by the lessee; and</p> <p>(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The</p>	<p>The initial measurement of the Right of use asset shall comprise the following;</p> <p>(a) the amount of the initial measurement of the lease liability</p> <p>(b) any lease payments made at or before the commencement date, less any lease incentives received;</p> <p>(c) Directly attributable costs</p> <p>(d) Dismantling or removing costs</p> <p>At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily</p>

	<p>lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.</p> <p><b>SLFRS 16.26</b> At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.</p> <p><b>SLFRS 16.27</b> At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:</p> <ul style="list-style-type: none"> <li>(a) fixed payments, less any lease incentives receivable</li> <li>(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date</li> <li>(c) amounts expected to be payable by the lessee under residual value guarantees;</li> <li>(i) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and</li> <li>(j) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.</li> </ul>	<p>determined, the lessee shall use the lessee's incremental borrowing rate.</p> <p>Accordingly, the company required to recognize right of use asset and corresponding lease liability except for short term leases and low value leases.</p>
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Subsequent measurement	<p><b>SLFRS for SMEs 20.9 - 20.12</b> Assets are depreciated in accordance with relevant SLFRS for SMEs section or over the lease term if shorter. The lessee apportions minimum lease payments between finance charge and reduction of outstanding liability.</p>	<p><b>SLFRS 16.29</b> After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraph 34 &amp; 35 of SLFRS 16.</p> <p><b>SLFRS 16.36</b> After the commencement date, a lessee shall measure the lease liability by:</p> <ul style="list-style-type: none"> <li>(a) increasing the carrying amount to reflect interest on the lease liability;</li> <li>(b) reducing the carrying amount to reflect the lease payments made; and</li> <li>(c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.</li> </ul>	<p>The company shall apply the requirements of SLFRS 16.29 and SLFRS 16.36 for all right of use assets and lease liabilities.</p> <p>Accordingly, it is required to recognize the depreciation on right of use asset and finance cost on lease liability as an expense in period that are incurred.</p>
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### 3.1.3 Inventory

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Measurement	<p><b>SLFRS for SMEs 13.4</b> Inventories are measured at lower of cost and estimated selling price less costs to complete and sell.</p> <p><b>SLFRS for SMEs 13.5</b> Cost of inventories are all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.</p>	<p><b>LKAS 2.9</b> Inventories shall be measured at the lower of cost and net realizable value.</p> <p><b>LKAS 2.10</b> The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.</p>	<p>Management shall measure inventories at lower of cost or net realizable value which is consistent with SLFRS for SMEs.</p>
Borrowing Cost	<p><b>SLFRS for SMEs 25.2</b> Borrowing costs are recognized as an expense</p>	<p><b>LKAS 2.17</b> LKAS 23 Borrowing costs identifies limited circumstances where borrowing costs are included in the cost of inventories.</p>	<p>The company doesn't identify inventories as a qualifying asset. Therefore, it is not required to adjust the impact from borrowing cost on inventory value as of 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2020.</p>

Impairment of Inventories	<p><b>SLFRS for SMEs 13.19</b> SLFRS for SMEs require an entity to assess at the each reporting period whether any inventories impaired, ie the carry amount is not fully recoverable (for example, because of damage, obsolescence or decline in selling prices). If an item (or group of item) of inventory is impaired, SLFRS for SMEs require the entity to measure the inventory at its selling price less cost to complete and sell and to recognize an impairment loss. It also require a reversal of a prior impairment in some circumstances.</p>	<p><b>LKAS 2.28</b> The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.</p>	The company required to make provisions on slow moving and obsolete inventories if any.
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### 3.1.4 Trade & Other Receivables, Amounts Due from Related Parties (RPT receivables)

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Classification and Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity become a party to the contractual provision of the instrument.</p>	<p><b>SLFRS 9.4.1.2</b> A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPi) on the principal amount outstanding.</p>	The company classified the trade & other receivable and RPT receivables as financial assets measure at amortised cost. However, in accordance with SLFRS 9 it is required to measure financial asset at amortised cost if it meets the conditions of SLFRS 9.4.1.2.

		<p><b>SLFRS 9.3.1.1.1</b> An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.</p> <p><b>SLFRS 9.5.1.3</b> At initial recognition, an entity shall measure trade receivables at their transaction price (as defined in SLFRS 15) if the trade receivables do not contain a significant financing component in accordance with SLFRS 15.</p>	<p>There are no adjustments required under SLFRS/LKAS as the current accounting treatment is similar to the accounting treatment recommended under SLFRS/LKAS.</p>
Initial measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Assets are initially measured at the transaction price including transactions cost.</p>	<p><b>SLFRS 9.5.2.1</b> After initial recognition, an entity shall measure a financial asset at</p> <ul style="list-style-type: none"> <li>(e) Amortized cost</li> <li>(f) Fair value through other comprehensive income: or</li> <li>(g) Fair value through profit or loss</li> </ul> <p><b>SLFRS 9.4.1.2</b> A financial asset shall be measured at amortized cost if both of the following conditions are met:</p> <ul style="list-style-type: none"> <li>(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and</li> <li>(b) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.</li> </ul>	<p>Trade &amp; Other receivables and RPT receivables are met with the conditions applied on financial asset which are required to be measured at amortized cost in line with SLFRS 9.4.1.2. Therefore, there are no adjustments required for trade receivables and RPT receivables except the impairment provisions discussed below.</p>
Subsequent measurement	<p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>		

<p>Impairment provision</p>	<p><b>SLFRS for SMEs 11.21</b> At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortized cost. If there is objective evidence of impairment, the entity shall recognize an impairment loss in profit or loss immediately.</p>	<p><b>SLFRS 9.5.5.1</b> An entity shall recognize a loss allowance for expected credit losses on a financial asset at amortized cost.</p>	<p>The company has recognized an impairment loss in profit or loss if there is objective evidence of impairment (incurred loss model). However, the company is required to recognize a loss allowance for expected credit losses on trade receivables as per SLFRS 9.5.5.1</p>
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### 3.1.5 Cash and cash Equivalents

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
<p>Recognition</p>	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.</p>	<p><b>SLFRS 9.3.1.1</b> Similar to SLFRS for SMEs</p>	<p>There are no changes to cash and cash equivalents under SLFRS/LKAS.</p>

### 3.2 Equity

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
<p>Definition and equity share issue</p>	<p><b>SLFRS for SMEs 22.3</b> Equity is the residual interest in the entity's assets after deducting all its liabilities. Equity includes:</p> <ul style="list-style-type: none"> <li>• Investments by the owners of the entity</li> <li>• Plus, additions to those investments earned through profitable operations and retained for use in the entity's operations</li> <li>• Less reductions to owner's investments as a result of unprofitable operations and distributions to owners.</li> </ul> <p><b>SLFRS for SMEs 22.8</b> Equity instruments are measured at the fair value of the consideration received or receivable, net of direct issue costs.</p>	<p><b>SLFRS Glossary</b> Residual interest in the assets of the entity after deducting all liabilities.</p>	<p>There are no changes in the definition of the equity under both reporting frameworks.</p> <p>However, Retained earnings reported in the financial statements may change due to the gaps identified in Section 2, Section 3.1 and Section 3.3 of this report.</p>

### 3.3 Liabilities

#### 3.3.1 Amount due to related parties

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Liabilities are initially measured at the transaction price including transactions cost.</p> <p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>	<p><b>SLFRS 9.5.1.1</b> At initial recognition, an entity shall measure a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition or issue of the financial liability.</p> <p><b>SLFRS 9.5.3.1</b> After initial recognition, an entity shall measure a financial liability at amortized cost except for:</p> <ul style="list-style-type: none"> <li>(a) financial liabilities at fair value through profit or loss</li> <li>(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.</li> <li>(c) financial guarantee contracts</li> <li>(d) commitments to provide a loan at a below-market interest rate.</li> <li>(e) contingent consideration recognized by an acquirer in a business combination to which SLFRS 3 applies.</li> </ul>	<p>Amounts due to related parties reflects the balances which are payable on demand. However, if there are significant long outstanding stagnant balances, such balances may qualify for fair value requirements.</p>

### 3.3.2 Trade Payables and Accrued Expenses

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 11.12</b> An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provision of the instrument.</p>	<p><b>SLFRS 9.3.1.1</b> Similar to SLFRS for SMEs</p>	<p>There are no adjustments required under SLFRS/LKAS</p>
Measurement	<p><b>SLFRS for SMEs 11.13</b> Financial Liabilities are initially measured at the transaction price including transactions cost.</p> <p><b>SLFRS for SMEs 11.14</b> Subsequently measured at amortized cost.</p>	<p><b>SLFRS 9.5.1.1</b> At initial recognition, an entity shall measure a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition or issue of the financial liability.</p> <p><b>SLFRS 9.5.3.1</b> After initial recognition, an entity shall measure a financial liability at amortized cost except for:</p> <ul style="list-style-type: none"> <li>(a) financial liabilities at fair value through profit or loss</li> <li>(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.</li> <li>(c) financial guarantee contracts</li> <li>(d) commitments to provide a loan at a below-market interest rate.</li> <li>(e) contingent consideration recognized by an acquirer in a business combination to which SLFRS 3 applies.</li> </ul>	<p>Therefore, there are no adjustments required for amount due to related parties.</p>

### 3.3.3 Deferred Tax Asset/Liability

Section	Current Accounting Policies under SLFRS for SMEs	Recommended Accounting Treatment under SLFRS/LKAS	Management Evaluation
Recognition	<p><b>SLFRS for SMEs 29.8</b> An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the entity's assets and liabilities in the statement of financial position and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.</p> <p>However, the company has not recognized deferred tax asset/ liability in the financial statements as at 31<sup>st</sup> March 2021.</p>	<p><b>LKAS 12.15</b> A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: (a) the initial recognition of goodwill; or (b) the initial recognition of an asset or liability in a transaction which: (i) is not a business combination; and (ii) (at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p> <p><b>LKAS 12.24</b> A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: (a) is not a business combination; and (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p> <p><b>LKAS 12.34</b> A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.</p>	<p>The company has not recognized the deferred tax asset on carrying forward tax losses since it is not probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.</p>

#### 4. Gap Analysis - Disclosure Requirements

## Disclosure Requirements

Following disclosures shall be made under SLFRSs/LKASs in addition to the disclosures made under SLFRS for SMEs.

### 4.1 LKAS 2- Inventories

- The accounting policies for cost formula used in measuring inventories [LKAS 2.36]

### 4.2 LKAS 12- Income Taxes

- Relationship between tax expense (income) and accounting profit or loss
- (a) The relationship between tax expense (income) and accounting profit or loss in either or both of the following forms:
  - (i) A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) compute, Or
  - (ii) A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed
- (b) For deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position:
  - (i) The amount
  - (ii) expiry date, if any[LKAS 12.81]

### 4.3 LKAS 16- Property, Plant & Equipment

- Information about fully depreciated assets and temporary idle assets:
  - (a) The carrying amount of temporarily idle property, plant and equipment
  - (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use
  - (c) The carrying amount of property, plant and equipment retired from active use and not classified as held for sale
  - (d) If the cost model is used, the fair value of property, plant and equipment, if this is materially different from the carrying amount [LKAS 16.79]

#### 4.4 LKAS 24- Related Party Disclosures

- Information about the related party transactions during the reporting period covered by the financial statements:
  - (a) The nature of the related party relationship
  - (b) Information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements, including the following disclosures:
    - (i) The amount of the transactions
    - (ii) The amount of outstanding balances, including commitments
      - Their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement
      - Details of any guarantees given or received
    - (iii) Provisions for doubtful debts related to the amount of outstanding balances
    - (iv) The expense recognised during the reporting period for bad or doubtful debts due from related parties
- [LKAS 24.18]
- Disclose the information required by LKAS 24.18 separately for each of the following categories:
  - (a) The parent
  - (b) Entities with joint control or significant influence over the entity
  - (c) Subsidiaries
  - (d) Associates
  - (e) Joint ventures in which the entity is a venturer
  - (f) Key management personnel of the entity or its parent
  - (g) Other related parties
- [LKAS 24.19]
- Information on nature of transactions if they are with a related party:
  - (a) Purchases or sales of goods (finished or unfinished)
  - (b) Purchases or sales of property and other assets
  - (c) Rendering or receiving of services
  - (d) Leases
  - (e) Transfer of research and development
  - (f) Transfer under license agreements
  - (g) Transfers under finance arrangements (including loans and equity contributions in cash or in kind)
  - (h) Provision of guarantees or collateral
  - (i) Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised)
  - (j) Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party
- [LKAS 24.21]

