



KEELLS FOOD PRODUCTS LIMITED **Annual Report 2004/05**

KEELLS
The Taste of Goodness

To get to the real essence of Keells Foods we “peeled away” some of our old beliefs and ways of operating. Restructured and revitalised we posted a year of unprecedented achievement. Not only that, we are firmly on a clear path to sustainable growth and prosperity.

CONTENTS Milestones **1** Financial Highlights **2** Chairman's Review **3** Financial Review **5**
Risk Management **7** Corporate Governance **9** Board of Directors/Management Team **11** Directors' Report **12**
Statement of Directors' Responsibilities in Relation to Financial Statements **15**
Financial Statements Auditors' Report **18** Income Statement **19** Balance Sheet **20** Cash Flow Statement **21**
Statement of Changes in Equity **22** Accounting Policies **23** Notes to the Financial Statements **29**
Your Share in Detail **42** Statement of Value Added **44** Ten Year Information at a Glance **46**
Glossary of Financial Terminology **48** Notice of Meeting **49** Form of Proxy **enclosed**

MILESTONES

- 1982** **Keells Food Products Ltd.** Incorporated.
- 1983** **Initial Public Offering** and commercial production commenced.
- 1986** **Market leadership** and islandwide coverage achieved.
- 1991** **“Krest”** and **“Meat Ball”** ranges launched.
- 1994** First export to **U.A.E.** shipped.
- 1995** Awarded **“Excellence in Annual Reports”** Food & Beverage category.
- 1997** Products made available at **10,000** outlets.
- 1999** First export to **India** shipped.
- 2000** **SLS** Certified.
- 2001** **ISO 9001** Certified.
- 2003** Annual Sales reach **Rs. 1.0 Bn.**
National Food Award of Excellence (Large scale Manufacturing category - **Gold Award.**
Hazard Analysis Critical Control Point (HACCP) Certified.
ISO 9001 (Version 2000) Certified.
- 2004** New Operating Model - **“Looking Inwards”.**
“Keells” outperformed its closest competitor by four times on the **Brand Equity Index.**
Implementation of Enterprise Resource Planning software - **SAP R/3.**
National Food Award of Excellence (Food Advisory category) - **Bronze Award.**
SLS Certificate covers all **Comminuted Meats.**

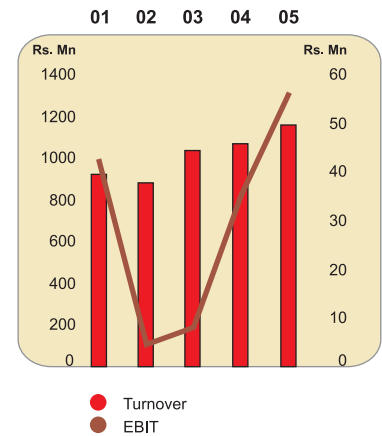


Financial Highlights

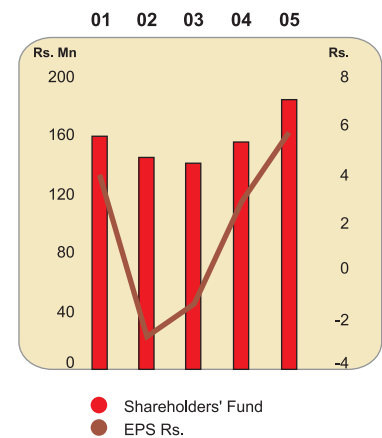
Year ended 31st March		2005	2004	Change %
Gross Revenue	Rs. 000	1,159,658	1,067,502	9
Profit before Interest & Tax (PBIT)	Rs. 000	56,156	35,364	59
Profit before Tax	Rs. 000	42,151	19,497	116
Profit after Tax	Rs. 000	28,411	14,346	98
Shareholders' Funds	Rs. 000	184,079	155,787	18
Total Assets	Rs. 000	521,614	437,245	19
Total Debt	Rs. 000	186,890	161,780	16
Earnings per Share (EPS)	Rs.	5.68	2.87	98
Return on Capital Employed (ROCE)	%	19.90	17.13	16
Return on Equity (ROE)	%	15.43	9.21	68
Market Price per Share as at 31st March	Rs.	38.00	17.00	124
Market Capitalization	Rs. 000	190,000	85,000	124
Price Earning Ratio	No. of times	6.69	5.92	13

Note: Figures in brackets indicate an unfavourable fluctuation

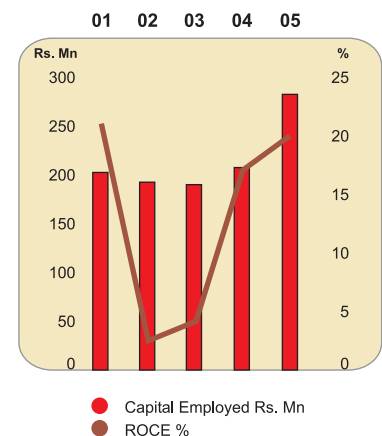
GROSS TURNOVER VS PBIT



SHAREHOLDERS' FUND VS EPS



CAPITAL EMPLOYED VS ROCE



Chairman's Review

Dear Shareholder,

Overview I am pleased to report that the year ended 31 March 2005 was the best year ever in terms of both Revenue and Profitability in the history of your Company, Keells Food Products Ltd. The tragic events which unfolded on 26 December 2004 and the knock on effects from that event during the last quarter. Thankfully the impact on your Company in terms of loss of assets and stocks was limited although our sales to the Retail, Hotel and Food Service sector establishments along the Southern and Eastern coastal belt were significantly disrupted.

The exercise of reviewing our operating model begun last year, was completed during this financial year and a number of decisions to improve operating efficiencies were fully implemented which included an overhaul to our distribution model and the merger of the distribution arm of the Keells Food Products Ltd. Group with the manufacturing entity. Further the Capital Expenditure undertaken by the Company was primarily focused on reducing capacity bottlenecks, thus enhancing productivity helping us achieve landmark daily production volumes.

However, your Company was significantly impacted by the introduction of Cess levies on imported raw materials and the depreciation of the Rupee during the first nine months of the financial year, which initially depressed margins. Our representations to Government to exempt our imported raw materials from Cess levies, on the basis that they were basic food ingredients that could not be economically produced in Sri Lanka and not luxury items went unheeded, forcing price increases of our products.

Your Company was part of a number of initiatives undertaken throughout the John Keells Group which included a Sourcing Initiative which harnessed the Group-wide buying power for certain expense categories which ranged from raw materials such as raw chicken to media and to services such as janitorial and security. Another



area was the implementation of the SAP based Enterprise Resource Planning (ERP) software, which now facilitates the integration of entire operations spanning production, procurement, sales, distribution, plant maintenance, quality management and financial accounting systems.

Our Performance Consolidated Net Revenue for the year increased by 9% over that of last year to reach Rs. 1.153 Bn.

Profit before tax amounted to Rs. 42.15 Mn for the year in review, compared to Rs. 19.49 Mn for the corresponding previous year thus representing year to year growth of 116%.

During the period under review your Company was successful in maintaining and growing its market share although volume growth was slowed in the last quarter mainly due to the dramatic drop in sales in tsunami affected areas in the immediate aftermath of the event. However, we have noted a substantial growth in new users of processed meat products and our efforts in the coming year will be directed at retention through new products and taste experiences.

Chairman's Review

The launch of new products towards the latter part of the financial year brought fresh excitement to and has caught the imagination of consumers in an industry which has recently not seen any new products or adaptations. This new product is expected to contribute to volume growth during the next financial year and further launches of new products are planned for next year to cement our overall market leadership position.

The key to this year's performance in addition to strengthening our position as the "Preferred Choice" was the stringent cost control measures implemented which resulted in maintaining our net overheads at prior year levels in absolute terms despite inflation.

Dividend With the turn around of the Company your Board is pleased to recommend a dividend of 20% subject to shareholder approval at the Annual General Meeting.

Company & Community Your Company, positioned as it is at the forefront of an important segment of the food industry, continues to maintain a healthy interaction with the wider community, not just for business reasons. Your Company responded to a nation in crisis by being an integral player in the John Keells Group's Tide Relief Initiative (TRI), which was launched to offer assistance to those affected by the tsunami whilst also providing relief supplies consisting of items such as dry rations, drinking water and medical supplies. Earlier on in the year, we responded to the long prevailing drought that badly affected the Anuradhapura and Polonnaruwa districts by despatching relief supplies to affected communities. We continue to offer employment opportunities to deserving young persons - through the "Tharuna Aruna" programme.

Outlook The per capita consumption of processed meats still remains at a low level in Sri Lanka, and the opportunities that exist in the industry make for an exciting future. In the years ahead, we hope to grow our business by seeking greater profitability through a combination of new product development distribution and brand extension, whilst also applying enhanced cost efficiency initiatives across our entire value chain. Having now produced an exceptional but balanced performance in terms of Marketing, Sales and Operations your Company will now focus on the future during the coming financial year reviewing its production capabilities with a view to investing in modern facilities in the foreseeable future.

In Conclusion On behalf of the Board of Directors, I thank all our distributors, retailers and employees for their unstinted co-operation and efforts in making this a year of great success for the Company. My thanks too, to our consumers, bankers, suppliers and shareholders for their support and confidence in the Company.



V. Lintotawela

Chairman

4 May 2005

Financial Review

Overview The Company entered the year under review requiring to regain a greater measure of profitability after less than desirable performances in three out of the past four years. A key factor that undermined performance was the long term fallout effect of the power crisis in Sri Lanka in 2001. As a part of the company-wide continuous effort to sharpen its focus on a lean operating model whilst recognizing the need to deal with the changes in the business landscape, we carried out a detailed, inward looking restructuring exercise covering all the operational structures and processes of our manufacturing and distribution entities. The review included the Company's selling and distribution structures and methods, product offering, advertising effectiveness, corporate structure, manufacturing bottlenecks and overheads. The exercise carried out with a long term business perspective mindset, has resulted in the Company recording a Profit before Tax amounting to Rs. 42.15 Mn during the year. In percentage terms, this was an increase of 116% over the Rs. 19.49 Mn recorded in the previous year, and is the highest Profit before Tax reported in the Company's operating history of 21 years.

Business Integration During the year under review, the Board of Directors made a decision to combine the operations of the distribution company: JK Foods Ltd., with Keells Food Products Ltd. with a view to eliminating the unwarranted drain of corporate resources and reducing the level of overheads associated with operating a separate company solely for the purpose of sale & distribution of raw and processed meat products. Accordingly the assets, undertakings and property of the JK Foods Ltd. were transferred to Keells Food Products Ltd. and the distribution company was dissolved without winding up, by an order granted by the District Court of Colombo.

Business Performance - Income Statement

Revenue Consolidated net revenue increased approximately by 9% to reach Rs. 1.153 Mn during the year under review from Rs. 1.055 Mn in the previous year. The increase in net sales was largely driven by the increase in average sales prices, aided to a limited extent by the volume growth achieved for the year under review.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales-these include the cost of raw materials, ingredients and packaging, direct labour, power & energy, repairs & maintenance of plant & machinery, out sourced processing and depreciation. During the year cost of sales too indicated an increase of 9%, propelled mainly by the rise in sales coupled with higher raw material costs. The Company's cost of sales ratio remained at 78%.

Gross Profit The balanced combination seen in the upward movements in sales and cost of sales contributed mainly towards the overall 10% increase in the Company's gross profit for the year. Gross profit margin, by and large remained at a similar level to the previous year with a marginal improvement, reflecting higher average pricing, improved mix, operating leverage and lowered plant operating cost achieved through the improved efficiencies in the factory operations.

Other Operating Income Other operating income increased significantly during the current year principally as a result of the profit earned on disposal of certain property, plant and equipment and gain on foreign currency exchange.

Distribution Expenses The year-on-year increase of 6% in distribution expenses recorded in the current year can directly be attributed to increase in advertising cost incurred to support the growth level achieved in sales during the year. Aside from the said increase in advertising expenditure, the Company managed to maintain its distribution expenditure at well below the cost inflation. This can largely be attributed to cost savings achieved in the areas of re distribution allowance, sales staff cost, sales returns etc. as a direct result of retooling the entire distribution structure during the year.

Administration Expenses The benefits of the restructuring process were manifested in the administration expenses category as well, signifying an overall decline of 5% particularly in the areas of administration staff cost, maintenance cost etc.

