



Ernst & Young Chartered Accountants

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Ernst & Young

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS AND FINANCE PLC

Report on the audit of the Financial Statements

We have audited the financial statements of Mercantile Investments and Finance PLC (The Company), which comprise the statement of financial position as at 31 March 2021, 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 2021, 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.

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.

Key audit matters specific to Company

Key Audit Matter

Impairment allowance for loans & receivables and lease rentals receivable & hire purchase.

As described in Note(s) 23 to 25, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard - SLFRS 9 Financial Instruments

This was a key audit matter due to:

- materiality of the reported impairment allowance which involved complex calculations; and the degree of assumptions, judgements and estimation uncertainty associated with the calculations

Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following:

- the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Company); and forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.

IT systems and controls relevant to financial reporting

The Company uses multiple IT systems in its operations. We selected IT systems and controls relevant to financial reporting as a key audit matter due to:

- The Company's financial reporting process being heavily dependent on information derived from its IT systems and Key financial statement disclosures involving the use of multiple system-generated reports and calculations there on

Impact of moratoriums and other relief measures on recognition of interest income

Moratoriums and other relief measures were granted by the Company to customers affected by the COVID-19 Pandemic.

Impact of moratoriums and other relief measures on the recognition of interest income on loans & receivables, lease rentals receivable & hire purchase was a key audit matter due to:

- Significant judgments that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not, to contracts with customers as set out in Note 3.2 (ii) to the financial statements

Other information included in the 2021 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company.

- 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.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2440.

07 June 2021 Colombo

Partners: W R H Fernando FCA FCMA R N De Saram ACA FCMA M S N De Silva FCA M Y A De Silva FCA W R H De Silva FCA W K B S Fernando FCA FCMA M S K R M Fernando FCA FCMA M S L K H L Fonseka FCA A P A Gunasekera FCA FMA A Herath FCA D K Hulangamuwa FCA FMA LLS (Lond) H M A Jayasinghe FCA FCMA M S A A Ludowyke FCA FCMA M S G G S Menalunga FCA A A J R Perera ACA FCMA M S P V K N Sajewani FCA N M Suman ACA FCMA B E Wijesuriya FCA FCMA Principals: G B Goddard ACA T P M Ruberu FCMA FCCA A member firm of Ernst & Young Global Limited

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Table with 3 columns: 2021 (රු. 000), 2020 (රු. 000), and 2019 (රු. 000). Rows include VAT, NBT, and other taxes, and various operating expenses.

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Table with 3 columns: 2021 (රු. 000), 2020 (රු. 000), and 2019 (රු. 000). Rows include assets like cash, receivables, and investments, and liabilities like payables and provisions.

Auditor's signature block containing the name of the auditor, the date (2021.05.31), and the auditor's seal.

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Table with 4 columns: Metric, 31.03.2021 දීමට, 31.03.2020 දීමට, and 2020 දීමට. Rows include Return on Equity, Return on Assets, and Return on Capital Employed.

Auditor's signature block for the second auditor, including name, date, and seal.