

Annual Report 2016/17



HARISCHANDRA

The Trusted Name for Quality



Our Vision

*To enhance our heritage
brand status and
serve the nation*

Our Mission

*To provide the public with a
variety of high quality
foods and soaps*



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NOTICE OF MEETING

Notice is hereby given that the 65th Annual General Meeting of Harischandra Mills PLC, will be held at the Registered office of the Company, No. 11, C.A. Harischandra Mawatha, Matara on 23rd September 2017 at 11.00 a.m. for the following purposes.

01. To receive and consider the Report of the Directors and Audited Statement of Accounts for the year ended 31 March 2017 along with the report of the Auditors thereon.
02. To declare a final dividend of Rupees Twenty Two (Rs. 22/-) per share for the financial year ended 31st March 2017 as recommended by the Board of Directors.
03. To re-elect Mr. S.A.S. Jayasundara as a Director, who retires in terms of Article 98 of the Articles of Association.
04. To propose the following resolution as an ordinary resolution for the re-appointment of Mr. T.K. Bandaranayake who has reached the age of 74 years.

IT IS HEREBY RESOLVED THAT the age limit referred to in section 210 of the Companies Act No 7 of 2007 shall not apply to Mr. T.K. Bandaranayake who has reached the age of 74 years prior to the Annual General Meeting and that he shall accordingly be re-appointed.

05. To propose the following resolution as an ordinary resolution for the re-appointment of Mrs. R.K. Samarasinghe who has reached the age of 76 years.

IT IS HEREBY RESOLVED THAT the age limit referred to in section 210 of the Companies Act No 7 of 2007 shall not apply to Mrs. R.K. Samarasinghe who has reached the age of 76 years prior to the Annual General Meeting and that she shall accordingly be re-appointed.

06. To propose the following resolution as an ordinary resolution for the re-appointment of Mr. M.A. Bastiansz who has reached the age of 73 years.

IT IS HEREBY RESOLVED THAT the age limit referred to in section 210 of the Companies Act No 7 of 2007 shall not apply to Mr. M.A. Bastiansz who has reached the age of 73 years prior to the Annual General Meeting and that he shall accordingly be re-appointed.

07. To propose the following resolution as an ordinary resolution for the re-appointment of Mr. G.S.V. De Silva who has reached the age of 72 years.

IT IS HEREBY RESOLVED THAT the age limit referred to in section 210 of the Companies Act No 7 of 2007 shall not apply to Mr. G.S.V. De Silva who has reached the age of 72 years prior to the Annual General Meeting and that he shall accordingly be re-appointed.

08. To re-appoint KPMG, Chartered Accountants,
 - (a) As Auditors of the Company until the next Annual General Meeting and to authorise the Directors to determine their remuneration.
 - (b) To authorise the auditors to audit the accounts of the Company for the next succeeding financial year.
09. To approve the donations and contributions made by the Directors during the year under review, and to authorise the Directors to determine contributions to charities for the ensuing year.

By Order of the Board
CORPORATE SERVICES (PRIVATE) LIMITED.
Secretaries

Dated, on this 11th day of August 2017

*65th
Annual General Meeting*

Note

1. A member unable to attend the above meeting is entitled to appoint a proxy who need not be a member.
2. A form of Proxy is attached to the report.
3. The completed form of Proxy should be deposited at the Registered Office of the Company at No.11, C.A. Harischandra Mawatha, Matara, not less than 48 hours before the time fixed for the meeting.



CORPORATE INFORMATION

Legal Form

A public Company with limited liability incorporated in Sri Lanka, whose shares are listed in the Colombo Stock Exchange.

Company Registration Number

PQ.225

Date of Incorporation

9th January, 1953

Registered Office

No. 11, C.A. Harischandra Mawatha, Matara.

Secretaries

Corporate Services (Private) Limited,
216, De Saram Place,
Colombo 10.

Auditors

KPMG
Chartered Accountants
32A, Sir Mohamed Macan Marker Mawatha,
Colombo 3.

Internal Auditors

Ernst & Young,
Chartered Accountants
201, De Saram Place,
Colombo 10.

Legal Advisors

F J & G De Saram
Attorneys - at - Law
216, De Saram Place,
Colombo 10.

Bankers

Sampath Bank PLC
Commercial Bank of Ceylon PLC
Hatton National Bank PLC
NDB Bank PLC
DFCC Bank PLC

Subsidiary Company

Harischandra Mills (Distributors) Limited (wholly owned)
incorporated in Sri Lanka.

Board of Directors

Bastiansz M.A.
(Chairman)

Samarasinghe S.N.
(Managing Director)

De Silva G.S.V.

De Silva M.P. (Mrs.)

Bandaranayake T.K.

Jayasundara S.A.S.

Samarasinghe R.K. (Mrs.)

Executive Management

Gajanayake C.T.
(Chief Financial Officer)

Nanayakkara S.N.K.
(Sales Manager)

Gamini Lokuralage D.S.
(Commercial Manager)

Kodithuwakku A.P.R.
(Human Resources Manager)

Ranasinghe N.P.
(Production Engineer)

Sanjeeva H.M.R.S.
(Finance Manager)



CHAIRMAN'S REVIEW

It is with great pleasure that I welcome you to the 65th Annual General Meeting of Harischandra Mills PLC, and present on behalf of the Board of Directors, the Annual Report and Statement of Accounts for the year ended 31st March 2017.

In the year under review the company has had to face serious challenges as a result of the high cost of raw materials used in its products. This is evident from the fact that although there was a 12% increase in sales in the food sector, there was no corresponding gain in profits. In the soap sector the decline in sales and profits was accentuated by the fact that Harischandra soaps, which use high quality raw materials and is an ISO & SLS certified brand in Sri Lanka, suffered from competitors who had no such constraints in regard to the manufacturing process. The management is currently engaged in discussing several initiatives with a view to addressing these concerns.

Despite these difficulties the company has paid an interim dividend of Rs.20/= and the Board of Directors has recommended the payment of a final dividend of Rs.22/= to the shareholders.

Our commitment to maintaining the highest level of corporate responsibility has not abated, and a part of this is reflected in the Managing Director's statement.

I express my thanks to my colleagues on the Board for their continued support throughout the year, as well as to all our employees who are our greatest asset.

Maxwell A. Bastiansz

Chairman

28 July 2017



MANAGING DIRECTOR'S REPORT

During the year, Company was able to record Rs. 2 billion sales from the Food segment, an increase of 12% from previous year. However, operating profit of the segment decreased to Rs. 129 million from Rs. 143 million in previous year due to higher raw material cost absorbed by the Company.

Revenue of Soap segment declined to Rs. 250 million from Rs. 283 million in last financial year due to the increasing competition from the bathing bar segment in the market. Harischandra brand soaps uses higher quality raw materials compared to the other competitors and has ISO certification. Higher cost of acquisition of these high quality materials resulted in a loss from the Soap segment during year as Company has to absorb the increased cost.

Fuel & Lubricant segment recorded Rs. 750 million sales same as last year. However operating profit has increased by 6% due to increase in volumes of higher value products.

Corporate Social Responsibility is one of a core activity of Harischandra Mills PLC and it is considered as an effective method of interaction with the general public. During the year Company has engaged in many such projects. Wanigasekara Maha Vidyalaya, Wawahamanduwa is one of a school in Matara District with limited facilities. Company has renovated the main hall of the school and handed it over to mark the World Childrens' Day. Further, Company provided study desks for Grade 5 section in order to facilitate the students facing Grade 5 scholarship examination. Olcott Model School in Weheragampitiya is another school in Matara district which receives continuous support from the Company. During the year, Company sponsored for new main gate of the school. With the objective of enhancing the knowledge of school children in Southern Province, Company sponsored for the Southern Province Inter School Quiz Competition organized by the Institute of Chartered Accountants of Sri Lanka.

During the year, Company sponsored for two international academic conferences. International Conference on Science & Technology and 5th International Conference on Management & Economics organized by the University of Ruhuna.

As a responsible corporate citizen, Company considered health care facilities as a basic need for the general public. In view of that, Company donated patient transport trollies, mattresses and other related equipment to the Operating theater of General Hospital, Matara.

S.N. Samarasinghe

Managing Director

28 July 2017



Wanigasekara Maha Vidyalaya, Wawahamanduwa is a school in Matara District with limited facilities. Company renovated the main hall of the school and handed it over to mark the World Childrens' Day. Further, Company provided study desks for Grade 5 section.



School books and shoes were distributed among children of all employees, which is an annual event started by our founder Mr. C.A. Harischandra.



The Company was one of a main sponsor of the 4th Ruhuna International Science & Technology Conference and 5th International Conference on Management & Economics conducted by the University of Ruhuna.



Company sponsored the concert of Senehasa Children Resource Centre, an organization that provides care for children with disabilities and special needs in Southern province.



The Company donated patient transport trolleys, mattresses and other related equipment to the operating theater of General Hospital, Matara.



Company sponsored for the awards and certificates to recognize the service of blood donors in Southern province distributed at a function organized by the Southern Regional Blood Centre commemorating the World Blood Donors' Day.



A special committee was formed within the Company consisting staff members to monitor and take preventive action to eliminate the mosquitoes inside the factory premises with the objective of assuring healthy environment within the Company premises.



One of the main sponsors for National Conference of Association of Accounting Technicians of Sri Lanka.



CORPORATE GOVERNANCE

"Corporate Governance" is a generic term that describes the ways in which rights and responsibilities are distributed among the various corporate bodies according to the rules, processes or laws to which they are subject. In practice, corporate governance defines the decision-making systems and structure through which owners directly or indirectly control a company. The Board of Directors of Harischandra Mills PLC 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 practice within the Company based on a generally accepted policy framework, which emphasizes transparency, control and accountability.

Board of Directors and its Role

The Board of Directors as of 31 March 2017 has seven members; four executive and three non-executive. Three non executive directors are considered as independent in terms of the listing rules laid down by the Colombo Stock Exchange and have submitted annual independence declarations. The directors act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of Harischandra Mills PLC. They are well aware of your Company's activities and give direction for long-term strategy, seeking and contributing views and opinions on strategic options proposed by the senior management of the Company. The directors also ensure that the Company is compliant with the provisions of the Companies Act No. 07 of 2007 and other statutory regulations.

The board meets on a quarterly basis and has timely access to information needed to effectively discharge its duties. Directors receive a comprehensive package of relevant and timely information on all issues prior to each meeting, thus providing them with the opportunity to make effective contributions to the decisions of the board.

Such meetings are attended by both the executive as well as the non executive board members and are headed by the Chairman. At these meetings the board reviews;

- Monthly performance of the Company against the budget
- Formulation, monitoring and implementation of sound business strategies, internal controls and risk management procedures that are in place and monitor their effectiveness and initiate changes where required
- Secure effective information, control and audit systems
- Compliance with legal/ethical standards

The details of attendance of board meetings are as follows.

| | Attendance of Board Meetings | | | | | |
|------------------------|------------------------------|------------|------------|------------|------------|------------|
| | 26.04.2016 | 27.05.2016 | 12.08.2016 | 05.10.2016 | 08.11.2016 | 08.02.2017 |
| Mr. M.A. Bastiansz | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. S.N. Samarasinghe | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. G.S.V. De Silva | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mrs. M.P. De Silva | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. T.K. Bandaranayake | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. S.A.S. Jayasundara | ✗ | ✗ | ✓ | ✓ | ✓ | ✓ |
| Mrs. R.K. Samarasinghe | ✓ | ✗ | ✓ | ✗ | ✓ | ✗ |



CORPORATE GOVERNANCE (CONTD.)

At the Annual General Meeting in every year, one of the directors retires by rotation on the basis prescribed in the Articles of Association of the Company and is eligible for re-election. The retiring director eligible for re-election this year is mentioned in the Notice of the AGM on page 02.

Composition of the Board

Non Executive, Independent Directors

- Mr. M.A. Bastiansz (Chairman)
- Mr. T.K. Bandaranayake
- Mr. S.A.S. Jayasundara

Executive Directors

- Mr. S.N. Samarasinghe (Managing director/CEO)
- Mr. G.S.V. De Silva
- Mrs. M.P. De Silva
- Mrs. R.K. Samarasinghe

At present, there are seven directors on the board, whose profiles are given on page 18 in this Annual Report. All the directors have the necessary skills and experience to direct and lead the Company.

The Board has determined that Mr. M.A. Bastiansz is an independent Director in spite of serving on the Board for more than 10 years as it is beneficial to the Company and its shareholders and because Mr. M.A. Bastiansz is not directly involved in the management of the Company.

Board Committees

Audit Committee

The Board formally constituted the Audit Committee comprising of Mr. T.K. Bandaranayake as Chairman and Mr. S.A.S. Jayasundara, non-executive directors to oversee the financial reporting and internal control systems of the Company. This committee is also directed with the task of ensuring that all statutory and regulatory requirements are complied with in preparation of the Financial Statements of the Company in order that they give a true and fair view of the Company's state of affairs.

The Managing Director (CEO) and Chief Financial Officer are invited to the meetings of the Audit Committee as it is required by the members of the committee. Attendance of the Audit Committee meetings were as follows.

| | Attendance of Audit Committee Meetings | | | | |
|------------------------|--|------------|------------|------------|------------|
| | 25.04.2016 | 22.07.2016 | 04.08.2016 | 04.11.2016 | 03.02.2017 |
| Mr. T.K. Bandaranayake | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. S.A.S. Jayasundara | ✓ | ✓ | ✓ | ✓ | ✓ |

The detailed Audit Committee's report including areas reviewed during the financial year 2016/17 is given on Page 15 and 16 of the Annual Report.



CORPORATE GOVERNANCE (CONTD.)

Remuneration Committee

The board also has a Remuneration Committee comprising of following two non executive independent directors and its responsibility is to establish and develop the Company's general policy on remuneration package for executive directors.

- Mr. M.A. Bastiansz (Chairman of the Committee)
- Mr. S.A.S. Jayasundara

The Remuneration Committee met in following occasion during the year.

| | Attendance of Remuneration Committee Meetings | |
|------------------------|---|------------|
| | 08.11.2016 | 08.02.2017 |
| Mr. M.A. Bastiansz | ✓ | ✓ |
| Mr. S.A.S. Jayasundara | ✓ | ✓ |

Related Party Transactions Review Committee

The main objective of the committee is to ensure consistency of the transactions with the code of best practices on related party transactions issued by the SEC. Following directors served as members of the committee during the financial year.

- Mr. M.A. Bastiansz (chairman of the committee)
- Mr. S.A.S. Jayasundara
- Mr. S.N. Samarasinghe

During the Financial year 2016/2017, the Committee held four meetings.

| Director | 27.05.2016 | 12.08.2016 | 08.11.2016 | 08.02.2017 |
|------------------------|------------|------------|------------|------------|
| Mr. M.A. Bastiansz | ✓ | ✓ | ✓ | ✓ |
| Mr. S.A.S. Jayasundara | ✓ | ✓ | ✓ | ✓ |
| Mr. S.N. Samarasinghe | ✓ | ✓ | ✓ | ✓ |

Directors' Interest and Responsibilities

The directors of the Company have made the general disclosures provided for in Section 199(2) of the Companies Act No.07 of 2007 and have been duly entered in the interest register of the Company.

The directors are required by relevant statutory provision to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the Company for that period. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently and reasonably and prudent judgments and estimates have been made. The applicable Sri Lanka Accounting Standards have been followed and explained in the notes to the financial statements.

The directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy of the financial position of the Company and to ensure that the Company's financial statements comply with the provisions of the Companies Act. No. 07 of 2007, the Sri Lanka Accounting Standards and the Listing Rules of the Colombo Stock Exchange.

The directors are also responsible to ensure that reasonable measures are taken to safeguard the assets of the Company at all times. In this context, they have established appropriate systems of internal controls with a view to preventing and detecting of frauds and other irregularities.



CORPORATE GOVERNANCE (CONTD.)

In preparing accounts, the directors continue to adopt the going concern basis. The directors after reviewing the Company's budget and borrowing facilities are of the view that the Company has adequate resources to continue in operation.

Compliance with Legal Requirements

The board is conscious of its responsibilities to the shareholders, the government and the society in which it operates and is unequivocally committed to upholding ethical behavior in conducting its business. The Board of Directors requires that Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and the requirements of the Colombo Stock Exchange.

Relationship with Shareholders

Harischandra Mills PLC aims to ensure that shareholders have access to relevant, up-to-date and consistent financial and non-financial information pertaining to the Company. The Annual Report and quarterly Financial Statements provide the shareholders as well as prospective investors with the required information to assess the Company's past performance and analyse its future prospects.

Corporate Governance Requirements under the Listing Rules of Colombo Stock Exchange

Section 7 of the Listing Rules of the Colombo Stock Exchange requires all Listed Companies to include in their Annual Reports an affirmative statement relating to compliance with the Corporate Governance Rules specified in that section. The table in page 12 contains the required affirmative statement in that regards.

Company Secretary

The Company secretary is qualified to act in this role as per the provisions of the Companies Act No. 07 of 2007.

Internal and External Auditors

The Company's Internal Audit function has been outsourced and quarterly reports are submitted by the Internal Auditor. The management decides on the areas that need to be audited by the Internal Auditor for a given quarter.

The External Auditors are appointed by the shareholders at the Annual General Meeting and are responsible to give their opinion on the Financial Statements prepared by the Company.

At the 64th Annual General Meeting of Harischandra Mills PLC held on 24 September 2016, the shareholders reappointed the Auditors M/s. KPMG and authorised the directors to fix their remuneration. The independent auditors conduct the annual audit in order to provide an external and objective assurance on the way in which the Financial Statements have been prepared and presented.

The Company believes that the real value of corporate governance lies not in blindly satisfying a code of best practice principle but rather in actually securing the confidence of the investors and thereby achieving a lower cost of equity by conducting its affairs with utmost integrity & fairness to all stakeholders.