#### 4.5 LKAS 38- Intangible Assets

- Information on gross carrying value, impairment and amortization of intangible assets
    - (a) Gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning of the reporting period and at the end of the reporting period
    - (b) A reconciliation of the carrying amount at the beginning and end of the reporting period, showing:
      - (i) Additions during the period, indicating separately those from internal development, those acquired separately, and those acquired through business combinations
      - (ii) Impairment losses recognised in profit or loss during the reporting period under LKAS 36, if any
      - (iii) Impairment losses reversed in profit or loss during the reporting period under LKAS 36, if any
      - (iv) Any amortisation recognised during the reporting period
      - (v) Other changes in the carrying amount during the reporting period
- [LKAS 38.118]

#### 4.6 SLFRS 7- Financial Instruments: Disclosures

- The carrying amounts of each of the following categories, as specified in SLFRS 9, shall be disclosed either in the statement of financial position or in the notes:
    - (a) financial assets measured at amortised cost.
    - (b) financial liabilities measured at amortised cost.
- [SLFRS 7.8]
- Maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
- [SLFRS 7.39]

#### Nature and extent of risks arising from financial instruments

- An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.
- [SLFRS 7.31]
- The disclosures required by SLFRS 7 paragraphs 33-42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.
- [SLFRS 7.32]
- Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.
- [SLFRS 7.32A]

#### Qualitative disclosures

- For each type of risk arising from financial instruments, an entity shall disclose:
  - (a) the exposures to risk and how they arise;
  - (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
  - (c) any changes in (a) or (b) from the previous period.[SLFRS 7.33]
- For each type of risk arising from financial instruments, an entity shall disclose:
  - (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in LKAS 24 Related Party Disclosures), for example the entity's board of directors or chief executive officer.
  - (b) the disclosures required by paragraphs 35A-42, to the extent not provided in accordance with (a).
  - (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).[SLFRS 7.34]
- If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.  
[SLFRS 7.35]

#### **4.7 SLFRS 15- Revenue from Contracts with Customers**

- The opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed.  
[SLFRS 15.116]
- An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.  
[SLFRS 15.118]
- An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:
  - (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement
  - (b) the significant payment terms
  - (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services
  - (d) obligations for returns, refunds and other similar obligations.[SLFRS 15.119]

- For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.  
[SLFRS 15.125]
- An entity shall disclose information about the methods, inputs and assumptions used for all of the following:
  - (a) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and
  - (b) measuring obligations for returns, refunds and other similar obligations.

[SLFRS 15.126]

#### 4.8 SLFRS 16- Leases

- A lessee shall disclose the following amounts for the reporting period:
  - (a) depreciation charge for right-of-use assets by class of underlying asset;
  - (b) interest expense on lease liabilities;
  - (c) the expense relating to short-term leases accounted for applying SLFRS 16 paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;
  - (d) the expense relating to leases of low-value assets accounted for applying SLFRS 16 paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in SLFRS 16 paragraph 53(c);
  - (e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
  - (f) income from subleasing right-of-use assets;
  - (g) total cash outflow for leases;
  - (h) additions to right-of-use assets;
  - (i) gains or losses arising from sale and leaseback transactions; and
  - (j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

[SLFRS 16.53]

- A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of SLFRS 7 Financial Instruments: Disclosures separately from the maturity analyses of other financial liabilities.

[SLFRS 16.58]

- In addition to the disclosures required in paragraphs 53-58 of SLFRS 16, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 of SLFRS 16. This additional information may include, but is not limited to, information that helps users of financial statements to assess:
    - (a) the nature of the lessee's leasing activities;
    - (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
      - (i) variable lease payments;
      - (ii) extension options and termination options;
      - (iii) residual value guarantees; and
      - (iv) leases not yet commenced to which the lessee is committed.
    - (c) restrictions or covenants imposed by leases; and
    - (d) sale and leaseback transactions (as described in paragraph B52).
- [SLFRS 16.59]

**15. ANNEXURE C: INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30th  
SEPTEMBER 2021 AND 31st OCTOBER 2021 WITH THE LIMITED REVIEW**

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# KAPRUKA DOT COM LIMITED

## INTERIM FINANCIAL STATEMENT

FOR THE PERIOD ENDED

30th SEPTEMBER 2021

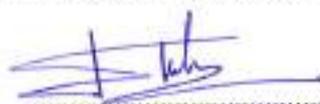
AS A TRUE COPY  
  
FINANCE MANAGER

## STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	Period Ended 30 September	
	2021	2020
	Rs.	Rs.
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Property, Plant and Equipment	519,981,044	475,672,168
Right-of-use Assets	27,880,891	30,083,130
Intangible Assets	2,151,112	2,135,923
Other Assets	15,122,196	25,485,570
	<u>565,135,243</u>	<u>533,376,791</u>
<b>Current Assets</b>		
Inventories	167,205,774	45,392,840
Trade & Other Receivables	113,842,956	34,848,207
Amount Due From Related Parties	140,382,997	141,580,115
Deposits & Prepayments	27,280,244	8,640,640
Income Tax Receivable	-	-
Investment in Fixed Deposit	12,856,835	11,784,356
Cash & Cash Equivalent	202,648,307	34,042,710
	<u>664,217,113</u>	<u>276,288,868</u>
<b>Total Assets</b>	<u>1,229,352,356</u>	<u>809,665,660</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Stated Capital	272,500,028	5,000,000
Revaluation Reserve	150,999,423	132,338,485
Retained Earnings	221,075,300	45,142,382
<b>Total Equity</b>	<u>644,574,750</u>	<u>182,480,867</u>
<b>Non-Current Liabilities</b>		
Interest Bearing Loans and Borrowings	163,842,468	125,346,268
Retirement Benefit Obligation	17,344,348	14,289,902
Lease liability on Right of Use Asset	9,148,898	13,661,878
Deferred Tax Liability	52,201,524	53,883,274
	<u>242,537,237</u>	<u>207,181,323</u>
<b>Current Liabilities</b>		
Interest Bearing Loans and Borrowings	65,219,736	55,308,958
Trade & Other Payables	53,716,890	13,630,011
Amount Due To Related Party	57,464,857	296,546,121
Advance Received From Customers	67,008,591	21,493,156
Lease liability on Right of Use Asset	6,875,530	8,372,790
Income Tax Payable	47,367,815	3,628,445
Provisions and Accrued Expenses	44,586,928	21,023,987
	<u>342,240,368</u>	<u>420,003,469</u>
<b>Total Equity and Liabilities</b>	<u>1,229,352,356</u>	<u>809,665,659</u>

These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

  
Finance Manager

The Board of Directors are responsible for these financial statements. Signed for and on behalf of the Board by;

  
Director

  
Director

The accounting policies and notes on pages 07 through 21 form an integral part of these financial statements.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Period ended 30 September 2021

	2021		2020	
	July to Sep Rs.	April to Sep Rs.	July to Sep Rs.	April to Sep Rs.
<b>Revenue</b>	478,269,249	869,933,156	214,514,592	386,661,023
Cost of Sales	(263,678,419)	(471,172,372)	(136,710,282)	(252,546,821)
Gross Profit	214,590,830	398,760,784	77,804,309	134,114,202
Other Income	11,607,266	25,532,409	1,284,522	5,012,303
Administrative Expenses	(53,216,632)	(106,199,942)	(26,340,696)	(49,925,799)
Selling and Distribution Expenses	(54,559,171)	(133,400,683)	(49,589,716)	(82,401,730)
Finance Costs	(423,855)	(1,267,581)	(406,944)	(772,061)
<b>Profit /(Loss) before tax</b>	117,998,438	183,424,987	2,751,476	6,026,915
Income Tax (Expense)/Reversal	(35,219,934)	(51,827,243)	(4,780,761)	(7,524,529)
<b>Profit /(Loss) for the year</b>	82,778,504	131,597,744	(2,029,285)	(1,497,615)
<b>Other Comprehensive Income</b>				
Actuarial Gain/(Loss) on Post Employment Benefit Liability	-	-	-	-
Income Tax on Other Comprehensive Income	-	-	-	-
<b>Other Comprehensive Income for the year, net of tax</b>	-	-	-	-
<b>Total Comprehensive Income for the year, net of Tax</b>	82,778,504	131,597,744	(2,029,285)	(1,497,615)

The accounting policies and notes on pages 07 through 21 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

Period ended 30 September 2021

	Stated Capital Rs.	General Reserve Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
As at 31 March 2020	5,000,000	-	132,338,485	46,639,996	183,978,481
Profit/(Loss) For The Year	-	-	-	(1,497,615)	(1,497,615)
As at 30 September 2020	<u>5,000,000</u>	<u>-</u>	<u>132,338,485</u>	<u>45,142,382</u>	<u>182,480,867</u>
As at 31 March 2021	272,500,028	-	150,999,423	89,477,556	512,977,006
Profit/(Loss) For The Year	-	-	-	131,597,744	131,597,744
As at 30 September 2021	<u>272,500,028</u>	<u>-</u>	<u>150,999,423</u>	<u>221,075,300</u>	<u>644,574,750</u>

The accounting policies and notes on pages 07 through 21 form an integral part of these financial statements.

**Kapruka Dot Com Limited**  
**STATEMENT OF CASH FLOW**  
 Period ended 30 September 2021

	<b>Period Ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Cash Flows From Operating Activities</b>		
Profit/(Loss) Before Income Tax Expense	183,424,987	6,026,915
Adjustments for,		
Interest Expenses	871,648	632,941
Interest Income	(860,821)	(1,949,703)
Disposal Gain	(4,411,042)	-
Depreciation	12,265,436	12,218,168
Depreciation - ROUA	899,740	2,230,803
Foreign Currency Exchange Gain	(18,248,149)	(3,062,600)
Amortization	173,713	254,429
Allowance for Expected Credit Loss	-	-
Bad Debt Write Off	121,471	1,329,135
Provision for Slow Moving Inventory	-	-
Provision for Retirement Benefit Obligations	1,000,205	656,650
<b>Operating Profit before Working Capital Changes</b>	<u>175,237,187</u>	<u>18,336,738</u>
(Increase) / Decrease in Inventory	(101,159,311)	31,645,533
(Increase) / Decrease Trade & Other Receivables	(43,106,876)	17,409,695
(Increase) / Decrease in Deposits & Prepayment	(19,252,695)	(1,477,356)
Increase / (Decrease) in Trade Creditors	19,563,544	(36,002,092)
Increase / (Decrease) in Customer Advance	48,092,196	(57,839,359)
Increase / (Decrease) in Accrued Expenses	19,155,296	5,397,141
Increase / (Decrease) in Amount Due to Related Parties	56,553,626	(31,202,607)
(Increase) / Decrease in Amount Due From Related Parties	(25,202,985)	(14,854,436)
<b>Cash Flows from Operations</b>	<u>129,879,982</u>	<u>(68,586,742)</u>
Interest Paid	(871,648)	(632,941)
Income Tax Paid	(21,570,000)	(3,632,788)
Retirement Benefit Obligation	(807,800)	-
<b>Net Cash Flows from Operating Activities</b>	<u>106,630,535</u>	<u>(72,852,471)</u>
<b>Cash Flows Used in Investing Activities</b>		
Acquisition of Property, Plant and Equipment	(11,363,380)	(32,882,624)
Acquisition of Intangible Assets	(443,355)	-
Borrowing Cost for Loan on Building Construction	-	-
Advance Payment for Leased Assets	(1,600,000)	(6,891,990)
Sale Proceed on Disposal of Property, Plant and Equipment	4,665,000	-
Interest Income	860,821	1,949,703
Repayment of Finance Lease	(3,924,833)	(3,482,134)
Net Investment in Fixed Deposits	-	7,000,000
Investment in Other Financial Assets	(10,672,196)	(8,617,948)
<b>Net Cash Flows Used in Investing Activities</b>	<u>(22,477,943)</u>	<u>(42,924,994)</u>
<b>Cash Flows Used in Financing Activities</b>		
Proceeds From Interest Bearing Loans & Borrowings	39,968,493	37,468,968
Repayment of Interest Bearing Loans & Borrowings	(38,248,801)	(11,530,622)
<b>Net Cash Flow Used in / Generated from Financing Activities</b>	<u>1,719,693</u>	<u>25,938,347</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	18,248,149	3,062,600
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<u>104,120,434</u>	<u>(86,776,520)</u>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	<u>57,755,437</u>	<u>113,750,271</u>
<b>Cash and Cash Equivalents at the End of the Year</b>	<u>161,875,871</u>	<u>26,973,752</u>

**KAPRUKA DOT COM LIMITED  
INTERIN FINANCIAL STATEMENT  
FOR THE PERIOD ENDED 30TH SEPTEMBER 2021**

**EXPLANTORY NOTES**

- 01)** The Interim Financial Statements are subject to audit.
- 02)** The financial statement of the company are prepared on the basis of the accounting policies and method of computation applied in the year ended March 31,2021 and are in accordance with Sri lanka Accounting Standards ( LKAS/SLFRS ). The interim financial statements are prepared in compliance with Sri lanka Accounting Standards ( LKAS ) 34 - Interim Financial Reporting.
- 03)** There have been no meterial events occuring after the reporting date that require adjustments to or disclosure in the financial statement.
- 04)** Comparative information in relation to previous year have been presented in line with information pertaining to the current period.