Financial Review

Finance Cost Finance costs decreased to Rs. 14 Mn in the current year from Rs. 15.87 Mn in the previous year. This decline was the result of lower average net debt balance and lower average interest rates, as our borrowings were secured at competitive rates and on short term basis to reap advantages of declining interest rates climate.

Taxation The effective rate of taxation for the Company increased from 26% to 33% during the year. The total utilization of losses brought forward in the previous year, resulted a reduction in the effective tax rate last year. Excluding the said impact, the effective tax rates in both years were comparable.

Financial Position - Balance Sheet

Shareholders' Fund As at the Balance Sheet date the Company had a total equity of Rs. 184.08, an increase of 19% over the previous year. The increase in Net Profit for the year remained as the key contributory factor towards the overall growth in Share holders' fund.

Asset Base Out total asset base grew by 19% to reach Rs. 521.61Mn as at the current year end. This was mainly propelled by the current asset base which increased to Rs. 370.03 Mn from Rs. 272.76 Mn, principally as a result of increase in cash and liquid investments as at the Balance Sheet coupled with increase in trade receivables, which is mainly due to the year-on-year growth noted in sales. Tangible fixed assets decreased from as at 2004 to as at 2005 as a result of Rs. 29.46 Depreciation charge for the year and assets disposed, offset by Rs. 16.87 Mn additions during the year under review.

The net working capital position of the Company as at the Balance Sheet date registered a marked increase to reach Rs. 130.63 Mn from Rs. 41.99 Mn.

Cash Flow and Liquidity During the year under review cash generation remained strong with Rs. 85.36 Mn generated from operations in the current year as contrast to Rs. 63.79 Mn in the previous year. This was mainly influenced by the substantial increase recorded in the operating profit for the year.

Net cash flow from investing activities which includes investments made in property, plant and equipment indicated a decrease over the previous year. This was primarily due to the rescheduling of certain capital projects and timing of cash payments for acquisition of property, plant and equipment.

Financing activities resulted in net cash out flow of Rs. 22.30 Mn during the year. The Company repaid debt of 92.30 Rs. Mn during the year, offset by the receipt of long term loan of Rs. 70 Mn.

The Company's key sources of finance for the foreseeable future are likely to be cash generated from operations and effective combination of long term and short term borrowings. Therefore it is envisaged that said sources of finance will provide sufficient capacity of liquidity to service debt and meet future working capital, capital expenditure and dividend payment requirements.

Shareholder Value The Company's strategic priorities are primarily focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long term growth.

The Board of Directors recommends a 20% dividend for the year, subject to shareholders approval at the Annual General Meeting.

During the year the basic earnings per share increased to Rs. 5.68 from Rs. 2.87 recorded in the previous year.

The Company's share price increased from Rs. 17.00 at the beginning of the financial year to Rs. 38.00 as at 31st March 2005, moving within a range of Rs. 12.50 to Rs. 39.75 during the year. The equity market capitalisation of the Company as at the year end was Rs. 190.00 Mn. Return on Capital Employed (ROCE) improved to 19% during the year under review, as against 17% in the previous year. The progress was the results of improved operating margins derived from the operating efficiencies and cost effectiveness associated with the restructuring programme launched during the year.

Risk Management

Introduction Keells Food Products Ltd, in carrying out its business is exposed to various forms of business, operational, environmental and financial risks arising from the transactions entered into and the economic environment within which it operates. The identification of such risks and the implementation of appropriate strategies and processes to manage them within a tolerable level have become extremely important in the context of modern business processes which are geared towards maximising shareholder value.

The Company has implemented an on going process of identifying risk, measuring its potential impact and likelihood thereof against the broad set of assumptions, establishing unacceptable exposures and initiating mitigating activities to reduce exposure to within tolerance levels.

The Company believes that the operational risks cannot be entirely eliminated and hence strives to ensure a balance between the cost of mitigation and the risks itself within the boundaries of set risk tolerance.

Some of the key risks that endanger the achievement of the Company's strategic business objectives are set out below.

Internal Controls Risk arising from errors, omissions and fraud is managed through sound internal control procedures, which mainly include segregation of duties, precise definition of authority limits, operating manuals, detective & preventive controls, and internal & external audit procedures which are independent of each other.

Quality Risk of producing and trading food products of inferior quality is closely addressed through a sound quality assurance system administered by well-qualified specialists using international benchmarks. This ensures that the products offered are of the highest quality and that the risk of contamination is minimised. Further our quality assurance system considers all continuous product & process innovations necessary to maintain the Company's competitive edge and avoid any technological obsolescence.

Capacity In order to minimise possible capacity limitations, the Company continues to make investments upgrading the efficiency levels of the machinery at the factories. This avoids any interruptions to the smooth supply of finished products especially during months in which the demand is at a peak level. The risk of regular breakdown in machinery is addressed through adequate measures of preventive maintenance.

Credit Risk arising from the exposure to and dependence on customers and markets is continuously monitored and managed by adopting sound credit screening processes and comprehensive customer profitability analyses. Credits are offered within set limits following a precise evaluation of creditworthiness and after sufficient asset backed securities are obtained.

Suppliers The Company relies extensively on local & international suppliers for its raw material requirement. A suppliers' inability to fulfil obligations to the Company could have a disruptive effect on the Company's operations. This risk is being addressed through actions to expand the supplier base for key raw materials and develop supplier relationships.

Risk Management

Interest Rate The Company's exposure to changes in interest rates relates primarily to its debt obligations with financial institutions. The Company's policy is to manage its interest rate risk using a mix of fixed and variable rate debt.

Liquidity Exposure to liquidity risk arises in the general funding of the Company's business activities and includes the risk of being unable to fund business activities in a timely manner. The Company manages its liquidity risk by maintaining sufficient cash and available funding through unutilised credit facilities from various banks.

Legal Risk Legal risk arises from inadequate documentation, regulatory incapacity and other factors which result in the unenforceability of contracts with counterparts. This risk is managed through the use of legal advice from appropriately qualified and experienced legal professionals. Quantified contingent liabilities arising from litigation with the Company is included in the financial statements.

Information Technology Risk Risk arising from unauthorised access, data corruption, IT infrastructure failure and virus infections is managed through the use of passwords, regular backups, fire walls and virus protection software.

Corporate Governance

“Corporate Governance” is popularly used to describe the system by which companies are directed, managed and controlled. The Board of Directors of Keells Food Products Ltd. is committed to ensuring business integrity and professionalism in all its activities. As a part of this commitment, the Board of Directors has proactively encouraged good corporate governance practices within the Company based on a generally accepted policy framework, which emphasises transparency, control and accountability.

Board of Directors The Board of Directors is the focal point of the Company’s corporate governance process and it is ultimately accountable and responsible for the performance and affairs of the Company. The Board of Directors of Keells Food Products Ltd. consists of the Chairman, the Managing Director, and ten Executive Directors. The Chairman’s role is separated from that of Managing Director. The Directors are persons of integrity and possess the appropriate knowledge and experience necessary to discharge their governance duties.

The names of the members of the Board of Directors appear on page 11.

Governance The Board of Directors retain full and effective control of the Company and its primary responsibilities are to provide strategic direction to the Company, monitor operational and management performance, determine policy and processes to ensure the integrity of the Company’s risk management and internal control environment, ensure that the Company complies with all relevant laws, regulations and codes of business practice and to communicate with stakeholders openly and promptly with substance.

The Board of Directors defines levels of materiality, reserving specific powers to itself such as on major capital expenditure acquisitions, investments, adoption of strategic plans and employment of key staff members and by delegating other matters to the Management Committee. The Board of Directors defines key areas of risk and the key performance indicators of the Company’s businesses with particular emphasise on resource planning, processes, products and people.

Where the Board of Directors has delegated responsibilities to the Management Committee and other similar committees, such matters are monitored and evaluated on a regular basis ensuring that committee meetings are held at regular intervals and that feedback from such committees and meetings is adequate. In addition to financial considerations the Board of Directors also monitors non-financial aspects relevant to the businesses of the Company.

The Board of Directors has unrestricted access to all Company information, records, documents, and property. The information requirements of the Board are well defined and regularly provided.

The Board of Directors meet at least four times annually and additional meetings are arranged if circumstances warrant. The Directors are briefed in a timely manner in advance of these meetings and are provided with as much inclusive information as required by them to discharge their duties. Meetings are conducted in accordance with a formal agenda, ensuring that all substantive matters are properly addressed and minutes of such meetings are formally recorded.

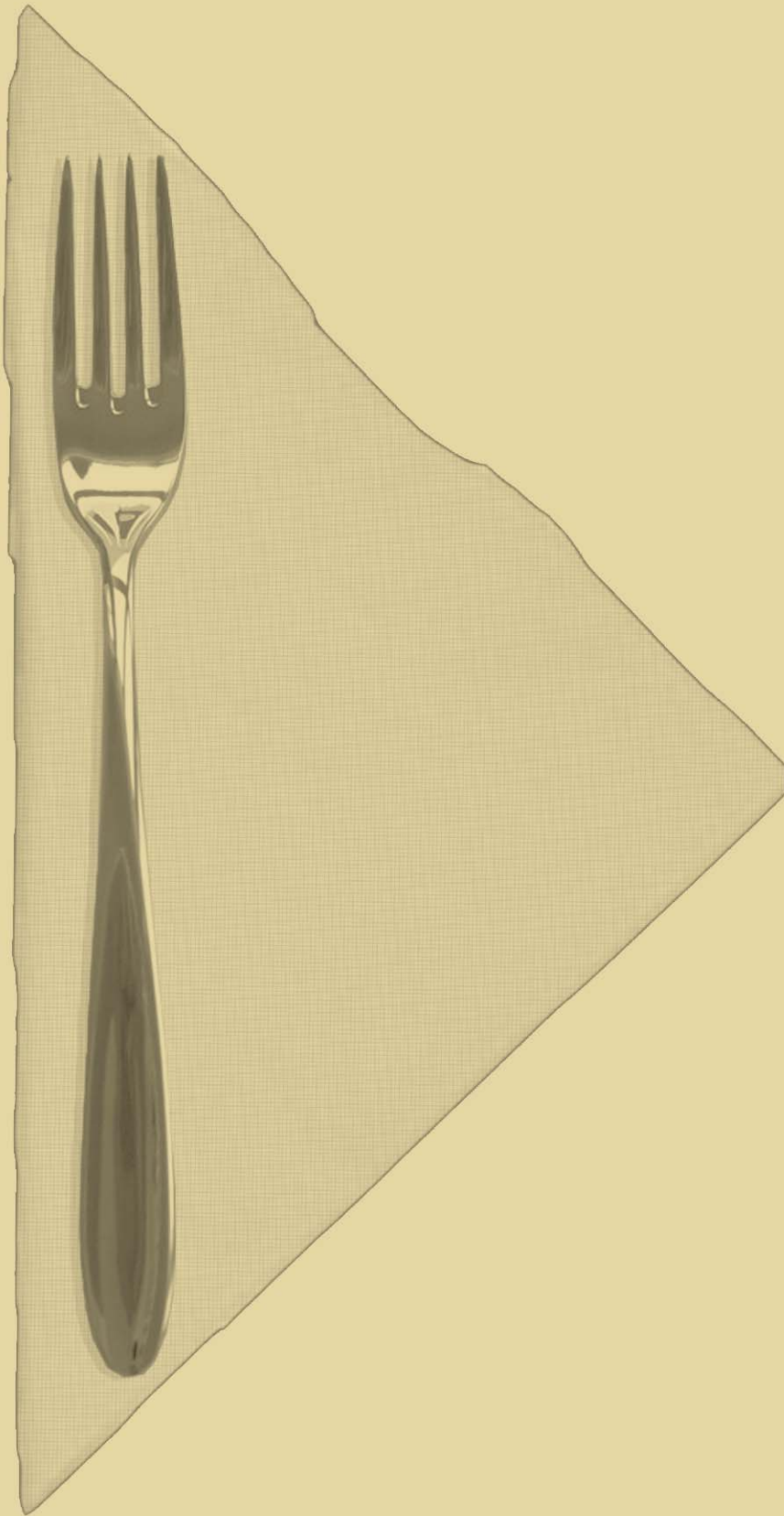
Corporate Governance

The Company conforms to all statutory obligations in respect of corporate disclosure, and strictly adheres to Sri Lanka Accounting Standards, Companies Act and the reporting requirements of the Colombo Stock Exchange. Timely publication of quarterly and annual results, with information to the shareholde/potential investor in excess of statutory requirements is the norm of the Company, except in areas where sensitive information would adversely affect the business of the Company.

