



ANNUAL REPORT 2017 | 2018



**HARISCHANDRA**  
THE TRUSTED NAME FOR QUALITY

29th Dec: 1954.

# COMPANY HISTORY AND MILESTONES

Company at present is one of the market leaders of noodles, coffee, flour range of kurakkan, ulundu, rice, instant hoppers, thosai with appreciable market share in laundry and toilet soap.



1983



The company listed on the Colombo Stock Exchange, the first company in the southern province.

1962



Diversified the business operations by manufacturing soap.

1959



Allotted 40% of company shares to its employees.

1953



The company incorporated under the company's ordinance No. 51 of 1938 on 9th day of January 1953.

1952



The business expanded into various other fields including the milling of coconut oil other than milling of rice, kurakkan and other grains.

1951



Established Harischandra Mills Provident Fund Association, introducing the concept of Provident Fund to Sri Lanka.

1943



Mr. C.A. Harischandra founded the company in 1943, Matara with an initial capital of Rs. 25000/= on a land area of 20 perches.

1. A. Sumanaratne			
2. Y.B. Ganindana			
3. S. Jayaweera			
4. P. Thomas	226.00	27.10.1954	160.00
5. H. Edwin	nil	12. 1. 1955	18.00
6. W.C. Weerasekera	nil	21. 1. 1955	75.00

Mine faithfully,  
HARISCHANDRA MILLS LTD.

*[Handwritten signature]*  
MANAGER DIRECTOR.



#### **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 66<sup>th</sup> 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 22<sup>nd</sup> September 2018 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 2018 along with the report of the Auditors thereon.
02. To declare a final dividend of Rupees Twenty Five (Rs.25/-) per share for the financial year ended 31<sup>st</sup> March 2018 as recommended by the Board of Directors.
03. To re-elect Mr. S.N. Samarasinghe 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 75 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 75 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 77 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 77 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 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. M.A. Bastiansz who has reached the age of 74 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 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. G.S.V. De Silva who has reached the age of 73 years prior to the Annual General Meeting and that he shall accordingly be re-appointed.

08. To re-appoint KPMG, Chartered Accountants, as Auditors of the Company until the next Annual General Meeting and to authorise the Directors to determine their remuneration.

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 31<sup>st</sup> day of July 2018

**66<sup>th</sup>**  
*Annual General Meeting*

### Note

01. A member unable to attend the above meeting is entitled to appoint a proxy who need not be a member.
02. A form of Proxy is attached to the report.
03. 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

9<sup>th</sup> 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)

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

## CHAIRMAN'S REVIEW

This is the 66<sup>th</sup> Annual General Meeting of Harischandra Mills PLC. I am very pleased to welcome you, and present to you, on behalf of the Board of Directors, the Annual Report and Audited Statement of Accounts of the Company for the financial year ended 31<sup>st</sup> March 2018.

I am also proud to inform you that this year marks the 75<sup>th</sup> Anniversary of the inception of the Company. This is a truly remarkable milestone in the history of any Company.

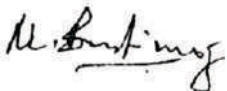
The year under review began on a subdued note with the Company facing challenges thrown up by inclement weather conditions and the high cost of some imported raw materials. However, the Company was able to increase its gross profit by 14%, driven largely by increased production and revenue in the food sector. This was a direct result of the strategies employed by the management to automate the production process by the introduction of new machinery.

The soap products sector suffered a significant loss due to the high cost of quality raw materials, and the depreciation of the Rupee against the US Dollar. The management is continuing to review several alternatives with a view to improving the Company's performance in this sector.

The Company has paid an interim dividend of Rs 20/- per share. I am pleased to announce that the Board of Directors has recommended the payment of a final dividend of Rs 25/- per share.

As in the previous years, the Company has maintained a close relationship with, and made generous contributions to, many deserving community projects, the details of which you will find in the Annual Report.

In this special Anniversary year I would like, on behalf of the Board of Directors, to say a very special thank you to all the members of the staff for their loyal service to the Company. By their faithful service throughout the years they have contributed immeasurably to the success of the Company.



**Maxwell A. Bastiansz**  
Chairman  
July 26, 2018

## MANAGING DIRECTOR'S REPORT

This year Harischandra Mills PLC is celebrating the 75th Anniversary of its founding. This accomplishment was made possible by the support and patronage of our customers, suppliers and others concerned as well as the hard work of our employees. I would like to take this opportunity to express my deepest gratitude to all.

During the year concerned, we were able to achieve 6% growth in overall sales despite the adverse market and weather conditions of the country faced at the beginning of the financial year.

Sales of the food segment increased by 7% during the year and profits increased by 52% due to the improved efficiency in production process as new machineries replaced during the year. Further, cost of some raw materials have reduced considerably during the year.

Soap segment reported a loss during the year despite the increase of sales by 1% compared to the previous year. This is due to the use of high quality raw material despite the high related cost.

Fuel and Lubricant sale has increased by 3% and profits increased by 39% due to demand for higher margin products.

Company continues its social responsibility activities during the year to contribute social wellbeing. Company actively engaged in flood relief programs as Matara district which was one of the most affected areas from flood waters in end May 2017. Medical Student's Room of Paediatric ward of Karapitiya General Hospital has renovated by the Company installing modern infrastructure and modern teaching facilities. Maternity clinic and office building of Dickwella regional hospital was also renovated from company funds. Further, Aesthetic unit for Percy Abeywardhana Vidyalaya, Beralapanathara and a play area for Thudawa Primary School, Matara were two of the major projects conducted by the company during the year. Company was one of the principal sponsors for the International Symposium on Agriculture and Environment conducted by the University of Ruhuna and a corporate sponsor of the Association of Accounting Technicians of Sri Lanka.



**S.N. Samarasinghe**  
Managing Director  
July 26, 2018



**Flood Donation**



Matara was among the worst affected districts from flood waters in end May 2017. 128 employees were directly affected by the flood and 114 completely lost their properties. During this period the Company provided breakfast for three days for all flood victims of the Company. Further, Company provided all cleaning materials and dry rations for all 128 employees and supported them to relocate their premises. Furthermore, cash donation were made among these 114 employees and 41 Contract employees who affected from flood water.

In addition, 1000 Noodles packets were donated to Matara Divisional Secretariat office for distributed among Flood affected people in Matara District.

**Aesthetic Unit of Percy Abeywardhana Vidyalaya, Beralapanathara.**



Percy Abeywardhana Vidyalaya is a school in Deniyaya Educational Zone, located in Beralapathara, 65Km away from Matara city limits and nearly 480 students are currently studying. School lacks most of the physical resources needs for school curricula. We identified that the Aesthetic unit is much needed as they have a teacher without any facility. Therefore, we renovated a building for the Aesthetic unit of the School and provided necessary musical instruments.

Further, Company IT staff devoted their effort to modify the School IT room which enabled the children to learn IT with modern facilities.

**Play Area for Thudawa Primary School.**



Thudawa Primary school is located near factory premises and had no play area for school children which is a must for primary kids. Upon the request of the Principal, Company sponsored to develop a play area and handed over to the school children.

**Renovation of Medical Student's Room of Paediatric ward of Karapitiya General Hospital.**



Paediatric Unit of Faculty of Medicine, University of Ruhuna involves teaching clinical paediatrics for final year medical students. Ward classes relevant for this is conducted in special room located inside the paediatric ward of Teaching Hospital Karapitiya. This room has not been refurbished for several years and lacks most of the modern facilities. Therefore, medical students faced many difficulties when they came for paediatrics appointments. Company refurbished this room and now it can accommodate fifty students at once and has modern teaching facilities with improved infrastructure.

**Celebration of World Blood Donors Day, Matara.**



Celebration of World Blood Donors Day is an annual global event celebrated each year on 14 June. The Southern Regional Blood Bank organized an event to celebrate World Blood Donors Day 2017 with the intention of motivating blood donors of southern region and also to strengthen blood transfusion services. Company sponsored this event for the second consecutive year in order to give a helping hand to the authorities to improve health care facilities of the region.

**Distribution of School Books and other Stationary to the Children of Staff Members.**



This is an annual event of the Company started by our founder Mr. C.A. Harischandra to give a helping hand to the members of Harischandra staff in their children's studies. Accordingly, Company provides all required study materials and pairs of shoes to children of all staff. Further, Company provides a scholarship to children of employees who entered for higher studies and this continues until they complete their studies.

**Corporate Sponsor of AAT Sri Lanka**



Company was one of the corporate sponsors of Association of Accounting Technicians of Sri Lanka for the year 2017. The Association of Accounting Technicians of Sri Lanka is one of the largest professional accounting organization in 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 2018 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						
	20.04.2017	25.05.2017	21.06.2017	28.07.2017	11.08.2017	10.11.2017	09.02.2018
Mr. M.A. Bastiansz	✓	✓	✓	✓	✓	✓	✓
Mr. S.N. Samarasinghe	✓	✓	✓	✓	✓	✓	✓
Mr. G.S.V. De Silva	✓	✓	✓	✓	✓	✓	✓
Mrs. M.P. De Silva	✓	✓		✓	✓	✓	✓
Mr. T.K. Bandaranayake	✓	✓	Excused	Excused	Excused	Excused	✓
Mr. S.A.S. Jayasundara	✓	✓	✓	✓	✓	✓	✓
Mrs. R.K. Samarasinghe	✓	✓	✓	✓	✓	✓	Excused

## 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 04.

### 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 20 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				
	19.05.2017	21.07.2017	04.08.2017	02.11.2017	02.02.2018
Mr. T.K. Bandaranayake	✓	✓	✓	✓	✓
Mr. S.A.S. Jayasundara	✓	✓	✓	✓	✓

The detailed Audit Committee's report including areas reviewed during the financial year 2017/2018 given on Page 17 and 18 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 occasions during the year:

	Attendance of Remuneration Committee Meetings	
	10.11.2017	09.02.2018
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 2017/2018, the Committee held four meetings.

Director	25.05.2017	28.07.2017	10.11.2017	09.02.2018
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 analyze 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 14 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 65<sup>th</sup> Annual General Meeting of Harischandra Mills PLC held on 23<sup>rd</sup> September 2017, 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 11
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 20
7.10.5 Remuneration Committee	A listed Company shall have a Remuneration Committee	Complied	Please refer page 16
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 16
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 16
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 page 16 & 56
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 17 & 18
7.10.6a Composition of Audit Committee	<ul style="list-style-type: none"> <li>• The Audit Committee;</li> <li>• Shall comprise of non-executive directors a majority of whom will be independent.</li> <li>• One non-executive director shall be appointed as the Chairman of the committee</li> <li>• Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings</li> <li>• The Chairman of the Audit Committee or one member should be a member of a professional accounting body</li> </ul>	Complied	Please refer page 11
		Complied	Please refer page 11
		Complied	Please refer page 17
		Complied	
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 page 17 & 18
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 page 17 & 18

## 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 nonconformance 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.



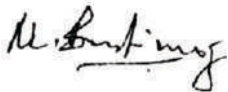
## REMUNERATION COMMITTEE REPORT

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 56.



**M.A. Bastiansz**  
Chairman-Remuneration Committee  
July 26, 2018

## 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.

With the introduction of the new Audit Report this year, the audit committee has introduced a process to discuss the areas which are identified as Key Audit Matters by Messrs KPMG for reporting in the Audit Report at the Audit planning and completion stage.

### 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 31<sup>st</sup> March 2019 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

July 26, 2018

## 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<sup>st</sup> March 2018 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

July 26, 2018

## 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 (Pvt) Ltd, Bimpuh Finance PLC and Sithara Limited. He is a Director of Electronic Technologies (Pvt) Ltd and Director of Sri Lanka Arbitration Centre (GTE) Ltd. Further he is serving as the chairman of Blue Diamonds Jewellery worldwide PLC, Shradha TV (GTE), Lakviru Radio (Pvt) Ltd, Compassion Products (Pvt) Ltd and acting Chairman of Bimpuh Finance PLC.

### **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<sup>st</sup> March 2018.

### 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 37.

Group Financial Results;	2017/2018 Rs. 000	2016/2017 Rs. 000
Profit before taxation	204,478	179,075
Taxation	<u>(81,635)</u>	<u>(53,929)</u>
After tax profit attributable to shareholders	122,843	125,146
Capitalization of reserves	(95,980)	-
Other comprehensive income	(4,435)	5,840
Unappropriated profit brought forward from previous year	<u>1,179,714</u>	<u>1,130,312</u>
Profit available for appropriation	1,202,142	1,261,298
<b>Distribution of Profit:</b>		
Interim dividend paid	38,392	38,392
Final dividend paid	42,232	43,192
Forfeiture of unclaimed dividend	<u>(491)</u>	<u>-</u>
	<u>80,133</u>	<u>81,584</u>
	<u><u>1,122,009</u></u>	<u><u>1,179,714</u></u>

### AUDITORS' REPORT

The auditors' report on the financial statements is given on page 28.

