

# ANNUAL REPORT |

2019  
2020



First Capital

FIRST CAPITAL TREASURIES PLC

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## FINANCIAL HIGHLIGHTS

For the year ended 31 March

	2020	2019	Variance
<b>Income Statement (Rs'000)</b>			
Income	3,708,401	2,671,869	1,036,532
Net Trading Income before Expenses	2,015,440	269,126	1,746,314
Profit after Tax	1,207,577	95,807	1,111,770
Total Comprehensive Income	1,206,333	93,603	1,112,730

### Selected Return Ratios (Percentage)

Return on Equity	34.69%	3.01%	31.68%
Return on Total Assets	3.46%	0.33%	3.13%

### Financial Position (Rs'000)

Total Assets	37,382,601	32,322,947	5,059,654
Total Shareholders' Funds	3,737,403	3,224,883	512,520
Stated Capital	256,500	256,500	-
Funds Employed (Equity/Debt)	36,678,518	32,216,775	4,461,743

### Selected Ratios (Time/ Percentage)

Leverage Ratio (Debt to Equity)	8.81	8.99	(0.18)
Interest Cover	1.86	1.06	0.80
Capital Adequacy Ratio	27.20%	15.69%	11.51%

### Shares related information

Earnings per Share (Rs.)	78.47	6.23	72.24
Dividend per Share (Rs.)	51.50	-	51.50
Net Assets per Share (Rs.)	242.85	209.54	33.31
Dividend Payout Ratio (Percentage)	65.63%	-	65.63%
Number of Shares issued	15,390,000	15,390,000	-

## CHAIRMAN'S STATEMENT

Dear Shareholder,

On behalf of the Board of Directors, it gives me great pleasure to present to you the Annual Report and Financial Statements of First Capital Treasuries PLC (FCT) for the year ended 31 March 2020.

FCT's performance for 2019/20 was outstanding, with the Company achieving many significant milestones during the year under review. With the Company's performance at peak levels throughout the year, Net Trading Income grew to Rs. 1.65Bn in 2019/20 from Rs. 337Mn a year ago, while Net Profit after Tax increased to Rs. 1.2Bn in 2019/20 compared to Rs. 96Mn in the previous financial year.

FCT declared and paid a total of Rs. 51.50 per share in dividend for 2019/20. This consisted of the 1<sup>st</sup> interim dividend of Rs. 16.50 per share paid in July 2019 and a 2<sup>nd</sup> interim dividend of Rs. 35.00 per share paid in May 2020. Total dividend payout for the year was Rs. 793Mn.

FCT's [SL]A- credit rating was reaffirmed by ICRA Lanka Limited.

FCT's capital base of Rs. 3.5Bn (Tier I) as at 31 March 2020, is well above the regulatory requirement of Rs. 1Bn. Moreover, FCT is already within the CBSL's proposed new capital plan which requires standalone primary dealers to maintain a capital base of Rs. 3Bn by 2022.

### Strengthening Risk and Governance

To ensure that the Company is able to make clear and demonstrable progress from one business cycle to the next, regardless of externalities, the Board and I, dedicated a considerable amount of time in the current year, to review and further strengthen FCT's core fundamentals. Our main focus was on the areas of risk and governance.

While fine-tuning our risk management strategies to improve its effectiveness in identifying and controlling the multiple risks faced by the Company, we worked to integrate the concept of risk-based decision making into the day-to-day operations at all levels of the organisation.

We also took some definite action to further enhance our corporate culture by creating an environment that recognises and rewards good governance, exemplary standards of ethics, integrity and respect.

### Future Outlook

Moving forward, our main aim is to safeguard FCT's position as one of the top-three standalone primary dealers in the Country. In doing so we will adopt a broad-based approach to underpin our growth ambitions for the future. While it is likely that we will stay aligned to our proven strategies to target consistent earnings growth over the medium to long term, we remain open to pursuing potential opportunities to complement our financial results. Meanwhile, as our industry becomes increasingly regulated, FCT will seek to lead by example as an early adopter of regulations, clarifying its leadership position among peers and safeguarding its franchise within the industry.

At a broader level, I am very pleased to see the action by the authorities to improve regulatory frameworks for primary dealers. In particular, I believe the directive issued by the CBSL in December 2019 to standardise the Market Practices for Repurchase and Reverse Repurchase Transactions in Government Securities, will not only strengthen the market practices relating to such transactions but also greatly enhance the tradability of government securities over time.

## Chairman's Statement Contd.

### Appreciations

In conclusion, I wish to thank to my fellow Directors on the Board for their guidance and counsel that has been instrumental to the Company's success over the years. A special word of thanks to Mr. Dilshan Wirasekara, FCT's Director/CEO and his team for their support and dedication. I firmly believe that it is through their commitment, passion and skill that the Company has been able to deliver outstanding results in 2019/20.

I take this opportunity to express my sincere appreciation to the officials of the Central Bank of Sri Lanka, for their valuable guidance and support throughout the year.

On behalf of the Board, I would like to thank our shareholders and clients for their patronage.

(Sgd.)  
**Nishan Fernando**  
Chairman

## DIRECTOR/ CHIEF EXECUTIVE OFFICER'S REVIEW

While the year ending 31 March 2020 seemingly was a challenging time for the Sri Lanka, it was a period of heightened activity which led to First Capital Treasuries PLC (FCT) achieving success on many fronts.

### Operating Environment

Standalone Primary Dealers (PD's) continued to maintain a satisfactory level of participation in primary market auctions in 2019, while reporting a strong improvement in secondary market activity throughout the year as evinced by the notable increase in the volume of transactions in government securities. Secondary market transactions in government securities by standalone PD's increased by 7.7% to Rs. 8,108.4Bn in 2019. It is also noteworthy that Repo transactions accounted for nearly 80% of the total volume of the secondary market transactions carried out by the standalone PD cluster in 2019.

Higher volumes coupled with the steady decline in benchmark treasury bill yields throughout 2019, led to a significant increase in trading gains and revaluations gains, enabling the standalone PD cluster to record an impressive Rs. 3.8Bn in profits after tax for 2019, compared to Rs. 0.2Bn in the previous year. Driven by higher profits, the Return on Assets (ROA) and Return on Equity (ROE) of the standalone PD cluster also increased significantly to 6.0% and 28.5%, respectively by end 2019 from negative 0.02% and 2.0% respectively recorded in 2018.

Reflecting a marginal increase in the market risk exposure of the industry, the ratio of trading portfolio to the total investment portfolio of the standalone PD cluster increased to 82.9% by end 2019 compared to 81.9% at end 2018. Meanwhile, the overall liquidity risk exposure of standalone PD's declined due to the decrease in over-night negative mismatch in the maturity profile of assets and liabilities of the industry by end 2019.

### Key Operational Highlights

FCT continued to actively participate in both primary and secondary markets, enabling the Company to safeguard its position as the leading standalone PD in the primary auctions, and within the top three participants in the secondary market during the year under review. I am pleased to note that FCT's operations were not significantly impacted by the COVID-19 lockdown order that came into effect in March 2020. As a primary dealer classified under the essential services category, FCT was open for a period of 8 hours on all working days throughout the COVID-19 lockdown period.

Backed by its robust participation in both primary and secondary markets, FCT showed record-breaking financial results for the year under review. The Company's Net Trading Income (NTI) reached an all-time high of Rs. 1.65Bn, while Profit after Tax rose to Rs. 1.2Bn in 2019/20 from Rs. 96Mn in the previous financial year.

The Company was able to boost its capital base to Rs. 3.5Bn (Tier I) as at 31 March 2020, well above the current regulatory requirement of Rs. 1Bn. FCT's Capital Adequacy Ratio increased from 15.7% in the previous year to 27.2% by end March 2020. Moreover, FCT already complies with the CBSL's proposed new capital plan which requires standalone primary dealers to maintain a minimum capital base of Rs. 3Bn by 2022.

Given the Company's solid performance on all fronts, I am pleased to announce that FCT's [SL] A- (Stable) credit rating was reaffirmed for the 5<sup>th</sup> consecutive year, by ICRA Lanka Limited.

## Director/ Chief Executive Officer's Review Contd.

### Risk Management and Control

Our risk appetite remains at the heart of FCT's approach to risk management. It expresses the desired or target level of risk that the Company is prepared to accept in the pursuit of its objectives.

While FCT's overall risk profile remained stable throughout the year, we continued with efforts to further strengthen the Company's overall risk culture and the internal control environment, particularly in light of recent macroeconomic and regulatory developments.

### Future Outlook

While it is difficult to predict how the economic environment will change over the coming months, I remain fairly certain that the CBSL will continue with its accommodative monetary policy stance for the foreseeable future in line with the government's efforts to revive the economy. This scenario will no doubt continue to be favorable for FCT in the year ahead.

### Appreciations

I wish to express my gratitude to the Chairman and the Board of Directors for their guidance during the 2019/20 financial year. Special thanks also to all employees of the Company for the collective effort that has led to the exceptional performance for the year.

I take this opportunity to thank the officials of the Central Bank of Sri Lanka for their valued guidance.

Finally, I wish to thank the shareholders, clients, bankers and other stakeholders for the trust and confidence placed in the Company.

(Sgd.)

**Dilshan Wirasekara**

Director/Chief Executive Officer

## BOARD OF DIRECTORS

### **NISHAN FERNANDO** **INDEPENDENT NON - EXECUTIVE CHAIRMAN**

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Nishan Fernando is a Fellow Member of the Institute of the Chartered Accountants and the Institute of the Chartered Global Management Accountants with Associate Membership of the Chartered Institute of Management Accountants, UK. He holds a Master's Degree in Business Administration from the Postgraduate Institute of Management, University of Sri Jayewardenepura, and is a Graduate of the Sri Lanka Institute of Directors.

He counts over 27 years of experience, during which period he has held the position of CFO/ Head of Finance at Sri Lanka Telecom PLC, Odel PLC and Goodhope Asia. Nishan is a Past President/ Council Member of the Institute of Chartered Accountants of Sri Lanka. He has served on the International Accounting Education Standards Board of the International Federation of Accountants, and of the Board of South Asian Federation of Accountants. He is currently serving as a member of the Consultative Advisory Group of International Accounting Education Standards Board.

He had been a Commission Member of the Securities and Exchange Commission of Sri Lanka and has also served on the Accounting and Auditing Standards Monitoring Board, Governing Boards of Postgraduate Institute of Management and of National Institute of Business Management. He served on the Sri Lanka Accounting Standards Committee for twelve years during which period he chaired it for four years and chairs the SLFRS Implementation and Interpretation Task Force of CA Sri Lanka.

#### **Other principal appointments**

Managing Director: BDO Consulting (Private) Limited  
Chairman: First Capital Holdings PLC and its subsidiaries

### **DINESH SCHAFFTER** **MANAGING DIRECTOR**

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Dinesh Schaffter serves as the Managing Director of First Capital Treasuries PLC. He has a finance background with managerial and investment expertise of over 25 years.

He is an Associate Member of the Chartered Institute of Management Accountants (UK). He also holds a Bachelor of Laws (Honours) Degree from the UK and an Executive Master of Business Administration Degree from INSEAD, France.

#### **Other principal appointments**

Director: First Capital Holdings PLC and its subsidiaries, Janashakthi PLC, Kelsey Developments PLC and its subsidiaries

## Board of Directors Contd.

### **DILSHAN WIRASEKARA** **DIRECTOR / CHIEF EXECUTIVE OFFICER**

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Dilshan Wirasekara, Director/Chief Executive Officer of First Capital Treasuries PLC is an experienced professional with a career spanning over 24 years, comprising diversified expertise in financial services including, banking, treasury and investment management, capital market strategy and corporate finance advisory services.

Having joined First Capital in 2013, Wirasekara steered the Company, a full service investment bank holding licenses as a primary dealer in government securities, stock brokering as a full trading member of the CSE, unit trust management and wealth management licensed by SEC and debt structuring and placement in addition to its fully fledged research unit covering macro fundamentals, equity and fixed income, to establish itself as a significant contributor to the local capital market industry. He spearheaded the formation of key debt structuring deals with internationally based development Financial Institutions as well the signing of strategic partnerships with foreign institutions focusing on emerging markets such as Sri Lanka.

He was the former General Manager of Softlogic Capital PLC guiding investment and trading portfolio management across subsidiaries inclusive of the Group's Licensed Finance Company, Composite Insurer and Equity Brokerage; prior to which he was Head of Treasury at Nations Trust Bank PLC.

He specialises in Asset and Liability Risk Management having secured the accolade of leading and representing two Sri Lankan companies in winning the International Bank Asset and Liability competition organised annually by the Netherlands Development Finance Company (FMO), German Investment Corporation (DEG) and Proparco - a subsidiary of the Agence Française de Développement (AFD). Dilshan Wirasekara is an Alumnus of INSEAD having successfully completed his Executive Professional Education at INSEAD Business School in Fontainebleau, France. He is also an Alumnus of AOTS, Tokyo, Japan.

#### **Other principal appointments**

Director: Colombo Stock Exchange

Director/CEO: First Capital Holdings PLC and its subsidiaries

### **PRAKASH SCHAFFTER** **NON-INDEPENDENT NON-EXECUTIVE DIRECTOR**

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Prakash Schaffter was appointed as a Non-Independent, Non-Executive Director on 5 February 2020. He is the Cambridge educated Executive Chairman of Janashakthi Insurance PLC (Janashakthi). He has over three decades of experience in the Insurance industry in both Sri Lanka and the United Kingdom. He led Janashakthi as Managing Director from 2006 through a growth phase that saw Janashakthi become the third largest Non- Life Insurer. He was instrumental in acquiring the Non-Life segment of AIA Insurance Lanka in 2015 and also led the divestment project of Janashakthi's Non Life segment in 2018.

Prakash is a former President of the Insurance Association of Sri Lanka, and continues to impact the business sector through his membership on the council of the Sri Lanka Institute of Directors (SLID). He served on the Boards of several listed and unlisted entities including the Bank of Ceylon and has been amongst the youngest Fellow Members of the Chartered Insurance Institute. He has also served as President of the Young Presidents Organisation of Sri Lanka.

A former first class cricketer, he represented both the University of Cambridge and London University during his cricketing career. He has also served as President and Secretary of the Tamil Union Cricket and Athletic Club. He is a former Secretary of Sri Lanka Cricket, having served on three separate occasions on Interim Committees appointed by the Government.

#### **Other principal appointments**

Director : First Capital Holdings PLC, Janashakthi PLC, Kelsey Developments PLC, Bank of Ceylon, Orient Finance PLC, Serendib Land PLC, K H L Corporate Services Limited, Premier Synthetic Leather Manufacturers (Pvt) Limited

## Board of Directors Contd.

### **RAMESH SCHAFFTER** **NON INDEPENDENT NON EXECUTIVE DIRECTOR**

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Ramesh Schaffter was appointed as a Non-Independent, Non-Executive Director on 25 July 2019. He serves as Director/Chief Executive Officer of Janashakthi PLC. Counting over three decades of experience in Finance and Marketing, he is a Fellow Member and former Council Member of the Chartered Institute of Management Accountants, Sri Lanka, and an Associate Member of the Chartered Institute of Marketing. He has served on the Boards of several public listed and unlisted companies.

A social entrepreneur and life coach, he is an accomplished public speaker and a multiple award winner at national and international level Toastmasters' contests. He is the former President of Habitat for Humanity Sri Lanka and a former Board Member of World Vision for Sri Lanka. He is a Co-Founder of cable television channel Swarga TV, as well as the Christian Arts Foundation (Chraft), an organisation that promotes music and drama in Sri Lanka.

Ramesh also serves on the Council of the Colombo Theological Seminary, a graduate and postgraduate educational institute, and is the present Chairman of the Incorporated Trustees of the Church of Ceylon.

#### **Other principal appointments**

Director/Chief Executive Officer : Janashakthi PLC

Director : First Capital Holdings PLC ,Janashakthi Insurance PLC, Kelsey Developments PLC, Orient Finance PLC, Serendib Land PLC, Premier Synthetic Leather Manufacturers (Pvt) Limited, K H L Corporate Services Limited, Sri Lanka Technology Incubator (Pvt) Limited

### **MINETTE PERERA** **INDEPENDENT NON-EXECUTIVE DIRECTOR**

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Minette Perera was the Group Finance Director of the MJF Group, which comprises several tea growing, packing and exporting companies, supplying the "Dilmah Tea" brand around the world, from September 2000 till March 2013.

