EQUITY TWO

Equity Two PLC . Annual Report 2014/2015

A Carson Cumberbatch Company

Contents

Chairman's Statement

Dear Shareholder,

On behalf of the Board of Directors of Equity Two PLC, it is with great pleasure that I welcome you to the 25th Annual General Meeting of the Company. The Annual Report and Audited Financial Statements of the Company for the year ended 31st March 2015 are presented herewith.

Continuing the growth journey the country embarked on, post war, Sri Lanka recorded a real GDP growth of 7.4% in 2014. With the advancement of the economy, the country's Real Estate sector too has evolved over time, as evidenced by the various infrastructure and property development projects completed recently and those which are ongoing. Also, the remarkable progress witnessed in the city of Colombo over the years, in terms of landscaping and quality upgrading of colonial era buildings, bears further evidence.

Considering the said encouraging trends shaping-up at the time, indicative of an optimistic future for our location, in the year 2012 management decided to renovate the derelict 7-storeyed building at assessment number 55, Janadhipathi Mawatha and resuscitate operations that have been abandoned since the Central bank bombing in 1996. The year concluded marked the first fully functional year of the said building and we are pleased to see that our investment is paying off, as it has increased rentable property space under the umbrella of Equity Two PLC, contributing positively towards overall revenue of the Company.

Given the anticipated rise in Sri Lanka's per capita income, coupled with low interest rates, single digit inflation and rising urbanization, the prospects for Real Estate industry continue to be attractive. Made Confident by the upbeat outlook and land optimization potential of our existing properties, we are closely monitoring the developments taking place in the industry in order to seek opportunities that will enable us to maximize gains from our properties.

However the escalation in construction cost over time has become a key challenge associated with property development ventures, requiring substantial funds for large scale developments. Considering our modest cash flow from current operations along with the existing commitments pertaining to debt servicing and capital expenditure, we are reluctant in taking on additional borrowings for large scale development activities due to our limited ability to service such debts.

Therefore, our focus currently lies on maintaining the standard of existing properties of the Company to be in line with industry benchmarks whilst providing a superior quality of service to our tenants. As we have mentioned in the past, we will continue patiently to maintain our position until a feasible opportunity arises to realize value.

The year concluded witnessed the much awaited re-opening of the Janadhipathi Mawatha entrance, although access to our properties via Janadhipathi Mawatha is still restricted due to the guard fence erected between the roadway and the buildings. Whilst we strongly commend the initiative to open Janadhipathi Mawatha -even as a thoroughfare- we would also like to make a humble plea to the authorities to remove the guard fence and permit full access to our buildings via our main entrance to the property.

Nevertheless, we believe that the opening of the roadway itself will be a likely catalyst in enhancing valuations of our buildings.

Chairman's Statement

The year-end fair valuations reflect this sentiment as elaborated in the business review of the annual report.

During the year under review, the overall appreciation of investment property under Equity Two PLC resulted in a net unrealized gain of Rs. 100.4 Mn, compared to Rs. 68.8 Mn recorded during financial year 13/14. On the back of this gain and a 56% year-on-year increase in revenue stemming from higher cumulative area under rent during the year, the Company reported an operating profit of Rs. 167.1 Mn for the period under review, against Rs. 107.5 Mn reported for the preceding financial year. However, the growth in earnings attributable towards the newly renovated building had a less than proportionate contribution to overall cash flows for the period due to rent income for the year being net of rent advances received, which were utilized in full to fund the cost of construction.

Excluding the impact of change in fair value of investment property, operating profit of Equity Two PLC for the period under review was at Rs. 66.7 Mn, which is a year-on-year increase of 72.0%.

In terms of allocating operating cash flows, our priority remains to be on repayment of debt outstanding and allocation of resources for the improvement and renovation of existing buildings in order to remain in par with industry standards. We believe this strategy will enable us to generate greater value to our shareholders and serve them well in the medium to long term. Accordingly, the Board of Equity Two PLC recommends a first and final dividend of Rs. 0.20 per share for the year concluded, subject to shareholder approval at the upcoming Annual General Meeting.

Given the recent transition in the political landscape of our country along with the upcoming parliamentary elections, it will be interesting to observe what the policy direction will be going forward. Considering the immense potential Sri Lanka possess to reach greater economic heights, we believe that a stable economic policy frame work is needed together with a long-term development plan to create a positive environment for investments and business entities.

At the outset, I would like to thank the shareholders for the confidence they have placed in the Company. Thereafter, I would like to extend my sincere gratitude to all business associates, financiers, regulatory authorities and stakeholders who worked with us during the year and have given their fullest support and co-operation to the Company. I also wish to place on record my appreciation to the members of the Audit Committee, Remuneration Committee and Nomination Committee for their guidance and my colleagues on the Board for their valuable inputs. Last but not least, I would also like to thank the members of the staff who have worked tirelessly throughout the year.

(Sgd.)

D. C. R. Gunawardena

Chairman

Colombo

12th May 2015

Business Review

Macro Overview

Keeping pace with the 7.2% growth recorded during the previous year, Sri Lanka enjoyed a GDP growth of 7.4% in 2014, fuelled by domestic consumption expenditure and investments driven by strong contribution from the construction sector. From a production aspect, the industry segment continued to report the highest growth, with an 11.4% change in real output for the year, also prompted by increased construction activity. The industry segment constituted 32% of the country's real GDP in 2014.

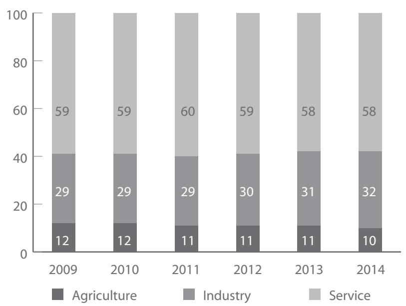
During the year, Sri Lanka's per capita GNP at market prices increased to USD 3,536 from a figure of USD 3,195 reported in the preceding year as per Central Bank projections, edging towards the upper middle income mark.

The expansion of the economy will give rise to greater employment generation, enhanced living standards of people and urbanization, all of which are likely to drive demand for commercial and residential property. Therefore, the outlook for real estate and property segment is rather lucrative from a present day standpoint.

In April 2015, the Central Bank of Sri Lanka announced a 50 basis point cut in policy rates, suggesting a prolonged stay of the current low interest rate regime, which, coupled with prevailing single digit inflation, is likely to add further stimulus to the growth of construction, real estate & property segments.

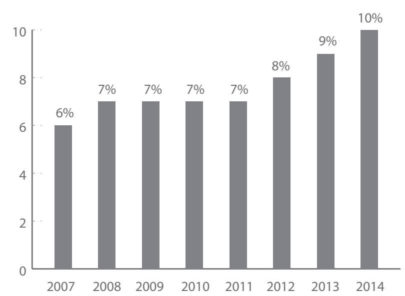
Having said that, we cannot discount the impact of rising construction costs which is a significant challenge faced by the overall industry given the impact it has on returns of property development projects and on recurrent expenditure associated with property renovation and maintenance.

