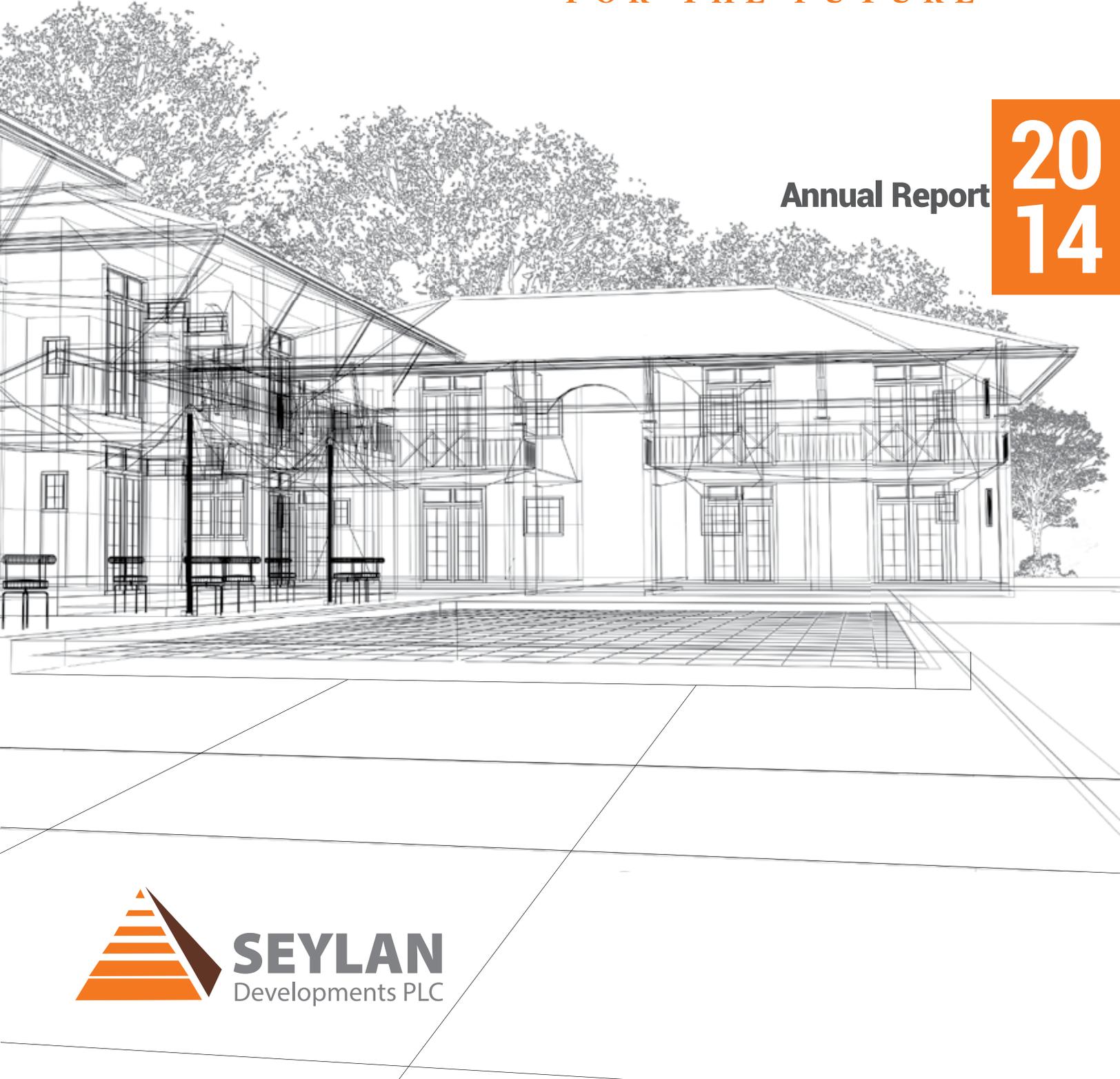


# THE NEXT STEP

FOR THE FUTURE

Annual Report

20  
14



# The Next Step for the future

*"Striving for success without hard work is like trying to harvest where you haven't planted"*

– David Bly

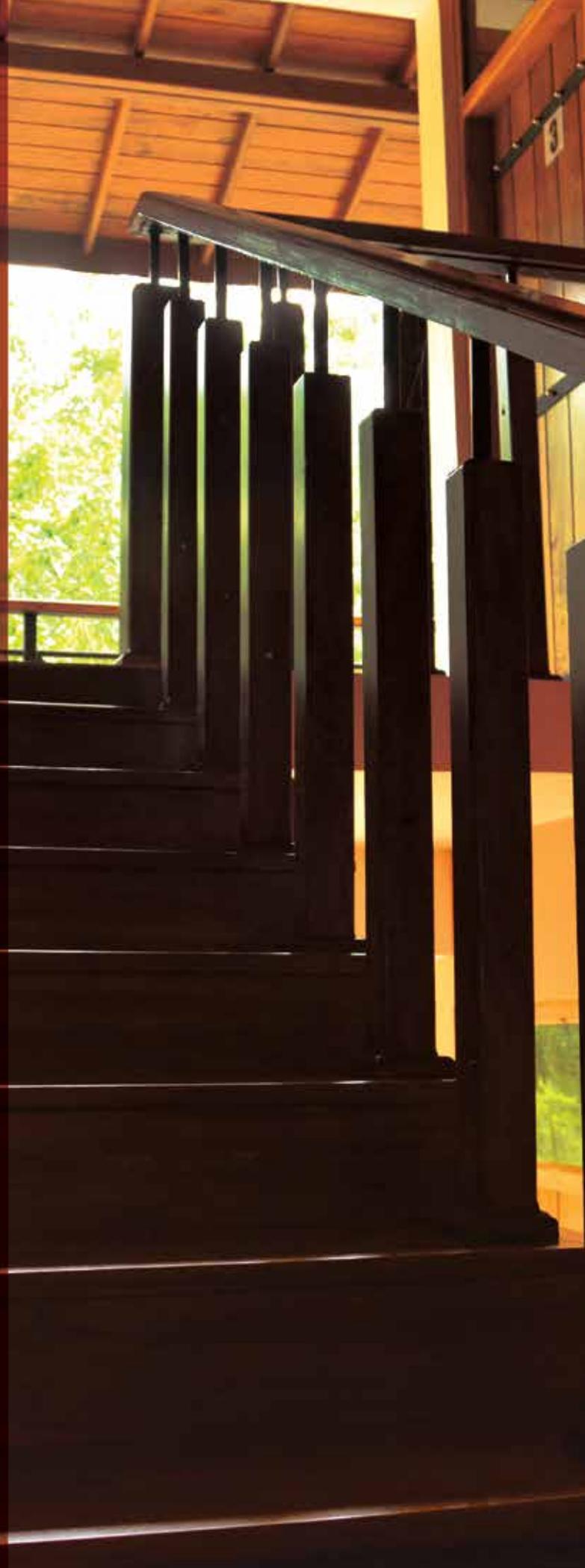
Technology they say is for the future where art relates to the past. For few, architecture appears relevant to the twenty-first century only when it emulates a sculptural presence. In recent years, the correlations between technology, art and architecture became extensively bound to each other making symbolic relationships.

With art and technology rapidly entering into advanced forms of architecture, other concepts such as energy saving, cost effectiveness, green building and sustainability comes for contention. The rising energy demand and declining resources has added so much of innovations, changes and modifications to man made structures. This reminds us that what comes from nature and the physical properties of the universe cannot be isolated neither separated in space making. These principles will prove increasingly indispensable if the architecture in coming years is going to function not simply as a virtual phenomenon

The service provider's responsibility is to see that the clients rights are reserved, his expectations are fulfilled and the returns paid back on time. During the past 15 or more years as a building service organization the Company took this challenge up and strived to deliver the best in making the spaces comfortable and keeping the place clean and tidy creating a cozy working environment. As the subsidiary we looked out for other avenues of how best we could cater in satisfying the needs and aspirations of the parent Company within the allowed Governance frame work. This year we built a holiday resort in the outskirts of Kataragama for the Bank staff to stay and relax, enjoy with their families and in attending to religious activities as well.

Architecture today is constructed in a world characterized by a rising influx of material inventions available within the global marketplace. The discussions today are beyond kiln dried bricks, reinforced concrete and aluminum extrusions. As such, it will interrogate the latent potential of contemporary research based design to stimulate sustained material and technological innovation within architecture and the constructed world.

This move was challengeable yet achievable for a Company involved in maintaining and managing a High Rise in the Metropolitan. Adding to this the Company is in verge of letting out modernized branches to the Bank as well. Now the head start is given, and the initiative is taken. Through the history the most successful companies have been the ones which had made the change work to their advantage. The Next Step would be to develop the concept with added comforts and built affordable resorts, branch units at selective locations in the years to come.

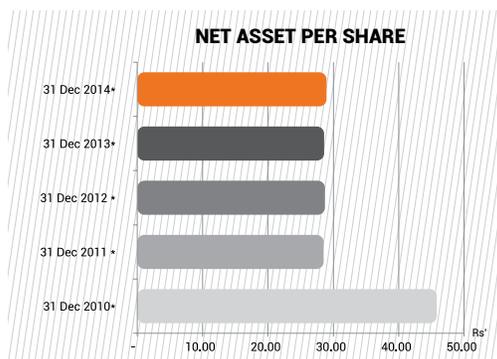
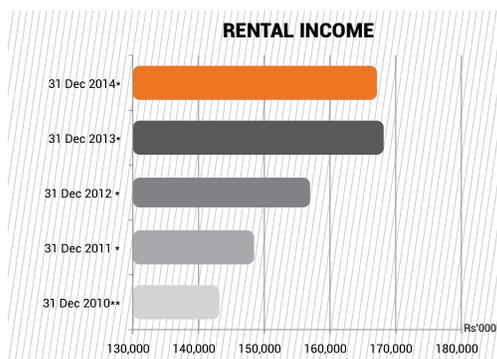
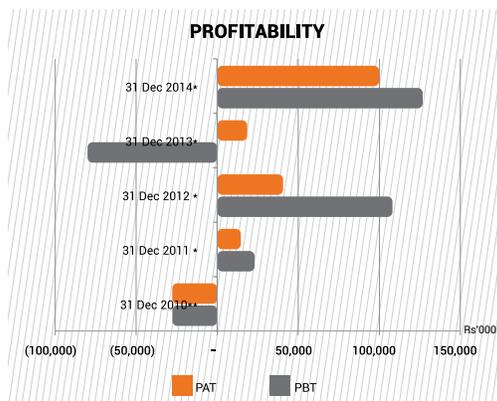


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## FINANCIAL HIGHLIGHTS

For the period ended	31-Dec-14 Rs.	31-Dec-13 Rs.
<b>Results for the year</b>		
Rent Income	167,157,428	168,174,406
Results from Operating Activities	91,375,798	(111,358,404)
Net Finance Income	35,392,989	31,363,681
Profit / (Loss) Before Tax	126,768,787	(79,994,723)
Income tax reversal / (expenses)	(26,957,573)	98,408,415
Profit After Tax	99,811,214	18,413,692
Earning per share (Rs.)	0.67	0.12
Dividend per share - Rs:	0.50	0.30
<b>At the year end</b>		
Shareholders Fund	4,284,406,486	4,230,110,071
Total Assets	4,882,870,560	4,805,334,986
Stated Capital	1,644,391,650	1,644,391,650
Net Asset Value	4,284,406,486	4,230,110,071
<b>Financial Ratios</b>		
Profit After Tax from Rental Income	59.7%	10.9%
Return on Equity	2.33%	0.44%
Return on Total Assets	2.04%	0.38%
Dividend Payout	75%	250%
Price Earnings Ratio - times	21.04	75.00
Net Assets per share	28.96	28.59
Current ratio - times	1.62	1.40
<b>Share Prices</b>		
Highest during the year	16.30	12.40
Lowest during the year	9.00	8.20
Last Traded Price	14.10	9.00



\* Figures are based on new Sri Lanka Accounting Standards (SLFRSs)

\*\* Figures are based on previous Sri Lanka Accounting Standards (SLASs)

## Our Vision

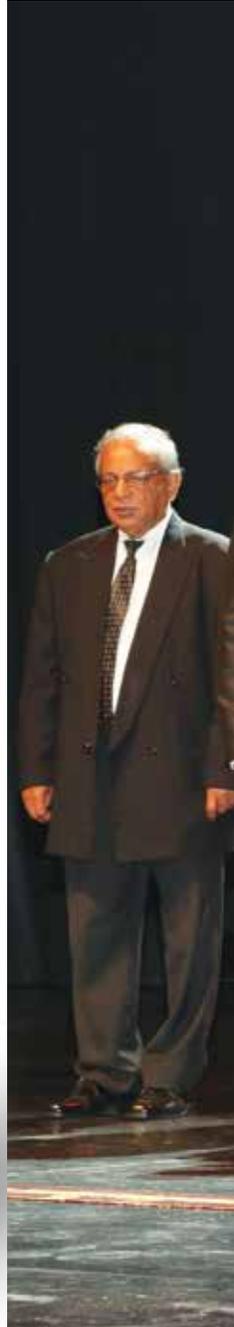
“To be recognized as the premier property management Company in Sri Lanka which provides an excellent service to its tenants.”

## Our Mission

“We are dedicated to controlling costs while maintaining the highest levels of satisfaction and comfort to our tenants by responding to their unique requirements and special requests. We listen to them, and then develop a plan and structure that fits their goals, budgets and needs. We immaculately upkeep our properties to the highest quality standards by deploying our team of highly trained professionals.”

## OUR ACHIEVEMENT

Winning GOLD for the  
Third consecutive year





Winner – GOLD AWARD (Land & Property Sector)  
**CA Sri Lanka Annual Report Awards 2014**





## CHAIRMAN'S REVIEW

### “ Dear Shareholders:

It gives me great pleasure to welcome you, on behalf of the Board of Directors of Seylan Developments PLC, to the twenty-third Annual General Meeting. I am pleased to present you the Annual Report and the audited financial statements for the year ended 31st December 2014. The financial year recorded an enhanced performance reflecting a growth of 442% in after tax profits. The Board has recommended a dividend of 50 cents per share for the financial year 2014, for approval of the shareholders at the Annual General Meeting. ”

### **Economic background and trend:**

The Sri Lankan economy recorded a growth of 7.7% during the first three quarters of 2014. Increased domestic economic activities and growth momentum further contributed resulting in a remarkable annual real GDP growth rate of 7.8% towards the end of the year. Year on year inflation continued a single digit for a considerable period declining to 2.1% in December 2014. While the core inflation recorded at 3.3%. This is for the longest period that both year on year inflation and core inflation have continuously remained at single digit levels after the economy liberalized.

Some changes in government policy and ways of doing business was evident in the past presidential election era accompanied by an emphasis on good governance and a corruption free society. The ensuing changes in the business outlook and is explored to augur well for the future of the Company.

Even though, there was an increase in the rentable space in the market,

the Company took the initiative to ensure 100% occupancy in the apartment tower. The Company terminated the lease agreement with Ceylinco Hotels Limited (Raja Bojun) from 31st March 2014 and this space was taken up by the parent Company to Seylan Bank Plc. Certain renovations were made to the vacated premises which was rented to the Parent Company from August 1st 2014.

### **Composition of the Board:**

As at 1st of January 2014, the Board consisted of six non-executive Directors of whom two were independent. Mr. R.Nadarajah, an Executive Director of Seylan Bank PLC and represented the parent Company as Chairman of Seylan Developments PLC, resigned from Seylan Bank PLC on reaching the age of 70 years on 8th May 2014 and also from Seylan developments PLC from that date. I was elected as Chairman w.e.f. 30th May 2104 by the Board members. Presently the Board consists of five directors and all are non-executive and have wide knowledge and experience in the financial, banking, engineering and commercial sectors.

### **Financial Performance:**

Rental income which is the main source of income for the Company recorded a marginal decline by Rs.1.01 Mn, declining from 168.17 in 2013 to Rs. 167.16 Mn in 2014, mainly due to loss of income in the east tower, during the period of change of tenants. Expenses on premises, equipment and establishment increased from Rs.42.36 Mn in 2013 to Rs.55.29 Mn in 2014 mainly due to face-lift work undertaken at Seylan Towers. Administration expenses decreased by Rs. 30 Mn during the year under review compared to previous year due the provisions made for doubtful receivables (Rs. 16.1 Mn) and provisions of Rs. 12.3 Mn made on Corporate Guarantee given to Peoples' Bank on credit facilities obtained by Ceylinco Packaging Ltd in previously. This resulted in the operating profit before changes in fair value of investment properties increasing from Rs.64.71 Mn in 2013 to 78.38 Mn in 2014. The net finance income too improved from Rs.31.36 Mn in 2013 to Rs.35.39 Mn in 2014.

Since the Company reports Investment Properties at the fair value in accordance with the Accounting Standards and Accounting Policy, a loss of Rs.176.07 Mn was made in the Income Statement for the year 2013 whereas a gain of Rs.12.99 Mn was made in the Income Statement for the year 2014. With the fair value gain on investment properties the Company recorded a profit before tax of Rs126.77Mn in 2014 compared to Loss Rs.79.99 Mn in 2013. The tax for the year 2013 was a reversal of Rs.98.41Mn mainly due to diminution in value of investment properties whereas the tax for the year 2014 was a charge of Rs.26.96Mn, resulting in the after tax profits increasing from Rs.18.41Mn in 2013 to Rs.99.81Mn in 2014, resulting in increase of 442%.

### **Future Plans:**

Sri Lanka's economy is expected to grow at a higher pace compared to the last two years with the enhanced contribution from all sectors of economy. The domestic inflation is expected to remain in single digit. The Company has completed the face lift plan to the east tower at a cost of Rs: 22 million partly funded by the parent Company. The Company is implementing a maintenance and repair exercise to be completed within six months. It is expected that the improvements will enhance the value of the building.

Our Company has already drawn strategic development plans for short and long term. In the short term plans the Company had commenced to construct properties in holiday destinations and renting same for mainly employees of Seylan Bank and undertake maintenance and modernising of buildings owned by Seylan Bank. The long term plan includes, to recover investments in several troubled projects which are non-earning through legal action (already initiated) and which hopefully will facilitate the reversal of impairment provisions made.

The Company also has plans to embark on an energy efficiency system with a view to reduce the electricity consumption considerably. Negotiations are under way with the selected service provider to commence the project in March 2015 to be completed by Aug 2015.

### Corporate Social Responsibility:

During the year under review the Company undertook to build a library of a Junior School in "Gothamigama" a village in the outskirts of Kataragama at a cost of Rs.950,000/=. In efforts to inculcate the habit of reading in children, the Company contributed a fully furnished library building into the schools infrastructure, thus enabling the students of the school and in the residing area to be exposed to knowledge and learning of a greater scale.

### Achievement on Financial Reporting & Compliance:

It is with great pride and happy to mention that the Company won the Gold award for the Third time in succession (2012,2013 &2014) at the Annual Report Award competition organized by The Institute of Chartered Accountants of Sri Lanka for the year 2014 under the category "Land & Property". The Company also won the Silver award in the year 2011.

### Acknowledgement:

In concluding this message I would like to express my sincere appreciation to my fellow Board members for their

support and corporation given during my period of office as Chairman. I also wish to place on record my appreciation to Mr. R. Nadarajah, for his services during their tenure of office as Chairman since 9th June 2010 and relinquished his position from the Board in May in the year under review. I also take this opportunity to place on record my appreciation for the commitment and efforts of the management and employees at all levels in performance of their duties.

I wish to thank the auditors M/s. KPMG- Chartered Accountants, the internal auditors M/s.Ponnampereuma & Co and printers M/s. "C+ Designs" for their support extended in discharging their assignment. I also wish to sincerely thank the tenants for their continuous patronage.

Lastly but not the least, our shareholders deserve special appreciation for their continuous confidence placed in us in all our endeavours and we the Board wish to assure that we will be committed to increase the value of your holdings.

Confidence is expected to anchor well for the economy and your Company expects to benefit from the impact this may have on its sphere of operations.



**Kapila Ariyaratne**  
Chairman  
24th February 2015



# HEAD OF OPERATION'S REVIEW

“ On behalf of the Chairman, Board of Directors and staff, I welcome you to the 23rd Annual General Meeting of Seylan Developments Plc. It is with great pleasure and pride I announce that your Company has recorded high operating earnings during the year under review, with a 21% increase on operational profits before changes in fair value of investment properties which would not have been possible without the encouragement and support of the Chairman, Board of Directors, Tenants, Customers, staff and most importantly you, our valued shareholders. ”

## MARKET REVOLUTION

In the year 2014 Sri Lanka marked the highest economic growth in the South Asian Region with a GDP growth rate of around 7.6% with inflation maintained below 5%. The promising economic growth saw the government investing heavily on infrastructure developments, such as improved transport networks, telecommunications, and electricity generation, and as a result the construction sector increased its share of Sri Lankan GDP above 10%. However the political turnaround towards the latter part of the year with governments revised “mansion tax” on properties could expect a drop on property and rental market in the country.

## SUSTENANCE THROUGH INNOVATION

Despite the political and economical turnarounds, the demand for Land in Colombo and Metropolitan area is on the increase due to rapid urbanization of the population, along with changing lifestyles

and higher tourist arrivals where it pushes for condominium residencies in Colombo, whilst traditional villas and detached houses are being pushed to the peripheral greater Colombo areas. This augurs well for the brighter side of future outlook of the real estate market as a whole.

Seylan Towers, being located in the heart of the business Capitol and enjoys the pre-eminent position as the premier business address in Sri Lanka and the qualitative facilities management and services provided enabled the Company to maintain 100% occupancy rate right through the year 2014. The Property market today at its peak and fears competition by the new entrants and standing abreast with the current trends and facilities is no longer an option, series of new initiatives were taken to improve the facilities and services provided, including outsourcing of specialized maintenance works with restructuring of all systems and procedures.

### ECO JOURNEY

Energy cost is the single largest expense for the Company, accounting for nearly 25% of total operating outgoings. Electricity tariff rates for large commercial buildings in Sri Lanka are amongst the highest in the world and price hikes are implemented on regular basis. In this environment, energy management is always a high priority area for the facilities management team. The proposed Energy Conservation Project is expected to reduce the monthly Electricity Bill by 18%, supplemented by total improvements to the centralized A/C system in the Towers.

During the year under review many services improvements in the building in terms of water supply, fire detection & prevention, introduction of LED Lighting and replacement of Appliances in the Apartment Tower were initiated. This was done as part of the Building Renovation Project launched with Seylan Bank last year.

### THE NEXT STEP:

The management changes took place towards the latter part of the previous year steered the Company in the right direction in achieving the financial stability and in

provisioning for doubtful receivables and most importantly settling of long standing Legal disputes which were not in favor of us. In this retrospective we are looking for lucrative and innovative avenues in the construction and property development sphere to further enhance our product portfolio. Initial steps in this venture have been taken with the development of a property in Katargama as a Holiday Resort and preliminaries are laid for a second property in Anuradhapura. Discussions are also on the card for the Company to built and manage Bank Branches at selective locations as well. This in turn will enhance Company's position as the subsidiary and the service entity of the Bank.

The property sector is a direct beneficiary of long term economic growth, stability and increased business confidence. Seylan Developments Plc is well positioned in becoming the leading property developer and property manager to deliver sustainable growth to maximize shareholder wealth. The Company's Accountability and Transparency were much valued at the last years Annual Report Award competition organized by CA Sri Lanka by awarding of the Gold Award under Land and Property Sector as well.

I take this opportunity to thank our tenants for their patience and valued feedback at all times, our staff, which has been the building blocks of this Company through their loyal support and enduring hard work, and most of all you, are shareholders who have remained loyal and maintained your confidence in us.

*“Success is not final; failure is not fatal: It is the courage to continue that counts.”*

- Winston S. Churchill-



**K. S. Edirisinghe**  
Head of Operations



## BOARD OF DIRECTORS





**Left To Right**

Ramesh Jayasekara - *Director*

P Saravanapavan - *Director*

Kapila Ariyaratne - *Chairman*

Dr. Mervyn Gunasekara - *Director*

S Palihawadana - *Deputy Chairman*

## DIRECTORS' PROFILE

### **MR. KAPILA ARIYARATNE**

**Chairman, B.Sc (Hons)**

Appointed as Chairman of Seylan Developments PLC on 30th May 2014. Mr. Kapila Prasanna Ariyaratne is the General Manager / CEO of Seylan Bank PLC. He commenced his banking career in 1984 and counts over 30 years of banking experience. He has held responsible positions at several international banks both locally and overseas as well as with local state and private sector banks. He is also a Director of Lanka Financial Services Bureau Ltd, Lanka Clear (Pvt) Ltd and Institute of Bankers of Sri Lanka.

Mr. Kapila Ariyaratne holds a first class honours degree from the University of Colombo.

### **MR. S. PALIHAWADANA**

**Deputy Chairman, BSc (Colombo), AIB (Part 1)**

Appointed as a Director of Seylan Developments PLC on 11th September 2009. Mr. Palihawadana joined Seylan Bank PLC in 1999 as Chief Manager/ Chief Dealer. He is overall in-charge of Treasury Dealing activities of Seylan Bank PLC. He held positions of Assistant General Manager/Chief Dealer. At present he holds the position of Deputy General Manager - Treasury, Head of Primary Dealer Unit and Gold Investment Unit. He counts over 41 years experience in the banking industry out of which 31 years in treasury dealing activities.

He has served at Bank of Ceylon, Colombo and London branches before joining Seylan Bank PLC.

Mr. Palihawadana holds a Bachelor of Science (B.Sc) degree from the university of colombo.

### **MR. P. SARAVANAPAVAN**

**Director, B.Sc. FCA.**

Appointed, as an Independent Non-Executive Director, of Seylan Developments PLC, from 3rd February 2011. Mr. Saravanapavan brings in more than 34 year experience in the financial and banking sectors. After completing the 3 years period of article ship, he served as an Accountant at LB Finance for almost five years. Then, he served at Bank of Ceylon in various capacities of Internal Audit officer, Accounting Officer and finally as Financial Accountant for seventeen years before accepting an overseas assignment. He served as Manager Administration & Finance at First Cayman Bank, at Cayman Island, a British Colony, for five years. On his return to Sri Lanka, he served at Seylan Bank PLC, as Chief Manager Finance for six years before retiring in 2006. He worked on special assignments at First Capital Limited for 6 months period and at The Finance Limited for a period of 18 months. He is a senior lecturer at the Institute of Bankers Sri Lanka, coaching students for the Diploma course in Banking and the Diploma course in Credit Administration. He is also a resource person of the Skills Development Centre of Seylan Bank PLC.