During the period of her employment with the MJF Group, she was appointed a Director of the MJF Group of Companies, including MJF Holdings Limited, and held the Board positions till December 2014. She has also held board positions before joining the MJF Group.

Minette is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants of UK and the Association of Chartered Certified Accountants of UK. She has over 40 years working experience as a qualified accountant having worked in leading local and international companies as an Executive Director.

#### **Other principal appointments**

Non-Executive Director : First Capital Holdings PLC and its subsidiaries, Orient Finance PLC, Dilmah Ceylon Tea Company PLC (formerly Ceylon Tea Services PLC), Kahawatte Plantations PLC, Talawakelle Tea Estates PLC and Forbes & Walker (Pvt) Limited

## Board of Directors Contd.

### **CHANDANA DE SILVA** **INDEPENDENT NON-EXECUTIVE DIRECTOR**

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Chandana de Silva has 25 years of managerial and financial experience together with strategic acumen acquired in Sri Lanka and the United Kingdom. He held several senior management positions including that of Chief Financial Officer of a Nasdaq quoted telecom services company during his twenty-three years of work experience in the UK. Since moving back to Sri Lanka in 2002 he worked at MAS Holdings in a variety of roles and established its Supply Chain Management function, set up the MAS training centre and was the Chief Executive Officer of the MAS Investments Division. He currently serves as a management consultant and as a mentor to individuals in senior management roles.

Chandana is a Fellow Member of the Institute of Chartered Accountants in England and Wales and in Sri Lanka. He holds a Bachelor of Science in Mathematics and Management from the University of London, UK.

#### **Other principal appointments**

Director: First Capital Holdings PLC and its subsidiaries, Janashakthi PLC, Kelsey Developments PLC, Eureka Technologies (Pvt) Limited, 24/7 Techies (Pvt) Limited and Bairaha Farms PLC

### **NISHAN DE MEL** **INDEPENDENT NON-EXECUTIVE DIRECTOR**

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Nishan de Mel is the Executive Director of Verité Research (Pvt) Limited, a think tank providing analytical research and advisory services on economic, political and legal issues in Sri Lanka and Asia. He is an economist with extensive academic, policy and private sector experience.

In Sri Lanka, he has been a Member of the Presidential Task Force on Health Sector Reform, Presidential Committee on Tobacco, Alcohol and Dangerous Drug Regulation and the National Steering Committee on Social Security. He has also served as the Executive Director of the International Centre for Ethnic Studies and on the Board of the Sri Lanka Foundation. Internationally, Nishan has held several governing, teaching and research positions, including as Lecturer in Economics at Oxford University.

He holds Masters and Doctoral degrees in Economics from the University of Oxford, UK and a Bachelor of Arts degree in Economics from Harvard University, USA.

#### **Other principal appointments**

Director : First Capital Holdings PLC and its subsidiaries, Eureka Technology Partners (Pvt) Limited and Bartleet & Company Limited

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Directors of First Capital Treasuries PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31 March 2020 which were approved by the Directors on 11 August 2020.

### REVIEW OF OPERATIONS

During the year under review, the Company reported total revenue of Rs. 3,708Mn compared to Rs. 2,672Mn reported in the previous year.

Net Trading Income before expenses for the year is Rs.2,015Mn (2018/19- Rs.269Mn) and consequently, profit before tax increased to Rs. 1,752Mn from Rs. 137Mn in the previous year.

### PRINCIPAL ACTIVITIES

The main activity of the Company is operating as a Primary Dealer in Government Securities.

### LEGAL STATUS

First Capital Treasuries PLC was incorporated on 19 August 1982 under the provisions of the Companies Act No. 17 of 1982 and re- registered under the Companies Act No. 7 of 2007.

### FINANCIAL RESULTS

The Company's net profit after tax for year 2019/20 was Rs. 1,208Mn compared to Rs. 96Mn in the previous year.

A summary of the financial results for the year is set out below.

	2020 Rs. '000	2019 Rs. '000
Revenue	3,708,401	2,671,869
Profit before tax	1,751,660	137,428
Profit after tax	1,207,577	95,807
Total comprehensive income	1,206,333	93,603

The financial statements of the Company are set out in pages 30-68 of the Annual Report.

### BOARD OF DIRECTORS

#### Directorate

The following were the Directors of the Company as at 31 March 2020.

1. Mr. Nishan Fernando
2. Mr. Dinesh Schaffter
3. Mr. Dilshan Wirasekara
4. Mr. Prakash Schaffter (appointed as a Director with effect from 5 February 2020)
5. Mr. Ramesh Schaffter (appointed as a Director with effect from 25 July 2019)
6. Ms. Minette Perera
7. Mr. Chandana de Silva
8. Dr. Nishan de Mel

The profiles of the Directors are given in pages 7 to 10 of the Annual Report.

## Annual Report of the Board of Directors Contd.

### INTEREST IN SHARES

Directors/Chief Executive Officer and their shareholdings as at 31 March 2020 were as follows:

	No.of Shares 31.03.2020	No.of Shares 31.03.2019
Mr. Nishan Fernando	Nil	Nil
Mr. Dinesh Schaffter	01	01
Mr. Dilshan Wirasekara	Nil	Nil
Mr. Prakash Schaffter	Nil	Nil
Mr. Ramesh Schaffter	Nil	Nil
Ms. Minette Perera	Nil	Nil
Mr. Chandana de Silva	Nil	Nil
Dr. Nishan de Mel	Nil	Nil

### OTHER DIRECTORSHIP/ SIGNIFICANT POSITIONS OF DIRECTORS

Information of the other Directorships/ significant positions of the present Directors of the Company are given on pages 7 to 10.

### RELATED PARTY TRANSACTIONS

Related party transactions have been declared at the meetings of the Directors and are detailed in Note 31 to the financial statements.

### DIRECTORS' INTERESTS

As required by the Companies Act, No. 7 of 2007, an Interests Register was maintained by the Company during the period under review. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The Interests Register is available for inspection as required under the Companies Act.

The Company carries out transactions in the ordinary course of business with entities in which a Director of the Company is a Director. The transactions with entities where a Director of the Company either has control or exercises significant influence have been classified as related party transactions and disclosed in Note 31 to the Financial Statements.

### REMUNERATION AND FEES

Details of Directors remuneration and fees are set out in Note 10 to the financial statements. All fees and remuneration have been duly approved by the Board of Directors of the Company.

### RISK AND INTERNAL CONTROL

The Board of Directors has satisfied itself that there exists an effective and comprehensive system of internal controls to monitor, control and manage the risks to which the Company is exposed, to carry on its business in an orderly manner, to safeguard its assets and to secure as far as possible the reliability and accuracy of records.

## Annual Report of the Board of Directors Contd.

### CORPORATE GOVERNANCE

The Directors acknowledge their responsibility for the Company's corporate governance and the system of internal control. The Directors are responsible to the shareholders for providing strategic direction to the Company and safeguarding the assets of the Company. The Board is satisfied with the effectiveness of the system of internal control for the period up to the date of signing the financial statements. The compliance with recommended corporate governance practices are disclosed in pages 17-22 of the Annual Report.

The performance of the Company is monitored by way of regular review meetings. These meetings provide an opportunity to ensure that progress is in line with agreed targets. Regular Board meetings are held to further strengthen the review process and ensure compliance with all statutory and regulatory obligations.

### DIVIDEND

The Board of Directors declared an interim dividend(1<sup>st</sup>) of Rs. 16.50 per share totaling Rs. 253.94Mn in June 2019 and another interim dividend (2<sup>nd</sup>) of Rs. 35 per share totaling Rs.538.65Mn in April 2020 for the financial year 2019/20 (2018/19- Nil).

### SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are given on pages 34-54. There were no changes in the accounting policies adopted by the Company during the year under review except for the change in accounting policies with the adoption of SLFRS 16- "Leases" and IFRIC 23- "Uncertainty over Income tax treatments" as explained in Note 4.1 and Note 4.2 to the Financial Statements.

### GOING CONCERN

The Board of Directors has reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

### CAPITAL EXPENDITURE

Details of property, plant and equipment and their movements during the year are given in Note 20 to the financial statements.

### RESERVES

The movements in reserves during the financial year 2019/20 have been presented in the Statement of Changes in Equity on page 32 of the Annual Report.

### INCOME TAX EXPENSES

Income tax expenses have been computed in accordance with the provision of the Inland Revenue Act, No. 24 of 2017 and subsequent amendments thereto as disclosed in Note 11 to the financial statements.

### STATED CAPITAL

The stated capital of the Company as at 31 March 2020 was Rs. 256.5 Mn consisting of 15,390,000 ordinary shares.

## Annual Report of the Board of Directors Contd.

### SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2020, there were three registered shareholders. Share information as at 31 March 2020 is given below.

Name of the Shareholder	No of Shares held as at 31 March 2020	Percentage of Shareholding (%)
First Capital Limited	14,534,999	94.44
Employee Trust Fund Board	855,000	5.56
Mr. Dinesh Schaffter	01	-
<b>Total</b>	<b>15,390,000</b>	<b>100.00</b>

### CORPORATE DONATIONS

Company did not make charitable donations during the year. (2018/19 - Nil)

### STATUTORY PAYMENTS AND COMPLIANCE WITH LAWS AND REGULATIONS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time, and that the Company has not engaged in any activities contravening laws and regulations.

### EQUAL OPPORTUNITIES

The Company is committed to providing equal opportunities to all employees irrespective of their gender, marital status, age, religion, race or disability. It is the Company's policy to give full and fair consideration to persons, with respect to applications for employment, continued employment, training, career development and promotion, having regard for each individual's particular aptitudes and abilities.

### EVENTS OCCURRING AFTER THE REPORTING DATE

There were no material events after the financial reporting period which requires an adjustment to or a disclosure in the financial statements other than those disclosed in Note 34 to the financial statements.

### INDEPENDENT AUDITORS

During the period under review, the Company's Auditors were Messrs KPMG, Chartered Accountants. The fees paid to auditors are disclosed in Note 10 to the financial statements.

Based on the declaration from Messrs KPMG, and as far as the Directors are aware, the Auditors do not have any relationship or interest in the Company, other than as disclosed in the above paragraph.

Messrs KPMG, Chartered Accountants, have expressed their willingness to continue in office as Auditors of the Company for the ensuing year.

In accordance with the Companies Act, No. 7 of 2007, a resolution proposing the reappointment of Messrs KPMG, Chartered Accountants, as Auditors to the Company will be submitted at the Annual General Meeting.

## **Annual Report of the Board of Directors Contd.**

### **INDEPENDENT AUDITOR'S REPORT**

The independent Auditor's report on the financial statements is given on pages 26 to 29 of the Annual Report.

### **AUDITOR'S RIGHT TO INFORMATION**

Each person who is a Director of the Company at the date of approval of this report confirms that:

As far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware. Each Director has taken all the steps that he or she ought to have taken as a Director to make him or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

### **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company will be held on 30 September 2020. The notice convening the Meeting and the agenda are given on page 71 of the Annual Report.

This Annual Report is signed for and on behalf of the Board.

(Sgd.)  
**KHL Corporate Services Limited**  
Secretaries

(Sgd.)  
**Dinesh Schaffter**  
Managing Director

11 August 2020  
Colombo

(Sgd.)  
**Nishan Fernando**  
Chairman

## STATEMENT OF DIRECTORS' RESPONSIBILITY

Set out below are the responsibilities of the Directors in relation to the Financial Statements of the Company.

The Directors of the Company are responsible for ensuring that the company keeps proper books of accounts of all the transactions and prepare and present the financial statements to the shareholders in accordance with the relevant provisions of the Companies Act, No. 7 of 2007 and other statutes which are applicable in the preparation of financial statements. The financial statements comprise of the Statements of Financial Position as at 31 March 2020, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow for the year ended and Notes thereto. The Directors are required to prepare these financial statements on a going concern basis unless it is not appropriate.

The Directors confirm that the financial statements of the Company give a true and fair view of ;

- The state of affairs of the Company as at 31 March 2020  
and
- The financial performance of the Company for the financial year ended 31 March 2020

The financial statements of the Company for the year ended 31 March 2020 incorporated in this report have been prepared in accordance with the Companies Act, No. 7 of 2007, Sri Lanka Accounting Standards (LKAS/SLFRS) and Listing Rules of the Colombo Stock Exchange.

The financial statements of the Company have been certified by the Chief Financial Officer of the Company who is responsible for the preparation of financial statements as required by the Companies Act, No. 7 of 2007. The financial statements have been signed by two Directors on 11 August 2020 in accordance with Section 150 (1) (c) and 152 (1) (c) of the Companies Act.

The Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Company's transactions and also determine the Company's financial position with reasonable accuracy at any time are maintained by the Company enabling the preparation of financial statements and further enabling the financial statements to be readily and properly audited, in accordance with the Section 148 (1) of the Act. The Directors have therefore caused the Company to maintain proper books of accounts and regularly review financial reports at their meetings. The Board also reviews and approves all interim financial statements prior to their release. The Board of Directors accepts the responsibility for the integrity and objectivity of the financial statements presented. The Directors confirm that the financial statements have been prepared using appropriate Accounting Policies on a consistent basis and appropriate estimates and judgements made to reflect the true substance and form of transactions.

The Directors have taken reasonable measures to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. In this regard, the Directors have laid down effective and comprehensive internal control systems.

The Auditors of the Company, Messrs KPMG who were reappointed in accordance with a resolution passed at the last Annual General Meeting were provided with all necessary information required by them in order to carry out their audit and to express an opinion which is contained on page 26-29 of this Annual Report.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the financial reporting date have been paid or where relevant provided for.

The Directors further confirm that after considering the financial position, operating conditions and regulatory and other factors, they have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future and that the Going Concern basis is the most appropriate in the preparation of these financial statements.

(Sgd.)  
**K H L Corporate Services Limited**  
Secretaries

11 August 2020  
Colombo

## CORPORATE GOVERNANCE

The Directors acknowledge their responsibility for the Company's corporate governance and the need to ensure the highest standards of accountability to all stakeholders.

First Capital Treasuries PLC is fully committed to the principles of good governance and recognises that good corporate governance is the corner-stone of a successful organisation.

The Company is committed to act with integrity, transparency and fairness in all of its dealings, and considerable emphasis is placed by the Board on the development of systems, processes and procedures to ensure the maintenance of high standards throughout the organisation.

### BOARD COMPOSITION AND INDEPENDENCE

The Board comprises of four Non-Executive Independent Directors, two Non- Executive Non Independent Directors and two Executive Directors all of whom possess a broad range of skills and experience across a range of industries and functional areas. Detailed profiles of each member of the Board are provided in a separate section of this Annual Report (pages 7-10).

The Independence of the Directors is assessed in accordance with the Listing Rules of Colombo Stock Exchange and the Independent Non- Executive Directors have declared their independency in writing.

The Board meets frequently in order to ensure the effective discharge of its duties. Formal Board Meetings were held four times during the year and performance review meetings were held monthly. Attendance of the Directors for the Board meetings is as follows.

Name of Director	Attendance in 2019/20 (Attended/Eligible to Attend)
Mr. Nishan Fernando	4/4
Mr. Dinesh Schaffter	4/4
Mr. Dilshan Wirasekara	4/4
Mr. Prakash Schaffter*	1/1
Mr. Ramesh Schaffter**	2/3
Ms. Minette Perera	4/4
Mr. Chandana de Silva	2/4
Dr. Nishan de Mel	4/4

\* Appointed w.e.f. 05.02.2020

\*\* Appointed w.e.f. 25.07.2019

### BOARD RESPONSIBILITIES

The Directors are responsible for the formulation of the Company's business strategy and in ensuring the existence of an adequate risk management framework. Four Non- Executive Independent Directors bring independent judgement to bear on issues of strategy and performance. The Board is satisfied with the effectiveness of the system of internal control in the Company for the period up to the date of signing the financial statements.

The Board carries responsibility for ensuring that the senior management team possesses the relevant skills and expertise required in the management of the Company and that a suitable succession planning strategy is in place. The Directors also ensure adherence to laws and regulations pertaining to the functioning of the organisation. The Assistant General Manager - Risk and Compliance functions as the Compliance Officer to ensure compliance with all regulatory and statutory requirements and proper reporting of all compliance matters to the Board. The Board of Directors exercises oversight of the compliance function.

