

BOGALA GRAPHITE  
LANKA PLC  
Annual Report 2019

INTELLIGENCE  
IN  
GRAPHITE



BOGALA GRAPHITE LANKA PLC  
**Annual Report 2019**

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# FINANCIAL AND OPERATIONAL HIGHLIGHTS

Year Ended 31<sup>st</sup> December

<b>Earnings Highlights and Ratios</b>		<b>2019</b>	<b>2018</b>	<b>% Change</b>
Revenue	Rs. million	815.6	877.8	(7.1)
Gross profit	Rs. million	323.0	389.5	(17.1)
Profit/(Loss) from operations	Rs. million	115.6	178.4	(35.2)
Profit/(Loss) before tax	Rs. million	116.4	175.5	(33.7)
Profit/(Loss) after tax	Rs. million	97.4	152.2	(36.0)
EBITDA	Rs. million	157.6	215.5	(26.9)
Cash from operating activities	Rs. million	175.4	158.2	10.9
Gross profit to turnover	%	39.6	44.4	(10.8)
Net income to turnover	%	11.9	17.3	(31.1)
Interest cover	%	25.2	26.7	(5.5)
Return on equity (ROE)	%	16.8	31.7	(46.8)

## **Balance Sheet Highlights & Ratios**

Total assets	Rs. million	822.3	724.9	13.4
Total debt	Rs. million	243.9	244.2	(0.1)
Total shareholders' funds	Rs. million	578.4	480.6	20.3
No. of shares in issue	million	94.6	94.6	-
Net assets	Rs. million	578.4	480.6	20.3
Net assets per share	Rs.	6.1	5.1	20.3
Debt/equity (book value)	%	42.2	50.8	(17.0)

## **Operational Highlights**

Lost-time accident rate	%	Zero	1.00	100.0
Accident severity rate	%	Zero	0.06	100.0
Earnings per share	Rs.	1.03	1.60	(36.0)

# CHAIRMAN'S REVIEW

I am pleased to welcome you all on behalf of the Board to the 29<sup>th</sup> Annual General Meeting of our Company.

The past year was not an easy one. It was a year of upheaval and tragedy with the Easter attacks and their repercussions affecting the economy. It was a testimony to the resilience of our nation and its people that we overcame incredible adversities to move forward. I am happy to state that our Company too has similarly progressed despite the challenges. We have recorded another year of good performance.

Whilst the uncertain economic conditions in the country prevailed we concentrated on doubling our efforts towards increasing productivity. We also continued to improve safety measures, prioritising our diligent adherence to standards as the safety of our workers will always remain a primary focus of our Company. During the past year, a total of 2611 hours were allocated for safety training for all our employees. Indeed, safety and health training sessions continued to be held with the employees as well as their family members on a regular basis. The year under review was the best ever recorded, with zero lost-time accidents reported, resulting in zero working days lost due to accidents. With only three minor accidents reported we successfully completed 557 days with zero lost-time accidents.

Despite the adverse economic conditions during the year under review, as a result of these efforts your Company achieved a turnover of Rs.815.6million.

## **Economic Environment**

The growth of the Sri Lankan economy was affected in the first half of the year amidst challenges emanating mainly from the domestic front, including the spillover effects of the Easter Sunday attacks. According to the provisional estimates of the Department of Census and Statistics, the Sri Lankan economy recorded a subdued growth rate of 2.6 percent during the first half of 2019, in comparison to the 3.9 percent growth in the corresponding period of 2018.

The slow growth in industrial activities recorded since last year continued in the first half of 2019, registering

2.3 percent growth, compared to the 2.2 percent growth in the corresponding period in 2018. Growth in industrial activities was primarily driven by growth in construction, and mining and quarrying activities. The Easter Sunday attacks adversely affected activities in every sector especially in the second quarter of 2019, dragging down the overall growth performance of the economy during the quarter as well as the first half of the year.

Earnings from exports grew by 2.4 percent, year-on-year, during the first eight months of the year, due to the favourable impact of the restoration of the EU GSP+ facility, and conducive external trade policies together with improved institutional support. The growth in exports mainly emanated from industrial exports, while agricultural and mineral exports declined during the period.

Industry activities grew by 2.3 percent during the first half of 2019 compared to the growth of 2.2 percent recorded in the corresponding period of 2018. The rebound in construction and mining and quarrying activities contributed to the expansion in Industry activities during the first half of 2019. Accordingly, construction, mining and quarrying activities grew by 4.7 percent and 2.8 percent, respectively, during the first half of 2019 compared to contractions of 0.8 percent and 1.2 percent, respectively, recorded in the corresponding period of 2018.

## **International Economic Environment**

The October 2019 release of the World Economic Outlook (WEO) of the IMF warned of the precarious status of the global economy as growth projections for 2019 and 2020 were downgraded amidst a synchronised slowdown of the global economy. The global growth projection for 2019 was further downgraded to 3.0 percent from its previous update of 3.2 percent (July 2019), which is also the slowest pace of growth to be recorded since the global financial crisis. Although global growth is expected to record a modest improvement in 2020, it was also revised downward by 0.2 percent in the April WEO projections to 3.4 percent. The lacklustre performance of the global economy appears to stem from rising trade tensions and geopolitical uncertainties.

# CHAIRMAN'S REVIEW

## Expected Developments

Although the Easter Sunday attacks weakened growth in tourism and related subsectors, these negative effects are expected to be short-lived and the economy is envisaged to regain its growth momentum gradually in the medium term, and expected to grow by 3.0 percent in 2019. Meanwhile, the recovery in construction, mining and quarrying activities spurred an expansion in Industry activities during the first half of the year. Going forward, most of the activities which were affected by the Easter Sunday attacks are recovering faster than initially expected, which would help accelerate growth during the second half of the year. The recent outbreak of the Coronavirus is likely to affect the tourism sector.

## Corporate Performance

Continuing our success from the previous year, in 2019 we were once again able to surpass expectations in meeting the material requirements of both our parent company GK and sister companies.

I am pleased to note another year of commendable performance where we were able to exceed revised expectations and surpass our set targets, considering the adverse conditions we had to face. Our total revenue for the year was Rs.815.6million whilst the profit after tax (PAT) was Rs.97.4million.

Further investments made towards the improvement of machinery during the year under review also enabled increased efficiency—one of the key factors in raising our overall corporate performance to higher levels than expected.

## Compliance and Risk Management

An effective mechanism is in place to ensure total compliance and risk management of the Company, in keeping with our long-standing commitment to strict adherence to regulatory requirements.

Risk Management is a vital part of our processes and in alignment with this policy a comprehensive review and analysis of risks to the business are identified, and a sound disaster recovery plan and a business continuity

plan have been put in place to address any issues that may arise.

We comply diligently with the regulations laid down by the SEC in respect of establishing a Related Party Transaction Review Committee as well as having in place both Audit and Remuneration Committees. These and other requirements of Corporate Governance as laid down by the SEC are meticulously observed.

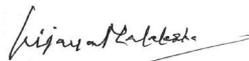
## Future Prospects

Proving once again the strength and resilience of our Company under duress, we were able to record success during the year under review-despite the external turmoil and uncertainties. Facing the challenges head-on we were able to overcome them, and we are confident in our ability to continue to do so in the year ahead. With systems in place to further improve efficiency and performance we believe we can successfully reach our goals and hope to exceed expectations as we have done this year.

## Acknowledgment

In conclusion, on behalf of the Board of Directors and the employees of the Company, I thank our valued shareholders: our major shareholder and parent company, Graphit Kropfmühl, for their continued support, and the stakeholders for the trust and confidence they place in the management of the Company as well as for the support they always extend to the Company.

I also take this opportunity to thank my colleagues on the Board for their guidance and support, and extend my sincere appreciation to the Management team and all employees, who performed their duties diligently to create greater value for our stakeholders. I am confident that they will continue to support us in our future endeavors.



**Vijaya Malalasekara**

Chairman

11<sup>th</sup> February 2020

# CHIEF EXECUTIVE OFFICER'S REVIEW

The year past was undoubtedly a turbulent one for our country with the Easter attacks and their repercussions as well as the uncertain political environment serving to challenge the normalcy of business and social activities, affecting economic performance. Despite these adversities, however, we are pleased to record another year of progress beyond our expectations. As always obstacles only serve to spur us on to strive harder to achieve our goals to the best of our ability-and once again, in the year under review, we have risen above the circumstances to do that.

In keeping with our ongoing commitment to maintain exceptional safety standards, we strengthened our focus on adherence to safety regulations and measures, with regular training being continued for all employees as well as their family members.

We have recorded another year of commendable performance where we were able to better our expectations in achieving our targets considering the challenges we faced. Main reason for the good performance of 2019 despite the drop in sales revenue is transfer of high margin sales from parent company to Bogala. (most of the customers in carbon brush industry and friction industry developed by parent company was transferred to us). Our total revenue for the year was Rs.815.6million resulting in a slight decrease of 7.08 percent compared to the previous year (2018 Rs.877.8million). This was as expected, taking into consideration the uncertain economic climate which prevailed during the year. Revenue from supply of specialised solutions to the Carbon Brush Industry and the Friction Industry grew continuously and represents 28 percent of total revenue (2018-26 percent).

The Company also reported good results with the Profit before Taxation being Rs.116.4million.

## Health and Safety

As in previous years, regular training programme on health and safety were carried out throughout the year under review with a total of 2611 hours set aside for safety training. This resulted in 2019 being the best recorded

for safety so far with no working days lost due to accidents. We successfully completed 557 days with zero lost-time accidents, and only three minor accidents reported-achieving the target of zero lost-time accidents we set ourselves the previous year. The safety of our workers is a vital aspect of our operations and to that end continued improvements to ensure due diligence to standards will always be a priority.

During the year we also conducted Family Day events which focused on creating awareness on topics such as domestic safety and health.

## Outlook

With the current uncertainties in the global political and economic climates, the challenges our industry and the industries linked to ours will invariably need to face are factors that we need to seriously consider as we set our goals for the year ahead. The outlook for 2020-as predicted by global reports-is not positive. For instance the Global Credit Rating Agency, Moody's Investors' Service, stated that "...the 2020 outlook for global automotive manufacturers and parts suppliers is negative, driven by our expectations of a continued decline in global light vehicle sales..." With the automobile industry, among others, facing a decline, we need to focus even more on monitoring industry developments and on identifying possible threats that will affect us, and how to counter them. We have always overcome adversities in the past, and I am confident that whatever obstacles we may come across in the year ahead, we can pull through with the support and commitment of our team. We must, as always, look forward with hope and work determinedly towards positive results.

## Appreciation

In closing another progressive year of good performance, I wish to express my appreciation to our parent company, Graphit Kropfmühl GmbH, the Chairman and the Board of Directors for their continued confidence in me, as well as for their steadfast support and guidance at all times.

# CHIEF EXECUTIVE OFFICER'S REVIEW

My heartfelt appreciation is hereby extended to all our shareholders, employees, the management team and staff for the unstinted support they always offer me. Together we look forward to recording another year of progress and achievement.



**Amila Jayasinghe**

Chief Executive Officer

11<sup>th</sup> February 2020

# DIRECTORS' PROFILES

**Vijaya Malalasekera** (Non-executive/Independent Director)

**MA (Cantab.), Barrister-at-Law (Inner Temple), Attorney-at-Law**

Mr. Malalasekera was appointed Chairman of Bogala Graphite Lanka PLC in April 2000. He serves on the Boards of Carson Cumberbatch PLC and 1990 Suwa Seriya Foundation as a Board Member.

**Thomas A. Junker** (Non-executive Director)

Mr. Junker is a graduate in Civil Engineering from the University of Applied Science in Aalen, Germany. He was appointed a Director of Bogala Graphite Lanka PLC on 26<sup>th</sup> March 2010. He has been with Graphit Kropfmühl since April 2008 and currently serves as the President of AMG Graphite group. He also is the Managing Director of Qingdao Kropfmühl Graphite Ltd and a Board Director since 2011.

**J. C. P. Jayasinghe** (Non-executive Director)

**B.Com (Ceylon)**

Mr. Jayasinghe was appointed Vice Chairman/CEO of Bogala Graphite Lanka PLC in April 2000. Upon his retirement from the position of CEO he was invited to the Board of the Company as a Consultant/Director in January 2008 and holds the position to date.

**Roger P. Miller** (Non-executive Director)

Mr. Miller was appointed a Director of Bogala Graphite Lanka PLC on 28<sup>th</sup> April 2016. He is a founder and Managing Partner of Alterna Capital Partners (a private investment manager in the United States) since 2007 and a Director of AMG GK since March 2015. He holds a BS in Mining Engineering from Montana School of Mines and a MBA from Cornell University.

**A. P. Jayasinghe** (Executive Director)

**B.Bus (Monash), CPA**

Mr. Jayasinghe was appointed to the Board of Bogala Graphite Lanka PLC in April 2004. He has worked in the capacity of Executive Director of the Company from April 2000 to August 2005. Mr. Jayasinghe was appointed Chief Executive Officer in January 2008.

**Ms. M. C. Pietersz** (Non-executive/Independent Director)

Ms. Pietersz was appointed a Director on 14<sup>th</sup> May 2013. She is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a B.Sc. (Honours) degree in Physics from the University of Sussex and an MBA from Heriot-Watt University, Edinburgh. Ms. Pietersz is the Finance Director of Finlays Colombo Limited, Hapugastenne Plantations PLC and Udapussellawa Plantations PLC. She serves as an Independent Director on the Board of Seylan Bank PLC, and as a member of the Council of the Institute of Chartered Accountants of Sri Lanka.

**Sugath Amarasinghe** (Executive Director)

**ACA, ASCMA**

Mr. Amarasinghe was appointed a Director on 4<sup>th</sup> April 2014. He is a member of the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka. He possesses 26 years of working experience in the Mercantile Sector with industry coverage from FMCG (Foods & Beverages), Automobile, Services (Corporate and Management Consultancy), Information Technology, Garment Manufacturing and Garment Processing.

**Mohamed Adamaly** (Non-executive/Independent Director)

**Attorney-at-Law, Marketer**

Mr. Adamaly was appointed to the Board with effect from 2<sup>nd</sup> October 2014. He is an Attorney-at-Law, holds a Bachelors in Law (LL.B.) with Honours from the University of Colombo, and a postgraduate diploma in Marketing from the Chartered Institute of Marketing, UK. Mr. Adamaly is a practising lawyer specialising in investment consultancy, commercial litigation, and labour and public law. He is also a resource person for Director Training for the Sri Lanka Institute of Directors, a Senior Lecturer in Marketing, and serves on boards of several public and private companies.

**Ulla Neunzert** (Non-executive Director)

Mrs. Neunzert was appointed a Director of Bogala Graphite Lanka PLC on 15<sup>th</sup> August 2019. She joined Graphit Kropfmühl GmbH in May 2019 as CFO for the AMG Graphite Group. Mrs. Neunzert holds a Master of Arts Degree from Freie University of Berlin, Germany.

# CORPORATE GOVERNANCE REPORT

The governance framework of the Company ensures compliance with regulatory requirements and provides clear directions on the decision-making process, promoting a culture of openness, productive dialogue, constructive dissent, employee empowerment and engagement, thereby creating value to all stakeholders.

The Board provides strategic direction to the Company by adopting a sound governance framework, and by setting in place proper risk management and internal control systems to ensure compliance with specific mandatory requirements set out in Section 7.10 of the Listing Rules of the Colombo Stock Exchange and the voluntary requirements of the Code of Best Practices on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

## Board Composition and Skills

The Board, comprises nine Directors as at 31<sup>st</sup> December 2019, six of them being Non-executive Directors of whom three are Independent Directors whilst two are Executive Directors. The Company policy is to maintain a sufficient balance of power that minimises the tendency for one or a few members of the Board to dominate its decision-making process.

Director	Independent Non-executive / Executive
Vijaya Malalasekera	Independent Non-executive
Thomas A. Junker	Non-executive
J. C. P. Jayasinghe	Non-executive
Amila Jayasinghe	Executive
Coralie Pietersz	Independent Non-executive
Sugath Amarasinghe	Executive
Mohamed Adamaly	Independent Non-executive
Roger Miller	Non-executive
Ulla Neunzert appointed 15 <sup>th</sup> August 2019	Non-executive

The Board brings in a wealth of diverse exposure in the fields of management, business administration, economics, and human resources. Hence Directors contribute varied perspective to boardroom deliberations and exercise independent judgement to bear on matters set before them.

All Non-executive Directors are expected to disclose any material business interest and submit an annual declaration confirming his/her independence/non-independence as required under the Listing Rules of the Colombo Stock Exchange. Each Non-executive Director has submitted a declaration of his or her independence or non-independence for the year under review. Non-executive Directors do not have any business interest except what is stated under note 25, Related Party Disclosures on page 75 of the Annual Report.

The Board places strong emphasis on transparency, accountability and integrity of transactions, in line with the code of Corporate Governance. Whilst the Board is responsible for guiding the overall direction, strategies and financial objectives, and for overseeing systems of internal control, risk management, and strategic plans, it is the responsibility of the corporate management team to ensure implementation of their directives.

The Board has determined that Mr. Vijaya Malalasekera is an independent Director since he is not directly involved in the Management of the Company. Having considered these factors the Board is of the opinion that Mr. Vijaya Malalasekera continue to serve on the Board as an independent Director notwithstanding the fact that he has served on the Board for more than ten years, as it is beneficial to the Company and its shareholders.

## The Board's responsibilities include:

- Providing strategic direction and guidance to the Company in formulating sustainable, high-level, medium- and long-term strategies which are aimed at promoting the long-term success of the Company

# CORPORATE GOVERNANCE REPORT

- Reviewing and approving annual and long-term business plans, tracking actual progress
- Ensuring succession planning to facilitate the sustainability of the business
- Ensuring operations are carried out within the scope of the Company risk management framework
- Ensuring proper stewardship of the Company's resources and towards this, monitoring systems of governance and overseeing systems of internal control, and risk management, and establishing which behaviour call for whistle blowing
- Determining any changes to the discretions/ authorities delegated by the Board to the executive level.
- Ensuring the highest standards of information-particularly financial information, business ethics and integrity
- Reviewing and approving major acquisitions, disposals and capital expenditure
- Ensuring all Related Party Transactions are compliant with the statutory obligations

During the year under review the Board met four times. The Directors are provided with relevant information and background material set out by the agenda prior to every meeting to enable them to make informed decisions. Board papers are submitted in advance on Company performance, new investments, capital projects and other issues which require specific Board approval.

## The Role of the Chairman

The Chairman is responsible for the efficient conduct of Board meetings and ensures effective participation of both Executive and Non-executive Directors. It is also the responsibility of the Chairman to ensure the views of all Board members are expressed and, where necessary make available access to Key Management Personnel (KMP) and to presentations done by experts and other team members. It is also the responsibility of the Chairman to ensure that the Board is in complete

control of the Company's affairs. The Chairman maintains close contact with all Directors and, where necessary, holds meetings with Non-executive Directors without Executive Directors being present, to ensure appropriate balance of power.

The Chairman, whilst providing leadership to the Board, also sets the tone for the governance and ethical framework of the Company, facilitates and solicits the views of all Directors by keeping in touch with local and global industry developments, and ensures that the Board is sensitive to its obligations to the Company's shareholders and stakeholders.

