

Annual Report 2018/19



Fostering Leadership



LAL LANKA ASHOK LEYLAND PLC

VISION

To be the leading Corporate stakeholder in nation's transportation infrastructure

MISSION

To cultivate a flexible and productive workforce centered on our customer's needs and requirements, capable to quickly adapt and innovate transport solutions to become the most trusted partner for mobility solutions in the Country



2016/17



2017/18

Lanka Ashok Leyland PLC won the Silver Award for the second consecutive year for its Annual Report in the "Automobile Category" at the Fifty Fourth Annual Report Award Ceremony - 2018 organised by Institute of Chartered Accountants of Sri Lanka.

CONTENTS

| | |
|--|--------|
| About the Company..... | 04 |
| Financial Highlights | 05-07 |
| Chief Executive Officer's Review | 09-10 |
| Board of Directors | 11-13 |
| Annual Report of the Board of Directors..... | 14-17 |
| Corporate Governance..... | 18-25 |
| Audit Committee Report..... | 26 |
| Remuneration Committee Report | 27 |
| Nomination Committee Report | 28 |
| Related Party Transaction Review Committee Report..... | 29 |
| Director's Statement on Internal Controls..... | 30 |
| Management of Risk..... | 31-34 |
| Financial Reports | 35 |
| The Statement of Director's Responsibilities..... | 36 |
| Financial Calendar | 37 |
| Independent Auditor's Report..... | 38-40 |
| Statement of Profit or Loss and Other Comprehensive Income | 41 |
| Statement of Financial Position..... | 42 |
| Statement of Changes in Equity | 43 |
| Statement of Cash Flows | 44 |
| Notes to the Financial Statements | 45-89 |
| Value Added Statement | 90 |
| Share Information | 91 |
| Decade at a Glance | 92-93 |
| Distribution Network..... | 94 |
| Glossary | 95-96 |
| Notice of Meeting..... | 97 |
| Corporate Information..... | 98 |
| Form of Proxy..... | 99-100 |





ABOUT THE COMPANY

Lanka Ashok Leyland PLC was incorporated in 1982, as a joint venture Company between Ashok Leyland Limited, India and Lanka Leyland Limited, a fully owned Company of the Government of Sri Lanka. The Company was Listed in Colombo Stock Exchange in 1983. Lanka Ashok Leyland PLC has 16 sales outlets and 22 authorized service centers spread throughout the country and the main factory compound is located at Panagoda, Homagama.

MAIN ACTIVITIES

The main activities are:

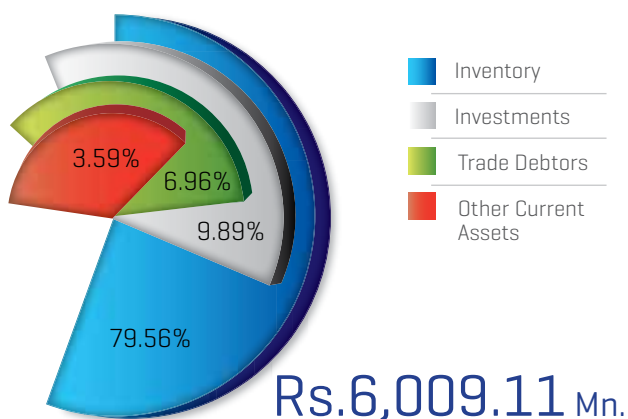
- Import and marketing of Commercial Vehicles, Spare Parts and Power Generators.
- Fabrication of bowsters, other steel and aluminum bodies for Trucks.
- Truck body building for special requirements and building of driver's cabins.
- Rehabilitation of old and accidental vehicles.
- Provide day to day running repairs and services.
- Assembly and progressive manufacture of Ashok Leyland commercial vehicles, with technical assistance from Ashok Leyland Limited, India.
- Let vehicles on hire.

Lanka Ashok Leyland PLC is an ISO 9001:2015 certified Company on Quality Management System of Marketing, Body Building and Repair of Commercial Vehicles.

FINANCIAL HIGHLIGHTS

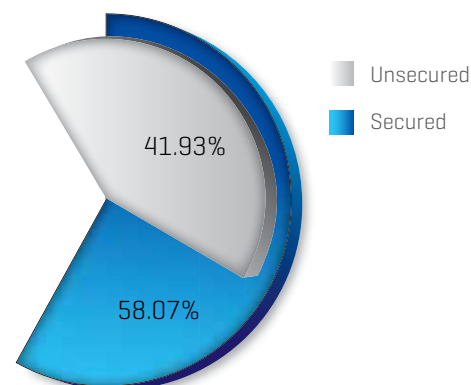
Rs. 3,313.63 Mn.
NET WORTH

TOTAL ASSETS



| INVESTMENTS / OTHER NON CURRENT ASSETS | VALUE (RS.) |
|--|----------------------|
| Fixed Assets | 548,284,634 |
| Intangible Assets | 13,067,782 |
| Financial Investments | 75,566 |
| Deferred Tax Asset | 32,635,423 |
| SUBTOTAL | 594,063,405 |
| INVENTORY | VALUE (RS.) |
| Vehicles | 3,655,114,739 |
| Spare Parts | 486,905,119 |
| Generators | 15,814,060 |
| Cab/Bodies & Work in Progress | 37,655,111 |
| Goods in Transit | 585,827,931 |
| SUBTOTAL | 4,781,316,960 |
| TRADE DEBTORS | VALUE (RS.) |
| Lease Customers | 95,354,364 |
| Other Customers | 322,706,530 |
| SUBTOTAL | 418,060,894 |
| OTHER CURRENT ASSETS | VALUE (RS.) |
| Related Party Receivables | 153,273 |
| VAT/ Tax Recoverable | 84,408,658 |
| Advance/Deposit/Margin/Pre-payment | 85,878,682 |
| Other Receivables | 35,403,109 |
| Cash and Cash Equivalent | 9,823,924 |
| SUBTOTAL | 215,667,646 |

TOTAL LIABILITIES



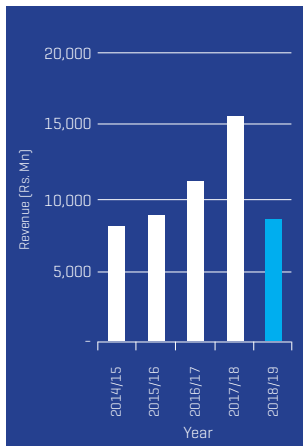
| UNSECURED | VALUE (RS.) |
|-------------------------------------|----------------------|
| Retirement Benefits | 84,498,498 |
| Trade Payables | 224,144,357 |
| Accrued Expenses | 95,791,202 |
| Amount due to Related Party | 540,890,074 |
| Other Payables & Warranty Provision | 184,829,283 |
| SUBTOTAL | 1,130,153,414 |

| SECURED | VALUE (RS.) |
|-----------------|----------------------|
| Import Loans | 1,523,125,333 |
| Bank Overdraft | 42,200,923 |
| SUBTOTAL | 1,565,326,256 |

FINANCIAL HIGHLIGHTS (Contd.)

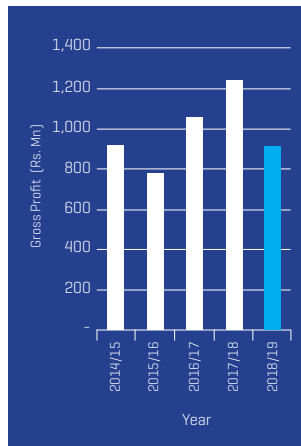
TURNOVER (RS.)

8,627,775,017



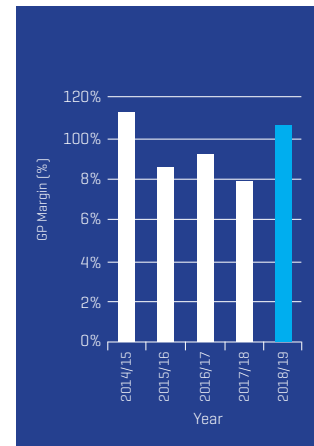
GROSS PROFIT (RS.)

914,300,700



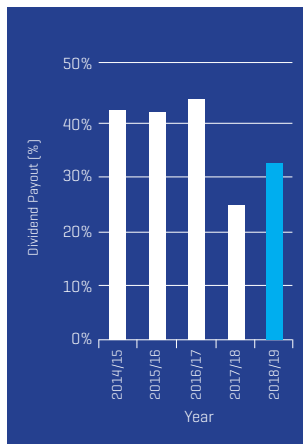
GP MARGIN

10.60%



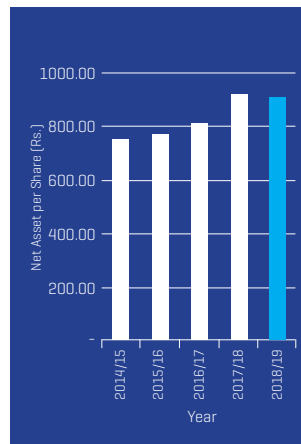
DIVIDEND PAYOUT

33.69%



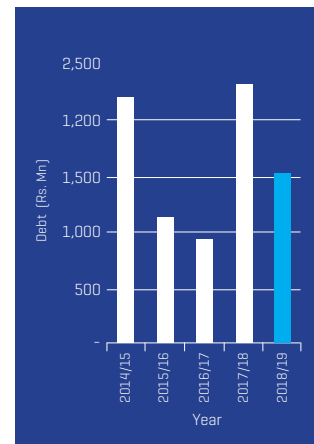
NET ASSET PER SHARE (RS.)




915.15



DEBT (RS.)

1,523,125,333



| KEY PERFORMANCE INDICATORS | THIS YEAR (2018/19) | LAST YEAR (2017/18) | | % CHANGE | 5 YEAR TREND |
|---------------------------------------|------------------------|------------------------|---|-------------|---|
| OPERATING RESULTS | | | | | |
| TURNOVER [RS.] | 8,627,775,017 | 15,565,076,832 | ↓ | -45% |  |
| GROSS PROFIT [RS.] | 914,300,700 | 1,242,595,581 | ↓ | -26% |  |
| OPERATING PROFIT [RS.] | 332,883,307 | 729,223,614 | ↓ | -54% |  |
| PROFIT BEFORE TAX [RS.] | 116,928,902 | 683,302,046 | ↓ | -83% |  |
| PROFIT AFTER TAX [RS.] | 107,461,195 | 504,117,476 | ↓ | -79% |  |
| DIVIDEND [RS.] | 36,208,430 | 126,729,505 | ↓ | -71% |  |
| CAPITAL STRUCTURE | | | | | |
| EQUITY [RS.] | 3,313,629,235 | 3,338,659,544 | ↓ | -1% |  |
| DEBT [RS.] | 1,523,125,333 | 2,320,488,088 | ↓ | -34% |  |
| PROFITABILITY INDICATOR RATIOS | | | | | |
| GP MARGIN [%] | 10.6% | 8.0% | ↑ | 33% |  |
| NP MARGIN [%] | 1.2% | 3.2% | ↓ | -62% |  |
| ROA [%] | 1.8% | 7.1% | ↓ | -75% |  |
| ROE [%] | 3.2% | 15.1% | ↓ | -79% |  |
| ROCE [%] | 6.9% | 12.9% | ↓ | -47% |  |
| LIQUIDITY MEASUREMENT RATIOS | | | | | |
| CURRENT RATIO [NO OF TIMES] | 2.07 | 1.77 | ↑ | 17% |  |
| QUICK RATIO [NO OF TIMES] | 0.24 | 0.25 | ↓ | -3% |  |
| DEBT RATIOS | | | | | |
| GEARING RATIO [%] | 31% | 41% | ↓ | -23% |  |
| INTEREST COVER [NO OF TIMES] | 1.51 | 5.16 | ↓ | -71% |  |
| EQUITY RATIOS | | | | | |
| NET ASSET PER SHARE [Rs.] | 915.15 | 922.07 | ↓ | -1% |  |
| EPS [Rs.] | 29.68 | 139.23 | ↓ | -79% |  |
| DPS [Rs.] | 10.00 | 35.00 | ↓ | -71% |  |
| PE RATIO | 21.16 | 7.11 | ↑ | 197% |  |
| DIVIDEND PAYOUT [%] | 34% | 25% | ↑ | 34% |  |
| MARKET VALUE PER SHARE [Rs.] | 628.00 | 990.50 | ↓ | -37% |  |
| HIGHEST MARKET VALUE [Rs.] | 1,000.00 | 1,350.00 | ↓ | -26% |  |
| LOWEST MARKET VALUE [Rs.] | 600.00 | 985.00 | ↓ | -39% |  |
| MARKET CAPITALIZATION [Rs.] | 2,273,889,404 | 3,586,444,992 | ↓ | -37% |  |



THE CHIEF EXECUTIVE OFFICER'S REVIEW

On behalf of the company, I am pleased to present the annual review of Lanka Ashok Leyland PLC for the fiscal year 2018/19.

The Economy in 2018

According to the World Bank Economic Outlook, the global economy grew 3.6% in 2018, a marginal decline from 2017 but continuing a trend that began in 2016. Global output continued to be driven by strong economic growth in the USA, however looming risks such as trade tensions, a slowdown in China, Brexit negotiations and political turmoil in countries such as Turkey, Argentina and Venezuela have become more acute of late. Global growth is projected to record 3.3% in 2019 before picking up again in 2020.

China's economy grew 6.6% in 2018 with the expectation that monetary and regulatory changes will taper growth to 6.3% and 6.1% in 2019 and 2020. Meanwhile, India recorded economic growth of 7.1% with further expansion of 7.3% and 7.5% projected in 2019 and 2020 off the back of their general election.

Locally, the Sri Lankan economy recorded a subdued performance of 3.2% in 2018 compared to 3.4% in 2017 owing to factors, some out of our control. The services sector contributed 4.7% driven by strong growth in the financial services, transportation and insurance while the agricultural sector saw a rebound in 2018 of 4.8%. Depressed activity in the construction, mining and quarrying sectors offset gains in the food & beverage and apparel manufacturing sectors to result in flat industrial sector growth of 0.9% in 2018 which dragged overall GDP.

The Rupee after enduring a period of steep depreciation in 2018 reversed its course in 2019 to strengthen by close to 4% in the last quarter to LKR 176.1 by end March 2019. The trade deficit has started to narrow due to imports being curtailed through government policies while the export performance has improved. The high interest rates that were the norm last year have begun to trend down so far in 2019 in a bid to boost local consumption and investment.

Despite the positively trending macroeconomic indicators, economic activity is anemic with business confidence recording new lows. Financing costs remain high, private sector credit growth is low and the financial sector continues to grapple with rising Non-Performing Loans owing to slowdowns in key sectors.

A political crisis in the last quarter of 2018 followed by a devastating tragedy have had a substantial impact on the economy through credit downgrades, a loss of investor confidence, significant impact on tourism and tourism receipts, and an overall decrease in consumption which in turn is expected to deflate GDP growth this year to under 3% by some estimates.

Transport Sector

Despite tight fiscal conditions the Road Development Authority spent LKR 160.4bn in 2018 on expressway and highway development, and the construction of bridges and flyovers, a 16.9% decrease on 2017. At the end of 2018, the RDA maintained 12,389.9km of Class A and Class B roads, a 1.5% increase year on year.

Overall motor vehicle registrations increased 6.5% to 480,799 vehicles in 2018 driven by small engine capacity cars. A lieu of steps meant to

curb imports resulted in a decline in registrations towards the end of the year with registrations of three wheelers, motor cycles, buses, and goods transport vehicles and land vehicles all recording decreases of 14.8%, 1.3%, 11.2%, 18% and 21.2% respectively in 2018.

Road passenger transport services continued its trend towards the private sector away from the public sector. The Sri Lanka Transport board witnessed a 1.7% decline in passenger kilometrage to 15.5bn km in 2018 from 15.8bn km in 2017 and 16.1bn km in 2016 while the average number of buses operated were 5,227 in 2018 compared to 5,266 last year. Meanwhile private bus operations saw passenger kilometrage increase 9.1% to 55.5bn km against 50.8bn km in 2017. The number of private sector buses in operation increased 6% to 19,055 in 2018.

An increase in bus fares in 2018 allowed the SLTB to increase revenue by 4.6% to LKR 44.1bn in 2018 and show an operational profit of LKR 2.2bn. The government added 56 new buses to its fleet of 1,418 under the "SisuSeriya" school bus service. 43 new buses were added to the fleet of late night and early morning buses under the "Nisi Seriya" service and the rural accessibility program under "GemiSeriya" is expected to initiate 10 new service routes.

Rail passenger transport witnessed a 2.9% increase to 7.7bn km compared to 7.5bn km in 2017.

Financial Highlights

Under challenging conditions for the commercial vehicle segment, Lanka Ashok Leyland posted a turnover of LKR 8.6bn in 2018, a 45% decline over a year earlier. Vehicle sales, which contribute 95% of turnover, fell 46% as against 2017. The dip in revenue was driven by a fall in sales of heavy commercial vehicles, while the light commercial vehicle segment recorded growth as customers switched their purchasing preferences based on tight liquidity conditions.

Owing to the difficult market conditions, the company dedicated more efforts to driving revenue through its other verticals. Primary income from other sources, recognized as body building, accident and workshop repairs, generator sales, spare part sales, hiring and local agency commissions, grew 33% to LKR 463mn in 2018/19. Income from hiring and the spare parts segment surged 226% and 51% respectively over the year.

The focus on our other verticals in light of poor anticipated vehicle sales helped expand the gross profit margin to 10.6% against 8% in 2017, which helped offset the fall in gross profit by 26% to LKR 914.3mn.

Other miscellaneous income grew 13% to LKR 30mn from LKR 26.3mn in 2017/18 while operational expenses grew 13% to LKR 611.18mn from LKR 539.69mn compared to last year. As a result, EBIT in 2018 fell 54% to LKR 332.88mn resulting in an operating margin of 3.9%.

Recognizing the challenging environment back in 2017, the Company has methodically and systematically deleveraged its balance sheet every quarter without sacrificing any operational expenses and planned capital expenditure, or reducing its inventory. As of 31st March 2019, Lanka Ashok Leyland held inventory worth LKR 4.8bn while borrowings stood at LKR 1.5bn. A year earlier, inventory stood

THE CHIEF EXECUTIVE OFFICER'S REVIEW [Contd.]

at LKR 5.6bn and LKR 2.3bn representing a decrease of 15% and 34% respectively. As a result, debt/inventory levels have improved from 41% to 32% as of end March improving the strength of our balance sheet in meeting the challenges ahead.

The Company closed the year with a net profit of LKR 107.5mn, an admirable feat under a difficult operating environment.

In August 2018, Lanka Ashok Leyland paid a dividend of LKR 35.00 per share to its shareholders for the year 2017/18, a 17% increase over the dividend declared a year earlier.

A Community Leader

In the face of economic hardship, Lanka Ashok Leyland committed to enrich the lives of its employees and the communities we operate in. Management decided that all planned work on our factory premises would continue as we support our local contractors and partners. This year we invested in a brand new driver's restroom building to provide rest and comfort to all our internal and external drivers who stay at the premises. This area includes a redesigned cafeteria, beds and sitting areas surrounded by greenery. Current ongoing projects include the redesign of the 40ft wide entrance area in addition to the maintenance of the Bo Maluwa temple on the factory premises.



Lanka Ashok Leyland continued its support to the Homagama district hospital, which serves the local community, with a lack of resources and needed investment. Lanka Ashok Leyland assessed the areas in disrepair and arranged for all the beds, fans, air conditioning and other medical devices to be fixed throughout the hospital.

This year our training institute, which offers up to level 4 NVQ [National Vocational Qualification] certificates through a mix of academic and on the job technical training where students receive a monthly stipend while they study, graduated 48 students.

Looking Ahead

The management holds a conservative outlook on the economy going forward. The fiscal consolidation priorities of the government was a case of medium to long term sustainable growth at the expense of short term benefits. Lanka Ashok Leyland maintains a healthy balance sheet which will help us navigate the year ahead. The company is cognizant of the changing consumption patterns of our customer shifting from heavy vehicles to the light vehicle segment, and are confident in the superiority of our product to carve our market share. Furthermore, we continue to explore opportunities and partnerships to expand our spare parts business and hiring revenue which is already seeing success.

We believe that the Sri Lankan economy is a resilient one and will bounce back. It is a matter of time, and we will be prepared for it.

Acknowledgements

Given recent events, it is important to look out for our communities we serve, and the livelihoods we impact. As a business, and a brand with a national footprint it is essential to acknowledge and value the contributions of our stakeholders.

To this end, I would like to thank our suppliers, dealers, contractors, and banking partners for your unwavering support over the last twelve months. Many of whom have also endured their own challenges and difficulties this year, and we are grateful.

I would like to thank the board of directors, senior management, employees and our principals Ashok Leyland for their advice, guidance and diligence in steering the company over the fiscal year. In particular I would like to highlight contribution and leadership of the outgoing Managing Director of Ashok Leyland, Mr. Vinod Dasari, whose vision and drive steered Ashok Leyland to become a truly global giant.

Finally, our sincere thanks to our customers who remain the bedrock of our company. We take great pride in the trust you place in us and our resolve is only deepened to serve you better going forward.



Umesh Gautam
Chief Executive officer

10th July 2019

BOARD OF DIRECTORS



DR. M S MEERASAHIB (Resigned w.e.f 10th July 2019)
Chairman

Dr. Meerasahib was appointed as the Non-Executive Chairman to the Board of Lanka Ashok Leyland PLC on 12th November 2016 and he serves as the Chairman of Lanka Leyland Limited. Dr. Meerasahib is the Founder Chairman of Metropolitan College and he is a Consultant for the Ministry of Industry and Commerce and is the former Mayor of Kalmunai Municipal Council.

Dr. Meerasahib holds a PhD in Education Management from Metropolitan University and a Master of Business Administration from Girne American University. He also holds a Post Graduate Diploma in Management Studies from City of London College, Diploma in Business Administration and a Diploma in Business Management from East London College.

Dr. Meerasahib holds fellow Memberships of OTHM Qualifications (FOTHM), UK 2015 - Ofqual-regulated awarding body - UK, Institute of Administrative Management (IAM) UK and the Association of Business Executives - UK.

He is also conferred with Sama Sri, Desamanya, Lanka Putra, Makkal Nasar, Samuga Jothi and Marytha Mani fellowships and awards.



MR. S L DEEN (Appointed w.e.f 10th July 2019)
Chairman

Mr. S L Deen was appointed as the Non Executive Chairman to the Board of Lanka Ashok Leyland PLC on 10th July 2019, he also serves as Chairman of Lanka Leyland Limited. Mr. Deen has also served as Director- Lanka Leyland Limited from 2010 - 2016.

Mr. Deen held the position of Executive Director State Trading Corporation Limited from 2015-2019.

Mr. Deen has served in Northern Province since 1982 and held various positions like Manager [CWE], Deputy Director - Monitoring project, Regional Commissioner - Northern Province and Member of Provincial Public Service Commission.

Mr. Deen graduated from University of Kelaniya and holds Bachelor of Arts Degree.



MR. D P KUMARA
Independent Director

Mr. Kumara was appointed as a Non-Executive Independent Director to the Board of Lanka Ashok Leyland PLC in July 2009. He was formerly CEO of People's Leasing & Finance PLC since 1997. He was also the Managing Director of many other subsidiary companies of People's Leasing and Finance PLC. Mr. Kumara is the Vice President of the Asian Leasing and Finance Association.

Mr. Kumara has over 38 years' experience in Banking and Finance and the former Chairman of the Leasing Association of Sri Lanka. Prior to joining People's Leasing and Finance PLC he served People's Bank as the Deputy General Manager. He holds a Postgraduate Diploma in Modern Banking and is a passed Finalist of the Chartered Institute of Management Accountants, UK.

BOARD OF DIRECTORS [Contd.]



MR. N SUNDARARAJAN
Independent Director

Mr. Sundararajan was appointed in July 2009, as a Non-Executive Independent Director on the Board of Lanka Ashok Leyland PLC. Mr. Sundararajan was formerly the Executive Director and Company Secretary of Ashok Leyland, India.

He is currently also Independent Director of CMIFPE Ltd, India, [Manufacturers of cold rolling mills, etc. for steel plants] and of Global TVS Bus Body Builders Ltd., India, [Manufacturers of specialised bus bodies].

He is a Commerce Graduate, Cost Accountant, and a Management Professional, with background in Law also. He has over 40 years of fulltime industrial experience in varied industries such as iron & steel, textiles, rubber, batteries, and transport, and has handled several international acquisitions, joint ventures, etc. He has also been a Senior Assessor of Business Excellence, and has been a member of several all-India Committees on General Insurance.



MR. VINOD K DASARI (Resigned w.e.f 10th July 2019)
Non-Executive Director

Mr. Dasari was appointed as a Non-Executive Director to the Board of Lanka Ashok Leyland PLC in September 2009. Mr. Dasari was functioned as the Managing Director of Ashok Leyland Limited, India up to 31st March 2019.

He commenced his career with the General Electric Company in 1986. Mr. Dasari joined the Timken Company, USA in 1996, and moved to Timken's Indian operations as Director of Manufacturing and Technology. In 1998, he was appointed Managing Director of Timken India and in 2000, he moved back to US, with Timken, as President of the Global Railroad business. In 2002, he joined Cummins India Limited as President, and then became its Joint Managing Director.

Mr. Dasari joined Ashok Leyland in 2005 as Chief Operating Officer and was appointed whole time Director in 2008, followed by the current position of Managing Director in 2011. He served on the Board of several subsidiaries of Ashok Leyland and is a Director of Pidilite Industries Limited.

Mr. Dasari completed his MBA from Kellogg School of Management and a Masters in Engineering Management from McCormick School of Engineering, both from Northwestern University. He earned a Bachelor's Degree in Engineering from University of Louisville.



MR. GOPAL MAHADEVAN
Non-Executive Director

Mr. Gopal Mahadevan was appointed as a Non-Executive Director to the Board of Lanka Ashok Leyland PLC in September 2013. He is the President - Finance, CFO and also Whole Time Director of Ashok Leyland Limited, India.

Prior to Ashok Leyland, Mr. Gopal was working with Thermax Ltd, Pune, as Group CFO, where he had a 7 year stint. Prior to Thermax, he was Group CFO of Amara Raja Batteries Ltd, an equal Joint Venture with Johnson Controls Inc, USA, for over 5 years. During his career Gopal has worked in Sify, Sanmar Group as well as in TTK Pharma.

Mr. Gopal Mahadevan is a Chartered Accountant and a Company Secretary with over 29 years' experience in Finance function across a variety of industries. He was awarded The Best CFO [Capital Goods & Engineering Industry] by the Institute of Chartered Accountants of India in 2011. He was also awarded the best CFO in the year 2010 by YES Bank Business Today and in 2012 by CNBC TV18 respectively.

BOARD OF DIRECTORS [Contd.]



MR. D A ABEYAWARDENE
Independent Director

Mr. Abeyawardene was appointed as a Non-Executive Independent Director to the Board of Lanka Ashok Leyland PLC in November 2016. He is the Proprietor of D. A. Abeyawardene Associates, Chartered Accountants and is also a Partner at Hulangamuwa & Cooray, Chartered Accountants.

Mr. Abeyawardene is the Managing Director of Siyasee [Pvt] Limited and also a Director of Corporate Strategic Solutions [Pvt] Ltd.

Mr. Abeyawardene has over 47 years' experience in Financial Management positions in several disciplines including manufacturing, shipping, garment industry, government boards etc. He joined Lanka Ashok Leyland PLC at the time of inception as the Finance Manager / secretary and held the position of General Manager / Secretary till 1999.

Mr. Abeyawardene is a Fellow member of the institute of Chartered Accountants of Sri Lanka.



Mr. A K M JAHANSER
Non-Executive Director

Mr. Jahanser was appointed as a Non-Executive Director to the Board of Lanka Ashok Leyland PLC on 12th November 2016 and he serves as an Executive Director of Lanka Leyland Limited.

He has served as Public Relations Officer to the Hon. Minister of Industry and Commerce during 2012-2014 and as Coordinating Secretary since 2014 to date.

He holds a Bachelor of Management Studies degree from GIRNE American University and he also holds a Diploma in Business Management from OTHM UK Level 4.



MR. RAJIVE SAHARIA [Appointed w.e.f 10th July 2019]
Non-Executive Director

Mr. Rajive was Non-Executive Director to the Board of Lanka Ashok Leyland PLC. He is the President, International Operation of Ashok Leyland Limited, India.

Having held senior positions in leading organizations, both in India and overseas, Mr. Rajive has a comprehensive experience in the automotive sector. He joined Ashok Leyland in the year 2007 as Executive Director - Marketing. After having been at the helm of the trucks division as President - Global Trucks/Buses from 2013 to 2016, he has currently taken over the portfolio of President - International Operations and is based out of the organizations IO headquarters in Dubai.

Mr. Rajive is currently holds directorships in M/s Ashok Leyland [UAE] L.L.C., U.A.E, M/s Ashok Leyland West Africa SA, Ivory Coast and M/s Ashok Leyland L.L.C., Russia.

Mr. Rajive earned his BE in Mechanical Engineering from the University of Mumbai.

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

The Board of Directors is pleased to present the **Thirty Sixth** Annual Report of your Company together with the audited Financial Statements and the auditor's report for the financial year ended 31st March 2019 confirming to all relevant statutory and compliance requirements.

The details set out herein provide the related information required by the Companies Act No.7 of 2007, Colombo Stock Exchange Listing Rules and are guided by recommended best practices on Corporate Governance.

The table of disclosures in page 18 to 25 given under Corporate Governance, list out the disclosures required by the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS OF THE COMPANY

The principal activities of the Company include import and marketing of Ashok Leyland buses, trucks, truck chassis, spare parts, power generators, accessories and let vehicles on hire. The Company also carries out repairs and restoration of commercial vehicles including body fabrication on goods and passenger chassis.

There was no significant change in the nature of principal activities of the Company during the year under review that may have significant impact on the state of affairs of the Company.

VISION, MISSION AND VALUE STATEMENT

The Company's vision and mission statements are available on page 01. The strategic directions are developed in line with the vision and the employees are guided according to the mission and values of the Company. The operations of the Company are conducted with the highest level of ethical standards and integrity at all times.

REVIEW OF PERFORMANCE AND FUTURE DEVELOPMENTS

A review of the performance of the year under review and the future prospects including goals and strategies of the Company is contained in the Chief Executive Officer's Review and in the Financial Performance Review of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Company to present a true and fair view of the state of its affairs.

The Statement of Directors' Responsibility for Financial Reporting is given on page 36 which forms an integral part of the Annual Report of the Board of Directors.