The Board reviews strategic and operational issues, approves interim and annual financial statements and annual budgets, assesses performance and ensures compliance with all statutory and regulatory obligations. Members of the Board are expected to attend the Annual General Meeting of shareholders, Board and Review Meetings. Material is provided to members of the Board well in advance of scheduled meetings to allow adequate time for review and familiarisation and to facilitate decision making at meetings.

## Corporate Governance Contd.

Necessary advice and guidance is provided to the senior management team at monthly performance review meetings which provide an opportunity to evaluate progress and ensure accountability of the senior management team.

A strong focus on training and career development has created a committed and empowered workforce who continues high standards of achievement.

### BOARD BALANCE

Executive, Independent Non-Executive, and Non-Executive Non-Independent Directors on the Board who are professionals / academics / business leaders hold senior positions in their respective fields ensure a right balance between executive expediency and independent judgement as no individual Director or small group of Directors dominate the Board discussion and decision making.

Directors are provided with monthly reports of performance and minutes of the Board Meetings and are given the specific documentation necessary, in advance of such meetings.

There is a distinct and clear division of responsibilities between the Chairman and the Management to ensure that there is a balance of power and authority. The Chairman is responsible for ensuring Board effectiveness and conduct whilst the Management has overall responsibilities over the operating units, organisational effectiveness and implementation of Board policies and decisions.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's Articles of Association call for one third of the Non-Executive Directors retire at each Annual General Meeting and the Director who retires are those who have served for the longest period after their appointment / re appointment. The Company ensures the compliance on the said aspects annually.

### BOARD COMMITTEES (STATUTORY)

To assist the Board in discharging its duties, various Board Sub Committees have been established. The functions and terms of references of the Board Committees are clearly defined.

### AUDIT COMMITTEE

The Audit Committee of First Capital Holdings PLC (Parent Company) functions as Audit Committee of First Capital Treasuries PLC. The Report of the Audit Committee is presented on pages 23-24 and the duties of the Committee are included therein.

### REMUNERATION COMMITTEE

The Remuneration Committee of Janashakthi PLC (Ultimate Parent Company) functions as Remuneration Committee of First Capital Treasuries PLC. Composition of the Committee, mandate of the Committee and other details are shown on Page 21.

### SHAREHOLDER RELATIONS

The Board considers the Annual General Meeting as a prime opportunity to communicate with shareholders. The Shareholders are given the opportunity of exercising their rights at the Annual General Meeting. The Notice of the Annual General Meeting and the relevant documents required are published and sent to the shareholders timely. The Company circulates the agenda for the meeting and shareholders vote on each issue separately.

All shareholders are invited and encourage participating at the Annual General Meeting. The Annual General Meeting provides an opportunity for shareholders to seek and obtain clarifications and information on the performance of the Company. The external Auditors are also present at the Annual General Meeting to render any professional assistance that may be required. Shareholders who are not in a position to attend the Annual General Meeting in person are entitled to have their voting rights exercised by a proxy of their choice.

## Corporate Governance Contd.

The Company published quarterly Financial Statements in a timely manner as its principle communication with shareholders and others. This enables stakeholders to make a rational judgement of the Company.

### INTERNAL AUDIT AND CONTROL

The Board is responsible for the Company's internal control and its effectiveness. Internal control is established with emphasis placed on safeguarding assets, making available accurate and timely information and imposing great discipline on decision making. It covers all controls, including financial, operational and compliance control and risk management. It is important to state, that any system can ensure only reasonable and not absolute assurance that errors and irregularities are prevented or detected within a reasonable time.

The Internal Audit function of the company has been outsourced to M/s. PricewaterhouseCoopers. The Internal Audit reports along with management comments are discussed with Audit Committee and with the Board. Further, at each meeting, follow up issues from previous meeting are also discussed in order to make sure implementation of appropriate policies and procedures as prevention mechanism.

### EXTERNAL AUDIT

The Company engages the services of independent external auditors to conduct an audit and obtain reasonable assurance on whether the financial statements and relevant disclosures are free from material misstatements. The independent auditors directly report their findings to the Audit Committee which has the overall responsibility of financial statement integrity and the reporting process.

M/s. KPMG are the External Auditors of the Company. In addition to the audit services, M/s. KPMG also provides certain permissible non-audit services as well. However, External Auditors would not engage in any services which may compromise the independence of the Auditor. All such services have been provided with the full knowledge of the Audit Committee and are assessed to ensure that there is no compromise on the independence of the External Auditors.

The Audit Committee appraises the performance of External Auditors on an annual basis. Based on the evaluation results the Committee proposes the appointment of the External Auditors to the Board for endorsement and approval of the shareholders. The endorsement is submitted to the shareholders for approval at the Annual General Meeting (AGM). The representatives of the External Auditors are expected to be present at the AGM and have the opportunity to make a statement on the Company's financial statements and results of operations if they desire to do so. The External Auditors are also expected to be available to respond to the questions during the meeting.

There were no disagreements with the Company's External Auditors on any matter of accounting principles or practices, financial statements disclosures, or auditing scope or Procedures in the period under review.

## Corporate Governance Contd.

### COMPANY SECRETARIES

KHL Corporate Services Limited serves as the Company Secretaries for First Capital Treasuries PLC. The Company Secretaries ensure compliance with Board procedures, the Companies Act, Regulations of the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange. The Company Secretaries keep the Board informed of relevant new regulations and requirements.

The Company's adherence to the Corporate Governance Rules as required by Section 7.10 of the Listing Rules of the Colombo Stock Exchange are summarised below;

	CSE Rule	Status of Compliance	Details/Reference
<b>7.10.1 Non-Executive Director (NED)</b>			
a./b./c.	At least 2 members or one third of the Board, whichever is higher should be NEDs as at the conclusion of immediately preceding AGM. Any change to this ratio should be rectified within 90 days.	Complied	Five out of Seven Directors were NEDs as at the conclusion of immediately preceding AGM.
<b>7.10.2 Independent Directors</b>			
a.	At least 2 or one third of the NEDs, whichever is higher shall be independent.	Complied	Out of Six Non-Executive Directors Four are determined to be independent.
b.	Each NED should submit annually a signed and dated declaration of his/her independence or non-independence.	Complied	Four NEDs have submitted their confirmations on independence as per the criteria laid down in the listing rules.
<b>7.10.3 Disclosures relating to Directors</b>			
a./b.	The Board should determine the independence or otherwise of the NEDs and disclose in the annual report the names of the NEDs determined to be 'independent'.	Complied	Profile of Directors in pages 7-10
c.	A brief resume of each Director with information on his/her area of expertise should be included in the annual report.	Complied	
d.	Upon appointment to the Board, a brief resume of the new director should be provided to the exchange for dissemination to the public.	Complied	

## Corporate Governance Contd.

	CSE Rule	Status of Compliance	Details/Reference
<b>7.10.5 Remuneration Committee</b>			
a. 1	Remuneration committee should comprise at least 2 independent NEDs or more than 2 NEDs majority of whom shall be independent.	Complied	The Remuneration Committee of Janashakthi PLC (Ultimate Parent Company) functions as Remuneration Committee of First Capital Treasuries PLC.
a. 2	One NED shall be appointed as chairman of the committee by the Board of Directors.	Complied	The Remuneration Committee (Through Ultimate Parent Company) consists of two Non-Executive Directors namely, Mr. Eardley Perera and Mr. Chandana de Silva Mr. Eardley Perera functions as the Chairman of the committee.
b.	Remuneration committee shall recommend the remuneration of the CEO and Executive Directors to the Board.	Complied	
c.	The Annual Report should include the names of the Remuneration committee members, a statement of remuneration policy and the aggregate remuneration paid to Executive and Non-Executive Directors.	Complied	<p>The committee is mandated with ensuring accountability, transparency and fairness in reward structures that recognised the relationship between performance and reward.</p> <p>The committee functions with delegated authority from the Board and is responsible for setting the Company's remuneration policy and ensuring its continued ability to attract and retain high caliber candidates.</p> <p>The Company bases remuneration on both individual and company performance whilst paying due regard to staff retention.</p> <p>The committee recommends increment levels and determines the remuneration payable to the executive directors.</p> <p>The aggregate remuneration paid to the Directors is given in the Note 10 to the financial statements.</p>

## Corporate Governance Contd.

	CSE Rule	Status of Compliance	Details/Reference
<b>7.10.6 Audit Committee</b>			
a. 1	Audit Committee should comprise at least 2 independent NEDs or more than 2 NEDs majority of whom shall be independent.	Complied	Audit Committee Report on pages 23-24
a. 2	One NED shall be appointed as chairman of the committee by the Board of Directors.	Complied	
a. 3	Chief Executive Officer and the Chief Financial Officer shall attend the Audit Committee meetings.	Complied	
a. 4	The Chairman of the Audit Committee or one member should be a member of a recognised professional accounting body.	Complied	
B	Functions of the Audit Committee		
b.1	Overseeing the preparation, presentation of the financial statements and adequacy of disclosures in accordance with SLFRS/LKAS.	Complied	
b.2	Overseeing the compliance with financial reporting requirements and information requirements as per laws and regulations.	Complied	
b.3	Overseeing the processes to ensure internal controls and risk management functions are adequate to meet the requirements of Sri Lanka Auditing Standards.	Complied	
b.4	Assessing the independence and performance of the external auditors.	Complied	
b.5	Making recommendations to the Board pertaining to appointment or reappointment or removal of external auditors and to approve their remuneration and terms of engagement.	Complied	
c	The annual report should include the names of the audit committee members, the basis for the determination of the independence of the external auditors and a report of the Audit Committee setting out the manner of compliance with the above requirements during the specified period.	Complied	

## AUDIT COMMITTEE REPORT

First Capital Holdings PLC is the Immediate Listed Parent Company of First Capital Treasuries PLC, which is the primary dealer arm of the First Capital Group. The Audit Committee of First Capital Holdings PLC thus functions as the Audit Committee of First Capital Treasuries PLC which has complied with the policies and procedures set out by the Group Audit Committee.

### Composition of Group Audit Committee

The Group Audit Committee consists of two Independent Non-Executive Directors and a Non-Independent Non-Executive Director of the company. The Committee is chaired by Ms. Minette Perera.

The members of the Group Audit Committee are as follows.

Ms. Minette Perera - Chairperson - Independent Non-Executive Director

Mr. Nishan Fernando - Independent Non-Executive Director

Mr. Ramesh Schaffter - Non -Independent Non-Executive Director

Brief profiles of the members of Group Audit Committee are given on Pages 7 to 10 of the Annual Report.

### Meetings

Five audit committee meetings were held during the year under review. Director/Chief Executive Officer, Chief Financial Officer, Senior Manager - Finance, AGM - Risk and Compliance and Head of Legal attend the meetings by invitation. The External Auditors and Internal Auditors are also present at meetings on a need basis. The proceedings of the Group Audit Committee meetings are reported to the Board of Directors on a regular basis.

The attendance of the members for the Group Audit Committee meetings during the year 2019/20 is as follows.

Name of Director	Attendance in 2019/20 (Attended/ Eligible to Attend)
Ms. Minette Perera	5/5
Mr. Nishan Fernando	5/5
Mr. Ramesh Schaffter	5/5

### Functions

The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities, primarily through:

- Overseeing management's conduct of the Company's financial reporting process and systems of internal accounting and financial controls;
- Monitoring the independence and performance of the Company's external auditors; and
- Providing an avenue of communication among the external auditors, internal auditors, management and the Board.

## Audit Committee Report Contd.

### Financial Reporting System

The Committee reviewed the financial reporting system adopted by the Company with particular reference to the following;

- The preparation, presentation and adequacy of the disclosures in the Company's annual and interim financial statements in accordance with the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007 and other applicable statutes.
- The underlying rationale and basis for the significant estimates and judgements to the financial statements.

### Internal Audit

The Internal Audit function of the Company has been outsourced to M/s. PricewaterhouseCoopers. Control weaknesses highlighted in the internal audit reports were examined by the Committee and follow up action taken by the management on the audit recommendations were also reviewed. The committee reviewed the effectiveness of the internal audit function and the scope and procedures for internal audit during the ensuing year.

### External Audit

External Auditors' management letters pertaining to the previous year's audit and the Management's response there to were discussed during the year. Follow up action taken by the management to ensure that the recommendations contained in the management letter were implemented was reviewed. Further, the draft annual financial statements for 2019/20 were also reviewed with the External Auditors prior to release.

The Committee reviewed the non-audit services provided by the auditors to ensure that the provision of these services does not impair their independence.

The fees payable to the auditors have been recommended by the committee to the Board for approval.

Having reviewed the effectiveness of the External Audit, the Group Audit Committee also recommended to the Board of Directors that Messrs KPMG be reappointed as Auditors for the financial year ending 31 March 2021, subject to the approval of the shareholders at the Annual General Meeting.

(Sgd.)

**Minette Perera (Ms.)**

Chairperson - Audit Committee

11 August 2020

Colombo

## FINANCIAL CALENDAR 2019/20

Interim Financial Reports in terms of Rule 8.3 of the Colombo Stock Exchange (CSE) were issued as follows.

Reports	Date of Release
1 <sup>st</sup> Quarter 2019/20 Interim Financial Report (Unaudited)	15 August 2019
2 <sup>nd</sup> Quarter 2019/20 Interim Financial Report (Unaudited)	4 November 2019
3 <sup>rd</sup> Quarter 2019/20 Interim Financial Report (Unaudited)	14 February 2020
4 <sup>th</sup> Quarter 2019/20 Interim Financial Report (Unaudited)	12 August 2020

## INDEPENDENT AUDITOR'S REPORT



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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Internet : www.kpmg.com/lk

To the Shareholders of First Capital Treasuries PLC

Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of First Capital Treasuries PLC ("the Company"), which comprise the statement of financial position as at 31 March 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 30 to 68.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Opinion

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

### Key Audit Matters

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

#### 1. Valuation of financial instruments

Refer to the significant accounting policy in Note 3.2 and explanatory Note 13,14,15,16 and 22 to the financial statements.

#### Risk Description

The Company's investment portfolio comprises of 99% of the total assets (by value) as at 31 March 2020.

This is considered to be the key driver of the Company's capital and revenue performance. The investments measured at fair value comprises of 97% of the total assets and the fair value of such financial instruments that are traded in an active market is determined based on quoted market prices. We do not consider the valuation of these investments to be at higher risk of significant misstatement.

The exercise of judgement and the use of estimates and assumptions are in particular required for instruments where observable market prices or market parameters are not available. For such instruments, the fair value is determined through the use of valuation techniques or models applied by the Company.

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

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

## Independent Auditor's Report Contd.



As a result of the COVID-19 pandemic, volatility in the financial markets has increased. There have been a sharp decline in market yields, greater illiquidity of financial assets due to low trading, all of which have diminished the observability of the market data needed to measure these financial instruments, making their measurement more complex.

The determination of provision for impairment using expected credit loss model is subject to a number of key assumptions and judgements including forward looking probability of default, loss given default and macroeconomic scenarios.

Accordingly, due to their materiality in the context of the financial statements as a whole and the management judgements involved, valuation of financial instruments is considered to be an area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

### *Our audit procedures included:*

- Testing the key controls over identification, measurement and management of valuation risk as well as evaluating the methodologies and input parameters used by the Company in determining fair values.
- Evaluating the appropriateness of the impairment methodology adopted by the Company in accordance with SLFRS 9 and challenging the key assumptions and evaluating the reasonableness of the key judgements and methodology used by the management.
- Comparing observable inputs against independent sources and externally available market data and re-performing independent valuations.
- Obtaining and agreeing with the third party confirmations for a sample of outstanding financial instruments.
- Assessing the adequacy of the disclosures in the financial statements in accordance with the relevant accounting standards.

### **2. Recoverability of deferred tax assets**

Refer to the significant accounting policy in Note 3.7.2 and explanatory Note 18 to the financial statements.

#### **Risk Description**

The Company has recognised deferred tax asset of Rs. 262 Mn as at 31 March 2020 in respect of future deductible temporary differences and undisputed accumulated tax losses which the management considered would be utilised or recovered in the future through the generation of future taxable profits or set-off against deferred tax liabilities.