Mr. Saravanapavan is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science degree from University of Ceylon.

**DR. P. MERVYN GUNASEKARA**

**Director**, B. Sc(Eng), MSc. (Const. Mgt), PhD., CEng., FIE (SL), FICE(UK), FNAS(SL), CCE., Int, PE(SL).

Dr. Mervyn Gunasekara is the Managing Director of LAN Management Development Service. He also serves as the Chairperson of Union Chemicals Lanka PLC and a consultant to the World Bank.

Starting as a Civil Engineering graduate of the University of Ceylon, he later obtained his Masters degree in Construction Management from Loughborough University of Technology, UK and thereafter he obtained a Ph.D in Business Administration from the Postgraduate Institute of Management of University of Sri Jaywardenepura.

A Fellow of the Institution of Engineers Sri Lanka, a Fellow of the Institution of Civil Engineers UK, a Fellow of the National Academy of Sciences Sri Lanka and a Certified Cost Consultant of the American Association of the Cost Engineers and he served as the President of the Institution of Engineering, Sri Lanka in 2000/2001.

He is currently the President of The Institute of Project Managers, Sri Lanka and was the President of the Sri Lanka branch of the Institution of Fire Engineers, (UK), the Association of Consulting Engineers Sri Lanka and the Federation of Engineering Institutions of South and Central Asia,

as its President from 2000 to 2003 - he was the first and only Sri Lankan to be elected to that post. Dr. Mervyn Gunasekara was recognized with award of Eminence in Engineering by the Institution of Engineers Sri Lanka, the highest award an Engineer in Sri Lanka could be accorded. He was the General Secretary of the National Academy of the Sciences, Sri Lanka and served as a volunteer officer attached to the Air Fields Construction Regiment of the Sri Lanka Air Force.

He served as a visiting lecturer in the Universities of Peradeniya, Moratuwa, Sri Jaywardenepura and Kelaniya and other major academic Institutions such as The Institution of Engineers Sri Lanka, Sir John Kotelawala Defence Academy, The Postgraduate Institute of Management and the Institute for Construction Training and Development.

**MR. RAMESH JAYASEKARA**

**Director**, BCOM (HONS), ACA, ACIM, ACMA

Appointed as a Director of Seylan Developments PLC on 30th November 2012. Ramesh Jayasekara is currently the Chief Financial Officer of Seylan Bank Plc and a Director of Seylan Developments Plc. Prior to Ramesh taking over as CFO, he was the Deputy Regional Financial Controller for BNP Paribas, Middle East Region – (Bahrain, Saudi Arabia, Kuwait, Qatar, Dubai, Abu Dhabi & Cyprus) based in Bahrain. He has over 16 years of Banking, Financial Management & Audit experience. Prior to this Ramesh worked at HSBC Sri Lanka as Resident Manager – Finance & Planning (PFS) and at KPMG Sri Lanka as an Audit Manager.

Ramesh holds a first class honours degree from the University of Colombo. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Marketing UK and an Associate Member of the Certified Management Accountants of Sri Lanka.

# MANAGEMENT DISCUSSIONS AND FINANCIAL REVIEW

## REAL ESTATE MARKET ANALYSIS

The Real Estate Market sector in the country took a detour after year 2009, since the post war period ethnic conflicts and with the direct state intervention in the urban development sector. This monopolistic approach led optimization of under used valuable land in the metropolitan being revitalized, attracting as many as foreign investments. As a result Urban Slums were relocated, a lots of unauthorized constructions were removed and forecourts were open up, building facades were improved with road net works were re linked with walkways and landscapes in the reawakening of the Colombo City.

Many of these mixed condominium leisure development projects commenced around the Beira Lake Front, in front of Galle Face Green, along the Marine Drive and in the City center adjoining the harbor on lands on long term leases. Apart from those, most significant turn around was the port city development project, a 900 M US \$ investment with reclaim of 575 acres of sea front in housing recreational areas, apartment towers, marinas, hotels with all facilities in a modern city. Despite a lot of cries from Environmentalists, Socialist groups and Social web sites the green light has been given to go ahead with the project by the new interim government under the President of Sri Lanka Mr. Maithreepala Sirisena. It will most definitely be the turning point of Real Estate Market segment with the proposed geographical changes and in strengthening governments efforts in becoming the most competitive and preferred maritime logistic center in the Asian Region.

In the Hotel sector Sri Lanka continues to be a growing market. With country is heading for the target to hit 2.5Mn tourist arrivals by early 2016 government is ensuring that the building blocks for economic growth are being developed simultaneously with major infrastructure projects such as expressways, airports and seaports. The building coming next door comprises of 475 luxury rooms in addition to the 84 suites managed by Hyatt International. Sri Lanka with its geographical location and available varied attractions is increasingly accessible with the development of the underlying infrastructure by the government. Given the very

high interest among global travelers the Sri Lanka, there is a very strong opportunity for investors of hotels, resorts, and leisure & entertainment complexes to profit from the growth of this sector.

Development of the leisure sector has indirectly affected the real estate sector as well. Demand for high end Apartments has increased on short and long terms by tourists arrive as diplomats, consultants and professionals in many fields. This was evident in considering the no. of inquiries there were for Apartments at Seylan Towers. Though the construction sector holds 10% growth on GDP last year there are many obstacles in the industry where government has shown a blind eye in balancing the demand and supply. Lack of skilled labour, less opportunities in training and development, fluctuations on material costs and environmental issues on supply of river sand and off shore mining needs immediate attention in fulfilling this vision.

Seylan Towers has proudly established its position in housing the head quarters of a leading banking institution for the last 15 years. The Bank has increased its rented floor area with the growth and expansion of its activities in the last couple of years. Simultaneously the Company has been upgrading the services aspects in providing of better facilities coupled with establishing a better prize on rented space.

## FINANCIAL REVIEW

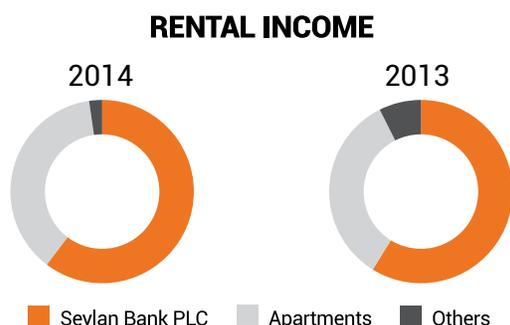
Seylan Developments PLC delivered another improved financial performance for the year under review. The results demonstrate the underlying potential of Company to create financial value to its stakeholders. The profitability of the Company during the year under review was phenomenal, recording a monumental increase over the previous year. The Company recorded pre-tax profit of Rs.126.77Mn in 2014, in comparison to loss of Rs.79.99Mn in 2013 due to fair value adjustment of investment properties.

The Company's revenue is derived mainly from leasing out space at Seylan Towers and the occupancy at the year-end was 100%. The East tower in houses Head Office building of the Seylan Bank Tower serves for non-resident tenants and diplomats.

The Company successfully completed stage I of holiday bungalow project at Kataragama and commenced commercial operations in December 2014.

### Rental Income

The Seylan Developments' rental income decreased marginally by Rs: 1.01 Mn in 2014 compared to year 2013. The shortfall is attributed to the period of vacant position of office space occupied by Raja Bojun for modernizing purposes before leasing to parent Company.



### Expenses:

Total expenses have decreased to Rs: 107.6 Mn when compared to Rs: 117.12 Mn recorded in the previous year. This resulted in, results from operating activities before change in fair value of investment properties, increasing from 64.71 Mn in 2013 to Rs: 78.38 Mn in 2014. The administrative expenses decreased by Rs.30.02 Mn, due to

high provisions made in previous year for Bad and doubtful debtors and Corporate Guarantees. At the same time premises & establishment expenses increased by Rs.12.94 Mn and personnel cost increased by Rs.7.82 Mn.

### Changes in fair value of Investment Properties

The Company recorded an overall gain of Rs: 13 Mn in 2014 from valuation of investment properties compared to Rs: 176.1 Mn reversals recorded in the previous year. The fair value change for Head office building is a charge of Rs. 2.2 Mn, and gains were recorded from Union Place Property and the Kataragama property amounting Rs: 14.0 Mn and Rs: 1.2 Mn respectively during the year under review.

### Net Finance Income

The Company's Net Finance Income grew by 13% to Rs: 35.4 Mn from Rs: 31.4 Mn in the previous year. The income from bank deposits, debentures and treasury bonds showed higher contribution towards the increase in interest income.

### Earnings

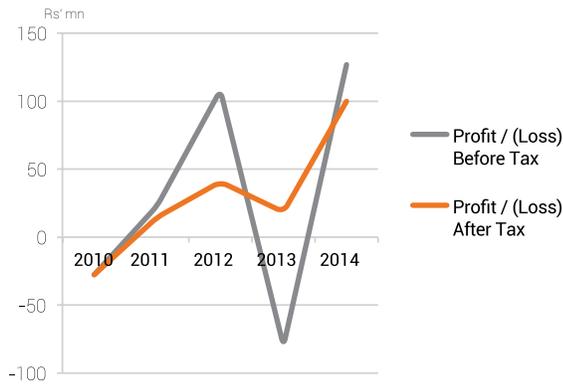
The Company continued its growth momentum and post-tax profits recorded as Rs. 99.81 Mn., for the year ended December 31, 2014 which 442% increase compared to the previous year. This increase is mainly due to the improvement in fair value gain on investment properties in 2014 compared to massive reduction recorded in the previous year.

This is the highest profit recorded by the Company for the last six years period of time.

Following this, Earning per share (EPS) increased to Rs: 0.67 from Rs: 0.12 recorded in the previous year. The computation of EPS is given in Note 12 to the Financial Statements.

Considering the overall financial performance of the Company, strong profitability in the current year contributes well for the overall strengthening of the statement of Financial Position.

### PROFITABILITY



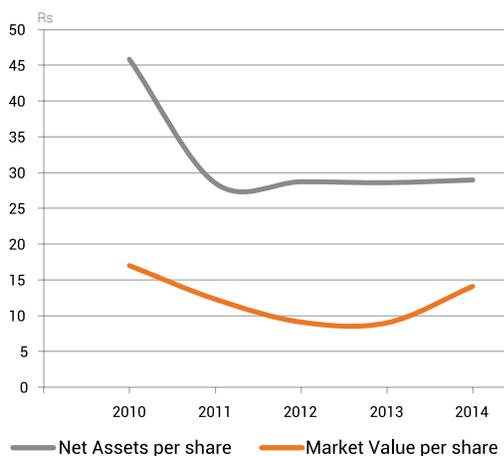
### Return on Equity

The Return on Equity (ROE) for the Company stood at 2.33% for the year compared to 0.44% recorded in the previous year, mainly driven by the increase of investment income, decrease of expenses and higher fair value gain recorded on Investment Property during the year under review.

### Dividend

The Board of Directors has recommended a first and final dividend of Rs.0.50 per share amounting to Rs. 73,982,430/- out of the profit arising from the financial year 2014 (2013– Rs. 44,389,458), which is subject to approval by the shareholders at the Annual General Meeting to be held on 31st March 2015.

### NET ASSETS PER SHARE AND MARKET VALUE PER SHARE



### Asset Utilization

The net asset value attributable to an ordinary share was Rs. 28.96 at the year end, which is a 1.3% increase over the previous year. The return on assets increased to 2.04% in 2014, compared to 0.38% in the previous year, primarily driven by the increase of investment income and significant improvement in fair value gain in 2014 compared to fair value loss in the previous year.

### Financial Reporting

The Company is committed to adopt best practices for financial reporting and to maintain a closer watch on new developments in the financial reporting environment. Seylan Developments PLC prides itself on its comprehensive financial reporting and it was recognized continuously through from year 2012 by winning Gold medal in the category of "Land & Property" at the competition organized by the Institute of Chartered Accountants of Sri Lanka.

### FUTURE PLANS

The future of real estate market sector in Sri Lanka is brighter as ever before. The country has become a safer and an attractive post-war investment opportunity attracting major foreign investors coupled with development initiatives of the government and ambitious plans afoot by the private sector, its future looks promising. Foreign investors have been quick to sense this evolution with reputed multinationals such as Hong Kong's Shangri-la, India's Krrish and Hyatts International in U.S joining local companies to launch luxury apartments or mixed development projects that will change Sri Lanka's skyline.

One could expect the development to reach a statutory point and the worst to be expected is sudden drop in prize. In such situation the best will survive and the rest will become history. The challenges are so forth the Architecture, spatial arrangements, serviceable components, maintenance aspects and most importantly the cost would become the deciding factors. This has in turn created fierce competition among developers in the upper market levels. Maintenance

Cost will be another concern where higher costs on electricity, water and gas with lack of blue color workers in the sector would insert pressure on all condominium management corporations.

Seylan Developments Plc. has foreseen this and initiated steps in order to face the market competition. The Energy Efficiency Improvement project where the design part was completed towards the end of 2014 will be implemented and expected to be commissioned by mid 2015. This is expected to bring down the monthly electricity bill by at least 18% where the cost of investment is to be recovered within 3.3 years. The tenants and customers will enjoy the benefits of savings while the Company will have improvements to their systems and processors and adding to the social responsibilities in effecting the national grid. In addition there will be lots of other improvements to the building in terms of Net work up grading, fire detection and prevention, fresh water supply etc.

During the year under review the Company invested on a Holiday Bungalow project in the outskirts of Kataragama. The stage one which includes a Room Block with other infrastructure was completed in less than a year's period and is being offered to the Bank Staff. The rooms are open for public reservations as well in increasing the revenues. The Company is looking forward to commence the stage two inclusive of a Restaurant and a second room block. With the success of this project the preliminaries are being drawn to commence the second of such in the sacred city of Anuradapura. The Bungalows will be managed and maintained exclusively by Seylan Developments Plc. The Company has plans to built and manage Bank Branches as added revenue generations as awell.

We want to stretch beyond the limits as a facilitator and a developer fulfilling all constructional and property related matters where we have the capacity and skills to be the number one property management Company in Sri Lanka.

# RISK MANAGEMENT REPORT

## Why should we manage Risk?

Risk management is the process of identifying, quantifying, monitoring and controlling of risks that an organization faces. These include strategic, operational and financial failures, market disruptions, environmental disasters, and regulatory violations. Risk is a statistical concept and is measured in sequence of occurrence relative to a benchmark index.

Primarily, Risk for the Company in the operations of property development and property management is how best it could reinstate its position against customer liabilities in an extreme disaster situation, and how efficient it could recapture the opportunities to enhance its business in a competitive market environment.

Secondly, being a subsidiary of a leading financial institute holding 68.28% of its stated capitol requires extreme financial controls in capitol investments. Therefore it requires formulating plans to minimize or eliminate the impact of all negative effects which will affect the growth of the Company. Whilst it is impossible for companies to eliminate all risks that they are exposed to, it is important that they properly understand and manage the risks that they are willing to accept in the context of the overall corporate strategy.

## Our Risk Management Policy

During the year under review the Company further strengthened its Risk Management Policy by formulation of an Integrated Risk Management (IRM) frame work in compatible with the Banks management level committees.

- The integrated risk management framework provides the guideline for managing risks. It is a comprehensive policy statement which captures all possible risks; the Company is exposed and made flexible for foreseeable changes that may occur.
- It constitutes a Corporate Governance structure for overall management of risk in all activities of the Company.
- It clearly describes the duties and responsibilities of each employee cascading down the organizational structure.
- Finally it formulates a mechanism in reviewing and monitoring of all systems, policies and procedures for risk management.

Accordingly the Risk Management Policy of Seylan Developments PLC will maintain a Risk culture which depends on the external environment and market demand and confirms to the interests of its Parent Company and other shareholders. The Chairman/CEO of the Company with the advice of Board of Directors will be responsible for all risk related decisions. The Integrated Risk Management Committee (IRMC) headed by a nominated Independent Director and Executive Risk Management Committee (ERM) headed by Head Of Operations (HOP), is responsible for making recommendations to the Board. Responsibilities for risk management across the organizational structure is Assigned to Chief Risk Officer (CRO) who will be the Manager Administration (MA) and will be directly reporting to the Board of directors.

## Measurement and Evaluation of Risk

A Risk is measured by considering the probability of a loss against the magnitude of such loss in any event. Risks can be identified, measured, controlled, mitigated and evaluated to the extent they are quantified. Therefore it is important that suitable systems, models and standards are followed in the measurement and evaluation of risks. Accordingly pre identification and mitigation will be done on a planned cause of action.

Company has evaluated Risks by allocating sufficient resources and authority vested by Board of Directors to the Executive Risk Management Committee. The ERM Committee and CRO together has planed and budgeted the process in ensuring that adequate personal, data, system support, technical guidance are provided internally and/or externally. Provision also has been made for a buffer stock for emergency replacement of appliances, a loss of income generation, supplementation of skilled man power etc.

Risk Exposure for a property management Company cannot be extensively forecasted or tested. A disaster situation in case of a fire or a natural disaster could cause loss of assets as well as loss of income periodically. The Company has ensured that comprehensive insurance perils covering all risks in a disaster situation are established and also required contingency reserves are maintained and monitored.

The Company being the subsidiary of a leading financial institute has a partial competitive advantage over its rivals. The guaranteed income does not mean a less risk factor on its business continuation. The Issue of depending on key customers will definitely push it towards other income generation opportunities and increasing of the asset portfolio.

Company's ability to manage larger assets is clearly defined in its vision, mission and policy statements. Sufficient improvements to information systems and back up facilities will optimize the risk involvement through effective management.

## Risk and Types of Risks:

A Risk can be identified under three parameters: Business Risk, Non-Business Risk and Financial Risk.

### 1.1 Business Risk:

These types of risks are taken by business enterprises themselves in order to maximize shareholder value and profits. As for example: Companies undertake high cost risks in marketing to launch new product in order to gain higher sales.

### 1.2 Non- Business Risk:

These types of risks are not under the control of the firm. Risks that arise out of political and economic imbalances can be termed as non-business risks.

### 1.3 Financial Risk:

Financial Risk as the term suggests is the risk that involves financial losses to firms. Financial risk generally arises due to instability and losses in the financial market caused by movements in stock prices, currencies, interest rates and more.

**The types of Risks which directly involves with Company's activities and relevant strategic approaches are analyzed as follows.**

Risk & Implications	Risk Rating		Mitigation Strategies
Key : <b>H</b> = High <b>M</b> = Medium <b>L</b> = Low	Like hood	Impact	

## 1.0 STRATEGIC RISK

Risks occur from failure to meet strategic goals of the Company, delays, and cost over runs by variations etc.	M	L	<ol style="list-style-type: none"> <li>1. Company works under a Board approved Strategic Business Plan.</li> <li>2. Company follows all contractual procedures and controls.</li> <li>3. Annual budget is approved at the commencement &amp; variances are reviewed by the Board.</li> </ol>
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Risk & Implications	Risk Rating		Mitigation Strategies
Key : <b>H</b> = High <b>M</b> = Medium <b>L</b> = Low	Likelihood	Impact	
<b>2.0 OPERATIONAL RISK</b>			
<b>2.1 Fraud Risk</b>  The risks occur due to inadequate internal controls, processes and systems. Also due to employee abusing entrusted power for private gains leading to misappropriation of assets.	L	L	1. The Board has approved a structured internal control frame work with different levels of authorization.  2. The Company applies independent internal audit mechanism.
<b>2.2 Human Capital Risk</b>  Risk arising from inability to attract and retain skilled workers, drop in productivity and quality and increase in human errors.	L	L	1. Company has reduced its labor turnover by implementing various Human Recourse Management practices.  2. A contingency reserve is maintained for Further strengthening Training, Research and Development.
<b>2.3 Legal &amp; Regulatory Compliance Risk</b>  Law suits against the Company may lead to loss of reputation and loss of stake holder's confidence.	M	L	1. The Company is complied with all statutory obligations.  2. The Company has retained the services of Tax consultant, Legal consultant & professional Company secretariat for their regulatory requirements.
<b>2.4 Health and Safety Risk</b>  Risk occurring from threats to personnel.	M	L	1. The Company complies with all Industrial Safety Requirements.  2. Performs annual Fire Drills with Staff & Tenants and obtains service of a Professional fire consultant.  3. The Company has obtained all required insurance perils and has maintained zero percentage of accidents due to work conditions, occupational deceases or negligence.

Risk & Implications	Risk Rating		Mitigation Strategies
Key : <b>H</b> = High <b>M</b> = Medium <b>L</b> = Low	Like hood	Impact	
<b>3.0 ENVIRONMENT &amp; TECHNOLOGY MANAGEMENT RISK</b>			
<b>3.1 Climate and weather Risk</b>  Loss or damage caused by adverse climate conditions or natural disasters, including drought, heat, flood, cold, storm, winds etc.	H	L	1. The Company is adhering to guide lines laid down by the Disaster Management Center.  2. Its main asset The Seylan Towers is comprehensively insured including the Building, Machinery, Systems, occupants and visitors.
<b>3.2 Technology Risk</b>  Risks occur from failure to absorb Technological advancements.	M	L	1. The Company has its own maintenance crew equipped with latest technology.  2. Continuous updating & implementation of Energy Efficiency Project.  3. Proper back up facilities and contingency measures.
<b>4.0 BUSINESS RISK</b>			
<b>4.1 Risk of depending on key customers.</b>  Risk occurring from loss of key customers could have material impact on the Company's performance.	M	L	1. Company has rented the East tower to its holding Company and major portion of apartments to a diplomatic mission. Even though the relationships are long standing threats from new entrants to the property market is ever increasing.  2. The location factor, parking and cordial service are few high scores over its competitors.
<b>4.2 Risk of depending on key suppliers.</b>  Risk occurs on break down of any essential services on its plants and equipments.	L	L	1. Company up keep annual maintenance agreements on all essential plants and equipments.  2. Suppliers registration is carried out at the beginning of each year.

Risk & Implications	Risk Rating		Mitigation Strategies
Key : <b>H</b> = High <b>M</b> = Medium <b>L</b> = Low	Like hood	Impact	
<b>5.0 MARKET RISK</b>			
<b>5.1 Liquidity Risk</b>  Risks occur from Company suffering a loss due to insufficient financial resources at its disposal, to meet its obligations, as and when they fall due.	M	L	The finance position of the Company is regulatory monitored by the management and precautionary measures are taken in accordance with , <ul style="list-style-type: none"> <li>■ Cash Flow</li> <li>■ Budgeting</li> <li>■ Funding Arrangements.</li> </ul>
<b>5.2 Credit Risk</b>  Risk occurs when a customer or tenant is unable to meet his financial obligations.	M	L	<ol style="list-style-type: none"> <li>1. Company maintains a high rent recovery rate at present.</li> <li>2. Regularly updating Lease agreements and customer credit status.</li> </ol>





# STATEMENT OF INTERNAL CONTROL

## INTRODUCTION

The Board of Directors acknowledges the importance of maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets, in compliance with D.1.3. of Code of Best Practices on Corporate Governance jointly issued by the Securities and Exchange Commission, of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The Board of Directors of Seylan Developments PLC is pleased to set out below the Company's Statement on Internal Control for the financial year 2014.

## BOARD RESPONSIBILITY

The Board is fully committed to ensure the existence of an effective system of internal control and risk management within the Company, and continuously reviews and evaluates the adequacy and integrity of those systems. However, the Board recognizes that such systems are designed to manage, rather than eliminate, the risks identified to acceptable levels. Therefore, the systems implemented can provide only reasonable and not absolute assurance against the occurrence of any material misstatement and loss.

Whilst the Board has overall responsibility for the Company's system of internal controls, it has delegated the implementation of these internal control systems to the Management who regularly report to the Audit Committee on risks identified and action steps taken to mitigate and/or minimize the risks. These internal control systems are subject to the Board's regular review with a view towards appraising the effectiveness of these systems within the Company. An independent professional firm of Auditors namely M/s Ponnampereuma & Co. has been appointed by the Board to carry out the internal audit function, and regularly report to the Audit Committee on risks identified and recommend steps to be taken to mitigate and / or minimize the risks. A certificate of conformity, of the operation of the internal control system, by Internal Auditors is attached in page 31 of this report.

## INTERNAL CONTROL FRAMEWORK

The Company's internal control environment comprises amongst other various policies, procedures and frameworks, included amongst which are:

### (i). **Clear and Structured Organizational Reporting Lines**

The Company has an operational structure with defined lines of responsibility and delegation of authority together with a hierarchical structure of reporting and accountability.

At the Board level, all strategic, business and investment plans are approved and monitored by the Board. The Board is supported by four Board committees that provide focus and counsel in the relevant areas.

1. Audit Committee
2. Remuneration Committee
3. Nomination Committee
4. Related Party Transaction Committee

Certain responsibilities are delegated to the Board Committees which are reviewed from time to time.

Further details on the Board Committees are contained in the Statement on Corporate Governance on pages 32 to 45 of this Annual Report.

Comprehensive Board papers, which include financial and non-financial matters such as monthly results, business strategies, explanation of Company performances, key operational issues, corporate activities and exercises of the Company, etc, are referred to the Board for deliberation and approval.

### (ii). **Strategic Business Plan**

The Company has a Strategic Plan that maps out the strategic objectives and business direction of the Company.

During its existence, the Board reviewed the ongoing financial performance of the Company and on a monthly basis against their respective budgets, where

further explanations and clarifications are noted for significant variances reported.

**(iii). Code of Conduct**

The Board and employees of the Company are committed to adhering to the best practices in corporate governance and observing the highest standards of integrity and behavior in all activities conducted by the Company, including the interaction with its customers, suppliers, shareholders, employees and business partners, and within the community and environment in which the Company operates.

The Board and employees of the Company play an important role in establishing, maintaining and enhancing the reputation, image and brand of the Company and ensuring the observance to and compliance with the standards of integrity and behavior that the Company is committed to.

**(iv). Policies and Procedures**

Clear and formalized internal policies and procedures are in place to ensure compliance with internal controls and relevant rules and regulations. Regular reviews are performed to ensure that the policies and procedures remain current and relevant.