### ACCOUNTING POLICIES

The Group and the Company prepared their Financial Statements for all periods up to and including the year ended 31<sup>st</sup> March 2018, 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 37 to 46 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<sup>st</sup> March 2018 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<sup>st</sup> March 2018 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 10 to 14 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 07.

### DONATIONS

Donations were Rs.4,748,654/- compared to Rs. 3,769,476/- 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 24<sup>th</sup> May 2018, and propose a final dividend of Rs.25/- per share, to be paid out of the profits of Harischandra Mills PLC and dividend received for the financial year ended 2017/2018. 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. 20/= and final dividend of Rs. 22/= 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 50.

### STATED CAPITAL & RESERVES

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

As per the Directive issued by the Securities and Exchange Commission on 17<sup>th</sup> November 2016, Listed Public Companies are required to comply with the minimum public holding threshold requirement as a Continuing Listing Requirement on the Main Board of the Colombo Stock Exchange 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 05<sup>th</sup> 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.

Accordingly stated capital at the end of the year was Rs.105,578,000/-

The total reserves of the Company as at 31<sup>st</sup> March 2018 amounted to Rs.1,076,895,311/- (as at 31<sup>st</sup> March 2017 - Rs.1,067,116,576/-) where as the Group total reserve amounted to Rs.1,161,682,212/- (as at 31<sup>st</sup> March 2017 - Rs.1,219,110,438/-) 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

Interim dividend of Rs.20/- per share were paid on 24<sup>th</sup> May 2018.

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<sup>st</sup> March 2018.



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

### HUMAN RESOURCES

As at 31<sup>st</sup> March 2018 Company employed 580 employees whereas it was 540 in the last year end. Aggregate total remuneration in respect of the year was Rs.378.9 Mn compared to Rs.345.6 Mn for the last year.

### SHAREHOLDERS' INFORMATION

Distribution of the issued shares among the shareholders and classification of shareholders are indicated in page 66 of the Annual Report. There were 540 (2016/17-494) registered shareholders as at 31<sup>st</sup> March 2018.

### DIRECTORATE

The directors of Harischandra Mills PLC during the year ended 31.03.2018 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 20 in the Annual Report.

### MAJOR SHAREHOLDERS

The 20 largest shareholders of Harischandra Mills PLC as at 31<sup>st</sup> March 2018 are given on page 66 together with an analysis of the shareholdings. As at that date Harischandra Mills PLC had 540 shareholders.

### SUB-COMITTEES OF THE BOARD

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

01. Audit Committee	:	Mr. T.K. Bandaranayake (Chairman) Mr. S.A.S. Jayasundara
02. Remuneration Committee	:	Mr. M.A. Bastiansz (Chairman) Mr. S.A.S. Jayasundara
03. 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<sup>st</sup> March 2018 were recorded as Rs.36,365,643/- (2016/2017 Rs.32,748,849/-).

### DIRECTORS SHAREHOLDING

Name of Director	31 <sup>st</sup> March 2018		01 <sup>st</sup> April 2017	
	No of Shares	%	No of Shares	%
Mrs. R.K. Samarasinghe	270,120	14.07	135,060	14.07
Mr. S.N. Samarasinghe	76,670	3.99	38,335	3.99
Mr. G.S.V. De Silva	2,000	0.10	1,000	0.10
Mrs. M.P. De Silva	5,000	0.26	2,500	0.26
Mr. M.A. Bastiansz	-	-	-	-
Mr. T.K. Bandaranayake	-	-	-	-
Mr. S.A.S. Jayasundara	-	-	-	-
<b>Total</b>	<b>353,790</b>	<b>18.42</b>	<b>176,895</b>	<b>18.42</b>

### 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 14 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<sup>st</sup> March 2018 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.1,355,000/- (2016/17 - Rs.1,080,920/-) for audit work and Rs.342,474/- (2016/17 - Rs. 545,467/-) 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 Sixth 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 22<sup>nd</sup> September 2018 at 11.00 a.m. The Notice of the Sixty Sixth Annual General Meeting is on page 04 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

July 26, 2018

## 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 28 to 30 sets out their responsibilities in relation to the Financial Statements

By order of the Board

**Corporate Services (Private) Limited**

Secretaries

July 26, 2018



KPMG  
 (Chartered Accountants)  
 32A, Sir Mohamed Macan Markar Mawatha,  
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## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Harischandra Mills PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Harischandra Mills PLC (the Company) and its subsidiary (the Group), which comprise the statement of financial position as at March 31, 2018, income statement and the statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 37 to 63.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and Group as at March 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Recoverable Amount of Trade Receivables

Risk Description	Our response
<p>The group has recognized a total trade receivables amounting to Rs.360,819,749</p> <p>Recoverability of the trade receivable balance is an area of significant judgment, particularly with regards to the estimation of specific impairment provision for bad debts.</p> <p>See note 3.4 for impairment policy and note 16 for Trade and Other Receivables</p>	<p>Our audit procedures included;</p> <ul style="list-style-type: none"> <li>Testing the design, implementation and operating effectiveness of the key management controls over debtor collection and credit approval.</li> <li>Identifying significant or long overdue trade receivables by inspecting the ageing reports and challenging management's assessment of those trade receivables' recoverability, taking into consideration the ageing of the balances, credit terms, recent settlement patterns, identified default or disputes, the debtors' financial condition and recent communications with debtors;</li> <li>Evaluating the calculation methodology, the basis for provision and the processes with respect to the provision for bad debts.</li> <li>Assessing, on a sample basis, whether items in the trade receivables ageing reports were classified within the appropriate aging bucket by comparing individual items with the relevant sales invoices.</li> <li>On sample basis, assessing the recoverability of trade receivables through subsequent realizations.</li> </ul>

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	P.Y.S. Perera FCA	C.P. Jayatilaka FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse ACA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA	M.N.M. Shameel ACA	Ms. C.T.K.N. Perera ACA
Principals - S.R.L. Perera FCMA (UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA		



### Carrying value of inventory

Risk Description	Our response
<p>The Group has recognised a total impairment provision of Rs. 2,637,141 in the total gross inventory amounting to Rs. 193,090,868.</p> <p>The inventory held at the yearend covers a wide range of products and the demand for these and the ability of the Group to sell this inventory in the future may be adversely affected by many factors including changes in customer and consumer preferences, competitor activities including pricing and the introduction of new products</p> <p>Assessing carrying value is an area of significant judgment, particularly with regards to the estimation of provisions for slow-moving and non-moving inventory in order to ensure that inventory is carried at lower of cost or net realizable value.</p> <p><i>See note 3.9 for inventories accounting policy and note 15 for inventories</i></p>	<p>Our audit procedures included;</p> <ul style="list-style-type: none"> <li>• Testing the design, implementation and operating effectiveness of the key controls management has established to manage inventories including the purchases, sales and holding of inventories.</li> <li>• Evaluating and challenge the management provision calculation methodology, the basis for provision and the processes with respect to impairment provision.</li> <li>• Assessing the adequacy of, and movements in, inventory provisions held, by recalculating the total provision including Raw materials and Machinery spares within the provision to ensure appropriate basis of valuation.</li> <li>• Assessing the realizations of inventories during the period and after the period end.</li> <li>• Assessing, on a sample basis, whether items in the inventory ageing reports were classified within the appropriate aging bucket by comparing individual items with the underlying documents.</li> </ul>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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



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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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


We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

#### **Report on Other Legal and Regulatory Requirements**

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3272.

  
 Colombo, Sri Lanka  
 July 26, 2018

## INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH,	Note	GROUP		COMPANY	
		2018	2017	2018	2017
		Rs.	Rs.	Rs.	Rs.
Revenue	4	3,178,556,180	3,003,823,937	3,178,556,180	3,003,823,937
Cost of sales		<u>(2,500,247,980)</u>	<u>(2,408,376,249)</u>	<u>(2,500,247,980)</u>	<u>(2,408,376,249)</u>
<b>Gross profit</b>		<b>678,308,200</b>	595,447,688	<b>678,308,200</b>	595,447,688
Other income	5	<u>20,934,106</u>	<u>38,911,619</u>	<u>90,233,611</u>	<u>108,211,124</u>
		<b>699,242,306</b>	634,359,307	<b>768,541,811</b>	703,658,812
Distribution expenses		<u>(264,028,563)</u>	<u>(252,063,808)</u>	<u>(264,028,563)</u>	<u>(252,063,808)</u>
Administrative expenses		<u>(246,008,619)</u>	<u>(216,627,216)</u>	<u>(245,702,181)</u>	<u>(216,203,557)</u>
<b>Operating profit</b>	6	<u><b>189,205,124</b></u>	<u>165,668,283</u>	<u><b>258,811,067</b></u>	<u>235,391,447</u>
Net finance income/(Expenses)	7	<u>15,272,893</u>	<u>13,407,182</u>	<u>1,365,012</u>	<u>(8,082,221)</u>
<b>Profit before income tax expense</b>		<b>204,478,017</b>	179,075,465	<b>260,176,079</b>	227,309,226
Income tax expense	8	<u>(81,634,911)</u>	<u>(53,929,648)</u>	<u>(70,126,562)</u>	<u>(40,689,754)</u>
<b>Profit for the year</b>		<u><b>122,843,106</b></u>	<u>125,145,817</u>	<u><b>190,049,517</b></u>	<u>186,619,472</u>
Profit attributable to equity holders - of the Company		<u>122,843,106</u>	<u>125,145,817</u>	<u>190,049,517</u>	<u>186,619,472</u>
<b>Profit for the year</b>		<u><b>122,843,106</b></u>	<u>125,145,817</u>	<u><b>190,049,517</b></u>	<u>186,619,472</u>
<b>Basic earnings per share - (Rs.)</b>	9	<b>63.99</b>	130.38	<b>99.00</b>	194.44
<b>Diluted earnings per share - (Rs.)</b>	9	<b>63.99</b>	65.19	<b>99.00</b>	97.22

Figures in bracket indicate deductions.

The notes to the financial statements from page 37 to 63 form 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	
		2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
<b>Profit for the year</b>		<b>122,843,106</b>	125,145,817	<b>190,049,517</b>	186,619,472
<b>Other comprehensive Income</b>					
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Net change in fair value of available for sale					
Financial assets	14	276,159	2,669,175	276,159	2,669,175
<b>Other comprehensive Income</b>					
<b>Items that will not be reclassified subsequently to profit or loss</b>					
Re-measurement of					
defined benefit obligation	22.1	(6,159,640)	8,110,940	(6,159,640)	8,110,940
Related tax	8.2	1,724,699	(2,271,063)	1,724,699	(2,271,063)
<b>Total other comprehensive income net of tax</b>		<u>(4,158,782)</u>	<u>8,509,052</u>	<u>(4,158,782)</u>	<u>8,509,052</u>
<b>Total comprehensive income attributable to owners of the Company</b>		<u><b>118,684,324</b></u>	<u>133,654,869</u>	<u><b>185,890,735</b></u>	<u>195,128,524</u>

Figures in bracket indicate deductions.

The notes to the financial statements from page 37 to 63 form an integral part of these consolidated financial statements.

