

EQUITY TWO PLC ANNUAL REPORT 2016/2017

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A Carson Cumberbatch Company

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Chairman's Statement

Dear Shareholder,

As the Chairman of the Board, it is with utmost pleasure that I welcome you to the 27th Annual General Meeting of the company and present to you the Annual Report and the Audited Financial Statements of Equity Two PLC for the financial year ended 31st March 2017. Your company has continued to deliver strong operational performance amidst continuing challenges faced, which are discussed later in my review.

The Economy grew by a moderate rate of 4.4% during the year. Yet the construction sector growth recorded an impressive 14.9% against the backdrop of increased activity in the spheres of high-rise residential and commercial property development. The capital city of the country, Colombo is experiencing a wide transformation in terms of architectural and infrastructure development, along with notable progress observed in the Port City Development project during the course of the year.

The developments in Sri Lankan tourism are noteworthy with a promising target of 4 Mn arrivals to be secured by 2020. Further, on the infrastructure arena, the Colombo and the Hambantota ports are being developed as well as an increased number of projects in the Northern and Eastern regions of the country are being implemented.

Backed by these developments, increased business activities are taking place across the country which augurs well for the commercial property market-space. Stepping in to the new financial year, the growth momentum in the industry is likely to continue. Nevertheless, in the forthcoming period, both interest rates and the inflation seem to be on the gradual rise, indicating a potential slowdown in the property development market. Already high and ever-increasing construction costs continue to worry the construction industry.

Your property has continued to benefit from its strategic location at the heart of Colombo combined with superior and personalised service offered to its tenants. The property comprising of 2 buildings, managed to secure an occupancy of 90% during the course of the year. The revenue of the company for the year under consideration reached Rs. 118.9Mn, demonstrating a YoY growth of 13% supported by a steady occupancy growth, from 85% to 90%, and an increase in rentals.

Total investment property value as at the end of the period under consideration stood at Rs. 1.1 Bn. There were no notable changes observed in the investment property valuations for the year. Equity Two PLC recorded a profit before tax of Rs. 78.6 Mn for the financial year 2016/17, which is a Rs. 115.3 Mn contraction in comparison to the corresponding year, mainly due to the gain on fair valuation of investment properties of Rs. 126.7 Mn recognised in the financial year

2015/16. If the said gain in the previous year is excluded, then the profit before tax of the company for the period under review shows an increase of 17%.

The year under consideration was the first year of operations where the company received its full rent roll in cash since of the renovation and renting of the second building of the property, with the final settlement of rent in advance collected in 2013. The advance rent collected was fully utilised to renovate the said building. Further, the company also settled its borrowings in full during the year, further augmenting cash available for other activities of the company. Accordingly, the Board of the Directors of Equity Two PLC recommended and paid a First Interim Dividend of Rs.1.40 per share for the year ended 31st March 2017.

In terms of challenges, as I have outlined several times before in previous years, the most depressing concern is the entry restrictions to the property via its main entrance from Janadhipathi Mawatha, which restrains us from realising the full value potential and investment returns. Though the property sports an elegant Janadhipathi Mawatha address, the actual ingress is through backstreet of the hospital street. Limited vehicle parking space pertaining to the property remains another constraint on the marketability of the property, in a city where public transport is not developed to the standard of its developed regional peers. Nevertheless, we will continue executing prudent business strategies to increase the value addition to our tenants by providing a superior service to them.

On behalf of the Board of Equity Two PLC, I wish to express my sincere gratitude and appreciation to our valued shareholders who have placed their trust in the company and we assure that we will direct our best efforts towards realising the full potential of our business. I also appreciate our valued tenants, business affiliates, financiers, regulatory authorities and all the stakeholders for their continuous support throughout the year. I extend my appreciation to the members of the Audit Committee, Nomination Committee, Remuneration Committee and the Related Party Transactions Review Committee for their guidance and my colleagues on the Board for their precious inputs. I also wish to express our gratitude to all our employees, whose hard work and commitment have been central to our continuing success.

(Sgd.)

D.C.R. Gunawardena

Chairman

Colombo

15th May 2017

Business Review

MACRO OVERVIEW

As per the Central Bank data, Sri Lankan economy grew by 4.4% during 2016, while industrial activities expanded by 6.7% and the construction sector advanced by 14.9%. The Government increased key policy rates again by 25 basis points in March 2017 in the midst of growing inflationary pressure, after increasing the rates by 50 basis points each in the months of February and July 2016.

For the months ahead, the country seems to be carrying an exposure to an economic environment of rising interest rates where inflation is possibly controlled and maintained. This could present a challenging environment for the real estate sector of the country.

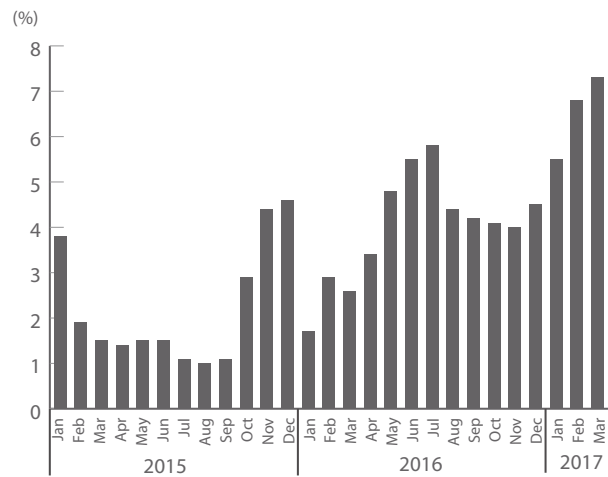
However, at present, the real estate industry is encountering swift growth with accelerated construction of residential and commercial developments throughout the Colombo city as well as the suburbs and gradually penetrating to other regions. Adding to this would be the port city development with another hefty supply of commercial and residential developments. Healthy demand conditions witnessed over the years for both upper and middle class residential properties are heating up the activity levels in the residential real estate market which may reach saturation sooner rather than later.

Nonetheless, the commercial real estate market-space in the country seems to be portraying less saturated conditions to that of the residential property market and forecasts growth potential in the next 2 to 3 years. The current growing

demand for high grade office space by expanding private business firms is currently met with supply shortage of such space. Hopefully, the consequent demand drive would translate to increased property yields and appreciations in property values in the short term.

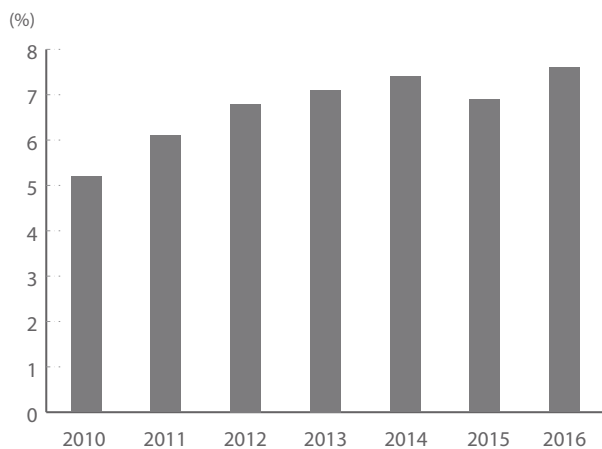
Yet, the lack of long-term mortgage debt, tax concessions for housing, high borrowing rates as well as ever escalating construction costs remain as key constraints in the industry to date, which require in-depth consideration.

YEAR ON YEAR CCPI BEHAVIOUR



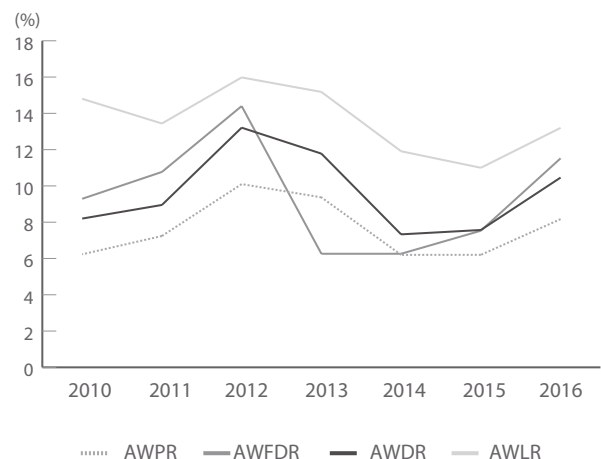
Source: Based on the Central Bank Annual Report 2016

CONSTRUCTION SECTOR SHARE OF GROSS VALUE ADDED AND GDP AT CONSTANT (2010) MARKET PRICES



Source: Based on the Central Bank Annual Report 2016

INTEREST RATE BEHAVIOUR (PER CENT PER ANNUM AT YEAR END)



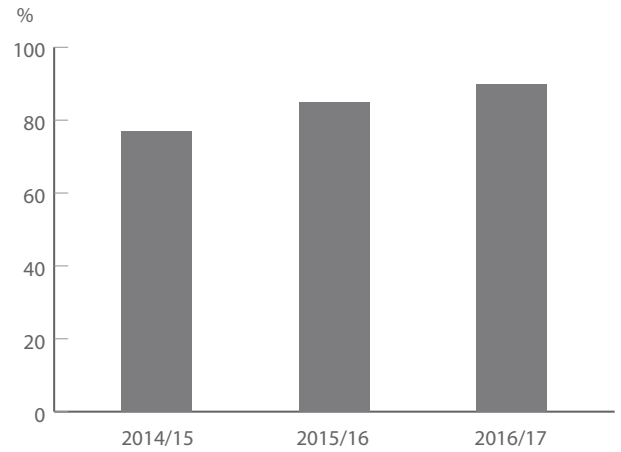
Source: Central Bank of Sri Lanka

REAL GDP (PERCENTAGE CHANGE)

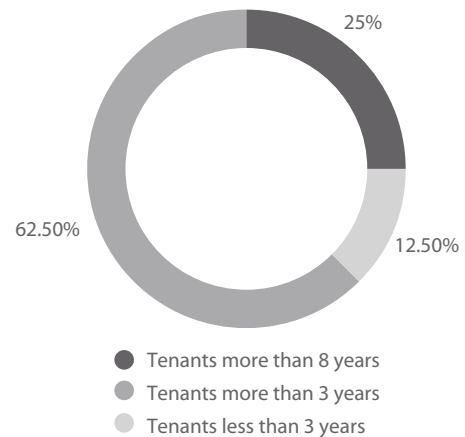


Source : Based on the data from Department of Census & Statistics

AVERAGE OCCUPANCY



AGE ANALYSIS OF TENANTS 2016/17



OUR BUSINESS

2017 was another year of good performance and progress across the company. Occupancy at Equity Two PLC for the financial year ended 31st March 2017 averaged at 90%, with an increase of 5% against occupancy of 85% recorded in the corresponding period. As highlighted several times previously, the iron fence barricading the properties alongside Janadhipathi Mawatha, continue to hinder the performance of the company to its' full potential.

In spite of the said access restriction to the property, we have managed to grow the occupancy over the years so much so to reach full occupancy as at the end of the year albeit the deserving rent. We have continued to place utmost significance on attracting high quality tenants, with whom we seek to establish long term, mutually beneficial relationships based on trust, which will ultimately create a win-win situation for both parties and we are always committed to continuously maintain and improve our property in order to provide the best possible service to our valued tenants.

BUSINESS REVIEW

Increased occupancy and rate revisions strengthened the rental income of the property to reach Rs. 118.9 Mn, with a year-on-year growth of 13%. Investment property values of the company did not reflect major changes during the year under consideration. Direct costs increased by 18% for the year under review to reach Rs. 28.3 Mn amid increased rates and taxes, insurance and repair and maintenance charges pertaining to the building and plant and machinery.

Administrative and other operating expenses rose by 7% during the course of the year to reach Rs. 10.8 Mn, primarily attributable to the commission charges paid on new tenancies.

Aforementioned reasons led to a profit before tax of Rs. 78.6 Mn and a profit after tax of Rs. 56.6 Mn, against a

Business Review

profit before tax and a profit after tax of Rs. 193.9 Mn and Rs. 173.7 Mn respectively, registered in the corresponding financial year. With the full utilisation of capital allowance during the financial year 2015/16, the company recognised an income tax expense of Rs. 11.9 Mn against previous year's income tax expense of Rs. 3.4 Mn.

Eliminating the impact of the fair value gains on investment property valuations of the comparative year, the profit before tax of the company recorded a YoY increase of 17%.

A key highlight of the year is the company receiving its full rent roll of the second building located at No. 55 Janadhipathi Mawatha from October 2016 in cash after fully settling the advance rent collected in 2013. The advance rent collected was used to finance the renovation of the said building at the time. This, along with the full settlement of company's borrowings, has notably strengthened the cash flow position of Equity Two PLC during the year under review, where the net operational cash flow of the year improved to Rs. 65.9 Mn in comparison to Rs. 32.3 Mn in the financial year 2015/2016.

Accordingly, the company declared and paid a first interim dividend of Rs.1.40 per share for the year, in comparison to Rs. 0.20 First and Final Dividend declared during the financial year 2015/16, primarily owing to aforementioned improved operational cash flows of the company.

FUTURE OUTLOOK

In spite of the near overheating residential property market, Sri Lanka promises positive economic prospects. Equity Two PLC is well placed in the heart of Colombo city to benefit from this growth. However, the effects of rising interest rates, curtailment of credit growth as well as the currency depreciation could exert pressure on the property market.

Carsons Management Services (Private) Limited

Managers

15th May 2017

Annual Report of the Board of Directors on the affairs of the Company

The Board of Directors of Equity Two PLC (“the Company”) have pleasure in presenting to the Shareholders their Report together with the Audited Financial Statements for the year ended 31st March 2017. Equity Two PLC is a public quoted company with limited liability incorporated in Sri Lanka in 1990.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and are guided by recommended best Accounting Practices.

The Annual Report was approved by the Board of Directors on 15th May 2017.

1. PRINCIPAL ACTIVITY OF THE COMPANY

The principal activity of the Company is letting of office space for commercial purposes.

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

2. BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Chairman’s Statement and Business Review on pages 01 to 04 provide an overall assessment of the business performance of the Company and its future developments.

These reports together with the audited financial statements reflect the state of affairs of the Company.

3. FINANCIAL STATEMENTS

The financial statements which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flow, Statement of Changes in Equity and Notes to the Financial Statements of the Company for the year ended 31st March 2017 are set out on pages 24 to 49. These financial statements comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

3.1. Revenue

The Company generated a revenue of Rs.118.9 mn (2016 – Rs. 105.3 mn) for the year ended 31st March 2017. An analysis of the revenue for the period is given in note 11 to the financial statements.

3.2. Financial results and appropriations

An abridgement of the financial performance of the Company is presented in the following table.

| For the year ended 31st March (In Sri Lankan Rupees thousands) | 2017 | 2016 |
|---|----------|-----------|
| Profit for the year | 56,626 | 173,740 |
| Other comprehensive income/ (expense) for the year | 204 | (42) |
| Total comprehensive income for the year | 56,830 | 173,698 |
| Retained earnings as at the beginning of the year | 112,804 | 72,082 |
| Super Gain Tax for the year of assessment 2013/14 | - | (127) |
| Adjusted retained earnings as at the beginning of the year | 112,804 | 71,955 |
| Retained earnings before appropriations | 169,634 | 245,653 |
| Forfeited dividends | - | 10 |
| Dividends paid | (49,600) | (6,200) |
| Transfer to fair value adjustment reserve | - | (126,659) |
| Retained earnings as at the end of the year | 120,034 | 112,804 |

Annual Report of the Board of Directors on the affairs of the Company

3.3. Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are given on pages 28 to 35.