The recognition of deferred tax assets relies on the exercise of significant judgement by the management in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated and reversals of existing taxable temporary differences. These estimates and projections are affected due to the impact of COVID-19 pandemic on the economy and business activities, as well as by expected interest rate fluctuations.

Therefore, we identified the recognition of deferred tax assets as a key audit matter because of its significance to the financial statements and the significant management judgements, complexity and estimation required in forecasting future taxable profits which could be subject to error or potential management bias.

### *Our audit procedures included:*

- Assessing and challenging the Company's approach for evaluating the likelihood of the recoverability of deferred tax assets. This included challenging the key assumptions used by the management in the preparation of future taxable profits forecasts of the Company by comparing the most significant inputs used in the forecasts, including future interest margins and operating cost growth rates, with the historical performance of the Company, management's forecasts used for other purposes and our knowledge of the business and the industry based on internal and external sources of information.
- Challenging the key assumptions underpinning the Company's financial projections against historical performance and estimates.
- Evaluating the probability of claiming undisputed tax losses through the perusal of tax correspondents.
- Evaluating the adequacy of the disclosures in the financial statements in accordance with the relevant accounting standards.

## Independent Auditor's Report Contd.



### 3. Impact on initial adoption of IFRIC 23 - Uncertainty over income tax treatments

Refer to the significant accounting policy in Notes 3.7.3 and 4.2 and explanatory Note 25 to the financial statements.

#### Risk Description

The Company is exposed to number of tax assessments raised by the Inland Revenue Department and those assessments are currently in various stages of the appeal procedure. The outcome of such tax assessments requires significant judgements and could have a material impact on the financial statements.

The Company has adopted IFRIC 23 - "Uncertainty Over Income Tax Treatments" which is effective from 1 April 2019 and the management has assessed the level of uncertainty on the acceptance of the income tax treatment by the taxation authority.

The Company has recognised a provision of Rs. 439.9 Mn for uncertain tax treatments in relation to the tax assessments raised by the taxation authorities in the financial statements for the year ended 31 March 2020 in accordance with the requirements of IFRIC 23. The quantification of these uncertain tax treatment is based on management judgements using the opinion of tax specialists. Changes over management judgements on these tax assessments will have a significant impact on the financial statements.

We identified the initial adoption of IFRIC 23 as a key audit matter due to the judgements exercised by the management in relation to assessing the Company's estimation on resolution to uncertain tax treatments and the estimated tax liability.

#### *Our audit procedures included:*

- Inquiring from the management on the tax assessments raised by the taxation authorities and assessing their impact to the financial statements, including effectiveness of identification and measurement of impact due to uncertain tax positions.
- Examining the opinions obtained by the management from the tax consultant and the legal representative.
- Challenging the management assessment on the basis for the probability of possible outcomes considered based on the opinions issued by tax consultant and the legal representative.
- Assessing the appropriateness of the estimated tax provision amount determined by the management based on the tax consultant's opinion and use of in-house specialist in determining the tax liability amount.
- Testing the completeness of the Company's uncertain tax position by inspecting, analysing and comparing the tax assessments raised by the Inland Revenue Department to the calculation of tax provision in accordance with IFRIC 23 and performing inquiries with the management.
- Evaluating the accuracy of the transition adjustment on the adoption of IFRIC 23 and the adequacy of the disclosures in the financial statements in accordance with relevant accounting standards.

#### **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 this 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## Independent Auditor's Report Contd.



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

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

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

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

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

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 3029.

Chartered Accountants

Colombo

11 August 2020

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March

	Note	2020 Rs.'000	2019 Rs.'000
<b>Income</b>	6	3,708,401	2,671,869
<b>Direct Expenses</b>	7	(2,056,410)	(2,334,942)
<b>Net Trading Income</b>		1,651,991	336,927
<b>Other Income</b>	8	519	8,448
Gain/(loss) on Fair Valuation of Financial assets recognised through profit or loss measured at fair value	9	362,930	(76,249)
		2,015,440	269,126
<b>Operating Expenses</b>			
Personnel Expenses		(199,523)	(73,914)
Premises, Equipment and Establishment Expenses		(33,765)	(32,470)
Other Operating Expenses		(30,492)	(25,314)
		(263,780)	(131,698)
<b>Profit before Taxation</b>	10	1,751,660	137,428
Income Tax Expense	11	(544,083)	(41,621)
<b>Profit for the Year</b>		1,207,577	95,807
<b>Other Comprehensive Income</b>			
<b>Items that will never be reclassified to Profit or Loss</b>			
Loss on financial assets at fair value through other comprehensive income		(1,000)	(1,000)
Actuarial Loss on Retirement Benefit Obligation		(338)	(1,672)
Tax Effect on Other Comprehensive Income		94	468
<b>Item that are or may be reclassified to Profit or Loss</b>		-	-
<b>Other Comprehensive Income</b>		(1,244)	(2,204)
<b>Total Comprehensive Income for the Year</b>		1,206,333	93,603
<b>Basic Earnings per Share (Rs.)</b>	12	78.47	6.23

Figures in brackets indicate deductions.

The notes disclosed on pages 34 to 68 form an integral part of these Financial Statements.

## STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2020 Rs. '000	2019 Rs. '000
<b>ASSETS</b>			
Cash at Banks and in Hand		8,361	2,144
Derivative Financial Instruments	13	2,734	3,454
Financial Assets recognised through profit or loss - measured at fair value	14	36,212,069	29,533,427
Financial Assets - at amortised cost	15	793,503	1,863,996
Financial Assets - fair value through other comprehensive income	16	-	-
Receivable from Related Companies	17	360	11,616
Taxes Receivable		508	1,468
Deferred tax asset	18	262,493	806,482
Other Assets	19	94,272	97,706
Property, Plant and Equipment and Right of use Assets	20	7,195	1,255
Intangible Assets	21	1,106	1,399
<b>TOTAL ASSETS</b>		<b>37,382,601</b>	<b>32,322,947</b>
<b>LIABILITIES</b>			
Bank Overdraft		-	6,660
Derivative Financial Instruments	22	3,118	2,878
Securities sold under Repurchase Agreements	23	32,182,773	27,482,737
Short term borrowings		-	991,384
Creditors and Other Payables		227,058	91,132
Payable to Related Companies	24	19,698	716
Taxes Payable	25	439,878	-
Borrowing on Listed Debentures	26	758,342	511,111
Retirement Benefit Obligations	27	14,331	11,446
<b>TOTAL LIABILITIES</b>		<b>33,645,198</b>	<b>29,098,064</b>
<b>EQUITY</b>			
Stated Capital	28	256,500	256,500
Risk Reserve	29	1,203,065	1,082,307
Retained Earnings		2,279,838	1,887,076
Fair Valuation Reserve		(2,000)	(1,000)
<b>TOTAL EQUITY</b>		<b>3,737,403</b>	<b>3,224,883</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>37,382,601</b>	<b>32,322,947</b>
Net Assets per Share (Rs.)		242.85	209.54

The notes disclosed on pages 34 to 68 form an integral part of these Financial Statements.

I certify that these Financial Statements are prepared and presented in compliance with the requirements of the Companies Act No. 07 of 2007.



**Mangala Jayashantha**  
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.  
Approved and signed for and on behalf of the Board,



**Dilshan Wirasekara**  
Director/Chief Executive Officer



**Chandana de Silva**  
Director

11 August 2020  
Colombo

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March	Stated Capital Rs.'000	Risk Reserve Rs.'000	Retained Earnings Rs.'000	Fair Valuation Reserve Rs.'000	Total Equity Rs.'000
<b>Balance as at 1 April 2018</b>	256,500	1,072,726	1,802,054	-	3,131,280
<b>Total Comprehensive Income for the Year</b>					
Profit for the Year	-	-	95,807	-	95,807
Other Comprehensive Income	-	-	(1,204)	(1,000)	(2,204)
<b>Total Comprehensive Income</b>	-	-	94,603	(1,000)	93,603
Transfers to Risk Reserve (Note 29)	-	9,581	(9,581)	-	-
<b>Balance as at 31 March 2019</b>	256,500	1,082,307	1,887,076	(1,000)	3,224,883
<b>Balance as at 1 April 2019</b>	256,500	1,082,307	1,887,076	(1,000)	3,224,883
Impact on adoption of IFRIC 23 (Note 4.2)	-	-	(439,878)	-	(439,878)
<b>Adjusted balance as at 1 April 2019</b>	256,500	1,082,307	1,447,198	(1,000)	2,785,005
<b>Total Comprehensive Income for the Year</b>					
Profit for the Year	-	-	1,207,577	-	1,207,577
Other Comprehensive Income	-	-	(244)	(1,000)	(1,244)
<b>Total Comprehensive Income</b>	-	-	1,207,333	(1,000)	1,206,333
<b>Transactions with Equity Holders</b>					
<b>Distribution to Equity Holders</b>					
Dividend paid - Interim 2019/20 (Note 30)	-	-	(253,935)	-	(253,935)
<b>Total distribution to Equity Holders</b>	-	-	(253,935)	-	(253,935)
<b>Total Transactions with Equity Holders</b>	-	-	(253,935)	-	(253,935)
Transfers to Risk Reserve (Note 29)	-	120,758	(120,758)	-	-
<b>Balance as at 31 March 2020</b>	256,500	1,203,065	2,279,838	(2,000)	3,737,403

Figures in brackets indicate deductions.

The notes disclosed on pages 34 to 68 form an integral part of these Financial Statements.

## STATEMENT OF CASH FLOWS

For the year ended 31 March	2020 Rs. '000	2019 Rs. '000
<b>Cash Flows from Operating Activities</b>		
Interest Receipts and Gains realised	3,708,163	2,667,994
Interest Payments and Other Direct Cost	(1,782,628)	(2,151,693)
Other Receipts	519	442
Cash Payments to Employees and Suppliers	(138,229)	(118,284)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>1,787,825</b>	<b>398,459</b>
(Increase)/decrease in Financial Assets at Amortised cost	1,070,731	(891,234)
Increase in Financial Assets- Fair value through profit or loss- measured at fair value	(6,314,752)	(6,207,970)
(Increase)/decrease in Other Assets	(2,822)	141,324
Increase / (decrease) in Short term Borrowings	(991,384)	990,306
(Increase)/ decrease in Receivable from Related Companies	11,256	(6,377)
Increase in Securities sold under Repurchase Agreements	4,423,485	5,609,163
Increase/ (decrease) in Payable to Related Companies	18,982	(41,762)
Increase/ (decrease) in Creditors and Accrued Charges	14,834	112
<b>Cash generated from/ (used in) operations</b>	<b>18,155</b>	<b>(7,979)</b>
Income Tax Paid	(5)	-
Gratuity paid (Note 27)	-	(2,822)
<b>Net cash flows generated from/ (used in) operating activities</b>	<b>18,150</b>	<b>(10,801)</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of Property, Plant and Equipment (Note 20)	(138)	(309)
Acquisition of Intangible Assets (Note 21)	(200)	(1,730)
Proceeds from Sale of Property, Plant and Equipment	-	8,006
Investment in financial assets at fair value through other comprehensive income (Note 16)	(1,000)	-
<b>Net cash flows generated from/ (used in) investing activities</b>	<b>(1,338)</b>	<b>5,967</b>
<b>Cash Flows from Financing Activities</b>		
Dividend paid (Note 30)	(253,935)	-
Redemption of borrowing on debentures issued in February 2015 (Note 26)	(500,000)	-
Borrowing on debentures issued in January 2020 (Note 26)	750,000	-
<b>Net cash flows generated from/ (used in) financing activities</b>	<b>(3,935)</b>	<b>-</b>
Net increase/ (decrease) in cash and cash equivalents	12,877	(4,834)
Cash and cash Equivalents at the beginning of the year	(4,516)	318
Cash and cash Equivalents at the end of the year (Note A)	8,361	(4,516)
<b>Note A</b>		
Cash at banks and in hand	8,361	2,144
Bank overdraft	-	(6,660)
	8,361	(4,516)

Figures in brackets indicate deductions.

The notes disclosed on pages 34 to 68 form an integral part of these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Reporting Entity

First Capital Treasuries PLC (“the Company”) is a public limited liability company incorporated and domiciled in Sri Lanka on 19 August 1982. The registered office and place of business of the Company is at No. 2, Deal Place, Colombo 03. The debentures issued by the Company are listed on the Colombo Stock Exchange. The staff strength of the Company as at 31 March 2020 is 13 (2019 - 14).

#### 1.1 Parent Entity and Ultimate Parent Entity

The Company’s parent entity is First Capital Limited. The ultimate parent undertaking and controlling party of the Company is Janashakthi PLC.

#### 1.2 Principal Activities

The principal activity of the Company continued to be engaging in the business operations of a Primary Dealer in Government Securities. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

### 2. Basis of Preparation

#### 2.1 Statement of Compliance

The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and in compliance with the requirements of the Companies Act No. 7 of 2007 and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting. This is the first set of the Company’s annual financial statements in which SLFRS 16 “Leases” and IFRIC 23 “Uncertainty over income tax treatments” have been applied. The related changes to the significant accounting policies are described in Note 4.1 and 4.2.

#### 2.2 Presentation of Financial Statements

The assets and liabilities of the Statement of Financial Position are grouped by nature and listed in order to reflect their relative liquidity and maturity pattern.

#### 2.3 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31 March 2020 were authorised for issue by the Board of Directors on 11 August 2020.

##### 2.3.1 Directors’ Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007 and related disclosure requirements of Listing Rules. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Board of Directors acknowledges their responsibility as set out in the “Annual Report of the Board of Directors” and “Statement of Director’s Responsibility”.

## Notes to the Financial Statements Contd.

### 2.4 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following,

Category	Basis of measurement	Note
Derivative Financial Assets/Liabilities	Fair value	Note 3.2.3
Financial Assets measured at fair value through profit or loss	Fair value	Note 3.2.4.1
Financial Assets measured at fair value through other comprehensive income	Fair value	Note 3.2.4.3
Financial Assets at amortised cost	Amortised cost	Note 3.2.4.2
Right of use of assets	Pre-paid lease rentals	Note 3.6
Retirement benefit obligations	Projected unit credit method	Note 3.12.2

### 2.5 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

### 2.6 Use of Significant Judgements, Estimates and Assumptions

The preparation of Financial Statements in conformity with SLFRSs/LKASs requires management to make judgements, 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 based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results which form the basis of making the judgements about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are included in the following notes to these Financial Statements.

Critical accounting estimate/judgement	Disclosure note
Going concern	2.11
Classification of financial assets and liabilities	3.2.2
Fair value of financial instruments	3.2.11
Useful lives of intangible assets	3.3
Useful lives of property, plant and equipment	3.4
Retirement benefit obligation	3.12.2
Deferred tax asset on unutilised tax losses	3.7.2
Impairment losses on financial assets	3.2.7
Impairment of non-financial assets	3.5
Provisions for liabilities, commitments and contingencies	3.19

## Notes to the Financial Statements Contd.

### 2.7 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The Company has not restated the comparative information for contracts within the scope of Sri Lanka Accounting Standard - SLFRS 16 on "Leases" (SLFRS 16) and adoption of IFRIC 23 on "uncertainty over Income tax treatments".

### 2.8 Materiality, Presentation and Aggregation

Each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

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

### 2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the International Financial Reporting Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Company.

### 2.10 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Thousand, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

### 2.11 Going Concern

The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future and management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, going concern basis has been adopted in preparing these Financial Statements.

### 2.12 Events after Reporting Date

Events after the reporting date are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period are considered and appropriate disclosures are made where necessary (Note 34).

### 2.13 Changes in Accounting Policies

The Company has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements except for the changes arising out of transition to SLFRS 16 - "Leases" and IFRIC 23- "Uncertainty over Income tax Treatments".

## Notes to the Financial Statements Contd.

### 2.13.1 SLFRS 16 - “Leases”

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate plus the remaining value of advances paid at the date of initial application (i.e. 1 April 2019). The Company elected to apply the practical expedient to assessment of which transactions are leases. The Company applied SLFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 April 2019. Accordingly, comparative information presented, as previously reported, under LKAS 17 and related interpretations (Note 4.1).