**(v). Risk Management**

Risk Management is vital for continued profitability and enhancement of shareholder value and hence Risk Management is practiced within the Company on an iterative basis. The Board regards risk management as an integral part of business operations. All new and major investments have to observe a process of approval that includes an evaluation of the associated risks.

A Corporate Risk Management Framework was developed and documented via a Corporate Risk Management Manual which sets out in a comprehensive manner the process adopted by the Company towards risk identification, evaluation, and

control and monitoring.

Further information on the Company's risk management activities is highlighted in the Risk Management Report on pages 22 to 26 of this Annual Report.

**vi. Information and Communication**

Flowing from a clear organizational reporting structure, information is communicated and disseminated to key Management within the Company.

**vii. Competency and Talent Management**

To enhance the competencies, the Company refers employees to training and development programs based on the area of employment. This ensures that staff is kept up-to-date with the required competencies to carry out their duties and responsibilities towards achieving Company's objectives.

**viii. Independent Assurance Mechanism**

Regular assessments on the adequacy and integrity of the internal controls and monitoring of compliance with policies and procedures are carried out through internal audits. The Company has outsourced the activities and function of the internal audit to a professional service provider. The internal audit plan that covers internal audit coverage and scope of work is presented for Audit Committee and the Board.

Internal audit reports are presented to the Audit Committee during its quarterly meetings which encompasses the audit findings together with recommendations thereon. Senior and functional line managements are tasked to ensure management action plans are carried out effectively and regular follow-up audits are performed to monitor the continued compliances.

In addition to this internal mechanism, the Company also receives extensive and detailed reports wide management letters from its External Auditors that primarily focuses on financial controls. The

management letters were also presented to the Audit Committee for deliberations. In the event of any non-compliance, appropriate corrective actions have been taken in addition to amendments to the relevant procedures, if required. The comments made by External Auditors in connection with the internal control system during the financial year 2013 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate.

ix. **Quality, Health, Safety and Environment**

A clear, formalized framework is in place for prevention of accidents, elimination of hazards and in ensuring

a safe working environment. The Company adopts relevant standards and controls to continuously improve the application and performance of the safety management systems as a safe working environment is fundamental to the Company's success in business operations. The Company has obtained all required insurance covers reference to industrial safety in looking after its employees, tenants and general public.

**CONCLUSION**

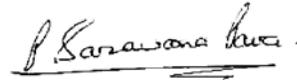
The Board is of the view that the system of internal control in place is generally satisfactory and sufficient to safeguard all stakeholders' interest.



**Kapila Ariyaratne**  
*Chairman*



**Somadasa Palihawadana**  
*Deputy Chairman*



**Ponniah Saravanapavan**  
*Chairman - Audit Committee*



**PONNAMPERUMA & CO.**  
Chartered Accountants



### Internal Auditors' Report

We, Ponnampereuma & Co., (Chartered Accountants) were appointed as internal auditors with effect from 1<sup>st</sup> February 2012.

Scope and objective of our internal audit as per the requirement of the Management which includes;

- Review and monitoring of Internal Controls of the Seylan Developments PLC.
- Examination of operation
- Review of Compliance with Legal, regulating requirements and other external requirements with management policies and directives and other internal requirements.

Internal audits are done on a monthly basis to improve the performance and control and reported on quarterly basis. In our reports, the observations are deliberated and recommendations are made for rectification.

During the year ended 31<sup>st</sup> December 2014, we have submitted to 4 Nos. of Quarterly Internal Audit Reports. The Reports are contained our objectives, work done, observations and recommendation for each selected operational areas. We covered all the risk areas with the year as planned. Even though there were no material weaknesses from our selected sample, our reports were discussed in the meeting of audit Committee and our recommendations were implemented.

We are satisfied with the present system of internal control in operation during the financial year.

We are discussing with management and planning continuously for selecting sample area to cover all the operation for the purpose of mitigating risk, Improving internal control and time schedule for completing internal audit.

*Ponnampereuma & Co.*  
**PONNAMPERUMA & Co.**

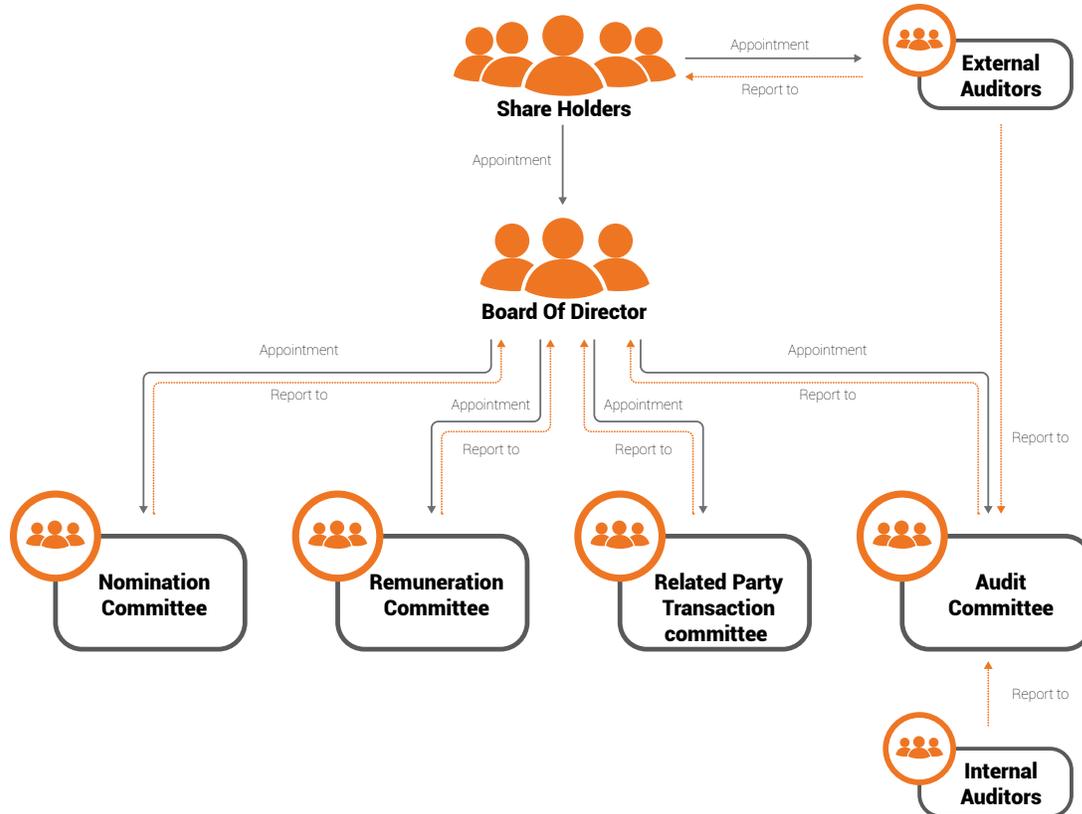
Chartered Accountants

Colombo.

05<sup>th</sup> February 2015



# CORPORATE GOVERNANCE REPORT



Structure of the Corporate Governance of the Company

## Statement of Corporate Governance

Seylan Developments PLC, is one of the Leading organization in Property Development sector in Sri Lanka, registered under BOI, listed in the Colombo Stock Exchange and operate under Seylan Bank PLC as a subsidiary.

The Board of Directors of Seylan Developments PLC constantly endeavors to fulfill the aspirations of all stakeholders and to achieve the Company's vision & mission in a responsible and transparent manner. In order to achieve this target, the Board of Directors ensures that precise strategies and controls are in place to deliver value to all stakeholders. Seylan Developments PLC places a strong emphasis on corporate governance, striving to both align business practices with the best interest of all stakeholders, and maximize transparency through timely disclosure of information and financial reporting.

The Code of Best Practices on Corporate Governance Rules issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL) is considered a strong gesture to strengthen transparency, accountability and disclosure of the Company's business practices. It provides the framework for attaining Company's objectives; it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

## Role of Board of Directors

The Board of Directors of the Company consists of professionals in the fields of Accounting, Engineering, and Banking. All Directors possess the skills and experiences and knowledge complemented with a high sense of integrity and independent judgment. The Board gives leadership in setting the strategic direction and establishing a sound control

framework for the successful functioning of the Company. The Board's composition reflects sound balance of independence and anchors shareholder commitment. Profiles of Directors are given on pages 16 to 17.

The Board of Directors has the final decision making authority and directs the operational management team to uphold highest level of integrity, function in compliance within the applicable rules and regulations and delegate the necessary authority to fulfill their job responsibility. Each Director has unrestricted access to information and services of Senior Management and the Company Secretary. Prior notices are given to the Directors regarding the board meetings. The Board papers are circulated well in advance so that all directors could actively and deliberately and contribute to the Board proceedings.

## Board of Directors / Composition and attendance of meetings

At the end of the year 2014 there were five Directors representing the Board. They were highly qualified professionals in the banking, accountancy & engineering fields. All the Directors are Non-Executive, three of them representing the parent Company, Seylan Bank PLC and two of them as independent directors.

Name	Executive / Non - Executive Status	Independence / Non - independence Status	Meetings Attended / Meetings eligible to attend
Mr. K.P. Ariyaratne ( <i>Chairman w.e.f May 30, 2014</i> )	Non Executive	Non-independent	11/11
Mr. S. Paliawadana ( <i>Deputy Chairman</i> )	Non Executive	Non-independent	10/11
Mr. P. Saravanapavan	Non Executive	Independent	11/11
Dr. P. M. Gunasekara	Non Executive	Independent	9/11
Mr. R. J. Jayasekara	Non Executive	Non-independent	11/11
Mr. R. Nadarajah ( <i>Chairman (Resigned w.e.f. May 09, 2014)</i> )	Non Executive	Non-independent	4/4

## Financial Acumen

There are two Chartered Accountants, a Civil Engineer, and two Experienced Bankers representing the Board by the end of the year 2014. They possess the necessary acumen & knowledge to offer the board, guidance on financial matters. The Board of Directors also consults the expertise when is necessary to achieve the objectives of the organization.

The Board of Directors ensures complete disclosure of financial and non financial information, and report financial information in accordance with Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (SLAS), Listing Rules of Colombo Stock Exchange and the Companies Act No. 07 of 2007.

The profile of the Directors are set out in page no 16 to 17.

## Board Committees

The ultimate responsibility for good governance rests with

the Board of Directors. In order to effectively fulfill this responsibility, the Board has in place a governance structure and a process to monitor its effectiveness.

The Audit Committee, Remuneration Committee together with the Nomination Committee and the Related Party Transactions Committee plays an important role in ensuring effective enterprise governance.

### ■ Audit Committee

The audit committee comprises two Independent Directors and one Non - Executive Director as at 31st December 2014. Two of them are qualified chartered accountants, having extensive experience the in fields of finance. The committee is headed by Mr. P. Saravanapavan , an Independent Non-Executive Director.

The Audit committee met four times for the year 2014 in the presence of both external and internal auditors. The Report of the Audit committee appears on page 46 to 47.

## ■ Nomination Committee

The Nomination Committee consists of two Non-Executive Directors one of whom is independent as at 31<sup>st</sup> December 2014.

### Committee Members

Mr. S. Palihawadana – Chairman (*Non –Executive*)

Mr. P. Saravanapavan (*Independent Non- Executive*)

Mr. R. Nadarajah (*Non –Executive*) – Resigned W.e.f May 9, 2014

In case of a vacancy or vacancies in the Board, the Nomination Committee selects qualified nominees, with a view of maintaining the balance & independence, and recommends them to the Board for appointment. The committee did not meet during the year 2014.

## Re-Election

According to the provisions of the Articles of Association, one fourth of the Directors, excluding the Chairman and Deputy Chairman retire and submit them for re appointment at every Annual General Meeting. The retirement of each Director is determined according to those who have served the longest period of time in office, since their appointment or reappointment, as the case may be.

As per provision of the Articles Company can fill a casual vacancy or appoint additional Directors until the Annual General Meeting of the Company, following such an appointment, after which they must seek re election.

The re-election of a Director safeguards the right of the shareholders by providing a regular reassessment of the composition of the board. The names of the Directors submitted for re-election are provided to the share holders along with notice of the Annual General Meeting, enabling them to make informed decisions on such appointments.

## Disclosure of Information in Respect of Directors

Refer the Directors Profile on Page No 16 to 17.

## Remuneration Committee

The remuneration committee comprises three Non - Executive Directors as at 31st December 2014. The committee headed by Dr. P. Mervyn Gunsekara (Independent), while Mr. S. Palihawadana and Mr. P. Saravanapavan (Independent) serve as other members. The committee met two times during the year 2014. The Report of the Remuneration Committee appears on Page No 48

## Disclosure of Director's Remuneration

During the financial year under review, all Directors of the Company were Non Executive Directors and they received a fee for participating at board meetings and other committee meetings and do not receive any other perquisites or benefit other than what is discussed at Note 09 in the financial statements.

## Related Party Transactions Committee

Related Party Transactions Committee was setup during the year 2014 to fulfill the code of best practices of Corporate Governance. Related party Transactions includes,

"Transaction between the listed entity or its fully owned subsidiaries and the related parties who are members of the same group are deemed to be transaction between the listed entities with the same related party."

### Committee Members,

1. Dr. P. M. Gunasekara - *Chairman (Independent Non- Executive)*
2. Mr. P. Saravanapavan (*Independent Non- Executive*)

The Internal Auditors (M/s Ponnamparuma & Co.) participates by invitation

The report of the committee appears on page 49

## Corporate Disclosure and Shareholder Relationship

All Vital information as regards to the Company's events promptly communicated to Colombo Stock Exchange/ CSE in order to be released to the share holders. Further the Board of Directors strongly believes that the share

holders must necessarily be provided with an opportunity to communicate their inclinations and explicate their concerns. The Annual General meeting provides the good Platform to voice their views. Quarterly financial reports are updated in the Colombo Stock Exchange website for share holders' information.

In terms of the Companies Act No 7 of 2007, Annual General Meeting (AGM) should be held within six months from the end of the financial year. However our Company's AGM is scheduled to be held within three months, after providing a copy of annual report at the time of such notice. Active participation of shareholders is welcomed by Board of Directors.

It is pertinent to mention that our Company won the Gold Award for three consecutive years during 2012 , 2013 & 2014 and a Silver Award in the year 2011 , in the category of "Land & Property" Companies, in the annual report competition organized by The Institute of Chartered Accounts of Sri Lanka.

The parent Company, Seylan Bank PLC also publishes consolidated financial statements on quarterly basis.

## 2.6) Accountability and internal Control

### Financial Reporting

The Board of Directors is directly responsible for overall Company's activities towards the share holders of the Company. Therefore the Board of Directors and the Management pay their utmost priority to provide complete disclosure of financial and non financial information in accordance with commercial practices. The Board of Directors pays broad attention to the adoption of sound and accurate reporting practices in ensuring that an honest and balanced assessment is presented at all times.

### Internal Control

The Board of Directors ensure to maintain a strong internal control systems to safeguard share holders wealth. The Board periodically reviews and assesses the internal control system with a view to increase the efficiency and

productivity of the Company's wealth. In this context the Company has engaged the services of a professional audit firm to carry out internal audit function to ensure the control systems are in operation throughout the year and review their quarterly reports and implement their recommendations. A report from Internal Auditors M/s Ponnampereuma & Company is given in page 31 of the Annual Report. The Board ensures the timely reporting to share holders and compliance with the statutory requirements and provision. Further The Board confirms that there is an ongoing process in indentifying, evaluating and managing significant risks faced by the organization.

The framework is designed to provide reasonable care of,

- Efficiency and effectiveness of operations.
- Reliability of financial and other management information.
- The prevention of fraud.
- Compliance with relevant national laws and Company regulations

The board has delegated the process of reviewing the effectiveness of the internal controls to the Audit Committee.

### Code of business Conduct and Ethics

Although there is no written code of conduct for the Directors, they are conscious of the duties required of them.

The Company is compliant with the Code of Best Practices on Corporate Governance jointly issued by the SEC and ICASL.

### Corporate Governance Disclosure

The quarterly financial statements published by the Company with the explanatory notes as per required rules of the Colombo Stock exchange and the Securities exchange Commission of Sri Lanka and are disclosed to all stakeholders. Furthermore any other financial and non financial information which are price sensitive or warrants the shareholders attention and consideration is promptly disclosed to the public.

**Compliance with the Colombo Stock Exchange Rules on Corporate Governance**

Levels of Compliance with the CSE's Listing Rules Section 07 – Rules on Corporate Governance are given in the following table

<b>Rule No</b>	<b>Subject</b>	<b>Applicable Requirement</b>	<b>Compliance Status</b>	<b>Reference</b>
7.10.1(a)	Non-Executive Directors	At least one-third of the total number of Directors should be Non-Executive Directors.	Complied.	Refer on page 33.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher should be independent	Complied.	Refer on page 33. Two of five directors are independent.
7.10.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format	Complied.	Refer Annual Report of the Board on the state of Affairs of the Company on page 64 to 68.
7.10.3 (a)	Disclosure relating to Directors	The Board shall annually make a determination as to the independence of the Non-Executive Directors and names of independent Directors should be disclosed in the Annual Report.	Complied.	Refer on page 33
7.10.3 (b)	Disclosure relating to Directors	The basis for the Board to determine a Director is independent, if criteria specified for independence is not met	Complied.	Refer on page 33
7.10.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report and should include the Director's areas of expertise	Complied.	Refer Directors' Profile on page 16 to 17
7.10.3 (d)	Disclosure relating to Directors	Forthwith provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a), (b) and (c) to the rules of the Colombo Stock Exchange.	Complied at the time of new appointment	A brief resume of new directors and the appointments were submitted to the Colombo Stock Exchange when such appointments were made.
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee.	Complied.	Refer on page 48

Rule No	Subject	Applicable Requirement	Compliance Status	Reference
7.10.5 (a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, at which a majority of whom shall be independent.	Complied.	Refer on page 48
7.10.5 (b)	Function of Remuneration Committee.	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors.	Complied.	Remuneration Committee report on page 48 of this Report which set out the functions of the Committee.
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee.	The Annual Report should setout;  <b>a/</b> . Names of Directors comprising the Remuneration Committee. <b>b/</b> . Statement of remuneration policy. <b>c/</b> . Aggregate remuneration paid to Executive & Non Executive Directors.	Complied.	Refer on page 48  Refer on page 48.  Refer Directors' emoluments on page 89
7.10.6	Audit Committee.	The Company shall have an Audit Committee.	Complied.	Names of the members of the Audit Committee are stated on pages 46 to47.
7.10.6 (a)	Composition of Audit Committee.	Shall comprise of Non-Executive Directors, a majority of whom shall be independent	Complied.	Two of three Non-Executive Directors are independent.  Refer Audit committee report page 46 to 47
		A Non Executive Director shall be appointed as the Chairman of the Committee Meetings.	Complied	Chairman of the Audit Committee is an Independent Non-Executive Director.
		Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings.	Complied.	Head of Operations who function as CEO and Accountant representing Finance division participate for the meetings, on invitation.

Rule No	Subject	Applicable Requirement	Compliance Status	Reference
7.10.6 (a)	Composition of Audit Committee.	The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	Complied.	Chairman of the Audit Committee is a qualified Chartered Accountant.
7.10.6 (b)	Audit Committee Functions	Functions shall include; <b>a.</b> Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards.	Complied	Refer on pages 46 & 47 for the functions of Audit Committee Report.
		<b>b.</b> Overseeing of the compliance with financial requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Complied	Refer on pages 46 & 47 for the functions of Audit Committee Report.
		<b>c.</b> Overseeing the process to ensure that the internal controls and risk management processes are adequate to meet the requirements of the Sri Lanka Auditing Standards.	Complied	Refer on pages 46 & 47 for the functions of Audit Committee Report.
		<b>d.</b> Assessment of the independence and performance of the external Auditors.	Complied	Refer on pages 46 & 47 for the functions of Audit Committee Report.
		<b>e.</b> Make recommendations to the Board pertaining to appointment, re appointment and removal of external Auditors, and approve the fees and terms of engagement of the external Auditors.	Complied	Refer on pages 46 & 47 for the functions of Audit Committee Report.

Rule No	Subject	Applicable Requirement	Compliance Status	Reference
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee.	<b>a.</b> Names of Directors comprising the Audit Committee.	Complied.	Refer on pages 46 & 47 for Audit Committee Report in the details.
		<b>b.</b> The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determinations.	Complied.	Refer on pages 46 & 47 for Audit Committee Report.
		<b>c.</b> The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance with their functions.	Complied.	Refer on pages 46 & 47 for Audit Committee Report.

COMPLIANCE WITH THE CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE SECURITIES & EXCHANGE COMMISSION OF SRI LANKA (SEC) AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (ICASL)

## A. Annual Report

Subject & Ref.	Corporate governance Principle	Level of Compliance
Chairman & CEO A.2.1 & A.5.6	If Chairman and CEO is one and the same person, the name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.	As outlined earlier, the positions of the Chairman and the Head of Operations have been separated on pages 6 to 12. CEO's functions are covered by Head of Operations
Board Balance A.5.5	Should identify the independent Non-Executive Directors.	Complied The Board Consist five non-executive Directors. Two out of five are independent.
Nominations Committee A.7.1	The Chairman and members of the Nomination Committee should be identified.	Complied Refer Page 34
Appointment of New Directors A.7.3	When new Directors are appointed, the following details should be disclosed. <ul style="list-style-type: none"> <li>■ a brief résumé of each Director;</li> <li>■ the nature of his expertise in the relevant functional areas;</li> <li>■ the names of Companies in which the Director holds Directorships or memberships in Board committees; and</li> <li>■ Whether such Director can be considered independent.</li> </ul>	Complied  Disclosure of details as required of new appointments to the Board was informed to the Colombo Stock Exchange and also in the Annual Report. Profiles of Directors are given on pages 16 to 17
Appraisal of Board Performance A.9.3.	Should disclose how performance evaluation have been conducted	Complied Performance evaluation of the Board and individual Directors takes place annually on a self-appraisal basis.
Board Related Disclosures A.10.1	The following details pertaining to each Director should be disclosed <ul style="list-style-type: none"> <li>■ Name, qualification and brief profile;</li> <li>■ The nature of his/her expertise in relevant functional areas;</li> <li>■ Immediate family and/or material business relationship with other Directors of the Company;</li> <li>■ whether executive, non-executive and / or independent Director;</li> </ul>	Complied  Directors' profiles with their qualifications, areas of expertise etc. are given on pages 16 to 17.

Subject & Ref.	Corporate governance Principle	Level of Compliance
Board Related Disclosures A.10.1	<ul style="list-style-type: none"> <li>■ Names of other listed Companies in Sri Lanka in which the Director concerned serves as a Director;</li> <li>■ Names of Companies in which the Director concerned serves as a Director and/or the fact that he/she holds other Directorships in group Companies;</li> <li>■ Number/percentage of Board meetings of the Company attended during the year;</li> <li>■ The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity;</li> <li>■ Names of the Board Committees in which the Director serves as the Chairman or a member; and Number/percentage of committee meetings attended during the year.</li> </ul>	<p>Details of directorships/other positions held, Directors' interests in contracts and related party transactions are disclosed in Notes 28 of the Financial Statements given on pages 107 to 108</p> <p>Details of Board meetings and Board subcommittees, their composition, attendance by Directors of meetings held during the year are given on pages 33, 46 to 49</p>
Disclosure of Remuneration B.3 and B.3.1	<ul style="list-style-type: none"> <li>■ A Statement of Remuneration Policy and details of Remuneration of the Board as a whole.</li> <li>■ Names of Directors comprising the remuneration committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors</li> </ul>	<p>Complied</p> <p>Refer Remuneration Committee Report on page 48 and also Note 9 of the Audited Financial Statements.</p>
Major transactions C.3 & C 3.1	<ul style="list-style-type: none"> <li>■ All major transactions entered into by the Company should be disclosed.</li> </ul>	<p>No such transactions during the financial year.</p>
Audit Committee D.3.4	<ul style="list-style-type: none"> <li>■ Names of the members of the Audit Committee should be disclosed.</li> <li>■ Basis for determining the independence of Auditors.</li> </ul>	<p>Complied</p> <p>Refer the Audit Committee Report on pages 46 to 47.</p>

Subject & Ref.	Corporate governance Principle	Level of Compliance
Code of Business Conduct and Ethics D.4.1 & D.4.2	<ul style="list-style-type: none"> <li>■ Should disclose whether the Company has a Code of Business Conduct &amp; Ethics for Directors and members of the Senior Management team.</li> <li>■ Should also disclose an affirmative declaration that they have abided by such Code.</li> <li>■ The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.</li> </ul>	Will be complied shortly
Going Concern D.1.5	<ul style="list-style-type: none"> <li>■ Should report that the Company is a going concern, with supporting assumptions and qualifications as necessary</li> </ul>	Complied Refer Annual Report of the Board on the state of Affairs of the Company. On pages 64 to 68

### B. Remuneration Committee Report

Members of Remuneration Committee B.1.3	<ul style="list-style-type: none"> <li>■ The names of the members of Remuneration Committee should be disclosed in the Remuneration Committee Report.</li> </ul>	Complied Refer the Remuneration Committee Report on page 48
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### C. Directors' Report

Directors' Report D.1.2	<p>Should contain the following declarations made by the Directors,</p> <ul style="list-style-type: none"> <li>■ The Company has not engaged in any activities, which contravenes laws and regulations;</li> <li>■ The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested;</li> <li>■ The Company has made all endeavors to ensure the equitable treatment of shareholders;</li> <li>■ The business is a going concern with supporting assumptions or qualifications as necessary; and</li> <li>■ They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence herewith.</li> </ul>	Complied Refer on pages 64 to 68
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## D Financial Statements

Subject & Ref.	Corporate governance Principle	Level of Compliance
Financial Statements D.1.3	<ul style="list-style-type: none"> <li>■ The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements.</li> <li>■ Auditors should also have a statement about their reporting responsibility.</li> </ul>	<p>Complied</p> <p>Refer on page 69</p> <p>Refer on page 72</p>
Related Party Transactions D.1.7	<ul style="list-style-type: none"> <li>■ Should disclose the related parties and related party transactions as specified by Sri Lanka Accounting Standards, SEC regulations and other related regulations.</li> </ul>	<p>Complied</p> <p>Refer Note 28 on page 107 to 108</p>

## E. Management Report

Management Report D.1.4	<p>Should include a Management Discussion and Analysis Report discussing at least the following issues:</p> <ul style="list-style-type: none"> <li>■ industry structure and developments;</li> <li>■ opportunities and threats;</li> <li>■ risks and concerns;</li> <li>■ internal control systems and their adequacy;</li> <li>■ social and environmental protection activities carried out by the Company;</li> <li>■ financial performance;</li> <li>■ material developments in human resources/ industrial relations; and</li> <li>■ prospects for the future</li> </ul>	<p>Complied.</p> <p>Refer Chairman's Review on pages 6 to 9</p> <p>Refer Head of Operation's Review on pages 11 to 12</p> <p>Refer Management Discussion and Financial Review on page 18 to 21</p>
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## F. Corporate Governance Report

Corporate Governance report D 5.1	Should disclose the manner and extent to which the Company has complied with the principles and provisions of the Code.	<p>Complied.</p> <p>Refer on pages 32 to 45</p>
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## G. Audit Committee Report

Audit Committee report D 3.3	Should set out the work carried out by the Committee.	<p>Complied.</p> <p>Refer on pages 46 to 47.</p>
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## H. Statement of Internal Control

Subject & Ref.	Corporate governance Principle	Level of Compliance
<p>Statement of Internal Control</p> <p>D.1.3 &amp; D.2.3</p>	<p>Should disclose the following as a minimum.</p> <p>The Board should summarise the process it has applied in reviewing the design and effectiveness of the system of internal control.</p> <p>Should disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report.</p> <p>An acknowledgement by the Board it is responsible for the Company's system of internal control and for reviewing its design and effectiveness. Should also explain that such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.</p> <p>Should disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review whether it is regularly reviewed by the Board.</p> <p>The Board has to disclose if it has failed to conduct a review of design and effectiveness of the Company's system of internal control.</p> <p>Should ensure that Its disclosures provide meaningful, high level information and do not give a misleading impression.</p> <p>Where material subsidiaries, joint ventures and associates have not been dealt with in applying this guidance, as part of the group, that fact should be disclosed.</p>	<p>Complied.</p> <p>Refer Statement of Internal Control on pages 28 to 30</p>

Subject & Ref.	Corporate governance Principle	Level of Compliance
	<p>The Confirmation by the Board;</p> <p>The Board should confirm in its report that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.</p> <p>Should be signed by the Directors who signed the financial statements and the chairman of the Audit Committee.</p>	

### Sustainability Reporting

<p>Sustainability Reporting</p> <p>G.1 to G.1.7</p>	<p>Disclose the policies and procedures adopted to develop a sustainable business in the context of;</p> <ul style="list-style-type: none"> <li>■ Sustainable economic performance;</li> <li>■ The environment;</li> <li>■ Labour practices;</li> <li>■ Society;</li> <li>■ Product responsibility;</li> <li>■ Stakeholder identification, engagement &amp; effective communication;</li> </ul>	<p>Complied.</p> <p>Refer Sustainability Report on pages 50 to 60.</p>
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## AUDIT COMMITTEE REPORT

### Role of Audit Committee:

The Charter approved by the Board in January 2011, clearly defines the role, responsibilities and the powers of Audit committee. It ensures the composition and activities of the Audit Committee are in line with International Best Practices and Corporate Governance Rules as laid down in Section 3(6) (ii) of the Banking Act Direction No. 11 of 2007 titled "Corporate Governance for Licenced Commercial Banks in Sri Lanka" (as it is a subsidiary of a Bank), Listing Rule 7.10.6 of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance jointly issued by the Securities & Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).