CORPORATE GOVERNANCE (CONTD.)

| Rule | Requirement | Company Status | Remarks |
|--|--|--|--|
| 7.10.1 Non-Executive Directors | At least one third of the total number of directors should be non-executive directors | Complied | There are three non executive directors in the board |
| 7.10.2a Independent Directors | Two or one third of non-executive directors, whichever is higher should be Independent | Complied | All three non-executive directors are independent. |
| 7.10.2b Independent Directors | Each non-executive director should submit a declaration of independence/non-independence in the prescribed format | Complied | Submitted the independent declarations accordingly. |
| 7.10.3c Disclosure relating to Directors | Names of independent directors should be disclosed in the Annual Report | Complied | Please refer page 09 |
| 7.10.3c Disclosure relating to Directors | A brief resume of each director should be included in the Annual Report including the areas of expertise | Complied | Please refer page 18 |
| 7.10.5 Remuneration Committee | A listed Company shall have a Remuneration Committee | Complied | Please refer page 14 |
| 7.10.5a Composition of Remuneration Committee | The Remuneration Committee shall comprise of non-executive directors a majority of whom will be independent | Complied | Please refer page 14 |
| 7.10.5b Functions of Remuneration Committee | The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors | Complied | Please refer page 14 |
| 7.10.5c Disclosure in the Annual Report relating to Remuneration Committee | The Annual Report should set out; a) Names of directors comprising the Remuneration Committee b) Statement of Remuneration Policy c) Aggregated remuneration paid to executive & non-executive directors | Complied | Please refer pages 14 and 49 |
| 7.10.6 Audit Committee | The Company shall have an Audit Committee | Complied | Names of the members of Audit Committee are set out in Pages 15, 16 |
| 7.10.6a Composition of Audit Committee | The Audit Committee ; * Shall comprise of non-executive directors a majority of whom will be independent. * One non-executive director shall be appointed as the Chairman of the committee * Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings * The Chairman of the Audit Committee or one member should be a member of a professional accounting body | Complied Complied Complied Complied | Please refer page 09 Please refer page 09 Please refer page 15 |
| 7.10.6b Audit Committee functions | The Audit Committee ; Should be as outlined in the Section 7.10.6b of the listing rules | Complied | Please refer pages 15, 16 |
| 7.10.6c Disclosure in the Annual Report relating to Audit Committee | The Annual Report should set out; a) Names of directors comprising the Audit Committee b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance of the functions | Complied | Please refer pages 15 and 16 |



RISK MANAGEMENT

Risk management

Risk Management process is implemented in order to understand, evaluate and address the inherited risks for the Company to maximize the chance of objectives being achieved while ensuring its sustainability. As it is impossible to mitigate these risks completely, an effective process of this management is required to exploit the opportunities bring and allow Company to be aware of possibilities. Hence the following identified risks are major to Company's performance and position and are included in the risk management procedure.

Supply Chain Management

Constant supply of high quality materials, efficient and effective manufacturing and the timely distribution of products is a must for the success of the Company.

Further the cost of raw materials represents the largest portion of manufacturing cost of the Company's product; hence the quality of the product is of paramount importance. The Company is inevitably exposed to the risk of contaminated raw materials accidentally or maliciously throughout the supply chain or product defects which occur due to human error or an equipment failure.

In order to mitigate and minimize these problems, the Company has developed contingency plans of having strong relationship with its key suppliers to control quality by periodical reviews to ensure that they meet rigorous testing and acceptance procedure.

Market Risk

Loss of market share or market leadership in relevant segments due to intense competition, new entrants, changes in customer attitude and economic conditions are treated as identifiable market risk.

Successful customer relationships are vital to our business and continual growth. Maintaining a strong relationship with our customers is necessary for our brand to be well presented and available for purchase all time. Further, great customer satisfaction and the confidence in our products lead to building brand loyalty.

A Well maintained quality assurance department always works according to the procedures and standards to deliver the best to the customer, it will also ensure continuous focus on innovation, regular monitoring of consumer trends, enhance productivity or efficiency to improve price competitiveness, Also Monitor market data, the competitor prices and always strive to give the best price to our customers and strengthen the market position of our brand. Combination of these strategies minimizes the market risk to a considerable level.

Regulatory and Legal Risks

Potential losses arising due to violation of or non-conformance with laws, rules, regulation, prescribed practices, internal policies and procedures or ethical standards are included as regulatory and legal risks. The company is governed by Various laws and regulations including Companies Act, Inland Revenue Act, SEC regulations, and CSE rules.

Failure to comply with laws and regulations could expose Company to civil criminal action leading to damages, fines and criminal sanctions against our employees with possible consequences to our reputation. And also changes to laws and regulations could have a material impact on the cost of doing business.

Therefore we have implemented strong risk management processes to monitor and comply with all laws and regulations applicable to the company. Management of the Company always coordinates with Company lawyers and secretaries to ensure compliance.

Internal audits also carried out every quarter to mitigate the possible risks of not complying with relevant standards.

Financial and Liquidity Risks

The responsibility of the management of the financial risks through continuous monitoring along with financial risk has reduced exposure to credit risk and external financing is very low. Also the liquidity risks, the risk of being unable to fund the business by maintaining adequate cash flows. Cash flows are reviewed continuously and strong relationship are being maintained with financial institutions. The financial indicators and the regular items on the board agenda and emerging trends of both local and global are also taken as ways of managing financial risk.

Human Resources

The Company places strong emphasis on retaining key talent through its employee engagements and talent management strategies including performance evaluation, career guidance, training and development. The Company is aware that the lack of skills and competence in staff could result in the ability of the Company to grow and sustain its performance in the face competition in the market and may also lead to lower productivity and increased costs. The structured and relevant training and development programs are designed to mitigate all risks related to Human Resources.



REMUNERATION COMMITTEE REPORT

The Remuneration Committee consists of two non executive directors, Mr. M.A. Bastiansz (Chairman of the committee) and Mr. S.A.S. Jayasundara.

The role of the Remuneration Committee includes review and recommends to the board total remuneration for executive and non executive directors for the year. The committee evaluates the remuneration by considering the existing market rates and compensation packages offered by other similar companies.

Apart from recommending remuneration of executive directors, the committee reviews the remuneration policy of the Company. The remuneration policy of the Company takes into account; market rates, experience and skills of the employees, employee grade and performance when determining the remuneration package of employees. This will help not only to retain the existing staff but also to attract high calibre employees.

Aggregate remuneration paid to executive directors and non executive directors are disclosed at page 50.

M.A. Bastiansz

Chairman - Remuneration Committee

28 July 2017



AUDIT COMMITTEE REPORT

Role of the Committee

The board has delegated to the committee responsibility for overseeing the financial reporting and internal control of the company as well as the internal audit process and the external audit. The main role of the Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control. In doing this the principal responsibilities of the committee include:

- Reviewing the form and content and monitoring the integrity of the Company's and the Group's Financial Statements.
- Monitoring and reviewing the arrangements for ensuring the objectivity and effectiveness of the external and internal audit functions and in particular, the independence of the External Auditors.
- Recommending to the Board, the appointment, re-appointment or removal of the External Auditors and the fees payable to them.
- Reviewing the adequacy and effectiveness of the Company's internal controls and risk management systems; and -
Reviewing and monitoring the Company's ethical standards, procedures for ensuring compliance with statutory and regulatory requirements and its relationship with the relevant regulatory authorities.

Composition

The Audit Committee consists of independent non-executive directors and presently comprises, Mr. T.K. Bandaranayake (Chairman), a senior Chartered Accountant with extensive audit experience, particularly a retired senior partner of Ernst & Young Sri Lanka after 27 years of service, and Mr. S.A.S. Jayasundara, an attorney at law with many years of commercial sector experience as an independent director of several other companies too.

Meetings of the Committee

The Audit committee met five times in the financial year. The Managing Director (Chief Executive Officer) and Chief Financial Officer attended by invitation and briefed the committee on specific issues. The external and internal auditors were also required to attend meetings where considered necessary.

Activities

During the year under review the committee has carried out the following activities.

Financial Reporting ;

During the year, the committee reviewed financial reporting and related matters including the quarterly and annual Financial Statements, other related annual report information, and announcements prior to submission to the board. The committee focused in particular on key accounting policies and practices adopted by the Company and any significant areas of judgment that materially impacted on reported results.

Internal Audit and Control Issues ;

At its meetings during the year, the committee reviewed the results of the audits undertaken by the Internal Auditors, Messrs, Ernst & Young, and considered the adequacy of management's response to the matters raised, including the implementation of recommendations made by the auditors. It reviewed and approved the internal audit plan for the coming year and the level of resources allocated to the internal audit function.



AUDIT COMMITTEE REPORT (CONTD.)

External Audit;

The committee met with the External Auditors, Messrs KPMG prior to commencement of the annual audit and approved the audit plan presented by them. At the conclusion of the annual audit, the committee met the auditors to discuss the findings of the audit. Non-executive directors had separate meetings with auditors to discuss any sensitive issues and ensure they had no cause to compromise on their independence. Auditors' Management Letter together with the Management's response thereto and the Audited Financial Statements were reviewed with the auditors. The Audit Committee has recommended to the Board of Directors that Messrs. KPMG be reappointed as Auditors for the financial year ending 31st March 2018 subject to the approval of shareholders at the next Annual General Meeting at a fee to be determined by the Board.

T.K. Bandaranayake
Chairman - Audit Committee
28 July 2017



RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Related Party Transactions Review Committee ("The Committee") was formed on 01st January 2016 in terms of the Code of best practice on Related Party transactions ("code") issued by the Securities & Exchange Commission of Sri Lanka and Section 9 of the Listing Rules of the Colombo Stock Exchange ("Listing Rules"). The Committee comprises three Directors including two Non Executive Directors. The composition of the Committee as at 31 March 2017 is;

- Mr. M.A. Bastiansz (Chairman, Non Executive Independent Director)
- Mr. S.A.S. Jayasundara (Non Executive, Independent Director)
- Mr. S.N. Samarasinghe (Executive Director)

Objective of the Committee

The objective of the Committee is to ensure that the interests of shareholders as a whole are taken into account by the Company when entering into Related Party Transactions, in compliance with the provisions of the Code and Listing Rules.

Role and Responsibilities

The mandate of the Committee is derived from the Code and the Listing Rules and includes mainly the following:

- Developing and maintaining a related party transactions policy consistent with the provisions of the Code and the Listing Rules.
- Reviewing all proposed Related Party Transactions ("RPT") to ensure compliance with the provisions of the Code and the Listing Rules.
- Advising the Board of Directors on making immediate market disclosures and disclosures in the Annual Report where necessary, in relation to non - recurrent and recurrent related party transactions.
- Setting guidelines for senior management to follow in such circumstances.

Reporting to the Board

The Committee held meetings every quarter and reviewed all related party transactions of the Company in order to ensure that those transactions have taken place in accordance with the guidelines established by the Committee in compliance with the Code and Listing rules. The Committee was satisfied that all related party transactions were in compliance with the Code and Listing Rules. The minutes of the meetings are tabled at Board meetings.

On behalf of the Board Related Party Transactions Review Committee.

M. A. Bastiansz

Chairman - Related Party Transactions Review Committee

28 July 2017



BOARD OF DIRECTORS

Mr. M.A. Bastiansz

Independent Non Executive Chairman

Mr. Bastiansz was appointed to the Board as the Chairman of Harischandra Mills PLC in November 2005. He is the Chairman of the Remuneration Committee and Related Party Transactions Review Committee of the Board. He holds a LLB Degree from the University of Ceylon and is an Attorney-at-Law by profession.

Mr. S.N. Samarasinghe

Managing Director/Executive Director

Mr. Samarasinghe joined the Company in 1990 as Commercial Manager and was appointed to the Board of Directors in 1993. In October 2000 he was appointed as the Managing Director. He has overall responsibility for the production, finance, marketing and human resource functions of the Company.

He has a BSc.(Hons) from the University of Leeds UK, Post Graduate Diploma in Business and Financial Administration awarded by the Institute of Chartered Accountants of Sri Lanka and a Post Graduate Certificate in Corporate Business Finance from the Post Graduate Institute of Management, University of Sri Jayawardenapura.

Mr. G.S.V. De Silva

Executive Director

Mr. De Silva joined Harischandra Mills PLC as a Non executive director in July 1978. He has gained wide and varied experience in all aspects of the Company. Prior to joining Harischandra Mills PLC he worked as an Accountant at Sri Lanka Transport Board.

Mrs. M.P. De Silva

Executive Director

Mrs. De Silva joined Harischandra Mills PLC as a Non executive director in January 1993, and was appointed as an executive director in February 1999. She currently heads the bakery division of the Company. She has been responsible for the innovation of a wide range of bottled and packeted Food Products which are made under her supervision.

Mr. Tissa K. Bandaranayake

Independent Non Executive Director

A Fellow member of the Institute of Chartered Accountants of Sri Lanka. Holds a BSc. degree from the University of Ceylon.

Retired from Ernst & Young as a senior partner in 2009 after 27 year of service.

A former Chairman of the Audit Faculty and the current Chairman of the Quality Assurance Board of Sri Lanka established by the Institute of Chartered Accountants of Sri Lanka comprising senior professional representatives from both the private sector and state regulatory bodies.

Serves as an independent director of Overseas Realty (Ceylon) PLC, Nawaloka Hospitals PLC, Samson International PLC, Laugfs Gas PLC, Renuka Foods PLC, Renuka Holdings PLC, Micro Holdings Ltd and Brown & Company PLC.

Also serves as a consultant to the Board of Noritake Lanka Porcelain (Pvt) Ltd.

Mr. S.A.S. Jayasundara

Independent Non Executive Director

Mr. Jayasundara joined the Board in June 2007. He holds a LLB degree from the University of Colombo and is an Attorney-at-Law by profession. He is a member of Audit, Remuneration and Related Party Transactions Review Committees of the Board.

He is a Non Executive Director of Bogawanthalawa Tea Estates PLC, Metropolitan Resource Holdings PLC, Bimputh Finance PLC and Sithara Limited. Further he is serving as the chairman of Blue Diamonds Jewellery worldwide PLC, Shraddha TV and Lakviru Radio.

Mrs. R.K. Samarasinghe

Executive Director

Holds Master of Arts from University of Sussex and Master of Social Science from University of Birmingham, and a Post Graduate Diploma in Counselling Psychotherapy. Served as a Counsellor at the University of Fine Arts, Colombo and MIND, Enfield, London.

Mrs. Samarasinghe also served as a lecturer in Social Science Sutton Coldfield College of Further Education, Birmingham England and Kingsway College, London.



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The directors of the Harischandra Mills PLC have pleasure in presenting their report and the audited Financial Statements for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The principal activities of Harischandra Mills PLC and the Group are manufacturing and distribution of Food Products, Soaps and Fuel and Lubricants which are described under Note 1 to the financial Statements on page 33.

| Group Financial Results; | 2016/2017 | 2015/2016 |
|--|------------------|------------------|
| | Rs. 000 | Rs. 000 |
| Profit before taxation | 179,075 | 218,034 |
| Taxation | (53,929) | (76,646) |
| After tax profit attributable to shareholders | 125,146 | 141,388 |
| Other comprehensive income | 5,840 | 1,856 |
| Unappropriated profit brought forward from previous year | 1,130,312 | 1,063,852 |
| Profit available for appropriation | 1,261,298 | 1,207,096 |
| Distribution of Profit : | | |
| Interim dividend paid | 38,392 | 38,392 |
| Final dividend paid | 43,192 | 38,392 |
| | 81,584 | 76,784 |
| | <u>1,179,714</u> | <u>1,130,312</u> |

AUDITORS' REPORT

The auditors' report on the financial statements is given on page 26.

ACCOUNTING POLICIES

The Group and the Company prepared their Financial Statements for all periods up to and including the year ended 31 March 2017, in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) which have materially converged with the International Financial Reporting Standards (IFRS), all existing / new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS. The significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Company are given on pages 33 to 40 of Annual Report.

REVIEW OF BUSINESS

The Chairman's Review, the Managing Director's Report and the Corporate Governance Report which form an integral part of the Director's Report on the state of affairs of the Company, contain a detailed description of the operations of Harischandra Mills PLC during the year ended 31 March 2017 and contain a fair review of the affairs of Harischandra Mills PLC and the Group.



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY (CONTD.)

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The directors are responsible for the preparation of the Financial statements of Harischandra Mills PLC to reflect a true and fair view of the state of its affairs. The directors confirmed that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The directors are satisfied that Financial Statements give a true and fair view of the state of affairs of Harischandra Mills PLC and the Group as at 31 March 2017 as well as the profit for the year then ended.

The directors consider that, in preparing these Financial Statements, appropriate accounting policies have been used which are applied consistently and that all applicable accounting standards have been followed. The Financial Statements are prepared on a going concern basis.

CORPORATE GOVERNANCE

Detail report on corporate governance practices and principles of the Company are set out on pages 08 to 12 of this report. The directors are responsible for the governance of Harischandra Mills PLC including the establishment and maintenance of the systems of internal financial control of the Company.

The directors are satisfied that a strong control environment is established within Harischandra Mills PLC and those internal control systems are operating effectively.

CORPORATE SOCIAL RESPONSIBILITY

Details of social work carried out are included in the Managing Director's report set out on Page 05.

DONATIONS

Donations were Rs. 3,769,476/- compared to Rs. 3,631,414/- donated in the last year. No donations to political organizations were made by the group during the year.

GROUP TURNOVER

The turnover of the Company and its subsidiary together with the segmental performance are set out on the "Notes to the Financial Statements".