## Delegation of Authority

The Board is responsible for the overall governance and implementation of sound business strategies for the Company. The Board exercises its ordinary and extraordinary powers in carrying out its duties within the relevant laws/regulations of the country, regulatory authorities, professional institutes and trade associations to achieve the Company objectives. In exercising its business judgement, the Board acts as an advisor and counselor to the CEO/Managing Director, who defines and enforces standards of accountability, with a view to enabling senior management to execute their responsibilities fully in the interests of the Company and its shareholders. The Board assesses the effectiveness of the management team through periodic review of their performance and compliance with best corporate practices.

## Board Committees

The Board has delegated some of its functions to the Sub-Committees, whilst retaining the rights of final decision. Members of these Sub-Committees are able to focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise. The Directors dedicate sufficient time at committee meetings to review pertinent documentation relating to the meeting, and call for additional information or further clarification where necessary. The Committee Chairperson reports to the

# CORPORATE GOVERNANCE REPORT

Board on the activities of the respective Committees at each Board meeting, highlighting matters for the Board's attention.

The Board has appointed three Sub-Committees to assist in the discharge of its duties as summarised below.

Board Committee	Areas of Oversight	Composition
<b>Audit Committee</b>	Financial Reporting	Independent Non-executive Directors - 3  Non-independent Non-executive Directors - 1
Report of the Audit Committee is given on page 22	Internal Controls	
	Internal Audit	
	External Audit	
	Management of Risks	
<b>Related Party Transaction Review Committee</b>	Related party transaction policy/ code	Independent Non-executive Directors - 2
Report of the RPTRC Committee is given on page 26	Review of related party transactions for regulatory compliance	Non-independent Non-executive Directors - 1
	Disclosure of related party transactions	
<b>Remuneration Committee</b>	Remuneration policy and practices	Independent Non-executive Directors - 2
Report of the Remuneration Committee is given on page 24	Recommend executive Directors remuneration and senior management team	Non-independent Non-executive Directors - 1

The Board Sub-Committees comprise mainly independent Non-executive Directors. The committees are provided with all resources to empower them to undertake their duties in an effective manner. The Company Secretary acts as secretary to these committees with the exception of the Remuneration Committee. The minutes of each committee meeting are circulated to all Directors on completion.

Director	Board Meetings	Audit Committee	Related Party Transaction Review Committee	Remuneration Committee
<b>Independent Non-executive</b>				
Vijaya Malalasekera	Chairman	Member	Chairman	Chairman
Coralie Pietersz	Member	Chairperson	Member	By Invitation
Mohamed Adamaly	Member	Member	Member	Member
<b>Non-executive</b>				
Thomas A. Junker	Member	Member	Member	Member
J. C. P. Jayasinghe	Member	By Invitation	By Invitation	By Invitation
Roger Miller	Member	By Invitation	By Invitation	By Invitation
Ulla Neunzert appointed 15 <sup>th</sup> August 2019	Member	By Invitation	By Invitation	By Invitation
<b>Executive</b>				
Amila Jayasinghe	Member	By Invitation	By Invitation	By Invitation
Sugath Amarasinghe	Member	By Invitation	By Invitation	By Invitation

# CORPORATE GOVERNANCE REPORT

The Board held four meetings during the year, one meeting per quarter. Attendance of Directors at the Board and Sub-Committee meetings is summarised below.

## Attendance at Board and Sub-Committee Meetings

Director	Board Meetings	Audit Committee	Related Party Transaction Review Committee	Remuneration Committee
<b>Independent Non-executive</b>				
Vijaya Malalasekera	4/4	4/4	4/4	1/1
Coralie Pietersz	4/4	4/4	4/4	N/A
Mohamed Adamaly	4/4	4/4	4/4	1/1
<b>Non-executive</b>				
Thomas A. Junker	2/4	2/4	2/4	Excused
J. C. P. Jayasinghe	4/4	N/A	N/A	N/A
Roger Miller	4/4	4/4	4/4	N/A
Ulla Neunzert appointed 15 <sup>th</sup> August 2019	2/2	2/2	2/2	N/A
<b>Executive</b>				
Amila Jayasinghe	4/4	4/4	4/4	N/A
Sugath Amarasinghe	4/4	4/4	4/4	N/A

## Audit Committee

The Board has appointed an Audit Committee consisting of three Independent Non-executive Directors and a Non-executive Director. The Committee is chaired by Ms. M. Coralie Pietersz. A comprehensive report of the Audit Committee appears on page 22.

The Audit Committee is responsible for monitoring and supervising the financial reporting process defined by the management ensuring:

1. Review of the quarterly and annual Financial Statements, including the quality, transparency, integrity, accuracy and compliance with Sri Lanka Accounting Standards

2. Compliance with Companies Act No. 7 of 2007, Listing Rules of the Colombo Stock Exchange, the Code of Best Practice of Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and other relevant laws and regulations.
3. The independence of both External Auditors, Internal Auditors and recommendation of re-appointment of External Auditors.
4. Review of the adequacy and effectiveness of the Internal Control and Risk Management systems over the financial reporting process.
5. Review of the adequacy and effectiveness of the internal audit arrangements.

The Audit Committee has formalised its authority, responsibilities, and duties through the Audit Committee Terms of Reference, which is reviewed by the Board annually.

## Remuneration Committee

The Remuneration Committee comprises three Non-executive Directors of whom two are Independent Directors. The Committee is headed by Mr. Vijaya Malalasekera and the members include Mr. Thomas A. Junker and Mr. Mohammed Adamaly.

The Committee is responsible for determining and agreeing with the Board a framework for remuneration of Chief Executive Officer, Finance Director and Management Team. They consider industry benchmark principles for any performance-related scheme to determine total remuneration package. Employee performance is measured through key performance indicators including financial and non-financial measures of performance, and links a significant component of pay to individuals and the Company's performance.

Determining the Non-executive Directors' compensation is not under the scope of this Committee.

The remuneration policy and its role is discussed in the report of the Remuneration Committee given on page 24.

# CORPORATE GOVERNANCE REPORT

## **Related Party Transaction Review Committee**

The Committee comprises four Non-executive Directors and three of them are Independent Directors. The Committee is headed by Mr. Vijaya Malalasekera; the Report of the Related Party Transaction Review Committee is given on page 26. The Chief Executive Officer and Finance Director attend the meetings by invitation and the Company Secretary serves as the Secretary to the Committee.

The objective of the Committee is to exercise oversight on behalf of the Board, to ensure compliance with the Code on Related Party Transactions, as issued by the Securities Exchange Commission (SEC) of Sri Lanka (“The Code”) and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the Institute of Chartered Accountants of Sri Lanka and CSE.

The Committee in discharging its functions has developed and recommended a policy for adoption by the Board on RPTs of the Company with its parent, associate companies. The Committee updates the Board on related party transactions on a quarterly basis following the reporting templates, specifying recurrent and non-recurrent transactions which require discussion in detail. Related Party Transactions which require pre-approval by the Board are reviewed periodically as specified in the guidelines of the SEC.

The Committee in discharging its functions has introduced a process whereby periodic reporting by the Company ensures that there is compliance with the Code, and that the shareholder interests are protected whilst fairness and transparency are maintained at all times.

## **Accountability and System of Internal Control**

The Board has taken necessary steps to ensure the integrity of accounting and financial reporting systems and that internal control systems remain robust and effective through the review and monitoring of such systems on a periodic basis. However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board has, through the Company’s Business Process Review function, taken steps to obtain reasonable assurance that systems designed to safeguard the Company assets, maintain proper accounting records and provide management information, are in place and are functioning as planned. Effectiveness of the internal control system is reviewed quarterly by the Audit Committee and major observations are reported to the Board through the reports of internal audit.

The Board, having reviewed the systems of internal control, is satisfied with the Company’s adherence to them and their effectiveness for the period up to the date of signing the Financial Statements.

## **Internal and External Audit**

The internal audit function is outsourced to Messrs B. R. De Silva & Company, Chartered Accountants. The Board reviews the comments arising from the internal audits and monitors their progress through action plans focused to take corrective measures. The Audit Committee evaluates appropriateness of the Internal Audit function through the Internal Audit Charter reviewed annually to ensure that the internal audit plan adequately covers the significant risks of the Company.

The External Auditor is a qualified independent external party whose objective is to determine whether the Financial Statement of the Company represents a true and fair view of its financial performance, position and cash flow status. The audit firm KPMG, Chartered Accountants, was re-appointed at the AGM in 2018 as external auditors of the Company for the financial year 2019. The Audit Committee reviews the annual audit plan with the recommended work approach.

The knowledge and experience of the Audit Committee ensures effective usage of the expertise of the auditors, while maintaining independence, in order to derive transparent Financial Statements. The Company maintains independence from financial and non-financial interest between auditors and re-assesses the same on a regular basis. The fees paid to audit and non-audit services are separately disclosed in the Notes to the Financial Statements.

# CORPORATE GOVERNANCE REPORT

## Risk Management

The Company has established an integrated risk management process to identify the types of risk specific to the industry in which we operate, and to measure those potential risks to develop strategies to mitigate them. Risk management is an essential element of our corporate governance structure and strategic development process. Therefore, appropriate systems, policies and procedures are in place in all areas of operations and are periodically reviewed to ensure adequacy and adherence.

Risk management, being an integrated discipline, plays a pivotal role in balancing strategic planning with business execution and compliance. This facilitates informed decision-making and a conscious evaluation of opportunities and risks. The Company's overall risk management process is overseen by the Board through the Audit Committee as an important part of corporate governance.

However, we also recognise that risk management is a shared responsibility of all employees of the Company, rather than being a separate and stand-alone process. Hence it is integrated into overall business and decision-making processes including strategy formulation, business planning, business development, investment decisions, capital allocation, internal control and day-to-day functions.

Having the right people to execute strategies is imperative for success in the new and diverse opportunities emerging in growth markets. The Board recognises the crucial role of human capital, since talent, culture and work attitude are arguably the biggest drivers of competitive advantage. The Board will play an important role in ensuring that the leadership stays focused on building the talent strategy.

The Company conducts regular reviews of the major risks such as regulatory changes, and political and environment changes that could affect the business and financial performance, and creates awareness of them. It also evaluates the potential threats that could be posed from possible competitors. The Company analyses the exposure to business risks by identifying its vulnerability to them and the probability of occurrence in order to determine how best to handle such exposure.

The Company also engages consistently in new exploration techniques and processing methods, focusing on overall efficiency improvement to be more attractive in terms of pricing, and product quality, and to make certain that possible new entrants do not compromise the Company's strategic advantage.

The Company manages its working capital at a healthy level of liquidity, monitors its net operating cash flow and maintains cash and cash equivalent at an appropriate level to support operational and capital expenditure requirements.

Investment risks are hedged through close monitoring and compliance to production and quality parameters agreed and projected when making such investments. Periodic review and implementation of customer feedback also ensures sustained product quality.

# CORPORATE GOVERNANCE REPORT

## Statement of compliance under Section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) on Annual Report Disclosure (Mandatory provisions – Fully Compliant)

CSE Rule Reference	Companies Act Requirement	Compliance Status	Reference to Annual Report 2019
7.6 (i)	Names of persons who were Directors of the Entity	Complied	Annual Report of the Board of Directors, pages 28-33
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year, and any changes therein	Complied	
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Complied	Investor Information, pages 85-86
7.6 (iv)	The public holding percentage	Complied	
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year	Complied	Annual Report of the Board of Directors, pages 28-33
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Complied	
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Complied	
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Complied	Notes to the Financial Statements, page 66
7.6 (ix)	Number of shares representing the Entity's stated capital	Complied	Investor Information, pages 85-86
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Complied	
7.6 (xi)	Financial ratios and market price information	Complied	
7.6 (xii)	Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Complied	Company has no subsidiaries. Notes to the Financial Statements, page 65
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	Complied	The Company had no public issue, right issue or private placement during the year under review.
7.6 (xiv)	Information in respect of Employee Share Ownership or Yes Stock Option Schemes	Complied	As at date, the Company has no share option / purchase scheme made available to its Directors or employees.

# CORPORATE GOVERNANCE REPORT

CSE Rule Reference	Companies Act Requirement	Compliance Status	Reference to Annual Report 2019
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. of Section 7 of the Listing Rules	Complied	Refer to pages 22, 24 and 26 of this Annual Report
7.6 (xvi)	Related Party transactions exceeding 10 per cent of the equity or 5 percent of the total assets of the Entity per audited Financial Statements, whichever is lower	Complied	Related Party Disclosure, page 75

## Statement of compliance under Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance (Mandatory provisions - Fully Compliant)

Company has complied with the mandatory disclosure requirement on Corporate Governance for Listed Companies in Sri Lanka issued by the Colombo Stock Exchange (CSE) as set out below.

CSE Rule Reference	Corporate Governance Principles	Compliance Status	Bogala extent of adoption
7.10 (a,b,c)	Compliance	Complied	Compliance with Corporate Governance Rules
7.10.1 (a, b, c)	Non-executive Directors (NEDs)	Complied	Seven out of nine Directors are Non-executive Directors
7.10.2 (a)	Independent Directors - 2 or 1/3 of NEDs, whichever is higher, should be independent	Complied	Three out of seven Non-executive Directors are independent
7.10.2 (b)	Independent Directors - each NED should submit a signed and dated declaration of independence or non-independence	Complied	All NEDs have submitted their confirmation on independence in line with regulatory requirement
7.10.3 (a, b)	Disclosure Relating to Directors - The Board shall annually determine the independence or otherwise of the NEDs	Complied	Names of the Independent Directors are disclosed on page 30 and Criteria for independence have been met
7.10.3 (c)	Disclosure relating to Directors - a brief resume of each Director should be included in the Annual Report (AR) including the Director's areas of expertise	Complied	Brief resumes of the Directors are given under Directors' Profiles on page 9
7.10.3 (d)	Disclosure relating to Directors - provide a brief resume of new Directors appointed to the Board along with details	Complied	Disclosed the appointments of new Directors to the CSE with brief resume
7.10.4 (a to h)	Criteria for Defining Independence - requirements for meeting criteria to be an independent Director	Complied	Company has established the Criteria through its independence statement

# CORPORATE GOVERNANCE REPORT

CSE Rule Reference	Corporate Governance Principles	Compliance Status	Bogala extent of adoption
7.10.5	Remuneration Committee (RC)	Complied	Company has a Remuneration Committee
7.10.5 (a)	Composition of Remuneration Committee - shall comprise NEDs, a majority of whom shall be independent; one NED shall be appointed as Chairman of the Committee	Complied	The Committee comprises two Independent Non-executive Directors and a Non-executive Director
7.10.5 (b)	Functions of Remuneration Committee - the RC shall recommend the remuneration of the CEO and Executive Director and Senior Management Staff	Complied	The Committee has recommended the remuneration of Chief Executive Officer, Finance Director, and Management Committee
7.10.5 (c)	Disclosure in Annual Report relating to Remuneration Committee - names of the Directors comprising the RC, statement of policy, aggregated remuneration paid to ED and NED	Complied	Refer to page 24 for names of the committee members, and for the remuneration policy. The aggregate remuneration paid to Executive and Non-executive Directors is given under note 25.2 to the Financial Statements on page 75
7.10.6	Audit Committee (AC)	Complied	Company has an Audit Committee
7.10.6 (a)	Composition of Audit Committee - shall comprise NEDs, a majority of whom shall be independent, a NED to be the Chairman of the Committee, CEO and FD to attend AC meetings, Chairman of the AC or one member should be a member of a professional accounting body	Complied	The Audit Committee comprises three Independent Non-executive Directors, and a Non-executive Director. CEO and Finance Director attended committee meetings by invitation
7.10.6 (b)	Audit Committee Functions - Preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS); compliance with financial reporting requirements, ensuring that internal controls and risk management are adequate to meet the requirements of the SLFRS/LKAS; assessment of the independence and performance of the external auditors; make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors; and approve the remuneration and terms of engagement of the external auditors	Complied	Please refer to page 22 for the functions of the Audit Committee
7.10.6 (c)	Disclosure in Annual Report relating to AC - names of Directors comprising the AC; the AC shall make a determination of the independence of the Auditors and disclose the basis for such determination. Annual Report shall contain a Report of the AC setting out the manner of compliance with their functions	Complied	The names of the Audit Committee members and the basis of determination of the independence of the auditor are given in the Audit Committee report on page 22

# CORPORATE GOVERNANCE REPORT

## Statement of Compliance under Section 9.3.2 of the Listing Rules of the CSE on Related Party Transactions (Mandatory provisions – Fully Compliant)

CSE Rule Reference	Companies Act Requirement	Compliance Status	Reference to Annual Report 2019
9.3.2 (a)	Details pertaining to Non-recurrent Related Party Transactions	Complied	Notes to the Financial Statements, page 76
9.3.2 (b)	Details pertaining to Recurrent Related Party Transactions	Complied	
9.3.2 (c)	Report of the Related Party Transactions Review Committee	Complied	Refer to Report of the Related Party Transaction Review Committee, pages 26-27
9.3.2 (d)	Declaration by the Board of Directors as an affirmative statement of compliance with the rules pertaining to Related Party Transactions, or a negative statement otherwise	Complied	

## Statement of compliance under Section 168 of Companies Act No. 07 of 2007

CSE Rule Reference	Companies Act Requirement	Compliance Status	Reference to Annual Report 2019
168 (1) (a)	The nature of the business of the Company together with any change thereof during the accounting period	Complied	Annual Report of the Board of Directors, page 28
168 (1) (b)	Signed Financial Statements of the Company for the accounting period completed - section 151	Complied	Financial Statements, page 42
168 (1) (c)	Auditors' Report on Financial Statements of the Company	Complied	Independent Auditors' Report, page 36
168 (1) (d)	Accounting policies and any changes therein	Complied	Notes to the Financial Statements, page 45
168 (1) (e)	Particulars of the entries made in the Interests Register during the accounting period	Complied	Annual Report of the Board of Directors, page 28
168 (1) (f)	Remuneration and other benefits paid to Directors of the Company during the accounting period	Complied	Notes to the Financial Statements, page 75
168 (1) (g)	Corporate donations made by the Company during the accounting period	Complied	Notes to the Financial Statements, page 62
168 (1) (h)	Information on the Directorate of the Company at the end of the accounting period	Complied	Annual Report of the Board of Directors, page 28
168 (1) (i)	Amounts paid/payable to the external auditor as audit fees and fees for other services rendered during the accounting period	Complied	Notes to the Financial Statements, page 62

# CORPORATE GOVERNANCE REPORT

CSE Rule Reference	Companies Act Requirement	Compliance Status	Reference to Annual Report 2019
168 (1) (j)	Auditors' relationship or any interest with the Company	Complied	Audit Committee Report, page 22
168 (1) (k)	Acknowledgment of the contents of this Report and signatures on behalf of the Board	Complied	Annual Report of the Board of Directors, pages 28-33

## Going Concern, Financial Reporting and Transparency

The Board of Directors, after reviewing the Company's business plans for the ensuing year, capital expenditure requirements, prospects and risks, cash flows and ability to raise funds, has a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future. Therefore, the going concern principle has been adopted in preparing the Financial Statements presented in this Annual Report.

The Financial Statements are prepared in accordance with the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) and all statutory and material declarations are highlighted in the Annual Report of the Board of Directors. The Directors have taken reasonable steps to ensure the accuracy and timeliness of information in the annual Financial Statements.

The Board discusses full information, both financial and non-financial, within the bounds of commercial realities. Being the only mining company listed on the Colombo Stock Exchange, it is committed to a responsible business discipline.