COMPOSITION OF REAL GDP BY SECTOR



Source : Central Bank Annual Reports

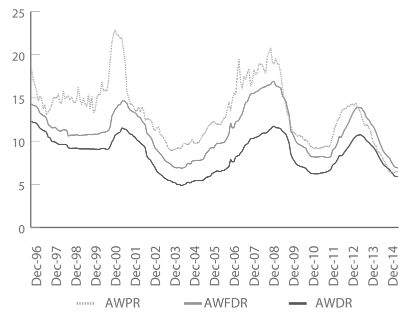
CONSTRUCTION SECTOR CONTRIBUTION TO REAL GDP



Source : Central Bank Annual Reports

Business Review

COMMERCIAL BANKS, LENDING AND DEPOSIT RATES (%)



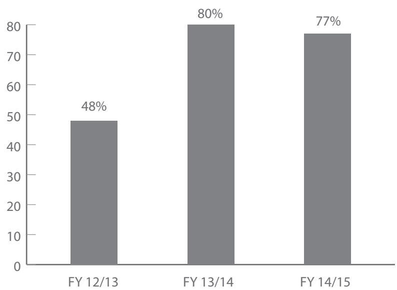
Source : Central Bank of Sri Lanka

MOVEMENT IN HEADLINE INFLATION (Y-O-Y)

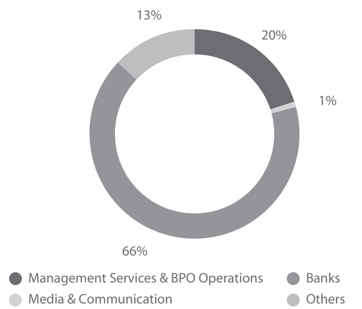
Source : Department of Census & Statistics

Key Indicators of the Business

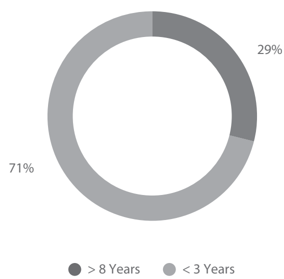
AVERAGE OCCUPANCY FOR THE PERIOD



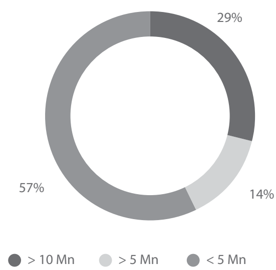
TENANT PROFILE BASED ON REVENUE (FY 14/15)



TENANT AGE PROFILE (FY 14/15)



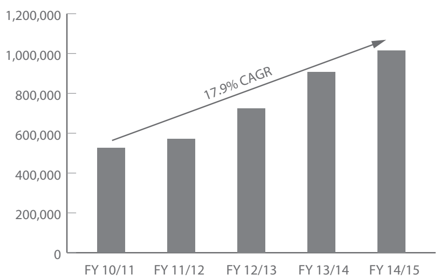
CONTRIBUTION TO REVENUE FROM TENANTS (FY 14/15)



We welcome the initiative taken by the authorities during the year to re-open the Janadhipathi Mawatha entrance, which has contributed substantially towards the value appreciation of our properties. However, due to the guard fence erected between the roadway and the properties, access to our buildings is still restricted via this entrance. This has also resulted in the loss of parking space which is disadvantageous to us when negotiating with prospective tenants who require additional parking facilities.

In time to come, with the removal of the guard fence, we envisage our properties located in Janadhipathi Mawatha to increase further in value, continuing the upward trend witnessed during the last five years, as depicted below. As at 31st March 2015, the total investment property of the company was valued at Rs. 1,016.4 Mn which is an appreciation of 12.1% compared to the Rs. 906.5 Mn reported as at 31st March 2014.

MOVEMENT IN COMPANY INVESTMENT PROPERTY VALUES (RS. 000)



Financial Review

In spite of the relative decline in average occupancy during the period under review, rental revenue reported by Equity Two PLC stood at Rs. 94.5 Mn for the twelve months ended 31st March 2015, reflecting a growth of 55.7% year-on-year. This is mainly attributable to the increase in cumulative area under rent for the year, resulting from the renovated building at No: 55 Janadhipathi Mawatha being operational throughout the full financial year of 14/15 compared to only six months in the preceding year.

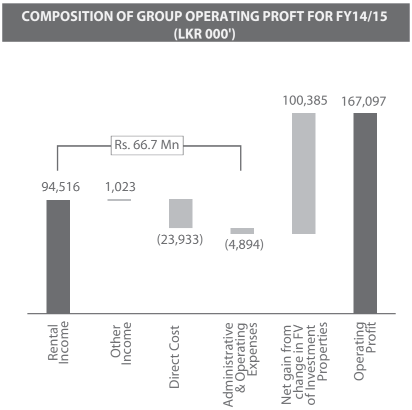
With additional area under rent, the expansion of operations also gave rise to higher direct cost, which at Rs. 23.9 Mn for the financial year concluded, marked an increase of 77.2% relative to the corresponding period.

Further to the increase in Revenue, the Company also witnessed a 46.0% Year-on-Year increase in unrealized gains arising from the change in fair value of investment property. The gain for the financial year under consideration, at Rs. 100.4 Mn, was driven by the value appreciation of our properties subsequent to the opening of the Janadhipathi Mawatha entrance.

Administrative expenses for the year is shown as comparatively low against that of financial year 13/14, due to higher brokerage fees included in the latter associated with new tenants sourced.

On the back of strong revenue growth, higher gains recorded from changes in fair value of investment properties and the impact of comparatively lower administrative expenses for the period, profit from operations for the twelve months in consideration reflected an increase of 55.4% against the Rs. 107.5 Mn recorded for financial year 13/14.

Excluding the unrealized gain arising from changes in fair value of investment property, the Company operating profit for the twelve months under consideration was at Rs. 66.7 Mn, which is an increase of 72.0% when compared to the operating profit of financial year 13/14 adjusted for the same.



Finance cost for the reviewing year was at Rs. 5.9 Mn, depicting an absolute increase of Rs. 4.7 Mn compared to that of financial year 13/14. The cost during the latter was comparatively lower due to capitalization of interest expenses on related party borrowings obtained for the renovation of the investment property.

In contrast, at Rs. 9.0 Mn, deferred tax expenditure recorded for the 14/15 financial year show a year-on-year decline of 68.4%. This was due to the relatively high deferred tax liability recorded for the comparable financial year stemming from capitalization of building construction cost pertaining to the renovated property.

As per the interim Budget passed by the Parliament of Sri Lanka on 07th February 2015, the government proposed on imposing a one-off 25% Super Gain Tax (SGT) on companies who have recorded a profit before tax in excess of Rs. 2 Bn either at company or consolidated level as per the audited financial statements for financial year 13/14. Since Carson Cumberbatch group, of which Equity Two PLC is a subsidiary, falls within this scope, the relevant tax liability extends to the Company too. The said liability will be recognized in the financial statements once the bill is enacted, and the required entries will be passed in the financial statements thereon.

Equity Two PLC concluded the year with net profit of Rs. 151.5 Mn, recording a near two fold increase against the Rs. 78.7 Mn figure reported for financial year 13/14 triggered by the positive year-on-year change in operating profit and deferred tax expenditure.

Net Assets per share of the Company as at 31st March 2015 was at Rs. 26.63 against Rs. 21.75 recorded as at the balance sheet date of financial year 13/14. For the year ended 31st March 2015, the Board of Equity Two PLC has recommended to declare a first and final dividend payment of Rs. 0.20 per share, subject to shareholder approval at the forthcoming annual general meeting of the Company.

OUTLOOK

Whilst Sri Lanka has undoubtedly achieved significant improvement over time where economic growth is concerned, there's considerable upside for growth especially when compared to our more developed regional peers. We are confident that the country will continue its journey of growth with robust and consistent economic policies. With the expansion of the economy, we feel the appreciation potential for our properties is more in time to come driven by greater demand for 'A' grade office space. Thus, given such exciting prospects for our business with timely investments on renovation, upgrade and maintenance, we envisage overall occupancy of the company to be at optimal levels, leading to greater revenue and earnings potential.

Carsons Management Services (Private) Limited

Managers

12th May 2015

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 2015 of Equity Two PLC, 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 12th May 2015.

