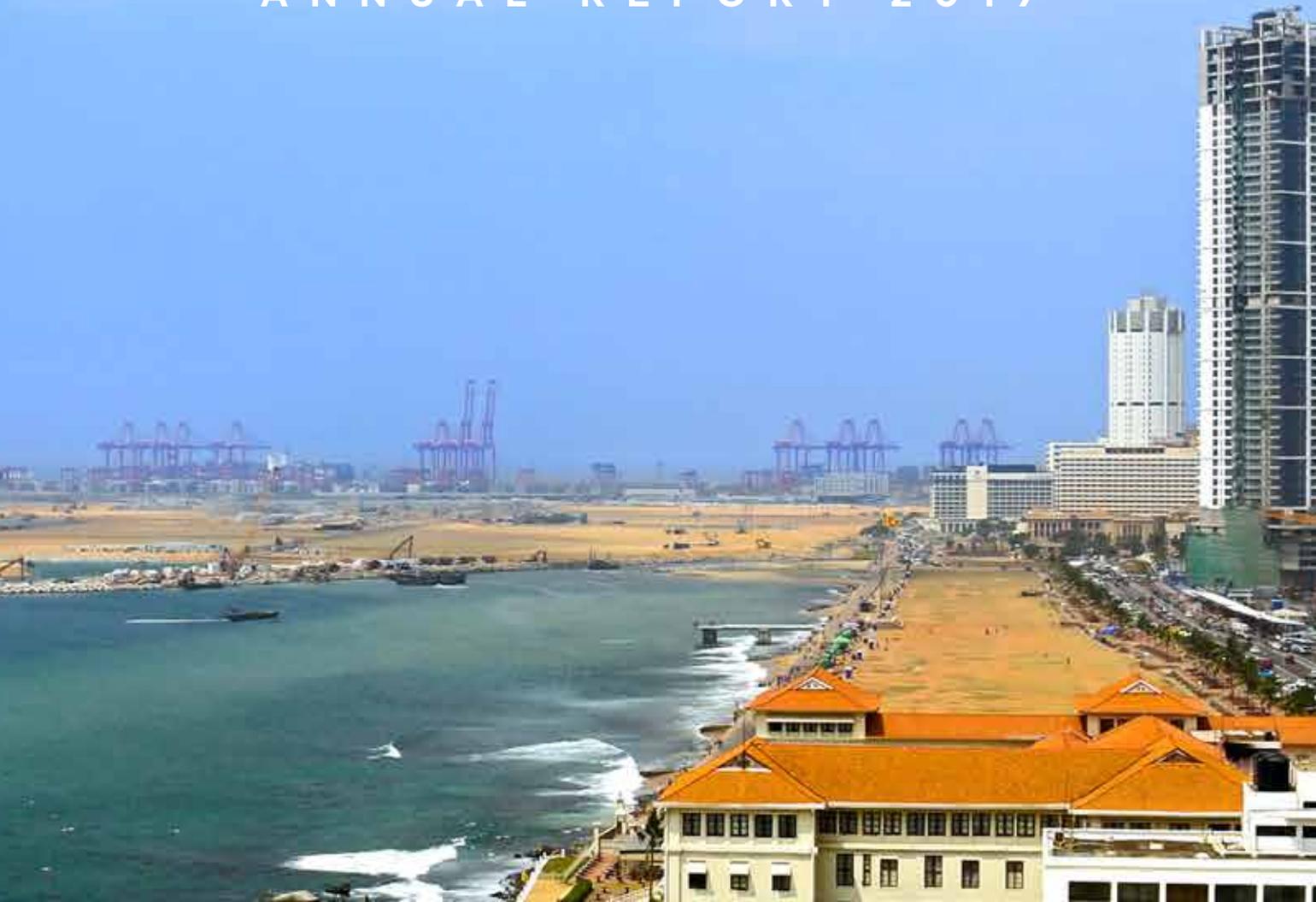




Looking Beyond

ANNUAL REPORT 2017



Looking Beyond

Over the years Seylan Developments PLC has followed a progressive theme in achieving its long term Vision, while focusing to increase its Stakeholders' Value.