## Conflict of Interest and Independence

Each Director has a continuing responsibility to determine whether he or she has a potential or actual conflict of interest arising from external associations, interests in material matters and personal relationships which may influence their judgement. Whilst the Board members are free to express their own opinions on matters of importance to the Company and its operation, the Board reviews such potential conflicts from time to time. Related Party Disclosures note 25 of the Annual Report on page 75 provides information regarding the exception.

Each Non-executive Director has submitted a declaration of his or her independence or non-independence for the year under review.

## Independent Professional Advice by the Board during the Financial Year

The Board seeks independent professional advice when deemed necessary. During the year under review, professional advice was taken on the following matters:

- Legal, tax and accounting aspects, particularly where independent external advice was deemed necessary in ensuring the integrity of the subject decision.
- Actuarial valuation of retirement benefits and valuation of property.
- Information technology consultancy services pertaining to existing ERP system software support and human resource management software upgrade.
- Specific technical knowledge and domain knowledge required for productivity improvements.

## Investor Relations

The Company continues to maintain an active dialogue with shareholders, potential investors, banks, analysts and other interested parties in ensuring effective investor communication. The Board invites questions from shareholders during the Annual General Meeting.

## Release of Information to the Public and CSE

The Board of Directors, where applicable with the Audit Committee, is responsible for ensuring the accuracy and timeliness of published information and for presenting a true and fair view, and a balanced assessment of financial results in the interim and annual Financial Statements.

# CORPORATE GOVERNANCE REPORT

## **Employee Participation and Industrial Relations**

The Company had no industrial dispute during the year under review, which was a direct result of the effective and supportive management approach it had followed in dealing with the employees and their industry relations.

The Company considers its employees as its greatest asset and includes them at various levels within its internal governance structure. Policies, processes and systems are in place to ensure effective recruitment, development and retention as the Company is committed to hiring, developing and promoting individuals who possess the required competencies.

The Company is continuously working towards introducing innovative and effective ways of employee communication and employee awareness. The importance of communication top-down, bottom-up and laterally in gaining employee commitment to Company goals has been conveyed extensively through various communications issued by the Chairman, CEO/Managing Director and the management. Constant dialogue and facilitation are maintained pertaining to work-related issues and matters of general interest that could affect employees and their families. Further, the Company promotes an open-door policy for its employees and key stakeholders, at all levels.

The Company provides an environment conducive to the safety and security of its employees, that allows freedom of association and collective bargaining, prohibits child labour, forced or compulsory labour and any discrimination based on gender, race or religion, and promotes a workplace that is free from physical, verbal or sexual harassment, all of which complement effective Corporate Governance.

## **Annual General Meeting**

Information is provided to the shareholders prior to the AGM to give them an opportunity to raise any issues relating to the business of the Company. Shareholders are provided with the Annual Report of the Company in CD form. Shareholders may at any time elect to receive an Annual Report from the Company in printed form which is provided free of charge if requested.

# AUDIT COMMITTEE REPORT

The objective of the Audit Committee is to assist the Board to fulfill its oversight responsibilities including but not limited to the financial reporting, internal and external audit, internal controls and risk. The Audit Committee's authority, responsibilities, and duties are formalised through the Terms of Reference which are reviewed annually by the Committee and approved by the Board. The primary functions of the Audit Committee are to:

- review the effectiveness and adequacy of the internal control procedures,
- seek assurance on the integrity of the Company's financial reporting process and the reliability of the published Financial Statements,
- monitor the processes in place for ensuring compliance with statutory requirements,
- evaluate the adequacy of the process established by management for identifying, assessing and managing risk.

## Composition of the Committee and Meetings

The Audit Committee is composed of three Independent Non-executive Directors and a Non-independent Non-executive Director. The Committee is chaired by Ms. Coralie Pietersz, an independent Non-executive Director. The Chief Executive Officer and Finance Director of the Company and other members of the Board and Management of the Company were invited to the meetings as and when the Committee required their presence.

Audit Committee Members	Independent / Non-executive / Executive
Coralie Pietersz (Chairperson)	Independent Non-executive
Vijaya Malalasekera	Independent Non-executive
Thomas A. Junker	Non-executive
Mohamed Adamaly	Independent Non-executive

## Attendance at Audit Committee Meetings (out of four)

Director	Attended	Directors Attended by Invitation	Attended
Coralie Pietersz	4/4	Ulla Neunzert	2/2
Vijaya Malalasekera	4/4	Roger Miller	4/4
Thomas A. Junker	2/4	Amila Jayasinghe (CEO)	4/4
Mohamed Adamaly	4/4	Sugath Amarasinghe (CFO)	4/4

The Audit Committee met four times during the year. This included one meeting with the Internal and External auditors without the presence of the Management.

## Financial Reporting System

The Audit Committee exercised oversight over the financial reporting system adopted by the Company. The Committee in its evaluation of the financial reporting system also recognised the adequacy of the content and quality of the management information. The review included ascertaining the consistency and relevance of the Accounting Policies adopted and compliance with the Sri Lanka Financial Reporting Standards.

The Committee reviewed and recommended the Interim Financial Statements and Annual Financial Statements to the Board for approval. The Committee reviewed the issues and recommendations arising from the audit of the Annual Financial Statements together with the management responses thereto, and monitored the progress made by the Management in resolving the issues raised by the auditors.

The Audit Committee reviewed the process adopted by the management to apply SLFRS 16-Leases, for the first time, the initial impact assessment on SLFRS 16-Leases, the accounting treatment and the recommended appropriate disclosure in year-end Financial Statements.

# AUDIT COMMITTEE REPORT

## Internal Audit

The Internal Audit Function conforms to the terms and guidelines of the Internal Audit Charter, which sets out the scope, functions, authority, and responsibility of the internal audit function. The internal audit function is outsourced to an independent and leading professional firm, Messrs B. R. De Silva & Company, Chartered Accountants.

During the year, the Audit Committee reviewed and approved the Annual Internal Audit Plan, considering its depth and appropriate coverage of risks. The Committee also reviewed the internal audit reports issued quarterly by the Internal Auditors, along with the management responses thereto. The Committee ensured that with the quarterly review mechanism in place, Management takes ownership for effective implementation of the recommendations in internal audit reports.

The Audit Committee evaluated the independence, effectiveness and competency of the internal audit function, their resource requirements, and made recommendations for any required changes.

## External Audit

The Audit Committee held meetings with external auditors during the year to discuss the scope of the audit, audit approach and procedures to be adopted during the audit.

The external auditors kept the Committee advised on an ongoing basis regarding matters of significance. Before the conclusion of the Audit, the Committee met with the external auditors and management to discuss audit issues highlighted in the management letter and management response thereto. The Committee also met the external auditors, without the presence of the management, prior to the finalisation of the Financial Statements to ascertain whether they had any areas of concern. The Committee also held discussions to review and assess the impact of current developments and changes to the Accounting Standards and other relevant legislation.

The Committee, having evaluated the performance of the external auditors, was satisfied that the independence of the external auditors has not been impaired by any event or service that gives rise to a conflict of interest.

## Re-Appointment of External Auditors

The Committee, having evaluated the performance of the External Auditors, has recommended to the Board that Messrs KPMG be re-appointed as the external auditors for the year ending 31<sup>st</sup> December 2020, subject to approval by the shareholders at the forthcoming Annual General Meeting.

## Risk Management and Internal Control

The Audit Committee reviews the risk management and internal control procedures through the audit process at quarterly Audit Committee meetings. The Committee ensured that the principal risks are monitored and controlled appropriately and mitigating action taken by the management when required.

## Compliance

The Committee obtained representations on the adequacy of provisions made for possible liabilities and reviewed reports tabled by the Finance Director certifying compliance with relevant statutory requirements. The Committee obtains quarterly updates from the Finance Director regarding compliance with laws and regulations.



**Coralie Pietersz**

Chairperson-Audit Committee

11<sup>th</sup> February 2020

# REMUNERATION COMMITTEE REPORT

The Remuneration Committee, appointed by and responsible to the Board of Directors, comprises three Non-executive Directors of whom two are independent.

The Committee is chaired by Independent Non-executive Director Mr. Vijaya Malalasekera.

REMCO Members	Independent / Non-executive / Executive
Vijaya Malalasekera (Chairman)	Independent Non-executive
Thomas A. Junker	Non-executive
Mohamed Adamaly	Independent Non-executive

The committee was assisted at meetings by the Chief Executive Officer/MD, Amila Jayasinghe, and Finance Director, Sugath Amarasinghe, who acts as the Secretary.

## Committee Meetings

The Committee formally met on 6<sup>th</sup> April 2019 with the attendance of two of its Independent Non-executive Directors, which is the quorum for a meeting. The CEO and CFO attended the meeting by invitation.

## Attendance at Committee Meetings

Director	Attendance
Vijaya Malalasekera	1/1
Thomas A. Junker	Excused
Mohamed Adamaly	1/1

In addition, the Committee meets only on an as-needed basis. The Chairman of the Committee can convene a special meeting if required, provided all members are given sufficient notice of such meeting. The CEO is invited to participate in the Committee meetings when required by the Chairman, considering the topics for deliberation at such meetings.

## Remuneration Policy

The Committee believes that the Company's remuneration policy differentiates us from the competitors to retain top performers. Therefore the remuneration policy of the Company is to attract, motivate, and retain a qualified and experienced workforce to achieve the objectives of the Company, and rewards performance accordingly. The Committee focuses on, and is responsible for, ensuring that the total package is competitive in order to attract the best talent for the Company.

The Committee is not responsible for determining the remuneration of Independent Non-executive Directors, which is determined by the Board.

## Framework and Scope

The Committee is responsible for developing the Company's remuneration policy and determining the remuneration packages of executive employees of the Company. The Committee recommends to the Board the remuneration to be paid to Key Management Personnel. In designing competitive compensation packages, the Committee, in consultation with the Chief Executive Officer, consciously balances short-term performance with medium- to long-term goals of the Company.

The Committee reviews all significant changes in the corporate sector in determining salary structures, and terms and conditions. In this decision-making process, necessary information and recommendations are obtained from the Chief Executive Officer. The Company ensures internal equity, and fairness among employees is maintained at all times; a suitable work environment and working conditions are also provided.

The Committee is responsible for determining, reviewing and evaluating the performance of the Chief Executive Officer, Finance Director and the Senior Management Team of the Company. The Committee lays down guidelines and parameters for management development and succession planning. The Chief Executive Officer,

# REMUNERATION COMMITTEE REPORT

who is responsible for the overall management of the Company, attends all meetings by invitation and participates in all deliberations except when his own performance and compensation package are discussed.

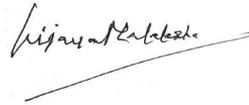
## Succession Planning

Succession planning is an ongoing process in responding to change so that Company operation can go on with the minimum disruption possible. The Committee reviewed the succession planning process in place to ensure that our best talent is in place for future leadership and critical roles, and to mitigate the risk of future talent shortages.

## Fees

Independent Directors receive a fee for attendance at Board Meetings and for serving on Sub-Committees. They do not receive any performance or incentive payments. Total remuneration to Directors is shown in note 25.2 to the Financial Statements on page 75.

In conclusion, I wish to thank my colleagues on the Committee for their helpful contributions to the deliberations of the Committee.



## Vijaya Malalasekera

Chairman-Remuneration Committee  
11<sup>th</sup> February 2020

# REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

## Code of Best Practice on Related Party Transactions

The Board of Directors of the Company formed a Related Party Transaction Review Committee (RPTRC) on 11<sup>th</sup> November 2014 in accordance with the Code of Best Practices on Related Party Transactions issued by the Securities Exchange Commission of Sri Lanka (SEC) and Section 9 of the Listing Rules of the Colombo Stock Exchange.

## Composition of the Committee

The Related Party Transaction Review Committee consisted of the following Directors as of 31<sup>st</sup> December 2019.

RPTRC Members	Independent / Non-executive / Executive
Vijaya Malalasekera (Chairman)	Independent Non-executive
Coralie Pietersz	Independent Non-executive
Thomas A. Junker	Non-executive
Mohamed Adamaly	Independent Non-executive

## Purpose of the Committee

The purpose of the RPTRC of the Company is to exercise oversight on behalf of the Board to ensure compliance with the Code on Related Party Transaction, as issued by the Securities and Exchange Commission of Sri Lanka and Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE). The primary objective of the said rules is to ensure that the interests of the shareholders are considered when entering into related party transactions, and to prevent Directors, Key Management Personnel or substantial shareholders from taking advantage of their positions. To achieve this purpose the Committee has adopted the Related Party Transaction Code, which contains the Company's Policy governing the review, approval and oversight of related party transactions.

## Procedure for Reporting Related Party Transactions

The Chief Executive Officer and the Chief Financial Officer are responsible for reporting to the Committee, for its review and approval, the information set out under the Code, in respect of each category of related party transaction, classifying them under recurrent and non-recurrent transactions. Moreover, on a quarterly basis, the CEO and CFO are required to report to the Committee on the related party transactions entered into by the Company.

The Company has approved the Related Party Transaction Declaration Form required to be filled out by the Directors and Key Management Personnel of the Company. The Company uses this form to capture the related party transactions at the end of every quarter.

## Attendance at RPTRC Meetings (out of four)

Director	Attendance
Vijaya Malalasekera	4/4
Coralie Pietersz	4/4
Thomas A. Junker	2/4
Mohamed Adamaly	4/4

## The Duties of the Related Party Transactions Committee

The Committee's main focus is to review all proposed related party transactions prior to the entering into or completion of the transaction according to the procedures laid down by Section 9 of the Listing Rules of the Colombo Stock Exchange, and the duties are as follows:

- To review the related party transactions of the Company presented to the Committee in a specified format and decide upon same.
- To seek any information the Committee requires from Management, employees, or external parties regarding any transactions entered into with a related party.

# REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

- To obtain expertise to assess all aspects of related party transactions where necessary, including obtaining appropriate professional and expert advice.
- To obtain, where necessary, approval of the Board prior to the execution of any related party transaction.
- To monitor that all related party transactions of the Company are transacted on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders.
- To meet with the management, internal auditors / external auditors as necessary to carry out the assigned duties.
- To review the transfer of resources and services between related parties to ascertain the reasonableness regardless of whether a price / fee is charged.
- To review the economic and commercial substance of both recurrent / nonrecurrent related party transactions

## Activities during the Year

The Committee reviewed all related party transactions of the Company for the financial year ended 31<sup>st</sup> December 2019 on a quarterly basis. It observed that all related party transactions entered into during a quarter / year were recurrent in nature and were necessary for routine operations of the Company. The Committee is of the opinion that the terms of these transactions were not more favourable to the related parties than those generally available to the public.

The activities and views of the Committee have been communicated to the Board of Directors, quarterly, through tabling the minutes of the Committee at Board Meetings.

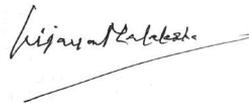
## Key Management Personnel

The Board of Directors of the Company is considered as the Key Management Personnel (KMPs) of the Company including identified managers who are responsible for the management of the Company to establish greater transparency and governance.

Declarations are obtained from each KMP of the Company for the purpose of identifying related party transactions on a quarterly and annual basis to determine RPTs and to comply with the disclosure requirements, if any.

## Declaration

A declaration by the Board of Directors on compliance with the rules pertaining to related party transactions appears on the report of the Board of Directors on page 28 of this Annual Report.



## Vijay Malalasekera

Chairman-Related Party Transaction  
Review Committee  
11<sup>th</sup> February 2020

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has pleasure in presenting the 29<sup>th</sup> Annual Report of your Company together with the Audited Financial Statements for the year ended 31<sup>st</sup> December 2019. The details set out herein provide the pertinent information required under Section 168 of the Companies Act, No. 7 of 2007, Listing Rules of the Colombo Stock Exchange and are guided by the recommended best Accounting Practices.

The Annual Report was approved by the Board of Directors on 11<sup>th</sup> February 2020.

## Principal Activity

The principal activity of the Company is Manufacturing Graphite. The main activities of the Company are broadly classified into Mining, Processing and Preparation, Production of Lubricants and the Sale of Graphite and Lubricants. There were no significant changes in the activities of the Company during the year under review.

## Review of Operations

A review of the Company's financial performance is described in the Chairman's Review on pages 5-6 and the CEO's Review on page 7. These reports, together with the audited Financial Statements, reflect the state of affairs of the Company.

## Financial Statements

The Financial Statements of the Company for the year ended 31<sup>st</sup> December 2019 have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), with the inclusion of the signatures of the Chairman, Managing Director and Finance Director are given from page 42 and form a part of the Annual Report.

## Corporate Donations

During the year, donations amounting to Rs.1.407million were made by the Company, details of which are given in note 8 to the Financial Statements on page 62 of the Annual Report.

## Results and Appropriations

The Company's net profit before tax was at Rs.116.4million (2018-net profit Rs.175.5million). Results of the Company are given in the statement of profit or loss and other comprehensive income on page 41. Brief descriptions of the results and appropriations are given below.

For the year ended 31 <sup>st</sup> December in Rs. '000s	2019	2018
The Net Profit/(Loss) after providing for all expenses, known liabilities, depreciation on property, plant and equipment and slow-moving stock	115,573	178,391
Finance Cost	(4,807)	(6,836)
Finance Income	5,653	3,981
<b>Profit before tax</b>	<b>116,418</b>	<b>175,536</b>
Provision for taxation including deferred tax	(19,004)	(23,314)
<b>Net profit after tax</b>	<b>97,414</b>	<b>152,222</b>
Actuarial gain/loss of defined benefit liability recognised through other comprehensive income net of tax	332	128
<b>Total Comprehensive Income attributable to shareholders excluding land revaluation gain</b>	<b>97,746</b>	<b>152,350</b>
Balance brought forward from the previous year	368,330	215,980
<b>Amount available for appropriation</b>	<b>466,076</b>	<b>368,330</b>
Final Dividend Paid	-	-
<b>Balance to be carried forward to next year</b>	<b>466,076</b>	<b>368,330</b>

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## Accounting Policies and Changes during the year

The Company prepared the Financial Statements in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS). The significant accounting policies adopted in the preparation of the Financial Statements of the Company are given on pages 47 to 61. The Board of Directors wishes to confirm that there were no significant changes to the accounting policies used by the Company during the year under review vis-à-vis those used in the previous financial year except the application of SLFRS-16 Leases.

During the year under review the Company revisited the capitalisation of Drilling expenses classified as Capital Work-in-Progress based on the project status. Nevertheless, the Company continues to recognise and disclose the exploration, evaluation and development expenditure, consistent with its ultimate Parent Company.

## Taxation

A detailed statement of the income tax reconciliation of the accounting profits with the taxable profits is given in note 10 of the Financial Statements.

It is the policy of the Company to provide for deferred taxation on all known material timing differences between the carrying amounts of assets and liabilities for financial reporting purposes.

The deferred tax balances of the Company are given in note 22 of the Financial Statements.

## Property, Plant and Equipment

The carrying value of property, plant and equipment as at the reporting date amounted to Rs.312.7million compared to Rs.304.5million for 2018.

The total expenditure incurred on acquisition of property, plant and equipment during the year for the Company amounted to Rs.34.5million (2018 - Rs.70.2million).

Land recognised as property, plant and equipment in the Financial Statements of the Company is recorded at revalued amounts. The land was revalued by a

professionally qualified independent valuer during the financial year 2018.