### Composition & Meetings:

In January 2014, the Secretaries to the Company M/s SSP Corporate Services (Pvt.) Ltd. was appointed as Secretaries to the Audit Committee. Apart from members, Chairman and other Directors attend by invitation. Mr. R. Nadarajah as Chairman attended meetings on invitation. Since he had relinquished his position as Chairman of the Company, Mr. Kapila Ariyaratne present Chairman attended the meetings on invitation. The Directors who are members of the committee, meetings scheduled and meetings attended is given below:

Name of Director	Eligible to attend	Attended
P. Saravanapavan - <i>Chairman</i>	4	4
Dr. P.Mervyn Guneseckera - <i>Member</i>	4	3
Mr. Ramesh Jayasekara - <i>Member</i>	4	4
By Invitation		
Mr. R. Nadarajah	2	2
Mr. Kapila Ariyaratne	4	3
Mr. S.Palihawadana	4	3

Lead Partner or an Audit Manager from M/s KPMG Chartered Accountants attends committee meetings on invitation as representative of External Auditors. A Partner from M/s Ponnampereuma & Company attends committee meetings

by invitation representing the Internal Auditors.

The minutes of the committee meetings were made available to the Board of Directors for information and necessary action.

### Responsibilities and Activities in Financial Reporting:

The Audit Committee undertakes on behalf of the Board, responsibility for ensuring the integrity of the Company's financial reports by having an insight of internal control systems and the financial reporting process as stated in the Audit Committee Charter. The Committee also reviews and take action on all internal and external audit reports and follow-ups on the recommendations.

The Committee reviewed the un-audited quarterly interim financial statements for the four quarters, to ensure reliability and consistency of the Accounting Policies adopted and its compliance with the Sri Lanka Accounting Standards and the provisions of the Companies Act No.7 of 2007, before Directors Approval and submission to the Colombo Stock Exchange to comply with the Listing Rules. The Committee also reviewed the year end financial statements before certification by External Auditors together with supporting information including significant assumptions and judgments made in the preparation of the financial statements.

The Audit Committee evaluated and assessed the Independence and objectivity of the Audit process by the External Auditors during the year. The Committee also makes recommendation to the Board regarding appointment / re appointment of External Auditors, their fees and the terms of engagement.

### Regulatory Compliance:

Procedures were in place to ensure compliance with statutory regulations. The Committee reviewed the quarterly compliance reports submitted by relevant

officers to ensure that the Company has complied with all statutory requirements. The committee also recommended issuance of quarterly confirmation letter regarding regulatory compliance, to the Parent Company

### **Internal Audit:**

The Board of Directors continued to engage the services of Ms. Ponnamparuma & Company, a professional audit firm to carryout Internal Audit function. Quarterly report submitted by the Internal Auditors was discussed at the Committee meetings and action taken to implement recommendations.

### **External Audit:**

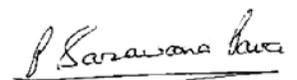
The Committee met with the Partner of M/s KPMG Auditors during the Audit Committee meetings and discussed matters indicated in the Management Letter and action taken wherever necessary.

The Committee also discussed on the scope and approach of their work to ensure that no limitations are placed in the conduct of the Audit. The Committee also assess the independence of the external Auditors and were satisfied with the independence of the external Auditors.

The Audit Committee has recommended to the Board of Directors that M/s KPMG Chartered Accountants to be re-appointed as Auditors of the Company for the financial year 31st December 2015, subject to the approval of the shareholders at the Annual General Meeting.

### **Conclusion:**

The Audit Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the affairs of the Company are managed satisfactorily in financial reporting, statutory & regulatory compliance and in safeguarding the assets.



**P. Saravanapavan.**

*Chairman – Audit Committee*  
24th February 2015

# REMUNERATION COMMITTEE REPORT

## Remuneration Committee:

The Remuneration Committee was appointed by the Board consisting of three directors two of whom are Independent. The composition is as follows:

Dr. P. Mervyn Gunasekara - *Chairman*

Mr. P. Saravanapavan

Mr. S. Palihawadana.

Mr. Kusala Edrisinghe - Head of Operations and Ms. Nirmala Arangalage - Accountant, assist the Committee by providing relevant information for their decision making, and recommendation to the Board for necessary approval.

## Attendance:

The attendance of the Directors at the Remuneration Committee meeting during the year is tabulated

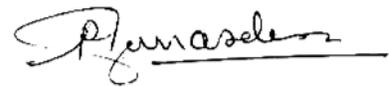
Name of the Director	Eligible to attend	Attended
Dr. P. Mervyn Gunasekara	2	2
Mr. P. Saravanapavan	2	2
Mr. S. Palihawadana	2	2

## Remuneration Policy:

In the absence of a documented remuneration structure, a Remuneration Policy was formulated by the committee and approved by the Board during the year under review. The policy includes provision for consideration of salary revision once in three years based on performance of the Company, market rates for similar position, and individual performance. The policy also provides performance based annual salary increments. The Remuneration Committee is responsible for recommending remuneration payable to key managerial and technical personnel based on performance parameters and market trends for approval of the Board and ensures implementation of the approved policies. The Committee in fulfilling the above tasks reviews the information relating to remuneration of employees in other similar establishments to bring payments to be in par with market rates and practices

## Committee Evaluation:

The committee completed and recommended to the Board for approval for bonus payments in April 2014 and in December 2014. The committee also evaluated a salary revision and had sought Board approval to be implemented from January 2015.



**Dr. P. Mervyn Gunasekera**  
*Chairman - Remuneration Committee*  
 24th February 2015.

## RELATED PARTY TRANSACTIONS COMMITTEE REPORT

### Appointment of Committee:

The Related Party Transactions Committee was appointed by the Board of Directors at the meeting held on 28th October 2014. The committee consists of the following members:

Dr. Mervyn Gunasekara – Independent & Non- Executive Director – Chairman

Mr. P. Saravanapavan - Independent & Non- Executive Director – Member

By Invitation:

Mr. P. Nandasiri Ponnamparuma – Internal Auditor ( Ms. Ponnamparuma & Co.)

### Meeting & Attendance:

The committee met for the first time on 22nd December 2014. All members including the Invitee member was present. Head of Operations – Mr. Kusala Edirisinghe & Mrs. Nirmala Arangalage –Accountant, both from Seylan Developments PLC attended on request to assist the committee.

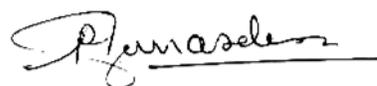
### Matters Discussed:

Matters relating to Lease Agreement, Reimbursement Expenses such as Electricity, Water, Insurance & Management fees, were deliberated at length.

Issues identified will be discussed and reviewed with the management of the Parent Company.

### Future Meetings:

It was decided to meet at least twice a year.



**Dr. Mervyn Gunasekara**  
Chairman - Related Party Transactions Committee  
24th February 2015.

# SUSTAINABILITY REPORT

“ *In the sky, there is no distinction of East & West; People create distinctions out of their own minds and then believe them to be true....* ”

*-Lord Buddha-*

## 1. Strategic Priorities

Seylan Developments Plc, as a responsible service organization is committed to enhance and improve the living standards of our immediate community: our tenants, their customers, building users, share holders and our employees. Our primary concern is to safe guard the environment for a better tomorrow and contributes our selves in saving of natural resources, conserving energy while minimizing the carbon foot print in creating a better future for the next generation.

We are committed in facilitating of comfortable living spaces, safe and sound work places while creating a culture for being recognized, accepted and appreciated by our actions. Our tenants are our important customers and we have always been there to support them and their suggestions always been a learning experience for us. We understand that the environment in which we do our business is very competitive and very demanding to the extent that to be in competition and being recognized it needs constant value additions to our product and services.

We believe in two way communication and our channels are open for criticism and feed back. We have faced different consequences in the past where we were able to successfully mitigate both external and internal challenges ahead of us. It has been an enduring challenge for us to achieve long-term success while having a positive impact on the society and the environment in which Seylan Developments lives and works.

In years previous we discussed how an organization could sustain by implementation of sustainable strategies with

economic and socio-cultural benefits attained through environmental responsibilities improving the lives of those whom with we interact. Concepts like Green Building and Eco- sensitivity has become key issues in both business and academic communities over the traditional approaches of cost leadership and product differentiation. It's a journey, a direction of travel that requires sustained leadership, understanding and commitment.

During the year under review we went in to the detailing of how best we could improve and uplift many spaces at Seylan Towers in harmonizing with the changing landscape of city of Colombo. We even went to the extremes in searching for other income generation avenues within our working frame work. It was an experience blend with team work and technical skills in identifying of our strategic priorities and in bringing value addition to the Company, increasing the share holder wealth.

## 2. Our Sustainability Policy

The Company's sustainability policy revolves around in maximizing shareholder interests within our core business and also as a subsidiary of a leading financial institution. We comprehensively maintain maximum transparency in all our transactions governed by applicable financial regulations. We continually review our operational procedures on industry practices and technological improvements along with lines of Socio – Economic and Environmental parameters.

	Challenges	Opportunities	Risks	Our Strategies
Economic	* Intense Competition	* Investment Opportunities	* Loss of Key Tenants	* Constant Improvements on Product & Services
	* Threat of new entrants	* Brand name being a subsidiary of a leading financial institute	* Undesirable Capital expenditure	* Enhance Research & Development
	* Rising cost of Raw Materials	* Periodical suppliers registration	* Cost fluctuations could adversely effect investments	* Sound Risk Management
Environmental	* Cost increases due to Govt. tariffs on Electricity & Water	* Public awareness on importance of energy conservation.	* Threats of environmental pollution due to waste emissions.	* Effective Building Management Systems (BMS)
	* Emerging high rise developments		* Higher labor turnover	* Investment on Training & Development
	* Out dated systems and procedures	* Pro-active measures take on system improvements	* Increase in the carbon footprint	* Energy auditing & Monitoring
Social	* Higher rate of Employee Retention Aging work population	* Increasing employability due to multi skills	* Possibilities for higher employee retention within a competitive labor market.	* Performance Incentives
	* Labor Legislature & Union Developments	* Structured Training Programs	* Cost reduction and stained employee relationships.	* Industry based training
	* Lack of Skilled Blue color workers in the market	* Participating in Community Development programs.		* Active CSR participation

### 3. Sustainability and Core Business

Seylan Developments PLC; a subsidiary of Seylan Bank PLC, is a limited liability Company incorporated under the Companies Act of 2007, is also listed in Colombo Stock Exchange(CSE). The Company's core business being property management and in maintaining and renting the Condominium property at 90, Galle Road, Colombo -03 comprises of office spaces and 16 no. luxury apartments. We are also diverted on to the avenues of property

development in terms of real estate developments and condominium housing projects.

Our business objective is to provide superficially blended spaces to our customers and tenants. It extends beyond just building towards Art and Architecture exquisite with class and technology. We support initiatives across the sector to create a balanced and harmonized built environment.

During the year under review Company has invested Rs. 22.2 Mn as capital expenses on the Seylan Tower Building. This

includes Entrance Lobby improvements in the East Tower and Expenses incurred on appliances and equipment's in the West Tower. In addition Company has spent Rs. 27.03 Mn as operational expenses on routine maintenance.

#### **4. Sustainable Projects**

We work round the clock 8 Hours a day, 4 Weeks a Month, 12 Months a Year to earn to live. We look forward to that little saving, earned incentive to be spent on a happy day out sharing stories and being in each other's presence. Every one deserves a free time, a break from the routine to travel to relax, be with your family sleep for longer hours and recap the things you lost at your busy work station. Holidays are about experiences and people, and tuning into what you feel like doing at that moment and most importantly not having to look at your watch.

Company completed Stage I of its first away project in the Kataragama Sacred City. This was a challenge given to a small building maintenance unit in checking their capabilities in designing and building a holiday Bungalow. The Company lived up to the expectations by completing the due task of this turn key exercise in less than a year's time. The total investment including the land and operational expenses was Rs. 23.7 M.

The operations of Seylan Rest Kataragama commenced in December 2014. The comfortable double rooms with A/C and Hot water facilities are presently offered to Bank Staff on prior reservations. The Company is expected to commence works in the Stage II in completing the Restaurant and the second room block and allow the general public to enjoy the facilities as well.

On the success of this project the Company has planned to build the second of its kind in the sacred city of Anuradhapura. Also discussions are commenced in provisioning of Branches to the Bank on selective locations. Proper feasibilities will be done prior to commencement of all these Capital investments to ensure that every product and services we offer exceeds customer expectations and within laid parameters of sustainability.

#### **5. Sustainability Governance and Organizational Structure**

Over the years Seylan Developments PLC has consistently adopted a strategic approach to sustainability where economic, environmental and social strategies are intrinsically aligned. The Company ensures that sustainable development is featured at all strategic levels, supported by Board of Management and committed by staff at all levels. The responsibilities are cascaded down the organizational structure in par with the adopted strategies.

We at Seylan developments also focused towards national priorities in supporting of housing people, providing employment opportunities, improving technical advancement, empowering people on CSR activities, and also creating a sustainable environment in optimizing energy efficiency. The Company strives to contribute towards the national agenda and meet national objectives through the effective implementation of its own business strategy.

#### **6. Scale of Operations**

As at 31st December 2014, the total asset of the Company was Rs: 4.88 Bn and the total equity of the Company is Rs: 4.28 Bn. During the year under review the Company recorded a turnover and profit after tax of Rs: 185.97 Mn and Rs: 99.81 Mn respectively.

Any questions or comments about this Sustainability Report should be directed to the Head of Operations of Seylan Developments PLC, Mr. Kusala Edirisinghe on Telephone No. 011 2452697.

#### **7. Report Parameters**

##### **7.1. Report Framework and frequency**

As in the previous year, the Company's Sustainability Report has been developed based on the Sustainability Reporting Framework proposed by Global Reporting Initiative (GRI).

This Report covers the activities of Seylan Developments PLC for the period from 1st January 2014 to 31st December 2014. We analyze the business and financial activities

of the institution and provide detailed information on the performance during the year. The previous sustainability report covered the financial year of 2013.

## 8. Commitments and Engagements

### 8.1 Our Stakeholders & their Expectations

A business organization is composed of a network of relationships including interest groups and individuals. We, at Seylan Developments PLC define our key stakeholder audience to ensure materiality in engagement and reporting. Company defines its key stakeholders as customers, employees, investors, suppliers, government, legal & regulatory bodies and society. We have clearly identified the different stake holder expectations and have formulized our responses accordingly. This varies from effective management that delivers sustainable wealth, product innovation, performance linked remuneration, transparent procumbent policies, effective and efficient use of resources etc.

### 8.2 Sustainability Content and the Scope

This Report presents the Company's performance in the wider context of sustainability, providing an insight into the Company's contribution towards the enhancement of economic, environmental and social conditions within which it operates.

In addition this sustainability report has been developed with in the context of the Company's overall business strategy.

### 8.3 Defining the Report Quality

This Report signifies an unbiased script of Company's performance by reflecting on both positive and negative aspects on the economic, environmental and social contexts. It is derived in presenting a format which is understandable and accessible to the reader.

The Company is committed in publishing its annual and quarterly reports in a timely manner to CSE as stipulated.

It is highlighted here that Company's reporting quality is maintained to the standards being Three times Gold winners in the years 2012 , 2013 & 2014 and Silver in the year 2011 under Land and Property sector at the Annual reports award bestowed by CA Sri Lanka.

### 8.4 Recognizing Stakeholders

Stake holder engagement is important for an organization to further align business practices to achieve long term sustainability. Our stake holders are our pillars of strength who implements our decisions or get affected vise versa. We intend in applying a conceptual approach in analyzing each of social, environmental, and economic factors, thereby enhancing our capabilities through incremental improvements. We also intend to track our progress by putting in place a structured process of stakeholder engagement and through the measurement of our impacts earlier mentioned. We listen to our stake holders and welcome their constructive suggestions through proper communication channels.

## Stakeholder categorization and current engagement at Seylan Developments PLC

Stakeholder	Why they are our key stakeholders and the importance of engaging with them	Current level of engagement	Key Issues	How we respond to these issues
Customers (Individual, corporate)	Customers are our key stakeholders and they are the very reason we exist. Good customer relationship and continuous feedback maximizes our service excellence.	<ul style="list-style-type: none"> <li>* One to one meetings</li> <li>* Discussion forums</li> <li>* Site visits</li> <li>* Progress reviews</li> <li>* Business development plans.</li> </ul>	<ul style="list-style-type: none"> <li>* Product quality</li> <li>* Service standards</li> <li>* Affordable Price</li> <li>* Facilities</li> <li>* Sustainable practices</li> <li>* Product innovation</li> </ul>	<ul style="list-style-type: none"> <li>* By Providing modern and comfort rented spaces with highest standards at competitive prices.</li> <li>* Availability of round the clock maintenance and customer service at the door step with minimum down time.</li> </ul>
Suppliers	A dependent supplier base provides opportunities in attending to service needs on time.	<ul style="list-style-type: none"> <li>* Supplier Registration</li> </ul>	<ul style="list-style-type: none"> <li>* Price fluctuations</li> <li>* Delays in delivery.</li> </ul>	<ul style="list-style-type: none"> <li>* Proper procurement policies.</li> <li>* Better negotiations</li> <li>* Proper inventory management systems</li> </ul>
Employees	The internal customers; the pillars of the organization.	<ul style="list-style-type: none"> <li>* Direct reporting</li> <li>* Open door policy at all management levels.</li> </ul>	<ul style="list-style-type: none"> <li>* Employee Development</li> <li>* Health &amp; Safety req.</li> <li>* Organizational ethics</li> <li>* work force diversity</li> </ul>	<ul style="list-style-type: none"> <li>* merit based recruitment &amp; selection.</li> <li>* Employee Welfare Insurance</li> <li>Staff Loans</li> <li>Medical Allowances</li> <li>* Performance link rewards</li> <li>* Succession planning</li> <li>* Need based training ( on the job/off the job)</li> </ul>

Stakeholder	Why they are our key stakeholders and the importance of engaging with them	Current level of engagement	Key Issues	How we respond to these issues
Investors / Shareholders	<ul style="list-style-type: none"> <li>* Corporate responsibility</li> <li>* Increasing Shareholder wealth</li> <li>* Business Ethics</li> </ul>	<ul style="list-style-type: none"> <li>* AGM.</li> <li>* Internal &amp; External Audit procedures</li> <li>* Web updating/CSE reports</li> </ul>	<ul style="list-style-type: none"> <li>*ROI</li> <li>*Good governance Practices</li> <li>*Risk management controls</li> <li>*Transparency</li> </ul>	<ul style="list-style-type: none"> <li>* The Company recorded an EPS of Rs. 0.67 per ordinary share, which is an increase of 442% over the previous year's EPS of Rs. 0.12.</li> <li>* The Board of Directors has recommended a first and final dividend of Rs: 0.50 per share amounting Rs: 73,982,430/- which requires to be approved by the shareholders at the AGM.</li> </ul>
Government, Legal & Regulatory Bodies	<ul style="list-style-type: none"> <li>* to have system controls</li> <li>* all Statutory payments in order</li> <li>* BOI, Labor issues, Taxes and tariff controls</li> </ul>	<ul style="list-style-type: none"> <li>* Representation through associations,</li> <li>* Acts and circulars,</li> </ul>	<ul style="list-style-type: none"> <li>* Penalties,</li> <li>* Loss of reputation</li> <li>* Loss of shareholder confidence.</li> </ul>	<ul style="list-style-type: none"> <li>* Implementations of regulatory monitors</li> <li>* Conduct compliance reviews at various levels.</li> <li>* Good Code of ethics.</li> </ul>
Society / Pressure groups / Media	<ul style="list-style-type: none"> <li>* External Environment (PESTEL) factors</li> <li>* Sustainable developments</li> <li>* Green concepts in reducing the carbon foot print</li> </ul>	<ul style="list-style-type: none"> <li>* Correspondence,</li> <li>* Discussions, Media coverage.</li> </ul>	<ul style="list-style-type: none"> <li>* Waste disposal</li> <li>* Energy efficiency.</li> <li>* Potential for future growth</li> </ul>	<ul style="list-style-type: none"> <li>* Reducing environmental impacts</li> <li>* SDP promotes initiatives such as internal paper recycling, energy saving lighting (LED),</li> <li>* Effective maintenance of AC system, Generators, water supply etc.</li> </ul>

## 9. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS

It has been a policy of the Company to minimize both direct & indirect negative impacts on our environment. In achieving this we follow safe management practices complying with all statutory and other regulatory requirements.

The management understands its priorities towards national initiatives as a service provider. The launching of Energy efficiency project is one aspect of reducing the impact on the national grid. It has also been communicated to our customers in managing electricity, water and also in reducing the paper consumption in minimizing the carbon foot print.

Therefore the key performance indicators of the Company will be customer satisfaction levels, improved living conditions, energy efficiency, employee satisfaction, economic growth, increased market share, environmental consciousness etc.

### 9.1 Economic Performances

#### 9.1.1 Economic Sustainability Initiatives

Our economic sustainability initiatives are superior long term financial returns, sustainable developments, comply with regulatory requirements and recognition and acceptance in the trade.

This goes hand in hand with both environmental and social parameters in the global context in understanding

current and changing needs of its stake holders.

#### 9.1.2 Economic Performance Indicators

Economic impacts of our activities across key stakeholder segments are as follows;

##### Value Addition

The value statement depicts the generation of wealth and its distribution among the stakeholders by acting responsibly in all of our businesses/ social activities throughout the organization.

	2014 RS.'000	2013 RS.'000
<b>Value Added Statement</b>		
Income Earned by Seylan Developments PLC for providing services	171,514	173,218
Cost of Services	(72,476)	(61,951)
Value Added Services provided by SDP	99,038	111,267
Non-Seylan Developments PLC Income	63,574	(135,394)
Provision for Bad Debts	-	(28,400)
	<b>162,612</b>	<b>(52,527)</b>

	2014 RS.'000		2013 RS.'000	
<b>Value Allocated to Employees</b>				
Salaries, Wages and Other Benefits		31,786		24,582
<b>To Government</b>				
Income Tax	2,595		3,344	
Deferred Tax	24,363		(101,763)	
Stamp Duty	8		7	
VAT & NBT	2,932	29,898	2,857	(95,555)
<b>To Expansion and Growth</b>				
Surplus / (Deficit)	99,771		17,812	
Depreciation	1,157	100,928	634	18,446
		<b>162,612</b>		<b>(52,527)</b>

This part of the Report looks at Seylan Developments PLC's impact on investors, customers and employees

#### 9.1.3 Contributory Benefit Plan

The Company provides a retirement plan for its workforce by using general resources to pay the obligations to retired employees. According to the terms of Employees' Provident Fund (EPF) Act No. 15 of 1958 and its subsequent

amendments and Employees' Trust Fund (ETF) Act No. 46 of 1980 and its subsequent amendments, employees are eligible for EPF and ETF contributions. The Company contributes the relevant percentages of the eligible gross emoluments of employees to the respective provident funds and to the Trust Fund respectively.