Directors' Training Formal and basic training is undertaken by and provided to all Directors as and when deemed necessary in such fields as may be appropriate.

Secretary to the Board Keells Consultants Ltd., act as Secretary to the Company and is qualified to act as such as per the provisions of the Companies Act No. 17 of 1982.

Directors' Responsibilities in relation to the Financial Statements, Compliance and Internal Control This statement is provided on page 15 of this report.



Board of Directors

Mr. V. Lintotawela (*Chairman*)
Mr. S.C. Ratnayake
Mr. A.D. Gunewardene
Mr. J.R.F. Peiris
Mr. G.S.A. Gunesekera
Mr. Y. Nadaraja (*Managing Director*)
Ms. D.C. Alagaratnam
Ms. D.A.R.C. Perera
Mr. M.D. De Silva
Mr. K.N.J. Balendra
Mr. J.R. Gunaratne
Mr. S.R. Padmawansa

Management Team

Mr. A. Botejue
Mr. R. Galagoda
Mr. B. Liyanarachchi
Mr. Y. Nadaraja
Mr. S.R. Padmawansa
Mr. S. Rajapaksha
Mr. V. Ratnayake
Mr. S. Sridharan

Directors' Report

The Directors have pleasure in presenting their Report of Keells Food Products Ltd. for the year ended 31st March 2005, together with the audited financial statements.

Principal Activities and Business Review The principal activities of the Company are manufacture and sale of quality processed meats and sale of raw meats. A fair review of the Company's performance during the financial year is given in the Chairman's Review and Financial Review.

Revenue The Gross Revenue of the Company for the year was Rs. 1,159.65 Mn (2004 - Rs. 1,067.50 Mn), which signifies a growth of 9% as against previous year.

Property, Plant & Equipment Information relating to movement in property, plant & equipment is given in Note 9 to the financial statements. Capital expenditure of the Company on acquisition of property, plant & equipment during the year amounted to Rs. 16.87 Mn (2004 - Rs. 21.22 Mn).

Reserves The Company's reserves as at 31st March 2005 amounted to Rs. 134.08 Mn (2004 - Rs. 105.78 Mn). The details of which are stated in Note numbers 14 and 15 in Notes to financial statements.

Stock Market Information A ten rupee ordinary share of the Company was quoted on the Colombo Stock Exchange at Rs. 38.00 as at 31st March 2005 (2004 - Rs. 17.00).

Events occurring after the Balance Sheet date No circumstances have arisen since the Balance Sheet date, which would require adjustments to the financial statements.

Contingent Liabilities and Capital Commitments Contingent liabilities as at 31st March 2005 and commitments made on capital expenditure are disclosed in Note 21 to the financial statements.

Directorate The names of the Directors of the Company as at date are given on page 11 of this report. Mr. J.R. Gunaratne (w.e.f. 1 July 2004) and Mr. S.R. Padmawansa (w.e.f. 1 July 2004) were appointed to the Board. Mr. J.R. Gunaratne and Mr. S.R. Padmawansa retire in terms of Article 90 of the Articles of Association and being eligible, offer themselves for re-election. In terms of Article 84 of the Articles of Association, Mr. V. Lintotawela, Mr. A.D. Gunewardene and Ms. D.C. Alagaratnam retire from the Board of Directors by rotation and being eligible, offer themselves for re-election.

Directors' Shareholdings Shareholdings of Directors of the Company and of their spouses in the Company are as follows:

Name of Director	Number of Shares	
	As at 31.03.2005	As at 31.03.2004
V. Lintotawela	6,635	6,635
S.C. Ratnayake	2,500	2,500
G.S.A. Gunsekera	1,666	1,666
Y. Nadaraja	140	140
S.R. Padmawansa	100	-

Directors' Report

Company Results and Appropriations

	2005 Rs. '000	2004 Rs. '000
The profit after making provision for bad and doubtful debts and for all known liabilities and after providing for depreciation on property, plant & equipment but before charging Interest and Taxation was	56,156	35,475
	56,156	35,475
The Interest paid was	14,005	15,868
The amortisation of Goodwill on Consolidation was	-	111
After which the Profit from Ordinary Activities Before Taxation was	42,151	19,497
Net adjustment for Taxation was	(13,740)	(5,150)
After which the Company was left with a Net Profit from Ordinary Activities After Taxation	28,411	14,346
When the balance brought forward from the previous year was added	616	(13,730)
Adjustment consequent to the merger of Jay Kay Foods Ltd.	(425)	-
The amount available for appropriation and to be carried forward to the next year was	28,602	616

Directors' Interest in Contracts Directors' interest in contracts of the Company is disclosed in the financial statements, on pages 37 to 41 and has been declared at meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

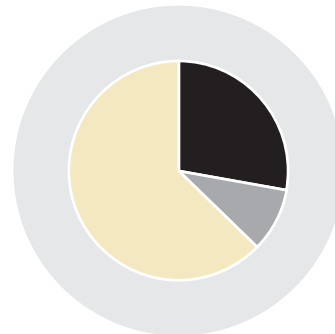
Auditors The financial statements for the year have been audited by Messrs. SJMS Associates, Chartered Accountants, an independent firm associated with Deloitte Touche & Tohmatsu, who offer themselves for re-appointment. At a meeting of the Board of Directors held on 20th April 2005, it was resolved that they be recommended for re-appointment as Auditors.

Directors' Report

Staff The number of persons directly employed by the Company in 2004 was 452 (2004 - 394 Company, 490 Group). Their aggregate remuneration for the year was Rs. 149.59 Mn (2003 - Rs. 129.16 Mn).

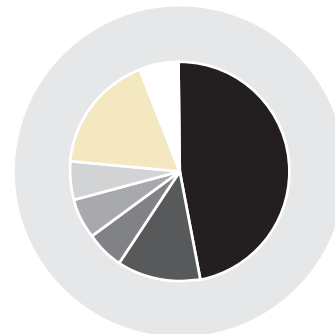
	Group	
	2005	2004
Expertise		
Operations Management	8	8
Accountancy	2	2
Agriculture/Meat Science	1	2
Food Technology	1	2
Engineering	1	2
Other Graduates	3	3
Marketing	1	1
TOTAL	17	20
Executive Service Analysis		
10 years & above	12	16
05 to 10 years	4	5
Below 5 years	27	32
TOTAL	43	53
Staff Distribution		
Senior Management	10	13
Middle Management	33	40
Sales	60	70
Clerical	30	33
Factory	269	282
Other	50	52
TOTAL	452	490

EXECUTIVE SERVICE ANALYSIS



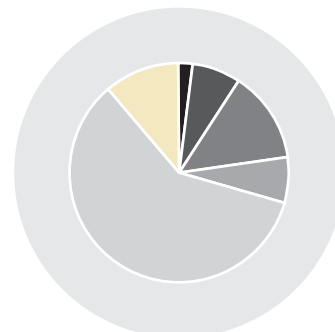
- 10 years & above 28%
- 05 to 10 years 9%
- Below 5 years 63%

EXPERTISE



- Operations Management 46%
- Accountancy 12%
- Agriculture/Meat Science 6%
- Food Technology 6%
- Engineering 6%
- Other Graduates 18%
- Marketing 6%

STAFF DISTRIBUTION



- Senior Management 2%
- Middle Management 7%
- Sales 13%
- Clerical 7%
- Factory 60%
- Other 11%

By Order of the Board,

(Sgd.)

Keells Consultants Ltd.

Secretaries

130, Glennie Street

Colombo 2

4 May 2005

Statement of Directors' Responsibilities in Relation to Financial Statements

The following statement which should be read in conjunction with the Auditors' Statement of their responsibilities set out in their report, is made with a view to distinguish for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the Financial Statements.

The Directors are required by the Companies Act No. 17 of 1982, to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company and its subsidiary undertakings, as at the end of the financial year and of the Profit and Loss for the financial year. The Directors are required to prepare these Financial Statements on the going concern basis, unless it is not appropriate. Since the Directors are satisfied that the Company and its subsidiary has the resources to continue in business for the foreseeable future, the Financial Statements continue to be prepared on the said basis.

The Directors consider that in preparing the Financial Statements the Company and its subsidiary has used appropriate accounting policies consistently applied, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and its subsidiary keep accounting records which disclose with reasonable accuracy the financial position of the Company and its subsidiary, and which enable them to ensure that the Financial statements comply with the Companies Act No.17 of 1982.

The Directors have general responsibility for taking such steps as are reasonably open to them, to safeguard the assets of the Company and its subsidiary and to prevent and detect fraud and other irregularities.

Compliance Report The Directors confirm to the best of their knowledge all taxes, levies and duties payable by the Company and its subsidiary and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiary, and all other known statutory dues as were due and payable by the Company and its subsidiary as at the Balance Sheet date have been paid, or where relevant provided for.

On behalf of the Board.

(Sgd.)

Keells Consultants Ltd.

Secretaries

4 May 2005



Financial Statements

Auditors' Report	18
Income Statement	19
Balance Sheet	20
Cash Flow Statement	21
Statement of Changes in Equity	22
Accounting Policies	23
Notes to the Financial Statements	29

FINANCIAL CALENDAR

Year ended 31 March 2005

1st Quarter results released on	15 July 2004
2nd Quarter results released on	24 October 2004
3rd Quarter results released on	28 February 2005
Annual Reports posted on	31 May 2005
22nd Annual General Meeting on	27 June 2005

Auditors' Report

.SJMS. ASSOCIATES

Independent Correspondent Firm to
Deloitte Touche Tohmatsu
SJMS Associates. Chartered Accountants.

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AUDITORS' REPORT TO THE MEMBERS OF KEELLS FOOD PRODUCTS LTD.

We have audited the Balance Sheet of Keells Food Products Ltd. as at 31st March 2005, and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes referred to therein.

Respective Responsibilities of Directors and Auditors

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

Basis of Opinion

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st March 2005 and to the best of our information and according to the explanations given to us, the said Balance Sheet and related Statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act, No.17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March 2005 and its Profit and Cash Flows for the year then ended.

Directors' Interest in Contracts with the Company

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



SJMS ASSOCIATES

Chartered Accountants

Colombo

4th May 2005

Income Statement

<i>For the year ended 31 March</i>	Note	2005 Rs.	2004 Rs.
Revenue	3	1,153,899,665	1,055,396,376
Cost of Sales		(901,608,433)	(824,948,506)
Gross Profit		252,291,232	230,447,870
Other Operating Income	4	3,876,384	291,515
Distribution Expenses	5	(140,915,949)	(132,954,581)
Administrative Expenses	5	(59,095,271)	(62,309,690)
Other Operating Expenses		-	(110,758)
Profit from Operating Activities	5	56,156,396	35,364,356
Finance Costs	6	(14,005,378)	(15,867,825)
Profit from Ordinary Activities Before Taxation		42,151,018	19,496,531
Income Tax Expenses	7	(13,739,780)	(5,150,371)
Net Profit from Ordinary Activities After Taxation		28,411,238	14,346,160
Earnings Per Share - Basic	8	5.68	2.87

The Accounting Policies and Notes on pages 23 to 41 form an integral part of the financial statements.

Balance Sheet

As at 31 March

	Note	2005 Rs.	2004 Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment - at Cost	9	91,925,640	103,007,327
Property, Plant & Equipment - at Valuation	9	59,649,659	61,353,208
Goodwill		-	119,989
		151,575,299	164,480,524
Current Assets			
Inventories	10	90,381,088	85,710,248
Trade and Other Receivables	11	181,528,683	155,674,973
Cash and Cash Equivalents	12	98,128,432	31,379,253
		370,038,203	272,764,474
TOTAL ASSETS		521,613,502	437,244,998
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	13	50,000,000	50,000,000
Capital Reserves	14	85,037,684	85,037,684
Revenue Reserves	15	49,040,861	20,749,660
Total Equity		184,078,545	155,787,344
Non-Current Liabilities			
Interests Bearing Borrowings	20	50,500,000	-
Deferred Tax Liabilities	16	20,884,097	27,356,944
Retirement Benefit Obligations	17	26,746,479	23,328,793
		98,130,576	50,685,737
CURRENT LIABILITIES			
Trade and Other Payables	18	94,476,974	63,095,053
Amounts Due to Related Parties	19	8,537,731	5,896,419
Interest Bearing Borrowings	20	136,389,676	161,780,445
		239,404,381	230,771,917
TOTAL EQUITY AND LIABILITIES		521,613,502	437,244,998

The Accounting Policies and Notes on pages 23 to 41 form an integral part of the financial statements.