Details of property, plant and equipment and their movements are given in note 12 of the Financial Statements on page 65.

Information in respect of extent, location, and valuation of land and buildings held by the Company is detailed in note 12 of the Financial Statements.

## Stated Capital and Reserves

The stated capital of the Company as at 31<sup>st</sup> December 2019 was Rs.102.074million (2018 - Rs.102.074million) consisting of 94,632,904 Ordinary Shares as given in note 18 of the Financial Statements on page 70.

Total reserves of the Company as at 31<sup>st</sup> December 2019 amount to Rs.476.3million (2018 - Rs.378.5million) and the movement and composition are given in the Statement of Changes in Equity on page 43 of the Financial Statements.

## Shareholder Information

There were 9377 registered shareholders as at 31<sup>st</sup> December 2019. The distribution and composition of shareholders and the information relating to earnings, net assets per share, market value per share, and share trading is given in the Investor Information section on pages 85 and 86 of the Annual Report. As additional disclosures, float adjusted market capitalisation, public holding percentage and number of public shareholders are given in the Investor information section of the Annual Report.

## Major Shareholders

Details of the twenty largest shareholders of the Company and the percentage held by each of them are disclosed in the Investor information section of the Annual Report.

## The Board of Directors

The Board of Directors of the Company as at 31<sup>st</sup> December 2019 comprises:

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

Director	Independent / Non-executive / Executive
Vijaya Malalasekera	Independent Non-executive
Thomas A. Junker	Non-executive
J. C. P. Jayasinghe	Non-executive
Amila Jayasinghe	Executive
Coralie Pietersz	Independent Non-executive
Sugath Amarasinghe	Executive
Mohamed Adamaly	Independent Non-executive
Roger Miller	Non-executive
Ulla Neunzert appointed 15 <sup>th</sup> August 2019	Non-executive

## New Appointments and Re-appointment of Directors Who Are Over 70 Years of Age

Ms. Ulla Neunzert was appointed a Director with effect from 15<sup>th</sup> August 2019.

There were no resignations during the year.

In accordance with the provisions of the Companies Act No. 7 of 2007, section 210, the Company has received notice from Graphit Kropfmühl GmbH, the principal shareholder, giving notice to the Company of their intention to move a resolution to re-elect Mr. J. C. P. Jayasinghe, who reached the age of 76 years on 20<sup>th</sup> February 2020, for a further period of one year until conclusion of the next Annual General Meeting.

In accordance with the provisions of the Companies Act No. 7 of 2007, section 210, the Company has received a notice from Graphit Kropfmühl GmbH, the principal shareholder, giving notice to the Company of their intention to move a resolution to re-elect Mr. V. P. Malalasekera, who attained the age of 74 years on

11<sup>th</sup> August 2019, for a further period of one year until conclusion of the next Annual General Meeting.

The Board has determined that Mr. Vijaya Malalasekera, who has served the Board for more than 10 years, is an Independent Director since he is not directly involved in the Management of the Company.

The Board, having considered the said fact, believes Mr. Vijaya Malalasekera should continue to serve on the Board as an Independent Director notwithstanding the fact that he has served on the Board for more than ten years, as it is beneficial to the Company and its Shareholders.

## Board Sub-Committees

Information relating to members of the Audit Committee, Related Party Transaction Review Committee, and Remuneration Committee including reports of each of the committees and attendance of Directors at each of the Committee meetings, is disclosed in the Corporate Governance commentary section of the Annual Report.

## Directors' interest and Interests Register

The Company maintains an Interests Register, as required by the Companies Act No. 7 of 2007. Any interest in transaction disclosed to the Board by a Director in accordance with Section 192 of the Companies Act No. 7 of 2007 is duly recorded in the Interests Register. The Interests Register is available for inspection in keeping with the requirements of section 119 (1) (d) of the Companies Act No. 7 of 2007.

The Directors all have made a general disclosure relating to share dealings and indemnities and remuneration to the Board of Directors as permitted by Section 192 (2) of the Companies Act No. 7 of 2007 and no additional interests have been disclosed by any Director except as stated in note 25 of the Financial Statements on page 75.

The following entries have been made in the Interests Register maintained by the Company:

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

Mr. Thomas A. Junker is also the Managing Director/ CEO Graphite of Graphit Kropfmühl GmbH, which owns 79.58 percent of the shareholding of Bogala Graphite Lanka PLC, Managing Director of Qingdao Kropfmühl Graphite Ltd and a Board Director, and a Board member of GK Graphite Ancuabe Graphite Mine, S. A.

Mr. Roger P. Miller is also the Founder and Managing Partner of Alterna Capital Partners, the Investment Manager of Alterna GK LLC which owns 10.33 percent of the shareholding of Bogala Graphite Lanka PLC.

Related party disclosures in terms of section 192 of the Companies Act No. 7 of 2007 are given below and disclosed in note 25 of the Financial Statements on page 75.

Name of Related Party	Director	Relationship	Nature of Transaction	Value Rs.
Graphit Kropfmühl GmbH	Thomas A. Junker	Managing Director / CEO Graphite	Sale of Goods	138,523,122
			Purchase of Goods	84,754,721
	Ulla Neunzert	CFO	Technical Service Fees	40,725,270
			Interest Paid	4,262,637
Qingdao Kropfmühl Graphite Co. Ltd.	Thomas A. Junker	Managing Director / Board Director	Loan Settlement	35,087,694
			Sale of Goods	14,487,588
Graphite Tyn spol. S.r.o	Thomas A. Junker	Board Director	Sale of Goods	15,163,041
GK Ancuabe Graphite Mine	Thomas A. Junker	Board Director	Expenses reimbursable	1,282,524

## Related Party Transactions (RPTs)

The Company's recurrent and non-recurrent transactions with related parties disclosed in note 25 to the Financial Statements in the Annual Report have complied with

the Colombo Stock Exchange Listing Rule 9.3.2 and the Sri Lanka Accounting Standard No. 24 - Related Party Disclosures.

During the financial year RPTs have been reviewed by the Related Party Transaction Review Committee and are in compliance with Section 9 of the CSE Listing Rules. The Related Party Transaction Review Committee Report is given on page 26 of the Annual Report whilst the Related Party Transactions are given in note 25 to the Financial Statements on page 75.

## Corporate Governance

The Board of Directors confirms that the Company is compliant with Section 7.10 of the Listing Rules of the CSE. The Directors declare, having considered all information and explanations made available to them, that:

- the Company complied with all applicable Laws and Regulations in conducting its business,
- the Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested,
- the Company has made every endeavour to ensure equitable treatment of all shareholders,
- the business is a going concern with supporting assumptions or qualifications as necessary, and
- they have conducted a review of internal controls covering financial, operational, and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence herewith.

The table from pages 17 to 18 shows the manner in which the Company has complied with Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE) on Corporate Governance. The Corporate Governance Report is given on pages 10 to 21 of the Annual Report.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## Directors' Remuneration

The Directors' emoluments and fees for the financial year ended 31<sup>st</sup> December 2019 are stated below and are also given in note 25 to the Financial Statements on page 75 of the Financial Statements.

## Directors' Emoluments

Executive Directors	Rs.	38,062,782
Non-executive Directors	Rs.	3,152,477

## Directors' Responsibilities for Financial Statements

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the status of its affairs. The Directors are of the view that the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 47 to 61 have been prepared in conformity with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) and provide the information required by the Companies Act No. 7 of 2007, and the Listing Requirements of the Colombo Stock Exchange.

The Statement of Directors' Responsibilities is given on page 34 of the Annual Report.

## Directors' Shareholding

The relevant interests of Directors in the shares of the Company as at 31<sup>st</sup> December 2019 and 31<sup>st</sup> December 2018 are as follows:

Director	31 <sup>st</sup> December 2019	31 <sup>st</sup> December 2018
Vijaya Malalasekera	Nil	Nil
Thomas A. Junker	Nil	Nil
J. C. P. Jayasinghe	Nil	Nil
Amila Jayasinghe	Nil	Nil
Coralie Pietersz	Nil	Nil
Sugath Amarasinghe	Nil	Nil
Mohamed Adamaly	Nil	Nil
Roger Miller	Nil	Nil
Ulla Neunzert - appointed 15 <sup>th</sup> August 2019	Nil	Nil

## Statutory Payments

The Directors confirm that to the best of their knowledge all statutory financial obligations to the Government and to the employees of the Company as at the reporting date have been either duly paid or adequately provided for in the Financial Statements. A confirmation of same is included in the Statement of Directors' Responsibilities on pages 34-35.

## Compliance with Laws and Regulations

To the best of the Directors' knowledge and belief, the Company has not engaged in any activity which contravenes the laws and regulations of the country.

## Employees and Industrial Relations

The number of persons employed by the Company as at 31<sup>st</sup> December 2019 was 174 (2018 – 183). The Company is committed to pursuing various HR initiatives that provide a culture that recognises the competencies and commitment of its employees. Career growth and advancement opportunities facilitate the creation of value for themselves, the Company and other stakeholders.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## Risk Management and Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the Company. Risk Assessment and evaluation is an integral part of the Company's planning cycle and the principal risks and mitigating actions in place are reviewed regularly by the Board and the Audit Committee.

The Board, through the involvement of the risk review and control, takes steps to gain assurance of the effectiveness of the Company's system of internal controls that are in place. The control system is designed to give assurance regarding the safeguarding of assets, the maintenance of proper accounting and the reliability of financial information generated.

The Audit Committee receives regular reports on the adequacy and effectiveness of the internal controls of the Company, the compliance with laws and regulations, and the established policies and procedures. The Audit Committee reviews the reports of the outsourced internal audit function regularly to ensure effective implementation of the systems and procedures.

However, any system can only provide reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable period.

## Events after the Reporting Period

There have been no events subsequent to the reporting period which would have material effect on the Company, requiring an adjustment to or a disclosure in the Financial Statements other than those disclosed above and in note 30 of the Financial Statements on page 83.

## Going Concern

The Board of Directors, after considering the financial position, operating conditions, regulatory and other factors including matters addressed in the Corporate Governance Report on page 10, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

## Appointment and Remuneration of Independent Auditors

The Audit Committee reviews the appointment of the Auditors, their effectiveness, their independence and their relationship with the Company including the level of audit and non-audit fees paid to the Auditors.

Based on the declaration made by Messrs KPMG, Chartered Accountants, and as far as the Directors are aware, the auditors do not have any relationship or interest in the Company. Details of the Auditors' remuneration are set out in note 8 to the Financial Statements on page 62.

The Independent Auditors' Report is in the Financial Statements section of the Annual Report.

## Annual Report

The Board of Directors approved the Company Financial Statements on the 11<sup>th</sup> of February 2020. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and Sri Lanka Accounting and Auditing Standards Monitoring Board.

## Annual General Meeting

The Annual General Meeting will be held at the Ceylon Chamber of Commerce, No. 50, Nawam Mawatha, Colombo 02 on Saturday the 4<sup>th</sup> April 2020 at 10.30 am. The Notice of the Annual General Meeting is on page 87 of the Annual Report.

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

By order of the Board



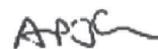
**Corporate Services (Private) Limited**

Secretaries



**Vijaya Malalasekera**  
Chairman

11<sup>th</sup> February 2020



**Amila Jayasinghe**  
CEO/Managing Director

# STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors in relation to the Financial Statements is set out in the following statement. The Companies Act No. 7 of 2007 requires the Directors of the Company to be responsible for the preparation and presentation of the Financial Statements and other statutory reports. The responsibility of the auditors, in relation to the Financial Statements prepared in accordance with the provisions of the Companies Act No. 7 of 2007, is set out in the Report of the Auditors.

The Directors are also responsible under Section 148, to ensure that the Company maintains proper accounting records to disclose, and enable the determination of, the financial position with reasonable accuracy, and to enable preparation of Financial Statements in accordance with the Companies Act No. 07 of 2007, the Sri Lankan Accounting and Auditing Standards Act No. 15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

## **The Financial Statements comprise:**

- 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
- Statement of Comprehensive Income, which presents a true and fair view of the profits and loss of the Company for the financial year
- Statement of Changes in Equity, Statement of Cash Flow and summary of Significant Accounting Policies and other explanatory notes.

## **The Directors Wish to Confirm That:**

- The Financial Statements have been prepared using appropriate accounting policies which have been selected and applied on a consistent basis and material departures, if any, are disclosed and explained, and
- Financial Statements for the year 2019 were prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and that reasonable and prudent judgement and estimates have been made so that the form and substance of transactions are properly reflected, and

- Financial Statements provide the information required in compliance with the Companies Act and the Listing Rules of the Colombo Stock Exchange, and
- The Financial Statements have been prepared using a financial reporting system that is directly reviewed by them at their quarterly meetings and also through the Audit Committee. The Board of Directors approves the interim Financial Statements following a review and recommendation by the Audit Committee, and
- They accept the responsibility for the integrity and objectivity of the Financial Statements presented in the 2019 Annual Report.

The Directors are of the opinion, based on their knowledge of the Company and review of its current business plans, that adequate resources are available to support the Company to continue its operation and to justify applying the going concern principle in preparing Financial Statements.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors have established appropriate internal control systems with a view to providing reasonable, though not absolute, assurance that assets are safeguarded to carry on the business in an orderly manner.

The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to carry out any reviews and tests that they consider appropriate and necessary to give their audit opinion.

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 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

# STATEMENT OF DIRECTORS' RESPONSIBILITY

Company to regulatory and statutory authorities as at the balance sheet date have been duly paid, or been adequately provided for in the Financial Statements.

By Order of the Board

A handwritten signature in black ink, appearing to be 'R. Paul', written over a horizontal line.

**Corporate Services (Private) Limited**

Secretaries

11<sup>th</sup> February 2020

# INDEPENDENT AUDITORS' REPORT



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

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOGALA GRAPHITE LANKA PLC

Report on the Audit of the Financial Statements

### Opinion

We have audited the Financial Statements of Bogala Graphite Lanka PLC ("the Company"), which comprise the statement of financial position as at 31<sup>st</sup> December 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies as set out on pages 41 to 83 of this Annual Report.

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<sup>st</sup> December 2019, and of their 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 Matters

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

**Revenue Recognition** - Refer to note 3.3 (page 49) accounting policy and note 6 (Financial Statement disclosures) of these Financial Statements.

The revenue of the Company for the year ended 31<sup>st</sup> December 2019 was Rs.816million.

Risk Description	How the matter was addressed in our audit
The timing of revenue recognition depends on the terms of individual sales transactions and revenue is generally recognised for graphite and lubricant sales based on the shipping terms. Accordingly, there is a risk that revenue is	In this area, our audit procedures included, amongst others <ul style="list-style-type: none"> <li>Understanding and assessing the design, implementation and operating effectiveness of the key controls in respect of the Company's revenue recognition process</li> </ul>

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan FCA  
A.M.R.P. Alahakoon ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel ACA

C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA

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

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.



# INDEPENDENT AUDITORS' REPORT

Risk Description	How the matter was addressed in our audit
recognised for sales of individual products before the control of the goods sold has been transferred to the customers and recognised during incorrect reporting period.	<ul style="list-style-type: none"> <li>• Inspecting invoices raised to customers on a sample basis, to ensure revenue is measured and recognised in accordance with the contractual terms of the contracts and the Company's accounting policies.</li> <li>• Assessing the appropriateness of the recognition of revenue on a gross or net basis.</li> <li>• On a sample basis testing revenue cut-off around the year-end date.</li> <li>• Testing of manual journal entries and reasonability of credit notes approved.</li> <li>• Assessing the adequacy of Financial Statements disclosures.</li> </ul>

**Carrying value of Inventories** - Refer to note 3.7 (page 56) - accounting policy and note 15 (page 69) (Financial Statement disclosures) of the Financial Statements. The Company carried inventories of Rs.156million as at 31<sup>st</sup> December 2019 at the lower of cost or net realisable value.

Risk Description	How the matter was addressed in our audit
Assessing net realisable value is an area which involves significant judgement, particularly with regard to the estimation of provisions for slow-moving and obsolete inventory. Therefore, there is a risk that slow-moving inventories have not been adequately provided for.	<p>In this area, our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Testing the design, implementation and operating effectiveness of the key controls management has established to manage inventories, including purchases, sales and holding of inventories.</li> <li>• Assessing the valuation of reporting date, and inventory levels, including assessing the reasonability of judgement/estimate made regarding obsolescence.</li> <li>• Evaluating the adequacy and consistency of provisioning for inventories at the reporting date and comparing with the Company's inventory provision policy.</li> <li>• On a sample basis, comparing the carrying amounts of the Company's inventories with net realisation value of those inventories subsequent to the end of reporting period.</li> <li>• Testing the existence of inventories through physical verification as at year end for a sample selected based on the professional judgement.</li> <li>• Assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing brackets by comparing individual items in the report with underlying documentation, including purchase invoices and goods received notes.</li> </ul>

**Accounting for capitalisation of exploration, evaluation and development cost** - Refer to note 3.4 (pages 49-51) accounting policy, note 12 and 13 (Financial Statement disclosures) of the Financial Statements. As at reporting date, exploration, evaluation and development cost, capitalised under Property, Plant and Equipment and Intangible Assets, amounted to Rs.33.6million and Rs.32.6million.

# INDEPENDENT AUDITORS' REPORT

Risk Description	How the matter was addressed in our audit
<p>Capitalisation of costs incurred on exploration and evaluation of potential mineral resources under Intangible Assets, transfer of such costs to Construction-in-Progress under Property, Plant and Equipment when commercially recoverable reserves are determined and finally transfer to Mining Assets under Property, Plant and Equipment on completion of development and commencement of production involve judgement and estimates.</p>	<p>In this area, our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Understanding the cost allocation methodology applied by the Company (Mining cost capitalised and those expensed) and assessing whether the classification of such costs is in compliance with the requirements of Sri Lanka Accounting Standards.</li> <li>• Testing a sample of cost capitalised for completeness, existence and accuracy, with specific focus on major projects during the year.</li> <li>• Confirming whether the right to explore in the area of interest remained current as at reporting date with the renewal option to cover the proposed period of the projects.</li> <li>• Reviewing approved future budgeted expenditure and related work programmes,</li> <li>• Obtaining a status report from the internal geologist specialist to understand the status of the ongoing exploration projects and assess whether the projects are based on reasonable assessment of the existence of economically recoverable reserves.</li> <li>• Assessing the competency, qualification, objectivity and independence of the internal geologist.</li> <li>• Assessing whether any facts or circumstances indicate the need for impairment testing.</li> </ul> <p>We assessed the appropriateness of the accounting treatment and disclosure in terms of SLFRS 6.</p>

## 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 Statement and our auditors' 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

# INDEPENDENT AUDITORS' REPORT

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.

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

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional scepticism 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 auditors' 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 auditors' 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

# INDEPENDENT AUDITORS' REPORT

matters. We describe these matters in our auditors' 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 auditors' report is FCA 2294.