In relation to the rules of the provident fund, to which such contributions are made, the Company contributes 12 per cent as the employers' contribution and the employees contribute 8 per cent to their respective provident funds managed by the Central Bank of Sri Lanka. Further, the Company also contributes 3 per cent to the Employees' Trust Fund managed by the Department of Labor.

	2014 RS.'000	2013 RS.'000
Employer contribution to the trust fund	479	463
Employer contribution to the provident fund	1,915	1,852

#### 9.1.4 Retirement Gratuity Plan

Employees are entitled to gratuity payable under the Payment of Gratuity Act No. 12 of 1983. The Company has duly carried out an actuarial valuation on retirement benefit obligations as at the year end and the actuary has used the projected unit credit method as prescribed in Sri Lanka Accounting Standards.

### 9.2 ENVIRONMENTAL PERFORMANCE

#### 9.2.1 Environmental Sustainability Initiatives

We are extremely aware of the importance of conserving our immediate environment from the consequences of our day to day activities. As an organization, we are committed to the efficient and sustainable use of all natural resources. At the same time we take every necessary step to promote and practice conservation methods in minimizing the Carbon footprint from the very basics of internal paper recycling, employing energy saving, minimizing unnecessary power draw offs in respect of the operation of its air conditioning, computers and up to the extremes of energy auditing.

The sections below examine as to how our policies and processes help preserve the environment and ensure its sustainability. We strive to succeed in achieving our goal of seeing all our employees are dedicated and committed towards this noble course.

### 9.3 Environmental Performance Indicators

#### 9.3.1. Energy Conservation

Energy conservation today is discussed at the highest forum as a subject with world wide concern. The Company after carrying out an in depth study on the building decided in implementing an Energy Conservation Project with the intention of reducing the monthly Electricity Bill by 18%.

The Energy Audit carried out at Seylan Towers revealed that 70% of its monthly electricity demand is consumed by the centralized A/C plant. The report further highlighted that the present Chillers and its compressors required to be replaced by a high efficiency Chiller which run on magnetic bearing compressors.

In addition the system will be monitored by a Building Management Systems (BMS) with all modernized equipments. Further all Fluorescent light fittings will be replaced by High efficiency LED light fittings with an expected 21% saving. This in turn adds to our social responsibility in reducing the energy demand on the national grid as well. The project is expected to be commissioned by Mid 2015.

#### 9.3.2 Waste Management

Recycling has been a day to day topic for years but sadly a little has been done. We have acted at our strength by collecting and segregating all the waste differently as paper, glass, scrapped iron, and polythene and organic and hired a contracted Company in disposing for recycling. Every necessary step has been taken in contributing to minimize the carbon foot print in the immediate environment. Since this activity is perform along with parent Company.

## 9.4 SOCIAL PERFORMANCE

### 9.4.1 Empowering the Team Seylan Developments

Employees are our key customers, the pillars of strength of the organization who stood straight in good times as well as in bad times delivering the very best in improving the productivity.

In the year under review the Company took a further step forward by recognizing its valued customers through employee engagement in providing opportunities for professional and personnel development.

#### 9.4.1 More than just a workplace – An equal opportunity employer

We strive to maintain equality of opportunity for all employees irrespective of ethnic origin, religion, gender, age or marital status. We also maintain a safe and healthy working environment for all our valued employees.

In this section below we look at how the Company's activities have had an impact on society and on our employees.

#### Total workforce by employment type, employment contract, gender, ethnicity and age

##### Category of Employment

Category	No. of Employees	Percentage (%)
Permanent	29	96.67%
Contract	01	3.33%
Trainee	00	0%
Total	30	100%

##### Breakdown of Employees per Category according to Gender

Gender	Supervisory/		Executive	Total
	Technical	Clerical & Allied		
Male	15	05	04	24
Female	01	02	03	06
Total	16	07	07	30

##### Breakdown of Employees per Category according to Ethnic Group

Ethnic Group	Supervisory/ Technical	Clerical & Allied	Executive	Total
Sinhala	15	07	07	29
Tamil	01	-	-	01
Muslim	-	-	-	-
Burger	-	-	-	-
Others	-	-	-	-
Total	16	07	07	30

##### Breakdown of Employees according to Age

Age	No. of Employees
< 20	-
20 – 29	-
30 – 39	06
40 – 49	17
>50	07
Total	30

##### Breakdown of Employees according to No of year's service

Period of Service	No. of Employees
< 05	04
05 – 09	05
10 – 19	20
20 – 29	01
>30	-
Total	30

Total number and rate of employee turnover by age group and gender

##### Breakdown of Employees resignation according to age

Age	No. of Employees
< 20	-
20 – 29	-
30 – 39	-
40 – 49	-
>50	01
Total	01

### Breakdown of Employees resignation according to gender

Gender	No. of Resignations
Male	01
Female	-
Total	01

### c) Child Labour

Our employment practices are governed by the laws and regulations of the country, we maintain zero-tolerance of discrimination and do not condone forced or child labor.

### d) Health & Safety

Health and Safety in the work place is essential for the well being of our employees.

At Seylan Developments PLC all employees are covered by Hospitalization and Insurance Scheme through Union Assurance Plc. and a Critical Insurance cover obtained from Ceylinco Insurance. In addition the Company pays a fixed allowance for every employee to encompass outer patient medical expenses.

In order to minimize risk and repetition of health and safety related issue, health and safety related issues are monitored on an individual basis and necessary corrective action is taken where ever is necessary.

There were no accidents on any of our properties during the year under review and all workers are covered and protected by Workman's compensation policy (WCP) Cover.

### e) Employee Communication

We believe in maintaining cordial relations with our employees based on strong foundation of mutual understanding and continues interaction and dialogue.

We work towards maintaining two way communications which enable and encouraged employees to express themselves openly and to discuss their work related problems face to face with their immediate superiors.

### f) Employee Welfare

The Staff Welfare Society is committed and acts swiftly in helping employees in distress.

Benefits given to Seylan Developments PLC staff are:

Benefits (Permanent)	Full-time Employees
Insurance	Yes
Staff Loans	Yes
Medical Allowances	Yes

## 9.5 Social Performance Indicators

### CSR Activities (Corporate Social Responsibility):

CSR stands for actions that appear to further some social good, beyond the interests of the firm and that which is required by law. It is a process with the aim to embrace responsibility for the Company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities etc.

Last year we went beyond the boundaries reaching out to a small underprivileged community in "Gothamigama" in the out skirts of Kataragama. The Village, with around 500 families where farming is their main source of income lives along with the rituals of "Dewalaya". The village junior school lacks basic infrastructure for learning in terms of class room spaces, water & sanitation, ICT etc. Our technical team with the assistance of Parents, Teachers and other volunteers designed, build and handed over a 20'x20' Class Room within a short time period for required quality and standards.

This year we further enhanced our kindness towards this rural village school by constructing a fully equipped building unit to be used as a library for an approximate cost of Rs. 950, 000.00. This was designed and built by the total participation of the staff and the maintenance unit of Seylan Developments Plc. The small handing over ceremony was attended by Kataragama PS Chairman, The Principle, Teachers, Parents, Children and other well wishes and appreciated Company's efforts. The students in showing their gratitude arranged a cultural pageant which won the hearts of many attended. This would not have been possible with out the generosity shown by our valued share holders in approving a sum of Rs. 1.0 Mn to be spent on CSR activities at the AGM held on 31st March 2014.

The success of this heart warming event and using it as a model the Company is looking forward in engaging in similar CSR activities with our technical and monitory assistance plus community participation in the years to come.





## FINANCIAL CALENDAR

# Financial Statements for the year ended 31<sup>st</sup> December 2014 signed on 24<sup>th</sup> February 2015

**22nd Annual General Meeting held on 31st March, 2014.**

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange – 2014

March	June	September	December
For the <b>three months</b> ended March 31, 2014 (un-audited) on April 30, 2014	For the <b>six months</b> ended June 30, 2014 (un-audited) on July 28, 2014	For the <b>nine months</b> ended September 30, 2014 (un-audited) on November 04, 2014	For the <b>twelve months</b> ended December 31, 2014 (un-audited) before February 28, 2015.

## PROPOSED FINANCIAL CALENDAR - 2015

**23rd Annual General Meeting to be held on 31st March, 2015**

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange – 2014

March	June	September	December
For the <b>three months</b> ended March 31, 2015 (un-audited) on or before May 15, 2015	For the <b>six months</b> ended June 30, 2015 (un-audited) on or before August 15, 2015	For the <b>nine months</b> ended September 30, 2015 (un-audited) on or before November 15, 2015	For the <b>twelve months</b> ended December 31, 2015 (un-audited) on or before February 29, 2016



## ANNUAL REPORT OF THE BOARD ON THE STATE OF AFFAIRS OF THE COMPANY

“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.”

### General

The Board of Directors have pleasure in presenting their report to the members, together with the audited Financial Statements for the year ended 31st December 2014 of Seylan Developments PLC, a Public Limited Liability Company incorporated in Sri Lanka on 3rd September 1992, quoted in the Colombo Stock Exchange on the same day and re-registered under the Companies Act, No. 07 of 2007 on 22 May 2008 and the companies registration number is PQ 151.

### Principal Activities, Business Review and Future Developments

The principal activities of the Company includes property development , management of developed properties and providing services to the tenants of East Tower and the apartment tenants at the West Tower. The business activities continued without any change during the year.

During the year under review the Company completed stage I of the holiday bungalow project at Kataragama and commenced commercial operations successfully from December 2014 on wards.

A review of financial and operational performance of the Company during the year and the future developments of the Company is contained in the Chairman's Statement in pages 06 to 09 of this Annual Report. The audited Financial Statements are given in pages 73 to 109 of the Annual Report. These reports together reflect the state of affairs of the Company during the period under review.

### Financial Statements

The financial statement of the Company was approved by the Board of Directors on 24th February 2015 and is stated in page no. 73 to 109 of this Annual Report

### Auditor's Report

Company's Auditors, KPMG – Chartered Accountants carried out the audit on the financial statements of the Company for the year ended 31 December 2014 and the Auditors Report on those financial statements is given in page 72 of this Annual Report.

### Accounting Policies

The accounting policies adopted by the Company in the preparation of financial statements are stated in pages 78 to 88. Those accounting policies have been applied consistently to all periods presented in these financial statements.

The financial statements of the Company have been prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka.

### Dividend

The Board of Directors at the meeting held on 24th February 2015, recommended the payment of first and final dividend of Rs: 0.50 per share for the financial year ended 31st December 2014 to be approved by the Shareholders at the Annual General Meeting of the Company to be held on 31st March 2015.

Directors have confirmed that the Company satisfied the Solvency test requirement under section 56 of the Companies Act No: 07 of 2007 and the solvency report had been obtained from the Auditors.

### Donations

The Donations made during the year amounted to Rs: 950,000/- (2013 – Rs: 479,265/-) approved by the Board of Directors as authorization powers given to the directors at the last Annual General Meeting.

### Interests Register

The Interests Register is maintained by the Company, as required by the Companies Act No. 7 of 2007. All Directors have made declarations as provided for in Section 192 (2) of the aforesaid Companies Act. Entries were made in the Interests Register on Directors' interests in contracts and remuneration paid to them etc. The Interests Register is available for inspection as required by the Companies Act.

### Directors' Remunerations

Directors' remuneration, in respect of the Company for the financial year ended December 31, 2014 is given on Note 9 on the Financial Statements on page 89.

### Directorate

The Board of Directors of the Company as at December 31, 2014 consisted of five Directors (six Directors as at December 31, 2013) with wide knowledge and experience in the finance, banking, engineering and commercial sectors. The qualifications and experience of the Directors are given in the 'Board of Directors -Profiles' on pages 16 and 17.

### List of Directors

The following were the Directors of the Company during the year:

### Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Company which were in conformity with the books of accounts and records maintained. The Directors are of the view that the Statement of Profit or Loss and other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Accounting Policies and Notes thereto appearing on pages 73 to 109 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, and the Listing rules of the Colombo Stock Exchange.

The statement of Directors' Responsibilities for the financial statements is given on page 69 of this Annual Report.

### Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings (Board Remuneration Committee, Audit Committee and Related Party Transaction Committee) are presented on pages 33, 46 to 49.

<b>Name of the Director</b>	<b>Executive / Non-Executive Status</b>	<b>Independence / Non-independence Status</b>
Mr. K. P. Ariyaratne (Chairman) (w.e.f.30thMay 2014)	Non-Executive	Non-Independent
Mr. S. Palihawadana (Deputy Chairman)	Non-Executive	Non-Independent
Mr. P. Saravanapavan	Non-Executive	Independent
Dr. P. M. Gunasekara	Non-Executive	Independent
Mr. R. Jayasekara	Non-Executive	Non-Independent
Mr. R. Nadarajah* ( former Chairman)	Non-Executive	Non-Independent

\* Resigned w.e.f. May 9, 2014

## Disclosure of Directors' Dealing in Shares

### Directors' Interests in Ordinary Shares of the Company

Individual ordinary shareholdings of Directors were as follows:

As at December 31,	2014	2013
Mr. K. P. Ariyaratne (Chairman) (w.e.f.30thMay 2014)	25,000 shares	25,000 shares
Mr. S. Palihawadana (Deputy Chairman)	10,000 shares	10,000 shares
Mr. P. Saravanapavan	Nil	Nil
Dr. P. M. Gunasekara	Nil	Nil
Mr. R. Jayasekara	Nil	Nil
Mr. R. Nadarajah* ( former Chairman)	N/A	15,000 shares

\* Resigned w.e.f. May 9, 2014

### Directors' Interests in Contracts

Directors' interests in contracts with the Company, both direct and indirect are disclosed on page 107.

These interests have been declared at Directors' Meetings. Directors have no direct or indirect interests in any other contract or proposed contracts with the Company.

### Corporate Governance

Systems and procedures are in place to ensure that Corporate Governance is adequately and practically dealt with. The Board of Directors has focused on the necessary resources and processes required to ensure that the Company complies with the Codes of Best Practice on Corporate Governance issued by regulators as detailed in the Section on 'Corporate Governance' on pages 32 to 45.

### Auditors

The Audit Committee reviews the appointment of the Auditors, their effectiveness, independence and relationship with the Company. In accordance with Section 158 of the Companies Act No. 7 of 2007, the

Auditors of the Company Messrs. KPMG – Chartered Accountant are re-appointed as Auditors of the Company.

The Auditors, Messrs. KPMG - Chartered Accountants were paid Rs. 820,000/- as audit fees for the year 2014 (2013

- Rs. 770,000/-). In addition, Auditors were paid Rs: 91,392/- as Non-Audit fee during the year 2014 (2013 – 90,421/-).

### System of Internal Controls

The Board of Directors have taken steps to oversee the implementation of an effective and comprehensive system of Internal Controls covering financial operations and compliance controls required to carry out on the business of the Company in an orderly manner, safeguard its assets and secure accuracy and reliability of the records. In this regard the Company had appointed a professional audit firm namely M/s Ponnampereuma & Company to examine the internal control system in operation and the Audit committee had reviewed their quarterly reports. A detail report is given in the Section on "Statement of Internal Control" on pages 28 to 31.

### Rental Income

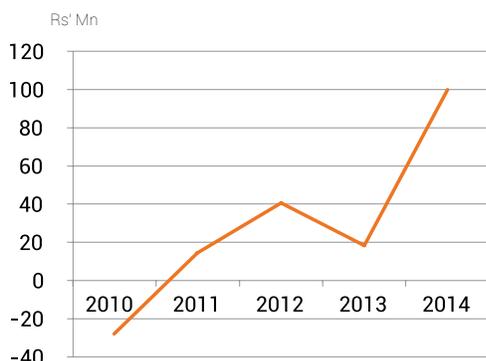
The Company recorded a turnover of Rs: 167mn (2013 – Rs: 168 mn).

## Operating Results

Details of profit relating to the Company are given below:

For the year ended December 31	2014 Rs:	2013 Rs:
Profit / (Loss) from operations for the year	91,375,798	(111,358,404)
Less : Net Finance Income	35,392,989	31,363,681
Profit / (Loss) before taxation	126,768,787	(79,994,723)
Less : Income tax expense/(reversal)	(26,957,573)	98,408,415
Net Profit after taxation	99,811,214	18,413,692

## PROFIT AFTER TAX



\* Figures are based on new Sri Lanka Accounting Standards (SLFRSs)

\*\* Figures are based on previous Sri Lanka Accounting Standards (SLASs)

## Income Tax Expenses

Income tax expense has been computed at the rates mentioned in Note 11 of the Financial Statements on pages 90 to 91.

## Property, Plant and Equipment

Details on Capital expenditure on Property, Plant and Equipment are given in Note 13 of the Financial Statements on page 92 of this Annual Report.

## Investment Property

The land & the buildings held to earn rental income and capital appreciation are classified as an Investment Property. The value of investment properties are stated at 'Fair Value' based on a valuation carried out by a Professional valuer in 2014 and the difference between the carrying value and the revalued amount has been taken to the Statement of profit or loss. Details of Investment Properties are given in Note 14 of the Financial Statements on page 93 to 94.

With the commencement of commercial operations, the holiday bungalow

constructed at Kataragama was transferred to Investment property in December 2014 and stated at Rs: 25 mn as per the valuation carried out at 31st December 2014 by a professional valuer. The expenses incurred on construction were Rs: 23.77 mn and recorded a gain of Rs: 1.23 mn on the valuation during the year under review.

## Other Investments

The details of Other Investments held by the Company are disclosed in Notes 16 on pages 95-97 of the Financial Statements.

## Stated Capital and Reserves

The stated capital of the Company as at 31 December 2014 is Rs. 1,644,391,650/- comprising of 147,964,860 ordinary shares. There were no changes in the stated capital during the year from previous financial year.

The capital and reserves of the Company as at 31 December 2014 amounts to Rs: 4,284,406,486/- (2013 – Rs. 4,230,110,071/-).

## Share Information

Information on shareholding is given on page 111.

## Shareholdings

There were 6,866 registered shareholders (7,466 in 2013) holding Ordinary Voting Shares as at December 31, 2014. The distribution of shareholding is given on page 111.

### Substantial Shareholdings

The list of the top twenty shareholders is given on page 111 of the Annual Report.

### Equitable Treatment to Shareholders

All shareholders have been treated equally in accordance with the original terms of issue.

### Compliance with Laws and Regulations

The Directors, to the best of their knowledge and belief, confirm that the Company has not engaged in any activities that contravene laws and regulations.

### Statutory Payments

The Directors, to the best of their knowledge and belief confirm and are satisfied that all statutory payments to the Government regulatory institutions have been settled.

### Outstanding Litigation

There were no litigation pending against the Company as at December 31, 2014, other than the cases disclosed in Note 29 on page 108.

### Events after the Reporting Period

There have not been any material events that occurred subsequent to the reporting period that require adjustments to the Financial Statements.

### Going Concern

The Directors having considered the financial position, operating conditions, regulatory requirements, and matters required to be addressed in the corporate governance code are satisfied that the Company has adequate resources to continue its operations in the foreseeable future. The Financial Statement of the Company has been prepared accordingly on a Going Concern Basis.

### Directors' Meetings

The details of the Directors' meetings which comprise Board Meetings, Audit Committee Meetings, Remuneration Committee Meetings, Related Party Transaction Committee Meeting and attendance of Directors at these meetings are given in the Annual Report under Corporate Governance, Audit Committee Report, and Remuneration Committee Report etc.

### Notice of Meeting

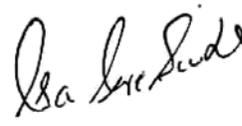
The Annual General Meeting will be held at the Sasakawa hall, No: 4, 22nd Lane, Colombo 03 on 31st March 2015 at 2.30 pm. Notice of Meeting relating to the Twenty Third Annual General Meeting is given on page 114.



**Kapila Ariyaratne**  
Chairman



**Somadasa Palihawadana**  
Deputy Chairman



**SSP Corporate Services (Pvt) Ltd**  
Company Secretary

24th February 2015

## STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors, in relation to the Financial Statements of the Seylan Developments PLC is set out in this statement. In terms of Sections 150 and 152 (1) of the Companies Act No. 07 of 2007, the Directors are responsible for ensuring that the Company keep proper books of account of all transactions and events and prepares its Financial Statements reflecting a true and fair view of the state of affairs of the Company as at the end of the financial year and the results of its operations for the financial year.

The Directors have taken appropriate steps to ensure that the Company maintain proper books of accounts and review the financial reporting system at their meetings through the Audit Committee, the Report of which is given on pages 46 to 47. The Board of Directors also approve the Interim Financial Statements prior to their release following a review and recommendation by the Audit Committee.

The Financial Statements for the year 2014, prepared and presented in this Annual Report is consistent with the underlying books of account and is in conformity with the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting Standards, Listing Rules of Colombo Stock Exchange and generally accepted accounting policies.

The Directors are also responsible for taking reasonable steps to safeguard its assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems to prevent and detect fraud and other irregularities.

The Directors are responsible for the formulation of overall

business policies and for guiding Management on the conduct of the activities of the Company. Accordingly, the day to day Management of the Company is delegated to a competent management team. The Directors have made necessary assessment and are confident to conduct its operations and the companies have adequate financial resources made the necessary assessment that the Company ability to continue as a going concern and the Company has adequate resources to continue in its operations. The Company continues to adopt the Going concern basis in preparing the Financial Statements.

The Company's External Auditors, Messrs KPMG - Chartered Accountants, who was appointed during the year, was provided with every opportunity to undertake the inspections they considered appropriate.

Further, as required by section 56(2) of the Companies Act No. 07 of 2007, the Board of Directors have confirmed that the Company based on the information available, satisfied the solvency test immediately after the distribution, in accordance with section 57 of the Companies Act No. 07 of 2007 and has obtained a certificate from the auditors, prior to recommending a final dividend of Rs. 0.50 per share for this year which is to be approved by the shareholders at the Annual General Meeting to be held on 31st March 2015.

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and Government and other statutory bodies that were due in respect of the Company have been paid where relevant or provided for.



**Kapila Ariyaratne**  
Chairman



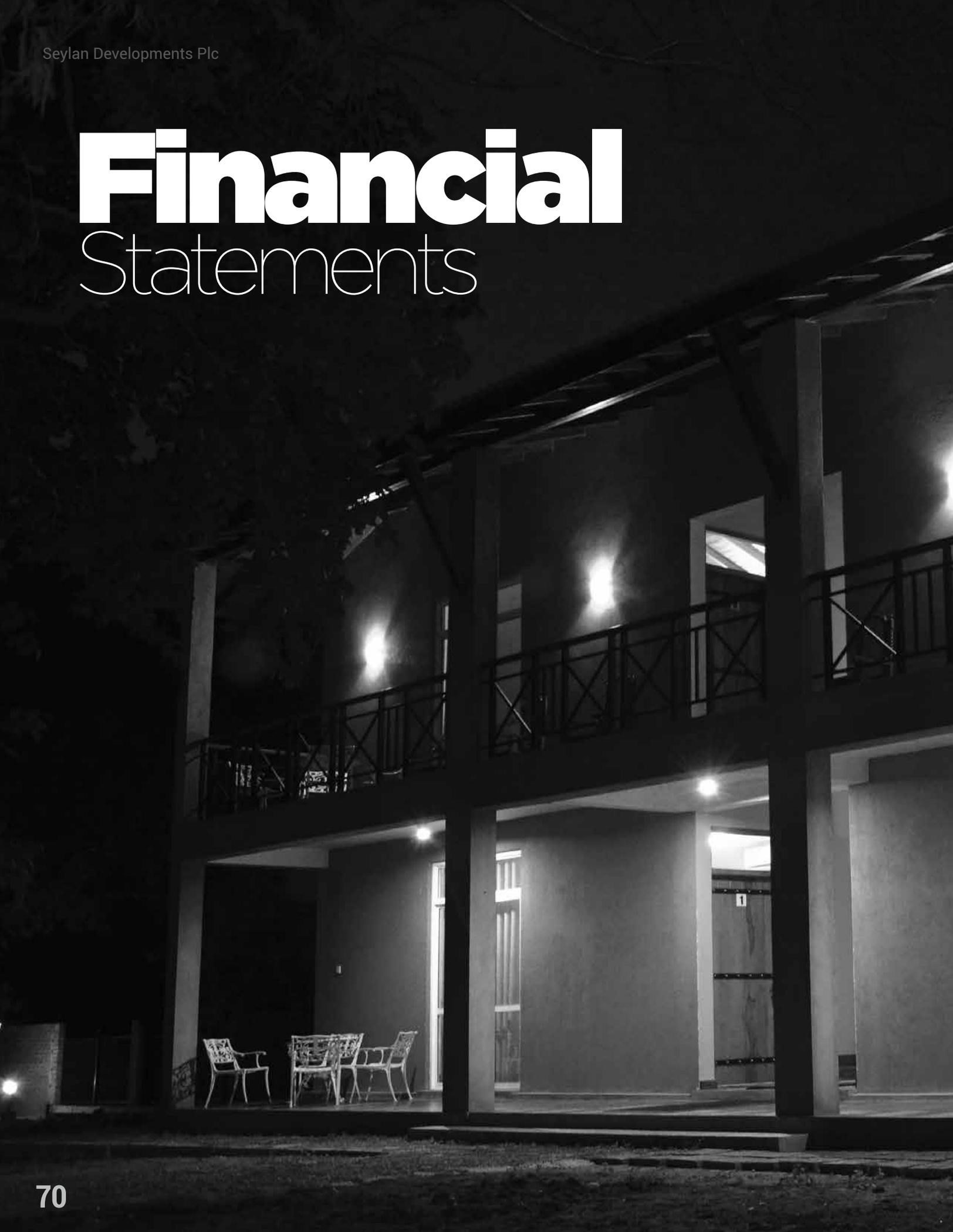
**Somadasa Palihawadana**  
Deputy Chairman



**SSP Corporate Services (Pvt) Ltd**  
Company Secretary

26th February 2015

# Financial Statements







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

Tel : +94 - 11 542 6426  
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+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : www.lk.kpmg.com

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEYLAN DEVELOPMENTS PLC**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Seylan Developments PLC, ("the Company"), which comprise the statement of financial position as at December 31, 2014, 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 set out on pages 73 to 109 of the annual report.