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board,



J.R. Gunaratne

Director

4 May 2005



M.D. De Silva

Director

Cash Flow Statement

For the year ended 31 March

	2005 Rs.	2004 Rs.
Cash Flows From Operating Activities		
Profit before Taxation	42,151,018	19,496,531
Adjustments for:		
Interest Received	(25,092)	(243,716)
Interest Paid	12,160,996	13,311,726
Depreciation	29,464,791	26,713,878
(Profit)/Loss on Sale of Property, Plant & Equipment	(1,519,167)	(47,799)
(Profit)/Loss on Sale of Investment	(755,285)	-
Amortisation of Goodwill on Consolidation	-	110,758
Provision for Defined Benefit Plan Costs	5,179,963	4,254,760
(Gains) / Losses on Foreign Currency Exchange	(1,293,703)	193,095
Cash Flows from Operations before Changes in Working Capital	85,363,521	63,789,233
(Increase)/Decrease in Inventories	(4,670,840)	3,193,979
(Increase)/Decrease in Receivables and Prepayments	(34,879,705)	(22,369,111)
Increase/(Decrease) in Creditors and Accruals	37,688,221	10,957,989
Cash Flow Generated from Operations	83,501,197	55,572,090
Interest Paid	(12,160,996)	(13,311,726)
Defined Benefit Plan Costs Paid	(1,762,277)	(865,546)
Income Tax Paid	(14,852,377)	-
Cash Flow from Operating Activities	54,725,547	41,394,818
Cash Flows from Investing Activities		
Purchase of Property, Plant & Equipment	(16,806,759)	(20,553,695)
Capital Works in Progress	-	243,716
Interest Received	25,092	58,600
Proceeds from Sale of Property, Plant & Equipment	1,647,000	-
Proceeds from Sale of Investments	755,285	-
Net Cash Flow from Investing Activities	(14,379,382)	(20,251,379)
Cash Flows from Financing Activities		
Receipt/(Repayment) of Long-Term Borrowing	70,000,000	-
Receipt/(Repayment) of Short-Term Borrowing	(40,000,000)	40,000,000
Advance Received/(Repaid) from Related Parties	(52,298,950)	19,863,418
Net Cash Flow from Financing Activities	(22,298,950)	59,863,418
Net Increase/ (Decrease) in Cash & Cash Equivalents	18,047,215	81,006,857
Cash & Cash Equivalents at the beginning of the year	24.1 22,220,132	(58,593,630)
Cash & Cash Equivalents at the end of the year	40,267,347	22,413,227
Cash & Cash Equivalents at the end of the year		
Cash in Hand and at Bank	98,128,432	31,379,253
Bank Overdrafts	(56,567,382)	(9,159,121)
(Gains)/Losses on Foreign Currency Exchange	(1,293,703)	193,095
	24.2 40,267,347	22,413,227

The Accounting Policies and Notes on pages 23 to 41 form an integral part of the financial statements.

Statement of Changes in Equity

	Share Capital Rs. '000	Share Premium Rs. '000	Revaluation Reserve Rs. '000	General Reserve Rs. '000	Dividend Reserve Rs. '000	Accumulated Profit/(Loss) Rs.	Total Equity Rs.
Balance as at 31st March 2003	50,000,000	49,815,000	35,222,684	20,000,000	133,875	(13,730,375)	141,441,184
Net Loss for the Period	-	-	-	-	-	14,346,160	14,346,160
Balance as at 31st March 2004	50,000,000	49,815,000	35,222,684	20,000,000	133,875	615,785	155,787,344
Net Profit for the period	-	-	-	-	-	28,411,238	28,411,238
Transfers from Jay Kay Foods Ltd.	-	-	-	305,176	-	(425,213)	(120,037)
Balance as at 31 March 2005	50,000,000	49,815,000	35,222,684	20,305,176	133,875	28,601,810	184,078,545

The Accounting Policies and Notes on pages 23 to 41 form an integral part of the financial statements.

Accounting Policies

1. CORPORATE INFORMATION

1.1 Domicile and Legal Form

Keells Food Products Ltd. is a public limited liability Company incorporated and domiciled in Sri Lanka, and is listed in the Colombo Stock Exchange. The registered office of the Company is located at No. 130, Glennie Street, Colombo 2, and the principal place of business is situated at No. 17, Minuwangoda Road, Ekala, Ja-Ela.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were manufacture and sale of processed meats and sale of raw meats.

1.3 Parent Enterprise

The Company's parent undertaking is John Keells Holdings Ltd. In the opinion of the Directors, the Company's ultimate parent undertaking and controlling party is John Keells Holdings Ltd., which is incorporated in Sri Lanka.

Jaykay Foods Ltd., was a Company incorporated and domiciled in Sri Lanka, which was a wholly owned subsidiary of the Keells Food Products Ltd. up to 31 July 2004. With effect from 31 July 2004, the District Court of Colombo sanctioned the merger of Jaykay Foods Ltd. with its parent Company Keells Food Products Ltd. Pursuant to the said Court order, Jaykay Foods Ltd. is dissolved without winding up, whilst Keells Food Products Ltd. remains the continuing entity.

1.4 Number of Employees

The number of employees of the Company at the end of the year was 452 (2004 - 394).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1 Basis of Preparation

The Balance Sheet, Statements of Income, Changes in Equity and Cash Flows, together with Accounting Policies and Notes of the Company as at 31 March 2005 and for the year then ended, comply with the Sri Lanka Accounting Standards.

The financial statements of the Company represents the combined financial statements of Keells Food Products Ltd. for the year and financial statements of Jaykay Foods Ltd. for the four months period ended 31 July 2004.

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis except for the revaluation of freehold land and buildings.

2.1.2 Comparative Information

The Accounting Policies have been consistently applied by the Company and are consistent with those used in the previous year. Previous year figures and phrases have been rearranged wherever necessary to conform to the current year presentation.

The previous year figures represent the consolidated figures of Keells Food Products Ltd. and Jaykay Foods Ltd.

Accounting Policies

2.1.3 Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lanka rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected. Monetary Assets and Liabilities denominated in foreign currencies are translated to Sri Lanka rupee equivalents using year-end spot foreign exchange rates. The resulting gains and losses if any are accounted for in the Income Statement.

2.1.4 Events Occurring after the Balance Sheet date

All material events occurring after the Balance Sheet date have been considered, and where necessary adjustments have been made in the financial statements.

2.1.5 Capital Commitments

Capital commitments of the Company are disclosed in the respective notes to the financial statements.

2.1.6 Taxation**a) Current Taxes**

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 and subsequent amendments.

b) Deferred Taxation

Deferred taxation is provided using the liability method. The tax effect of all timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognised in financial statements is included in the provision for deferred taxation at effective rates of taxation.

Deferred tax assets are recognised for all deductible timing differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible timing differences and carry-forward of unused tax losses can be utilised. The carrying amount of deferred tax asset is reviewed at each Balance Sheet date and reduced by the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

2.1.7 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.1.8 Research and Development Costs

Research and development costs are expensed as incurred.

Accounting Policies

2.2 Valuation of Assets and their Bases of Measurement**2.2.1 Inventories**

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale. The cost incurred in bringing inventories to its present location and condition is accounted using the following cost formulae:

Raw Materials	- At actual cost on weighted average basis.
Manufactured Finished Goods	- At actual cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity.
Work-in-Progress	- At actual cost of direct materials (excluding packing materials) and an appropriate proportion of direct labour and fixed production overheads based on the percentage completed.
Finished Goods Purchased	- At actual cost on weighted average basis.
Consumables and Spares	- At actual cost on weighted average basis.
Goods-in-Transit	- At actual cost.

2.2.2 Trade Receivables and Other Receivables

Trade receivables and other receivables are stated at the amounts they are estimated to realise net of provisions for bad and doubtful receivables.

2.2.3 Cash & Cash Equivalents

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

For the purpose of Cash Flow Statement, cash & 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.

Cash Flow Statement is presented using the indirect method.

2.2.4 Property, Plant & Equipment**a) Cost and Valuation**

All items of property, plant & equipment are initially recorded at cost. The cost of property, plant & equipment is the cost of purchase or construction together with incidental expenses thereon.

Where items of property, plant & equipment subsequently revalued, the entire class of such asset is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the Balance Sheet date, subsequent to the initial recognition as an asset at cost, revalued property, plant & equipment are carried at revalued amounts less any subsequent depreciation thereon. All other property, plant & equipment are stated at historical cost less depreciation.

Accounting Policies

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

b) **Restoration Costs**

Expenditure incurred on repairs or maintenance of property, plant & equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognised as an expense when incurred.

c) **Depreciation**

The provision for depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant & equipment other than freehold land, in order to write off the cost and/or valuation over the estimated useful economic lives of such assets.

The annual rate of depreciation used are as follows:

Building on Leasehold Land	Over the lease period of 10 years
Buildings on Freehold Land	2.5%
Plant & Machinery	10%
Furniture & Fittings	12.5%
Motor Vehicles	20%
Office Equipment	16.67%
Freezers	16.67%
Computer Equipment	20%
Computer Software	33.33%
Other Equipment	50%

Depreciation is not provided for in the year of purchase, while a full year's depreciation is provided in the year of sale, except for computer software - where full year's depreciation is provided in the year of purchase and disposal.

No provision for depreciation is made on the revalued amount in the year of revaluation.

Assets on leasehold premises are depreciated over the lower of the useful economic life or period of the lease.

d) **Operating Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are treated as operating leases.

Rentals paid under operating leases are recognised as an expense in the Income Statement.

Accounting Policies

2.3 Liabilities and Provisions**2.3.1 Retirement Benefit Obligations****a) 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 Balance Sheet, 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 date of commencement of service. The resulting difference between brought forward provision at the beginning of a period and the carried forward provision at the end of the period is dealt with in the Income Statement.

However, as per the Payment of Gratuity Act, No. 12 of 1983, this liability only arises upon completion of five (5) years of continued service. The gratuity liability is not externally funded nor actuarially valued. This item is grouped under retirement benefit obligations in the Balance Sheet.

b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

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

2.3.2 Provisions

A provision is recognised when the Company has a present obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle it and the amount of the obligation can be reliably measured.

2.4 Contingencies**2.4.1 Contingent Liabilities**

A contingent liability could arise when the Company has:

- a) Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or,
- b) Present obligations that arise from past events, but is not recognised because it is not probable than an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

When there is a present obligation that probably requires an outflow of resources a provision is made in the financial statements.

If there is a possible obligation or a present obligation that may, but probably will not require an outflow of resources a disclosure is made in the financial statements.

2.4.2 Contingent Assets

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Contingent assets are not recognised but disclosures are made when an inflow of economic benefits is probable.

Accounting Policies

2.5 Income Statement**2.5.1 Revenue Recognition**

Revenue is recognised 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 net of trade discounts and sales taxes and after eliminating sales within the Group. The following specific criteria are used for the purpose of recognition of revenue.

a) Sale of Goods

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

b) Interest

Interest income is recognised on an accrual basis.

c) Rental Income

Rental income is recognised on an accrual basis.

d) Others

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of property, plant & equipment and other non-current assets including investments have been accounted for in the Income Statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses on disposal of revalued property, plant & equipment. The amount remaining in the revaluation reserve relating to that asset is transferred directly to accumulated profits.

2.5.2 Expenditure Recognition

- a) Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.
- b) For the purpose of presentation of the Income Statement the Directors are of the opinion that the Function of Expenses method present fairly the elements of the Company's performance.

2.6 Segment Information**2.6.1 Reporting Segments**

A segment is a distinguishable component of the Company that is engaged either in providing products or services within a particular economic environment (Geographical Segment), which is subject to risks and rewards that are different from those of other segments.