Our Success story began in 2011 with the company focusing on “Exclusivity and Elegance” accommodation for our tenants which created a growth trajectory which has continued since then. In the year 2012 the focus was on “Sustainable Growth” and in 2013 our focus was on “Beyond the Limits-Urban Context”. This was followed by the theme “The Next step for the Future” in 2014 and “Future Perspective” in 2015. Thereafter in 2016 the theme was “Resource Management” which was based in the thought process of effective management improving bottom line.

This growth trajectory has paved a path for Seylan Developments PLC to achieve an after tax profit of Rs. 241.26 Mn for the financial year under review. Now with structural changes in progress and under the direction of the Board of Directors the company is “Looking Beyond” to further increase Stakeholders' Value.

“Looking Beyond”, Seylan Developments PLC has drawn up plans to refurbish and improve their existing apartment facilities focusing to improve earnings. Seylan Developments PLC will be exploring the possibilities to maximize rentable area in the East Tower in order to improve earnings. In the meantime company is looking for opportunities to invest in properties in prominent outstation cities to house parent company's branches which will generate rent income and capital appreciation.

In spite of certain constrains in investing in commercial projects, the company is “Looking Beyond” to increase Stakeholders' value.





Seylan Developments PLC won **GOLD...**



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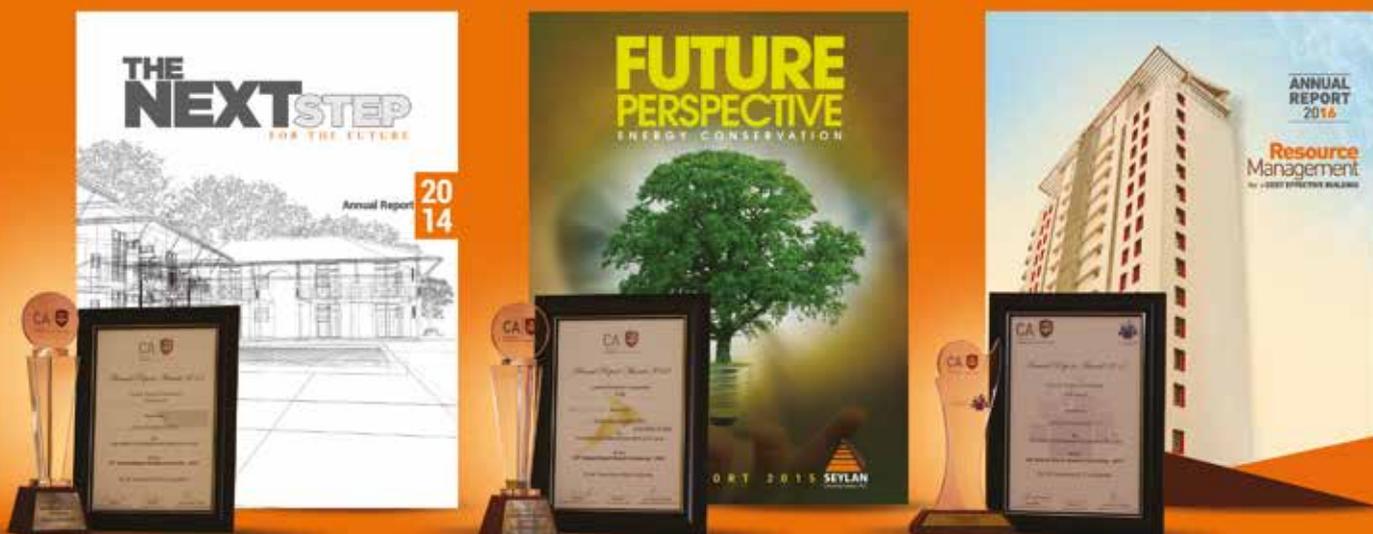
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for the **SIXTH TIME** in a row



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FINANCIAL HIGHLIGHTS

	2017	2016
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Amounts in Sri Lankan Rupees

Results for the year

Rent Income	211,617,984	193,070,430
Net Change in Fair Value of Investment Properties	5,362,377	262,465,500
Net Finance Income	82,088,132	30,688,961
Profit Before Tax	265,800,595	393,905,197
Provision for Taxation	(24,538,989)	(19,323,798)
Profit After Tax	241,261,606	374,581,399
Earnings per share	1.63	2.53
Dividend per share	0.90	0.75