**STATEMENT OF FINANCIAL POSITION**

AS AT 31 MARCH,	Note	GROUP		COMPANY	
		2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	787,305,302	774,871,464	787,305,302	774,871,464
Intangible assets	12	2,262,277	3,411,945	2,262,277	3,411,945
Investment in subsidiary	13	-	-	70	70
Available for sale investment	14	39,876,300	39,064,885	39,876,300	39,064,885
<b>Total non-current assets</b>		<b>829,443,879</b>	<b>817,348,294</b>	<b>829,443,949</b>	<b>817,348,364</b>
<b>Current assets</b>					
Inventories	15	190,453,727	154,653,480	190,453,727	154,653,480
Trade and other receivables	16	423,157,504	360,352,034	423,157,504	360,352,034
Tax Recoverable	25	-	5,623,944	-	6,746,271
Cash and cash equivalents	17	255,516,549	262,926,865	255,340,499	262,066,923
<b>Total current assets</b>		<b>869,127,780</b>	<b>783,556,323</b>	<b>868,951,730</b>	<b>783,818,708</b>
<b>Total assets</b>		<b>1,698,571,659</b>	<b>1,600,904,617</b>	<b>1,698,395,679</b>	<b>1,601,167,072</b>
<b>Equity</b>					
Stated capital	18	105,578,000	9,598,000	105,578,000	9,598,000
Other capital reserves	19	7,010,944	7,010,944	11,014	11,014
Available for sale reserve		19,820,705	19,544,546	19,820,705	19,544,546
General reserve	20	12,841,000	12,841,000	12,841,000	12,841,000
Retained earnings		1,122,009,563	1,179,713,948	1,044,222,592	1,034,720,016
<b>Total equity attributable to owners of the Company</b>		<b>1,267,260,212</b>	<b>1,228,708,438</b>	<b>1,182,473,311</b>	<b>1,076,714,576</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred tax liabilities	21	50,403,473	41,284,188	50,403,473	41,284,188
Employee benefit obligation	22	87,999,722	70,186,876	87,999,722	70,186,876
Related party payables	24	-	-	4,257,289	75,395,542
<b>Total non-current liabilities</b>		<b>138,403,195</b>	<b>111,471,064</b>	<b>142,660,484</b>	<b>186,866,606</b>
<b>Current liabilities</b>					
Trade and other payables	23	239,131,771	154,816,858	238,959,075	154,677,633
Related party payables	24	-	-	77,000,000	77,000,000
Current tax liabilities	25	25,120,288	-	28,646,616	-
Bank overdraft	17	28,656,193	105,908,257	28,656,193	105,908,257
<b>Total current liabilities</b>		<b>292,908,252</b>	<b>260,725,115</b>	<b>373,261,884</b>	<b>337,585,890</b>
<b>Total liabilities</b>		<b>431,311,447</b>	<b>372,196,179</b>	<b>515,922,368</b>	<b>524,452,496</b>
<b>Total equity and liabilities</b>		<b>1,698,571,659</b>	<b>1,600,904,617</b>	<b>1,698,395,679</b>	<b>1,601,167,072</b>

The notes to the financial statements from page 37 to 63 form 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  
July 26, 2018



**G.S.V. De Silva**  
Director

**STATEMENT OF CHANGES IN EQUITY**

GROUP	Stated Capital	Available for sale Reserve	Other Capital Reserve	General Reserve	Retained Earnings	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Balance as at 01 April 2016</b>	9,598,000	16,875,371	7,010,944	12,841,000	1,130,311,805	1,176,637,120
<b>Total comprehensive income</b>	-	-	-	-	125,145,817	125,145,817
Profit for the year	-	-	-	-	8,110,940	8,110,940
<b>Other comprehensive income</b>	-	-	-	-	(2,271,063)	(2,271,063)
Re-measurement of defined benefits obligation	-	-	-	-	-	-
Related taxes	-	2,669,175	-	-	-	2,669,175
Net change in fair value of available for sale financial assets	-	2,669,175	-	-	5,839,877	8,509,052
<b>Total other comprehensive income for the year</b>	-	2,669,175	-	-	130,985,694	133,654,869
<b>Total comprehensive income for the year</b>	-	2,669,175	-	-	-	2,669,175
<b>Transactions with owners of the company, recognized directly in equity</b>	-	-	-	-	(38,392,000)	(38,392,000)
Interim dividend	-	-	-	-	(43,191,550)	(43,191,550)
Final dividend	-	-	-	-	(81,583,550)	(81,583,550)
<b>Total transactions with owners of the company</b>	-	-	-	-	-	-
<b>Balance as at 31 March 2017</b>	9,598,000	19,544,546	7,010,944	12,841,000	1,179,713,948	1,228,708,438
<b>Balance as at 01 April 2017</b>	9,598,000	19,544,546	7,010,944	12,841,000	1,179,713,948	1,228,708,438
<b>Total comprehensive income</b>	-	-	-	-	122,843,106	122,843,106
Profit for the year	-	-	-	-	(95,980,000)	(95,980,000)
Capitalization of reserves	95,980,000	-	-	-	-	95,980,000
<b>Other comprehensive income</b>	-	-	-	-	(6,159,640)	(6,159,640)
Re-measurement of defined benefits obligation	-	-	-	-	1,724,699	1,724,699
Related taxes	-	-	-	-	-	-
Net change in fair value of available for sale financial assets	-	276,159	-	-	-	276,159
<b>Total other comprehensive income for the year</b>	-	276,159	-	-	(4,434,941)	(4,158,782)
<b>Total comprehensive income for the year</b>	-	276,159	-	-	22,428,165	276,159
<b>Transactions with owners of the company, recognized directly in equity</b>	-	-	-	-	(38,392,000)	(38,392,000)
Interim dividend	-	-	-	-	(42,231,750)	(42,231,750)
Final dividend	-	-	-	-	491,200	491,200
Forfeiture of unclaimed dividend - Note (a)	-	-	-	-	(80,132,550)	(80,132,550)
<b>Total transactions with owners of the company</b>	-	-	-	-	1,122,009,563	1,122,009,563
<b>Balance as at 31 March 2018</b>	105,578,000	19,820,705	7,010,944	12,841,000	1,122,009,563	1,267,260,212

Note (a) - The Group policy is to forfeit the dividends which are outstanding for more than six years in which the dividends have been initially declared. During the year, Group/Company has forfeited such dividends amounting to Rs.491,200/- after obtaining approval of the Board of directors.

Figure in bracket indicate deductions.

The notes to the financial statements from page 37 to 63 form an integral part of these consolidated financial statements.

**STATEMENT OF CHANGES IN EQUITY (CONTD.)**

COMPANY	Stated	Available for sale	Other Capital	General	Retained	Total
	Capital	Reserve	Reserve	Reserve	Earnings	Equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Balance as at 01 April 2016</b>	9,598,000	16,875,371	11,014	12,841,000	923,843,667	963,169,052
<b>Total comprehensive income</b>	-	-	-	-	186,619,472	186,619,472
Profit for the year	-	-	-	-	8,110,940	8,110,940
<b>Other comprehensive income</b>	-	-	-	-	(2,271,063)	(2,271,063)
Re-measurement of defined benefits obligation	-	-	-	-	-	-
Related taxes	-	2,669,175	-	-	-	2,669,175
Net change in fair value of available for sale financial assets	-	2,669,175	-	-	5,839,877	8,509,052
<b>Total other comprehensive income for the year</b>	-	2,669,175	-	-	5,839,877	8,509,052
Total comprehensive income for the year	-	2,669,175	-	-	192,459,349	195,128,524
<b>Transactions with owners of the company, recognized directly in equity</b>	-	-	-	-	(38,392,000)	(38,392,000)
Interim dividend	-	-	-	-	(43,191,000)	(43,191,000)
Final dividend	-	-	-	-	(81,583,000)	(81,583,000)
<b>Total transactions with owners of the company</b>	-	-	-	-	(1,034,720,016)	(1,034,720,016)
<b>Balance as at 31 March 2017</b>	9,598,000	19,544,546	11,014	12,841,000	1,034,720,016	1,076,714,576
<b>Balance as at 01<sup>st</sup> April 2017</b>	9,598,000	19,544,546	11,014	12,841,000	1,034,720,016	1,076,714,576
<b>Total comprehensive income</b>	-	-	-	-	190,049,517	190,049,517
Profit for the year	-	-	-	-	(95,980,000)	-
Capitalization of reserves	95,980,000	-	-	-	-	-
<b>Other comprehensive income</b>	-	-	-	-	(6,159,640)	(6,159,640)
Re-measurement of defined benefits obligation	-	-	-	-	1,724,699	1,724,699
Related taxes	-	276,159	-	-	-	276,159
Net change in fair value of available for sale financial assets	-	276,159	-	-	(4,434,941)	(4,158,782)
<b>Total other comprehensive income for the year</b>	-	276,159	-	-	89,634,576	89,634,576
<b>Total comprehensive income for the year</b>	-	276,159	-	-	89,634,576	89,634,576
<b>Transactions with owners of the company, recognized directly in equity</b>	-	-	-	-	(38,392,000)	(38,392,000)
Interim dividend	-	-	-	-	(42,231,200)	(42,231,200)
Final dividend	-	-	-	-	491,200	491,200
Forfeiture of unclaimed dividend - Note (a)	-	-	-	-	(80,132,000)	(80,132,000)
<b>Total transactions with owners of the company</b>	-	-	-	-	1,044,222,592	1,044,222,592
<b>Balance as at 31 March 2018</b>	105,578,000	19,820,705	11,014	12,841,000	1,044,222,592	1,182,473,311

Figure in bracket indicate deductions.  
 The notes to the financial statements from page 37 to 63 form an integral part of these consolidated financial statements.

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 MARCH,	Note	GROUP		COMPANY	
		2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
<b>Cash flows from operating activities</b>					
Profit before income tax expense		<b>204,478,017</b>	179,075,465	<b>260,176,079</b>	227,309,226
<b>Adjustment for</b>					
Provision for employee benefit	22	<b>15,143,111</b>	12,672,230	<b>15,143,111</b>	12,672,230
Depreciation/amortization	11 & 12	<b>83,417,905</b>	80,672,375	<b>83,417,905</b>	80,672,375
Interest expenses	7	<b>6,593,547</b>	6,486,741	<b>20,501,428</b>	27,976,144
Provision of slow moving inventories	15	-	(1,657,583)	-	(1,657,583)
Profit on disposal of property, plant & equipment		<b>(4,911,442)</b>	(25,416,431)	<b>(4,911,442)</b>	(25,416,431)
Dividend income		<b>(985,256)</b>	(1,338,216)	<b>(70,284,761)</b>	(70,637,721)
Interest income	7	<b>(20,299,119)</b>	(17,196,287)	<b>(20,299,119)</b>	(17,196,287)
<b>Operating profit before working capital changes</b>		<b>283,436,763</b>	233,298,294	<b>283,743,203</b>	233,721,953
Change in inventories		<b>(35,800,247)</b>	8,563,929	<b>(35,800,247)</b>	8,563,929
Change in trade and other receivables		<b>(57,525,001)</b>	(51,883,963)	<b>(57,525,001)</b>	(51,883,963)
Change in related party payables		-	-	<b>(85,060,185)</b>	(83,614,725)
Change in trade and other payables		<b>84,314,913</b>	5,535,815	<b>84,281,442</b>	5,589,881
<b>Cash generated from operations</b>		<b>274,426,425</b>	195,514,075	<b>189,639,212</b>	112,377,075
Gratuity paid	22	<b>(3,489,905)</b>	(4,967,521)	<b>(3,489,905)</b>	(4,967,521)
Interest paid		<b>(6,593,547)</b>	(6,486,741)	<b>(6,579,501)</b>	(6,484,133)
Income tax paid	25	<b>(40,046,693)</b>	(66,340,908)	<b>(23,889,689)</b>	(53,366,513)
<b>Net cash flows generated from operating activities</b>		<b>224,296,280</b>	117,718,905	<b>155,680,117</b>	47,558,908
<b>Cash flows from investing activities</b>					
Interest received		<b>15,018,650</b>	14,663,618	<b>15,018,650</b>	14,663,618
Dividend received		<b>985,256</b>	1,338,216	<b>70,284,761</b>	70,637,721
Proceeds from disposal of property, plant and equipment		<b>5,867,807</b>	25,964,777	<b>5,867,807</b>	25,964,777
Acquisition of property, plant and equipment		<b>(95,658,439)</b>	(108,635,226)	<b>(95,658,439)</b>	(108,635,226)
Investment in units		<b>(535,256)</b>	(1,038,216)	<b>(535,256)</b>	(1,038,216)
<b>Cash flows from/ (used in) investing activities</b>		<b>(74,321,982)</b>	(67,706,831)	<b>(5,022,477)</b>	1,592,674
<b>Cash flows from financing activities</b>					
Dividends paid		<b>(80,132,550)</b>	(81,583,550)	<b>(80,132,000)</b>	(81,583,000)
<b>Cash flows used in financing activities</b>		<b>(80,132,550)</b>	(81,583,550)	<b>(80,132,000)</b>	(81,583,000)
<b>Net change in cash and cash equivalents</b>		<b>69,841,748</b>	(31,571,476)	<b>70,525,640</b>	(32,431,418)
<b>Cash and cash equivalents at the beginning</b>		<b>157,018,608</b>	188,590,084	<b>156,158,666</b>	188,590,084
<b>Cash and cash equivalents at the end (Note 17)</b>		<b>226,860,356</b>	157,018,608	<b>226,684,306</b>	156,158,666

Figures in bracket indicate deductions.