The activities of each of the reported segments of the Company are stated in Note No. 3 to the financial statements.

Notes to the Financial Statements

<i>For the year ended 31 March</i>		2005 Rs.	2004 Rs.
3. REVENUE			
3.1 Net Revenue			
Gross Revenue		1,159,657,905	1,067,501,745
Less : Revenue Based Taxes:			
Turnover Tax		(5,758,240)	(12,105,369)
Net Revenue		<u>1,153,899,665</u>	<u>1,055,396,376</u>
3.2 Geographical Segment Turnover			
Exports		25,430,009	29,123,121
Local Sales		1,128,469,656	1,026,273,255
		<u>1,153,899,665</u>	<u>1,055,396,376</u>
3.3 Geographical Segment Gross Profit			
Exports		6,872,267	6,176,745
Local Sales		245,418,965	224,271,125
		<u>252,291,232</u>	<u>230,447,870</u>
4. OTHER OPERATING INCOME			
Interest Income		25,092	243,716
Profit on Sale of Shares		755,285	-
Profit on Sales of Property, Plant and Equipment		1,519,167	47,799
Sundry Income		283,137	-
Gain on Foreign Currency Exchange		1,293,703	-
		<u>3,876,384</u>	<u>291,515</u>
5. TOTAL DISTRIBUTION, ADMINISTRATIVE AND OTHER OPERATING EXPENSES			
Profit from operations is stated after charging/ (crediting) the following:			
Directors' Emoluments		4,594,866	2,939,274
Auditors' Fees and Expenses		538,640	618,189
Depreciation		29,464,791	26,713,876
Research and Development Expenditure Incurred		484,356	117,255
Staff Cost Including EPF & ETF		149,589,752	129,159,820
Defined Benefit Plan Costs - Gratuity		5,179,962	4,254,760
(Profit) on Disposal of Property, Plant and Equipment		(1,519,167)	(47,799)
Bad Debts		3,447,171	26,131
Amortisation of Goodwill on Consolidation		-	110,758
Legal Fees		2,815,351	3,941,396

Notes to the Financial Statements

For the year ended 31 March

	2005 Rs.	2004 Rs.
6. FINANCE COSTS		
Overdraft Interest	1,174,476	4,675,465
Bank Loan Interest	7,240,411	700,000
Inter Company Loan Interest	3,746,109	7,936,261
Bank Charges	307,401	470,392
Guarantee Fees	15,000	15,000
Debit Tax	1,521,981	1,877,612
Loss on Foreign Currency Exchange	-	193,095
	<u>14,005,378</u>	<u>15,867,825</u>
7. INCOME TAX EXPENSES		
Current Tax on Ordinary Activities for the year (Note 7.1)	(20,212,627)	(6,449,554)
Deferred Tax Provision/(Reversal) (Note 7.2)	6,472,847	1,299,183
	<u>(13,739,780)</u>	<u>(5,150,371)</u>
7.1 Reconciliation between tax expense and accounting profit.		
Accounting Profit	42,151,018	19,607,287
Aggregate Disallowable Items	45,783,937	31,179,545
Aggregate Allowable Items	(21,918,860)	(26,229,080)
	<u>66,016,095</u>	<u>24,557,752</u>
Interest Income	466,850	217,541
Loss brought forward	-	(3,788,513)
Taxable Profit	<u>66,482,945</u>	<u>20,986,780</u>
Statutory Tax Rate	<u>30% & 32.5%</u>	<u>30% & 32.5%</u>
Current Tax Expense on Ordinary Activities for the year	<u>20,212,627</u>	<u>6,449,554</u>
7.2 Deferred Tax (Provision)/Reversal		
Deferred Tax (Provision)/Reversal arising due to Origination and Reversal of Timing Differences	<u>6,472,847</u>	<u>1,299,183</u>

Notes to the Financial Statements

For the year ended 31 March

8. EARNINGS PER SHARE

Basic earnings per share is based on the net Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

	2005 Rs.	2004 Rs.
Net Profit after Tax attributable to Ordinary Shareholders	<u>28,411,238</u>	<u>14,346,160</u>
Number of Ordinary Shares Used as Denominator		
Weighted Average Number of Ordinary Shares in Issue	<u>5,000,000</u>	<u>5,000,000</u>

	Balance as at 01.04.2004 Rs.	Additions/ Transfers during the Year Rs.	Disposals/ Transfers during the Year Rs.	Balance as at 31.03.2005 Rs.
9. PROPERTY, PLANT & EQUIPMENT				
At Cost				
Buildings	2,372,018	60,214	-	2,432,232
Plant and Machinery	158,222,569	7,057,152	-	165,279,721
Motor Vehicles	19,010,785	-	(1,321,657)	17,689,128
Furniture and Fittings	5,889,322	24,000	-	5,913,322
Office Equipment	25,748,424	481,457	(132,803)	26,097,078
Freezers	29,172,021	4,216,100	-	33,388,121
Computer Equipment and Software	7,905,952	4,710,372	-	12,616,324
Others	22,196,466	324,494	(12,368)	22,508,592
Total	<u>270,517,557</u>	<u>16,873,789</u>	<u>(1,466,828)</u>	<u>285,924,518</u>
At Valuation				
Freehold Land	28,800,000	-	-	28,800,000
Buildings on Freehold Land	29,291,331	-	(60,214)	29,231,117
Buildings on Leasehold Land	5,083,079	-	-	5,083,079
Total	<u>63,174,410</u>	<u>-</u>	<u>(60,214)</u>	<u>63,114,196</u>
Total Value of Assets	<u>333,691,967</u>	<u>16,873,789</u>	<u>(1,527,042)</u>	<u>349,038,714</u>

Notes to the Financial Statements

As at 31 March

Depreciation	Balance as at 01.04.2004 Rs.	Charge for the year Rs.	Disposals during the year Rs.	Balance as at 31.03.2005 Rs.
On Cost				
Buildings	342,970	496,617	–	839,587
Plant and Machinery	108,327,843	13,144,479	–	121,472,322
Motor Vehicles	8,931,575	2,879,303	(1,193,823)	10,617,055
Furniture and Fittings	3,320,544	485,965		3,806,509
Office Equipment	16,128,539	2,527,483	(132,803)	18,523,219
Freezers	6,308,720	4,862,976	–	11,171,696
Computer Equipment & Software	4,958,914	1,250,962	–	6,209,876
Others	19,191,125	2,173,673	(6,184)	21,358,614
Total	<u>167,510,230</u>	<u>27,821,458</u>	<u>(1,332,810)</u>	<u>193,998,878</u>
On Valuation				
Buildings on Freehold Land	1,821,202	1,643,335	–	3,464,537
Total Depreciation	<u>169,331,432</u>	<u>29,464,793</u>	<u>(1,332,810)</u>	<u>197,463,415</u>
Net Book Value of Assets				
At Cost	103,007,327			91,925,640
At Valuation	<u>61,353,208</u>			<u>59,649,659</u>
Total Carrying Amount of Property, Plant & Equipment	<u>164,360,535</u>			<u>151,575,299</u>

Freehold land and buildings owned by the Company and buildings on leasehold land were revalued during the financial year ended 31 March 2003, by Mr. R.G. Wijesingha Graduate Member of the Institute of Valuers of Sri Lanka. The properties were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to revaluation reserve.

The carrying amount of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	Cost Rs.	Accumulated Depreciation If Assets were Carried at Cost Rs.	Net Book Value 31.03.2004 Rs.	Net Book Value 2005 Rs.
Freehold Land	1,592,399	–	1,592,399	1,592,399
Buildings on Freehold Land	25,126,185	5,653,393	20,100,947	19,472,792
Buildings on Leasehold Land	7,054,316	3,542,290	4,217,731	3,512,026

Notes to the Financial Statements

As at 31 March

The Company has constructed a building on land obtained on lease, the details of which are stated below.

Property	Period of Lease	Rental
New Port Estate, Temple Road, Ekala, Ja-Ela	10 years from 1st September 1999	Rs. 15,625/- per month up to 1st September 2001, thereafter 3% Increment per centum.

During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 16,813,579/- (31.03.2004, Rs. 19,434,219/-) respectively.

Cost of fully depreciated assets for the Company as at the year end amounted to Rs. 36,686,263/- (31.03.2004, Rs. 40,730,825/-).

	2005 Rs.	2004 Rs.
10. INVENTORIES		
Raw Material	39,072,527	32,821,951
Work in Progress	5,867,128	1,783,697
Finished Goods	32,329,597	35,251,568
Goods in Transit	-	1,368,320
Spare Parts	14,143,908	14,465,541
Other Inventory	167,928	19,171
Provision for Slow Moving and Obsolete Inventory	(1,200,000)	-
	90,381,088	85,710,248
11. TRADE RECEIVABLES AND OTHER RECEIVABLES		
Trade Receivables - Related Parties (Note 11.1)	30,072,636	22,423,062
- Others	144,616,297	117,319,767
Less: Provision for Doubtful receivable	(3,447,171)	(933,053)
Other receivable	2,194,789	2,223,379
Tax Refunds	1,753,137	10,778,375
Deposits and Prepayments	6,338,995	3,863,443
	181,528,683	155,674,973

Notes to the Financial Statements

<i>As at 31 March</i>		2005	2004
	Relationship	Rs.	Rs.
11.1 Trade Receivable - Related Parties			
Keells Business Systems Ltd.	Affiliate	1,098,067	-
Hotel Trans Asia Ltd.	Affiliate	511,016	285,213
French Restaurants (Pvt) Ltd.	Affiliate	601,174	515,798
Ceylon Holiday Resorts Ltd.	Affiliate	381,814	1,902,717
Habarana Lodge Ltd.	Affiliate	112,772	882,372
Habarana Walk Inn Ltd.	Affiliate	42,805	27,576
International Tourists & Hoteliers Ltd.	Affiliate	375,956	222,408
Asian Hotels Ltd. - Colombo Plaza	Affiliate	413,116	555,138
Jaykay Marketing Services (Pvt) Ltd.	Affiliate	17,642,970	8,598,025
Kandy Walk Inn Ltd.	Affiliate	-	1,093,148
Keells Restaurants (Pvt) Ltd.	Affiliate	5,682,766	8,242,522
Trincomalee Walk Inn Ltd.	Affiliate	705,549	98,145
Ceylon Cold Stores Ltd.	Affiliate	2,504,631	-
		30,072,636	22,423,062
12. CASH AND BANK BALANCES			
Hatton National Bank		221,482	168,902
Bank of Ceylon		955,553	8,791,878
Hongkong & Shanghai Banking Corporation		94,648,517	19,535,242
NDB Bank Ltd.		1,757,380	2,135,003
Cash in Hand		545,500	748,228
		98,128,432	31,379,253
	Par Value	Number	Number
	Rs.		
13. SHARE CAPITAL			
13.1 Authorised			
Number of Shares - Ordinary Shares	10/-	15,000,000	15,000,000
		Rs.	Rs.
Nominal Value - Ordinary Shares	10/-	150,000,000	150,000,000
13.2 Issued and Fully Paid			
	Par Value	Number	Number
	Rs.		
Number of Shares - Ordinary Shares	10/-	5,000,000	5,000,000
		5,000,000	5,000,000
		Rs.	Rs.
Nominal Value - Ordinary Shares	10/-	50,000,000	50,000,000
		50,000,000	50,000,000

