

ANNUAL REPORT 2020 | 2021



HARISCHANDRA

THE TRUSTED NAME FOR QUALITY



Our Vision

To enhance our heritage
brand status and
serve the nation.

Our Mission

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

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NOTICE OF MEETING

Notice is hereby given that the 69th Annual General Meeting (“AGM”) of Harischandra Mills PLC (the “Company”), will be held on Saturday, 25th September 2021 at 11.00 a.m. online via virtual platform for the purpose of considering and if thought fit, passing the following resolutions

1. To receive and consider the annual report of the board of directors together with the financial statements of the Company for the year ended 31st March 2021 and the report of the auditors thereon.
2. To declare a final dividend of Rupees Thirty (Rs.30/-) per share for the financial year ended 31st March 2021 as recommended by the directors.
3. To re-elect Mr. S.N. Samarasinghe as a director, who retires in terms of Article 98 of the articles of association.
4. To re-appoint KPMG, Chartered Accountants, as auditors of the Company until the next AGM and to authorise the directors to determine their remuneration.
5. 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 20th Day of August 2021

69th
Annual General Meeting

Note

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

CORPORATE INFORMATION

Legal Form

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

Company Registration Number

PQ.225

Date of Incorporation

9th January, 1953

Registered Office

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

Secretaries

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

Auditors

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

Internal Auditors

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

Legal Advisors

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

Bankers

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

Subsidiary Company

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

Board of Directors

Bastiansz M.A.
(Chairman)

Samarasinghe S.N.
(Managing Director)

De Silva G.S.V.

De Silva M.P. (Mrs.)

Bandaranayake T.K.

Jayasundara S.A.S.

Samarasinghe R.K. (Mrs.)

Executive Management

Gajanayake C.T.
(Chief Financial Officer)

Nanayakkara S.N.K.
(Sales Manager)

Gamini Lokuralage D.S.
(Commercial Manager)

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

Ranasinghe N.P.
(Production Engineer)

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

CHAIRMAN'S REVIEW

It is with great pleasure that I invite you to the 69 Annual General Meeting of Harischandra Mills PLC and present the Annual Report for the year ended 31 March 2021.

The year was affected significantly by the Covid 19 pandemic which resulted in the intermittent lockdown of many areas, severely disrupting our sales operations. I am happy to state that despite these setbacks we were able to increase our sales of foods and soaps.

We were fortunate in being able to continue production despite the mobility restrictions, and that this was done under stringent safety guidelines throughout the year.

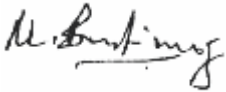
Following on the strategic decisions made previously, we relocated our sales and distribution operations to Kottikawatta and our Commercial section to Borella. This move, which has helped to ease congestion and facilitate the smooth flow of our products to various destinations, was achieved in the midst of all the difficulties we faced during the year, and before the deadline of 31 December 2020.

Another notable achievement was the completion of construction of the new factory for manufacturing coffee at Udukawa Industrial Zone, Weligama.

Apart from the closures and logistical difficulties experienced during this period the company had to contend with a sharp escalation in the prices of raw materials. Despite all of this the company has posted a net profit which is 22% more than the profit earned last year.

The Company has paid an interim dividend of Rs 20/- per share. The Board of Directors has proposed the payment of a final dividend of Rs 30/- per share.

I am proud to state that in the early days of the pandemic, when there was grave concern and insecurity in the minds of workers everywhere, the company decided to pay the full wages and annual bonus to all our employees. I am equally proud to state that our employees have responded magnificently by making their best efforts in serving your company well throughout this difficult period. On behalf of the Board of Directors, I thank them for their dedicated service.



Maxwell A. Bastiansz
Chairman
20 August 2021

MANAGING DIRECTOR'S REPORT

MACRO ECONOMIC ENVIRONMENT

The Financial year 2020/2021 began with countrywide lockdown due to the COVID 19 pandemic which posed challenging market conditions. Company operations halted for few weeks and most of the balance period we worked under the restrictions of the health guidelines.

The GDP of the country reported a negative 3.6% compared to the growth rate of 2.3% in previous year. Annual average inflation rate was increased to 6.2% which largely consist of inflation related to the food category. Further, Sri Lankan rupee depreciated by 2.6% against USD where the comparative was 0.6% in previous year.

OPERATIONAL REVIEW

With these unexpected challenges, Harischandra Mills PLC reported before tax profit of Rs. 190 million a drop of 22% from previous year. Overall sales of the Company dropped marginally by 3%. However, the main revenue segments, food and soap reported increase in sales by 7% and 13% respectively. Fuel and lubricant segment reported a decline of 34% due to the low demand as travel restrictions were in effect throughout the year.

Operational profit of Food segment declined by 11% due to the high cost involved in raw materials. Raw material cost went up significantly due to travel restrictions and import restrictions.

Profit after tax has increased by 22% as a result of reduced income tax rate of 18%

CORPORATE SOCIAL RESPONSIBILITY

We continued our work on social service projects. We donated a customized high power water pump to the Girihandu Seya, the first stupa of Sri Lanka, where the temple suffered due to the lack of drinking water. Further, Company supplied twenty hospital beds to the newly build Ayurvedic Hospital in Matara which is dedicated for Buddhist monks.

We continued to focus our CSR activities on enhancing the educational status of the southern region by starting a project to renovate old class room building of Siri Parakum Vidyalaya, Kananke, Weligama



S.N. Samarasinghe
Managing Director
20 August 2021



Girihandu Seya Water Supply Project

Girihandu Seya is the world's first Buddhist pagoda situated at Thiriyaya in Trincomalee district. The temple and villagers suffered from lack of drinking water for decades and this project was started by the "Pasadika Padanama", a Buddhist Association in Matara. Company has donated the special European high efficient water pump for this project which enabled to build a fully automatic drinking water supply system that pumps water up to a distance of about 6 km using advanced and reliable technologies. This provides good quality drinking water to monks, devotees, three villages to a school and a Hindu kovil.



Donation of Dry Rations for COVID 19 Patients

COVID-19 a situation unlike anything we've faced before. Whole world suffered severely from the pandemic and as a responsible corporate citizen, we believe our support will strengthen the authorities to fight against it. We donated large stock of dry rations to COVID 19 ward in Weligama base hospital which enabled them to provide healthy meal to the patients.



Hospital Beds to Ayurveda Bhikku Hospital



As health is the greatest gain, Harischandra Mills always focus on projects which aim at the improvement of health care facilities in the region. Previous year, we made our contribution to renovate mother's room at Karapitiya General Hospital. Following this norm, this year we donated twenty hospital beds to the newly constructed Ayurveda Hospital in Matara dedicated to Buddhist monks.

Appreciation of Employees

Our founder, Mr. C.A. Harischandra always believed "Happy employees equals greater productivity" hence, employees treated as the most valuable asset. Therefore, we ensure to appreciate our employees hard work without ceremony as there were no opportunity for such events due to the pandemic. We recognized the employees who served more than 25 years by awarding special gifts. Further, children of employees were provided all study materials and scholarships were awarded to children who selected for higher studies. This will continue until they complete their studies.

MANAGEMENT DISCUSSION AND ANALYSIS

Sri Lankan Economy in 2020

During the year 2020, Sri Lankan economy has contracted by 3.6% against 2.3% growth in previous year primarily due to the COVID 19 pandemic. The pandemic has impacted to almost all sectors of the economy. Agricultural sector reported growth rate of negative 2.5%, services sector growth rate reported as negative 1.5% and Industrial sector significantly affected by reporting negative 7.3% growth rate. However, all these sectors showed slight improvement in the final quarter of the year 2020 as per the data published by the Central Bank of Sri Lanka. Per capita GDP also came down to USD 3,682 from USD 3,852 in 2019 and unemployment rate raised to 5.2% from 4.8% in 2019. Inflation rate has also gone up to 4.6% (CCPI) from 4.3% in 2019. Decrease of tourism income to USD 682 million from USD 3,607 million in 2019 impacted profoundly to the shrinkage of the economy.

These adverse conditions heavily affected to the Company's operations and production cost has significantly increased and wherever possible, most of them absorbed by the Company without passing them to the consumer. Further, we have carefully manage our supply chain and ensure that materials are supplied at the correct time without interfering to the production line.

Further, Company has complied health and safety guidelines issued by the health authorities in order to cover the risk of spreading the COVID 19 and ensure the safety of our employees, neighbors and consumers.

Operational Review

Slowdown in the economy and deceleration in consumer spending has significantly impacted to the performance of the Company. Accordingly, total revenue has decreased by 3% during the year. However, foods segment achieved 7% growth and Soap segment achieved 13% growth during the year despite the overall reduction which was mainly due to the decline in revenue of Fuel and lubricant section. Mobility restrictions imposed due to the pandemic resulted in contraction of operations in Fuel and lubricant section.

Adverse economic conditions of the country, mobility restrictions and import restrictions caused significant increase in raw material prices. Further, Company has not done neither any salary deductions nor cut down of welfare expenses. This leads to significant increase in production cost during the year. Decline in operating profit by 13% reflected this impact and Company absorbed most part of the cost increase. Still, profit after tax has increased by 22% against previous year due to the change in income tax rate to 18% from 28% in previous year.

Financial Capital	2021	2020	Change
Revenue	3,531,604,786	3,652,268,411	-3%
Total assets	2,163,245,250	1,930,408,328	12%
Total liabilities	685,232,024	523,580,491	31%
Shareholders' Funds	1,478,013,226	1,406,827,837	5%
Dividend per share	50.00	50.00	-
Dividend payout	54.27%	64.72%	

Despite these challenging situation, Company put its full strength to enhance our shareholders value by increasing total assets by 12% and 5% increase in Shareholders Funds. Further, payments of dividends to Shareholders considered a key matter and paid interim dividend of Rs. 20 per share and proposed a final dividend of Rs. 30 per share, same as the previous year.

Manufactured Capital

Manufactured Capital of the Company represents buildings, plant & machinery, other items including furniture & fittings, motor vehicles. We highly considered about the quality of the manufactured capital as it directly related to the quality of our production.

Item	Net Carrying Value 2021	Net Carrying Value 2020	Change
Buildings	143,709,633	88,340,342	63%
Plant & Machinery	230,106,089	236,481,807	-3%
Furniture, Fittings & Equipment	84,020,909	64,779,596	30%
Other Assets	147,995,391	121,176,161	22%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTD.)

Human Capital

Our employees are considered as the most valuable asset we have and the Company is always committed to create better working environment enabling them to achieve work – life balance. Company continued the welfare activities and paid full salary despite the adverse conditions. Further, employee training programs carried out during the year to develop the skills required to perform the work effectively.

Intellectual Capital

The Harischandra brand has a 80 year reputation and unique corporate culture which represents the intellectual capital which has developed based on the concepts of our founder Mr. C.A. Harischandra. We always focus on managing the intellectual capital and it supports us to compete in the market while ensuring the confidence of customers regarding the quality of our products.

Natural Capital

As a responsible corporate citizen, we always committed to protect the environment. Waste management is a key area of our daily operations and we ensure the clean environment around the factories. Further, we appointed a separate team to ensure the compliance with Environmental regulations.

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 2021 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 regulatory requirements.

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				
	24.07.2020	21.08.2020	25.09.2020	09.10.2020	12.02.2021
Mr. M.A. Bastiansz	✓	✓	✓	✓	✓
Mr. S.N. Samarasinghe	✓	✓	✓	✓	✓
Mr. G.S.V. De Silva	✓	✓	✓	Excused	Excused
Mrs. M.P. De Silva	✓	✓	✓	Excused	Excused
Mr. T.K. Bandaranayake	✓	✓	✓	✓	Excused
Mr. S.A.S. Jayasundara	✓	✓	✓	✓	✓
Mrs. R.K. Samarasinghe	Excused	✓	Excused	Excused	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 22 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 the Chairman and Mr. S.A.S. Jayasundara, independent 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			
	17.07.2020	14.08.2020	09.10.2020	12.02.2021
Mr. T.K. Bandaranayake	✓	✓	✓	✓
Mr. S.A.S. Jayasundara	✓	✓	✓	✓

The detailed Audit Committee's report including areas reviewed during the financial year 2020/2021 is given on Page 19 and 20 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
	12.02.2021
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 2020/2021, the Committee held four meetings.

Director	24.07.2020	21.08.2020	09.10.2020	12.02.2021
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 for ensuring 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 for the foreseeable future.

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 16 contains the required affirmative statement in that regard.

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 under the guidance of Audit Committee.

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 68th Annual General Meeting of Harischandra Mills PLC held on 14 November 2020, 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 13
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 22
7.10.5 Remuneration Committee	A listed Company shall have a Remuneration Committee	Complied	Please refer page 18
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 18
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 18
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 18 & 64
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 19 & 20
7.10.6a Composition of Audit Committee	The Audit Committee; <ul style="list-style-type: none"> • Shall comprise of non-executive directors a majority of whom will be independent. • One non-executive independent director shall be appointed as the Chairman of the committee • Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings • The Chairman of the Audit Committee or one member should be a member of a professional accounting body 	Complied Complied Complied Complied	Please refer page 13 Please refer page 13 Please refer page 19
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 19 & 20
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 19 & 20

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.