3.4. Investment properties

The Company has recognised the carrying value of investment properties in the Statement of Financial Position at 'fair value' in accordance with Sri Lanka Accounting Standard (LKAS 40) - 'Investment Property'. During the year, Director's valuation was carried out for the investment properties of the Company.

Accordingly, in the opinion of the Director's no material change has occurred in the fair value of the investment properties compared to the previous year's professional valuation. The last professional valuation on the investment properties of the Company had been performed by an independent professional valuer, Mr. S. Sivaskantha, F.I.V. (Sri Lanka) of Perera Sivaskantha & Company, Incorporated valuers, as at 31st March 2016 on the basis of Market Approach.

As at the period end, the carrying value of the investment properties of the Company stood at Rs.1145.5 mn (2016 - Rs. 1145.4 mn)

Details of the Investment Properties are given in note 17 to the financial statements.

3.5. Capital expenditure

The details of capital expenditure of the Company are as follows;

| For the year ended 31st March (In Sri Lankan Rupees thousands) | 2017 | 2016 |
|---|------|-------|
| Investment properties | 110 | 2,249 |

3.6. Reserves

As at 31st March 2017, the total reserves of the Company stood at Rs.556.1 mn (2016 - Rs. 548.9 mn)

The movements are set out in the Statement of Changes in Equity and in note 21 to the financial statements.

4. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibilities of the Directors, in relation to the financial statements are detailed in the following paragraphs, while the responsibilities of the auditors are set out in the Independent Auditors' Report.

According to the Companies Act No. 07 of 2007 and Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Directors are required to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company as at the end of the financial year and of the performance for the said period.

The financial statements comprise of *inter alia*:

- a Statement of Financial Position, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year;
- a Statement of Profit or Loss and Other Comprehensive Income of the Company, which presents a true and fair view of the Profit and Loss and Other Comprehensive Income of the Company for the financial year.

In preparing these financial statements, the Directors are required to ensure that:

- appropriate accounting policies have been selected and applied consistently, while material departures, if any, have been disclosed and explained;
- all applicable Accounting Standards have been complied with; and
- reasonable and prudent judgments and estimates have been made.
- provides the information required by and otherwise comply with the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Directors are responsible for ensuring that the Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company, and for ensuring that the financial statements have been prepared and presented in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, and meet with the requirements of the Companies Act No. 07 of 2007.

They are also responsible for taking reasonable measures to safeguard the assets of the Company and in this regard to give proper consideration to the establishment and effective operation of appropriate systems of internal control with a view to prevent, detect and rectify fraud and other irregularities.

These financial statements have been prepared on a going concern basis since the Directors are of the view that the Company has adequate resources to continue in operation in the foreseeable future from the date of approving these financial statements. The Directors are also of the view that they have discharged their responsibilities as set out in this statement.

The Directors confirm that to the best of their knowledge,

- all taxes, duties and levies payable to the statutory bodies,
- all contributions, levies and taxes payable on behalf of and in respect of the employees and
- all other known statutory dues as were due and payable

by the Company as at the reporting date have been paid, or where relevant provided for in these financial statements.

5. INTERESTS REGISTER

The Company maintains the Interests Register conforming to the provisions of the Companies Act No.07 of 2007. All Directors have made declarations as provided for in Section 192(2) of the Companies Act aforesaid.

The relevant details as required by the Companies Act No. 07 of 2007 have been entered in the Interests Register during the year under review.

The Interests Register is available for inspection as required under the Companies Act. No. 07 of 2007.

5.1 Remuneration of Directors

Directors' remuneration, for the financial year ended 31st March 2017 is given in note 13 to the financial statements, on page 36.

5.2. Directors' Interest in Contracts and Shares

Directors' interests in contracts of the Company are disclosed in note 30 to these financial statements and have been declared at meetings of the Directors. The Directors have had no direct or indirect interest in any other contracts or proposed contracts in relation to the business of the Company, while they had the following interests in the ordinary shares of the Company as shown in the table below.

| Directors | No. of shares as at | |
|-------------------------------------|---------------------|-----------------|
| | 31st March 2017 | 31st March 2016 |
| Mr. D. C. R. Gunawardena (Chairman) | - | - |
| Mr. K. C. N. Fernando | 3,600 | 3,600 |
| Mr. A. P. Weeratunge | - | - |
| Mr. E. H. Wijenaik | - | - |
| Mr. P. D. D. Fernando | - | - |

6. DIRECTORS

The names of the Directors who served during the year are given under Corporate Information provided in the inner back cover of the Annual Report.

6.1. Directors to retire by rotation

In terms of Articles 72, 73 and 74 of the Articles of Association of the Company, Mr. E. H. Wijenaik retires by rotation and being eligible offers himself for re-election.

6.2. Appointment of Directors who are over 70 years of age

Upon the recommendation of the Nomination Committee of the Company and the Board, it is recommended that Messrs. P. D. D. Fernando who is over 70 years of age and K.C.N. Fernando who is 70 years of age be re-appointed as Directors of the Company for a further period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not be applicable to them.

7. CORPORATE GOVERNANCE

The Board has ensured that the Company has complied with the Corporate Governance Rules as per the Listing Rules of the Colombo Stock Exchange (CSE).

Annual Report of the Board of Directors on the affairs of the Company

7.1. Board of Directors

The following Directors held office as at the reporting date and their brief profiles are given on page 15 of the Annual Report.

| Directors | Executive / Non-Executive / Independent |
|-------------------------------------|---|
| Mr. D. C. R. Gunawardena (Chairman) | Non-Executive |
| Mr. K. C. N. Fernando | Executive |
| Mr. A. P. Weeratunge | Executive |
| Mr. E. H. Wijenaïke * | Non-Executive / Independent |
| Mr. P. D. D. Fernando** | Non-Executive / Independent |

Each of the Non-Executive Directors of the Company have submitted a signed declaration on Independence/ Non-Independence as per Rule 7.10.2(b) of the Listing Rules of the Colombo Stock Exchange (CSE). The said declarations were tabled at a Board Meeting of the Board of Directors of the Company held on 15th May 2017, in order to enable the Board of Directors to determine the Independence/ Non-Independence of each of the Non-Executive Directors, in terms of Rule 7.10.3(a) of the Listing Rules of the CSE.

* The Board has determined that Mr. E. H. Wijenaïke is an Independent Non-Executive Director in spite of being a Director of Equity One Limited, which has a substantial shareholding in the Company and where the other Directors of the Board are also Directors, since he is not directly involved in the management of the Company.

** The Board has also determined that Mr. P. D. D. Fernando is an Independent Non-Executive Director in spite of being a Director of Equity One Limited, which has a substantial shareholding in the Company and where the other Directors of the Board are also Directors, since he is not directly involved in the management of the Company.

7.2 Directors' Meetings Attendance

During the financial year the Board of Directors had three Board Meetings and the attendance of the Directors were as follows;

| Directors | Meetings Attended (Out of three) |
|-------------------------------------|----------------------------------|
| Mr. D. C. R. Gunawardena (Chairman) | 3/3 |
| Mr. K. C. N. Fernando | 2/3 |
| Mr. A. P. Weeratunge | 3/3 |
| Mr. E. H. Wijenaïke | 3/3 |
| Mr. P. D. D. Fernando | 3/3 |

7.3 Board Evaluation

The 'Board Evaluation Form' of the Company focusses on the following areas;

- Core Board Responsibilities
- Board Meetings
- Committee Meetings (any/ all sub-committees)
- Relationship with Management
- Individual self-assessment
- Stakeholder and Shareholder communication/ relationship
- Suggestions/ comments

The comments made by the Directors in the Board Evaluation Form are collated by the Nomination Committee of the Company and the results and proposed actions are reported to the Board of Directors. The suggestions and recommendations made by the Directors are being reviewed and implemented by the Company.

7.4 Audit Committee

The Parent Company of the Company is Equity One Limited (EQIT) and Carson Cumberbatch PLC (CCPLC) in turn is the Parent Company of EQIT. As per the Rule 7.10.6 of the Listing Rules of the Colombo Stock Exchange, the Audit Committee of CCPLC functions as the Audit Committee of the Company.

Composition

| Audit Committee Members | Executive / Non-Executive/ Independent |
|-----------------------------------|--|
| Mr. V. P. Malalasekera (Chairman) | Non-Executive/ Independent Director of CCPLC |
| Mr. F. Mohideen | Non-Executive/ Independent Director of CCPLC |
| Mr. D. C. R. Gunawardena | Non-Executive Director of CCPLC |

The Audit Committee Report is given on pages 17 to 18 of this Annual Report.

7.5 Remuneration Committee

The Parent Company of the Company is Equity One Limited (EQIT) and Carson Cumberbatch PLC (CCPLC) in turn is the Parent Company of EQIT. As per the Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange, the Remuneration Committee of CCPLC functions as the Remuneration Committee of the Company.

Composition

| Remuneration Committee Members | Executive / Non-Executive/ Independent |
|--------------------------------|--|
| Mr. I. Paulraj (Chairman) | Non-Executive Director of CCPLC |
| Mr. D. C. R. Gunawardena | Non-Executive Director of CCPLC |
| Mr. R. Theagarajah | Non-Executive/ Independent Director of CCPLC |
| Mr. W. M. R. S. Dias | Non-Executive/ Independent Director of CCPLC |
| Mr. T. de Zoysa | Non-Executive/ Independent Director of CCPLC |

Scope and Objective

The primary objective of the Remuneration Committee is to lead to establish a formal and transparent procedure for the development of a remuneration policy and the establishment of a remuneration structure.

A remuneration policy has been formulated based on market and industry factors and individual performance for all group Companies.

Functions and Proceedings

The Remuneration Committee recommends to the Board the remuneration to be paid to Executive Directors and Non-Executive Directors. Based on the recommendation of the remuneration committee, the Board approves remuneration to the respective Directors.

Other members of senior management may be invited to attend meetings to discuss the performance of the Executive Directors and make proposals as necessary. Neither, Executive or Non- Executive Directors are involved in Remuneration Committee meetings when determinations are made in relation to the remuneration of the respective Directors.

The Committee is authorised by the Board to seek appropriate professional advice internally and externally as and when it considers this necessary.

The Remuneration Committee meets at least twice a year.

During the period under review the Committee had two meetings.

| Remuneration Committee Members | Meetings Attended (Out of two) |
|--------------------------------|--------------------------------|
| Mr. I. Paulraj (Chairman) | 1/2 |
| Mr. D. C. R. Gunawardena | 2/2 |
| Mr. R. Theagarajah | 1/2 |
| Mr. W. M. R. S. Dias | 2/2 |
| Mr. T. de Zoysa | 1/2 |

Reporting and Responsibilities

The Committee Chairman reports to the Board on its proceedings on all matters within its duties and responsibilities. The Committee makes recommendations to the Board as deemed appropriate on any area within its limit where action or improvements are needed.

Annual Report of the Board of Directors on the affairs of the Company

Aggregated remuneration paid to the Non-Executive Directors of the Company are disclosed under note 13 on page 36 of the Annual Report. Executive Directors are not compensated for their role on the Board.

7.6 Nomination Committee

- (i) The Nomination Committee of Equity One Limited (EQIT), the Parent Company, functioned as the Nomination Committee of the Company until 30th November 2016. During the period 1st April 2016 to 30th November 2016 the Committee did not have any meetings and the EQIT Nomination Committee was dissolved on 30th November 2016.

Composition

| Nomination Committee Members | Executive / Non-Executive/ Independent |
|------------------------------|---|
| Mr. S. Nagendra (Chairman) * | Non-Executive/ Independent Director of EQIT |
| Mr. P. D. D. Fernando | Non-Executive/ Independent Director of EQIT |
| Mr. D. C. R. Gunawardena | Non-Executive Director of EQIT |

* Resigned from the EQIT Board and Nomination Committee with effect from 10th November 2016

Scope and Objective

The primary objective of the Nomination Committee is to lead the process for Board appointments of new Directors to the Board and the nominations of members to represent the Company in group companies/ investee companies.

Functions and Proceedings

The Nomination Committee recommends new appointments to the Board. Based on the recommendation of the Nomination Committee, the Board approves the new appointments of Executive and Non-Executive Directors to the Board.

Any Director of the Board and other members of senior management may be invited to attend Meetings of the Nomination Committee. The Committee may also invite appointed external consultants to aid the Committee in the discharge of its duties.

The Committee is authorized by the Board to seek appropriate professional advice internally and externally as and when considered necessary.

The Nomination Committee meets at least twice a year.

During the period 1st April 2016 to 30th November 2016 the Committee did not have any meetings.

| Nomination Committee Members | Meetings attended |
|------------------------------|-------------------|
| Mr. S. Nagendra (Chairman) * | - |
| Mr. P. D. D. Fernando | - |
| Mr. D. C. R. Gunawardena | - |

* Resigned from the EQIT Board and Nomination Committee with effect from 10th November 2016.

- (ii) The Parent Company of the Company is Equity One Limited (EQIT) and Carson Cumberbatch PLC (CCPLC) in turn is the Parent Company of EQIT. The Nomination Committee of CCPLC functions as the Nomination Committee of the Company with effect from 1st December 2016.

Composition

| Nomination Committee Members | Executive / Non-Executive/ Independent |
|------------------------------|--|
| Mr. T. de Zoysa (Chairman) | Non-Executive/ Independent Director of CCPLC |
| Mr. R. Theagarajah | Non-Executive/ Independent Director of CCPLC |
| Mr. D. C. R. Gunawardena | Non-Executive Director of CCPLC |

Scope and Objective

The primary objective of the Nomination Committee is to lead the process for Board appointments of new Directors within group companies and the nominations of members to represent the Company in group companies/ investee companies.

Functions and Proceedings

The Nomination Committee recommends new appointments to the Board. Based on the recommendation of the Nomination Committee, the Board approves the new appointments of Executive and Non-Executive Directors to the Board.

Any Director of the Board and other members of senior management may be invited to attend Meetings of the Nomination Committee. The Committee may also invite appointed external consultants to aid the Committee in the discharge of its duties.

The Committee is authorized by the Board to seek appropriate professional advice internally and externally as and when considered necessary.

The Nomination Committee meets at least twice a year.

During the period 1st December 2016 to 31st March 2017 the Committee had one meeting.

| Nomination Committee Members | Meetings Attended |
|------------------------------|-------------------|
| Mr. T. de Zoysa (Chairman) | - |
| Mr. R. Theagarajah | 1/1 |
| Mr. D. C. R. Gunawardena | 1/1 |

7.7 Related Party Transactions Review Committee

The Parent Company of the Company is Equity One Limited (EQIT) and Carson Cumberbatch PLC (CCPLC) in turn is the Parent Company of EQIT. As per the Rule 9.2.3 of the Listing Rules of the Colombo Stock Exchange, the Related Party Transactions Review Committee of CCPLC functions as the Related Party Transactions Review Committee of the Company.