Notes to the Financial Statements

<i>As at 31 March</i>		2005 Rs.	2004 Rs.
14. CAPITAL RESERVES			
Share Premium		49,815,000	49,815,000
Revaluation Reserve		35,222,684	35,222,684
		<u>85,037,684</u>	<u>85,037,684</u>
15. REVENUE RESERVES			
General Reserve		20,305,176	20,000,000
Dividends Reserve		133,875	133,875
Retained Profit/(Loss)		28,601,810	615,785
		<u>49,040,861</u>	<u>20,749,660</u>
16. DEFERRED TAX LIABILITIES			
Balance as at beginning of the year		27,356,944	28,656,127
Provision made/(reversal) during the year		(6,472,847)	(1,299,183)
Balance as at the end of the year		<u>20,884,097</u>	<u>27,356,944</u>
17. RETIREMENT BENEFIT OBLIGATIONS			
Balance as at beginning of the year		23,328,793	19,939,579
Provision made during the year		5,179,963	4,254,760
Payments made during the year		(1,762,277)	(865,546)
Balance as at the end of the year		<u>26,746,479</u>	<u>23,328,793</u>
18. TRADE AND OTHER PAYABLES			
Trade Creditors - Others		63,202,000	23,762,079
Sundry Creditors Including Accrued Expenses		28,150,485	32,540,221
Unclaimed Dividends		339,923	343,199
Tax Payable		2,784,566	6,449,554
		<u>94,476,974</u>	<u>63,095,053</u>
19. AMOUNTS DUE TO RELATED PARTIES			
John Keells Holdings Ltd.	Relationship	4,577,666	1,824,623
John Keells Ltd.	Affiliate	23,099	21,072
International Tourists & Hoteliers Ltd.	Affiliate	-	10,825
Keells Consultants (Pvt) Ltd.	Affiliate	(2,240)	15,928
Mack International Freight Ltd.	Affiliate	991,082	751,785
Jaykay Marketing Services (Pvt) Ltd.	Affiliate	1,843	17,903
Ceylon Cold Stores Ltd.	Affiliate	941,203	3,234,721
Keells Business Systems Ltd.	Affiliate	1,979,471	16,565
DHL Keells Ltd.	Affiliate	7,877	1,401
JK Office Automation (Pvt) Ltd.	Affiliate	17,730	1,596
		<u>8,537,731</u>	<u>5,896,419</u>

Notes to the Financial Statements

As at 31 March

	2005		2005	2004		2004
	Amount Repayable		Total	Amount Repayable		Total
	Within 01 year	After 01 Year		Within 01 year	After 01 Year	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
20. INTEREST BEARING LIABILITIES						
Company						
Loans from Related Parties (Note 20.1)	60,322,374	-	60,322,374	112,621,324	-	112,621,324
Bank Overdraft (Note 20.2)	56,567,302	-	56,567,302	9,159,121	-	9,159,121
Short-Term Loan - HNB	-	-	-	40,000,000	-	40,000,000
Long-Term Loan - HNB	19,500,000	50,500,000	70,000,000	-	-	-
	<u>136,389,676</u>	<u>50,500,000</u>	<u>186,889,676</u>	<u>161,780,445</u>	<u>-</u>	<u>161,780,445</u>

20.1 Loans from Related Parties

	Relationship	2005 Rs.	2004 Rs.
Ceylon Cold Stores Ltd.	Affiliate	25,414,094	76,414,094
Jaykay Marketing Services (Pvt) Ltd.	Affiliate	34,908,280	36,207,230
		<u>60,322,374</u>	<u>112,621,324</u>

20.2 Bank Overdraft

	2005 Rs.	2004 Rs.
Hongkong & Shanghai Banking Corporation	56,567,302	9,159,121
	<u>56,567,302</u>	<u>9,159,121</u>

21. CAPITAL COMMITMENTS AND CONTINGENCIES

There were no Capital Commitments or material contingencies as at the Balance Sheet date.

22. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events occurring after the Balance Sheet date that require adjustment or disclosure in the financial statements.

23. ASSETS PLEDGED

23.1 The following assets have been pledged as security for borrowings from Hongkong & Shanghai Banking Corporation Ltd.

Nature of Assets	Nature of Liability	Included Under
Inventory & Book Debts	Tertiary mortgage for Rs. 13 Mn, Secondary mortgage over stock and receivable for Rs. 3 Mn and Primary mortgage over stock and receivable for Rs. 1 Mn.	Inventory, Trade & Other Receivables

Further, there is a negative pledge over Company's unencumbered assets.

23.2 A negative pledge exists over land & building at Ekala, Ja-ela, valued at Rs 58.4 Mn in March 2003, for the long-term interest bearing loan at Hatton National Bank.

Notes to the Financial Statements

As at 31 March

	2005 Rs.	2004 Rs.
24. NOTES TO THE CASH FLOW STATEMENT		
24.1 Cash and Cash Equivalents		
<i>At the beginning of the year</i>		
Cash in Hand	748,228	640,898
Bank Balances	30,631,025	24,588,477
Bank Overdrafts	(9,159,121)	(83,823,005)
	<u>22,220,132</u>	<u>(58,593,630)</u>
24.2 Cash and Cash Equivalents		
<i>At the end of the year</i>		
Cash in Hand	545,500	748,228
Bank Balances	97,582,932	30,631,025
Bank Overdrafts	(56,567,382)	(9,159,121)
(Gains)/Losses on Foreign Currency Exchange	(1,293,703)	193,095
	<u>40,267,347</u>	<u>22,413,227</u>

25. RELATED PARTY TRANSACTIONS / DIRECTORS' INTEREST IN CONTRACTS**25.1 Pricing Policies**

Sale of goods to Jaykay Foods Ltd. were made at mutually agreed transfer prices. Sale and purchase of goods and services to related parties were made at normal trading terms under arms length basis. Finance charges/ income in respect of borrowings are carried out at decided rates of interest between the related parties.

25.2 The names of Directors of the Company and of their directorship of other group companies are given below:

Name of Director	Company
1. Mr. V. Lintotawela	John Keells Holding Ltd. John Keells Ltd. Ceylon Cold Stores Ltd. Jaykay Marketing Services (Pvt) Ltd. Mack International Freight (Pvt) Ltd. Keells Consultants Ltd. Keells Business Systems Ltd. DHL Keells (Pvt) Ltd. Ceylon Holiday Resorts Ltd. Jaykay Foods Ltd. John Keells Office Automation (Pvt) Ltd. Keells Restaurants (Pvt) Ltd. Habarana Lodge Ltd. Kandy Walk Inn Ltd. Habarana Walk Inn Ltd. International Tourists & Hoteliers Ltd. Hotel Trans Asia Ltd. Asian Hotels Ltd. (Colombo Plaza) French Restaurants (Pvt) Ltd. Trincomalee Walk Inn Ltd. Mackinnons American Express Travels (Pvt) Ltd.

Notes to the Financial Statements

Name of Director	Company
2. Mr. S.C. Ratnayake	John Keells Holding Ltd. Jaykay Marketing Services (Pvt) Ltd. Ceylon Cold Stores Ltd. Keells Business Systems Ltd. John Keells Office Automation (Pvt) Ltd. Ceylon Holiday Resorts Ltd. Habarana Walk Inn Ltd. Kandy Walk Inn Ltd. Habarana Lodge Ltd. Mackinnons American Express Travel (Pvt) Ltd. International Tourist & Hoteliers Ltd. John Keells Ltd. Mackinnons American Express Travels (Pvt) Ltd. Mack International Freight (Pvt) Ltd. Mackinnon Mackenzie & Co (Shipping) Ltd. DHL Keells (Pvt) Ltd. Trincomalee Walk Inn Ltd. Hotel Trans Asia Ltd. Asian Hotels Ltd. (Colombo Plaza) French Restaurants (Pvt) Ltd.
3. Ms. D.A.R.C. Perera	Keells Consultants Ltd. Jaykay Marketing Services (Pvt) Ltd. Kandy Walk Inn Ltd.
4. Mr. Y. Nadaraja	Jaykay Marketing Services (Pvt) Ltd.
5. Ms. D.C. Alagaratnam	Keells Consultants Ltd. John Keells Ltd.
6. Mr. G.S.A. Gunasekera	John Keells Holding Ltd. Ceylon Cold Stores Ltd. Jaykay Marketing Services (Pvt) Ltd. Keells Restaurants (Pvt) Ltd. Keells Tours (Pvt) Ltd. Habarana Lodge Ltd. Habarana Walk Inn Ltd. Kandy Walk Inn Ltd. Mack International Freight (Pvt) Ltd. Keells Business Systems Ltd. John Keells Office Automation (Pvt) Ltd. Hotel Trans Asia Ltd. Trincomalee Walk Inn Ltd. John Keells Ltd.

Notes to the Financial Statements

Name of Director	Company
7. Mr. A.D. Gunewardena	John Keells Holdings Ltd. John Keells Ltd. Jaykay Foods Ltd. Jaykay Marketing Services (Pvt) Ltd. Ceylon Cold Stores Ltd. Mack International Freight (Pvt) Ltd. DHL Keells (Pvt) Ltd. Keells Business Systems Ltd. Mackinnons American Express Travels (Pvt) Ltd. Ceylon Holiday Resorts Ltd. Habarana Walk Inn Ltd. Habarana Lodge Ltd. International Tourists & Hoteliers Ltd. Keells Restaurants (Pvt) Ltd. John Keells Office Automation (Pvt) Ltd. Kandy Walk Inn Ltd. Trincomalee Walk Inn Ltd.
8. Mr. J.R.F. Peiris	John Keells Holdings Ltd. Ceylon Cold Stores Ltd. Keells Consultants Ltd. Keells Business System Ltd. John Keells Office Automation (Pvt) Ltd. Kandy Walk Inn Ltd. Habarana Walk Inn Ltd. Habarana Lodge Ltd. Trincomalee Walk Inn Ltd. Hotel Trans Asia Ltd. Asian Hotels Ltd. (Colombo Plaza) International Tourists and Hoteliers Ltd. Keells Restaurants (Pvt) Ltd.
9. Mr. M.D. Silva	Ceylon Cold Stores Ltd. Jaykay Marketing Services (Pvt) Ltd. Keells Restaurants (Pvt) Ltd.
10. Mr. K.N.J. Balendra	Jaykay Marketing Services (Pvt) Ltd.
11. Mr. J.R. Gunaratne (w.e.f. 01/07/2004)	French Restaurants (Pvt) Ltd. Jaykay Marketing Services (Pvt) Ltd. Jaykay Foods Ltd. Keells Restaurants (Pvt) Ltd. Ceylon Cold Stores Ltd.
12. Mr. S. Padmawansa (w.e.f. 01/07/2004)	

Notes to the Financial Statements

26. RELATED PARTY TRANSACTIONS/DIRECTORS' INTEREST IN CONTRACTS**26.1 Pricing Policies**

Sale of goods to Jaykay Foods (Pvt) Ltd., were made at mutually agreed transfer prices. Sale and purchase of goods and services to other related parties were made at normal trading terms under arm's length basis. Finance charges/income in respect of borrowings are carried out at market determined rates of interest between the related parties.

Nature of Transaction	Company	John Keells Holdings Ltd.		Other Companies		Total	
		31.03.2005	31.03.2004	31.03.2005	31.03.2004	31.03.2005	31.03.2004
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Sale of Goods	Jaykay Foods Ltd.	-	-	204,685,449	631,696,840	204,685,449	631,696,840
	Keells Restaurants (Pvt) Ltd.	-	-	37,759,797	28,065,169	37,759,797	28,065,169
	Habarana Lodge Ltd.	-	-	4,115,984	5,305,993	4,115,984	5,305,993
	Kandy Walk Inn Ltd.	-	-	2,991,431	3,716,452	2,991,431	3,716,452
	Habarana Walk Inn Ltd.	-	-	1,930,758	1,784,653	1,930,758	1,784,653
	Beruwela Walk Inn Ltd.	-	-	-	545,246	-	545,246
	Ceylon Holiday Resorts Ltd.	-	-	9,492,048	11,630,512	9,492,048	11,630,512
	Ceylon Cold Stores Ltd.	-	-	-	148,722	-	148,722
	International Tourists & Hoteliers Ltd.	-	-	1,239,646	1,613,035	1,239,646	1,613,035
	Trincomalee Walk Inn Ltd.	-	-	1,670,935	1,561,912	1,670,935	1,561,912
	Asian Hotels Ltd. (Colombo Plaza)	-	-	2,874,651	1,315,437	2,874,651	1,315,437
	Hotel Trans Asia Ltd.	-	-	5,843,048	1,593,683	5,843,048	1,593,683
	French Restaurants (Pvt) Ltd.	-	-	4,165,430	1,655,476	4,165,430	1,655,476
	Jaykay Marketing Services (Pvt) Ltd.	-	-	89,919,212	41,514	-	41,514
Purchase of Goods	Ceylon Cold Stores Ltd.	-	-	-	1,644,492	-	1,644,492
	Jaykay Marketing Services (Pvt) Ltd.	-	-	-	45,000	-	45,000
	Gorden Frazer	-	-	-	86,727	-	86,727
Purchase of Computer	John Keells Office Automation (Pvt) Ltd.	-	-	547,244	-	547,244	-
Hardware, Cabling, Repairs and Maintenance	Keells Business Systems Ltd.	-	-	1,909,541	-	1,909,541	-
Air Fare Charges/Insurance and Tax	Mackinnons Travels Ltd.	-	-	563,725	578,613	563,725	578,613
	Keells Consultants Ltd.	-	-	27,338	-	27,338	-
Purchases of Consumables and Service agreement	John Keells Office Automation (Pvt) Ltd.	-	-	-	170,199	-	170,199
	Keells Business System Ltd.	-	-	-	552,774	-	552,774
RECEIPT OF SERVICES							
Clearing and Handling Charges	Mack International Freight (Pvt) Ltd.	-	-	643,601	920,829	643,601	920,829
Printing Charges	Whittall Boustead Ltd.	-	-	-	1,501,538	-	1,501,538
Payment for Rent	John Keells Ltd.	-	-	207,447	202,400	-	202,400
Document Delivery Charges	DHL Keells (Pvt) Ltd.	-	-	30,516	54,018	30,516	54,018
Transport Charges	Keells Tours (Pvt) Ltd.	-	-	-	27,979	-	27,979