**KPMG**

Colombo, Sri Lanka

11<sup>th</sup> February 2020

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31<sup>st</sup> December

	Note	2019 Rs.	2018 Rs.
Revenue	6	815,576,397	877,761,395
Cost of sales		(492,604,527)	(488,289,584)
<b>Gross profit</b>		<b>322,971,870</b>	<b>389,471,811</b>
Other income	7	4,065,783	10,098,004
Net exchange gain		270,283	2,726,295
Administrative expenses		(103,885,718)	(110,791,123)
Selling and distribution expenses		(107,849,596)	(113,113,886)
<b>Profit from operations</b>	8	<b>115,572,622</b>	<b>178,391,101</b>
Finance income		5,652,643	3,981,033
Finance expense		(4,806,887)	(6,835,799)
<b>Net finance income/(expense)</b>	9	<b>845,756</b>	<b>(2,854,766)</b>
<b>Profit before tax</b>		<b>116,418,378</b>	<b>175,536,335</b>
Income tax expenses	10	(19,004,403)	(23,314,276)
<b>Profit for the year</b>		<b>97,413,975</b>	<b>152,222,059</b>
<b>Other comprehensive income for the year</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Re-measurement of defined benefit liability		386,404	149,160
- Related tax		(54,097)	(20,882)
Revaluation of freehold land		-	6,178,000
- Related tax		-	(1,665,482)
<b>Other comprehensive income, net of tax</b>		<b>332,307</b>	<b>4,640,796</b>
<b>Total comprehensive income</b>		<b>97,746,283</b>	<b>156,862,855</b>
<b>Basic earnings per share (Rs.)</b>	11	<b>1.03</b>	<b>1.61</b>

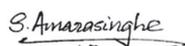
The Notes to the Financial Statements from pages 45 to 83 form an integral part of these Financial Statements.  
Figures in brackets indicate deductions.

# STATEMENT OF FINANCIAL POSITION

As at 31<sup>st</sup> December

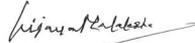
	Note	2019 Rs.	2018 Rs.
<b>Assets</b>			
Property, plant and equipment	12	312,772,277	304,569,556
Intangible assets	13	32,814,638	9,151,882
Other financial assets	14	22,622,068	24,586,401
<b>Non-current assets</b>		<b>368,208,983</b>	<b>338,307,839</b>
Inventories	15	156,267,378	115,531,681
Trade and other receivables	16	130,828,588	184,018,115
Advances and prepayments		7,204,599	9,433,136
Other financial assets	14	14,439,648	15,128,861
Cash and cash equivalents	17	145,326,789	62,463,017
<b>Current assets</b>		<b>454,067,002</b>	<b>386,574,810</b>
<b>Total assets</b>		<b>822,275,985</b>	<b>724,882,649</b>
<b>Equity</b>			
Stated capital	18	102,074,201	102,074,201
Reserves	19	10,230,816	10,230,816
Retained earnings		466,076,586	368,330,303
<b>Total equity</b>		<b>578,381,603</b>	<b>480,635,320</b>
<b>Liabilities</b>			
Loans and borrowings	20	45,542,921	65,396,238
Employee benefits	21	62,182,709	57,217,883
Deferred tax liabilities	22	14,581,124	16,160,604
<b>Non-current liabilities</b>		<b>122,306,754</b>	<b>138,774,725</b>
Trade and other payables	23	64,047,904	63,823,930
Current tax liabilities	24	14,553,697	2,779,345
Loans and borrowings	20	42,986,027	38,869,329
<b>Current liabilities</b>		<b>121,587,628</b>	<b>105,472,604</b>
<b>Total liabilities</b>		<b>243,894,382</b>	<b>244,247,329</b>
<b>Total equity and liabilities</b>		<b>822,275,985</b>	<b>724,882,649</b>

The Notes to the Financial Statements from pages 45 to 83 form an integral part of these Financial Statements. These Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

  
S. Amarasinghe

## Finance Director

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



## Director

11<sup>th</sup> February 2020  
Colombo



## Director

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

# STATEMENT OF CHANGES IN EQUITY

Year ended 31<sup>st</sup> December

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 1 <sup>st</sup> January 2018	102,074,201	5,718,298	215,979,966	323,772,465
Profit for the year	-	-	152,222,059	152,222,059
Other comprehensive income, net of income tax				
- Actuarial gain on defined benefit plan	-	-	128,278	128,278
- Net gain on revaluation of land, net of tax	-	4,512,518	-	4,512,518
<b>Total comprehensive income for the year</b>	-	<b>4,512,518</b>	<b>152,350,337</b>	<b>156,862,855</b>
<b>Transactions with owners of the Company</b>				
Contributions and Distributions	-	-	-	-
<b>Total transactions with owners of the Company</b>	-	-	-	-
<b>Balance as at 31<sup>st</sup> December 2018</b>	<b>102,074,201</b>	<b>10,230,816</b>	<b>368,330,303</b>	<b>480,635,320</b>
Balance as at 1 <sup>st</sup> January 2019	102,074,201	10,230,816	368,330,303	480,635,320
Profit for the year	-	-	97,413,975	97,413,975
Other comprehensive income, net of income tax				
- Actuarial gain on defined benefit plan	-	-	332,307	332,307
<b>Total comprehensive income for the year</b>	-	-	<b>97,746,283</b>	<b>97,746,283</b>
<b>Transactions with owners of the Company</b>				
Contributions and Distributions	-	-	-	-
<b>Total transactions with owners of the Company</b>	-	-	-	-
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>102,074,201</b>	<b>10,230,816</b>	<b>466,076,586</b>	<b>578,381,603</b>

The Notes to the Financial Statements from pages 45 to 83 form an integral part of these Financial Statements.  
 Figures in brackets indicate deductions.

# STATEMENT OF CASH FLOWS

Year ended 31<sup>st</sup> December

	Note	2019 Rs.	2018 Rs.
<b>Cash flows from operating activities</b>			
Profit before taxation		116,418,378	175,536,335
Adjustments for:			
Property, plant and equipment depreciation	12	41,910,071	37,055,122
Intangible asset amortization	13	132,510	55,212
Effect on exchange loss on borrowings	20	(4,002,123)	14,283,902
Gain on sale of property, plant and equipment	7	(1,089,386)	(8,000,000)
Interest expense	9	4,806,887	6,835,799
Interest income	9	(5,652,643)	(3,981,033)
Provision for slow-moving inventories	15	2,143,102	1,594,302
Property, plant and equipment written off	12	-	300,041
Provision for employee benefits	21	10,305,586	9,689,807
<b>Changes in working capital</b>			
Inventories		(42,878,799)	(16,246,917)
Trade and other receivables		48,828,713	(44,889,699)
Advance and prepayments		2,228,537	3,146,052
Other financial assets		2,653,546	(8,472,560)
Trade and other payables		(387,614)	(8,727,143)
<b>Cash generated from operating activities</b>		<b>175,416,766</b>	<b>158,179,220</b>
Current taxes paid	24	(4,502,814)	-
Interest paid	9	(4,262,637)	(6,835,799)
Gratuity paid	21	(4,342,766)	(6,250,378)
<b>Net cash generated from operating activities</b>		<b>162,308,548</b>	<b>145,093,043</b>
<b>Cash flows from investing activities</b>			
Interest received	9	5,652,643	3,981,033
Proceeds from sale of property, plant and equipment	7	1,089,387	8,059,143
Acquisition of property, plant and equipment	12	(24,387,284)	(70,267,309)
Acquisition of intangible assets	13	(17,750,882)	(9,207,094)
<b>Net cash used in investing activities</b>		<b>(35,396,136)</b>	<b>(67,434,227)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	20	(35,087,694)	(66,420,933)
Repayment of lease liabilities	20	(8,960,946)	(2,072,623)
<b>Net cash used in financing activities</b>		<b>(44,048,640)</b>	<b>(68,493,556)</b>
<b>Net increase in cash and cash equivalents</b>		<b>82,863,772</b>	<b>9,165,261</b>
Cash and cash equivalents at 1 <sup>st</sup> January	17	62,463,017	53,297,756
<b>Cash and cash equivalents at 31<sup>st</sup> December</b>		<b>145,326,789</b>	<b>62,463,017</b>

The Notes to the Financial Statements from pages 45 to 83 form an integral part of these Financial Statements.  
Figures in brackets indicate deductions.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

### 1.1 Corporate information

Bogala Graphite Lanka PLC is a limited liability Company incorporated and domiciled in Sri Lanka and whose shares are publicly traded on the Colombo Stock Exchange. The registered office and the principal place of business are located at Bogala Mines, Aruggammana.

The Company is primarily engaged in the Mining, Processing and Preparation, Production of Lubricants, and Sale of Graphite, and Lubricants.

### 1.2 Parent enterprise and Ultimate parent enterprise

The Company's parent and ultimate undertaking is Graphit Kropfmühl GmbH and AMG Advanced Metallurgical Group N.V. (Netherlands) respectively.

1.3 The number of persons employed by the Company as at 31<sup>st</sup> December 2019 was 174.

## 2. BASIS OF ACCOUNTING

### 2.1 Statement of compliance

The Financial Statements of the Company have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and in compliance with the requirements of the Companies Act No. 07 of 2007 and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows, have been prepared following accrual basis of accounting.

### 2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements of the Company per the provisions of the Companies Act No. 07 of 2007 and SLFRSs and LKASs.

The Board of Directors acknowledges their responsibility for Financial Statements as set out

in the 'Annual Report of the Board of Directors' 'Statement of Directors' Responsibility' and the certification on the Statement of Financial Position.

These Financial Statements include the following components:

a Statement of Profit or Loss and Other Comprehensive Income, providing the information on the financial performance of the Company for the year under review. Refer to page 41;

a Statement of Financial Position providing information on the financial position of the Company as at the year-end. Refer to page 42;

a Statement of Changes in Equity, depicting all changes in shareholders' funds during the year under review of the Company. Refer to page 43;

a Statement of Cash Flows providing information to the users, on the ability of the Company to generate cash and cash equivalents and utilisation of those cash flows. Refer to page 44.

Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer to pages 45 to 83.

### 2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements for year ended 31<sup>st</sup> December 2019 were authorised for issue by the Company's Board of Directors on 11<sup>th</sup> February, 2020.

### 2.4 Basis of measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Basis of Measurement	Notes No.
Freehold Land	Fair Value	3.4
Net Defined Benefit Obligation	Actuarially valued and recognised at the present value	3.14

# NOTES TO THE FINANCIAL STATEMENTS

## 2.5 Going concern basis of accounting

The Management has 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. 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.

## 2.6 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Profit or Loss, unless required or permitted by an Accounting Standard and as specifically disclosed in the Accounting policies of the Company.

## 2.7 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the Sri Lanka Accounting Standard - LKAS 1 on 'Presentation of Financial Statements'.

## 2.8 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter-period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant, for better presentation and to be comparable with those of the current year.

## 2.9 Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional currency. All amounts have been rounded to the nearest rupee, unless otherwise indicated.

## 2.10 Use of judgements and estimates

In preparing the Financial Statements of the Company in conformity with SLFRSs and LKASs, the management has made judgements, estimates and assumptions which 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 recognised prospectively.

### a. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements:

### Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31<sup>st</sup> December 2019 is included in the following notes:

**Note 3.12** measurement of defined benefit obligations: key actuarial assumptions

**Note 3.2.2** recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used

**Note 3.4** revaluation of freehold land and useful lives of PPE

**Note 3.9** recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources

# NOTES TO THE FINANCIAL STATEMENTS

## 2.11 Measurement of fair values

Fair value-related disclosures for freehold land which is measured at fair value are summarised as follows.

Fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1** Quoted (unadjusted) market prices in active markets for identical assets or liabilities

**Level 2** Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

**Level 3** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Fair value of the Land has been determined under Level 3 valuation.

The Company's Management Committee determines the policies and procedures for recurring fair value measurement of freehold land. External valuers are involved for valuation of freehold land. Involvement of external valuers is decided upon annually by the Management Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, the Management Committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed according to the Company's accounting policies.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company, unless otherwise indicated. These accounting policies have been applied consistently by the Company.

### 3.1.1 Foreign currency translations

The Financial Statements are presented in Sri Lankan Rupees, which is also the Company functional currency as explained in note 2.9.

### 3.1.2 Foreign currency transactions and balances

Transactions in foreign currencies are translated into functional currency, which is Sri Lankan Rupees, using the 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.

# NOTES TO THE FINANCIAL STATEMENTS

Foreign exchange differences arising on translation of foreign exchange transactions are recognised in the Statement of Profit or Loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## 3.2 Income tax expense

Income tax expense for the year comprises current and deferred tax including adjustments to previous years and changes in tax provisions. It is recognised in Profit or Loss except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI).

### 3.2.1 Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and amendments thereto, at the rates specified in note 10 on page 63. This note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard - LKAS 12 on Income Taxes.

### 3.2.2 Deferred tax

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

Additional taxes that arise from the distribution of dividends by the Company are recognised at the same time that the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

### 3.2.3 Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- when receivables and payables that are stated with the amount of sales tax included;
- when the net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

## 3.3 Revenue

### 3.3.1 Revenue recognition

#### *Revenue from Contract with Customers*

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

SLFRS 15, which was adopted by the Company from 1<sup>st</sup> January 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Under SLFRS 15, revenue is recognised when a customer obtains control of the goods or services, Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Under SLFRS 15, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

## 3.4 Property, plant and equipment

### Basis of recognition

Property, plant and equipment are recognised 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.

### Basis of measurement

All property, plant and equipment are initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (as explained under 'subsequent costs'). The cost of self-constructed assets include the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs that are directly attributable to the asset under construction.

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

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

### Cost model

Property, plant and equipment (excluding freehold land) is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

When an asset's carrying value is higher than its estimated recoverable amount, the carrying value is written down to its recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

## Revaluation model

The Company applies the revaluation model for the entire class of freehold land for measurement after initial recognition. Company policy is to revalue all freehold land every five years or when there is a substantial difference between the fair value and the carrying amount.

Any revaluation surplus is recognised in Other Comprehensive Income and accumulated in equity in the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in Profit or Loss, in which case the increase is recognised in Profit or Loss.

A revaluation deficit is recognised in Profit or Loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Upon disposal, any revaluation reserve relating to particular assets being sold is transferred to retained earnings.

## Subsequent costs

When significant parts of a property, plant and equipment are required to be replaced at regular intervals, the Company derecognises the replaced part, and recognises the new part with its own associated useful life and depreciates accordingly. Ongoing repair and maintenance costs are expensed as incurred.

## Derecognition

An item of property, plant and equipment is derecognised upon disposal, replacement or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in Profit or Loss in the period the asset is derecognised.

## Depreciation

Depreciation is based on straight-line method over the estimated useful lives of the assets. Freehold land is not depreciated

Depreciation of an asset begins from the date it is available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The estimated useful lives of the assets are as follows:

Class of asset	Years
Buildings on freehold land	25
Road development	10
Access tunnels / Mining assets	5 - 20
Plant and machinery	5 - 20
Other equipment	10
Office equipment	5
Furniture and fittings	5
Computer equipment	3
Motor vehicles	5
Right-of-use asset - Motor vehicle	Over the lease period
Right-of-use asset - Machinery	4

Residual values, useful lives and method of depreciation are reviewed at each financial year-end and adjusted if appropriate.

## Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount the assets are written down

# NOTES TO THE FINANCIAL STATEMENTS

to their recoverable amount. Impairment losses are recognised in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

## Capital work-in-progress

Capital work-in-progress is stated at cost, including borrowing costs, less any accumulated impairment losses. These would be transferred to the relevant asset category in property, plant and equipment when the asset is completed and available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

## Mining assets

### a) Recognition of mining assets

Costs associated with developing mine reserves are recognised in property, plant and equipment when they are established as commercially viable. These costs can include amounts that were previously recognised as intangible assets during the exploration and evaluation phase of the mine development.

### b) Exploration, evaluation and development expenditures

Exploration and evaluation expenditures relate to costs incurred on the exploration and evaluation of potential mineral resources. These costs are recorded as Intangible Assets while exploration is in progress. When commercially recoverable reserves are determined, and such development receives the appropriate approvals, capitalised exploration and evaluation expenditures are transferred to construction-in-progress under Property, Plant and Equipment. Upon completion of development and commencement of production, capitalised development costs as well as exploration and evaluation expenditures are transferred to Mining Assets under Property, Plant and Equipment and depreciated using the straight-line method over 5-20 years.

Further, the capitalisation of development expenditure is related only to the expenditure incurred on developing Access Tunnels. The costs incurred on Drives and Winzes are recognised in the profit or loss as and when they are incurred under Development activities.

## 3.5 Intangible assets

### Recognition and measurement

#### (a) Exploration and evaluation expenditure

Assets which are included in intangible assets include exploration and evaluation expenditures incurred on finding graphite reserves. When commercially recoverable reserves are determined, and such development receives the appropriate approvals, capitalised exploration and evaluation expenditures are transferred to construction-in-progress under Property, Plant and Equipment. Exploration and evaluation expenditure is measured at cost as and when it is incurred until the development commences.

#### (b) Software and license

Other intangible assets, software and licenses, that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

### Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

### Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over its estimated useful life, and is recognised in profit or loss.

The estimated useful life for licenses is 3 years.

# NOTES TO THE FINANCIAL STATEMENTS

## 3.6 Financial instruments

### (a) 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 Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

### (b) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income (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.

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.

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

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

On initial recognition of an equity investment that is not held for trading, the 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.

### Financial assets - Business model assessment:

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 Group's management;

# NOTES TO THE FINANCIAL STATEMENTS

- 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.
- 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 Group's claim to cash flows from specified assets (e.g. non-recourse features).

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 are solely payments of principal and interest:**

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

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

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

## **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.

# NOTES TO THE FINANCIAL STATEMENTS

## Financial assets - Subsequent measurement and gains and losses

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	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

## 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 canceled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On 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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## Impairment policy

### Non-derivative financial assets–Financial instruments and contract assets

Loss allowances for trade receivables is always measured at an amount equal to lifetime estimated credit loss, (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 includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

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

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

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

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

## Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

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

## Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

## Presentation of allowance for ECL in the statement of financial position

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

# NOTES TO THE FINANCIAL STATEMENTS

## Impairment Policy: Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, 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. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of other assets, recognised in prior periods, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 amortisation, if no impairment loss had been recognised.

## 3.7 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials-Purchased cost on a weighted average cost basis

Finished goods and work-in-progress-Direct cost incurred on excavation, cost of raw materials, processing, finishing and manufacturing overheads (excluding borrowing cost)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased.

# NOTES TO THE FINANCIAL STATEMENTS

## 3.8 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand.

For the purpose of the statement of cash flow, cash and cash equivalents consist of cash as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

## 3.9 Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of benefits will be required to settle the obligation and it can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## 3.10 Commitments and contingencies

Provisions are made for all obligations existing as at the reporting date when it is probable that such obligation will result in an outflow of resources and reliable estimate can be made of the quantum of the outflow.

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

## 3.11 Leases

The Company has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately

## a) Policy applicable from 1<sup>st</sup> January 2019

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into on or after 1<sup>st</sup> January 2019.

## As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-

# NOTES TO THE FINANCIAL STATEMENTS

alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is depreciated over four years. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

# NOTES TO THE FINANCIAL STATEMENTS

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

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### b) Policy applicable before 1<sup>st</sup> January 2019

For contracts entered into before 1<sup>st</sup> January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

### As a lessee

- In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the

payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

- Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

## 3.12 Employee benefits

### Defined contribution plans

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

Employees are eligible to Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions per the respective statutes. These obligations come within the scope of a defined contribution plan per LKAS-19 on 'Employee Benefits'. Obligations for contributions to defined contribution plans are recognised in Profit or Loss as incurred.

### Defined benefit obligation

In accordance with the Gratuity Act No. 12 of 1983, a liability arises for a defined benefit obligation to employees.