Composition

| Related Party Transactions Review Committee Members | Executive / Non-Executive/ Independent |
|---|--|
| Mr. V. P. Malalasekera (Chairman) | Non-Executive/ Independent Director of CCPLC |
| Mr. F. Mohideen | Non-Executive/ Independent Director of CCPLC |
| Mr. D. C. R. Gunawardena | Non-Executive Director of CCPLC |
| Mr. H. Selvanathan | Executive Director of CCPLC |
| Mr. M. Selvanathan | Executive Director of CCPLC |
| Mr. S. K. Shah | Executive Director of CCPLC |

The Related Party Transactions Review Committee Report is given on page 16 of this Annual Report.

Declaration

The Directors have made self-declarations for the purpose of identifying parties related to them. The said declarations were noted at Related Party Transactions Review Committee Meetings.

The Company is in compliance with Rule 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions, during the financial year.

Related Party Transactions Exceeding 10% of the Equity or 5% of the Total Assets of the Company

The Directors declare in terms of the requirements of the Listing Rules of the Colombo Stock Exchange that the transactions carried out by the Company with its Related Parties during the year ended 31st March 2017, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2017.

The details of the Related Party Transactions are given in note 30 on pages 48 to 49 of the Financial Statements.

1. Non-Recurrent Related Party Transactions.

There were no Non-Recurrent Related Party Transactions entered in to by the Company, where the aggregate value of the Non-Recurrent Related Party Transactions exceeds 10% of the Shareholders' equity or 5% of the total assets, whichever is lower, of the Company as at 31st March 2017.

2. Recurrent Related Party Transactions

Information pertaining to Recurrent Related Party Transactions where the aggregate value of the Recurrent Related Party Transactions exceeded 10% of the Gross Revenue / Income of the Company, as per the Audited Financial Statements are disclosed below;

Annual Report of the Board of Directors on the affairs of the Company

| Description | Comment |
|--|--|
| Name of the Related Party | Carsons Management Services (Private) Limited |
| Relationship | Fellow subsidiary |
| Nature of the Transaction | Rental income |
| Aggregate value of Related Party Transactions entered into during the financial year | Rs. 14,978,040 |
| Aggregate value of Related Party Transactions as a % of Net Revenue/ Income | 13% |
| Terms and Conditions of the Related Party Transactions | Based on the rental agreement entered in to between the companies based on arm's length basis. |

8. INTERNAL CONTROL AND RISK MANAGEMENT

The ultimate responsibility to establish, monitor and review a company-wide internal control system rests with the Board of Directors. The intensity, depth and the tolerance limits for each components of the internal control system would be based on the weight of the elements of risk imposed on the sustenance of the business by the respective area of operation. Whilst a strong internal control system would mitigate the crystallization of risk elements to a greater extent, employment of external support structures would also be necessary based on the risk assessments made thereon.

Effective maintenance of internal controls and risk indication and mitigation is handed down to the respective members of senior management within the guidelines of benchmark policies, procedures and authority limits clearly laid down.

Group internal Audit, whose scope of scrutiny is entirely driven by grading of the risk involved, will be monitoring and providing feedback to the Management and the Audit Committee. Regular submission of compliance and internal solvency certificates vouched by the Heads of the respective divisions as a mandatory agenda item keeps the Directors abreast of the position of the Company's resource base and governance requirements.

This allows the Board to have total control of the fulfillment of governance requirements by providing opportunity to take timely preventive action in case of

potential deterioration of status quo. A comprehensive description of the risk management strategies of the Company are given on pages 19 to 21 in the Annual Report.

9. INDEPENDENT AUDITORS

The Company's Auditors during the year under review were Messrs. KPMG, Chartered Accountants.

A sum of Rs. 165,000/- (2016 - Rs. 165,000/-) was paid to them by the Company as audit fees for the year ended 31st March 2017. Fees paid to Auditors on audit related services are given in note 13 to the financial statements.

The retiring Auditors have expressed their willingness to continue in office. A resolution to re-appoint them as Independent Auditors of the Company and authorizing the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

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

9.1 Auditors' relationship or any interest with the Company

The Directors are satisfied that, based on written representations made by the Independent Auditors to the Board, the Auditors do not have any interest with the Company that would impair their independence.

10. INDEPENDENT AUDITORS' REPORT

The Independent Auditors' Report on the financial statements is given on page 23 of the Annual Report.

11. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the year.

12. HUMAN RESOURCES

The Company continued to invest in human capital development and implement effective human resource practices and policies to develop and build an efficient and effective workforce aligned around business priorities and to ensure that its employees are developing the skills and knowledge required for the future success of the Company.

The number of persons employed by the Company as at 31st March 2017 was 05 (2016 - 06).

13. EQUITABLE TREATMENT TO SHAREHOLDERS

The Company endeavors at all times to ensure equitable treatment to all Shareholders.

14. ENVIRONMENT PROTECTION

The Company is sensitive to the needs of the environment and makes every endeavor to comply with the relevant environmental laws, regulations and best practices applicable in the country. After making adequate inquiries from the Management, the Directors are satisfied that the Company operates in a manner that minimizes the detrimental effects on the environment and provides services that have a beneficial effect on the customers and the communities within which the Company operates.

15. DIVIDEND

The Company paid a First & Final Dividend of 20 cents per ordinary share for the year ended 31st March 2016 totaling Rs. 6,200,000/- on 28th June 2016.

The Company also paid a First Interim Dividend of Rs.1.40 per ordinary share for the year ending 31st March 2017 totaling Rs. 43,400,000/- on 31st March 2017.

The details of the dividends are set out in note 28 to the Financial Statements.

16. SOLVENCY TEST

Taking into account the said distributions, the Directors were satisfied that the Company would meet the Solvency Test requirement under Section 56(2) of the Companies Act No. 07 of 2007 immediately after the distributions.

The Company's Auditors, KPMG, Chartered Accountants have issued Certificates of Solvency for the Dividends mentioned above, confirming same.

17. STATED CAPITAL

The Stated Capital of the Company as at 31st March

2017 was Rs. 444.1 mn consisting of 31,000,000 Ordinary Shares. There was no change in the Stated Capital of the Company during the year.

18. STATUTORY PAYMENTS

The Directors to the best of their knowledge and belief are satisfied that all statutory payments have been paid up to date or have been provided for in these financial statements.

19. GOING CONCERN

The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, these financial statements are prepared based on the 'Going Concern' concept.

20. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen, which would require adjustments to or disclosures in the financial statements, other than those disclosed in note 31 to the financial statements, if any.

21. CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The contingent liabilities and commitments made on account of capital expenditure as at 31st March 2017 are given in note 27 to the financial statements, if any.

22. CORPORATE DONATIONS

There were no donations made during the year ended 31st March 2017 (2016 - Nil).

23. OUTSTANDING LITIGATION

There were no outstanding litigations as at the reporting date.

24. TWENTY MAJOR SHAREHOLDERS

The Parent Company, Equity One Limited holds 88.81% of the total ordinary shares in issue of the Company.

| | Name of the Shareholders | 31st March 2017 | | 31st March 2016 | |
|---|---------------------------------------|-----------------|-------|-----------------|-------|
| | | No. of Shares | % | No. of Shares | % |
| 1 | Equity One Limited A/C No.1 | 27,532,525 | 88.81 | 27,532,525 | 88.81 |
| 2 | Bank of Ceylon A/C Ceybank Unit Trust | 2,236,814 | 7.22 | 2,213,530 | 7.14 |
| 3 | Mr. K. C. Vignarajah | 96,467 | 0.31 | 95,367 | 0.31 |
| 4 | Mr. H. W. M. Woodward | 61,100 | 0.20 | 61,100 | 0.20 |
| 5 | Tranz Dominion, L. L. C. | 55,480 | 0.18 | 55,480 | 0.18 |

Annual Report of the Board of Directors on the affairs of the Company

| | Name of the Shareholders | 31st March 2017 | | 31st March 2016 | |
|----|---|-----------------|------|-----------------|------|
| | | No. of Shares | % | No. of Shares | % |
| 6 | Mr. S. S. R. Ramanayake | 40,000 | 0.13 | 1,500 | 0.00 |
| 7 | Mr. L. I. Hettiarachchi | 33,804 | 0.11 | 33,804 | 0.11 |
| 8 | Mr. I. Paulraj | 33,450 | 0.11 | 37,650 | 0.12 |
| 9 | Waldock Mackenzie Ltd/Hi-Line Trading (Pvt) Ltd | 25,337 | 0.08 | 28,337 | 0.09 |
| 10 | Miss C. M. Wickramasekera | 25,300 | 0.08 | 25,300 | 0.08 |
| 11 | Union Investments Private Ltd | 25,200 | 0.08 | 5,000 | 0.02 |
| 12 | Mr. A. A. Noordeen | 23,900 | 0.08 | 23,900 | 0.08 |
| 13 | Mrs. S. Vignarajah | 18,278 | 0.06 | 18,278 | 0.06 |
| 14 | Seylan Bank PLC /Mr. S. N. C. W. M. B. C. Kandegedara | 18,000 | 0.06 | 55,100 | 0.18 |
| 15 | Mr. J. B. Hirdaramani | 16,000 | 0.05 | 16,000 | 0.05 |
| 16 | Mrs. J. Aloysius | 15,900 | 0.05 | 15,900 | 0.05 |
| 17 | Miss. V. K. Ramanayake | 15,000 | 0.05 | 15,000 | 0.05 |
| 18 | Mrs. H. I. P. Fernando | 15,000 | 0.05 | 15,000 | 0.05 |
| 19 | Mr. A. Seneviratne Epa | 13,000 | 0.04 | 13,000 | 0.04 |
| 20 | Mr. P. K. Jinadasa | 12,200 | 0.04 | 12,200 | 0.04 |

25. SHARE INFORMATION

The details relating to earnings, net assets, market value per share and information on share trading are given on pages 52 and 53 of this Annual Report.

26. ANNUAL REPORT

The information provided herein is in pursuance of the requirements of the Companies Act No.07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Board of Directors have approved the Financial Statements of the Company together with the Reviews which form part of the Annual Report on 15th May 2017. The appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar General of Companies, within applicable time frames.

27. ANNUAL GENERAL MEETING

The 27th Annual General Meeting of the Company will be held on Friday, 16th June 2017 at 10.30 a.m. at the 8th Floor, No.65C, Dharmapala Mawatha, Colombo 07, Sri Lanka.

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat is on page 54 of the Annual Report.

Signed on behalf of the Board,

(Sgd.)
D. C. R. Gunawardena
Director

(Sgd.)
K. C. N. Fernando
Director

(Sgd.)
K. D. De Silva (Mrs)
Director

Carsons Management Services (Private) Limited
Secretaries

Colombo
15th May 2017

Profiles of the Directors

CHANDIMA GUNAWARDENA

Chandima Gunawardena serves as a Non-Independent, Non-Executive Director of most of the Carsons Group Companies in Sri Lanka and overseas. He is also a Director of Bukit Darah PLC. Since assuming Non- Executive status in the Group, he serves as an advisor to the Group's Strategic Planning and Management forums in Sri Lanka and serves on Board Committees, including the Audit Committees of the Group in Sri Lanka and overseas covering all operating sectors of the Group.

Mr. Gunawardena has over four decades of experience in varied fields of business and commercial activities and has held senior positions in Corporate, Mercantile and State Institutions. He was appointed to the Carsons Group Directorate in 1990.

He has served in the Management Committee of The Ceylon Chamber of Commerce for over 10 years and was a Founder Council member of the Sri Lanka Institute of Directors (SLID) and continued to serve in the council for over 10 years.

He is a Fellow of the Chartered Institute of Management Accountants, UK.

NALAKE FERNANDO

Nalake Fernando is a Director of the Property Management Companies of the Carson Cumberbatch Group - Equity One Limited and Equity Two PLC. He is also a Director of Carsons Management Services (Private) Limited and in some of the Boards of the Malaysian Plantation Companies of the Carsons Group. He was the Country representative for Sri Lanka with Dalekeller & Associates Ltd, Designers and Skidmore Owings & Merrill Architects. He was also a Director of SKC Management Services Ltd.

He counts over 40 years of work experience and holds a Technician's Certificate of the Institute of Work Study Practitioners of UK.

AJITH WEERATUNGE

Ajith Weeratunge is a Director of the Carson Cumberbatch Group's Management Company, Carsons Management Services (Private) Limited and holds the position of Head of Finance.

He is also a Director of Group's Real Estate Sector-Equity One Limited and Equity Two PLC and the Group's Investment Holding Sector-Ceylon Investment PLC, Rubber Investment Trust Limited and Guardian Fund Management Limited and Leisure Sector-Equity Hotels Limited. He carries more than 35 years of finance related experience in several leading companies in the mercantile sector.

He is a Fellow member of the Chartered Institute of Management Accountants of UK.

ERANJITH WIJENAIKE

Eranjith Wijenaike is a Director of Equity Two PLC / Equity One Limited and Managing Director of Central Finance Company PLC. He is also a Director of Tea Smallholder Factories PLC, Trans Asia Hotels PLC, Central Industries PLC and served as a founder Director of Nations Trust Bank PLC. He holds a Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management.

DONALD FERNANDO

Donald Fernando is a Director of Equity One Limited / Equity Two PLC and the Managing Director of Fernando Rajapakse Associates (Private) Limited - Consulting Engineers and Project Managers and Director, Saramanda Lanka (Guarantee) Limited.

In 1965, earned a B.Sc (Eng.) Degree in civil engineering from the University of Ceylon. Civil Engineer with The Sri Lanka Ports Authority till 1969. From 1969 to 1982 worked as Civil Engineer in London. Member of the Institution of Civil Engineers, London in 1969. He is a Member of the Institution of Engineers, Sri Lanka and a Member of the Society of Structural Engineers, Sri Lanka.

Report of the Related Party Transactions Review Committee

The Parent Company of Equity Two PLC is Equity One Limited (EQIT) and Carson Cumberbatch PLC (CCPLC) in turn is the Parent Company of EQIT. As provided by the Colombo Stock Exchange Listing Rules, the Related Party Transactions Review Committee (RPTRC) of CCPLC functions as the RPTRC of the Company.

Composition of the Committee

The Members of the RPTRC are as follows :

1. Mr.V. P. Malalasekera (Chairman)
- *Non-Executive/Independent Director of CCPLC*
2. Mr. F. Mohideen
- *Non-Executive/Independent Director of CCPLC*
3. Mr. D. C. R. Gunawardena
- *Non-Executive Director of CCPLC*
4. Mr. H. Selvanathan
- *Executive Director of CCPLC*
5. Mr. M. Selvanathan
- *Executive Director of CCPLC*
6. Mr. S. K. Shah
- *Executive Director of CCPLC*

Meetings of the Related Party Transactions Review Committee

CCPLC-RPTRC held Three (03) Meetings during the financial year to discuss matters relating to the Company.