### **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 December 31, 2014, 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.

CHARTERED ACCOUNTANTS

Colombo

24 February 2015

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

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

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For the year ended 31st December,**

*Amounts in Sri Lankan Rupees*

	Note	2014	2013
Revenue	5	167,157,428	168,174,406
Other income	6	18,815,499	13,657,244
		<b>185,972,927</b>	<b>181,831,650</b>
Personnel cost	7	(31,745,840)	(23,929,610)
Premises, equipment, establishments		(55,293,469)	(42,355,236)
Administrative expenses		(20,209,587)	(50,227,252)
Marketing expenses		(346,509)	(605,877)
<b>Results from operating activities before change in fair value of investment properties</b>		<b>78,377,522</b>	<b>64,713,675</b>
Change in fair value of investment properties	8	12,998,276	(176,072,079)
<b>Results from operating activities</b>	9	<b>91,375,798</b>	<b>(111,358,404)</b>
Net finance income	10	35,392,989	31,363,681
<b>Net Profit / (Loss) before income taxation</b>		<b>126,768,787</b>	<b>(79,994,723)</b>
Income tax reversal / (expenses)	11	(26,957,573)	98,408,415
<b>Net Profit for the year</b>		<b>99,811,214</b>	<b>18,413,692</b>
<b>Other comprehensive income</b>			
Net change in fair value of available-for-sale financial assets	24.3	(1,156,327)	-
Defined benefit plan actuarial (losses) / gains	19.1.e	30,829	(572,675)
Reversal of revaluation of property plant & equipment disposed / written off		(556)	(39,674)
Deferred tax liability on reversal of revaluation		156	11,109
<b>Other comprehensive income for the year, net of income tax</b>		<b>(1,125,898)</b>	<b>(601,240)</b>
<b>Total comprehensive income for the year</b>		<b>98,685,316</b>	<b>17,812,452</b>
<b>Earnings per share</b>	12	<b>0.67</b>	<b>0.12</b>

The notes on pages 78 to 109, form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31st December,

Amounts in Sri Lankan Rupees

	Note	2014	2013
<b>Assets</b>			
<b>Non current assets</b>			
Property, plant & equipment	13	6,248,928	4,752,457
Investment property	14	4,505,250,000	4,457,202,500
Investment in property development projects	15	-	3,502,680
Other investments	16.1	137,917,636	135,943,493
<b>Total non current assets</b>		<b>4,649,416,564</b>	<b>4,601,401,130</b>
<b>Current assets</b>			
Inventories	17	4,365,945	3,884,646
Trade and other receivables	18	27,880,182	37,193,443
Other assets	19	13,086,699	19,257,941
Other investments	16.2	167,059,125	126,661,172
Income tax receivable	21	514,794	991,851
Cash and cash equivalents	22	20,547,251	15,944,803
<b>Total current assets</b>		<b>233,453,996</b>	<b>203,933,856</b>
<b>Total assets</b>		<b>4,882,870,560</b>	<b>4,805,334,986</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Stated capital	23	1,644,391,650	1,644,391,650
Reserves	24	524,742,604	525,899,331
Retained earnings		2,115,272,232	2,059,819,090
<b>Total equity</b>		<b>4,284,406,486</b>	<b>4,230,110,071</b>
<b>Non current liabilities</b>			
Deferred tax liability	25	453,982,873	429,621,152
<b>Total non current liabilities</b>		<b>453,982,873</b>	<b>429,621,152</b>
<b>Current liabilities</b>			
Other liabilities	26	144,481,201	145,603,763
<b>Total current liabilities</b>		<b>144,481,201</b>	<b>145,603,763</b>
<b>Total equity and liabilities</b>		<b>4,882,870,560</b>	<b>4,805,334,986</b>

The notes on pages 78 to 109, form an integral part of these financial statements.

The financial statements have been prepared in compliance with the requirement of Companies Act no 7 of 2007.



**N. P. Arangalage** - Accountant

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed on behalf of the Board of Directors;



**Kapila Ariyaratne** - Chairman

Colombo, 24th February 2015



**S. Palihawadana** - Deputy Chairman

## STATEMENT OF CHANGES IN EQUITY

Amounts in Sri Lankan Rupees

	Stated capital	Capital reserve	Revaluation reserve	Available for sale reserve	Retained earnings	Total
<b>Balance as at 01.01.2013</b>	1,644,391,650	525,493,650	434,246	-	2,078,929,614	4,249,249,160
<b>Comprehensive income for the year</b>						
Profit for the year	-	-	-	-	18,413,692	18,413,692
<b>Other comprehensive income</b>						
Defined benefit plan actuarial gain	-	-	-	-	(572,675)	(572,675)
Reversal of revaluation of property plant & equipment disposed / written off	-	-	(39,674)	-	39,674	-
Deferred tax liability on reversal of revaluation	-	-	11,109	-	-	11,109
<b>Total comprehensive income for the year</b>	-	-	(28,565)	-	17,880,691	17,852,126
<b>Transactions recorded directly in equity</b>						
Dividend paid	-	-	-	-	(36,991,215)	(36,991,215)
<b>Balance as at 31.12.2013</b>	1,644,391,650	525,493,650	405,681	-	2,059,819,090	4,230,110,071
<b>Balance as at 01.01.2014</b>	1,644,391,650	525,493,650	405,681	-	2,059,819,090	4,230,110,071
<b>Comprehensive income for the year</b>						
Profit for the year	-	-	-	-	99,811,214	99,811,214
<b>Other comprehensive income</b>						
Net change in fair value of available-for-sale financial assets	-	-	-	(1,156,327)	-	(1,156,327)
Defined benefit plan actuarial losses	-	-	-	-	30,829	30,829
Reversal of revaluation of property plant & equipment disposed / written off	-	-	(556)	-	556	-
Deferred tax liability on reversal of revaluation	-	-	156	-	-	156
<b>Total comprehensive income for the year</b>	-	-	(400)	(1,156,327)	31,385	(1,125,341)
<b>Transactions recorded directly in equity</b>						
Dividend paid	-	-	-	-	(44,389,458)	(44,389,458)
<b>Balance as at 31.12.2014</b>	1,644,391,650	525,493,650	405,281	(1,156,327)	2,115,272,232	4,284,406,486

## CASH FLOW STATEMENT

For the year ended 31st December,

Amounts in Sri Lankan Rupees

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Receipt from other Operating Activities	184,101,045	175,446,864
Cash payments to Employees, Suppliers and Tax Authorities	(106,821,380)	(92,310,718)
Interest Payments	(381,273)	(387,548)
<b>Operating profit before changes in operating assets</b>	<b>76,898,392</b>	<b>82,748,598</b>
<b>(Increase)/Decrease in operating assets :</b>		
Stock & Receivables	15,006,371	(4,652,115)
<b>Increase/(Decrease) in operating liabilities :</b>		
Deposits & Trade payables	(1,122,564)	(25,661,753)
<b>Cash Generated from Operations</b>	<b>90,782,199</b>	<b>52,434,730</b>
Income Tax paid	-	-
Gratuity paid	-	-
<b>Net cash from Operating Activities</b>	<b>90,782,199</b>	<b>52,434,730</b>
<b>Cash Flows from Investing Activities</b>		
Interest Received	34,333,223	31,677,773
Purchase of non-dealing Securities	(362,723,068)	(144,677,740)
Disposal of non-dealing Securities	320,795,652	77,474,645
Investment property development projects	-	(3,502,680)
Purchase of Property , Plant and Equipment	(2,654,056)	(2,193,679)
Proceeds from disposal of Property, Plant and Equipment	4,500	95,536
Additions to Investment Properties	(42,499,044)	(12,869,079)
Proceeds from disposal of Investment Property	10,952,500	29,275,150
<b>Net cash from Investing Activities</b>	<b>(41,790,293)</b>	<b>(24,720,074)</b>
<b>Cash Flows from Financing Activities</b>		
Dividends paid	(44,389,458)	(36,991,215)
<b>Net Cash from Financing Activities</b>	<b>(44,389,458)</b>	<b>(36,991,215)</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,602,448</b>	<b>(9,276,559)</b>
Cash and Cash equivalents at beginning of period	15,944,803	25,221,362
<b>Cash and Cash Equivalents at end of period</b>	<b>20,547,251</b>	<b>15,944,803</b>
<b>Reconciliation of Cash and Cash Equivalents</b>		
Cash and Short Term Funds	20,547,251	15,944,803
Bank Overdraft	-	-
	<b>20,547,251</b>	<b>15,944,803</b>

## CASH FLOW STATEMENT

For the year ended 31st December,

Amounts in Sri Lankan Rupees

	2014	2013
<b>Cash flows from operating activities</b>		
<b>Profit/ (Loss) before tax</b>	<b>126,768,787</b>	<b>(79,994,723)</b>
<b>Adjustments for</b>		
Gratuity	(308,201)	(4,266,237)
Depreciation	1,156,789	633,777
Changes in fair value of investment properties	(12,998,276)	176,072,079
Bad & doubtful debtors	-	16,100,131
Interest income	(34,333,223)	(31,677,771)
Net change in fair value of financial assets at fair value through profit or loss	(1,601,006)	(151,236)
Amortisation of pre paid staff expenses	268,339	229,112
Change in interest income of staff loan & staff cost on SLFRS adjustments	(182,936)	(195,778)
Provision for corporate guarantee	-	12,300,000
Profit on disposal of property, plant & equipment & investment property	(3,704)	(2,376,936)
Write off fixed assets	-	84,031
Tax over provisions and write backs	(1,868,177)	(4,007,851)
<b>Operating profit before working capital changes</b>	<b>76,898,392</b>	<b>82,748,598</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Reporting entity

Seylan Developments PLC (the "Company") is a "Public Quoted Company" and a Limited Liability Company Incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange.

The Company's registered office is situated at No. 90, Galle Road, Colombo 03.

The Company is in the business of development of property, administration & maintenance.

The Company is a subsidiary of Seylan Bank PLC.

The staff strength of the Company as at 31st December 2014 is 30 (2013- 31).

## 2. Basis of preparation

### 2.1) Statement of compliance

The financial statements of the Company has been prepared in accordance with Sri Lanka Accounting Standards (SLAS) as issued by the Institute of Chartered Accountants of Sri Lanka.

The Company's financial statements were authorized for issue by the Board of Directors on 24th February 2015.

### 2.2) Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial instruments at fair value through profit or loss are measured at fair value.(Note 16.2.1)
- Available-for-sale financial assets are measured at fair value.(16.2.3)
- Investment property is measured at fair value.(Note 14)
- Liability for defined benefit obligation is recognized as the present value of the defined benefit obligation less the net total of the plan assets and unrecognized past service cost.(Note 19.1)

### 2.3) Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency.

### 2.4) Use of estimates and judgments

The preparation of the financial statements in conformity with SLASs 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 recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following notes:

**Note 14** - Investment property

**Note 25** - Deferred taxation

**Note 19.1** - Measurement of defined benefit obligations

**Note 27** - Fair value of financial instruments

## 3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 3.1) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of 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 at that date.

### 3.2) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes. The following specific recognition criteria must also be met before revenue is recognised:

#### **Rental income**

Rental income from investment property leased out under operating lease is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

#### **Dividends**

Dividend income is recognized when the shareholders' right to receive the payment is established.

#### **Others**

Other income is recognized on an accrual basis. Net gains and losses of a revenue nature on the disposal of property plant and equipment and other non-current assets including investments have been accounted for profit or loss, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

### 3.3) Expenses

Expenses are recognized in profit or loss as they are incurred, in the period to which they relate.

### 3.4) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are

apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### 3.5) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and changes in the fair value of financial assets at fair value through profit or loss. 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 changes in the fair value of financial assets at fair value through profit or loss. 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.

### 3.6) Taxes

#### **Current income tax**

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and subsequent amendments thereon.

#### **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 the temporary differences when they reverse, based on the laws that have been enacted or

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

substantively enacted by the reporting date.

A deferred tax asset is recognized 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 utilized. 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 realized.

### **Economic service charge (ESC)**

ESC is payable on the liable turnover at specified rates. As per the provision of the Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is deductible from the income tax liability. Any unclaimed payment can be carried forward and set off against the income tax payable as per the relevant provision in the Act.

### **3.7) Earnings per share (EPS)**

The Company presents basic 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.

### **3.8) Property, plant and equipment**

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

#### ***Basis of recognition***

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

#### ***Measurement***

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the

acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

#### ***Revaluation***

Property, plant and equipment of the Company are re-valued every five years on a roll over basis to ensure the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognized in other comprehensive income and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the statement of profit or loss. Any decrease in the carrying amount is recognised as an expense in the statement of profit or loss or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

#### ***Reclassification to investment property***

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as an investment property. Any gain arising on re-measurement is recognised in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised in the statement of changes in equity and presented in the revaluation reserve

in equity to the extent that an amount had previously been included in the revaluation reserve relating to the specific property, with any remaining loss recognised immediately in profit or loss.

### **Subsequent costs**

The cost of replacing a part of an item of Property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### **Derecognition**

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

### **Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company

will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives and rates of depreciation for the current and comparative periods are as follows:

	<b>Depreciation</b>	<b>Useful life</b>
<i>Furniture &amp; fittings</i>	10%	10
<i>Equipment</i>	20%	05
<i>Motor cars</i>	20%	05
<i>Motorcycles</i>	25%	04
<i>Tools</i>	33.33%	03
<i>Leasehold equipment</i>	20%	05
<i>Other equipment</i>	20%	05
<i>Apartment assets</i>	20%	05

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### **3.9) Intangible assets - Software**

Software acquired is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expense as incurred. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date that is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows;

	<b>Amortisation</b>	<b>Useful Life</b>
<i>Accounting software</i>	20%	05

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 3.10) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the statement of financial position. Investment property held under an operating lease is recognised in the statement of financial position at its fair value.

### 3.11) Investment property

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every year. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is accounted for as described in accounting policy.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss and other comprehensive income in the period of derecognition.

### 3.12) Investment property under development

Property that is being constructed or developed for future use as Investment Property is classified as Investment Property under Development (Development Projects) and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as Investment Property. At the date of transfer, the difference between fair value and cost is recorded as income in profit or loss.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditures for the development qualifying as acquisition costs are capitalized. Borrowing costs are capitalized if they

are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs may continue until the assets are substantially ready for their intended use.

If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. The capitalization rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate.

### **3.13) Financial instruments - Initial recognition and subsequent measurement**

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

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which 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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in 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 on a net basis or to realise the asset and settle the liability simultaneously.

#### **Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or

loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in statement of Profit or Loss.

#### **Held-to-maturity financial assets**

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

#### **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.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

that are not classified in any of the previous categories. The Company's unquoted investments in equity securities and certain debt securities are classified as available-for-sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

### (ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

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 on a net basis or to realise the asset and settle the liability simultaneously.

The Company generally records the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

### 3.14) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in-first-out principle, and includes expenditure incurred

in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell.

### 3.15) Cash and short-term deposits

Cash and cash equivalents comprise cash in hand and short term deposits. Company overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as components of cash and cash equivalents for the purpose of presenting the cash flow statement.

Cash flow statement is prepared under the "Direct" method as per LKAS 7 – Statement of cash flows.

### 3.16) Stated capital

Company's stated capital comprises of ordinary shares, which are classified as equity.

### 3.17) Reserves

#### 3.17.1) Capital reserve

This reserve has been created in 2011 and the Capital Redemption Reserve Fund was transferred at inception.

#### 3.17.2) Revaluation reserve

This reserve has been created on revaluation of property, plant & equipment of the Company.

#### 3.17.3) Available for sale reserve

This has been created in 2014 to account the fair value changes on account of Available for sale securities.

### 3.18) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### 3.19) Impairment

#### (i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include 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, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Company uses historical trends of the default and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less 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 receivables.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

### 3.20) Employee benefits

#### 3.20.1 Defined benefit plan

The Company operates an approved gratuity fund to facilitate the payments for permanent staff of the Company.

The Company's obligation in respect of defined benefit gratuity plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

that benefit to determine its present value, then deducting the fair value of any plan assets. The discount rate is the yield at the reporting date on Government bonds that have maturity dates approximating to the terms of the Company's obligations. The Company carries out an actuarial valuation of the gratuity fund in December each year to ascertain the full liability of the fund. The calculation is performed by a qualified actuary using the Projected Unit Credit Method which is the method recommended by LKAS 19 "Employee Benefits".

The Company recognises all actuarial gains and losses arising from defined benefit plans in the statement of other comprehensive income.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continual service.

### 3.20.2 Defined contribution plan.

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognized as expense in profit or loss as and when they are due.

### 3.20.3 (a) Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the Employees' Provident Fund. (Note 07)

### 3.20.3 (b) Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognised as an expense to the Company for contribution to ETF is disclosed in the notes to financial statements. (Note – 07)

## 3.21) Commitments and contingencies

Commitments and contingencies as at the reporting date, is disclosed in Note 31 to the financial statements.

## 3.22) Events after the reporting period

All material and important events which occur after the reporting period have been considered and disclosed in Note 30 or adjusted as applicable.

## 3.23) Directors' responsibility statement

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements. Please refer to page 69 for the statement of the Directors' responsibility for financial reporting.

## 3.24) Comparative information

The comparative information is re-classified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

## 3.25) New accounting standards issued but not effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for the financial periods beginning on or after 1st January 2015.

### SLFRS 9 – Financial Instruments: Classification & Measurement

SLFRS 9, as issued, reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets & liabilities.

This will be effective for financial periods on or after 1st January 2018.

### SLFRS 15 - Revenue from contracts with customers

SLFRS 15 includes specific guidance on consignment sales. Under this guidance, if an entity delivers a product to another party for sale to end customers, then the entity assesses whether the other party has obtained control of the product - i.e. revenue is not recognised upon delivery of a product to another party if the delivered product is held on consignment. SLFRS 15 includes a list of indicators to assess whether an arrangement is a consignment

arrangement.

SLFRS 15, is applicable for the financial periods beginning on or after 1st January 2017. Early application is permitted.

## 4) Financial risk management

### Overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk.

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

### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by

the Company. 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.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

### Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 60 percent (2013: 59 percent) of the Company's revenue is attributable to sales transactions with a single customer who is the parent Company of Seylan Developments PLC.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments, where appropriate.

### Investments

The Company limits its exposure to credit risk by investing only in liquid securities. Management actively monitors credit ratings and given that the Company only has invested in securities with high credit ratings.

### 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

### Market risk

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)***Amounts in Sri Lankan Rupees*

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

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Development of contingency plans.
- Training and professional development.
- Risk mitigation, including insurance when this is effective.

Compliance with Company standards is supported by a

programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

**Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's debt to adjusted capital ratio at the end of the reporting period was as follows;

	<b>2014</b>	<b>2013</b>
	<b>Rs: '000</b>	<b>Rs: '000</b>
Total liabilities	598,464	575,225
Less: cash and cash equivalents	20,547	15,945
Net debt	577,917	559,280
Total equity	4,284,406	4,230,110
Debt to adjusted capital ratio at 31 December	0.13	0.13

## For the year ended 31st December,

	2014	2013
<b>5. Revenue</b>		
Rental income	167,157,428	168,174,406
	167,157,428	168,174,406
<b>6. Other income</b>		
Management fees	3,571,429	3,571,429
Profit on disposal property plant & equipment	3,704	95,536
Dividend income	-	643
Work order income	785,509	1,472,516
Miscellaneous income	10,934,198	6,235,720
Capital gain on government securities	3,520,659	-
Profit / (loss) from disposal of investment property	-	2,281,400
	18,815,499	13,657,244
<b>7. Personnel cost</b>		
Salary and wages (Including Directors' emoluments)	15,810,521	16,123,095
Statutory EPF	1,915,262	1,851,971
Statutory ETF	478,816	462,993
Staff allowances	2,073,387	1,317,400
(Reversal) / Provision for retirement benefits (Note 19.1.d)	(308,201)	(4,266,237)
Amortisation of prepaid staff expenses	268,339	229,112
Other staff expenses	11,507,716	8,211,276
	31,745,840	23,929,610
<b>8. Change in fair value of investment properties</b>		
Investment property - Seylan Towers	(2,236,604)	(239,869,079)
Investment property - Union Place	14,000,000	64,744,500
Investment property - Moratuwa	-	(947,500)
Investment property - Kataragama	1,234,880	-
	12,998,276	(176,072,079)
<b>9. Results from operating activities</b>		
Results from operating activities are stated after deducting all operating expenses including the following,		
Directors' emoluments	712,600	694,900
Audit fees	916,917	828,837
Non audit fees	84,048	83,155
Depreciation (Note 13)	1,156,789	633,777
Legal fees	1,186,016	1,415,450
Professional fees	1,436,688	1,328,940

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

Amounts in Sri Lankan Rupees

For the year ended 31st December,

	2014	2013
<b>10. Financing income &amp; expenses</b>		
<b>10.1 Finance income</b>		
Interest income on loans and receivables	606,663	628,226
Interest income on bank deposits	8,093,102	18,131,966
Interest income on debentures	21,357,354	13,113,356
Interest income on treasury bonds	4,459,040	-
Net change in fair value of financial assets at fair value through profit or loss	1,601,006	151,236
	36,117,165	32,024,784
<b>10.2 Finance expenses</b>		
Interest on overdraft	81,273	387,548
Bank charges	342,903	273,555
Other finance expenses	300,000	-
	724,176	661,103
<b>Net finance income</b>	<b>(35,392,989)</b>	<b>(31,363,681)</b>
<b>11 Income tax expenses</b>		
<b>Current tax</b>	2,601,763	4,708,758
Over provision for taxation	(6,067)	(1,365,270)
	2,595,696	3,343,488
<b>Deferred income tax</b>		
Deferred taxation (reversal)/charge (Note 25)	24,361,877	(101,751,903)
	24,361,877	(101,751,903)
Income tax expense reported in the statement of profit or loss	26,957,573	(98,408,415)
<b>11.1 Reconciliation of income tax</b>		
Profit / (Loss) as per the statement of profit or loss	126,768,787	(79,994,723)
Less: Income from other sources	(35,509,706)	(33,874,379)
Changes in fair value of investment property	(12,998,276)	176,072,079
Unclaimed dividend write back	(1,868,178)	(2,348,148)
Disallowable expenses	10,710,322	28,658,761
Allowable expenses	(83,898,152)	(80,050,181)
Adjusted tax profit	3,204,797	8,463,409
Taxable interest income	12,552,142	18,131,965
	15,756,939	26,595,374
Less : Tax losses set off	(5,514,929)	(9,308,381)
Assessable income	10,242,010	17,286,993

## For the year ended 31st December,

	2014	2013
Less: Qualifying payment		
Donation to government	(950,000)	(470,000)
Taxable income	9,292,010	16,816,993
<b>Tax liability</b>		
<b>Taxable income at 28%</b>	<b>2,601,763</b>	<b>4,708,758</b>
Effective Tax Rate (Note 11.2)	21%	-123%
Effective Tax Rate (Excluding Deferred Tax) (Note 11.2)	2%	4%

## 11.2 Reconciliation of effective tax rate

	%	2014 Rs:	%	2013 Rs:
(Loss)/Profit before income tax		126,768,787		(79,994,723)
Income tax using domestic tax rate	28%	35,495,260	-28%	(22,398,522)
Disallowable expenses	2%	2,998,890	10%	8,024,453
Allowable expenses	-19%	(23,491,482)	-28%	(22,414,051)
Exempt income	-8%	(10,590,725)	55%	44,234,825
Tax loss utilized	-1%	(1,544,180)	-3%	(2,606,347)
Qualifying payments	-0%	(266,000)	-0%	(131,600)
<b>Current tax on profit for the year</b>	2%	<b>2,601,763</b>	-6%	<b>4,708,758</b>
Over provided in prior years	0%	(6,067)	-2%	(1,365,270)
<b>Current tax on profit for the year</b>	2%	<b>2,595,696</b>	4%	<b>3,343,488</b>
Charge to deferred tax	19%	24,361,877	-127%	(101,751,903)
<b>Total income tax income /expense</b>	21%	<b>26,957,573</b>	-123%	<b>(98,408,415)</b>

## 12. Earnings per share

The computation of basic earnings per share is based on the net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

Profit attributable to ordinary shareholders	99,811,214	18,413,692
Weighted average number of ordinary shares	147,964,860	147,964,860
<b>Basic earnings per ordinary share (Rs)</b>	<b>0.67</b>	<b>0.12</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

Amounts in Sri Lankan Rupees

**As at 31st December****13. Property, plant & equipment**

	Office, machine & equipments	Furniture & fittings	Freehold Other equipment	Leasehold motor vehicles	Apartment assets	Total
<b>Cost / Revaluation</b>						
Balance as at 01st January 2013	1,415,380	2,058,723	4,263,640	532,269	1,110,349	9,380,361
Additions	293,363	8,258	-	-	1,892,058	2,193,679
Disposals / Written off	(121,590)	(4,418)	(4,263,640)	(405,369)	-	(4,795,017)
Balance as at 31st December 2013	<b>1,587,153</b>	<b>2,062,563</b>	<b>-</b>	<b>126,900</b>	<b>3,002,407</b>	<b>6,779,023</b>
Balance as at 01st January 2014	1,587,153	2,062,563	-	126,900	3,002,407	6,779,023
Additions	2,050,349	-	-	-	603,707	2,654,056
Disposals	(1,750)	-	-	-	-	(1,750)
Balance as at 31st December 2014	<b>3,635,752</b>	<b>2,062,563</b>	<b>-</b>	<b>126,900</b>	<b>3,606,114</b>	<b>9,431,329</b>
<b>Accumulated depreciation</b>						
Balance as at 01st January 2013	901,169	284,511	4,263,640	532,269	122,186	6,103,775
Charge for the year	158,969	206,241	-	-	268,567	633,777
Disposals / Written off	(41,175)	(802)	(4,263,640)	(405,369)	-	(4,710,986)
Balance as at 31st December 2013	<b>1,018,963</b>	<b>489,950</b>	<b>-</b>	<b>126,900</b>	<b>390,753</b>	<b>2,026,566</b>
Balance as at 01st January 2014	1,018,963	489,950	-	126,900	390,753	2,026,566
Charge for the year	307,878	206,256	-	-	642,655	1,156,789
Disposals	(954)	-	-	-	-	(954)
Balance as at 31st December 2014	<b>1,325,887</b>	<b>696,206</b>	<b>-</b>	<b>126,900</b>	<b>1,033,408</b>	<b>3,182,401</b>
<b>Net book value as at 31st December 2014</b>	<b>2,309,865</b>	<b>1,366,357</b>	<b>-</b>	<b>-</b>	<b>2,572,706</b>	<b>6,248,928</b>
<b>Net book value as at 31st December 2013</b>	<b>568,190</b>	<b>1,572,613</b>	<b>-</b>	<b>-</b>	<b>2,611,654</b>	<b>4,752,457</b>

**13.1 Revaluation of Office machine & equipment and Furniture & fittings**

In the year 2011, Office machine & equipment and Furniture & fittings valuation was carried out by professionally qualified valuer Mr. S. K. Guruge, Incorporated valuer (A.I.V). The Company recognised revaluation surplus of Rs. 603,119/- over net book value as at 08th August 2011 to the credit of the revaluation reserve.