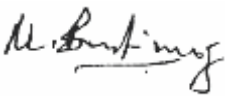
REMUNERATION COMMITTEE REPORT

The Remuneration Committee consists of two non executive directors, Mr. M.A. Bastiansz and Mr. S.A.S. Jayasundara.

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

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

The aggregate remuneration paid to executive directors and non executive directors is disclosed in the annual Report.



M.A. Bastiansz
Chairman-Remuneration Committee
20 August 2021

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 four 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 Previous 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.

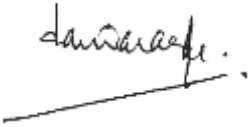
Internal Audit and Control Issues

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. Having satisfied themselves with the quality and independence of 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 March 2022 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

20 August 2021

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Related Party Transactions Review Committee ("The Committee") was formed on 01st January 2016 in terms of the Code of Best Practice on Related Party Transactions ("Code") issued by the Securities & Exchange Commission of Sri Lanka and Section 9 of the Listing Rules of the Colombo Stock Exchange ("Listing Rules"). The Committee comprises three Directors including two Non Executive Directors. The composition of the Committee as at 31 March 2021 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

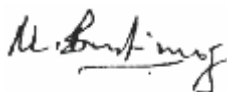
The mandate of the Committee is derived from the Code and the Listing Rules and includes mainly the following:

- 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 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

20 August 2021

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 the chairman of Lanka Transformers Holdings, Lanka Transformers Ltd, Lanka Transformers Galvanizing (Pvt) Ltd. Blue Diamond Jewellery Ltd, Shraddha Media Network and Lakviru Radio (Pvt) Ltd. He serves as the acting chairman of Bimputh Finance PLC. and a non executive director of Bogawanthalawa Tea Estates PLC. Metropolitan Resource Holdings (Pvt) Ltd. and Sithara Limited

Mrs. R.K. Samarasinghe

Executive Director

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

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

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

The directors of the Harischandra Mills PLC have pleasure in presenting their report and the audited Financial Statements for the year ended 31 March 2021.

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 40.

Group Financial Results;	2020/2021 Rs. 000	2019/2020 Rs.000
Profit before taxation	189,923	242,372
Taxation	(13,056)	(94,079)
After tax profit attributable to shareholders	176,867	148,293
Unappropriated profit brought forward from previous year	1,261,032	1,208,422
Profit available for appropriation	1,437,899	1,356,715
Distribution of Profit:		
Interim dividend paid for financial year 2019/2020	38,392	38,392
Final dividend paid for financial year 2019/2020	57,588	57,588
Forfeiture of unclaimed dividend	-	(297)
	<u>95,980</u>	<u>95,683</u>
	<u>1,341,919</u>	<u>1,261,032</u>

AUDITORS' REPORT

The auditors' report on the financial statements is given on page 30.

ACCOUNTING POLICIES

The Group and the Company prepared their Financial Statements for all periods up to and including the year ended 31 March 2021, 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 40 to 52 of Annual Report.

REVIEW OF BUSINESS

The Chairman's Review, the Managing Director's Report and the Corporate Governance Report which form an integral part of the Director's Report on the state of affairs of the Company, contain a detailed description of the operations of Harischandra Mills PLC during the year ended 31 March 2021 and contain a fair review of the affairs of Harischandra Mills PLC and the Group.

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

The directors are satisfied that Financial Statements give a true and fair view of the state of affairs of Harischandra Mills PLC and the Group as at 31 March 2021 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 12 to 16 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.2,961,730/- compared to Rs.6,010,267/- 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 01 June 2021, and propose a final dividend of Rs.30/- per share, to be paid out of the profits of Harischandra Mills PLC and dividend received for the financial year ended 2020/2021. 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. 30/= 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. 24 of 2017 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 57.

STATED CAPITAL & RESERVES

The stated capital of Harischandra Mills PLC at the beginning of the year under review was Rs. 105,578,000/-, consisting of 1,919,600 Ordinary Shares.

The total reserves of the Company as at 31 March 2021 amounted to Rs.1,369,344,772/- (as at 31 March 2020 - Rs.1,297,887,471/-) where as the Group total reserve amounted to Rs.1,372,435,226/- (as at 31 March 2020 - Rs.1,301,249,837/-) The composition of the reserves is shown in the Statement of Changes in Equity and details of reserves are set out in Note 20 and 21 to the Financial Statements.

POST BALANCE SHEET EVENTS

Interim dividend of Rs.20/- per share were paid on 01 June 2021.

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

GOING CONCERN

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

CAPITAL COMMITMENTS AND CONTINGENCIES

There were no significant capital commitments and contingencies as at 31 March 2021.

RELATED PARTY TRANSACTIONS

The company did not carry out any Non-recurrent related party transactions during the year under review and all recurrent related party transactions were less than 10% of the net revenue.

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

HUMAN RESOURCES

As at 31 March 2021 Company employed 654 employees whereas it was 589 in the last year end. Aggregate total remuneration in respect of the year was Rs.505 Mn compared to Rs.465 Mn for the last year.

ISSUES PERTAINING TO EMPLOYEES AND INDUSTRY RELATIONS

There were no material issues pertaining to employees and industry relations during the year under review to disclose as required under rule 7.6 (vii) of the CSE Listing rules.

SHAREHOLDERS' INFORMATION

Distribution of the issued shares among the shareholders and classification of shareholders are indicated in page 77 of the Annual Report. There were 512 (2019/20-517) registered shareholders as at 31 March 2021.

DIRECTORATE

The directors of Harischandra Mills PLC during the year ended 31.03.2021 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 22 in the Annual Report.

MAJOR SHAREHOLDERS

The 20 largest shareholders of Harischandra Mills PLC as at 31 March 2021 are given on page 77 together with an analysis of the shareholdings. As at that date Harischandra Mills PLC had 512 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 27 of the Financial Statements. The directors have no direct or indirect interest or proposed contract other than those disclosed.

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

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

DIRECTORS' REMUNERATION

The aggregate remuneration paid to executive and non executive directors in respect of the Group and the Company for the financial year ended 31 March 2021 were recorded as Rs.46,265,976/- (2019/2020 Rs.46,685,668/-).

DIRECTORS SHAREHOLDING

Name of Director	31 March 2021		01 April 2020	
	No of Shares	%	No of Shares	%
Mrs. R.K. Samarasinghe	270,120	14.07	270,120	14.07
Mr. S.N. Samarasinghe	76,670	3.99	76,670	3.99
Mr. G.S.V. De Silva	2,000	0.10	2,000	0.10
Mrs. M.P. De Silva	5,000	0.26	5,000	0.26
Mr. M.A. Bastiansz	-	-	-	-
Mr. T.K. Bandaranayake	-	-	-	-
Mr. S.A.S. Jayasundara	-	-	-	-
Total	<u>353,790</u>	<u>18.42</u>	<u>353,790</u>	<u>18.42</u>

APPLICATION OF THE CORPORATE GOVERNANCE RULES OF THE COLOMBO STOCK EXCHANGE

As per the section 7 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance, the details on compliance are set out on page 16 in this annual report.

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

AUDITORS

The Financial Statements for the year ended 31 March 2021 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.1,163,600/- (2019/20 - Rs.1,072,500/-) for audit work, tax service Rs.287,150/- (2019/20 - Rs.280,030/-) and Rs.140,000/- (2019/20 - Rs. 120,000/-) for audit related services.

Re-Appointment of Auditors

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

ANNUAL GENERAL MEETING

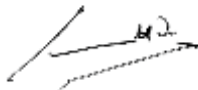
The Sixty Ninth Annual General Meeting of the Company will be held on the 25 September 2021 at 11.00 a.m. online via virtual platform. The Notice of the Sixty Ninth Annual General Meeting is on page 04 of the Annual Report.

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

20 August 2021

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 30 to 33 sets out their responsibilities in relation to the Financial Statements

By order of the Board

Corporate Services (Private) Limited

Secretaries

20 August 2021



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

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
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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 the consolidated Financial Statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 2021, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies as set out on pages 40 to 74 of this Annual Report.

In our opinion, the accompanying Financial Statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2021, and of their 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.

Revenue recognition

Refer to the accounting policies in "Note 3.17 to the Financial Statements: Revenue recognition" and "Note 4 to the Financial Statements: Revenue".

Risk Description	Our response
<p>Revenue from sale of goods Rs. 3,531,604,786/- is recognized when control has been transferred to the buyer; and is measured at net of trade discounts and volume rebates (trade spend) for which judgement is required by management to estimate accruals.</p> <p>In addition, the Group considers revenue as an important element in measuring, management performance and how management are incentivised. These factors could create an incentive for revenue to be recognised prior to control being transferred.</p> <p>We identified the recognition of revenue as a key audit matter because revenue is a significant audit risk and one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of revenue recognition by management to meet specific targets or expectations.</p>	<p>Our audit procedures included;</p> <ul style="list-style-type: none"> Obtaining an understanding of the design, implementation and operating effectiveness of management's key internal controls in relation to recognition of revenue. On sample basis, testing customer rebate contracts for significant customers and inspected the terms, confirmed the sales data on which the rebate is based and recalculated the rebate. Testing the operating effectiveness of key IT application controls over revenue, in addition to evaluating the integrity of the general IT control environment. On sample basis, testing whether specific revenue transactions around the year end had been recognised in the appropriate period on the basis of the terms of sale within the associated contracts, such as whether shipping terms had been met, goods received notes completed and, or, customer acceptance of the product received. Assessing whether there was any evidence of management bias by forming expectations for the

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara FCA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel FCA	Ms. C.T.K.N. Perera ACA
A.M.R.P. Alahakoon ACA		

Principals - S.R.I. Perera FCMA (UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA, W.A.A. Weerasekara CFA, ACMA, MRICS

Risk Description	Our response
	<p>revenue recorded for the current year, with reference to historical trends, and comparing to actual.</p> <ul style="list-style-type: none"> • Testing a sample of credit notes issued after the year end and challenged those that were not recorded by obtaining evidence and rationale for significant reversals. • Assessing the quantification of adjustments arising from management's revenue recognition assessment for compliance with SLFRS 15 during the year and disclosures for the same.

Carrying value of Inventories

Refer to the accounting policies in “Note 3.10 to the Financial Statements: Inventories” and “Note 16 to the Financial Statements: Inventories

Risk Description	Our response
<p>The Group has recognized a total provision of Rs. 6,887,199/- in relation to the total inventory valued at Rs. 400,431,328/- as at 31 March 2021. As discussed in Note 3.10, management judgment is applied to the cost of inventories in order to accurately reflect the manufacturing costs incurred in bringing them to their current condition and physical location. This primarily relates to the assessment of direct labour costs incurred, manufacturing overheads to be absorbed and other relevant production costs.</p> <p>A risk surrounding the carrying value of inventory when compared to the net realizable value as a result of inadequate provisioning has also been identified. Establishing a provision for slow-moving, obsolete and damaged inventory involves estimates and judgments, taking into account forecast sales and historical usage information. Further, COVID 19 outbreak resulted in interruption in business activities and resulted in loss of income for some of the individuals/industries which would adversely affect the ability to sell its inventories with a reasonable margin which would potential impact on the net realizable value adjustments.</p> <p>We identified assessing the carrying value of inventories as a key audit matter because of the inherent risk that the Group's inventories may become obsolete or may be sold at prices below their carrying values and because the judgment exercised by management in determining the appropriate provision for inventories involves management's bias.</p>	<p>Our audit procedures included;</p> <ul style="list-style-type: none"> • Performing the observations of inventory physical verifications in order to identify the existence and any damaged, obsolete inventory. • Obtaining an understanding and assessing the design, implementation and operating effectiveness of the Group's key controls relating to the assessment of inventory valuation and inventory provisioning. <p>On a sample basis, we have performed the following:</p> <ul style="list-style-type: none"> • Agreeing the cost of raw materials to third party supplier invoices. • For work in progress and finished goods, we obtained the bill of material and tested the underlying costs within each stock item. We challenged the key assumptions concerning overhead absorption by assessing the appropriateness of costs included in the calculation. • Checked the parameters and system accuracy of first in first out (FIFO) calculated with the assistance of IT audit specialist. • Assessing the net realisable value (NRV) on a sample basis of stock items by agreeing their subsequent sales price to customer invoices to ensure that the items were being held at the lower of cost and NRV. • Gaining an understanding of the movements in the inventory for the year and assess the scale of the provision for non-moving and slow-moving inventory. • Where manual adjustments have been made to the provision, we have understood these by gaining supporting documentation. • Assessing whether the Group's policies had been consistently applied and the adequacy of the Group's disclosures in respect of the judgment and estimation made in respect of inventory provisioning.



Recoverability of trade receivables

Refer to the accounting policies in “Note 3.4 to the Financial Statements: Impairment” and “Note 17 to the Financial Statements: Trade and other receivables”.