The attendance of the Members of the Committee was as follows:

| Meetings attended (out of 03) | |
|-------------------------------|----|
| Mr.V.P. Malalasekera | 03 |
| Mr.F. Mohideen | 03 |
| Mr.D.C.R. Gunawardena | 03 |
| Mr.H. Selvanathan | 02 |
| Mr.M. Selvanathan | 02 |
| Mr.S.K. Shah | 03 |

Purpose of the Committee

The objective of the RPTRC is to review all Related Party Transactions (RPTs) of the Listed Companies of the Carsons Group, other than those exempted by the 'Related Party Transactions Compliance Code' (RPT Code), prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

Policies and procedures

- The RPTRC reviews all the Related Party Transactions of the Listed Companies of the Carsons Group and where the Committee decides that the approval of the Board of Directors of the respective Companies is necessary to

approve a Related Party Transaction, such Board approval is obtained prior to entering into the relevant Related Party Transaction.

- When reviewing a transaction, the RPTRC would decide whether the proposed transaction is carried out on an arm's length basis irrespective of whether recurrent or non-recurrent in nature.
- Reviewing and approval would be either by meeting of members (subject to quorum being present) or by circulation.
- In determining whether to obtain the approval of the Board of Directors for a Related Party Transaction, the RPTRC will take into account, among other factors it deems appropriate, whether the proposed RPTs pose a conflict of interest to the Directors.

The self-declarations from the Directors and Key Management Personnel are obtained for the purpose of identifying parties related to them. Further, the guidelines which senior management must follow in routing Related Party Transactions to the relevant forum, including transaction threshold values and pricing where applicable, have been documented even in the case of once approved recurrent transactions which are of operational nature, which as per the RPT Code need not be repeatedly approved if within the broad thresholds.

The RPTRC in discharging its function has introduced processes and periodic reporting by the relevant entities with a view to ensuring that:

- there is compliance with the Code;
- shareholder interests are protected; and
- fairness and transparency are maintained.

The Committee has a criteria for designating Carsons Group Key Management Personnel (KMP). Further, processes have been introduced to obtain quarterly disclosures from all KMPs so designated.

The Related Party Transactions of the Company for the period 1st April 2016 to 31st March 2017 have been reviewed by the Members of the RPTRC and the comments and observations of the Committee have been communicated to the Board of Directors of the Company.

(Sgd.)

V.P. Malalasekera

Chairman – Related Party Transactions Review Committee
Carson Cumberbatch PLC

Colombo
15th May 2017

Audit Committee Report

The Parent Company of Equity Two PLC is Equity One Limited (EQIT) and Carson Cumberbatch PLC (CCPLC) in turn is the Parent Company of EQIT. As provided by the Colombo Stock Exchange Listing Rules, the Audit Committee of CCPLC functions as the Audit Committee of the Company.

The Audit Committee consists of the following Members :

| Audit Committee Members | Executive/ Non-Executive/ Independent |
|-----------------------------------|--|
| Mr.Vijaya Malalasekera (Chairman) | Non-Executive, Independent (CCPLC) |
| Mr.Chandima Gunawardena | Non-Executive (CCPLC) |
| Mr.Faiz Mohideen | Non-Executive, Independent (CCPLC) |

Mr.Vijaya Malalasekera is a Non-Executive, Independent Director of CCPLC and a former Director of Ceylon Tobacco Company PLC.

Mr.Chandima Gunawardena is a Non-Executive Director of CCPLC and in most of its Group Companies. He is a Fellow of the Chartered Institute of Management Accountants, U.K.

Mr.Faiz Mohideen, a Non-Executive, Independent Director of CCPLC, was a former Deputy Secretary to the Treasury and a former Director of Bank of Ceylon and Securities and Exchange Commission of Sri Lanka.

The purpose of the Audit Committee of CCPLC is as follows :

- To assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the Company's process for monitoring compliance with laws and regulations, Company policies and procedures and the code of conduct.
- To ensure that the internal audit activity is well managed, so that it adds value to the organization by being objective in providing relevant assurance, contributing to the effectiveness and efficiency of governance, risk management and control processes.

The audit aspects of Equity Two PLC are conducted within the Agenda of CCPLC-Audit Committee.

CCPLC-Audit Committee held five (05) Meetings during the financial year to discuss matters relating to the Company and the attendance of the Members of the Audit Committee was as follows :

| Meetings attended (out of 05) | |
|--------------------------------------|----|
| Mr.Vijaya Malalasekera (Chairman) | 05 |
| Mr.Chandima Gunawardena | 04 |
| Mr.Faiz Mohideen | 05 |

The Financial Controller-Carsons Management Services (Private) Limited-Managers, internal auditors and senior management staff members of the Property Sector also attended the Audit Committee Meetings by invitation.

The Committee met the External Auditors, Messrs. KPMG, twice during the year to discuss the audit scope and to deliberate the draft Financial Report and Accounts. The Audit Committee also discussed the draft Financial Report and Accounts, with the External Auditors, without the management being present to foster an unbiased, independent dialogue.

The Audit Committee approved the audit plan for the financial year 2016/2017 and the Group Internal Audit (GIA) carried out a detailed audit on the Property Sector companies based on the plan.

The findings and contents of the Group Internal Audit reports have been discussed with the relevant management staff and subsequently the audit reports were circulated to the Audit Committee and to the senior management.

The objectives of the GIA work was to have an independent review of the system of internal controls as established by the management, its adequacy and integrity vis-à-vis objectives served and to determine the extent of adherence to the controls by staff responsible for the function and to take corrective/preventive action where necessary.

As recommended by the Board and approved by the Audit Committee, IT consultancy division of Messrs.KPMG, has completed during the year a comprehensive external IT security and process audit covering the IT environment of Carsons Management Services (Private) Limited (Managers to the Company), which covers the centralized IT services provided to the Property Sector, as well. This exercise facilitated Carsons Management Services (Private) Limited to obtain IAO/IEC 27001:2013 certification in November 2016.

Audit Committee Report

The interim financial statements of Equity Two PLC have been reviewed by the Audit Committee Members at Audit Committee Meetings, prior to release of same to the Regulatory Authorities and to the shareholders.

The draft financial statements of Equity Two PLC for the year ended 31st March 2017 were reviewed at a Meeting of the Audit Committee, together with the External Auditors, Messrs. KPMG, prior to release of same to the Regulatory Authorities and to the shareholders. The Audit Committee was provided with confirmations and declarations as required, by the Managers, Carsons Management Services (Private) Limited that the said financial statements were prepared in accordance with the Sri Lanka Accounting Standards and the information required by the Companies Act No. 7 of 2007 therein and presented a true and fair view of the Company's state of affairs as at that date and the Company's activities during the year under review.

The Audit Committee has determined that Messrs.KPMG, Chartered Accountants, Auditors were independent on the basis that they did not carry out any management related functions of the Company.

The Audit Committee has concurred to recommend to the Board of Directors the re-appointment of Messrs. KPMG, Chartered Accountants, as Auditors for the financial year ending 31st March 2018, subject to the approval of the shareholders of Equity Two PLC at the Annual General Meeting.

(Sgd.)

V.P. Malalasekera

Chairman – Audit Committee

Carson Cumberbatch PLC

Colombo

15th May 2017

Risk Management

Risk management is an integral component of businesses. This provides reasonable assurance through the process of identification and management of events, situations or circumstances that, even if risky events do occur, they would not adversely impact the achievement of business objectives. In other words, risk management practices will ensure minimum impact from any adverse events.

Enterprise Risk Management (ERM) provides a common process and terminology for all risk management activities. Its main focus is on fostering risk awareness and promoting proactive management of threats and opportunities.

In implementing the business plan, the Company has embodied enterprise risk management to its business activities. This risk management process supports;

- Corporate governance
- Quality of business planning
- Audit planning
- Project planning and implementation
- Building confidence of various stakeholder groups

Risk management also ensures that the relevant internal control systems are in place and provides assurance to the Management/Board of Directors that processes are robust and are working effectively.

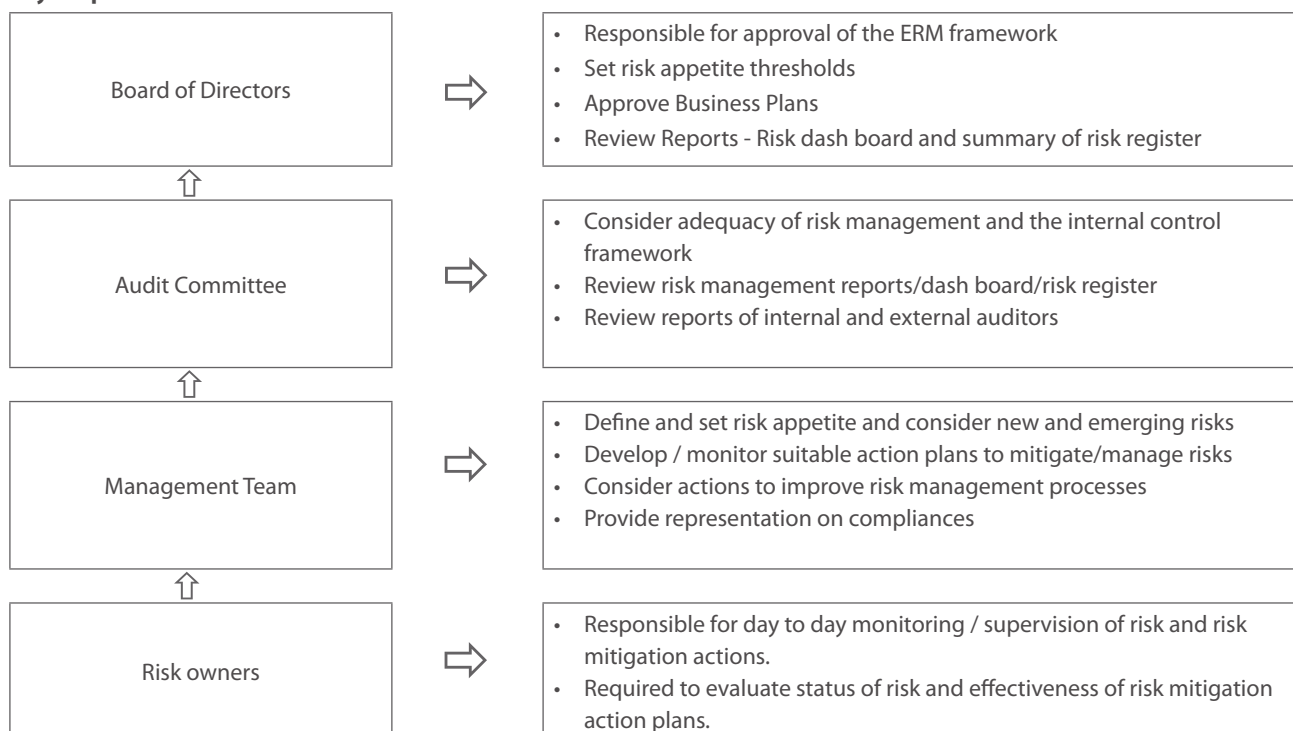
Enterprise Risk Management Process



The Risk Management Governance Structure includes a reporting framework within the organisation to the Board of Directors, thereby allowing Directors to assume their supervisory responsibilities for better Corporate Governance.

We are of the view that Risk Management is one of the driving factors of operational sustainability and have identified the risk profiles as shown in the following pages. The principal risks thus identified are considered and reviewed at various stages within our business process continuously.

Key Responsibilities



Risk Management

| Risk | Impact | Risk rating | Risk response / strategies |
|------------------------------|---|-------------|--|
| Business Risks | <p>Unexpected disputes with contactors and tenants could affect profitability of the business.</p> <p>The properties owned by the company are situated within the high security zone in Colombo Fort. Although Janadhipathi Mawatha was opened as a thoroughfare, access to our buildings still remain restricted due to the guard fence.</p> <p>Changes to the laws relating to property development, income tax and capital gains tax could affect the profitability and viability of the business.</p> | Moderate | <p>We are extremely cautious when selecting contractors and consultants for our projects. We ensure that they are well experienced and reputed. We also evaluate their work in previous projects. By entering in to comprehensive and clear agreements, we ensure that communication gaps and disputes are minimised to a greater extent. We have entered in to comprehensive rent agreements with our tenants and have built strong relationships with our anchor tenants over the years.</p> <p>We have seen a significant improvement in development activities in the surrounding area, along with relieved restrictions and access via Janadhipathi Mawatha.</p> <p>We maintain close and meaningful relationships with relevant government and local authorities and institutes.</p> |
| Liquidity Risk | Inability to raise funds or effect payments when required. | Low | <p>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 damages to the Company's reputation. The Company monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.</p> <p>If required the Company has an unused short-term financing facility amounting to Rs. 50 Mn from the Commercial bank.</p> |
| Credit Risk | The credit risk of the Company is mainly arising from rent receivable from its tenants. The Company's objective is to seek continual revenue growth while minimizing losses incurred due to increased credit risk exposure. | Low | <ul style="list-style-type: none"> - This risk is mitigated to a greater extent as a result of the rent deposits collected from external tenants, which can be used to recover any unpaid rents. The Company also implements the following controls to mitigate this risk. - Continuous and regular evaluation of credit worthiness of tenants. - Ongoing monitoring and follow up of receivable balances. |
| Foreign Exchange risk | Foreign currency risk is the risk of volatility in foreign exchange rates. | Low | The Company has no direct impact from currency risks as income and expenses arising from its operations, assets and liabilities are denominated in Sri Lankan Rupees which is the functional currency of the Company. In the event of import of machinery, the Company will be exposed to foreign exchange risk. However, the impact of this will not be substantial as such exposures are short-term and if required short-term hedging mechanisms will be considered. |

| Risk | Impact | Risk rating | Risk response / strategies |
|---------------------------------|---|-------------|--|
| Interest Rate Risk | Interest rate risk is the risk arising due to the volatility of interest rates in the markets, thus affecting future cash flows. | Low | Financial strength of the parent company, Carson Cumberbatch PLC, is used via group treasury in negotiating the rates, with financial institutions. |
| Human Resource Risk | Attracting, developing and retaining talented employees are essential to deliver the Company's objectives. Failure to determine the appropriate mix of skills required to implement the Company strategies and failure to retain or develop the right number of appropriately qualified staff could affect the achievement of the Company's objectives. | Low | The following initiatives have been implemented by the Company. <ul style="list-style-type: none"> - Ensure recruitments are carried out to hire employees with required qualifications, knowledge and experience. - Availability of detailed job descriptions and role profiles for each job. - Human resource policies are focused on encouraging continuous training & development and ensuring appropriate compensation as per market rates to retain and develop employees. |
| Systems and process risks | The risk of direct or indirect losses due to inadequate or failed internal processes and systems. | Low | Maintain detailed procedure manuals and provide training & guidelines for new recruits. The Internal Audit function of the Group carry out regular reviews on internal control systems and processes and recommends process improvements if shortcomings are noted. |
| Legal and Regulatory Compliance | Failure to comply with regulatory and legal framework applicable to the Company. | Low | <ul style="list-style-type: none"> - The management together with the Carsons group legal division proactively identify and set up appropriate systems and processes for legal and regulatory compliance in respect of Company's operations. - Arrange training programs and circulate updates for key employees on new / revised laws & regulations on a need basis. - Provide comments on draft laws to the relevant and Regulatory Authorities. - Obtain comments and interpretations from external legal consultants on areas that require clarity. - Obtain compliance certificates from management on a quarterly basis on compliance with relevant laws and regulations. |

Risks arising from unforeseen events such as natural disasters are covered by obtaining appropriate insurance covers.