Notes to the Financial Statements

Nature of Transaction	Company	John Keells Holdings Ltd.		Other Companies		Total	
		31.03.2005	31.03.2004	31.03.2005	31.03.2004	31.03.2005	31.03.2004
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Secretarial Fees	Keells Consultants Ltd.	-	-	126,960	110,400	126,960	110,400
Interest Paid	Jaykay Marketing Services (Pvt) Ltd.	-	-	27,268	2,021,736	27,268	2,021,736
	John Keells Holdings Ltd.	237,834	203,280	-	-	-	203,280
	Ceylon Cold Stores Ltd.	-	-	3,549,591	4,854,758	3,549,591	4,854,758
Charges on Enterprise Resources Planning (ERP) - SAP	John Keells Holdings Ltd.	497,238	-	-	-	497,238	-
Guarantee Fee paid	John Keells Ltd.	-	-	15,000	15,000	-	15,000
Tax and Finance Charges	John Keells Holdings Ltd.	4,887,878	2,628,157	-	-	4,887,878	2,628,157
Human Resources Development Charges	John Keells Holdings Ltd.	2,864,599	992,757	-	-	2,864,599	992,757
Legal Expenses	John Keells Holdings Ltd.	2,815,351	1,691,162	-	-	2,815,351	1,691,162
Management Information Expenses	John Keells Holdings Ltd.	9,952,226	3,329,339	-	-	9,952,226	3,329,339
RENDERING OF SERVICES							
Storage Income	Jaykay Foods Ltd.	-	-	-	13,750,000	-	13,750,000
Reimbursement of Vehicle Expenses	Ceylon Cold Stores Ltd.	-	-	2,803,500	3,204,000	2,803,500	3,204,000
Handling Charges for Maintaining Payroll	Keells Consultants Ltd.	-	-	-	9,890	-	9,890
Royalty Fees Paid	Ceylon Cold Stores Ltd.	-	-	5,997,505	-	5,997,505	-
Interest Received	Jaykay Marketing Services (Pvt) Ltd.	-	-	34,959	-	-	-

Your Share in Detail

ORDINARY SHAREHOLDING

Authorised Share Capital	15,000,000	Ordinary Shares at Rs. 10/- each
Issued Share Capital	5,000,000	Ordinary Shares at Rs. 10/- each

DISTRIBUTION OF SHAREHOLDERS

Shareholding Range	2005			2004		
	No. of Shareholders	No. of Shares held	%	No. of Shareholders	No. of Shares held	%
1 - 1,000	708	169,289	3.39	738	189,107	3.78
1,001 - 5,000	92	201,882	4.04	106	242,730	4.85
5,001 - 10,000	16	119,064	2.38	16	119,917	2.40
10,001 - 50,000	10	186,866	3.74	8	165,766	3.32
50,001 - 100,000	3	177,069	3.54	5	336,469	6.73
100,001 - 1,000,000	7	1,759,215	35.18	7	1,746,896	34.94
1,000,001 & above	1	2,386,615	47.73	1	2,199,115	43.98
Total	837	5,000,000	100.00	881	5,000,000	100.00

Categories of Shareholders	2005			2004		
	No. of Shareholders	No. of Shares held	%	No. of Shareholders	No. of Shares held	%
Directors & Spouses	5	11,041	0.22	4	10,941	0.22
Individuals	758	620,758	12.42	798	707,528	14.15
Institutions & Other	62	579,445	11.59	67	487,081	9.74
Inter-Companies	12	3,788,756	75.78	12	3,794,450	75.89
Total	837	5,000,000	100.00	881	5,000,000	100.00
Sri Lankan Residents	828	4,949,271	98.99	871	4,947,071	98.94
Non-Residents	9	50,729	1.01	10	52,929	1.06
Total	837	5,000,000	100.00	881	5,000,000	100.00
Director & Spouses	5	11,041	0.22	4	10,941	0.22
Inter-Company	12	3,788,756	75.78	12	3,794,450	75.89
Non-Resident Public	9	50,729	1.01	10	52,929	1.06
Resident Public	811	1,149,474	22.99	855	1,141,680	22.83
Total	837	5,000,000	100.00	881	5,000,000	100.00

Your Share in Detail

TOP TWENTY SHAREHOLDERS

	31st March 2005		31st March 2004	
	No. of Shares held	% of Issued Capital	No. of Shares held	% of Issued Capital
John Keells Holdings Ltd.	2,386,615	47.73	2,199,115	43.98
John Keells Ltd.	463,991	9.28	463,991	9.28
Walkers Tours Ltd.	380,000	7.60	380,000	7.60
Alliance Finance Company	309,819	6.20	260,100	5.20
Habarana Walk Inn Ltd.	-	-	187,500	3.75
Mackinnon & Keells Financial Services Ltd.	167,805	3.36	167,805	3.36
Mackinnon & Mackenzie & Co. (Shipping) Ltd.	162,500	3.25	162,500	3.25
Paints & General Industries Ltd.	150,100	3.00	56,600	1.13
Mack International Freight (Pvt) Ltd.	125,000	2.50	125,000	2.50
Mack Air Ltd.	64,469	1.29	64,469	1.29
Mr. J.B. Hirdaramani	61,600	1.23	61,600	1.23
M.S.H. Packaging Industries Ltd.	51,000	1.02	92,000	1.84
Mr. D.J. De Silva Wijeyaratne	48,287	0.97	48,287	0.97
Mr. & Mrs. E.E.M. Woodward	26,250	0.53	26,250	0.53
Mr. J.R. De Silva	-	-	61,800	1.24
Mackinnon Mackenzie & Co. of Ceylon Ltd.	20,000	0.40	20,000	0.40
Mr. S. Kumaranayagam	18,750	0.38	18,750	0.38
Mr. D.J.M. Blackler	17,192	0.34	17,192	0.34
Shannon Estates Company Ltd.	12,700	0.25	12,700	0.25
Mr. C.D. Fernando	11,700	0.23	11,700	0.23
Mr. D. Pathmanathan	10,900	0.22	-	-
Colour Products Ltd.	10,887	0.22	-	-
Total	4,499,565	89.99	4,437,359	88.75

SHARE PRICES (RS.)

Beginning of the year	17.00	14.00
Highest	39.75	35.00
Lowest	12.50	13.50
Year end	38.00	17.00

TRADING STATISTICS

No. of Shares Traded	533,100	948,424
Value of Shares Traded (Rs.)	15,708,800	21,281,491
Total Number of Market Days	122.0	241

PRICE MOVEMENTS

CSE All Share Price Index	1,751.88	1,284.20
CSE Milanka Price Index	2,392.19	2,021.00
KFPL Share Price (Rs.)	38.00	17.00

MARKET CAPITALISATION (Rs.)

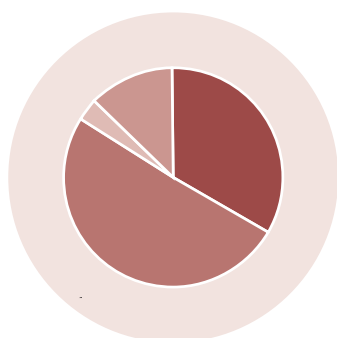
190,000,000	85,000,000
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Statement of Value Added

(All figures given are in Rs. 000's, unless otherwise stated)

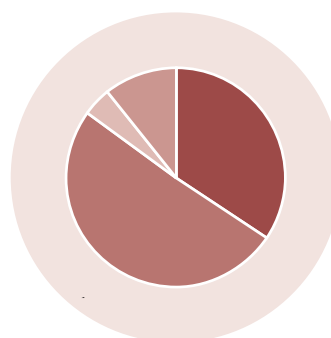
Year ended 31 March	2005		2004		2003		2002	
Turnover	1,159,658		1,067,502		968,867		851,793	
Cost of Material and Services	(711,632)		(689,301)		(644,400)		(552,834)	
Value Added	448,026		378,201		324,467		298,959	
Distributed as follows:		%		%		%		%
I. To Employees as Remuneration	149,590	33	129,160	34	104,532	32	91,080	30
ii. To the Government as Taxes	226,675	51	192,113	51	185,650	57	182,181	61
iii. To Lenders as Interest	14,005	3	15,868	4	15,368	5	18,877	6
iv. To Shareholders as Dividends	-	0	-	0	-	0	-	0
v. Retained with the Company								
As Depreciation	29,465	7	26,714	7	22,651	7	20,235	7
As Reserves	28,291	6	14,346	4	(3,733)	-1	(13,414)	-4
	448,026	100	378,201	100	324,467	100	298,959	100

VALUE ADDED 2005



● To Employees	33%
● To Government	51%
● To Lenders	3%
● Retained in the Business	13%

VALUE ADDED 2004



● To Employees	34%
● To Government	51%
● To Lenders	4%
● Retained in the Business	11%

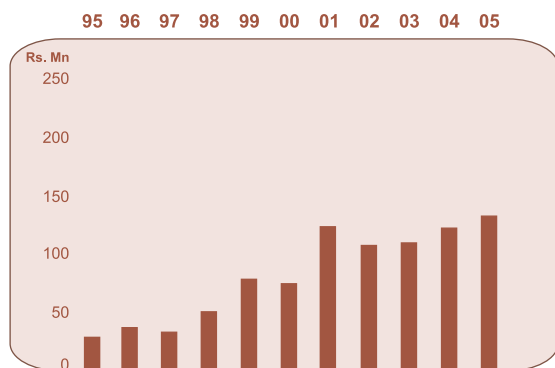
The Value Added Statement shows the entire wealth that has been created by the Company and the Group and the value that has been added to the materials and services that have been bought from other business entities.

It also shows how the added value has been distributed among Employees, Government, Lenders, Shareholders and the amount retained within the Company and the Group as depreciation and reserves.