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 activities 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 07 provides 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 of 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 2015 are set out on pages 32 to 68. 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.94.5 mn (2014 – Rs.60.7 mn.), respectively. A detailed 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)	2015	2014
Profit for the year	151,505	78,673
Other comprehensive (expense) / income for the year	(27)	64
Retained earnings as at the beginning of the year	20,989	11,013
Retained earnings before appropriations	172,467	89,750
Transfer to fair value adjustment reserve	(100,385)	(68,761)
Retained earnings as at the end of the year	72,082	20,989

3.3 Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are given on pages 36 to 48.

3.4 Investment properties

The Company has recognized the carrying value of investment properties in the Statement of Financial Position at 'fair value' in accordance with the Sri Lanka Accounting Standard (LKAS 40) - 'Investment Property'.

A professional valuation was performed as at 31st March 2015 by Mr. S. Sivaskantha, F.I.V. (Sri Lanka), of Perera Sivaskantha and Company, Incorporated valuers, based on which a net fair value gain on investment properties was recognized in the financial statements to the value of Rs.100.4 mn (2014 – Rs. 68.8 mn) of the company during the year.

As at the period end, the carrying value of the investment properties of the Company stood at Rs.1,016.4 mn (2014 - Rs. 906.5 mn).

Details of 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 Lanka Rupees Thousands)	2015	2014
Investment properties	9,578	100,883

3.6 Reserves

As at 31st March 2015, the total reserves of the Company stood at Rs. 381.5 mn (2014 - Rs. 230.0 mn).

The movements are set out in the Statement of Changes in Equity and 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 2015 is given in note 13 to the Financial Statements, on page 49.

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 2015	31st March 2014
Mr. D. C. R. Gunawardena (Chairman)	-	-
Mr. K. C. N. Fernando	3,600	3,600
Mr. A. P. Weeratunge	-	-
Mr. E. H. Wijenaike	-	-
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.

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

6.1 Directors to retire by rotation

In terms of Articles 72, 73 and 74 of the Articles of Association of the Company, Mr. D. C. R. Gunawardena retires by rotation and being eligible offers himself for re-election.

6.2 Appointment of Director who is over 70 years of age

Upon the recommendation of the Nomination Committee of the Company and the Board, it is recommended that Mr. P. D. D. Fernando who is over 70 years of age be re-appointed as a Director 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 him.

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).

7.1 Board of Directors

The following Directors held office as at the reporting date and their brief profiles are given on pages 22 to 23 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. Wijenaike *	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 12th May 2015, 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. Wijenaike is an Independent Non-Executive Director in spite of being a Director of Equity One PLC, 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 PLC, 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	3/3
Mr. A. P. Weeratunge	3/3
Mr. E. H. Wijenaike	3/3
Mr. P. D. D. Fernando	3/3

7.3 Board Evaluation

As suggested in the Code of Best Practice on Corporate Governance, a 'Board Appraisal Form' was introduced for the year 2014/15 to evaluate the performance of the Board in order to ensure that the responsibilities of Directors towards the Board and the Company are met.

The 'Board Evaluation Form' comprises of the following broad themes;

- 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 Nomination Committee of the Company collates all the comments received from the Directors and reports the results and proposed actions to the Board of Directors.

7.4 Audit Committee

The Parent Company of the Company is Equity One PLC (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 24 to 25 of this Annual Report.

7.5 Remuneration Committee

The Parent Company of the Company is Equity One PLC (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

CCPLC is in the process of re-formulating the Remuneration Committee to fall in line with the requirements set out in the Listing Rules of the Colombo Stock Exchange.

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 the Chief Executive Officer, Executive Directors and Non-Executive Directors. Based on the recommendation of the Remuneration Committee, the Board approves remuneration to the respective Directors.

The Chief Executive Officer, Director-in-charge and 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)	2/2
Mr. D.C.R. Gunawardena	2/2
Mr. R. Theagarajah	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.

Aggregated remuneration paid to the Non-Executive Directors of the Company are disclosed under note 13 on page 49 of the Annual Report. Executive Directors are not compensated for their role on the Board.

7.6 Nomination Committee

The Nomination Committee of Equity One PLC (EQIT), the Parent Company, functions as the Nomination Committee of the Company.

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

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 the Chief Executive Officer/ Director-in-Charge 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 authorised 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 under review the Committee had two meetings.

Nomination Committee Members	Meetings Attended (Out of two)
Mr. S. Nagendra (Chairman)	2/2
Mr. P. D. D. Fernando	2/2
Mr. D.C.R. Gunawardena	2/2

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 26 to 29 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. 153,000/- (2014 - Rs.139,000/-) was paid to them by the Company as audit fees for the year ended 31st March 2015. 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 31 of the Annual Report.

11. 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 2015, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2015.

The details of the Related Party Transactions are given in note 30 on page 65 to 67 of the Financial Statements.

11.1. Related Party Transactions Review Committee

The Company is in the process of forming a "Related Party Transactions Review Committee" to comply with the Colombo Stock Exchange Listing Rules, Section 9, which would come into effect from 1st January 2016.

12. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The Ordinary shares of the Company were transferred from the Colombo Stock Exchange Main Board to the Diri Savi Board with effect from 26th November 2014.

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

13. 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 2015 was 06 (2014 - 05).

14. EQUITABLE TREATMENT TO SHAREHOLDERS

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

15. ENVIRONMENT PROTECTION

The Company is sensitive to the needs of the environment and makes every endeavour 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.

16. DIVIDEND

Subject to the approval of the Shareholders at the Annual General Meeting, the Board of Directors recommended a First & Final dividend of Rs. 0.20 per ordinary share for the year ended 31st March 2015. (2014 – Nil).

The dividend payable has not been accounted for until it is approved at the forthcoming Annual General Meeting.

17. SOLVENCY TEST

Taking into account the said distribution, the Directors are 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 distribution.

The Company's Auditors, KPMG, Chartered Accountants have issued a Certificate of Solvency confirming same.

18. STATED CAPITAL

The Stated Capital of the Company as at 31st March 2015 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.

19. 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.

20. 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.

21. 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.

22. CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The contingent liabilities and commitments made on account of capital expenditure as at 31st March 2015 are given in note 27 to the financial statements.

23. CORPORATE DONATIONS

There were no donations made during the year ended 31st March 2015. (2014 - Nil)

24. OUTSTANDING LITIGATION

There were no outstanding litigations as at the reporting date.

25. TWENTY MAJOR SHAREHOLDERS

The Parent Company, Equity One PLC holds 88.81% of the total Ordinary Shares in issue of the Company.

		31st March 15		31st March 14	
	Name of Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**
1	Equity One PLC A/C No.1	27,532,525	88.81	27,532,525	88.81
2	Bank of Ceylon A/C Ceybank Unit Trust	2,194,788	7.08	1,825,512	5.89
3	Mr. K.C. Vignarajah	93,766	0.30	92,536	0.30
4	Mr. H.W.M. Woodward	61,100	0.20	61,100	0.20
5	Seylan Bank PLC/Mr. S.N.C.W.M. Bandara Chandrasekera Kandegedara	57,200	0.18	59,600	0.19
6	Tranz Dominion,L.L.C.	55,480	0.18	55,480	0.18
7	Mr. I. Paulraj	41,000	0.13	41,000	0.13
8	Mr. L.L. Hettiarachchi	33,800	0.11	46,871	0.15

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

		31st March 15		31st March 14	
	Name of Shareholders	No. of Shares	%	No. of Shares	%
9	Waldock Mackenzie Ltd/Hi-Line Trading (Pvt) Ltd	28,337	0.09	28,337	0.09
10	Miss C.M. Wickramasekera	25,300	0.08	25,300	0.08
11	Mr. A.A. Noordeen	23,900	0.08	23,900	0.08
12	Merchant Bank of Sri Lanka Limited/Union Investments Ltd.	20,200	0.07	20,200	0.07
13	Mr. H.G.N.U.C. Wijayaweera	20,193	0.07	28,650	0.09
14	Mrs. S. Vignarajah	18,278	0.06	18,278	0.06
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

26. SHARE INFORMATION

The details relating to earnings, net assets, market value per share and information on share trading is given on pages 71 and 72 of this Annual Report.