**05) Shared Holder Information**

As at 30th September 2021

<b>Name</b>	<b>No of Shares</b>	<b>%</b>
Herath Pathiranalage Dulith Vinodan Herath	4,376,812	100%

As at 30th September 2020

<b>Name</b>	<b>No of Shares</b>	<b>%</b>
Herath Pathiranalage Dulith Vinodan Herath	500,000	100%

- 06)** The company changed its operating structure in the month of October by transferring its operations to kapruka E-Commerce (Pvt) Ltd, a fully owned subsidiary. Further the company acquired 100% of Kapruka Production (Pvt) Ltd and Kapruka Techroot (Pvt) Ltd which also are now fully owned subsidiaries.Kapruka Dot Com Limited Proposed to change its name to Kapruka Holdings Limited and will continue to function as an investment holding company. The company also acquire 25% of the shareholding of Kapruka Global Shop (Pvt) Ltd.
- 07)** During the period there were no material changes in the composition of assets,liabilities and contingent liabilities and there is no seasonality and cyclicity affecting the interim operation.

**KAPRUKA HOLDINGS LIMITED (FORMERLY KAPRUKA  
DOT COM (PVT) LTD)**

**INTERIM FINANCIAL STATEMENTS**

**31 OCTOBER 2021**



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

Tel : +94 11 2463500  
Fax Gen : +94 11 2097309  
Tel : +94 11 5570100  
eysl@ln.ey.com  
ey.com

WRHDS/IR/MHM

**INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS OF KAPRUKA HOLDINGS LIMITED (PREVIOUSLY KAPRUKA DOT COM (PVT) LIMITED)**

**Introduction**

We have reviewed the accompanying Interim Financial Statements of Kapruka Holdings Limited and its Subsidiaries comprising of the statement of financial position as of 31 October 2021 and the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the period from 01 April 2021 to 31 October 2021 and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation of these Interim Financial Statements in accordance with LKAS 34. Our responsibility is to express a conclusion on this Interim Financial Information based on our review.

**Scope of Review**

Our responsibility is to express a conclusion on the specified forms based on our review. We conducted our review in accordance with Sri Lanka Standard on Review Engagements (SLSRE) 2410. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Financial Statements of Kapruka Holdings Limited do not present fairly, in all material respects, the financial position of the entity as at 31 October 2021, and of its financial performance and its cash flows for the seven months then ended in accordance with LKAS 34 - Interim Financial Reporting.

07 December 2021  
Colombo

EY2021121011145

Partners: H.M.A. Jayasinghe FCA FEM, R.N. de Soeren ACA FCMA, M.L.N. De Silva FCA, W.R.H. De Silva FCA ACMA, M.V.K. De Silva FCA, M.S.R.M. Fernando FCA ACMA, N.Y.R.L. Fernando ACA, N.K.S.P. Fernando FCA FCMA, M.L.N.H.L. Fernando FCA, D.R. Gamage ACA ACMA, A.P.A. Gunasekera FCA FCMA, A. Herath FCA, D.R. Kulasengewe FCA FCM LLB (London), M.C.A. Luthwick FCA FCMA, M.S. D.S. Mahipala FCA, A.S.J.P. Ojeda ACA ACMA, M.P. P.U.K. Rajawansa FCA, N.M. Subasinghe ACA ACMA, S.C. Wijesuriya FCA FEM

Directors: G.E. Gunaratne ACMA, M.S.P. Perera ACMA LLB (Colombo), T.P.M. Subera FCMX FCCA, E.V. Velagala ACMA

A member firm of Ernst & Young Global Limited

STATEMENT OF FINANCIAL POSITION

As at 31 October 2021

	Group*	Company	
	As at 31-Oct-21 Rs.	As at 31-Oct-21 Rs.	As at 31-Mar-21 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	535,905,769	525,582,154	521,137,058
Right of Use Assets	56,057,680	27,684,586	25,157,391
Intangible Assets	2,120,236	2,120,236	1,881,471
Investments in Subsidiary	-	404,629,020	-
Investment in Equity Accounted Investees	20	20	-
Other non-current financial assets	15,122,196	15,122,196	4,450,000
	<b>609,205,901</b>	<b>975,138,212</b>	<b>552,625,920</b>
<b>Current Assets</b>			
Inventories	190,743,417	-	66,046,462
Trade and Other Receivables	137,713,712	67,983,081	70,857,551
Amount Due From Related Parties	143,940,288	76,620,393	115,180,012
Deposits & Prepayments	26,666,064	5,273,981	8,027,549
Income Tax Receivable	5,769,160	5,201,395	-
Short Term Investments	12,856,835	-	12,856,835
Cash & Cash Equivalents	69,839,922	9,898,817	75,080,415
	<b>587,529,398</b>	<b>164,977,667</b>	<b>348,048,824</b>
<b>Total Assets</b>	<b>1,196,735,299</b>	<b>1,140,115,879</b>	<b>900,674,744</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity Attributable to Equity Holders</b>			
Stated Capital	272,500,028	272,500,028	272,500,028
Revaluation Reserve	150,999,423	150,999,423	150,999,423
Retained Earnings	224,988,227	221,985,578	89,477,555
<b>Total Equity</b>	<b>648,487,678</b>	<b>645,485,029</b>	<b>512,977,006</b>
<b>Non-Current Liabilities</b>			
Interest Bearing Loans and Borrowings	155,763,264	143,275,685	121,350,339
Right-of-use Lease Creditor	44,877,790	15,403,875	9,550,684
Retirement Benefit Obligation	17,511,049	17,511,049	17,151,943
Deferred Tax Liability	52,442,023	54,083,908	52,201,524
	<b>270,594,126</b>	<b>230,274,517</b>	<b>200,254,490</b>
<b>Current Liabilities</b>			
Interest Bearing Loans and Borrowings	65,219,756	65,219,756	82,544,734
Trade & Other Payables	78,839,821	98,998,669	53,069,745
Amount Due To Related Party	29,522,965	-	911,231
Right-of-use Lease Creditor	8,419,371	6,875,530	8,375,337
Income Tax Payable	43,827,242	43,827,242	17,110,569
Provisions and Accrued Expenses	51,824,340	49,435,136	25,431,632
	<b>277,653,495</b>	<b>264,356,333</b>	<b>187,443,248</b>
<b>Total Equity and Liabilities</b>	<b>1,196,735,299</b>	<b>1,140,115,879</b>	<b>900,674,744</b>

\*As disclosed in Note 06, Kapruka Holdings Limited acquired interests in subsidiaries and an associate in the month of October 2021. Accordingly, no consolidated financial statement were prepared as at 31 March 2021 (I.e : Comparable period end).

These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

  
Finance Manager

The Board of Directors are responsible for these financial statements. Signed for and on behalf of the Board by;

  
Director

  
Director

07 December 2021  
Colombo



Kapruka Holdings Limited (Formerly Kapruka Dot Com (Pvt) Ltd)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Period from 1 April 2021 to 31 October 2021

	Group/Company*	
	2021 Rs.	2020 Rs.
<b>Revenue</b>	1,010,247,254	461,826,434
Cost of Sales	(559,358,842)	(300,355,227)
<b>Gross Profit</b>	<u>450,888,411</u>	<u>161,471,207</u>
Other Income and gains	25,065,848	7,590,883
Administrative Expenses	(131,233,770)	(63,684,961)
Selling and Distribution Expenses	(165,410,819)	(97,359,741)
Finance Cost	(2,099,187)	(951,837)
<b>Profit Before Tax</b>	<u>177,210,484</u>	<u>7,065,551</u>
Income Tax Expense	(44,702,460)	(8,096,226)
<b>Profit for the Year</b>	<u>132,508,023</u>	<u>(1,030,675)</u>
<b>Other Comprehensive Income</b>	-	-
Total Comprehensive Income for the year	<u><u>132,508,023</u></u>	<u><u>(1,030,675)</u></u>
<b>Attributable to:</b>		
Equity Holders of the Parent	132,508,023	(1,030,675)
Non Controlling Interest	-	-
	<u><u>132,508,023</u></u>	<u><u>(1,030,675)</u></u>
<b>Total Comprehensive Income for the year</b>		
<b>Attributable to:</b>		
Equity Holders of the Parent	132,508,023	(1,030,675)
Non Controlling Interest	-	-
	<u><u>132,508,023</u></u>	<u><u>(1,030,675)</u></u>
Weighted Average Number of Shares considered for Earnings per Share	131,304,360	22,680,477
Earnings per share	1.01	(0.05)

\*As disclosed in Note 06, Kapruka Holdings Limited acquired interests in subsidiaries and an associate in the month of October 2021. Accordingly, the results of the Company are equivalent to the results of the Group for the periods presented in the Statement of Profit or Loss and Other Comprehensive Income.



## STATEMENT OF CHANGES IN EQUITY

Period from 1 April 2021 to 31 October 2021

Company	Stated Capital Rs.	Retained Earnings Rs.	Revaluation Reserve Rs.	Total Rs.	Non Controlling Interest Rs.	Total Equity Rs.
<b>Balance as at 01 April 2020</b>	5,000,000	46,639,996	132,338,485	183,978,481	-	183,978,481
Issuance of shares	267,500,028	-	-	267,500,028	-	267,500,028
Profit for the period	-	(1,030,675)	-	(1,030,675)	-	(1,030,675)
<b>Balance as at 31st October 2020</b>	<u>272,500,028</u>	<u>45,609,321</u>	<u>132,338,484</u>	<u>450,447,833</u>	<u>-</u>	<u>450,447,834</u>
<b>Balance as at 01 April 2021</b>	272,500,028	89,477,555	150,999,423	512,977,006	-	512,977,006
Profit for the period	-	132,508,023	-	132,508,023	-	132,508,023
<b>Balance as at 31st October 2021</b>	<u>272,500,028</u>	<u>221,985,578</u>	<u>150,999,423</u>	<u>645,485,029</u>	<u>-</u>	<u>645,485,029</u>
<b>Group*</b>						
<b>Balance as at 01 April 2021</b>	272,500,028	89,477,555	150,999,423	512,977,006	-	512,977,006
Acquisition of subsidiary under common control	-	3,002,648	-	3,002,648	-	3,002,648
Profit for the period	-	132,508,023	-	132,508,023	-	132,508,023
<b>Balance as at 31st October 2021</b>	<u>272,500,028</u>	<u>224,988,227</u>	<u>150,999,423</u>	<u>648,487,678</u>	<u>-</u>	<u>648,487,678</u>

\*As disclosed in Note 06, Kapruka Holdings Limited acquired interests in subsidiaries and an associate in the month of October 2021. Accordingly, the results and financial position of the Company as at 31 October 2020 and for the period from 1 April 2020 to 31 October 2020 are equivalent to the results of the Group.