Financial Calendar

| | |
|-----------------------------|-----------------|
| Financial year end | 31st March 2017 |
| 27th Annual General Meeting | 16th June 2017 |

Announcement of Results

Interim financial statements published in terms of the Listing Rules of the Colombo Stock Exchange

| | |
|---------------------------------------|--------------------|
| 1st Quarter ended 30th June 2016 | 12th August 2016 |
| 2nd Quarter ended 30th September 2016 | 15th November 2016 |
| 3rd Quarter ended 31st December 2016 | 14th February 2017 |

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.kpmg.com/lk

TO THE SHAREHOLDERS OF EQUITY TWO PLC Report on the Financial Statements

We have audited the accompanying financial statements of Equity Two PLC ("the Company"), which comprise the statement of financial position as at March 31, 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 24 to 49.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at March 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion 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 and the financial statements of the Company, comply with the requirements of sections 151 of the Companies Act.

CHARTERED ACCOUNTANTS

Colombo
15th May 2017.

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyratne FCA
R.M.D.B. Rajapakse FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACMA (UK)

Statement of Profit or Loss and Other Comprehensive Income

(All figures are in Sri Lankan Rupees thousands)

| For the year ended 31st March | Note | 2017 | 2016 |
|---|------|----------|----------|
| Revenue | 11 | 118,907 | 105,286 |
| Direct cost | | (28,349) | (23,976) |
| | | 90,558 | 81,310 |
| Other income | 12 | 1,538 | 545 |
| Net gains arising from changes in fair value of investment properties | 17 | - | 126,659 |
| | | 92,096 | 208,514 |
| Administrative and other operating expenses | | (10,832) | (10,146) |
| Results from operating activities | 13 | 81,264 | 198,368 |
| Finance income | 14 | 923 | 813 |
| Finance costs | 14 | (3,582) | (5,256) |
| Net finance costs | | (2,659) | (4,443) |
| Profit before taxation | | 78,605 | 193,925 |
| Income tax expense | 15 | (11,956) | (3,378) |
| Deferred taxation | 15 | (10,023) | (16,807) |
| Profit for the year | | 56,626 | 173,740 |
| Other comprehensive income | | | |
| Actuarial gain / (loss) from valuation of employee benefits | 24.2 | 284 | (42) |
| Related tax | | (80) | - |
| Total other comprehensive income / (expense) for the year | | 204 | (42) |
| Total comprehensive income for the year | | 56,830 | 173,698 |
| Earnings per share (Rs.) | 16 | 1.83 | 5.60 |

The notes from pages 28 to 49 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Statement of Financial Position

(All figures are in Sri Lankan Rupees thousands)

| As at 31st March | Note | 2017 | 2016 |
|--------------------------------------|------|-----------|-----------|
| ASSETS | | | |
| Non-current assets | | | |
| Investment properties | 17 | 1,145,466 | 1,145,356 |
| Total non-current assets | | 1,145,466 | 1,145,356 |
| Current assets | | | |
| Trade and other receivables | 18 | 19,835 | 19,024 |
| Cash and cash equivalents | 19 | 5,891 | 5,370 |
| Total current assets | | 25,726 | 24,394 |
| Total assets | | 1,171,192 | 1,169,750 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Stated capital | 20 | 444,092 | 444,092 |
| Capital reserves | 21.1 | 750 | 750 |
| Revenue reserves | 21.2 | 555,379 | 548,149 |
| Total equity | | 1,000,221 | 992,991 |
| Non-current liabilities | | | |
| Refundable rental deposits | 22 | 38,494 | 29,082 |
| Deferred tax liability | 23 | 110,720 | 100,617 |
| Employee benefits | 24 | 1,333 | 2,293 |
| Total non-current liabilities | | 150,547 | 131,992 |
| Current liabilities | | | |
| Trade and other payables | 25 | 5,911 | 35,807 |
| Deferred revenue | 26 | 4,671 | 6,149 |
| Current tax liabilities | | 9,842 | 2,811 |
| Total current liabilities | | 20,424 | 44,767 |
| Total liabilities | | 170,971 | 176,759 |
| Total equity and liabilities | | 1,171,192 | 1,169,750 |
| Net assets per share (Rs.) | | 32.27 | 32.03 |

The notes from pages 28 to 49 form an integral part of these financial statements.

I certify that these financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007.

(Sgd.)

V. R. Wijesinghe

Financial Controller

Carsons Management Services (Private) Limited.

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board on 15th May 2017.

Approved and signed on behalf of the Managers,

Approved and signed on behalf of the Board,

(Sgd.)

A. P. Weeratunge

Director

Carsons Management Services (Private) Limited.

Colombo.

15th May 2017

(Sgd.)

D. C. R. Gunawardena

Chairman

(Sgd.)

K. C. N. Fernando

Director

Statement of Changes in Equity

(All figures are in Sri Lankan Rupees thousands)

| | Stated capital | Capital reserves | Revenue reserves | | Total equity |
|---|----------------|-------------------------------|-------------------------------|-------------------|--------------|
| | | Machinery replacement reserve | Fair value adjustment reserve | Retained earnings | |
| Balance as at 1st April 2015 | 444,092 | 750 | 308,686 | 72,082 | 825,610 |
| Super Gain Tax for the year of Assessment 2013/14 * | - | - | - | (127) | (127) |
| Adjusted balance as at 1st April 2015 | 444,092 | 750 | 308,686 | 71,955 | 825,483 |
| Profit for the year | - | - | - | 173,740 | 173,740 |
| Other comprehensive expense for the year | - | - | - | (42) | (42) |
| Total comprehensive income for the year | - | - | - | 173,698 | 173,698 |
| Transfers | - | - | 126,659 | (126,659) | - |
| Forfeited dividends | - | - | - | 10 | 10 |
| First & final dividend 2014/15 | - | - | - | (6,200) | (6,200) |
| Balance as at 31st March 2016 | 444,092 | 750 | 435,345 | 112,804 | 992,991 |
| Balance as at 1st April 2016 | 444,092 | 750 | 435,345 | 112,804 | 992,991 |
| Profit for the year | - | - | - | 56,626 | 56,626 |
| Other comprehensive income for the year | - | - | - | 204 | 204 |
| Total comprehensive income for the year | - | - | - | 56,830 | 56,830 |
| First & final dividend 2015/16 | - | - | - | (6,200) | (6,200) |
| First Interim dividend 2016/17 | - | - | - | (43,400) | (43,400) |
| Balance as at 31st March 2017 | 444,092 | 750 | 435,345 | 120,034 | 1,000,221 |

* As per the provisions of Part III of the Finance Act, No. 10 of 2015, although the Company did not become liable to pay Super Gain Tax as a stand-alone entity, Rs. 127,000/- has been paid as Super Gain Tax on the basis that the Company is part of the Bukit Darah PLC group, of which the consolidated profit before tax exceeded the threshold as stipulated in the aforesaid Act. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards and hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

The notes from pages 28 to 49 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Statement of Cash Flow

(All figures are in Sri Lankan Rupees thousands)

| For the year ended 31st March | Note | 2017 | 2016 |
|--|------|----------|-----------|
| Cash flows from operating activities | | | |
| Profit before taxation | | 78,605 | 193,925 |
| Adjustments for: | | | |
| Finance costs | 14 | 3,582 | 5,256 |
| Finance income | 14 | (923) | (813) |
| Net gain arising from changes in fair value of investment properties | 17 | - | (126,659) |
| Provision for employee benefits | 24.1 | 337 | 317 |
| Amortization of deferred revenue | 26 | (2,755) | (1,846) |
| Operating profit before working capital changes | | 78,846 | 70,180 |
| (Increase) / decrease in trade and other receivables | | (811) | (2,741) |
| Increase / (decrease) in trade and other payables | | (14,067) | (36,079) |
| Operating profit after working capital changes | | 63,968 | 31,360 |
| Rental deposits received | 22 | 7,904 | 7,007 |
| Rental deposits refunded | 22 | - | (4,578) |
| Employee benefits paid | 24 | (1,013) | - |
| Income tax paid | | (4,925) | (1,480) |
| Net cash generated from / (used in) operating activities | | 65,934 | 32,309 |
| Cash flows from investing activities | | | |
| Additions to investment properties | 17 | (110) | (2,249) |
| Interest received | | 923 | 813 |
| Net cash generated from / (used in) investing activities | | 813 | (1,436) |
| Cash flows from financing activities | | | |
| Net amount settled on related company borrowings including interest | | (16,654) | (36,250) |
| Dividend paid | | (49,572) | (6,170) |
| Net cash generated from / (used in) financing activities | | (66,226) | (42,420) |
| Net increase / (decrease) in cash and cash equivalents | | 521 | (11,547) |
| Cash and cash equivalents at the beginning of the year | | 5,370 | 16,917 |
| Cash and cash equivalents at the end of the year (note 19) | | 5,891 | 5,370 |

The notes from pages 28 to 49 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

1. REPORTING ENTITY

Equity Two PLC is a limited liability company which is incorporated and domiciled in Sri Lanka. The shares of the Company have a primary listing on the Colombo Stock Exchange.

The registered office and the principal place of business of the Company is located at No 61, Janadhipathi Mawatha, Colombo 1.

The business activities of the Company are focused on the real estate sector providing office premises on rental. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

The Company had 05 (2016 – 06) employees at the reporting date.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Company comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows together with the notes to the financial statements.

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (LKAS / SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and the requirements of Companies Act, No. 7 of 2007.

These financial statements were authorized for issue by the Board of Directors on 15th May 2017.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the following material items in the statement of financial position;

- Non-derivative financial instruments classified as “Loans and receivables” and “Other financial liabilities” measured at amortised cost;
- Investment properties are measured at fair value;
- Defined benefit obligations are measured at its present value, based on an actuarial valuation as explained in note 24.

These financial statements have been prepared on the basis that the Company would continue as a going concern for the foreseeable future.

c) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entities operate (‘the functional currency’). The financial statements are presented in Sri Lankan Rupees, which is the Company’s functional and presentation currency.

d) Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes;

• Determination of owner-occupied properties and investment properties

In determining whether a property qualifies as investment property the Company makes a judgment whether the property generates independent cash flows rather than cash flows that are attributable not only to the property but also to the other assets. Judgment is also applied in determining if ancillary services provided are significant, so that a property does not qualify as an investment property.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

• Assessment of Impairment – Key assumptions used in discounted cash flow projections.

The Company assesses at each reporting date whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset or Cash Generating unit (CGU) 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 present value using appropriate discount rates that reflects the current market assessments of the time value of money and risks specific to the asset.

- **Deferred taxation - utilization of tax losses**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the level of future taxable profits together with future tax planning strategies.

- **Defined benefit plans**

The assessment of the liability of defined benefit obligations involves a significant element of assumptions; including discount rates, future salary increases, mortality rates and future pension increases and due to the long-term nature of these plans, such estimates are subject to uncertainty.

- **Current tax liabilities**

Current tax liabilities are provided for in the financial statements applying the relevant tax statutes and regulations which the management believes reflect the actual liability. There can be instances where the stand taken by the Company on transactions is contested by revenue authorities. Any additional costs on account of these issues are accounted for as a tax expense at the point the liability is confirmed on any Company entity.

- e) **Measurement of fair values**

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non- financial assets and liabilities.

Company regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, Company assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data.(Unobservable inputs).

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

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

- **Investment property**

An external independent valuer having appropriate recognised professional qualifications values the Company's investment property portfolio at least once in every three years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Investment property under construction is valued by estimating the fair value of the completed investment property and then deducting from that amount the estimated costs to complete construction, financing costs and a reasonable profit margin.

- **Trade and other receivables**

The fair values of trade and other receivables, excluding construction work in progress, are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of

Notes to the Financial Statements

discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

- **Other non-derivative financial liabilities**

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

For finance leases the market rate of interest is determined with reference to similar lease agreements.

- f) **Materiality and aggregation**

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

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.

- a) **Foreign currency**

- i) **Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate as at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in Profit or Loss.

Financial instruments

- i) **Non-derivative financial assets**

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Company only holds financial assets that are categorized in to the 'loans and receivables' classification.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, placement in government securities and placements in repurchase agreements with maturities of three months or less from the acquisition date that are subject to on insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

ii) Non-derivative financial liabilities

The Company initially recognizes subordinated liabilities on the date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

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

The Company classifies non-derivative financial liabilities into the 'other financial liabilities' category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, refundable rental and other deposits, bank overdrafts, and trade and other payables.

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

iii) Stated capital

Ordinary shares

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

b) Investment property

Investment property is property held either to earn rental income or capital appreciation or for both, but not for sale on the ordinary course of business, use in production or supply of goods and services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-today servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions as at the reporting date. Formal valuations are carried out at least once in every 3 years by an qualified valuers. Gains or losses arising from changes in the fair values of investment properties are included in Profit or Loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the Investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in Profit or Loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by commencement/ end of owner occupation, commencement of development with a view to sale, commencement of an operating lease to another party or completion of construction or development.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant & equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in Profit or Loss. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Profit or Loss.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

c) Capital work-in-progress

Capital work-in-progress represents the accumulated cost of materials and other costs directly related to the construction of an asset. Capital work-in-progress is transferred to the respective asset accounts at the time it is substantially completed and ready for its intended use.

Notes to the Financial Statements

d) Impairment

i) Non-derivative financial assets

Financial asset classified as 'loans and receivables' are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Financial assets measured at amortised cost

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in Profit or Loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Profit or Loss.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property, inventories and 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. An impairment loss is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For impairment testing, assets 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 or CGUs.

Impairment losses are recognised in Profit or Loss. Impairment losses recognised in respect of CGUs are allocated reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

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.

e) Employee benefits

i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

ii) Defined contribution plans

A defined contribution plan is a postemployment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in Profit or Loss in the periods during which related services are rendered by employees.

iii) Defined benefit plans

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

The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date.

The defined benefit obligation is calculated by a qualified actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. Such actuarial valuations will be carried out once in every year. The liability is not externally funded. All Actuarial gains or losses are recognised immediately in other comprehensive income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

f) Provisions

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

g) Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain

future events beyond the control of the Company. The Company does not recognize contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

h) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales taxes.

The following specific criteria are used for the purpose of recognition of revenue;

i. Rental income

Rental income from investment property is recognised as revenue on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from other property is recognised as other income.

ii. Other Income - on accrual basis.

Net gains and losses of a revenue nature resulting from the disposal of property, plant & equipment have been accounted for in Profit or Loss and disposal of investments are accounted for in Profit or Loss on the basis of realized net profit.

i) Expenditure recognition

i. Operating expenses

All expenses incurred in day-to-day operations of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit or loss for the year. Provision has also been made all known liabilities.

ii. Finance income and finance costs

Finance income comprises interest income on funds invested.

Interest income is recognised as it accrues in Profit or Loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in Profit or Loss using the effective interest method.

Notes to the Financial Statements

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

j) **Income tax expense**

Income Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in Profit or Loss except to the items recognised directly in equity or in other comprehensive income.

i. **Current taxation**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

ii. **Deferred taxation**

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. 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, based on the level of future taxable profit forecasts and tax planning strategies.

k) **Tax exposures**

In determining the amount of current and deferred tax, the Company takes into account the impact of

uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

l) **Related party transactions**

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is charged.

4. **EVENTS AFTER THE REPORTING PERIOD**

All material and important events which occur after the reporting date have been considered and disclosed in notes to the financial statements.