Previously, the Company determined whether an arrangement is or contains a lease under IFRIC 4 - “Determining whether an arrangement contains a lease”. The Company now assess whether a contract is or contains a lease in accordance with SLFRS 16, as explained in Note 3.6.

SLFRS 16 requires the recognition of lease liabilities and right of use of assets for leases previously classified as operating leases in accordance with LKAS 17. Further, the standard requires to recognise depreciation allowance and finance charges during the lease period.

Under LKAS 17, lease payments were recognised as an expense in the statement of profit or loss on a straightline basis over the lease term.

The Company used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular,

- Did not recognise right-of-use assets and liabilities for leases for which term ends within 12 months of the date of initial application
- Used hindsight when determining the lease term.

## 3. Significant Accounting Policies

### 3.1 Foreign Currency

#### 3.1.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currency (Sri Lankan Rupees-LKR) at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items are the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in Statement of Profit or Loss.

## Notes to the Financial Statements Contd.

### 3.2 Financial Instruments

#### 3.2.1 Initial Recognition, Classification and Subsequent Measurement

##### 3.2.1.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

##### 3.2.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

#### 3.2.2 Classification and Subsequent Measurement of Financial Instruments

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (“SPPI”).

A debt instrument is measured at FVOCI only if it meets both of the following condition and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- 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 Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company 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.

##### 3.2.2.1 Business Model Assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management.

## Notes to the Financial Statements Contd.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for 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 in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cashflows nor held both to collect contractual cash flows and to sell financial assets.

### 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 Company 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 Company 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;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. 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.

## Notes to the Financial Statements Contd.

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.
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.
Debt investments at FVTOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVTOCI	These assets are subsequently measured at fair value. Dividend is recognised 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 recognised in OCI and are never reclassified to profit or loss.

### 3.2.3 Derivatives recorded at fair value through profit or loss

#### 3.2.3.1 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

#### 3.2.3.2 Other Derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

### 3.2.4 Financial Assets

Financial assets that are within the scope of SLFRS 9 are classified appropriately as Financial assets recognised through profit or loss, Financial assets measured at fair value through other comprehensive income and Financial assets at amortised cost.

All the financial assets are recognised at fair value at its initial recognition.

#### 3.2.4.1 Financial assets measured at - fair value through profit or loss

A financial asset is classified at fair value through Profit or Loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through Profit or Loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, transaction costs are recognised in Profit or Loss as incurred.

Financial assets at fair value through Profit or Loss are measured at fair value, and subsequent therein are recognised in Profit or Loss. This comprises of investment in government securities issued in local (LKR) and foreign currency (USD).

## Notes to the Financial Statements Contd.

### 3.2.4.2 Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost of the Company comprise of the lending.

### 3.2.4.3 Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income (FVTOCI) are non-derivative financial assets that are designated FVTOCI and that are not classified in any of the previous categories of financial assets. FVTOCI are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, these are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment in debt instrument is derecognised, the cumulative gain or loss in other comprehensive income is transferred to Profit or Loss.

Financial assets at FVTOCI comprise investments in unquoted equities.

### 3.2.4.4 Cash and Cash Equivalents

Cash and cash equivalents comprise of cash in hand and cash at banks and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

Bank overdrafts that are repayable on demand and form an integral part of the Company cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

### 3.2.5 Financial Liabilities

The Company initially recognises debt securities and borrowings on the date that they are originated. All other financial liabilities are recognised at initially on the trade date, which is the date that the Company becomes party to the contractual provisions of the instruments.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using effective interest rate method.

Financial liabilities comprise;

- Securities sold under re-purchase agreements
- Borrowing on listed debentures

## Notes to the Financial Statements Contd.

### 3.2.5.1 Recognition and measurement of financial liabilities

The Company classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss,

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

#### 3.2.5.1.1 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

### 3.2.5.2 Financial liabilities at amortised cost

Financial liabilities issued by the Company that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the Effective Interest Rate (EIR). Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

EIR amortisation is included in "Interest expense" in the statement of profit or loss. Gains and losses too are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

### 3.2.5.3 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

### 3.2.6 Reclassification of Financial Assets and Liabilities

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Company's changes its objective of the business model for managing such financial assets. Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

### 3.2.7 Impairment of Financial Assets

#### 3.2.7.1 Recognition and Measurement of Expected Credit Loss (ECL)

The Company assesses financial assets under three stages in determining ECL.

- Stage 1 : financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, a 12-months ECL is recognised.
- Stage 2 : financial instruments that have experienced a significant increase in credit risk since initial recognition but for which the exposure is not yet defaulted. For these assets, lifetime ECLs are recognised, representing the expected credit losses that result from all possible default events over the expected life of the financial asset.
- Stage 3 : financial instruments which are deemed to be credit impaired. This is where a credit loss has already been suffered on the assets. For these assets, lifetime ECLs are recognised, representing the expected credit losses that result from all possible default events over the expected life of the financial asset.

## Notes to the Financial Statements Contd.

Expected loss allowances (ECL) for trade receivables 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due. 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 Company is exposed to credit risk.

ECLs 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 Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

### 3.2.7.2 Credit-Impaired Financial Assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTOCI are credit-impaired (referred to as "Stage 3 financial assets"). 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 or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market or a security because of financial difficulties

### 3.2.7.3 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.

For debt securities at FVTOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

## Notes to the Financial Statements Contd.

### 3.2.7.4 Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in “provision for impairment of financial assets at amortised cost” in the Statement of Profit or Loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

### 3.2.8 Derecognition of Financial Assets and Financial Liabilities

#### 3.2.8.1 Financial assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company’s continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### 3.2.8.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### 3.2.9 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## Notes to the Financial Statements Contd.

### 3.2.10 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 3.2.11 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## 3.3 Intangible Assets

### 3.3.1 Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software is 5 years.

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

## Notes to the Financial Statements Contd.

### 3.4 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period.

#### 3.4.1 Recognition and Measurement

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

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

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

#### 3.4.2 Subsequent Cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

#### 3.4.3 Depreciation

Depreciation is calculated to write-off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. The estimated useful lives of significant items of property, plant and equipment are as follows:

Asset Type	Life Time (Years)
Computer equipment	5
Fixtures and fittings	5
Furniture	5
Office equipment	5
Motor vehicle	5

#### 3.4.4 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised.

## Notes to the Financial Statements Contd.

### 3.5 Impairment of Non-financial Assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets.

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs 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.

Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.6 SLFRS 16 - Leases

#### Policy applicable from 1 April 2019 - SLFRS 16

At the inception of a contract, the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company use the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into (or changed) after 1 April 2019.

#### 3.6.1 Company acting as a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate plus remaining value of lease rentals paid in advance if any.

The Company determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of the lease asset.

Lease payments included in the measurement of lease liability includes

- Fixed payments
- Variable lease payments that depend on an index or rate
- Amount expected to be payable under residual value guarantee
- The exercise price under a purchase option that the Company is reasonably certain to exercise

## Notes to the Financial Statements Contd.

Lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable or if there is a fixed in substance lease payment.

When the lease liability is remeasured as such, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents the right-of-use asset in property, plant and equipment.

### Short term leases and leases of low value assets

The Company elected not to recognise right-of-use assets and lease liabilities for lease of low value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on the straight-line basis.

### Policy applicable before 1 April 2019 - LKAS 17

For contracts entered into prior to 1 April 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether;

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets and;
- The arrangement had conveyed a right to use the asset

### 3.6.2 Finance Leases - As a Lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

### 3.6.3 Operating Leases - As a Lessee

Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term. Contingent rent payable is recognised as an expense in the period in which they are incurred.

## 3.7 Tax Expense

Tax expense comprises current, deferred tax and other statutory taxes. Income tax and deferred tax expense are recognised in Statement of Profit or Loss except to the extent that it relates to items recognised in the Statement of Other Comprehensive Income or Statement of Changes in in equity.

### 3.7.1 Current tax expense

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the tax on dividend income.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and is measured using the tax rates enacted or substantively enacted as at the reporting date.

## Notes to the Financial Statements Contd.

### 3.7.2 Deferred tax

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

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.
- Taxable temporary differences arising on subsidiaries, associates or joint ventures who have not distributed their entire profits to the parent or investor.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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.

A deferred tax asset is recognised for unused tax losses, 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 utilised. 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 realised.

Deferred tax assets and liabilities are not discounted.

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognised as deferred tax expense and conversely any net decrease is recognised as reversal to deferred tax expense, in the Statement of Profit or Loss.

### 3.7.3 Uncertainty Over Income Tax Treatments

The Company accounted for the uncertainty over tax treatments under IFRIC 23. An 'uncertain tax treatment' is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. If it is not probable that the taxation authority will accept an uncertain tax treatment, effect of uncertainty shall be reflected in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. The effect of uncertainty for each uncertain tax treatment shall be reflected by using either of the most likely amount or the expected value methods, depending on which method the Company expects to better predict the resolution of the uncertainty.

### 3.7.4 Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed amount can be carried forward and set off against the income tax payable in the two subsequent years as per the relevant provision in the Act. Economic Service Charge is abolished with effective from 1 January 2020.

## Notes to the Financial Statements Contd.

### 3.7.5 Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1 January 2011 on the liable turnover as per the relevant provisions of the Act. Nation Building Tax was abolished with effect from 1 December 2019.

### 3.7.6 Value Added Tax on Financial Services (VAT on FS)

VAT on Financial Services is calculated in accordance with the amended VAT Act No. 7 of 2003 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees. VAT on financial services is computed on the prescribed rate of 15%.

VAT on Financial service is recognised as expense in the period it becomes due.

### 3.8 Debt Securities issued

Repo borrowings and borrowing on debentures are the Company's sources of debt funding. When the Company sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a borrowing, and the underlying asset continues to be recognised in the Company's financial statements. The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The borrowing on debentures are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

### 3.9 Provisions

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

### 3.10 Dividend Payable

Dividend on ordinary shares is recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors.

### 3.11 Other Liabilities

Other liabilities are recorded at amounts expected to be payable at the Reporting date.

### 3.12 Employee Benefits

#### 3.12.1 Defined Contribution Plan

A defined contribution plan is a post employment plan under which an entity pays fixed contributions 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 recognised as expense in the profit or loss as and when they are due.

##### 3.12.1.1 Employees' Provident Fund

The Company and employee contribute 12% - 15% and 8% - 10% respectively on the salary of each employee to an approved Provident Fund.

## Notes to the Financial Statements Contd.

### 3.12.1.2 Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

### 3.12.2 Defined Benefit Plans

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

#### Gratuity

Gratuity is a Defined Benefit Plan. The Company annually measures the present value of the retirement benefits for gratuity, which is a Defined Benefit Plan. The cost of providing benefits under the defined benefits plans is determined using the projected unit credit method.

Gain or loss arising as a result of changes in assumption is recognised in other comprehensive income (OCI) in the period in which it arises.

The Gratuity liability is not externally funded. These items are grouped under Retirement Benefit Obligation in the Statement of Financial Position.

According to the payment of Gratuity Act No.12 of 1983, the liability for gratuity payment to an employee arises only after the completion of 5 years of continued service.

### 3.12.3 Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## Statement of Profit or Loss and Other Comprehensive Income

### 3.13 Interest Income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and Other Comprehensive Income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on debt securities measured at FVTOCI is calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Company's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income as gain on fair valuation of other financial instruments at fair value through profit or loss in the statement of profit or loss and Other Comprehensive Income.

## Notes to the Financial Statements Contd.

### 3.14 Gain/(Loss) on Sale of Financial Investments measured at Fair Value through Profit or loss

Gain/(loss) on Sale of Financial Investments measured at fair value through profit or loss comprises realised trading gains on disposal of government securities presented in direct income as sale of financial investments at fair value through profit or loss in the statement of profit or loss and other comprehensive income.

### 3.15 Gain/(Loss) on Fair Valuation of Financial Investments - Fair Value through Profit or Loss

Gain/(loss) on Fair Valuation of Financial Investments is the unrealised gain/(loss) on fair valuation (marked to market valuation) of government securities. The fair valuation gain/(loss) is presented in profit or loss in the statement of profit or loss and other comprehensive income.

### 3.16 Dividend Income

Dividend income is recognised in profit or loss on an accrual basis when the Company's right to receive the dividend is established. This is usually on the ex-dividend date for equity securities. Dividends are presented in other income.

### 3.17 Expenses Recognition

Expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year. For the presentation of the Statement of Profit or Loss the Directors are of the opinion that the nature of the expenses method present fairly the element of the Company's performance, and hence such presentation method is adopted.

### 3.18 Earnings per Share (EPS)

The Company presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

### 3.19 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's capital commitments are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

### 3.20 Statement of Cash Flows

The Statement of Cash Flow has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard - (LKAS 7) "Statement of Cash Flows". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

## Notes to the Financial Statements Contd.

### 4 New Accounting Standards and Interpretations became effective during the year

#### 4.1 SLFRS 16 - Leases

The impact on transition to SLFRS 16 as at 1 April 2019 is as follows.

Company had settled total lease rentals in advance; hence no lease liability is recognised as at 1 April 2019.

The right-of-use asset recognised as at 1 April 2019 is as follows,

Description	Rs. '000
Right-of-use of asset measured with reference to the lease liability	-
Prepaid lease rentals as at 1 April 2019	8,531
<b>Right-of-use of asset recognised as at 1 April 2019</b>	<b>8,531</b>

#### 4.2 IFRIC 23 - Uncertainty over Income Tax treatments

The International Accounting Standards Board (IASB or the Board) issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments (the Interpretation). The Interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

Uncertainty in determining taxable profit has been assessed in line with IFRIC 23 and following amounts are recognised in the Statement of Financial Position as at 1 April 2019, by adjusting opening balances as permitted by the interpretation.

	Retained Earnings Rs. '000)	Total Equity (Rs. '000)
Balance as at 31 March 2019	1,887,076	3,224,883
Adoption of IFRIC 23	(439,878)	(439,878)
<b>Opening balance as at 1 April 2019</b>	<b>1,447,198</b>	<b>2,785,005</b>

### 5 New Accounting Standard (Amendments) issued but not effective as at Reporting Date

The Institute of Chartered Accountants of Sri Lanka has issued following new Sri Lanka Accounting Standard (amendments) which will become applicable for financial periods beginning after on or after 1 April 2020. Accordingly, the Company has not applied the following new standard (amendments) in preparing these Financial Statements. The following amended standard and interpretations are not expected to have a significant impact on the Company's financial statements.

## Notes to the Financial Statements Contd.

### 5.1 Amendments to references to conceptual framework in Sri Lanka Financial Reporting Standards

These amendments are effective for reporting period beginning on or after 1 January 2020 and include limited revisions of definitions of an asset and a liability, as well as new guidance on measurement and derecognition, presentation and disclosure. The concept of prudence has been reintroduced with the statement that prudence supports neutrality.