STATEMENT OF CASH FLOW

Period from 1 April 2021 to 31 October 2021

	Group		Company	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Profit Before Tax	177,210,484	7,065,551	177,210,484	7,065,551
Adjustments for				
Interest Expenses	1,136,829	812,717	1,136,829	812,717
Interest Income	(860,821)	(2,202,662)	(860,821)	(2,202,662)
Disposal Gain	(4,411,042)	-	(4,411,042)	-
Depreciation of Property, Plant & Equipment	14,332,868	14,186,744	14,332,868	14,186,744
Depreciation of Right-of-use Assets	1,532,187	2,602,604	1,532,187	2,602,604
Foreign Currency Exchange Gain	(20,036,978)	(5,388,220)	(20,036,978)	(5,388,220)
Amortization for Intangible Assets	204,590	296,834	204,590	296,834
Bad Debt Write off	121,471	1,490,263	121,471	1,490,263
Provision for Retirement Benefit Obligations	1,166,906	794,150	1,166,906	794,150
<b>Operating Profit before Working Capital Changes</b>	<b>170,396,493</b>	<b>19,657,980</b>	<b>170,396,493</b>	<b>19,657,980</b>
(Increase) / Decrease in Inventory	(108,768,063)	25,903,644	(108,768,063)	25,903,644
(Increase) / Decrease Trade & Other Receivables	(66,856,161)	50,979,529	(66,856,161)	50,979,529
(Increase) / Decrease in Deposits & Prepayment	(18,497,731)	(916,816)	(18,497,731)	(916,816)
Increase / (Decrease) in Trade Creditors	70,995,532	(104,148,896)	70,995,532	(104,148,896)
Increase/(Decrease) In Amounts Due to Related Parties	51,303,680	(36,966,341)	51,303,680	(36,966,341)
(Increase) / Decrease in Amount Due From Related Parties	(86,432,853)	(18,961,652)	(86,432,853)	(18,961,652)
<b>Cash Generated from/(Used in) Operations</b>	<b>12,140,898</b>	<b>(64,452,552)</b>	<b>12,140,898</b>	<b>(64,452,552)</b>
Finance Costs paid	(1,136,829)	(812,717)	(1,136,829)	(812,717)
Gratuity Paid During the Year	(807,800)	-	(807,800)	-
Income Tax Paid	(22,311,968)	(3,632,788)	(22,311,968)	(3,632,788)
<b>Net Cash (Used in) Operating Activities</b>	<b>(12,115,699)</b>	<b>(68,898,057)</b>	<b>(12,115,699)</b>	<b>(68,898,057)</b>
<b>Cash Flows (Used in) Investing Activities</b>				
Acquisition of Property, Plant and Equipment	(22,713,636)	(35,496,998)	(22,713,636)	(35,496,998)
Acquisition of Intangible Assets	(443,355)	-	(443,355)	-
Advance Payment for Leased Assets	(4,236,000)	(6,891,990)	(4,236,000)	(6,891,990)
Sale Proceed on Disposal of Property, Plant and Equipment	4,665,000	-	4,665,000	-
Interest Income	860,821	2,202,662	860,821	2,202,662
Transferred to Subsidiary on Restructure (Note 6)	-	-	(48,436,873)	-
Acquisition of Subsidiaries (Note 6)	3,251,154	-	-	-
Repayment of Finance Lease	(7,399,203)	(4,154,362)	(7,399,203)	(4,154,362)
Redemption of Fixed Deposits	-	7,000,000	-	7,000,000
Acquisition of Other Financial Assets	-	(8,667,205)	-	(8,667,205)
<b>Net Cash Flows (Used In) Investing Activities</b>	<b>(26,015,219)</b>	<b>(46,007,892)</b>	<b>(77,703,245)</b>	<b>(46,007,892)</b>
<b>Cash Flows from / (Used in) Financing Activities</b>				
Proceeds From Interest Bearing Borrowings	35,732,993	37,468,968	35,732,993	37,468,968
Repayments of Interest Bearing Loans and Borrowings	(42,666,224)	(13,763,966)	(42,666,224)	(13,763,966)
<b>Net Cash Flows from/(Used in) Financing Activities</b>	<b>(6,933,231)</b>	<b>23,705,002</b>	<b>(6,933,231)</b>	<b>23,705,002</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	20,036,978	5,388,220	20,036,978	5,388,220
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(25,027,170)</b>	<b>(85,812,726)</b>	<b>(76,715,197)</b>	<b>(85,812,726)</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>57,755,437</b>	<b>113,750,271</b>	<b>57,755,437</b>	<b>113,750,271</b>
<b>Cash and Cash Equivalents at the end of the period</b>	<b>32,728,267</b>	<b>27,937,545</b>	<b>(18,959,760)</b>	<b>27,937,545</b>



**EXPLANATORY NOTES**

1. The Interim Financial Statements are subject to audit.
2. The financial statement of the company are prepared on the basis of the accounting policies and method of computation applied in the year ended March 31,2021 and are in accordance with Sri lanka Accounting Standards ( LKAS/SLFRS ). The interim financial statements are prepared in compliance with Sri lanka Accounting Standards ( LKAS ) 34 - Interim Financial Reporting.
3. There have been no material events occurring after the reporting date that require adjustments to or disclosure in the financial statement.
4. Comparative information in relation to previous year have been presented in line with information pertaining to the current period.

**5. SHARED HOLDER INFORMATION**

As at 31st October 2021

Name	%	No of Shares	Amount
Herath Pathiranalage Dulith Vinodan Herath	100%	131,304,360	272,500,028

As at 31st October 2020

Name	%	No of Shares	Amount
Herath Pathiranalage Dulith Vinodan Herath	100%	4,376,812	272,500,028

**6. GROUP RESTRUCTURE**

The company changed its operating structure in October 2021 by transferring its operations to kapruka E-Commerce (Pvt) Ltd, a fully owned subsidiary. Further the company acquired 100% of Kapruka Production (Pvt) Ltd and Kapruka Techroot (Pvt) Ltd which also are now fully owned subsidiaries.Kapruka Dot Com Limited

Kapruka Holdings Limited will continue to function as an investment holding company.

Investee	Consideration (Rs.)	% Holding	Nature of Operations
Kapruka E-Commerce (Pvt) Ltd	399,259,000	100%	Providing E-commerce Services
Kapruka Techroot (Pvt) Ltd	20	100%	Registered Internet Service Provider (ISP)
Kapruka Production (Pvt) Ltd	5,370,000	100%	Manufacture and distribution of cakes, chocolates and banked food products
	<u>404,629,020</u>		



The entity's acquisition has been accounted for under the pooling of interest method on account the entities being held under common control..

The company also acquired 25% of the shareholding of Kapruka Global Shop (Pvt) Ltd in October 2021 for a consideration of Rs. 20/-. The Group applies the equity method in accounting for the investment in associate.

7. During the period there were no material changes in the composition of assets, liabilities and contingent liabilities and there is no seasonality and cyclicity affecting the interim operation.

**16. ANNEXURE D: RESEARCH REPORT PREPARED BY THE FINANCIAL ADVISOR AND  
MANAGER TO THE IPO JUSTIFYING THE IPO PRICE**

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# KAPRUKA HOLDINGS LIMITED

## Research Report to The Board of Directors of Kapruka Holdings Limited on the Proposed Initial Public Offering

Report date: 10<sup>th</sup> December 2021

Prepared by  
Financial Advisor and Manager to the Issue



Acuity Partners (Pvt) Ltd  
7<sup>th</sup> Floor, Acuity House  
53, Dharmapala Mawatha, Colombo 03  
Sri Lanka

10<sup>th</sup> December 2021

The Board of Directors  
Kapruka Holdings Limited  
No. 237/22, Vijaya Kumarathunga Mawatha  
Colombo 05  
Sri Lanka

Dear Sir/Madam,

**Valuation of Ordinary Voting Shares of Kapruka Holdings Limited (“Kapruka” or “the Company”) as at 10<sup>th</sup> December 2021**

We, Acuity Partners (Pvt) Ltd (“Acuity”) in the capacity of the Financial Advisor & Manager to the Initial Public Offering of Kapruka Holdings Limited wish to submit the enclosed Research Report in accordance with Section 3.1.4. C of the Listing Rules of the Colombo Stock Exchange.

Acuity Partners (Pvt) Limited hereby declare that they possess the necessary expertise to carry out valuations for a company of this nature operating in the e-commerce Sector.

We have carried out a detailed analysis of the business operations of Kapruka in order to arrive at the valuation of the Company and the results have been summarized below.

Valuation Method	Value (LKR Mn)	Value per share (LKR)
Discounted Cash flow Method	3,077	23.44
Price to Earnings Method	2,053	15.63
Price to Sale Method	2,996	22.82
<b>Average Value</b>	<b>2,709</b>	<b>20.63</b>

The DCF value per share set out herein, is subject to the viability of the said forecasts and assumptions made in Section 4.2 of this Research Report. Market Based Valuation setout herein (Price to Earnings Method and Price to Sales Method), is dependent upon the relative size of the peer entities identified under Section 4.3 of the Research Report, in comparison to the company.

We are of the view that the Company’s shares would have a fair value of LKR 20.63 as at the date of this report, given the Company’s business fundamentals.

Considering your intention to offer an upside to potential investors and the healthy marketability of shares, we recommend a Reference Price of LKR 15.40 per share at a Forward Earnings Multiple of 10x and a 25% discount to the average fair value.

Yours faithfully,

Sgd.  
Ray Abeywardena  
Group Managing Director  
Acuity Partners (Pvt) Ltd

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## Glossary of the terms and the Abbreviations

<b>Acuity</b>	Acuity Partners (Pvt) Limited
<b>CSE</b>	Colombo Stock Exchange
<b>DCF</b>	Discounted Cash Flow
<b>EBIT</b>	Earnings Before Interest & Tax
<b>EBIT (1 – T)</b>	Tax Adjusted Earnings Before Interest & Tax
<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation & Amortization
<b>LKR</b>	Sri Lankan Rupee
<b>LKR Mn</b>	Sri Lankan Rupee (in million)
<b>MCAP</b>	Market Capitalization
<b>MMM</b>	Market Multiple Method
<b>NAV</b>	Net Asset Value
<b>P/E or PER</b>	Price to Earnings Ratio
<b>P/S</b>	Price to Sale
<b>RI</b>	Residual Income
<b>TRCSL</b>	Telecommunications Regulatory Commission of Sri Lanka
<b>TTM</b>	Trailing Twelve Months
<b>YoY %</b>	Year on Year Growth Rate

## 1.0 BACKGROUND

The Board of Directors of Kapruka Holdings Limited (“Kapruka” or “Company”) has taken a strategic decision to list the Company on the Colombo Stock Exchange (“the CSE”) by way of an Initial Public Offering (IPO) via an Offer for Subscription (the Issue).

In compliance with Section 3.1.4. C of the CSE Listing Rules, Acuity Partners (Pvt) Ltd (“Acuity”), in the capacity of the Manager and Financial Advisor to the issue, has carried out a valuation on the Ordinary Voting Shares of Kapruka Holdings Limited for the purpose of ascertaining the IPO issue price. The valuation has been carried out considering the Group position as per the Limited Review of consolidated financial statements as at 31<sup>st</sup> October 2021.

The assessed valuation and the underlying assumptions pertaining to the same are set out in this Research Report.

## 2.0 COMPANY OVERVIEW

Founded in 2003, Kapruka is Sri Lanka’s first and possibly the largest locally-owned e-commerce enterprise (Source: Similarweb<sup>1</sup>). The Company, through its website, facilitates online purchase of goods to the Sri Lankans as well as expatriates. The Company has successfully backward integrated its business, by selling its own-label products, mainly, Kapruka cakes and flowers. The Company partners with over 500 high end brands and executes order fulfilment to the last mile delivery for its online orders. Kapruka strives to provide a non-marketplace model and a superior online shopping experience to consumers.

The Company generates over 57% of the revenues from the expatriate Sri Lankan customers who reside abroad and send gifts and groceries through Kapruka website to their friends and families in Sri Lanka. For the 6 months ended September 2021, Kapruka generated 16% of sales from Kapruka cakes, 8% from Kapruka flowers and 3% from Kapruka gift vouchers (Source: Kapruka Management Information<sup>2</sup>).

The Company acquired 100% of Techroot (Pvt) Limited and Kapruka Productions (Pvt) Limited on 13th October 2021. It also acquired 25% of Kapruka Global Shop (Pvt) Limited. Further, a 100% owned subsidiary named Kapruka Ecommerce (Pvt) Limited was created on 29th of October 2021 and certain assets and liabilities were transferred to the newly formed subsidiary.