5. **CASH FLOW**

Interest paid and dividend paid are classified as financing cash flows while interest received and dividend received are classified as investing cash flows, for the purpose of presentation of Cash Flow Statement which has been prepared using the "Indirect Method".

6. **EARNINGS PER SHARE**

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

7. **DIVIDENDS ON ORDINARY SHARES**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Company.

8. **PRESENTATION**

Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

Where appropriate, the significant accounting policies are disclosed in the succeeding notes.

a) Offsetting income and expenses

Income and expenses are not offset unless required or permitted by accounting standards.

b) Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the statement of financial position only where there is;

- a current enforceable legal right to offset the asset and the liability; and
- an intention to settle the liability simultaneously

9. SEGMENT REPORTING

An operating segment is a component within the Company that engage in business activities for which it may earn distinguish revenue and expenses for such segment.

The operating results arising from providing office premises on rental business of the Company as a whole is reviewed regularly by the Company's Chief Operating Decision Maker to make decisions about resource to be allocated and to assess its performance. Therefore Company has only one segment hence no separate disclosure is given for operating segment.

10. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standard which will become applicable for financial periods beginning on or after 1st January 2017. Accordingly, the Company has not applied the following new standards in preparing these financial statements.

SLFRS 9-Financial Instruments

SLFRS 9 – “Financial Instruments” replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual period beginning on or after 1st January 2018 with early adoption permitted.

The Company is assessing the potential impact on its Financial Statements resulting from the of SLFRS 9.

SLFRS 15 – Revenue

Recognition from Customer Contracts
SLFRS 15 – “Revenue from Contracts with Customers” establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance LKAS 18 Revenue, LKAS 11 Construction Contracts.

SLFRS 15 is effective for annual reporting period beginning on or after 1st January 2018, with early adoption permitted.

SLFRS 16 – ‘Leases’

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

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019. The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

The Company is assessing the potential impact on its Financial Statements resulting from the above Standards.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

| For the year ended 31st March | | 2017 | 2016 |
|--|---|---------|---------|
| 11 Revenue | | | |
| | Property rental income | 118,907 | 105,286 |
| | | 118,907 | 105,286 |
| 12 Other income | | | |
| | Parking fees | 780 | 510 |
| | On services provided to tenants | 758 | 35 |
| | | 1,538 | 545 |
| 13 Profit from operations | | | |
| | Profit from operations is stated after charging all expenses including the following: | | |
| | Auditors' remuneration - audit services | 165 | 165 |
| | Auditors' remuneration - audit related services | 150 | 53 |
| | Professional service costs (note 13.1) | 102 | 1,456 |
| | Support service fees | 3,980 | 3,182 |
| | Personnel costs (note 13.2) | 15,611 | 14,626 |
| 13.1 Professional service costs | | | |
| | Valuation services | 72 | 62 |
| | Other services | 30 | 1,394 |
| | | 102 | 1,456 |
| 13.2 Personnel costs | | | |
| | Salaries, wages and other related expenses | 14,408 | 13,511 |
| | Defined benefit plan cost - Employee benefits (note 24.1) | 337 | 317 |
| | Defined contribution plan cost - EPF and ETF | 866 | 798 |
| | | 15,611 | 14,626 |
| | The above include: | | |
| | Directors' emoluments | - | - |
| | Directors' fees | 450 | 400 |
| | | 450 | 400 |
| 14 Net finance cost | | | |
| | Finance income | | |
| | Interest income on short-term deposits | 863 | 773 |
| | Interest income on loans given to officers of the Company | 60 | 40 |
| | | 923 | 813 |
| | Finance costs | | |
| | Interest expense on related party borrowings | 797 | 2,925 |
| | Unwinding of interest on refundable rental deposits | 2,785 | 2,331 |
| | | 3,582 | 5,256 |
| | Net finance cost | (2,659) | (4,443) |

| For the year ended 31st March | | 2017 | 2016 |
|--------------------------------------|--|-------------|-------------|
| 15 | Tax expense | | |
| 15.1 | Income tax expense | | |
| | Current tax expense for the year (note 15.3) | 12,278 | 3,468 |
| | Over provision in previous years | (322) | (90) |
| | | 11,956 | 3,378 |
| 15.2 | Deferred taxation | | |
| | On origination / (reversal) of temporary differences (note 23.1) | 10,023 | 16,807 |
| | | 10,023 | 16,807 |
| | | 21,979 | 20,185 |
| 15.3 | Reconciliation between the accounting profit and the taxable profit | | |
| | Accounting profit for the year before taxation | 78,605 | 193,925 |
| | Adjustments on; | | |
| | - Aggregate disallowable expenses | 1,910 | 4,009 |
| | - Aggregate allowable expenses | (15,855) | (49,157) |
| | Notional adjustments arising on application of LKAS/SLFRS | (1,184) | (3,065) |
| | Net gain arising from changes in fair value of investment properties | - | (126,659) |
| | Interest income | (923) | (813) |
| | Adjusted profit from operations for taxation | 62,553 | 18,240 |
| | Interest income | 923 | 813 |
| | Total Statutory Income | 63,476 | 19,053 |
| | Utilization of tax losses (note 15.5 b) | (19,627) | (6,669) |
| | Taxable income | 43,849 | 12,384 |
| | Taxation thereon (note 15.5a) | 12,278 | 3,468 |
| 15.4 | Analysis of tax losses | | |
| | Tax losses brought forward | 19,007 | 24,099 |
| | Adjustment on finalization of liability | 620 | 1,577 |
| | Utilization of tax losses during the year | (19,627) | (6,669) |
| | Tax losses carried forward | - | 19,007 |
| 15.5 | (a) In terms of the provisions of the Inland Revenue Act, No.10 of 2006 and amendments thereto, the Company is liable to income tax at 28% (2016-28%). | | |
| | (b) Utilization of tax losses are restricted to 35% of current year's Statutory Income. Any unabsorbed tax losses can be carried forward indefinitely. | | |
| | (c) Deferred tax has been computed using a tax rate of 28% (2016-28%). | | |

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

16 Earnings per share

The Company's earnings per share is calculated on the profit attributable to the shareholders of Equity Two PLC divided by the weighted average number of ordinary shares in issue during the year, as required by Sri Lanka Accounting Standard (LKAS 33) - "Earnings per Share".

The following reflect the income and share data used in the earnings per share computation:

| For the year ended 31st March | 2017 | 2016 |
|---|--------|---------|
| Amount used as the numerator | | |
| Profit for the year | 56,626 | 173,740 |
| Amount used as the denominator | | |
| Weighted average number of ordinary shares outstanding during the year (In thousands) | 31,000 | 31,000 |
| Earnings per share (Rs.) | 1.83 | 5.60 |

17 Investment properties

17.1

| | Freehold Land | Freehold Building | Other equipments | Capital work in- progress | Total as at 31st March 2017 | Total as at 31st March 2016 |
|---|------------------|----------------------|---------------------|---------------------------------|--------------------------------------|--------------------------------------|
| Balance as at the beginning of the year | 667,240 | 395,900 | 80,302 | 1,914 | 1,145,356 | 1,016,448 |
| Additions during the year | - | - | 2,024 | (1,914) | 110 | 2,249 |
| Change in fair value of investment properties | - | - | - | - | - | 126,659 |
| Balance as at the end of the year | 667,240 | 395,900 | 82,326 | - | 1,145,466 | 1,145,356 |

17.2 Valuation of investment properties

During the year, Director's valuation was carried out for the investment properties of the Company. The last professional valuation on the investment properties of the Company was performed by an independent professional valuer, Mr. S. Sivaskantha, F.I.V. (Sri Lanka) of Perera Sivaskantha & Company, Incorporated valuers, on the basis of Market Approach as at 31st March 2016. In the opinion of the Director's no material change has occurred in the fair value of the investment properties compared to the previous year's professional valuation. The details of which are as follows;

| Property and location | Method of valuation | Extent (Hectares) | Historical Cost | Fair value as at 31st March 2017 | Fair value as at 31st March 2016 |
|--|------------------------|----------------------|--------------------|---|---|
| No. 61, Janadhipathi Mawatha, Colombo 01 | Market approach | 0.072 | 128,364 | 420,533 | 419,928 |
| No. 55, Janadhipathi Mawatha, Colombo 01 | Market approach | 0.146 | 427,629 | 724,933 | 725,428 |
| | | | 555,993 | 1,145,466 | 1,145,356 |

17.3 Restrictions on title and investment properties pledged as security for liabilities

There were no restrictions on titles of the investment properties as at the reporting date.

No items of the investment properties were pledged as security for liabilities as at the reporting date.

17.4 All the direct operating expenses of the Company are incurred on investment properties generating rental income.

| As at 31st March | | 2017 | 2016 |
|-------------------------|--|-------------|-------------|
| 18 | Trade and other receivables | | |
| | Financial | | |
| | Trade receivables | 17,329 | 16,063 |
| | Other receivables | 1,655 | 1,655 |
| | Loans given to company officers (note 18.1) | 596 | 529 |
| | | 19,580 | 18,247 |
| | Non-financial | | |
| | Prepaid expenses | 255 | 777 |
| | Advance payments | - | - |
| | | 255 | 777 |
| | | 19,835 | 19,024 |
| 18.1 | Loans given to company officers | | |
| | Balance as at the beginning of the year | 529 | 226 |
| | Loans granted during the year | 773 | 908 |
| | Settlements during the year | (706) | (605) |
| | Balance as at the end of the year | 596 | 529 |
| 19 | Cash and cash equivalents | | |
| | Cash at bank and in hand | 5,891 | 5,370 |
| | Cash and cash equivalents for the purpose of cash flow statement | 5,891 | 5,370 |
| 20 | Stated capital | | |
| | Issued and fully paid | | |
| | Balance as at the beginning of the year (31,000,000 ordinary shares) | 444,092 | 444,092 |
| | Balance as at the end of the year (31,000,000 ordinary shares) | 444,092 | 444,092 |
| 21 | Capital and revenue reserves | | |
| 21.1 | Capital reserves | | |
| | Machinery replacement reserve (note. 21.1.1.) | 750 | 750 |
| | | 750 | 750 |

21.1.1. The movements of the above reserve is given in the Statement of Changes in Equity.

Machinery replacement reserve represent the amounts set aside by the Directors for future expansion and to meet any contingencies.

| As at 31st March | | 2017 | 2016 |
|-------------------------|---|-------------|-------------|
| 21.2 | Revenue reserves | | |
| | Retained earnings | 120,034 | 112,804 |
| | Fair value adjustment reserve (note 21.2.1) | 435,345 | 435,345 |
| | | 555,379 | 548,149 |

The movements of the above reserves are given in the Statement of Changes in Equity.

21.2.1 Fair value adjustment reserve

Gains arising from fair value adjustment of investment properties will be transferred from retained earnings to fair value adjustment reserve and any losses arising will be transferred to fair value adjustment reserve to the extent that loss does not exceed the balance held in the said reserve.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

| As at 31st March | 2017 | 2016 |
|--|-------------|-------------|
| 22 Refundable rental deposits | | |
| Balance as at the beginning of the year | 29,082 | 25,066 |
| Receipts during the year | 7,904 | 7,007 |
| Refunds during the year | - | (4,578) |
| Amount transferred to deferred revenue | (1,277) | (744) |
| Unwinding of interest on refundable deposits | 2,785 | 2,331 |
| Balance as at the end of the year | 38,494 | 29,082 |
| 23 Deferred tax liability | | |
| Balance as at the beginning of the year | 100,617 | 83,810 |
| Charge for the year (note 23.1) | 10,103 | 16,807 |
| Balance as at the end of the year | 110,720 | 100,617 |
| 23.1 Charge for the year | | |
| The amounts recognised in the statement of profit or loss are as follows; | | |
| Investment properties | 4,512 | 15,482 |
| Employee benefits | 189 | (100) |
| Tax losses carried forward | 5,322 | 1,425 |
| | 10,023 | 16,807 |
| The amount recognised in the statement of other comprehensive income is as follows; | | |
| Employee benefits | 80 | - |
| | 80 | - |
| Net deferred tax charged for the year | 10,103 | 16,807 |
| 23.2 Deferred tax asset | | |
| Tax effect on employee benefits | 373 | 642 |
| Tax effect on tax losses | - | 5,322 |
| Total deferred tax asset | 373 | 5,964 |
| 23.3 Deferred tax liability | | |
| Tax effect on investment properties | 111,093 | 106,581 |
| Total deferred tax liability | 111,093 | 106,581 |
| Net deferred tax liability | 110,720 | 100,617 |

| As at 31st March | | 2017 | 2016 |
|-------------------------|--|-------------|-------------|
| 24 | Employee benefits | | |
| | The movement of the liability recognised in the Statement of Financial Position is as follows: | | |
| | Balance as at the beginning of the year | 2,293 | 1,934 |
| | Current service cost | 96 | 124 |
| | Interest cost | 241 | 193 |
| | Actuarial (gain) / loss | (284) | 42 |
| | Payments made during the year | (1,013) | - |
| | Balance as at the end of the year | 1,333 | 2,293 |
| 24.1 | The amounts recognised in the Statement of profit or loss are as follows; | | |
| | Current service cost | 96 | 124 |
| | Interest cost | 241 | 193 |
| | Charge for the year | 337 | 317 |
| 24.2 | The amount recognised in the Statement of Other Comprehensive Income is as follows; | | |
| | Actuarial (gain) / loss | (284) | 42 |
| | (Gain) / charge for the year | (284) | 42 |

24.3 Liability on employee benefits as at 31st March 2017 amounting to Rs 1,332,566/- (2016 - Rs. 2,292,836/-) is made based on an actuarial valuation carried out by Mr. M. Poopalanathan of Messrs. Actuarial and Management Consultants (Pvt) Ltd. As recommended by Sri Lanka Accounting Standards (LKAS 19) - "Employee Benefits", the "Projected Unit Credit (PUC)" method has been used in this valuation.

The principal assumptions used are:

| | |
|----------------------|--|
| Rate of discount | 11.5% p.a. (2016 - 10.5% p.a.) |
| Rate of pay increase | 10% p.a. (2016 - 12% p.a.) |
| Retirement age | 55 years |
| Mortality | A 67 /70 mortality table issued by Institute of Actuaries, London was used |
| Withdrawal rate | 5% for age up to 49 and zero thereafter |

The company is a going concern.

24.4 Sensitivity analysis

Reasonably possible changes to one of the relevant actuarial assumptions at the reporting date, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

| As at 31st March | 2017 | 2016 |
|---------------------------------------|-------------|-------------|
| 1% increase in discount rate | (65) | (94) |
| 1% decrease in discount rate | 72 | 110 |
| 1% increase in salary escalation rate | 120 | 116 |
| 1% decrease in salary escalation rate | (42) | (101) |

24.5 The employee benefits liability is not externally funded.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

| As at 31st March | 2017 | 2016 |
|--|-------|--------|
| 25 Trade and other payables | | |
| Financial | | |
| Trade payables | 203 | 547 |
| Other payables | 4,378 | 17,286 |
| Amounts due to related Companies (note 30.3.2) | - | 15,857 |
| | 4,581 | 33,690 |
| Non-financial | | |
| Accrued expenses and provisions | 1,330 | 2,117 |
| | 1,330 | 2,117 |
| | 5,911 | 35,807 |

| As at 31st March | 2017 | 2016 |
|---|---------|---------|
| 26 Deferred revenue | | |
| Balance as at the beginning of the year | 6,149 | 7,251 |
| Amount transferred from refundable deposits | 1,277 | 744 |
| Amortization of deferred revenue | (2,755) | (1,846) |
| Balance as at the end of the year | 4,671 | 6,149 |

27 Capital expenditure commitments

The company does not have any significant financial commitments as at the reporting date.