DISCLOSURES

The Annual Report of the Company fulfils the disclosure requirements of the Sri Lanka Accounting Standards (SLFRS/LKASs), Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

FINANCIAL STATEMENTS

The Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs/LKASs), Companies Act No 7 of 2007, and the Listing Rules of the Colombo Stock Exchange.

The Statements of Profit or Loss and Other Comprehensive Income, Financial Position, Cash Flow, Accounting Policies and Notes to the Financial Statements are given on pages 41 to 89.

The aforementioned Financial Statements for the year ended 31st March 2019 signed on behalf of the Board by two Directors, Chief Executive Officer and Deputy Manager - Finance are given on page 42.

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Ms. KPMG performed the statutory audit of the Financial Statements and the auditor's report is given on pages 38 to 40.

SIGNIFICANT ACCOUNTING POLICIES

Preparation of the Financial Statements of the Company has been consistent with the previous financial year. The significant accounting policies adopted in the Financial Statements are given on pages 45 to 59 of this Annual Report.

Except for the changes set out in Note 3.1 there were no changes in the accounting policies adopted by the Company during the year under review.

PROFIT AND APPROPRIATIONS

| | 2018/19 Rs. | 2017/18 Rs. |
|--|----------------|----------------|
| Profit | | |
| Profit after taxation | 107,461,195 | 504,117,476 |
| Other Comprehensive Income | 7,258,666 | (5,213,871) |
| Total Comprehensive Income for the year | 114,719,861 | 498,903,605 |
| Profit brought forward from previous year | 2,388,916,229 | 2,011,387,540 |
| Profit available for appropriation | 2,503,636,090 | 2,510,291,145 |
| Appropriations | | |
| Unclaimed Dividend Reversed | - | 163,161 |
| Dividend Paid for previous year | [126,729,505] | [108,625,290] |
| Adjustment on Initial Application SLFRS 09 | - | [12,912,787] |
| Un-appropriated profit carried forward | 2,376,906,585 | 2,388,916,229 |

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY [Contd.]

DIVIDENDS

The Board of Directors have recommended payment of a first and final dividend of Rs. 10.00 per share (100%) (2017/18- Rs. 35.00 per share i.e. 350% on the paid-up value) for the year ended 31st March 2019.

The Directors have confirmed that the Company satisfies the solvency test requirement under Section 56 of the Companies Act No. 07 of 2007 for the final dividend proposed. The Solvency certificates have been obtained from the Auditors in respect of the final dividend proposed.

PUBLIC HOLDING AND THE MARKET VALUE OF SHARES

The last transaction prior to close of business on 31st March 2019, on the trading floor of the Colombo Stock Exchange was at a price of Rs. 628 per share. [Corresponding price on 31st March 2018 was Rs. 990.50 per share]

The number of ordinary shares held by the public as at 31st March 2019 was 1,100,011 [31st March 2018 - 1,100,011] which amounted to 30.38% [31st March 2018 - 30.38%] of the issued Share Capital of the Company.

RATIOS AND MARKET PRICE INFORMATION

Ratios relating to equity and debt and the market price information are given on pages 07 and 92 to 93.

STATED CAPITAL AND RESERVES

The Stated Capital of the Company as at 31st March 2019 amounted to Rs. 49,375,150 [31st March 2018 - Rs. 49,375,150], details of Stated Capital and Reserves are available in note 24, 25 & 26 to the Financial Statements.

There has been no change in the Stated Capital during the year. Movements of the Reserves are shown in the Statement of Changes in Equity in the Financial Statements.

SHARE INFORMATION

Information relating to distribution of shareholdings, market value, public shareholding and top twenty shareholders are available on page 91.

PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

The net book value of property, plant & equipment and the intangible assets amounts to Rs. 561.35 Mn.

An analysis of the Company's Property, Plant & Equipment, and Intangible Assets are given in Note 14 and 15 to the Financial Statements.

MARKET VALUES OF THE PROPERTIES

The freehold land and buildings of the Company have been revalued by independent qualified valuers. The most recent valuation was conducted in 2016 and the values are disclosed under Note 14.1 to the Financial Statements in page 64.

CAPITAL EXPENDITURE

The total Capital Expenditure incurred on the acquisition of Fixed Assets and Intangible Assets during the year is given in Note 14 & 15 to the Financial Statements.

BOARD OF DIRECTORS

The Board of Directors consisted of 7 members during the year. The names of the Directors who held office during the financial year are given below. The profiles of directors appear on pages 11 to 13 and their memberships on the Board committees of the Company are given in page 16.

- | | |
|------------------------|--|
| • Dr. M S Meerasahib | - Chairman [Non-Executive] |
| • Mr. D P Kumarage | - Independent Director [Non-Executive] |
| • Mr. N Sundararajan | - Independent Director [Non-Executive] |
| • Mr. Vinod K Dasari | - Director [Non-Executive] |
| • Mr. Gopal Mahadevan | - Director [Non-Executive] |
| • Mr. D A Abeyawardene | - Independent Director [Non-Executive] |
| • Mr. A K M Jahanser | - Director [Non-Executive] |

NEW APPOINTMENTS AND RESIGNATION OF DIRECTORS DURING THE YEAR

There were no new appointments made to the Board, and no resignations or retirement from the Board during the financial year ended 31st March 2019.

Subsequent to the financial year end, on 10th July 2019 Mr. S L Deen and Mr. Rajive Saharia were appointed to the Board as non-executive directors by replacing Mr. M.S Meerasahib and Mr. Vinod K Dasari respectively.

RETIREMENT AND RE-ELECTION OF DIRECTORS

In terms of the Article 84 of the Article of Association of the Company Mr. A K M Jahanser retires by rotation and being eligible offers himself for re-election.

To re-elect as a Director, Mr. D P Kumarage, who is over age of 70 years, as a Director by passing a resolution; that the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not apply to Mr. D P Kumarage who is over the age of 70 years and that he be re-elected a Director of the Company.

DIRECTORS' INDEPENDENCE

The Board carried out its annual evaluation of the Independence of Directors and accordingly Mr. D P Kumarage, Mr. N Sundararajan and Mr. D A Abeyawardene were confirmed to be Independent as per the provisions of the Listing Rules of the Colombo Stock Exchange. Each of the Independent Directors complied with the independence requirements under the Rules and has submitted signed declarations to this effect.

Details of the Directors considered as Non-Independent Directors of the Company are given in page 20 to the Annual Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY [Contd.]

DIRECTORS' MEETINGS

The Directors' meetings comprises Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings and Related Party Transactions Review Committee meetings. Details of number of Board and other Committee meetings held during the year and the attendance of Directors at these meetings are given on pages 19 to 21 of the Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

None of the Directors or Chief Executive Officer held Shares of the Company during the year under review or during the last financial year.

INTEREST REGISTER

The Company maintains an interest register in compliance with the Companies Act No. 07 of 2007. All Directors have made necessary declarations in conformity with Section 192 (2) of the Companies Act. The interest register is available for inspection by the shareholders.

PARTICULARS OF DIRECTORS INTERESTS IN CONTRACTS

The particulars of Directors interests in contracts and other related party transactions are given in Note 33 to the Financial Statements. The Directors have no other direct or indirect interest in contract/s or a proposed contracts with the Company other than those disclosed under Related Party Transactions.

DIRECTORS' REMUNERATION AND FEES

Details of Directors' emoluments are given in Note 9 to the Financial Statements. All fees and remuneration have been duly approved by the Board of Directors of the Company. The Directors have not taken any loans from the Company during the year under review.

RELATED PARTY TRANSACTIONS

Related Party Transactions of the Company are reviewed by the Related Party Transactions Review Committee and the Company is compliant with the requirements of the listing rules of the Colombo Stock Exchange on Related Party Transactions. During the year there were no non-recurrent Related Party Transactions which exceeded in value, the lower of 10% of equity or 5% of the total assets of the Company. However, the Company has disclosed the transactions that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard-LKAS 24, in Note 33 on pages 75 to 79 to the Financial Statements.

BOARD COMMITTEES

The Board of Directors of the Company while assuming the overall responsibility and accountability for the management of the Company has formed the following Committees to ensure oversight and control over the affairs of the Company conforming to corporate governance code and best practices.

• AUDIT COMMITTEE

Mr. D P Kumarage – Chairman
Dr. M S Meerasahib
Mr. N Sundararajan
Mr. Gopal Mahadevan
Mr. D A Abeyawardene

• REMUNERATION COMMITTEE

Mr. N Sundararajan – Chairman
Mr. D P Kumarage
Mr. Vinod K Dasari
Mr. D A Abeyawardene
Mr. A K M Jahanser

• NOMINATION COMMITTEE (formed w.e.f 28th January 2019)

Mr. N Sundararajan – Chairman
Mr. D P Kumarage
Mr. Vinod K Dasari
Mr. D A Abeyawardene
Mr. A K M Jahanser

• RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mr. N Sundararajan – Chairman
Dr. M S Meerasahib
Mr. D P Kumarage
Mr. Gopal Mahadevan
Mr. D A Abeyawardene

RISK MANAGEMENT

The Board has established an adequate risk management and internal control system. The risk exposure of the Company and a detailed overview is given in the Risk Management Report on pages 31 to 34.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge, are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to employees have been made up to date.

DONATIONS

There were no donations granted during the year under review (2017/18 - Nil).

DECLARATION

The Directors declare that

• Compliance with Laws and Regulations

To the best of the knowledge and belief the Board of Directors confirms that the Company has complied with all applicable laws, rules and regulations in the conduct of its operations and has not engaged in any activity, which contravenes laws and regulations of the country.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY [Contd.]

- **Directors' Interests in Contracts**

The directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested.

- **Equitable Treatment**

The Company has made all endeavors to ensure that all shareholders are treated equitably.

- **Going Concern**

The Board of Directors is satisfied that the Company has adequate resources to continue its operations. Accordingly, the Financial Statements are prepared based on the going concern concept.

The Directors also hereby confirm [as required in Section 57 (1) (a) of Companies Act No. 7 of 2007] that the Company is in a position to pay its debts, as they become due in the normal course of business.

- **Effectiveness of Internal Controls**

They have conducted a review of the internal controls covering financial, operational and compliance controls and risk management, and have obtained reasonable assurance of their effectiveness and proper adherence.

- **Corporate governance**

The Board of Directors is committed to maintain an effective corporate governance culture within the Company in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. A detailed report on corporate governance is provided on pages 18 to 25.

EMPLOYMENT AND INDUSTRIAL RELATIONS

To ensure achieving corporate goals, the Company continues to invest in human resource development and effective HR practices. The number of permanent employees as at 31st March 2019 was 182. [31st March 2018 - 181].

There were no material issues pertaining to employees or industrial relations during the year.

ENVIRONMENTAL PROTECTION

The Company has made its best endeavors to comply with the relevant environmental laws and regulations. The company has not engaged in any activity that is harmful or hazardous to the environment and has taken steps that are necessary to safeguard the environment from any pollution that could arise during the course of the business of the Company.

CONTINGENT LIABILITIES AND OUTSTANDING LITIGATION

Details of contingent liabilities and litigations and claims are listed in Notes 35 and 36 to the Financial Statements. These will not have any

material adverse impact on the financial results of the Company or its future operations.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no material events that occurred after the reporting date that require adjustments to or disclosure in the Financial Statements, except disclosure given in Note 37 to the Financial Statements.

INDEPENDENT AUDITORS' APPOINTMENT AND REMUNERATION

The Company's Independent External Auditors, Messrs. KPMG, who were re-appointed by a resolution passed at the last Annual General Meeting audited the Financial Statements of the year under review, offer themselves for reappointment.

A sum of Rs. 1,950,000 in addition to reimbursement of out of pocket expenses were payable at the year-end as audit fees for the year under review. In addition, they were paid Rs. 285,000 [2017/18 - Rs.70,000] and Rs. 1,415,000 [2017/18 - Rs. 560,000/-] by the Company for Audit Related work and Non-Audit Related work respectively.

As far as the Directors are aware, the Auditors do not have any relationships [other than that of an auditor] with the Company other than those disclosed above. The Auditors also do not have any interest in the Company.

In accordance with the Companies Act No. 07 of 2007, a resolution related to the appointment of external auditors and to determine their remuneration is being proposed at the forthcoming Annual General Meeting to be held on 06th September 2019.

ANNUAL GENERAL MEETING

The thirty sixth Annual General Meeting will be held on 06th September 2019. The notice of Annual General Meeting is given on page 97.

ACKNOWLEDGEMENT

The Directors wish to express their gratitude and appreciation to the Government of Sri Lanka, bankers, financial institutions, shareholders, valued customers, and joint venture partners M/s. Lanka Leyland Limited, and M/s. Ashok Leyland Limited - India, for their co-operation, valuable guidance, assistance and the continued support.

The Directors also wish to thank all the employees for their contribution, support and co-operation throughout the year.

By order of the Board of Directors


D P Kumara
 Director


D A Abeyawardene
 Director/ Secretary

Colombo
10th July 2019

CORPORATE GOVERNANCE

The Board of Directors and the Management of Lanka Ashok Leyland PLC are committed to maintain very high standards of corporate governance. This statement describes Lanka Ashok Leyland's governance principles and practices.

This statement also describes how Lanka Ashok Leyland PLC has applied the principles set out in the Corporate Governance Best Practice Guidelines jointly issued by the Institute of Chartered Accountants of Sri Lanka, and the Securities and Exchange Commission of Sri Lanka (SEC), and the Listing rules (Section 7.6, 7.10 and Section 9) issued by Colombo Stock Exchange (CSE).

BOARD OF DIRECTORS

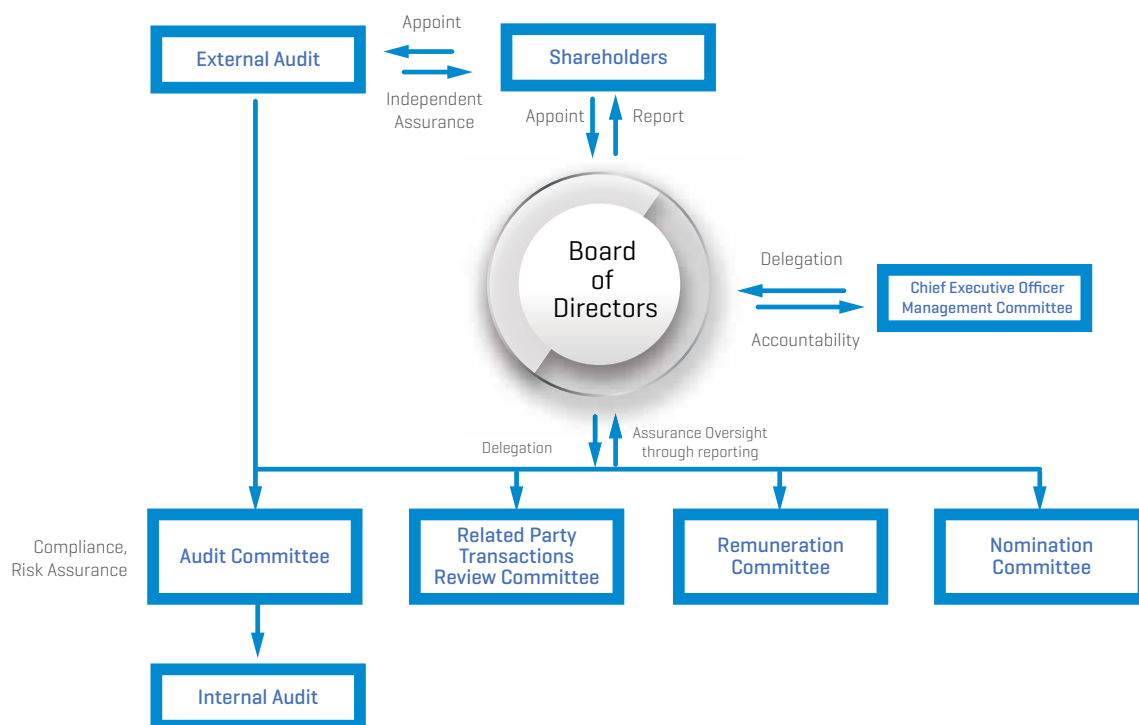
The Board of Directors of Lanka Ashok Leyland PLC is collectively responsible for the long term success of the Company. Its role is essentially threefold - to provide leadership, to oversee management and to ensure that the Company provides its stakeholders with a balanced and understandable assessment of the Company's current position and prospects.

The Board has delegated responsibilities to the Chief Executive Officer and to the team of Management of the Company. The main areas where decisions remain with the Board include approval of the annual strategy statement, the Financial Statements, annual budgets (including capital expenditure), acquisitions and dividends. The Board is also responsible for setting and monitoring the Company's risk management policy.

On a broader level the Board has delegated some of its responsibilities to its Committees. The composition and activities of these Committees are detailed in their individual reports on pages 26 to 29. The Board reviews periodic updates presented by the Chairman of each of these Committees at the Board meetings.

The Board currently consists of seven Directors including the Chairman. All the Directors are Non-Executive Directors and three of them are Independent Directors. The composition of the Board and brief profile of the Directors highlighting the range of expertise they bring to the Board are set out on pages 19 and 11 to 13.

Corporate Governance Framework



CORPORATE GOVERNANCE [Contd.]

The current members of the Board and their membership on the Board Committees of the Company are as follows;

| Name of the Director | Category | | | | Board Committees as Chairman or Member | | | |
|-------------------------------|-----------|-----------------|-------------|-------------------|--|------------------------|----------------------|--|
| | Executive | Non - Executive | Independent | Non - Independent | Audit Committee | Remuneration Committee | Nomination Committee | Related- Party Transactions Review Committee |
| Dr. M S Meerasahib [Chairman] | - | ✓ | - | ✓ | Member | - | - | Member |
| Mr. D P Kumarage | - | ✓ | ✓ | - | Chairman | Member | Member | Member |
| Mr. N Sundararajan | - | ✓ | ✓ | - | Member | Chairman | Chairman | Chairman |
| Mr. Vinod K Dasari | - | ✓ | - | ✓ | - | Member | Member | - |
| Mr. Gopal Mahadevan | - | ✓ | - | ✓ | Member | - | - | Member |
| Mr. D A Abeyawardene | - | ✓ | ✓ | - | Member | Member | Member | Member |
| Mr. A K M Jahanser | - | ✓ | - | ✓ | - | Member | Member | - |

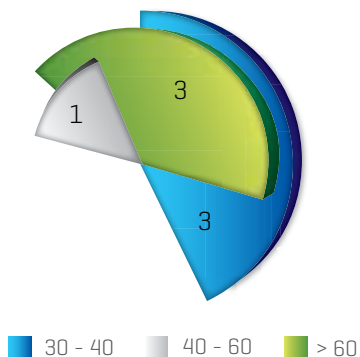
Number of Board meetings held during the year and the attendance of Directors are furnished below;

| Name of the Director | Board Meetings | |
|-------------------------------|----------------|--------------|
| | No. held | No. attended |
| Dr. M S Meerasahib [Chairman] | 4 | 4 |
| Mr. D P Kumarage | 4 | 4 |
| Mr. N Sundararajan | 4 | 4 |
| Mr. Vinod K Dasari | 4 | 3 |
| Mr. Gopal Mahadevan | 4 | 3 |
| Mr. D A Abeyawardene | 4 | 4 |
| Mr. A K M Jahanser | 4 | 3 |

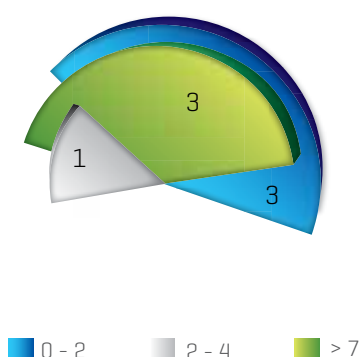
NEW APPOINTMENTS AND RESIGNATION OF DIRECTORS

There were no new appointments or resignations of Directors during the financial year ended 31st March 2019.

Directors' Age Diversity



Directorship Tenure Diversity



CORPORATE GOVERNANCE [Contd.]

DIRECTORS' INDEPENDENCE REVIEW

The Board carried out its annual evaluation of the independence of Directors and accordingly Mr. D P Kumarage, Mr. N Sundararajan and Mr. D A Abeyawardene were confirmed to be independent as per the provisions of the Listing Rules of the Colombo Stock Exchange. Each of the Independent Directors complied with the independence requirements under the Rules and has submitted signed declarations in this regard.

Following Directors are considered as Non-Independent Directors of the Company;

| Name | Reason for non-independence |
|---------------------|--|
| Dr. M S Meerasahib | Chairman of Lanka Leyland Limited, which holds 41.77% of the total share capital of Lanka Ashok Leyland PLC. |
| Mr. Vinod K Dasari | Managing Director of Ashok Leyland Limited, India which holds 27.85% of the total share capital of the Company and is also the main supplier to Lanka Ashok Leyland PLC. |
| Mr. Gopal Mahadevan | Chief Financial Officer of Ashok Leyland Limited, India which holds 27.85% of the total share capital of the Company and is also the main supplier to Lanka Ashok Leyland PLC. |
| Mr. A K M Jahanser | Director of Lanka Leyland Limited, which holds 41.77% of the total share capital of Lanka Ashok Leyland PLC. |

AUDIT COMMITTEE

The Audit Committee is comprised of five Non-Executive Directors, of whom three are Independent Directors.

The Chairman of the Audit Committee Mr. D P Kumarage, has experience in Banking and Finance sector. The other members of the Audit Committee have a blend of experience in business management, accounting, and auditing and risk management. The Board is of the view that the members of the Audit Committee have the necessary and relevant accounting and related financial management expertise and also adequate experience to discharge the Committee's functions.

A separate report by the Chairman of the Audit Committee is given on page 26 of the Annual Report.

The Table below gives the Committee composition and the attendance of members at the meetings.

| Name of the Director | Audit Committee Meetings | |
|-----------------------------|--------------------------|--------------|
| | No. held | No. attended |
| Mr. D P Kumarage [Chairman] | 4 | 4 |
| Dr. M S Meerasahib | 4 | 4 |
| Mr. N Sundararajan | 4 | 4 |
| Mr. Gopal Mahadevan | 4 | 3 |
| Mr. D A Abeyawardene | 4 | 4 |

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of five Non-Executive Directors, three of whom are Independent Directors.

Remuneration Committee is responsible for developing policies for executive remuneration, ensuring a formal and transparent procedure for performance evaluation, and for fixing the remuneration packages of Key Management Personnel.

Payments made to Directors and Key Management Personnel of the Company are disclosed in Note 33.5 to the Financial Statements.

A separate Report by the Chairman of the Remuneration Committee is given on page 27 of the Annual Report.

Below table gives the composition and attendance of the Committee members at the meetings.

| Name of the Director | Remuneration Committee Meetings | |
|-------------------------------|---------------------------------|--------------|
| | No. held | No. attended |
| Mr. N Sundararajan [Chairman] | 2 | 2 |
| Mr. D P Kumarage | 2 | 2 |
| Mr. Vinod K Dasari | 2 | 2 |
| Mr. D A Abeyawardene | 2 | 2 |
| Mr. A K M Jahanser | 2 | 2 |

CORPORATE GOVERNANCE [Contd.]

NOMINATION COMMITTEE

The Nomination Committee was established on 28th January 2019 and consists of five Non-Executive Directors, three of whom are Independent Directors.

The Nomination Committee is responsible for review the structure and composition of the Board and make recommendations to the Board on new Board appointments as per the Articles of Association of the Company. And also to ensure that the Board possesses the correct mix of expertise for its effective functioning, the Committee assesses the Board composition to ascertain whether the combined knowledge, skills mix and experience of the Board matches the strategic demands facing the Company.

A separate report by the Chairman of the Nomination Committee is given on page 28 of the Annual Report.

Since there were no new appointments to the board, the Nomination Committee was not met during the period ended 31st March 2019.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee is comprised of five Non-Executive Directors, three of whom are Independent Directors.

Related Party Transactions Review Committee is responsible for reviewing the ongoing and proposed transactions with related parties and assists the Board of Directors in laying down, reviewing and overseeing policies and procedures relating to related party transactions of the Company, and their implementation by the Management, and also to identify and avoid conflicts of interests, if any.

A separate report by the Chairman of the Related Party Transactions Review Committee is given on page 29 of the Annual Report.

Below table gives the composition of the Committee and the attendance at the meetings.

| Name of the Director | Related Party Transactions Review Committee Meetings | |
|-------------------------------|--|--------------|
| | No. held | No. attended |
| Mr. N Sundararajan [Chairman] | 4 | 4 |
| Dr. M S Meerasahib | 4 | 4 |
| Mr. D P Kumarage | 4 | 4 |
| Mr. Gopal Mahadevan | 4 | 3 |
| Mr. D A Abeyawardene | 4 | 4 |

INTERNAL AUDIT

The Internal Audit focuses on providing an independent risk based oversight to the Audit Committee on the processes and controls within the Company. M/s. Ernst & Young, Chartered Accountants, have been functioning as the internal auditors to monitor and report on the adequacy of the Financial and Operational Controls, and identifying areas for improvement. They present their findings to the Management and the responses and actions are noted; thereafter, the highlights are presented to the Audit Committee. Actions are decided based on the Committee's advice and regular follow-up is done to close/resolve the identified issues.

EXTERNAL AUDIT

M/s. KPMG, Chartered Accountants have been appointed by the shareholders, as the external auditors, to review and express their opinion on the truth and fairness of the Annual Financial Statements of the Company. They submit their report to the shareholders, for consideration at the Annual General Meeting. Further they issue an annual Management Letter to the Board, highlighting priority areas for attention and improvement, and other significant observations, if any. This Management Letter is also reviewed by the Audit Committee and the actions are decided and completed based on the Committee's advice.

DISCLOSURES

The tables given below provide the details and disclosures on the level of compliance with the requirements of the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and the code of best practices issued by the Securities & Exchange Commission of Sri Lanka.

CORPORATE GOVERNANCE [Contd.]

DISCLOSURE REQUIREMENTS UNDER THE COMPANIES ACT NO.07 OF 2007

Level of compliance with Section 168 of Companies Act No. 07 of 2007, pertaining to Corporate Governance.

| Rule No. | Disclosure Requirement | Reference to the Annual Report |
|-------------------|---|--------------------------------|
| Section 168 [1] a | Changes during the accounting period in the nature of the business of the Company. | 14/45 |
| Section 168 [1] b | Financial statements for the accounting period completed and signed in accordance with section 151. | 41-89 |
| Section 168 [1] c | Auditor's report on the financial statements | 38-40 |
| Section 168 [1] d | Change in accounting policies made during the accounting period. | 47-49 |
| Section 168 [1] e | Particulars of entries in the interests register made during the accounting period. | 16 |
| Section 168 [1] f | Remuneration and other benefits of directors during the accounting period | 61 |
| Section 168 [1] g | Amount of donations made by the company during the accounting period. | 16 |
| Section 168 [1] h | Names of the persons holding office as directors of the company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the company during the accounting period. | 15 |
| Section 168 [1] i | Amounts payable by the company to the auditor of the company as audit fees and as a separate item, fees payable by the company for other services provided by that firm | 17 |
| Section 168 [1] j | Particulars of any relationship [other than that of auditor] which the auditor has with or any interests which the auditor has in, the company | 17 |
| Section 168 [1] k | Sign the annual report on behalf of the board by two Directors of the Company and the Secretary of the Company. | 14-17 |

DISCLOSURES SPECIFIED BY SECTION 7.6 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

Level of compliance with Section 7.6 of Listing Rules of the Colombo Stock Exchange;

| Rule No. | Disclosure Requirement | Reference to the Annual Report |
|-----------------|---|--------------------------------|
| Rule 7.6 [i] | Names of persons who during the financial year were directors of the Entity. | 15 |
| Rule 7.6 [ii] | Principal activities of the Entity during the year and any changes therein. | 14/45 |
| Rule 7.6 [iii] | The names and the number of shares held by the 20 largest holders of shares and the percentage of such shares held. | 91 |
| Rule 7.6 [iv] | The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement. | 91 |
| Rule 7.6 [v] | Directors' and Chief Executive Officer's holding in shares of the Entity at the beginning and end of financial year. | 16 |
| Rule 7.6 [vi] | Information pertaining to material foreseeable risk factors of the Entity. | 31-34 |
| Rule 7.6 [vii] | Details of material issues pertaining to employees and industrial relations of the Entity. | 17 |
| Rule 7.6 [viii] | Extent, locations, valuations of land and buildings and investment properties. | 64 |
| Rule 7.6 [ix] | Number of shares representing the Entity's stated capital. | 70 |
| Rule 7.6 [x] | Distribution schedule of the number of holders in each class of security, and the percentage of their holding as per given categories | 91 |
| Rule 7.6 [xi] | Ratios and market price information | 7, 91 and 93 |
| Rule 7.6 [xii] | Significant changes in the Entity's fixed assets and the market value of land if differs substantially from the book value. | 64 |
| Rule 7.6 [xv] | Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c and 7.10.6. c | 23-24 |
| Rule 7.6 [xvi] | Details of Related party transactions as per the specified criteria. | 75-79 |

CORPORATE GOVERNANCE [Contd.]