Risk Description	Our response
<p>As disclosed in Note 17 to the Financial Statements, the Group has recognized trade receivables balance of Rs. 342,192,084/- as at 31 March 2021, after provision for impairment of Rs. 4,291,171/-.</p> <p>The Group's customers operate in a number of sectors, having different credit profiles. SLFRS 9 – “Financial Instruments” ECL Model takes into account judgment in setting the assumptions such as forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgments over the use of data inputs required.</p> <p>Provision for impairment of trade receivables remains one of the most significant judgment made by the management particularly in light of the uncertain economic outlook in Sri Lanka as at the reporting date due to the potential impact of the COVID 19 outbreak.</p> <p>We identified impairment of trade receivables as a key audit matter for our audit, as it requires management to exercise subjective judgment in making assumptions and estimates for the assessment of provision for impairment of trade receivables.</p>	<p>Our audit procedures included;</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the impairment methodology used by the Group in accordance with SLFRS 9 and challenging the key assumptions and evaluating the reasonableness of the key judgments and methodology used by the management. • Evaluating the completeness, accuracy and relevance of data used in preparation of the impairment provision. • Comparing the economic factors used in the models to market information to assess whether they are aligned with the market and economic development. • Challenging how management had assessed the impact of COVID 19 within the ECL model to assess whether that it was appropriately considered in the measurement of ECLs at year end. • Evaluating the adequacy of the Group's disclosures regarding the degree of judgments and estimation involved in arriving at the provision for impairment of trade receivables.

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.

If, based on the work we have performed, we conclude that there is a material misstatement of other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

In preparing the Financial Statements, management is responsible for assessing the 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 Company's and Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable



assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

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 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 consolidated 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 3707.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

20 August 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH,	Note	GROUP		COMPANY	
		2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Revenue	4	3,531,604,786	3,652,268,411	3,531,604,786	3,652,268,411
Cost of sales		(2,823,473,022)	(2,928,452,487)	(2,823,473,022)	(2,928,452,487)
Gross profit		708,131,764	723,815,924	708,131,764	723,815,924
Other income	5	29,109,469	43,497,065	29,109,469	46,657,542
Distribution expenses		(229,839,651)	(240,669,403)	(229,838,651)	(240,669,403)
Administrative expenses		(335,358,482)	(315,814,096)	(335,087,596)	(315,199,238)
Operating profit	6	172,043,100	210,829,490	172,314,986	214,604,825
Finance income	7.1	24,397,596	32,990,439	24,397,596	32,990,439
Finance expenses	7.2	(6,517,530)	(1,447,979)	(6,517,530)	(1,447,979)
Profit before tax		189,923,166	242,371,950	190,195,052	246,147,285
Income tax expense	8	(13,056,191)	(94,079,038)	(13,056,191)	(93,564,538)
Profit for the year		176,866,975	148,292,912	177,138,861	152,582,747
Profit attributable to equity holders - of the Company		176,866,975	148,292,912	177,138,861	152,582,747
Profit for the year		176,866,975	148,292,912	177,138,861	152,582,747
Earnings per share	9	92.14	77.25	92.28	79.49

Figures in bracket indicate deductions.

The notes to the financial statements from page 40 to 74 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	
		2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Profit for the year		176,866,975	148,292,912	177,138,861	152,582,747
Other comprehensive Income					
Items that will not be reclassified subsequently to profit or loss					
Re-measurement of defined benefit obligation	23.1	(11,831,171)	(2,749,174)	(11,831,171)	(2,749,174)
Related tax	8.2	2,129,611	769,769	2,129,611	769,769
Total other comprehensive income net of tax		<u>(9,701,560)</u>	<u>(1,979,405)</u>	<u>(9,701,560)</u>	<u>(1,979,405)</u>
Total comprehensive income attributable to owners of the Company		<u>167,165,415</u>	<u>146,313,507</u>	<u>167,437,301</u>	<u>150,603,342</u>

Figures in bracket indicate deductions.

The notes to the financial statements from page 40 to 74 form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH,	Note	GROUP		COMPANY	
		2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Assets					
Non-current assets					
Property, plant and equipment	11	933,847,093	921,502,755	933,847,093	921,502,755
Intangible assets	12	903,883	1,387,376	903,883	1,387,376
Right of use asset	13	64,286,056	6,466,727	64,286,056	6,466,727
Investment in subsidiary	14	-	-	70	70
Total non-current assets		999,037,032	929,356,858	999,037,102	929,356,928
Current assets					
Inventories	16	393,544,129	310,185,346	393,544,129	310,185,346
Trade and other receivables	17	424,450,858	371,438,404	424,450,858	371,438,404
Investment in unit trusts	15	6,730,500	5,751,000	6,730,500	5,751,000
Investment in fixed deposits		254,965,189	239,565,685	254,965,189	239,565,685
Cash and cash equivalents	18	84,517,542	74,111,035	83,826,517	73,159,225
Total current assets		1,164,208,218	1,001,051,470	1,163,517,193	1,000,099,660
Total assets		2,163,245,250	1,930,408,328	2,162,554,295	1,929,456,588
Equity					
Stated capital	19	105,578,000	105,578,000	105,578,000	105,578,000
Other capital reserves	20	7,010,944	7,010,944	11,014	11,014
General reserve	21	12,841,000	12,841,000	12,841,000	12,841,000
Retained earnings		1,352,583,282	1,281,397,893	1,356,492,758	1,285,035,457
Total equity attributable to owners of the Company		1,478,013,226	1,406,827,837	1,474,922,772	1,403,465,471
Liabilities					
Non-current liabilities					
Deferred tax liabilities	22	15,159,120	41,818,461	15,159,120	41,818,461
Employee benefit obligation	23	135,796,365	109,246,500	135,796,365	109,246,500
Lease creditor	25	55,777,120	440,479	55,777,120	440,479
Total non-current liabilities		206,732,605	151,505,440	206,732,605	151,505,440
Current liabilities					
Trade and other payables	24	341,627,024	239,091,211	341,443,101	238,918,415
Lease creditor	25	11,629,180	155,027	11,629,180	155,027
Current tax liabilities	26	1,143,089	4,288,529	3,726,511	6,871,951
Bank overdraft	18	124,100,126	128,540,284	124,100,126	128,540,284
Total current liabilities		478,499,419	372,075,051	480,898,918	374,485,677
Total liabilities		685,232,024	523,580,491	687,631,523	525,991,117
Total equity and liabilities		2,163,245,250	1,930,408,328	2,162,554,295	1,929,456,588

The notes to the financial statements from page 40 to 74 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.

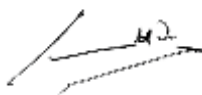


C.T. Gajanayake
Chief Financial Officer

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
20 August 2021



G.S.V. De Silva
Director

STATEMENT OF CHANGES IN EQUITY

GROUP	Stated Capital Rs.	Other Capital Reserve Rs.	General Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 01 April 2019	105,578,000	7,010,944	12,841,000	1,230,767,212	1,356,197,156
Total comprehensive income					
Profit for the year	-	-	-	148,292,912	148,292,912
Other comprehensive income					
Re-measurement of employee benefits obligation	-	-	-	(2,749,174)	(2,749,174)
Related taxes	-	-	-	769,769	769,769
Total other comprehensive income for the year				(1,979,405)	(1,979,405)
Total comprehensive income for the year				146,313,507	146,313,507
Transactions with owners of the Group, recognized directly in equity					
Interim dividend	-	-	-	(38,392,000)	(38,392,000)
Final dividend	-	-	-	(57,588,026)	(57,588,026)
Forfeiture of unclaimed dividend - Note (a)	-	-	-	297,200	297,200
Total transactions with owners of the Group				(95,682,826)	(95,682,826)
Balance as at 31 March 2020	<u>105,578,000</u>	<u>7,010,944</u>	<u>12,841,000</u>	<u>1,281,397,893</u>	<u>1,406,827,837</u>
Balance as at 01 April 2020	105,578,000	7,010,944	12,841,000	1,281,397,893	1,406,827,837
Total comprehensive income					
Profit for the year	-	-	-	176,866,975	176,866,975
Other comprehensive income					
Re-measurement of employee benefits obligation	-	-	-	(11,831,171)	(11,831,171)
Related taxes	-	-	-	2,129,611	2,129,611
Total other comprehensive income for the year				(9,701,560)	(9,701,560)
Total comprehensive income for the year				167,165,415	167,165,415
Transactions with owners of the Group, recognized directly in equity					
Interim dividend	-	-	-	(38,392,000)	(38,392,000)
Final dividend	-	-	-	(57,588,026)	(57,588,026)
Total transactions with owners of the Group				(95,980,026)	(95,980,026)
Balance as at 31 March 2021	<u>105,578,000</u>	<u>7,010,944</u>	<u>12,841,000</u>	<u>1,352,583,282</u>	<u>1,478,013,226</u>

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. Figure in bracket indicate deductions.

The notes to the financial statements from page 40 to 74 form an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

COMPANY	Stated Capital Rs.	Other Capital Reserve Rs.	General Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 01 April 2019	105,578,000	11,014	12,841,000	1,230,114,915	1,348,544,929
Total comprehensive income					
Profit for the year	-	-	-	152,582,747	152,582,747
Other comprehensive income					
Re-measurement of employee benefits obligation	-	-	-	(2,749,174)	(2,749,174)
Related taxes	-	-	-	769,769	769,769
Total other comprehensive income for the year				<u>(1,979,405)</u>	<u>(1,979,405)</u>
Total comprehensive income for the year				<u>150,603,342</u>	<u>150,603,342</u>
Transactions with owners of the Company, recognized directly in equity					
Interim dividend	-	-	-	(38,392,000)	(38,392,000)
Final dividend	-	-	-	(57,588,000)	(57,588,000)
Forfeiture of unclaimed dividend - Note (a)	-	-	-	297,200	297,200
Total transactions with owners of the Company				<u>(95,682,800)</u>	<u>(95,682,800)</u>
Balance as at 31 March 2020	<u>105,578,000</u>	<u>11,014</u>	<u>12,841,000</u>	<u>1,285,035,457</u>	<u>1,403,465,471</u>
Balance as at 01 April 2020	105,578,000	11,014	12,841,000	1,285,035,457	1,403,465,471
Total comprehensive income					
Profit for the year	-	-	-	177,138,861	177,138,861
Other comprehensive income					
Re-measurement of employee benefits obligation	-	-	-	(11,831,171)	(11,831,171)
Related taxes	-	-	-	2,129,611	2,129,611
Total other comprehensive income for the year				<u>(9,701,560)</u>	<u>(9,701,560)</u>
Total comprehensive income for the year				<u>167,437,301</u>	<u>167,437,301</u>
Transactions with owners of the Company, recognized directly in equity					
Interim dividend	-	-	-	(38,392,000)	(38,392,000)
Final dividend	-	-	-	(57,588,000)	(57,588,000)
Total transactions with owners of the Company				<u>(95,980,000)</u>	<u>(95,980,000)</u>
Balance as at 31 March 2021	<u>105,578,000</u>	<u>11,014</u>	<u>12,841,000</u>	<u>1,356,492,758</u>	<u>1,474,922,772</u>

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. Figure in bracket indicate deductions.

The notes to the financial statements from page 40 to 74 form an integral part of these consolidated financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH,	Note	GROUP		COMPANY	
		2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Cash flows from operating activities					
Profit before income tax expense		189,923,166	242,371,950	190,195,052	246,147,285
Adjustment for					
Provision for employee benefit	23	21,280,526	18,990,514	21,280,526	18,990,514
Depreciation/amortization	11,12 & 13	126,927,691	106,728,320	126,927,691	106,728,320
Interest expenses	7	6,517,530	1,447,979	6,517,530	1,447,979
Change in fair value of unit trusts	5	(979,500)	(372,000)	(979,500)	(372,000)
Profit on disposal of property, plant & equipment	5	(13,471,904)	(29,429,730)	(13,471,904)	(29,429,730)
Dividend income	5	-	-	-	(3,160,477)
Interest income from investment in fixed deposits	7	(22,674,087)	(23,569,962)	(22,674,087)	(23,569,962)
Operating profit before working capital changes		307,523,422	316,167,071	307,795,308	316,781,929
Change in inventories		(83,358,783)	(121,337,851)	(83,358,783)	(121,337,851)
Change in trade and other receivables		(53,012,454)	35,640,877	(53,012,454)	35,640,877
Change in trade and other payables		102,535,787	47,958,885	102,524,686	48,004,424
Cash generated from operations		273,687,972	278,428,982	273,948,757	279,089,379
Gratuity paid	23	(6,561,832)	(7,877,645)	(6,561,832)	(7,877,645)
Interest paid		(1,749,285)	(913,692)	(1,749,285)	(913,692)
Income tax paid	26	(40,731,361)	(101,995,487)	(40,731,361)	(101,480,986)
Net cash flows generated from operating activities		224,645,494	167,642,158	224,906,279	168,817,056
Cash flows from investing activities					
Interest received		7,274,583	5,147,651	7,274,583	5,147,651
Dividend received		-	-	-	3,160,477
Proceeds from disposal of property, plant and equipment		19,031,625	30,592,818	19,031,625	30,592,818
Acquisition of property, plant and equipment and intangible assets		(125,016,958)	(207,987,257)	(125,016,958)	(207,987,257)
Cash flows used in investing activities		(98,710,750)	(172,246,788)	(98,710,750)	(169,086,311)
Cash flows from financing activities					
Dividends paid		(95,980,000)	(95,357,056)	(95,980,000)	(95,357,056)
Lease rental paid		(15,108,079)	(6,063,600)	(15,108,079)	(6,063,600)
Cash flows used in financing activities		(111,088,079)	(101,420,656)	(111,088,079)	(101,420,656)
Net change in cash and cash equivalents		14,846,665	(106,025,286)	15,107,450	(101,689,911)
Cash and cash equivalents at the beginning	18	(54,429,249)	51,596,037	(55,381,059)	46,308,852
Cash and cash equivalents at the end		(39,582,584)	(54,429,249)	(40,273,609)	(55,381,059)

Figures in bracket indicate deductions.