The notes to the financial statements from page 37 to 63 form an integral part of these consolidated financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Reporting Entity

#### 1.1 Domicile and Legal Form

Harischandra Mills PLC (“the Company”) is a public limited liability company incorporated and domiciled in Sri Lanka since 09<sup>th</sup> January 1953.

The registered office and the principal place of business of the Company are situated at No.11, C. A. Harischandra Mawatha, Matara.

The Consolidated Financial Statements of the Group for the year ended 31<sup>st</sup> March 2018 comprise the Company and its subsidiary (together referred to as the “Group” and individually as “Group entities”).

#### 1.2 Subsidiaries

The Company has a fully owned subsidiary, Harischandra Mills (Distributors) Limited which is incorporated on 03<sup>rd</sup> February 1993.

Financial statements of the Company and the subsidiary are prepared for a common financial year, which ends on 31 March.

#### 1.3 Principal Activities and Nature of Operations

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

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.

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

#### 1.4 Parent Enterprise and Ultimate Parent Enterprise

In the opinion of the Directors, the Company does not have any identifiable parent entity of its own.

#### 1.5 Number of Employees

The numbers of employees of the Group and Company as at 31<sup>st</sup> March 2018 are as follows:

Group	580 (2017-567)
Company	580 (2017-567)

### 1.6 Responsibilities for financial statements and approval of financial statements

The board of directors is responsible for preparation and presentation of the financial statements of the Company as per the provision of Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards. The directors' responsibility over financial statements is set out in detail in the statement of directors' responsibility.

The financial statements of the Group for the year ended 31 March 2018 were authorized for issue in accordance with resolution of the Board of Directors on 26 July 2018.

### 2. Basis of Preparation

#### 2.1 Statement of Compliance

The consolidated financial statements of the Group and Company which comprise of the Statement of Financial Position, income statement Statement Other Comprehensive income, Statement of Changes in Equity and Statement of Cash Flows have been prepared in accordance with Sri Lanka Accounting Standards (hereinafter referred to as SLFRS / LKASs) as issued by the Institute of Chartered Accountants of Sri Lanka, and in compliance with the requirements of the Company's Act No. 07 of 2007.

#### 2.2 Basis of Measurement

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

- Defined Benefit Obligations are actuarially valued and recognized at the present value.
- Financial Assets classified as Available for Sale are measured at fair value.

No adjustments have been made for inflationary factors in the financial Statements.

#### 2.3 Functional and Presentation Currency

The consolidated financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency of all Group entities. There was no change in the Group's presentation and functional currency during the year under review. All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousands, unless stated otherwise.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 2.4 Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with Sri Lanka Accounting Standards requires management to make 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 in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes;

Note 3.4 - Impairment of assets

Note 3.10 - Provisions

Note 3.12 - Employee Benefits

Note 3.14 - Capital Commitments and Contingencies

### 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.

Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, Group assesses the evidence obtained from the third parties 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 Group's 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.

Further information about the assumption made in measuring fair value is included in note 34.2.

### 2.6 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

### 2.7 Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not intend either to liquidate or cease trading.

### 2.8 Comparative Information

The comparative information has been reclassified/ restated where necessary to conform to the current year's classification in order to provide a better presentation.

## 3. Summary Significant Accounting Policies

The group has consistently applied the following accounting policies to all periods presented in these Consolidated 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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 relationships. Such amounts are generally recognized in the profit or loss.

### 3.1.2. Subsidiaries

Subsidiaries are entities 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 subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Adjustments required to the accounting policies of subsidiary has been changed wherever necessary to align them with the policies adopted by the Group.

The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. Subsequent to the acquisition, the company continues to recognize the investment in the subsidiary at cost.

### 3.1.3. Non-Controlling Interest

Non-controlling interests are measured at their appropriate share of acquired identifiable net assets at the date of acquisition.

Changes in the Group's interest in a Subsidiary that do not result in a loss of control are accounted for as equity transactions.

However, the Company owned 100% of the equity of its subsidiary and hence no non-controlling interest is applicable.

### 3.1.4. Loss of Control

When the group loses its control over its subsidiaries, it derecognizes the assets and liabilities of the subsidiaries, any related Non-Controlling Interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in former subsidiaries is measured at fair value when control is lost.

### 3.1.5. Intra-Group Transactions

Intra-group balances, intra-group transactions and resulting unrealized profits are eliminated in full in the Financial Statements. Unrealized losses resulting from intra-group transactions are eliminated unless the cost cannot be recovered.

### 3.2. Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates as at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate as at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss.

### 3.3 Financial Instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

#### (i) Non Derivative financial assets and liabilities- Recognition and derecognition

The Group initially recognizes loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

### (ii) Non-derivative financial assets - Measurement

Group's non derivative financials assets comprise of loans and receivables, and available-for-sale financial assets as at the reporting date. Their subsequent measurement is as follows.

#### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active 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, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, trade receivables and other receivables.

### (iii) Non-derivative financial liabilities- Measurement

The Company and the Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise trade and other payables, amounts due to related parties and bank overdrafts.

### 3.4 Impairment

#### i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a

result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company and the Group on terms that the Company and the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties;
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

#### Financial assets measured at amortized cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's 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. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

The Company and the Group considers evidence of impairment for financial assets measured at amortized cost (loans and receivables) at specific asset level.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### ii) 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 impairment. If any such indication exists, or when annual impairment testing for an asset is required, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets 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 CGUs. An impairment loss is recognized if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs 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 current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Impairment losses are recognized in Profit or Loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

### 3.5 Stated capital

#### Ordinary shares

Ordinary shares are classified as equity. Incremental Costs attributable to the issue of ordinary shares are recognized as an expense.

### 3.6 Property, Plant and Equipment

#### 3.6.1 Recognition & Measurement

Items of Property, Plant & Equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that asset.

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

#### 3.6.2 Subsequent Costs

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. The costs of day-to-day servicing of property, plant and equipment is recognized in profit or loss as incurred.

#### 3.6.3. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognized in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows;

Category of Asset	Useful Economic life time (Years)
Buildings	50
Plant and Machinery	13.33
Office, factory & Laboratory Equipment	10
Furniture and Fittings	20
Motor Vehicles	4

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Depreciation of an asset begins when it is available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

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

### 3.6.4. De-recognition

An item of property, plant and equipment is derecognized upon disposal of or when no future economic benefits are expected from its use or disposal. The gains or losses arising on derecognition (disposal or retirement) of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized net within 'other income' in the Statement of profit or loss.

### 3.6.5 Capital Work-in-Progress

Capital work-in-progress represents the accumulated cost of materials and other costs directly related to the construction of an asset. Capital work-in-progress is transferred to the respective asset accounts at the time it is substantially completed and ready for its intended use.

## 3.7 Intangible Assets

### a. Recognition and Measurement

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associate hardware, and can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits are included in the statement of financial position under the category intangible assets and carried at cost less accumulated amortization and accumulated impairment losses if any.

### b. Subsequent Expenditure

Subsequent expenditure is capitalized only when it increase the future economic benefits embodied in the specific asset to which it relate. All other expenditure, including expenditure on internally generated goodwill and brands, are recognized in profit or loss as incurred.

### c. Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Goodwill is not amortized.

The estimated useful lives for the current and comparative years are as follows;

Computer Software 5 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### d. De-recognition

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognized in profit or loss when the asset is derecognized.

## 3.8 Investments

Investments in subsidiary of the Group are classified as non-current investments, which are stated in the statement of financial position at cost less accumulated impairment losses, if any.

## 3.9 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of raw material and packing material inventories are accounted at purchased cost on a first in first out basis. The cost of finished goods 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 3.10 Liabilities and Provisions

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 date of the Statement of Financial Position.

Non-current liabilities are those balances that fall due for payment after one year from the end of the reporting date. All known liabilities have been accounted for in preparing the financial statement.

#### 3.10.1 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### 3.11 Cash and Cash Equivalents

Cash and Cash Equivalents are defined as cash-in-hand, deposits held at call with banks net of bank overdraft.

### 3.12 Employee Benefits

#### a. Defined Contribution Plans - (Employees Provident Fund and Employees Trust Fund)

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 profit and loss in the period during which related 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 Expenses), contribute 15% on the salary of each employee to the Approved Private Provident Fund.

#### Employee Trust Fund

The 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 Statement of Comprehensive Income as incurred.

#### b. Defined Benefit Plan

Defined Benefit Plan is a post-employment benefit plan other than Defined Contribution Plan. The liability recognized in the statement of financial position in respect of Defined Benefit Plan is the present value of the defined benefit obligation at the statement of financial position date. The defined benefit obligation is calculated annually by independent actuaries, using projected unit credit method, as recommended by LKAS 19, "Employee Benefits".

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that apply to the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability. The assumptions based on which the results of the actuarial valuation were determined are included in the note xx to the Financial Statements. This liability is not externally funded and the item is grouped under non-current liabilities in the statement of financial position.

However, under the Payment of Gratuity Act No. 12 of 1983 the liability to an employee arises only on completion of five years of continued service.

The company recognizes all actuarial gains and losses arising from defined benefit plans in Other Comprehensive Income and expenses related to defined benefit plans in staff expenses in Statement of Profit or Loss and Other Comprehensive Income.

Current service cost and the interest cost related to defined benefit plan in employee benefits are expensed in the income statement.

### 3.13 Trade and Other Payables

Trade and other payables are stated at cost.

### 3.14 Capital Commitments and Contingencies

Contingent Liabilities are disclosed if there is a possible future obligation as a result of past event but either a payment is not probable or the amount cannot be reliably estimated.

Capital commitments and contingent liabilities of the Group are disclosed in note xx to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 3.15 Events after the end of the Reporting Period

All material and important events which occur after the Reporting date have been considered and disclosed in notes to the financial statements.

### Statement of Profit or Loss and Other Comprehensive Income

#### 3.16 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales taxes and after eliminating sales within the group.

The following specific criteria are used for the purpose of recognition of revenue.

Revenue from the sale of goods is recognized in Statement of profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with returns trade and trade discounts. Interest income is recognized on an accrual basis.

Dividend income is recognized when the shareholders' right to receive the payment is established.

Profit or loss of a revenue nature on the disposal of property, plant and equipment and other non-current assets have been accounted in the Statement of profit or loss having deducted from the proceeds on disposal, the carrying amount of the asset and the related selling expenses.

Rental income is recognized on an accrual basis.

#### 3.17 Expenditure

##### i. Operating Expenditure

All expenditure incurred in running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income statement in arriving at the profit for the year. For the purpose of presentation of

Statements of Profit or Loss and Other Comprehensive Income, the Directors are of the opinion that function of expense method 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 the Profit or Loss in the year in which the expenditure is incurred.

##### ii. Net Finance Expense

Finance expenses consist of cost relating to financing activities. Interest expenses are recognized on an accrual basis.

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

#### 3.18 Income Tax Expenses

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

##### a. Current Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax payable also includes any tax liability arising from the declaration of dividends.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### b. Deferred taxation

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Differed tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Differed tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

### 3.19 Basic Earnings per Share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period of the Company..

### 3.20 Dividend Distribution

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Company.

### 3.21 Statement of Cash Flow

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

The Statement of Cash Flow has been prepared using the "indirect method". Interest paid is 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 the statement of cash flow.

### 3.22 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Segment has been determined based on the Group's management and internal reporting structure.

All operating segments' operating results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Segment information is based on the primary format representing the industry segment of the Group is in note xx 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.

### 3.23 New standards issued but not yet effective

The Institute of Chartered Accountants of Sri Lanka has issued the following standards which become effective for annual periods beginning after the current financial year. Accordingly, these standards have not been applied in preparing these financial statements. The group will be adopting these standards when they become effective.

#### SLFRS 9 - Financial Instruments

##### Summary of the requirements

SLFRS 9, published in July 2014, 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.

SLFRS 9 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

##### Possible impact on consolidated financial statements

Company had completed its initial assessment but not yet completed its detailed assessment.

Based on the initial assessment, the management does not believe that there will be significant implications relating to classification and impairment of its financial instruments.

#### SLFRS 15 Revenue from Contracts with Customers Summary of the requirements

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

##### Possible impact on consolidated financial statements

Company had completed its initial assessment but not yet completed its detailed assessment. Based on the initial assessment the management does not believe that there will be significant implications relating to recognition of revenue.

#### SLFRS 16 - 'Leases'

##### Summary of the requirements

SLFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor's accounting remains similar to current practice. This supersedes: Sri Lanka Accounting Standard LKAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives"; and SIC 27 "Evaluating the substance of Transactions Involving the Legal form of a Lease".