At the year end

Shareholders' Fund	4,821,568,758	4,682,065,965
Total Assets	5,481,939,124	5,326,879,467
Stated Capital	1,644,391,650	1,644,391,650
Net Asset Value	4,821,568,758	4,682,065,965

Financial Ratios

Profit After Tax from Rental Income	114.0%	194.0%
Return on Equity	5.00%	8.00%
Return on Total Assets	4.40%	7.03%
Dividend Payout	55%	30%
Price Earnings Ratio - times	8.34	5.69
Net Assets per share	32.59	31.64
Current ratio - times	6.47	6.42
Debt / Equity ratio	14%	14%
Quick Assets ratio - times	6.45	2.00

Share Prices

Highest during the year	15.50	16.70
Lowest during the year	12.10	10.00
Last Traded Price	13.60	14.40

Revenue

9.6%

PBT
(Excl FV Gain on IP)

98.1%

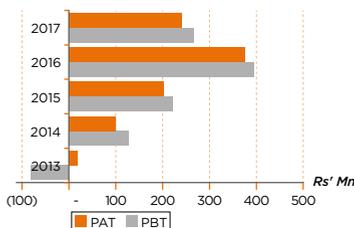
PBT
(Incl FV Gain on IP)

32.5%

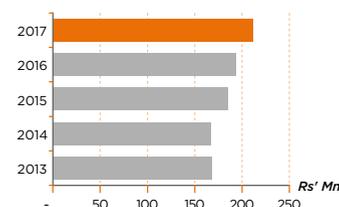
PAT

35.6%

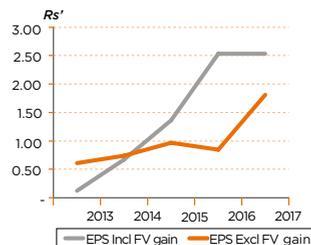
Profitability



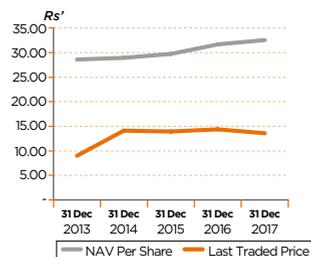
Rental Income



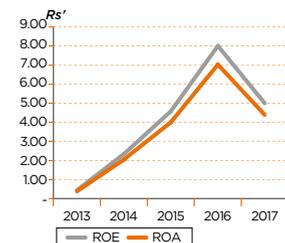
EPS



NAV & Last Traded Price



ROE & ROA



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".

CHAIRMAN'S REVIEW

Dear Valued Shareholders:

It is with great pleasure and pride that I welcome you, our valued Shareholders, on behalf of the Board of Directors of Seylan Developments PLC to the Twenty Sixth Annual General Meeting. I am proud to share with you the Company's Annual Report and the Audited Financial Statements for the financial year ending 31st December 2017.

The operational profit before tax for the financial period 2017 (excluding fair value gain on investment properties) reflected a growth of 98% over the previous year indicating the strong financial performance of the Company during the year under review. The Net Asset Value per share of the company increased from Rs. 31.64 as at end of 2016 to Rs. 32.59 by end of 2017. The Board has recommended a dividend of Rs. 0.90 per share for the financial year 2017 for approval of the shareholders at the Annual General Meeting.

While 2017 was one of mixed fortunes for the property development and management sector, your company performed well with near 100% occupancy of apartments at Seylan Residencies. With the planned developments initiated by the Government we expect an exciting future for the sector.



CHAIRMAN'S REVIEW (Contd.)

Composition of the Board:

There was no change in the composition of the Board Members during 2017, and at the end of the year 2017, the Board consisted of six Non-Executive Directors of whom two were independent. Accordingly the Board Members collectively have wide knowledge and experience in the financial, banking and construction sectors.

Progress on Development Projects:**Kataragama Property:**

The sale had been completed by 31st March 2017 and proceeds accounted and reported to shareholders in the first quarter financial Statement.

Union Place Property:

As a result of the Company being a subsidiary of Seylan Bank PLC and restrictions imposed by the Provisions of Banking Act No.30 of 1988, the Directors decided to sell the property, and the sale was completed in May 2017 and reported in the second quarter financial statements.

Moratuwa Property:

Three out of 34 land blocks remain unsold as they were near the reservation area of the Bolgoda Lake. Approval has been sought from Central Environment Authority (CEA) to enable to affect the sale

of the remaining 3 blocks. Although there was a considerable delay, CEA's approval is expected as early as possible, after which the properties will be advertised for sale.