DISCLOSURE REQUIREMENTS UNDER SECTION 7.10 OF THE LISTING RULES OF COLOMBO STOCK EXCHANGE [CSE] ON CORPORATE GOVERNANCE

Level of compliance with Section 7.10 of Listing Rules of the Colombo Stock Exchange, pertaining to Corporate Governance.

| Rule No. | Subject | Applicable Requirement | Details | Compliance Status |
|-----------|--|---|---|-------------------|
| 7.10.1(a) | Non-Executive Directors | At least two or one third of the Directors, whichever is higher, should be Non-Executive Directors. | All the Directors are Non- Executive Directors as at 31 st March 2019. | Complied |
| 7.10.2(a) | Independent Directors | Two or one-third of Non-Executive Directors, whichever is higher, should be independent. | Three out of Seven Non-Executive Directors are independent as at 31 st March 2019. | Complied |
| 7.10.2(b) | Independence Declaration of Directors | Each Non-Executive Director should submit a declaration of Independence/ Non-Independence. | All Non-Executive Directors have submitted their confirmation of independence as per the criteria set by the CSE listing rules. | Complied |
| 7.10.3(a) | Disclosures relating to Directors | The names of Independent Directors should be disclosed in the Annual report. | Refer page 19 to the Annual Report. | Complied |
| 7.10.3(b) | Independence of Directors | The Board shall make a determination annually as to the Independence or Non-Independence of each Non-Executive Director. | The Board has determined that Three (3) Non-Executive Directors satisfy the criteria for "Independence" set in the Listing Rules. | Complied |
| 7.10.3(c) | Disclosures relating to Directors | A brief resume of each Director should be included in the Annual Report including the Director's areas of expertise. | Board of Directors' resume given in pages 11 to 13 to the Annual Report. | Complied |
| 7.10.3(d) | Appointment of new Directors | A brief resume of new Directors appointed to the Board to be provided to Colombo Stock Exchange. | There were no new appoints during the concern year. | Not Applicable |
| 7.10.5 | Remuneration Committee | A listed company shall have a Remuneration Committee. | Company has a Remuneration Committee. Refer page 27 to the Annual Report. | Complied |
| 7.10.5(a) | Composition of Remuneration Committee | Shall comprise of Non-Executive Directors, a majority of whom will be Independent. | The Remuneration Committee comprised of five (5) Non-Executive Directors out of which three (3) are Independent. | Complied |
| 7.10.5(b) | Functions of the Remuneration Committee | The Remuneration Committee shall recommend the remuneration of the Executive Directors and the Chief Executive Officer. | Company does not have Executive Directors; the Committee recommends the remuneration payable to Chief Executive Officer and Senior Management Personnel. | Complied |
| 7.10.5(c) | Disclosure in the Annual Report relating to Remuneration Committee | The Annual Report should set out the names of the Directors comprising the Remuneration Committee, Statement of Remuneration policy and the aggregate remuneration paid to Executive and Non-Executive Directors. | Names of Remuneration Committee members are given in Corporate Governance on page 20. The report of the Remuneration Committee is given on page 27 and the remuneration paid to Directors is given in the Note 9 to the Financial Statement on page 61. | Complied |
| 7.10.6 | Audit Committee | A listed company shall have an Audit Committee. | Company has an Audit Committee. Refer page 16 to the Annual Report. | Complied |

CORPORATE GOVERNANCE [Contd.]

| Rule No. | Subject | Applicable Requirement | Details | Compliance Status |
|-----------|---|---|--|-------------------|
| 7.10.6[a] | Composition of Audit Committee | Shall comprise of Non-Executive Directors, a majority of whom will be independent. | The Audit Committee comprised of five [5] Non-Executive Directors out of which three [3] are Independent. | Complied |
| | | Shall appoint Non-Executive Director as a Chairman to the Committee. | Composition of the Committee given under Corporate Governance Report on page 20 to the Annual Report. | Complied |
| | | Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings. | The Chief Executive Officer, Chief Financial Officer and Deputy Manager - Finance attend Audit Committee meetings by invitation. | Complied |
| | | The Chairman of the Audit Committee or one member should be a member of a professional accounting body. | One member of the Audit Committee is a member of The Institute of Chartered Accountants of India and other member of the committee is a member of The Institute of Chartered Accountants of Sri Lanka. | Complied |
| 7.10.6[b] | Functions of Audit Committee | Functions outlined in the Section 7.10.6 [b] of the Listing Rules. | Audit Committee functions are stated in the Audit Committee Report on page 26. | Complied |
| 7.10.6[c] | Disclosure in the Annual Report relating to the Audit Committee | The Annual Report should set out the names of the Directors comprising the Audit Committee, shall make a determination of the independence of the Auditors and disclose the basis for such determination and Annual Report shall contain a Report of the Audit Committee. | Refer the Audit Committee report on page 26 to the Annual Report. | Complied |

Level of compliance with the Code of Best practices on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka and the Section 9 of the Listing Rules of the Colombo Stock Exchange.

| Rule No. | Subject | Applicable Requirement | Details | Compliance Status |
|----------|---|--|---|-------------------|
| 9.2.1 | Related Party Transactions Review Committee [RPTRC] | Related Party Transactions should be reviewed by the RPTRC. | Refer RPTRC Report on page 29 to the Annual Report. | Complied |
| 9.2.2 | Composition of RPTRC | Shall comprise a combination of Non-Executive Directors and Independent Non-Executive Directors. Chairman of the committee should be Independent Non-Executive Director. | The RPTRC comprised of five [5] Non-Executive Directors out of which three [3] are independent including the Chairman of the Committee. | Complied |
| 9.2.3 | Involvement of Parent Company's RPTRC | Parent Company's RPTRC may be permitted to function as Parent Company's RPTRC of the subsidiary. | Not Applicable. | Not Applicable |
| 9.2.4 | Related Party Transactions Review Committee -Meetings | Shall meet at least once a calendar quarter. | Refer RPTRC report on page 29 to the Annual Report. | Complied |

CORPORATE GOVERNANCE [Contd.]

| Rule No. | Subject | Applicable Requirement | Details | Compliance Status |
|----------|---|---|--|-------------------|
| 9.3.1 | Immediate Disclosures | As outlined in the Section 9.3.1 of the Listing Rules. | Company has not had any Non- recurrent Related Party Transactions during the year under review, which requires immediate announcement to the Exchange. Refer RPTRC report on page 29 to the Annual Report. | Complied |
| 9.3.2[a] | Disclosure -Non recurrent Related Party Transactions | Disclosure of Non recurrent Related Party Transactions, if aggregate value of the Non- recurrent Related Party Transactions exceeds 10% of the equity or 5% of the total assets, whichever is lower, of the listed entity as per the latest Audited Financial Statements. | Company has not had any Non- recurrent Related Party Transactions during the year under review with aggregate value exceeding 10% of the equity or 5% of the Total assets, whichever is lower. Hence, no disclosure is required. Refer RPTRC report on page 29 to the Annual Report. | Complied |
| 9.3.2[b] | Disclosure -Recurrent Related Party Transactions | Disclosure of recurrent Related Party Transactions, if the aggregate value of the recurrent Related Party Transactions exceeds 10% of the Gross Revenue/Income as per the latest Audited Financial Statements. | Transactions with Ashok Leyland Limited, India have exceeded the threshold of 10% of Gross Revenue. Accordingly, required Disclosure has been made in note 33.1 to the Financial Statements. | Complied |
| 9.3.2[c] | Report by the RPTRC | Committee report shall include; Names of Committee members, statement that Committee has reviewed the RPTs and communicated observations to the Board, policies and procedures adopted in reviewing RPTs and number of times Committee met during the year. | Refer page 29 for the Related Party Transactions Review Committee report. | Complied |
| 9.3.2[d] | A declaration by the Board of Directors in the Annual Report. | This should be an affirmative statement of the compliance and full disclosure of Related Party Transactions or a negative statement in the event the entity does not have Related Party Transactions. | Refer page 16 of the Annual Report of the Board of Directors. | Complied |

ETHICAL STANDARDS

The Board is committed to maintain highest ethical standards in conducting its business and to communicate its values to its employees and dealers, and always strive to ensure their conduct is based on such values.

COMPLIANCE

The Board places significant emphasis on strong internal compliance procedures. The Financial Statements of the Company are prepared in strict compliance with the guidelines of the Sri Lanka Accounting Standards and other statutory regulations. Financial Statements are published quarterly in line with the Listing Rules of the Colombo Stock Exchange through which all significant developments are reported to shareholders. The Board of Directors, to the best of their knowledge and belief, are satisfied that all statutory payments have been made to date.

By Order of the Board Directors



D A Abeyawardene
Director / Secretary

Colombo
10th July 2019

AUDIT COMMITTEE REPORT

The Audit Committee was constituted by the Board of Directors in accordance with the Best Corporate Governance Practices and the requirements of the Colombo Stock Exchange. The membership of the Committee during the financial year 2018/19 comprised of the following Non-Executive Directors;

- Mr. D P Kumarage - Chairman Non-Executive Independent Director
- Dr. M S Meerasahib - Member Non-Executive Director
- Mr. N Sundararajan - Member Non-Executive Independent Director
- Mr. Gopal Mahadevan - Member Non-Executive Director
- Mr. D A Abeyawardene - Member Non-Executive Independent Director

The members have a well-balanced blend of experience in the Legal, Commercial, Financial, Corporate Governance and Audit sector. Chairman of the Audit Committee Mr. D P Kumarage has experience in Banking and Finance sectors.

Brief profile of each member is provided on pages 11 and 13.

ROLE OF THE AUDIT COMMITTEE

The Audit Committee, with its main objective being to assist the Board of Directors in carrying out their responsibilities, is responsible for;

- Ensuring that the internal control system in place is adequate and properly implemented.
- Ensuring that a sound financial reporting system is in place in compliance with Sri Lanka Accounting Standards,
- Ensuring that the Company complies with the applicable laws and regulations and
- Ensuring that the Company's management reporting system is efficient enough to give accurate, appropriate and timely information regarding the present and foreseeable governance, risks and compliance requirements.

MEETINGS

The Audit Committee met four times during the year ended 31st March 2019 and the attendance details are given in page 20 to the Corporate Governance report.

The meetings were attended by the Chief Executive Officer, Chief Financial Officer and Deputy Manager - Finance of the Company by invitation. The proceedings of the Audit Committee are regularly reported to the Board.

INTERNAL AUDIT

The internal audit function is outsourced to M/s. EY Advisory Services [Pvt] Ltd. The Audit Committee meets the internal auditors on a quarterly basis and reviews their findings in order to identify the effectiveness of the internal controls and risks attached to different

areas of operation. Follow-up reports on the previous observations are also reviewed by the Committee. The key risks associated with the business are given in the Risk Management Report in pages 31 to 34. The internal auditor's reports are made available to the external auditors as well.

STATUTORY AUDIT

M/s. KPMG, Chartered Accountants were appointed as the statutory auditors and the Audit Committee reviewed their independence and objectivity. The Audit Committee also reviewed the observations and recommendations on the Management Letter issued by them.

The statutory auditors have given a declaration as required by section 163 [3] of the Companies Act No. 07 of 2007, that they do not have any interest or relationship with the Company, which may have a bearing on the independence of their role as auditors.

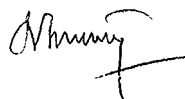
The Committee reviewed the non-audit services and its impact on the independence of the External Auditors. The Audit Committee has recommended to the Board that M/s. KPMG be re-appointed as the Independent External Auditor and that the re-appointment be included in the agenda of the Annual General Meeting, for securing the approval of the shareholders.

FINANCIAL REPORTS

By giving due consideration to audit findings, quarterly and annual financial reports are reviewed by the Audit Committee prior to their publication, with the objective of ensuring the accuracy, compliance with the standards and other regulatory requirements and the ability to continue as a going concern.

CONCLUSION

The Audit Committee is of the opinion that adequate internal controls and procedures are in place in the Company to provide reasonable assurance that its assets are safeguarded, and to ensure that the financial position and the results disclosed in the Audited Financial Statements are free from material misstatements.



D P Kumarage
Chairman - Audit Committee

Colombo
10th July 2019

REMUNERATION COMMITTEE REPORT

COMPOSITION OF THE COMMITTEE

The Remuneration Committee consists of following Non-executive Directors of the Board.

- Mr. N Sundararajan - Chairman Non-Executive Independent Director
- Mr. D P Kumarage - Member Non-Executive Independent Director
- Mr. Vinod K Dasari - Member Non-Executive Director
- Mr. D A Abayawardene - Member Non-Executive Independent Director
- Mr. M Jahanser - Member Non-Executive Director

Brief profile of each member is given on pages 11 to 13.

The Company Secretary acts as the Secretary to the Committee. Chief Executive Officer of the Company assists the Remuneration Committee by providing market survey data and Key Result Area reports except on occasions where conflict of interest arises.

ROLE OF THE REMUNERATION COMMITTEE

The scope of the Committee is to give recommendations to the Board for deciding compensation of the Chief Executive Officer and the Senior Executives of the Company who constitute the Management Committee. The Committee also reviews the policy pertaining to the perquisites of the employees and propose guidelines and parameters for periodic revisions in the compensations of all other employees.

REMUNERATION POLICY

The Remuneration Policy aims to attract and retain a highly qualified and experienced workforce, and reward performance accordingly against the backdrop of industry norms. These compensation packages are commensurate with each employee's level of expertise and contribution, bearing in mind business performance and shareholder returns.

The Remuneration package includes basic salary, travelling allowance or transport facility, fixed monthly allowances, performance based monthly incentives, healthcare insurance and attendance based allowances depending on the category of the employees.


The Committee meets from time to time to review and assure alignment of the Company's compensation structure and human resource requirements with the strategic decisions taken by the Board and compensation offered by competitors.

DIRECTORS' EMOLUMENTS

All Independent Directors receive a fixed honorarium per month plus a fee for attending Board meetings and for serving on Board Committees. Details of Directors' emoluments are disclosed in Note 9 on page 61.

MEETINGS

The Committee held two meetings during the year under review and the attendance details are given on page 20 to the Corporate Governance Report.



N Sundararajan

Chairman - Remuneration Committee

Colombo

10th July 2019

NOMINATION COMMITTEE REPORT

The Nomination Committee was established on 28th January 2019 and consists of the following Non-executive Directors of the Board;

- Mr. N Sundararajan - Chairman Non-Executive Independent Director
- Mr. D P Kumarage - Member Non-Executive Independent Director
- Mr. Vinod K Dasari - Member Non-Executive Director
- Mr. D A Abayawardene - Member Non-Executive Independent Director
- Mr. M Jahanser - Member Non-Executive Director

Brief profile of each member is given on pages 11 to 13.

The Company Secretary acts as the Secretary to the Committee.

PURPOSE OF THE COMMITTEE

The Committee is established to review the structure and composition of the Board and make recommendations to the Board on new Board appointments. To ensure that the Board possesses the correct mix of expertise for its effective functioning, the Committee assesses the Board composition to ascertain whether the combined knowledge, skills mix and experience of the Board matches the strategic demands facing the Company.

TERMS OF REFERENCE AND KEY ACTIVITIES

The terms of reference of the Nomination Committee include the following;

- To regularly review the structure, size, composition and competencies (including the skills, knowledge and the experience) of the Board and make recommendations to the Board with regard to any changes.
- To identify and recommend suitable Directors appointment to the Board in line with the provision of Articles of Association of the Company.
- To consider the selection and appointment of a Chairman of Board Sub-committees in case a vacancy arises.
- To consider and recommend [or not recommend] the re-appointment of current Directors, taking into account the statutory requirements and provide advice and recommendations to the Board on any such appointment.
- To look into and make recommendations on any other matters referred to it by the Board of Directors.

CONCLUSION

The Committee is satisfied that the combined knowledge and experience of the Board matches the demands facing the Company.



N Sundararajan
Chairman – Nomination Committee

Colombo
10th July 2019

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Committee assists the Board in establishing and reviewing policies and procedures related to Related Party transactions and helps to ensure avoidance of conflict of interest and to make appropriate disclosures in complying with the Listing Rules of the Colombo Stock Exchange and with the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission.

COMPOSITION OF THE COMMITTEE

The Committee consisted of five Non-Executive Directors of whom three were Independent; the composition was in compliance with the Listing Rule No 9.2.2 of the Colombo Stock Exchange. The composition of the RPTRC is given on page 16 and a brief profile of each member is provided in pages 11 to 13.

SCOPE OF THE COMMITTEE

The Related Party Transactions Review Committee has been mandated, to ensure compliance with the Code of Best Practices on Related Party Transactions issued by the Securities Exchange Commission of Sri Lanka [the Code], and to facilitate the disclosures as required under LKAS 24.

- The Committee reviews the ongoing and proposed Related Party transactions, [other than those transactions explicitly exempted in conformity with the Code], which are not of an ongoing or recurrent nature; and in cases where the Related Party transactions are of an on-going or recurrent nature, the Committee establishes guidelines for the senior management to follow.
- The Committee also reports and updates the Board of Directors once in every quarter about its review and its findings on the Related Party Transactions.
- Where applicable, the Committee has laid down guidelines for the Management to make immediate market disclosure on applicable Related Party Transactions as required by Section 9 of the continuing Listing requirements of Colombo Stock Exchange.

The Committee is responsible for making appropriate disclosure on Related Party Transactions in the Annual Report to the shareholders, as required by Section 9 of the continuing Listing requirements of Colombo Stock Exchange.

POLICIES AND PROCEDURES

The Promoters [Joint venture partners] of the Company and the parties related to the joint venture partners are directly identified as the Related Parties of the Company. The information related to the related parties of the Promoters are periodically obtained and updated in the database of the Company.

The members of the Board of Directors of the Company and the Chief Executive Officer have been identified as the Key Management Personnel. Periodic declarations are obtained from the Key Management Personnel of the Company to identify the parties, if any, related to them who may have had any transactions relevant for this purpose.

The Company uses data from the declarations and the data retrieved from the ERP system to ensure compliance.

MEETINGS OF THE COMMITTEE

The Committee held four meetings during the year under review and the attendance details of the members is given in page 21.

Findings and recommendations of the Committee were reported to the Board of Directors every quarter, soon after the meetings of the Committee. The Board reviewed the findings and has accepted the recommendations for implementation by the Management and also regarding disclosures.

RELATED PARTY TRANSACTIONS DURING THE YEAR 2018/19

There were no non-recurrent Related Party Transactions that exceeded the thresholds requiring immediate market disclosure or shareholder approval as stipulated under Section 9 of the Continuing Listing Requirements of the Colombo Stock Exchange.

Recurrent Related Party Transactions that require disclosure in the Annual Report are given in Note 33 to the Financial Statements.

DECLARATION

A declaration by the Board of Directors in the Annual Report as a negative statement to the effect that no related party transaction falling within the ambit of the rule 9.3.2 of Listing Rules of the Colombo Stock Exchange was entered into by the Company during the year, is given in the Annual Report of the Board of Directors on page 16. All other related party transactions that could be classified as related party transactions in terms of LKAS 24 - 'Related Party Disclosures', are given in Note 33 to the Financial Statements.



N Sundararajan

Chairman - Related Party Transactions Review Committee

Colombo
10th July 2019

Director's Statement on Internal Controls

The Section D.1.5 & D.2.4 of the 'Code of Best Practice on Corporate Governance 2017' [The Code] issued jointly by the Securities and Exchange Commission and the Institute of Chartered Accountants of Sri Lanka recommends that the Board of Directors present a Statement on Internal Controls in the Annual Report.

RESPONSIBILITY

The Board of Directors is responsible for formulating and implementing a sound system of internal controls and for periodically reviewing its effectiveness and integrity in terms of mitigating any risks associated and also to ensure sound system of Internal Controls to safeguard shareholders' investment and Company's assets while confirming effective system of Internal Controls over financial reporting.

The Board identifies significant risks on an ongoing basis and takes necessary steps for implementation of appropriate procedures to evaluate and manage the identified risks.

KEY INTERNAL CONTROL PROCESSES

The management assists the Board in the implementation of the Board's policies and procedures pertaining to internal controls over financial reporting by identifying and assessing the risks faced, and in the design, operation and monitoring suitable internal controls. In assessing the internal control system, identified officers of the Company continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. The internal audit function of the Company continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.

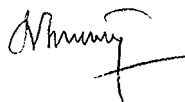
The Audit Committee of the Company reviews internal control issues identified by the outsourced internal audit function, regulatory authorities and management and evaluates the adequacy and effectiveness of the internal control systems.

The recommendations made by the external auditors in connection with the internal control system in previous years were reviewed during the year and appropriate steps have been taken to implement them.

CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide a reasonable assurance regarding the reliability of financial reporting and preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards [SLFRS/ LKAS] and regulatory requirements.

By order of the Board of Directors



D P Kumarage
Chairman – Audit Committee



D A Abeyawardene
Director / Secretary

Colombo
10th July 2019

MANAGEMENT OF RISK

OVERVIEW

Risk is an integral part of any business and Lanka Ashok Leyland believes that in a successful enterprise Risk Management initiative can minimize the likelihood and consequences of risks getting materialized. Risk Management is a continuous and developing process which runs throughout the Company's strategic initiatives and the implementations, to maintain a balance between the risks of uncertainty and change necessary to grab opportunities.

A successful approach towards Risk Management results in compliance, assurance and better-informed decision-making which will help the Company in improving the effectiveness of strategy and efficiency of operations.

RISK GOVERNANCE AND OVERSIGHT

The Board being primarily responsible for the overall Risk Management of the Company, approves the strategy and policies for effective Risk Management which is converted to action in the manner outlined in the following framework.

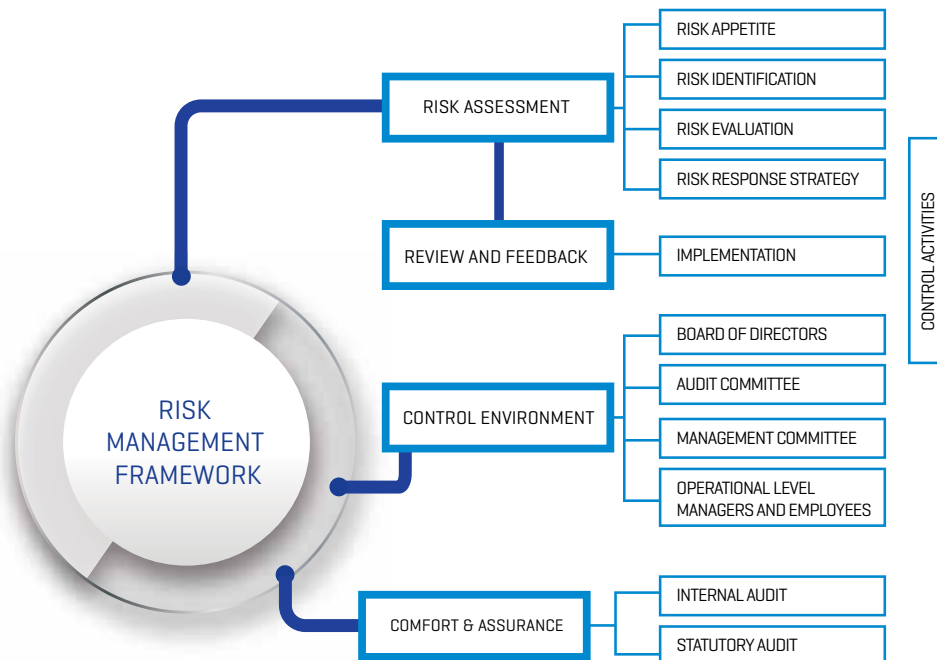
The Board has delegated its responsibility to the Audit Committee to oversee the system of Risk Management, compliance and controls to mitigate risks. The Company has appointed an independent professional organization, as internal Auditors who provide in-depth

reports to the Audit Committee. The Audit Committee reviews the internal audit reports and assesses the effectiveness of laid down risk assessment process, suggested requirements, mitigation plans and gives directions to the management.

The Senior Management of the Company is responsible for implementing the Risk Management directives given by the Audit Committee and for the establishment of appropriate systems to ensure that enterprise risks are identified, measured, monitored, and controlled effectively.

RISK MANAGEMENT PROCESS

Control Environment, Risk Assessment, Control Activities, Communication and Monitoring establish the foundation for sound internal control system within the Company. The various risks faced by the Company are identified and assessed routinely at all levels and within all functions in the Company. Control activities and other mechanisms are proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives is communicated through established channels up, down and across the Company. The entire system of internal control is monitored continuously and possible weaknesses are addressed timely. Accordingly, the Risk Management Framework of the Company is presented below.



MANAGEMENT OF RISK [Contd.]

Control Environment

The control environment of Lanka Ashok Leyland PLC is headed by the Board of Directors, assisted by an Audit Committee with well-balanced blend of experience, and the management committee. The Board with the assistance of the Audit committee, sets the necessary tone at the top to ensure an effective control environment ensuring continuous monitoring and improvements. The Management Committee implements the control objectives and gives necessary feedback to both the Audit Committee and to the operational level managers.

Risk Assessment

Risk assessment starts with management discussions, event analysis, internal audit reports and other internal and external communications for risk identification and continues to assess the impact and finally proceeds to risk response. Risk Assessment is all about measuring and prioritizing risks so that risk levels are managed within defined tolerance thresholds without being over controlled or foregoing desirable opportunities.

Control Activities

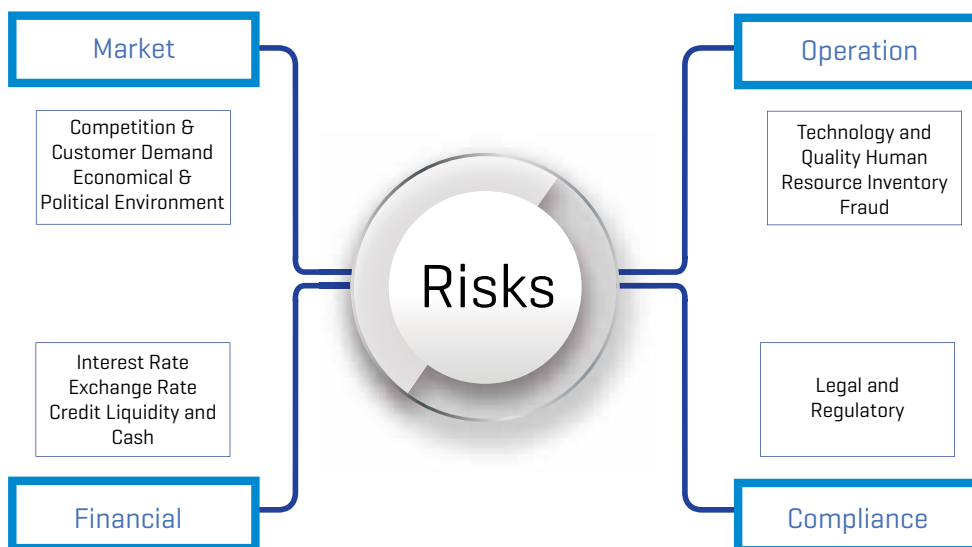
Control activities established through policies and procedures are performed at all levels of the company at various stages within business processes, and over the technology environment. They may be preventive or detective in nature. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.

Management Committee is responsible in placing an effective internal control system in accordance with the policies set by the Board of Directors based on the recommendations of the Audit Committee and the Internal and External Auditors.

Communication and Monitoring

Learning through experience, opinions from professionals such as internal auditors, external auditors and other internal and external stakeholders are given due importance by the Audit Committee in monitoring and reviewing the risks. The Audit Committee, which has the ultimate responsibility of monitoring the process of risk management, reviews the risks and action plans on a quarterly basis and makes recommendations to the Board.

The following diagram summarizes the key risks that could be most relevant to LAL's business.



MANAGEMENT OF RISK [Contd.]

RISK MANAGEMENT ACTIONS

The table below sets out the categories of risks, along with specific risk elements Lanka Ashok Leyland PLC is exposed to and the potential implications of the same as well as the risk management treatment/s in placed.

Market Risk

| Risk | Potential Impact | Treatment |
|-------------------------------------|--|---|
| Competition and Customer Demand | Decline in market share, new rivals and industry over-capacity in a high growth competitive environment. | The Company maintains long and well established relationships with major transport operators in the industry and with individual clients. Launching of new products with latest technology and designs which attract existing and potential customers while focusing on continuous improvements. |
| Economical & Political Environment. | Negative impact on the Company due to changes in the economic and political environment. | Economic and political variables / potential fluctuations are continuously evaluated during the Company's future "strategies and objectives" evaluation sessions. |

Financial Risk

| Risk | Potential Impact | Treatment |
|-------------------------|---|---|
| Interest Rate | Possibility of an adverse impact on cost of funds and profitability. | Regular monitoring of interest rate fluctuations to enable necessary back-up plans to be ready in advance to mitigate the risk. Ensuring that the import loans are settled within a shortest possible period by improving the working capital cycle and negotiating best possible rates with the banks. |
| Exchange Rate | Possibility of Exchange rate fluctuations, and its effects on Company operations and profitability. | Regular monitoring of exchange rate movements and entering into forward contracts when necessary. |
| Credit | Risk of financial loss to the Company as a result of customers not settling their dues. | Strict implementation and continuous monitoring of the credit policy. Strict follow-up of outstanding on ongoing basis. |
| Liquidity and Cash Flow | Possibility of risk that the Company encounters difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering Cash or another Financial Asset. | Ensuring that the Company always have sufficient liquidity to meet its liabilities by forecasting the cash flows. Tight working capital management and periodic reviews to ensure cash flow alignment. |

MANAGEMENT OF RISK [Contd.]

| Compliance Risk | | |
|-------------------------|---|---|
| Risk | Potential Impact | Treatment |
| Legal and Regulatory | Regulatory risk arises when the Company does not comply with regulatory requirements which are subject to change from time to time. | <p>The Management reviews changes in regulations and assesses the business impact of such changes.</p> <p>A compliance statement is presented to every Board Meeting.</p> <p>Company officials closely work with Regulators to ensure that regulatory requirements are fully understood and complied with.</p> <p>Seek professional advice from external consultants such as legal, and tax consultants as and when needed.</p> |
| Operational Risk | | |
| Risk | Potential Impact | Treatment |
| Technology and Quality | Possibility of products or processes being outdated or obsolete due to advanced technology. | <p>Keep pace with current technological developments in the industry.</p> <p>Upgrade knowledge of technical staff through trainings and seminars.</p> <p>Ensure strong supplier and customer relationship to meet customers' changing requirements and suppliers' new developments.</p> |
| Human Resource | Impact on business competitiveness due to difficulties in attracting, developing and retaining employees with the appropriate skills, experience and aptitude. | <p>Recruitment of high caliber staff and effective communication lines are developed in the Company's culture to foster good employer employee relationships.</p> <p>Regular training programs are carried out in order to infuse motivation, commitment and empowerment among the staff.</p> <p>Maintain healthy relationship with employees at all levels through joint consultative committees and welfare activities.</p> |
| Inventory | Risk of carrying inventory that is not saleable. | <p>Maintain optimum levels in all possible categories of inventory.</p> <p>Ensure required quality standards are met at all stages of inventory to maintain quality until the product is delivered.</p> |
| Fraud | The risk that the internal control weaknesses leading to corruption and employees abusing entrusted power for private gain and in turn leading to misappropriation of assets or fraudulent financial reports. | <p>Conduct periodic internal audits by an independent firm of Chartered Accountants.</p> <p>Formation of an Audit Committee which reviews internal audit reports and other financial and non-financial reports on a quarterly basis.</p> <p>Establishment of stringent procedures and internal control measures and their continuous improvement.</p> |

FINANCIAL REPORTS



| | |
|--|-------|
| Statement of Director's Responsibilities | 36 |
| Financial Calendar | 37 |
| Independent Auditor's Report..... | 38-40 |
| Statement of Profit or Loss and Other Comprehensive Income | 41 |
| Statement of Financial Position | 42 |
| Statement of Changes in Equity | 43 |
| Statement of Cash Flows | 44 |
| Notes to the Financial Statements | 45-89 |

THE STATEMENT OF DIRECTOR'S RESPONSIBILITIES

While the responsibility of the auditors in relation to the Financial Statements is set out in the Report of the Auditors, the responsibility of the Directors in relation to the Financial Statements is set out in the following statement.