The notes to the financial statements from page 40 to 74 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 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 March 2021 comprise the Company and its subsidiary (together referred to as the “Group” and individually as “Group entities”).

1.2 Subsidiary

The Company has a fully owned subsidiary, Harischandra Mills (Distributors) Limited which is incorporated on 03 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 Group 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 March 2021 are as follows:

Group	654 (2020-589)
Company	654 (2020-589)

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 Group & 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 2021 were authorized for issue in accordance with resolution of the Board of Directors on 20 August 2021.

2. Basis of Preparation

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and Company which comprise of the Statement of Profit or Loss and other Comprehensive Income, Statement of Financial Position, 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 Companies Act No. 07 of 2007.

These financial statements except for information on cash flows have been prepared following the accrual basis of accounting.

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 FVTPL 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 Group'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, unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

2.4 Use of Estimates and Judgments

The preparation of 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 3.11.1 - Provisions

Note 3.13 - Employee benefits

Note 3.15 - Capital commitments and contingencies

Coronavirus (COVID-19) Pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these Condensed Consolidated Financial Statements. The estimation uncertainty is associated with the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities.

2.5. Measurement of Fair Value

A number of the Group's and Company'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 36.2.

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.

Further information about the impact of COVID-19 is included in Note 33.

2.8 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is charged.

2.9 Comparative Information

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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

2.10. Changes in Accounting Policies and Disclosures

Several other amendments and interpretations apply for the first time in 2020/21, but do not have a material impact on the consolidated Financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and have been applied consistently by Group entities except for SLFRS 16 related policies.

3.1 Basis of Consolidation

3.1.1 Business Combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

Any gain on a bargain purchase is recognised 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 recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial

instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise,

other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3.1.2. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights 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.

3.1.3 Non-controlling interests

NCI are measured initially at their proportionate share of the acquiree's 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.

3.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.5 Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

3.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment

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

(i) Recognition and Initial Measurement

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

Receivables and debt securities issued are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

A trade receivable without a significant financing component is initially measured at the transaction value.

Financial Assets

(ii) Classification and Subsequent Measurement

On the initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; fair value through other comprehensive income (FVOCI) – equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Group's financial assets classified and measured at amortized cost are limited to related party receivables and cash & cash equivalents.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may elect to present subsequent

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company has classified its investments in unit trust as FVTPL.

The company has classified its investments in Fixed deposits at amortised cost.

a) Financial assets - Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and

whose performance is evaluated on a fair value basis are measured at FVTPL.

b) Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows
- Terms that may adjust the contractual coupon rate, including variable-rate features
- Terms that limit the Group's claim to cash flows from Specified assets (e.g. non-recourse features).

Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

(iii) Financial assets - Subsequent measurement and gains and losses

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Debt investments at FVOCI	<p>These assets are subsequently measured at fair value, Interest income calculated using effective interest method ,foreign exchange gains and losses and impairment are recognized in profit or loss .Other net gains and losses are recognized in OCI.</p> <p>On de-recognition ,gains and losses accumulated in OCI are re-classified to profit or loss.</p>
Equity investment at FVOCI	<p>These assets are subsequently measured at fair value .Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment .Other net gains and losses are recognized in OCI and are never re-classified to profit or loss.</p>

Financial Liabilities

(iv) Classification, subsequent measurement and gain and losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss.

(v) De-recognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial 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 in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control over the 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 derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial

liability based on the modified terms is recognised at fair value.

On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(vi) Offsetting

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 set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

3.4 Impairment

(a) Financial Assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, other debt securities and bank balances. Loss allowances for trade receivable is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and equity investments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default in payments
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the Statement of Financial Position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures to recovery of amounts due.

Financial Assets measured at Amortised Cost

The Group considered evidence of impairment for these assets at an individual asset level. All assets were individually assessed for impairment. An impairment loss was 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 were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

(b) Non-financial Assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

3.5 Stated capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effect.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3.8.1 Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3.8.1.1 Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

3.8.1.2 Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a

rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3.8.1.3 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the low value assets recognition exemption to leases that are considered to be low-value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3.8.1.4 Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.9 Investments in Subsidiary

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

3.10 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.

3.11 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.

3.11.1 Provisions

A provision is recognized if, as a result of a past event, the Group 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.

3.12 Cash and Cash Equivalents

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

3.13 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 Group 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 Group 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 23.3 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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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

3.14 Trade and Other Payables

Trade and other payables are stated at cost.

3.15 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.

Contingencies are possible assets or obligations that arise from past events and whose existence will be confirmed only by occurrence or non-occurrence of uncertain future events not wholly within the control of the Group

Capital commitments and contingent liabilities of the Group are disclosed in Note 28 & 29 respectively to the financial statements.

3.16 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

3.17 Revenue Recognition

Revenue from Contracts with Customers

SLFRS 15 "Revenue from Contracts with Customers" outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance found across several standards and interpretations within SLFRS. It establishes a new five-step model that will apply to revenue arising from contracts with customers.

Step 1: Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that create enforceable rights and obligations and sets out the criteria for each of those rights and obligations.

Step 2: Identify the performance obligations in the contract: A performance obligation in a contract is a promise to transfer a good or service to the customer that is distinct.

Step 3: Determine the transaction price: Transaction price is the amount of consideration to which the entity expects to be entitled to in exchange for transferring the promised goods and services to a customer, excluding amounts collected from third parties.

Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the entity will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is measured based on the consolidation specified in a contact with a customer. The Group recognises revenue when it transfers control over a good or service to a customer. Determining the timing of the transfer of control at a point in time or over time require judgment.

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

a. Sale of goods

Revenue is recognised when the control has been transferred to the customer, recovery of the consideration is probable the associated costs and possible return of goods can be estimated reliably there is no continuing management involvement of revenue can be measured reliably.

Revenue is measured net of returns trade Discounts and volume rebates the Group expects the revenue recognition to occur at appoint in time when control of the is transferred to the customer generally on delivery of the goods.

b. Dividend income

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

c. Other income

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Rental income is recognized on an accrual basis.

3.18 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 Statement of Profit or Loss in the year in which the expenditure is incurred.

ii. Finance Income and Finance Expenses

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognized as it accrues in Statement of Profit or Loss, using the effective interest method.

Finance costs comprise interest expense on borrowing and leases recognized in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements.

3.19 Income Tax Expenses

Income tax expense comprises current and deferred tax. It is recognized in Statement of Profit or Loss except to the extent that it relates to items recognized directly in equity or in Other Comprehensive Income.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted

for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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.

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 subsidiary 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. Deferred 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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 and reflects uncertainty related to income tax.

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 if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3.20 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 Group by the weighted average number of ordinary shares outstanding during the period of the Group.

3.21 Dividend Distribution

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

3.22 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.

3.23 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.

Segment information is based on the primary format representing the industry segment of the Group is in Note 34 & 35 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.

3.24 Effect of Accounting Standards Issued

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16: Interest Rate Benchmark Reform (Phase 1 and 2)
- Amendments to SLFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use: Amendments to LKAS 16
- Onerous Contracts – Costs of fulfilling a Contract – Amendments to LKAS 37
- Amendments to LKAS 1: Classification of Liabilities as Current or Non-current
- Amendments to SLFRS 16 – COVID-19 Related Rent Concessions
- Amendments to references to the conceptual framework in SLFRS standards

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

4. REVENUE

Revenue Streams

- a) The Group generates revenue primary from food, soap, fuel and lubricant segments (Note 34)

FOR THE YEAR ENDED 31 MARCH	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
Revenue Analysis				
Gross Revenue	3,531,604,786	3,686,440,071	3,531,604,786	3,686,440,071
Taxes to the government of Sri Lanka	-	(34,171,660)	-	(34,171,660)
Net revenue	3,531,604,786	3,652,268,411	3,531,604,786	3,652,268,411
Revenue from contract with customers.				
Sales of goods, net of taxes	3,531,604,786	3,652,268,411	3,531,604,786	3,652,268,411

Taxes to the government of Sri Lanka include Nation Building Tax (NBT)

- b) Disaggregation of revenue from contract with customers.

In the following table, revenue from contracts with customers is disaggregated by major products. The timing of revenue recognition is the point in time of product transferred to the customers.

FOR THE YEAR ENDED 31 MARCH	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
Major Products				
Food products	2,517,304,863	2,348,627,427	2,517,304,863	2,348,627,427
Soap products	370,515,954	327,015,354	370,515,954	327,015,354
Fuel and lubricants	643,783,969	976,625,630	643,783,969	976,625,630
	3,531,604,786	3,652,268,411	3,531,604,786	3,652,268,411

Operating segments

Segment information is presented in respect of the Group's business segments. Business segments are based on the Group's management and internal reporting structure.

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

The Group comprises the following main business segments:

- Food products

Food products segment focus on manufacturing a wide range of products including coffee, noodles, papadam and range of flour based products

- Soap products

Soap products segment includes laundry and toilet soaps.

- Fuel and Lubricants

This segment focuses on buying and selling of petrol, diesel, kerosine oil and other lubricants through operating of filling station.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

c) Contract Balances

Following table provides information about receivables, contract liabilities from contracts with customers

FOR THE YEAR ENDED 31 MARCH	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
Receivables which are included in trade and other receivables	346,483,255	307,892,920	346,483,255	307,892,920
	<u>346,483,255</u>	<u>307,892,920</u>	<u>346,483,255</u>	<u>307,892,920</u>

FOR THE YEAR ENDED 31 MARCH	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
5. OTHER INCOME				
Dividend income	-	-	-	3,160,477
Rental income	-	493,680	-	493,680
Profit on disposal of property, plant & equipment	13,471,904	29,429,730	13,471,904	29,429,730
Change in fair value of unit trusts	979,500	372,000	979,500	372,000
Staff loan interest income	2,864,442	2,458,477	2,864,442	2,458,477
Sundry income (Note 5.1)	11,793,623	10,743,178	11,793,623	10,743,178
	<u>29,109,469</u>	<u>43,497,065</u>	<u>29,109,469</u>	<u>46,657,542</u>
5.1 Sundry income				
Sale of disposable material	9,769,466	9,268,300	9,769,466	9,268,300
Sundry receipts	2,024,157	1,474,878	2,024,157	1,474,878
	<u>11,793,623</u>	<u>10,743,178</u>	<u>11,793,623</u>	<u>10,743,178</u>

6. RESULTS FROM OPERATING ACTIVITIES

Results from operating activities are stated after charging all expenses including following;

Directors' emoluments (Note 27)	46,265,976	46,685,668	46,265,976	46,685,668
Auditors' remuneration				
Audit	1,163,600	1,072,500	980,000	900,000
Audit related	427,150	400,030	415,000	355,750
Depreciation and amortization	123,953,280	106,728,320	123,953,280	106,728,320
Donations	2,961,730	6,010,267	2,961,730	6,010,267
Staff related expenses (Note 6.1)	505,422,846	465,017,484	505,422,846	465,017,484
Provision for impairment of trade receivable (Note 17.1)	32,692	1,071,865	32,692	1,071,865

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

FOR THE YEAR ENDED 31 MARCH,	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
6.1 Staff related expenses				
Salaries and wages	338,491,904	312,633,322	338,491,904	312,633,322
Defined contribution plan	48,713,325	44,704,883	48,713,325	44,704,883
Bonus	64,557,327	57,079,523	64,557,327	57,079,523
Staff welfare	32,379,764	31,609,242	32,379,764	31,609,242
Defined benefit plan - Retiring gratuity	21,280,526	18,990,514	21,280,526	18,990,514
	<u>505,422,846</u>	<u>465,017,484</u>	<u>505,422,846</u>	<u>465,017,484</u>
7. NET FINANCE INCOME				
7.1 Finance income				
Interest income on fixed deposits	22,674,087	31,419,142	22,674,087	31,419,142
Profit from translation of foreign currencies	1,723,509	1,571,297	1,723,509	1,571,297
	<u>24,397,596</u>	<u>32,990,439</u>	<u>24,397,596</u>	<u>32,990,439</u>
7.2 Finance expenses				
Interest expenses on overdraft facilities	(1,749,285)	(913,692)	(1,749,285)	(913,692)
Interest expenses on lease payable	(4,768,245)	(534,287)	(4,768,245)	(534,287)
	<u>(6,517,530)</u>	<u>(1,447,979)</u>	<u>(6,517,530)</u>	<u>(1,447,979)</u>
Net finance income	<u>17,880,066</u>	<u>31,542,460</u>	<u>17,880,066</u>	<u>31,542,460</u>
8. INCOME TAX EXPENSE				
8.1 Amounts recognized in profit or loss				
Current tax expense				
On current year profits (Note 8.3)	47,554,841	81,547,954	47,554,841	81,547,954
Adjustments in respect of prior years	(9,968,920)	10,678,886	(9,968,920)	10,678,886
Taxes on inter company dividend	-	514,500	-	-
Deferred tax expense				
Origination of temporary differences (Note 22)	(24,529,730)	1,337,698	(24,529,730)	1,337,698
Tax expense on continuing operations	<u>13,056,191</u>	<u>94,079,038</u>	<u>13,056,191</u>	<u>93,564,538</u>
8.2 Amounts recognised in other comprehensive income				
Deferred tax reversal on actuarial (loss)/ gain (Note 22)	(2,129,611)	(769,769)	(2,129,611)	(769,769)
	<u>(2,129,611)</u>	<u>(769,769)</u>	<u>(2,129,611)</u>	<u>(769,769)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

FOR THE YEARENDED 31 MARCH,	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
8.3 Tax reconciliation statement				
Profit before income tax expense	189,923,166	242,371,950	190,195,052	246,147,285
Income not liable to tax	(14,451,763)	(21,213,650)	(14,451,763)	(24,374,127)
Aggregate non deductible expenses for tax	223,743,277	212,294,990	223,743,277	212,294,990
Aggregate deductible expenses for tax	(137,608,328)	(138,904,168)	(137,880,214)	(139,519,026)
Adjusted profit	261,606,352	294,549,122	261,606,352	294,549,122
Qualifying payments	(127,635)	(3,306,603)	(127,635)	(3,306,603)
Taxable profit	261,478,717	291,242,519	261,478,717	291,242,519
Income tax at 24% (28% - 2020)	16,160,998	81,547,954	16,160,998	81,547,954
Income tax at 18%	18,963,097	-	18,963,097	-
Income tax at 14%	12,430,746	-	12,430,746	-
On current year profits	47,554,841	81,547,954	47,554,841	81,547,954
Effective tax rate	<u>25.04%</u>	<u>33.65%</u>	<u>25.00%</u>	<u>33.13%</u>
Applicable tax rates				

As per the Inland Revenue Act No. 24 of 2017 and proposed amendments to the same the Company and subsidiary are liable to pay income tax at the rate of 24%, 18% and 14% (28% - 2020).