27.1 Contingent liabilities

There were no material contingent liabilities as at the reporting date.

27.2 Litigations and claims

There were no material litigations and claims against the Company as at the reporting date.

| As at 31st March | 2017 | 2016 |
|--|--------|-------|
| 28 Dividend per share | | |
| Dividends paid during the year | | |
| Final / Interim dividends | 49,600 | 6,200 |
| Dividends propose during the year | | |
| First interim dividend | | |
| Total dividend | 43,400 | - |
| Dividend per share (Rs.) | 1.40 | - |
| Propose final dividend* | | |
| Total dividend | - | 6,200 |
| Dividend per share (Rs.) | - | 0.20 |
| Total dividend per share (Rs.) | 1.40 | 0.20 |

*The propose dividends are subject to the approval by the shareholders. Therefore according to the Sri Lanka Accounting Standard (LKAS 10) - "Events after the reporting period", the liabilities on the propose dividends will not be provided for in the financial statements.

29 Financial instruments

Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has delegated this function to Carsons Management Services (Private) Limited, the management company, which is responsible for developing and monitoring the Company's risk management policies and reports regularly to the Board of Directors on its activities.

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 risk limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Company's activities. The Company, through its training and setting management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee of Carson Cumberbatch PLC, the ultimate parent company, oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its supervision role by Group Internal Audit. Group Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

29.1 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 placements with banking institutions and in government securities.

29.1.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows.

| As at 31st March | 2017 | 2016 |
|---|----------|----------|
| Credit risk | | |
| Trade and other receivables | 19,580 | 18,247 |
| Less; Revenue on lease agreements recognized on straight line basis | (17,223) | (16,008) |
| | 2,357 | 2,239 |
| Cash and cash equivalents | 5,891 | 5,370 |
| | 8,248 | 7,609 |

29.1.2 Trade receivables

The Company's exposure to credit risk on 'Trade receivables' is influenced mainly by the individual characteristics of each customer, and primarily arising on the rent receivable from its tenants.

The Company has obtained refundable rental deposits from non-related tenants, covering the rental income for a period of 3-6 months, which provides cover to the Company in the event of a default. Refundable rental deposits held by the Company as at the end of the reporting period are as follows.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

29.1.2 Trade receivables

| As at 31st March | 2017 | 2016 |
|-----------------------------------|--------|--------|
| Refundable rental deposits | | |
| Carrying value | 38,494 | 29,082 |
| Face value | 43,681 | 35,776 |

The terms of the lease agreements also require tenants to pay rental in advance on a monthly basis, which provides further cover against risk of a default.

The sector also follows a careful credit evaluation process for new tenants before entering in to rent agreements with them.

The age analysis of trade receivables at the end of the reporting period was as follows;

| As at 31st March | 2017 | 2016 |
|---|--------|--------|
| Revenue on lease agreements recognised on straight line basis | 17,223 | 16,008 |
| 1–30 days | 106 | 55 |
| | 17,329 | 16,063 |

No circumstances have arise that would require impairment in respect of trade and other receivables as at the year end (2016- Nil).

29.1.3 Other receivables

A significant component of other receivables of the Company comprises of deposits placed with suppliers in securing their services, with whom the Company regularly transacts with and have dues outstanding against.

Cash and cash equivalents

The Company held cash and cash equivalents of Rs. 5.9 mn as at 31st March 2017 (2016: Rs.5.4 mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the bank and financial institution counterparties, which are rated AAA(Ika) to AA–(Ika), based on Fitch Ratings.

Investments in Government securities primarily comprise of short term repo investments, extending to a period less than 3 months.

| As at 31st March | 2017 | 2016 |
|--------------------------|-------|-------|
| Cash at bank and in hand | 5,891 | 5,370 |
| | 5,891 | 5,370 |

29.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are to be 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 monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Company has unutilised overdraft facility of Rs. 50mn as at 31st March 2017 and has access to short-term financing facilities extended from the parent company, Equity One Limited and its parent company, Carson Cumberbatch PLC if required.

29.2.1 The following are the remaining contractual maturities at the end of the reporting period.

| As at 31st March 2017 | Carrying amount | Contractual cash flows | | | |
|---|-----------------|------------------------|------------------|-------------|------------------|
| | | Total | 3 months or less | 4-12 months | More than 1 year |
| Non-derivative financial liabilities | | | | | |
| Refundable rental deposits | 38,494 | 43,681 | 3,789 | 35,563 | 4,329 |
| Trade payables | 203 | 203 | 203 | - | - |
| Other payables | 4,378 | 4,378 | 4,378 | - | - |
| | 43,075 | 48,262 | 8,370 | 35,563 | 4,329 |

| As at 31st March 2016 | Carrying amount | Contractual cash flows | | | |
|---|-----------------|------------------------|------------------|-------------|------------------|
| | | Total | 3 months or less | 4-12 months | More than 1 year |
| Non-derivative financial liabilities | | | | | |
| Refundable rental deposits | 29,082 | 35,776 | - | - | 35,776 |
| Trade payables | 547 | 547 | 547 | - | - |
| Other payables | 17,286 | 17,286 | 17,286 | - | - |
| Amounts due to related Companies | 15,857 | 15,857 | 15,857 | - | - |
| | 62,772 | 69,466 | 33,690 | - | 35,776 |

The gross amounts disclosed in the above table represent the contractual undiscounted cash out flows relating to non-derivative financial liabilities and which are usually not expected to close out before contractual maturity.

29.2.2 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 maintains a portion of its assets in highly liquid form - demand deposits and placements in government securities in order to meet its contractual obligations during the normal course of its operations. As at the reporting date, the Company maintains "cash and cash equivalents" amounting to Rs. 5.9 mn (2016 - Rs 5.4 mn).

The Company is of the view that the liabilities arise on the Refundable Rental Deposits due to the expiration of the rent agreements in the forthcoming financial year, will be renewed by the respective tenants for a further tenure. Typically, the rent agreements of the Company are entered in to a period of two years with a renewal clauses. In addition, the Company has short-term financing facility in place amounting to Rs. 50 mn from Commercial bank, if required.

29.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates 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 optimizing the return.

29.3.1 Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate, due to changes in the foreign exchange rates.

The Company do not engage in transactions associated with foreign currencies in its ordinary course of operations, hence the related risk is avoided. However, the Company is exposed to currency risk, primarily arising from its capital expenditure related transactions, if any.

Therefore, sensitivity analysis on the Company's currency risk exposure may not be representative of the risks for which the Company was exposed to throughout the period, given its incidental nature.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

29.3.2 Interest rate risk

The Company's interest bearing financial assets / liabilities are factored on variable rates of interest, hence the Company is exposed to interest rate risk.

Profile

At the end of the reporting period the interest rate profile of the Company's interest-bearing financial instruments was as follows.

| As at 31st March | 2017 | 2016 |
|----------------------------------|------|----------|
| Variable rate instruments | | |
| Financial assets | 596 | 529 |
| Financial liabilities | - | (15,857) |
| | 596 | (15,328) |

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the end of the reporting period would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, remain constant.

| | Profit / (loss) | |
|---------------------------|-----------------|----------------|
| | Increase by 1% | Decrease by 1% |
| 31st March 2017 | | |
| Variable rate instruments | 6 | (6) |
| 31st March 2016 | | |
| Variable rate instruments | (153) | 153 |

29.4 Accounting classifications and fair values

The Company is not designating any of its financial assets / liabilities at fair value, hence a classification required for fair value hierarchy will not apply.

29.5 Fair values vs. carrying amounts

| As at 31st March 2017 | Fair value through profit or loss | Held to maturity | Loans and receivables | Available for sale | Other financial liabilities | Total carrying amount | Fair value |
|--------------------------------------|-----------------------------------|------------------|-----------------------|--------------------|-----------------------------|-----------------------|------------|
| Cash and cash equivalents | - | - | 5,891 | - | - | 5,891 | 5,891 |
| Trade and other receivables | - | - | 19,580 | - | - | 19,580 | 19,580 |
| | - | - | 25,471 | - | - | 25,471 | 25,471 |
| Refundable rental and other deposits | - | - | - | - | 38,494 | 38,494 | 38,494 |
| Trade and other payables | - | - | - | - | 4,581 | 4,581 | 4,581 |
| | - | - | - | - | 43,075 | 43,075 | 43,075 |

| As at 31st March 2017 | Fair value through profit or loss | Held to maturity | Loans and receivables | Available for sale | Other financial liabilities | Total carrying amount | Fair value |
|--------------------------------------|-----------------------------------|------------------|-----------------------|--------------------|-----------------------------|-----------------------|------------|
| Cash and cash equivalents | - | - | 5,370 | - | - | 5,370 | 5,370 |
| Trade and other receivables | - | - | 18,247 | - | - | 18,247 | 18,247 |
| | - | - | 23,617 | - | - | 23,617 | 23,617 |
| Refundable rental and other deposits | - | - | - | - | 29,082 | 29,082 | 29,082 |
| Trade and other payables | - | - | - | - | 33,690 | 33,690 | 33,690 |
| | - | - | - | - | 62,772 | 62,772 | 62,772 |

29.6 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows.

Level 1: Availability of quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Use of inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Use of inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Note | Level 1 | level 2 | Level 3 | Total |
|------------------------------|------|---------|---------|-----------|-----------|
| As at 31st March 2017 | | | | | |
| Investment properties | 17 | - | - | 1,145,466 | 1,145,466 |
| As at 31st March 2016 | | | | | |
| Investment properties | 17 | - | - | 1,145,356 | 1,145,356 |

There were no transfers between Level 1, Level 2 and Level 3 financial assets during the period under review (2016 - Nil).

Valuation techniques and significant unobservable inputs

The following table depicts the valuation techniques used in measuring level 3 fair values, as well as the significance unobservable inputs used.

The fair value of property was determined by an external independent property valuer with appropriate and recognised professional qualifications and recent experience in the location and category of the properties being valued.

The fair value measurements of all the properties have been categorised as Level 3 fair value, based on the input to the valuation technique used.

| Description | Location | Valuation technique | Significant Unobservable Inputs | Interrelationship between Key Unobservable Inputs and Fair Value Measurements |
|-------------|-------------|---|--|--|
| Land | Colombo -01 | Market approach | Market value of the land (Price per Perch). Valuer has used a range of prices for respective lands based on their recently transacted cost. Current market conditions and the comparable property prices have been used for the valuation. | The estimated fair value would increase/(decrease) if – Market value per perch was higher/ (lower) |
| Building | Colombo -01 | Contractor's Method: The contractor's method works on the basis that a property's value can be equated to its cost. Valuer assess the cost of the building if it would have constructed in current year, and deduct margin for usage of the property-based on the year of construction. | Construction cost per square feet of a building. Depreciation rate for the usage of assets. | The estimated fair value would increase/(decrease) if – Cost per square feet was higher/ (lower) Depreciation rate for usage lower/ (higher) |

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

30 Related party transactions

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS 24) "Related party disclosures", the details of which are reported below.

30.1 Parent and ultimate controlling entity

Equity One Limited is the immediate parent company of Equity Two PLC. In the opinion of the Directors, Carson Cumberbatch PLC is the Parent Company of Equity One Limited and Bukit Darah PLC is the Ultimate Parent and Controlling entity of Equity One Limited.

30.2 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard (LKAS 24) - "Related party disclosures", Key Management Personnel (KMP) are those having authority and responsibility for planning and controlling the activities of the entity directly or indirectly. Accordingly, the Directors of the Company, (including executive and non-executive directors) have been classified as Key Management Personnel of the Company.

| For the year ended 31st March | 2017 | 2016 |
|---|------|------|
| 30.2.1 Key management personnel compensation | | |
| Short-term employee benefits / fees | 450 | 400 |
| Post-employment benefits | - | - |
| Termination benefits | - | - |
| Other long-term benefits | - | - |
| | 450 | 400 |

No transactions have taken place during the year, except as disclosed above, between the Company and its KMP.

30.3 Other related party transactions

30.3.1 Transactions with other related parties / companies

| Name and the nature of the relationship | Name/s of the common Director/s | Nature of the transactions | Value of the transactions | |
|--|---------------------------------|---|---------------------------|--------|
| | | | 2017 | 2016 |
| Parent company | | | | |
| Equity One Limited | D. C. R. Gunawardena | Settlements on short term advances obtained | 16,654 | 36,250 |
| | K. C. N. Fernando | Interest on short-term advances obtained | 797 | 2,925 |
| | A. P. Weeratunge | Dividend paid | 39,647 | 4,956 |
| | E. H. Wijenaik | | | |
| | P. D. D. Fernando | | | |
| Fellow subsidiaries | | | | |
| Carsons Management Services (Private) Limited (CMSL) | K. C. N. Fernando | Support service fees paid | 3,980 | 3,182 |
| | | Secretarial fees paid | 411 | 411 |
| | A. P. Weeratunge | Computer fees paid | 184 | 184 |
| | | Rental income received | 14,978 | 13,616 |
| | | Parking fees received | 540 | 314 |
| Guardian Fund Management Limited | A. P. Weeratunge | Rental income received | 5,693 | 5,176 |
| | | Parking fees received | 180 | 160 |

- Rent charged from related companies are based on the rent agreements signed between the companies on an arm's length basis.
- Support service fees and other expenses charged are based on the respective services provided by CMSL as per the service agreements signed between the companies on an arm's length basis.
- Short - term advances from related companies have been paid interest at AWPLR+1% .

| As at 31st March | 2017 | 2016 |
|--|------|--------|
| 30.3.2 Amounts due to related companies | | |
| Equity One Limited | - | 15,857 |
| | - | 15,857 |

30.3.3 Transactions, Arrangements and Agreements involving KMP and their close family members (CFM)

CMF of a KMP are those family members who be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include;

- (a) the individual's domestic partner and children;
- (b) children of the individual's domestic partner; and
- (c) dependents of the individual or the individual's domestic partner's CFM are related parties to the entity.

There were no transactions with CMF during the year.

31. Events after the reporting date.

Subsequent to the reporting period, no circumstances have arisen which would require adjustments to or disclosures in the financial statements.

32. Comparative figures

Previous period's figures and phrases have been re-arranged wherever necessary to conform to the current period's presentation.

Support service fees

Considering the nature of transaction Support service fees has been reclassified under the administrative expenses. Accordingly the comparative figures have been reclassified to provide a better presentation as required by LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly the Financial statement impact is given below.

| | Direct cost | Administrative and other operating expenses |
|---|-------------|---|
| As previously reported in the published financial statements for the year ended 31st March 2016 | 26,546 | 7,576 |
| Adjustment made on Support service fees | (2,570) | 2,570 |
| Adjusted balance in the published financial statements for the year ended 31st March 2017 | 23,976 | 10,146 |

33. Director's responsibility

The Board of Directors is responsible for the preparation and presentation of the Financial Statements. This is more fully described under the relevant clause in the Directors' Report.