27. 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 12th May 2015. 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.

28. ANNUAL GENERAL MEETING

The 25th Annual General Meeting of the Company will be held on Friday, 19th June 2015 at 2:30 P.M. at the 8th Floor, No.65C, Dharmapala Mawatha, Colombo 7, Sri Lanka.

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat is on page 73 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
12th May 2015

Profiles of the Directors 2015

CHANDIMA GUNAWARDENA

Chandima Gunawardena serves as a Non-Independent, Non-Executive Director of Carson Cumberbatch PLC and in 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. 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 Ownings & 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 Equity One PLC, as well as the Group's Investment Holding Sector - Ceylon Investment PLC, Rubber Investment Trust Limited and Guardian Fund Management Limited and the Leisure Sector - Equity Hotels Limited. He counts for more than 34 years of finance related experience in the mercantile sector and has held positions in Lanka Walltile Ltd., Union Apparels (Pvt) Ltd., John Keells Holdings PLC, Phoenix Industries (Pvt) Ltd and Ceylon Beverage Holdings PLC. He is a Fellow member of the Chartered Institute of Management Accountants of UK.

ERANJITH WIJENAIKE

Eranjith Wijenaike is a Director of Equity One PLC and Managing Director of Central Finance Company PLC. He is also a Director of several other listed companies, both within and outside the Central Finance Group with over 29 years of management experience. Holds a Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management. Member of the Chartered Institute of Management, UK.

DONALD FERNANDO

Donald Fernando is a Director of Equity One PLC and Director of Conimex (Private) Limited - Civil Engineers and 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.

Audit Committee Report

The Parent Company of Equity Two PLC is Equity One PLC (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 the 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 04 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 four)	
Mr.Vijaya Malalasekera (Chairman)	04
Mr.Chandima Gunawardena	04
Mr.Faiz Mohideen	04

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 2014/2015 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 approved by the Audit Committee, Messrs.KPMG, as part of their regular audit scope has commenced a comprehensive external IT security and process audit covering the entire Carsons Management Services (Private) Limited (Managers to the Company) - IT environment, which extends to the Property Sector, as well.

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 2015 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 2016, 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

12th May 2015

Risk Management

Risk management has become an integral part of business and management. These practices provide reasonable assurance through the process of identification and management of events, situations or circumstances, which, even if they occur, would not adversely impact the achievement of business objectives. In other words, risk management practices will ensure minimum impact from adverse events and will help to maximize the realization of opportunities whilst risks are managed until they are mitigated and re-assessed to be within the company's risk appetite.

Enterprise Risk Management (ERM) provides a common process and terminology for all risk management activities. Its main goals focus 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 re-validates 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.

The Risk Management Governance Structure includes a reporting framework within the organisation and to the Board of Directors, thereby allowing Directors to assume their supervisory function 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 next page. The principal risks thus identified are considered and reviewed at various stages within our business process continuously.

Board of Directors	• Responsible for approval of ERM framework • Set risk appetite thresholds • Approve Business Plans • Review Reports - Risk dash board and summary of risk register
Audit Committee	• Considers adequacy of risk management and internal control framework • Reviews risk management reports/Dash Board/Risk Register • Reviews reports of internal and external auditors
Management Team	• Defines and sets risk appetite and considers new and emerging risks • Develops / monitors suitable action plans to mitigate/manage risks • Considers actions to improve risk management processes • Provides representation on compliances
Risk owners	• Responsible for day to day monitoring / supervision of risk and risk mitigation actions. • Required to evaluate status of risk and effectiveness of risk mitigation action plans

Risk	Impact	Risk rating	Risk response & strategies
Business Risks	Changes in the supply and demand ratio in the real estate market and other factors such as depressing property values, unexpected disputes with contractors and tenants, changes to the laws relating to property development, stamp duty, income tax and capital gains tax could affect the profitability and viability of the business. Further, property owned by company is situated within the high security zone in Colombo Fort. During the year, although Janadhipathi Mawatha was opened even as a thoroughfare, access to our buildings still remain restricted due to the guard fence.	Moderate	We are extremely cautious when selecting contractors and consultants for our projects. We ensure that they are well experienced, reputed and also evaluate their work in previous projects. By entering into comprehensive and clear agreements, we ensure that communication gaps and disputes are minimised to a greater extent. We also maintain close and meaningful relationships with relevant government and local authorities and institutes. We have seen a significant improvement in development activities in the surrounding area, along with relieved restrictions and access via Janadhipathi Mawatha.
Liquidity Risk	Inability to raise funds or effect payments when required.	Moderate	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. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company has access to short-term financing facilities extended from the parent company, Equity One PLC and the ultimate parent company, Carson Cumberbatch PLC.

Risk Management

Risk	Impact	Risk rating	Risk response & strategies
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	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 that the fair value of a financial instrument will fluctuate due to changes 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.
Interest Rate Risk	Interest rate risk is the risk arising due to the volatility of interest rates in the markets, affecting future cash flows. The Company is exposed to intrest rate risk on related Company borrowings obtained for renovation of the adjoining building.	Moderate	Financial strength of the parent company, Carson Cumberbatch PLC, is used via group treasury in negotiating the rates. However, the Company does not carry any borrowings from external financial institutions as at the reporting date.
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. - 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.

Risk	Impact	Risk rating	Risk response & strategies
Systems and process risks	The risk of direct or indirect losses due to inadequate or failed internal processes and systems.	Low	-Maintain detail procedure manuals and provide training and guidelines for new recruits. - The internal audit function of the Group carryout 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	The management together with the Carsons group legal division proactively identifies 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 government 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 and comprehensive insurance covers.

Financial Calendar

Financial year end	31st March 2015
25th Annual General Meeting	19th June 2015

Announcement of Results

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

1st Quarter ended 30th June 2014	14th August 2014
2nd Quarter ended 30th September 2014	14th November 2014
3rd Quarter ended 31st December 2014	13th February 2015

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
+94 - 11 230 7345
Internet : www.lk.kpmg.com

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, 2015, and 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 32 to 68.

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, 2015, 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:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) 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 section 151 of the Companies Act.

KPMG

CHARTERED ACCOUNTANTS

Colombo
12 May 2015

Statement of Profit or Loss and Other Comprehensive Income

(All figures are in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	2015	2014
Revenue	11	94,516	60,687
Direct cost		(23,933)	(13,510)
		70,583	47,177
Other income	12	1,023	687
Net gains arising from changes in fair value of investment properties	17	100,385	68,761
		171,991	116,625
Administrative and other operating expenses		(4,894)	(9,086)
Results from operating activities	13	167,097	107,539
Finance income	14	318	780
Finance costs	14	(5,939)	(1,207)
Net finance costs	14	(5,621)	(427)
Profit before taxation		161,476	107,112
Current taxation	15	(936)	112
Deferred taxation	15	(9,035)	(28,551)
Profit for the year		151,505	78,673
Other comprehensive income			
Actuarial (loss) / gain from valuation of employee benefits	24.2	(27)	64
Total other comprehensive (expense) / income for the year		(27)	64
Total comprehensive income for the year		151,478	78,737
Earnings per share (Rs.)	16	4.89	2.54

The notes from pages 36 to 68 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	2015	2014
ASSETS			
Non-current assets			
Investment properties	17	1,016,448	906,485
Total non-current assets		1,016,448	906,485
Current assets			
Trade and other receivables	18	16,283	12,208
Cash and cash equivalents	19	16,917	5,602
Total current assets		33,200	17,810
Total assets		1,049,648	924,295
EQUITY AND LIABILITIES			
Equity			
Stated capital	20	444,092	444,092
Capital reserves	21.1	750	750
Revenue reserves	21.2	380,768	229,290
Total equity		825,610	674,132
Non-current liabilities			
Refundable rental and other deposits	22	25,066	22,436
Deferred tax liability	23	83,810	74,775
Employee benefits	24	1,934	1,636
Total non-current liabilities		110,810	98,847
Current liabilities			
Trade and other payables	25	105,191	142,814
Deferred revenue	26	7,251	8,479
Current tax liabilities		786	23
Total current liabilities		113,228	151,316
Total liabilities		224,038	250,163
Total equity and liabilities		1,049,648	924,295
Net assets per share (Rs.)		26.63	21.75

The notes from pages 36 to 68 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 12th May 2015.