Ja-Ela Property:

Written submissions were made and the Arbitration process was completed in August 2017. Award is awaited.

Purchase of Four Floors of Seylan Towers from Parent Company:

The Board of Directors decided to invest proceeds from the sale of Union Place Property to buy back the four floors in the East Tower which are owned by Seylan Bank PLC. Having obtained separate valuations, Directors of both Seylan Bank PLC and Seylan Developments PLC have agreed on the purchase price, of Rs: 934 Mn. This transaction has received approval from Urban Development Authority and is currently in the process of completion.

Lease Agreement between Seylan Bank PLC & Seylan Developments PLC:

Agreement has been reached with Seylan Bank PLC to extend the Lease Agreement at an increased rental for each of the years 2018 and 2019. This will enable to improve rental income for the ensuing years.

Energy Saving Project:

The Energy Efficiency Improvement Project was completed towards tail end of 2015. The energy savings is ascertained from the Measure and Verification report generated monthly and it is pertinent to mention that the Company together with the Parent Company was able to recoup the initial investment by end of 2017. The Energy Conservation project, had also contributed to the National Grid by the energy savings achieved.

Financial Performance:

I am pleased to announce that we achieved a profit after tax of Rs: 241.26 Mn in 2017. The total income increased by 24% over the previous financial year. The rental income reflected an increase of 10% over the previous year despite the high competition in the rental market.

Positive financial performance and increase of Net Asset Value per share reflect the enhancing of shareholder value.

Future Plans:

Being a subsidiary of Seylan Bank PLC, our company faces some constraints in terms of the Banking Act No.30 of 1988 and the subsequent Amendment Act No 19 of 1995 in the development of properties outside the scope of banking activities. However we have drawn up strategic plans for short

and long term for improving revenue and reduction in cost. This includes plans to undertake maintenance of buildings owned by Seylan Bank.

Plans are being drawn up to perform minor structural changes in the East Tower to increase rentable area to parent company which will increase the Company's rent revenue.

Corporate Social Responsibility:

In terms of uplifting the education standards in under privilege schools, the company undertook to upgrade the Library facilities of Piliyandala, Dharmaraja Maha Vidyalaya, in the Western Province incurring Rs.450,000/=, providing the library with Furniture, Books and Computers with internet facilities. The facilities provided will enable the students of the school be exposed to knowledge and learning of a greater scale.

Achievement on Financial Reporting & Compliance:

The Code of Best Practice on Corporate Governance Rules emphasizes on transparency, accountability and disclosure of the Company's business practices to its owners. In this context, I am proud and happy to mention to the Shareholders that the company won the Gold award for the Sixth consecutive time at the Annual Report Award competition organized by The Institute of Chartered Accountants of Sri Lanka for the year 2016 under the category "Land & Property".

Acknowledgement

Before winding up my review, I would like to express my sincere thanks and appreciation to my fellow Board members for their support and corporation given to perform

my duties as Chairman. 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 discharging their responsibilities.

I wish to thank the auditors M/s KPMG- Chartered Accountants, the internal auditors M/s Ponnampereuma & Co and Creative Agency M/s C+Designs, for their support extended in discharging their assignment. I also wish to sincerely thank the tenants for their continuous business relationship and expect their support during 2018.

Last but not the least to our valued shareholders who deserve special appreciation for their continuous confidence placed in all our activities and we the Board wish to assure them that we are committed to increase the value of their holdings.



Kapila Ariyaratne

Chairman

16th February 2018

GENERAL MANAGER'S REVIEW

Dear Valued Shareholders:

It is my pride and pleasure to report to you Valued Shareholders, the progress of your company Seylan Developments PLC (SDP), for the financial year 2017, although I was associated with SDP since 17th July 2017. SDP achieved a Profit before Tax (excluding fair value adjustment of investment properties) of Rs: 260.44 Mn for the year 2017, which was the best since the change in Board of Management in 2010.



GENERAL MANAGER'S REVIEW (Contd.)