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019. Earlier application is permitted for entities that apply SLFRS 15 "Revenue from Contracts with Customers".

##### Possible impact on consolidated financial statements

The possibility of impact on this standard will be minimal.

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

FOR THE YEAR ENDED 31 MARCH,	GROUP		COMPANY	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
<b>4. REVENUE</b>				
Food products	2,150,857,184	2,004,141,463	2,150,857,184	2,004,141,463
Soap products	252,328,615	250,071,073	252,328,615	250,071,073
Fuel and Lubricants	775,370,381	749,611,401	775,370,381	749,611,401
	<u>3,178,556,180</u>	<u>3,003,823,937</u>	<u>3,178,556,180</u>	<u>3,003,823,937</u>
<b>5. OTHER INCOME</b>				
Dividend income	985,256	1,338,216	70,284,761	70,637,721
Rental income	1,148,400	1,077,120	1,148,400	1,077,120
Profit on disposal of property, plant & equipment	4,911,442	25,416,431	4,911,442	25,416,431
Staff loan interest income	3,532,523	2,802,997	3,532,523	2,802,997
Sundry income (Note 5.1)	10,356,485	8,276,855	10,356,485	8,276,855
	<u>20,934,106</u>	<u>38,911,619</u>	<u>90,233,611</u>	<u>108,211,124</u>
<b>5.1 Sundry income</b>				
Sale of disposable material	9,137,425	7,247,020	9,137,425	7,247,020
Sundry receipts	1,219,060	1,029,835	1,219,060	1,029,835
	<u>10,356,485</u>	<u>8,276,855</u>	<u>10,356,485</u>	<u>8,276,855</u>
<b>6. RESULTS FROM OPERATING ACTIVITIES</b>				
Results from operating activities are stated after charging all expenses including following;				
Directors' emoluments	36,365,643	32,748,849	36,365,643	32,748,849
Auditors' remuneration				
Audit	1,355,000	1,080,920	1,205,000	930,920
Audit related	342,474	545,467	263,920	390,390
Depreciation and amortization	83,417,905	80,672,375	83,417,905	80,672,375
Donations	4,748,654	3,769,476	4,748,654	3,769,476
Staff related expenses (Note 6.1)	378,972,366	345,637,114	378,972,366	345,637,114
Inventory slow moving provision	-	(1,657,583)	-	(1,657,583)
<b>6.1 Staff related expenses</b>				
Salaries and wages	255,966,394	237,576,349	255,966,394	237,576,349
Defined contribution plan	36,499,197	32,089,905	36,499,197	32,089,905
Bonus	46,521,414	41,030,686	46,521,414	41,030,686
Staff welfare	24,842,250	22,267,944	24,842,250	22,267,944
Defined benefit plan - Retiring gratuity	15,143,111	12,672,230	15,143,111	12,672,230
	<u>378,972,366</u>	<u>345,637,114</u>	<u>378,972,366</u>	<u>345,637,114</u>
Average number of employees	<u>580</u>	<u>567</u>	<u>580</u>	<u>567</u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

FOR THE YEAR ENDED 31 MARCH,	GROUP		COMPANY	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
<b>7. NET FINANCE INCOME</b>				
<b>7.1 Finance income</b>				
Interest income on fixed deposits	20,299,119	17,196,287	20,299,119	17,196,287
Profit from translation of foreign currencies	1,567,321	2,697,636	1,567,321	2,697,636
	<u>21,866,440</u>	<u>19,893,923</u>	<u>21,866,440</u>	<u>19,893,923</u>
<b>7.2 Finance expenses</b>				
Interest expenses on overdraft facilities	(6,593,547)	(6,486,741)	(6,579,495)	(6,484,133)
Interest expenses on related party payable (Note 24.1)	-	-	(13,921,933)	(21,492,011)
	<u>(6,593,547)</u>	<u>(6,486,741)</u>	<u>(20,501,428)</u>	<u>(27,976,144)</u>
<b>Net finance income</b>	<u>15,272,893</u>	<u>13,407,182</u>	<u>1,365,012</u>	<u>(8,082,221)</u>
<b>8. INCOME TAX EXPENSE</b>				
<b>8.1 Amounts recognized in profit or loss</b>				
<b>Current tax expense</b>				
On current year profits (Note 8.3)	63,090,981	41,993,707	59,282,577	36,453,758
Adjustments in respect of prior years	-	145,725	-	145,725
Taxes on inter company dividend	7,699,945	7,699,945	-	-
<b>Deferred tax expense</b>				
Origination of temporary differences (Note 21)	10,843,985	4,090,271	10,843,985	4,090,271
<b>Tax expense on continuing operations</b>	<u>81,634,911</u>	<u>53,929,648</u>	<u>70,126,562</u>	<u>40,689,754</u>
<b>8.2 Amounts recognised in other comprehensive income</b>				
Deferred tax reversal on actuarial loss (Note 21)	(1,724,699)	2,271,063	(1,724,699)	2,271,063
	<u>(1,724,699)</u>	<u>2,271,063</u>	<u>(1,724,699)</u>	<u>2,271,063</u>
<b>8.3 Tax reconciliation statement</b>				
Profit before income tax expense	204,478,017	179,075,465	260,176,081	227,309,226
Income not liable to tax	(985,256)	(1,338,216)	(70,284,761)	(70,637,721)
Expenses disallowed for tax	170,661,450	161,511,021	170,661,450	161,087,384
Expenses allowed for tax	(145,982,183)	(165,870,208)	(145,661,693)	(165,870,208)
Qualifying payments	(3,010,857)	(23,038,389)	(2,670,366)	(21,334,518)
<b>Taxable profit</b>	<u>225,161,171</u>	<u>150,339,673</u>	<u>212,220,711</u>	<u>130,554,163</u>
Income tax at 12%	100,217	76,056	100,217	76,056
Income tax at 28%	62,990,764	41,917,651	59,182,360	36,377,702
<b>On current year profits</b>	<u>63,090,981</u>	<u>41,993,707</u>	<u>59,282,577</u>	<u>36,453,758</u>
Effective tax rate	<u>30.85%</u>	<u>23.45%</u>	<u>22.79%</u>	<u>16.04%</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 rate on export profit is 12%.

As per the new Inland Revenue Act No.24 of 2007 effective from 1st April 2018, there will be no changes to the income tax rate explained above. Accordingly, deffered tax has been computed using the tax rate of 28%

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 9 BASIC EARNINGS PER SHARE

#### 9.1 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	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Profit attributable to ordinary shareholders	<u>122,843,106</u>	<u>125,145,817</u>	<u>190,049,517</u>	<u>186,619,472</u>
Number of ordinary shares	<u>1,919,600</u>	<u>959,800</u>	<u>1,919,600</u>	<u>959,800</u>
Basic earnings per share (Rs.)	<u>63.99</u>	<u>130.38</u>	<u>99.00</u>	<u>194.44</u>

#### 9.2 Diluted earnings per share

Profit attributable to ordinary share holders	<u>122,843,106</u>	<u>125,145,817</u>	<u>190,049,517</u>	<u>186,619,472</u>
Weighted average number of ordinary shares (Note a)	<u>1,919,600</u>	<u>1,919,600</u>	<u>1,919,600</u>	<u>1,919,600</u>
Diluted earnings per shares (Rs)	<u>63.99</u>	<u>65.19</u>	<u>99.00</u>	<u>97.22</u>

Note (a) - Weighted average number of ordinary shares (Diluted)

	GROUP / COMPANY	
	2018	2017
Weighted average number of ordinary shares (basic)	<u>1,919,600</u>	<u>959,800</u>
Effect of capitalization of reserves (Note 18)	<u>-</u>	<u>959,800</u>
Weighted average number of ordinary shares (diluted) as at 31 March	<u>1,919,600</u>	<u>1,919,600</u>

### 10. DIVIDEND PER SHARE

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

Interim dividend	<u>38,392,000</u>	<u>38,392,000</u>	<u>38,392,000</u>	<u>38,392,000</u>
Final dividend	<u>42,231,750</u>	<u>43,191,550</u>	<u>42,231,200</u>	<u>43,191,000</u>
	<u>80,623,750</u>	<u>81,583,550</u>	<u>80,623,200</u>	<u>81,583,000</u>
Number of ordinary shares	<u>1,919,600</u>	<u>1,919,600</u>	<u>1,919,600</u>	<u>1,919,600</u>
Dividend per share (Rs.)	<u>42.00</u>	<u>42.50</u>	<u>42.00</u>	<u>42.50</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**
**11. PROPERTY, PLANT AND EQUIPMENT GROUP / COMPANY**

	Freehold land	Buildings	Plant & machinery	Office factory & laboratory equipment	Motor vehicle	Furniture & fittings	Total 2018	Total 2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>								
As at 01 April	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
Additions	-	-	290,508	1,337,417	6,592	637,146	2,271,663	1,667,507
Transfers from CWIP (Note 11.1)	-	5,595,092	48,853,266	4,703,202	41,734,519	12,342,549	113,228,628	162,905,466
Disposals	-	-	(1,472,600)	(566,200)	(7,304,234)	(18,887)	(9,361,921)	(36,324,429)
<b>As at 31 March</b>	<b>299,062,500</b>	<b>98,698,296</b>	<b>321,159,494</b>	<b>57,675,262</b>	<b>419,786,522</b>	<b>24,875,264</b>	<b>1,221,257,338</b>	<b>1,115,118,968</b>
<b>Accumulated depreciation</b>								
As at 01 April	-	19,315,933	55,130,322	20,704,404	286,804,432	3,214,923	385,170,014	341,726,395
Charge for the year	-	3,955,465	22,119,252	4,889,383	49,817,539	1,246,098	82,027,737	79,219,702
On disposals	-	-	(639,512)	(453,429)	(7,304,234)	(8,382)	(8,405,557)	(35,776,083)
<b>As at 31 March</b>	<b>-</b>	<b>23,271,398</b>	<b>76,610,062</b>	<b>25,140,358</b>	<b>329,317,737</b>	<b>4,452,639</b>	<b>458,792,194</b>	<b>385,170,014</b>
<b>Carrying amounts as at 31 March 2018</b>	<b>299,062,500</b>	<b>75,426,898</b>	<b>244,549,432</b>	<b>32,534,904</b>	<b>90,468,785</b>	<b>20,422,625</b>	<b>762,465,144</b>	
<b>Carrying amounts as at 31 March 2017</b>	<b>299,062,500</b>	<b>73,787,271</b>	<b>218,357,998</b>	<b>31,496,439</b>	<b>98,545,213</b>	<b>8,699,533</b>		<b>729,948,954</b>
Capital work in progress (Note 11.1)							<b>24,840,158</b>	<b>44,922,510</b>
<b>Net carrying amount as at 31 March</b>							<b>787,305,302</b>	<b>774,871,464</b>
<b>11.1 Capital work in progress (CWIP)</b>								
As at 01 April							<b>44,922,510</b>	<b>101,706,256</b>
Incurred during the year							<b>93,318,776</b>	<b>106,967,720</b>
Capitalized during the year								
Tangible assets								
Intangible assets								
As at 31 March							<b>(113,228,628)</b>	<b>(162,905,466)</b>
							<b>(172,500)</b>	<b>(846,000)</b>
							<b>24,840,158</b>	<b>44,922,510</b>

**11.2** The cost of fully depreciated property, plant and equipment as at reporting date amounted to Rs.232,641,540/- (2017, Rs.182,309,442/-)

**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. 455, Bauddhaloka Mawatha, Colombo 08	No of buildings			Value
			45		86,175,329
			02		12,522,967
		47		<u>98,698,296</u>	

AS AT 31 MARCH,	GROUP		COMPANY	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

**12. INTANGIBLE ASSETS**
**Computer Software  
Cost**

As at 01 April	7,831,530	9,118,530	7,831,530	9,118,530
Transferred from CWIP	172,500	846,000	172,500	846,000
Additions	68,000	-	68,000	-
Disposals	-	(2,133,000)	-	(2,133,000)
As at 31 March	<u>8,072,030</u>	<u>7,831,530</u>	<u>8,072,030</u>	<u>7,831,530</u>
<b>Amortization</b>				
As at 01 April	4,419,585	5,099,912	4,419,585	5,099,912
Amortization during the year	1,390,168	1,452,673	1,390,168	1,452,673
Disposals	-	(2,133,000)	-	(2,133,000)
As at 31 March	<u>5,809,753</u>	<u>4,419,585</u>	<u>5,809,753</u>	<u>4,419,585</u>
Carrying values as at 31 March	<u>2,262,277</u>	<u>3,411,945</u>	<u>2,262,277</u>	<u>3,411,945</u>