Approved and signed on behalf of the Managers,

(Sgd.)
A. P. Weeratunge
Director
Carsons Management Services (Private) Limited.

Approved and signed on behalf of the Board

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

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

Colombo,
12th May 2015

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 2013	444,092	750	139,540	11,013	595,395
Profit for the year	-	-	-	78,673	78,673
Other comprehensive income for the year	-	-	-	64	64
Total comprehensive income for the year	-	-	-	78,737	78,737
Transfers	-	-	68,761	(68,761)	-
Balance as at 31st March 2014	444,092	750	208,301	20,989	674,132
Balance as at 1st April 2014	444,092	750	208,301	20,989	674,132
Profit for the year	-	-	-	151,505	151,505
Other comprehensive expense for the year	-	-	-	(27)	(27)
Total comprehensive income for the year	-	-	-	151,478	151,478
Transfers	-	-	100,385	(100,385)	-
Balance as at 31st March 2015	444,092	750	308,686	72,082	825,610

The notes from pages 36 to 68 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	2015	2014
Cash flows from operating activities			
Profit before taxation		161,476	107,112
Adjustments for:			
Finance costs	14	5,939	1,207
Finance income	14	(318)	(780)
Net gain arising from changes in fair value of investment properties		(100,385)	(68,761)
Write off of assets		-	36
Provision for employee benefits	24.1	271	231
Amortization of deferred revenue		(2,101)	(2,012)
Operating profit before working capital changes		64,882	37,033
(Increase) / decrease in trade and other receivables		(4,075)	(7,310)
Increase / (decrease) in trade and other payables		(36,576)	90,853
Operating profit after working capital changes		24,231	120,576
Rental deposits received	22	4,389	28,959
Rental deposits refunded	22	(2,772)	-
Income tax paid		(173)	(205)
Net cash generated from / (used in) operating activities		25,675	149,330
Cash flows from investing activities			
Additions to investment properties	17	(9,578)	(100,883)
Interest received		318	780
Net cash generated from / (used in) investing activities		(9,260)	(100,103)
Cash flows from financing activities			
Net amounts settled on related company borrowings including interest		(5,100)	(47,998)
Net cash generated from / (used in) financing activities		(5,100)	(47,998)
Net increase / (decrease) in cash and cash equivalents		11,315	1,229
Cash and cash equivalents at the beginning of the year		5,602	4,373
Cash and cash equivalents at the end of the year (note 19)		16,917	5,602

The notes from pages 36 to 68 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 06 (2014 – 05) 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 12th May 2015.

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 recognized 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 recognized, 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) **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.

Changes in Accounting Policies

Except for the changes below, the Company has consistently applied the accounting policies as set out in this note to all periods presented in these financial statements.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1st April 2014.

Fair value measurement

In accordance with the transitional provisions of SLFRS 13, the Company has applied the new definition of fair value, as set out in note 09 prospectively. The change had no significant impact on the measurements of the Company's assets and liabilities, but the company has included new disclosures in the financial statements, which are required under SLFRS 13.

These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of SLFRS 13, the Company has provided the relevant comparative disclosures under those standards.

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 and other comprehensive income.

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 recognises 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-to-day 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 every 3 years by 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 derecognized 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 recognized 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 recognized 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 recognized 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.

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 judgement 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. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to Company of CGUs that are expected to benefit from the synergies of the combination.

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 post-employment 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 Company is liable to pay retirement benefits under the Payment of Gratuity Act, No. 12 of 1983. Under the said Act, the liability to an employee arises only on completion of 5 years of continued service.

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets (if applicable) are deducted.

The discount rate is the yield at the reporting date on high quality corporate bonds, that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

The company recognizes all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognized as personnel expenses in profit or loss.

The calculation is performed annually by a qualified actuary using the projected unit credit method.

iv. Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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 recognized 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 recognized 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 recognized 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.

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 judgements about future events. New information may become available that causes the Company to change its judgement 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.

m) 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.

4. 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".

5. 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.

6. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognized 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.

7. 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

8 SEGMENT REPORTING

Segment results that are reported to the Board of directors include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly audit, directors and legal fee and other operating expense.

9. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/ or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

- Level 1- Quoted prices (unadjusted) in active markets for identifiable assets and liabilities
- Level 2- Inputs other than quoted prices included in Level 1 that are observable from the asset or liability either directly (as prices) or indirectly (derived prices)
- Level 3 – Inputs from 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 might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

a) Investment property

An external, independent valuer having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Company's investment property portfolio 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 after proper marketing wherein the parties had each acted knowledgeably.

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.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Company and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

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.

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

c) 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.

d) Contingent consideration

The fair value of contingent consideration arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities. When appropriate, it is discounted to present value.

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 2015. 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 recognized. 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 2017, with early adoption permitted.

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

	For the year ended 31st March	2015	2014
11	**Revenue**		
	Property rental income	94,516	60,687
		94,516	60,687
12	**Other income**		
	Parking fees	588	662
	Other income	435	25
		1,023	687
13	**Profit from operations**		
	Profit from operations is stated after charging all expenses including the following:		
	Auditors' remuneration - audit services	156	139
	Auditors' remuneration - audit related services	-	60
	Professional service costs (note 13.1)	54	51
	Write-off of assets	-	36
	Support service fees	612	612
	Personnel costs (note 13.2)	13,392	6,831
13.1	**Professional service costs**		
	Valuation services	41	42
	Other services	13	9
		54	51
13.2	**Personnel costs**		
	Salaries, wages and other related expenses	12,615	6,216
	Defined benefit plan cost - Employee benefits (note 24.1)	271	231
	Defined contribution plan cost - EPF and ETF	506	384
		13,392	6,831
	The above include:		
	Directors' emoluments	-	-
	Directors' fees	450	293
		450	293

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

	For the year ended 31st March	2015	2014
14	**Net finance (cost) / income**		
	Finance income		
	Interest income on short-term deposits	259	704
	Interest income on staff loans	59	76
		318	780
	Finance cost		
	Interest expense on related party borrowings	4,053	11,242
	Unwinding of interest on refundable rental deposits	1,886	1,207
		5,939	12,449
	Less: Capitalization of borrowing costs (note 17.2)	-	(11,242)
		5,939	1,207
	Net finance cost	(5,621)	(427)
15	**Current taxation**		
15.1	**Income tax expense / (reversal)**		
	Current tax expense for the year (note 15.3)	936	142
	Over provision for previous years	-	(254)
		936	(112)
15.2	**Deferred taxation**		
	On origination / (reversal) of temporary differences (note 23.1)	9,035	28,551
		9,035	28,551
		9,971	28,439

	For the year ended 31st March	2015	2014
15.3	**Reconciliation between the accounting profit and the taxable profit**		
	Accounting profit for the year before taxation	161,476	107,112
	Adjustments on;		
	- Aggregate disallowable expenses	1,077	2,331
	- Aggregate allowable expenses	(48,711)	(47,273)
	Notional adjustments arising on application of LKAS/SLFRS	(8,315)	(6,370)
	Net gains arising from changes in fair value of investment properties	(100,385)	(68,761)
	Interest income	(318)	(780)
	Tax adjusted (loss) / profit from operations	4,824	(13,741)
	Interest income	318	780
	Total Statutory Income	5,142	780
	Utilization of tax losses (note 15.5 b)	(1,799)	(273)
	Taxable income	3,343	507
	Taxation thereon (note 15.5 a)	936	142
	Income tax expense for the year	936	142
15.4	**Analysis of tax losses**		
	Tax losses brought forward	25,898	11,940
	Adjustment on finalization of liability	-	490
	Tax loss incurred during the year	-	13,741
	Utilization of tax losses during the year	(1,799)	(273)
	Tax losses carried forward	24,099	25,898

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% (2014-28%).