The Financial Statements comprise of:

- A Statement of Financial Position, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year;
- A Statement of Profit or Loss and Other Comprehensive Income of the Company which presents a true and fair view of the profit or loss of the Company for the financial year;
- A Statement of Changes in Equity depicting all changes in shareholders' funds of the Company during the year under review;
- A Statement of Cash Flows providing the information to the users, on the generation of cash and cash equivalents and the utilization of those cash flows, during the year under review, and
- Notes to the Financial Statements comprising accounting policies and other explanatory information.

The Companies Act No. 07 of 2007 requires the Directors to prepare and present Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for the financial year. The Directors are required to confirm that the Financial Statements have been;

- prepared using appropriate accounting policies which have been selected and applied in a consistent manner, and material departures, if any, have been disclosed and explained; and
- presented in accordance with the Sri Lanka Accounting Standards; and
- prepared with reasonable and prudent judgments and estimates so that the form and substance of transactions are properly reflected; and
- prepared to provide the information required by, and otherwise comply with, the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have the responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to prevent and detect frauds and other irregularities.

The Directors are required to prepare the Financial Statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections that may be considered appropriate to enable them to give their audit opinion. Further, as required by Section 56 (2) of the Companies Act No 7 of 2007, the Board of Directors have confirmed that the Company, based on the information available, satisfies the solvency test immediately after the distribution, in accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained a certificate from the auditors, prior to recommending a dividend of Rs. 10.00 per share as the first and final dividend for the financial year ended 31st March 2019 .

The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company, as at the reporting date had been paid, or where relevant, provided for, except as specified in Note 35 to the Financial Statements covering contingent liabilities.

By Order of the Board of Directors



D A Abeyawardene
Director / Secretary

Colombo
10th July 2019



FINANCIAL CALENDAR 2018/19

| | 2018/19 | 2017/18 |
|---|---------------------------------|------------------------------|
| Annual Report | 16 th August 2019 | 19 th July 2018 |
| Annual General Meeting to be held/ held | 06 th September 2019 | 10 th August 2018 |
| Final Dividend to be Declared/ Declared | 06 th September 2019 | 10 th August 2018 |
| Final Dividend to be Paid/ Paid | 18 th September 2019 | 21 st August 2018 |

SUBMISSION OF INTERIM FINANCIAL STATEMENTS IN TERMS OF THE RULE 7.4 OF THE COLOMBO STOCK EXCHANGE

| | 2018/19 | 2017/18 |
|---------------------------------|-------------------------------|-------------------------------|
| 01 st Quarter Report | 10 th August 2018 | 08 th August 2017 |
| 02 nd Quarter Report | 10 th October 2018 | 16 th October 2017 |
| 03 rd Quarter Report | 28 th January 2019 | 11 th January 2018 |
| 04 th Quarter Report | 24 th May 2019 | 08 th May 2018 |

INDEPENDENT AUDITOR'S REPORT



KPMG
(Chartered Accountants)
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P. O. Box 186,
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TO THE SHAREHOLDERS OF LANKA ASHOK LEYLAND PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lanka Ashok Leyland PLC ["the Company"], which comprise the statement of financial position as at 31st March 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 41 to 89 of this annual report.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st March 2019, 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 judgment, 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. Carrying Value of Inventories

Refer to significant accounting policies in Note 3.10 and explanatory note in Note 19 of the financial statements. The Company held inventories which comprised several different vehicles, generators and spare parts with an aggregate carrying value of Rs.4,781,316,960 as at 31st March 2019.

Changes in economic sentiment or consumer preferences, demands and the introduction of newer models with the latest design and technologies could result in inventories on hand no longer being sought after or being sold at a discount below their cost. Estimating for future demand and the related selling prices of vehicles, generators and spare parts are inherently subjective and uncertain because it involves management estimating the extent of markdown of selling prices necessary to sell the older or slow moving models in the period subsequent to the reporting date. We identified the valuation of inventories as a key audit matter because of the exercise of significant judgment by management in determining appropriate carrying value of inventories.

Our audit procedures included;

- Assessing whether the inventory provisions at the end of the reporting period were determined in a manner consistent with the Company's inventory provision policy by recalculating the inventory provisions based on the percentages and other parameters in the Company's inventory provision policy.
- Assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing category by comparing individual items with the underlying goods receipt notes

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 |

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

INDEPENDENT AUDITOR'S REPORT [Contd.]



- Enquiring of management about any expected changes in plans for markdowns or disposals of slow moving or obsolete inventories and comparing their representations with actual transactions subsequent to the reporting date and assumptions adopted in determining the inventory provisions;
- Comparing, on a sample basis, the carrying value of inventories with sales prices subsequent to the end of the reporting period.
- Observing annual inventory count in order to ensure the existence and condition of inventories.

2. Recoverability of Rental and Trade Receivables and Transition Impact with the Adoption of SLFRS 9 [Financial Instruments]

Refer to significant accounting policies in Note 3.5.1 and explanatory notes in Notes 17 & 20 [Rental receivable from trade debtors & Trade and other receivable] of the financial statements. The carrying value of Rentals from trade debtors was Rs.95,354,364 and Trade receivables was Rs.322,706,530 as at 31st March 2019.

Assessing the allowance for impairment of debtors requires management to make subjective judgments over both the timing of recognition and estimation of the amount required of such impairment. We identified assessing the recoverability of trade debtors as a key audit matter because of the significance of trade debtors to the financial statements as a whole and the assessment of the recoverability of trade debtors is inherently subjective and requires significant management judgment in accordance with SLFRS 09, which increases the risk of error or potential management bias.

The company measures loss allowances using Simplified Expected Credit Loss [ECL]. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

Our audit Procedures included;

- Reviewing the appropriateness of the provisioning methodology used by management in determining the impairment allowances against the requirements of SLFRS 09.
- Assessing the reasonableness of the assumptions used in the provisioning methodology by comparing them with historical data adjusted for current market conditions.
- Recomputing management's calculation for the impairment allowance determined based on expected credit loss method.
- Assessing the completeness, accuracy and relevance of the transition disclosures and evaluate the appropriateness of the accounting policies based on the requirements of the SLFRS 09.

- Assessing, on a sample basis, whether items in the debtors ageing report were classified within the appropriate ageing category by comparing individual items with the underlying invoices
- Calling for confirmations from major debtors and / or verifying subsequent settlements as an alternative procedure.

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 will 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 identified above when it becomes available 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.

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,

INDEPENDENT AUDITOR'S REPORT *[Contd.]*



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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 1798.



Chartered Accountants.

Colombo, Sri Lanka
10th July 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| FOR THE YEAR ENDED 31 ST MARCH | | 2019 Rs. | 2018 Rs. |
|--|------|-----------------|------------------|
| | Note | | |
| Revenue | 5 | 8,627,775,017 | 15,565,076,832 |
| Cost of Sales | | [7,713,474,317] | [14,322,481,251] |
| Gross Profit | | 914,300,700 | 1,242,595,581 |
| Other Income | 6 | 29,758,852 | 26,324,014 |
| Selling and Distribution Expenses | 7 | [27,765,421] | [32,765,496] |
| Impairment Reversal on Trade Receivables | 7.1 | 13,079,413 | 60,365,315 |
| Administrative Expenses | | [492,583,182] | [478,161,189] |
| Other Operating Expenses | | [103,907,055] | [89,134,611] |
| Profit from Operations | | 332,883,307 | 729,223,614 |
| Net Finance Cost | 8 | [215,954,405] | [45,921,568] |
| Profit before Tax | 9 | 116,928,902 | 683,302,046 |
| Income Tax Expense | 10 | [9,467,707] | [179,184,570] |
| Profit for the Year | | 107,461,195 | 504,117,476 |
| Other Comprehensive Income | | | |
| <i>Items that will Never be Reclassified to Profit and Loss</i> | | | |
| Remeasurement of Employee Benefits - Actuarial Gain/ (Losses) | 27.2 | 10,081,480 | [7,241,487] |
| Deferred Tax [Charge]/ Reversal on Defined Benefit Plan | 10.3 | [2,822,814] | 2,027,616 |
| | | 7,258,666 | [5,213,871] |
| <i>Items that are or May be Reclassified to Profit and Loss</i> | | | |
| Net change in Fair Value of AFS Financial Assets | | - | [23,560] |
| | | - | [23,560] |
| Total Other Comprehensive Income, net of Tax | | 7,258,666 | [5,237,431] |
| Total Comprehensive Income for the Year | | 114,719,861 | 498,880,045 |
| Basic and Diluted Earnings Per Share | 11 | 29.68 | 139.23 |
| Adjusted Earnings Before Interest, Tax, Depreciation and Amortization [Adjusted EBITDA] | 13 | 448,876,145 | 850,518,730 |

The Notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION

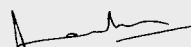
| AS AT 31 ST MARCH | Note | 2019 Rs. | 2018 Rs. |
|---|------|----------------------|----------------------|
| ASSETS | | | |
| Non Current Assets | | | |
| Property, Plant & Equipment | 14 | 548,284,634 | 524,689,981 |
| Intangible Assets | 15 | 13,067,782 | 246,817 |
| Financial Investments | 16 | 75,566 | 115,295 |
| Rental Receivable from Trade Debtors | 17.1 | 8,840,463 | 37,624,595 |
| Deferred Tax Asset | 18 | 32,635,423 | 1,301,528 |
| Total Non Current Assets | | 602,903,868 | 563,978,216 |
| Current Assets | | | |
| Inventories | 19 | 4,781,316,960 | 5,651,196,674 |
| Trade and Other Receivables | 20 | 429,606,304 | 632,571,358 |
| Rental Receivable from Trade Debtors | 17.2 | 86,513,901 | 162,451,557 |
| Deposits and Prepayments | 21 | 78,228,741 | 37,350,877 |
| Current Tax Asset | 29 | 20,561,934 | - |
| Amount due from Related Party | 22 | 153,273 | 153,273 |
| Cash & Cash Equivalents | 23.1 | 9,823,924 | 80,102,999 |
| Total Current Assets | | 5,406,205,037 | 6,563,826,738 |
| Total Assets | | 6,009,108,905 | 7,127,804,954 |
| EQUITY & LIABILITIES | | | |
| Equity | | | |
| Stated Capital | 24 | 49,375,150 | 49,375,150 |
| General Reserve | 25 | 887,347,500 | 887,347,500 |
| Available for Sale Reserve | 26 | - | 107,878 |
| Retained Earnings | | 2,376,906,585 | 2,401,829,016 |
| Equity attributable to owners of the Company | | 3,313,629,235 | 3,338,659,544 |
| Non Current Liabilities | | | |
| Employee Benefits | 27 | 84,498,498 | 83,556,722 |
| Total Non Current Liabilities | | 84,498,498 | 83,556,722 |
| Current Liabilities | | | |
| Trade and Other Payables | 28 | 502,494,840 | 638,026,956 |
| Current Tax Liabilities | 29 | - | 31,226,551 |
| Provision for Warranty | 30 | 2,270,002 | 6,437,541 |
| Short-Term Borrowings | 31 | 1,523,125,333 | 2,320,488,088 |
| Amount due to Related Party | 32 | 540,890,074 | 696,195,019 |
| Bank Overdrafts | 23.2 | 42,200,923 | 13,214,533 |
| Total Current Liabilities | | 2,610,981,172 | 3,705,588,688 |
| Total Liabilities | | 2,695,479,670 | 3,789,145,410 |
| Total Equity & Liabilities | | 6,009,108,905 | 7,127,804,954 |
| Net Assets per Share | | 915.15 | 922.07 |

The Notes annexed form an integral part of these Financial Statements.

It is certified that the Financial Statements have been prepared and presented in compliance with the requirements of the Companies Act No 7 of 2007.



G R Jayalath
Deputy Manager - Finance



U Gautam
Chief Executive 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 of Directors of Lanka Ashok Leyland PLC;



D P Kumara
Director



D A Abeyawardene
Director

Colombo, 10th July 2019

STATEMENT OF CHANGES IN EQUITY

| | Stated Capital Rs. | General Reserves Rs. | Available for Sale Reserves Rs. | Retained Earnings Rs. | Total Equity Rs. |
|---|--------------------------|----------------------------|---------------------------------------|-----------------------------|------------------------|
| Balance as at 01st April 2017 | 49,375,150 | 887,347,500 | 131,438 | 2,011,387,540 | 2,948,241,628 |
| Total Comprehensive Income | | | | | |
| Profit for the year | - | - | - | 504,117,476 | 504,117,476 |
| Other Comprehensive Income for the year | - | - | (23,560) | (5,213,871) | (5,237,431) |
| Total Comprehensive Income | - | - | (23,560) | 498,903,605 | 498,880,045 |
| Transactions with Owners of the Company | | | | | |
| Contribution/ Distribution | | | | | |
| Unclaimed Dividend Reversed | - | - | - | 163,161 | 163,161 |
| Dividend | - | - | - | (108,625,290) | (108,625,290) |
| Total Transactions with Owners of the Company | - | - | - | (108,462,129) | (108,462,129) |
| Balance as at 31st March 2018, as Previously Reported | 49,375,150 | 887,347,500 | 107,878 | 2,401,829,016 | 3,338,659,544 |
| Adjustment on Initial Application of SLFRS 9 (Note 42) | - | - | (107,878) | (12,912,787) | (13,020,665) |
| Adjusted Balance as at 01st April 2018 | 49,375,150 | 887,347,500 | - | 2,388,916,229 | 3,325,638,879 |
| Total Comprehensive Income | | | | | |
| Profit for the year | - | - | - | 107,461,195 | 107,461,195 |
| Other Comprehensive Income for the year | - | - | - | 7,258,666 | 7,258,666 |
| Total Comprehensive Income | - | - | - | 114,719,861 | 114,719,861 |
| Transactions with Owners of the Company | | | | | |
| Contribution/ Distribution | | | | | |
| Dividend | - | - | - | (126,729,505) | (126,729,505) |
| Total Transactions with Owners of the Company | - | - | - | (126,729,505) | (126,729,505) |
| Balance as at 31st March 2019 | 49,375,150 | 887,347,500 | - | 2,376,906,585 | 3,313,629,235 |

The Notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF CASH FLOWS

| FOR THE YEAR ENDED 31 ST MARCH | Note | 2019 Rs. | 2018 Rs. |
|---|------|----------------------|------------------------|
| Cash flows from Operating Activities | | | |
| Profit Before Tax | | 116,928,902 | 683,302,046 |
| Adjustment For : | | | |
| Depreciation of Property, Plant and Equipment | 14 | 115,462,535 | 120,394,233 |
| Amortization of Intangible Assets | 15 | 530,303 | 900,883 |
| Provision for Employee Benefits | 27.1 | 12,785,531 | 12,431,020 |
| Impairment Reversal on Trade & Other Receivables | 7.1 | [13,079,413] | [60,365,315] |
| Charge for Provision for Inventory | 19.1 | 42,056,679 | 91,161,457 |
| Finance Costs | 8.2 | 229,858,975 | 164,289,367 |
| Interest Income | 8.1 | [334,994] | [193,484] |
| Lease Interest Income | 6 | [10,761,939] | [16,333,180] |
| Gain on Sale of Property, Plant and Equipment | 6 | [8,286,915] | - |
| Reversal for Provision for Free Service | 28.1 | [8,689,611] | [1,276,903] |
| Charge/ (Reversal) of Warranty Provision | 30 | [4,167,539] | 1,386,306 |
| Fixed Assets Write Offs | | 575,383 | - |
| | | 355,948,995 | 312,394,384 |
| Operating Profit before Working Capital Changes | | 472,877,897 | 995,696,430 |
| Working Capital Changes in | | | |
| Inventories | | 721,875,991 | [1,845,644,906] |
| Trade and Other Receivables | | 266,867,726 | 303,978,676 |
| Amount due from Related Party | | - | 27,802,931 |
| Trade and Other Payables | | [126,842,505] | [211,867,914] |
| Amounts due to Related Party | | [155,304,945] | [130,680,812] |
| | | 706,596,267 | [1,856,412,025] |
| Cash Generated from/ (Used in) Operations | | 1,179,474,164 | [860,715,595] |
| Interest Paid | | [229,819,246] | [164,289,367] |
| Employee Benefits Paid | 27 | [1,762,275] | [3,214,643] |
| Payments of Income Tax | 29 | [95,412,901] | [177,556,299] |
| | | [326,994,422] | [345,060,309] |
| Net Cash Generated from / (Used in) Operating Activities | | 852,479,742 | [1,205,775,904] |
| Cash flows from Investing Activities | | | |
| Interest Received | | 11,096,933 | 15,853,507 |
| Proceeds from Sale of Property, Plant and Equipment | | 12,802,710 | - |
| Acquisition of Property, Plant & Equipment & Intangible Assets | | [51,552,590] | [29,766,494] |
| Net Cash Flows (Used in)/ Generated from Investing Activities | | [27,652,947] | [13,912,987] |
| Cash Flows from Financing Activities | | | |
| Short Term Loans obtained during the year | 31.1 | 6,781,472,536 | 13,596,439,321 |
| Short Term Loans repaid during the year | 31.1 | [7,578,835,291] | [12,216,143,233] |
| Dividend Paid | | [126,729,505] | [108,625,290] |
| Net Cash Flows Used in Financing Activities | | [924,092,260] | 1,271,670,798 |
| Net (Decrease) / Increase in Cash & Cash Equivalents | | [99,265,465] | 51,981,907 |
| Net Cash & Cash Equivalents at the beginning of the year | | 66,888,466 | 14,906,559 |
| Net Cash & Cash Equivalents at the end of the year | 23 | [32,376,999] | 66,888,466 |
| Analysis of Cash & Cash Equivalents at the End of the Year | | | |
| Cash & Cash Equivalents | 23.1 | 9,823,924 | 80,102,999 |
| Bank Overdrafts | 23.2 | [42,200,923] | [13,214,533] |
| | | [32,376,999] | 66,888,466 |

The Notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 Domicile & Legal Form

Lanka Ashok Leyland PLC [“the Company”] is a Quoted Public Limited Liability Company incorporated and domiciled in Sri Lanka under the provision of Companies Act No. 17 of 1982 and re-registered under the New Companies Act No.07 of 2007. The registered office of the Company is located at Panagoda, Homagama.

1.2 Principal Activities and Nature of Operations

The Company is involved in selling of commercial vehicles, diesel generators, spare parts and provision of after sales services and ancillary services for Ashok Leyland motor vehicles and let vehicles on hire.

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

The number of employees at the end of the year was 182 (2018 – 181).

1.3 Ultimate Holding Company

The Company is a joint venture between Lanka Leyland Limited and Ashok Leyland Limited-India.

1.4 Financial Year

The Company's financial year ends on 31st March.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company has been prepared in accordance with new Sri Lanka Accounting Standards [referred “SLFRS/LKAS”] as laid down by the Institute of Chartered Accountants of Sri Lanka [ICASL] and the requirements of the Companies Act No. 07 of 2007.

These Financial Statements include the following components:

- Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review.
- Statement of Financial Position providing the information on the financial position of the Company as at the year-end.

- Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Company.
- Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and utilization of those cash flows.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards [SLFRSs/ LKASs].

The Board of Directors acknowledges this responsibility as set out in the Report of the Directors under “Directors' Responsibility for Financial Statements”.

2.3 Approval of Financial statements

The Financial Statements of the Company for the year ended 31st March 2019 were approved and authorised for issue by the Board of Directors on 10th July 2019.

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 material items in the statement of financial position;

| Item | Basis of Measurement |
|-------------------------------|---|
| Retirement Benefit Obligation | Measured at its present value, based on an actuarial valuation as explained in Note 27. |
| Equity instruments | Fair Value |

2.5 Functional and Presentation Currency

The Company's Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency and no level of rounding have been used in presenting amounts in the Financial Statements, otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

2.6 Materiality and Aggregation

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

2.7 Use of Judgments and Estimates

The preparation of the Financial Statements in conformity with LKAS/SLFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

- **Useful Life Time of Property, Plant and Equipment**

The Company reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

- **Deferred Taxation**

Deferred Tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred Tax Liabilities are recognized for taxable temporary differences and for deferred tax assets judgment as to its recoverability is performed for recognition purposes.

- **Defined Benefit Plans**

The cost of the defined benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates, etc. Due to the long term nature of this obligation, such estimates are subject to significant uncertainty.

- **Provisions for Obsolete and Slow-Moving Items**

Management's judgment is used in the estimation of the amount and percentages of slow moving items when

determining the Provisions for obsolete and slow-moving items. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision made.

- **Impairment Losses on Trade and Other Receivables**

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the profit or loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ.

If impairment is not required based on the individual assessment all such individually significant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics.

The Company measures loss allowances using Expected Credit Loss (ECL). When estimating ECL Company determine whether the credit risk of a financial asset has increased significantly since initial recognition. For this 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, informed credit assessment and including forward-looking information.

- **Revenue Recognition – Overtime of at a Point in Time**

Revenue recognition, whether revenue from contract with customers is recognized over time or at a point in time is explained in Note 3.16.3.

2.8 Going Concern

The Directors have made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future and do not foresee a need for liquidation or cessation of trading. Furthermore, the 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, the Financial Statements of the Company continue to be prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes set out in Note 3.1 the Company has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

3.1 Changes in Significant Accounting Policies

The Company has initially applied SLFRS 15 and SLFRS 09 from 01st April 2018.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these Financial Statements have not been restated to reflect the requirements of the new standards.

3.1.1 SLFRS 15 - Revenue from Contracts with Customers

The Company has applied SLFRS 15 "Revenue from contracts with customers" with a date of initial application of 1 April 2018.

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations. Under SLFRS 15 revenue from contracts with customers, an entity should recognize as revenue the amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services excluding amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

The Company has applied SLFRS 15 using the cumulative transition effect method – i.e. by recognizing the cumulative effect of initially applying SLFRS 15 as an adjustment to the opening balance of equity at 01st April 2018 and therefore the comparative information has not been restated and continues to be reported under LKAS 18. The details of accounting policies under LKAS 18 and SLFRS 15 is disclosed in Note 3.16 separately.

The Company do not have a material impact on SLFRS 15 as the current accounting practice does not differ significantly from SLFRS 15. Therefore there was no adjustment to Retained earnings on the transition as at 01st April 2018. The details of the significant changes and qualitative impact of the changes are set out below.

The effect of initially applying of SLFRS 15 is mainly attributed to the following:

- recognition of revenue from New vehicle sales with free services
- recognition of revenue from Spare parts sales
- recognition of revenue from Diesel generator set sales
- recognition of revenue from Body part constructions
- recognition of Local agency commission
- recognition of Vehicle hiring income
- recognition of Revenue on Bill and Hold arrangement

a. New Vehicle Sales with Free Services

For the vehicle sale with free service, the Company previously recognized revenue in full and created a provision for free services at the point of selling the vehicle.

Under SLFRS 15 the total consideration is allocated to performance obligation i.e. – Vehicle sales and free services, based on their stand-alone selling prices.

b. Spare Parts Sale

For the sale of spare parts, the Company previously recognized the revenue in full amount at the dispatch point. Under SLFRS 15 the revenue is recognized at a point in time when the Control of goods are passed to the customer.

c. Diesel Generator Sales

For the diesel generator sales, the Company previously recognized the revenue to the amount that was not contingent on the provision for installation services. Under SLFRS 15 the total consideration is allocated to performance obligation i.e. – Sale of diesel generator with installation service.

d. Body Part Construction

For body part construction sales, the Company previously recognized the revenue at the point of delivering the body part to the customer. Under SLFRS 15 the revenue is recognized over time with regard to construction and sale of body parts. However, the construction and sales of body part is completed within a shorter period and the revenue is recognized once the sale is completed.

e. Local Agency Commission

The Company previously recognized the commission on sale of vehicles at the date of Bill of lading. Under SLFRS 15 the Company shall recognize the commission at a point in time and ignore any consideration collected on behalf of supplier since the company act as an agent for Ashok Leyland – India.

f. Vehicle Hiring Income

The Company previously recognized the revenue on vehicle hire income based on the actual mileage used by the hired vehicles on monthly basis. Under SLFRS 15 the hiring income is recognized over time due to the fact that the entity identifies the receipts and simultaneous consumption of benefits from the services provided to the customer.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

g. Bill and Hold Arrangement

For the sales under bill and hold arrangement, the Company previously recognized the revenue at the point of dispatch of vehicle from the entity premises. Under SLFRS 15, revenue under bill and hold arrangement is recognized when the control of goods has been transferred to the customer.

3.1.2 SLFRS 09 – Financial Instruments

SLFRS 09 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of SLFRS 09, the Company has adopted consequential amendments to LKAS 01 presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables and rental receivables in selling and distribution expenses/reversal. Consequently, the company reclassified impairment reversal amounting to Rs. 60.3 Mn, recognized under LKAS 39, from selling and distribution expenses/ reversal to impairment of loss/ reversal on trade receivable in the statement of profit or loss and other comprehensive income for the year ended 31st March 2018.

The nature and effects of the key changes to the Company's accounting policies resulting from its adoption of SLFRS 9 – "Financial Instruments" are summarised below:

3.1.2.1 Classification and Measurement of Financial Assets and Financial Liabilities

SLFRS 09 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). The classification of financial assets under SLFRS 09 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SLFRS 09 eliminates the previous LKAS 39 categories of held to maturity, loans and receivables and available for sale.

SLFRS 09 – "Financial Instruments" existing requirement in LKAS 39 – "Financial Instruments: Recognition and Measurement" for the classification of financial liabilities. Accordingly there is no significant effect on the Company's accounting policies for classification of financial liabilities.

The original measurement categories under LKAS 39 and the new measurement categories under SLFRS 09 for each class of the Company's financial assets and financial liabilities as at 01st April 2018 are disclosed in the Note 42.2 and 42.3 to the financial statements.

3.1.2.2 Impairment of Financial Assets

SLFRS 09 – "Financial Instruments" replaces the "Incurred Loss" model in LKAS 39 – "Financial Instruments Recognition and Measurement" with a forward looking "Expected Credit Loss" (ECL) model. The new model applies to financial assets that are not measured at FVTPL. ECL does not apply to equity investments and need to be measured at fair value.

For assets in the scope of the SLFRS 09 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of SLFRS 09's impairment requirements at 01st April 2018 results in an additional allowance for impairment as disclosed in Note 42.4 to the financial statements.

3.1.2.3 Transition to SLFRS 09 – "Financial Instruments"

Changes in accounting policies resulting from the adoption of SLFRS 09 – "Financial Instruments" have been applied retrospectively, except as described below:

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 – "Financial Instruments" are recognised in retained earnings and reserves as at 01st April 2018. Accordingly, the information presented for 2017/18 does not reflect the requirements of SLFRS 9 – "Financial Instruments" and therefore is not comparable to the information presented for 2018/19 under SLFRS 09 – "Financial Instruments".

Accordingly, the Company has disclosed the accounting policies under SLFRS 9 – "Financial Instruments" along with disclosures prescribed in SLFRS 7 – "Financial Instruments: Disclosures" that would apply from the date of initial application which is 01st April 2018.

Accounting policies as per LKAS 39 – "Financial Instruments: Recognition and Measurement" and related disclosures as per SLFRS 7 – "Financial Instruments Disclosures" for the comparative period is also presented after the SLFRS 9 – "Financial Instruments" accounting policies.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

3.1.2.4 Impact on adoption of SLFRS 9 “Financial Instruments to the Financial Statements

The details of impact on adoption of SLFRS 09 – Financial Instruments to the Financial Statements is disclosed in Note 42 separately.

3.1.2.5 Classification of Financial Assets and Financial Liabilities on the Date of Initial Application of SLFRS 9- “Financial Instruments”.

The details of classification of financial assets and financial liabilities on the date of initial application of SLFRS 9- “Financial Instruments” is disclosed in Note 42 separately.

3.1.3 Change in Inventory Valuation Policy

During the year Company has changed its accounting policy on valuation of spare part inventory to Weighted Average Cost (WAC) method from First In First Out (FIFO) method. The company has quantified the impact to the comparative figures and identified that there is no significant impact on the comparative Financial Statements of the company, therefore the company has not restated the comparative figures in respect to the said policy change.

3.2 Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency applying exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of the functional currency prevailing at the reporting date. Foreign currency differences are generally recognised in profit or loss.

Statement of Financial Position

3.3 Current Versus non-current Classification

The Company presents Assets and Liabilities in Statement of Financial Position based on current/non-current classification.

An asset as current when it is:

- Expected to be realized or intended to sell or consume in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- It does not have a right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current. Deferred tax liabilities and employee benefit liabilities are classified as non-current liabilities.

3.4 Financial Instruments

3.4.1 Recognition and Initial Measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

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

3.4.2 Classification and Subsequent Measurement

Financial Assets – Policy Applicable from 01st April 2018

On initial recognition, financial assets are classified as Amortised Cost, FVOCI – Debt Investment, FVOCI – Equity Investment or FVTPL.

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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

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

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

Financial asset measured at amortised cost comprises trade and other receivables, amounts due from related party, and cash and cash equivalents.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the 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.

FVTPL comprises investments in equity shares.

Financial Assets – Business Model Assessment: Policy Applicable from 01st April 2018

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial Assets – Assessment whether Contractual Cash Flows for Solely Payments of Principal and Interest: Policy Applicable from 01st April 2018

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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

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.

Financial Assets – Subsequent Measurement and Gains and Losses: Policy Applicable from 01st April 2018

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.

Financial Assets – Policy Applicable before 01st April 2018

The Company classified its financial assets into the following categories:

- Loans and Receivables
- Available for Sale

Financial Assets – Subsequent Measurement and Gains and Losses: Policy Applicable Before 01st April 2018

Loans and Receivables

Measured at amortised cost using the effective interest method.

Available-for-sale Financial Assets

Measured at fair value and changes therein, other than impairment losses were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial Liabilities - Classification, Subsequent Measurement and Gains and Losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL

if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities comprise loans and borrowings, refundable deposits and other deposits, amounts due to related party, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

3.4.3. Reclassification

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 09.

3.4.4 Derecognition

Financial Assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial Liabilities

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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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

3.4.5 Offsetting

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

3.5 Impairment

3.5.1 Non-Derivative Financial Assets

Policy Applicable from 01st April 2018

Financial Instruments

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables and contract assets are 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.

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

Credit-Impaired Financial Assets

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

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

- significant financial difficulty of the debtor or issuer;
- adverse changes in the payment status of the debtor;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or

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.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Policy Applicable before 01st April 2018

Non Derivative Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes;

- default or delinquency by a debtor;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of the debtor
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Financial Assets Measured at Amortized Cost

The Company considers evidence of impairment for financial assets measured at amortized cost (loans and receivables) on specific assets, accordingly all individually significant assets are assessed for specific impairment.