FINAL DIVIDEND

The directors paid an interim dividend of Rs. 20/- per share amounting to Rs. 38,392,000/- on 10th July 2017, and propose a final dividend of Rs. 22/- per share, to be paid out of the profits of Harischandra Mills PLC and dividend received for the financial year ended 2016/2017. In recommending the payment of this dividend, the directors unanimously declare that, in their opinion, the Company will satisfy the solvency test stipulated in section 57 of the Companies Act No. 07 of 2007 immediately after the distribution is made and have obtained a certificate of solvency from the Auditors to this effect. Harischandra Mills PLC paid an interim dividend of Rs. 40/- and final dividend of Rs. 45/- per share for the previous year.



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY (CONTD.)

PROVISION FOR TAXATION

Provision made for taxation considering the relevant tax rates laid down by the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto, the details are stated in Note 08 to the Financial Statements.

PROPERTY, PLANT & EQUIPMENT AND DEPRECIATION

Details of the property, plant & equipment of Harischandra Mills PLC, additions made during the year and the depreciation charges for the year are shown in Note 11 to the Financial Statements on page 44.

STATED CAPITAL & RESERVES

The stated capital of Harischandra Mills PLC at the beginning and end of the year under review was Rs. 9,598,000/-, consisting of 959,800 Ordinary Shares.

The total reserves of the Company as at 31 March 2017 amounted to Rs. 1,067,116,576/- (as at 31 March 2016 - Rs. 953,571,052/-) where as the Group total reserve amounted to Rs. 1,219,110,438/- (as at 31 March 2016 - Rs. 1,167,039,120/-) The composition of the reserves is shown in the Statement of Changes in Equity and details of reserves are set out in Note 19 and 20 to the Financial Statements.

POST BALANCE SHEET EVENTS

As per the Directive issued by the Securities and Exchange Commission on 17th November 2016, Listed Public Companies are required to comply with the minimum public holding threshold requirements as a Continuing Listing Requirement on the Main Board of the Colombo Stock Exchange, as at 30th June 2017. Since the Company did not satisfy the stated criteria, the board of directors decided to transfer the shares of the Company from the Main Board of the Colombo Stock Exchange to the Diri Savi Board.

In order to comply with the requirements of Diri Savi Board, at the Extra Ordinary General Meeting held on 05th June 2017, shareholders passed an ordinary resolution to capitalize Rupees Ninety Five Million Nine Hundred and Eighty Thousand (Rs. 95,980,000/-) from and out of retained earnings by allocating nine hundred fifty nine thousand eight hundred (959,800) ordinary shares as fully paid ordinary shares to and among the shareholders.

Interim dividend of Rs. 20.00 per share were paid on 10th July 2017.

Other than the above, there have been no significant events subsequent to the balance sheet date that requires adjustments or disclose in the financial statements.

GOING CONCERN

The board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future and the directors have adopted the going concern basis in preparing the Financial Statements.

CAPITAL COMMITMENTS AND CONTINGENCIES

There were no significant capital commitments and contingencies as at 31 March 2017.



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY (CONTD.)

HUMAN RESOURCES

As at 31 March 2017 Company employed 567 employees whereas it was 555 in the last year end. Aggregate total remuneration in respect of the year was Rs. 345.6 Mn compared to Rs. 319.3 Mn for the last year.

SHAREHOLDERS' INFORMATION

Distribution of the issued shares among the shareholders and classification of shareholders are indicated in page 60 of the Annual Report. There were 494 (2015/16 - 483) registered shareholders as at 31 March 2017.

DIRECTORATE

The directors of Harischandra Mills PLC during the year ended 31.03.2017 are as follows.

| | |
|---|---------------------------------------|
| Mr. M.A. Bastiansz (Chairman) | - Non Executive, Independent Director |
| Mr. S.N. Samarasinghe (Managing Director) | - Executive, Non Independent Director |
| Mr. G.S.V. De Silva | - Executive, Non Independent Director |
| Mrs. M.P. De Silva | - Executive, Non Independent Director |
| Mrs. R.K. Samarasinghe | - Executive, Non Independent Director |
| Mr. T.K. Bandaranayake | - Non Executive, Independent Director |
| Mr. S.A.S. Jayasundara | - Non Executive, Independent Director |

Directors profiles are set out on page 18 in the Annual Report.

MAJOR SHAREHOLDERS

The 20 largest shareholders of Harischandra Mills PLC as at 31 March 2017 are given on page 60 together with an analysis of the shareholdings. As at that date Harischandra Mills PLC had 494 shareholders.

SUB-COMITTEES OF THE BOARD

There are three permanent sub-committees of the Board which are as follows:

1. Audit Committee : Mr. T.K. Bandaranayake (Chairman)
Mr. S.A.S. Jayasundara
2. Remuneration Committee : Mr. M.A. Bastiansz (Chairman)
Mr. S.A.S. Jayasundara
3. Related Party Transactions
Review Committee : Mr. M.A. Bastiansz (Chairman)
Mr. S.A.S. Jayasundara
Mr. S.N. Samarasinghe



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY (CONTD.)

INTEREST REGISTER

The Company has maintained interest register as required by Companies Act No. 07 of 2007.

All directors have made declarations as provided for in section 192 (2) of the Companies Act aforesaid. The related entries were made in the interest register during the year under review.

DIRECTORS' INTEREST IN CONTRACTS

Details of directors' interests in contracts of the Company are disclosed below and provided in note 26 of the Financial Statements.

The directors have no direct or indirect interest or proposed contract other than those disclosed.

Following directors of the Company are also directors of the Harischandra Mills (Distributors) Limited, which is a fully owned subsidiary.

| Name of Director | Position | Shareholding |
|-----------------------|----------------------------|--------------|
| Mr. M.A. Bastiansz | Director (Non - Executive) | Non |
| Mr. S.N. Samarasinghe | Managing Director | 1 Share |
| Mr. G.S.V. De Silva | Director (Executive) | 1 Share |
| Mrs. M.P. De Silva | Director (Executive) | 1 Share |

DIRECTORS' REMUNERATION

The aggregate remuneration paid to executive and non executive directors in respect of the Group and the Company for the financial year ended 31 March 2017 were recorded as Rs. 32,748,849/- (2015/2016 -Rs. 30,838,353/-).

DIRECTORS SHAREHOLDING

| Name of Director | 31 March 2017 | | 01 April 2016 | |
|------------------------|----------------|--------------|----------------|--------------|
| | No of Shares | % | No. of Shares | % |
| Mrs. R.K. Samarasinghe | 135,060 | 14.07 | 135,060 | 14.07 |
| Mr. S.N. Samarasinghe | 38,335 | 3.99 | 38,335 | 3.99 |
| Mr. G.S.V. De Silva | 1,000 | 0.10 | 1,000 | 0.10 |
| Mrs. M.P. De Silva | 2,500 | 0.26 | 2,500 | 0.26 |
| Mr. M.A. Bastiansz | - | - | - | - |
| Mr. T.K. Bandaranayake | - | - | - | - |
| Mr. S.A.S. Jayasundara | - | - | - | - |
| Total | <u>176,895</u> | <u>18.42</u> | <u>176,895</u> | <u>18.42</u> |

APPLICATION OF THE CORPORATE GOVERNANCE RULES OF THE COLOMBO STOCK EXCHANGE

As per the section 7 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance, the details on compliance are set out on page 12 in this annual report.



**ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY
(CONTD.)**

AUDITORS

The Financial Statements for the year ended 31 March 2017 have been audited by M/s. KPMG Chartered Accountants. The auditors do not have any relationship with or any interest in the Company or its subsidiary other than auditors.

Fees to Auditors

The fees of the Auditors during the year were Rs. 1,080,920/- (2015/16 - Rs. 1,000,000/-) for audit work and Rs. 545,467/- (2015/16 - Rs. 483,000/-) for audit related services.

Re-Appointment of Auditors

The Auditors have indicated their willingness to offer themselves for re-appointment. A resolution appointing M/s. KPMG as Auditors and authorizing the directors to fix their remuneration will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

The sixty fifth Annual General Meeting of the Company will be held at the registered office of the Company, No. 11, C.A. Harischandra Mawatha, Matara., on the 23rd September 2017 at 11.00 a.m. The Notice of the sixty fifth Annual General Meeting is on page 2 of the Annual Report.

For and on behalf of the Board

Harischandra Mills PLC

S. N. Samarasinghe - Managing Director

G. S. V. De Silva - Director

Corporate Services (Private) Limited

Secretaries

28 July 2017



STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The directors are responsible, Under the Companies Act. No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Company and the Group for the financial year. The directors are also responsible for ensuring that proper accounting records are kept to disclose, with reasonable accuracy, the financial position and to enable the preparation of the Financial Statements.

The directors confirm that they have complied with these requirements.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The directors also confirm that in preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards. The Financial Statements provide the information required by the Companies Act, the Listing Rules of the Colombo Stock Exchange and the Sri Lanka Accounting Standards.

The directors have taken reasonable measures to safeguard the assets of the Group and, in that context, have instituted appropriate systems of internal control with a view to prevent and detect fraud and other irregularities.

The External Auditors, Messrs KPMG appointed in accordance with the resolution passed at the last Annual General Meeting were provided with every opportunity to undertake whatever inspections they consider appropriate to enable them to form their opinion on the Financial Statements. The report of the Auditors, shown on page 26 sets out their responsibilities in relation to the Financial Statements.

By order of the Board

Corporate Services (Private) Limited

Secretaries

28 July 2017



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.kpmg.com/lk

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF HARISCHANDRA MILLS PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Harischandra Mills PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31st March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 27 to 57 of the annual report.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- (a) The basis of opinion and scope and limitations of the audit are as stated above
- (b) In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company give a true and fair view of its financial position as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS
Colombo
28th July 2017

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG international cooperative ("KPMG International"), a Swiss entity.

M. R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA
Principals - S.R.I.Perera FCMA(UK), LLB, Attorney-at-Law, H.S.Goonewardene ACA
Ms. C.T.K.N. Perera ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA



INCOME STATEMENT

| FOR THE YEAR ENDED 31 MARCH, | Note | GROUP | | COMPANY | |
|---|------|---------------------------|------------------------|---------------------------|------------------------|
| | | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Revenue | 4 | 3,003,823,937 | 2,826,223,246 | 3,003,823,937 | 2,826,223,246 |
| Cost of sales | | <u>(2,408,376,249)</u> | <u>(2,193,852,479)</u> | <u>(2,408,376,249)</u> | <u>(2,193,852,479)</u> |
| Gross profit | | 595,447,688 | 632,370,767 | 595,447,688 | 632,370,767 |
| Other income | 5 | <u>38,911,619</u> | <u>30,889,396</u> | <u>108,211,124</u> | <u>30,889,396</u> |
| | | 634,359,307 | 663,260,163 | 703,658,812 | 663,260,163 |
| Distribution expenses | | <u>(252,063,808)</u> | <u>(257,235,705)</u> | <u>(252,063,808)</u> | <u>(257,235,705)</u> |
| Administrative expenses | | <u>(216,627,216)</u> | <u>(207,256,714)</u> | <u>(216,203,557)</u> | <u>(207,062,924)</u> |
| Operating profit | 6 | <u>165,668,283</u> | <u>198,767,744</u> | <u>235,391,447</u> | <u>198,961,534</u> |
| Net finance income/ (Expenses) | 7 | <u>13,407,182</u> | <u>19,265,970</u> | <u>(8,082,221)</u> | <u>891,069</u> |
| Profit before income tax expense | | 179,075,465 | 218,033,714 | 227,309,226 | 199,852,603 |
| Income tax expense | 8 | <u>(53,929,648)</u> | <u>(76,646,350)</u> | <u>(40,689,754)</u> | <u>(76,519,661)</u> |
| Profit for the year | | <u>125,145,817</u> | <u>141,387,364</u> | <u>186,619,472</u> | <u>123,332,942</u> |
| Profit attributable to equity holders | | 125,145,817 | 141,387,364 | 186,619,472 | 123,332,942 |
| - of the Company | | | | | |
| Profit for the year | | <u>125,145,817</u> | <u>141,387,364</u> | <u>186,619,472</u> | <u>123,332,942</u> |
| Basic earning per share - (Rs.) | 9 | 130.39 | 147.31 | 194.44 | 128.50 |

Figures in bracket indicate deductions.

The notes to the financial statements from page 33 to 57 from an integral part of these consolidated financial statements.



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| FOR THE YEAR ENDED 31 MARCH, | Note | GROUP | | COMPANY | |
|--|------|---------------------------|--------------------|---------------------------|--------------------|
| | | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Profit for the year | | 125,145,817 | 141,387,364 | 186,619,472 | 123,332,942 |
| Other comprehensive income | | | | | |
| Net change in fair value of available for sale | | | | | |
| Financial assets | 14 | 2,669,175 | (3,597,757) | 2,669,175 | (3,597,757) |
| Actuarial gain/ (loss) from re-measurement of employee benefit obligation | 22.1 | 8,110,940 | 1,029,366 | 8,110,940 | 1,029,366 |
| Related tax | 8.2 | (2,271,063) | (288,222) | (2,271,063) | (288,222) |
| Total other comprehensive income for the year | | <u>8,509,052</u> | <u>(2,856,613)</u> | <u>8,509,052</u> | <u>(2,856,613)</u> |
| Total comprehensive income attributable to owners of the Company | | <u>133,654,869</u> | <u>138,530,751</u> | <u>195,128,524</u> | <u>120,476,329</u> |

Figures in bracket indicate deductions.

The notes to the financial statements from page 33 to 57 form an integral part of these consolidated financial statements.



STATEMENT OF FINANCIAL POSITION

| AS AT 31 MARCH, | Note | GROUP | | COMPANY | |
|---|------|----------------------|----------------------|----------------------|----------------------|
| | | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 774,871,464 | 746,850,285 | 774,871,464 | 746,850,285 |
| Intangible assets | 12 | 3,411,945 | 4,018,618 | 3,411,945 | 4,018,618 |
| Investment in subsidiary | 13 | - | - | 70 | 70 |
| Available for sale investment | 14 | 39,064,885 | 35,357,494 | 39,064,885 | 35,357,494 |
| Total non-current assets | | 817,348,294 | 786,226,397 | 817,348,364 | 786,226,467 |
| Current assets | | | | | |
| Inventories | 15 | 154,653,480 | 161,559,826 | 154,653,480 | 161,559,826 |
| Trade and other receivables | 16 | 360,352,034 | 305,935,404 | 360,352,034 | 305,935,404 |
| Tax Recoverable | 25 | 5,623,944 | - | 6,746,271 | - |
| Cash and cash equivalents | 17 | 262,926,865 | 256,111,025 | 262,066,923 | 256,111,025 |
| Total current assets | | 783,556,323 | 723,606,255 | 783,818,708 | 723,606,255 |
| Total assets | | 1,600,904,617 | 1,509,832,652 | 1,601,167,072 | 1,509,832,722 |
| Equity | | | | | |
| Stated capital | 18 | 9,598,000 | 9,598,000 | 9,598,000 | 9,598,000 |
| Other capital reserves | 19 | 7,010,944 | 7,010,944 | 11,014 | 11,014 |
| Available for sale reserve | | 19,544,546 | 16,875,371 | 19,544,546 | 16,875,371 |
| General reserve | 20 | 12,841,000 | 12,841,000 | 12,841,000 | 12,841,000 |
| Retained earnings | | 1,179,713,948 | 1,130,311,805 | 1,034,720,016 | 923,843,667 |
| Total equity attributable to owners of the Company | | 1,228,708,438 | 1,176,637,120 | 1,076,714,576 | 963,169,052 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 21 | 41,284,188 | 34,922,854 | 41,284,188 | 34,922,854 |
| Employee benefit obligation | 22 | 70,186,876 | 70,593,107 | 70,186,876 | 70,593,107 |
| Related party payables | 24 | - | - | 75,395,542 | 137,518,256 |
| Total non-current liabilities | | 111,471,064 | 105,515,961 | 186,866,606 | 243,034,217 |
| Current liabilities | | | | | |
| Trade and other payables | 23 | 154,816,858 | 149,281,043 | 154,677,633 | 149,087,753 |
| Related party payables | 24 | - | - | 77,000,000 | 77,000,000 |
| Current tax liabilities | 25 | - | 10,877,587 | - | 10,020,759 |
| Bank overdraft | 17 | 105,908,257 | 67,520,941 | 105,908,257 | 67,520,941 |
| Total current liabilities | | 260,725,115 | 227,679,571 | 337,585,890 | 303,629,453 |
| Total liabilities | | 372,196,179 | 333,195,532 | 524,452,496 | 546,663,670 |
| Total equity and liabilities | | 1,600,904,617 | 1,509,832,652 | 1,601,167,072 | 1,509,832,722 |

The notes to the financial statements from page 33 to 57 from an integral part of these consolidated financial statements.

I certify that these financial statements comply with the requirements of Companies Act. No.07 of 2007.

C.T. Gajanayake
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these consolidated financial statements.
Approved & Signed on behalf of the Board.