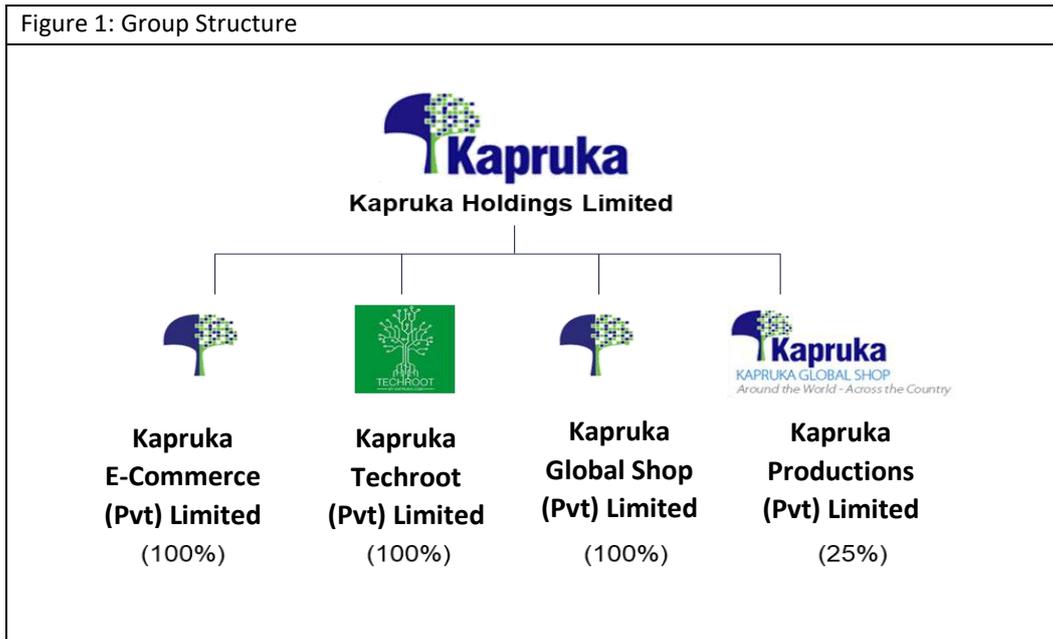
Post the restructuring, the Company changed its name to Kapruka Holdings Limited from its previous name Kapruka Dot Com Limited. Kapruka Holdings Limited, the entity which is being listed, will operate as a Holding Company going forward.

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<sup>1</sup>Weblink: <https://www.similarweb.com/website/kapruka.com> accessed on 01st December 2021

<sup>2</sup> As of 31<sup>st</sup> October 2021 based on the limited review

Figure 1: Group Structure



The subsidiaries are carrying out the following business activities

1. Kapruka E-commerce (Private) Ltd: Provides ecommerce services to Sri Lankan and foreign market.
2. Kapruka Techroot (Pvt) Ltd: Provides technology services.
3. Kapruka Productions (Pvt) Ltd: Manufactures cakes/ flowers under Kapruka brand.
4. Kapruka Global Shop (Pvt) Ltd: Provides cross border shopping services.

A summary of the assets and liabilities of the acquired companies are given below as at 31<sup>st</sup> March 2021 (Audited).

Table 2-1 Summary financials of Group Companies as at 31<sup>st</sup> March 2021

Company	Total Equity	Total Assets	Net Income	Stake held by Kapruka Holdings Limited	Subsidiary Total Assets as a % of Kapruka Holdings Limited Total assets
Kapruka E-commerce (Pvt) Ltd	NA	NA	NA	100%	NA
Kapruka Techroot (Pvt) Ltd	(5,481,988)	1,549,313	(2,897,419)	100%	0.2%
Kapruka Productions (Pvt) Ltd	5,370,886	22,992,728	(475,996)	100%	2.6%
Kapruka Global Shop (Pvt) Ltd	(8,092,523)	31,449,710	(3,003,963)	25%	3.4%

### 3.0 VALUATION METHODOLOGY

Acuity has considered a range of valuation methodologies in order to select the most appropriate valuation techniques for Kapruka. Both absolute and relative valuation techniques were considered.

- Discounted Cash Flow Method (“DCF”)
- Market Multiple Method (“MMM”)-PER, P/S, EV/EBITDA
- Net Asset Value Method (“NAV”)
- Residual Income Method (“RI”)

Given the business model of Kapruka, as an e-commerce company and the industry in which it operates, Acuity believes the earnings, sales, and cash flow-based valuation techniques are more appropriate for a company of this nature.

Acuity did not select asset-based valuation techniques as the Company operates in the e-commerce industry and is not heavily reliant upon its physical assets to generate sales and earnings.

The key success factors of an e-commerce Company are its growth rate in the customer base, customer conversion rate and average basket value per order. An e-commerce entity’s future earnings, sales and cash flows are determined based on these success factors which are intangible in nature and hence is not reflected on the Company’s Balance Sheet. Therefore, we gave priority to forecasted earnings, cash flow and sales-based valuation techniques which we believe reflects the company’s future potential.

Considering the above, Discounted Cash Flow Method, PER Method and Price to Sales Method was used to Value Kapruka. Discounted Cash Flow Methods is an absolute valuation method based on company’s forecast cash flows whereas PER and Price to Sales valuation techniques are relative valuation techniques which takes the market conditions and peer valuations into consideration.

The forecast assumptions are based on the historical financial statements and interim performance of the Company and preparer’s judgement. The company has provided their historical financial statements and interim performance. The preparer of the Research Report has used the historical information provided by the Company and arrived at forecast and valuation assumptions stated in this Report using preparers judgement an analysis.

#### 3.1 Discounted Cash Flow Method

A Discounted Cash Flow (DCF) analysis has been carried out in order to arrive at the fair value of Ordinary Voting Shares of Kapruka. A DCF analysis can be used to measure a company’s ability to generate future cash flows. A DCF method can capture a company’s growth potential and provide a more reflective result of the entire value of a business. Free Cash Flow to Firm (FCFF) was calculated using the following formula:

$$FCFF = \text{Earnings before Interest and Tax} * (1 - \text{tax rate}) + \text{Depreciation and Amortization} - \text{Capital Expenditure} + \text{Working Capital Investment}$$

In arriving at the fair value of Ordinary Voting Shares of Kapruka, the present value of FCFFs was calculated using the following:

$$V_0 = \left[ \sum_{t=1}^n \frac{FCFF_t}{(1 + WACC)^t} \right] + TV_n$$

Where:

$V_0$  = Intrinsic Value in year 0

$FCFF_t$  = Free Cash Flow to Firm in year t

$WACC$  = Weighted Average Cost of Capital

$TV_n$  = Present Value of Terminal Value at year n

Further, the Gordon Growth Model (GGM) was used to derive  $TV_n$  with the following formula:

$$TV_n = \frac{FCCF_n (1 + g)}{(WACC - g) \times (1 + WACC)^n}$$

Where:

$TV_n$  = Present Value of Terminal Value at year n

$g$  = Terminal Growth Rate

$WACC$  = Weighted Average Cost of Capital

The discount rate used in a FCF calculation is the Weighted Average Cost of Capital (WACC) which captures the effects of both equity and debt capital in a company when calculating the required rate of return. The following formula is used to calculate the WACC:

$$WACC = W_e (K_e) + W_d ((1 - t))$$

Where:

$W_e$  = Weightage of Equity

$W_d$  = Weightage of Debt

$(1 - t)$  = After Tax Cost of Debt

$K_e$  = Cost of Equity

Since Kapruka does not have a readily available market where its shares trade, the buildup method was used to estimate the Cost of Equity. Build up method is widely used to estimate the Cost of Equity for private companies.

$$k_e = 8 \text{ year Bond Yield} + \text{corporate bond risk premium} + \text{Equity risk Premium}$$

In arriving at the fair value of Ordinary Voting Shares of Kapruka, the following formula was used:

$$\text{Fair Value} = \text{Present Value of FCFs} - \text{Net Debt} +/- \text{Non-Operational Assets and Liabilities}$$

### 3.2 Price to Earnings Method

The Price to Earnings Multiple (PE) is used for valuing a company by measuring its proxy company's share price relative to the company Earning Per Share (EPS). A High PE value means the company's stock is over-valued or the investors are expecting high growth rates in the future in other words, Investors see a potential to have sustainable growth in future.

Earnings Per Share is calculated with the following formula:

$$EPS = \frac{NI - D}{CSO}$$

Where:

$EPS$  = Forward Earnings Per Share

$NI$  = Net Income

$D$  = Preferred Dividends

$CSO$  = End of Period Common Shares Outstanding

The PE ratio is calculated using the following formula:

$$PE = \frac{MPS}{EPS}$$

Where:

$PE$  = Price to Earnings Ratio

$MPS$  = Market Value Per Share

$EPS$  = Earnings Per Share

The PER value is calculated using following formula:

$$PER \text{ Value} = \text{Proxy PE} * \text{Company's EPS}$$

### 3.3 Price to Sales Method

Companies use the Price to Sales to compare a firm's market capitalization to its sales. It's calculated by dividing the company's stock price per share by its sales Per share. This ratio shows how much investor willing to pay per value of sales for a stock. A lower P/S ratio could mean the stock is undervalued. However, as with most ratios, this varies by industry.

In deriving the P/S, Sales Per Share (SPS) is calculated using the following formula:

$$SPS = \frac{Sales}{COS}$$

Where:

*SPS* = Sales Per Share

*Sales* = Sales of the Period

*COS* = End of Period Common Shares Outstanding

The P/S can be calculated from the following formula:

$$P/S = \frac{MPS}{SPS}$$

Where:

*P/S* = Price to Sales

*MPS* = Market Value Share Price

*SPS* = Sales Per Share

The P/S based value is calculated using following formula:

$$P/S \text{ based Value} = \text{Proxy } P/S * \text{Company's } SPS$$

### 3.4 Selection of Comparable Companies

Whilst e-commerce companies are not homogeneous, there are many international peers who operate in the e-commerce space and share similar business characteristic to Kapruka.

Table 3-1-International Comparable Company details

Name Of the Company	Business model	Country	Revenue growth (YoY)	ROE	GP margin	Net margin
Alibaba Group Holdings	Ecommerce/Cloud services	China	40.70%	16.60%	39.70%	17.30%
Amazon.com Inc	Ecommerce/Cloud services	USA	30.00%	31.20%	43.20%	6.90%
Mercadolibre Inc	Ecommerce	Argentina	53.50%	-0.10%	44.30%	4.30%
Sea Ltd	Ecommerce/gaming	Singapore	90.80%	-81.50%	40.80%	-18.60%
JD.com Inc	Ecommerce	China	31.20%	20.60%	12.50%	1.00%
58.com Inc	Ecommerce	China	36.40%	33.20%	87.90%	80.30%
Groupon Inc	Ecommerce	USA	-18.10%	10.20%	72.90%	2.70%
Vipshop Holdings Ltd	Ecommerce	China	17.10%	23.20%	20.10%	4.40%
Wayfair Inc	Ecommerce	USA	37.40%	-	29.20%	3.40%
Ebay Inc	Marketplace	USA	3.70%	161.90%	74.80%	24.10%
Etsy Inc	Marketplace	USA	44.00%	91.40%	71.80%	20.10%
Baozun Inc	Ecommerce Services	China	26.90%	-	64.60%	4.00%

Source: Bloomberg<sup>3</sup>, Seeking Alpha<sup>4</sup>

<sup>3</sup> Bloomberg is restricted to registered users, accessed on 02<sup>nd</sup> November 2021

<sup>4</sup> Weblink: <https://seekingalpha.com/> accessed on 02<sup>nd</sup> November 2021

Among the listed companies on the CSE there are no comparable peers in the e-commerce space who have a similar business model to Kapruka and hence can be taken as a proxy for the valuation. There are unlisted peers such as Daraz.lk, Takas.lk, Wasi.lk, Urban.lk etc.

However, from the point of view of the investors, we have selected an average of the top 10 companies by Market Capitalization listed on the Colombo Stock Exchange as benchmarks. These local benchmark companies have been considered only for comparison purposes and does not imply that they are close peers to Kapruka in any way.