Key Achievement:

Exceptional financial performance was achieved during 2017; the profit before tax (excluding changes in fair value of investments properties) grew by 98.1% over the previous year. The company was able to achieve 100% occupancy levels as at the end of 2017 at our West Tower, showing an increase of 20.9% from renting of apartments over the previous year. The Energy Efficiency Project which was implemented by end of 2015, the Company together with the Parent Company was able to achieve its anticipated capital recovery by end of 2017, much ahead of schedule.

Seylan Developments PLC as a property management company had high concern over Operational Risk Management. The emergency fire escape stairway path was refurbished including direction signs and fire evacuation drills were conducted.

Operating Environment:

It is anticipated that the Megapolis Development Project as well as Master Plans for modern "Financial City", which is expected to open up tremendous investment opportunities for both domestic and foreign investors. This will lead to considerable demand for long term property rental and accommodation facilities, in close proximity to financial city.

Development projects:

The sale of Kataragama property was completed by 31st March 2017 and details reported in the financial statement for the 1st quarter. Although the company had plans to develop the Union Place property in partnership with a foreign investor, it had to be abandoned due to restrictions imposed by the Banking Act No. 30 of 1988. The Board of Directors decided to dispose the property and the sale was completed in May 2017 and reported in the financial statement for the 2nd quarter.

The three blocks of the Moratuwa property could be sold at a lower price in the present status, however the Company has sought approval from the Central Environmental Authority with a view to sell at market price.

With the view to invest the sale proceeds of Union Place and Kataragama properties, the Board of Directors decided to buy back the four floors of the East Tower at an agreed upon present common valuation of Rs. 934.0 Mn. This transaction is expected to be completed before 31st March 2018.

Activities in 2017:

During the year the main focus was modernizing, developing and improving the infrastructure facilities to our tenants. We modernized and refurbished the floor area earlier

occupied by Raja Bojun, for the occupation of International Division of the Parent Company. Certain changes were made on the 15th floor for the use by the Strategic Planning & Project Finance Divisions of the Parent Company.

Three Apartments were refurbished and colour washed for occupation by new tenants.

Existing two Cooling Towers although in working order, needs frequent maintenance. Since the Energy Efficient System is in place, steps are taken to replace same.

In spite of 24 hour security to Seylan Towers, during the year electronic security access system was installed in the West Tower to avoid access by unauthorized persons to the apartments. Access cards was issued to Tenants and persons authorized by them.

Creating Value for SDP Employees:

Employee value creation is our key strategy to retain maintenance staff and it is pertinent to mention that majority of the staff has more than 15 years of service record. The Remuneration Policy which was approved in 2014 was revised during the year. The employees were provided opportunities for training from external resources and cross departmental exposure to enhance their skills.

GENERAL MANAGER'S REVIEW (Contd.)

Corporate Social Responsibility:

Education is the most important need in a person's life to achieve a respectable status in the society. Enhancing educational facilities to the needy is a noble activity. Following the footsteps of the Parent Company, the company undertook to upgrade the Library facilities of Dharmaraja Maha Vidyalaya - Piliyandala at a cost of Rs. 450,000/=, providing Furniture, Books, Smart TV and a Notebook Computer with internet facility. The facilities provided will enable the students of the school be exposed to knowledge and learning of a greater scale.

Beyond 2017:

After achieving Best performance in 2017, we plan to enhance performance beyond in spite of constraints by the Banking Act. The

strategy for 2018 and beyond will be by improving revenue through rent generating process and efficient cost rationalization. The planned purchase of four floors of East Tower will enhance rent income and capital appreciation. With the expansion plans of parent company, SDP take steps to optimize rentable area within space available. SDP & Seylan Bank PLC had reached agreement to revise the lease agreement with increased rental for years 2018 & 2019 separately.

Anticipating increased demand for rental and accommodation facilities on completion of Financial City Project, we have plans to modernize the apartments to attract tenants with higher rentals.