S.N. Samarasinghe
Managing Director
28 July 2017

G.S.V. De Silva
Director



STATEMENT OF CHANGES IN EQUITY

GROUP

| | Stated Capital Rs. | Available for sale Reserve Rs. | Other Capital Reserve Rs. | General Reserve Rs. | Retained Earnings Rs. | Total Equity Rs. |
|---|--------------------------|--------------------------------------|---------------------------------|---------------------------|-----------------------------|------------------------|
| Balance as at 01 April 2015 | 9,598,000 | 20,473,128 | 7,010,944 | 12,841,000 | 1,063,852,329 | 1,113,775,401 |
| Total comprehensive income | - | - | - | - | 141,387,364 | 141,387,364 |
| Profit for the year | - | - | - | - | 1,029,366 | 1,029,366 |
| Other comprehensive income | - | - | - | - | (288,222) | (288,222) |
| Actuarial gain from re-measurement of employee benefits obligation | - | - | - | - | - | - |
| Related taxes | - | (3,597,757) | - | - | 741,144 | (3,597,757) |
| Net change in fair value of available for sale financial assets | - | (3,597,757) | - | - | 142,128,508 | (2,856,613) |
| Total other comprehensive income for the year | - | (3,597,757) | - | - | 142,128,508 | 138,530,751 |
| Total comprehensive income for the year | - | - | - | - | - | - |
| Transactions with owners of the company, recognized directly in equity | - | - | - | - | (38,392,000) | (38,392,000) |
| Interim dividend | - | - | - | - | (38,392,000) | (38,392,000) |
| Final dividend | - | - | - | - | 1,114,968 | 1,114,968 |
| Forfeiture of unclaimed dividend | - | - | - | - | - | - |
| Total transactions with owners of the company | - | - | - | - | (75,669,032) | (75,669,032) |
| Balance as at 31 March 2016 | 9,598,000 | 16,875,371 | 7,010,944 | 12,841,000 | 1,130,311,805 | 1,176,637,120 |
| Balance as at 01 April 2016 | 9,598,000 | 16,875,371 | 7,010,944 | 12,841,000 | 1,130,311,805 | 1,176,637,120 |
| Total comprehensive income | - | - | - | - | 125,145,817 | 125,145,817 |
| Profit for the year | - | - | - | - | 8,110,940 | 8,110,940 |
| Other comprehensive income | - | - | - | - | (2,271,063) | (2,271,063) |
| Actuarial gain from re-measurement of employee benefits obligation | - | - | - | - | - | - |
| Related taxes | - | 2,669,175 | - | - | 5,839,877 | 2,669,175 |
| Net change in fair value of available for sale financial assets | - | 2,669,175 | - | - | 130,985,694 | 8,509,052 |
| Total other comprehensive income for the year | - | 2,669,175 | - | - | 130,985,694 | 133,654,869 |
| Total comprehensive income for the year | - | 2,669,175 | - | - | - | 133,654,869 |
| Transactions with owners of the company, recognized directly in equity | - | - | - | - | (38,392,000) | (38,392,000) |
| Interim dividend | - | - | - | - | (43,191,550) | (43,191,550) |
| Final dividend | - | - | - | - | (81,583,550) | (81,583,550) |
| Total transactions with owners of the company | - | - | - | - | 1,179,713,948 | 1,228,708,438 |
| Balance as at 31 March 2017 | 9,598,000 | 19,544,546 | 7,010,944 | 12,841,000 | 1,179,713,948 | 1,228,708,438 |

Figures in bracket indicate deductions.
The notes to the financial statements from page 33 to 57 from an integral part of these consolidated financial statements.



STATEMENT OF CHANGES IN EQUITY (CONTD.)

| COMPANY | Stated Capital Rs. | Available for sale Reserve Rs. | Other Capital Reserve Rs. | General Reserve Rs. | Retained Earnings Rs. | Total Equity Rs. |
|---|--------------------------|--------------------------------------|---------------------------------|---------------------------|-----------------------------|------------------------|
| Balance as at 01 April 2015 | 9,598,000 | 20,473,128 | 11,014 | 12,841,000 | 875,438,612 | 918,361,754 |
| Total comprehensive income | | | | | | |
| Profit for the year | - | - | - | - | 123,332,942 | 123,332,942 |
| Other comprehensive income | | | | | | |
| Actuarial gain from re-measurement of employee benefits obligation | - | - | - | - | 1,029,366 | 1,029,366 |
| Related taxes | - | - | - | - | (288,222) | (288,222) |
| Net change in fair value of available for sale financial assets | - | (3,597,757) | - | - | - | (3,597,757) |
| Total other comprehensive income for the year | | (3,597,757) | | | 741,144 | (2,856,613) |
| Total comprehensive income for the year | | (3,597,757) | | | 124,074,087 | 120,476,329 |
| Transactions with owners of the company, recognized directly in equity | | | | | | |
| Interim dividend | - | - | - | - | (38,392,000) | (38,392,000) |
| Final dividend | - | - | - | - | (38,392,000) | (38,392,000) |
| Forfeiture of unclaimed dividends | - | - | - | - | 1,114,968 | 1,114,968 |
| Total transactions with owners of the company | | | | | (75,669,032) | (75,669,032) |
| Balance as at 31 March 2016 | 9,598,000 | 16,875,371 | 11,014 | 12,841,000 | 923,843,667 | 963,169,052 |
| Balance as at 01 April 2016 | 9,598,000 | 16,875,371 | 11,014 | 12,841,000 | 923,843,667 | 963,169,052 |
| Total comprehensive income | | | | | | |
| Profit for the year | - | - | - | - | 186,619,472 | 186,619,472 |
| Other comprehensive income | | | | | | |
| Actuarial gain from re-measurement of employee benefits obligation | - | - | - | - | 8,110,940 | 8,110,940 |
| Related taxes | - | - | - | - | (2,271,063) | (2,271,063) |
| Net change in fair value of available for sale financial assets | - | 2,669,175 | - | - | - | 2,669,175 |
| Total other comprehensive income for the year | | 2,669,175 | | | 5,839,877 | 8,509,052 |
| Total comprehensive income for the year | | 2,669,175 | | | 192,459,349 | 195,128,524 |
| Transactions with owners of the company, recognized directly in equity | | | | | | |
| Interim dividend | - | - | - | - | (38,392,000) | (38,392,000) |
| Final dividend | - | - | - | - | (43,191,000) | (43,191,000) |
| Total transactions with owners of the company | | | | | (81,583,000) | (81,583,000) |
| Balance as at 31 March 2017 | 9,598,000 | 19,544,546 | 11,014 | 12,841,000 | 1,034,720,016 | 1,076,714,576 |

Figures in bracket indicate deductions.
The notes to the financial statements from page 33 to 57 from an integral part of these financial statements.



STATEMENT OF CASH FLOWS

| FOR THE YEAR ENDED 31 MARCH, | Note | GROUP | | COMPANY | |
|---|---------|---------------------|----------------------|---------------------|----------------------|
| | | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Cash flows from operating activities | | | | | |
| Profit before income tax expense | | 179,075,465 | 218,033,714 | 227,309,226 | 199,852,603 |
| Adjustment for | | | | | |
| Provision for employee benefit | 22 | 12,672,230 | 11,988,934 | 12,672,230 | 11,988,934 |
| Depreciation/amortization | 11 & 12 | 80,672,375 | 74,988,689 | 80,672,375 | 74,988,689 |
| Interest expenses | 7 | 6,486,741 | 173,752 | 27,976,144 | 18,547,190 |
| Provision of slow moving inventories | 15 | (1,657,583) | 3,000,047 | (1,657,583) | 3,000,047 |
| Profit on disposal of property, plant & equipment | | (25,416,431) | (16,839,034) | (25,416,431) | (16,839,034) |
| Dividend income | | (1,338,216) | (1,379,251) | (70,637,721) | (1,379,251) |
| Interest income | 7 | (17,196,287) | (15,694,865) | (17,196,287) | (15,693,402) |
| Operating profit before working capital changes | | 233,298,294 | 274,271,986 | 233,721,953 | 274,465,776 |
| Change in inventories | | 8,563,929 | (29,260,427) | 8,563,929 | (29,260,427) |
| Change in trade and other receivables | | (51,883,963) | 4,152,882 | (51,883,963) | 4,152,882 |
| Change in related party payables | | - | - | (83,614,725) | 308,238 |
| Change in trade and other payables | | 5,535,815 | (6,710,016) | 5,589,881 | (6,753,305) |
| Cash generated from operations | | 195,514,075 | 242,454,425 | 112,377,075 | 242,913,164 |
| Gratuity paid | 22 | (4,967,521) | (4,182,476) | (4,967,521) | (4,182,476) |
| Interest paid | | (6,486,741) | (173,752) | (6,484,133) | (173,752) |
| Income tax paid | 25 | (66,340,908) | (90,536,281) | (53,366,513) | (90,536,134) |
| Net cash flows generated from operating activities | | 117,718,905 | 147,561,916 | 47,558,908 | 148,020,802 |
| Cash flows from investing activities | | | | | |
| Interest received | | 14,663,618 | 11,021,760 | 14,663,618 | 11,020,296 |
| Dividend received | | 1,338,216 | 1,379,251 | 70,637,721 | 1,379,251 |
| Proceeds from disposal of property, plant and equipment | | 25,964,777 | 16,918,901 | 25,964,777 | 16,918,901 |
| Acquisition of property, plant and equipment | | (108,635,226) | (183,033,749) | (108,635,226) | (183,033,749) |
| Investment in units | | (1,038,216) | (1,004,251) | (1,038,216) | (1,004,251) |
| Cash flows from/ (used in) investing activities | | (67,706,831) | (154,718,088) | 1,592,674 | (154,719,552) |
| Cash flows from financing activities | | | | | |
| Dividends paid | | (81,583,550) | (76,784,000) | (81,583,000) | (76,784,000) |
| Cash flows used in financing activities | | (81,583,550) | (76,784,000) | (81,583,000) | (76,784,000) |
| Net change in cash and cash equivalents | | (31,571,476) | (83,940,172) | (32,431,418) | (83,482,750) |
| Cash and cash equivalents at the beginning | | 188,590,084 | 272,530,256 | 188,590,084 | 272,072,834 |
| Cash and cash equivalents at the end (Note 17) | | 157,018,608 | 188,590,084 | 156,158,666 | 188,590,084 |

figures in bracket indicate deductions.

The notes to the financial statements from page 33 to 57 from an integral part of these consolidated financial statements.



NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Harischandra Mills PLC (the "Company") is a public quoted Company incorporated and domiciled in Sri Lanka since 09th January 1953 with limited liability. The Registered Office and the principal place of business of the Company are located at No.11, C. A. Harischandra Mawatha, Matara.

The consolidated Financial Statements of the Group as at and for year ended 31 March, 2017 comprise the financial information of the Company and its subsidiary, Harischandra Mills (Distributors) Limited (together referred to as the "Group" and individually as "Group entities").

The Company does not have any identifiable parent of its own.

The principal activities of the Company and the Group are manufacturing and distributing of food, soap items and sales of fuel and lubricants.

There were no significant changes in the nature of principal activities of the Company and the Group during the financial year under review.

In the year 2014 directors of the Company decided to transfer the distributorship of Harischandra Mills (Distributors) Limited to Harischandra Mills PLC. Accordingly, the Principal commercial operation of Harischandra Mills (Distributors) Limited is now been transferred to the parent Company.

The Financial Statements of both companies in the Group are prepared to a common financial year, which is ended on 31 March.

Both Company and the Group had 567 (2015/16-555) employees at the end of the financial year.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Changes in Equity and Statement of Cash Flows together with the notes, (the "Financial Statements") of the Company and the Group as at 31 March 2017 and for the period then ended have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS

(corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka and complies with requirements of the Companies Act No 07 of 2007.

2.2 Basis of Measurement

The Financial Statements have been prepared on historical cost basis except for following items, which are measured on alternative basis on each reporting date.

- Actuarial valuation method has been adopted to estimate defined benefit liability.
- Financial assets classified as Available for sale are measured at fair value.

2.3 Functional & Presentation Currency

The Financial Statements of the Company and the Group are presented in Sri Lankan Rupees, which is the Group's functional currency.

2.4 Use of Estimates & Judgments

In preparing Financial Statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

In particular information about significant areas of estimates and uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognized in Financial Statements are described in following note.

Note 22 -Employee benefit obligation – Key actuarial assumptions.

2.5 Measurement of Fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non - financial assets and liabilities. The management has overall responsibility for overseeing all Significant fair value measurement including level 3 fair value.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

The management team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair value the management assess the evidence obtained from the third party to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Audit Committee. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices.)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3. SIGNIFICANT ACCOUNTING POLICIES

The group consistently applied the following accounting policies for all periods presented in these financial Statements.

3.1 Basis of Consolidation

3.1.1 Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include

amounts related to the settlement of Pre- Existing relationship. Such amounts generally recognized in profit or loss.

3.1.2 Subsidiary

Subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiary is included in the consolidated financial statements from date on which control commences until the date on which control ceases.

3.1.3 Non - Controlling Interests

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. The Company does not have any non controlling interest as of the reporting date.

3.1.4 Transactions Eliminated on Consolidation

Intra-group balances & transactions and any unrealized income and expenses arising from intra- group transactions are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign Currency Transactions

Transactions in foreign currencies are translated into functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the exchange rate prevailing as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost at the reporting date are translated into functional currency Lankan Rupees at the foreign exchange rate prevailing at the date of initial transaction.

Non-monetary assets & liabilities that are measured at fair value, denominated in foreign currencies are translated into functional currency at the exchange rate when the fair values were determined. Foreign exchange differences arising on transactions are recognized in the income statement.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

3.3. Property, Plant & Equipment

3.3.1 Basis of Recognition

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self constructed asset includes the cost of materials and direct labour, the initial estimate, when relevant to the cost of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of overheads.

The cost of acquisition includes purchase cost together with any incidental expenses incurred in bringing the assets to working condition for the intended use.

When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

3.3.1.1 Subsequent Cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

3.3.1.2 De-recognition

Any gain or loss on disposal of an item of property, plant and equipment is recognized in Income Statement when the item is derecognized.

3.3.1.3 Depreciation

Depreciation is recognized in the Statement of Comprehensive Income on straight-line basis over the estimated useful lives of each part of an item of Property, Plant and Equipment. Freehold land is not depreciated. The estimated useful lives for the current and comparative periods are as follows.

| | |
|-----------------------|------------|
| Buildings | 50 years |
| Plant & machinery | 13.3 years |
| Office, factory & | |
| Laboratory equipments | 10 years |
| Furniture & fittings | 20 years |
| Motor vehicles | 4 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3.3.1.4 Capital Work- In - Progress

Capital expenses incurred during the year which are not completed as at the reporting date are shown as Capital Work-in-Progress, whilst the capital assets which have been completed during the year and in use have been transferred to property, plant & equipment.

3.3.2 Intangible Assets

3.3.2.1 Basis of Recognition

An Intangible asset is recognized if it is probable that future economic benefits that are attributable to the assets will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standards - LKAS 38 "Intangible Assets."

3.3.2.2 Subsequent Expenditure

Subsequent expenditure is capitalized only when it is increased the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the Statement of Comprehensive Income when it is incurred.

3.3.2.3 Useful Economic Life and Amortization

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The intangible assets included in the financial statements represent cost of computer software and the amortization rate is as follows.

Computer Software - 5 years

Above rate is consistent with the rate in the previous years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

3.4 Financial Instruments

3.4.1 Non - derivative Financial Assets

The group classifies non – derivative financial assets into following categories. Financial assets at fair value through profit or loss, held to maturity financial assets, loan and receivable and available for sale financial assets.

As of reporting date, the group has available for sale financial assets, loans and receivables.

3.4.1.1 Initial Recognition and Measurement

The group initially recognizes loans and receivables on the date when they are originated. All other financial Assets are initially recognized on the trade date, when the Group becomes a party to the contractual provisions of the financial instruments.

3.4.1.2 Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an actual market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method. Loans and receivables comprise trade and other receivables and cash and cash equivalents.

3.4.1.3 Financial Assets Available-for-Sale (AFS)

These assets are initially measured at fair value plus any directly attributable transaction cost.

Subsequent to initial recognition they are measured at fair value and the changes therein, other than impairment losses are recognized in other Comprehensive income and accumulated fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Available for sale assets comprise of investment in unit trusts.

3.4.1.4 Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the

right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate assets or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.4.2 Non-Derivative Financial Liabilities

3.4.2.1 Initial Recognition and Measurement

Financial liabilities are initially recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument.

Financial Liabilities are recognized initially at fair value less directly attributable transaction costs.

The group classifies non – derivative financial liabilities into other financial liabilities comprise of Trade and other payable, Related Party Payables and bank overdrafts.

3.4.2.2 Subsequent Measurement

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

3.4.2.3 Derecognition

The group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

3.5 Impairment

3.5.1 Non Derivative financial assets

Financial assets not classified as fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. Objective evidence that financial assets are impaired includes;

- Default by debtor
- Indication that debtor will enter bankruptcy

3.5.2 Financial Assets measured at amortized cost;

The Group considers evidence of impairment for receivables at specific asset level. All receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3.5.3 Available for sale financial assets:

Impairment losses on AFS financial assets are recognized by reclassifying the losses accumulated in fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss.

3.5.4 Non Financial Assets

The carrying amount of the Group's non-financial assets other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of the impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or Cash Generating Unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate

that reflects the current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

An impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.6 Share Capital

3.6.1 Ordinary shares

Ordinary shares are classified as equity, incremental cost directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

3.7 Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the Weighted Average principle, and includes expenditure incurred in acquiring the inventories, production or conversion cost and other cost incurred in bringing them to their existing location and condition. In relation to Work In Progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

3.8 Liabilities and Provisions

3.8.1 Liabilities

Liabilities classified as current liabilities in the Statement of Financial Position are those, which fall due for payment on demand or within one year from the reporting date.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Non - current liabilities are those balances that fall due for payment after one year from the reporting date.

3.8.2 Provisions

A provision is recognized in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of the past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at present rate that reflects current market assessments of time value of money and risks specific to the liability.

3.8.3 Employee Benefits

3.8.3.1 Defined Contribution Plans

A defined contribution plan is a post employment plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognized as expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Employees Provident Fund - Managed by Harischandra Mills PLC Provident Fund Association

Both the Company and employees who are paid on monthly pay basis (Payroll Employees), contribute 15% on the salary of each employee to the Approved Private Provident Fund.

Employees Trust Fund

The Group/Company contributes 3% of the salary of each employee to the Employees' Trust Fund. Contributions to defined contribution plans are recognized as an expense in the income statement as it is incurred.

3.8.4 Retiring Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan.

In accordance with the Gratuity Act No. 12 of 1963, a liability arises for a defined benefit obligation to employees. Such defined benefit obligation is a post-employment benefit obligation falling within the scope of Sri Lanka Accounting Standard LKAS 19-'Employee Benefits.'