Such defined benefit obligation is a post-employment benefit obligation falling within the scope of Sri Lanka Accounting Standard LKAS-19 on 'Employee Benefits'.

The liability recognised in the Statement of Financial Position is the present value of the defined benefit obligation at the reporting date. The calculation is performed annually by a qualified actuary using the

# NOTES TO THE FINANCIAL STATEMENTS

projected unit credit method (PUC). Any actuarial gains and losses arising are recognised immediately in Other Comprehensive Income. The discount rate has been derived considering the yield of government bonds.

The liability is not externally funded.

## 4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Company has initially applied SLFRS 16-Leases from 1<sup>st</sup> January 2019.

The Company applied SLFRS 16 using the modified retrospective approach, under which Right-of-Use of underlying asset (ROU asset) and lease liability were recognised at equal amounts as at 1<sup>st</sup> January 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

### 4.1 Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 - Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 3.11.

On transition to SLFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1<sup>st</sup> January 2019.

### 4.2 As a lessee

The Company previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under SLFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases. These leases are on balance sheet.

#### Leases classified as operating leases under LKAS 17

Previously, the Company classified property leases as operating leases under LKAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1<sup>st</sup> January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

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

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

## 4.3 Impact on transition

On transition to SLFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

As at 1 <sup>st</sup> January 2019	Rs.
Right-of-use asset - Property, plant and equipment	20,689,744
Lease Liability	20,689,744
Retained Earnings	-

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1<sup>st</sup> January 2019. The weighted average rate applied is Euro 5.3%.

The above right-of-use asset refers to drilling machinery which is used for the exploration and evaluation of potential graphite resources. Therefore, on the adoption of SLFRS 16 - Leases, the related depreciation charge of right-of-use asset and interest charge on lease liability, have been capitalised as part of exploration and evaluation expenditure under Intangible Asset.

## 5. STANDARDS ISSUED BUT NOT YET ADOPTED

A number of new standards and amendments to standards are effective for annual periods beginning after 1<sup>st</sup> January 2019 and earlier application is permitted; however, the Company has not early adopted them in preparing these consolidated Financial Statements.

The following amended standards are not expected to have a significant impact on the Company's Financial Statements.

- Amendments to References to Conceptual Framework in SLFRS Standards.
- Definition of a Business (Amendments to SLFRS 3).
- SLFRS 17-Insurance Contracts.

SLFRS 17-Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. SLFRS 17 introduces a new measurement model for insurance contracts and becomes effective in 2022.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 6. REVENUE

Export sales  
Local sales

## 7. OTHER INCOME

Income from sales of obsolete items  
Gain on disposal of property, plant and equipment  
Miscellaneous income (note 7.1)

**7.1** Miscellaneous income mainly consists of rental income received from Dialog Tower and sale of discarded stone

## 8. PROFIT FROM OPERATIONS

Profit from operations is stated after charging all expenses including the following:

Directors' remuneration  
Auditors' remuneration  
    Audit and audit-related fees  
    Non-audit fees  
Professional charges  
Depreciation of property, plant and equipment  
Amortisation of intangible assets  
Impairment provision on inventories  
Royalty charges on exports (note 8.1)  
Technical service fees (note 8.2)  
Donations  
Legal charges  
Death compensation cost (note 8.3)  
Early retirement compensation cost (note 8.4)  
Staff costs (note 8.5)

	2019 Rs.	2018 Rs.
	809,307,867	874,450,440
	6,268,530	3,310,955
	<b>815,576,397</b>	<b>877,761,395</b>
	1,045,528	925,163
	1,089,386	8,000,000
	1,930,869	1,172,841
	<b>4,065,783</b>	<b>10,098,004</b>

	41,215,259	38,985,593
	860,000	830,000
	-	-
	633,120	470,513
	41,910,071	37,055,122
	132,510	55,212
	2,143,102	1,594,302
	44,707,398	49,149,486
	40,725,270	43,888,070
	1,407,445	1,458,859
	758,904	1,043,635
	480,022	635,362
	2,280,698	5,868,002
	259,661,735	252,529,934

**8.1** Royalty charges are paid to GSMB (Geological Survey and Mines Bureau) on Graphite sales at 7% and 6% for Export and Local sales respectively.

**8.2** Technical service fee is paid to Graphit Kropfmühl GmbH at 5% on total sales of the Company.

**8.3** Death compensation cost relates to the provision made for compensation to be paid to the aggrieved family of the mine worker who died during working hours in the mine on 28<sup>th</sup> January 2017. Consequently, the Company decided to pay the salary of the deceased employee until his retirement age to the aggrieved

family on a monthly basis. Accordingly, a provision of Rs.8.5million is being recognised in the Financial Statements for a period of 152 months from year 2017. The current year provision includes the increment for the employee.

**8.4** Early retirement compensation cost includes the amounts paid to the outgoing employees as compensation amounts decided by the Company. The basis of compensation was equal for all the employees. The number of employees who left the Company was 3 and 1 for 2018 and 2019 respectively.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 8. PROFIT FROM OPERATIONS (Cont.)

### 8.5 Staff costs

Salaries and wages	
Defined contribution plan cost - EPF and ETF	
Defined benefit plan cost - retiring gratuity (note 21.2.1)	
Performance bonuses (note 8.5.1)	
Overtime	
Other staff expenses	

	2019 Rs.	2018 Rs.
	138,874,940	130,432,239
	24,069,539	23,208,843
	10,305,586	9,689,807
	15,091,837	17,904,773
	7,112,295	9,262,988
	64,207,538	62,031,284
	<b>259,661,735</b>	<b>252,529,934</b>

Staff costs reported above include benefits paid to the Executive Directors during the year.

**8.5.1** Performance bonuses relate to the bonuses paid by the Company for executive and non-executive staff

based on their individual and company performance during the year.

## 9. NET FINANCE INCOME/(EXPENSE)

Interest income on staff loans	
Interest income on savings deposits	

### Finance income

Interest on interest-bearing borrowings	
Finance charge on lease liabilities	

### Finance expense

### Net finance income / (expense) recognised in profit or loss

	3,638,690	3,500,367
	2,013,953	480,666
	<b>5,652,643</b>	<b>3,981,033</b>
	(4,262,637)	(6,129,055)
	(544,250)	(706,744)
	<b>(4,806,887)</b>	<b>(6,835,799)</b>
	<b>845,756</b>	<b>(2,854,766)</b>

## 10. INCOME TAX EXPENSES

The charge for income tax expense is made up as follows:

Current tax expense (note 10.1)	
Adjustment for prior years	
Deferred taxation	

	20,655,801	8,953,321
	(17,821)	(333,529)
	(1,633,577)	14,694,484
	<b>19,004,403</b>	<b>23,314,276</b>

The Company is liable for Income tax at the rate of 14% (2018 - 12% / 14%) on profit derived from export sales in respect of IRD Act No. 24 of 2017, which came into effect from 1<sup>st</sup> April 2018. A provision has been

made in these Financial Statements on account of income taxes in view of adjusted taxable profits of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 10. INCOME TAX EXPENSE (Cont.)

### 10.1 Reconciliation of accounting profit to income tax expense

Accounting profit before tax from continuing operations

Aggregated disallowable expenses

Aggregated allowable expenses

Aggregated other income

Statutory deductions - Tax loss (note 10.1.1)

#### Taxable profit

Statutory tax rate

- Tax rate 12%

- Tax rate 14%

#### Current tax expense

### 10.1.1 Tax loss analysis is as follows:

Tax losses brought forward

Adjustment in respect of prior years

Set off against current year profits

Tax losses carried forward (note 22.4)

### 10.2 Recognition of deferred tax origination/(reversal) in the comprehensive income

Profit or loss

Other comprehensive income

2019  
Rs.

2018  
Rs.

116,418,378	175,536,335
65,917,064	76,761,069
(40,446,652)	(45,852,672)
5,652,643	7,626,955
-	(136,990,251)
<b>147,541,433</b>	<b>77,081,436</b>
-	4,615,912
20,655,801	4,337,409
<b>20,655,801</b>	<b>8,953,321</b>
-	135,493,643
-	1,496,608
-	(136,990,251)
-	-
(1,633,577)	14,694,484
(54,097)	(1,686,364)
<b>(1,687,674)</b>	<b>13,008,120</b>

## 11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and

the weighted average number of shares outstanding during the year.

Profit attributable to ordinary shareholders

Weighted average number of ordinary shares

#### Basic earnings per share (Rs.)

97,413,975	152,222,059
94,632,904	94,632,904
<b>1.03</b>	<b>1.61</b>

### 11.1 Diluted earnings per share

There were no potentially diluted ordinary shares as at 31<sup>st</sup> December 2019 and there have been no transactions involving ordinary shares or potential

ordinary shares at the reporting date which would require restatement of EPS.

## 12. PROPERTY, PLANT AND EQUIPMENT

As at 31<sup>st</sup> December

	Freehold land	Buildings on freehold land	Road develop-ment	Access tunnels / Mining assets	Plant and machinery	Other equipment	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Right-of-Use Asset	Capital WIP		Total 2019	Total 2018
											Machinery	Mining costs	Others		
Cost	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1 <sup>st</sup> January 2019	17,600,000	52,348,922	12,807,789	235,104,809	316,154,689	62,347,821	9,878,557	2,834,027	8,006,174	38,990,804	-	33,668,316	3,965,920	793,707,829	738,334,039
Recognition of right-of-use asset on initial application of SLFRS 16 (note 12.8)	-	-	-	-	-	-	-	-	-	-	20,689,744	-	-	20,689,744	-
<b>Adjusted balance as at 1<sup>st</sup> January 2019</b>	<b>17,600,000</b>	<b>52,348,922</b>	<b>12,807,789</b>	<b>235,104,809</b>	<b>316,154,689</b>	<b>62,347,821</b>	<b>9,878,557</b>	<b>2,834,027</b>	<b>8,006,174</b>	<b>38,990,804</b>	<b>20,689,744</b>	<b>33,668,316</b>	<b>3,965,920</b>	<b>814,397,573</b>	<b>738,334,039</b>
Revaluation surplus	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,178,000
Additions	-	-	-	-	2,981,063	329,152	-	-	594,660	15,886,000	-	-	14,676,409	34,467,284	70,267,309
Disposals	-	-	-	-	(1,137,000)	-	(179,078)	(76,543)	(84,500)	(1,404,851)	-	-	-	(2,881,971)	(20,771,478)
Transfers from CWIP - Others	-	3,973,623	-	-	12,316,018	470,000	1,156,578	-	-	-	-	-	(17,916,219)	-	-
Write-offs	-	(115,200)	-	(82,465,985)	(6,278,707)	(908,584)	(227,163)	(45,950)	(2,236,668)	-	-	-	-	(92,278,257)	(300,041)
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>17,600,000</b>	<b>56,207,345</b>	<b>12,807,789</b>	<b>152,638,824</b>	<b>324,036,064</b>	<b>62,238,389</b>	<b>10,628,894</b>	<b>2,711,534</b>	<b>6,279,666</b>	<b>53,471,953</b>	<b>20,689,744</b>	<b>33,668,316</b>	<b>726,110</b>	<b>753,704,629</b>	<b>793,707,829</b>
<b>Accumulated depreciation and impairment losses</b>															
Balance as at 1 <sup>st</sup> January 2019	-	28,134,990	6,586,522	166,165,178	211,745,927	39,789,769	7,048,581	2,799,081	7,670,903	19,197,322	-	-	-	489,138,273	472,795,486
Depreciation charged to profit or loss	-	1,472,817	1,077,120	11,997,170	16,070,336	3,680,083	977,586	34,706	346,296	6,253,958	-	-	-	41,910,071	37,055,122
Depreciation capitalised to exploration and evaluation asset (note 12.8)	-	-	-	-	-	-	-	-	-	-	5,044,236	-	-	5,044,236	-
Disposals	-	-	-	-	(1,137,000)	-	(179,078)	(76,543)	(84,500)	(1,404,851)	-	-	-	(2,881,972)	(20,712,335)
Write-off	-	(115,200)	-	(82,465,985)	(6,278,707)	(908,584)	(227,163)	(45,950)	(2,236,668)	-	-	-	-	92,278,257	-
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>-</b>	<b>29,492,607</b>	<b>7,663,642</b>	<b>95,696,363</b>	<b>220,400,556</b>	<b>42,561,268</b>	<b>7,619,926</b>	<b>2,711,294</b>	<b>5,696,031</b>	<b>24,046,429</b>	<b>5,044,236</b>	<b>-</b>	<b>-</b>	<b>440,932,352</b>	<b>489,138,273</b>
Carrying amount															
<b>Balance as at 31<sup>st</sup> December 2019</b>	<b>17,600,000</b>	<b>26,714,738</b>	<b>5,144,147</b>	<b>56,942,461</b>	<b>103,635,508</b>	<b>19,677,121</b>	<b>3,008,968</b>	<b>240</b>	<b>583,635</b>	<b>29,425,524</b>	<b>15,645,508</b>	<b>33,668,316</b>	<b>726,110</b>	<b>312,772,277</b>	<b>-</b>
<b>Balance as at 31<sup>st</sup> December 2018</b>	<b>17,600,000</b>	<b>24,213,932</b>	<b>6,221,267</b>	<b>68,939,631</b>	<b>104,408,762</b>	<b>22,558,052</b>	<b>2,829,976</b>	<b>34,946</b>	<b>335,271</b>	<b>19,793,482</b>	<b>-</b>	<b>33,668,316</b>	<b>3,965,920</b>	<b>-</b>	<b>304,569,556</b>

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 12. PROPERTY, PLANT AND EQUIPMENT (Cont.)

### 12.1 Revaluation of freehold land

Freehold land was revalued as at 31<sup>st</sup> December 2018 by Mr. N. M Jayatilake (F.I.V), who is a professionally qualified independent valuer. The valuation method

adopted was open market value on an existing-use basis without considering mineral deposits and underground works.

The value of freehold land has been written up to correspond with the market value and the details are as follows:

Location	Extent	Cost Rs.	Freehold land revalued Rs.	Price per perch Rs.	Pledged	No of Buildings
Welathuduwa village, Kotiyakumbura	13.2268 hectares	5,703,702	9,600,000	100,000 - 800,000	No	48
Welathuduwa village, Kotiyakumbura	9.7159 hectares		4,900,000		No	
Kendawa village, Bulathkohupitiya	7.2361 hectares		3,100,000	150,000 - 600,000	No	4
		<b>5,703,702</b>	<b>17,600,000</b>			

Description of the valuation technique used together with narrative description on sensitivity of the

fair value measurement to changes in significant unobservable inputs is as follows:

Valuation technique	Significant unobservable inputs	Sensitivity of fair value measurement to inputs
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for any differences in the nature, location or condition of the specific property.	Price per perch for land according to respective lots (as disclosed above)	Estimated fair value would increase/ (decrease) if the price per perch would be higher/(lower).

The fair value measurement for the freehold land of the Company has been categorised at Level 3. Fair value measurement based on the inputs to the valuation technique used was unobservable.

Significant increases (decreases) in estimated price per perch in isolation would result in a significantly higher (lower) fair value on a linear basis.

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 12.2 Capital WIP - Mining cost

As set out in note 3.4 (b), the Company has capitalised Rs.33.6million relating to a major drilling programme. The results of the drilling programme data were used to calculate the estimated resources by our internal Geologist. The three-to-four-year development programme has already commenced. Accordingly, the cost of exploration and evaluation of Rs.33.6million after assessment has been classified under Construction-in-Progress - Mining asset in PPE.

## 12.3 Transfers from Capital WIP - Others

These are the transfers made to respective asset categories from other capital projects in relation to the operations inside and outside the mine. The major projects capitalised during the year were generator upgrade, spiral classifier for flotation plant and underground panel update.

## 12.4 Fully depreciated but still in use

The cost of fully depreciated property, plant and equipment of the Company which are still in use amounted to Rs.126,994,335 as at 31<sup>st</sup> December 2019. (2018 - Rs.252,780,928).

## 12.5 Permanent fall in value of property, plant and equipment

There is no permanent fall in the value of property, plant and equipment which requires a provision for impairment as at the reporting date.

## 12.6 Title restriction on property, plant and equipment

There were no restrictions existing on the title to the property, plant and equipment of the Company as at the reporting date.

## 12.7 Assets pledged as collateral

There were no assets pledged as collateral as at the reporting date.

## 12.8 Right-of-use asset

As explained in note 4, the Company adopted SLFRS 16 - Leases on 1 January 2019. Due to the transition method chosen by the Company in applying SLFRS 16, comparative information has not been restated to reflect the new requirements. Accordingly, the right-of-use asset relating to machinery has been recognised on 1<sup>st</sup> January 2019. As explained in note 4.3.1, the depreciation charge of right-of-use asset has been capitalised in exploration and evaluation expenditure under Intangible Asset.

## 12.9 Motor vehicles on lease

During the year, motor vehicles on lease, previously reported under "Assets on finance lease" in property, plant and equipment, have been reclassified to "Motor vehicles" for consistency.