We also have plans to utilize our experienced multitask maintenance staff and reward them to undertake facility management to our parent company

Acknowledgements:

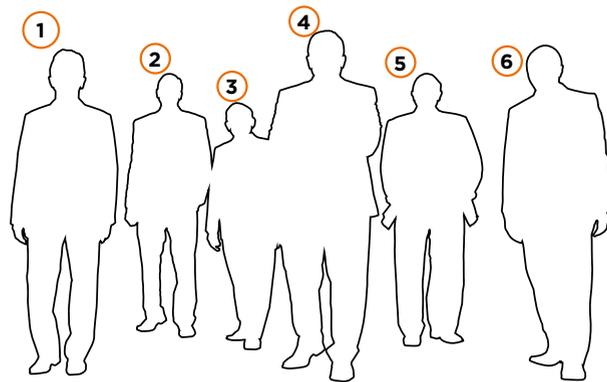
I would like to take this opportunity to extend my sincere thanks and gratitude to the Chairman and Board of Directors for their confidence placed on me and offering me to head of SDP as the General Manager. I also wish to thank them for their support extended to me in carrying my duties in the short period. I wish to record my appreciation to the Administration and Maintenance staff for their co-operation extended to me in discharging my duties. I also wish to thank all tenants for their support extended to me. Finally to our Valued Shareholders, I wish to assure them that I will always dedicate and discharge my duties focusing on enhancing your share value.


Palitha Saputhanthri*General Manager**16th February 2018.*





BOARD OF DIRECTORS



1. **Mr. Piyal D. Hennayake** - Director
2. **Mr. Ramesh J. Jayasekara** - Director
3. **Mr. P. Saravanapavan** - Director
4. **Mr. Kapila Ariyaratne** - Chairman
5. **Mr. L. T. Kiringoda** - Director
6. **Mr. S. Palihawadana** - Deputy Chairman

DIRECTORS' PROFILE

MR. KAPILA ARIYARATNE - *Non Executive Director / Chairman,*

B.Sc (Hons)

- Appointed as Chairman of Seylan Developments PLC on 30th May 2014.
 - Mr. Kapila Prasanna Ariyaratne is the Director / CEO of Seylan Bank PLC. He commenced his banking career in 1984 and counts over 30 years of banking experience. He has held senior 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 and a member of the Board of Governance of the Institute of Bankers of Sri Lanka.
 - Mr. Kapila Ariyaratne holds a first class honours degree from the University of Colombo
-

MR. S. PALIHAWADANA - *Non Executive Director / Deputy Chairman,*

BSc (Colombo), AIB (Part 1)

- Appointed as a Director of Seylan Developments PLC on 11th September 2009 and as the Deputy Chairman on 17th February 2012.
 - Mr. Palihawadana joined Seylan Bank PLC in 1999 as Chief Manager/Chief Dealer. He was the overall in-charge of Treasury Dealing activities of Seylan Bank PLC. He held positions of Assistant General Manager/Chief Dealer and Deputy General Manager/Chief Dealer. He retired from the Bank on 31st December 2017 and served as the Deputy General Manager - Treasury, Head of Primary Dealer Unit and Gold Investment Unit at his retirement. He counts over 44 years' experience in the banking industry out of which 34 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 (BSc) degree from the University of Colombo
-

DIRECTORS' PROFILE (Contd.)

MR. P. SARAVANAPAVAN - *Independent Director,*

B.Sc. FCA.

Appointed, as an Independent Non-Executive Director, of Seylan Developments PLC, from 3rd February 2011.

Mr. Saravanapavan after successfully completing Bachelor of Science Degree from University of Ceylon was selected as a scholar by the Institute of Chartered Accountants of Sri Lanka for their professional course. After completing the 3 years period of article ship, he joined Lewis Brown & Co. (Pvt) Limited and seconded for services as Accountant at LB Finance for almost five years. Thereafter he joined at Bank of Ceylon in various capacities as Internal Audit Officer, Accounting Officer and finally as Financial Accountant for a period of seventeen years before accepting an overseas assignment. He served as Manager Administration & Finance at First Cayman Bank, at Cayman Islands, 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 brings in more than 40 years' experience in the banking and financial sectors.

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.

He has participated and successfully completed various local and overseas seminars and training programmes. Among them were "Asset & Liability Management" course conducted in Malaysia by the 'The Euro-money Institute of Finance', "Financial Information System for Management of Development Financial Institutions" conducted by 'The Asian and Pacific Regional Agricultural Credit Association (APRACA) and "Risk Management in Banks", a programme conducted by 'Post Graduate Institute of Management of the University of Sri Jayewardenepura Sri Lanka'.

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.