9. 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 as per the requirement of the Sri Lanka Accounting Standards (LKAS 33) - "Earnings per Share"

Profit attributable to ordinary shareholders	176,866,975	148,292,912	177,138,861	152,582,747
Weighted average number of ordinary shares	1,919,600	1,919,600	1,919,600	1,919,600
Basic earnings per share (Rs.)	<u>92.14</u>	<u>77.25</u>	<u>92.28</u>	<u>79.49</u>

9.2 Diluted earnings per share

Diluted earnings per share is calculated by dividing profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares after adjustment for the effects of all dilutive potential ordinary shares.

At present, the Group has no dilutive potential ordinary shares as such calculation of diluted earnings per share will not apply.

10. DIVIDEND PER SHARE

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

Interim dividend	38,392,000	38,392,000	38,392,000	38,392,000
Final dividend	57,588,026	57,588,026	57,588,000	57,588,000
	<u>95,980,026</u>	<u>95,980,026</u>	<u>95,980,000</u>	<u>95,980,000</u>
Weighted average number of ordinary shares	1,919,600	1,919,600	1,919,600	1,919,600
Dividend per share (Rs.)	<u>50.00</u>	<u>50.00</u>	<u>50.00</u>	<u>50.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

11. PROPERTY, PLANT AND EQUIPMENT GROUP / COMPANY

	Freehold land	Buildings	Plant & machinery	Office factory & laboratory equipment	Motor vehicle	Furniture & fittings	Total 2021
Cost	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2019	299,062,500	110,332,420	346,263,055	60,889,122	462,636,565	31,727,257	1,310,910,919
Additions	-	-	23,341	1,343,253	-	513,905	1,880,499
Transfers from CWIP (Note 11.1)	-	9,918,721	17,024,270	15,393,094	70,290,510	2,589,077	115,215,672
Disposals	-	-	(1,856,036)	(105,166)	(43,223,137)	(57,441)	(45,241,780)
Balance as at 31 March 2020	299,062,500	120,251,141	361,454,630	77,520,303	489,703,938	34,772,798	1,382,765,310
Balance as at 01 April 2020	299,062,500	120,251,141	361,454,630	77,520,303	489,703,938	34,772,798	1,382,765,310
Additions	-	-	-	2,104,675	-	1,175,359	3,280,034
Transfers from CWIP (Note 11.1)	-	60,384,200	25,197,364	17,715,626	91,566,365	9,583,147	204,446,702
Disposals	-	-	(9,912,148)	(760,600)	(20,590,456)	(14,770)	(31,277,974)
Balance as at 31 March 2021	299,062,500	180,635,341	376,739,846	96,580,004	560,679,847	45,516,534	1,559,214,072
Accumulated depreciation							
Balance as at 01 April 2019	-	27,433,941	100,534,334	30,449,305	356,460,830	7,318,193	522,196,603
Charge for the year	-	4,476,858	22,212,317	6,379,688	55,290,084	3,448,199	94,807,146
On disposals	-	-	(773,828)	(63,889)	(43,223,137)	(17,981)	(44,078,845)
Balance as at 31 March 2020	-	31,910,799	124,972,823	36,765,094	368,527,777	10,748,411	572,924,904
Balance as at 01 April 2020	-	31,910,799	124,972,823	36,765,094	368,527,777	10,748,411	572,924,904
Charge for the year	-	5,014,909	26,071,064	7,520,853	64,747,135	3,758,938	107,112,899
On disposals	-	-	(4,410,130)	(703,001)	(20,590,456)	(14,666)	(25,718,253)
Balance as at 31 March 2021	-	36,925,708	146,633,757	43,582,946	412,684,456	14,492,683	654,319,550
Carrying amounts							
As at 31 March 2019	299,062,500	82,898,479	245,728,721	30,439,817	106,175,735	24,409,064	788,714,316
As at 31 March 2020	299,062,500	88,340,342	236,481,807	40,755,209	121,176,161	24,024,387	809,840,406
As at 31 March 2021	299,062,500	143,709,633	230,106,089	52,997,058	147,995,391	31,023,851	904,894,522

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

11. PROPERTY ,PLANT AND EQUIPMENT (CONTD.)

AS AT 31 MARCH,	GROUP / COMPANY	
	2021 Rs.	2020 Rs.
Carrying amounts as at 31 March	904,894,522	809,840,406
Capital work in progress (Note 11. 1)	28,952,571	111,662,349
Net carrying amount as at 31 March	933,847,093	921,502,755
11.1 Capital work in progress (CWIP)		
As at 01 April	111,662,349	21,505,663
Incurred during the year	121,736,924	206,059,858
Capitalized during the year		
Tangible assets	(204,446,702)	(115,215,672)
Intangible assets	-	(687,500)
As at 31 March	28,952,571	111,662,349

11.2 The cost of fully depreciated property, plant and equipment as at reporting date amounted to Rs.310,800,876/- (2020, Rs.281,486,924/-)

11.3 No property, plant & equipment pledged as security for liabilities.

11.4 Capitalisation of borrowing costs

During the year under review, the Group has not capitalised any borrowing costs.

11.5 Significant changes in the Company's or its subsidiary's fixed assets and the market value of land

There are no significant changes in the Company's or its subsidiary's fixed assets and the market value of land when compared to the book value as at 31 March 2021.

11.6 Capital work-in progress

The capital work-in progress balance represent the cost incurred by the Company on fixed assets which is still under construction at the balance sheet date.

11.7 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	160,312,500
					<u>299,062,500</u>
Buildings	11, C.A. Harischandra Mawatha, Matara.	No of buildings			Value
			23		125,142,201
	455, Bauddhaloka Mawatha, Colombo 08		02		10,272,000
	Industrial Zone Udukawa, Denipitiya		02		45,221,140
			<u>27</u>		<u>180,635,341</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

AS AT 31 MARCH,	GROUP		COMPANY	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
12. INTANGIBLE ASSETS				
Computer Software				
Cost				
As at 01 April	9,285,150	8,550,750	9,285,150	8,550,750
Additions	-	46,900	-	46,900
Transferred from CWIP	-	687,500	-	687,500
As at 31 March	<u>9,285,150</u>	<u>9,285,150</u>	<u>9,285,150</u>	<u>9,285,150</u>
Amortization				
As at 01 April	7,897,774	7,018,692	7,897,774	7,018,692
Amortization during the year	483,493	879,082	483,493	879,082
As at 31 March	<u>8,381,267</u>	<u>7,897,774</u>	<u>8,381,267</u>	<u>7,897,774</u>
Carrying values as at 31 March	<u>903,883</u>	<u>1,387,376</u>	<u>903,883</u>	<u>1,387,376</u>
13. RIGHT OF USE ASSET				
Cost				
Balance as at 01 April	17,508,819	-	17,508,819	-
Recognition of right-of-use-assets on initial				
Application of SLFRS 16	-	17,508,819	-	17,508,819
Adjusted balance as at 01 April	17,508,819	17,508,819	17,508,819	17,508,819
Additions	77,150,628	-	77,150,628	-
Balance as at 31 March	<u>94,659,447</u>	<u>17,508,819</u>	<u>94,659,447</u>	<u>17,508,819</u>
Less: Accumulated amortization				
Balance as at 01 April	11,042,092	-	11,042,092	-
Charged for the year	19,331,299	11,042,092	19,331,299	11,042,092
Balance as at 31 March	<u>30,373,391</u>	<u>11,042,092</u>	<u>30,373,391</u>	<u>11,042,092</u>
Net book value as at 31 March	<u>64,286,056</u>	<u>6,466,727</u>	<u>64,286,056</u>	<u>6,466,727</u>
			COMPANY	
			2021	2020
14. INVESTMENT IN SUBSIDIARY				
Ordinary shares			<u>70</u>	<u>70</u>
(Fully owned subsidiary)			<u>70</u>	<u>70</u>
Total number of shares 700,000				
			GROUP / COMPANY	
AS AT 31 MARCH,	2021		2020	
	No. of unit	Fair Value Rs.	No. of unit	Fair Value Rs.
15. INVESTMENT IN UNIT TRUST				
NDB Growth & Income Fund	<u>150,000</u>	<u>6,730,500</u>	<u>150,000</u>	<u>5,751,000</u>
	<u>150,000</u>	<u>6,730,500</u>	<u>150,000</u>	<u>5,751,000</u>
			GROUP / COMPANY	
AS AT 31 MARCH,	2021		2020	
	Rs.	Rs.	Rs.	Rs.
16. INVENTORIES				
Raw materials and consumables	224,647,951	206,514,898	224,647,951	206,514,898
Work in progress	67,783,730	26,946,405	67,783,730	26,946,405
Finished goods	78,347,204	61,107,735	78,347,204	61,107,735
Machinery spares	<u>29,652,443</u>	<u>22,503,507</u>	<u>29,652,443</u>	<u>22,503,507</u>
	<u>400,431,328</u>	<u>317,072,545</u>	<u>400,431,328</u>	<u>317,072,545</u>
Less:				
Provision for slow moving machinery spares (Note 16.1)	<u>(6,887,199)</u>	<u>(6,887,199)</u>	<u>(6,887,199)</u>	<u>(6,887,199)</u>
	<u>393,544,129</u>	<u>310,185,346</u>	<u>393,544,129</u>	<u>310,185,346</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

AS AT 31 MARCH,	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
16.1 Provision for slow moving machinery spares				
As at 01 April	6,887,199	6,887,199	6,887,199	6,887,199
Provision made during the year	-	-	-	-
As at 31 March	<u>6,887,199</u>	<u>6,887,199</u>	<u>6,887,199</u>	<u>6,887,199</u>

None of the inventories are pledged as security for facilities obtained by the Group or the Company from banks as at 31 March 2021

Inventories are stated at the lower of cost and net realizable value.

17. TRADE AND OTHER RECEIVABLES

Trade receivables	346,483,255	307,892,920	346,483,255	307,892,920
Provision of impairment (Note 17.1)	<u>(4,291,171)</u>	<u>(4,258,479)</u>	<u>(4,291,171)</u>	<u>(4,258,479)</u>
	342,192,084	303,634,441	342,192,084	303,634,441
Other receivables (Note 17.2)	<u>82,258,774</u>	<u>67,803,963</u>	<u>82,258,774</u>	<u>67,803,963</u>
	424,450,858	371,438,404	424,450,858	371,438,404

17.1 Provision of impairment

As at 01 April	4,258,479	3,186,614	4,258,479	3,186,614
Provision made during the year	<u>32,692</u>	<u>1,071,865</u>	<u>32,692</u>	<u>1,071,865</u>
As at 31 March	<u>4,291,171</u>	<u>4,258,479</u>	<u>4,291,171</u>	<u>4,258,479</u>

17.2 Other receivables

Loans to employees	62,881,008	58,507,391	62,881,008	58,507,391
Advances & prepayments	2,458,758	2,494,923	2,458,758	2,494,923
Trade deposits	10,840,530	2,584,122	10,840,530	2,584,122
Sundry debtors	<u>6,078,478</u>	<u>4,217,527</u>	<u>6,078,478</u>	<u>4,217,527</u>
	82,258,774	67,803,963	82,258,774	67,803,963

18. CASH & CASH EQUIVALENTS

Cash in hand	1,610,758	2,330,877	1,610,758	2,330,877
Cash at bank	28,213,282	23,150,701	27,522,257	22,198,891
Short term deposits (Note 18.1)	<u>54,693,502</u>	<u>48,629,457</u>	<u>54,693,502</u>	<u>48,629,457</u>
Cash and cash equivalents in the statement of financial position	84,517,542	74,111,035	83,826,517	73,159,225
Bank overdrafts (secured) (Note 18.2)	<u>(124,100,126)</u>	<u>(128,540,284)</u>	<u>(124,100,126)</u>	<u>(128,540,284)</u>
Cash and cash equivalents for the purpose of statement of cash flows	(39,582,584)	(54,429,249)	(40,273,609)	(55,381,059)

18.1 Short term deposits are measured at amortized costs and are expected to recovered through contractual cash flows.

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

19. STATED CAPITAL

1,919,600 Ordinary shares	<u>105,578,000</u>	<u>105,578,000</u>	<u>105,578,000</u>	<u>105,578,000</u>
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19.1 The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the shareholders meetings of the Company.