13. INVESTMENT IN SUBSIDIARY	COMPANY	
	2018	2017
Ordinary shares (Fully owned subsidiary)	<u>70</u>	<u>70</u>
	<u>70</u>	<u>70</u>
<b>Number of shares</b>		
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			
	2018	2017	2018	2017
	Cost of investment Rs.	Market value Rs.	Cost of investment Rs.	Market value Rs.
<b>14. AVAILABLE FOR SALE INVESTMENTS</b>				
Balance as at 01 April	19,503,807	39,064,885	18,465,591	35,357,494
Additions during the year	535,256	535,256	1,038,216	1,038,216
Net gain/ (loss) on fair value change	-	276,159	-	2,669,175
Balance as at 31 March	<u>20,039,063</u>	<u>39,876,300</u>	<u>19,503,807</u>	<u>39,064,885</u>

**14.1 AFS investments comprise of;**

Investment in units of National Equity Fund (Note 14.2)	18,539,063	34,843,800	18,003,807	34,077,385
Investment in units of NDB Growth and Income Fund (Note 14.3)	<u>1,500,000</u>	<u>5,032,500</u>	<u>1,500,000</u>	<u>4,987,500</u>
Balance as at 31 March	<u>20,039,063</u>	<u>39,876,300</u>	<u>19,503,807</u>	<u>39,064,885</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**
**14. AVAILABLE FOR SALE INVESTMENTS (CONTD.)**

AS AT 31 MARCH,	GROUP / COMPANY			
	2018		2017	
	Cost of investment Rs.	Market value Rs.	Cost of investment Rs.	Market value Rs.
<b>14.2 Investment in units of National Equity Fund</b>				
Balance as at 01 April	18,003,807	34,077,385	16,965,591	30,497,494
Additions during the year	535,256	535,256	1,038,216	1,038,216
Net gain/(loss) on fair value change	-	231,159	-	2,541,675
Balance as at 31 March	<u>18,539,063</u>	<u>34,843,800</u>	<u>18,003,807</u>	<u>34,077,385</u>
<b>14.3 Investment in units of NDB Growth and Income Fund</b>				
Balance as at 01 April	1,500,000	4,987,500	1,500,000	4,860,000
Net gain / (loss) on fair value change	-	45,000	-	127,500
Balance as at 31 March	<u>1,500,000</u>	<u>5,032,500</u>	<u>1,500,000</u>	<u>4,987,500</u>

AS AT 31 MARCH,	GROUP		COMPANY	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
<b>15. INVENTORIES</b>				
Raw materials and consumables	101,444,311	75,674,094	101,444,311	75,674,094
Work in progress	27,204,055	19,743,230	27,204,055	19,743,230
Finished goods	42,513,771	37,445,067	42,513,771	37,445,067
Machinery spares	<u>21,928,731</u>	<u>24,428,230</u>	<u>21,928,731</u>	<u>24,428,230</u>
	<b>193,090,868</b>	<b>157,290,621</b>	<b>193,090,868</b>	<b>157,290,621</b>
Less:				
Provision for slow moving machinery spares (Note 15.1)	<u>(2,637,141)</u>	<u>(2,637,141)</u>	<u>(2,637,141)</u>	<u>(2,637,141)</u>
	<b>190,453,727</b>	<b>154,653,480</b>	<b>190,453,727</b>	<b>154,653,480</b>
<b>15.1 Provision for slow moving machinery spares</b>				
As at 01 April	2,637,141	4,294,724	2,637,141	4,294,724
Provision made/ (reversal) during the year	-	(1,657,583)	-	(1,657,583)
As at 31 March	<u>2,637,141</u>	<u>2,637,141</u>	<u>2,637,141</u>	<u>2,637,141</u>
<b>16. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	360,819,749	300,063,508	360,819,749	300,063,508
Other receivables (Note 16.1)	<u>62,337,755</u>	<u>60,288,526</u>	<u>62,337,755</u>	<u>60,288,526</u>
	<b>423,157,504</b>	<b>360,352,034</b>	<b>423,157,504</b>	<b>360,352,034</b>
<b>16.1 Other receivables</b>				
Loans to employees	41,434,815	35,355,483	41,434,815	35,355,483
Advances & prepayments	16,252,584	15,292,545	16,252,584	15,292,545
Trade deposits	3,085,846	2,681,421	3,085,846	2,681,421
Sundry debtors	<u>1,564,510</u>	<u>6,959,077</u>	<u>1,564,510</u>	<u>6,959,077</u>
	<b>62,337,755</b>	<b>60,288,526</b>	<b>62,337,755</b>	<b>60,288,526</b>
<b>17. CASH &amp; CASH EQUIVALENTS</b>				
Cash in hand	3,483,144	4,287,779	3,483,144	4,287,779
Cash at bank	60,601,540	71,874,226	60,425,490	71,014,284
Short term deposits	<u>191,431,865</u>	<u>186,764,860</u>	<u>191,431,865</u>	<u>186,764,860</u>
Cash and cash equivalents	255,516,549	262,926,865	255,340,499	262,066,923
Bank overdrafts (secured) (Note 17.1)	<u>(28,656,193)</u>	<u>(105,908,257)</u>	<u>(28,656,193)</u>	<u>(105,908,257)</u>
Cash and cash equivalents for the purpose of statement of cash flows	<b>226,860,356</b>	<b>157,018,608</b>	<b>226,684,306</b>	<b>156,158,666</b>

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	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
<b>18. STATED CAPITAL</b>				
1,919,600 Ordinary shares	<u>105,578,000</u>	<u>9,598,000</u>	<u>105,578,000</u>	<u>9,598,000</u>
<b>18.1</b>	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.			
<b>18.2</b>	In order to comply with the requirements Dirisavi board, at the Extra Ordinary General Meeting held on 05th June 2017, shareholders passed an ordinary resolution to capitalize Rs.95,980,000/- from and out of retained earnings by allocating 959,800 ordinary shares as fully paid shared to and among the shareholders.			
<b>19. OTHER CAPITAL RESERVES</b>				
<b>19.1 Other capital reserves</b>				
Reserve on script issue (Note 19.1.1)	6,999,930	6,999,930	-	-
Reserve on share issue (Note 19.1.2)	11,014	11,014	11,014	11,014
	<u>7,010,944</u>	<u>7,010,944</u>	<u>11,014</u>	<u>11,014</u>
<b>19.1.1</b>	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.			
<b>19.1.2</b>	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.			
<b>20. GENERAL RESERVES</b>				
General reserve	12,841,000	12,841,000	12,841,000	12,841,000
	<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				
<b>21. DEFERRED TAXATION</b>				
Deferred tax liabilities arising on property plant and equipment (Note 21.1)	75,043,395	60,936,513	75,043,395	60,936,513
Deferred tax asset on employee benefit obligation (Note 21.2)	(24,639,922)	(19,652,325)	(24,639,922)	(19,652,325)
Net Deferred tax liabilities	<u>50,403,473</u>	<u>41,284,188</u>	<u>50,403,473</u>	<u>41,284,188</u>
<b>21.1 Deferred tax liabilities</b>				
Balance as at 01 April	60,936,513	54,688,924	60,936,513	54,688,924
deferred tax liability originating during the year,				
- recognized in profit or loss	14,106,882	6,247,589	14,106,882	6,247,589
Balance as at 31 March	<u>75,043,395</u>	<u>60,936,513</u>	<u>75,043,395</u>	<u>60,936,513</u>
<b>21.2 Deferred tax asset</b>				
Balance as at 01 April	19,652,325	19,766,070	19,652,325	19,766,070
deferred tax asset originating/(reversal) during the year,				
- recognized in profit or loss	3,262,898	2,157,318	3,262,898	2,157,318
- recognized in other comprehensive income	1,724,699	(2,271,063)	1,724,699	(2,271,063)
Balance as at 31 March	<u>24,639,922</u>	<u>19,652,325</u>	<u>24,639,922</u>	<u>19,652,325</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

AS AT 31 MARCH,	GROUP		COMPANY	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
<b>22. EMPLOYEE BENEFIT OBLIGATION</b>				
<b>Retiring gratuity</b>				
As at 01 April	70,186,876	70,593,107	70,186,876	70,593,107
Charge for the year (Note 22.1)	21,302,751	4,561,290	21,302,751	4,561,290
	<u>91,489,627</u>	<u>75,154,397</u>	<u>91,489,627</u>	<u>75,154,397</u>
Gratuity paid	(3,489,905)	(4,967,521)	(3,489,905)	(4,967,521)
Balance as at 31 March	<u>87,999,722</u>	<u>70,186,876</u>	<u>87,999,722</u>	<u>70,186,876</u>
<b>22.1 Charge for the year</b>				
Interest cost	8,422,425	7,059,311	8,422,425	7,059,311
Current service cost	6,720,686	5,612,919	6,720,686	5,612,919
Actuarial loss/(gain)	6,159,640	(8,110,940)	6,159,640	(8,110,940)
	<u>21,302,751</u>	<u>4,561,290</u>	<u>21,302,751</u>	<u>4,561,290</u>
Amount charged in to Income Statement	15,143,111	12,672,230	15,143,111	12,672,230
Amount charged in to Other Comprehensive Income	6,159,640	(8,110,940)	6,159,640	(8,110,940)
	<u>21,302,751</u>	<u>4,561,290</u>	<u>21,302,751</u>	<u>4,561,290</u>

**22.2** An actuarial valuation on the retiring gratuities was carried out as at 31 March 2018 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**

	2018	2017
<b>a. Financial assumptions</b>		
Discount rate as at 31 March	11%	12%
Future salary increases	10%	10%
<b>b. Demographic assumptions</b>		

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%	4,655,801	(5,212,489)	(4,655,801)	5,212,489
Salary Increment 1%	(5,534,845)	5,022,694	5,534,845	(5,022,694)

**23. TRADE & OTHER PAYABLES**

Trade payables	73,373,817	39,970,149	73,373,817	39,970,149
Other payables (Note 23.1)	165,757,954	114,846,709	165,585,258	114,707,484
	<u>239,131,771</u>	<u>154,816,858</u>	<u>238,959,075</u>	<u>154,677,633</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**
**23. TRADE & OTHER PAYABLES (CONTD.)**

AS AT 31 MARCH,	GROUP		COMPANY	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
<b>23.1 Other payables</b>				
Accrued expenses	68,617,704	25,675,442	68,445,006	25,536,217
VAT payable	32,656,382	32,397,296	32,656,382	32,397,296
NBT payable	4,701,202	4,683,171	4,528,504	4,543,946
Trade & customer deposits	6,132,291	4,927,291	6,132,291	4,927,291
Provision for bonus	48,000,000	43,000,000	48,000,000	43,000,000
Others	5,650,375	4,163,509	5,823,075	4,302,734
	<u>165,757,954</u>	<u>114,846,709</u>	<u>165,585,258</u>	<u>114,707,484</u>

**24. RELATED PARTY PAYABLES**

Harischandra Mills (Distributors) Limited (Note 24.1)	-	-	81,257,289	152,395,542
	-	-	81,257,289	152,395,542
Amounts due within one year	-	-	77,000,000	77,000,000
Amounts due after one year	-	-	4,257,289	75,395,542
	-	-	81,257,289	152,395,542

**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 / (RECOVERABLE)**

As at 01 April	(5,623,944)	10,877,587	(6,746,271)	10,020,759
Provision for the year (Note 08)	63,090,981	41,993,707	59,282,577	36,453,758
Prior year under provision (Note 08)	-	145,725	-	145,725
Tax on inter company dividend	7,699,945	7,699,945	-	-
	65,166,982	60,716,964	52,536,306	46,620,242
Payments during the year	(40,046,694)	(66,340,908)	(23,889,690)	(53,366,513)
As at 31 March	<u>25,120,288</u>	<u>(5,623,944)</u>	<u>28,646,616</u>	<u>(6,746,271)</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.

**26.1 Parent and ultimate controlling party**

In the opinion of Directors 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 and the Group.

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.

**i) Loans to Directors**

No loans have been given to the directors of the Company.



## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 26. TRANSACTIONS WITH RELATED PARTIES (CONTD.)