### 5.2 Definition of material (Amendments to LKAS 1 and LKAS 8)

Definition of Material Amendments to LKAS 1- Presentation of Financial Statements and LKAS 8 -Accounting Policies, Changes in Accounting Estimates and Errors (the amendments) to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

## Notes to the Financial Statements Contd.

For the year ended 31 March

6 Income	2020 Rs.'000	2019 Rs.'000
Gain/(loss) on sales of Financial assets recognised through profit or loss measured at fair value	1,256,181	(62,955)
Interest income on Financial assets recognised through profit or loss measured at fair value	2,252,400	2,536,447
Interest income on Financial assets at amortised cost	199,820	198,377
	<b>3,708,401</b>	<b>2,671,869</b>
<b>6.1 Timing of Income Recognition</b>		
Income generated at a point of time	1,256,181	(62,955)
Income generated over the period	2,452,220	2,734,824
	<b>3,708,401</b>	<b>2,671,869</b>
<b>7 Direct Expenses</b>	<b>2020 Rs.'000</b>	<b>2019 Rs.'000</b>
Interest expenses on repurchase agreements	1,966,384	2,220,832
Brokerage cost	20,241	13,666
Interest expenses on listed debentures	57,170	47,922
Interest expenses on short term borrowing	12,615	52,522
	<b>2,056,410</b>	<b>2,334,942</b>
<b>8 Other Income</b>	<b>2020 Rs.'000</b>	<b>2019 Rs.'000</b>
Profit on sale of Property, Plant and Equipment	-	8,006
Exchange Gain	295	427
Miscellaneous income	224	15
	<b>519</b>	<b>8,448</b>
<b>9 Gain/(loss) on Fair Valuation of Financial assets recognised through profit or loss measured at fair value</b>	<b>2020 Rs.'000</b>	<b>2019 Rs.'000</b>
Gain/(loss) on fair valuation of financial assets recognised through profit or loss measured at fair value	363,889	(50,624)
Loss from fair valuation of derivative financial instruments	(959)	(25,625)
	<b>362,930</b>	<b>(76,249)</b>
Gain/(loss) on fair valuation of financial investments has been accounted for in accordance with the SLFRS 9.		
<b>10 Profit before Taxation</b>	<b>2020 Rs.'000</b>	<b>2019 Rs.'000</b>
Profit before taxation is stated after charging all the expenses including the following		
Directors' emoluments	86,751	9,223
Auditor's remuneration - Audit services	500	460
Auditor's remuneration - Other services	110	110
Depreciation on Property, Plant and Equipment (Note 20)	2,729	448
Amortisation of intangible assets (Note 21)	493	720
Retirement benefit cost (Note 27)	2,547	1,974
Salaries	51,747	50,029
Employer's contribution to defined contribution plans	8,280	8,024
Legal fees	244	644
Donations	-	-
<b>11 Income Tax Expense</b>	<b>2020 Rs.'000</b>	<b>2019 Rs.'000</b>
Current tax expenses (Note 11.2)	-	-
Deferred tax assets reversal during the year (Note 18)	(544,083)	(41,621)
	<b>(544,083)</b>	<b>(41,621)</b>
<b>Recognised in Other Comprehensive Income</b>		
Deferred tax assets recognised during the year (Note 18)	94	468

## Notes to the Financial Statements Contd.

### 11 Income Tax Expense (Contd.)

11.1 The Company is liable to pay income tax at the rate of 28% for the period of nine months from 1 April 2019 to 31 December 2019 as per the Inland Revenue Act No 24 of 2017 and at the rate of 24% for the period from 1 January 2020 to 31 March 2020 as per the Inland Revenue Department's Notice no PN/IT/2020-03 dated 12 February 2020 on its taxable income for the year 2019/20 (2018/19 : 28%). However, the legislative process relating to the amendment to laws needs to be completed for the proposed tax rate to be considered as substantively enacted as at the reporting date. Hence, current tax liability for the period from 1 January 2020 to 31 March 2020 has been computed using the existing tax rate of 28%.

### 11.2 Reconciliation of Accounting Profit To Income Tax

	2020 Rs. '000	2019 Rs. '000
Profit before taxation	1,751,660	137,428
Less : Exempted income	-	(8,006)
Add : Disallowable expenses	31,646	22,257
Less : Allowable expenses	(2,500)	(4,455)
Assessable Charge on Depreciable Assets	-	6
Statutory Income	1,780,806	147,230
Tax losses utilised during the year	(1,780,806)	(147,230)
Taxable Income	-	-
Income Tax Expense	-	-

### 11.3 Accumulated Tax Losses

Balance at the beginning of the year	11,072,485	11,219,715
Adjustment with respect of previous year	(86)	-
Loss utilised during the year	(1,780,806)	(147,230)
Balance at the end of the year	9,291,593	11,072,485

### 12 Basic Earnings per Share

Basic Earnings per Share has been calculated by dividing profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For the year ended 31 March	2020	2019
Profit attributable to ordinary shareholders (Rs.'000)	1,207,577	95,807
Weighted average number of ordinary shares in issue	15,390,000	15,390,000
Basic Earnings per share (Rs.)	78.47	6.23

### As at 31 March

	2020 Rs.'000	2019 Rs.'000
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### 13 Derivative Financial Instruments

Forward purchase contracts - Government securities	2,734	3,454
	2,734	3,454

### 14 Financial assets recognised through profit or loss - measured at fair value

As at 31 March	Market Value		Face Value	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Treasury bills	17,769,983	650,483	18,660,093	707,703
Treasury bonds	18,438,245	28,882,944	17,294,842	28,028,580
Sri Lanka development bond	3,841	-	3,542	-
	36,212,069	29,533,427	35,958,477	28,736,283

### 14.1 Securities pledged as Collateral

Out of the Government securities classified as Financial assets recognised through profit or loss - measured at fair value, the following securities have been pledged as collateral for Repurchase Agreements entered into by the Company as at 31 March 2020.

As at 31 March	Market Value		Face Value	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Treasury bills	17,478,776	536,528	18,360,197	592,262
Treasury bonds	17,803,140	26,325,379	16,704,483	26,251,228
	35,281,916	26,861,907	35,064,680	26,843,490

## Notes to the Financial Statements Contd.

15 Financial assets - at amortised cost	2020 Rs.'000	2019 Rs.'000
Investments under resale agreements - Treasury bills	125,141	176
Investments under resale agreements - Treasury bonds	668,362	1,863,820
	<b>793,503</b>	<b>1,863,996</b>

## 15.1 Securities received as Collateral

	Market Value		Face Value	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Treasury bills	141,470	198	150,000	200
Treasury bonds	758,833	2,098,660	711,137	2,027,700
	<b>900,303</b>	<b>2,098,858</b>	<b>861,137</b>	<b>2,027,900</b>

The Company is entitled to repledge the securities received as collateral for its Borrowings (Repos) and requires to return the said collateral to the respective counterparties at the time of the settlement of outstandings (Reverse Repos). Accordingly, the company has repledged market value of treasury bills amounting to Rs. 141.47Mn and treasury bonds amounting to Rs. 736.96Mn as at 31 March 2020.

The Company follows the guidelines stipulated in the direction on Reverse Repurchase Transactions of Dealer Direct Participants in Scrippless Treasury Bonds and Scrippless Treasury Bills, issued by the Central Bank of Sri Lanka, in receiving securities for reverse repurchase agreements (Direction No. 01 of 2019 dated 20 December 2019). Only the eligible securities are used for such receipts and the Section 4.3, 4.4 and 4.5 are complied with when considering the haircut requirements.

Board of Directors of the company has established an effective risk management framework by implementing necessary policies and procedures to ensure compliance with the said guidelines. An effective internal control system is used to verify the accuracy of security receipts.

16 Financial assets - fair value through other comprehensive income (Investment in Lanka Financial Service Bureau Limited)	2020 Rs.'000	2019 Rs.'000
Balance at the beginning of the year	-	1,000
Investment made during the year	1,000	-
Fair valuation loss	(1,000)	(1,000)
Balance at the end of the year	-	-

  

17 Receivable from Related Companies	2020 Rs.'000	2019 Rs.'000
First Capital Markets Limited	66	-
First Capital Limited	-	33
First Capital Equities (Pvt) Limited	218	10,279
First Capital Asset Management Limited	60	1,278
Kelsey Homes (Pvt) Limited	3	-
Premier Synthetic Leather Manufacturers (Pvt) Limited	13	13
Janashakthi PLC	-	13
	<b>360</b>	<b>11,616</b>

  

18 Deferred Tax Asset	2020 Rs.'000	2019 Rs.'000
Balance at the beginning of the year	806,482	847,635
Reversal in profit or loss during the year	(544,083)	(41,621)
Recognised in other comprehensive income during the year	94	468
Balance at the end of the year	<b>262,493</b>	<b>806,482</b>

18.1 Deferred tax asset is recognised by considering the brought forward tax losses of which, the amount in the opinion of the Directors, will be available to allow the benefit of the loss to be realised in accordance with LKAS 12 and provisions of Inland Revenue Act No. 24 of 2017. The deferred tax asset has been computed at the rate of 28% (2018/19-28%).

Deferred tax is attributable to the followings;

	2020		2019	
	(Taxable) /Deductible Temporary Difference Rs.'000	Tax Effect Rs.'000	(Taxable) /Deductible Temporary Difference Rs.'000	Tax Effect Rs.'000
On Property, Plant and Equipment	(508)	(142)	(529)	(148)
On Retirement benefit obligations	14,331	4,013	11,446	3,205
On Accumulated tax losses	923,650	258,622	2,869,375	803,425
	<b>937,473</b>	<b>262,493</b>	<b>2,880,292</b>	<b>806,482</b>

The Company's brought forward tax losses as at 31 March 2020 amounting to Rs. 7,145 Mn have not been considered for recognition of deferred tax asset due to the uncertainty in claiming such losses as a result of tax assessments raised (31 March 2019 - Rs. 8,203 Mn).

## Notes to the Financial Statements Contd.

19 Other Assets	2020 Rs. '000	2019 Rs. '000
Rent deposit	-	8,531
Advance paid for Land and Premises (Note 33 a)	77,300	77,300
Prepayments and other receivable	16,370	11,131
Staff loans (Note 19.1)	602	744
	94,272	97,706

19.1 Staff Loans	2020 Rs. '000	2019 Rs. '000
Balance as at the beginning of the year	744	331
Disbursements during the year	150	585
Recoveries during the year	(292)	(172)
Balance as at the end of the year	602	744

20 Property, Plant and Equipment and Right of use Assets	Office Equipment Rs. '000	Furnitures Rs. '000	Fixtures & Fittings Rs. '000	Right to Use Asset Rs. '000	2020 Rs. '000	Total 2019 Rs. '000
<b>Cost</b>						
Balance as at 1 April	17,239	7,347	19,052	-	43,638	54,377
Impact on adoption of SLFRS 16	-	-	-	8,531	8,531	-
Adjusted balance as at 1 April	17,239	7,347	19,052	8,531	52,169	54,377
Additions during the year	138	-	-	-	138	309
Disposals during the year	-	-	-	-	-	(11,048)
As at 31 March	17,377	7,347	19,052	8,531	52,307	43,638
<b>Accumulated Depreciation</b>						
As at 1 April	15,988	7,347	19,048	-	42,383	52,983
Charge for the year	451	-	3	2,275	2,729	448
Disposals during the year	-	-	-	-	-	(11,048)
As at 31 March	16,439	7,347	19,051	2,275	45,112	42,383
<b>Carrying Value As at 31 March 2020</b>	<b>938</b>	<b>-</b>	<b>1</b>	<b>6,256</b>	<b>7,195</b>	<b>-</b>
Carrying value As at 31 March 2019	1,251	-	4	-	-	1,255

Based on the assessment of potential impairment carried out by the Company as at 31 March 2020, no provision was required to be made in the Financial Statements.

Property, Plant and Equipment included fully depreciated assets having a gross amount of Rs. 50,038,213 as at 31 March 2020 (2018/19 Rs. 50,038,213).

There were no capitalised borrowing cost related to the acquisition of Property, Plant and Equipment during the year (2018/19 - Nil).

There were no restrictions on the title of the Property, Plant and Equipment as at 31 March 2020.

There were no items of Property, Plant and Equipment pledged as security as at 31 March 2020.

There were no temporary idle items of Property, Plant and Equipment as at 31 March 2020.

20.1 The Company applied SLFRS 16 Leases using modified retrospective method from 1 April 2019, without restating comparatives for the year. Accordingly right to use of assets for lease previously classified as operating lease under LKAS 17 and depreciation charge on right to use of assets have been recognised during the year.

21 Intangible Assets	Software Rs. '000	2020 Rs. '000	Total 2019 Rs. '000
<b>Cost</b>			
As at 1 April	16,542	16,542	14,812
Additions during the year	200	200	1,730
As at 31 March	16,742	16,742	16,542
<b>Accumulated Amortisation/Impairment</b>			
Amortisation			
As at 1 April	15,143	15,143	14,423
Amortisation charge for the year	493	493	720
Balance as at 31 March	15,636	15,636	15,143
<b>Carrying Value as at 31 March 2020</b>	<b>1,106</b>	<b>1,106</b>	<b>-</b>
Carrying Value as at 31 March 2019	-	-	1,399

## Notes to the Financial Statements Contd.

22 Derivative Financial Instruments	2020 Rs.'000	2019 Rs.'000
Forward purchase contracts - Government securities	-	2,638
Forward sale contracts - Government securities	3,118	240
	3,118	2,878

23 Securities sold under Repurchase Agreements	2019 Rs.'000	2018 Rs.'000
Against treasury bills	9,762,388	66,007
Against treasury bonds	22,420,385	27,416,730
	32,182,773	27,482,737

## Securities given as Collateral

	Market Value		Face Value	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Treasury bills	17,620,245	536,528	18,510,197	592,262
Treasury bonds	18,540,104	28,265,479	17,394,483	28,186,978
	36,160,349	28,802,007	35,904,680	28,779,240

The Company follows the guidelines stipulated in the direction on Repurchase Transactions of Dealer Direct Participants in Scripless Treasury Bonds and Scripless Treasury Bills, issued by the Central Bank of Sri Lanka, in allocating securities for repurchase agreements (Direction No. 01 of 2019 dated 20 December 2019). Only the eligible securities are used for such allocations and the Section 4.3, 4.4 and 4.5 are complied with when considering the haircut requirements.

The Company has established an effective risk management framework by implementing necessary policies and procedures to ensure compliance with the said guidelines. An effective internal control system is used to verify the accuracy of security allocations.

24 Payable to Related Companies	2020 Rs.'000	2019 Rs.'000
First Capital Holdings PLC	2,931	-
First Capital Limited	16,040	-
Janashakthi PLC	711	708
KHL Corporate Services Limited	16	8
	19,698	716

25 Taxes Payable	2020 Rs.'000	2019 Rs.'000
Balance as at 1 April	-	-
Impact on adoption of IFRIC 23 (Note 25.1)	439,878	-
Adjusted balance as at 1 April	439,878	-
Provision made during the year	-	-
Balance as at 31 March	439,878	-

25.1 The Company has pending income tax assessments in relation to the chargeability of interest income on Primary Dealer's operations for years of assessment of 2008/09, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 amounting to Rs. 1.2Bn. All of these assessments have been raised by the Department of Inland Revenue against the income tax returns filed by the Company. The Company has appealed against the said assessments and they are currently at different appeal procedure levels.

The Board of Directors of the Company has made an assessment on the impact on initial adoption of IFRIC 23 - Uncertainty over income tax treatment on the above assessments and accordingly has determined a provision for tax liability of Rs. 440Mn as at 1 April 2019 based on the tax consultants' view. Provision made by the Company reflects the most likely amount of liability that the Company would be liable to pay considering the unutilised tax losses of Rs. 1.2Bn which better predicts the resolution of the uncertainty as per IFRIC 23. The said provisions represent Company's assessment of the impact on the financial statements as a result of the initial adoption of IFRIC 23 as at the transition date (1 April 2019) retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings.

## Notes to the Financial Statements Contd.

26 Borrowing on Listed Debentures	2020 Rs.'000	2019 Rs.'000
Balance as at the beginning of the year	511,111	510,689
Debenture Issued during the year	750,000	-
Transaction Cost	(7,485)	-
Accrual of interest	57,170	47,922
Sub Total	1,310,796	558,611
Less : Settlement of interest (Coupon)	(52,454)	(47,500)
Less : Debentures redeemed during the year	(500,000)	-
Balance as at the end of the year	758,342	511,111

26.1 The debentures consist of 7,500,000 Rated, Subordinated, Unsecured, Redeemable 5 year (2020/2025) listed debentures at a face value of Rs. 100/- interest payable at a rate of 12.75% semi - annually issued in January 2020. The debentures are quoted in the Colombo Stock Exchange.

Tenure	No.of Debentures	Face Value Rs.'000	Carrying value 31.03.2020 Rs.'000	Allotment Date	Maturity Date	Rate of Interest	Frequency on Interest
5 Year	7,500,000	750,000	758,342	30-Jan-20	30-Jan-25	12.75% (AER-13.16%)	Semi annually

During the year, the Company redeemed 5,000,000 number of 5 year (2015/20) debentures (Rs. 500,000,000)

27 Retirement Benefit Obligations	2020 Rs.'000	2019 Rs.'000
Balance as at the beginning of the year	11,446	10,974
<b>Amount recognised in Profit or Loss for the year</b>		
Gratuity charge for the year	1,383	1,010
Interest charge for the year	1,164	964
<b>Amount recognised in Other Comprehensive Income for the year</b>		
Actuarial Loss for the year	338	1,672
Benefits paid during the year	-	(2,822)
Transfers to group companies during the year	-	(352)
Balance as at the end of the year	14,331	11,446

As required by Sri Lanka Accounting Standard LKAS 19 - "Employee Benefits", gratuity liability is provided for based on the Projected Unit Credit Method.