20. OTHER CAPITAL RESERVES

20.1 Other capital reserves

Reserve on script issue (Note 20.1.1)	6,999,930	6,999,930	-	-
Reserve on share issue (Note 20.1.2)	<u>11,014</u>	<u>11,014</u>	<u>11,014</u>	<u>11,014</u>
	7,010,944	7,010,944	11,014	11,014

20.1.1 Reserve on script issue in Consolidated Financial Statements has arisen on script issue of 699,993 shares of Rs.10/- each by the fully owned subsidiary, Harischandra Mills (Distributors) Limited in the year 1995/96.

20.1.2 Reserve on share issue comprise unclaimed funds of share application and allotment account transferred to capital reserves. This reserve can not be directly distributed to shareholders.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

AS AT 31 MARCH,	GROUP		COMPANY	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
21. GENERAL RESERVES				
General reserve	<u>12,841,000</u>	12,841,000	<u>12,841,000</u>	12,841,000
	<u><u>12,841,000</u></u>	<u><u>12,841,000</u></u>	<u><u>12,841,000</u></u>	<u><u>12,841,000</u></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

22. DEFERRED TAXATION

Balance at the beginning of the year	41,818,461	41,250,533	41,818,461	41,250,533
Origination/(Reversal) of temporary differences recognised in profit for the year	(24,529,730)	1,337,697	(24,529,730)	1,337,697
(Reversal)/Origination of temporary differences recognised in the statement of Other Comprehensive Income	(2,129,611)	(769,769)	(2,129,611)	(769,769)
Balance at the end of the year	<u><u>15,159,120</u></u>	<u><u>41,818,461</u></u>	<u><u>15,159,120</u></u>	<u><u>41,818,461</u></u>
22.1 Deferred tax asset	(36,524,990)	(50,116,553)	(36,524,990)	(50,116,553)
Deferred tax liability	<u>51,684,110</u>	91,935,014	<u>51,684,110</u>	91,935,014
	<u><u>15,159,120</u></u>	<u><u>41,818,461</u></u>	<u><u>15,159,120</u></u>	<u><u>41,818,461</u></u>

22.2 During the year 2020/21 new corporate tax law was enacted, including a decrease in the corporate tax from 28% to 24% and 18% for non - manufacturing and manufacturing companies respectively. The impact of this rate change is Rs.8,421,733.80/-

22.3 The deferred tax asset/liability recognised on temporary differences are as follows:

Group/Company	2021		2020	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
On property, plant and equipment	287,133,947	51,684,110	328,339,337	91,935,014
On retirement gratuity	(135,796,365)	(24,443,346)	(109,246,500)	(30,589,020)
On lease creditor	(3,120,244)	(561,644)	(595,506)	(166,743)
on other provisions	(64,000,000)	(11,520,000)	(69,145,678)	(19,360,790)
	<u><u>84,217,338</u></u>	<u><u>15,159,120</u></u>	<u><u>149,351,653</u></u>	<u><u>41,818,461</u></u>

AS AT 31 MARCH,	GROUP		COMPANY	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
23. EMPLOYEE BENEFIT OBLIGATION				
Retiring gratuity				
As at 01 April	109,246,500	95,384,457	109,246,500	95,384,457
Charge for the year (Note 23.1)	<u>33,111,697</u>	21,739,688	<u>33,111,697</u>	21,739,688
	142,358,197	117,124,145	142,358,197	117,124,145
Gratuity paid	(6,561,832)	(7,877,645)	(6,561,832)	(7,877,645)
Balance as at 31 March	<u><u>135,796,365</u></u>	<u><u>109,246,500</u></u>	<u><u>135,796,365</u></u>	<u><u>109,246,500</u></u>
23.1 Charge for the year				
Interest cost	10,924,650	10,969,213	10,924,650	10,969,213
Current service cost	10,355,876	8,021,301	10,355,876	8,021,301
Actuarial loss/(gain)	<u>11,831,171</u>	2,749,174	<u>11,831,171</u>	2,749,174
	<u><u>33,111,697</u></u>	<u><u>21,739,688</u></u>	<u><u>33,111,697</u></u>	<u><u>21,739,688</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

23. EMPLOYEE BENEFIT OBLIGATION (CONTD.)

AS AT 31 MARCH,	GROUP		COMPANY	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Amount charged to Income Statement	21,280,526	18,990,514	21,280,526	18,990,514
Amount charged to Other Comprehensive Income	11,831,171	2,749,174	11,831,171	2,749,174
	<u>33,111,697</u>	<u>21,739,688</u>	<u>33,111,697</u>	<u>21,739,688</u>

23.2 An actuarial valuation on the retiring gratuities was carried out as at 31 March 2021 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 (LKAS 19) "Employee Benefits."

23.3 Actuarial assumptions 2021 2020

a. Financial assumptions

Discount rate as at 31 March	7.6%	10%
Future salary increases	8%	8%

b. Demographic assumptions

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

23.4 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;

31 March 2021	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%	7,386,036	(8,287,421)	(7,386,036)	8,287,421
Salary increment 1%	(7,374,164)	6,694,333	7,374,164	(6,694,333)

31 March 2020	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%	5,296,554	(5,860,551)	(5,296,554)	5,860,551
Salary increment 1%	(6,324,001)	5,801,874	6,324,001	(5,801,874)

Detailed Accounting Disclosures as per LKAS 19.

All Categories

Break up of actuarial (gain) /loss on the defined benefit obligation (Rs.)	
Exproance adjustment (Financial and Demographic)	6,111,036
Deu to changes in financial assumptions	5,996,982
Deu to changes in Demographic assumptions	(276,847)
Total	11,831,171

Distribution of present Value of Defined Benefit Obligation in Future Years (Rest.)	
(Maturity Profile of Defined Benefit Obligation)-Present Value of Expected benefit Payment)	
Less than one year	33,501,539
Between 2-5 years	47,620,572
Between 6-10 years	30,270,605
Above 10years	24,403,649
Total	135,796,365

Weighted Average Duration of Defined Benefit Obligation (Years)

6.12

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

AS AT 31 MARCH,	GROUP		COMPANY	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
24. TRADE & OTHER PAYABLES				
Trade payables	189,911,053	120,018,237	189,911,053	120,018,237
Other payables (Note 24.1)	151,715,971	119,072,974	151,532,048	118,900,178
	<u>341,627,024</u>	<u>239,091,211</u>	<u>341,443,101</u>	<u>238,918,415</u>
24.1 Other payables				
Accrued expenses	31,200,430	26,217,668	31,016,533	26,044,872
VAT payable	20,464,794	17,993,424	20,464,794	17,993,424
Trade & customer deposits	6,415,955	5,393,846	6,415,955	5,393,846
Provision for bonus	64,000,000	58,000,000	64,000,000	58,000,000
Provision for market returns	19,123,452	3,650,524	19,123,452	3,650,524
Unclaimed dividend payable	3,695,581	3,271,037	3,695,581	3,271,037
Others	6,815,759	4,546,475	6,815,733	4,546,475
	<u>151,715,971</u>	<u>119,072,974</u>	<u>151,532,048</u>	<u>118,900,178</u>
25. LEASE CREDITOR				
Balance as at 1 April	595,506	-	595,506	-
Additions during the year	77,150,628	6,124,819	77,150,628	6,124,819
Interest amortised for the year	4,768,245	534,287	4,768,245	534,287
Re-payment	(15,108,079)	(6,063,600)	(15,108,079)	(6,063,600)
Balance as at 31 March	<u>67,406,300</u>	<u>595,506</u>	<u>67,406,300</u>	<u>595,506</u>
Non- Current				
Lease creditor - due after one year	11,629,180	440,479	11,629,180	440,479
Current				
Lease creditor - due within one year	55,777,120	155,027	55,777,120	155,027
	<u>67,406,300</u>	<u>595,506</u>	<u>67,406,300</u>	<u>595,506</u>
25.1 Amount recognized in statement of comprehensive income				
Lease under SLFRS 16				
Interest on lease liabilities	4,768,245	534,287	4,768,245	534,287
ROU amortisation	19,331,299	11,042,092	19,331,299	11,042,092
Amount recognized in statement of cash flows				
Total cash outflows for leases	(15,108,079)	6,063,600	(15,108,079)	6,063,600
26. CURRENT TAX LIABILITIES				
As at 01 April	4,288,529	13,542,676	6,871,951	16,126,097
Provision for the year (Note 08)	47,554,841	81,547,954	47,554,841	81,547,954
Prior year under provision (Note 08)	(9,968,920)	10,678,886	(9,968,920)	10,678,886
Tax on inter company dividend	-	514,500	-	-
	41,874,450	106,284,016	44,457,872	108,352,937
Payments during the year	(40,731,361)	(101,995,487)	(40,731,361)	(101,480,986)
As at 31 March	<u>1,143,089</u>	<u>4,288,529</u>	<u>3,726,511</u>	<u>6,871,951</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

27. 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.

The Company's related parties include key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by key management personnel or their close family members.

27.1 Parent and ultimate controlling party

In the opinion of Directors the Company does not have an identifiable parent of its own.

27.2 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.

ii) Key management personnel compensation comprised :

FOR THE YEAR ENDED 31 MARCH	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
Short term benefits	39,331,602	39,756,702	39,331,602	39,756,702
Long term benefits	6,934,374	6,928,966	6,934,374	6,928,966
Total (Note 06)	46,265,976	46,685,668	46,265,976	46,685,668

27.3 Transactions with subsidiary

Recurrent transactions

Name of the related party	Nature of transaction	2021		2020	
		Volume of transaction	Balance as at 31.03.21	Volume of transaction	Balance as at 31.03.20
Harischandra Mills (Distributors) Limited	Interest expenses	-	-	-	-
	Fund Transfers	-	-	-	-
	Dividend payment	-	-	(3,160,477)	-
	Outstanding Balances				

27.4 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.

28. CAPITAL EXPENDITURE COMMITMENTS

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

29. CONTINGENT LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

30. EVENTS OCCURRING AFTER THE REPORTING DATE

There were no material events occurring after the reporting date that require adjustment or disclosure in the financial statements, other than an interim dividend of Rs. 20.00 per share amounting to Rs. 38,392,000/- was approved on 24 May 2021 by the Board of Directors and paid on 01 June 2021.

31. COMPARATIVE INFORMATION

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

32. DIRECTORS' RESPONSIBILITY

Directors of the Company are responsible for the preparation and presentation of these financial statements.

33. CORONAVIRUS (COVID-19) PANDEMIC

The outbreak of the COVID-19 pandemic and the measures adopted by Government to mitigate the pandemic's spread and economic stability have moderately impacted the Group.

Group has evaluated the resilience of its businesses considering factors such as profitability, cash reserves, effective working capital management, strong Net Asset position and potential sources of financing facilities.

The impact of COVID-19 on the country's economy and how businesses and consumers respond is uncertain. There could be a possible increase in credit risk due to the loss of income by some of the businesses and the individuals which would delay the settlements of customer dues and some of the customers may default its settlements. Group, at each business segment level adopted a disciplined approach to optimise the collection via a rigid credit control management process.

The Group has negotiated financial liabilities with better terms and has adopted a control over the expenditure. Therefore, the Group is confident that there are no material uncertainties that may cast significant doubt on its ability to continue as going concern which arise due to the liquidity risk.

Further, the Group has evaluated all guidelines issued by the Government as well as international best practices and Harischandra Mills Group of Companies have developed health and safety guidelines to ensure suitable working arrangements and safe conditions for employees, customers and other stakeholders.

While there is uncertainty over the extent of the impact and longevity of the COVID-19 outbreak, the Group has so far coped well with the challenges and are confident that through our operating model and financial strength we are well placed. Nevertheless, Group envisages that no impact on the Group business continuity and expect to manage supply chain challenges effectively to provide continuous resource requirements for production as well as to full fill the consumer demand to continue for a foreseeable future."