The calculation is performed annually by a qualified actuary using the projected unit credit method (PUC). The Group recognizes all actuarial gains or losses arising from defined benefit obligation immediately in other comprehensive income.

3.8.5 Capital Commitments & Contingencies

Contingent liabilities are possible obligation whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured.

Capital commitment and contingent liabilities of the Group are disclosed in the respective notes to the financial statements.

3.8.6 Events Subsequent to Reporting Period

The materiality of the events after the reporting date has been considered and appropriate adjustments and provisions have been made in the Financial Statement wherever necessary.

3.9 Statement of Profit or Loss and Other Comprehensive Income

3.9.1 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Group, and the 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 revenue related taxes, and after eliminating inter Company sales within the Group.

Revenue from the sale of goods is recognized in the Statement of Comprehensive Income when the significant risks and rewards of ownership have been transferred to the buyer.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

3.9.2 Profit on Disposal of Property, Plants & Equipment

Profits or losses resulting from disposal of property, plants & equipment have been accounted in the Statement of Comprehensive Income.

3.9.3 Rental Income

Rental income is recognized on an accrual basis.

3.9.4 Dividend Income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

3.9.5 Expenditure

All expenditure incurred in running of the business and maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year. For the purpose of presentation of Statement of Comprehensive Income, the Directors are of the opinion that function of expense present fairly the elements of the enterprise's performance, hence such presentation method is adopted.

Expenditure incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

Repairs and renewals are charged to Statement of Comprehensive Income in the year in which the expenditure is incurred.

The profit earned by the Group before taxation as shown in the income statement is after making provision for all known liabilities and for the depreciation of property, plants & equipments.

3.9.6 Net Finance Expense

Finance expense comprises interest payable on borrowing and foreign exchange losses.

Finance income comprises interest received on funds invested and foreign exchange gains. Interest income and expenses are recognized on an accrual basis.

3.9.7 Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized directly in Profit or loss except to the extent that it relates to items recognized directly in other comprehensive income.

3.9.7.1 Current Tax

Current tax comprises the expected tax payable on the taxable income for the year and adjustment to tax payable in respect of previous year. The amount of tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

3.9.7.2 Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for taxation purpose.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset only if a certain criteria are met.

3.9.7.3 Withholding tax on Dividends

Dividend distributed out of taxable profit of the subsidiary attracts a 10% deduction at source and is not available for set off against the tax liability of the Company. Thus the withholding tax deducted at the source is added to the tax expense of the subsidiary in the consolidated financial statement as a consolidation adjustment.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

3.10 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the "indirect method." Interest paid are classified as operating cash flows, interest and dividend received are classified as investing cash flows while dividends paid are classified as financing cash flows for the purpose of presenting of Statement of Cash Flows.

3.11 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or service (business segment) , or in providing products or service with in a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmentation has been determined based on the Group's management and internal reporting structure. Segment information is based on the primary format representing the industry segments of the Group. Which is provided in note 32 to the Financial Statements.

Based on the nature of the Group, segment information has not been provided on a secondary format representing the geographical area. Inter segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.12 Comparative Information

Previous year figures and phrases have been rearranged and reclassified wherever necessary to conform to the current year's presentation.

3.13 New Accounting Standard Not Effective at the Reporting Date.

The following SLFRS have been issued by the institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

3.13.1 Standards issued but not yet adopted which may have significant impact.

Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments Classification and Measurement"

"SLFRS 9, issued in 2004, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. Effective date of SLFRS 9 is for annual periods on or after 01 January 2018."

The Group is assessing the potential impact on its Financial Statement resulting from the application of SLFRS 9.

Sri Lanka Accounting Standard - SLFRS 15 "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 "Revenue", LKAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes". SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

| FOR THE YEAR ENDED 31 MARCH, | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| 4. REVENUE | | | | |
| Food products | 2,004,141,463 | 1,793,853,236 | 2,004,141,463 | 1,793,853,236 |
| Soap products | 250,071,073 | 282,734,178 | 250,071,073 | 282,734,178 |
| Fuel and Lubricants | 749,611,401 | 749,635,832 | 749,611,401 | 749,635,832 |
| | <u>3,003,823,937</u> | <u>2,826,223,246</u> | <u>3,003,823,937</u> | <u>2,826,223,246</u> |
| 5. OTHER INCOME | | | | |
| Dividend income | 1,338,216 | 1,379,251 | 70,637,721 | 1,379,251 |
| Rental income | 1,077,120 | 721,076 | 1,077,120 | 721,076 |
| Profit on disposal of property, plant & equipment | 25,416,431 | 16,839,034 | 25,416,431 | 16,839,034 |
| Staff loan interest income | 2,802,997 | 2,458,599 | 2,802,997 | 2,458,599 |
| Sundry income (Note 5.1) | 8,276,855 | 9,491,436 | 8,276,855 | 9,491,436 |
| | <u>38,911,619</u> | <u>30,889,396</u> | <u>108,211,124</u> | <u>30,889,396</u> |
| 5.1 Sundry income | | | | |
| Sale of disposable material | 7,247,020 | 8,493,328 | 7,247,020 | 8,493,328 |
| Sundry receipts | 1,029,835 | 998,108 | 1,029,835 | 998,108 |
| | <u>8,276,855</u> | <u>9,491,436</u> | <u>8,276,855</u> | <u>9,491,436</u> |
| 6. RESULTS FROM OPERATING ACTIVITIES | | | | |
| Results from operating activities are stated after charging all expenses including following; | | | | |
| Directors' emoluments | 32,748,849 | 30,838,353 | 32,748,849 | 30,838,353 |
| Auditors' remuneration | | | | |
| Audit | 1,080,920 | 1,000,000 | 930,920 | 850,000 |
| Audit related | 545,467 | 483,000 | 390,390 | 451,000 |
| Depreciation and amortization | 80,672,375 | 74,988,689 | 80,672,375 | 74,988,689 |
| Donations | 3,769,476 | 3,631,414 | 3,769,476 | 3,631,414 |
| Staff related expenses (Note 6.1) | 345,637,114 | 319,311,898 | 345,637,114 | 319,311,898 |
| Inventory slow moving provision | (1,657,583) | 3,000,047 | (1,657,583) | 3,000,047 |
| 6.1 Staff related expenses | | | | |
| Salaries and wages | 237,576,349 | 215,960,061 | 237,576,349 | 215,960,061 |
| Defined contribution plan | 32,089,905 | 28,355,189 | 32,089,905 | 28,355,189 |
| Bonus | 41,030,686 | 38,964,718 | 41,030,686 | 38,964,718 |
| Staff welfare | 22,267,944 | 24,042,996 | 22,267,944 | 24,042,996 |
| Defined benefit plan - Retiring gratuity | 12,672,230 | 11,988,934 | 12,672,230 | 11,988,934 |
| | <u>345,637,114</u> | <u>319,311,898</u> | <u>345,637,114</u> | <u>319,311,898</u> |
| Average number of employees | <u>567</u> | <u>555</u> | <u>567</u> | <u>555</u> |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

| FOR THE YEAR ENDED 31 MARCH, | GROUP | | COMPANY | |
|---|--------------------|--------------------|---------------------|---------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| 7. NET FINANCE INCOME | | | | |
| 7.1 Finance income | | | | |
| Interest income on fixed deposits | 17,196,287 | 15,694,865 | 17,196,287 | 15,693,402 |
| Profit from translation of foreign currencies | 2,697,636 | 3,744,857 | 2,697,636 | 3,744,857 |
| | <u>19,893,923</u> | <u>19,439,722</u> | <u>19,893,923</u> | <u>19,438,259</u> |
| 7.2 Finance expenses | | | | |
| Interest expenses on overdraft facilities | (6,486,741) | (173,752) | (6,484,133) | (173,752) |
| Interest expenses on related party payable (Note 24.1) | - | - | (21,492,011) | (18,373,438) |
| | <u>(6,486,741)</u> | <u>(173,752)</u> | <u>(27,976,144)</u> | <u>(18,547,190)</u> |
| Net finance income | <u>13,407,182</u> | <u>19,265,970</u> | <u>(8,082,221)</u> | <u>891,069</u> |
| 8. INCOME TAX EXPENSE | | | | |
| 8.1 Amounts recognized in profit or loss | | | | |
| Current tax expense | | | | |
| On current year profits (Note 8.3) | 41,993,707 | 60,172,077 | 36,453,758 | 56,863,115 |
| Adjustments in respect of prior years | 145,725 | 14,171,024 | 145,725 | 17,353,297 |
| Taxes on inter company dividend | 7,699,945 | - | - | - |
| Deferred tax expense | | | | |
| Origination of temporary differences (Note 21) | 4,090,271 | 2,303,249 | 4,090,271 | 2,303,249 |
| Tax expense on continuing operations | <u>53,929,648</u> | <u>76,646,350</u> | <u>40,689,754</u> | <u>76,519,661</u> |
| 8.2 Amounts recognised in other comprehensive income | | | | |
| Deferred tax reversal on actuarial loss (Note 21) | 2,271,063 | 288,222 | 2,271,063 | 288,222 |
| | <u>2,271,063</u> | <u>288,222</u> | <u>2,271,063</u> | <u>288,222</u> |
| 8.3 Tax reconciliation statement | | | | |
| Profit before income tax expense | 179,075,465 | 218,033,714 | 227,309,226 | 199,852,603 |
| Income not liable to tax | (1,338,216) | (1,379,251) | (70,637,721) | (1,379,251) |
| Expenses disallowed for tax | 161,511,021 | 156,552,664 | 161,087,384 | 156,552,664 |
| Expenses allowed for tax | (165,870,208) | (129,777,950) | (165,870,208) | (129,777,950) |
| Qualifying payments | (23,038,389) | (27,778,286) | (21,334,518) | (21,414,897) |
| Taxable profit | <u>150,339,673</u> | <u>215,650,891</u> | <u>130,554,163</u> | <u>203,833,169</u> |
| Income tax at 12% | 76,056 | 157,631 | 76,056 | 157,631 |
| Income tax at 28% | 41,917,651 | 60,014,446 | 36,377,702 | 56,705,484 |
| On current year profits | <u>41,993,707</u> | <u>60,172,077</u> | <u>36,453,758</u> | <u>56,863,115</u> |
| Effective tax rate | <u>23.45%</u> | <u>27.60%</u> | <u>16.04%</u> | <u>28.45%</u> |

The provision for income tax has been made in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto, at the rate of 28% and the tax on export profit at 12%.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

9. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

| FOR THE YEAR ENDED 31 MARCH, | GROUP | | COMPANY | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Profit attributable to ordinary shareholders | <u>125,145,817</u> | <u>141,387,364</u> | <u>186,619,472</u> | <u>123,332,942</u> |
| Number of ordinary shares | <u>959,800</u> | <u>959,800</u> | <u>959,800</u> | <u>959,800</u> |
| Basic earnings per share (Rs.) | <u>130.39</u> | <u>147.31</u> | <u>194.44</u> | <u>128.50</u> |

10. DIVIDEND PER SHARE

Equity dividend on ordinary shares declared and paid during the year.

| | | | | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| Interim dividend | <u>38,392,000</u> | 38,392,000 | <u>38,392,000</u> | 38,392,000 |
| Final dividend | <u>43,191,550</u> | <u>38,392,000</u> | <u>43,191,000</u> | <u>38,392,000</u> |
| | <u>81,583,550</u> | <u>76,784,000</u> | <u>81,583,000</u> | <u>76,784,000</u> |
| Number of ordinary shares | <u>959,800</u> | 959,800 | <u>959,800</u> | 959,800 |
| Dividend per share (Rs.) | <u>85.00</u> | <u>80.00</u> | <u>85.00</u> | <u>80.00</u> |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

11. PROPERTY, PLANT AND EQUIPMENT

GROUP / COMPANY

| | Freehold land | Buildings | Plant & machinery | Office factory & laboratory equipment | Motor vehicles | Furniture & fittings | Total 2017 | Total 2016 |
|---|--------------------|-------------------|--------------------|---------------------------------------|--------------------|----------------------|----------------------|---------------------|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Cost | | | | | | | | |
| As at 01 April | 299,062,500 | 80,774,710 | 175,335,623 | 45,718,349 | 376,534,711 | 9,444,531 | 986,870,424 | 923,008,111 |
| Additions | - | 154,223 | 184,101 | 617,237 | - | 711,946 | 1,667,507 | 14,247,750 |
| Transfers from CWIP (Note 11.1) | - | 12,174,271 | 98,203,596 | 6,783,601 | 43,913,399 | 1,830,599 | 162,905,466 | 70,080,042 |
| Disposals | - | - | (235,000) | (918,344) | (35,098,465) | (72,620) | (36,324,429) | (20,465,479) |
| As at 31 March | 299,062,500 | 93,103,204 | 273,488,320 | 52,200,843 | 385,349,645 | 11,914,456 | 1,115,118,968 | 986,870,424 |
| Accumulated depreciation | | | | | | | | |
| As at 01 April | - | 15,536,083 | 38,546,755 | 16,949,645 | 268,176,609 | 2,517,303 | 341,726,395 | 288,502,021 |
| Charge for the year | - | 3,779,850 | 16,646,130 | 4,325,573 | 53,726,288 | 741,861 | 79,219,702 | 73,609,986 |
| On disposals | - | - | (62,563) | (570,814) | (35,098,465) | (44,241) | (35,776,083) | (20,385,612) |
| As at 31 March | - | 19,315,933 | 55,130,322 | 20,704,404 | 286,804,432 | 3,214,923 | 385,170,014 | 341,726,395 |
| Carrying amounts as at 31 March 2017 | 299,062,500 | 73,787,271 | 218,357,998 | 31,496,439 | 98,545,213 | 8,699,533 | 729,948,954 | - |
| Carrying amounts as at 31 March 2016 | 299,062,500 | 65,238,627 | 136,788,868 | 28,768,704 | 108,358,102 | 6,927,228 | - | 645,144,029 |
| Capital work in progress (Note 11.1) | | | | | | | | |
| Net carrying amount as at 31 March | | | | | | | 44,922,510 | 101,706,256 |
| | | | | | | | 774,871,464 | 746,850,285 |
| 11.1 Capital work in progress (CWIP) | | | | | | | | |
| As at 01 April | | | | | | | 101,706,256 | 3,595,957 |
| Incurred during the year | | | | | | | 106,967,720 | 168,785,999 |
| Capitalized during the year | | | | | | | (162,905,466) | (70,080,042) |
| Tangible assets | | | | | | | (846,000) | (595,658) |
| Intangible assets | | | | | | | 44,922,510 | 101,706,256 |
| As at 31 March | | | | | | | | |

11.2 The cost of fully depreciated property, plant and equipment as at reporting date amounted to Rs. 182,309,442/- (2016, Rs. 162,825,206/-)

11.3 No Property plant & Equipment pledged as security for liabilities.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

11.4 Company properties

| Asset type | Location | Extent | | | Value |
|------------|--|-----------------|----|------|--------------------|
| | | A | R | P | |
| Land | 11, C.A. Harischandra Mawatha, Matara. | 04 | 02 | 20 | 138,750,000 |
| | 455, Bauddhaloka Mawatha, Colombo 08 | 00 | 01 | 2.75 | <u>160,312,500</u> |
| | | | | | <u>299,062,500</u> |
| Buildings | 11, C.A. Harischandra Mawatha, Matara. | No of buildings | | | Value |
| | | 42 | | | 80,580,237 |
| | 455, Bauddhaloka Mawatha, Colombo 08 | 02 | | | 12,522,967 |
| | | <u>44</u> | | | <u>93,103,204</u> |

| AS AT 31 MARCH, | GROUP | | COMPANY | |
|---------------------------------------|--------------------|------------------|--------------------|------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| 12. INTANGIBLE ASSETS | | | | |
| Computer Software | | | | |
| Cost | | | | |
| As at 01 April | 9,118,530 | 8,522,872 | 9,118,530 | 8,522,872 |
| Transferred from CWIP | 846,000 | 595,658 | 846,000 | 595,658 |
| Disposals | <u>(2,133,000)</u> | - | <u>(2,133,000)</u> | - |
| As at 31 March | <u>7,831,530</u> | <u>9,118,530</u> | <u>7,831,530</u> | <u>9,118,530</u> |
| Amortization | | | | |
| As at 01 April | 5,099,912 | 3,721,210 | 5,099,912 | 3,721,210 |
| Amortization during the year | 1,452,673 | 1,378,702 | 1,452,673 | 1,378,702 |
| Disposals | <u>(2,133,000)</u> | - | <u>(2,133,000)</u> | - |
| As at 31 March | <u>4,419,585</u> | <u>5,099,912</u> | <u>4,419,585</u> | <u>5,099,912</u> |
| Carrying values as at 31 March | <u>3,411,945</u> | <u>4,018,618</u> | <u>3,411,945</u> | <u>4,018,618</u> |

| | COMPANY | |
|---|----------------|----------------|
| | 2017 | 2016 |
| 13. INVESTMENT IN SUBSIDIARY | | |
| Ordinary shares (Fully owned subsidiary) | <u>70</u> | <u>70</u> |
| | <u>70</u> | <u>70</u> |
| Number of shares | | |
| 1992/93 issued to subscribers | 7 | 7 |
| 1995/96 script issue | <u>699,993</u> | <u>699,993</u> |
| Total | <u>700,000</u> | <u>700,000</u> |

| AS AT 31 MARCH, | GROUP / COMPANY | | | |
|---|---------------------------|---------------------|---------------------------|---------------------|
| | 2017 | | 2016 | |
| | Cost of investment Rs. | Market value Rs. | Cost of investment Rs. | Market value Rs. |
| 14. AVAILABLE FOR SALE INVESTMENTS | | | | |
| Balance as at 01 April | 18,465,591 | 35,357,494 | 17,461,340 | 37,951,000 |
| Additions during the year | 1,038,216 | 1,038,216 | 1,004,251 | 1,004,251 |
| Net gain/ (loss) on fair value change | - | <u>2,669,175</u> | - | <u>(3,597,757)</u> |
| Balance as at 31 March | <u>19,503,807</u> | <u>39,064,885</u> | <u>18,465,591</u> | <u>35,357,494</u> |