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

13. INTANGIBLE ASSETS	Software and licenses Rs.	Exploration and Evaluation Expenditure Rs.	Total 2019 Rs.	Total 2018 Rs.
<b>Cost</b>				
Balance as at 1 <sup>st</sup> January	8,238,328	8,809,566	17,047,894	7,840,800
Additions (note 13.1)	-	17,750,882	17,750,882	9,207,094
Interest expense capitalised (note 20.2.2)	-	1,000,148	1,000,148	-
Depreciation charge capitalised (note 12.8)	-	5,044,236	5,044,236	-
<b>Balance as at 31<sup>st</sup> December</b>	<b>8,238,328</b>	<b>32,604,832</b>	<b>40,843,160</b>	<b>17,047,894</b>
<b>Amortisation</b>				
Balance as at 1 <sup>st</sup> Jan	7,896,012	-	7,896,012	7,840,800
Charge of the year	132,510	-	132,510	55,212
<b>Balance as at 31<sup>st</sup> December</b>	<b>8,028,522</b>	<b>-</b>	<b>8,028,522</b>	<b>7,896,012</b>
<b>Carrying value as at 31<sup>st</sup> December 2019</b>	<b>209,806</b>	<b>32,604,832</b>	<b>32,814,638</b>	<b>9,151,882</b>

**13.1** Exploration and evaluation expenditure recorded under intangible assets above refers to the expenditure associated with exploration of potential graphite resources in Rangala mine in the year 2018, and Pankohena mine during the year. Both mines

are owned by the Company. The exploration project continues further as the technical and commercial viabilities were not demonstrable as at the reporting date. (Refer to note 3.5)

## 14. OTHER FINANCIAL ASSETS

	2019 Rs.	2018 Rs.
Loans to Company employees	<b>37,061,716</b>	<b>39,715,262</b>
The movement of loans is as follows;		
Balance as at 1 <sup>st</sup> January	39,715,262	31,242,702
Loans granted	27,706,068	29,130,560
Loan repayments	(30,359,615)	(20,658,000)
<b>Balance as at 31<sup>st</sup> December</b>	<b>37,061,716</b>	<b>39,715,262</b>
Non-current	22,622,068	24,586,401
Current	14,439,648	15,128,861
	<b>37,061,716</b>	<b>39,715,262</b>

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 15. INVENTORIES

	2019 Rs.	2018 Rs.
Raw materials - Lubricants	15,383,048	26,315,135
Raw materials - Graphite	50,864,157	19,573,396
Work-In-Progress - Graphite	13,799,152	5,383,579
Finished goods - Graphite	6,371,400	1,672,220
Consumables and spares	63,911,808	70,017,199
	150,329,565	122,961,529
Impairment for slow-moving stocks (note 15.1)	(3,222,022)	(7,429,848)
	147,107,543	115,531,681
Goods in transit	9,159,835	-
	<b>156,267,378</b>	<b>115,531,681</b>

### 15.1 Impairment for slow-moving stocks

Balance as at 1 <sup>st</sup> January	7,429,848	6,449,076
Provision for the year	2,143,102	1,594,302
Write-off against provisions	(6,350,928)	(613,530)
<b>Balance as at 31<sup>st</sup> December</b>	<b>3,222,022</b>	<b>7,429,848</b>

## 16. TRADE AND OTHER RECEIVABLES

Trade receivables	58,432,606	77,350,429
Trade receivables due from related companies (note 25.3)	13,061,074	29,055,637
Total trade receivables (note 16.1)	71,493,680	106,406,066
VAT receivables	58,930,815	75,168,617
Other receivables	404,093	2,443,432
	<b>130,828,588</b>	<b>184,018,115</b>

### 16.1 Age analysis of total trade receivables

Neither past due nor impaired	71,493,680	93,961,102
<b>Past due but not impaired</b>		
0-30 days	-	4,084,388
31-60 days	-	8,360,576
61-90 days	-	-
Over 90 days	-	-
	<b>71,493,680</b>	<b>106,406,066</b>

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

<b>17. CASH AND CASH EQUIVALENTS</b>	<b>2019</b>	<b>2018</b>
	<b>Rs.</b>	<b>Rs.</b>
Cash in hand	216,155	217,409
Cash at bank	145,110,634	62,245,608
Cash and cash equivalents per statement of cash flows	<b>145,326,789</b>	<b>62,463,017</b>

<b>18. STATED CAPITAL</b>	<b>2019</b>		<b>2018</b>	
	<b>Number</b>	<b>Rs.</b>	<b>Number</b>	<b>Rs.</b>
Fully paid ordinary shares	94,632,904	102,074,201	94,632,904	102,074,201
	<b>94,632,904</b>	<b>102,074,201</b>	<b>94,632,904</b>	<b>102,074,201</b>

<b>19. RESERVES</b>	<b>2019</b>	<b>2018</b>
	<b>Rs.</b>	<b>Rs.</b>
Revaluation reserve	<b>10,230,816</b>	<b>10,230,816</b>
<b>19.1 The movement is as follows:</b>		
Balance as at 1 <sup>st</sup> January	10,230,816	5,718,298
Revaluation	-	4,512,518
Balance as at 31 <sup>st</sup> December	<b>10,230,816</b>	<b>10,230,816</b>

The revaluation reserve relates to the revaluation of freehold land.

<b>20. LOANS AND BORROWINGS</b>		
Loans from Graphit Kropfmühl GmbH (note 20.1)	62,125,909	100,307,243
Lease Liability (note 20.2)	26,403,038	3,958,324
	<b>88,528,947</b>	<b>104,265,567</b>
<b>Non-current</b>		
Loan from Graphit Kropfmühl GmbH	26,625,390	63,831,869
Lease Liability	18,917,531	1,564,369
	<b>45,542,921</b>	<b>65,396,238</b>
<b>Current</b>		
Loan from Graphit Kropfmühl GmbH	35,500,520	36,475,374
Lease Liability	7,485,508	2,393,955
	<b>42,986,027</b>	<b>38,869,329</b>
<b>20.1 The movement of the loan is as follows:</b>		
Balance as at the beginning of the year	100,307,243	152,444,274
Loans obtained	-	-
Repayments	(35,087,694)	(66,420,933)
Effect on exchange loss	(3,093,640)	14,283,902
<b>Balance as at the end of the year</b>	<b>62,125,909</b>	<b>100,307,243</b>

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 20. LOANS AND BORROWINGS (Cont.)

### Terms and conditions of the loan

Graphit Kropfmühl GmbH Loan

The repayment terms of borrowing and the security offered to the loan are set out below:

Rate of interest	EURO 5.53%
Terms of repayment - equal capital installments	EURO 43,616.25 (Quarterly)
Grace period	2 years up to October 2011
Loan repayment period	10 years ending 2021
Security offered	NIL

### 20.2 Lease liabilities

Balance as at 1<sup>st</sup> January  
Recognition of lease liability on initial application of SLFRS 16 (note 4.3)  
Adjusted balance as at the beginning of the year

Lease obtained during the year  
Interest expense recognised in finance expense  
Interest expense capitalised (note 20.2.2)  
Exchange gain (note 20.2.1)  
Repayment during the year

**Balance as at 31<sup>st</sup> December**

	2019 Rs.	2018 Rs.
	3,958,324	6,030,947
	20,689,744	-
	<b>24,648,068</b>	<b>6,030,947</b>
	10,080,000	-
	544,250	659,486
	1,000,148	-
	(908,483)	-
	(8,960,946)	(2,732,109)
	<b>26,403,038</b>	<b>3,958,324</b>

**20.2.1** Exchange gain relates to revaluation of lease liability payable in Euro as at reporting date at closing exchange rate.

**20.2.2** As explained in note 4.3.1, the interest charge on lease liability relating to drilling machinery has been capitalised in exploration and evaluation expenditure under Intangible Asset.

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 21. EMPLOYEE BENEFITS

### 21.1 Defined contribution plans

The following contributions have been made to the Employees' Provident Fund and Employees' Trust Fund during the year.

Employees' Provident Fund  
 Employers' contribution  
 Employees' contribution  
 Employees' Trust Fund

**2019**  
**Rs.**

**2018**  
**Rs.**

19,624,081	18,567,074
16,353,401	16,145,282
4,906,020	4,641,769
57,217,883	53,927,614
10,305,586	9,689,807
(386,404)	(149,160)
67,137,065	63,468,261
(4,342,766)	(6,250,378)
(611,591)	-
<b>62,182,709</b>	<b>57,217,883</b>
4,011,618	3,757,769
6,293,968	5,932,038
<b>10,305,586</b>	<b>9,689,807</b>
(386,404)	(149,160)

### 21.2 Defined benefit plan

Balance at the beginning of the year  
 Provision recognised during the year (note 21.2.1)  
 Actuarial gain during the year (note 21.2.2)

Payments made during the year  
 Payable during the year  
 Balance at the end of the year

#### 21.2.1 Provision recognised in the profit or loss

Current service cost  
 Interest on obligation

#### 21.2.2 Provision recognised in other comprehensive income

Actuarial gain for the year

An actuarial valuation for gratuity liability was carried out as at 31<sup>st</sup> December 2019 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries.

The following assumptions and data were used in valuing the defined benefit obligation by the actuarial valuer.

Discount rate  
 Salary increment rate

11%	11%
8%	9%

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 21. EMPLOYEE BENEFITS (Cont.)

### 21.2 Defined benefit plan (Cont.)

Assumptions regarding future mortality are based on A67/70 mortality table, issued by the Institute of Actuaries, London.

Normal retirement age of an individual is assumed to be 55 years and employees over 55 years are assumed to retire on their respective next birthdays.

According to the Payment of Gratuity Act No. 12 of 1983, the liability for gratuity to an employee arises only on completion of five years of continuous service.

### 21.2.3 Sensitivity analysis

If there is a change in the assumption by 1%, the following would be the impact on employee benefits.

	2019		2018	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Discount rate	(3,750,031)	4,151,462	(3,569,865)	3,963,568
Salary increment rate	4,541,766	(4,155,432)	4,321,750	(3,942,631)

## 22. DEFERRED TAXATION

Net deferred tax liabilities

Deferred tax liabilities (note 22.1)

Deferred tax assets (note 22.2)

The movement on the deferred tax account is as follows:

### 22.1 Deferred tax liabilities

Balance as at 1<sup>st</sup> January

Reversed during the year through profit or loss

Originated during the year through other comprehensive income

**Balance as at 31<sup>st</sup> December**

### 22.2 Deferred tax assets

Balance as at 1<sup>st</sup> January

(Reversed) / Originated during the year through profit or loss

Reversed during the year through other comprehensive income

**Balance as at 31<sup>st</sup> December**

	2019 Rs.	2018 Rs.
Deferred tax liabilities (note 22.1)	24,940,471	26,471,185
Deferred tax assets (note 22.2)	(10,359,347)	(10,310,581)
	<b>14,581,124</b>	<b>16,160,604</b>
Balance as at 1 <sup>st</sup> January	26,471,185	26,298,732
Reversed during the year through profit or loss	(1,530,714)	(1,493,029)
Originated during the year through other comprehensive income	-	1,665,482
<b>Balance as at 31<sup>st</sup> December</b>	<b>24,940,471</b>	<b>26,471,185</b>
Balance as at 1 <sup>st</sup> January	10,310,581	26,518,976
(Reversed) / Originated during the year through profit or loss	102,863	(16,187,513)
Reversed during the year through other comprehensive income	(54,097)	(20,882)
<b>Balance as at 31<sup>st</sup> December</b>	<b>10,359,347</b>	<b>10,310,581</b>

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 22. DEFERRED TAXATION (Cont.)

Deferred tax assets and liabilities are attributable to the following:

	2019		2018	
	Temporary difference Rs.	Tax effect Rs.	Temporary difference Rs.	Tax effect Rs.
<b>Deferred tax liabilities</b>				
Property, plant and equipment	165,700,161	23,198,023	177,106,295	24,794,881
Revaluation of freehold land (note 22.3)	11,896,298	1,665,482	11,896,298	1,665,482
Intangible assets	77,285	10,820	77,297	10,822
Right-of-Use Asset	15,645,509	2,190,369	-	-
Lease Liability	(15,173,009)	(2,124,223)	-	-
	<b>177,673,744</b>	<b>24,940,471</b>	<b>189,079,890</b>	<b>26,471,185</b>
<b>Deferred tax assets</b>				
Employee benefits	(62,182,709)	(8,705,579)	(57,217,883)	(8,010,504)
Provision for death compensation	(8,590,609)	(1,202,685)	(8,999,270)	(1,259,898)
Impairment provision for inventories	(3,222,022)	(451,083)	(7,429,848)	(1,040,179)
Tax loss (note 22.4)	-	-	-	-
	<b>(73,995,340)</b>	<b>(10,359,347)</b>	<b>(73,647,001)</b>	<b>(10,310,581)</b>
<b>Net deferred tax liabilities</b>	<b>103,678,404</b>	<b>14,581,124</b>	<b>115,432,889</b>	<b>16,160,604</b>

**22.3** Per the new Inland Revenue Act which came into effect from 1<sup>st</sup> April 2018, Business Assets will attract Capital Gains Tax at the corporate tax rate, at the time of disposal. Accordingly the Land under revaluation model, which is considered as a business asset by the entity, computed a deferred tax liability on revaluation reserve as at reporting date.

### 22.4 Tax loss

During the last year, the Company has claimed its tax losses outstanding in full per Inland Revenue Act No. 24 of 2017, which came into effect from 1<sup>st</sup> April 2018. Accordingly, no deferred tax asset has been recognised during the year in these Financial Statements. Refer to note 10.1.1.

## 23. TRADE AND OTHER PAYABLES

Trade payables - Others  
Trade payables - Related companies (note 25.2)  
Other Payables - Related companies (note 25.2)  
Sundry creditors  
Accrued expenses

	2019 Rs.	2018 Rs.
	9,563,652	16,464,673
	9,132,458	8,789,850
	3,324,911	3,984,604
	5,110,459	5,759,566
	36,916,425	28,825,237
	<b>64,047,904</b>	<b>63,823,930</b>

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

	2019 Rs.	2018 Rs.
<b>24. CURRENT TAXATION</b>		
Balance as at 1 <sup>st</sup> January	2,779,345	(1,544,612)
Provision for the year	20,655,801	8,953,321
Adjustments for prior years	(17,821)	(333,529)
Tax payments	4,502,814	-
ESC setoff	4,216,379	(4,250,677)
WHT setoff	(144,435)	(45,158)
Current tax liability	<b>14,553,697</b>	<b>2,779,345</b>

According to Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures', Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Board of Directors of the Company have been classified as KMP.

Being the parent and ultimate undertaking, Graphit Kropfmühl GmbH and AMG Advanced Metallurgical Group N.V (Netherlands) respectively as noted in note 1.2, the Board of directors have the authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Board of Directors of the parent company have also been classified as KMP.

## 25. RELATED PARTY DISCLOSURES

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties per Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures', the details of which are reported below.

### 25.1 Transactions with KMP of the Company are as follows:

Name of KMP	Relationship	Nature of transaction	Amount (Rs.)	Balance as at 31 <sup>st</sup> December 2019 (Rs.)
Mr. A. P. Jayasinghe	Managing Director/CEO	Staff loan granted	-	-
		Staff loan repaid	(2,347,917)	-
Mr. Sugath Amarasinghe	Finance Director/CFO	Staff loan granted	153,841	387,500
		Staff loan repaid	(303,841)	-

The above loans were granted to the executive directors in their capacity as employees.

### 25.2 Compensation to Key Management Personnel of the Company is as follows:

	2019 Rs.	2018 Rs.
<b>Short-term employee benefits</b>		
Executive Directors - Emoluments	38,062,782	34,851,434
Non-Executive Directors - Fees and other benefits	3,152,477	4,134,159
	41,215,259	38,985,593
<b>Post-employment benefits</b>		
Executive Directors	5,606,828	4,528,861
<b>Total compensation applicable to KMP</b>	<b>46,822,087</b>	<b>43,514,454</b>

## 25. RELATED PARTY DISCLOSURES (Cont.)

### 25.3 Transactions with related companies

Nature of transaction	Name of the company and its relationship								Total	
	Parent		Affiliate		Affiliate		Affiliate			
	Graphit Kropfmühl GmbH		Graphite Tyn, spol. s.r.o		Qingdao Kropfmühl Graphite (Co.)		GK Ancuabe Graphite Mine S.A.		2019 Rs.	2018 Rs.
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.		
<b>Recurrent related party transactions</b>										
<b>Balance receivable / (payable) as at 01<sup>st</sup> January</b>	(95,907,157)	(154,383,398)	4,825,005	3,566,405	7,056,092	9,646,787	-	-	(84,026,060)	(141,170,206)
Sale of goods / services	138,523,122	124,308,351	15,163,041	87,024,315	14,487,588	18,631,482	-	-	168,173,752	229,964,148
Purchase of goods / services	(84,754,721)	(82,408,731)		-		(1,446,467)	-	-	(84,754,721)	(83,855,198)
Expenses reimbursable from related companies	-	1,515,511		-		-	1,282,524	-	1,282,524	1,515,511
Finance cost (Interest expenses)	(4,262,637)	(6,129,055)		-		-	-	-	(4,262,637)	(6,129,055)
Technical service fee payments	(40,725,270)	(43,888,070)		-		-	-	-	(40,725,270)	(43,888,070)
Repayment of loans and borrowings	35,087,694	66,420,933		-		-	-	-	35,087,694	66,420,933
Net settlements	(19,644,380)	12,941,206	(19,988,046)	(85,765,715)	(14,476,175)	(19,775,710)	(1,282,524)	-	(55,391,125)	(92,600,221)
Net exchange loss	3,093,639	(14,283,902)		-		-	-	-	3,093,639	(14,283,902)
<b>Balance receivable / (payable) as at 31<sup>st</sup> December on recurrent transactions</b>	<b>(68,589,710)</b>	<b>(95,907,157)</b>	<b>-</b>	<b>4,825,005</b>	<b>7,067,506</b>	<b>7,056,092</b>	<b>-</b>	<b>-</b>	<b>(61,522,204)</b>	<b>(84,026,060)</b>
<b>Above balance included in</b>	<b>2019 Rs.</b>	<b>2018 Rs.</b>	<b>2019 Rs.</b>	<b>2018 Rs.</b>	<b>2019 Rs.</b>	<b>2018 Rs.</b>	<b>2019 Rs.</b>	<b>2018 Rs.</b>	<b>2019 Rs.</b>	<b>2018 Rs.</b>
Trade receivables	5,993,568	17,174,540	-	4,825,005	7,067,506	7,056,092	-	-	13,061,074	29,055,637
Trade payables	(9,132,458)	(8,789,850)	-	-	-	-	-	-	(9,132,458)	(8,789,850)
Other payables	(3,324,911)	(3,984,604)	-	-	-	-	-	-	(3,324,911)	(3,984,604)
Loans and borrowings	(62,125,909)	(100,307,243)	-	-	-	-	-	-	(62,125,909)	(100,307,243)
	<b>(68,589,710)</b>	<b>(95,907,157)</b>	<b>-</b>	<b>4,825,005</b>	<b>7,067,506</b>	<b>7,056,092</b>	<b>-</b>	<b>-</b>	<b>(61,522,204)</b>	<b>(84,026,060)</b>

**25.3.1** Total aggregated value of the sales made to Graphit Kropfmühl, Graphite Tyn and Qingdao Kropfmühl are 17% , 1.9% and 1.8% respectively of the total revenue of the Company. There has not been any non-recurrent related party transactions during the year.

**Terms and conditions:** All related party transactions have been conducted on agreed commercial terms with the respective parties

# NOTES TO THE FINANCIAL STATEMENTS

As at 31<sup>st</sup> December

## 26. FAIR VALUES OF FINANCIAL INSTRUMENTS

### Fair value of assets and liabilities

The fair values of financial assets and financial liabilities, together with the carrying amounts

shown in the statement of financial position, are as follows:

	31 <sup>st</sup> December 2019		31 <sup>st</sup> December 2018	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
<b>Assets carried at amortised cost</b>				
Other financial assets	37,061,716	37,061,716	39,715,262	39,715,262
Trade receivables	71,493,680	71,493,680	106,406,066	106,406,066
Cash and cash equivalents	145,326,789	145,326,789	62,463,017	62,463,017
	<b>253,882,185</b>	<b>253,882,185</b>	<b>208,584,345</b>	<b>208,584,345</b>
<b>Liabilities carried at amortised cost</b>				
Loans and borrowings	88,528,948	88,528,948	104,265,567	104,265,567
Trade payables	18,696,110	18,696,110	25,254,523	25,254,523
	<b>107,225,058</b>	<b>107,225,058</b>	<b>129,520,090</b>	<b>129,520,090</b>

The carrying amount of cash and cash equivalents approximate the fair value due to the relatively short maturity of the financial instruments. This includes cash balances as well. For all the other items the carrying value has been considered as the fair value due to the timing of the cash flows.

The Company does not have any financial assets or liabilities carried at fair value as at the reporting date.

### Non-financial assets measured at fair value

The valuation technique and inputs used in measuring the fair value of freehold land are given in note 12.1.

## 27. FINANCIAL RISK MANAGEMENT

### 27.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

1. Credit risk
2. Liquidity risk
3. Market risk
4. Operational risk

### Introduction and overview

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 27. FINANCIAL RISK MANAGEMENT (Cont.)

### 27.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructively controlled environment in which all employees understand their roles and obligations.

### 27.3 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 and investment securities.

#### Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. However, geographically there is no concentration of credit risk.

The Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Management Committee; these limits are reviewed quarterly. Customers who fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

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

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 27. FINANCIAL RISK MANAGEMENT (Cont.)