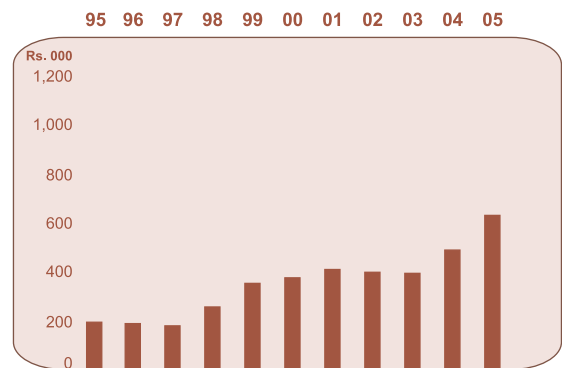
Statement of Value Added

	2001	2000	1999	1998	1997	1996
	922,607	624,341	612,825	413,097	304,010	316,023
	(588,983)	(380,521)	(404,372)	(256,408)	(195,985)	(211,361)
	<u>333,624</u>	<u>243,820</u>	<u>208,453</u>	<u>156,689</u>	<u>108,025</u>	<u>104,662</u>
	%	%	%	%	%	%
	95,020	77,839	60,099	47,501	32,203	28,020
	28	32	29	30	30	30
	193,748	126,425	122,914	86,200	55,560	58,261
	58	52	59	55	51	51
	8,413	5,653	6,206	5,465	7,929	8,165
	3	2	3	3	7	7
	12,500	10,000	3,750	-	-	-
	4	4	2	0	0	0
	16,437	15,331	13,843	12,229	11,064	8,584
	5	6	7	8	10	10
	7,506	8,572	1,641	5,294	1,269	1,632
	2	4	1	3	1	1
	<u>333,624</u>	<u>243,820</u>	<u>208,453</u>	<u>156,689</u>	<u>108,025</u>	<u>104,662</u>
	100	100	100	100	100	100

REVENUE TO GOVERNMENT



VALUE ADDED PER EMPLOYEE



Ten Year Information at a Glance

(All figures given are in Rs. 000's unless otherwise stated)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Turnover	1,159,658	1,067,502	968,867	851,793	922,607	624,341	612,825	413,097	304,010	316,023
Turnover Tax, Excise										
Duty & Defence Levy	(5,758)	(12,105)	(11,356)	(11,383)	(18,047)	(28,193)	(26,181)	(49,142)	(34,654)	(36,376)
Profit/(loss) from Operating										
Activities	56,156	35,364	7,892	4,491	42,670	41,764	27,689	17,144	10,481	11,221
Finance Charges	(14,005)	(15,868)	(15,368)	(18,877)	(8,413)	(5,653)	(6,206)	(5,465)	(7,929)	(8,165)
Dividends Received	-	-	-	134	153	115	-	18	270	-
Trading Profit/(Loss) after										
Finance charges	42,151	19,497	(7,475)	(14,253)	34,410	36,226	21,483	11,697	2,822	3,056
Taxation	(13,740)	(5,150)	1,002	840	(14,404)	(17,655)	(16,092)	(6,403)	(1,553)	(1,424)
Net Profit/(Loss) after Tax	28,411	14,346	(6,474)	(13,413)	20,006	18,571	5,391	5,294	1,269	1,632
What we owned										
Property, Plant & Equipment	151,575	164,361	170,532	156,048	162,701	148,168	141,836	138,069	143,713	131,891
Goodwill	-	120	231	342	452	-	-	-	-	-
Investments	-	-	-	450	2,616	2,664	2,866	3,000	3,000	3,000
Inventories	90,381	85,710	88,904	84,345	105,334	85,362	79,714	67,839	51,333	60,155
Receivables	181,529	155,675	133,306	133,363	119,609	35,280	35,830	19,329	7,484	16,058
Other Current Assets	98,128	31,379	25,229	22,737	13,235	6,670	8,363	13,621	4,941	4,188
	521,614	437,245	418,202	397,285	403,947	278,144	268,609	241,858	210,471	215,292
What we owed										
Share Capital	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Capital Reserves	85,038	85,038	85,038	82,297	82,297	82,297	82,297	82,297	82,297	82,297
Revenue Reserves	49,041	20,750	6,404	12,877	26,291	18,785	10,213	8,572	3,278	2,723
Shareholders' Funds	184,079	155,787	141,441	145,174	158,588	151,082	142,510	140,869	135,575	135,020
Long Term Liabilities	98,131	50,686	48,596	47,656	44,827	39,436	36,647	27,332	24,028	12,551
Loans Payable within										
one year	-	-	-	-	-	-	-	-	-	-
Interest-Bearing Borrowings	136,390	161,780	176,581	140,645	135,967	31,214	56,331	51,682	33,117	55,104
Payables	103,015	68,991	51,584	63,810	63,098	50,280	29,508	18,853	17,467	9,906
Provision for Taxation										
& Government Levies	-	-	-	-	1,467	6,132	3,613	3,122	284	2,711
	521,614	437,245	418,202	397,285	403,947	278,144	268,609	241,858	210,471	215,292

The above indicates the simplified Income Statement and the Balance Sheet of the Company/Group over a ten-year period. The Balance Sheet is categorised into its key Assets and Liabilities.

Ten Year Information at a Glance

(All figures given are in Rs. 000's unless otherwise stated)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
KEY INDICATORS										
(A) Profitability & Return to Shareholders										
Net Profit Ratio (%)	2.45	1.34	(0.67)	(1.57)	2.17	2.97	0.88	1.28	0.42	0.52
Earnings per Share (Rs.)	5.68	2.87	(1.29)	(2.68)	4.00	3.71	1.08	1.06	0.25	0.33
Return on Shareholders' Funds (%)	15.43	9.21	(4.58)	(9.24)	12.62	12.29	3.78	3.76	0.94	1.21
Return on Capital Employed (%)	19.90	17.13	4.15	2.40	21.05	21.98	15.46	10.20	6.74	7.60
Rate of Dividends (%)	20.00	-	-	-	25.00	20.00	7.50	-	-	-
Debt Equity Ratio (%)	74.09	103.85	124.84	96.88	85.74	20.66	39.53	36.69	24.43	40.81
(B) Liquidity										
Current Ratio (Times)	1.55	1.18	1.09	1.18	1.19	1.45	1.39	1.37	1.25	1.19
Interest Cover (Times)	4.01	2.23	0.51	0.24	5.07	7.39	4.46	3.14	1.32	1.37
(C) Investors Ratios										
Price Earnings Ratio	6.69	5.92	(10.81)	(4.66)	3.12	3.30	17.62	11.33	34.48	44.42
Dividend Cover (Times)	-	-	-	-	1.60	1.86	1.44	-	-	-
Net Assets per Share as at year end (Rs.)	36.82	31.16	28.29	29.03	31.72	30.22	28.50	28.17	27.12	27.00
(D) Share Valuation										
Market Value per Share as at year end (Rs.)	38.00	17.00	14.00	12.50	12.50	12.25	19.00	12.00	8.75	14.50
(E) Other Information										
Number of Employees	452	490	483	478	517	414	374	388	356	339
Turnover per Employee (Rs.'000)	2,566	2,179	2,006	1,782	1,785	1,508	1,639	1,065	854	932
Value Added per Employee (Rs.'000)	991	772	672	625	645	589	557	404	307	298
(F) Revenue to Government										
Turnover Tax, G.S.T., Excise Duty & Defence Levy (Rs.'000)	150,295	146,346	135,496	135,016	137,491	85,598	71,294	49,142	34,654	36,376
Customs Duty (Rs.'000)	61,573	45,078	49,415	41,556	37,928	33,493	51,620	37,058	20,906	21,885
Income Tax (Rs.'000)	3,141	-	-	1,974	11,209	2,908	-	-	-	-
Economic Service Charge (Rs. '000)	11,467	-	-	-	-	-	-	-	-	-
Advance Corporation Tax (Rs. '000)	-	-	-	2,653	6,484	4,426	-	-	-	-
Withholding Tax (Rs.'000)	200	689	739	982	636	-	-	-	-	-
Total	226,675	192,113	185,650	182,181	193,748	126,425	122,914	86,200	55,560	58,261

The above indicates the simplified Income Statement and the Balance Sheet of the Company/Group over a ten-year period. The Balance Sheet is categorised into its key Assets and Liabilities.

Glossary of Financial Terminology

Earnings per Share	$\frac{\text{Profit after Interest \& Tax before Extraordinary Items}}{\text{Number of Shares in Issue}}$
Return on Shareholders' Funds	$\frac{\text{Profit after Interest and Tax}}{\text{Average Shareholders' Funds}} \times 100$
Return on Capital Employed	$\frac{\text{Profit before Interest and Tax}}{\text{Shareholders' Funds + Long Term Liabilities}}$
Debt Equity Ratio	$\frac{\text{Total Long Term Liabilities}}{\text{Shareholders' Funds}}$
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Interest Cover	$\frac{\text{Profit before Interest}}{\text{Interest}}$
Price Earnings Ratio	$\frac{\text{Market Price per Share}}{\text{Earnings per Share}}$
Dividends Cover	$\frac{\text{Profit after Tax, Interest and Extraordinary Items}}{\text{Gross Dividends}}$
Net Assets	Fixed Assets + Current Assets - Current Liabilities - Long Term Loans
Net Asset per Share	$\frac{\text{Shareholders' Funds}}{\text{Number of Ordinary Shares}}$
Value Addition	The quantum of wealth generated by the activities of the Company and its distribution.
Revenue Reserves	Reserves considered as being available for distribution and investment.
Market Capitalisation	Closing Market Price per Share x Issued Share Capital

Notice of Meeting

Notice is hereby given that the Twenty Second Annual General Meeting of Keells Food Products Ltd. will be held on 27 June 2005 at the HR Auditorium of the Walker Tours Building, No. 130, Glennie Street, Colombo 2.

The business to be brought before the meeting will be:

- To read the notice convening the meeting of the Company.
- To confirm minutes of the Twenty Second Annual General Meeting held on 29 June 2004.
- To receive and consider the Directors' Report and the financial statements for the financial year ended 31 March 2005 with the Report of the Auditors thereon.
- To declare a dividend of 20% as recommended by the Board of Directors.
- To re-elect as a Director, Mr. V. Lintotawela who retires by rotation of Article 84 of the Articles of Association.
- To re-elect as a Director, Mr. A.D. Gunewardena who retires by rotation in terms of Article 84 of the Articles of Association.
- To re-elect as a Director, Ms. D.C. Alagaratnam who retires by rotation in terms of Article 84 of the Articles of Association.
- To re-elect as a Director, Mr. J.R. Gunaratne who retires by rotation in terms of Article 90 of the Articles of Association.
- To re-elect as a Director, Mr. S.R. Padmawansa who retires by rotation in terms of Article 90 of the Articles of Association.
- To re-appoint Auditors and to authorise the Directors to determine their remuneration.
- To consider any other business of which due notice has been given.

Notes

- (i) A member unable to attend is entitled to appoint a Proxy to attend and vote in his/her place.
- (ii) A Proxy need not be a member of the Company.
- (iii) A member wishing to vote by Proxy at the meeting may use the Form of Proxy enclosed.
- (iv) In order to be valid, the completed Form of Proxy must be lodged at the registered office of the Company not less than 48 hours before the meeting.
- (v) The transfer books of the Company will not be closed.

By order of the Board,

(Sgd.)

Keells Consultants Ltd.

Secretaries

Colombo

4 May 2005

Form of Proxy

I/We

of

being a member/members of KEELLS FOOD PRODUCTS LTD., hereby appoint

..... of, or failing him/her.

1. VIVENDRA LINTOTAWELA of Colombo, or failing him
2. SUSANTHA CHAMINDA RATNAYAKE of Colombo, or failing him
3. AJIT DAMON GUNewardENE of Colombo, or failing him
4. JAMES RONNIE FELITUS PEIRIS of Colombo, or failing him
5. GERARD SUMITHRA ABeyWARDENA GUNeSEKERA of Colombo, or failing him
6. YASA NADARAJA of Colombo, or failing him
7. DILANI CHAMPIKA ALAGARATNAM (Ms.) of Colombo, or failing her
8. DONA AGNES RAMANI CHANDRIKA PERERA (Ms.) of Colombo, or failing her
9. KRISHAN NIRAJ JAYASEKERA BALENDRA of Colombo, or failing him
10. MANILAL DOMINIC DE SILVA of Colombo, or failing him
11. JITENDRA ROMESH GUNARATNE of Colombo, or failing him
12. SAMPATH RAJINDA PADMAWANSA of Colombo

as my/our Proxy to represent me/us and vote on my/our behalf at the Twenty Second Annual General Meeting of the Company to be held on 27 June 2005 at 10.30 a.m. and at any poll, which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

Signed this day of Two Thousand and Five.

.....
Signature of Shareholder

Notes

- (1) A Proxy need not be a member of the Company.
- (2) In terms of Article 66 of the Articles of Association of the Company the instrument appointing a Proxy shall be in writing and:
 - (i) in the case of an individual shall be signed by the appointer or by his Attorney, and
 - (ii) in the case of a Company/Corporation shall be either under its Common Seal or signed by its Attorney, or by an officer on behalf of the Company/Corporation.
 - (iii) the Company may, but shall not be bound to require evidence of the authority of any such Attorney or officer.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

- (1) Please perfect the Form of Proxy after filling in legibly, your full name and address, by signing in the space provided and filling in the date of signature.
- (2) The completed Form of Proxy should be deposited at No. 130, Glennie Street, Colombo 2, not less than 48 hours before the time for holding the meeting.
- (3) If you wish to appoint a person other than one of the Directors as your Proxy, please insert the relevant details in the space provided above and initial against the entry.