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

34. SEGMENTAL INFORMATION

GROUP

Information based on the primary segments

	Food Products		Fuel and Lubricant		Soap		Total
	2021	2020	2021	2020	2021	2020	
For the year ended 31 March	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue:							
Total sales	<u>2,517,304,863</u>	<u>2,348,627,427</u>	<u>643,783,969</u>	<u>976,625,630</u>	<u>370,515,954</u>	<u>327,015,354</u>	<u>3,531,604,786</u>
Operating profit:							
Segment operating profit before depreciation	253,982,431	257,080,314	1,859,789	11,752,665	14,019,102	5,227,766	274,060,745
Depreciation and amortization	<u>(110,237,875)</u>	<u>(93,290,195)</u>	<u>(464,172)</u>	<u>(448,697)</u>	<u>(16,225,644)</u>	<u>(12,989,428)</u>	<u>(106,728,320)</u>
Segment operating profit	<u>143,744,556</u>	<u>163,790,119</u>	<u>1,395,617</u>	<u>11,303,968</u>	<u>(2,206,542)</u>	<u>(7,761,662)</u>	<u>167,332,425</u>
Other operating income					29,109,469		43,497,065
Net finance income					<u>17,880,066</u>		<u>31,542,460</u>
Profit before income tax expense					<u>189,923,166</u>		<u>242,371,950</u>
Income tax expense					<u>(13,056,191)</u>		<u>(94,079,038)</u>
Profit after income tax					<u>176,866,975</u>		<u>148,292,912</u>
Assets:							
Operating assets	<u>1,481,703,556</u>	<u>1,193,710,385</u>	<u>378,935,825</u>	<u>496,378,500</u>	<u>218,088,327</u>	<u>166,208,408</u>	<u>2,078,727,708</u>
Cash & cash equivalents					<u>84,517,542</u>		<u>74,111,035</u>
Total assets					<u>2,163,245,250</u>		<u>1,930,408,328</u>
Liabilities:							
Operating liabilities	<u>476,808,811</u>	<u>307,044,072</u>	<u>121,940,680</u>	<u>127,677,598</u>	<u>70,180,324</u>	<u>42,751,831</u>	<u>668,929,815</u>
Deferred tax liabilities							<u>15,159,120</u>
Income tax payable					<u>1,143,089</u>		<u>4,288,529</u>
Total liabilities					<u>685,232,024</u>		<u>523,580,491</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

35. SEGMENTAL INFORMATION

COMPANY

Information based on the primary segments

For the year ended 31 March

	Food Products		Fuel and Lubricant		Soap		Total
	2021	2020	2021	2020	2021	2020	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue:							
Total sales	2,517,304,863	2,348,627,427	643,783,969	976,625,630	370,515,954	327,015,354	3,531,604,786
Operating profit:							
Segment operating profit before depreciation	254,219,561	257,620,024	1,859,789	11,752,665	14,053,858	5,302,914	274,675,603
Depreciation and amortization	(110,237,875)	(93,290,195)	(464,172)	(448,697)	(16,225,644)	(12,989,428)	(106,728,320)
Segment operating profit	143,981,686	164,329,829	1,395,617	11,303,968	(2,171,786)	(7,686,514)	167,947,283
Other operating income					29,109,469		46,657,542
Net finance income					17,880,066		31,542,460
Profit before income tax expense					190,195,052		246,147,285
Income tax expense					(13,056,191)		(93,564,538)
Profit after income tax					177,138,861		152,582,747
Assets:							
Operating assets	1,481,703,605	1,193,710,431	378,935,838	496,378,518	218,088,335	166,208,414	2,078,727,778
Cash & cash equivalents							83,826,517
Total assets							2,162,554,295
							1,929,456,588
Liabilities:							
Operating liabilities	476,677,711	306,932,953	121,907,153	127,631,392	70,161,028	42,736,360	477,300,705
Deferred tax liabilities							15,159,120
Income tax payable							3,726,511
Total liabilities							687,631,523
							525,991,117

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

36. FINANCIAL INSTRUMENTS - FAIR VALUE AND RISK MANAGEMENT

36.1 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
- C. Market risk
- d. Operational risk

36.1.1 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.

This Note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

36.1.2 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's receivable from customers.

36.1.2.1 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	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Cash at bank	28,213,282	23,150,701	27,522,257	22,198,891
Trade and other receivables	421,992,100	368,943,481	421,992,100	368,943,481
Short term deposits	54,693,502	48,629,457	54,693,502	48,629,457
Investment in unit trust	6,730,500	5,751,000	6,730,500	5,751,000
Investments in fixed deposit	254,965,189	239,565,685	254,965,189	239,565,685
	<u>766,594,573</u>	<u>686,040,324</u>	<u>765,903,548</u>	<u>685,088,514</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	349,815,653	269,448,051	349,815,653	269,448,051
61 - 180 days	39,330,632	60,516,422	39,330,632	60,516,422
Above 181 days	32,845,815	38,979,008	32,845,815	38,979,008
	<u>421,992,100</u>	<u>368,943,481</u>	<u>421,992,100</u>	<u>368,943,481</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

To minimize the credit risk from customers, the 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.

Impairment Losses

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The aging of trade receivables at the reporting date was as follows:

AS AT 31 MARCH,	GROUP / COMPANY			
	2021		2020	
	Gross Balance Rs.	Impairment Rs.	Gross Balance Rs.	Impairment Rs.
Past due 0-30 days	270,595,216	-	202,615,539	-
Past due 31-90 days	71,877,143	-	90,045,408	-
Past due 91-180 days	777,891	-	8,874,861	-
Past due 181-270 days	1,150,139	-	892,568	-
Past due 271-365 days	545,435	-	1,002,547	-
More than one year	1,537,431	4,291,171	4,461,997	4,258,479
Total	<u>346,483,255</u>	<u>4,291,171</u>	<u>307,892,920</u>	<u>4,258,479</u>

(b) Cash and Cash Equivalents

The Group held cash and cash equivalents of Rs.85 million as at 31 March 2021 (2020: Rs. 74 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) Investment in Unit Trust

Investment in unit trust is made in units managed by NDB wealth management Ltd.

(d) Investment in Fixed deposits

Investment in fixed deposits represents fixed deposits placed at various licenced commercial banks.

36.1.3 Expected credit losses

With the adoption of SLFRS 9 - Financial Instruments, the Company manages credit quality using a three stage approach which inline with the new standard requirements as well.

Stage one : 12 month expected credit losses (ECL)

Stage two : Lifetime expected credit losses (ECL) - not credit impaired

Stage three : Lifetime expected credit losses (ECL) - credit impaired

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Table below shows the classification of assts and liabilities based on the above mentioned three stage model:

Group

As at 31 March 2021

		12-month ECL Rs.	Life Time ECL – Not Credit Impaired Rs.	Life Time ECL – Credit Impaired Rs.	Total Rs.
Cash and cash equivalents	Note 18	82,906,784	-	-	82,906,784
Trade and other receivables	Note 17	424,450,858	-	-	424,450,858
Investment in fixed deposits		254,965,189	-	-	254,965,189
Investment of unit trust		6,730,500	-	-	6,730,500
Total assets		<u>769,053,331</u>	<u>-</u>	<u>-</u>	<u>769,053,331</u>

Company

As at 31 March 2021

		12-month ECL Rs.	Life Time ECL – Not Credit Impaired Rs.	Life Time ECL – Credit Impaired Rs.	Total Rs.
Cash and cash equivalents	Note 18	82,215,759	-	-	82,215,759
Trade and other receivables	Note 17	424,450,858	-	-	424,450,858
Investment in fixed deposits		254,965,189	-	-	254,965,189
Investment of unit trust		6,730,500	-	-	6,730,500
Total assets		<u>768,362,306</u>	<u>-</u>	<u>-</u>	<u>768,362,306</u>

Group

As at 31 March 2020

		12-month ECL Rs.	Life Time ECL – Not Credit Impaired Rs.	Life Time ECL – Credit Impaired Rs.	Total Rs.
Cash and cash equivalents	Note 18	71,780,158	-	-	71,780,158
Trade and other receivables	Note 17	371,438,404	-	-	371,438,404
Investment in fixed deposits		239,565,685	-	-	239,565,685
Investment of unit trust		5,751,000	-	-	5,751,000
Total assets		<u>688,535,247</u>	<u>-</u>	<u>-</u>	<u>688,535,247</u>

Company

As at 31 March 2020

		12-month ECL Rs.	Life Time ECL – Not Credit Impaired Rs.	Life Time ECL – Credit Impaired Rs.	Total Rs.
Cash and cash equivalents	Note 18	70,828,348	-	-	70,828,348
Trade and other receivables	Note 17	371,438,404	-	-	371,438,404
Investment in fixed deposits		239,565,685	-	-	239,565,685
Investment of unit trust		5,751,000	-	-	5,751,000
Total assets		<u>687,583,437</u>	<u>-</u>	<u>-</u>	<u>687,583,437</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

36.1.4 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 2021

The Maturity Analysis of Liabilities

Group	Carrying amount	Contractual cash flows	Contractual cash flows			
			6 month or less	6-12 month	2-5 years	more than 5 years
LIABILITIES						
Bank overdraft	124,100,126	124,100,126	124,100,126	-	-	-
Trade and other payables	258,503,572	258,503,572	258,503,572	-	-	-
Lease creditor	83,962,907	83,962,907	8,784,000	9,071,999	66,106,908	-
Total liabilities	<u>466,566,605</u>	<u>466,566,605</u>	<u>391,387,698</u>	<u>9,071,999</u>	<u>66,106,908</u>	<u>-</u>

As at 31st March 2020

The Maturity Analysis of Liabilities

Group	Carrying amount	Contractual cash flows	Contractual cash flows			
			6 month or less	6-12 month	2-5 years	more than 5 years
LIABILITIES						
Bank overdraft	128,540,284	128,540,284	128,540,284	-	-	-
Trade and other payables	177,440,687	177,440,687	177,440,687	-	-	-
Lease creditor	696,804	696,804	103,800	103,802	489,202	-
Total liabilities	<u>306,677,775</u>	<u>306,677,775</u>	<u>306,084,771</u>	<u>103,802</u>	<u>489,202</u>	<u>-</u>

As at 31 March 2021

The Maturity Analysis of Liabilities

Company	Carrying amount	Contractual cash flows	Contractual cash flows			
			6 month or amount	6-12 month less	2-5 years	more than 5 years
LIABILITIES						
Bank overdraft	124,100,126	124,100,126	124,100,126	-	-	-
Trade and other payables	258,319,649	258,319,649	258,319,649	-	-	-
Lease creditor	83,962,907	83,962,907	8,784,000	9,071,999	66,106,908	-
Total liabilities	<u>466,382,682</u>	<u>466,382,682</u>	<u>391,203,775</u>	<u>9,071,999</u>	<u>66,106,908</u>	<u>-</u>

As at 31 March 2020

The Maturity Analysis of Liabilities

Company	Carrying amount	Contractual cash flows	Contractual cash flows			
			6 month or amount	6-12 month less	2-5 years	more than 5 years
LIABILITIES						
Bank overdraft	128,540,284	128,540,284	128,540,284	-	-	-
Trade and other payables	177,267,891	177,267,891	177,267,891	-	-	-
Lease creditor	696,804	696,804	103,800	103,802	489,202	-
Total liabilities	<u>306,504,979</u>	<u>306,504,979</u>	<u>305,911,975</u>	<u>103,802</u>	<u>489,202</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

36.1.5 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. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

36.1.5.1 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.

36.1.5.2 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.

36.1.6 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

36.2 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, trade and other payable and bank overdraft.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Group

As at 31 March 2021

	FVTPL	Amortized	Other	Total	Fair value	Fair value		
	investments	cost	financial	carrying		hierarchy		
	Rs.	Rs.	liabilities	amount	Rs.	1	2	3
			Rs.	Rs.				
Cash and cash equivalents	-	84,517,542	-	84,517,542	-	-	-	-
Trade and other receivables	-	421,992,100	-	421,992,100	-	-	-	-
Investments in unit trust	6,730,500	-	-	6,730,500	6,730,500	-	6,730,500	-
Investments in fixed deposit	-	254,965,189	-	254,965,189	-	-	-	-
Trade and other payables	-	-	(258,503,572)	(258,503,572)	-	-	-	-
Overdraft	-	-	(124,100,126)	(124,100,126)	-	-	-	-
	6,730,500	761,474,831	(382,603,698)	385,601,633	6,730,500		-6,730,500	

Company

As at 31 March 2021

	FVTPL	Amortized	Other	Total	Fair value	Fair value		
	investments	cost	financial	carrying		hierarchy		
	Rs.	Rs.	liabilities	amount	Rs.	1	2	3
			Rs.	Rs.				
Cash and cash equivalents	-	83,826,517	-	83,826,517	-	-	-	-
Trade and other receivables	-	421,992,100	-	421,992,100	-	-	-	-
Investments in unit trust	6,730,500	-	-	6,730,500	6,730,500	-	6,730,500	-
Investments in fixed deposit	-	254,965,189	-	254,965,189	-	-	-	-
Trade and other payables	-	-	(258,319,649)	(258,319,649)	-	-	-	-
Overdraft	-	-	(124,100,126)	(124,100,126)	-	-	-	-
	6,730,500	760,783,806	(382,419,775)	385,094,531	6,730,500		-6,730,500	

Group

As at 31 March 2020

	FVTPL	Amortized	Other	Total	Fair value	Fair value		
	investments	cost	financial	carrying		hierarchy		
	Rs.	Rs.	liabilities	amount	Rs.	1	2	3
			Rs.	Rs.				
Cash and cash equivalents	-	74,111,035	-	74,111,035	-	-	-	-
Trade and other receivables	-	368,943,481	-	368,943,481	-	-	-	-
Investment in unit trust	5,751,000	-	-	5,751,000	5,751,000	-	5,751,000	-
Investments in fixed deposit	-	239,565,685	-	239,565,685	-	-	-	-
Trade and other payables	-	-	(177,440,687)	(177,440,687)	-	-	-	-
Overdraft	-	-	(128,540,284)	(128,540,284)	-	-	-	-
	5,751,000	682,620,201	(305,980,971)	382,390,230	5,751,000		-5,751,000	

Company

As at 31 March 2020

	FVTPL	Amortized	Other	Total	Fair value	Fair value		
	investments	cost	financial	carrying		hierarchy		
	Rs.	Rs.	liabilities	amount	Rs.	1	2	3
			Rs.	Rs.				
Cash and cash equivalents	-	73,159,225	-	73,159,225	-	-	-	-
Trade and other receivables	-	368,943,481	-	368,943,481	-	-	-	-
Investment in unit trust	5,751,000	-	-	5,751,000	5,751,000	-	5,751,000	-
Investments in fixed deposit	-	239,565,685	-	239,565,685	-	-	-	-
Trade and other payables	-	-	(177,267,891)	(177,267,891)	-	-	-	-
Overdraft	-	-	(128,540,284)	(128,540,284)	-	-	-	-
	5,751,000	681,668,391	(305,808,175)	381,611,216	5,751,000		-5,751,000	

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 unit prices as at year end Rs. 44.87 (2021) Rs. 38.34 (2020)	Based on unit prices	The estimated fair value would increase (decrease) if: the unit prices were higher (lower)

36.3 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.