The details of the valuation multiples of benchmarks and peers selected are given in Section 4.3 of this Research Report

The limitations of peer selection are given in Section 0 of this Research Report

## 4.0 VALUATION RESULTS AND ASSUMPTIONS

### 4.1 Summary of Valuations

Table 4-1-Summary of the valuation

Valuation Method	Value (LKR Mn)	Value per share (LKR)
Discounted Cash flow Method	3,077	23.44
Price to Earnings Method	2,053	15.63
Price to Sale Method	2,996	22.82
<b>Average Value</b>	<b>2,709</b>	<b>20.63</b>

The IPO price recommendation of LKR 15.40 reflects a 25% discount to the average intrinsic value of LKR 20.63. The IPO price reflects an implied PER of 9.8x based on forward earnings.

**The following section illustrates key valuation assumptions and the resultant equity valuations as at the date of this report for the Company based on the methods discussed in this Research Report**

### 4.2 Discounted Cash Flow Methodology

#### 4.2.1 DCF Valuation

Table 4-2 Pre equity value calculation based on DCF

(LKR Mn unless stated otherwise)	
Firm Value (Annex 1 Note 03)	3,211.62
Less: Debt	(221.82)
Add: Cash and Fixed deposits	87.94
Value Before Discount under the DCF Method	3,077.74
Total number of shares outstanding (pre IPO)	131,304,360
Pre-IPO DCF value per share (LKR)	23.44

Refer Annex 1 Note 03 for the detailed calculation of the firm value.

The calculations are done in line with the accepted industry practice.

#### 4.2.2 Cost of Capital

Since Kapruka is a privately held company, build up method was used to estimate the cost of capital. Below assumptions were used to estimate the cost of capital.

Cost of capital	<b>17.50%</b>
Cost of Equity	20.31%
Bond Yield	8.16%
Corporate Bond Risk Premium	3%
Equity Risk Premium	9%
Cost of Debt	9%
Debt / Total Capital	20%

A terminal growth rate of 3% was used to estimate the terminal value under the DCF Method.

#### 4.2.3 Forecast assumptions

**Summarized consolidated Income Statement and summarized consolidated Balance Sheet are available in Section 8.1 and Section 8.2 of the Prospectus.**

##### Revenue

(LKR Mn except percentages)	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Total revenue	1498.15	1839.69	2324.99	2894.37
YoY %	55%	23%	26%	24%
Cake Sales	421.80	506.16	607.39	698.50
Growth YoY	40%	20%	20%	15%
Flower Sales	127.43	152.92	183.50	211.02
Growth YoY	30%	20%	20%	15%
Export Operations	209.57	293.39	469.43	760.47
Growth YoY	80%	40%	60%	62%
Other Items	739.35	1180.62	1534.10	1984.84
Growth YoY	63%	60%	30%	29%

The revenue growth rates assumptions for FY22 are based on Group's interim performance upto 31<sup>st</sup> October 2021. Beyond FY22 the revenue growth rates are assumed based on Preparer's analysis and judgement of the business volumes of the Company.

##### Gross margins

(LKR Mn except percentages)	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Cost of Sales	794.02	975.04	1232.24	1534.01
Gross Profit	704.13	864.66	1092.74	1360.35
Gross Margin	47%	47%	47%	47%

The gross margin assumptions for FY22 are based on Group's interim performance upto 31<sup>st</sup> October 2021. Preparer expect the margins to remain constant beyond FY22.

##### Selling and Administrative expenses (SG&A)

(LKR Mn except percentages)	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Selling Expenses	269.67	366.10	458.02	565.85
As a % of Revenue	18%	20%	20%	20%
Administrative expenses	160.74	183.13	214.14	269.76
Growth YoY	31%	14%	17%	26%

The selling expenses as a percentage of revenue assumptions for FY22 are based on Group's interim performance upto 31<sup>st</sup> October 2021. Beyond FY22 the preparer expects this percentage to remain at 20% which is not significantly different to current 18%.

Administrative assumptions for FY22 are based on Group's interim performance upto 31<sup>st</sup> October 2021. Beyond FY22 the expense growth rates are assumed based on Preparer's analysis and judgement of the growth of expenses given the business volumes.

#### Tax rate

The company pays corporate taxes at 24%. If the Company would be able to list prior to the end of the 2021, that the Company will get a 50% concession resulting in a tax rate of 12% in FY 2022F and will be liable to pay corporate taxes at 14% p.a for the next 03 years. If the Company is unable to list prior to 31<sup>st</sup> December 2021 then the Company will continue to pay its regular corporate tax rate of 24%.

#### Net income, EBIT and EBITDA

(LKR Mn except percentages)	FY 2022F	FY 2023F	FY 2024F	FY 2025F
EBITDA	330.42	380.64	501.93	644.77
EBITDA Margin	22%	21%	22%	22%
EBIT	294.70	341.19	453.13	565.27
EBIT Margin	20%	19%	19%	20%
Net Income	205.32	278.03	372.17	475.52
Net Margin	14%	15%	16%	16%

Refer Annex 1 Note 01 and Note 02 for the detailed Income Statement and Balance Sheet

#### Sensitivity analysis

LKR Per	Terminal period growth rate	Cost of Capital				
		15.50%	16.50%	17.50%	18.50%	19.50%
	1.00%	24.72	22.76	21.04	19.53	18.18
	2.00%	26.26	24.07	22.16	20.50	19.02
	3.00%	28.05	25.57	23.44	21.59	19.96
	4.00%	30.14	27.31	24.90	22.83	21.03
	5.00%	32.64	29.35	26.59	24.25	22.24

### 4.3 Market Multiple Method

#### 4.3.1 Price to Earnings Multiple Method

Table 4-3 PER Multiple Comparison

Comparable PER multiples	
PER used in the Valuation	10.0x
Benchmark Averages	
Average Trailing PER of International peers	236.86
Average Forward PER of International peers	106.17
Trailing Market PER (CSE)	12.32
Average Trailing PER of top 10 companies on CSE by MCAP	86.72

Source: Seeking Alpha<sup>5</sup>, Colombo Stock Exchange<sup>6</sup>

<sup>5</sup> Weblink: <https://seekingalpha.com/> accessed on 02<sup>nd</sup> November 2021

<sup>6</sup> Weblink: <https://www.cse.lk/> accessed on 02<sup>nd</sup> November 2021

Table 4-4 Estimation PER Value

<b>(LKR Mn unless stated otherwise)</b>	
Forecasted Net Income (Annex 1 Note 01)	205.32
<b>PER used for Valuation (x)</b>	10.00x
Company value based on PER method	2,053.22
Pre-IPO PER Value Per Share (LKR)	15.63

The calculations are done in line with the accepted industry practice.

#### 4.3.2 Price to Sales (P/S) Multiple Method

Table 4-5 Price to Sales Multiple Comparison

<b>Comparable P/S multiples</b>	
P/S used in the valuation	2.00x
<b>Benchmark averages</b>	
Average Trailing P/S of International peers	7.00
Average Forward P/S of International peers	5.54
Trailing Market P/S (CSE)	NA
Average trailing P/S of top 10 companies on CSE by MCAP	8.14

Source: Seeking Alpha<sup>7</sup>, Colombo Stock Exchange<sup>8</sup>

Table 4-6 Estimation Price to Sales Value

<b>(LKR Mn unless stated otherwise)</b>	
Annualized Sales for FY22 (refer Section 4.2.3 – Revenue)	1,498.14
<b>P/S used for Valuation (x)</b>	2.00x
Company Value based on PER method	2,996.29
Pre-IPO PER Value per share (LKR)	22.82

The calculations are done in line with the accepted industry practice.

<sup>7</sup> Weblink: <https://seekingalpha.com/> accessed on 02<sup>nd</sup> November 2021

<sup>8</sup> Weblink: <https://www.cse.lk/> accessed on 02<sup>nd</sup> November 2021

### 4.3.3 Benchmark Valuation Multiples

Top 10 companies on CSE based on market capitalization

Table 4-7 CSE Top 20 -Market Multiples

CSE top 10	Price to sales TTM (x)	Price to Earnings TTM (x)
Expolanka PLC	1.58	22.68
LOLC PLC	8.03	17.28
Commercial Leasing & Finance PLC	20.99	100.92
John Keells Holdings	1.28	23.36
Ceylon Tobacco	5.01	10.51
Browns Investments	14.33	-
LOLC Development Finance	25.79	584.69
Commercial Bank of Ceylon	1.16	4.71
Dialog PLC	0.69	5.87
Distilleries Company of Sri Lanka	2.59	10.5
<b>Average</b>	<b>8.14</b>	<b>86.72</b>

Source- Investing. Com<sup>9</sup>

### Price to Earning and Price to Sales Multiples of comparable international companies

Table 4-8 Multiples of Comparable International Companies

Name Of the Company	PER TTM (x)	PER Forward (x)	P/S TTM (x)	P/S Forward (x)
Alibaba Group Holdings	26.07	18.50	3.84	3.25
Amazon.com Inc	64.91	56.30	3.65	3.56
Mercadolibre Inc	1772.02	709.02	13.43	10.77
Sea Ltd	NA	NA	26.41	20.78
JD.com Inc	87.21	61.21	1.16	0.96
58.com Inc	NA	NA	NA	NA
Groupon Inc	10.26	21.31	0.77	0.56
Vipshop Holdings Ltd	8.33	8.46	0.44	0.43
Wayfair Inc	76.24	77.32	1.53	1.7
Ebay Inc	19.2	19.25	4.64	4.59
Etsy Inc	67.5	66.93	14.22	13.47
Baozun Inc	NA	23.37	NA	0.93
<b>Average</b>	<b>236.86</b>	<b>106.17</b>	<b>7.00</b>	<b>5.54</b>

Source: Seeking Alpha<sup>10</sup>

<sup>9</sup> Weblink: <https://www.investing.com/> accessed on 02<sup>nd</sup> November 2021

<sup>10</sup> Weblink: <https://seekingalpha.com/> accessed on 02<sup>nd</sup> November 2021

## 5.0 INDUSTRY ANALYSIS

### 5.1 Industry Overview

The global ecommerce space is dominated by Amazon, e-Bay and Alibaba which are large businesses. Ecommerce sales skyrocketed in 2020 as consumers turned to online purchases for their grocery, apparel, and home furnishing needs during the covid-19 lockdowns. The convenience of ecommerce, combined with this change in consumer behavior will result in stronger demand for online shopping post-pandemic (Source: Shopify, The Future of Ecommerce Report 2021)<sup>11</sup>.

Currently, the total ecommerce market size in Sri Lanka is estimated to be USD 90 Mn, which is less than 1% of the total retail market size in Sri Lanka (Source: Daily Mirror<sup>12</sup>).

### 5.2 Demand Drivers for Ecommerce in Sri Lanka

#### **Rising internet penetration and mobile device usage to drive the overall B2C e-commerce market.**

Total internet penetration stands at 60%, while mobile internet penetration stands at 53%. Both figures are on par with the world statistics<sup>13</sup>. The country has seen a rapid increase in mobile broadband since its introduction in 2009. Between 2009-2020 the number of mobile broadband users have grown at a CAGR of 55% (Source: TRCSL, Acuity estimates<sup>14</sup>). Rising internet usage together with digitalization of modern life post the pandemic has significantly contributed to the growth of ecommerce in Sri Lanka.

#### **Growth in digital literacy driving the growth in e-commerce**

According to the Department of Census and Statistics, Sri Lanka's digital literacy in 2019 stood at 46% (population aged between 5-69)<sup>15</sup>. The urban sector population has a digital literacy of 62% which is higher than Rural sector (44%) and estate sector (24%). Age groups between 15-29 shows the highest digital literacy rate between 73%-77%. Covid 19 pandemic will further increase the digital literacy rates in both rural and urban population of Sri Lanka driven mainly by ecommerce to fulfill daily needs. Almost the whole younger, school going generation in Sri Lanka who have been exposed to digital learning will further enhance e-commerce in the future (Source: Asian Development Bank)<sup>16</sup>.

#### **Online payment gateways and Digital infrastructure development**

Cash on delivery (COD) still accounts for around 80% of online order payments in Sri Lanka, while the next go-to option for ecommerce being bank transfers (Source: Daily Mirror<sup>17</sup>). The heavy reliance on COD is mainly as a result of consumer scepticism, slow adoption of cashless payments, and debit/credit card related issues. With increased awareness of the digital infrastructure and payment mechanisms and the importance of cashless transactions post the pandemic, ecommerce is set to grow significantly with more regulation by the banks.