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

Available-for-Sale Financial Assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

3.5.2 Non-Financial Assets

The carrying amounts of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss.

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

3.6 Stated Capital

Ordinary Shares

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

3.7 Property, Plant & Equipment

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the company and cost of the asset can be measured reliably.

a) Cost

All Property, Plant and Equipment are initially recorded at cost and stated at historical cost less depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

Expenditure incurred to replace a component of an item of Property, Plant and Equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only if it is probable that the future economic benefits embodied in the item of Property, Plant and

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Equipment will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of Property, Plant and Equipment are recognized in the profit or loss as incurred.

b) Depreciation

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

The Company provides depreciation from the date the assets are available for use whereas depreciation of asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives of the different types of assets.

| | |
|--|------|
| Factory Building | 2.5% |
| Machinery & Equipment | 5% |
| Factory Equipment | 5% |
| Data processing Equipment | 25% |
| Office Equipment & City office equipment | 10% |
| Furniture & Fittings | 10% |
| Motor Vehicles | 20% |
| Computer software (intangible assets) | 25% |

Freehold land is not depreciated.

All assets carrying amounts are written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

c) Derecognition

An item of Property, plant and Equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

d) Capital Work-In-Progress

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

3.8 Intangible Assets

a) Cost

Intangible assets wholly consists of cost of computer software acquired by the Company and have finite useful life. Intangible assets are measured at cost less accumulated amortization and impairment losses.

b) Subsequent Expenditure

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

c) Amortization

Intangible assets are amortized on a straight line basis in the profit or loss from the date when the assets available for use, over the best estimate of its useful economic life. The estimated useful life of software is four years.

3.9 Capital Commitments

Capital commitments of the Company are disclosed in the Note 34 to the Financial Statements.

3.10 Inventories

Inventories are valued at lower of cost and net realizable value, after making due provisions for obsolete and slow-moving items.

Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Cost includes expenses incurred in acquiring the inventories and bringing them to their existing location and condition.

Work-in-progress refers to jobs remaining incomplete in the workshop and stated at cost. Cost includes all expenditure related directly to specific projects.

The Cost of each category of inventory is determined on following basis;

| | |
|--------------------|--|
| - Spare Parts | - At Weighted Average Cost [refer 3.1.3] |
| - Vehicles | - At Actual Cost |
| - Goods In Transit | - At Estimated Cost |

3.11 Goods-in-Transit

Inventory items shipped, but not received by the Company as at the reporting date are treated as goods-in transit. In such situations, estimates are made for unpaid bills in order to value goods-in-transit.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

3.12 Employee Benefits

3.12.1 Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized 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.

3.12.2 Defined Benefit Plan- Gratuity

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

The Company is liable to pay retirement benefits under the Payment of Gratuity Act, No. 12 of 1983. Under the said Act, the liability to an employee arises only on completion of 5 years of continued service.

The liability recognized in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefit expense in profit or loss.

3.12.3 Defined Contribution Plans- Employees Provided Fund & Employees Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts.

All the employees who are eligible for Employees' Provident Fund and Employees' Trust Fund are covered by relevant contribution funds in line with the respective statutes. Employer's contribution to the defined contribution plans are recognized as an expense in the profit or loss when incurred.

The company contributes 12% and 3% of the salary of each employee to the Employees' provident funds and Employees' trust fund respectively.

3.13 Provisions

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

3.14 Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

3.15 Contingent Liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation.

A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The Company does not recognize a contingent liability but discloses its existence in the Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

3.16 Revenue

The effect of initially applying SLFRS 15 on the Company's revenue from contracts with customers is described in Note 3.1.1. Due to the transition method chosen in applying SLFRS 15, comparative information has not been restated to reflect the new requirements.

3.16.1 Revenue Streams

The Company's revenue comprises only the revenue from contracts with customers. Revenue from contract with customers generates primarily from New vehicle sales. The streams of Diesel generator set sales, Repair income, spare part sales, vehicle hiring income and agency commission income are the other sources of income included under revenue from contracts with customers.

3.16.2 Disaggregation of Revenue from Contract with Customers

Revenue from contract with customers is disaggregated by sales by type of counterparty, major products and service lines and timing of revenue recognition under Note 05.

3.16.3 Performance Obligations and Revenue Recognition Policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or services to the customer.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

| Type of Product / Service | Nature and Timing of Satisfaction of Performance Obligations, Including Significant Payment Terms | Revenue Recognition Under SLFRS 15 [Applicable from 01 st April 2018] | Revenue Recognition under LKAS 18 [Applicable before 01 st April 2018] |
|-------------------------------------|---|--|---|
| Sale of Vehicles with Free Services | The Company provides two free services within two months of the sale, for the vehicles sold and price of these free services is in-built in the selling price. The Company may recognize Revenue from free services when the service is rendered. | The Company allocates a portion of the consideration received to free services. This allocation is based on the relative stand-alone selling prices. The amount allocated to the free services is deferred, and is recognized as revenue when the services are rendered. Due to the fact free services are being utilized within 2 months from the sale of vehicle and standalone value of the free service is immaterial, Therefore, no significant gap was identified between LKAS 18 and SLFRS 15 in accounting free services. | Revenue arising from free service are deferred using relative fair value basis and recognized as and when the revenue recognition criteria are fulfilled i.e. upon provision of the service or expiration of entitled period or/ and criteria, whichever occurs first |
| Spare Parts Sales | The Company sells spare parts through their stalls in several locations. The goods are realized when the goods are transported out, and the invoice is raised afterwards. | Revenue from spare parts sales are recognized at the dispatch point when the Company transfer the control of spare parts to the customer. | Revenue from spare parts sales are recognized at the dispatch point. |
| Body Parts Construction | The Company constructs some of the body parts in resalable nature, where it is less customized to the particular customer. The Company also constructs the body parts fully customized to the specifications provided by the customer. The Company has a guaranteed right to payment by the advance or the full payment charged from the customer. | The Company transfers the control of the goods over time. However, the time consumed for construction and sale of body part is insignificant. Therefore the revenue is recognized at the point of transfer of body parts. | The Company recognizes revenue from construction and sale of body parts at the point of delivering the body part to the customer. |
| Local Agency Commission | The Company acts as an indent agent for Ashok Leyland – India. LAL receives a commission from its indent principal for arranging the transaction. | The Company act as an agent for Ashok Leyland – india. Therefore the commission is recognized at the date of bill of lading except for any consideration received on behalf of the parent. | Commission income is recognized at the BL date. |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| Type of Product / Service | Nature and Timing of Satisfaction of Performance Obligations, Including Significant Payment Terms | Revenue Recognition Under SLFRS 15 [Applicable from 01 st April 2018] | Revenue Recognition under LKAS 18 [Applicable before 01 st April 2018] |
|----------------------------|---|--|---|
| Diesel Generator Set Sales | The Company provides generator sets and installation services to the customers. The price for the installation service is in-built in the price of the generator set. | Revenue from sale of generators are recognized at the point of delivery. Revenue from installation service is also qualified for at a point in time revenue recognition, Since there is no significant time gap for installation to be taken place. | Revenue from sale of generators and provision of installation service is recognized at the point of delivery. |
| Hiring income | Company provides vehicles on hire basis to government sectors | Revenue from hiring is recognized over time due to the fact that the entity identifies the receipts and simultaneous consumption of benefits from the services provided to the customer. | Revenue on vehicle hire income is recognized based on the actual mileage used by the hired vehicles on monthly basis. |

3.17 Sale of Goods under Finance Lease

In accordance with paragraph 42 of LKAS 17 – “Leases”, the selling profit or loss is recognized in the period of sales in accordance with the policy followed for outright sales. When low rate of interest are quoted, selling profit is restricted to that which would apply if a market rate of interest were changed. Cost incurred in connection with negotiating and arranging the lease is recognized as an expense when the selling profit is recognized.

The finance income over and above the selling profit is recognized over the lease term.

3.18 Gain or Loss on Disposal of Property, Plant and Equipment

Gains and losses on disposal of an item of property, plant & equipment are determined by comparing the net sales proceeds with the carrying amounts of property, plant & equipment and are recognized net within “other income” in Profit or Loss.

3.19 Other Income

All other income is recognized on an accrual basis.

3.20 Expenditure Recognition

Expenses are recognized in the Profit or Loss on the basis of a direct association between the cost incurred and the earnings of specific items of income.

All expenditure incurred in running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency is charged to profit or loss in arriving at the Profit / [Loss] for the year.

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

For the purpose of presentation of profit or loss the directors are of the opinion that “function of expenses method” presents fairly the elements of the enterprise’s performance, and hence such presentation method is adopted.

3.20.1 Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset, which takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the specific asset.

3.21 Finance Income and Finance Costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognized as it

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, and overdraft interest expenses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3.22 Income Tax Expense

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

3.22.1 Current Taxation

Current tax is the expected tax payable or receivable 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 declaration of dividends.

The Company is liable to taxation in accordance with the Inland Revenue Act No 24 of 2017.

3.22.2 Deferred Taxation

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

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

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

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 taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized 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 utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized, based on the level of future taxable profit forecasts and tax planning strategies.

3.23 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.

Number of Company's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows;

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable from the asset or liability either directly (as prices) or indirectly (derived prices)
- Level 3 - Inputs from the asset or liability that are not based on observable market data (unobservable inputs)

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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

3.24 Events after the Reporting Period

All material and important events if any which occur after the reporting date have been considered and disclosed in Note 37 to the Financial Statements.

3.25 Cash Flow Statement

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with Sri Lanka Accounting Standard- LKAS 7 on 'Statement of Cash Flows'.

3.26 Cash and Cash Equivalent

Cash and cash equivalents comprise of cash at bank, cash in hand and fixed deposits with maturities of three months or less from the acquisition date, and are used by the Company in the management of its short-term commitments. Bank overdrafts that are repayable on demand and forming an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

3.27 Earnings per Share

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 that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.28 Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Company's shareholders.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 01st January 2019. Accordingly, the Company has not applied the following new standards in preparing these Financial Statements.

SLFRS 16 - 'Leases'

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet financed leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after 01st January 2019.

Possible impact on Financial Statements

The Company does not expect that there will be a significant impact on its Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| FOR THE YEAR ENDED 31 ST MARCH | | 2019 Rs. | 2018 Rs. |
|---|---|----------------------|-----------------------|
| 5 | REVENUE | | |
| 5.1 | Disaggregation of Revenue from Contract with Customers | | |
| 5.1.1 | Major Products/ Service Lines | | |
| | New Vehicle Sales | 8,164,643,937 | 15,217,383,404 |
| | Diesel Generator Set Sales | 32,138,172 | 39,503,656 |
| | Vehicle/ Generator Set Repair Income | 155,434,844 | 146,614,771 |
| | Spare Parts Sales | 185,653,932 | 123,057,496 |
| | Vehicle Hiring Income | 89,904,132 | 27,616,004 |
| | Local Agency Commission | - | 10,901,501 |
| | | 8,627,775,017 | 15,565,076,832 |
| 5.1.2 | Sales by Type of Counterparty | | |
| | Government Entities | 698,286,604 | 637,957,748 |
| | Corporate and Institutes | 1,294,036,096 | 2,465,890,253 |
| | Individuals | 6,635,452,317 | 12,461,228,831 |
| | | 8,627,775,017 | 15,565,076,832 |
| 5.1.3 | Timing of Revenue Recognition | | |
| | Products & Services Transferred at a Point in Time | 8,537,870,885 | 15,537,460,828 |
| | Product & Services Transferred Over Time | 89,904,132 | 27,616,004 |
| | | 8,627,775,017 | 15,565,076,832 |
| 5.2 | In respect of Commission, Management considers that the following factors indicate the Company acts as an agent; | | |
| | - The Company neither takes title to nor is exposed to inventory risk related to goods, does not have discretion in establishing prices and has no significant responsibility in respect of the goods sold. | | |
| | - The Company receives indent commission for the arrangement of sale of the goods and all the risk related to the transaction is borne by the supplier of the goods. | | |
| FOR THE YEAR ENDED 31 ST MARCH | | 2019 Rs. | 2018 Rs. |
| 6 | OTHER INCOME | | |
| | Profit on Sale of Property, Plant and Equipment | 8,286,915 | - |
| | Lease Interest Income | 10,761,939 | 16,333,180 |
| | Sundry Income | 10,709,998 | 9,990,834 |
| | | 29,758,852 | 26,324,014 |
| 7 | SELLING AND DISTRIBUTION EXPENSES | | |
| | Distribution Expenses Comprise of the Following; | | |
| | Sales Promotions | 2,691,480 | 5,467,300 |
| | Discounts | 6,567,874 | 7,118,496 |
| | Advertising | 4,360,784 | 3,641,471 |
| | Other Selling Expenses | 14,145,283 | 16,538,229 |
| | | 27,765,421 | 32,765,496 |
| 7.1 | IMPAIRMENT REVERSAL ON TRADE RECEIVABLES | | |
| | Impairment Reversal on Rental Receivable from Trade Receivables [Note 17.3] | 10,449,567 | 56,445,392 |
| | Impairment Reversal on Trade Receivables [Note 20.2] | 2,629,846 | 3,919,923 |
| | | 13,079,413 | 60,365,315 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| FOR THE YEAR ENDED 31 ST MARCH | | 2019 Rs. | 2018 Rs. |
|---|---|----------------------|----------------------|
| 8 | NET FINANCE COST | | |
| | 8.1 Finance Income | | |
| | Interest Income | 334,994 | 193,484 |
| | Net Foreign Exchange Gain | 13,569,576 | 118,174,315 |
| | | <u>13,904,570</u> | <u>118,367,799</u> |
| | 8.2 Finance Cost | | |
| | Interest Expense on Short Term Borrowings | [229,076,614] | [163,013,127] |
| | Interest Expense on Bank Overdrafts | [742,632] | [1,276,240] |
| | Financial Assets at FVTPL - Net Change in Fair Value | [39,729] | - |
| | | <u>[229,858,975]</u> | <u>[164,289,367]</u> |
| | NET FINANCE COST | <u>[215,954,405]</u> | <u>[45,921,568]</u> |
| 9 | PROFIT BEFORE TAX | | |
| | Profit before tax is stated after charging all the expenses/ [Reversal] including followings; | | |
| | Directors' Emoluments | 12,950,500 | 8,778,551 |
| | Auditors' Remuneration - Audit Services | 1,950,000 | 1,530,000 |
| | - Audit Related Services | 285,000 | 70,000 |
| | - Non Audit Services | 1,415,000 | 560,000 |
| | Staff Cost [Note 9.1] | 317,119,507 | 309,974,173 |
| | Depreciation of Property, Plant and Equipment [Note 14] | 115,462,535 | 120,394,233 |
| | Amortization of Intangible Assets [Note 15] | 530,303 | 900,883 |
| | Property, Plant & Equipment Written-off | 575,383 | - |
| | Provision for Slow Moving and Obsolete Stocks [Note 19.1] | 42,056,679 | 91,161,457 |
| | Reversal of Provision for Free Service [Note 28.1] | [8,689,611] | [1,276,903] |
| | Charge/ [Reversal] of Warranty Provision [Note 30] | [4,167,539] | 1,386,306 |
| | Impairment Reversal on Trade & Other Receivables [Note 7.1] | <u>[13,079,413]</u> | <u>[60,365,315]</u> |
| | 9.1 Staff Cost | | |
| | Salaries, Wages and Other Benefits | 283,273,932 | 276,896,247 |
| | Defined Contribution Plans - EPF | 16,848,035 | 16,517,525 |
| | Defined Contribution Plans - ETF | 4,212,009 | 4,129,381 |
| | Defined Benefit Plans [Note 27.1] | 12,785,531 | 12,431,020 |
| | | <u>317,119,507</u> | <u>309,974,173</u> |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

10 TAX EXPENSE

The Company is liable to taxation at the rate of 28% on its taxable income in accordance with the Inland Revenue Act No 24 of 2017. [2017/18-28% on its taxable income and 12% on export sales]. The composition of income tax expense is as follows ;

| FOR THE YEAR ENDED 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--|--------------------|--------------------|
| 10.1 Tax Expense | | |
| Income Tax on Profits for the year [Note 10.2] | 43,624,416 | 204,819,185 |
| Deferred Tax Reversal [Note 10.3] | [34,156,709] | [25,634,615] |
| | <u>9,467,707</u> | <u>179,184,570</u> |
| 10.2 Reconciliation of the Accounting Profit and Taxable Profit | | |
| Profit Before Tax | 116,928,902 | 683,302,046 |
| Income from Other Sources and Exempt Income | [343,907] | [259,322] |
| Aggregated Expenses Disallowed for Taxation | 191,765,600 | 180,804,580 |
| Aggregated Deductible Expenses for Taxation | [152,884,104] | [132,187,694] |
| Total Statutory Income | <u>155,466,491</u> | <u>731,659,610</u> |
| Interest Income | 334,994 | 254,355 |
| Taxable Income | <u>155,801,485</u> | <u>731,913,965</u> |
| Taxation | | |
| Income Tax at 12% | - | 87,544 |
| Income Tax at 28% | 43,624,416 | 204,731,641 |
| Income Tax on Profits for the year | <u>43,624,416</u> | <u>204,819,185</u> |
| 10.3 Deferred Tax Reversal/ (Charge) Recognized in Comprehensive Income | | |
| Statement of Profit or Loss [Note 18] | 34,156,709 | 25,634,615 |
| Other Comprehensive Income [Note 18] | [2,822,814] | 2,027,616 |
| | <u>31,333,895</u> | <u>27,662,231</u> |
| 10.4 Effective Tax Rate | | |
| Effective Tax Rate Excluding Deferred Tax [Note 10.5] | <u>37.31%</u> | <u>29.97%</u> |
| Effective Tax Rate Including Deferred Tax [Note 10.5] | <u>8.10%</u> | <u>26.22%</u> |

| FOR THE YEAR ENDED 31 ST MARCH | Rate | 2019 Rs. | Rate | 2018 Rs. |
|--|---------------|-------------------|---------------|--------------------|
| 10.5 Reconciliation of Effective Tax Rate | | | | |
| Profit Before Tax | | 116,928,902 | | 683,302,046 |
| Tax Using the Company's Tax Rate | 28.00% | 32,740,093 | 28.00% | 191,324,573 |
| Exempted Income | [0.002%] | [2,496] | [0.0002%] | [1,391] |
| Disallowed Expenses | 45.92% | 53,694,368 | 7.41% | 50,625,283 |
| Deductible Expenses | [36.61%] | [42,807,549] | [5.42%] | [37,012,554] |
| Effect of Tax Rates on Export Sales | 0.00% | - | [0.02%] | [116,726] |
| Effective Tax Rate Excluding Deferred Tax | <u>37.31%</u> | <u>43,624,416</u> | <u>29.97%</u> | <u>204,819,185</u> |
| Temporary Differences | [29.21%] | [34,156,709] | [3.75%] | [25,634,615] |
| Effective Tax Rate Including Deferred Tax | <u>8.10%</u> | <u>9,467,707</u> | <u>26.22%</u> | <u>179,184,570</u> |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

11 EARNINGS PER SHARE

11.1 Basic Earnings per Share

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding.

| FOR THE YEAR ENDED 31 ST MARCH | 2019 | 2018 |
|--|-------------|-------------|
| Profit Attributable to Ordinary Shareholders (Rs.) | 107,461,195 | 504,117,476 |
| Weighted Average Number of Ordinary Shares | 3,620,843 | 3,620,843 |
| Basic Earnings per Share (Rs.) | 29.68 | 139.23 |

11.2 Diluted Earnings per Share

The calculation of diluted earning per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effect of all diluted ordinary shares.

There were no potentially dilutive ordinary shares outstanding at any time during the year and previous year. Therefore Diluted Earnings per share is same as Basic Earnings per Share Shown above.

12 DIVIDEND PER SHARE

After the reporting date, the following dividend was proposed by the Board of Directors. The Dividend has not been recognized as liability in the Financial Statements in compliance with LKAS 10 "Events After the Reporting Period".

| FOR THE YEAR ENDED 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--|-------------|-------------|
| Dividend for the Year (Rs.) | 36,208,430 | 126,729,505 |
| Weighted Average Number of Ordinary Shares | 3,620,843 | 3,620,843 |
| Dividend per Share (Rs.) | 10.00 | 35.00 |

13 ADJUSTED EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION [ADJUSTED EBITDA]

The Directors of the Company have presented the performance measure adjusted EBITDA as they monitor this performance measure at high level and they believe this measure is relevant to an understanding of the Company's financial performance. Adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the impact of Taxation, Net Finance Costs, Depreciation, Amortization, Impairment Losses/ Reversals related Intangible Assets, Property, Plant and Equipment.

Adjusted EBITDA is not a defined performance measure in SLFRS/ LKAS. The Company's definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Reconciliation of Adjusted EBITDA to Profit from Operations;

| FOR THE YEAR ENDED 31 ST MARCH | Note | 2019 Rs. | 2018 Rs. |
|---|------|-------------|-------------|
| Profit from Continuing Operations | | 107,461,195 | 504,117,476 |
| Income Tax Expense | 10 | 9,467,707 | 179,184,570 |
| Profit before Tax | | 116,928,902 | 683,302,046 |
| Adjustments for: | | | |
| - Net Finance Costs | 8 | 215,954,405 | 45,921,568 |
| - Depreciation | 9 | 115,462,535 | 120,394,233 |
| - Amortisation | 9 | 530,303 | 900,883 |
| Adjusted EBITDA | | 448,876,145 | 850,518,730 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

14 PROPERTY, PLANT & EQUIPMENT COST

| | As at 01 st April 2018 Rs. | Additions Rs. | Disposals/ Write offs/ Transfers Rs. | As at 31 st March 2019 Rs. |
|-----------------------------|---|------------------|--|---|
| Freehold Land | 10,700,810 | - | - | 10,700,810 |
| Freehold Factory & Building | 232,588,995 | 36,982,453 | - | 269,571,448 |
| Data Processing Equipment | 31,178,046 | 7,614,671 | [4,569,629] | 34,223,088 |
| Machinery & Equipment | 20,991,295 | 1,408,171 | [150,000] | 22,249,466 |
| Factory Equipment | 25,500,069 | 2,801,471 | [790,019] | 27,511,521 |
| Office Equipment | 8,047,586 | 94,999 | [1,481,886] | 6,660,699 |
| Furniture & Fittings | 22,267,803 | 1,543,713 | [1,868,426] | 21,943,090 |
| Motor Vehicles | 682,219,575 | 106,912,044 | [20,775,860] | 768,355,759 |
| | 1,033,494,179 | 157,357,522 | [29,635,820] | 1,161,215,881 |
| Work In Progress - Building | 20,852,336 | 36,008,152 | [49,183,815] | 7,676,673 |
| | 1,054,346,515 | 193,365,674 | [78,819,635] | 1,168,892,554 |

ACCUMULATED DEPRECIATION

| | As at 01 st April 2018 Rs. | Charge for the year Rs. | On Disposal/ Write offs Rs. | As at 31 st March 2019 Rs. |
|-----------------------------|---|-------------------------------|-----------------------------------|---|
| Freehold Factory & Building | 34,175,309 | 6,100,051 | - | 40,275,360 |
| Data Processing Equipment | 27,429,564 | 1,968,931 | [4,559,546] | 24,838,949 |
| Machinery & Equipment | 10,214,606 | 1,043,280 | [129,432] | 11,128,454 |
| Factory Equipment | 9,503,205 | 1,252,373 | [376,105] | 10,379,473 |
| Office Equipment | 4,576,728 | 546,604 | [1,143,514] | 3,979,818 |
| Furniture & Fittings | 15,585,172 | 1,886,307 | [2,074,261] | 15,397,218 |
| Motor Vehicles | 428,171,950 | 102,664,989 | [16,228,291] | 514,608,648 |
| | 529,656,534 | 115,462,535 | [24,511,149] | 620,607,920 |
| Carrying Value | 524,689,981 | | | 548,284,634 |

14.1 Market Value of the Freehold Land & Building Property

| Property | Market Value | Valuation Surveyor | Date of Valuation | No. of Buildings | Land Extent |
|---|-----------------|---------------------------|----------------------|---------------------|----------------------------|
| Freehold Land & Building at Panagoda, Homagama | Rs. 505 Mn | Mr. M.A. Ananda Sarath | 31.03.2016 | 4 | 18 acres and 32 perches |

- 14.2 Seylan Bank PLC holds the primary mortgage on Factory Land, Building, Machinery and Other Equipment, amounting to Rs. 200 million.
- 14.3 Rs. 105,947,044 [2017/18 - Rs. 66,296,056] has been capitalized as Motor Vehicles from Vehicle Stock.
- 14.4 Property, Plant & Equipment included fully depreciated assets that are still in use having a gross amount of Rs. 322,431,739 as at 31st March 2019 [2017/18 - Rs. 189,682,064].
- 14.5 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 50,436,177 [2017/18 - Rs. 29,766,494] for cash.
- 14.6 There is no permanent fall in the value of Property, Plant and Equipment which require a provision for impairment.
- 14.7 There were no capitalized borrowing costs related to the acquisition of Property, Plant and Equipment during the year [2017/18 - Nil].
- 14.8 During the year 2018/19, the Company has started construction of main gate and the surrounding area in the factory premises and total costs incurred up to 31st March 2019 is Rs. 7,676,673 and recorded under Capital Work-in-progress.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

15 INTANGIBLE ASSETS

| COST | As at 01st April 2018 Rs. | Additions Rs. | Disposals Rs. | As at 31st March 2019 Rs. |
|---------------------------------|---|--|--------------------------|---|
| Computer Software | 14,361,928 | 13,351,268 | - | 27,713,196 |
| | 14,361,928 | 13,351,268 | - | 27,713,196 |
| ACCUMULATED AMORTIZATION | As at 01st April 2018 Rs. | Amortization for the year Rs. | Disposals Rs. | As at 31st March 2019 Rs. |
| Computer Software | 14,115,111 | 530,303 | - | 14,645,414 |
| | 14,115,111 | 530,303 | - | 14,645,414 |
| Carrying Value | 246,817 | | | 13,067,782 |

15.1 Intangible Assets consist of ERP Software Purchased during 2007 & 2018 and also Microsoft License Purchased during the year 2014.

15.2 Intangible Assets included fully amortized assets that are still in use having a gross amount of Rs. 14,361,928 as at 31st March 2019 [2017/18 - Rs. 10,758,397].

| AS AT 31 st MARCH | 2019 Rs. | 2018 Rs. |
|---|---------------|----------------|
| 16 FINANCIAL INVESTMENTS | | |
| Equity Securities - Fair Value Through Profit or Loss [Note 16.1] | 75,566 | - |
| Equity Securities - Available-for-Sale | - | 115,295 |
| | 75,566 | 115,295 |

| AS AT 31 st MARCH | 2019 Cost Rs. | 2019 Market Value Rs. | 2018 cost Rs. | 2018 Market Value Rs. |
|---|---------------------|-----------------------------|---------------------|-----------------------------|
| 16.1 Investment in Quoted Shares | | | | |
| Diesel & Motor Engineering PLC [248 Ordinary shares] | 7,417 | 75,566 | 7,417 | 115,295 |
| | 7,417 | 75,566 | 7,417 | 115,295 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--|----------------------|----------------------|
| 17 RENTAL RECEIVABLE FROM TRADE DEBTORS | | |
| Balance as at the beginning of the year | 233,308,046 | 461,708,678 |
| Granted during the year | 29,460,000 | 126,936,696 |
| Total Rental Receivable | 262,768,046 | 588,645,374 |
| Less : Payment received during the year | [149,772,369] | [355,337,328] |
| Total Rental Outstanding [Note 17.3] | 112,995,677 | 233,308,046 |
| Less - Deferred Interest Income | [4,511,387] | [11,372,919] |
| Unearned Rental Income | 108,484,290 | 221,935,127 |
| Less : Provision for Impairment Loss [Note 17.3] | [13,129,926] | [21,858,975] |
| Balance as at the end of the year | 95,354,364 | 200,076,152 |
| 17.1 Receivable after one year | | |
| Total Rental Receivable | 9,269,380 | 40,087,280 |
| Less - Deferred Interest Income | [428,917] | [2,462,685] |
| Unearned Rental Income | 8,840,463 | 37,624,595 |
| Less : Provision for Impairment Loss | - | - |
| Balance as at 31st March | 8,840,463 | 37,624,595 |
| 17.2 Receivable within one year | | |
| Total Rental Receivable | 103,726,297 | 193,220,766 |
| Less - Deferred Interest Income | [4,082,470] | [8,910,234] |
| Unearned Rental Income | 99,643,827 | 184,310,532 |
| Less : Provision for Impairment Loss [Note 17.3] | [13,129,926] | [21,858,975] |
| Balance as at 31st March | 86,513,901 | 162,451,557 |
| Total | 95,354,364 | 200,076,152 |

17.3 Movement of Impairment Loss

The movement in the allowance for impairment in respect of Rental Receivable from Trade Debtors during the year is as follows;

Provision for Expected Credit Loss (ECL) As per SLFRS 09 - "Financial Instruments"

| AS AT 31 ST MARCH 2019 | Individual Impairment Rs. | Collective Impairment Rs. | Total Impairment Rs. |
|--|------------------------------|------------------------------|-------------------------|
| Balance at the beginning of the year [As per LKAS 39] | 21,303,531 | 555,444 | 21,858,975 |
| Impact of adopting SLFRS 09 - "Financial Instruments" | 1,436,215 | 284,303 | 1,720,518 |
| Balance at the beginning of the year [As per SLFRS 09] | 22,739,746 | 839,747 | 23,579,493 |
| Impairment Reversal recognized during the year | [10,247,201] | [202,366] | [10,449,567] |
| Balance at the end of the year | 12,492,545 | 637,381 | 13,129,926 |

Provision for Impairment as per LKAS 39 - Financial Instruments: Recognition and Measurement

| AS AT 31 ST MARCH 2018 | Individual Impairment Rs. | Collective Impairment Rs. | Total Impairment Rs. |
|--|------------------------------|------------------------------|-------------------------|
| Balance at the beginning of the year | 78,225,985 | 78,382 | 78,304,367 |
| Impairment Charge/ [Reversal] recognized during the year | [56,922,454] | 477,062 | [56,445,392] |
| Balance at the end of the year | 21,303,531 | 555,444 | 21,858,975 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

17 RENTAL RECEIVABLE FROM TRADE DEBTORS [Contd.]

17.4 Maturity Analysis of Rentals Receivables from Trade Debtors

| | Less than 06 Months Rs. | 06 - 12 Months Rs. | 01 - 05 Years Rs. | Total Rs. |
|--|-------------------------------|--------------------------|-------------------------|--------------|
| Rental Receivables from Trade Debtors As at 31 st March 2019 | 74,429,779 | 12,084,122 | 8,840,463 | 95,354,364 |
| Rental Receivables from Trade Debtors As at 31 st March 2018 | 138,064,014 | 24,387,543 | 37,624,595 | 200,076,152 |

17.5 Rental Receivable from Trade Debtors by types of Counter Party are as follows;

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|---------------------------------|--------------------|--------------------|
| Government Entities [Note 33.1] | 64,299,699 | 184,369,426 |
| Corporate and Institutions | 38,491,068 | 37,698,644 |
| Individuals | 10,204,910 | 11,239,976 |
| | 112,995,677 | 233,308,046 |

18 DEFERRED TAX ASSETS

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--|-------------------|------------------|
| Balance at the Beginning of the Year | 1,301,528 | (26,360,703) |
| Recognised in Profit or Loss [Note 18.2] | 34,156,709 | 25,634,615 |
| Recognised in Other Comprehensive Income [Note 18.2] | (2,822,814) | 2,027,616 |
| Balance at the End of the Year | 32,635,423 | 1,301,528 |

Deferred tax assets and liabilities are calculated on all taxable and deductible temporary differences arising from differences between accounting bases and tax bases of assets and liabilities.