(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% (2014 - 28%).

(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 over 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	2015	2014
Amount used as the numerator		
Profit for the year	151,505	78,673
Amount used as the denominator		
Weighted average number of ordinary shares oustanding during the year (In thousands)	31,000	31,000
Earnings per share (Rs.)	4.89	2.54

17 Investment properties

17.1

	Freehold Land	Freehold Building	Other equipments	Total as at 31st March 2015	Total as at 31st March 2014
Balance as at beginning of the year	430,300	376,900	99,285	906,485	725,635
Additions during the year	-	7,167	2,411	9,578	100,883
Change in fair value of investment properties	118,332	(7,194)	(10,753)	100,385	68,761
Disposals / written-off	-	-	-	-	(36)
Borrowing costs capitalized (note 17.2)	-	-	-	-	11,242
Balance as at the end of the year	548,632	376,873	90,943	1,016,448	906,485

	As at 31st March	2015	2014
17.2	**Capitalisation of borrowing costs into investment properties**		
	Borrowing costs capitalised as part of the cost of investment properties are as follows;		
	Freehold buildings	-	11,242
		-	11,242

The amount of borrowing cost capitalised for the year ended 31st March 2014 was only to the extent of funds borrowed specifically for constructing the qualifying asset. Interest rate on the said amount borrowed was at AWPLR + 1%. No borrowing cost is capitalised during the year.

17.3 Valuation of investment properties

Investment properties of the Company are stated based on a valuation performed by, an independent professional valuer , Mr. S. Sivaskantha, F.I.V (Sri Lanka) of Perera Sivaskantha & Company, Incorporated valuers, as at 31 March 2015, the details of which are as follows;

Property and location	Method of valuation	Extent (Acres)	Historical Cost	Fair value as at 31st March 2015	Fair value as at 31st March 2014
No. 61 Janadhipathi Mawatha, Colombo 01	Market approach	0.1782	128,084	371,827	331,276
No. 55 Janadhipathi Mawatha Colombo 01	Market approach	0.3597	427,629	644,621	575,209
			555,713	1,016,448	906,485

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

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

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

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

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

	As at 31st March	2015	2014
18	**Trade and other receivables**		
	Financial		
	Trade receivables	12,587	4,470
	Other receivables	3,240	5,003
	Loans given to company officers (note 18.1)	226	795
		16,053	10,268
	Non-financial		
	Prepaid expenses	144	1,940
	Advance payments	86	-
		230	1,940
		16,283	12,208
18.1	**Loans given to company officers**		
	Balance as at the beginning of the year	795	305
	Loans granted during the year	196	1,114
	Recovered during the year	(765)	(624)
	Balance as at the end of the year	226	795
19	**Cash and cash equivalents**		
	Cash at bank and in hand	8,668	4,296
	Investments in government securities	8,249	1,306
	Cash and cash equivalents for the purpose of cash flow statement	16,917	5,602
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 movement 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	2015	2014
21.2	**Revenue reserves**		
	Retained earnings	72,082	20,989
	Fair value adjustment reserve (note 21.2.1)	308,686	208,301
		380,768	229,290

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

21.2.1 Fair value adjustment reserve

Any 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.

	As at 31st March	2015	2014
22	**Refundable rental and other deposits**		
	Balance as at the beginning of the year	22,436	2,360
	Receipts during the year	4,389	28,959
	Refunds during the year	(2,772)	-
	Amount transferred to deferred revenue	(873)	(10,090)
	Unwinding of interest on refundable deposits	1,886	1,207
	Balance as at the end of the year	25,066	22,436
23	**Deferred tax liability**		
	Balance as at the beginning of the year	74,775	46,224
	On origination and reversal of temporary differences (note 23.1)	9,035	28,551
	Balance as at the end of the year	83,810	74,775
23.1	**Deferred tax charge / (reversal) for the year**		
	on origination / (reversal) of temporary differences		
	Investment properties	8,615	32,505
	Employee benefits	(84)	(46)
	Tax losses carried forward	504	(3,908)
	Net deferred tax charged / (reversed) for the year	9,035	28,551
23.2	**Deferred tax assets**		
	Tax effect on employee benefits	542	458
	Tax effect on tax losses	6,747	7,251
	Total deferred tax assets	7,289	7,709

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

	As at 31st March	2015	2014
23.3	**Deferred tax liability**		
	Tax effect on investment properties	91,099	82,484
	Total deferred tax liability	91,099	82,484
	Net deferred tax liability	83,810	74,775

23.4 Corporate income tax rates used in assessing the deferred tax liability

As provided for in Sri Lanka Accounting Standard (LKAS 12) - "Income taxes", deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. Accordingly deferred taxation has been computed using the current tax rate of 28%.

	As at 31st March	2015	2014
24	**Employee benefits**		
	The movement of the liability recognized in the Statement of financial position is as follows:		
	Balance as at the beginning of the year	1,636	1,469
	Current service cost	107	84
	Interest cost	164	147
	Actuarial (gain)/loss	27	(64)
	Balance as at the end of the year	1,934	1,636
24.1	**The amounts recognized in the Statement of profit or loss are as follows;**		
	Current service cost	107	84
	Interest cost	164	147
	Charge for the year	271	231
24.2	**The amount recognized in the Statement of other comprehensive income is as follows;**		
	Actuarial (gain) / loss	27	(64)
	Charge for the year	27	(64)

24.3 The employee benefits liability as at 31st March 2015 amounting to Rs 1,933,574 /- (2014 - Rs. 1,636,383/-) is made based on an actuarial valuation carried out by Mr. M. Poopalanathan of Messrs. Actuarial and Management Consultants (Pvt) Ltd. As recommended by the 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	10% p.a.
Rate of pay increase	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**

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

	Profit / (loss)	
	1% Increase	**1% Decrease**
Discount rate	(1,842)	2,036
Future salary growth	(1,939)	1,753

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	2015	2014
25	**Trade and other payables**		
	Financial		
	Trade payables	21	22
	Other payables	54,294	91,236
	Amounts due to related Companies (note 30.3.2)	49,182	50,229
		103,497	141,487
	Non-financial		
	Accrued expenses and provisions	1,694	1,327
		1,694	1,327
		105,191	142,814
26	**Deferred revenue**		
	Deferred lease rent income	7,251	8,479
		7,251	8,479

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 Litigation and claims

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

28	**Dividend per share**		
	Dividend proposed (Rs. 000) *	6,200	-
	Dividend per share (Rs.)	0.20	-

* The proposed dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and according to the Sri Lanka Accounting Standard (LKAS 11) - "Events after the reporting period", the liability has not been provided for in the financial statements.

29 Financial instruments

Financial risk management- overview

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 market conditions and the Company's activities. The Company, through its training, 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 the 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	2015	2014
Credit risk		
Trade and other receivables	16,053	10,268
Cash and cash equivalents	16,917	5,602
	32,970	15,870

(All figures are in Sri Lankan Rupees thousands)

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 an average 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.