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<sup>11</sup> Weblink: <https://www.shopify.com/future-of-commerce/2021> accessed on 29th October 2021

<sup>12</sup> Weblink: <https://www.dailymirror.lk/features/Redefining-e-commerce-in-Sri-Lanka-Prospects-post-COVID-19/185-187711> accessed on 28th of October 2021

<sup>13</sup> Weblink: <https://www.trc.gov.lk/> accessed on 25<sup>th</sup> of October 2021

<sup>14</sup> Acuity estimated the CAGR in line with industry practices

<sup>15</sup> Weblink: <http://www.statistics.gov.lk/> accessed on 29<sup>th</sup> October 2021

<sup>16</sup> Weblink: <https://www.adb.org/sites/default/files/publication/635911/online-learning-sri-lanka-during-covid-19.pdf> accessed on 01st November 2021

<sup>17</sup> Weblink: <https://www.dailymirror.lk/features/Redefining-e-commerce-in-Sri-Lanka-Prospects-post-COVID-19/185-187711> accessed on 29th October 2021

### 5.3 Challenges to Ecommerce Growth in Sri Lanka

#### **Possible regulatory changes governing e-commerce**

At present, Sri Lanka does not have a local body to regulate ecommerce businesses. However, the Consumer Affairs Authority Act, No.9 of 2003 ('CAAA') provides general protection for consumers and traders by establishing the Consumer Affairs Authority in Sri Lanka (Source: Daily News)<sup>18</sup>. A key law which facilitates ecommerce in Sri Lanka is the Electronic Transactions Act No.19 of 2006 by eliminating legal barriers and ensuring legal certainty both within the country and internationally. Several other laws also support ecommerce such as the Evidence Act No. 14 of 1995, Payment and Settlement Systems Act No. 28 of 2005, Payment Devices Frauds Act No 30 of 2006, and the Computer Crimes Act of No 24 of 2007. Increased competition and cybercrimes may demand the government to consider regulating ecommerce businesses more tightly. These can increase the operational costs of e-commerce businesses in the future.

#### **Increasing competition and new entrants**

Covid 19 pandemic has led to more local companies selling their products Direct to Customer (DTC) on social media platforms. Online delivery platforms and delivery support companies have enabled businesses to sell directly to the customer. The growth of e-commerce businesses catering to the wholesome and diverse needs of customers on one platform still remains largely with the first movers.

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<sup>18</sup> Weblink: <https://www.dailynews.lk/2020/04/10/features/216226/law-governing-online-business> accessed on 01st November 2021

## 6.0 LIMITATIONS OF THE VALUATION

The valuation is subject to below limitations

### **Limitations of the economic estimates**

The inputs to the valuation include several estimates such as estimates for cost of equity, cost of capital, terminal growth rate and capital structure. These inputs involve financial estimates which may change over time. For example, the cost of equity has been estimated using the Corporate Bond premium and Equity risk premium at the time the valuation is being carried out. However, the actual risk premiums can vary from the risk premiums used in the valuation over time. As such, the actual risk the Company faces could be different to the risk reflected by cost of equity and cost of capital. Similarly, the terminal growth rate is estimated considering the GDP growth rate at the time the valuation is being carried out. However, the actual terminal growth rate for the Company for the time period beyond the forecast period could be higher or lower than the growth rate used at the time of the valuation.

### **Limitations of the forecast assumptions**

The forecast for the DCF valuation has been done based on several assumptions which are listed in Section 4.2 of this Research Report. The revenue drivers, cost drivers and other assumptions are based on the past trends as well as the expectations of the Company for the foreseeable future. However, the actual revenue and cost drivers as well as other inputs to the forecast can vary positively or negatively from the assumptions due to unforeseen circumstances.

### **Limitations of the peer selection**

Kapruka does not have an any listed direct competitor domestically, but have private non listed companies which can be taken as the direct competitors domestically. Due to unavailability of data of these companies, benchmarks were selected as top 10 companies by market capitalization listed on the CSE as believed to be appropriate from the point of view of investors. Further, Kapruka's operations are mostly comparable with international companies such as Amazon.com Inc., Alibaba Group Holding Ltd etc. (refer Section 4.3) which were also taken as benchmarks to justify Kapruka's valuation.

However, most of the aforementioned benchmarks are not perfect proxies for Kapruka. The top 10 companies by market capitalization listed on CSE are much larger in terms of revenue, net income, market capitalization and total assets compared to Kapruka. Also, these domestic companies have very different business models and operate in varying industries which are different to Kapruka. The international benchmark companies selected such as Amazon.com Inc., Alibaba Group Holding Ltd etc. have somewhat similar operations and business model to Kapruka. However, they operate outside Sri Lanka and are subject to different risk profiles than Kapruka. In addition, their relative size metrics are much larger compared to Kapruka therefore they are also not perfect proxies for Kapruka.

### **Limitations with the methodologies**

The valuation methodologies carry several limitations. The DCF valuation method is based on several assumptions including the forecast assumptions and macro-economic data described above. DCF valuation highly sensitive to its inputs. Also, DCF depends on the internal fundamentals of the company being valued and ignores the market dynamics in the valuation. The PER valuation also has several drawbacks. PER valuation only considers current earnings of the company and ignores the future potential of the company's cash generation. It gives a higher weight to the market dynamics and undermines the company fundamentals. P/S valuation also has some drawbacks; it doesn't take in to account whether the company makes positive earnings or whether it will ever make earnings.

The impact of the aforementioned limitations has been mitigated by taking the following steps.

1. Using a large number of peer companies as benchmarks to justify the valuation thereby reducing the influence of a selected a few peers
2. Adjusting for non-recurring items in the earnings forecast
3. Normalizing the macro-economic variables before using them for the forecast

## 7.0 ANNEX 1

### Note 01 – Forecast Income Statement

(LKR Mn)	FY 2022F	FY 2023F	FY 2024F	FY 2025F
Revenue	1,498	1,840	2,325	2,894
Cost of sales	(794)	(975)	(1,232)	(1,534)
<b>Gross Profit</b>	<b>704</b>	<b>865</b>	<b>1,093</b>	<b>1,360</b>
Other Income and Gain	21	26	33	41
Administrative Expenses	(161)	(183)	(214)	(270)
Selling and Distribution Expenses	(270)	(366)	(458)	(566)
<b>EBIT</b>	<b>295</b>	<b>341</b>	<b>453</b>	<b>565</b>
Finance Cost	(25)	(25)	(20)	(12)
<b>EBT</b>	<b>270</b>	<b>316</b>	<b>433</b>	<b>553</b>
Income Tax Expenses/Reversal	(65)	(38)	(61)	(77)
<b>Profit /Loss for the year</b>	<b>205</b>	<b>278</b>	<b>372</b>	<b>476</b>

### Note 02 – Forecast Balance Sheet

(LKR Mn) For the year ended 31st March	FY 2022	FY 2023	FY 2024	FY 2025
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, Plant & Equipment	564.62	551.92	549.88	652.14
Intangible Assets	11.30	40.55	79.79	129.03
Other Fixed Assets	22.53	15.45	8.37	4.45
<b>Total Non-Current Assets</b>	<b>598.45</b>	<b>607.92</b>	<b>638.04</b>	<b>785.62</b>
<b>Current Assets</b>				
Inventories	87.02	106.85	118.16	147.10
Amount Due from the Related Parties	82.96	53.79	28.59	12.31
Trade and Other Receivables	89.46	109.85	138.83	172.83
Other Current Assets	20.96	31.05	81.13	331.21
Cash and Cash Equivalents	266.09	514.11	768.28	795.96
<b>Total Current Assets</b>	<b>546.48</b>	<b>815.65</b>	<b>1134.98</b>	<b>1459.41</b>
<b>Total Assets</b>	<b>1144.93</b>	<b>1423.57</b>	<b>1773.02</b>	<b>2245.02</b>
<b>Equity and Liabilities</b>				
<b>Capital and Reserves</b>				
Stated Capital	272.50	272.50	272.50	272.50
General Reserves	0.00	0.00	0.00	0.00
Revaluation Reserves	151.00	151.00	151.00	151.00
Retained Earnings	294.80	572.83	945.00	1420.52
<b>Total Equity</b>	<b>718.30</b>	<b>996.33</b>	<b>1368.50</b>	<b>1844.02</b>
<b>Non-Current Liabilities</b>				
Interest Bearing Loans and Borrowings	172.13	141.45	82.24	34.67
Other Non-Current Liabilities	72.10	74.74	77.29	79.75
<b>Total Non-Current Liabilities</b>	<b>244.22</b>	<b>216.20</b>	<b>159.54</b>	<b>114.42</b>

<b>Current Liabilities</b>				
Interest Bearing Loans and Borrowings	55.56	45.62	37.89	28.88
Trade and Other Payables	58.13	69.45	87.78	109.27
Amount Due to Related Parties	7.94	9.75	12.32	15.34
Other Current Assets	60.78	86.22	106.99	133.09
<b>Total Current Liabilities</b>	<b>182.41</b>	<b>211.04</b>	<b>244.98</b>	<b>286.59</b>
<b>Total Equity and Liabilities</b>	<b>1144.93</b>	<b>1423.57</b>	<b>1773.02</b>	<b>2245.02</b>

**Note 03 – Discounted Cash Flow valuation workings**

<b>(LKR Mn)</b>	<b>FY 2022F</b>	<b>FY 2023F</b>	<b>FY 2024F</b>	<b>FY 2025F</b>
EBIT	294.70	341.19	453.13	565.27
(-)Tax on EBIT	-70.73	-40.94	-63.44	-79.14
EBIT(1-T)	223.97	300.24	389.69	486.13
Non cash charges				
(+) Depreciation	35.14	38.69	48.04	78.74
(+) Amortization	0.58	0.76	0.76	0.76
Total	35.72	39.45	48.80	79.50
Investment in working capital				
(+/-) Inventory	-20.97	-19.84	-11.31	-28.94
(+/-) Trade receivables	-21.81	-22.08	-31.38	-36.81
(+/-) Trade and other payables	23.97	11.33	18.32	21.50
Total	-18.81	-30.59	-24.36	-44.26
Capital expenditure				
Purchase of PPE	-78.62	-26.00	-46.00	-181.00
Purchase of intangible assets	-10.00	-30.00	-40.00	-50.00
Total	-88.62	-56.00	-86.00	-231.00
FCFF	152.26	253.10	328.13	290.37
Terminal period value				2544.08
Discount factor	0.851	0.724	0.616	0.525
Discounted FCFF	129.59	183.33	202.28	152.35
Firm value	3211.62			
(Sum of the discounted FCFF and terminal value)				

## **INDIVIDUALS MATERIALLY PARTICIPATED IN PREPARATION OF THIS REPORT**

### **Shehan Cooray – Senior Vice President – Corporate Finance**

Shehan joined Acuity from HNB, where he worked in the Corporate Finance Division of the Bank. At Acuity and HNB he was involved in numerous equity & debt capital raising transactions. Notable transactions include the GDR offering on the Luxembourg Stock Exchange by HNB and numerous IPO's and Private Placements including Textured Jersey, Vallibel One and Hemas Holdings. He has over 20 years' experience in finance including company valuations & advisory, securities placement and structured finance. Before joining HNB, Shehan has worked as an analyst at Fitch Ratings Lanka, the local affiliate of Fitch Inc., focusing primarily on Corporate and Structured Finance. He has covered a wide range of industry sectors including telecommunications, conglomerates and technology.

Shehan has a Bachelor of Science degree in Development Economics with First Class Honours from the University of London, UK and a Master of Science in Corporate and international Finance from the University of Durham, UK.

### **Hansinee Beddage- Senior Analyst- Corporate Finance**

Hansinee has over 7 years of experience in Corporate Finance, Investment Analysis and Equity Research. Prior to joining Acuity, she worked as a Senior Research Analyst at First Capital Holdings PLC where she initiated and maintained coverage on stocks listed on the CSE including diversified holdings, plantations, capital goods, banks and diversified financials. She also contributed to private equity investment evaluations, M&A transactions in the hotel sector and macroeconomic research. Before joining First Capital Group Hansinee worked as a Financial Analyst at York Street Partners where she performed private and public company valuations for equity transactions.