18.1 Deferred Tax Assets and Liabilities are attributable to the following;

| | Assets | | Liabilities | | Net Asset/ (Liability) | |
|-------------------------------------|-------------------|-------------------|---------------------|---------------------|------------------------|------------------|
| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. | 2019 Rs. | 2018 Rs. | 2019 Rs. | 2018 Rs. |
| Property, Plant and Equipment | - | - | (50,218,627) | (47,619,562) | (50,218,627) | (47,619,562) |
| Employee Benefits | 23,659,580 | 23,395,882 | - | - | 23,659,580 | 23,395,882 |
| Provision for Inventory | 37,301,078 | 25,525,208 | - | - | 37,301,078 | 25,525,208 |
| Provision for Trade Debtors | 21,893,392 | - | - | - | 21,893,392 | - |
| Net Deferred Tax Asset/ (Liability) | 82,854,050 | 48,921,090 | (50,218,627) | (47,619,562) | 32,635,423 | 1,301,528 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

18 DEFERRED TAX ASSETS [Contd.]

18.2 Movement in Recognized Deferred Tax Assets and Liabilities

| | Balance as at 01 st April 2018 Rs. | Recognised in Profit or Loss Rs. | Recognised in Other Comprehensive Income Rs. | Balance as at 31 st March 2019 Rs. |
|-------------------------------------|---|--|--|---|
| Property, Plant and Equipment | (47,619,562) | (2,599,065) | - | (50,218,627) |
| Employee Benefits | 23,395,882 | 3,086,512 | (2,822,814) | 23,659,580 |
| Provision for Inventory | 25,525,208 | 11,775,870 | - | 37,301,078 |
| Provision for Trade Debtors | - | 21,893,392 | - | 21,893,392 |
| Net Deferred Tax Asset/ [Liability] | <u>1,301,528</u> | <u>34,156,709</u> | <u>(2,822,814)</u> | <u>32,635,423</u> |

| | Balance as at 01 st April 2017 Rs. | Recognised in Profit or Loss Rs. | Recognised in Other Comprehensive Income Rs. | Balance as at 31 st March 2018 Rs. |
|-------------------------------------|---|--|--|---|
| Property, Plant and Equipment | (45,148,383) | (2,471,179) | - | (47,619,562) |
| Employee Benefits | 18,787,680 | 2,580,586 | 2,027,616 | 23,395,882 |
| Provision for Inventory | - | 25,525,208 | - | 25,525,208 |
| Net Deferred Tax Asset/ [Liability] | <u>(26,360,703)</u> | <u>25,634,615</u> | <u>2,027,616</u> | <u>1,301,528</u> |

AS AT 31ST MARCH

19 INVENTORIES

| | 2019 Rs. | 2018 Rs. |
|---|----------------------|----------------------|
| Vehicle Stock | 3,921,581,101 | 4,593,369,059 |
| Generators | 21,247,913 | 38,591,944 |
| Cab/ Bodies & Work In Progress | 37,655,111 | 38,110,714 |
| Spare Parts & Consumables | 625,293,142 | 517,953,371 |
| | <u>4,605,777,267</u> | <u>5,188,025,088</u> |
| Goods In Transit | 585,827,931 | 831,403,145 |
| | <u>5,191,605,198</u> | <u>6,019,428,233</u> |
| Provision for Slow Moving & Obsolete Stocks [Note 19.1] | (410,288,238) | (368,231,559) |
| | <u>4,781,316,960</u> | <u>5,651,196,674</u> |

19.1 Provision for Slow Moving & Obsolete Stocks

| | | |
|--------------------------------------|--------------------|--------------------|
| Balance at the beginning of the year | 368,231,559 | 277,070,102 |
| Charge for the year | 42,056,679 | 91,161,457 |
| Balance at the end of the year | <u>410,288,238</u> | <u>368,231,559</u> |

19.2 Stocks have been pledged against the trust loan and revolving import loan facilities obtained from Indian Bank, Seylan Bank PLC and Commercial Bank of Ceylon PLC.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|---|--------------|--------------|
| 20 TRADE AND OTHER RECEIVABLES | | |
| Trade Receivables | 162,509,334 | 341,330,460 |
| Receivables from Related Parties [Note 20.1] | 225,257,953 | 225,951,110 |
| Less: Provision for Impairment Loss [Note 20.2] | [65,060,757] | [56,390,456] |
| | 322,706,530 | 510,891,114 |
| Advances to Staff | 7,649,941 | 8,325,703 |
| VAT Receivable | 63,846,724 | 69,780,216 |
| Other Receivables | 35,403,109 | 43,574,325 |
| | 429,606,304 | 632,571,358 |
| 20.1 Receivables from Related Parties | | |
| Sri Lanka Transport Board [Note 33.1] | 28,981,813 | 24,429,081 |
| Sri Lankan Airlines [Note 33.1] | 8,213,265 | 616,208 |
| Other Government Related Entities [Note 33.1] | 79,292,876 | 23,070,072 |
| Government Financial Institutions [Note 33.1] | 108,769,999 | 177,835,749 |
| | 225,257,953 | 225,951,110 |

20.2 Movement of Impairment Loss

The movement in the allowance for impairment in respect of Trade Receivables during the year is as follows;

Provision for Expected Credit Loss [ECL] As per SLFRS 09 - "Financial Instruments".

| AS AT 31 ST MARCH 2019 | Individual Impairment Rs. | Collective Impairment Rs. | Total Impairment Rs. |
|--|---------------------------------|---------------------------------|----------------------------|
| Balance at the beginning of the year [As per LKAS 39] | - | 56,390,456 | 56,390,456 |
| Impact of adopting SLFRS 09 - "Financial Instruments" | 4,438,066 | 6,862,081 | 11,300,147 |
| Balance at the beginning of the year [As per SLFRS 09] | 4,438,066 | 63,252,537 | 67,690,603 |
| Impairment Reversal recognized during the year | [324,273] | [2,305,573] | [2,629,846] |
| Balance at the end of the year | 4,113,793 | 60,946,964 | 65,060,757 |

Provision for Impairment as per LKAS 39 - Financial Instruments: Recognition and Measurement.

| AS AT 31 ST MARCH 2018 | Individual Impairment Rs. | Collective Impairment Rs. | Total Impairment Rs. |
|--|---------------------------------|---------------------------------|----------------------------|
| Balance at the beginning of the year | - | 65,748,936 | 65,748,936 |
| Impairment Reversal recognized during the year | - | [3,919,923] | [3,919,923] |
| Write-off against the provision | - | [5,438,557] | [5,438,557] |
| Balance at the end of the year | - | 56,390,456 | 56,390,456 |

20.3 Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables, is included in Note 44.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| AS AT 31 ST MARCH | | 2019 Rs. | 2018 Rs. |
|---|--|---------------------|---------------------|
| 21 DEPOSITS AND PREPAYMENTS | | | |
| Deposits and Advances | | 73,900,639 | 28,920,997 |
| Prepayments | | 4,328,102 | 8,429,880 |
| | | 78,228,741 | 37,350,877 |
| 22 AMOUNTS DUE FROM RELATED PARTY | | | |
| Receivables from Ashok Leyland Limited - India [Note 33.1] | | 153,273 | 153,273 |
| | | 153,273 | 153,273 |
| 23 CASH & CASH EQUIVALENTS | | | |
| 23.1 Favorable Balances | | | |
| Fixed Deposits which matures within 3 months | | 2,300,000 | 2,300,000 |
| Cash in Hand | | 2,047,502 | 39,428,172 |
| Cash at Banks | | 5,476,422 | 38,374,827 |
| | | 9,823,924 | 80,102,999 |
| 23.2 Unfavorable Balances | | | |
| Bank Overdrafts | | [42,200,923] | [13,214,533] |
| | | [42,200,923] | [13,214,533] |
| Cash & Cash Equivalents for the purpose of Cash Flow Statement | | [32,376,999] | 66,888,466 |

23.3 Bank Overdraft Facility details

| Bank | Interest Rate [%] | Approved Facility [Rs.] | Security |
|-------------------------------|-------------------|-------------------------|-----------------------------|
| Seylan Bank PLC | AWPLR | 100,000,000 | Land / Building / Inventory |
| Commercial Bank of Ceylon PLC | AWPLR | 50,000,000 | Inventory |
| Indian Bank | AWPLR | 50,000,000 | Inventory |
| Bank of Ceylon | AWPLR | 1,900,000 | Fixed Deposit |

23.4 Unutilized bank overdraft facilities as at 31st March 2019 amounted to Rs. 159.7 Mn (2017/18 - Rs. 188.68 Mn).

| AS AT 31 ST MARCH | | 2019 Rs. | 2018 Rs. |
|--------------------------------|-----------|-------------------|-------------------|
| No of Shares | | | |
| 24 STATED CAPITAL | | | |
| Issued & Fully Paid | | | |
| Ordinary Shares | 3,620,843 | 36,208,430 | 36,208,430 |
| Share Premium | | 13,166,720 | 13,166,720 |
| Stated Capital | | 49,375,150 | 49,375,150 |

24.1 Company is authorized for 6,000,000 Ordinary shares with a par value of 10/= each.

24.2 There were no movements in the issued share capital during the year.

24.3 All Ordinary Shares rank equally with regard to the Company's residual assets and holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

24.4 A premium of Rs. 40/- per share was received for 329,168 ordinary shares issued as rights in 1992.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|------------------------------|--------------------|--------------------|
| 25 GENERAL RESERVE | | |
| General Reserve | 887,347,500 | 887,347,500 |
| | 887,347,500 | 887,347,500 |

25.1 The General Reserve relates to retained earnings set aside by the Company for general application. There were no movements in the General Reserves during the year.

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--|-------------|----------------|
| 26 AVAILABLE FOR SALE RESERVE | | |
| Available for Sale Reserve [Note 26.1] | - | 107,878 |
| | - | 107,878 |

26.1 Under LKAS 39, the Company recorded the net change in the fair value of available for sale financial asset in AFS reserve, until the investments are derecognized or impaired. However, with the implementation of the SLFRS 09 the Company has transferred the AFS reserve to retained earnings.

27 EMPLOYEE BENEFITS

The Company measures the Present Value of Defined Benefit Obligation [PVDBO] which is a Defined Benefit Plan with the advice of an actuary using Project Unit Credit Method. Changes in the present value of the Retirement Benefit Plan as follows;

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|---|-------------------|-------------------|
| Balance at the beginning of the year | 83,556,722 | 67,098,858 |
| Expenses recognised in Profit or Loss [Note 27.1] | 12,785,531 | 12,431,020 |
| Expenses recognised in Other Comprehensive Income [Note 27.2] | [10,081,480] | 7,241,487 |
| Payments during the year | [1,762,275] | [3,214,643] |
| Balance at the end of the year | 84,498,498 | 83,556,722 |

The Employee Benefit Liability for the year is based on the actuarial valuation carried out by professionally qualified actuaries, Messrs. Actuarial & Management Consultants [Pvt] Ltd., on 31st March 2019.

The liability is not externally funded.

| FOR THE YEAR ENDED 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|---|---------------------|-------------------|
| 27.1 Expenses Recognised in Profit or Loss | | |
| Current Service Cost | 4,429,859 | 4,714,651 |
| Interest Cost | 8,355,672 | 7,716,369 |
| | 12,785,531 | 12,431,020 |
| 27.2 Expenses Recognised in Other Comprehensive Income | | |
| Actuarial [Gains]/ Losses | [10,081,480] | 7,241,487 |
| | [10,081,480] | 7,241,487 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

27 EMPLOYEE BENEFITS [Contd.]

27.3 Actuarial Assumptions

The principal actuarial assumptions used in determining the cost are given below;

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--|-------------|-------------|
| Discount Rate | 11.60% | 10.00% |
| Expected Annual Average Salary Increment | 10.00% | 10.00% |
| Staff Turnover Factor | 2% | 2% |
| Retiring Age | 58 years | 58 years |
| Mortality Table | A 67/70 | A 67/70 |

The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. In the absence of a deep market in long term corporate bonds in Sri Lanka, the discount rate has been derived, and approximation of a long term interest rate of a 11.6% p.a. (2017/18 – 10% p.a.) has been used to discount future liabilities. All assumptions are reviewed at each reporting date.

27.4 Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increase. The sensitivity analysis below has been determined based on reasonably possible changes in the respective assumption that may occur at the end of the reporting period.

| AS AT 31 ST MARCH | PVODBO Rs. | 2019 Benefit [Expense] Rs. | PVODBO Rs. | 2018 Benefit [Expense] Rs. |
|--------------------------------------|---------------|-------------------------------------|---------------|-------------------------------------|
| 1% Increase in Discount Rate | 79,413,518 | 5,084,980 | 77,983,318 | 5,573,404 |
| 1% Decrease in Discount Rate | 90,200,856 | (5,702,358) | 89,855,612 | (6,298,890) |
| 1% Increase in Salary Increment Rate | 90,420,453 | (5,921,955) | 89,988,695 | (6,431,973) |
| 1% Decrease in Salary Increment Rate | 79,129,083 | 5,369,415 | 77,760,763 | 5,795,959 |

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|------------------------------|-------------|-------------|
|------------------------------|-------------|-------------|

27.5 Maturity Profile of the Defined Benefit Obligation

Expected Future Working Life

| | | |
|-------------------------------|-------------------|-------------------|
| Within the Next Twelve Months | 16,265,157 | 14,463,342 |
| Between One to Five Years | 24,484,550 | 24,720,631 |
| Between Five to Ten Years | 26,568,119 | 18,624,200 |
| More than Ten Years | 17,180,672 | 25,748,549 |
| | 84,498,498 | 83,556,722 |

Weighted Average duration of Defined Benefit Obligation

| | |
|-------------------|-------------------|
| 7.03 Years | 7.72 Years |
|-------------------|-------------------|

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the Statement of Financial Position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from previous year.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|---|--------------------|--------------------|
| 28 TRADE AND OTHER PAYABLES | | |
| Trade Payables | 224,144,357 | 207,618,038 |
| Accruals | 38,633,971 | 73,686,825 |
| Import Duty Payable | 57,157,231 | 124,263,726 |
| Refundable Deposits | 70,902,146 | 99,556,174 |
| Unclaimed Dividend | 7,960,917 | 6,777,896 |
| Deferred Income [Note 28.1] | 2,834,139 | 11,523,750 |
| ESC Payable | 6,907,607 | 7,566,642 |
| EPF Payable | 2,409,671 | 2,376,873 |
| ETF Payable | 361,451 | 356,531 |
| Unclaimed Wages | 222,104 | 231,874 |
| Other Provisions | 85,326,307 | 95,571,490 |
| Other Liabilities | 5,634,939 | 8,497,137 |
| | 502,494,840 | 638,026,956 |
| 28.1 Movement of Deferred Income | | |
| Balance at the beginning of the year | 11,523,750 | 12,800,653 |
| Reversal for the year | [8,689,611] | [1,276,903] |
| Balance at the end of the year | 2,834,139 | 11,523,750 |

Deferred Income represent the Free Service Provision as per SLFRS 15 - "Revenue Recognition from Customer Contracts.

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|---|---------------------|-------------------|
| 29 CURRENT TAX (ASSETS)/ LIABILITIES | | |
| Balance at the beginning of the year | 31,226,551 | 3,963,664 |
| Income Tax Liability for the year [Note 10.2] | 43,624,416 | 204,819,185 |
| Tax Paid/ Set off during the year | [95,403,988] | [177,530,863] |
| WHT Recoverable | [8,913] | [25,435] |
| Balance at the end of the year | [20,561,934] | 31,226,551 |
| 30 PROVISION FOR WARRANTY | | |
| Balance at the beginning of the year | 6,437,541 | 5,051,235 |
| Provision/ [Reversal] for the year | [4,167,539] | 1,386,306 |
| Balance at the end of the year | 2,270,002 | 6,437,541 |

The provision for warranties relates mainly to vehicles sold during the last six months of 2018 and 2019. The provision is based on estimates made from historical warranty data associated with similar products and services. The Company expects to settle the majority of the liability over the next year.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|---|----------------------|----------------------|
| 31 SHORT TERM BORROWINGS | | |
| Interest Bearing Borrowings [Note 31.1] | 1,523,125,333 | 2,320,488,088 |
| | <u>1,523,125,333</u> | <u>2,320,488,088</u> |

31.1 Movement of Short Term Borrowings

| Lender | Purpose | Rate of Interest % | As at 01 st April 2018 Rs. | Obtained during the year Rs. | Repayments during the year Rs. | As at 31 st March 2019 Rs. |
|-------------------------------|-------------------|-----------------------|--|---------------------------------------|---|--|
| Seylan Bank PLC | Import/ Financing | AWPLR | 816,477,000 | 3,736,507,625 | (3,528,141,625) | 1,024,843,000 |
| Indian Bank | Import/ Financing | AWPLR | 223,872,500 | - | (223,872,500) | - |
| Commercial Bank of Ceylon PLC | Import/ Financing | AWPLR | 780,138,588 | 3,044,964,911 | (3,769,721,166) | 55,382,333 |
| State Bank of India | Import/ Financing | AWPLR -1% | 500,000,000 | - | (57,100,000) | 442,900,000 |
| | | | <u>2,320,488,088</u> | <u>6,781,472,536</u> | <u>(7,578,835,291)</u> | <u>1,523,125,333</u> |

| Lender | Purpose | Rate of Interest % | As at 01 st April 2017 Rs. | Obtained during the year Rs. | Repayments during the year Rs. | As at 31 st March 2018 Rs. |
|-------------------------------|-------------------|-----------------------|--|---------------------------------------|---|--|
| Seylan Bank PLC | Import/ Financing | AWPLR | 440,192,000 | 5,698,978,000 | (5,322,693,000) | 816,477,000 |
| Indian Bank | Import/ Financing | AWPLR | 500,000,000 | 1,441,038,823 | (1,717,166,323) | 223,872,500 |
| Commercial Bank of Ceylon PLC | Import/ Financing | AWPLR | - | 5,956,422,498 | (5,176,283,910) | 780,138,588 |
| State Bank of India | Import/ Financing | AWPLR -1% | - | 500,000,000 | - | 500,000,000 |
| | | | <u>940,192,000</u> | <u>13,596,439,321</u> | <u>(12,216,143,233)</u> | <u>2,320,488,088</u> |

31.2 Assets Pledged

Factory Land, Building, Machinery, Other Equipment and Stocks have been pledged against the Import Loans obtained from banks.

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--|--------------------|--------------------|
| 32 AMOUNTS DUE TO RELATED PARTY | | |
| Payable to Ashok Leyland Limited - India [Note 33] | 540,890,074 | 696,195,019 |
| | <u>540,890,074</u> | <u>696,195,019</u> |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

33 RELATED PARTY DISCLOSURE

33.1 Related Party Transactions

The Company carries transactions with parties who are defined as related parties by LKAS 24 "Related Party disclosures", the details of which are reported below. The transactions were carried out in the ordinary course of the business and arms length in nature.

| Name of Related Party & Relationship | Name of the Director | Position | Nature of Transaction | 2019 Rs. | 2018 Rs. |
|---|----------------------|---|--|-----------------|------------------|
| a) Transactions with Lanka Leyland Limited | | | | | |
| Lanka Leyland Limited Holds 41.8% of the Share Capital of the Company. | Dr. M S Meerasahib* | Chairman of Lanka Leyland Limited | Dividend Payment to Lanka Leyland Limited | 52,937,500 | 45,375,000 |
| | Mr. A K M Jahanser | Director of Lanka Leyland Limited | | | |
| b) Transactions and Outstanding Balance with Ashok Leyland, India - Recurring Transactions - Trading Nature | | | | | |
| Ashok Leyland Limited -India Holds 27.8 % of share capital of the Company by virtue of the joint venture agreement with Lanka Leyland Limited | Mr. Vinod K Dasari* | Managing Director of Ashok Leyland Limited | Opening Balance as at 01 st April [Import Bills Payable on GIT] | 696,195,019 | 826,875,832 |
| | | | Purchase of Motor Vehicle | 5,239,696,977 | 12,051,523,601 |
| | Mr. Gopal Mahadeven | Chief Financial Officer of Ashok Leyland Limited | Purchase of Spare Parts/ Power Generators | 232,788,769 | 256,840,662 |
| | | | Implementation Charges for ERP System | 18,406,556 | - |
| | | | Settlement of Purchases | [5,646,197,247] | [12,439,045,076] |
| | | | Closing Balance as at 31 st March [Import Bills Payable on GIT] | 540,890,074 | 696,195,019 |
| | | | Opening Balance as at 01 st April | 153,273 | 27,956,204 |
| | | | Local Agency Commission to be Received [LAC] on Direct Supply of Engines to SLTB | - | 10,901,501 |
| | | | Reimbursable Expenses Incurred on Directly Supplied Engines to SLTB | - | 31,929,522 |
| | | | Payment Received During the Year | - | [70,633,954] |
| | | | Closing Receivable Balances as at 31 st March | 153,273 | 153,273 |
| | | Dividend Payment to Ashok Leyland Limited - India | 35,291,620 | 30,249,960 | |
| Aggregate Value of Related Party Transactions during the Year | | | | 5,526,183,922 | 12,381,445,246 |
| Aggregate Value of Related Party Transactions as a % of Net Revenue | | | | 64.05% | 79.55% |

* Dr. M S Meerasahib and Mr. Vinod K Dasari are resigned from the Board with effect from 10th July 2019.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

33 RELATED PARTY DISCLOSURE [Contd.]

33.1 Related Party Transactions [Contd.]

c) Transactions and Outstanding balances with Government of Sri Lanka and its related entities

Since the Government of Sri Lanka holds the ownership of the Joint Venture Partner Lanka Leyland Ltd, the Government of Sri Lanka and all the entities controlled or significantly influenced by the Government of Sri Lanka are considered as related parties according to LKAS 24, Related Party Disclosures.

The Company enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities and summary of significant transactions are reported below;

| Name of Related Party | Nature of Transaction | Description | 2019 Rs. | 2018 Rs. |
|---|---|--|---------------|---------------|
| i) Non-Recurring Transaction - Trading Nature | | | | |
| Sri Lanka Transport Board | Supply of Vehicles on Finance Lease Terms | Balance as at 01 st April | 163,344,644 | 347,031,100 |
| | | Facilities Granted during the year | - | 99,540,000 |
| | | Payment Received during the year | (108,387,727) | (283,226,456) |
| | | Balance Receivable as at 31 st March | 54,956,917 | 163,344,644 |
| Sri Lankan Airlines | Supply of Vehicles on Finance Lease Terms | Balance as at 01 st April | 21,024,782 | 67,806,782 |
| | | Facilities Granted during the year | - | - |
| | | Payment Received during the year | (11,682,000) | (46,782,000) |
| | | Balance Receivable as at 31 st March | 9,342,782 | 21,024,782 |
| Total Future Rentals Receivable as at 31 st March | | | 64,299,699 | 184,369,426 |
| ii) Recurring Transaction - Trading Nature | | | | |
| Sri Lanka Transport Board | Sale of Vehicles/ Spare Parts and Repair/ Hiring services provided under Payment on Delivery Term | Balance as at 01 st April | 24,429,081 | 5,588,705 |
| | | Sale of Vehicles, Spare Parts and Gen-Sets and Services Rendered during the year | 158,239,499 | 65,386,775 |
| | | Hiring Services rendered during the year | 92,175,508 | 28,754,303 |
| | | Payment Received during the year | (245,862,275) | (74,783,098) |
| | | Write-off during the year | - | (517,604) |
| | | Balance Receivable as at 31 st March | 28,981,813 | 24,429,081 |
| Sir Lankan Airlines | Sale of Vehicles/ Spare Parts and Repair/ Hiring services provided under Payment on Delivery Term | Balance as at 01 st April | 616,208 | - |
| | | Sale of Spare Parts during the year | 12,612,471 | 616,208 |
| | | Hiring Services rendered during the year | - | 2,277,000 |
| | | Payment Received during the year | (5,015,414) | (2,277,000) |
| | | Balance Receivable as at 31 st March | 8,213,265 | 616,208 |
| Aggregate Value of Related Party Transactions during the Year | | - Sri Lanka Transport Board | 250,415,007 | 94,141,078 |
| | | - Sri Lanka Airlines | 12,612,471 | 2,893,208 |
| Aggregate Value of Related Party Transactions as a % of Net Revenue | | - Sri Lanka Transport Board | 2.90% | 0.60% |
| | | - Sri Lanka Airlines | 0.15% | 0.02% |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

33 RELATED PARTY DISCLOSURE [Contd.]

33.1 Related Party Transactions [Contd.]

c) Transactions and Outstanding balances with Government of Sri Lanka and its related entities [Contd.]

ii) Recurring Transaction - Trading Nature [Contd.]

| Name of Related Party | Nature of Transaction | Description | 2019 Rs. | 2018 Rs. |
|---|---|--|-----------------|-----------------|
| Other Government Related Entities | Sale of Vehicles/ Spare Parts and Repair services provided under Payment on Delivery Term | Balance as at 01 st April | 23,070,072 | 131,792,037 |
| | | Sale of Vehicles, Spare Parts and Gen Sets and Services Rendered during the year | 471,731,477 | 518,406,183 |
| | | Payment Received during the year | (415,508,673) | (625,618,108) |
| | | Write-off during the year | - | (1,510,040) |
| | | Balance Receivable as at 31 st March | 79,292,876 | 23,070,072 |
| Bank of Ceylon | Finance Provided to Lanka Ashok Leyland PLC's Customers | Balance as at 01 st April | 59,425,750 | 56,870,000 |
| | | Finance Provided during the year | 769,684,580 | 1,620,415,750 |
| | | Payment Received during the year for the Sale of Vehicles | (761,880,330) | (1,617,860,000) |
| | | Balance Receivable as at 31 st March | 67,230,000 | 59,425,750 |
| People's Leasing & Finance PLC | Finance Provided to Lanka Ashok Leyland PLC's Customers | Balance as at 01 st April | 104,467,499 | 98,125,000 |
| | | Finance Provided during the year | 1,896,469,184 | 3,553,889,257 |
| | | Payment Received during the year for the Sale of Vehicles | (1,983,061,684) | (3,547,546,758) |
| | | Balance Receivable as at 31 st March | 17,874,999 | 104,467,499 |
| Aggregate Value of Related Party Transactions during the Year | | - Bank of Ceylon | 769,684,580 | 1,620,415,750 |
| | | - People's Leasing & Finance PLC | 1,896,469,184 | 3,553,889,257 |
| Aggregate Value of Related Party Transactions as a % of Net Revenue | | - Bank of Ceylon | 8.92% | 10.41% |
| | | - People's Leasing & Finance PLC | 21.98% | 22.83% |
| Other Government Financial Institutions | Finance Provided to Lanka Ashok Leyland PLC's Customers | Balance as at 01 st April | 13,942,500 | 67,396,000 |
| | | Finance Provided during the year | 268,172,592 | 211,569,000 |
| | | Payment Received during the year for the Sale of Vehicles | (258,450,092) | (265,022,500) |
| | | Balance Receivable as at 31 st March | 23,665,000 | 13,942,500 |
| Total Receivable from Government Financial Institutions | | | 108,769,999 | 177,835,749 |
| Total Related Party Receivable as at 31 st March | | | 225,257,953 | 225,951,110 |
| Sri Lanka Transport Board | Dividend Payment to Sri Lanka Transport Board | Payment during the year | 1,093,750 | 937,500 |
| Government Institutions | Statutory Payments made to Government Institutions | Balance as at 01 st April | 136,386,845 | 209,386,599 |
| | | Taxes and Other Statutory Expenses | 1,257,514,923 | 3,701,102,885 |
| | | Payment made/ Set-off | (1,397,116,620) | (3,774,102,639) |
| | | Balance Payable/ (Receivable) as at 31 st March | (3,214,852) | 136,386,845 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

d) Movement for Impairment Provision Recognized on Related Parties

FOR THE YEAR ENDED 31ST MARCH 2019

| | Balance as at 31 st March 2018 [As per LKAS 39] Rs. | Impact of Adopting SLFRS 09 - "Financial Instrument" Rs. | Impairment Charge/ [Reversal] Rs. | Balance as at 31 st March 2019 Rs. |
|---|---|---|---|---|
| Sri Lanka Transport Board | 17,473,885 | [816,477] | [11,360,514] | 5,296,894 |
| Sri Lankan Airlines | - | 22,034 | [8,577] | 13,457 |
| Other Government Related Entities - Trade Receivables | 3,869,946 | 1,030,104 | 1,261,073 | 6,161,123 |
| Government Financial Institutions - Trade Receivables | 57,003 | 2,267,533 | [1,398,066] | 926,470 |
| | <u>21,400,834</u> | <u>2,503,194</u> | <u>[11,506,084]</u> | <u>12,397,944</u> |

FOR THE YEAR ENDED 31ST MARCH 2018

| | Balance as at 01 st April 2017 Rs. | Impairment Charge/ [Reversal] Rs. | Balance as at 31 st March 2018 Rs. |
|---|---|---|---|
| Sri Lanka Transport Board | 81,983,002 | [64,509,117] | 17,473,885 |
| Sri Lankan Airlines | 30,866 | [30,866] | - |
| Other Government Related Entities - Trade Receivables | 10,507,564 | [6,637,618] | 3,869,946 |
| Government Financial Institutions - Trade Receivables | 224,900 | [167,897] | 57,003 |
| | <u>92,746,332</u> | <u>[71,345,498]</u> | <u>21,400,834</u> |

Above impairment amounts recorded under Impairment of Rental Receivable from Trade Debtors and Impairment of Trade Receivables in Note 17.3 and 20.2 respectively.