As at 31st March	2015	2014
Refundable rental and other deposits		
Carrying value	25,066	22,436
Face value	33,348	31,731

The terms of the lease agreements provide that the tenants should 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 aging of trade receivables at the end of the reporting period was as follows;

As at 31st March	2015	2014
Revenue on lease agreements recognized on straight line basis	12,458	4,358
1–30 days	41	89
31–90 days	88	23
	12,587	4,470

No allowance for impairment in respect of trade and other receivables has been made as at the year end (2014-Nill).

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. 16.9 mn as at 31st March 2015 (2014: Rs. 5.6 mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA(lka) to AA–(lka), based on Fitch Ratings.

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

As at 31st March	2015	2014
Cash at bank and in hand	8,668	4,296
Placements in government securities	8,249	1,306
	16,917	5,602

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 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 have access to short-term financing facilities extended from the parent company, Equity One PLC and the ultimate parent company, Carson Cumberbatch PLC.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

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

As at 31st March 2015	Carrying amount	Contractual cash flows			
		Total	3 months or less	4-12 months	More than 1 year
Non-derivative financial liabilities					
Refundable rental deposits	25,066	33,348	1,210	-	32,138
Trade payables	21	21	21	-	-
Other payables	54,294	54,294	-	-	54,294
Amounts due to related Companies	49,182	49,182	49,182	-	-
	128,563	136,845	50,413	-	86,432

As at 31st March 2014	Carrying amount	Contractual cash flows			
		Total	3 months or less	4-12 months	More than 1 year
Non-derivative financial liabilities					
Refundable rental deposits	22,436	31,731	-	2,772	28,959
Trade payables	22	22	22	-	-
Other payables	91,236	91,236	281	-	90,955
Amounts due to related Companies	50,229	50,229	50,229	-	-
	163,923	173,218	50,532	2,772	119,914

The gross amounts disclosed in the previous table represent the contractual undiscounted cash out flows relating to non-derivative financial liabilities and which are usually not expected to closed 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. 16.9 mn (2014- Rs 5.6 mn).

A significant portion of the Company's current liabilities as at the reporting date, excluding the rent in advance which is only payable in the event of early termination of the rent agreement, comprise of the amount due to the parent company, Equity One PLC, obtained to finance the Company's capital expenditure, on renovation of the adjoining building. However, the Board of Directors is confident that such balances would not be demanded by the said Company which would otherwise result in a significant risk to the Company in terms of liquidity, until a long term financing arrangement is secured.

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 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.

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.

29.3.2 Interest rate risk

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

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	2015	2014
Variable rate instruments		
Financial assets	8,475	2,101
Financial liabilities	(49,182)	(50,229)
	(40,707)	(48,128)

(All figures are in Sri Lankan Rupees thousands)

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 in 1%	Profit / (loss) Decrease in 1%
31st March 2015		
Variable rate instruments	(407)	407
31st March 2014	(481)	481
Variable rate instruments		

29.4 Accounting classifications and fair values

The Company do not designate any of its financial assets / liabilities at fair value, hence a classification between fair value hierarchy do not apply.

29.5 Fair values vs. carrying amounts

As at 31st March 2015	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	-	-	16,917	-	-	16,917	16,917
Trade and other receivables	-	-	16,053	-	-	16,053	16,053
	-	-	32,970	-	-	32,970	32,970
Refundable rental and other deposits	-	-	-	-	25,066	25,066	25,066
Trade and other payables	-	-	-	-	103,497	103,497	103,497
	-	-	-	-	128,563	128,563	128,563

As at 31st March 2014	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	-	-	5,602	-	-	5,602	5,602
Trade and other receivables	-	-	10,268	-	-	10,268	10,268
	-	-	15,870	-	-	15,870	15,870
Refundable rental and other deposits	-	-	-	-	22,436	22,436	22,436
Trade and other payables	-	-	-	-	141,487	141,487	141,487
	-	-	-	-	163,923	163,923	163,923

30 Related party transactions

The Company carried out transactions in the ordinary course of its business on an arm's length basis 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 PLC 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 PLC and Bukit Darah PLC is the Ultimate Parent and Controlling entity of Equity One PLC.

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. Accordingly, the Directors of the Company and its parent company (including executive and non-executive directors) have been classified as Key Management Personnel of the Company.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees thousands)

	For the year ended 31st March	2015	2014
30.2.1	***Key management personnel compensation***		
	Short-term employee benefits / fees	450	293
	Post-employment benefits	-	-
	Termination benefits	-	-
	Other long-term benefits	-	-
		450	293

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 2015	2014
Ultimate parent company				
Carson Cumberbatch PLC	D. C. R. Gunawardena	Short-term advances obtained	-	18,642
		Interest on short-term advances obtained	-	3,900
		Settlements made on amounts advanced	-	67,765
Parent company				
Equity One PLC	D. C. R. Gunawardena K. C. N. Fernando A. P. Weeratunge E. H. Wijenaike P. D. D. Fernando	Short-term advances obtained	-	28,027
		Settlements on short term advances obtained	5,100	15,660
		Interest on short-term advances obtained	4,053	7,342

Name and the nature of the relationship	Name/s of the common Director/s	Nature of the transactions	Value of the transactions 2015	2014
Fellow subsidiaries				
Carsons Management Services (Private) Limited (CMSL)	K. C. N. Fernando A. P. Weeratunge	Support service fees paid	612	612
		Secretarial fees paid	367	306
		Computer fees paid	184	184
		Rental income received	13,616	9,741
Carsons Airline Services (Private) Limited	D. C. R. Gunawardena	Rental income received	-	415
Guardian Fund Management Limited	A.P.Weeratunge	Rental income received	3,375	2,465

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

	As at 31st March	2015	2014
30.3.2	***Amounts due to related companies***		
	Equity One PLC	49,182	50,229
		49,182	50,229

31. Events after the reporting date.

After satisfying the Solvency Test in accordance with section 57 of the Companies Act, No. 7 of 2007, the Directors have recommended the payment of a first and final dividend of Rs. 0.20 per ordinary share for the year ended 31st March 2015 amounting to Rs 6,200,000/- (2014 - Nil) which is to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard (LKAS 10) - "Events after the reporting period" this proposed first and final dividend has not been recognised as a liability as at 31st March 2015.

Subsequent to the reporting period, no circumstances have arisen which would require adjustments to or disclosure in the financial statements, other than the above.

Notes to the Financial Statements

(All figures are in Sri Lankan Rupees Thousand)

32. Directors' 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.

33 Other Matters

The interim budget proposal presented by the Minister of Finance on 29th January 2015 and the pursuant bill presented to the Parliament on 30th March 2015, impose a one off tax of 25% on taxable profits for the year of assessment 2013/14 on any company or each company in a group of companies, if the company's / Group's profit before income tax exceeds Rs. 2,000Mn.

The consolidated profit before tax of Carson Cumberbatch PLC, the parent Company of Equity Two PLC, exceeds the said threshold of Rs. 2,000Mn. Accordingly, as per the provisions of the bill presented to parliament the Company's liability is estimated at approximately Rs. 127,000/- .

The liability will be recognized in the financial statements when the bill is enacted and the required entries will be passed in the financial statements.