14.1 AFS investments comprise of;

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Investment in units of National Equity Fund (Note 14.2) | 18,003,807 | 34,077,385 | 16,965,591 | 30,497,494 |
| Investment in units of NDB Growth and Income Fund (Note 14.3) | 1,500,000 | 4,987,500 | 1,500,000 | 4,860,000 |
| Balance as at 31 March | <u>19,503,807</u> | <u>39,064,885</u> | <u>18,465,591</u> | <u>35,357,494</u> |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

14. AVAILABLE FOR SALE INVESTMENTS (CONTD.)

| AS AT 31 MARCH, | GROUP / COMPANY | | | |
|---|---------------------------|---------------------|---------------------------|---------------------|
| | 2017 | | 2016 | |
| | Cost of investment Rs. | Market value Rs. | Cost of investment Rs. | Market value Rs. |
| 14.2 Investment in units of National Equity Fund | | | | |
| Balance as at 01 April | 16,965,591 | 30,497,494 | 15,961,340 | 32,767,000 |
| Additions during the year | 1,038,216 | 1,038,216 | 1,004,251 | 1,004,251 |
| Net gain/(loss) on fair value change | - | 2,541,675 | - | (3,273,757) |
| Balance as at 31 March | <u>18,003,807</u> | <u>34,077,385</u> | <u>16,965,591</u> | <u>30,497,494</u> |
| 14.3 Investment in units of NDB Growth and Income Fund | | | | |
| Balance as at 01 April | 1,500,000 | 4,860,000 | 1,500,000 | 5,184,000 |
| Net gain / (loss) on fair value change | - | 127,500 | - | (324,000) |
| Balance as at 31 March | <u>1,500,000</u> | <u>4,987,500</u> | <u>1,500,000</u> | <u>4,860,000</u> |

| | GROUP | | COMPANY | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| 15. INVENTORIES | | | | |
| Raw materials and consumables | 75,674,094 | 76,200,862 | 75,674,094 | 76,200,862 |
| Work in progress | 19,743,230 | 22,311,330 | 19,743,230 | 22,311,330 |
| Finished goods | 37,445,067 | 40,261,770 | 37,445,067 | 40,261,770 |
| Machinery spares | 24,428,230 | 27,080,588 | 24,428,230 | 27,080,588 |
| | <u>157,290,621</u> | <u>165,854,550</u> | <u>157,290,621</u> | <u>165,854,550</u> |
| Less: | | | | |
| Provision for slow moving machinery spares (Note 15.1) | <u>(2,637,141)</u> | <u>(4,294,724)</u> | <u>(2,637,141)</u> | <u>(4,294,724)</u> |
| | <u>154,653,480</u> | <u>161,559,826</u> | <u>154,653,480</u> | <u>161,559,826</u> |
| 15.1 Provision for slow moving machinery spares | | | | |
| As at 01 April | 4,294,724 | 1,294,677 | 4,294,724 | 1,294,677 |
| Provision made/ (reversal) during the year | (1,657,583) | 3,000,047 | (1,657,583) | 3,000,047 |
| As at 31 March | <u>2,637,141</u> | <u>4,294,724</u> | <u>2,637,141</u> | <u>4,294,724</u> |
| 16. TRADE AND OTHER RECEIVABLES | | | | |
| Trade receivables | 300,063,508 | 250,605,627 | 300,063,508 | 250,605,627 |
| Other receivables (Note 16.1) | 60,288,526 | 55,329,777 | 60,288,526 | 55,329,777 |
| | <u>360,352,034</u> | <u>305,935,404</u> | <u>360,352,034</u> | <u>305,935,404</u> |
| 16.1 Other receivables | | | | |
| Loans to employees | 35,355,483 | 31,120,477 | 35,355,483 | 31,120,477 |
| Advances & prepayments | 15,292,545 | 17,030,341 | 15,292,545 | 17,030,341 |
| Trade deposits | 2,681,421 | 2,680,704 | 2,681,421 | 2,680,704 |
| Sundry debtors | 6,959,077 | 4,498,255 | 6,959,077 | 4,498,255 |
| | <u>60,288,526</u> | <u>55,329,777</u> | <u>60,288,526</u> | <u>55,329,777</u> |
| 17. CASH & CASH EQUIVALENTS | | | | |
| Cash in hand | 4,287,779 | 2,453,491 | 4,287,779 | 2,453,491 |
| Cash at bank | 71,874,226 | 36,373,499 | 71,014,284 | 36,373,499 |
| Short term deposits | 186,764,860 | 217,284,035 | 186,764,860 | 217,284,035 |
| Cash and cash equivalents | 262,926,865 | 256,111,025 | 262,066,923 | 256,111,025 |
| Bank overdrafts (secured) (Note 17.1) | (105,908,257) | (67,520,941) | (105,908,257) | (67,520,941) |
| Cash and cash equivalents for the purpose of statement of cash flows | <u>157,018,608</u> | <u>188,590,084</u> | <u>156,158,666</u> | <u>188,590,084</u> |

17.1 Bank overdraft is fully secured on short term deposits held with banks.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

| AS AT 31 MARCH, | GROUP | | COMPANY | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| 18. STATED CAPITAL | | | | |
| 959,800 ordinary shares at Rs. 10/- each | <u>9,598,000</u> | <u>9,598,000</u> | <u>9,598,000</u> | <u>9,598,000</u> |
| 18.1 The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the shareholders meetings of the Company. | | | | |
| 19. OTHER CAPITAL RESERVES | | | | |
| 19.1 Other capital reserves | | | | |
| Reserve on script issue (Note 19.1.1) | 6,999,930 | 6,999,930 | - | - |
| Reserve on share issue (Note 19.1.2) | <u>11,014</u> | <u>11,014</u> | <u>11,014</u> | <u>11,014</u> |
| | <u>7,010,944</u> | <u>7,010,944</u> | <u>11,014</u> | <u>11,014</u> |
| 19.1.1 Reserve on script issue in consolidated financial statements has arisen on script issue of 699,993 shares of Rs. 10/- each by the fully owned subsidiary, Harischandra Mills (Distributors) Limited in the year 1995/96. | | | | |
| 19.1.2 Reserve on share issue comprise unclaimed funds of share application and allotment account transferred to capital reserves. This reserve can not be directly distributed to shareholders. | | | | |
| 20. GENERAL RESERVES | | | | |
| General reserve | <u>12,841,000</u> | <u>12,841,000</u> | <u>12,841,000</u> | <u>12,841,000</u> |
| | <u>12,841,000</u> | <u>12,841,000</u> | <u>12,841,000</u> | <u>12,841,000</u> |
| General reserve can be utilized to settle any unknown future contingencies and strengthen the financial position and working capital needs of the company if required | | | | |
| 21. DEFERRED TAXATION | | | | |
| Deferred tax liabilities arising on property plant and equipment (Note 21.1) | 60,936,513 | 54,688,924 | 60,936,513 | 54,688,924 |
| Deferred tax asset on employee benefit obligation (Note 21.2) | <u>(19,652,325)</u> | <u>(19,766,070)</u> | <u>(19,652,325)</u> | <u>(19,766,070)</u> |
| Net deferred tax liabilities | <u>41,284,188</u> | <u>34,922,854</u> | <u>41,284,188</u> | <u>34,922,854</u> |
| 21.1 Deferred tax liabilities | | | | |
| Balance as at 01 April | 54,688,924 | 50,199,866 | 54,688,924 | 50,199,866 |
| deferred tax liability originating during the year, | <u>6,247,589</u> | <u>4,489,058</u> | <u>6,247,589</u> | <u>4,489,058</u> |
| Balance as at 31 March | <u>60,936,513</u> | <u>54,688,924</u> | <u>60,936,513</u> | <u>54,688,924</u> |
| 21.2 Deferred tax asset | | | | |
| Balance as at 01 April | 19,766,070 | 17,868,483 | 19,766,070 | 17,868,483 |
| deferred tax asset originating/(reversal) during the year, | | | | |
| - recognized in profit or loss | 2,157,318 | 2,185,809 | 2,157,318 | 2,185,809 |
| - recognized in other comprehensive income | <u>(2,271,063)</u> | <u>(288,222)</u> | <u>(2,271,063)</u> | <u>(288,222)</u> |
| Balance as at 31 March | <u>19,652,325</u> | <u>19,766,070</u> | <u>19,652,325</u> | <u>19,766,070</u> |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

| AS AT 31 MARCH, | GROUP | | COMPANY | |
|--|--------------------|-------------|--------------------|-------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| 22. EMPLOYEE BENEFIT OBLIGATION | | | | |
| Retiring gratuity | | | | |
| As at 01 April | 70,593,107 | 63,816,015 | 70,593,107 | 63,816,015 |
| Charge for the year (Note 22.1) | 4,561,290 | 10,959,568 | 4,561,290 | 10,959,568 |
| | 75,154,397 | 74,775,583 | 75,154,397 | 74,775,583 |
| Gratuity paid | (4,967,521) | (4,182,476) | (4,967,521) | (4,182,476) |
| Balance as at 31 March | 70,186,876 | 70,593,107 | 70,186,876 | 70,593,107 |
| 22.1 Charge for the year | | | | |
| Interest cost | 7,059,311 | 6,062,521 | 7,059,311 | 6,062,521 |
| Current service cost | 5,612,919 | 5,926,413 | 5,612,919 | 5,926,413 |
| Actuarial (gain)/ loss | (8,110,940) | (1,029,366) | (8,110,940) | (1,029,366) |
| | 4,561,290 | 10,959,568 | 4,561,290 | 10,959,568 |
| Amount charge in to Income Statement | 12,672,230 | 11,988,934 | 12,672,230 | 11,988,934 |
| Amount charge in to Other Comprehensive Income | (8,110,940) | (1,029,366) | (8,110,940) | (1,029,366) |
| | 4,561,290 | 10,959,568 | 4,561,290 | 10,959,568 |

22.2 An actuarial valuation on the retiring gratuities was carried out as at 31 March 2017 by Mr. M.Poopalanathan, AIA, M/s Actuarial and Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method", the method recommended by the Sri Lanka Accounting Standard No. 19 (LKAS 19) "Employee Benefits."

22.3 Actuarial assumptions

| | 2017 | 2016 |
|---------------------------------|------------|------|
| a. Financial assumptions | | |
| Discount rate as at 31 March | 12% | 11% |
| Future salary increases | 10% | 10% |

b. Demographic assumptions

The demographic assumptions underlying the valuation are retirement age at 55 years, early withdrawal from services and death before and after retirement. Assumption regarding the future mortality are based on the 1967 - 70 mortality table issued by the Institute of Actuaries, London.

22.4 Sensitivity of Assumptions Used

Possible changes at the reporting date to one of the actuarial assumptions, holding other assumptions constant would have affected the defined benefit obligations as follows;

| | Effect on charged to Statement of Profit or Loss and Other comprehensive Income | | Effect on Employee Benefit Obligations In the Statement of Financial Position | |
|----------------------|---|-------------|---|-------------|
| | 1% Increase | 1% Decrease | 1% Increase | 1% Decrease |
| Discount rate 1% | 3,829,935 | (4,270,496) | (3,829,935) | 4,270,496 |
| Salary Increment 1 % | (4,563,801) | 4,152,155 | 4,563,801 | (4,152,155) |

23. TRADE & OTHER PAYABLES

| | | | | |
|----------------------------|--------------------|-------------|--------------------|-------------|
| Trade payables | 39,970,149 | 45,946,563 | 39,970,149 | 45,946,563 |
| Other payables (Note 23.1) | 114,846,709 | 103,334,480 | 114,707,484 | 103,141,190 |
| | 154,816,858 | 149,281,043 | 154,677,633 | 149,087,753 |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

23. TRADE & OTHER PAYABLES(CONTD.)

| AS AT 31 MARCH, | GROUP | | COMPANY | |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| 23.1 Other payables | | | | |
| Accrued expenses | 25,675,442 | 31,881,440 | 25,536,217 | 31,688,150 |
| VAT payable | 32,397,296 | 20,880,061 | 32,397,296 | 20,880,061 |
| NBT payable | 4,683,171 | 196,441 | 4,543,946 | 3,151 |
| Trade & customer deposits | 4,927,291 | 4,522,291 | 4,927,291 | 4,522,291 |
| Provision for bonus | 43,000,000 | 40,000,000 | 43,000,000 | 40,000,000 |
| Others | 4,163,509 | 5,854,247 | 4,302,734 | 6,047,537 |
| | <u>114,846,709</u> | <u>103,334,480</u> | <u>114,707,484</u> | <u>103,141,190</u> |

24. RELATED PARTY PAYABLES

| | | | | |
|---|---|---|-------------|-------------|
| Harischandra Mills (Distributors) Limited (Note 24.1) | - | - | 152,395,542 | 214,518,256 |
| | - | - | 152,395,542 | 214,518,256 |
| Amounts due within one year | - | - | 77,000,000 | 77,000,000 |
| Amounts due after one year | - | - | 75,395,542 | 137,518,256 |
| | - | - | 152,395,542 | 214,518,256 |

24.1 Company had entered into an agreement specifying the terms of settlement of this related party payable to its fully owned subsidiary "Harischandra Mills (Distributors) Limited". The loan is payable on demand and interest will be accrued at AWPLR in the respective month +2% commencing from 01/04/2015.

25. CURRENT TAX LIABILITIES

| | | | | |
|--------------------------------------|--------------------|-------------------|--------------------|-------------------|
| As at 01 April | 10,877,587 | 27,070,767 | 10,020,759 | 26,340,481 |
| Provision for the year (Note 08) | 41,993,707 | 60,172,077 | 36,453,758 | 56,863,115 |
| Prior year under provision (Note 08) | 145,725 | 14,171,024 | 145,725 | 17,353,297 |
| Tax on inter company dividend | 7,699,945 | - | - | - |
| | 60,716,964 | 101,413,868 | 46,620,242 | 100,556,893 |
| Payments during the year | (66,340,908) | (90,536,281) | (53,366,513) | (90,536,134) |
| As at 31 March | <u>(5,623,944)</u> | <u>10,877,587</u> | <u>(6,746,271)</u> | <u>10,020,759</u> |

26. TRANSACTIONS WITH RELATED PARTIES

The Group carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard LKAS 24 "Related Party Disclosures.", the details of which are reported below.

As per the Company policy the pricing applicable to such transactions are based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

26.1 Parent and ultimate controlling party

The Company does not have an identifiable parent of its own.

26.2 Key management personnel compensation

According to Sri Lanka Accounting Standard LKAS 24 "Related Party Disclosures", key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the directors of the Company have been classified as KMP of the Company.

As the Company is the ultimate parent of its subsidiary, Harischandra Mills (Distributors) Limited and the Board of the Company has the authority and responsibility for planning, directing and controlling of the Group, the directors of the Company have been identified as the KMP of the Group.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

26. TRANSACTIONS WITH RELATED PARTIES (CONTD.)

Key management personnel compensation comprised:

| FOR THE YEAR ENDED 31 MARCH | GROUP | | COMPANY | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Short term benefits | 28,584,566 | 27,141,505 | 28,584,566 | 27,141,505 |
| Long term benefits | 4,164,283 | 3,696,848 | 4,164,283 | 3,696,848 |
| Total (Note 06) | <u>32,748,849</u> | <u>30,838,353</u> | <u>32,748,849</u> | <u>30,838,353</u> |

26.3 Transactions with subsidiary

Recurrent transactions

| Name of the related party | Nature of transaction | 2017 | | 2016 | |
|--|-----------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | | Volume of transaction | Balance as at 31.03.17 | Volume of Transaction | Balance as at 31.03.16 |
| Harischandra Mills (Distributors) Limited | Reimbursement of expenses | - | - | 150,000 | - |
| | Transfer of bank accounts | - | - | (458,237) | - |
| | Interest expense | 21,492,011 | - | 18,373,438 | - |
| | Fund Transfers | (83,614,725) | - | - | - |
| | Outstanding balances | - | - | - | - |
| | Loan (Note 24.1) | - | (152,395,542) | - | (214,518,256) |

26.4 Transactions with other entities

Other related entities are those which are controlled or significantly influenced, directly by key Management Personnel (KMP) of the Company. There were no significant transactions with other related entities during the year.

27. CAPITAL EXPENDITURE COMMITMENTS

There were no material commitments which require disclosure as at the reporting date.

28. CONTINGENT LIABILITIES

The Company did not have any contingent liabilities outstanding as at the reporting date.

29. EVENTS OCCURRING AFTER THE REPORTING DATE

In order to comply with the requirements of Diri Savi Board, at the Extra Ordinary General Meeting held on 5th June 2017, shareholders passed an ordinary resolution to capitalize Rs. 95,980,000/- from and out of retained earnings and distribute 959,800 ordinary shares as fully paid ordinary shares to and among shareholders. Accordingly subsequent to obtaining all regulatory clearances, the company has issued 959,800 shares by capitalizing reserves amounting to Rs. 95,980,000/- on 15th June 2017.

Further, interim dividend of Rs. 20.00 per share paid on 10th July 2017.

Other than these, no circumstances have arisen since the reporting date which require adjustments to or disclosure in the Financial Statements.

30. COMPARATIVE INFORMATION

Comparative information has been rearranged and reclassified to conform with the current year presentation.