33.2 Terms and conditions of Related Party Transactions

The terms and conditions of the transactions with related entities were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non related entities on an arm's length basis. The supplies on lease terms are no more favorable than those available for ordinary finance lease transactions.

33.3 Non Recurrent Related Party Transactions

There were no non- recurrent related party transactions that exceeded the thresholds that required the immediate market disclosure or shareholder approval as required under Section 9 of the Listing Requirements of the Colombo Stock Exchange.

33.4 Recurrent Related Party Transactions

There was an instance where aggregated recurrent related party transactions exceeded the threshold which required the disclosure in Financial Statements as per Section 9 of the Listing Requirements of the Colombo Stock Exchange. Accordingly, the required disclosure is given in note 33 to the Financial Statements.

There were no other recurrent related party transactions which exceeded the threshold stipulated in section 9 of the listing requirements, other than individual transactions disclosed in the note 33.1 to the Financial Statements.

33.5 Compensation of Key Management Personnel

According to LKAS 24 "Related Party Disclosures", Key Management Personnel, are those planning, directing and controlling the activities of the entity.

Key Management Personnel include members of the Board of Directors and the Chief Executive Officer of the Company, total amounts paid as salaries and reimbursement of expenses amounts to Rs. 30,098,203 [2017/18 - Rs. 23,428,579].

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

33 RELATED PARTY DISCLOSURE [Contd.]

33.5 Compensation of Key Management Personnel [Contd.]

There were no compensation paid to Key Management Personnel during the year other than those disclosed below.

FOR THE YEAR ENDED 31ST MARCH

| | 2019 Rs. | 2018 Rs. |
|--|-------------------|-------------------|
| Key Management Personnel Payments | | |
| a. Short Term Employee Benefits | 28,667,920 | 22,378,189 |
| b. Post-Employment Benefits | 1,430,283 | 1,050,390 |
| c. Termination Benefits | - | - |
| d. Share-Based Payments | - | - |
| | 30,098,203 | 23,428,579 |

33.6 Transactions, Arrangements and Agreements Involving KMP and Their Close Family Members (CFM)

CFM of a KMP 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;

- [a] the individual's domestic partner and children;
- [b] children of the individual's domestic partner; and
- [c] dependents of the individual or the individual's domestic partner

CFM are related parties to the entity. There were no transactions with CFM during the year.

33.7 Loans to Directors

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

33.8 Terms and Conditions of the Transactions with KMPs

The terms and conditions of the transactions with Key Management Personnel and their related entities were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non Key Management Personnel related entities.

34 CAPITAL COMMITMENTS

There were no material capital expenditure approved by the Board of Directors as at 31st March 2019 other than following;

The Company has entered into construction contracts with unrelated parties, amounting to Rs. 24,500,780, for the construction of main gate and surrounding area in the factory premises. As at 31st March 2019, Rs. 17,306,662 of such contract commitments had not yet been incurred. The main gate and surrounding area is still under construction.

35 CONTINGENT LIABILITIES

There were no material Contingent Liabilities, which require adjustments to or disclosures in the Financial statements other than items disclosed bellow;

- INCOME TAX ASSESSMENT

The Company appealed against two assessments issued by the Department of Inland Revenue related to years of assessment 2009/10 and 2010/11, and the status of the same are as follows;

- 2009/10

The appeal was determined favoring Commissioner General of Inland Revenue by the Tax Appeal court and the Company has lodged an appeal to the Supreme Court against the decision given by the Court of Appeal.

- 2010/11

The appeal was determined favoring Commissioner General of Inland Revenue by the Tax Appeal Commission and a case has been filled with the Court of Appeal by an application made by the Company.

The Contingent Liability as per the assessments as at 31st March 2019. is Rs. 133.1 Mn.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

36 LITIGATIONS AND CLAIMS

Based on the available information, the Management is of the view that there are no material litigation or claims that could have material impact on the financial position on the Company. Accordingly, no provision has been made for legal claims in the Financial Statements.

37 EVENTS AFTER REPORTING PERIOD

There were no other material events occurring after the reporting period that requires adjustments to or disclosure in the Financial Statements other than disclosed below;

After satisfying the Solvency Test in accordance with Section 57 of the Companies Act No. 07 of 2007, the Directors recommend the payment of first and final dividend of Rs. 10/= per share [100%] amounting to Rs. 36,208,430/= for the year ended 31st March 2019 [2017/18 Rs 35/= per share [350%] amounting to Rs 126,729,505/=], which will be declared at the Annual General Meeting to be held on 06th September 2019. Accordingly, the income tax consequence of dividends to shareholders would be Rs. 4,412,772/= [2017/18 – Rs. 17,742,131/=].

In accordance with Sri Lanka Accounting Standard 10 [LKAS 10] “Events after the reporting period” this proposed first and final dividend has not been recognized as a liability as at 31st March 2019. Subsequent to the reporting period, no circumstance has arisen which would require adjustments to or disclosure in the Financial Statements, other than the above.

38 ULTIMATE HOLDING COMPANY

The Company is a joint venture between Lanka Leyland Limited, holding 41.8% of the share capital, and Ashok Leyland Limited. India, holding 27.8% of the stated capital of the Company.

39 SEGMENTAL REPORTING

There are no distinguishable components of the business defined as segments and all operations are treated as one segment.

40 NUMBER OF EMPLOYEES

The number of employees as of year end was as follows;

| | 2019 | 2018 |
|----------------|------|------|
| Executives | 57 | 56 |
| Non Executives | 125 | 125 |
| | 182 | 181 |

41 COMPARATIVE FIGURES

To facilitate comparison relevant balances pertaining to the previous year have been re-classified to confirm to current classification and presentation.

Certain reclassifications have been made to the prior year’s financial statements to enhance comparability with the current year’s financial statement.

As a result, certain line items have been amended in the statement of Profit or Loss and Other Comprehensive Income and the related notes to the financial statement. Comparative figures have been adjusted to conform to the current year’s presentation.

The items were reclassified as follows.

| FOR THE YEAR ENDED 31 ST MARCH | Previously Reported 2018 Rs. | After Reclassification 2018 Rs. |
|---|------------------------------------|---------------------------------------|
| Revenue | 15,537,460,828 | 15,565,076,832 |
| Other Income | 53,940,018 | 26,324,014 |
| | 15,591,400,846 | 15,591,400,846 |

Company has classified Vehicle Hiring Income amounting to Rs. 27,616,004/- from Other Income to Revenue as per the principal activities defined in the Article of Associations of the Company.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

42 Transition to SLFRS 15 and SLFRS 09

SLFRS 15 - Revenue from contracts with customers

The Company do not have a material impact on SLFRS 15 as the current accounting practice does not differ significantly from SLFRS 15. Therefore, there was no adjustment to Retained Earnings on the transition as at 01st April 2018.

SLFRS 9 - Financial Instruments

The changes arising out of transition to SLFRS 09 explained below:

42.1 Impact of Adopting SLFRS 9 on Opening Balance

The following table summarises the impact of transition to SLFRS 9 on the opening balance of reserves and retained earnings.

| | Impact to Opening Balance Rs. |
|---|----------------------------------|
| Fair Value Reserve | |
| Reclassified to Retained Earnings | (107,878) |
| Impact on 01 st April 2018 | <u>(107,878)</u> |
| Retained Earnings | |
| Recognition of Expected Credit Losses under SLFRS 9 | (13,020,665) |
| Reclassified from Retained Earnings | 107,878 |
| | <u>(12,912,787)</u> |

42.2 Classification and Measurement of Financial Assets and Financial Liabilities

The following table and the accompanying notes below explain the original measurement categories under LKAS 39 and the new measurement categories under SLFRS 9 for each class of the Company's Financial assets and Financial liabilities as at 01st April 2018.

The effect of adopting SLFRS 9 on the carrying amounts of financial assets at 01st April 2018 relates solely to the new impairment requirements.

| | Original Classification Under LKAS 39 | New Classification Under SLFRS 9 | Original Carrying Amount Under LKAS 39 Rs. | New Carrying Amount Under SLFRS 9 Rs. |
|--------------------------------------|--|-------------------------------------|---|--|
| Financial Assets | | | | |
| Equity Securities | Available-for-sale | FVTPL | 115,295 | 115,295 |
| Rental Receivable from Trade Debtors | Loans and Receivables | Amortised Cost | 200,076,152 | 198,355,634 |
| Trade and Other Receivables | Loans and Receivables | Amortised Cost | 632,571,358 | 621,271,211 |
| Amounts due from Related Companies | Loans and Receivables | Amortised Cost | 153,273 | 153,273 |
| Cash & Cash Equivalents | Loans and Receivables | Amortised Cost | 80,102,999 | 80,102,999 |
| Total Financial Assets | | | <u>913,019,077</u> | <u>899,998,412</u> |
| Financial Liabilities | | | | |
| Trade & Other Payables | Other Financial Liabilities | Other Financial Liabilities | 638,026,956 | 638,026,956 |
| Short Term Borrowings | Other Financial Liabilities | Other Financial Liabilities | 2,320,488,088 | 2,320,488,088 |
| Amounts due to Related Party | Other Financial Liabilities | Other Financial Liabilities | 696,195,019 | 696,195,019 |
| Bank Overdrafts | Other Financial Liabilities | Other Financial Liabilities | 13,214,533 | 13,214,533 |
| Total Financial Liabilities | | | <u>3,667,924,596</u> | <u>3,667,924,596</u> |

Under LKAS 39, these equity securities were designated as at AFS. Since the Company has not taken the OCI option, these asset has been classified as FVTPL under SLFRS 9.

Trade and other receivables that were classified as loans and receivables under LKAS 39 are now classified at amortised cost. An increase of Rs.13,020,665 in the allowance for impairment over these receivables was recognised in opening retained earnings at 01st April 2018 on transition to SLFRS 9.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

42 Transition to SLFRS 15 and SLFRS 09 [Contd.]

42.3 Reconciliation of Carrying Amounts of Financial Assets under LKAS 39 to SLFRS 9

The following table reconciles the carrying amounts of financial assets under LKAS 39 to the carrying amounts under SLFRS 9 on transition to SLFRS 9 on 01st April 2018.

| | LKAS 39 Carrying amount at 31 st March 2018 Rs. | Reclassification Rs. | Remeasurement Rs. | SLFRS 9 Carrying amount at 01 st April 2018 Rs. |
|--|---|-------------------------|----------------------|---|
| Financial Assets - Amortised Cost | | | | |
| Rental Receivable from Trade Debtors | 200,076,152 | - | [1,720,518] | 198,355,634 |
| Trade and Other Receivables | 632,571,358 | - | [11,300,147] | 621,271,211 |
| Amounts due from Related Companies | 153,273 | - | - | 153,273 |
| Cash & Cash Equivalents | 80,102,999 | - | - | 80,102,999 |
| Total Amortised Cost | 912,903,782 | - | [13,020,665] | 899,883,117 |

| | LKAS 39 Carrying amount at 31 st March 2018 Rs. | Reclassification Rs. | Remeasurement Rs. | SLFRS 9 Carrying amount at 01 st April 2018 Rs. |
|---|---|-------------------------|----------------------|---|
| Financial Assets - Fair Value Through Profit or Loss [FVTPL] | | | | |
| Financial Investments - Equity Securities | | | | |
| Equity Securities - Available-for-Sale | 115,295 | [115,295] | - | - |
| Equity Securities Reclassified to FVTPL | - | 115,295 | - | 115,295 |
| Total FVTPL | 115,295 | - | - | 115,295 |

42.4 Impairment of Financial Assets

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to Financial assets measured at amortised cost but not to investments in equity instruments. Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

For assets in the scope of the SLFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of SLFRS 9's impairment requirements at 01st April 2018 results in an additional allowance for impairment as follows;

| | Amount Rs. |
|--|-------------------|
| Rental Receivable from Trade Debtors | |
| Loss Allowance at 31 st March 2018 under LKAS 39 | 21,858,975 |
| Additional Impairment Recognised at 01 st April 2018 on: | |
| - Rental Receivable from Trade Debtors as at 31 st March 2018 | 1,720,518 |
| Loss Allowance at 01 st April 2018 under SLFRS 9 | <u>23,579,493</u> |
| Trade Receivables | |
| Loss Allowance at 31 st March 2018 under LKAS 39 | 56,390,456 |
| Additional Impairment Recognised at 01 st April 2018 on: | |
| - Trade Receivables as at 31 st March 2018 | 11,300,147 |
| Loss Allowance at 01 st April 2018 under SLFRS 9 | <u>67,690,603</u> |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

43 FINANCIAL INSTRUMENTS - FAIR VALUES

The effect of initially applying SLFRS 09 on the Company's financial instruments is described in Note 42. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

43.1 Accounting Classifications and Fair Values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| AS AT 31 ST MARCH 2019 | Carrying Amount | | | | | | | Fair Value | | | |
|---|----------------------|--------|---------------------------|-----------------------------|------------------------------------|-----------------------------|---------------|------------|---------|---------|--------|
| | Fair Value | | | | Financial Assets at Amortised Cost | Other Financial Liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| | Hedging Instru-ments | FVTPL | FVOCI - Debt Instru-ments | FVOCI - Equity In-struments | | | | | | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Financial Assets Measured at Fair Value | | | | | | | | | | | |
| Equity Securities | - | 75,566 | - | - | - | - | 75,566 | 75,566 | - | - | 75,566 |
| | - | 75,566 | - | - | - | - | 75,566 | 75,566 | - | - | 75,566 |
| Financial Assets not Measured at Fair Value | | | | | | | | | | | |
| Trade Receivable | - | - | - | - | 322,706,530 | - | 322,706,530 | - | - | - | - |
| Rental Receivable from Trade Debtors | - | - | - | - | 95,354,364 | - | 95,354,364 | - | - | - | - |
| Amounts due from Related Parties | - | - | - | - | 153,273 | - | 153,273 | - | - | - | - |
| Cash & Cash Equivalents | - | - | - | - | 9,823,924 | - | 9,823,924 | - | - | - | - |
| | - | - | - | - | 428,038,091 | - | 428,038,091 | - | - | - | - |
| Financial Liabilities not Measured at Fair Value | | | | | | | | | | | |
| Trade Payable | - | - | - | - | - | 224,144,357 | 224,144,357 | - | - | - | - |
| Short Term Borrowings - Import Loans | - | - | - | - | - | 1,523,125,333 | 1,523,125,333 | - | - | - | - |
| Bank Overdrafts | - | - | - | - | - | 42,200,923 | 42,200,923 | - | - | - | - |
| Amounts due to Related Parties | - | - | - | - | - | 540,890,074 | 540,890,074 | - | - | - | - |
| | - | - | - | - | - | 2,330,360,687 | 2,330,360,687 | - | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

43 FINANCIAL INSTRUMENTS - FAIR VALUES [Contd.]

| AS AT 31 ST MARCH 2018 | Carrying Amount | | | | | | Fair Value | | | | |
|--|--------------------------|------------------|------------------|-----------------------|--------------------|-----------------------------|---------------|---------|---------|---------|---------|
| | Fair Value through P&L | | Held-to-Maturity | Loans and Receivables | Available-for-sale | Other Financial Liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| | Designated at Fair Value | Held-for-Trading | | | | | | | | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Financial Assets Measured at Fair Value | | | | | | | | | | | |
| Equity Securities | - | - | - | - | 115,295 | - | 115,295 | 115,295 | - | - | 115,295 |
| | - | - | - | - | 115,295 | - | 115,295 | 115,295 | - | - | 115,295 |
| Financial Assets not Measured at Fair Value | | | | | | | | | | | |
| Trade Receivable | - | - | - | 510,891,114 | - | - | 510,891,114 | - | - | - | - |
| Rental Receivable from Trade Debtors | - | - | - | 200,076,152 | - | - | 200,076,152 | - | - | - | - |
| Amounts due from Related Parties | - | - | - | 153,273 | - | - | 153,273 | - | - | - | - |
| Cash & Cash Equivalents | - | - | - | 80,102,999 | - | - | 80,102,999 | - | - | - | - |
| | - | - | - | 791,223,538 | - | - | 791,223,538 | - | - | - | - |
| Financial Liabilities not Measured at Fair Value | | | | | | | | | | | |
| Trade Payable | - | - | - | - | - | 207,618,038 | 207,618,038 | - | - | - | - |
| Short Term Borrowings - Import Loans | - | - | - | - | - | 2,320,488,088 | 2,320,488,088 | - | - | - | - |
| Bank Overdrafts | - | - | - | - | - | 13,214,533 | 13,214,533 | - | - | - | - |
| Amounts due to Related Parties | - | - | - | - | - | 696,195,019 | 696,195,019 | - | - | - | - |
| | - | - | - | - | - | 3,237,515,678 | 3,237,515,678 | - | - | - | - |

Transfer between levels

There were no transfers between Level 1, 2 and 3 during the year.

44 FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks arising from financial instruments;

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

This note presents information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes of measuring and managing risk.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

44 FINANCIAL RISK MANAGEMENT [Contd.]

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Exposure to Credit Risk

The net carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows;

| AS AT 31 ST MARCH | 2019 Rs. | 2018 Rs. |
|--------------------------------------|--------------------|--------------------|
| Trade Receivables | 322,706,530 | 510,891,114 |
| Other Receivables | 180,800,413 | 150,601,240 |
| Rental Receivable from Trade Debtors | 95,354,364 | 200,076,152 |
| Related Party Receivables | 153,273 | 153,273 |
| Cash at Banks and Fixed Deposits | 7,776,422 | 40,674,827 |
| Total | 606,791,002 | 902,396,606 |

Trade and Other Receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of the customers. However, management also considers the demographics of the Company's customer base, including the default risk of the industry as these factors may have an influence on credit risk. During 2018/19, approximately 2.8% [2017/18 : 1.3%] of the Company's revenue was attributable to sales transactions with the largest single customer.

The Company establishes an allowance for impairment that represents its estimate of impaired losses in respect of trade receivables. The main components of this allowance are determined based on historical data of payment statistics of similar financial assets.

The aging of trade receivables net of impairment as at 31ST March was as follows;

| AS AT 31 ST MARCH 2019 | 0 - 60 Days Rs. | 61 - 90 Days Rs. | 91 - 120 Days Rs. | 121 - 180 Days Rs. | More than 180 Days Rs. | Total Rs. |
|-----------------------------------|-----------------------|------------------------|-------------------------|--------------------------|------------------------------|--------------|
| Trade Receivables | 273,596,981 | 15,467,913 | 2,137,880 | 10,565,308 | 20,938,448 | 322,706,530 |

| AS AT 31 ST MARCH 2018 | 0 - 60 Days Rs. | 61 - 90 Days Rs. | 91 - 120 Days Rs. | 121 - 180 Days Rs. | More than 180 Days Rs. | Total Rs. |
|-----------------------------------|-----------------------|------------------------|-------------------------|--------------------------|------------------------------|--------------|
| Trade Receivables | 427,004,630 | 64,503,515 | 6,440,140 | 3,892,655 | 9,050,174 | 510,891,114 |

The maximum exposure to credit risk for trade and other receivables by type of counterparty was as follows;

| AS AT 31 ST MARCH | Carrying Amount 2019 Rs. | 2018 Rs. |
|------------------------------|--------------------------------|--------------------|
| Government Entities | 213,992,013 | 204,550,277 |
| Corporates and Institutions | 105,324,454 | 246,091,829 |
| End-user Customers | 3,390,063 | 60,249,008 |
| | 322,706,530 | 510,891,114 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

44 FINANCIAL RISK MANAGEMENT [Contd.]

The movement in the allowance for impairment in respect of trade and lease rental receivables during the year was as follows; comparative amounts for 2018 represent the allowance account for impairment losses under LKAS 39.

| AS AT 31 ST MARCH 2019 | Individual Impairment Rs. | Collective Impairment Rs. | Total Impairment Rs. |
|--|---------------------------------|---------------------------------|----------------------------|
| Balance at the beginning of the year [As per LKAS 39] | 1,715,746 | 76,533,685 | 78,249,431 |
| Impact of adopting SLFRS 09 - "Financial Instruments" | 5,874,281 | 7,146,384 | 13,020,665 |
| Balance at the beginning of the year [As per SLFRS 09] | 7,590,027 | 83,680,069 | 91,270,096 |
| Impairment Reversal for the year | (10,571,474) | (2,507,939) | (13,079,413) |
| Balance as at 31 ST March 2019 | (2,981,447) | 81,172,130 | 78,190,683 |

| AS AT 31 ST MARCH 2018 | Individual Impairment Rs. | Collective Impairment Rs. | Total Impairment Rs. |
|---|---------------------------------|---------------------------------|----------------------------|
| Balance as at 01 ST April 2017 | 58,161,138 | 85,892,165 | 144,053,303 |
| Impairment Reversal for the year | (56,445,392) | (3,919,923) | (60,365,315) |
| Write-off during the year | - | (5,438,557) | (5,438,557) |
| Balance as at 31 ST March 2018 | 1,715,746 | 76,533,685 | 78,249,431 |

Cash at Banks

The Company held cash at banks of Rs. 7.7 Mn as at 31ST March 2019 (2017/18: Rs. 40.7 Mn), which represents its maximum credit exposure on these assets.

Respective credit ratings of banks with Company cash balances held are as follows;

| AS AT 31 ST MARCH | | Cash at Bank | |
|---------------------------------|--------------------|------------------|-------------------|
| | | 2019 Rs. | 2018 Rs. |
| Bank | Credit Rate | | |
| People's Bank | AA + [Ika] | - | 17,194,823 |
| Bank of Ceylon | AA + [Ika] | 1,975 | 1,975 |
| Commercial Bank of Ceylon PLC | AA [Ika] | 4,997,271 | 7,376,892 |
| Seylan Bank PLC | A - [Ika] | 20,000 | 7,956,379 |
| Indian Bank | BBB - | 52,802 | 4,372,145 |
| State Bank of India | BBB - | - | 1,472,613 |
| Sampath Bank | A + [Ika] | 404,374 | - |
| Fixed Deposits - Bank of Ceylon | AA + [Ika] | 2,300,000 | 2,300,000 |
| | | 7,776,422 | 40,674,827 |

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

44 FINANCIAL RISK MANAGEMENT [Contd.]

Liquidity Risk

Liquidity risk is the risk of facing difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or affecting the Company's reputation.

The Company also monitors the level of expected cash inflows from trade and other receivables together with expected cash outflows on trade and other payables. In addition, the Company maintains Rs. 200 million overdraft facility that is secured. Interest would be payable at the market rate.

The followings are the contractual maturities of financial liabilities at its Carrying Value;

| AS AT 31 ST MARCH 2019 | Carrying Amount Rs. | 0 - 30 Days Rs. | 31 - 90 Days Rs. | More than 90 Days Rs. |
|-----------------------------------|---------------------------|-----------------------|------------------------|-----------------------------|
| Trade & Other Payables | 463,860,869 | 135,587,495 | 328,273,374 | - |
| Short Term Borrowings | 1,523,125,333 | - | 1,523,125,333 | - |
| Bank Overdrafts | 42,200,923 | 42,200,923 | - | - |
| Amounts due to Related Party | 540,890,074 | 522,483,518 | - | 18,406,556 |
| Total | 2,570,077,199 | 700,271,936 | 1,851,398,707 | 18,406,556 |

| AS AT 31 ST MARCH 2018 | Carrying Amount Rs. | 0 - 30 Days Rs. | 31 - 90 Days Rs. | More than 90 Days Rs. |
|-----------------------------------|---------------------------|-----------------------|------------------------|-----------------------------|
| Trade & Other Payables | 564,340,131 | 225,934,138 | 338,405,993 | - |
| Short Term Borrowings | 2,320,488,088 | - | 2,320,488,088 | - |
| Bank Overdrafts | 13,214,533 | 13,214,533 | - | - |
| Amounts due to Related Party | 696,195,019 | 696,195,019 | - | - |
| Total | 3,594,237,771 | 935,343,690 | 2,658,894,081 | - |

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company's income or the value of its financial instruments. The management conduct periodic reviews on the Company's pricing & pricing policy in order to mitigate the market risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

44 FINANCIAL RISK MANAGEMENT [Contd.]

Foreign Currency Risk

The Company is exposed to currency risk mainly on payable for purchases that are denominated in US Dollars. The Management closely monitors the exchange rate movement, for necessary action.

The Financial Instruments denominated in US Dollars as on 31st March are;

AS AT 31st MARCH

| | LKR | 2019 Exchange Rate | US \$ | LKR | 2018 Exchange Rate | US \$ |
|--|--------------------|--------------------------|------------------|--------------------|--------------------------|------------------|
| Payable to Ashok Leyland Limited - India | 540,890,074 | 178.14 | 3,036,392 | 696,195,019 | 160.12 | 4,348,046 |
| | <u>540,890,074</u> | | <u>3,036,392</u> | <u>696,195,019</u> | | <u>4,348,046</u> |

Sensitivity Analysis

A reasonably possible strengthening [weakening] of the Sri Lankan rupees against US dollar at the year end would have affected the measurement of financial liabilities denominated in a foreign currency and affected profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact on forecasted purchases.

The following details the Company's sensitivity movement in the foreign currencies. The foreign exchange rate sensitivity is calculated for each currency by aggregation of the net foreign exchange rate exposure of a currency and a simultaneous parallel foreign exchange rates shift in the foreign exchange rates of each currency by 5%. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

| | Profit before Tax | |
|-------------------|----------------------|------------------|
| | Strengthening Rs. | Weakening Rs. |
| 2018-19 | | |
| LKR [5% movement] | 27,044,504 | [27,044,504] |
| 2017-18 | | |
| LKR [5% movement] | 34,809,751 | [34,809,751] |

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to the risk of changes in market interest rate relates primarily to the Company's short term debt obligations with floating rates. The Company manages its interest rate risk by monitoring interest rate fluctuations to enable necessary back-up plans to be ready in advance to mitigate the risk and by ensuring that the import loans are settled within a shortest possible period by improving the working capital cycle and negotiating best possible rates with the Banks.

Exposure to Interest Rate Risk

The interest rate profile of the Company's interest-bearing financial instruments is given in Note 23.3 and 31.1 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

44 FINANCIAL RISK MANAGEMENT [Contd.]

Cash Flow Sensitivity Analysis for Variable-Rate Instruments

The following details demonstrate the sensitivity to a reasonably possible change in the interest rate with all other variables held constant. 1% increase or decrease is used when reporting interest rate risk and represents management's assessment of the reasonably possible change in interest rates.

The impact on the Company's Profit before tax due to the change in the interest rate is as follows;

Variable-Rate Instruments

Borrowings

2018-19

Interest Rate [1% movement]

| Profit before Tax | |
|-------------------|--------------|
| Favorable | Un-Favorable |
| Rs. | Rs. |

| | |
|------------|--------------|
| 19,307,985 | [19,307,985] |
|------------|--------------|

2017-18

Interest Rate [1% movement]

| | |
|------------|--------------|
| 11,964,426 | [11,964,426] |
|------------|--------------|

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Board of Directors of the Company monitors the return on capital, as well as the level of dividends to ordinary shareholders.

