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236, ගල පාර කොළඹ, 03.
වෙබ් අඩවිය: www.mi.com.lk

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BW/UM/TW

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS & FINANCE PLC

Report on the audit of the Financial Statements

We have audited the financial statements of Mercantile Investments & Finance PLC ("The Company"), which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and statement of comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2020, and of its financial performance and 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 Matter

Impairment allowance for Loans & receivables, Lease receivable & Hire Purchase receivables

We considered the impairment allowance for Loans & receivables, Lease receivable & Hire Purchase receivables as a key audit matter. Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. Probable impacts of COVID -19 outbreak on the economically impacted customers and related government relief measures on the key assumptions, the higher level of estimation uncertainty involved, and materiality of the amounts reported in the Company's financial statements, underpinned our basis for considering it as a Key Audit Matter.

As at 31 March 2020, Loans & receivables, Lease receivable & Hire Purchase receivables net of impairment amounted to Rs.33 Bn. These collectively contributed 76% to the Company's total assets.

The Note 10 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation.

Revaluation of Land & Buildings:

As of 31 March 2020, the Company carried freehold land and buildings at fair value amounting to Rs.1.7 Bn and Rs 512 Mn respectively, of which Rs.301 million has been recognized through OCI.

Fair value was determined by an external valuer engaged by the Company. The valuation was significant to our audit due to the use of estimates in the valuation techniques, and valuation is judgmental and is based on certain key assumptions. Given the significance of assumptions associated with the valuation of these assets we have considered the valuation of freehold land and building as a key audit matter.

Refer note 31.4 to the financial statements for significant accounting judgements, estimates and assumptions related to valuation of freehold land and buildings.

Management's use of significant judgements relating to the impacts of the evolving COVID-19 pandemic on the Company

Management has assessed the impact of the evolving COVID-19 pandemic on its business and financial statements of the Company as disclosed in Note (refer to COVID-19 impact note 53)

We considered such management's assessment in the wake of the evolving COVID-19 pandemic as a key audit matter, since it involved the use of significant management judgements and estimates considering future events, circumstances and impacts on cash flows, based on available information.

The nature of the significant assumptions involved, are disclosed in Note (refer to COVID-19 impact note 53) to the financial statements.

Other information included in the 2020 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2020 annual report is expected to be made available to us after the date of this auditor's report.

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.

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, 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.

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 2440.

Ernst & Young signature

26th June 2020 Colombo

- Partners: W. R. H. Fernando FCA FCMA | R. N. de Saram ACA FCMA | Ms. N. A. De Silva FCA | Ms. Y. A. De Silva FCA | W. R. H. De Silva ACA ACMA | W. K. B. S. P. Fernando FCA FCMA | Ms. K. R. M. Fernando FCA ACMA | Ms. L. K. H. Fonseka FCA | A. P. A. Gunasekara FCA FCMA | A. Herath FCA | D. K. Hulugamuwa FCA FCMA LLB (Lond.) | H. M. A. Jayasinghe FCA FCMA | Ms. A. A. Ludowyke FCA FCMA | Ms. G. G. S. Manatunga FCA | Ms. P.V. K. N. Sajewani FCA | N. M. Sulaiman ACA ACMA | B. E. Wijesuriya FCA FCMA

Principal: G. B. Goudian ACMA | A. A. J. R. Perera ACA ACMA | T. P. M. Ruberu FCMA FCCA

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Table with 3 columns: 2020 රු.'000, 2019 රු.'000, and financial metrics. Rows include 2020 දළ ආදායම, 2020 පොලී ආදායම, 2020 පොලී වියදම, etc.

මූල්‍ය තත්ත්ව ප්‍රකාශනය

Table with 3 columns: 2020 රු.'000, 2019 රු.'000, and financial metrics. Rows include 2020 වත්කම්, 2020 මුදල් සහ බැඳුම්, 2020 ප්‍රතිපාදන මූලාශ්‍ර, etc.

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මෙහි මූල්‍ය ප්‍රකාශනය 2007 අංක 07 දරන සමාගම් පනතට අනුව සකස් කර ඇති බවට මෙයින් සහතික වෙමි.

Signature of auditor

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ප්‍රධාන මූල්‍ය නිලධාරී

මෙහි මූල්‍ය ප්‍රකාශනයන්හි නිවැරදිකාවට පිළිබඳව වගකීම අධ්‍යක්ෂ මණ්ඩලය විසින් දරනු ලැබේ. අධ්‍යක්ෂ මණ්ඩලය වෙනුවෙන් අනුමත කර ඇත්තේ කළු පිටුවකි.

සේවක පී. ඔන්ඩවිව්

කළමනාකාර අධ්‍යක්ෂ 2020 ජූනි 26 කොළඹ

සර්මාල් වීවී, ජයසූරිය මූල්‍ය අධ්‍යක්ෂ

තෝරාගත් කාර්ය දැරීමක

Table with 3 columns: 2020, 2019, and financial metrics. Rows include 2020 වර්ගීකරණ ප්‍රාග්ධන ප්‍රමාණවත්කාව, 2020 මූල්‍ය ප්‍රාග්ධනය (පළමු පෙළ ප්‍රාග්ධනය), etc.

සහතික කිරීම

මෙහි අත්සන් තබන මර්කන්ටයිල් ඉන්වෙස්ට්මන්ට්ස් ඇන්ඩ් ගැනන්සන්ස් පීඑල්සී හි කළමනාකාර අධ්‍යක්ෂ සහ මූල්‍ය අධ්‍යක්ෂ වන අපි, අද්‍ර ඉහත ප්‍රකාශනය පිළිබඳව කර ඇත්තේ ශ්‍රී ලංකා මහ බැංකුව විසින් නිර්වචනයවී පවතින සහ නිර්වචනයවී ඇති අනුකූලව බවට, අද්‍ර මෙහි ප්‍රකාශන සඳහා අධ්‍යක්ෂ ජනරාල්ගේ පිටුවකට අත්සන ලබා දෙන බවටත් සහතික කරන්නෙමු.

සේවක පී. ඔන්ඩවිව්

කළමනාකාර අධ්‍යක්ෂ 2020 ජූනි 26 කොළඹ

සර්මාල් වීවී, ජයසූරිය මූල්‍ය අධ්‍යක්ෂ