MR. RAMESH JAYASEKARA - *Non Executive Director,*

B.Com (Hons), ACA, ACIM, ACMA

- Appointed as a Non-Executive Director of Seylan Developments PLC on 30th November 2012.
- Ramesh Jayasekara is currently the Chief Risk Officer of Seylan Bank Plc. Ramesh moved to the seat of Chief Risk Officer on 1st July 2016 after a tenor of 5 years as the Bank's Chief Financial Officer (2011-2016). Prior to joining Seylan Bank plc., Ramesh 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 19 years

DIRECTORS' PROFILE (Contd.)

of Banking, Financial Management, Risk & 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 United Kingdom and an Associate Member of the Certified Management Accountants of Sri Lanka

MR. PIYAL D HENNAYAKE - *Non Executive Director,*

BSc (Eng), PG Diploma(Const. Mgt), MBA (AIT), CEng, MIE (SL), GSLID

- Appointed as an Independent Non-Executive Director of Seylan Developments PLC on 11th January 2016.
- He joined Seylan Bank PLC as the Deputy General Manger – Project Finance to set up the Project Finance Division in the bank from 1 April 2016 and continues to serve the Board of Seylan Developments PLC as a Non-Executive Director. In addition he oversees Premises Maintenance Division of the bank from 1st of January 2017.
- After a distinguished career spanning 21 years at Hatton National Bank PLC, Mr Piyal Hennayake retired on 31 December 2015. He was the Deputy General Manager – Services of Hatton National Bank PLC and the CEO/Director of its real estate subsidiary Sithma Development Pvt Limited.
- He headed HNB Project Finance Division since 1995 and developed it to be a major player in the banking industry. As the Assistant General Manager, Zone III he led one third of the Branch Network in 2004 & 2005. He was the Portfolio Manager of Lanka Ventures Limited from 1992 to 1995 until he joined HNB. After passing out from the University of Moratuwa he joined CECB as a Civil Engineer in February 1983 and worked in Hydropower projects such as Randenigala, Canyon and other infrastructure projects. He is an accomplished professional with 35 years of professional experience.
- Starting as a Civil Engineering graduate of the University of Moratuwa, he later obtained Post Graduate Diploma in Construction Management from the same University. He received MBA in Management of Technology from the Asian Institute of Technology, Bangkok, Thailand in 1992.
- A Chartered Engineer and a Corporate Member of the Institution of Engineers Sri Lanka he served as the President of the Association of Professional Bankers Sri Lanka in 2014/2015. He is also a Graduate Member of Sri Lanka Institute of Directors. He was a Vice President of the Organization of Professional Associations of Sri Lanka (OPA) in 2015/16.
- He served as a visiting lecturer in the Universities of Peradeniya & Moratuwa and currently a visiting lecturer in Management of Technology for MBA in MOT in University of Moratuwa.

DIRECTORS' PROFILE (Contd.)

MR. L. T. KIRINGODA - *Independent Director,*

Chartered Architect, Town Planner and Chartered Environmentalist

BSc (Built Env), MSc (Arch), MSc (Urban GIS)