Five Year Summary

(All figures are in Sri Lankan Rupees Thousand)

For the year ended / as at 31st March		LKAS/SLFRS 2015	2014	2013	2012	SLAS 2011
Trading results						
Revenue		94,516	60,687	15,876	16,489	19,361
Profit before taxation		161,476	107,112	44,426	46,846	9,130
Income tax (expense) / reversal		(9,971)	(28,439)	554	(1,073)	20,359
Profit for the year		151,505	78,673	44,980	45,773	29,489
Stated capital and reserves						
Stated capital		444,092	444,092	444,092	444,092	444,092
Reserves		381,518	230,040	151,303	106,330	66,778
Shareholders' funds		825,610	674,132	595,395	550,422	510,870
Assets employed						
Investment properties		1,016,448	906,485	725,635	570,747	526,934
Non-current assets		1,016,448	906,485	725,635	570,747	526,934
Current assets		33,200	17,810	9,271	30,619	37,657
Current liabilities		(113,228)	(151,316)	(89,458)	(2,240)	(4,692)
Working capital		(80,028)	(133,506)	(80,187)	28,379	32,965
Assets employed		936,420	772,979	645,448	599,126	559,899
Non-current liabilities		(110,810)	(98,847)	(50,053)	(48,704)	(49,029)
Net assets		825,610	674,132	595,395	550,422	510,870
Ratios and statistics						
Dividend per share*	(Rs.)	0.20	-	-	-	0.20
Dividend yield	(%)	0.33	-	-	-	0.74
Dividend payout	(%)	4.09	-	-	-	21.02
Return on shareholders' funds	(%)	18.35	11.67	7.55	8.32	5.77
Earnings per share	(Rs.)	4.89	2.54	1.45	1.48	0.95
Earnings yield	(%)	8.07	8.70	6.04	5.94	3.50
P/E ratio	(times)	12.39	11.50	16.55	16.82	28.59
Market price per share **	(Rs.)	60.60	29.20	24.00	24.90	27.20
Net assets per share	(Rs.)	26.63	21.75	19.21	17.76	16.48
Current ratio	(times)	0.29	0.12	0.10	13.67	8.03
Market capitalization	(Rs.'000)	1,878,600	905,200	744,000	771,900	843,200

* Based on proposed dividend

** As at 31st March.

Financial information for the period 2011 were not adjusted to reflect the transition to new / revised Sri Lanka Accounting Standards (LKAS/SLFRS).

Statement of Value Added

(All figures are in Sri Lankan Rupees Thousand)

For the year ended 31st March	2015		2014	
Revenue	94,516		60,687	
Other income	1,023		687	
Finance Income	318		780	
	95,857		62,154	
Cost of materials and services bought from outside	(15,435)		(15,765)	
Value added	80,422		46,389	
Distributed as follows:		%		%
To employees				
as remuneration	13,392	17	6,831	15
To government				
as taxation*	936	1	(112)	-
To providers of capital				
as dividend	-	-	-	-
as interest on loans	4,053	5	-	-
Retained in the business				
as deferred taxation	9,035	11	28,551	61
as unwinding of discount	1,886	2	1,207	3
as retained profits/(loss) net of provisions and fair value adjustment	51,120	64	9,912	21
	80,422	100	46,389	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).

Information to Shareholders and Investors

1 Stock Exchange Listing

Equity Two PLC is a Public Quoted Company , the issued ordinary shares of which were listed on the main board of the Colombo Stock Exchange of Sri Lanka, and was transferred to the Diri Savi Board w.e.f. 26 th November 2014.

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

2 Shareholder base

As at 31st March	2015	2014
Number of Shareholders	2,024	2,172

3 Distribution and Composition of Shareholders

The number of shares held by Non-Residents as at 31st March 2015 was 124,780 (2014 - 124,980) which amounts to 0.40% (2014 - 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	1,889	294,311	0.95	8	3,200	0.01	1,897	297,511	0.96
1,001 - 10,000	102	360,300	1.16	1	5,000	0.02	103	365,300	1.18
10,001 - 100,000	20	493,296	1.59	2	116,580	0.38	22	609,876	1.97
100,001 - 1,000,000	-	-	-	-	-	-	-	-	-
Above 1,000,000	2	29,727,313	95.89	-	-	-	2	29,727,313	95.89
Total	2,013	30,875,220	99.59	11	124,780	0.41	2,024	31,000,000	100.00

Categories of Shareholders	2015		
	No. of Shareholders	No. of Shares	%
Individuals	1,987	1,038,731	3.35
Institutions	37	29,961,269	96.65
Total	2,024	31,000,000	100.00

4 Public holding

The percentage of Ordinary Shares held by the public as at 31st March 2015 was 11.17% (2014 - 11.17%) and the number of public Shareholders were 2,021 (2014 - 2,169).

5 Dividends

The Board of Directors have recommended the payment of a First and Final dividend of Rs. 0.20 per share for the year ended 31st March 2015 (2014 - Nil).

6 Market performance - Ordinary shares

For the year ended 31st March	2015	2014
As at 31st March (Rs.)	60.60	29.20
Highest (Rs.)	84.00	33.90
Lowest (Rs.)	29.00	20.60
Value of shares traded (Rs.)	26,421,416	11,530,601
No. of shares traded	591,934	413,553
Volume of transactions (Nos.)	1,246	761

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. 1,878,600,000/- as at 31st March , 2015 (2014 - Rs. 905,200,000/-).

8 Value of the properties - Land and building

Location	Extent (Acres)	Number of Buildings	Market value 2015 Rs. '000	Date of professional valuation
No. 61 Janadhipathi Mawatha, Colombo 01	0.1782	01	363,721	March 2015
No. 55 Janadhipathi Mawatha Colombo 01	0.3597	01	561,785	March 2015

9 Number of employees

The number of employees of the Company at the end of the year was 6 (2014 - 5).

Notice of Meeting

NOTICE IS HEREBY GIVEN that the TWENTY FIFTH Annual General Meeting of EQUITY TWO PLC will be held on Friday, 19th June 2015 at 2.30 P.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 2015, together with the Report of the Independent Auditors thereon.

2. To declare a dividend as recommended by the Directors.

3. To re-elect Mr. D. C. R. Gunawardena, who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.

4. 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 72 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 authorise 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
12th May 2015

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 2.30 P.M. on 17th June 2015.
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.

Notes

Form of Proxy

* I/We...

of..

being *a Shareholder/Shareholders of EQUITY TWO PLC hereby appoint ....

.... of ....

bearing 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 Wijenaike	or failing him,
Panthiage Donald Dunstan Fernando	

As *my/our proxy to attend at the Twenty Fifth Annual General Meeting of the Company to be held on Friday, 19th June 2015 at 2.30 P.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 2015, together with the Report of the Independent Auditors thereon.		
2.	To declare 20 Cents per share as a First and Final dividend for the financial year ended 31st March 2015 as recommended by the Directors.		
3.	To re-elect Mr. D. C. R. Gunawardena who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.		
4.	To re-appoint Mr. P. D. D. Fernando who is over Seventy years of age as a Director of the Company.		
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.		

Signed this .... day of ....Two Thousand and Fifteen.

....

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, by signing 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 2.30 P.M. on 17th June 2015.

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 September 1994. The Company was transferred from the Main Board to the Diri Savi Board w.e.f. 26 November 2014

Parent and Controlling Entity
Equity One PLC 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 PLC and Bukit Darah PLC is the Ultimate Parent and Controlling Entity of Equity One PLC.

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

Place of Business
No. 61, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.
Telephone No: +94-11-2039200
Fax No: +94-11-2039300

Bankers
Standard Chartered Bank
Commercial Bank
Deutsche Bank AG

Auditors
Messrs. KPMG
Chartered Accountants,
No 32A,
Sir Mohamed Macan Marker Mawatha,
Colombo 03, Sri Lanka.
Telephone No: +94-11-5426426
Fax No: +94-11-2445872

Managers & Secretaries
Carsons Management Services (Private) Limited
No. 61, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.
Telephone No: +94-11-2039200
Fax No: +94-11-2039300

Registered Office
No. 61, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.
Telephone No: +94-11-2039200
Fax No: +94-11-2039300

Corporate Website
www.carsoncumberbatch.com

Designed & produced by
emagewise
Printed by Printage (Pvt) Ltd