#### ii) Key management personnel compensation comprised :

FOR THE YEAR ENDED 31 MARCH	GROUP		COMPANY	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Short term benefits	31,728,428	28,584,566	31,728,428	28,584,566
Long term benefits	4,637,215	4,164,283	4,637,215	4,164,283
Total (Note 06)	<u>36,365,643</u>	<u>32,748,849</u>	<u>36,365,643</u>	<u>32,748,849</u>

### 26.3 Transactions with subsidiary

#### Recurrent transactions

Name of the related party	Nature of transaction	2018		2017	
		Volume of transaction	Balance as at 31.03.18	Volume of transaction	Balance as at 31.03.17
<b>Harischandra Mills (Distributors) Limited</b>	Interest expense	13,921,933	-	21,492,011	-
	Fund Transfers	(15,760,680)	-	(14,315,220)	-
	Dividend paid	(69,299,505)	-	(69,299,505)	-
	<b>Outstanding balances</b>	-	-	-	-
	Loan (Note 24.1)	-	(81,257,289)	-	(152,395,542)

### 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

Interim dividend of Rs. 20.00 per share paid on 24<sup>th</sup> May 2018.

Other than that, 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	
	2018	2017	2018	2017	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Revenue:</b>								
Total sales	<u>2,150,857,184</u>	<u>2,004,141,463</u>	<u>775,370,381</u>	<u>749,611,401</u>	<u>252,328,615</u>	<u>250,071,073</u>	<u>3,178,556,180</u>	<u>3,003,823,937</u>
<b>Operating profit:</b>								
Segment operating profit before depreciation	271,358,915	204,193,969	8,270,227	5,856,194	(27,940,219)	(2,621,124)	251,688,923	207,429,039
Depreciation	<u>(75,295,821)</u>	<u>(74,985,520)</u>	<u>(286,197)</u>	<u>(111,658)</u>	<u>(7,835,887)</u>	<u>(5,575,197)</u>	<u>(83,417,905)</u>	<u>(80,672,375)</u>
Segment operating profit	<u>196,063,094</u>	<u>129,208,449</u>	<u>7,984,030</u>	<u>5,744,536</u>	<u>(35,776,106)</u>	<u>(8,196,321)</u>	<u>168,271,018</u>	<u>126,756,664</u>
Other operating income/ (expense)							<u>20,934,106</u>	<u>38,911,619</u>
Net finance income							<u>15,272,893</u>	<u>13,407,182</u>
Profit before income tax expense							<u>204,478,017</u>	<u>179,075,465</u>
Income tax expense							<u>(81,634,911)</u>	<u>(53,929,648)</u>
Profit after income tax							<u>122,843,106</u>	<u>125,145,817</u>
<b>Assets:</b>								
Operating assets	<u>949,499,412</u>	<u>866,630,398</u>	<u>342,288,519</u>	<u>324,146,792</u>	<u>111,390,879</u>	<u>108,135,677</u>	<u>1,403,178,810</u>	<u>1,298,912,867</u>
Other investments							<u>39,876,300</u>	<u>39,064,885</u>
Cash & cash equivalents							<u>255,516,549</u>	<u>262,926,865</u>
Total assets							<u>1,698,571,659</u>	<u>1,600,904,617</u>
<b>Liabilities:</b>								
Operating liabilities	<u>257,751,825</u>	<u>220,783,394</u>	<u>92,917,899</u>	<u>82,579,873</u>	<u>30,238,250</u>	<u>27,548,724</u>	<u>380,907,974</u>	<u>330,911,991</u>
Deferred tax liabilities							<u>50,403,473</u>	<u>41,284,188</u>
Income tax payable								
Total liabilities							<u>431,311,447</u>	<u>372,196,179</u>

**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
	2018	2017	2018	2017	2018	2017	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Revenue:</b>							
Totalsales	<u>2,150,857,184</u>	<u>2,004,141,463</u>	<u>775,370,381</u>	<u>749,611,401</u>	<u>252,328,615</u>	<u>250,071,073</u>	<u>3,178,556,180</u>
<b>Operating profit:</b>							
Segment operating profit before depreciation	271,633,177	204,193,969	8,270,227	5,856,194	(27,908,043)	(2,574,126)	251,995,361
Depreciation	<u>(75,295,821)</u>	<u>(74,985,520)</u>	<u>(286,197)</u>	<u>(111,658)</u>	<u>(7,835,887)</u>	<u>(5,575,197)</u>	<u>(83,417,905)</u>
Segment operating profit	<u>196,337,356</u>	<u>129,585,110</u>	<u>7,984,030</u>	<u>5,744,536</u>	<u>(35,743,930)</u>	<u>(8,149,323)</u>	<u>127,180,323</u>
Other operating income/(expense)							90,233,611
Net finance income							<u>1,365,012</u>
Profit before income tax expense							<u>260,176,079</u>
Income tax expense							<u>(70,126,562)</u>
Profit after income tax							<u>190,049,517</u>
							<u>186,619,472</u>
<b>Assets:</b>							
Operating assets	<u>949,499,460</u>	<u>867,379,259</u>	<u>342,288,536</u>	<u>324,426,888</u>	<u>111,390,884</u>	<u>108,229,117</u>	<u>1,403,178,880</u>
Other investments							<u>39,876,300</u>
Cash & cash equivalents							<u>255,340,499</u>
Total assets							<u>1,698,395,679</u>
							<u>1,601,167,072</u>
<b>Liabilities:</b>							
Operating liabilities	<u>315,006,123</u>	<u>322,368,308</u>	<u>113,557,710</u>	<u>120,575,799</u>	<u>36,955,062</u>	<u>40,224,201</u>	<u>465,518,895</u>
Deferred tax liabilities							<u>50,403,473</u>
Income tax payable							
Total liabilities							<u>515,922,368</u>
							<u>524,452,496</u>

## 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	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Trade and other receivables	406,904,920	345,059,489	406,904,920	345,059,489
Cash at bank	60,601,540	71,874,226	60,425,490	71,014,284
Short term deposits	191,431,865	186,764,860	191,431,865	186,764,860
Available for sale investment	39,876,300	39,064,885	39,876,300	39,064,885
	<u>698,814,625</u>	<u>642,763,460</u>	<u>698,638,575</u>	<u>641,903,518</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	345,796,798	295,918,763	345,796,798	295,918,763
61 - 180 days	28,958,312	16,589,015	28,958,312	16,589,015
Above 181 days	32,149,808	26,650,560	32,149,808	26,650,560
	<u>406,904,918</u>	<u>339,158,338</u>	<u>406,904,918</u>	<u>339,158,338</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 behavior and analysis of customer credit risk.

### (b) Cash and Cash Equivalents

The Group held cash and cash equivalents of Rs.255 million as at 31st March 2018 (2017: Rs. 262 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 borrowing from any third party except temporary bank overdraft.

#### As at 31 March 2018

#### 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
<b>LIABILITIES</b>					
Bank overdraft	28,656,193	28,656,193	-	-	-
Trade and other payables	<u>239,131,771</u>	<u>239,131,771</u>	-	-	-
<b>Total liabilities</b>	<u><u>267,787,964</u></u>	<u><u>267,787,964</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

#### As at 31st 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
<b>LIABILITIES</b>					
Bank overdraft	105,908,257	105,908,257	-	-	-
Trade and other payables	<u>154,816,858</u>	<u>154,816,858</u>	-	-	-
<b>Total liabilities</b>	<u><u>260,725,115</u></u>	<u><u>260,725,115</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

**As at 31 March 2018**

### 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
<b>LIABILITIES</b>					
Bank overdraft	28,656,193	28,656,193	-	-	-
Trade and other payables	238,959,075	238,959,075	-	-	-
Related party payables	81,257,289	-	77,000,000	4,257,289	-
<b>Total liabilities</b>	<u>348,872,557</u>	<u>267,615,268</u>	<u>77,000,000</u>	<u>4,257,289</u>	<u>-</u>

**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
<b>LIABILITIES</b>					
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	-
<b>Total liabilities</b>	<u>412,981,432</u>	<u>260,585,890</u>	<u>77,000,000</u>	<u>75,395,542</u>	<u>-</u>

#### 34.1.4. Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market 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 2018**

	Available for sale investments	Loans receivables	Other financial liabilities	Total carrying amount	Fair value	Fair value hierarchy level		
						Rs.	Rs.	Rs.
Cash and cash equivalents	-	255,516,549	-	255,516,549	-	-	-	-
Trade and other receivables	-	406,904,920	-	406,904,920	-	-	-	-
Available for sale investments	39,876,300	-	-	39,876,300	39,876,300			39,876,300
Trade and other payables	-	-	(239,131,771)	(239,131,771)	-	-	-	-
Overdraft-	-	(28,656,193)	(28,656,193)	-	-	-	-	-
	<b>39,876,300</b>	<b>662,421,469</b>	<b>(267,787,964)</b>	<b>434,509,805</b>	<b>39,876,300</b>			<b>39,876,300</b>

**Company**
**As at 31 March 2018**

	Available for sale investments	Loans receivables	Other financial liabilities	Total carrying amount	Fair value	Fair value hierarchy level		
						Rs.	Rs.	Rs.
Cash and cash equivalents	-	255,340,499	-	255,340,499	-	-	-	-
Trade and other receivables	-	406,904,920	-	406,904,920	-	-	-	-
Available for sale investment	39,876,300	-	-	39,876,300	39,876,300			39,876,300
Trade and other payables	-	-	(238,959,075)	(238,959,075)	-	-	-	-
Related party payable	-	-	(77,000,000)	(77,000,000)	-	-	-	-
Overdraft-	-	(28,656,193)	(28,656,193)	-	-	-	-	-
	<b>39,876,300</b>	<b>662,245,419</b>	<b>(344,615,268)</b>	<b>357,506,451</b>	<b>39,876,300</b>			<b>39,876,300</b>

**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.
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)	-	-	-	-
	<b>39,064,885</b>	<b>607,986,354</b>	<b>(260,725,115)</b>	<b>386,326,124</b>	<b>39,064,885</b>			<b>39,064,885</b>

**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.
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)	-	-	-	-	-
	<b>39,064,885</b>	<b>607,126,412</b>	<b>(337,585,890)</b>	<b>308,605,407</b>	<b>39,064,885</b>			<b>39,064,885</b>

## 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.

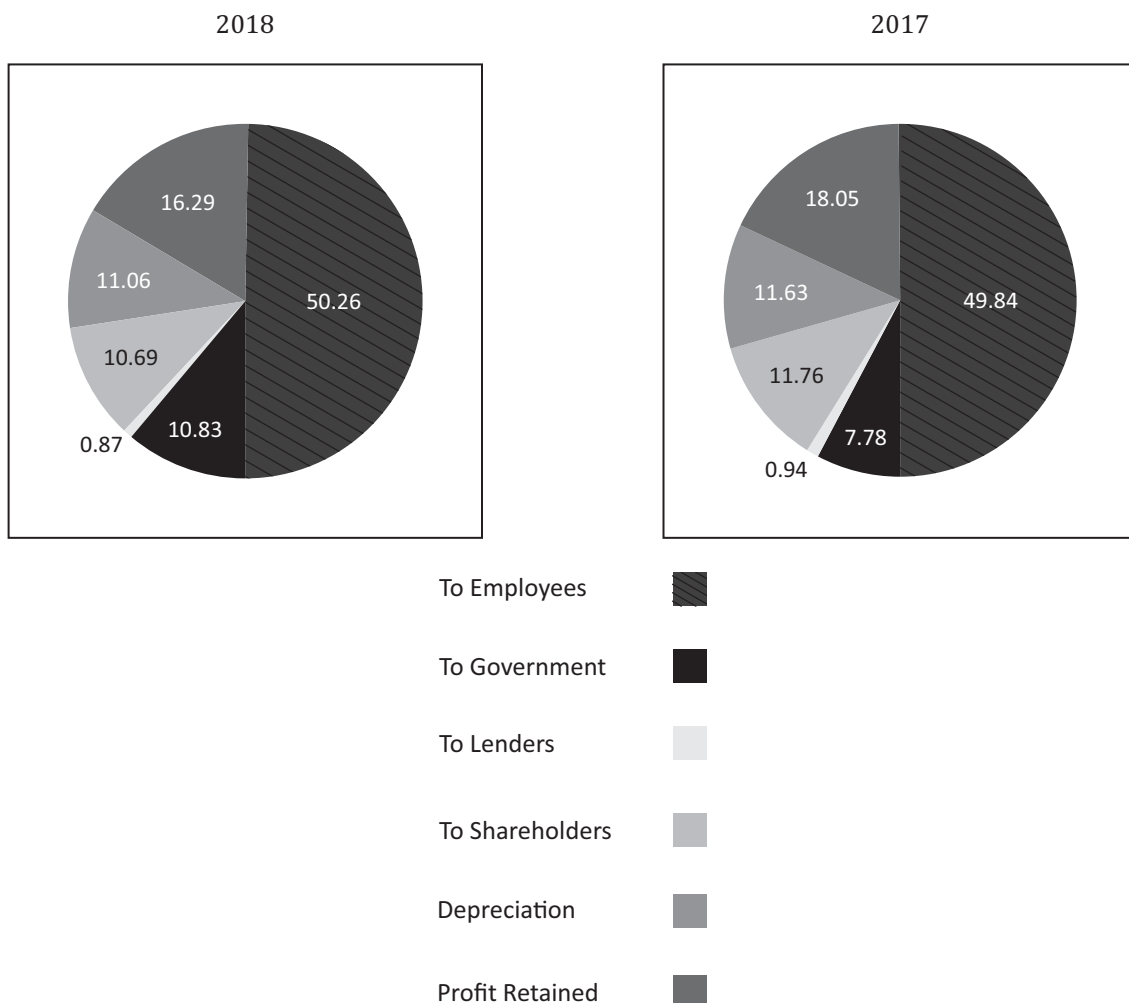
AS AT 31 MARCH,	GROUP		COMPANY	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Total Liabilities	<b>431,311,447</b>	372,196,179	<b>515,922,368</b>	524,452,496
Less: Cash and Cash Equivalents	<b>(255,516,549)</b>	(262,926,865)	<b>(255,340,499)</b>	(262,066,923)
Adjusted Net Debt	<b>175,794,898</b>	109,269,314	<b>260,581,869</b>	262,385,573
Total Equity	<b>1,267,260,212</b>	1,228,708,438	<b>1,182,473,311</b>	1,076,714,576
Net Debt to Equity Ratio	<b>0.14</b>	0.09	<b>0.22</b>	0.24