Company's debt to equity ratio at 31st March was as follows;

AS AT 31ST MARCH

Interest Bearing Borrowings

Total Equity

Equity and Debts

Gearing Ratio

2019
Rs.

2018
Rs.

| | |
|---------------|---------------|
| 1,523,125,333 | 2,320,488,088 |
|---------------|---------------|

| | |
|---------------|---------------|
| 3,313,629,235 | 3,338,659,544 |
|---------------|---------------|

| | |
|---------------|---------------|
| 4,836,754,568 | 5,659,147,633 |
|---------------|---------------|

| | |
|-----|-----|
| 31% | 41% |
|-----|-----|

VALUE ADDED STATEMENT

FOR THE YEAR ENDED 31ST MARCH

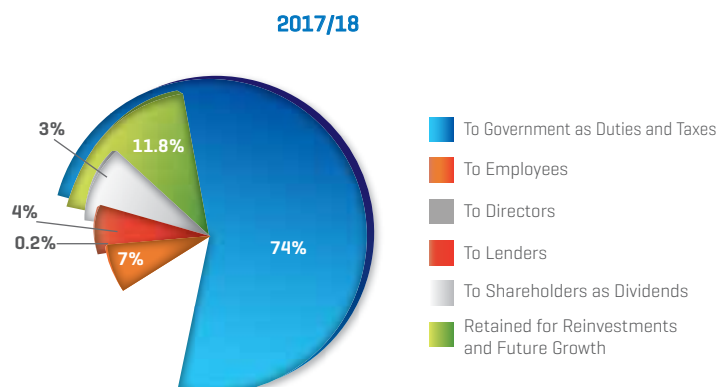
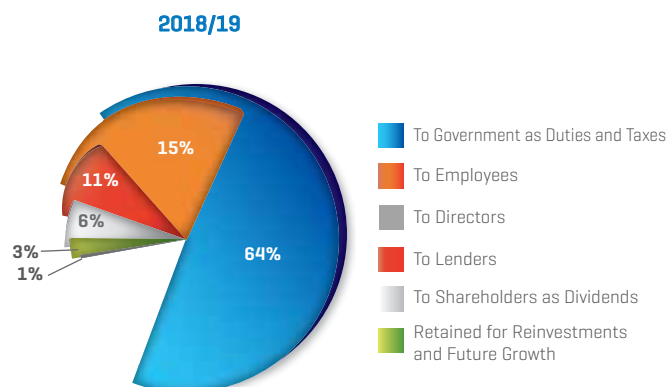
| | 2019 Rs. | 2018 Rs. |
|---|-----------------------------|-----------------------------|
| Revenue | 8,627,775,017 | 15,565,076,832 |
| Operating Expenses | (6,515,978,143) | (11,533,292,240) |
| | <u>2,111,796,874</u> | <u>4,031,784,590</u> |
| Other Operating Income | 29,758,852 | 26,324,014 |
| Finance Income | 13,904,570 | 118,367,799 |
| Total Value Added by the Company | <u><u>2,155,460,296</u></u> | <u><u>4,176,476,403</u></u> |

Distributed as Follows

FOR THE YEAR ENDED 31ST MARCH

| | 2019 Rs. | As a % | 2018 Rs. | As a % |
|--|-----------------------------|--------------------|-----------------------------|--------------------|
| To Government as Duties and Taxes | 1,406,233,990 | 64% | 3,093,656,337 | 74% |
| To Employees | 317,119,507 | 15% | 309,974,173 | 7% |
| To Directors | 12,950,500 | 1% | 8,778,551 | 0.2% |
| To Lenders (Interest on Loan Capital) | 229,819,246 | 11% | 164,289,367 | 4% |
| To Shareholders as Dividends | 126,729,505 | 6% | 108,625,290 | 3% |
| Retained for Reinvestments and Future Growth (Depreciation & Retained Profits) | 62,607,548 | 3% | 491,152,685 | 11.8% |
| | <u><u>2,155,460,296</u></u> | <u><u>100%</u></u> | <u><u>4,176,476,403</u></u> | <u><u>100%</u></u> |

Distribution of Value Added



SHARE INFORMATION

There were 729 registered shareholders as at 31st March 2019 distributed as follows;

| CATEGORY | NO. OF SHAREHOLDERS | | NO. OF SHARES | | SHARE HOLDING % | |
|---------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 31 st March 2019 | 31 st March 2018 | 31 st March 2019 | 31 st March 2018 | 31 st March 2019 | 31 st March 2018 |
| 1 - 1,000 | 711 | 632 | 42,433 | 41,256 | 1.17 | 1.14 |
| 1,001 - 5,000 | 11 | 12 | 22,132 | 20,331 | 0.61 | 0.56 |
| 5,001 - 10,000 | 1 | 1 | 6,600 | 6,578 | 0.18 | 0.18 |
| 10,001 - 50,000 | 1 | 1 | 31,250 | 31,250 | 0.86 | 0.86 |
| 50,001 - 100,000 | - | - | - | - | - | - |
| 100,001 - 500,000 | 2 | 2 | 429,291 | 432,291 | 11.86 | 11.94 |
| 500,001 - 1,000,000 | 1 | 1 | 568,305 | 568,305 | 15.70 | 15.70 |
| OVER 1,000,000 | 2 | 2 | 2,520,832 | 2,520,832 | 69.62 | 69.62 |
| TOTAL | 729 | 651 | 3,620,843 | 3,620,843 | 100.00 | 100.00 |

List of 20 Major Share Holders

| MAJOR SHAREHOLDERS | NO. OF SHARES HELD | | SHARE HOLDING % | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 31 st March 2019 | 31 st March 2018 | 31 st March 2019 | 31 st March 2018 |
| Lanka Leyland Limited | 1,512,500 | 1,512,500 | 41.77 | 41.77 |
| Ashok Leyland Limited | 1,008,332 | 1,008,332 | 27.85 | 27.85 |
| N Thirimanne | 568,305 | 568,305 | 15.70 | 15.70 |
| Perpetual Equities (PVT) LTD | 228,356 | 228,356 | 6.31 | 6.31 |
| Commercial Trust Technologies (PVT) LTD | 200,935 | 203,935 | 5.55 | 5.63 |
| Sri Lanka Central Transport Board | 31,250 | 31,250 | 0.86 | 0.86 |
| J G De Mel | 6,600 | 6,578 | 0.18 | 0.18 |
| U.I Suriyabandara | 4,102 | 2,651 | 0.11 | 0.07 |
| Assetline Leasing Co. Ltd/S.M. Dharmakeerthi Samarakoon | 3,000 | - | 0.08 | - |
| R P T Adams | 2,700 | 2,700 | 0.07 | 0.07 |
| L N J Perera | 2,600 | 2,600 | 0.07 | 0.07 |
| Bansei Securities Capital (PVT) LTD / M A U Gnanathilaka | 2,242 | 2,242 | 0.06 | 0.06 |
| F M Asaf Khan | 1,514 | 1,514 | 0.04 | 0.04 |
| Nation Lanka Capital LTD / Nedagamuwage Indika Padma Kumara | 1,450 | 1,450 | 0.04 | 0.04 |
| R A Y T Perera | 1,300 | 1,300 | 0.04 | 0.04 |
| B Periyasamy | 1,250 | 1,250 | 0.03 | 0.03 |
| L A P Perera | 1,200 | 1,200 | 0.03 | 0.03 |
| Bansei Securities Capital (PVT) LTD/ C J Gunarathna | - | 1,200 | - | 0.03 |
| T S G Jayathilaka | 1,124 | 1,124 | 0.03 | 0.03 |
| P L Perera | 1,100 | 1,100 | 0.03 | 0.03 |
| R R Jayasundara | 800 | 800 | 0.02 | 0.02 |

Public Holding

| Public Holding | No. of Shareholders | No. of Shares | % Holding |
|-----------------------------------|---------------------|---------------|-----------|
| As at 31 st March 2019 | 727 | 1,100,011 | 30.38% |
| As at 31 st March 2018 | 649 | 1,100,011 | 30.38% |

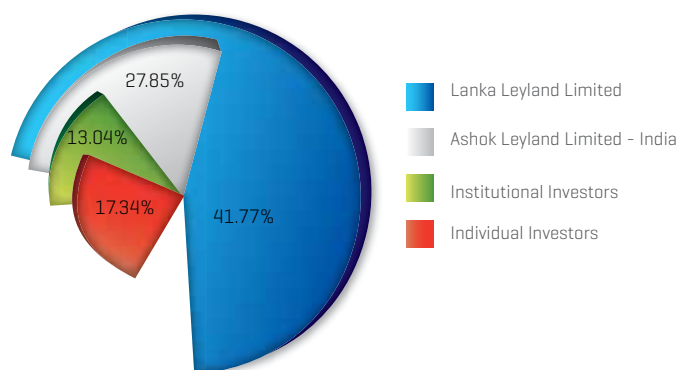
The highest, lowest and year end market value recorded during the year as follows;

| | 2018/19 Rs. | 2017/18 Rs. |
|----------|-------------|-------------|
| Highest | 1,000.00 | 1,350.00 |
| Lowest | 600.00 | 985.00 |
| Year end | 628.00 | 990.50 |

Float Adjusted Market Capitalisation

The public holding of the Company as at 31st March 2019 was 30.38% comprising of 727 shareholders and a float adjusted market capitalisation of Rs. 690,807,601 in terms of Rule 7.13 1 (a) of the Listing Rule of CSE and the Company qualifies under option five of the minimum public holding requirement.

Overview of Lanka Ashok Leyland PLC Shareholder Structure by Ownership



DECADE AT A GLANCE

| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---------|-----------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| TRADING RESULTS | | | | | | | | | | | |
| Turnover | Rs 000' | 3,408,648 | 11,524,020 | 16,834,179 | 10,546,651 | 7,013,558 | 8,235,660 | 9,088,008 | 11,416,595 | 15,565,077 | 8,627,775 |
| Net Trading Profit /([Loss] Before Interest | Rs 000' | 289,748 | 1,131,770 | 1,579,076 | 390,200 | 390,958 | 546,130 | 366,041 | 445,420 | 821,267 | 316,989 |
| Interest Paid | Rs 000' | (87,162) | (42,526) | (17,850) | (313,781) | (332,748) | (87,032) | (81,505) | (124,437) | (164,289) | (229,819) |
| Net Trading Profit /([Loss] After Interest | Rs 000' | 202,586 | 1,089,244 | 1,561,226 | 76,419 | 58,210 | 459,098 | 269,914 | 320,982 | 656,978 | 87,170 |
| Other Income | Rs 000' | 4,868 | 30,201 | 85,112 | 376,704 | 197,907 | 74,324 | 29,459 | 28,380 | 26,324 | 29,759 |
| Profit/ [Loss] Before Tax | Rs 000' | 207,454 | 1,119,445 | 1,646,338 | 453,123 | 256,117 | 533,422 | 313,995 | 349,362 | 683,302 | 116,929 |
| Taxation | Rs 000' | (117,624) | (470,553) | (464,330) | (100,085) | (92,147) | (203,447) | (104,457) | (111,156) | (179,185) | (9,468) |
| Profit/ [Loss] After Tax | Rs 000' | 89,830 | 648,892 | 1,182,008 | 353,038 | 163,970 | 329,975 | 209,538 | 238,207 | 504,117 | 107,461 |
| Other Comprehensive Income | Rs 000' | - | - | (2,887) | (4,591) | (1,505) | (4,438) | 5,180 | (1,547) | (5,214) | 7,259 |
| Profit Brought Forward | Rs 000' | 90,092 | 152,766 | 592,851 | 1,330,037 | 1,361,233 | 1,487,489 | 1,794,922 | 1,865,189 | 2,011,388 | 2,401,829 |
| Effect of Transitional Provision | Rs 000' | - | - | (33,310) | - | - | - | - | - | - | (12,913) |
| Prior Year Adjustments | Rs 000' | - | (4,495) | - | - | - | - | - | - | - | - |
| Retained Earnings | | | | | | | | | | | |
| Profit Available for Appropriations | Rs 000' | 179,922 | 797,163 | 1,738,662 | 1,678,484 | 1,523,698 | 1,813,026 | 2,009,640 | 2,101,848 | 2,510,291 | 2,503,636 |
| Dividend Paid | Rs 000' | (27,156) | (54,312) | (108,625) | (217,250) | (36,208) | (18,104) | (144,834) | (90,521) | (108,625) | (126,730) |
| Transfers to Reserves | Rs 000' | - | (150,000) | (300,000) | (100,000) | - | - | - | - | - | - |
| Unclaimed Dividend Reversed | Rs 000' | - | - | - | - | - | - | 383 | 61 | 163 | - |
| Retained Earnings | Rs 000' | 152,766 | 592,851 | 1,330,037 | 1,361,233 | 1,487,489 | 1,794,922 | 1,865,189 | 2,011,388 | 2,401,829 | 2,376,907 |
| INVESTORS' FUNDS | | | | | | | | | | | |
| Share Capital | Rs 000' | 36,208 | 36,208 | 36,208 | 36,208 | 36,208 | 36,208 | 36,208 | 36,208 | 36,208 | 36,208 |
| Retained Earnings | Rs 000' | 152,766 | 592,851 | 1,330,037 | 1,361,233 | 1,487,489 | 1,794,922 | 1,865,189 | 2,011,388 | 2,401,829 | 2,376,907 |
| Reserves | Rs 000' | 350,514 | 467,560 | 800,747 | 900,631 | 900,631 | 900,664 | 900,643 | 900,646 | 900,622 | 900,514 |
| Shareholders Fund | Rs 000' | 539,488 | 1,096,619 | 2,166,992 | 2,298,072 | 2,424,328 | 2,731,794 | 2,802,040 | 2,948,242 | 3,338,660 | 3,313,629 |
| ASSETS & LIABILITIES | | | | | | | | | | | |
| Property, Plant & Equipment | Rs 000' | 67,257 | 119,484 | 145,413 | 331,487 | 407,136 | 340,686 | 554,459 | 549,022 | 524,690 | 548,285 |
| Other Non Current Assets | Rs 000' | 3,507 | 52,950 | 510,776 | 561,712 | 174,085 | 62,708 | 65,926 | 26,404 | 39,288 | 54,619 |
| Current Assets | Rs 000' | 1,286,732 | 2,774,286 | 5,655,044 | 5,032,168 | 4,351,212 | 5,363,668 | 4,762,133 | 5,118,300 | 6,563,827 | 5,406,205 |
| Short - Term Borrowings | Rs 000' | (313,504) | (907,301) | (3,238,635) | (3,249,257) | (2,131,483) | (2,214,994) | (1,948,189) | (940,192) | (2,320,488) | (1,523,125) |
| Other Current Liabilities | Rs 000' | (484,812) | (922,178) | (877,533) | (338,369) | (333,536) | (762,671) | (550,465) | (1,711,833) | (1,385,101) | (1,087,856) |
| Working Capital | Rs 000' | 488,416 | 944,807 | 1,538,876 | 1,444,542 | 1,886,193 | 2,386,003 | 2,263,479 | 2,466,275 | 2,858,238 | 2,795,224 |
| Non Current Liabilities | Rs 000' | (19,692) | (20,622) | (28,073) | (39,670) | (43,087) | (57,604) | (81,824) | (93,460) | (83,557) | (84,498) |
| Net worth of Company | Rs 000' | 539,488 | 1,096,619 | 2,166,992 | 2,298,072 | 2,424,328 | 2,731,794 | 2,802,040 | 2,948,242 | 3,338,660 | 3,313,629 |

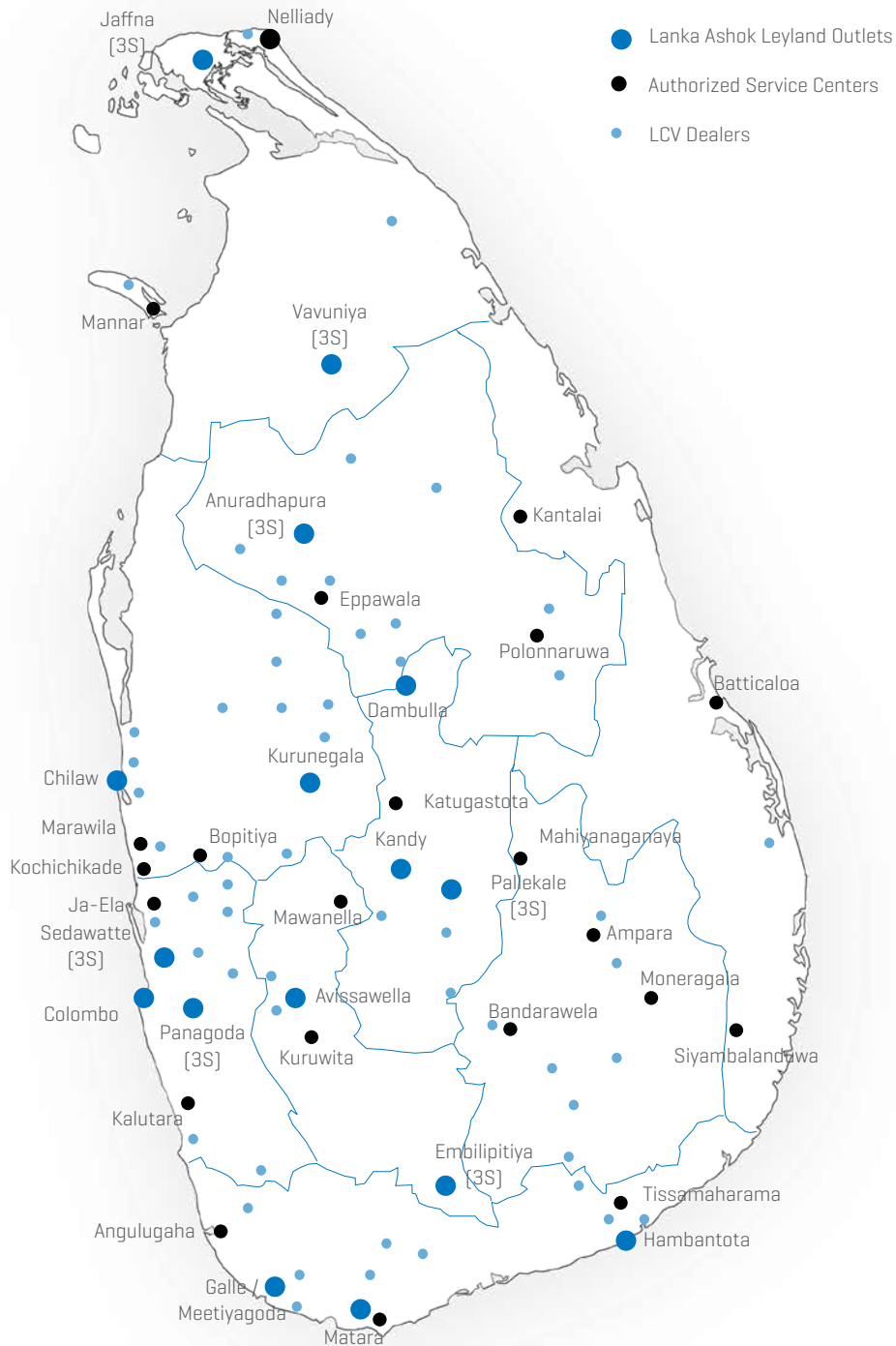
DECADE AT A GLANCE [Contd.]

| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|---------|-----------|-----------|-------------|-----------|-------------|----------|-----------|-----------|-------------|-----------|
| CASH FLOW ANALYSIS | | | | | | | | | | | |
| Investments in Property, Plant and Equipment | Rs 000' | 1,809 | 62,320 | 48,333 | 225,991 | 14,231 | 34,540 | 57,654 | 77,003 | 29,766 | 51,553 |
| Depreciation and Amortization | Rs 000' | 11,695 | 10,094 | 21,635 | 39,069 | 61,581 | 80,855 | 86,989 | 125,582 | 121,295 | 115,993 |
| Net Cash generated from / (used in) | | | | | | | | | | | |
| Operating Activities | Rs 000' | 376,957 | 19,168 | (2,104,274) | (333,771) | 1,164,145 | (54,445) | 500,605 | 326,513 | (1,205,776) | 852,480 |
| Investing Activities | Rs 000' | (28,041) | (234,081) | 39,334 | (23,760) | (47,831) | (28,496) | (57,482) | (69,464) | (13,913) | (27,653) |
| Financing Activities | Rs 000' | (231,477) | 231,963 | 2,331,334 | 10,622 | (1,117,774) | 83,511 | (411,639) | (276,277) | 1,271,671 | (924,092) |
| Net Increase / (Decrease) in Cash and Cash Equivalents | Rs 000' | 117,439 | 17,050 | 266,395 | (346,909) | (1,460) | 570 | 31,485 | (19,227) | 51,982 | (99,265) |

RATIOS & STATISTICS

| | | | | | | | | | | | |
|--|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Issued Share Capital | Nos. | 3,620,843 | 3,620,843 | 3,620,843 | 3,620,843 | 3,620,843 | 3,620,843 | 3,620,843 | 3,620,843 | 3,620,843 | 3,620,843 |
| Net Assets per Share | Rs. | 149.00 | 302.86 | 598.48 | 634.68 | 669.55 | 754.46 | 773.86 | 814.24 | 922.07 | 915.15 |
| Dividend per Share | Rs. | 15.00 | 30.00 | 60.00 | 10.00 | 5.00 | 40.00 | 25.00 | 30.00 | 35.00 | 10.00 |
| Market Price per Share | Rs. | 1,075.00 | 2,650.00 | 2,069.70 | 1,717.80 | 1,292.00 | 1,300.00 | 1,513.40 | 1,062.00 | 990.50 | 628.00 |
| Market Capitalisation | Rs 000' | 3,892,406 | 9,595,234 | 7,494,059 | 6,219,884 | 4,678,129 | 4,707,096 | 5,479,784 | 3,845,335 | 3,586,445 | 2,273,889 |
| Earnings per Share | Rs. | 24.81 | 179.21 | 326.45 | 97.50 | 45.29 | 91.13 | 57.87 | 65.79 | 139.23 | 29.68 |
| Dividend Payout | % | 60.46 | 16.74 | 18.38 | 10.26 | 11.04 | 43.89 | 43.20 | 45.60 | 25.14 | 33.69 |
| Price Earning ratio | No of Times | 43.33 | 14.79 | 6.34 | 17.62 | 28.53 | 14.27 | 26.15 | 16.14 | 7.11 | 21.16 |
| Current Ratio | No of Times | 1.61 | 1.52 | 1.37 | 1.40 | 1.77 | 1.80 | 1.91 | 1.93 | 1.77 | 2.07 |
| Quick Ratio | No of Times | 0.71 | 0.41 | 0.33 | 0.25 | 0.67 | 0.66 | 0.37 | 0.44 | 0.25 | 0.24 |
| Interest Cover | No of Times | 3.38 | 27.32 | 93.23 | 2.44 | 1.77 | 7.13 | 4.85 | 3.81 | 5.16 | 1.51 |
| Trading profit before Int. / Net Turnover. | % | 8.50 | 9.82 | 9.38 | 3.70 | 5.57 | 6.63 | 4.03 | 3.90 | 5.28 | 3.67 |
| Trading profit after Int. / Net Turnover. | % | 5.94 | 9.45 | 9.27 | 0.72 | 0.83 | 5.57 | 2.97 | 2.81 | 4.22 | 1.01 |
| Return on Net Assets & ROE | % | 16.65 | 59.17 | 54.55 | 15.36 | 6.76 | 12.08 | 7.48 | 8.08 | 15.10 | 3.24 |
| Asset Turnover | No of Times | 2.51 | 3.91 | 2.67 | 1.78 | 1.42 | 1.43 | 1.69 | 2.01 | 2.18 | 1.44 |
| Gearing (Debt Capital/Debt+Equity Capital) | % | 37 | 45 | 60 | 59 | 47 | 45 | 41 | 24 | 41 | 31 |

DISTRIBUTION NETWORK



3S - Services, Sales [Vehicle] & Spare parts

GLOSSARY

Actuarial Gains and Losses

Difference between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortisation is calculated by adjusting profit from continuing operations to exclude the impact of Taxation, Net Finance Costs, Depreciation, Amortisation, Impairment Losses / Reversals related Intangible Assets, Property, Plant and Equipment.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Available for Sale

Non derivative financial assets that are designated as available for sale or are not classified as loans and receivable, held to maturity investment or financial assets at fair value through profit and loss.

Borrowings

All interest bearing liabilities.

Capital Employed

Total equity, minority interest and interest bearing Borrowings.

Capital Reserves

Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents

Liquid investments with original maturity periods of three months or less.

Contingent Liability

A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Current Ratio

Current assets divided by current liabilities, a measure of liquidity.

Current Service Cost

Increase in the present value of the defined benefit obligation resulting from employee's service in the current period.

Deferred Taxation

The tax effect of timing differences deferred to / from other periods, which would only qualify for inclusion on a tax return at a future date.

Dividend Cover

Profit attributable to ordinary shareholders divided by dividend. Measures the number of times dividend is covered by distributable profit.

Dividend Payout

Dividend per share as a percentage of the earnings per share.

Dividend Yield

Dividend per share as a percentage of the market price a measure of return on investment.

EBIT

Abbreviation for Earnings Before Interest and Tax.

Effective Tax Rate

Income tax expense divided by profit from ordinary activities before tax.

Equity

Shareholders' funds.

Equity Accounted Investees

An entity including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Expected Credit Losses (ECLs)

ECL approach is the trade debtor impairment method under SLFRS 09 on "Financial Instruments". ECL are the discounted product of the Probability of Default (PD) and Loss Given Default (LGD).

Fair Value

The amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction.

Fair Value Through Profit and Loss

A financial asset/liability acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or a derivative (except for a derivative that is a financial guarantee contract)

GLOSSARY (Contd.)

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity to another entity.

Gearing

Proportion of total interest bearing borrowings to capital employed.

Gross Profit Ratio

Gross profit divided by revenue.

Interest Cover

Profit before tax plus net finance cost divided by net finance cost, a measure of an entity's debt service ability.

Key Management Personnel (KMP)

KMP are those persons having authority and responsibility for planning directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to loss in the event of obligor default.

Market Capitalisation

Number of shares in issue multiplied by the market value of a share at the reported date.

Net Assets Per Share

Shareholders' funds divided by the weighted average number of ordinary shares in issue, a basis of share valuation.

Other Comprehensive Income

Items of income and expenses that are not recognised in profit or loss as required or permitted by other SLFRS's.

Present Value of a Defined Benefit Obligation

Present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Price Earnings Ratio

Market price of a share divided by earnings per share as reported at that date.

Probability of Default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Related Parties

Parties who could control or significantly influence the financial and operating policies of the business.

Return on Average Capital employed

Profit before tax plus net finance cost divided by average capital employed.

Return on Average Shareholders' Funds

Attributable profits to the shareholders divided by average shareholders' funds.

Working Capital

Capital required to finance day-to-day operations computed as the excess of current assets over current liabilities.

NOTICE OF MEETING

Notice is hereby given that the Thirty Sixth Annual General Meeting of Lanka Ashok Leyland PLC will be held at Hotel Taj Samudra, Galle Face Center Road, Colombo 03 on 06th September 2019 at 3.00 p.m. for following purposes.

1. To consider the report of the Directors' and the audited Financial Statements for the year ended 31st March 2019.
2. To declare a dividend as recommended by the Board of Directors.
3. To elect Directors
 - a) To elect Mr. S. Liyavudeen as a Director of the Company in place of Dr. M. S. Meerasahib,
 - b) To elect Mr. Rajive Saharia as a Director of the Company in place of Mr. Vinod K. Dasari,
 - c) To appoint a Director in place of Mr. A .M Jahanser who retires by rotation in terms of Article 84 of the Articles of Association of the Company and who being eligible, offers himself for reappointment.
4. To re-elect as a Director Mr. D. P. Kumarage who is over the age of 70 years and who retires at the Annual General Meeting in terms of section 210 of the Companies Act No. 07 of 2007 by passing the following ordinary resolution.


"It is here by Resolved that the age limit referred to in Section 210 of the Companies Act No. 07 of 2007 shall not apply to Mr. D. P. Kumarage who is over the age of 70 years prior to this Annual General Meeting and that he be re-elected."
5. To pass as a special resolution to re-number "Article No. 92 as Article No. 92 A."
6. To pass the following as a special resolution to insert the following two Article immediate after above Article no. 92 A as 92 B and 92 C.

92 B The Board may concurrently participate either in person or by telephone, video conference or other equivalent forms of communication or any other form of audio or audiovisual instantaneous communication by which all persons participating in the conference are able to hear and be heard by all other participants for the dispatch of business and adjourn and otherwise regulate the conference as the Board thinks fit. All provisions relating to the convening of a meeting of the Board, including the giving of notice thereof and agenda, the quorum for such conference meeting and the votes to be cast shall be the same as is applicable under these Presents in relation to such meetings.

92 C A resolution passed by such conference meeting shall notwithstanding that the Directors are not present together at one place at the time of the conference, be deemed to have been passed at a meeting of the Directors held on the day and at the time at which the conference was held and shall be deemed to have been held at the Office of the Company unless otherwise agreed, and all Directors and other persons including the Secretary participating at that conference shall be deemed for all purposes to be present at the meeting.
7. To appoint Auditors and fix their remuneration, M/s. KPMG Chartered Accountants are eligible for re-appointment.
8. To consider and if thought fit, to pass with or without modification[s], the following as an ordinary Resolution.

"RESOLVED THAT M/s KPMG Chartered Accountants are hereby appointed as Statutory Auditors of the Company, for the Financial Year 2019/20, on a remuneration of Rs. 1,950,000/= (Rupees One Million Nine Hundred and Fifty Thousand only), in addition to reimbursement of out of pocket expenses."
9. To transact any other business of which due notice has been given.

By order of the Board of Directors



D A Abeyawardene
Director/Secretary

Colombo
10th July 2019

Notes:

*A member entitled to attend and to vote at the above mentioned meeting is entitled to appoint a proxy who need not also be a member, to attend instead of him. A form of proxy accompanies this notice.

CORPORATE INFORMATION

| | | |
|-------------------------|---|---|
| NAME OF COMPANY | - | Lanka Ashok Leyland PLC |
| COMPANY REGISTRATION NO | - | P Q 168 [Former No N [PBS] 21] |
| LEGAL FORM | - | A public quoted Company incorporated in Sri Lanka in 1982. Re-registered as a Public Limited Company under the Companies Act No. 07 of 2007. |
| DIRECTORS | - | M S Meerasahib - Chairman [Resigned w.e.f 10 th July 2019] S L Deen - Chairman [Appointed w.e.f 10 th July 2019] D P Kumarage N Sundararajan Vinod K Dasari [Resigned w.e.f 10 th July 2019] Gopal Mahadevan D A Abeyawardene A K M Jahanser Rajive Saharia [Appointed w.e.f 10 th July 2019] |
| COMPANY SECRETARY | - | D A Abeyawardene 80/12, Rubberwatte Road Gangodavila Nugegoda. Tel : 0112 801205 |
| CHIEF EXECUTIVE OFFICER | - | Umesh Gautam |
| REGISTERED OFFICE | - | Panagoda, Homagama Tel: 011-2752320 / 011-2751321 / 011-2750232-3 Fax: 011-2752400 E-mail: info@lal.lk Web: www.lal.lk |
| MARKETING OFFICE | - | 41, Edward Lane R. A. De Mel Mawatha Colombo 03. Tel: 011-2502532 / 011-2590404 / 011-2592163 Fax: 011- 2502286 |
| BANKERS | - | Bank of Ceylon Commercial Bank of Ceylon PLC Indian Bank People's Bank Sampath Bank PLC Seylan Bank PLC State Bank of India |
| AUDITORS - STATUTORY | - | KPMG [Chartered Accountants] P.O. Box 186 Colombo 03. |
| AUDITORS - INTERNAL | - | Ernst & Young [Chartered Accountants] 201, De Seram Place Colombo 10. |
| TAX CONSULTANTS | - | Dinitway Partners [Chartered Accountants] No. 7 ½, Devanampiyathissa Mawatha Colombo 10. |

FORM OF PROXY

I/We.....

.....holder of NIC No..... of

.....

.....being a *shareholder / shareholders of Lanka Ashok Leyland PLC, do hereby

appoint

..... holder of NIC No:

of

or failing him/her

| | |
|-----------------------|---------------------------|
| S L Deen | of Colombo or failing him |
| D P Kumarage..... | of Colombo or failing him |
| N Sundararajan | of Chennai or failing him |
| Gopal Mahadevan | of Chennai or failing him |
| D A Abeyawardene..... | of Colombo or failing him |
| A K M Jahanser..... | of Colombo or failing him |
| Rajive Saharia | of Chennai or failing him |

as my/ our* proxy to represent me/ us* and on my/ our* behalf at the Annual General Meeting of the Company to be held at Hotel Taj Samudra, Galle Face Center Road, Colombo 03 on Friday, 06th September 2019 at 3.00 p.m and at any adjournment thereof and at every poll which may be taken consequence thereof.

In witness my/ our hand/ hands thisday of Two Thousand and Nineteen.

.....
Signature

* Note :

1. *Please delete the inappropriate words.
2. Instructions as to completion are noted on the reverse hereof.

FORM OF PROXY [Contd.]

Instructions

1. Kindly perfect the form of proxy by filling in legibly your full name and address by deleting one or other of the alternative words indicated by an asterisk in the body of the form overleaf in order to indicate clearly your voting instructions by signing in the space provided and filling in the date of signature.
2. If there is any doubt as to which way the proxy should vote by reason of the way in which instructions under [I] above have been carried out, no vote will be recorded by the proxy.
3. A proxy need not be a member of the Company.
4. The completed form of proxy should be deposited at the registered office of the Company, Panagoda, Homagama, before 3.00 p.m on 04th September 2019 being forty-eight hours before the time appointed for the holding of the meeting.
5. If the form of proxy is signed by an Attorney, the relative power of Attorney of notarially certified copy of such power should accompany the complete form of proxy for registrations if such power of attorney has not already been registered with the Company.



LANKA ASHOK LEYLAND PLC

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