31. DIRECTORS' RESPONSIBILITY

Directors of the Company are responsible for the preparation and presentation of these Financial Statements.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

32. SEGMENTAL INFORMATION

GROUP

Information based on the primary segments

| For the year end 31 March | Food Products | | Fuel and Lubricant | | Soap | | Total | |
|--|---------------|---------------|--------------------|-------------|-------------|-------------|---------------|---------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Revenue: | | | | | | | | |
| Total sales | 2,004,141,463 | 1,793,853,236 | 749,611,401 | 749,635,832 | 250,071,073 | 282,734,178 | 3,003,823,937 | 2,826,223,246 |
| Operating profit: | | | | | | | | |
| Segment operating profit before depreciation | 202,741,296 | 215,249,435 | 5,856,194 | 5,870,725 | (2,621,124) | 20,368,174 | 205,976,366 | 241,488,334 |
| Depreciation | (73,532,847) | (72,229,496) | (111,658) | (425,925) | (5,575,197) | (954,565) | (79,219,702) | (73,609,986) |
| Segment operating profit | 129,208,449 | 143,019,939 | 5,744,536 | 5,444,800 | (8,196,321) | 19,413,609 | 126,756,664 | 167,878,348 |
| Other operating income/(expense) | | | | | | | 38,911,619 | 30,889,396 |
| Net finance income | | | | | | | 13,407,182 | 19,265,970 |
| Profit before income tax expense | | | | | | | 179,075,465 | 218,033,714 |
| Income tax expense | | | | | | | (53,929,648) | (76,646,350) |
| Profit after income tax | | | | | | | 125,145,817 | 141,387,364 |
| Assets: | | | | | | | | |
| Operating assets | 866,630,398 | 773,316,987 | 324,146,792 | 323,162,514 | 108,135,677 | 121,884,632 | 1,298,912,867 | 1,218,364,133 |
| Other investments | | | | | | | 39,064,885 | 35,357,494 |
| Cash & cash equivalents | | | | | | | 262,926,865 | 256,111,025 |
| Total assets | | | | | | | 1,600,904,617 | 1,509,832,652 |
| Liabilities: | | | | | | | | |
| Operating liabilities | 220,783,394 | 182,414,682 | 82,579,873 | 76,229,526 | 27,548,724 | 28,750,883 | 330,911,991 | 287,395,091 |
| Deferred tax liabilities | | | | | | | 41,284,188 | 34,922,854 |
| Income tax payable | | | | | | | - | 10,877,587 |
| Total liabilities | | | | | | | 372,196,179 | 333,195,532 |

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)
**33. SEGMENTAL INFORMATION
COMPANY**
Information based on the primary segments

| For the year end 31 March | Food Products | | Fuel and Lubricant | | Soap | | Total | |
|--|---------------|---------------|--------------------|-------------|-------------|-------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Revenue: | | | | | | | | |
| Totalsales | 2,004,141,463 | 1,793,853,236 | 749,611,401 | 749,635,832 | 250,071,073 | 282,734,178 | 3,003,823,937 | 2,826,223,246 |
| Operating profit: | | | | | | | | |
| Segment operating profit before depreciation | 203,117,957 | 215,416,840 | 5,856,194 | 5,870,725 | (2,574,126) | 20,394,559 | 206,400,025 | 241,682,124 |
| Depreciation | (73,532,847) | (72,229,496) | (111,658) | (425,925) | (5,575,197) | (954,565) | (79,219,702) | (73,609,986) |
| Segment operating profit | 129,585,110 | 143,187,344 | 5,744,536 | 5,444,800 | (8,149,323) | 19,439,994 | 127,180,323 | 168,072,138 |
| Other operating income/(expense) | | | | | | | 108,211,124 | 30,889,396 |
| Net finance income | | | | | | | (8,082,221) | 891,069 |
| Profit before income tax expense | | | | | | | 227,309,226 | 199,852,603 |
| Income tax expense | | | | | | | (40,689,754) | (76,519,661) |
| Profit after income tax | | | | | | | 186,619,472 | 123,332,942 |
| Assets: | | | | | | | | |
| Operating assets | 867,379,259 | 773,317,031 | 324,426,888 | 323,162,533 | 108,229,117 | 121,884,639 | 1,300,035,264 | 1,218,364,203 |
| Other investments | | | | | | | 39,064,885 | 35,357,494 |
| Cash & cash equivalents | | | | | | | 262,066,923 | 256,111,025 |
| Total assets | | | | | | | 1,601,167,072 | 1,509,832,722 |
| Liabilities: | | | | | | | | |
| Operating liabilities | 322,368,308 | 318,450,480 | 120,575,799 | 133,077,715 | 40,224,201 | 50,191,862 | 483,168,308 | 501,720,057 |
| Deferred tax liabilities | | | | | | | 41,284,188 | 34,922,854 |
| Income tax payable | | | | | | | - | 10,020,759 |
| Total liabilities | | | | | | | 524,452,496 | 546,663,670 |



NOTES TO THE FINANCIAL STATEMENTS(CONTD.)

34. FINANCIAL INSTRUMENTS - FAIR VALUE AND RISK MANAGEMENT

34.1 Financial Risk Management

The Group is exposed to following risks arising from financial instruments. In particular, the key financial risk categories are:

- A. Credit risk
- B. Liquidity risk and
- C. Market risk

34.1.1 Risk Management Framework

The Board of directors has overall responsibility for the establishment and oversee the Group's risk management framework. The Group's risk management policies are established, identify and analyze the risk faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and system are regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its role by internal audit. Internal audit undertakes both regular and ad hoc review management controls and procedures, the results of which are reported to the Audit Committee.

34.1.2 Credit Risk

Credit risk is the financial loss to the group if a customer or counter party to a financial instrument fails to meet its contractual obligation, and arises principally from the group receivable from customers.

34.1.2.1 Exposure to Credit Risk

The carrying amount of financial assets representing the maximum credit exposure. The maximum exposure to credit risk at the reporting date was,

| AS AT 31 MARCH | GROUP | | COMPANY | |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Trade and other receivables | 345,059,489 | 288,905,064 | 345,059,489 | 288,905,064 |
| Cash at bank | 71,874,226 | 36,373,499 | 71,014,284 | 36,373,499 |
| Short term deposits | 186,764,860 | 217,284,035 | 186,764,860 | 217,284,035 |
| Available for sale investment | 39,064,885 | 35,357,494 | 39,064,885 | 35,357,494 |
| | <u>642,763,460</u> | <u>577,920,092</u> | <u>641,903,518</u> | <u>577,920,092</u> |

(a) Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristic of each customer. However, management also consider the demographics of the company's customer base, including the default risk of the industry and country in which customer operate, as these factors may have an influence on credit risk.

The aging of trade and other receivables at the end of the reporting period that were not impaired was as follows,

| | | | | |
|----------------|--------------------|--------------------|--------------------|--------------------|
| 1 - 60 days | 295,918,763 | 244,158,830 | 295,918,763 | 244,158,830 |
| 61 - 180 days | 16,589,015 | 17,311,652 | 16,589,015 | 17,311,652 |
| Above 181 days | 26,650,560 | 27,434,582 | 26,650,560 | 27,434,582 |
| | <u>339,158,338</u> | <u>288,905,064</u> | <u>339,158,338</u> | <u>288,905,064</u> |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

To minimize the credit risk from customers, Company obtains bank guarantees from its trading customers when initiating the business relationships. The Company monitors the level of transaction with the guarantee and increases the guarantee amount where necessary. Further, credit periods are established and the receivable balances are monitored continuously. The amounts past due by more than 181 days are still considered collectible in full, based on historical payment behaviour and analysis of customer credit risk.

(b) Cash and Cash Equivalents

The Group held cash and cash equivalents of Rs. 262 million as at 31 March 2017 (2016: Rs. 256 million), which represent its maximum credit exposure on these assets. Cash and cash equivalents are held with bank, Which are rate AA (LKA) to A+ (LKA), based on Fitch ratings.

(c) Available for Sales Investments

Available for sales investments are made in unit trusts managed by National Asset Management Ltd and NDB wealth management Ltd.

34.1.3 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Cash flow forecasting is done by the Company on a regular basis. The finance division monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient funds to meet operational needs. Further, the Group has not obtained borrowings from any third party except temporary bank overdraft.

As at 31 March 2017

The Maturity Analysis of Liabilities

| Group | Carrying amount | Contractual cash flows | | | |
|--------------------------|--------------------|------------------------|--------------|-------------|-------------------|
| | | 6 month or less | 6 - 12 month | 2 - 5 years | More than 5 years |
| LIABILITIES | | | | | |
| Bank overdraft | 105,908,257 | 105,908,257 | - | - | - |
| Trade and other payables | 154,816,858 | 154,816,858 | - | - | - |
| Total liabilities | 260,725,115 | 260,725,115 | - | - | - |

As at 31 March 2016

The Maturity Analysis of Liabilities

| Group | Carrying amount | Contractual cash flows | | | |
|--------------------------|--------------------|------------------------|--------------|-------------|-------------------|
| | | 6 month or less | 6 - 12 month | 2 - 5 years | More than 5 years |
| LIABILITIES | | | | | |
| Bank overdraft | 67,520,941 | 67,520,941 | - | - | - |
| Trade and other payables | 149,281,043 | 149,281,043 | - | - | - |
| Total liabilities | 216,801,984 | 216,801,984 | - | - | - |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

As at 31 March 2017

The Maturity Analysis of Liabilities

| Company | Carrying amount | Contractual cash flows | | | |
|--------------------------|--------------------|------------------------|-------------------|-------------------|-------------------|
| | | 6 month or less | 6 - 12 month | 2 - 5 years | More than 5 years |
| LIABILITIES | | | | | |
| Bank overdraft | 105,908,257 | 105,908,257 | - | - | - |
| Trade and other payables | 154,677,633 | 154,677,633 | - | - | - |
| Related party payables | 152,395,542 | - | 77,000,000 | 75,395,542 | - |
| Total liabilities | 412,981,432 | 260,585,890 | 77,000,000 | 75,395,542 | - |

As at 31 March 2016

The Maturity Analysis of Liabilities

| Company | Carrying amount | Contractual cash flows | | | |
|--------------------------|--------------------|------------------------|-------------------|--------------------|-------------------|
| | | 6 month or less | 6 - 12 month | 2 - 5 years | More than 5 years |
| LIABILITIES | | | | | |
| Bank overdraft | 67,520,941 | 67,520,941 | - | - | - |
| Trade and other payables | 149,087,753 | 149,087,753 | - | - | - |
| Related party payables | 214,518,256 | - | 77,000,000 | 137,518,256 | - |
| Total liabilities | 431,126,950 | 216,608,694 | 77,000,000 | 137,518,256 | - |

34.1.4 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises three types of risks currency risk, interest rate risk and other market price risk.

34.1.4.1 Currency Risk

Company's functional currency is Sri Lankan Rupees and received foreign currencies from export sales. At present, 99.5% of the total sales are made to local customer and hence currency risk is insignificant in relation to the Company as such the sensitivity analysis on foreign currency fluctuations will not apply.

34.1.4.2 Interest Rate Risk

Interest rate risk is the risk to the Group's earnings and Economic Value of Equity (EVE) arising from adverse movements in interest rates.

At present, the Group has not obtained funds from any interest bearing financial liabilities except temporary bank overdrafts as such sensitivity analysis on interest rate fluctuation will not apply.

The Group's short term investments are at fixed interest rates and mature within one year.

34.2 Accounting Classifications and Fair Values

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following tables analyze financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized and a comparison of the carrying amounts and fair values of the financial assets and liabilities of the Company and Group which are not measured at fair value in the Financial Statements. The amounts are based on the values recognised in the statement of financial position.

The carrying values of financial assets and liabilities which has a shorter maturity period and based on normal market conditions, have been considered as a reasonable approximation to the fair value. Accordingly, the fair value hierarchy does not apply to cash and cash equivalents, trade and other receivables, related party payables, trade and other payable and bank overdraft.



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Group
As at 31 March 2017

| | Available for sale investments | Loans receivables | Other financial liabilities | Total carrying amount | Fair value | Fair value hierarchy level | | |
|--------------------------------|--------------------------------|--------------------|-----------------------------|-----------------------|-------------------|----------------------------|-------------------|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | 1 | 2 | 3 |
| Cash and cash equivalents | - | 262,926,865 | - | 262,926,865 | - | - | - | - |
| Trade and other receivables | - | 345,059,489 | - | 345,059,489 | - | - | - | - |
| Available for sale investments | 39,064,885 | - | - | 39,064,885 | 39,064,885 | - | 39,064,885 | - |
| Trade and other payables | - | - | (154,816,858) | (154,816,858) | - | - | - | - |
| Overdraft | - | - | (105,908,257) | (105,908,257) | - | - | - | - |
| | 39,064,885 | 607,986,354 | (260,725,115) | 386,326,124 | 39,064,885 | - | 39,064,885 | - |

Company
As at 31 March 2017

| | Available for sale investments | Loans receivables | Other financial liabilities | Total carrying amount | Fair value | Fair value hierarchy level | | |
|-------------------------------|--------------------------------|--------------------|-----------------------------|-----------------------|-------------------|----------------------------|-------------------|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | 1 | 2 | 3 |
| Cash and cash equivalents | - | 262,066,923 | - | 262,066,923 | - | - | - | - |
| Trade and other receivables | - | 345,059,489 | - | 345,059,489 | - | - | - | - |
| Available for sale investment | 39,064,885 | - | - | 39,064,885 | 39,064,885 | - | 39,064,885 | - |
| Trade and other payables | - | - | (154,677,633) | (154,677,633) | - | - | - | - |
| Related party payable | - | - | (77,000,000) | (77,000,000) | - | - | - | - |
| Overdraft | - | - | (105,908,257) | (105,908,257) | - | - | - | - |
| | 39,064,885 | 607,126,412 | (337,585,890) | 308,605,407 | 39,064,885 | - | 39,064,885 | - |

Group
As at 31 March 2016

| | Available for sale investments | Loans receivables | Other financial liabilities | Total carrying amount | Fair value | Fair value hierarchy level | | |
|--------------------------------|--------------------------------|--------------------|-----------------------------|-----------------------|-------------------|----------------------------|-------------------|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | 1 | 2 | 3 |
| Cash and cash equivalents | - | 256,111,025 | - | 256,111,025 | - | - | - | - |
| Trade and other receivables | - | 288,905,064 | - | 288,905,064 | - | - | - | - |
| Available for sale investments | 35,357,494 | - | - | 35,357,494 | 35,357,494 | - | 35,357,494 | - |
| Trade and other payables | - | - | (149,281,043) | (149,281,043) | - | - | - | - |
| Overdraft | - | - | (67,520,941) | (67,520,941) | - | - | - | - |
| | 35,357,494 | 545,016,089 | (216,801,984) | 363,571,599 | 35,357,494 | - | 35,357,494 | - |

Company
As at 31 March 2016

| | Available for sale investments | Loans receivables | Other financial liabilities | Total carrying amount | Fair value | Fair value hierarchy level | | |
|-------------------------------|--------------------------------|--------------------|-----------------------------|-----------------------|-------------------|----------------------------|-------------------|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | 1 | 2 | 3 |
| Cash and cash equivalents | - | 256,111,025 | - | 256,111,025 | - | - | - | - |
| Trade and other receivables | - | 288,905,064 | - | 288,905,064 | - | - | - | - |
| Available for sale investment | 35,357,494 | - | - | 35,357,494 | 35,357,494 | - | 35,357,494 | - |
| Trade and other payables | - | - | (149,087,753) | (149,087,753) | - | - | - | - |
| Related party payable | - | - | (214,518,256) | (214,518,256) | - | - | - | - |
| Overdraft | - | - | (67,520,941) | (67,520,941) | - | - | - | - |
| | 35,357,494 | 545,016,089 | (431,126,950) | 149,246,633 | 35,357,494 | - | 35,357,494 | - |



NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

The following table shows the valuation technique used in measuring level 2 fair values, as well as the significant unobservable inputs used.

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|----------------------------|--|---------------------------------|--|
| Investments in unit trusts | Fair value is based on the published unit prices | Based on published unit prices | The estimated fair value would increase (decrease) if: the published unit prices were higher (lower) |

34.3 Capital Management

The Board's policy is to maintain a strong capital base to maintain confidence of the investors, creditors and the market while sustaining future development of the business capital consists to total equity. The board of directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Capital Structure of the group consists of debt and equity of the group. The capital structure of the Group is reviewed by the Board of Directors.

The Group monitors capital using the ratio of net debt to equity. For this purpose adjusted net debt is defined as total liabilities comprising interest bearing loans and borrowings, less cash and cash equivalents.