### 27.3 Credit risk (Cont.)

#### 27.3.1 Exposure to credit risk

The carrying amount of financial assets represents

the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Trade receivables  
Cash and cash equivalents

	2019 Rs.	2018 Rs.
Trade receivables	71,493,680	106,406,066
Cash and cash equivalents	145,326,789	62,463,017

The maximum exposure to credit risk for loans and receivables at the reporting date currency-wise:

EUR  
GBP  
USD

	2019	2018
EUR	203.48	209.07
GBP	238.35	231.94
USD	181.50	182.71

#### Impairment losses

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

Neither past due nor impaired  
Past due but not impaired  
Due and impaired

Neither past due nor impaired	71,493,680	93,961,102
Past due but not impaired	-	12,444,964
Due and impaired	-	-

#### 27.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter 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 risking damage to the Company's reputation.

The Company uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 27. FINANCIAL RISK MANAGEMENT (Cont.)

### 27.4 Liquidity risk (Cont.)

#### 27.4.1 Exposure to liquidity risk

The following are the remaining contractual maturities

of financial liabilities at the reporting date.

<b>As at 31<sup>st</sup> December 2019</b>	<b>Carrying amount Rs.</b>	<b>Less than 3 months Rs.</b>	<b>3 - 12 months Rs.</b>	<b>&gt; 5 years Rs.</b>
Non-derivative financial liabilities				
Loans and borrowings	88,528,948	11,099,501	31,886,526	45,542,921
Trade payables	18,696,110	18,696,110	-	-
	<b>107,225,058</b>	<b>29,795,611</b>	<b>31,886,526</b>	<b>45,542,921</b>
<b>As at 31<sup>st</sup> December 2018</b>				
Non-derivative financial liabilities				
Loans and borrowings	104,265,567	9,685,381	29,183,936	65,396,250
Trade payables	25,254,523	25,254,523	-	-
	<b>129,520,090</b>	<b>34,939,904</b>	<b>29,183,936</b>	<b>65,396,250</b>

#### 27.4.2 Management of liquidity risk

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 risking damage to the Company's reputation. The Company's policy is to hold cash and undrawn overdraft facilities at a level sufficient to ensure that the Company has available funds to meet its liabilities.

#### 27.5 Market risk

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

#### 27.5.1 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes on foreign exchange rates. The Company monitors the fluctuations in foreign currencies with appropriate strategies to minimise risk.

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency) and loans and borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 27. FINANCIAL RISK MANAGEMENT (Cont.)

### 27.5 Market risk (Cont.)

#### 27.5.1 Currency risk (Cont.)

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
EUR	200.22	192.76	203.48	209.07
USD	178.88	163.57	181.50	182.71
GBP	228.11	217.25	238.35	231.94

The Company's exposure to foreign currency risk is as follows:

exposure to currency risk as reported to the management of the Company is as follows:

The summary quantitative data about the Company's

	31 <sup>st</sup> December 2019		31 <sup>st</sup> December 2018	
	EUR	USD	EUR	USD
Cash and cash equivalents	285,432	158,665	83,339	99,609
Trade receivables	175,298	197,377	270,766	272,550
Loans and borrowings - GK	305,314	-	479,779	-
Trade payables	46,288	891	39,841	18,933
<b>Net statement of financial position exposure</b>	<b>812,332</b>	<b>356,933</b>	<b>873,725</b>	<b>391,092</b>

The following significant exchange rates have been applied:

	Average rate		Year-end spot rate	
	2019	2018	2019	2018
EUR	200.22	192.76	203.48	209.07
USD	178.88	163.57	181.50	182.71

#### Sensitivity analysis

A reasonably possible strengthening (weakening) of the Euro and US dollar against all other currencies at 31<sup>st</sup> December would have affected the measurement of financial instruments denominated in a foreign currency, and affected equity and profit or loss by the

amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

31 <sup>st</sup> December 2019	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
EUR (1% movement)	8,123	(8,123)	8,123	(8,123)
USD (1% movement)	3,569	(3,569)	3,569	(3,569)

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December

## 27. FINANCIAL RISK MANAGEMENT (Cont.)

### 27.5 Market risk (Cont.)

#### 27.5.1 Currency risk (Cont.)

31 <sup>st</sup> December 2018	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
EUR (1% movement)	8,737	(8,737)	8,737	(8,737)
USD (1% movement)	3,911	(3,911)	3,911	(3,911)

#### 27.5.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations.

The Company's interest rate includes a fixed rate of 5.53%.

#### Sensitivity analysis

A change of 50 basis points in interest rates at the end of the reporting period would have increased/ (decreased) profit or loss by the amounts shown below.

	Increase/ decrease in basis points	Effect on profit before tax
2019	+50	(310,630)
	-50	310,630
2018	+50	(501,536)
	-50	501,536

## 28. CAPITAL COMMITMENTS

There were no contracts for capital expenditure of material amounts approved or contracted for as at the reporting date.

## 29. CONTINGENT LIABILITIES

There have been no material Contingent liabilities outstanding as at the reporting date except as stated below:

### 29.1 Case No. 10180M

A supplier/constructor had filed a case against the Company on 21<sup>st</sup> February 2019 in relation to a road construction project undertaken by him and claimed that the Company had not paid the due amount as set out by the agreement. The Company counterfiled the case, stating that the work had not been completed as set out by the contract. The first trial is fixed for 10<sup>th</sup> February 2020. Based on the confirmation received from the Company lawyer, the outcome of the case cannot be assessed as at reporting date. As such no provision was required to be made in the Financial Statements as at reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

*Year ended 31<sup>st</sup> December*

## **30. EVENTS AFTER THE REPORTING DATE**

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements.

## **31. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING**

The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards (Refer page 34).

## TEN-YEAR FINANCIAL SUMMARY

(In Rupees '000)

		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Trading Results</b>											
Turnover		815,576	877,761	732,888	702,454	582,861	607,425	535,758	556,226	399,324	386,373
Gross Profit		322,972	389,472	255,039	270,374	186,600	239,628	177,488	184,222	115,004	130,098
Other Income		9,718	14,079	7,773	14,127	3,287	9,440	7,718	13,813	6,925	36,132
Profit/(Loss) before Interest		121,225	182,372	(12,971)	88,249	16,538	92,223	47,757	40,741	38,069	88,405
Interest Cost		(4,807)	(6,836)	(8,015)	8,931	10,232	13,796	17,928	18,548	16,406	15,144
Profit/(Loss) after Interest before Tax		116,418	175,536	(20,986)	79,318	6,306	78,426	29,829	22,193	21,663	73,261
Taxation		(19,004)	(23,314)	1,332	5,512	6,150	3,968	5,072	1,652	(1,552)	(2,844)
Net Profit/(Loss)		97,414	152,222	(19,653)	73,806	156	74,459	24,757	23,845	20,111	70,417
Other comprehensive income/(loss), net of tax		332	4,641	(5,877)	610	1,554	2,075	126	1,738	-	-
Total Comprehensive Income for the Year		97,746	156,863	(25,531)	73,196	(1,398)	72,384	24,656	22,108	-	-
<b>Balance Sheet</b>											
Stated Capital		102,074	102,074	102,074	102,074	80,074	80,074	80,074	80,074	80,074	80,074
Reserves		476,307	378,561	221,698	247,229	198,233	189,328	116,944	92,313	82,009	76,135
Shareholders' Funds		578,382	480,635	323,772	349,303	278,307	269,402	197,018	172,362	162,083	156,209
Property, Plant & Equipment		312,772	304,570	265,539	259,841	253,503	270,451	297,136	282,859	275,276	242,700
Current & Non-Current Assets		476,689	411,161	343,188	319,844	271,116	263,130	238,042	241,997	227,833	255,636
Current Liabilities		121,588	105,473	138,871	69,395	66,717	61,645	86,875	81,542	80,198	40,674
Non-Current Liabilities		122,307	138,775	146,083	160,987	179,595	203,389	253,684	270,952	260,827	301,453
Net Assets		578,382	480,635	323,772	349,303	278,307	269,402	197,018	172,362	162,083	156,209
<b>Key Indicators</b>											
Gross Profit to Turnover	%	39.6%	44%	35%	38%	32%	39%	33%	33%	29%	33.67%
Net Income to Turnover	%	11.94%	17.34%	-2.68%	10.51%	0.03%	12.26%	4.62%	4.29%	5.04%	18.23%
Earnings per Share	Rupees	1.03	1.61	-0.21	0.78	0.00	1.57	0.52	0.50	0.43	1.49
Price Earnings Ratio	Times	16	8	(64)	18	9,839	19.89	35.17	47.03	91.76	39.31
Market Value per Share as at 31 <sup>st</sup> December	Rupees	16.00	13.30	13.30	14.40	32.40	31.30	18.40	23.70	39.00	58.50
Return on Equity	%	16.84%	31.67%	-6.07%	21.13%	0.06%	27.64%	12.57%	13.83%	12.41%	45.08%
Net Assets per Share	Rupees	6.11	5.08	3.42	3.69	5.88	5.69	4.16	3.64	3.43	3.30
No. of Shares in Issue	Nos	94,632,904	94,632,904	94,632,904	94,632,904	47,316,452	47,316,452	47,316,452	47,316,452	47,316,452	47,316,452

**Notes:**

- 1) In Year 2004 a loan of Euro 1,000,000 obtained from GK was converted to 11,768,000 shares
- 2) In year 2009 a further 7,587,452 shares were issued by capitalising Euro loan due to GK.
- 3) In year 2010 BGL reduced its stated capital to Rs.80,074,201 by setting off the accumulated losses as at 31/12/2009 of Rs.467,067,988 against the stated capital of Rs.547,142,189 without affecting the number of shares in issue.
- 4) In year 2016, Company capitalised a sum of Rs.22.0million of retained earnings and issued 47,316,452 shares in the proportion of 1:1 shares to the shareholders.

# INVESTOR INFORMATION

As at 31<sup>st</sup> December

## Top 20 shareholders of the Company

	Name of Shareholders	No. Of Shares	%
1	GRAPHIT KROPFMÜHL GMBH	75,310,068	79.58
2	ALTERNA GK LLC	9,775,580	10.33
3	SECRETARY TO THE TREASURY	509,000	0.54
4	BANSEI SECURITIES CAPITAL (PVT) LTD / DAWI INVESTMENT TRUST (PVT) LTD	394,231	0.42
5	MRS. N. TIRIMANNE	374,200	0.40
6	PEOPLE'S LEASING & FINANCE PLC / L. P. HAPANGAMA	309,046	0.33
7	MR. W. A. DE SILVA (DECEASED)	181,800	0.19
8	MR. A. J. M. JINADASA	175,000	0.18
9	MR. D. M. KODIKARA	121,386	0.13
10	UNIVOGUE GARMENTS (PVT) LIMITED.	99,000	0.10
11	BIMPUTH FINANCE PLC	79,092	0.08
12	PEOPLE'S LEASING & FINANCE PLC / DR. H. S. D. SOYSA & MRS. G. SOYSA	70,750	0.07
13	MRS.N. MULJIE	69,902	0.07
14	PEOPLE'S LEASING & FINANCE PLC / L. H. L. M. P. HARADASA	68,824	0.07
15	ASHA FINANCIAL SERVICES LIMITED / MR. C. N. PAKIANATHAN	63,400	0.07
16	MR. K. S. M. RODRIGO	57,999	0.06
17	MR. N. A. WITHANA	57,274	0.06
18	MR. M. S. HIRIPITIYA	53,026	0.06
19	CITIZENS DEVELOPMENT BUSINESS FINANCE PLC / T. K. FERNANDO	42,600	0.05
20	DR. K. SRIRANJAN	40,000	0.04

## Shares not taken into account to compute public holding

GRAPHIT KROPFMÜHL GMBH	75,310,068	79.58
ALTERNA GK LLC	9,775,580	10.33
<b>TOTAL</b>	<b>85,085,648</b>	<b>89.91</b>

## Percentage of public holding as at 31<sup>st</sup> December 2019

**10.09%**

Total number of Shareholders	9,377
Total number of Shareholders holding the Public Shares	9,375
Number of Shares held by Public Float-adjusted market	9,547,256
Capitalisation of LKR	152,775,360.22

In terms of rule 7.13.1 (b) of the Listing Rules of the Colombo Stock Exchange, the Company qualifies under option two of the minimum public holding requirement.

Number of shares representing stated capital	94,632,904
Total number of shareholders	9,377
Net Assets Value per Share as at 31 <sup>st</sup> December 2019 (2018 - Rs.5.08)	Rs.6.11

# INVESTOR INFORMATION

As at 31<sup>st</sup> December

## Shareholders Distribution Schedule

Shareholding	No. of Shareholders	Total No. of Shares	%
1 - 1000	8,360	2,839,454	3.00
1001 - 5000	819	1,882,385	1.99
5001 - 10000	115	879,116	0.93
10001 - 50000	65	1,262,371	1.33
50001 - 100000	9	619,267	0.65
100001 - 500000	6	1,555,663	1.64
500001 - 1000000	1	509,000	0.54
OVER 1000000	2	85,085,648	89.91
<b>TOTAL</b>	<b>9,377</b>	<b>94,632,904</b>	<b>100.00</b>

## Share-trading details for the year 2019

Highest Market Price (09-10-2019)	Rs.	17.10
Lowest Market Price (17-05-2019)	Rs.	9.80
Market Price as at 31 <sup>st</sup> December 2019	Rs.	16.00
Traded Share Volume		1,261,512
No of Trades		1,579
<b>Trading Turnover</b>		<b>17,787,577.80</b>

# NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Twenty-Ninth Annual General Meeting of the Company will be held at 10.30 a.m. on Saturday the 04<sup>th</sup> April 2020 at the Ceylon Chamber of Commerce Auditorium at No. 50, Navam Mawatha, Colombo 02 for the following purposes:

## AGENDA

1. To receive and consider the Annual Report of the Board together with the Financial Statements of the Company for the year ended 31<sup>st</sup> December 2019 together with the Auditors' Report thereon.
2. To propose the following resolution as an ordinary resolution for the reappointment of Mr. J. C. P. Jayasinghe, who has reached the age of 76 years.
3. To propose the following resolution as an ordinary resolution for the reappointment of Mr. V. P. Malalasekera, who has reached the age of 74 years.
4. To re-appoint KPMG, Chartered Accountants, 32 A, Sir Mohamed Macan Markar Mawatha, Colombo 03 as the Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31<sup>st</sup> December 2020.
5. To authorise the Directors to determine contributions to charities for the ensuing year.

"IT IS HEREBY RESOLVED that the age limit referred to in section 210 of the Companies Act No. 07 of 2007 shall not apply to Mr. J. C. P. Jayasinghe, who has reached the age of 76 years prior to this Annual General Meeting, and that he be reappointed as a Director of the Company".

"IT IS HEREBY RESOLVED that the age limit referred to in section 210 of the Companies Act No. 07 of 2007 shall not apply to Mr. V. P. Malalasekera, who has reached the age of 74 years prior to this Annual General Meeting, and that he be reappointed as a Director of the Company".

By Order of the Board

**CORPORATE SERVICES (PRIVATE) LIMITED**

Secretaries

BOGALA GRAPHITE LANKA PLC

Colombo on this 10<sup>th</sup> day of March 2020

### Note:

Any member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/her stead and a form of proxy is sent herewith for this purpose. A proxy need not be a member of the Company.

A completed form of proxy must be deposited at the Registered Office of the Company at No. 216, De Saram Place, Colombo 10 not less than 48 hours before the time appointed for the holding of the meeting.





# FORM OF PROXY

I/We ..... of  
 ..... being  
 a member/s of BOGALA GRAPHITE LANKA PLC hereby appoint .....  
 ..... of  
 ..... or failing him Mr. V. P. Malalasekera or  
 failing him Mr. Roger Miller or failing him Mr. J. C. P. Jayasinghe or failing him Mr. A. P. Jayasinghe or failing him  
 Mr. T. A. Junker or failing him Ms. M. C. Pietersz or failing her Mr. A. S. R. Amarasinghe or failing him  
 Mr. M. Adamally or failing him Ms. Ulla Neunzert as my/our proxy to speak/vote for me/us and on my/our behalf  
 at the 29<sup>th</sup> Annual General Meeting of the Company to be held on the 04<sup>th</sup> day of April 2020 at 10.30 a.m. and at  
 any adjournment thereof and at every poll which may be taken in connection with such meeting.

As witness my/our hand this .....day of ..... Two Thousand and Twenty.

.....  
 Signature

**Note:**  
 Delete what is inapplicable.

*\*Please bring your National Identity Card.*

### INSTRUCTIONS AS TO COMPLETION

1. The instrument appointing a proxy may be in writing under the hands of the appointor or of its attorney duly authorised in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation under its common seal or the hand of its attorney or duly authorised person.
2. The instrument appointing a proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of the Power of Attorney or other authority will have to be deposited at the Registered Office of the Company not less than 48 hours before the time appointed for the holding of the meeting.



# CORPORATE INFORMATION

- 1. Name of the Company** Bogala Graphite Lanka PLC
- 2. Legal Form** A Public Quoted Company with limited liability incorporated under the provisions of Companies Act No. 7 of 2007
- 3. Date of Incorporation** 11<sup>th</sup> March 1991
- 4. Company Registration Number** PQ 218
- 5. Nature of Business** Mining, Processing and Preparation, Production of Lubricants, and Sale of Graphite and Lubricants
  
- 6. Board of Directors**

Mr. Vijaya Malalasekera	Chairman
Mr. Thomas A. Junker	Vice Chairman
Mr. J. C. P. Jayasinghe	
Mr. Roger Miller	
Mr. Amila Jayasinghe	CEO / Managing Director
Ms. Coralie Pietersz	
Mr. Sugath Amarasinghe	CFO / Finance Director
Mr. Mohamed Adamaly	
Ms. Ulla Neunzert	
  
- 7. Business Address** Bogala Mines, 71041 Aruggammana  
Website : [www.gk-graphite.lk](http://www.gk-graphite.lk)
  
- 8. Secretaries** Corporate Services (Private) Limited  
216, De Saram Place, Colombo 10.  
Tel: 004718200 Fax: 004718220  
Email: [csl@figdesaram.com](mailto:csl@figdesaram.com)

<b>Lawyers</b>
F J & G De Saram
216 De Saram Place, Colombo 10.
Tel: 0114605100 Fax: 0112669769
Email: <a href="mailto:fjgdesaram@fjgdesaram.com">fjgdesaram@fjgdesaram.com</a>
  
- 9. External Auditors** KPMG  
Chartered Accountants  
32A, Sir Mohammed Macan Markar Mw.,  
Colombo 03.

<b>Internal Auditors</b>
B. R. De Silva & Company
Chartered Accountants
22/4, Vijaya Kumaranathunga Mawatha, Colombo 05.
  
- 10. Bankers** People's Bank  
Union Bank
  
- 11. Management Committee**

Assistant General Manager (Underground)	Chaminda Ekanayake
Assistant General Manager (Processing)	Anura Liyanage
Assistant General Manager (Engineering Services / Safety, Health & Environment)	Saliya Gunasekara
Assistant General Manager (Finance)	Ms. Devika Kumari
Manager Human Resources & Administration	Kithsiri Muhandiram
Manager IT	Ruwan Jayakody
Manager Mining	I. V. Sunil
Deputy Processing Manager	Nalin Samantha
Mine Service Manager / Geologist	Kithsiri Palandagama
Manager Public Relations & Stores	Hemantha Jayasinghe