27.1 Principal Assumptions used:	2020	2019
Discount rate	10.25%	11.50%
Expected annual average salary increment	8.0%	8.50%
Staff turnover factor	10%	10%
Retirement age of employees	55 Years	55 Years

27.2 Sensitivity of the assumptions used  
Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	2020 Rs.'000	2019 Rs.'000
Decrease in discount rate by 1%	942	784
Increase in discount rate by 1%	(871)	(724)
Decrease in salary increment by 1%	(896)	(750)
Increase in salary increment by 1%	953	799

28 Stated Capital	2020 Rs.'000	2019 Rs.'000
Ordinary Shares of 15,390,000	256,500	256,500

  

29 Risk Reserve	2020 Rs.'000	2019 Rs.'000
Balance as at the beginning of the year	1,082,307	1,072,726
Transfer during the year	120,758	9,581
Balance as at the end of the year	1,203,065	1,082,307

The Company made a transfer of 10% (2018/19-10%) of its profit after tax to the risk reserve in accordance with the directions issued by the Central Bank of Sri Lanka.

### 30 Dividend Paid

The Company paid 1<sup>st</sup> interim dividend of Rs. 16.50 per share amounting to Rs. 253,935,000/- for year 2019/20 in July 2019.

## Notes to the Financial Statements Contd.

### 31 Related Party Disclosures

#### 31.1 Directorships in Other Companies

The Directors of First Capital Treasuries PLC (Reporting Entity) and First Capital Holdings PLC (Parent Company of the Business Cluster) are also Directors of the following companies.

Name of the Company	Relationship	Mr. Nishan Fernando	Mr. Dinesh Schaffter	Mr. Dilshan Wirasekara	Ms. Minette Perera	Mr. Chandana de Silva	Dr. Nishan de Mel	Mr. Prakash Schaffter*	Mr. Ramesh Schaffter**
Janashakthi PLC	Ultimate Parent	-	Director	-	-	Director	-	Director	Director/CEO
Janashakthi Insurance PLC	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	Chairman	Director
Janashakthi Capital Ltd	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	Director	Director
Agrisquad (Private) Ltd	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	Director
Orient Finance PLC	Subsidiary of the Ultimate Parent	-	-	-	Director	-	-	Director	Director
Orient Capital Ltd	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	Director	Director
First Capital Ltd	Immediate Parent	Chairman	Managing Director	Director/CEO	Director	Director	Director	-	-
First Capital Markets Ltd	Subsidiary of the Immediate Parent	Chairman	Managing Director	Director/CEO	Director	Director	Director	-	-
First Capital Asset Management Ltd	Subsidiary of the Immediate Parent	Chairman	Managing Director	Director/CEO	Director	Director	Director	-	-
First Capital Equities (Private) Ltd	Subsidiary of the Immediate Parent	Chairman	Managing Director	Director	Director	Director	Director	-	-
First Capital Trustee Services (Private) Ltd	Subsidiary of the Immediate Parent	-	Managing Director	Director/CEO	-	-	-	-	-
Kelsey Developments PLC	Subsidiary of the Ultimate Parent	-	Director	-	-	Director	-	Director	Director
Kelsey Homes (Private) Ltd	Subsidiary of the Ultimate Parent	-	Managing Director	-	-	-	-	-	-
K H L Corporate Services Ltd	Subsidiary of the Ultimate Parent	-	Director	-	-	-	-	Director	Director
Twid Capital (Private) Ltd	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	-
Thornton Engineering (Private) Ltd	Related Party through KMP	-	Director	-	-	Director	-	-	-
Premier Synthetic Leather Manufacturers (Private) Ltd	Related Party through KMP	-	Director	-	-	Director	-	-	-
Nextventures Ltd	Related Party through KMP	-	Director	-	-	-	-	-	-
Sprout (Private) Ltd	Related Party through KMP	-	-	-	-	-	-	-	-

\* Appointed w.e.f. 5 February 2020.

\*\* Appointed w.e.f. 25 July 2019.

First Capital Asset Management Limited manages licensed Unit Trusts namely First Capital Wealth Fund, First Capital Fixed Income Fund, First Capital Gilt-Edged Fund, First Capital Money Market Fund and First Capital Equity Fund which are also treated as Related Parties of the Company.

The Company carries out transactions with parties who are defined as related parties as per Sri Lanka Accounting Standard (LKAS 24), "Related Party Disclosure", in the ordinary course of its business. The details of such transactions are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the company and is comparable with what is applied to transactions between the Company and its unrelated customers.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

#### 31.2 Transactions with Parent Companies

Nature of Transaction	2019/20 Rs.'000	2018/19 Rs.'000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Interest Income on Resale Agreements	-	60,723
Interest Expenses on Repurchase Agreements	1,310	214
Interest Expense on Debentures	28,810	27,407
Reimbursement of Expenses	8,435	9,860
Gain on Sale of Government Securities	-	526
Interest Expenses on Short-term Borrowings	7,605	47,947
Commitment Fee	5,010	4,575
Corporate Guarantee Charges	5,997	4,560
Brokerage on Debenture borrowing	5,334	-
<b>Statement of Changes in Equity</b>		
Dividend Paid	239,827	-
<b>Statement of Financial Position</b>		
Borrowings on Listed Debentures	243,370	288,375
Short Term Borrowings	-	991,384
Securities Purchased Under Re-sale Agreements (Government Securities)	44,738	-
Transfer of Retirement Benefit Obligations	-	352
Current Account Payable	19,682	708
Current Account Receivable	-	46

## Notes to the Financial Statements Contd.

### 31.3 Transactions with Subsidiaries of the Parent (First Capital Limited)

Nature of Transaction	2019/20 Rs.'000	2018/19 Rs.'000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Interest Expenses on Repurchase Agreements	867	1,528
Interest Income on Repurchase Agreements	-	15
Gain on Sale of Government Securities	-	17
<b>Statement of Financial Position</b>		
Securities sold under Repurchase agreements (Government Securities)	6,142	17,865
Current Account Receivables	344	11,557
Current Account Payable	-	-

### 31.4 Transaction with other related parties

Nature of Transaction	2019/20 Rs.'000	2018/19 Rs.'000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Interest Income on Resale Agreements	278	100
Gain on Sale of Government Securities	65,025	681
Interest Expenses on Repurchase Agreements	71,354	166,800
Secretarial Fees paid	307	306
<b>Statement of Financial Position</b>		
Securities Purchased Under Re-sale Agreements (Government Securities)	125,141	-
Securities Sold under Repurchase Agreements (Government Securities)	662,162	378,447
Current Account Payables	16	8
Current Account Receivables	16	13

Outstanding trading investments (Resale agreements with parent company) at year end are secured (i.e. collateralised via assets without guarantees). Other investments and current account balances with related parties are unsecured. The settlement of all transactions occurs in cash. No expenses have been recognised in the current year or previous years for bad or doubtful debts in respect of amounts owed by related parties.

### 31.5 Transactions with Key Management Personnel (KMP) and their Close Family Members (CFM)

According to Sri Lanka Accounting Standards LKAS 24 "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of the entity. Accordingly, the Board of Directors have been classified as key management personnel of the entity.

Close Family Members of a Key Management Person are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Entity. They may include;

- The individual's domestic partner and children;
- Children of the individual's domestic partner; and
- Dependants of the individual or individual's domestic partner

Close Family Members are related parties to the Entity.

Transactions with Key Management Personnel and their close family members are disclosed below.

Nature of Transaction	2019/20 Rs.'000	2018/19 Rs.'000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Emoluments Paid - Short Term Benefits	86,751	9,223
Interest Income on Resale Agreements	202	71
Interest Expense on Repurchase Agreements	612	546
<b>Statement of Financial Position</b>		
Securities Purchased under Re-sale Agreements (Against government securities)	-	5,019
Securities Sold under Re-purchase Agreements (Against government securities)	7,172	6,572

## Notes to the Financial Statements Contd.

### 32 Contingent Liabilities

There were no material contingent liabilities as at the reporting date which require disclosures in the financial statements for the year ended 31 March 2020 other than the followings:

-The Company has appealed against assessments on financial VAT in year of assessments 2010/11, 2012/13, 2013/14, 2014/15, 2015/16 amounting to Rs. 310.1Mn to the Tax Appeals Commission. Hearing of the said appeals has not been concluded yet.

-Further, The Company has a appealed against assessments on financial VAT (2016/17 and 2017/18) and NBT on financial services (2016/17 and 2017/18) amounting to Rs.169Mn and 23.2Mn respectively to the Department of Inland Revenue and hearing has not been determined yet.

The related appeals against the said assessments have duly been submitted. Based on the tax consultant's opinion, the Board of Directors of the Company is of the view that no liability would arise on the above stated tax matters as they are outside the scope of chargeability of taxes.

There were no material litigations or claims with respect to employee compensation. Further, the Company did not have any other material litigations or claims that could have a material impact on the financial position of the company, or which would lead to a disclosure in the financial statements for the year ended 31 March 2020.

### 33 Commitments

There were no material capital commitments as at the reporting date which require disclosures in the financial statements other than those disclosed below:

#### (a) Capital Commitments

The Company entered into a sale and purchase agreement to acquire a property (land and premises) for a consideration of Rs. 382Mn and an advance of Rs. 77.3Mn was paid. However, in consequent to the seller failing to honor the terms of the agreement, legal proceedings were initiated against the seller and the District Court granted an interim order in favour of the Company, against the Seller disposing and alienating the property to any third party. The legal proceedings have not been concluded yet.

#### (b) Other Commitments

The value of forward purchase contracts (Government Securities) as at 31 March 2020 is Rs. 639 Mn (31 March 2019 - Rs. 4,982 Mn) and the value of forward sales contracts (Government Securities) as at 31 March 2020 is Rs. 967 Mn (31 March 2019 - Rs. 156 Mn).

### 34 Events after the Reporting Period

There were no material events after the reporting period, which require disclosures/ adjustments in the financial statements other than disclose below;

- The Board of Directors of the Company declared 2<sup>nd</sup> interim dividend of Rs. 35/- per share amounting to Rs. 538,650,000/- for year 2019/20 in April 2020.

### 35 Impact of COVID-19 Pandemic

On 11 March 2020, the World Health Organisation declared COVID-19 as a Global Pandemic situation. The pandemic has significantly affected the Sri Lankan economy as well as the business environment. The situation has started before the financial year end, and has been continued so far effecting many aspects of the country. With the declaration of COVID-19 as a Global Pandemic situation and in response to the serious threat imposed on public health and safety, Sri Lankan Government enforced several measures to control the pandemic such as entry restrictions for foreigners, movement restrictions between districts and later island wide curfew was imposed from 20 March 2020 onwards.

Accordingly, the Company followed the government guidelines and acted to ensure the safety of employees, stakeholder and business partners. The COVID-19 Pandemic had a moderate impact on the Company's general business routines. Since the Company is equipped with a strong Business Continuity Plan, it was better prepared to face the situation when the Government imposed curfew on 20 March 2020. The Company had adequate infrastructure in place to face such emergency and therefore the impact on the business operations was minimal.

The Company has considered the said situation as an adjusting event and has evaluated and determined the extent of the development after the reporting date also in the current reporting period. All relevant and adequate adjustments have been incorporated in the financial statements. However, the outbreak of COVID-19 did not have a significant impact on the performance, liquidity and valuation of assets of the Company. Subsequent to COVID-19 pandemic, Central Bank of Sri Lanka reduced the policy rates in 4 instances (March, April, May and July 2020) which resulted in a favorable impact on the Company's performance.

## Notes to the Financial Statements Contd.

### 36 Financial Risk Management

#### Overview

The Company has exposure to the following risks via financial instruments.

- Market Risk
- Liquidity Risk
- Credit Risk
- Operational Risk

#### 36.1 Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has established an Enterprise Risk Management Committee (ERMC) which is tasked with reviewing wide-ranging risk categories that includes market, liquidity, credit and operational risk. Functionally, ERMC identifies, measures, monitors and controls risk while keeping the Board of Directors informed.

The Company's risk management policies are established to identify and analyse the risk confronted by the Company, to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and products and services offered.

#### 36.2 Market Risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk includes the following elements:

- The operational authority for managing market risk is vested with the Investment Committee (IC).
- Interest rate risk is managed within the approved limits by the Investment Committee.

#### 36.3 Liquidity Risk

Liquidity risk is the risk that the Company will not have adequate financial resources to meet Company's obligations as when they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

- Taking steps to ensure, as far as possible, that it will always have adequate financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

#### Maturity Analysis of Financial Assets and Financial Liabilities

As at 31 March 2020	Carrying Amount Rs. '000	On demand Rs. '000	Upto 3 Months Rs. '000	3 Months to 1 Year Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 Years Rs. '000
<b>Assets</b>							
Cash at banks and in hand	8,361	8,361	-	-	-	-	-
Derivative financial instruments	2,734	-	-	2,734	-	-	-
Financial assets recognised through profit or loss - measured at fair value	36,212,069	-	4,804	18,299,851	10,203,506	6,835,152	868,013
Financial assets - at Amortised cost	793,503	-	793,503	-	-	-	-
Receivable from related companies	360	360	-	-	-	-	-
<b>Total</b>	<b>37,017,027</b>	<b>8,721</b>	<b>798,307</b>	<b>18,302,585</b>	<b>10,203,506</b>	<b>6,835,152</b>	<b>868,013</b>
As at 31 March 2019	31,414,637	13,760	1,895,829	637,468	22,650,182	2,085,950	4,131,448
<b>Liabilities</b>							
Derivative financial instruments	3,118	-	3,118	-	-	-	-
Securities sold under repurchase agreements	32,182,773	-	4,920,780	27,252,398	5,673	-	3,922
Payable to related companies	19,698	19,698	-	-	-	-	-
Borrowing on Debentures	758,342	-	-	8,342	-	750,000	-
<b>Total</b>	<b>32,963,931</b>	<b>19,698</b>	<b>4,923,898</b>	<b>27,260,740</b>	<b>5,673</b>	<b>750,000</b>	<b>3,922</b>
As at 31 March 2019	28,004,102	7,376	26,496,070	729,664	767,419	-	3,573

## Notes to the Financial Statements Contd.

### 36.4 Credit Risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's investment in reverse repo agreements and forward transactions.

Management of credit risk includes the following components:

- Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Limiting concentration of exposures to counterparties.
- Reviewing compliance through regular audits by internal audit.

#### Credit Quality by Class of Financial Assets

As at 31 March 2020	Neither Past due nor impaired Rs. '000	Past due but not impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
<b>Assets</b>				
Cash at banks and in hand	8,361	-	-	8,361
Derivative financial instruments	2,734	-	-	2,734
Financial assets recognised through profit or loss - measured at fair value	36,212,069	-	-	36,212,069
Financial assets - at Amortised cost	793,503	-	-	793,503
Receivable from related companies	360	-	-	360
<b>Total</b>	<b>37,017,027</b>	<b>-</b>	<b>-</b>	<b>37,017,027</b>

#### As at 31 March 2019

<b>Assets</b>				
Cash at banks and in hand	2,144	-	-	2,144
Derivative financial instruments	3,454	-	-	3,454
Financial investments - Held for trading	29,533,427	-	-	29,533,427
Financial assets - at Amortised cost	1,863,996	-	-	1,863,996
Receivable from related companies	11,616	-	-	11,616
<b>Total</b>	<b>31,414,637</b>	<b>-</b>	<b>-</b>	<b>31,414,637</b>

#### Analysis of Concentration Risk

The following table shows the risk concentration by sector for the components of Statement of Financial Position.