ASAT 31 MARCH,	GROUP		COMPANY	
	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.
Total Liabilities	621,232,024	465,580,491	623,631,523	467,991,117
Less: Cash and cash equivalents	(84,517,542)	(74,111,035)	(83,826,517)	(73,159,225)
Adjusted net debt	536,714,482	391,469,456	539,805,006	394,831,892
Total equity	1,478,013,226	1,406,827,837	1,474,922,772	1,403,465,471
Net debt to equity ratio	0.36	0.28	0.37	0.28

There were no changes in the Company's approach to capital management during the year and the company is not subject to externally imposed capital requirements.

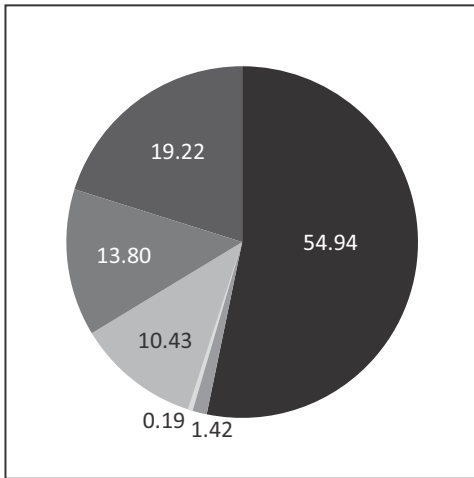
STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 MARCH,

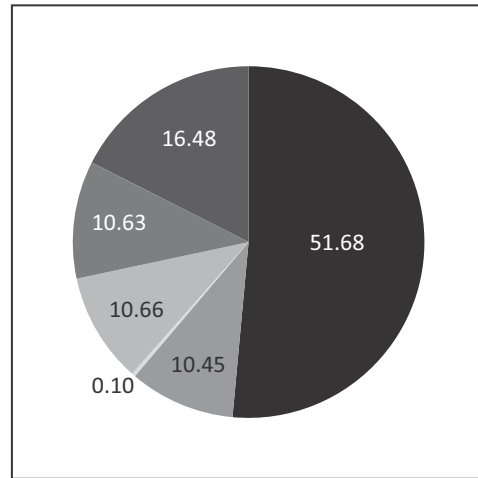
	2021	2020
	Rs.000	Rs.000
Turnover	3,531,605	3,652,268
Other Income	<u>53,507</u>	<u>76,488</u>
	3,585,112	3,728,756
Cost of Goods & Services bought in	(2,665,109)	(2,828,787)
Value Added	<u><u>920,003</u></u>	<u><u>899,969</u></u>

Distribution as follows	%	Rs.000	%	Rs.000
To Employees	54.94	505,423	51.68	465,017
To Government	1.42	13,056	10.45	94,079
To Lenders	0.19	1,749	0.10	914
To Shareholders	10.43	95,980	10.66	95,980
Retained in Business				
Depreciation	13.80	126,928	10.63	95,686
Profit Retained	19.22	176,867	16.48	148,293
	<u>100.00</u>	<u>920,003</u>	<u>100.00</u>	<u>899,969</u>

2021



2020



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

TEN YEARS STATISTICAL SUMMARY

Reported as per	SLFRS/LKAS									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	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
Results										
Group turnover	2,245,167	2,577,927	2,599,069	2,720,160	2,826,223	3,003,824	3,131,674	3,626,418	3,652,268	3,531,605
Profit before tax	150,554	138,773	172,727	219,644	218,034	179,075	204,478	247,644	242,372	189,923
Taxation	(49,572)	(42,338)	(55,409)	(69,886)	(76,646)	(53,930)	(81,635)	(74,848)	(94,079)	(13,056)
Profit after tax	100,982	96,435	117,318	149,758	141,388	125,145	122,843	172,796	148,293	176,867
Funds Employed										
Stated Capital	9,598	9,598	9,598	9,598	9,598	9,598	105,578	105,578	105,578	105,578
Capital reserves	30,849	32,643	19,852	19,852	19,852	19,852	19,852	7,011	7,011	7,011
Revenue reserves	850,872	908,915	1,000,021	1,084,325	1,147,187	1,199,258	1,141,830	1,243,608	1,294,239	1,365,424
Shareholders' funds	891,319	951,156	1,029,471	1,113,775	1,176,637	1,228,708	1,267,260	1,356,197	1,406,828	1,478,013
Assets Employed										
Non current assets	539,604	579,502	652,533	680,855	786,226	817,348	829,444	811,752	929,357	999,037
Current assets	596,997	641,114	697,172	780,909	723,606	783,556	869,128	913,962	1,001,051	1,164,208
Current liabilities	(184,499)	(200,413)	(240,976)	(251,841)	(227,679)	(260,725)	(292,908)	(232,882)	(372,075)	(478,499)
Provisions	(60,783)	(69,047)	(79,258)	(96,148)	(105,516)	(111,471)	(138,404)	(136,635)	(151,505)	(206,733)
Capital employed	891,319	951,156	1,029,471	1,113,775	1,176,637	1,228,708	1,267,260	1,356,197	1,406,828	1,478,013
Cash Flow										
Net cash inflow/(outflow)from operating activities	75,457	89,915	129,424	236,717	147,562	117,719	224,296	167,953	167,642	301,796
Net cash inflow/(outflow)from investing activities	(44,958)	(48,244)	(108,877)	(29,988)	(154,718)	(67,707)	(74,322)	(132,917)	(172,247)	(175,861)
Net cash inflow/(outflow)from financing activities	(28,794)	(38,392)	(43,191)	(62,387)	(76,784)	(81,584)	(80,133)	(86,383)	(101,420)	(111,088)
Increase/(decrease)in cash and cash equivalents	1,705	3,279	(22,644)	144,342	(83,940)	(31,572)	69,841	(51,347)	(106,025)	14,847
Key Indicators										
Earnings per share	106.25	100.47	122.23	156.03	147.31	130.38	63.99	90.02	77.25	92.14
Net assets per share	928.65	990.99	1,072.59	1,160.42	1,225.92	1,280.17	660.17	706.50	732.88	769.96
Market price per share	2,199.00	2,488.00	2,200.00	2,348.90	2,700.70	2,799.90	1,351.10	1,388.90	1,687.20	4,048.25
Return on equity	11.44	10.14	11.40	13.44	12.02	10.19	9.69	12.74	10.54	11.97
Price earning ratio	20.69	24.76	18.00	15.05	18.33	21.47	21.11	15.43	21.84	43.94
Dividend per share	30.00	40.00	45.00	65.00	80.00	85.00	42.00	45.00	50.00	50.00

**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 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 31 March

Range of Shareholdings	No. of Shareholders	2021								
		Residents			Non-Residents			Total		
		No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	
1 1,000	472	41,331	2.15	5	654	0.03	477	41,985	2.19	
1,001 5,000	22	46,604	2.43	1	4,494	0.23	23	51,098	2.66	
5,001 10,000	-	-	-	-	-	-	-	-	-	
10,001 50,000	5	141,538	7.37	1	15,220	0.80	6	156,758	8.17	
50,001 100,000	1	76,670	3.99	-	-	-	1	76,670	3.99	
100,001 500,000	5	1,593,089	83.00	-	-	-	5	1,593,089	82.99	
500,001 1,000,000	-	-	-	-	-	-	-	-	-	
Over 1,000,000	-	-	-	-	-	-	-	-	-	
Total	505	1,899,232	98.94	7	20,368	1.06	512	1,919,600	100.00	

2.2 Classification of Shareholders

As at 31 March

	No. of Shareholders	2021		No. of Shareholders	2020	
		Total Holdings	Percentage %		Total Holding	Percentage %
Directors	4	353,790	18.43	4	353,790	18.43
Institutional investors	20	759,133	39.55	19	750,629	39.10
Employees	15	1,298	0.07	14	1,250	0.07
Others	473	805,379	41.95	480	813,931	42.40
	512	1,919,600	100.00	517	1,919,600	100.00

2.3 Twenty largest shareholders of the company

Shareholder's name	No. of Shares	%	No. of Shares	%
01. Seylan Bank PLC / Senthilverl T.	489,542	25.50	480,858	25.05
02. De Silva U.	286,936	14.95	286,936	14.95
03. Rodrigo C. P.	278,920	14.53	278,920	14.53
04. Samarasinghe R. K	270,120	14.07	270,120	14.07
05. Sampath Bank PLC / Senthilverl T.	267,571	13.94	267,571	13.94
06. Samarasinghe S. N.	76,670	3.99	76,670	3.99
07. Rodrigo N.	30,736	1.60	30,736	1.60
08. Rodrigo S. A.	30,736	1.60	30,736	1.60
09. Ekanayake D. H. C.	28,292	1.47	28,292	1.47
10. Selvaraj A. G. I.	27,014	1.41	27,014	1.41
11. Wijayanandana H. D.	24,760	1.29	24,760	1.29
12. Woodward H. W. M.	15,220	0.79	15,220	0.79
13. De Silva M. P.	5,000	0.26	5,000	0.26
14. Sigamoney C.	4,494	0.23	4,494	0.23
15. Wijayawardhane C. J.	4,058	0.21	3,788	0.20
16. Jayantha D.	3,800	0.20	3,800	0.20
17. Thirugnanasambandar Senthilverl	3,482	0.18	3,752	0.20
18. Abeysekara S.	2,800	0.15	2,800	0.15
19. Jayasingha D.A.	2,720	0.14	2,720	0.14
20. Estate of Mohommed Rafeek	2,668	0.14	2,668	0.14

INVESTOR INFORMATION (CONTD.)

FOR THE YEAR ENDED 31 MARCH	2021	2020
03. Details of share transactions during the year		
No. of transactions	652	294
No. of share traded	11,380	485,364
Value of transactions (Rs.)	43,464,709	762,170,833
04. The transacted value of an ordinary share		
	Rs.	Rs.
Highest Price	4,830.00	1800.00
Lowest Price	1,275.00	1411.00
Last Traded Price	4,048.25	1687.20
05. Dividend		
Interim	38,392,000	38,392,000
Final	57,588,026	57,588,026
	<u>95,980,026</u>	<u>95,980,026</u>
06. Earning		
Earnings per share (Rs.)		
Basic	92.14	77.25
Diluted	92.14	77.25
Price earning ratio	43.94	21.84
07. Divided per share (Rs.)	50.00	50.00
08. Divided cover (Times)	1.84	1.55
09. Dividend Yield (%)	1.24	2.96
10. Dividend Payout (%)	54.27	64.72
As At 31 March	2021	2020
11. Public Holding		
No. of shares	808,697	817,381
Percentage	42.13%	42.58%
No. of public shareholders	506	517
The Company had float adjusted market capitalization of Rs.3,273,931,021 and company qualifies under option one of the minimum public holding requirement for the Diri Savi Board of the CSE.		
12. Net Asset per share (Rs.)	769.96	732.88
13. Current asset ratio	2.43:1	2.69:1
14. Quick asset ratio	1.61:1	1.86:1
15. Equity to total asset ratio (%)	68.32	72.88

FORM OF PROXY

I/We :
of

being a Shareholder / Shareholders of HARISCHANDRA MILLS PLC do hereby appoint

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

..... (holder of National Identity Card No. :) of
..... as my /our Proxy to attend and vote at the 69th Annual General Meeting of the
Company to be held online, via virtual platform on Saturday, 25th September 2021 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 30/- per share as recommended by the directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. to re-elect as a Director, Mr. S. N. Samarasinghe a director, who retires in terms of Article 98 of the articles of association.	<input type="checkbox"/>	<input type="checkbox"/>
4. to re-appoint M/s KPMG, Chartered Accountants, as the auditors of the Company and authorize the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. 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.	<input type="checkbox"/>	<input type="checkbox"/>

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

Signed this day of2021

.....
Signature/s


INSTRUCTIONS AS TO COMPLETION

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

HARISCHANDRA MILLS PLC

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

 041 2224701-8

 041 2222003

 info@harischandramills.com

 www.harischandramills.com