**STATEMENT OF VALUE ADDED**

**FOR THE YEAR ENDED 31 MARCH,**

		2018		2017
		Rs.000		Rs.000
Turnover		3,178,556		3,003,824
Other Income		42,800		58,806
		<u>3,221,356</u>		<u>3,062,630</u>
Cost of Goods & Services bought in		(2,467,271)		(2,369,175)
Value Added		<u>754,085</u>		<u>693,455</u>
Distribution as follows	%	Rs.000	%	Rs.000
To Employees	50.26	378,972	49.84	345,637
To Government	10.83	81,635	7.78	53,930
To Lenders	0.87	6,594	0.94	6,487
To Shareholders	10.69	80,623	11.76	81,583
<b>Retained in Business</b> Depreciation	11.06	83,418	11.63	80,672
Profit Retained	16.29	122,843	18.05	125,146
	<u>100.00</u>	<u>754,085</u>	<u>100.00</u>	<u>693,455</u>



**TEN YEARS STATISTICAL SUMMARY**

Reported as per	SLAS										SLFRS/LKAS		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018**	2017	2018**
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
<b>Results</b>													
Group turnover	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	3,178,556		
Profit before tax	83,097	111,017	134,781	115,317	150,554	138,773	172,727	219,644	218,034	179,075	204,478		
Taxation	(46,686)	(43,837)	(61,962)	(51,227)	(49,572)	(42,338)	(55,409)	(69,886)	(76,646)	(53,930)	(81,635)		
Profit after tax	36,411	67,180	72,819	64,090	100,982	96,435	117,318	149,758	141,388	125,145	122,843		
<b>Funds Employed</b>													
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	90,245	90,245	90,245	89,871	30,849	32,643	19,852	19,852	19,852	19,852	19,852		
Revenue reserves	281,764	327,829	376,654	414,244	850,872	908,915	1,000,021	1,084,325	1,147,187	1,199,258	1,141,830		
Shareholders' funds	381,607	427,672	476,497	513,713	891,319	951,156	1,029,471	1,113,775	1,176,637	1,228,708	1,267,260		
<b>Assets Employed</b>													
Non current assets	215,685	227,247	242,832	234,834	539,604	579,502	652,533	680,855	786,226	817,348	829,444		
Current assets	362,918	408,143	479,701	536,254	596,997	641,114	697,172	780,909	723,606	783,556	869,128		
Current liabilities	(119,722)	(135,420)	(175,689)	(197,442)	(184,499)	(200,413)	(240,976)	(251,841)	(227,679)	(260,725)	(292,908)		
Provisions	(77,274)	(72,298)	(70,347)	(59,933)	(60,783)	(69,047)	(79,258)	(96,148)	(105,516)	(111,471)	(138,404)		
Capital employed	381,607	427,672	476,497	513,713	891,319	951,156	1,029,471	1,113,775	1,176,637	1,228,708	1,267,260		
<b>Cash Flow</b>													
Net cash inflow/(outflow) from operating activities	50,113	47,067	83,170	33,348	75,457	89,915	129,424	236,717	147,562	117,719	224,296		
Net cash inflow/(outflow) from investing activities	(14,851)	(19,545)	(15,180)	(13,772)	(44,958)	(48,244)	(108,877)	(29,988)	(154,718)	(67,707)	(74,322)		
Net cash inflow/(outflow) from financing activities	6,242	(25,720)	(29,240)	(37,791)	(28,794)	(38,392)	(43,191)	(62,387)	(76,784)	(81,584)	(80,133)		
Increase/(decrease) in cash and cash equivalents	41,504	1,802	38,750	(18,215)	1,705	3,279	(22,644)	144,342	(83,940)	(31,572)	69,841		
<b>Key Indicators</b>													
Earnings per share	37.94	69.99	75.87	66.77	106.25	100.47	122.23	156.03	147.31	130.38	63.99		
Net assets per share	397.59	445.37	499.78	535.23	928.65	990.99	1,072.59	1,160.42	1,225.92	1,280.17	660.17		
Market price per share	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	1,351.10		
Return on equity	9.54	15.71	15.18	12.48	11.44	10.14	11.40	13.44	12.02	10.19	9.69		
Price earning ratio	11.86	6.34	12.41	14.23	20.69	24.76	18.00	15.05	18.33	21.47	21.11		
Dividend per share	15.00	22.00	25.00	30.00	30.00	40.00	45.00	65.00	80.00	85.00	42.00		

\*\*On 05<sup>th</sup> June 2017, shareholders passed an ordinary resolution to capitalize Rs.95,980,000/- from and out of retained earnings by allocating 959,800 ordinary shares as fully paid shares.

## INVESTOR INFORMATION

### 01. Stock Exchange Listing

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

### 02. Ordinary Shareholders

#### 2.1 Distribution of stated capital

As at 31st March

Range	2018			2017		
	No. of Shareholders	Total Holdings	Percentage %	No. of Shareholders	Total Holding	Percentage %
From 1 To 1,000	502	47,256	2.46	472	36,617	3.82
1,001 To 5,000	26	58,345	3.04	10	16,340	1.70
5,001 To 10,000	0	-	-	1	7,610	0.79
10,001 To 50,000	6	156,758	8.17	6	109,104	11.37
50,001 To 100,000	1	76,670	3.99	-	-	-
100,001 To 500,000	5	1,580,571	82.34	5	790,129	82.32
	<b>540</b>	<b>1,919,600</b>	<b>100</b>	<b>494</b>	<b>959,800</b>	<b>100</b>

#### 2.2 Classification of Shareholders

	No. of Shareholders	Total Holdings	Percentage %	No. of Shareholders	Total Holding	Percentage %
Directors	4	751,310	39.14	4	176,895	18.43
Institutional investors	24	353,790	18.43	11	1,136	0.11
Employees	12	838	0.04	19	371	0.05
Others	500	813,662	42.39	460	781,398	81.41
	<b>540</b>	<b>1,919,600</b>	<b>100</b>	<b>494</b>	<b>959,800</b>	<b>100</b>

#### 2.3 Twenty largest shareholders of the company

Shareholder's name	No. of Shares	%	No. of Shares	%
01. Seylan Bank PLC / Senthilverl T.	477,841	24.88	238,764	24.88
02. De Silva U.	286,936	14.95	143,468	14.95
03. Rodrigo C. P.	278,920	14.53	139,460	14.53
04. Samarasinghe R. K	270,120	14.07	135,060	14.07
05. Sampath Bank PLC / Senthilverl T.	266,754	13.90	133,377	13.90
06. Samarasinghe S. N.	76,670	3.99	38,335	3.99
07. Rodrigo N.	30,736	1.60	15,368	1.60
08. Rodrigo S. A.	30,736	1.60	15,368	1.60
09. Ekanayake D. H. C.	28,292	1.47	14,146	1.47
10. Selvaraj A. G. I.	27,014	1.41	13,507	1.41
11. Wijayanandana H. D.	24,760	1.29	12,380	1.29
12. Woodward H. W. M.	15,220	0.79	7,610	0.79
13. De Silva M. P.	5,000	0.27	2,500	0.27
14. Senthilverl T.	4,714	0.23	2,247	0.23
15. Sigamoney C.	4,494	0.20	1,900	0.20
16. Jayantha D.	3,800	0.19	1,785	0.19
17. Wijayawardhane C. J.	3,570	0.15	1,434	0.15
18. Abeysekara S.	2,800	0.15	1,400	0.15
19. Jayasingha D.A.	2,720	0.14	1,360	0.14
20. Somawathie B. S.	2,520	0.13	1,260	0.13

**INVESTOR INFORMATION (CONTD.)**

<b>FOR THE YEAR ENDED 31 MARCH</b>		<b>2018</b>	<b>2017</b>
<b>03.</b>	<b>Details of share transactions during the year</b>		
	No. of transactions	689	221
	No. of share traded	6,436	2,496
	Value of transactions (Rs.)	10,647,660	6,406,192
<b>04.</b>	<b>The transacted value of an ordinary share</b>		
		<b>Rs.</b>	<b>Rs.</b>
	Highest Price	2,894.20	3,000.00
	Lowest Price	1,150.00	2,150.20
	Last Traded Price	1,351.10	2,799.90
<b>05.</b>	<b>Dividend</b>	<b>38,392,000</b>	<b>38,392,000</b>
	Interim	42,231,750	43,191,000
	Final	<u>80,623,750</u>	<u>81,583,000</u>
<b>06.</b>	<b>Earning</b>		
	Earnings per share (Rs.)		
	Basic	63.99	130.38
	Diluted	63.99	65.19
	Price earning ratio	21.11	21.47
<b>07.</b>	<b>Divided per share (Rs.)</b>	<b>42.00</b>	<b>42.50</b>
<b>08.</b>	<b>Divided cover (Times)</b>	<b>1.52</b>	<b>1.53</b>
<b>09.</b>	<b>Dividend Yield (%)</b>	<b>3.11</b>	<b>3.04</b>
<b>10.</b>	<b>Dividend Payout (%)</b>	<b>65.63</b>	<b>65.19</b>
<b>As At 31 March</b>		<b>2018</b>	<b>2017</b>
<b>11.</b>	<b>Public Holding</b>		
	No. of shares	821,215	410,764
	Percentage	42.78%	42.80%
	No. of public shareholders	534	478
<b>12.</b>	<b>Net Asset per share (Rs.)</b>	<b>660.17</b>	<b>1,280.17</b>
<b>13.</b>	<b>Current asset ratio</b>	<b>2.97:1</b>	<b>3.01:1</b>
<b>14.</b>	<b>Quick asset ratio</b>	<b>2.32:1</b>	<b>2.41:1</b>
<b>15.</b>	<b>Equity to total asset ratio (%)</b>	<b>74.61</b>	<b>76.75</b>



## 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 him) |
| 5. | Mr. S. A. S. Jayasundara | (or failing him) |
| 6. | Mr. T. K. Bandaranayake  | (or failing him) |
| 7. | Mrs. R. K. Samarasinghe  | (or failing him) |

..... (holder of National Identity Card No. : .....) of  
..... as \* my / our Proxy to attend and vote at the 66<sup>th</sup> 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 22<sup>nd</sup> September  
2018 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. 25/- per share as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director, Mr. S.N. Samarasinghe 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 authorize 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 authorize the Directors to determine contributions to charities for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of .....2018

.....  
Signature/s

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

## INSTRUCTIONS AS TO COMPLETION

01. 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.
02. 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.
03. 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.
04. 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.
05. 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.
06. 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
07. 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.
08. 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.



## **HARISCRANDRA MILLS PLC**

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

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Fax : 041 2222003

Email : [info@harischandramills.com](mailto:info@harischandramills.com)

Web : [www.harischandramills.com](http://www.harischandramills.com)