Hansinee holds a Bachelor of Science degree specializing in Accounting from University of Sri Jayawardenapura. She is an associate member of CIMA (UK) and is currently reading for Level III in CFA (USA) program.

### **Sanchali Jayasundara – Junior Analyst – Corporate Finance**

Sanchali has over 4 years' of experience in accounting and industry research. Prior to joining the corporate finance division, Sanchali worked in the Global Industry Research team at Uzabase Inc, where she was involved in writing industry analytical reports on diverse geographies. Before joining Uzabase Inc, she was a Management Trainee in the finance division at Dilmah Ceylon Tea Company PLC.

Sanchali holds a Bachelor of Science with a First Class Honours from University of Wales (UK). She is also a passed finalist of the Chartered Institute of Management Accountants (UK) and the Association of Chartered Certified Accountants (UK), and is currently reading for Level I in CFA (USA) program

### **Madhushi Wijewardhana -Trainee Junior Analyst-Corporate Finance**

Madhushi worked as an Intern at DFCC Bank PLC, Project Management and BCP Department, where she was involved in doing analysis of credit lines, assisting preparation of financial statement of project loan scheme for external auditors and was a part of refinancing activities with CBSL and due diligence activities with treasury back office, Prior to joining the Corporate Finance Division at Acuity.

Madhushi Holds the Bachelor of Science degree in Finance (Special) with Second Class Upper Division from the University of Sri Jayewardenepura, and is currently reading for Level I in CFA (USA) Program.

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The information, forecasts, analyses, assumptions and opinions contained herein have been compiled or arrived at solely based on information provided to Acuity by the Company. Such information has not been independently verified and no guarantee, representation or warranty, expressed or implied is made as to its accuracy, completeness or correctness. Nothing contained in this Research Report is, or shall be relied upon as, a promise or representation by Acuity. All such information is subject to change without notice and such changes could be due to unforeseen circumstances. This Research Report is for information purposes only and does not purport to be a complete description of the subject matter presented herein.

Any estimate, projection, opinion, forecast and valuation contained in this Research Report involve significant elements of subjective judgment and analysis, which may or may not be correct. No representation is made that any estimate, projection or forecast will be achieved. The actual future events may vary significantly from the estimates, projections, forecasts or valuation and each estimate, projection, forecast or valuation is based on a number of assumptions and is subject to matters which are outside the control of Acuity. Verification of assets of Kapruka and evaluation of agreements between clients of Kapruka have not been carried out during this exercise.

Accordingly, Acuity shall not be liable for any loss or damage howsoever arising as a result of any person acting or refrain from acting in reliance on any information, forecast analysis and opinion contained herein.

The recipients of this Research Report and/or Investors are expected to carry out their own independent evaluations taking into consideration macro-economic variables and other relevant conditions.

The valuation presented herein is valid for a period of three months (03) from the date of the date of the Prospectus, however, subject to there being no material changes to the parameters impacting operations of Kapruka.

## 17. ANNEXURE E: COLLECTION POINTS

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Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

### **Financial Advisor and Manager to the Issue**

#### **Acuity Partners (Private) Limited**

53, Dharmapala Mawatha,  
Colombo 03.  
T: +94 11 2206206

### **Members and Trading Members of the CSE**

#### **Acuity Stockbrokers (Private) Limited**

53, Dharmapala Mawatha,  
Colombo 03.  
T: +94 11 2206206

#### **Asha Securities Limited**

60, 5<sup>th</sup> Lane,  
Colombo 03.  
T: +94 11 2429100

#### **Asia Securities (Private) Limited**

4<sup>th</sup> Floor, Lee Hedges Tower,  
349, Galle Road,  
Colombo 03.  
Tel. +94 11 7722000

#### **Assetline Securities (Private) Limited**

120, 120A, Pannipitiya Road,  
Battaramulla.  
T: +94 11 4700100

#### **Bartleet Religare Securities (Private) Limited**

Level G, 'Bartleet House',  
65, Braybrooke Place,  
Colombo 02.  
T: +94 11 5220200

#### **Candor Equities Limited**

46/58, Nawam Mawatha,  
Colombo 02.  
T: +94 11 2359100

#### **Capital Alliance Securities (Private) Limited**

Level 5, 'Millenium House',  
46/58, Nawam Mawatha,  
Colombo 02.  
T: +94 11 2317777

#### **Capital Trust Securities (Private) Limited**

42, Mohamed MacanMarkarMawatha,  
Colombo 03.  
T: +94 11 2174174-5

#### **CT CLSA Securities (Private) Limited**

4-14, Majestic City,  
10, Station Road,  
Colombo 04.  
T: +94 11 2552290-4

#### **Enterprise Ceylon Capital (Private) Limited**

73/1, Dharmapala Mawatha,  
Colombo 07.  
T: +94 11 2445644

**First Capital Equities (Private) Limited**

02, Deal Place,  
Colombo 03.  
T: +94 11 2639898

**J B Securities (Private) Limited**

150, St. Joseph Street,  
Colombo 14,  
T: +94 11 2490900

**Lanka Securities (Private) Limited**

228/1, Galle Road,  
Colombo 04.  
T: +94 11 4706757, +94 11 2554942

**Nation Lanka Equities (Private) Limited**

44, Guildford Crescent,  
Colombo 07.  
T: +94 11 4889061-3, +94 11 7898302

**NDB Securities (Private) Limited**

Level 2, NDB capital Building, No 135 Baudhaloka  
Mawatha,  
Colombo 04.  
T: +94 11 2131000

**SC Securities (Private) Limited**

05th Floor, 26 B, Alwis Place,  
Colombo 03.  
T: +94 11 4711000, +94 11 4711001

**Softlogic Stockbrokers (Private) Limited**

Level 16, One Galle Face Tower, Galle Road,  
Colombo 02.  
T: +94 11 7277000

**Taprobane Securities (Private) Limited**

2<sup>nd</sup> Floor, 10, Gothami Road,  
Colombo 08.  
T: +94 11 5328200, +94 11 5328100

**First Guardian Equities (Private) Limited**

32<sup>nd</sup> Floor, East Tower, World Trade Centre,  
Echelon Square,  
Colombo 01.  
T: +94 11 5884400

**John Keells Stockbrokers (Private) Limited**

186, Vauxhall Street,  
Colombo 02.  
T: +94 11 2306250

**LOLC Securities Limited**

481, T B Jayah Mawatha,  
Colombo 10.  
T: +94 11 5889889

**Navara Securities (Private) Limited**

12 B, Gregory's Road,  
Colombo 07.  
T: +94 77 2358700, +94 11 2358720

**Richard Pieris Securities (Private) Limited**

310, High Level Road,  
Nawinna, Maharagama.  
T: +94 11 4310500

**SMB Securities (Private) Limited**

02, Gower Street,  
Colombo 05.  
T: +94 11 5388138

**Somerville Stockbrokers (Private) Limited**

1A, Park Way, Park Road,  
Colombo 05.  
T: +9411 2502852, +9411 2502854,  
+9411 2502858, +94 11 2502862

**TKS Securities (Private) Limited**

4<sup>th</sup> Floor, 245, Dharmapala Mawatha,  
Colombo 07.  
T: +94 11 7857799

Bankers to the Issue

The application forms should be handed over only to the designated branches mentioned below

Hatton National Bank PLC

<i>Branch Name</i>	<i>Branch Address</i>	<i>Telephone</i>
Head office branch	No. 479, T B Jayah Mawatha, Colombo 10	+94 11-2660160
City Office	No. 16, Janadhipathi Mawatha, Colombo 01	+94 11-2421466-8
Cinnamon Gardens	No. 85A, 87A, Barnes Place, Colombo 07	+94 11-2681718
Wellawatte	No. 100 & 102, Galle Road, Wellawatte	+94 11-2588702
Colpetty	No. 324, Galle Road, Colombo 03	+94 11-2576763
Bambalapitiya	No. 285, Galle Rd, Colombo 04	+94 11-2501698
Pettah	No. 149-151, Main Street, Colombo 11	+94 11-2343800
Nugegoda	No. 190, 190/1, High Level Road, Nugegoda	+94 11-2853887
Nawam Mawatha	No.46/38, Forbes & Walker Building, Navam Mawatha, Colombo 02	+94 11-2304915
Kandy	No. 1, Dalada Veediya, Kandy	+94 81-2224204
Negombo Metro	No. 201, Colombo Road, Negombo	+94 31-2244000
Jaffna Metro	No. 177 - 179, Ponnampalam Road, Jaffna	+94 21-2030300
Ratnapura	No. 9, Senanayake Mawatha, Ratnapura	+94 45-2222374
Kurunegala	No. 6, St. Anne Street, Kurunegala	+94 37-2223246
Galle	No. 3, Wackwella Road, Galle	+94 91-2232248
Wattala	No. 270 - 270/1, Negombo Road, Wattala	+94 11-2931385
Kalutara	No. 417, Galle Road, Kalutara South	+94 34-2222152
Maharagama	No. 145, Colombo Road, Maharagama	+94 11-2851468
Borella	No. 53/1, D S Senanayake Mawatha, Borella, Colombo 08	+94 11-2696929
Sea Street	No. 60, Sea Street, Colombo 11	+94 11-2439635
JaEla	No. 73, Old Negombo Road, Kanuwana, Ja ela	+94 11-2232752
Gampaha	No. 148, Colombo Road, Gampaha	+94 33-2222520
Matara	No. 58D, Esplanade Road, Matara	+94 41-2222588
Trincomalee	No. 59, Ehamparam Road, Trincomalee	+94 26-2222572
Anuradhapura	No. 30, Maithripala Senanayake Mw, Anuradhapura	+94 25-4743743
Nuwara Eliya	No. 42, Queen Elizabeth Drive, Nuwara Eliya	+94 52-2222348
The Club-Greenpath	No. 38, Ananda Coomaraswamy Mawatha, Colombo 03	+94 11-5382300

## 18. ANNEXURE F: CUSTODIAN BANKS

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### **Bank of Ceylon**

11<sup>th</sup> Floor, 04, Bank of Ceylon Mawatha,  
Colombo 01.

T: +94 11 204064

### **Citi Bank, N A**

65 C, Dharmapala Mawatha,  
Colombo 07.

T: +94 11 4794728

### **Deutsche Bank AG**

86, Galle Road,  
Colombo 03.

T: +94 11 2447062, +94 11 2438057

### **The Hong Kong and Shanghai Banking Corporation Limited**

24, Sir Baron Jayathilake Mawatha,  
Colombo 01.

T: +94 11 2325435, +94 11 2446591, +94 11 2446303

### **Pan Asia Banking Corporation PLC**

450, Galle Road,  
Colombo 03.

T: +94 11 2565565

### **Public Bank Berhad**

340, R A De Mel Mawatha,  
Colombo 03.

T: +94 11 2576289, +94 11 7290200, +94 11 7290207

### **Seylan Bank PLC**

Level 08, Ceylinco Seylan Towers,  
90, Galle Road,  
Colombo 03.

T: +94 11 4701812, +94 11 4701819

### **State Bank of India**

16, Sir Baron Jayathilake Mawatha,  
Colombo 01.

T: +94 11 4622350

### **Banque Indosuez**

251, Dharmapala Mawatha,  
Colombo 07.

T: +94 11 2681720

### **Commercial Bank of Ceylon PLC**

Commercial House, 21, Bristol Street,  
Colombo 01.

T: +94 11 2440010

### **Hatton National Bank PLC**

HNB towers, 479, T.B. Jayah Mawatha,  
Colombo 10.

T: +94 11 2661762

### **Nations Trust Bank PLC**

256, Sri Ramanathan Mawatha,  
Colombo 15.

T: +94 11 4313131

### **People's Bank**

Head Office – Treasury, 5<sup>th</sup> Floor, 75, Sir  
Chittampalam A Gardiner Mawatha,  
Colombo 02.

T: +94 11 2206782

### **Sampath Bank PLC**

110, Sir James Peiris Mawatha,  
Colombo 02.

T: +94 11 5331458, +94 114730662

### **Standard Chartered Bank**

37, York Street,  
Colombo 01.

T: +94 11 42480450

### **Union Bank of Colombo PLC**

64A, Galle Road,  
Colombo 03.

T: +94 11 2374205



**Financial Advisor and Manager to the Issue**