The valuer has determined the fair value of these assets as at the date of inspection and depreciation factor has been determined by considering loss in value over time due to wear and tare, physical deterioration and age of each item.

The carrying amount of revalued assets that would have been included in the financial statements had the assets were carried at cost less accumulated depreciation, is as follows.

## As at 31st December

	Office machine and equipment	Furniture and Fittings	Total
Cost	13,216,103	9,907,684	23,123,787
Accumulated depreciation	(10,973,502)	(9,810,846)	(20,784,348)
<b>Net book value</b>	<b>2,242,601</b>	<b>96,838</b>	<b>2,339,439</b>

## 13.2 Fully Depreciated Assets

Property plant & equipment includes fully depreciated assets having a gross carrying amount of Rs. 836,200/- (2013 - Rs. 756,068)

## 14. Investment property

	Property at						Total	
	Colombo 3*		Union Place**	Moratuwa***	Ja-Ela****	Kataragama*****		
	Leasehold land	Building, plant & machinery				Land		Building
Balance as at 1st January 2013	1,418,746,586	2,937,253,414	250,255,500	41,143,750	-	-	4,647,399,250	
Additions during the year	-	12,869,079	-	-	-	-	12,869,079	
Disposals during the year	-	-	-	(26,993,750)	-	-	(26,993,750)	
Changes in fair value	211,627,644	(451,496,723)	64,744,500	(947,500)	-	-	(176,072,079)	
<b>Balance as at 31st December 2013</b>	<b>1,630,374,230</b>	<b>2,498,625,770</b>	<b>315,000,000</b>	<b>13,202,500</b>	<b>-</b>	<b>-</b>	<b>4,457,202,500</b>	
Balance as at 1st January 2014	1,630,374,230	2,498,625,770	315,000,000	13,202,500	-	-	4,457,202,500	
Additions during the year	-	22,236,604	-	-	-	-	22,236,604	
Transfers from investment in property development projects	-	-	-	-	3,160,000	20,605,120	23,765,120	
Disposals during the year	-	-	-	(10,952,500)	-	-	(10,952,500)	
Changes in fair value	185,077	(2,421,681)	14,000,000	-	90,000	1,144,880	12,998,276	
<b>Balance as at 31st December 2014</b>	<b>1,630,559,307</b>	<b>2,518,440,693</b>	<b>329,000,000</b>	<b>2,250,000</b>	<b>-</b>	<b>3,250,000</b>	<b>4,505,250,000</b>	

Investment property	Address	Extent	Date of valuation	Market value
Property at Colombo 3	No: 90, Galle Road, Colombo 03	0A - 3R - 24.55 P	31st December 2014	4,149,000,000
Property at Union Place	No. 257, Union Place, Colombo 02.	0A - 1R - 12.27 P	27th December 2014	329,000,000
Property at Moratuwa	Moratuwa Lake Villas, St. Peters Rd, Moratuwa	0A - 1R - 05.00 P	31st December 2014	2,250,000
Property at Kataragama	Seylan Rest, Kanda Road, 2nd Step, Detagamuwa, Kataragama	1A- 0R - 0.050 P	31stDecember 2014	25,000,000
				4,505,250,000

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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### As at 31st December

\*Investment Property comprises properties at Colombo 3 that are rented out mainly to Seylan Bank PLC, the parent and for apartment tenants. The property contains an initial non-cancellable period of 99 years. In accordance with LKAS 40, a property interest under an operating lease is classified and accounted for as an Investment Property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an Investment Property is carried at fair value. The property was valued by Sunil Fernando & Associates (Pvt) Ltd, incorporated valuer and having recent experience in the location and category of the investment property being valued. He has used market rental based income method for the valuation.

\*\* The Property at No 257 Union Place was valued by Mr. G.J Sumanasena, incorporated valuer and having recent experience in the location and category of the investment property being valued. He has used open market method in valuation.

The Open Market value is intended to mean the best price at which an interest in a property might reasonably be expected to be sold in the private treaty as the date of valuation, assuming,

- a) The property is prime and most suitable for high rise development.
- b) Located in a prime commercial area.

The property at Union Place is presently occupied by Ceylinco Packaging (Pvt) Limited and the Company has initiated legal actions for the eviction. Therefore, this is considered as an encumbered property for this valuation.

\*\*\*The Property at Moratuwa was valued by Mr.D.N.D. Baranage, professionally qualified valuer based on open market method. The assumptions for the valuation are,

- a) It's a well established residential area.
- b) Along new Galle Road there is a commercial development.

- c) Being in close proximity to Moratuwa, enjoying easy accessibility to Colombo City.

\*\*\*\*The Ja-Ela Commercial Complex was a joint venture project and a Directors of joint venture party agreed to allocate marked portion of the complex in settlement of the contribution by Seylan Developments PLC towards the project. The Company accounted for the investment of Ja-Ela Commercial Complex based on the valuation of said marked portion and the valuation carried at Rs: 70,351,000/-. As the final settlement was not forthcoming as anticipated, and there was no income derived from the investment for a considerable period, full provision was made as impairment loss during the year 2011.

\*\*\*\*\* The property located at Kanda Road, Detagama, Kataragama is valued by Mr. M A Ananda Sarath,(AIV) professionally qualified valuer and his valuation based on sales of lands in the vicinity,present trend in property market, condition of the building improvements made to property etc. The factors considered for the valuation are,

- a) The property is situated in a residential area and immediate vicinity of the property consists of scattered Guest houses and Hotels.
- b) The necessary infrastructural facilities and amenities are provided in the locality and the road net-work in the area is connected to cities and suburbs with efficient transport facilities.

As at 31st December

**15. Investments in property development projects**

	2014	2013
Kataragama holiday bungalow		
Balance as at 1st January	3,502,680	-
Constructions during the period	20,262,440	3,502,680
Transfer to investment property	(23,765,120)	-
Balance as at 31st December	<b>-</b>	<b>3,502,680</b>

Above consists of property developed or constructed to use as Investment Property. With the completion of stage I and commencement of commercial operations of the said project the property was transferred to Investment Property during the year.

**16. Other investments****16.1 Non current investments**

Held to maturity investments (Note 16.1.1)	137,917,636	135,943,493
Available-for-sale financial assets ( Note 16.1.2)	-	-
	<b>137,917,636</b>	<b>135,943,493</b>

The financial assets designated as held to maturity investments are investments in Debentures with long term maturities. The financial assets designated as available for sale are unquoted equity securities.

**16.1.1 Held to maturity investments (Non current)**

Quoted debentures		
Seylan Bank PLC (500,000 Debentures of Rs: 100/- each)	56,645,890	56,645,890
People's Leasing & Finance PLC (500,000 Debentures of Rs: 100/- each)	54,158,904	54,158,904
Merchant Bank of Sri Lanka PLC (250,000 Debentures of Rs: 100/- each)	27,112,842	25,138,699
	<b>137,917,636</b>	<b>135,943,493</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

Amounts in Sri Lankan Rupees

**As at 31st December****16.1.2 Available-for-sale financial assets****Unquoted equities**

	2014			2013		
	No. of Shares	Cost	Market value / fair value	No. of Shares	Cost	Market value / fair value
MBSL Savings Bank Ltd	25,000	250,000	-	25,000	250,000	-
Ceylinco Venture Capital Investment Limited	95,000	950,000	-	95,000	950,000	-
Ceylinco Sports Complex	220,000	2,200,000	-	220,000	2,200,000	-
Asian Finance Company Limited	75,000	750,000	-	75,000	750,000	-
Ceycom Global Communication Limited	40,500	405,000	-	40,500	405,000	-
Ceylinco International Property Developers (Pvt) Limited	50,000	500,000	-	50,000	500,000	-
Ceyenergy Electronic Company (Pvt) Ltd	15,000	150,000	-	15,000	150,000	-
Certis Lanka Home Nursing & Swift Care (Pvt) Ltd.	75,000	750,000	-	75,000	750,000	-
Independent Financial News & Views (Pvt) Ltd	4,900	49,000	-	4,900	49,000	-
Ceylinco International Realty (Pvt) Ltd	200,000	2,000,000	-	200,000	2,000,000	-
E - Ceylinco. Com (Pvt) Ltd	60,000	600,000	-	60,000	600,000	-
International Consultancy & Corporate Services (Pvt) Ltd	5,000	50,000	-	5,000	50,000	-
Ceylinco PLC Technology (Pvt) Ltd	177,500	1,775,000	-	177,500	1,775,000	-
The Sitar (Pvt) Ltd	60,000	600,000	-	60,000	600,000	-
Standard Credit Lanka Ltd.	4,000,000	40,000,000	-	4,000,000	40,000,000	-
Certis Lanka Secure Logistics (Pvt) Ltd	10,000	100,000	-	10,000	100,000	-
Ceylinco Seraka Investment Limited	510,000	5,100,000	-	510,000	5,100,000	-
Ceylinco Cisco Ranaviru Services (Pvt) Limited	10,000	100,000	-	10,000	100,000	-
	5,632,900	56,329,000	-	5,632,900	56,329,000	-
<b>Appreciation / (Diminution) in value as at 31 December</b>		<b>(56,329,000)</b>	<b>-</b>		<b>(56,329,000)</b>	<b>-</b>
<b>Fair value for the investment securities</b>		<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>

**16.2 Current investments**

Financial assets designated at fair value through profit or loss (Note 16.2.1)	9,200,000	7,926,925
Held to maturity investments (Note 16.2.2)	100,000	118,734,247
Available-for-sale financial assets ( Note 16.2.3)	157,759,125	-
	<b>167,059,125</b>	<b>126,661,172</b>

The financial assets designated as available for sale are quoted debentures.

The financial assets designated as fair value through profit or loss are investments in quoted equity securities.

Held to maturity investments under current investments includes fixed deposits and debentures with short term maturities.

The Company's exposure to credit and interest rate risk related to other investments is disclosed in Note 27.

## As at 31st December

## 16.2.1 Financial assets designated at fair value through profit or loss

Quoted	2014			2013		
	No. of Shares	Cost / Valuation	Market value / fair value	No. of Shares	Cost / Valuation	Market value / fair value
City Housing and Real Estate Co. PLC	-	-	-	250	2,421	2,825
Colombo Land & Development Company PLC	-	-	-	1,250	241	49,000
Blue Diamonds Jewellery World Wide PLC	-	-	-	78,600	176,850	275,100
Commercial Leasing and Finance PLC	2,000,000	10,000,000	9,200,000	2,000,000	10,000,000	7,600,000
	2,000,000	10,000,000	9,200,000	2,080,100	10,179,512	7,926,925

## 16.2.2 Held to maturity investments (current)

Unquoted debentures	2014	2013
<b>Unquoted debentures</b>		
Nation Lanka Finance PLC (1,000 Debentures of Rs: 100/- each)	100,000	100,000
Ceylinco Fashion Trends	100,000	100,000
<b>Fixed deposits</b>		
The Standard Credit Lanka Ltd (Formerly known as Ceylinco Investment & Reality Ltd)	5,942,601	5,942,601
Seylan Bank PLC	-	118,634,247
	<b>6,142,601</b>	<b>124,776,848</b>
Provision for impairment	(6,042,601)	(6,042,601)
	100,000	118,734,247

The impairment provision for the above was done due to the uncertainty of the realisability of the assets. The provision includes Fixed Deposit investment in Standard Credit Lanka Limited. (Formerly known as Ceylinco Investment & Reality Ltd) and Debenture investments in Ceylinco Fashion Trend Ltd.

## 16.2.3 Available-for-sale financial assets

Quoted debentures	2014			2013		
	No. of Debentures	Cost	Market value / fair value	No. of Debentures	Cost	Market value / fair value
DFCC Bank PLC	573,300	58,718,192	57,561,865	-	-	-
Seylan Bank PLC	1,000,000	100,197,260	100,197,260	-	-	-
		<b>158,915,452</b>	<b>157,759,125</b>		-	-

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	2014	2013
<b>17. Inventories</b>		
Maintenance material	4,365,945	3,884,646
	<b>4,365,945</b>	<b>3,884,646</b>
<b>18. Trade &amp; other receivables</b>		
Trade receivables	53,745,781	59,276,993
Other receivables	65,280,772	69,674,892
Value added tax	184,253	4,641,578
Trade and other receivables from related companies	17,583,669	18,859,784
Project receivable Naiwala	16,863,063	16,863,063
Loans and receivables	153,657,538	169,316,310
Provision for doubtful receivables	(125,777,356)	(132,122,867)
	<b>27,880,182</b>	<b>37,193,443</b>
<p>The property at Naiwala was a joint venture project with Ceylinco Investment &amp; Reality Ltd. The investment of Rs. 16,863,063/- has been fully provided in 2010 due to the uncertainty of the reliability of the investment.</p>		
<b>19. Other assets</b>		
Deposits	2,591,022	2,591,022
Prepayments	1,810,568	1,451,459
Advances	14,531,435	21,085,360
Prepaid staff expenses	282,362	597,818
Planned assets (Note 19.1)	7,632,572	7,293,542
	<b>26,847,959</b>	<b>33,019,201</b>
Provision for doubtful receivables	(13,761,260)	(13,761,260)
	<b>13,086,699</b>	<b>19,257,941</b>
<b>19.1 Plan assets</b>		
<b>The amount recognized in the statement of financial position</b>		
Present value of defined benefit obligations - ( Note 19.1.b )	(5,087,013)	(4,280,463)
Fair value of plan assets - ( Note 19.1.c )	12,719,585	11,574,005
<b>Provision for defined benefit obligations (Note 19)</b>	<b>7,632,572</b>	<b>7,293,542</b>
<b>19.1.a Plan assets consist the following</b>		
Repo and fixed deposits	12,674,360	11,516,280
Cash	45,225	57,725
<b>Provision for defined benefit obligations</b>	<b>12,719,585</b>	<b>11,574,005</b>

## As at 31 December

	2014	2013
<b>19.1.b Movement in the present value of defined benefit obligations</b>		
Liability for defined benefit obligations as at 1 January	4,280,463	7,457,469
Current service cost	421,154	374,225
Interest cost	428,046	745,747
Actuarial losses / (gains)	132,965	553,486
Past service cost - non vested benefits	-	(89,135)
Past service cost - vested benefits	-	(4,191,329)
Gratuity payable (including benefits paid by the plan)	(175,615)	(570,000)
<b>Liability for defined benefit obligations as at 31st December</b>	<b>5,087,013</b>	<b>4,280,463</b>
<b>19.1.c Movement in plan assets</b>		
Fair value of plan assets as at 1 January	11,574,005	11,057,449
Expected return	1,157,401	1,105,745
Benefits paid / payable	(175,615)	(570,000)
Actuarial gains / (loss)	163,794	(19,189)
<b>Fair value of plan assets as at 31 December</b>	<b>12,719,585</b>	<b>11,574,005</b>
<b>19.1.d Amount recognized in the statement of profit or loss</b>		
Current service cost	421,154	374,225
Interest cost	428,046	745,747
Expected return on plan assets	(1,157,401)	(1,105,745)
Past service cost/(gain)- non vested benefits	-	(89,135)
Past service cost/(gain)- vested benefits	-	(4,191,329)
	<b>(308,201)</b>	<b>(4,266,237)</b>
<b>19.1.e Amount recognized in the statement of other comprehensive income</b>		
Actuarial loss / (gain) immediately recognised	(30,829)	572,675
	<b>(30,829)</b>	<b>572,675</b>
<b>19.1.f Actuarial assumptions</b>		
Normal retirement age	55 years	55 years
Rate of discount	9.25%	10.00%
Expected return on plan asset as at 1st January	10.00%	10.00%
Salary increase	Long term salary escalation rate of 5%. Next increment due on 01st January 2015	Long term salary escalation rate of 5%. Next increment due on 01st January 2014

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**As at 31 December****19.1.g Sensitivity of assumptions employed in actuarial valuation**

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the statement of profit or loss and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		2014		2013	
Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment	Sensitivity Effect on Income Statement Increase/ (Reduction) in results for the year (Rs' Mn)	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability (Rs' Mn)	Sensitivity Effect on Income Statement Increase/ (Reduction) in results for the year (Rs' Mn)	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability (Rs' Mn)
1%	**	(0.344)	(0.344)	(0.297)	(0.297)
(1%)	**	0.384	0.384	0.333	0.333
*	1%	0.419	0.419	0.366	0.366
*	(1%)	(0.379)	(0.379)	(0.330)	(0.330)

**\* Discount Rate fixed at**

2014	9.25%
2013	10.00%

**\*\* Salary increment rates for**

2014	5.0%
2013	5.0%

**20. Provision for doubtful receivables**

	2014	2013
Provision for trade and other receivables	125,777,356	132,122,867
Provision for other assets	13,761,260	13,761,260
	<b>139,538,616</b>	<b>145,884,127</b>
<b>Provision movement for the year</b>		
Balance as at 1st January	145,884,127	129,785,628
Over provision reversal	(679,082)	(1,632)
Provision during the year	-	16,100,131
Amounts written off during the year as uncollectible	(5,666,429)	-
<b>Balance as at 31st December</b>	<b>139,538,616</b>	<b>145,884,127</b>

<b>As at 31 December</b>	<b>2014</b>	<b>2013</b>	
<b>21. Income tax receivables</b>			
As at the beginning of the year	991,851	1,257,701	
Income tax for the period	(2,601,763)	(4,708,758)	
Over provision reversal	6,067	2,596,675	
Less: Tax paid	-	-	
Notional tax	706,139	128,973	
With holding taxes	1,412,500	1,717,260	
<b>As at the end of the year</b>	<b>514,794</b>	<b>991,851</b>	
<b>22. Cash and cash equivalents</b>			
<b>Favourable cash &amp; cash equivalents</b>			
Cash and bank balances	10,702,540	5,944,803	
REPO investments	9,844,711	10,000,000	
<b>Total cash &amp; cash equivalents for the purpose of cash flow statement</b>	<b>20,547,251</b>	<b>15,944,803</b>	
<b>23. Stated capital</b>	<b>Number</b>	<b>2014</b>	<b>2013</b>
<b>Issued and fully paid ordinary shares</b>			
On issue as at 1 January	147,964,860	1,644,391,650	1,644,391,650
<b>On issue as at 31 December</b>	<b>147,964,860</b>	<b>1,644,391,650</b>	<b>1,644,391,650</b>
<p>The holders of ordinary shares are entitled to one vote per individual present at meetings of the share holders and one vote per share in case of a poll and are also entitled to receive dividends as declared from time to time.</p>			
<b>Dividends</b>			
The following dividends were declared and paid by the Company; Rs: 0.30 per qualifying ordinary share (2013: Rs:0.25 )	44,389,458	36,991,215	
	<b>44,389,458</b>	<b>36,991,215</b>	
<b>24. Reserves</b>			
Capital reserve (24.1)	525,493,650	525,493,650	
Revaluation reserve (24.2)	405,281	405,681	
Available for sale reserve (24.3)	(1,156,327)	-	
	<b>524,742,604</b>	<b>525,899,331</b>	
<b>24.1 Capital reserve*</b>			
Balance as at the beginning of the year	525,493,650	525,493,650	
<b>Balance as at the end of the year</b>	<b>525,493,650</b>	<b>525,493,650</b>	

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<b>As at 31 December</b>	<b>2014</b>	<b>2013</b>
<b>24.2 Revaluation reserve**</b>		
Balance as at the beginning of the year	405,681	434,246
Transfer during the year	(400)	(28,565)
<b>Balance as at the end of the year</b>	<b>405,281</b>	<b>405,681</b>
<b>24.3 Available for sale reserve***</b>		
Balance as at the beginning of the year	-	-
Transfer during the year	(1,156,327)	-
<b>Balance as at the end of the year</b>	<b>(1,156,327)</b>	<b>-</b>

\* Capital Redemption Reserve Fund was created for the redemption of preference shares amounting Rs: 540 Mn in 2004. During the year 2005, Rs: 14.51 Mn was utilized for the issue of Bonus share. The balance outstanding of Rs: 525.49 Mn was transferred to the Reserve Fund in 2011 and carried in our Financial Statements.

\*\* Revaluation reserve represents the surplus related to the revaluation of property plant & equipment as explained in Note 3.8.

\*\*\* This has been created in 2014 to account the fair value changes on account of Available for sale securities.

**25. Deferred tax liability****Deferred tax assets, liabilities and income tax relates to the following**

	Statement of financial position		Statement of Profit or loss		Statement of other comprehensive income	
	2014	2013	2014	2013	2014	2013
<b>Deferred tax liability</b>						
Property plant & equipment	3,701,240	1,929,230				
Investment property	2,419,232,650	2,339,501,773				
Total taxable temporary difference	2,422,933,890	2,341,431,003				
	678,421,489	655,600,681	22,820,964	(104,358,250)	(156)	(11,109)
<b>Deferred tax assets</b>						
Effect from carried forward tax losses	(801,566,485)	(807,069,747)				
<b>Total taxable temporary difference</b>	(801,566,485)	(807,069,747)				
	(224,438,616)	(225,979,529)	1,540,913	2,606,347	-	-
Deferred tax (income)/expense			24,361,877	(101,751,903)	(156)	(11,109)
Net deferred tax liability	<b>453,982,873</b>	<b>429,621,152</b>				

**26. Trade & other liabilities**

Trade payables	9,863,631	11,307,142
Accrued expenses	13,555,197	20,523,607
Rent in advance and security deposits	16,190,537	25,697,228
Payables to related companies	30,000,000	15,000,000
Other payables	74,871,836	73,075,786
	<b>144,481,201</b>	<b>145,603,763</b>

As at 31 December

**27. Financial instruments****Credit risk****Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

	Note	Carrying amount	
		2014	2013
Available-for-sale financial assets	16.1, 16.2	157,759,125	-
Held-to-maturity investments	16.1, 16.2	138,017,636	254,677,740
Financial assets designated at fair value through profit or loss	16.2	9,200,000	7,926,925
Loans and receivables	18	27,880,182	37,193,443
Cash and cash equivalents	22	20,547,251	15,944,803
		<b>353,404,194</b>	<b>315,742,911</b>

The maximum exposure to credit risk for trade receivables at the reporting date by type of counterparty was:

	Carrying amount	
	2014	2013
Corporate Customers	48,490,348	53,617,125
Residential Customers	5,255,433	5,659,867
	<b>53,745,781</b>	<b>59,276,992</b>

**Impairment losses**

The aging of loans and receivables at the reporting date was:

	2014		2013	
	Gross	Impairment	Gross	Impairment
Not past Due	4,502,219	-	4,618,540	-
Past due 0-90 days	21,102,870	-	26,495,242	-
Past due 91-365 days	54,196	-	665,304	-
More than one year	127,998,253	125,777,356	137,537,224	132,122,867
	<b>153,657,538</b>	<b>125,777,356</b>	<b>169,316,310</b>	<b>132,122,867</b>

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

	2014	2013
Balance as at 1 January	132,122,867	116,109,368
Impairment loss recognised	-	16,015,131
Impairment reversed / written off	(6,345,511)	(1,632)
Balance as at 31 December	<b>125,777,356</b>	<b>132,122,867</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

Amounts in Sri Lankan Rupees

**As at 31 December**

The impairment loss as at 31 December 2014 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances. The Company believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on their historic payment behaviour.

Based on historic default rates, the Company believes

that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days, relates to customers that have a good payment record with the Company.

The movement in the allowance for impairment in respect of held-to-maturity investments and available for sale assets during the year was as follows:

	2014	2013
Balance as at 1 January	62,371,601	62,371,601
Impairment loss recognised	-	-
Impairment reversed / written off	-	-
<b>Balance as at 31 December</b>	<b>62,371,601</b>	<b>62,371,601</b>

The allowance accounts in respect of loans and receivables, held-to-maturity investments and available for sale assets are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

**Interest rate risk**

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount	
	2014	2013
<b>Fixed rate instruments</b>		
Financial assets	301,819,362	260,720,341
Financial liabilities	-	-
	301,819,362	260,720,341
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	-	-
	-	-

**Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and therefore a change in interest rates at the reporting date would not affect profit or loss.

**As at 31 December****Fair values****Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Notes	31st December 2014		31st December 2013	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets measured at fair value</b>					
Financial assets designated at fair value through profit or loss	16.2	9,200,000	9,200,000	7,926,925	7,926,925
Available-for-sale financial assets	16.2	157,759,125	157,759,125	-	-
Investment property	14	4,505,250,000	4,505,250,000	4,457,202,500	4,457,202,500
		<b>4,672,209,125</b>	<b>4,672,209,125</b>	<b>4,465,129,425</b>	<b>4,465,129,425</b>
<b>Assets not measured at fair value</b>					
Held to maturity investments	16.2	138,017,636	143,202,842	254,677,740	259,987,649
Loans and receivables	18	27,880,182	27,880,182	37,193,443	37,193,443
Cash and cash equivalents	22	20,547,251	20,547,251	15,944,803	15,944,803
		<b>186,445,069</b>	<b>191,630,275</b>	<b>307,815,986</b>	<b>313,125,895</b>
<b>Liabilities not measured at fair value</b>					
Trade and other payables	26	144,481,201	144,481,201	145,603,763	145,603,763
		<b>144,481,201</b>	<b>144,481,201</b>	<b>145,603,763</b>	<b>145,603,763</b>

**Given below is the basis adopted by the Company in order to establish the fair values of the financial instruments which are shown above.**

**Financial assets designated at fair value through profit or loss**

Financial assets designated at fair value through profit or loss are comprise quoted equity shares. The Company used market comparison technique to value those shares and the valuation model is based on market multiples derived from quoted prices of companies.