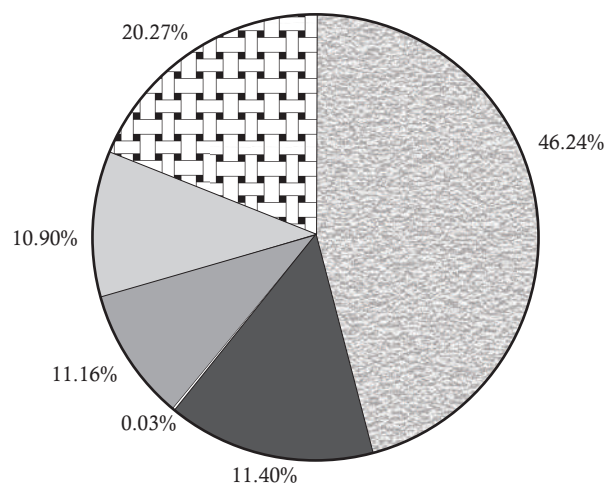
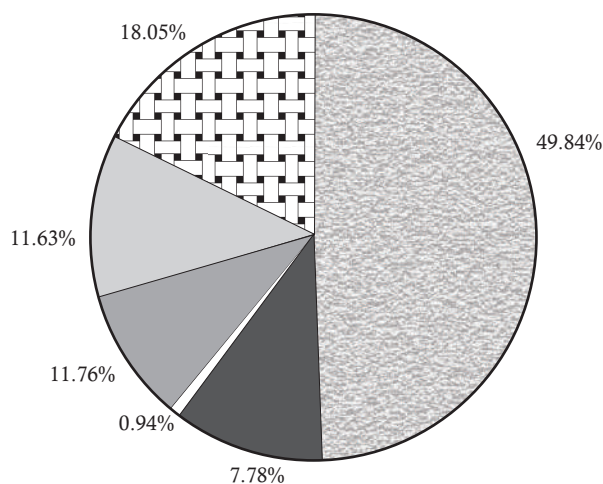
| AS AT 31 MARCH, | GROUP | | COMPANY | |
|----------------------------------|----------------------|---------------|----------------------|---------------|
| | 2017 Rs. | 2016 Rs. | 2017 Rs. | 2016 Rs. |
| Total Liabilities | 372,196,179 | 333,195,532 | 524,452,496 | 546,663,670 |
| Less : Cash and Cash Equivalents | (262,926,865) | (256,111,025) | (262,066,923) | (256,111,025) |
| Adjusted Net Debt | 109,269,314 | 77,084,507 | 262,385,573 | 290,552,645 |
| Total Equity | 1,228,708,438 | 1,176,637,120 | 1,076,714,576 | 963,169,052 |
| Net Debt to Equity Ratio | 0.09 | 0.07 | 0.24 | 0.30 |









STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 MARCH,

| | | 2017 Rs.'000 | 2016 Rs.'000 | | |
|------------------------------------|---------------|------------------|------------------|----------------|--|
| Turnover | | 3,003,824 | 2,826,223 | | |
| Other Income | | 58,806 | 50,330 | | |
| | | <u>3,062,630</u> | <u>2,876,553</u> | | |
| Cost of Goods & Services bought in | | (2,369,175) | (2,188,289) | | |
| Value Added | | <u>693,455</u> | <u>688,264</u> | | |
| Distribution as follows | % | Rs.'000 | % | Rs.'000 | |
| To Employees | 49.84 | 345,637 | 46.24 | 318,283 | |
| To Government | 7.78 | 53,930 | 11.40 | 78,463 | |
| To Lenders | 0.94 | 6,487 | 0.03 | 174 | |
| To Shareholders | 11.76 | 81,583 | 11.16 | 76,784 | |
| Retained in Business | | | | | |
| Depreciation | 11.63 | 80,672 | 10.90 | 74,989 | |
| Profit Retained | 18.05 | 125,146 | 20.27 | 139,571 | |
| | <u>100.00</u> | <u>693,455</u> | <u>100.00</u> | <u>688,264</u> | |



- To Employees 
- To Government 
- To Lenders 
- To Shareholders 
- Depreciation 
- Profit Retained 



TEN YEARS STATISTICAL SUMMARY

| Reported as per | SLAS | | | | | SLFRS/LKAS | | | | | |
|--|------------------|------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2007 Rs.000's | 2008 Rs.000's | 2009 [*] Rs.000's | 2010 [*] Rs.000's | 2011 [*] Rs.000's | 2012 [*] Rs.000's | 2013 [*] Rs.000's | 2014 [*] Rs.000's | 2015 [*] Rs.000's | 2016 [*] Rs.000's | 2017 [*] Rs.000's |
| Results | | | | | | | | | | | |
| Group turnover | 872,860 | 1,214,145 | 1,311,139 | 1,326,383 | 1,475,664 | 2,245,167 | 2,577,927 | 2,599,069 | 2,720,160 | 2,826,223 | 3,003,824 |
| Profit before tax | 44,372 | 83,097 | 111,017 | 134,781 | 115,317 | 150,554 | 138,773 | 172,727 | 219,644 | 218,034 | 179,075 |
| Taxation | (19,123) | (46,686) | (43,837) | (61,962) | (51,227) | (49,572) | (42,338) | (55,409) | (69,886) | (76,646) | (53,930) |
| Profit after tax | 25,249 | 36,411 | 67,180 | 72,819 | 64,090 | 100,982 | 96,435 | 117,318 | 149,758 | 141,388 | 125,145 |
| Funds Employed | | | | | | | | | | | |
| Stated Capital | 9,598 | 9,598 | 9,598 | 9,598 | 9,598 | 9,598 | 9,598 | 9,598 | 9,598 | 9,598 | 9,598 |
| Capital reserves | 56,585 | 90,245 | 90,245 | 90,245 | 89,871 | 30,849 | 32,643 | 19,852 | 19,852 | 19,852 | 19,852 |
| Revenue reserves | 259,750 | 281,764 | 327,829 | 376,654 | 414,244 | 850,872 | 908,915 | 1,000,021 | 1,084,325 | 1,147,187 | 1,199,258 |
| Shareholders' funds | 325,933 | 381,607 | 427,672 | 476,497 | 513,713 | 891,319 | 951,156 | 1,029,471 | 1,113,775 | 1,176,637 | 1,228,708 |
| Assets Employed | | | | | | | | | | | |
| Non current assets | 153,034 | 215,685 | 227,247 | 242,832 | 234,834 | 539,604 | 579,502 | 652,533 | 680,855 | 786,226 | 817,348 |
| Current assets | 306,573 | 362,918 | 408,143 | 479,701 | 536,254 | 596,997 | 641,114 | 697,172 | 780,909 | 723,606 | 783,556 |
| Current liabilities | (105,220) | (119,722) | (135,420) | (175,689) | (197,442) | (184,499) | (200,413) | (240,976) | (251,841) | (227,679) | (260,725) |
| Provisions | (28,454) | (77,274) | (72,298) | (70,347) | (59,933) | (60,783) | (69,047) | (79,258) | (96,148) | (105,516) | (111,471) |
| Capital employed | 325,933 | 381,607 | 427,672 | 476,497 | 513,713 | 891,319 | 951,156 | 1,029,471 | 1,113,775 | 1,176,637 | 1,228,708 |
| Cash Flow | | | | | | | | | | | |
| Net cash inflow/(outflow)from operating activities | 28,855 | 50,113 | 47,067 | 83,170 | 33,348 | 75,457 | 89,915 | 129,424 | 236,717 | 147,562 | 117,719 |
| Net cash inflow/(outflow)from investing activities | (6,115) | (14,851) | (19,545) | (15,180) | (13,772) | (44,958) | (48,244) | (108,877) | (29,988) | (154,718) | (67,707) |
| Net cash inflow/(outflow)from financing activities | (21,149) | 6,242 | (25,720) | (29,240) | (37,791) | (28,794) | (38,392) | (43,191) | (62,387) | (76,784) | (81,584) |
| Increase/(decrease)in cash and cash equivalents | 1,591 | 41,504 | 1,802 | 38,750 | (18,215) | 1,705 | 3,279 | (22,644) | 144,342 | (83,940) | (31,572) |
| Key Indicators | | | | | | | | | | | |
| Earnings per share | 26.31 | 37.94 | 69.99 | 75.87 | 66.77 | 106.25 | 100.47 | 122.23 | 156.03 | 147.31 | 130.39 |
| Net assets per share | 339.59 | 397.59 | 445.37 | 499.78 | 535.23 | 928.65 | 990.99 | 1,072.59 | 1,160.42 | 1,225.92 | 1,280.17 |
| Market price per share | 425.59 | 450.00 | 450.00 | 950.00 | 950.00 | 2,199.00 | 2,488.00 | 2,200.00 | 2,348.90 | 2,700.70 | 2,799.90 |
| Return on equity | 7.75 | 9.54 | 15.71 | 15.18 | 12.48 | 11.44 | 10.14 | 11.40 | 13.44 | 12.02 | 10.19 |
| Price earning ratio | 16.16 | 11.86 | 6.34 | 12.41 | 14.23 | 20.69 | 24.76 | 18.00 | 15.05 | 18.33 | 21.47 |
| Dividend per share | 20.00 | 15.00 | 22.00 | 25.00 | 30.00 | 30.00 | 40.00 | 45.00 | 65.00 | 80.00 | 85.00 |

***Share capital previously reported have been reclassified to reflect stated capital as defined in the Companies Act. No. 07 of 2007.*



INVESTOR INFORMATION

1. Stock Exchange Listing

The issued Ordinary Shares of Harischandra Mills PLC are listed with the Colombo Stock Exchange in 1983.

2. Ordinary Shareholders

2.1 Distribution of stated capital

As at 31st March

| Range | | 2017 | | | 2016 | | |
|---------|---------|---------------------|----------------|---------------|---------------------|----------------|---------------|
| | | No. of Shareholders | Total Holdings | Percentage % | No. of Shareholders | Total Holding | Percentage % |
| From | To | | | | | | |
| 1 | 1,000 | 472 | 36,617 | 3.82 | 461 | 36,617 | 3.82 |
| 1,001 | 5,000 | 10 | 16,340 | 1.70 | 10 | 16,340 | 1.70 |
| 5,001 | 10,000 | 1 | 7,610 | 0.79 | 1 | 7,610 | 0.79 |
| 10,001 | 50,000 | 6 | 109,104 | 11.37 | 6 | 109,104 | 11.37 |
| 50,001 | 100,000 | - | - | - | - | - | - |
| 100,001 | 500,000 | 5 | 790,129 | 82.32 | 5 | 790,129 | 82.32 |
| | | 494 | 959,800 | 100.00 | 483 | 959,800 | 100.00 |

2.2 Classification of Shareholders

| | 2017 | | | 2016 | | |
|-------------------------|---------------------|----------------|---------------|---------------------|----------------|---------------|
| | No. of Shareholders | Total Holdings | Percentage % | No. of Shareholders | Total Holding | Percentage % |
| Directors | 4 | 176,895 | 18.43 | 4 | 176,895 | 18.43 |
| Institutional investors | 11 | 1,136 | 0.11 | 12 | 1,136 | 0.12 |
| Employees | 19 | 371 | 0.05 | 13 | 371 | 0.04 |
| Others | 460 | 781,398 | 81.41 | 454 | 781,398 | 81.41 |
| | 494 | 959,800 | 100.00 | 483 | 959,800 | 100.00 |

2.3 Twenty largest shareholders of the company

| Shareholder's name | No. of Shares | % | No. of Shares | % |
|------------------------------------|---------------|-------|---------------|-------|
| 1. Seylan Bank PLC/Senthilverl T. | 238,764 | 24.88 | 238,764 | 24.88 |
| 2. De Silva U. | 143,468 | 14.95 | 143,468 | 14.95 |
| 3. Rodrigo C. P. | 139,460 | 14.53 | 139,460 | 14.53 |
| 4. Samarasinghe R. K. | 135,060 | 14.07 | 135,060 | 14.07 |
| 5. Sampath Bank PLC/Senthilverl T. | 133,377 | 13.90 | 133,377 | 13.90 |
| 6. Samarasinghe S. N. | 38,335 | 3.99 | 38,335 | 3.99 |
| 7. Rodrigo N. | 15,368 | 1.60 | 15,368 | 1.60 |
| 8. Rodrigo S. A. | 15,368 | 1.60 | 15,368 | 1.60 |
| 9. Ekanayake D. H. C. | 14,146 | 1.47 | 14,146 | 1.47 |
| 10. Selvaraj A. G. I. | 13,507 | 1.41 | 13,507 | 1.41 |
| 11. Wijayanandana H. D. | 12,380 | 1.29 | 12,380 | 1.29 |
| 12. Woodward H. W. M. | 7,610 | 0.79 | 7,610 | 0.79 |
| 13. De Silva M. P. | 2,500 | 0.26 | 2,500 | 0.26 |
| 14. Sigamoney C. | 2,247 | 0.23 | 2,247 | 0.23 |
| 15. Jayantha D. | 1,900 | 0.20 | 1,900 | 0.20 |
| 16. Wijayawardhane C. J. | 1,785 | 0.19 | 1,785 | 0.19 |
| 17. Senthilverl T. | 1,434 | 0.15 | 1,434 | 0.15 |
| 18. Abeysekara S. | 1,400 | 0.15 | 1,400 | 0.15 |
| 19. Jayasingha D.A. | 1,360 | 0.14 | 1,360 | 0.14 |
| 20. Somawathie B. S. | 1,260 | 0.13 | 1,260 | 0.13 |



INVESTOR INFORMATION (CONTD.)

| FOR THE YEAR ENDED 31 MARCH | 2017 | 2016 |
|---|-------------------|-------------------|
| 3. Details of Share transactions during the year | | |
| No. of transactions | 221 | 352 |
| No. of share traded | 2,496 | 4,263 |
| Value of transactions (Rs.) | 6,406,192 | 10,075,260 |
| 4. The transacted value of an ordinary share | | |
| | Rs. | Rs. |
| Highest Price | 3000.00 | 3174.90 |
| Lowest Price | 2150.20 | 2250.00 |
| Last Traded Price | 2799.90 | 2700.70 |
| 5. Dividend | | |
| Interim | 38,392,000 | 38,392,000 |
| Final | 43,191,000 | 38,392,000 |
| | <u>81,583,000</u> | <u>76,784,000</u> |
| 6. Earnings | | |
| Earnings per share (Rs.) | 130.39 | 147.31 |
| Price earning ratio | 21.47 | 18.33 |
| 7. Dividend per share (Rs.) | 85.00 | 80.00 |
| 8. Dividend cover (Times) | 1.53 | 1.84 |
| 9. Dividend Yield (%) | 3.04 | 2.96 |
| 10. Dividend Payout(%) | 65.19 | 54.31 |
| AS AT 31 MARCH | 2017 | 2016 |
| 11. Public Holding | | |
| No. of shares | 410,764 | 410,764 |
| Percentage | 42.80% | 42.80% |
| No. of public shareholders | 478 | 477 |
| 12. Net Asset per share (Rs.) | 1,280.17 | 1,225.92 |
| 13. Current asset ratio | 3.01:1 | 3.18:1 |
| 14. Quick asset ratio | 2.41:1 | 2.47:1 |
| 15. Debt equity ratio (%) | - | - |
| 16. Equity to total asset ratio (%) | 76.75 | 77.93 |



FORM OF PROXY

*I/We :
of

being a Shareholder / Shareholders of Harischandra Mills PLC, do hereby appoint:

- | | |
|---------------------------|------------------|
| 1. Mr. M.A. Bastiansz | (or failing him) |
| 2. Mr. S.N. Samarasinghe | (or failing him) |
| 3. Mr. G.S.V. De Silva | (or failing him) |
| 4. Mrs. M.P. De Silva | (or failing her) |
| 5. Mr. S.A.S. Jayasundara | (or failing him) |
| 6. Mr. T.K. Bandaranayake | (or failing him) |
| 7. Mrs. R.K. Samarasinghe | (or failing her) |

.....(holder of National Identity Card No.)
ofas *my / our Proxy to attend and vote at
the 65th Annual General Meeting of the Company to be held at the registered office of the Company at No. 11, C.A. Harischandra Mawatha, Matara on 23rd September 2017 at 11.00 a.m. and at any adjournment thereof.

| | For | Against |
|--|--------------------------|--------------------------|
| 1. To receive and consider the Annual Report of the Board together with the Financial Statements of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To declare a final dividend of LKR 22/- per share as recommended by the Directors. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect as a Director, Mr. S.A.S. Jayasundara as a Director, who retires in terms of Article 98 of Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-appoint as a Director, Mr.T.K. Bandaranayake in terms of Section 210 of the Companies Act No. 7 of 2007. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To re-appoint as a Director, Mrs. R.K. Samarasinghe in terms of Section 210 of the Companies Act No. 7 of 2007. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-appoint as a Director, Mr. M.A. Bastiansz in terms of Section 210 of the Companies Act No. 7 of 2007. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To re-appoint as a Director, Mr. G.S.V. De Silva in terms of Section 210 of the Companies Act No. 7 of 2007. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. To re-appoint M/s KPMG, Chartered Accountants, as the Auditors of the Company and to authorise the Directors to fix their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. To approve the donations and contributions made by the Directors during the year under review, and to authorise the Directors | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. To determine contributions to charities for the ensuing year. | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this day of2017

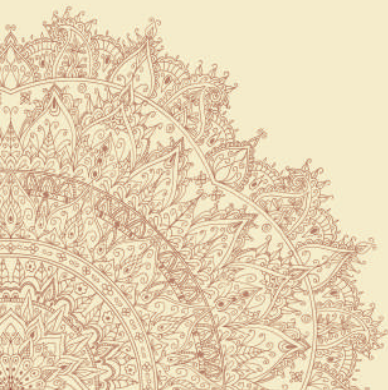
.....
Signature/s

Note : Instructions as to completion are noted on the reverse hereof.



INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address and sign in the space provided. Please fill in the date of signature.
2. Please return the completed Form of Proxy to the Company after crossing out one or the other of the alternative words indicated by the asterisks on the body of the Form and by indicating with an 'X' in the space provided against each resolution, the manner in which you wish your vote to be cast.
3. A Shareholder entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a Shareholder, to attend and vote instead of him.
4. In the case of a Corporate Shareholder, the Form must be completed under its Common Seal or otherwise signed by its attorney or by an officer on behalf of the Corporation. The Corporate Shareholder may, but shall not be bound to require evidence of the authority of any such attorney or officer.
5. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy, in the manner prescribed by Articles of Association.
6. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 11, C.A. Harischandra Mawatha, Matara not less than forty eight (48) hours before the appointed time for the Meeting
7. If there is any doubt as to the manner in which the Proxy should vote by reason of the manner in which instructions in 2 above have been carried out, the Proxy holder will vote as she/he thinks fit.
8. A Shareholder appointing a Proxy (other than a Director of the Company) to attend the meeting should indicate the Proxy holder's National Identity Card (NIC) number on the Form of Proxy and should instruct the Proxy holder to bring his/her National Identity Card to the Meeting.



HARISCHANDRA MILLS PLC

No.11, C.A. Harischandra Mw,
Matara.

Tel : 041-2224701-8

Fax: 041-2222003

Email-info@harischandramills.com

Web- www.harischandramills.com