#### As at 31 March 2020

	Cash at Banks and in Hand Rs. '000	Derivative Financial Instruments Rs. '000	Financial assets recognised through profit or loss - measured at fair value Rs. '000	Financial assets - at Amortised cost Rs. '000	Financial assets fair value through other comprehensive income Rs. '000	Receivable from Related Companies Rs. '000
<b>Sector wise breakdown</b>						
Government	-	-	36,212,069	-	-	-
Corporate	8,361	2,734	-	287,663	-	360
Others	-	-	-	505,840	-	-
<b>Total</b>	<b>8,361</b>	<b>2,734</b>	<b>36,212,069</b>	<b>793,503</b>	<b>-</b>	<b>360</b>

#### As at 31 March 2019

<b>Sector wise breakdown</b>						
Government	-	-	29,533,427	-	-	-
Corporate	2,144	3,454	-	854,080	-	11,616
Others	-	-	-	1,009,916	-	-
<b>Total</b>	<b>2,144</b>	<b>3,454</b>	<b>29,533,427</b>	<b>1,863,996</b>	<b>-</b>	<b>11,616</b>

## Notes to the Financial Statements Contd.

### 36.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including 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.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within department. This responsibility is supported by the development of overall Company's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of the transaction.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Development of business contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Company's internal controls and procedures is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management of the Company with summaries submitted to the Audit Committee.

### 37 Financial Instruments - Fair Value Measurement

#### Level- 1

Financial Instruments that are measured in whole or in part by reference to published quotes in an active market. A Financial Instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### Level- 2

Financial instruments that are measured at fair value on regular basis. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined using relevant information generated by the market transactions involving comparable securities.

#### Level- 3

Financial Instruments that are not supported by observable market prices information.

The following tables compare the fair values of the financial instruments with their carrying values.

#### 37.1 As at 31 March 2020

	2020		2019	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
<b>Financial Assets measured at Fair Value</b>				
Derivative financial instruments	2,734	2,734	3,454	3,454
Financial assets recognised through profit or loss - measured at fair value	36,212,069	36,212,069	29,533,427	29,533,427
Financial assets - fair value through other comprehensive income	-	-	-	-
<b>Financial Assets not measured at Fair Value</b>				
Cash at banks and in hand	8,361	8,361	2,144	2,144
Financial assets - at amortised cost	793,503	793,503	1,863,996	1,863,996
Receivable from related companies	360	360	11,616	11,616
<b>Total Financial Assets</b>	<b>37,017,027</b>	<b>37,017,027</b>	<b>31,414,637</b>	<b>31,414,637</b>

## Notes to the Financial Statements Contd.

### 37.1 Fair Value Versus the Carrying Amount

As at 31 March

	2020		2019	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
<b>Financial Liabilities measured at Fair Value</b>				
Derivative financial instruments	3,118	3,118	2,878	2,878
<b>Financial Liabilities not measured at Fair Value</b>				
Bank Overdraft	-	-	6,660	6,660
Securities sold under re -purchase agreements	32,182,773	32,209,225	27,482,737	27,484,820
Payable to related companies	19,698	19,698	716	716
Short term Borrowings	-	-	991,384	991,384
Borrowing on Debentures	758,342	772,145	511,111	499,792
<b>Total Financial Liabilities</b>	<b>32,963,931</b>	<b>33,004,186</b>	<b>28,995,486</b>	<b>28,986,250</b>

### 37.2 Financial Instruments - Fair Value

The following tables show an analysis of financial instruments at fair value and by level of fair value hierarchy.

As at 31 March 2020	Total Carrying Value Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
<b>Financial Assets measured at Fair Value</b>					
Derivative Financial Instruments					
Forward purchase contracts	2,734	2,734	-	-	2,734
Forward sale contracts	-	-	-	-	-
	2,734	2,734	-	-	2,734
<b>Financial assets recognised through profit or loss - measured at fair value</b>					
Investment in government securities	36,212,069	36,212,069	-	-	36,212,069
	36,212,069	36,212,069	-	-	36,212,069
<b>Financial assets fair value through other Comprehensive Income</b>					
	-	-	-	-	-
	36,214,803	36,214,803	-	-	36,214,803
<b>Financial Assets not measured at Fair Value</b>					
Cash at Banks and in Hand	8,361	-	-	8,361	8,361
Financial assets - at Amortised cost	793,503	-	-	793,503	793,503
Receivable from Related Companies	360	-	-	360	360
	802,224	-	-	802,224	802,224
<b>Total Financial Assets</b>	<b>37,017,027</b>	<b>36,214,803</b>	<b>-</b>	<b>802,224</b>	<b>37,017,027</b>
<b>Financial Liabilities measured at Fair Value</b>					
Derivative Financial Instruments					
Forward purchase contracts	-	-	-	-	-
Forward sale contracts	3,118	3,118	-	-	3,118
	3,118	3,118	-	-	3,118
<b>Financial Liabilities not measured at Fair Value</b>					
Bank Overdrafts	-	-	-	-	-
Securities sold under Re Purchase Agreements	32,182,773	-	-	32,209,225	32,209,225
Payable to Related Companies	19,698	-	-	19,698	19,698
Borrowing on Listed Debentures	758,342	-	772,145	-	772,145
	32,960,813	-	772,145	32,228,923	33,001,068
<b>Total Financial Liabilities</b>	<b>32,963,931</b>	<b>3,118</b>	<b>772,145</b>	<b>32,228,923</b>	<b>33,004,186</b>

## Notes to the Financial Statements Contd.

As at 31 March 2019	Total Carrying Value Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
<b>Financial Assets measured at Fair Value</b>					
<b>Derivative Financial Instruments</b>					
Forward purchase contracts	3,454	3,454	-	-	3,454
Forward sale contracts	-	-	-	-	-
	3,454	3,454	-	-	3,454
<b>Financial assets recognised through profit or loss - measured at fair value</b>					
Investment in government securities	29,533,427	29,533,427	-	-	29,533,427
	29,533,427	29,533,427	-	-	29,533,427
<b>Financial assets - fair value through other comprehensive income</b>					
	-	-	-	-	-
	29,536,881	29,536,881	-	-	29,536,881
<b>Financial Assets not measured at Fair Value</b>					
Cash at Banks and in Hand	2,144	-	-	2,144	2,144
Financial assets - at Amortised cost	1,863,996	-	-	1,863,996	1,863,996
Receivable from Related Companies	11,616	-	-	11,616	11,616
	1,877,756	-	-	1,877,756	1,877,756
<b>Total Financial Assets</b>	<b>31,414,637</b>	<b>29,536,881</b>	<b>-</b>	<b>1,877,756</b>	<b>31,414,637</b>
<b>Financial Liabilities measured at Fair Value</b>					
<b>Derivative Financial Instruments</b>					
Forward purchase contracts	2,638	2,638	-	-	2,638
Forward sale contracts	240	240	-	-	240
	2,878	2,878	-	-	2,878
<b>Financial Liabilities not measured at Fair Value</b>					
Bank Overdraft	6,660	-	-	6,660	6,660
Securities sold under Re purchase Agreements	27,482,737	-	-	27,484,820	27,484,820
Payable to Related Companies	716	-	-	716	716
Short-term Borrowings	991,384	-	-	991,384	991,384
Borrowing on Listed Debentures	511,111	-	499,792	-	499,792
	28,992,608	-	499,792	28,483,580	28,983,372
<b>Total Financial Liabilities</b>	<b>28,995,486</b>	<b>2,878</b>	<b>499,792</b>	<b>28,483,580</b>	<b>28,986,250</b>

## INFORMATION ON LISTED DEBENTURES

### 1 Information of Listed Debentures

Allotment Date	Frequency on Interest Payment	No. of Debentures Issued and Allotted	Face Value Rs.000	Rate of Interest	Tenure	Date Of Maturity
30-Jan-2020	Semi-annually	7,500,000	750,000	12.75% (AER - 13.16%)	5 Years	30-Jan-2025

### 2 Objectives of the Issue

The Company has achieved the following objectives as stipulated in the prospectus issued to raise Rs. 750Mn via the Debenture Issue made in January 2020.

Objective as per prospectus	Amount allocated as per Prospectus in Rs.	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amount Utilised in Rs. (B)	% of Utilisation against allocation (B / A)
1.To finance the redemption of Listed Debentures matured on 6 February 2020	500Mn	500Mn	66.67%	500Mn	100%
2.To invest in Government Securities	250Mn	250Mn	33.33%	250Mn	100%

### 3 Market Value as at 31 March 2020

Debentures have not been traded during the year ended 31 March 2020. Hence, the par value has been recognised as respective market value.

Debenture Interest Yield	As at 31-03-2020	As at 31-03-2019
5 year fixed rate (12.75 % p.a. payable semi annually)	12.75%	N/A
Yield of Comparable Government Securities	As at 31-03-2020	As at 31-03-2019
5 Year treasury bond	9.25%	9.99%

### 4 Debt Ratios

	As at 31-03-2020	As at 31-03-2019
Debt/ equity ratio (times)	8.73	8.99
Quick asset ratio (times)	1.14	1.10
Interest cover (times)	1.86	1.06

### 5 Credit Ratings

ICRA Lanka Limited re-affirmed the credit rating of A- for the Company and the rating of long term debts (debentures) of BBB+.

## FIVE YEAR SUMMARY

Year ended 31 March	2020 Rs. '000	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>TRADING RESULTS</b>					
Gross income	3,708,401	2,671,869	2,510,251	2,536,109	847,442
Profit before tax	1,751,660	137,428	823,406	343,765	11,213
Tax (charge)/ Reversal	(544,083)	(41,621)	847,465	-	-
Profit after tax	1,207,577	95,807	1,670,871	343,765	11,213
Other comprehensive income/ (expense)	(1,244)	(2,204)	(438)	4,410	(697)
Total comprehensive income	1,206,333	93,603	1,670,433	348,175	10,516
<b>As at 31 March</b>	<b>2020 Rs. '000</b>	<b>2019 Rs. '000</b>	<b>2018 Rs. '000</b>	<b>2017 Rs. '000</b>	<b>2016 Rs. '000</b>
<b>FINANCIAL POSITION</b>					
<b>ASSETS</b>					
Cash at banks and in hand	8,361	2,144	3,077	13,731	1,382
Derivative financial instruments	2,734	3,454	47,868	24,075	40,861
Financial assets recognised through profit or loss - measured at fair value	36,212,069	29,533,427	23,376,073	15,384,251	9,206,856
Financial assets -fair value through other comprehensive income	-	-	1,000	1,000	1,000
Financial assets - at Amortised cost	793,503	1,863,996	968,887	6,369,562	5,903,738
Deferred tax asset	262,493	806,482	847,635	-	-
Property, plant and equipment and Right of use Assets	7,195	1,255	1,393	2,581	5,697
Other assets	96,246	112,189	256,751	144,336	151,658
<b>TOTAL ASSETS</b>	<b>37,382,601</b>	<b>32,322,947</b>	<b>25,502,684</b>	<b>21,939,536</b>	<b>15,311,192</b>
<b>LIABILITIES</b>					
Bank overdrafts	-	6,660	2,759	-	1,532
Derivative financial instruments	3,118	2,878	21,659	2,240	20,835
Securities sold under re-purchase agreements	32,182,773	27,482,737	21,691,825	19,677,003	13,271,621
Short term borrowings	-	991,384	-	-	-
Tax payables	439,878	-	-	-	-
Retirement benefit obligations	14,331	11,446	10,974	8,600	12,327
Borrowings on listed debentures	758,342	511,111	510,689	510,304	509,953
Other liabilities	246,756	91,848	133,498	80,472	57,523
<b>TOTAL LIABILITIES</b>	<b>33,645,198</b>	<b>29,098,064</b>	<b>22,371,404</b>	<b>20,278,619</b>	<b>13,873,791</b>
<b>EQUITY</b>					
Stated capital	256,500	256,500	256,500	256,500	256,500
Risk reserve	1,203,065	1,082,307	1,072,726	905,639	871,262
Retained earnings	2,279,838	1,887,076	1,802,054	498,778	309,639
Fair Valuation Reserve	(2,000)	(1,000)	-	-	-
<b>TOTAL EQUITY</b>	<b>3,737,403</b>	<b>3,224,883</b>	<b>3,131,280</b>	<b>1,660,917</b>	<b>1,437,401</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>37,382,601</b>	<b>32,322,947</b>	<b>25,502,684</b>	<b>21,939,536</b>	<b>15,311,192</b>

## NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of First Capital Treasuries PLC will be held on Wednesday, 30 September 2020 at the Board Room of the Company at No.2, Deal Place, Colombo 3 at 10.15 a.m. to transact the following businesses.

1. To receive the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 March 2020 together with the report of the Auditors thereon.
2. To re-elect Mr. Chandana de Silva who retires by rotation in terms of Article 90 of the Articles of Association of the Company and offers himself for re-election.
3. To re-appoint Mr. Prakash Schaffter who was appointed to the Board on 5 February 2020, in terms of Article 96 of the Articles of Association of the Company and offers himself for re-election.
4. To re-appoint Messrs. KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.
5. To authorise the Directors to determine and make donations.

(Sgd.)  
K H L Corporate Services Limited  
Secretaries

At Colombo

24 August 2020

### Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.
2. A proxy need not be a member of the Company.
3. A Form of Proxy is enclosed for this purpose.
4. The Completed Form of Proxy must be deposited at the Office of the Secretaries, No.15, Walukarama Road, Colombo 3 not less than 48 hours before the time fixed for the meeting.

## FORM OF PROXY

I / We, ..... of .....  
.....being a Member/s of First Capital Treasuries PLC, hereby  
appoint

Mr/Mrs/Miss .....  
.....(holder of NIC No. .... ) of .....  
..... whom failing,

- |    |                        |             |
|----|------------------------|-------------|
| 1. | Mr. Nishan Fernando    | failing him |
| 2. | Mr. Dinesh Schaffter   | failing him |
| 3. | Mr. Prakash Schaffter  | failing him |
| 4. | Mr. Ramesh Schaffter   | failing him |
| 5. | Mr. Chandana de Silva  | failing him |
| 6. | Ms. Minette Perera     | failing her |
| 7. | Dr. Nishan de Mel      | failing him |
| 8. | Mr. Dilshan Wirasekara |             |

as my/our Proxy to represent me / us and vote on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 30 September 2020 at the Board Room of the Company at No. 2, Deal Place, Colombo 3 at 10.15 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Please indicate your preference by placing a 'X' in the box of your choice against each Resolution.

	FOR	AGAINST
1. Receive the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 March 2020 together with the report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Re-election of Mr. Chandana de Silva who retires by rotation in terms of Article 90 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. Re-appointment of Mr. Prakash Schaffter who was appointed to the Board on 5 February 2020.	<input type="checkbox"/>	<input type="checkbox"/>
4. Re-appointment of Messrs KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and authorising the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. Authorising Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this ..... day of ..... 2020.

Signature/s.....

.....  
Shareholder's N.I.C./P.P./Co. Reg. No.

## FORM OF PROXY Contd.

### INSTRUCTIONS FOR THE COMPLETION OF THE FORM OF PROXY

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address, by signing in the space provided and fill in the date of signature and your National Identity Card Number.
2. The completed Form of Proxy should be deposited at the Office of the Secretaries, K H L Corporate Services Limited of No. 15, Walukarama Road, Colombo 3, 48 hours before the time appointed for the holding of the meeting.
3. If an Attorney has signed the Form of Proxy, the relative Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the Shareholder is a company or a corporate body, the Proxy should be executed under its Common Seal in accordance with its Articles of Association or Constitution.
5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

## CORPORATE INFORMATION

Name of Company	-	First Capital Treasuries PLC
Legal Form	-	Public Limited Liability Company listed on the Colombo Stock Exchange (Incorporated in Sri Lanka on 19 August 1982)
Company Registration Number	-	PB 127/PQ
Registered Office	-	No. 2, Deal Place Colombo 3 Sri Lanka
Board of Directors	-	Mr. Nishan Fernando Mr. Dinesh Schaffter Mr. Dilshan Wirasekara Mr. Prakash Schaffter Mr. Ramesh Schaffter Ms. Minette Perera Mr. Chandana de Silva Dr. Nishan de Mel
Secretaries	-	K H L Corporate Services Limited No. 15, Walukarama Road Colombo 3 Tel: 0112 145030
Registrars	-	SSP Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 3 Tel: 0112 573894
External Auditors	-	Messrs KPMG Chartered Accountants 32 A, Sir Mohamad Macan Marker Mawatha P.O. Box 186 Colombo 3
Principal Bankers	-	Seylan Bank PLC Bank of Ceylon People's Bank Commercial Bank of Ceylon PLC Hatton National Bank PLC NDB Bank PLC



**2019/20**

**First Capital Treasuries PLC**  
Annual Report