

CIRCULAR TO THE SHAREHOLDERS

MELSTACORP PLC
(PB 11755 PQ)
110, NORRIS CANAL ROAD, COLOMBO 10, SRI LANKA

Dear Shareholder/s,

REPURCHASE OF 1,000 NON-VOTING SHARES FROM DCSL

Melstacorp PLC (the “Company”) and Distilleries Company of Sri Lanka (“DCSL”) underwent a reorganization by way of an arrangement by court order in terms of Part X of the Companies Act No. 7 of 2007 (“Companies Act”) in 2016, pursuant to which the Company, which was previously a subsidiary of DCSL, became the holder of 92.46% of the issued share capital of DCSL and the shares of the Company held by DCSL were consolidated to 1000 shares and the said shares were converted to non-voting shares.

In order to complete the said restructure, the board of directors of the Company has decided to make an offer to DCSL to repurchase 1,000 non-voting shares of the Company that is held by the DCSL at a consideration of Sri Lankan Rupees Eighty Two Fifty (LKR. 82.50) a share, subject to obtaining all necessary approvals and consents therefor.

DCSL has agreed to sell the said shares once the Company offers to repurchase the same.

The repurchase is a distribution in terms of the Companies Act No. 07 of 2007.

Shareholder approval by way of an ordinary resolution is sought for the distribution of Sri Lankan Rupees Eighty Two Thousand Five Hundred (Rs.82,500/-) being the total sum payable for the repurchase of the 1,000 non-voting shares.

Once the 1,000 non-voting are re-purchased by the Company, the shares will be cancelled.

REDUCTION OF STATED CAPITAL OF THE COMPANY AND TRANSFER OF FUNDS FROM THE STATED CAPITAL TO THE CAPITAL RESERVES

Furthermore, in order to facilitate a consistent dividend payout policy, the board of directors has resolved to recommend to the shareholders to consider and if deemed fit, approve by way of a special resolution, a reduction in the stated capital of the Company to an amount of Sri Lankan Rupees Seventy Billion (LKR 70,000,000,000) from the current stated capital of Sri Lankan Rupees Eighty Nine Billion One Hundred Million (LKR 89,100,000,000).

A sum of Sri Lankan Rupees Nineteen Billion One Hundred Million (LKR 19,100,000,000) is to be transferred to the capital reserves of the Company of which a sum of Sri Lankan Rupees Eighty Two Thousand Five Hundred (Rs. 82,500/-) will be distributed to DCSL for the repurchase of the 1,000 non-voting shares. A sum of Sri Lankan Rupees Nineteen Billion Ninety Nine Million, Nine hundred and Seventeen Thousand Five Hundred (LKR 19,099,917,500) will remain in the capital reserves of the Company.

The Company has been attempting to establish a consistent dividend payout policy and there had been instances the Company has failed to do so due to the need to provide significant adjustments for the fall in value of minority listed investments. With the introduction of SLFRS 9, the Company is required to make provisions of short-term fluctuations of its minority investments in listed holdings.

The investments made by the Company as of 31st March 2021 are as follows.

Investments in Listed Subsidiaries	Rs. 55.8 billion
Investments in unlisted subsidiaries	Rs. 11.2 billion
Minority investment in listed holdings	Rs. 31.5 billion
TOTAL	Rs. 98.5 billion

Most of the minority holdings of the listed companies are held as long-term investments. However, as they are categorized as held for sale investments (non-strategic), the Company is required to adjust the financial statements correspond to the variations in the market value. The temporary variations (downward movements) of the listed minority holdings, hence, have an impact of the Company’s ability to maintain consistent dividend payments.

The Company would be able to maintain a consistent dividend policy if the Company had a significant retained earnings or reserves balance. As a newly reconstituted entity, the Company does not have the reserves to cover for fluctuations in the minority holdings. Hence the Company is in need of a reserves buffer to absorb downward movements in the listed minority holdings.

The board of directors has specifically resolved that they do not have any intention of using the additional capital reserve to pay a dividend or to use the reserves to augment the future dividend payments. **This means at all times the total of the stated capital and capital reserve of the Company will not be less than Sri Lankan Rupees Eighty Nine Billion One Hundred Million (LKR 89,100,000,000).** The increase in capital reserve will solely act as a buffer in solvency computations at times of downward fluctuations in the values of the listed minority holdings, thereby maintaining consistent dividend payments.

In determining the reduced stated capital, the board of directors took in to account the investments made by the Company in listed and unlisted subsidiaries. As of 31st March 2021 the total investments made in subsidiaries stand at of Sri Lankan Rupees Sixty Seven Billion (LKR 67,000,000,000). Considering the following, the board of directors believes that by transferring Sri Lankan Rupees Nineteen Billion Ninety Nine Million, Nine hundred and Seventeen Thousand Five Hundred (LKR 19,099,917,500) to its capital reserves and thereby making the stated capital Sri Lankan Rupees Seventy Billion (LKR 70,000,000,000), would be most appropriate.

- (a) The stated capital of the Company would be Sri Lankan Rupees Seventy Billion (LKR 70,000,000,000) that corresponds to Sri Lankan Rupees Sixty Seven Billion (LKR 67,000,000,000) investments in the subsidiaries.
- (b) The stated capital of the Company adequately reflects the investments made in the subsidiaries that are not held for sale.
- (c) The transfer would increase the capital reserves by Sri Lankan Rupees Nineteen Billion Ninety nine Million, Nine hundred and Seventeen Thousand Five Hundred (LKR 19,099,917,500) allowing the Company to have a significant buffer against short term variations in the value of the (non-subsidiary) listed investments.
- (d) The Company does not have to limit the future investing in minority listed investments due to the potential impact on dividend payments during the periods of downward trends in the Colombo Stock Exchange.

Compliance with the law

The repurchase of the 1,000 non-voting shares and the reduction of stated capital is carried out in conformity with the provisions of the Companies Act No. 07 of 2007.

The proposed reduction of stated capital is in conformity with the guidelines issued by the Colombo Stock Exchange.

The above matters will be taken up at an Extraordinary General Meeting of the Company which is convened in terms of the attached Notice of Meeting for the purpose of adopting the resolutions set out therein.

Shareholders who are unable to participate at the Extraordinary General Meeting to be held as a virtual meeting (through audio or audio and visual means via an online meeting platform) at “Mini Auditorium” DCSL, No.110, Norris Canal Road, Colombo 10, Sri Lanka on 15th October 2021 at 10.00 a.m., may appoint a proxy as his/her/its proxy by forwarding the duly completed Form of Proxy to the Company via e-mail to **egm2021@melsta.com** or by post to the registered address of the Company No.110, Norris Canal Road, Colombo 10, Sri Lanka, **not less than thirty six (36) hours before the time fixed for the meeting.**

Shareholders could also appoint a member of the Board to act as their proxy if they so choose. The shareholders who wish to appoint a director as his/her/its proxy must forward the duly completed Form of Proxy clearly indicating their vote under each matter set out in the Form of Proxy and forward same to the Company via e-mail to **egm2021@melsta.com** or by post to the registered address of the Company No.110, Norris Canal Road, Colombo 10, Sri Lanka, **not less than thirty six (36) hours before the time fixed for the meeting.**

By order of the Board,

CORPORATE SERVICES (PRIVATE) LIMITED

Secretaries
MELSTACORP PLC
216, De Saram Place, Colombo 10.

22nd September 2021, Colombo.