**Available for sale financial assets**

This includes investment made in unquoted shares and quoted debentures amounting Rs: 56,329,000/- and Rs: 158,915,453/-. Unquoted shares were fully impaired and Quoted debentures were valued using last traded prices of respective debentures.

**Held to maturity investments**

Held to maturity investments includes quoted debentures, fixed deposits and unquoted debentures amounting to Rs. 137,917,637/-, Rs. 5,942,601/- and Rs. 200,000/- respectively. Out of that quoted debentures were valued using last traded price of respective debentures.

**Loans and receivables**

Loans and receivables includes trade and other receivables of the Company occur in day today transactions. The Company provided 82% of outstanding balance as at 31st December 2014 as doubtful and remaining balance stated at carrying value which realise with in next financial year.

**Cash and cash equivalents**

The carrying amounts of cash and cash equivalents, balances with banks and placements with banks approximate their fair value as those are short-term in nature. These balances have a contractual remaining maturity of less than three months from the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)**

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**Trade and other payables**

The carrying amount of trade and other payables includes payable to creditors of the Company in normal cause of business transactions. Carrying amount is their approximate fair value as those are short-term in nature. These balances have a contractual remaining payment terms of less than one year from the reporting date.

**Fair value Hierarchy**

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level of the fair value hierarchy.

<b>2014</b>	<b>Note</b>	<b>Level 1</b>	<b>level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets designated at fair value through profit or loss	16.2	9,200,000	-	-	9,200,000
Available-for-sale financial assets	16.2	157,759,125	-	-	157,759,125
Investment property	14	-	-	4,505,250,000	4,505,250,000
<b>2013</b>					
Financial assets designated at fair value through profit or loss	16.2	7,926,925	-	-	7,926,925
Available-for-sale financial assets	16.2	-	-	-	-
Investment property	14	-	-	4,457,202,500	4,457,202,500

For financial assets, there were no transfers between Level 1, Level 2, Level 3 during 2014 and 2013.

The fair value measurement for all investment properties has categorised as a Level 3 fair value based on the inputs to the valuation technique used.

**Valuation technique and significant unobservable inputs**

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

<b>Location</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
Seylan Tower	Depreciated replacement cost method	Market rental based on current market rentals of World Trade Centre (WTC) adjusted to take cognizance of location of central business district and peripherals.	The estimated fair value would increase (decreased) if: expected market rental were higher (lower) the risk adjusted discount rate were lower (higher)
		Rentals of apartment buildings have been taken as comparable residential market for sea view and other side.	
		Full life of the building is taken as 99 years and the remaining life is considered as per lease agreement.	
		Risk adjusted discount rates for residential and commercial segment of the subject property has been used.	
Union Place	Open Market method	This property is considered as an encumbered property for the valuation with a 10% discount for free and unencumbered possession of the property.	The estimated fair value would increase (decreased) if: expected market rental were higher (lower)
Moratuwa	Open market method	Being in the close proximity to Moratuwa, enjoying easy accessibility to Colombo City. Similar property values were used.	The estimated fair value would increase (decreased) if: expected market rental were higher (lower)
Katharagama	Cost approach	The property is situated in a residential area and immediate vicinity of the property consists of scattered Guest houses and Hotels. Similar values were used.	

As at 31st December

## 28. Related party transactions

### Parent and the ultimate controlling party

The Company is a subsidiary of Seylan Bank PLC, which owns 68.28% of controlling interest of the Company.

### Transactions with the key management personnel

According to LKAS 24 - Related Party Disclosure, Key Management Personnel are those having authority for planning, directing and controlling the activities of the entity. Accordingly, Seylan Developments PLC considers its Board of Directors, and Key Employees and their immediate family members have been classified as Key Management Personnel of the Company.

Immediate family member is defined as spouse or dependent. Dependent is defined as anyone who depends on the respective Director for more than 50% of his / her financial needs.

Mr. Kapila Ariyaratne is the Chairman of this Company and is also General Manager / Chief Executive Officer of Seylan Bank PLC.

Key management personnel have transacted with the Company during the period as follows:

### a. Key Management Personnel compensation for the period comprised:

	2014	2013
Short term employee benefits	712,600	694,900
Post employment benefits	-	-
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-

Directors receive a fee for participating at Board Meetings and other committee meetings and do not receive any other perquisite or benefit other than what is discussed in Note 9 in the financial statements.

### b. Key management personnel and director transactions

Number of key management personnel and their related parties hold positions in other entities that result them having control or significant influence over financial or operating policies of these entities.

A number of these entities transacted with the Company during the year.

The aggregate value of transactions and outstanding balances related to Related Parties are as follows.

Parties accommodated	Director / Key Management Personnel (Relationship)	Transaction	Transaction value for the year ended 31 December 2014	Balance outstanding as at 31 December 2014
Seylan Bank PLC	* Mr.R. Nadarajah (Executive Director - Resigned w.e.f. 9th May 2014)	* Loans, advances & security deposit	15,000,000	(30,000,000)
	* Mr. K. P. Ariyaratne (General Manager / Chief Executive Officer))	* Charges (OD interest/ Bank Charges etc)	424,176	-
	* Mr. S. Palihawadana (DGM - Treasury, Head of Primary Dealer Unit & Gold Investment Unit))	* Interest income (Fixed Deposits, REPO & Debentures)	20,499,402	6,843,151
	* Mr. R. J. Jayasekara (Chief Financial Officer)	* Investments (Debentures)	100,197,260	156,843,151
		* Administrative services		
		Rent	112,931,095	-
		Management Fee	4,000,000	4,000,000
		Other Income	900,823	51,405
		Expense reimbursement	99,397,581	13,499,904

**NOTES TO THE FINANCIAL STATEMENTS (CONTD.)***Amounts in Sri Lankan Rupees***As at 31st December**

All outstanding balances with these related parties are priced on an arm's length basis other than the rent. The Company provides rent at discount rate to the Seylan Bank PLC being the single tenant of the East tower comprising 17 floors.

**C. Seylan Development Employees' Gratuity Trust Fund**

Following Directors/ Key Employees of the Company are also Trustees of the Seylan Development Employees' Gratuity Trust Fund.

- Mr. S. Palihawadana
- Dr. P M. Gunasekera
- Mr. P. Saravanapavan
- Mr. R. J. Jayasekara

The above trust fund has invested in REPO's at Seylan Bank PLC amounting Rs. 4,860,080/-.

**29. Litigation and claims**

There are no litigations and claims against the Company, other than the followings;

- (a) Income tax for the year of assessment 2008/09 (Rs 8,581,317/- Assessment no: 6416959) determined by the Tax Appeal Commission dated 6th February 2014 to the favour of Seylan Developments PLC. Appeal filed by Inland Revenue Department to the Court of Appeal against the determination given by the Tax Appeal Commission.
- (b) Income tax for the year of assessment 2005/06 (Rs 9,287,489/- Assessment no: 8740923) and 2006/07 (Rs 14,028,233/- Assessment no: 8240889) determined by the Tax Appeal Commission dated 8th April 2014 to the favour of Seylan Developments PLC. Appeal filed by Inland Revenue Department to the Court of Appeal against the determination given by the Tax Appeal Commission.
- (c) Labour department inquiry number IR/10/06/2013 filed by retired employee of Seylan Developments PLC

claiming gratuity at the rate of one month salary for each year of service. The matter is pending at Labour Department.

- (d) A part time employee who worked at Seylan Developments PLC has filed a LT application claiming compensation and non payment of the gratuity. The matter is pending at LT.

**30. Events after the reporting period****Proposed Final Dividend**

The Board of Directors of the company recommended that a final dividend of Rs: 0.50 per share, be paid by way of cash dividend for the financial year ended December 31, 2014 (Rs: 0.30 per share paid for the year ended December 31, 2013), subject to approval by the shareholders at the Annual General Meeting.

No other circumstances have arisen since the Reporting date which would require adjustments to or disclosure in the Financial Statements other than above.

**31. Commitments and contingencies**

Capital expenditure approved by the Board of Directors for which provisions has not been made in these accounts amounted to approximately.

	2014	2013
Approved and contracted for	nil	21,641,164
Approved but not contracted for	nil	134,914

**32. Capital commitments**

There were no material capital commitments outstanding as at the reporting date except for the following.

The following Corporate Guarantees are given for following companies.

Company	Facility amount	Financial institution
Ceylinco Industries (Pvt) Ltd	29,000,000	Peoples Bank
Ceylinco Packaging Co. Ltd	38,000,000	Peoples Bank

### As at 31st December

Company provided Rs: 40.2Mn during the year 2011 for the Corporate Guarantees given to Ceylinco Industries (Pvt) Ltd., and Ceylinco Packaging Co. Ltd. as they were Non Performing as at 31st December 2011. In 2013 further Rs: 12.3 Mn provided for Corporate Guarantee given for Ceylinco Packaging Co. Ltd. As at year end the Company has provided Rs. 38,000,000/- and Rs. 14,500,000/- respectively from Ceylinco Packaging Co. Ltd and Ceylinco Industries (Pvt) Ltd.

### 33. Comparative information

Comparative information has not been restated or reclassified during the year.

### 34. Operating leases

#### 34.1 Leases as lessee

The Company had entered in to a 99 years operating lease with the UDA (Urban Development Authority ) with the view of set up/conduct and operate a business for the construction of a office and apartment complex on the Year of 1992. The Company pays a nominal rent to UDA for occupying the land.

Future minimum lease payments	2014	2013
Less than one year	150	150
More than one year	10,800	10,950
	10,950	11,100

#### 34.2 Leases as lessor

The Company leases out its investment property held under operating leases (see note 14) on less than one year contract. The future minimum lease payments are as follows:

Future minimum lease payments	2014	2013
Less than one year	159,365,911	150,918,013
More than one year	36,164,753	13,932,821

The future minimum lease payments are presented above based on lease agreements which Company has presently entered into with it's respective tenants. Maximum period is two years.

During the year ended 31 December 2014 Rs.167,157,428/- was recognized as rental income in profit or loss (2013 : 168,174,406/-). Repairs and maintenance expenses recorded under premises, equipment, establishment expenses for the year ended 31st December 2014 is Rs: 27,027,725/- (2012: Rs.24,006,071/-)

Direct operating expenses (including repairs and maintenance) arising from investment property that generate rental income during the period is Rs: 85,858,657/- (2013 - Rs: 66,806,893/-).

Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period is Rs: 1,220,513/- (2013 - Rs: 1,117,710/-).

# THE TEAM BEHIND THE SUCCESS



## SHAREHOLDERS' AND DIRECTORS' HOLDING INFORMATION

Range Of Share Holding	No Of Share Holders	Total Number Of Shares	% As At	
			31.12.2014	31.12.2013
1 - 1,000	4,003	1,080,147	0.73%	0.81%
1,001 - 10,000	2,297	7,231,159	4.89%	5.70%
10,001 - 100,000	505	14,148,725	9.56%	10.75%
100,001 - 1,000,000	56	13,604,342	9.19%	12.64%
Over 1,000,000	5	111,900,487	75.63%	70.10%
TOTAL	6,866	147,964,860	100.00%	100.00%

Public Share Holding - 31.70%

No of Share Holders as at 31st December 2013 - 6,866

No of public shareholders - 6,862

### TWENTY MAJOR SHAREHOLDERS

NAME OF SHAREHOLDER	NO OF SHARES 31.12.2014	%	NO OF SHARES 31.12.2013	%
1. Seylan Bank PLC	101,027,265	68.28	77,493,339	52.37
2. Mr Perera Kulappuarachchige Don Dammika	8,546,640	5.78	8,546,640	5.78
3. Mrs Udeshi (DESC) Majula Moraji	1,287,900	0.87	1,287,900	0.87
4. Mr Sithampalam Arunasalam	1,038,682	0.70	769,128	0.52
5. Mr Abishek Sithampalam	835,674	0.56	434,800	0.29
6. Asian Guild Financial Services (Pvt) Ltd	609,121	0.41	609,121	0.41
7. Zagra Investment Consultants (Pvt) Ltd	594,200	0.40	594,200	0.40
8. Mr. Patel Saifuddin Esmail	550,183	0.37	508,675	0.34
9. Mr. Tay Biak Chye	505,948	0.34	505,948	0.34
10. Mr. Pusparaj Nadesapillai	420,000	0.28	-	-
11. Mr. Pakianathan Hugh Vijenathan	410,000	0.28	-	-
12. Asha Financial Services Limited / Mr. C. N. Pakianathan	380,000	0.26	-	-
13. Mercantile Investments and Finance PLC	375,000	0.25	-	-
14. Mr. Ragupathy Arunasalam	352,974	0.24	-	-
15. Mr. Thangarajah Saravanamuthu Subramaniam	343,925	0.23	-	-
16. Mr. Van Oostenbrugge Alexander	321,400	0.22	-	-
17. Mr. Upasena Kankanamge Don Nirosha Thushan Kumara	311,000	0.21	-	-
18. Nation Lanka Capital Ltd / Sadun Priyanath Samaratunge	300,000	0.20	-	-
19. Mr. Gautam Rahul	275,000	0.19	-	-
20. Mr. Fernando Kadupitige Gabriel Gerard	274,991	0.19	-	-

### DIRECTORS' SHAREHOLDINGS

Name Of The Director	No. Of Shares 31.12.2014	No. Of Shares 31.12.2013
Mr. Kapila Ariyaratne	25,000	25,000
Mr S Palihawadana	10,000	10,000
Mr. P Saravanapavan	-	-
Dr. P.M. Gunasekera	-	-
Mr. R. Jayasekera	-	-
Mr R Nadarajah (Resigned w.e.f. 9th May 2014)	N/A	15,000

# TEN YEARS SUMMARY

Amounts in Sri Lankan Rupees

Statement of Profit or Loss	2014*	2013*	2012*
<b>Total Income</b>	<b>185,972,927</b>	<b>181,831,650</b>	<b>163,340,665</b>
Rent Income	167,157,428	168,174,406	156,975,913
Other Income	18,815,499	13,657,244	6,364,752
	185,972,927	181,831,650	163,340,665
Operating Expenses	(107,595,405)	(117,117,975)	(80,651,621)
Changess In Fair Values of Investment Properties	12,998,276	(176,072,079)	9,297,021
Operating Profit	91,375,798	(111,358,404)	91,986,065
Net Finance Income / (Expenses)	35,392,989	31,363,681	16,121,378
Profit / (Loss) Before Tax	126,768,787	(79,994,723)	108,107,443
Tax	(26,957,573)	98,408,415	(67,424,971)
Profit/(Loss) After Tax	99,811,214	18,413,692	40,682,472
<b>Statement of Financial Position</b>	<b>2014*</b>	<b>2013*</b>	<b>2012*</b>
Property , Plant & Equipments	6,248,928	4,752,457	3,276,586
Investment Property	4,505,250,000	4,457,202,500	4,647,399,250
Investment - Security & Projects	137,917,636	139,446,173	-
Current Asset	233,453,996	203,933,856	297,127,459
<b>Total Assets</b>	<b>4,882,870,560</b>	<b>4,805,334,986</b>	<b>4,947,803,295</b>
Current Liabilities	144,481,201	145,603,763	167,169,971
Non Current Liabilities	453,982,873	429,621,152	531,384,164
<b>Total Liabilities</b>	<b>598,464,074</b>	<b>575,224,915</b>	<b>698,554,135</b>
<b>Net Assets</b>	<b>4,284,406,486</b>	<b>4,230,110,071</b>	<b>4,249,249,160</b>
<b>Capital &amp; Reserves</b>			
Stated Capital	1,644,391,650	1,644,391,650	1,644,391,650
Reserves	524,742,604	525,899,331	525,927,896
Retained Earning	2,115,272,232	2,059,819,090	2,078,929,614
<b>Shareholder's Fund</b>	<b>4,284,406,486</b>	<b>4,230,110,071</b>	<b>4,249,249,160</b>
Weighted Average Number of Shares	147,964,860	147,964,860	147,964,860
Earning/(Loss) Per Share	0.67	0.12	0.27
Net Asset Per Share	28.96	28.59	28.72
Dividend Per Share	-	0.30	0.25
Market Value Per Share Year End	14.10	9.00	9.10
Staff Members	30	31	31

\* Figures are based on new Sri Lanka Accounting Standards (SLFRSs)

\*\* Figures are based on previous Sri Lanka Accounting Standards (SLASs)

2011*	2010**	2009 Restated**	2008Restated**	2007**	2006**	2005**
<b>210,913,075</b>	<b>153,993,181</b>	<b>149,000,620</b>	<b>186,770,518</b>	<b>209,413,432</b>	<b>217,968,858</b>	<b>170,745,893</b>
148,451,419	143,156,566	139,751,049	148,881,839	142,445,934	141,283,563	117,962,108
62,461,656	10,836,615	9,249,571	37,888,679	66,967,498	76,685,295	52,783,785
210,913,075	153,993,181	149,000,620	186,770,518	209,413,432	217,968,858	170,745,893
(174,352,003)	(96,975,953)	(213,824,743)	(438,743,215)	(148,164,909)	(124,650,360)	(104,609,859)
-	-	350,567,145	(29,329,592)	203,775,766	-	-
36,561,072	57,017,228	285,743,022	(281,302,289)	265,024,289	93,318,498	66,136,034
(13,525,064)	(84,701,319)	(190,316,068)	(104,103,440)	(26,571,681)	(27,358,473)	(21,382,830)
23,036,008	(27,684,091)	95,426,954	(385,405,729)	238,452,608	65,960,025	44,753,204
(8,525,047)	(55,525)	(662,589)	(7,061,622)	(14,145,386)	(16,757,186)	(4,230,195)
14,510,961	(27,739,616)	94,764,365	(392,467,351)	224,307,222	49,202,839	40,523,009

2011*	2010*	2009 Restated**	2008Restated**	2007**	2006**	2005**
3,227,055	5,494,921	13,932,509	1,402,102,935	1,433,335,254	1,446,381,065	1,461,744,687
4,638,504,146	4,802,584,153	4,591,472,487	1,151,493,932	1,226,544,412	1,226,957,424	1,022,768,646
878,364	2,383,319	253,606,884	498,331,609	605,761,760	457,226,858	405,118,623
161,344,225	62,741,153	119,004,210	463,530,345	453,173,122	173,093,056	230,198,677
<b>4,803,953,790</b>	<b>4,873,203,546</b>	<b>4,978,016,090</b>	<b>3,515,458,821</b>	<b>3,718,814,548</b>	<b>3,303,658,403</b>	<b>3,119,830,633</b>
114,744,501	1,018,810,711	821,301,761	649,458,890	424,589,772	336,519,415	186,136,730
469,836,848	463,772,331	609,804,069	576,065,982	574,832,260	427,456,401	413,621,183
<b>584,581,349</b>	<b>1,482,583,042</b>	<b>1,431,105,830</b>	<b>1,225,524,872</b>	<b>999,422,032</b>	<b>763,975,816</b>	<b>599,757,913</b>
<b>4,219,372,441</b>	<b>3,390,620,504</b>	<b>3,546,910,260</b>	<b>2,289,933,949</b>	<b>2,719,392,516</b>	<b>2,539,682,587</b>	<b>2,520,072,720</b>
1,644,391,650	1,356,078,570	1,356,078,570	1,356,078,570	1,356,078,570	1,356,078,570	1,356,078,570
525,927,896	-	2,073,232,126	926,339,375	926,339,375	926,339,374	1,090,316,291
2,049,052,895	2,034,541,934	117,599,564	7,516,004	436,974,571	257,264,643	73,677,859
<b>4,219,372,441</b>	<b>3,390,620,504</b>	<b>3,546,910,260</b>	<b>2,289,933,949</b>	<b>2,719,392,516</b>	<b>2,539,682,587</b>	<b>2,520,072,720</b>
123,212,163	73,982,430	73,982,430	73,982,430	73,982,430	73,982,430	73,982,430
0.12	(0.37)	1.28	(5.30)	3.03	0.67	0.55
28.52	45.83	47.94	30.95	36.76	34.33	34.06
0.10	-	-	-	-	0.50	0.40
12.30	17.00	9.50	4.50	9.00	8.25	5.75
31	35	45	48	52	52	47

## NOTICE OF MEETING

### SEYLAN DEVELOPMENTS PLC -PQ151

NOTICE IS HEREBY GIVEN THAT THE TWENTY THIRD ANNUAL GENERAL MEETING OF SEYLAN DEVELOPMENT PLC WILL BE HELD ON 31<sup>ST</sup> MARCH 2015 AT 2.30 P.M. AT SASAKAWA HALL, NO. 4, 22<sup>ND</sup> LANE, COLOMBO 03 FOR THE FOLLOWING PURPOSES

#### AGENDA

1. To consider and adopt the Annual Report of the Directors and the Statements of Audited Accounts for the year ended 31<sup>st</sup> December 2014 and to receive the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr P. Saravanapavan who retires in terms of Article 93 (a) of the Company's Article of Association as a Director of the Company.
4. To re-appoint the retiring auditors, M/s KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.
5. To authorize the Directors to determine contributions to charities and other donations for the year 2015/2016.
6. To transact any other business of which due notice has been given.

BY ORDER OF THE BOARD OF DIRECTORS OF  
SEYLAN DEVELOPMENTS PLC  
S S P CORPORATE SERVICES (PRIVATE) LIMITED



SECRETARIES

Date:26<sup>th</sup> January 2015

## FORM OF PROXY

I/We,.....(NIC No.....)  
of.....  
.....being a Member/Members of Seylan Developments PLC hereby appoint  
Mr/Mrs/Ms.....(NIC No.....)  
of.....  
failing him /her,  
Mr. K. P. Ariyaratne of Colombo 08 failing him  
Mr. Somadasa Palihawadana of Kotte failing him  
Mr. Ponniah Saravanapavan of Dehiwela failing him  
Dr. P. Mervyn Gunasekara of Malabe failing him  
Mr. R. J. Jayasekara of Colombo 04

As my / our proxy to represent me / us and vote and speak for me/us on my /our behalf at the Twenty Third Annual General Meeting of the Company to be held on 31<sup>st</sup> March 2015 at 2.30 p.m. at Sasakawa Hall, No.4, 22nd Lane, Colombo 03 and at any adjournment thereof and to vote at every poll which may be taken in consequence thereof.

Please indicate your preference by placing a "X" against the Resolution Number

	FOR	AGAINST
1. To receive and adopt the Report of the Board of Directors and the audited financial statements for the year ended 31st December 2014 and to receive the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first & final dividend of Rs. 0.50 per ordinary share as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr P. Saravanapavan who retires by rotation in terms of Article 93 (a) of the Company's Article of Association.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint the Auditors M/s KPMG, Chartered Accountants until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorize the Directors to determine Contribution to charities and other donations for the year 2105/2016.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand/s this .....day of.....2015

.....  
NIC Number/Reg. No

.....  
(Signature)

### **INSTRUCTIONS FOR THE COMPLETION OF FORM OF PROXY**

1. Please complete the Form of Proxy after filling in legibly your full name, NIC Number and address and by signing in the space provided.
2. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, Seylan Developments PLC, No .90, Seylan Towers, Colombo 03 not less than 48 hours before the time appointed for holding the meeting.
3. Please indicate clearly how your proxy is to vote on the resolution. If no indication is given, the proxy in his discretion may vote as he thinks fit.
4. If the shareholder is a Company or body corporate, a form of corporate Representation executed under its Common Seal in Accordance with its Article of Association or Constitution should be submitted.
5. Where the Form of Proxy is signed under a power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.
6. Any Shareholder/Proxy attending the Annual General Meeting is kindly requested to bring with him/her the national Identity Card or any other form of valid identification, and produce same at the time of registration.







## CORPORATE INFORMATION

### NAME OF THE COMPANY

Seylan Developments PLC

### REGISTERED OFFICE

Seylan Towers,  
No: 90, Galle Road,  
Colombo 3.

### BUSINESS ADDRESS

Level 15,  
Seylan Towers,  
No: 90, Galle Road,  
Colombo 3.  
Phone: 011-2452697-8  
Fax: 011-2423249  
E-mail: seylandplc@sltnet.lk  
Website: www.seylanddevelopments.com

### BOARD OF DIRECTORS

**Mr. Kapila Ariyaratne** - Director *(till 29th May 2014)*

Chairman *(with effect from 30th May 2014)*

**Mr. S. Palihawadana** - Deputy Chairman

**Mr. P. Saravanapavan** - Director

**Dr. P. Mervyn Gunasekera** - Director

**Mr. R. J. Jayasekera** - Director

**Mr. R. Nadarajah** - Chairman *(Resigned with effect from 9th May 2014)*

### SECRETORIES & REGISTRARS

SSP Corporate Services (Pvt) Ltd,  
No. 101, Inner Flower Road,  
Colombo 03.

### LAWYERS

Mr. Rohana Muhandiram  
Attorney-at-Law & Notary Public  
Commissioner for Oaths and Company Secretary  
Seylan Bank PLC, Legal Department  
Appointed w.e.f. 1st January 2014

### EXTERNAL AUDITORS

M/s KPMG - Chartered Accountants

### INTERNAL AUDITORS

M/s Ponnampereuma & Company - Chartered Accountants

### TAX CONSULTANT

M/s Amarasekara & Co.  
Chartered Accountants

### BANKERS

Seylan Bank PLC

### ACCOUNTING YEAR

December 31st

### TAX IDENTIFICATION NUMBER

134003650

### LEGAL STATUS

Incorporated under the Companies Act No 17 of 1982.  
Date of Incorporation – 3rd September 1992.  
A Public Limited Liability Company listed on the Colombo  
Stock Exchange with BOI status.  
The Company was re-registered under the Companies Act  
No.7 of 2007 on 22 May 2008 and the Company Registration  
No. is PQ 151.

### PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The principal activities of the Company were the  
developments of the property located at No.90, Galle  
Road, Colombo 03 & activities relating property  
Management.

### PARENT ENTERPRISE

The Company's parent undertaking is Seylan Bank PLC.



[www.seylanddevelopments.com](http://www.seylanddevelopments.com)



**Level 15, Seylan Towers, No.90, Galle Road, Colombo-03.**  
T. 011 2 452 697 - 8 | F. 011 2 423 249 | e. [seylandplc@sltnet.lk](mailto:seylandplc@sltnet.lk)