Five Year Summary

(All figures are in Sri Lankan Rupees Thousand)

| For the year ended / as at 31st March | 2017 | 2016 | 2015 | 2014 | 2013 | |
|--|-----------|-----------|-----------|-----------|----------|---------|
| Trading results | | | | | | |
| Revenue | 118,907 | 105,286 | 94,516 | 60,687 | 15,876 | |
| Profit before taxation | 78,605 | 193,925 | 161,476 | 107,112 | 44,426 | |
| Income tax expense / (reversal) | (21,979) | (20,185) | (9,971) | (28,439) | 554 | |
| Profit for the year | 56,626 | 173,740 | 151,505 | 78,673 | 44,980 | |
| Other comprehensive income /(expense) for the year | 204 | (42) | (27) | 64 | - | |
| Total comprehensive income for the year | 56,830 | 173,698 | 151,478 | 78,737 | 44,980 | |
| Stated capital and reserves | | | | | | |
| Stated capital | 444,092 | 444,092 | 444,092 | 444,092 | 444,092 | |
| Reserves | 556,129 | 548,899 | 381,518 | 230,040 | 151,303 | |
| Shareholders' funds | 1,000,221 | 992,991 | 825,610 | 674,132 | 595,395 | |
| Assets employed | | | | | | |
| Investment properties | 1,145,446 | 1,145,356 | 1,016,448 | 906,485 | 725,635 | |
| Non-current assets | 1,145,446 | 1,145,356 | 1,016,448 | 906,485 | 725,635 | |
| Current assets | 25,726 | 24,394 | 33,200 | 17,810 | 9,271 | |
| Current liabilities | (20,424) | (44,767) | (113,228) | (151,316) | (89,458) | |
| Working capital | 5,302 | (20,373) | (80,028) | (133,506) | (80,187) | |
| Assets employed | 1,150,768 | 1,124,983 | 936,420 | 772,979 | 645,448 | |
| Non-current liabilities | (150,547) | (131,992) | (110,810) | (98,847) | (50,053) | |
| Net assets | 1,000,221 | 992,991 | 825,610 | 674,132 | 595,395 | |
| Ratios and statistics | | | | | | |
| Dividend per share* | (Rs.) | 1.40 | 0.20 | 0.20 | - | - |
| Dividend yield | (%) | 2.35 | 0.31 | 0.33 | - | - |
| Dividend payout | (%) | 76.50 | 3.57 | 4.09 | - | - |
| Return on shareholders' funds | (%) | 5.66 | 17.50 | 18.35 | 11.67 | 7.55 |
| Earnings per share | (Rs.) | 1.83 | 5.60 | 4.89 | 2.54 | 1.45 |
| Earnings yield | (%) | 3.07 | 8.62 | 8.07 | 8.70 | 6.04 |
| P/E ratio | (times) | 32.62 | 11.61 | 12.39 | 11.50 | 16.55 |
| Market price per share ** | (Rs.) | 59.70 | 65.00 | 60.60 | 29.20 | 24.00 |
| Net assets per share | (Rs.) | 32.27 | 32.03 | 26.63 | 21.75 | 19.21 |
| Current ratio | (times) | 1.26 | 0.54 | 0.29 | 0.12 | 0.10 |
| Market capitalization | (Rs.'000) | 1,850,700 | 2,015,000 | 1,878,600 | 905,200 | 744,000 |

* Based on proposed / interim dividends

** As at 31st March.

Statement of Value Added

(All figures are in Sri Lankan Rupees Thousand)

| For the year ended 31st March | 2017 | 2016 | | |
|---|-------------|-------------|--------|-----|
| Revenue | 118,907 | 105,286 | | |
| Other income | 1,538 | 545 | | |
| Finance Income | 923 | 813 | | |
| | 121,368 | 106,644 | | |
| Cost of materials and services bought from outside | (24,367) | (19,496) | | |
| Value added | 97,001 | 87,148 | | |
| Distributed as follows: | | % | % | |
| To employees | | | | |
| as remuneration | 15,611 | 16 | 14,626 | 17 |
| To government | | | | |
| as taxation* | 11,956 | 12 | 3,378 | 4 |
| To providers of capital | | | | |
| as dividend** | 49,600 | 51 | 6,200 | 7 |
| as interest on loans | - | | 2,925 | 3 |
| Retained in the business | | | | |
| as deferred taxation | 10,023 | 10 | 16,807 | 19 |
| as unwinding of discount | 2,785 | 3 | 2,331 | 3 |
| as retained profits/(loss) net of provisions, fair value adjustment and dividends | 7,026 | 7 | 40,881 | 47 |
| | 97,001 | 100 | 87,148 | 100 |

The Statement of value added shows the quantum of wealth generated by the activities of the Company and its applications.

* Excluding Value Added Tax (VAT).

** Based on Dividends Paid

Information to Shareholders and Investors

1 Stock Exchange Listing

Equity Two PLC is a Public Quoted Company, the issued ordinary shares of which are listed on the Diri Savi Board of the Colombo Stock Exchange of Sri Lanka.

The Stock Exchange code for Equity Two PLC shares is "ETWO".

2 Shareholder base

| As at 31st March | 2017 | 2016 |
|------------------------|-------|-------|
| Number of Shareholders | 2,000 | 2,022 |

3 Distribution and Composition of Shareholders

The number of shares held by Non-Residents as at 31st March 2017 was 124,382 (2016 - 124,382) which amounts to 0.40% (2016 - 0.40%) of the total number of ordinary shares.

| Distribution of Shares | Residents | | | Non - Residents | | | Total | | |
|------------------------|----------------|-------------------|--------------|-----------------|----------------|-------------|----------------|-------------------|---------------|
| | No. of Members | No. of Shares | % | No. of Members | No. of Shares | % | No. of Members | No. of Shares | % |
| 1-1,000 | 1,860 | 275,718 | 0.89 | 8 | 2,802 | 0.01 | 1,868 | 278,520 | 0.90 |
| 1001-10,000 | 108 | 371,503 | 1.20 | 1 | 5,000 | 0.02 | 109 | 376,503 | 1.21 |
| 10,001-100,000 | 19 | 459,058 | 1.48 | 2 | 116,580 | 0.38 | 21 | 575,638 | 1.86 |
| 100,001-1,000,000 | - | - | - | - | - | - | - | - | - |
| Above 1,000,000 | 2 | 29,769,339 | 96.03 | - | - | - | 2 | 29,769,339 | 96.03 |
| Grand Total | 1,989 | 30,875,618 | 99.60 | 11 | 124,382 | 0.40 | 2,000 | 31,000,000 | 100.00 |

4 Categories of Shareholders

| Categories of Shareholders | 2017 | | |
|----------------------------|---------------------|---------------|--------|
| | No. of Shareholders | No. of Shares | % |
| Individuals | 1,959 | 1,040,979 | 3.36 |
| Institutions | 41 | 29,959,021 | 96.64 |
| Total | 2,000 | 31,000,000 | 100.00 |

5 Public holding

The percentage of Ordinary Shares held by the public as at 31st March 2017 was 11.17% (2016 - 11.17%) and the number of public Shareholders were 1,997 (2016 - 2,019).

6 Dividends

A First Interim Dividend of Rs.1.40 per ordinary share for the year ending 31st March 2017 was paid on 31st March 2017 (2016 - First & Final Dividend of 20 Cents per ordinary share).

6 Market performance - Ordinary shares

| For the year ended 31st March | 2017 | 2016 |
|--------------------------------------|-------------|-------------|
| As at 31st March (Rs.) | 59.70 | 65.00 |
| Highest (Rs.) | 75.00 | 77.50 |
| Lowest (Rs.) | 42.10 | 48.00 |
| Value of shares traded (Rs.) | 5,291,855 | 7,096,400 |
| No. of shares traded | 90,863 | 107,265 |
| Volume of transactions (Nos.) | 200 | 385 |

7 Market capitalisation

Market capitalisation of the Company which is the number of ordinary shares in issue multiplied by the market value of an ordinary share was Rs. 1,850,700,000/- as at 31st March , 2017 (2016 - Rs. 2,015,000,000/-).

8 Value of the properties - Land and building

| Location | Extent (in hectares) | Number of Buildings | Market value 2017 Rs. '000 | Date of professional valuation |
|--|---------------------------------|--------------------------------|---|---|
| No. 61, Janadhipathi Mawatha, Colombo 01 | 0.072 | 01 | 420,533 | March 2016 |
| No. 55, Janadhipathi Mawatha Colombo 01 | 0.146 | 01 | 724,933 | March 2016 |

9 Number of employees

The number of employees of the Company at the end of the year was 5 (2016 - 6).

Notice of Meeting

NOTICE IS HEREBY GIVEN that the TWENTY SEVENTH Annual General Meeting of EQUITY TWO PLC will be held on Friday, 16th June 2017 at 10.30 a.m. at the 8th Floor, No.65C, Dharmapala Mawatha, Colombo 7, Sri Lanka for the following purposes:

1. To receive and adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2017, together with the Report of the Independent Auditors thereon.

2. To re-elect Mr. E. H. Wijenaike, who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.

3. To re-appoint Mr. P. D. D. Fernando as a Director of the Company who is over seventy years of age and to consider and if deemed fit to pass the following resolution;

“IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. P. D. D. Fernando who is 74 years of age and that he be re-appointed as a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year.”

4. To re-appoint Mr. K. C. N. Fernando as a Director of the Company who is seventy years of age and to consider and if deemed fit to pass the following resolution;

“IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. K. C. N. Fernando who is 70 years of age and that he be re-appointed as a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year.”

5. To re-appoint Messrs. KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act No.07 of 2007 and to authorize the Directors to determine their remuneration.

By Order of the Board

(Sgd.)

K. D. De Silva (Mrs)

Director

Carsons Management Services (Private) Limited

Secretaries

Colombo

15th May 2017

Notes

1. A Shareholder is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a Shareholder of the Company. A Form of Proxy accompanies this notice.
2. The completed Form of Proxy must be deposited at the Registered Office, No.61, Janadhipathi Mawatha, Colombo 1, Sri Lanka not later than 4.45 p.m. on 14th June 2017.
3. A person representing a Corporation is required to carry a certified copy of the resolution authorising him/her to act as the representative of the Corporation. A representative need not be a member.
4. The transfer books of the Company will remain open.
5. Security Check

We shall be obliged if the shareholders/proxies attending the Annual General Meeting, produce their National Identity Card to the security personnel stationed at the entrance lobby.

Form of Proxy

* I/We.....
of.....
being *a Shareholder/Shareholders of EQUITY TWO PLC
hereby appoint
ofbearing NIC No./ Passport
No..... or failing him/her.

| | |
|--|-----------------|
| Don Chandima Rajakaruna Gunawardena | or failing him, |
| Kurukulasuriya Calisanctus Nalake Fernando | or failing him, |
| Ajith Prashantha Weeratunge | or failing him, |
| Eranjith Harendra Wijenaik | or failing him, |
| Panthiagi Donald Dunstan Fernando | |

As *my/our proxy to attend at the Twenty Seventh Annual General Meeting of the Company to be held on Friday, 16th June 2017 at 10.30 a.m. at the 8th Floor, No.65C, Dharmapala Mawatha, Colombo 7, Sri Lanka and any adjournment thereof and at every poll which may be taken in consequence thereof.

| | For | Against |
|---|--------------------------|--------------------------|
| 1. To adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2017, together with the Report of the Independent Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To re-elect Mr. E. H. Wijenaik who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-appoint Mr. P. D. D. Fernando who is over seventy years of age as a Director of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-appoint Mr. K. C. N. Fernando who is seventy years of age as a Director of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To re-appoint Messrs. KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act No. 07 of 2007 and to authorise the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this day ofTwo Thousand and Seventeen.

.....
Signature/s

Notes

1. * Please delete the inappropriate words.
2. A Shareholder entitled to attend and vote at a General Meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a Shareholder of the Company.
A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the General Meeting of the Shareholders.
3. A Shareholder is not entitled to appoint more than one proxy to attend on the same occasion.
4. Instructions are noted on the reverse hereof.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address, and sign in the space provided. Please fill in the date of signature.
2. If you wish to appoint a person other than the Directors as your proxy, please insert the relevant details in the space provided overleaf.
3. In terms of Article 54 of the Articles of Association of the Company:
 - (i) Any Shareholder entitled to attend and vote at a meeting shall be entitled to appoint another person (whether a Shareholder or not) as his proxy to attend and vote instead of him. A proxy so appointed shall have the same right as the Shareholder to vote on a show of hands or on a poll and to speak at the meeting.
 - (ii) The instrument appointing a proxy shall be in writing and:
 - a) in the case of an individual shall be signed by the appointor or by his attorney; and
 - b) in the case of a Corporation shall be either under its common seal or signed by its attorney or by an authorised officer on behalf of the Corporation.
4. In terms of Article 50 of the Articles of Association of the Company:

Where there are joint-holders of any share any one (01) of such persons may vote and be reckoned in a quorum at any meeting either personally or by Proxy as if he were solely entitled thereto and if more than one (01) of such joint-holders be so present at any meeting one (01) of such persons so present whose name stands first in the register in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased Shareholder in whose name any share stands shall for the purpose of this Article be deemed joint holders thereof.
5. To be valid the completed Form of Proxy should be deposited at the Registered Office of the Company situated at No. 61, Janadhipathi Mawatha, Colombo 1, Sri Lanka not later than 4.45 p.m. on 14th June 2017.

| | |
|---------------------------------------|---------|
| Please fill in the following details: | |
| Name | : |
| Address | : |
| | : |
| Jointly with | |
| Share folio No. | : |

Corporate Information

Name of the Company

Equity Two PLC
(A Carson Cumberbatch Company)

Company Registration No.

PQ 34

Legal Form

A Public Quoted Company with Limited Liability incorporated in Sri Lanka in 1990
Official listing of the Colombo Stock Exchange was obtained in November 1994

Parent and Controlling Entity

Equity One Limited is the immediate Parent Company of Equity Two PLC. In the opinion of the Directors, Carson Cumberbatch PLC is the Parent Company of Equity One Limited and Bukit Darah PLC is the Ultimate Parent and Controlling Entity of Equity One Limited

Directors

Mr. D.C.R. Gunawardena (Chairman)
Mr. K.C.N. Fernando
Mr. A.P. Weeratunge
Mr. E.H. Wijenaikē
Mr. P. D. D. Fernando

Place of Business

61, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.
Tel : +94 11 2039 200
Fax: +94 11 2039 300

Bankers

Standard Chartered Bank
Bank of Ceylon
Deutsche Bank AG.

Auditors

Messrs. KPMG
Chartered Accountants
No.32A, Sir Mohamed Macan Marker Mawatha,
Colombo 03, Sri Lanka.
Tel: +94 11 5426 426
Fax:+94 11 2445 872

Managers & Secretaries

Carsons Management Services (Private) Limited
61, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.
Tel : +94 11 2039 200
Fax: +94 11 2039 300

Registered Office

61, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.
Tel : +94 11 2039 200
Fax: +94 11 2039 300

Corporate Website

www.carsoncumberbatch.com

Designed & produced by

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Printed by Printage (Pvt) Ltd