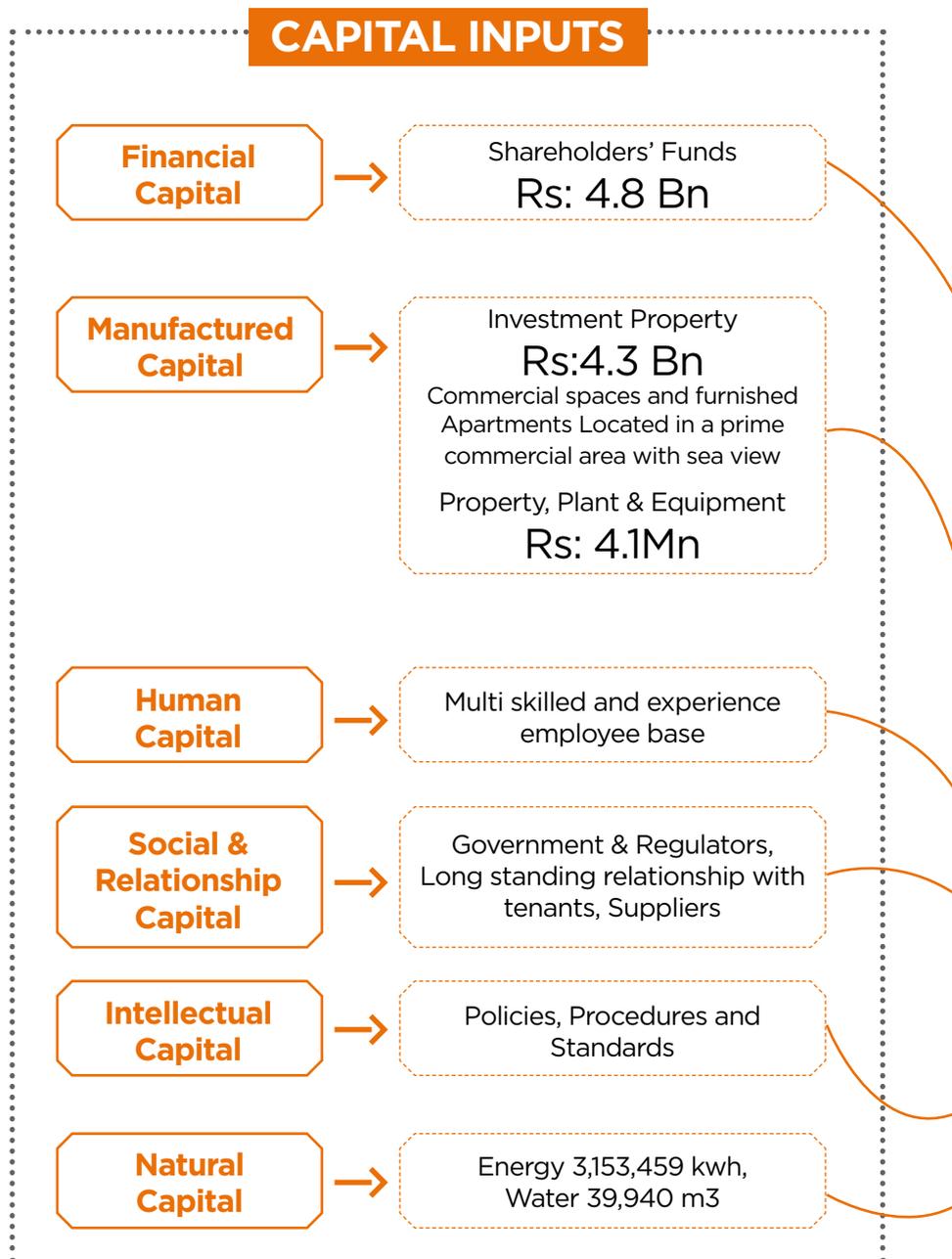
FIA (SL), RIBA, MITPSL, CMIEPSL

- Appointed an Independent Non-Executive Director of Seylan Developments PLC on 07th March 2016
- He joined SDP after a 27-year career at the Urban Development Authority. He retired as the Director (Development Planning) of the UDA and had chaired its Environment Impacts Assessment and Traffic Assessment Committees.
- He is a Past President of the Organization of Professional Associations of Sri Lanka and was actively involved in the Executive Councils of Sri Lanka Institute of Architects, International Council on Monuments and Sites-Sri Lanka Chapter, Sri Lanka Institute of Environment Professionals, Sri Lanka Association for Advancement of Science and Netherlands Alumni Association of Lanka. He has also held the post of Deputy Chairman (Professional) of Asian Committee on Architectural Education of the Architects' Regional Council of Asia.
- He has received Specialized Training in Environment Impact Assessment, ISO 9000: Quality Management Systems for Construction Industry, Quality Assurance and Accreditation in University Education and Project Management. He is a Subject Reviewer registered with the Quality Assurance and Accreditation Council of the University Grants Commission of Sri Lanka. He has served as the Chairman of the Expert Panels for Institutional Quality Assurance Programs in the Departments of Architecture and Civil Engineering of Stamford University, Bangladesh, in 2017.
- He holds B.Sc. and M.Sc. Degrees from University of Moratuwa, Sri Lanka and M.Sc. Degree from University of Twente, The Netherlands and is a Fellow Member of Sri Lanka Institute of Architects, Chartered Member of Royal Institute of British Architects, Corporate Member of Institute of Town Planners, Sri Lanka and a Chartered member of Sri Lanka Institute of Environment Professionals.

OUR VALUE CREATION MODEL

Seylan Developments PLC's value creation model graphically depicts the inter-relationship between the capitals that are input to the Company's value creation process, its business activities and the outcomes of this process.

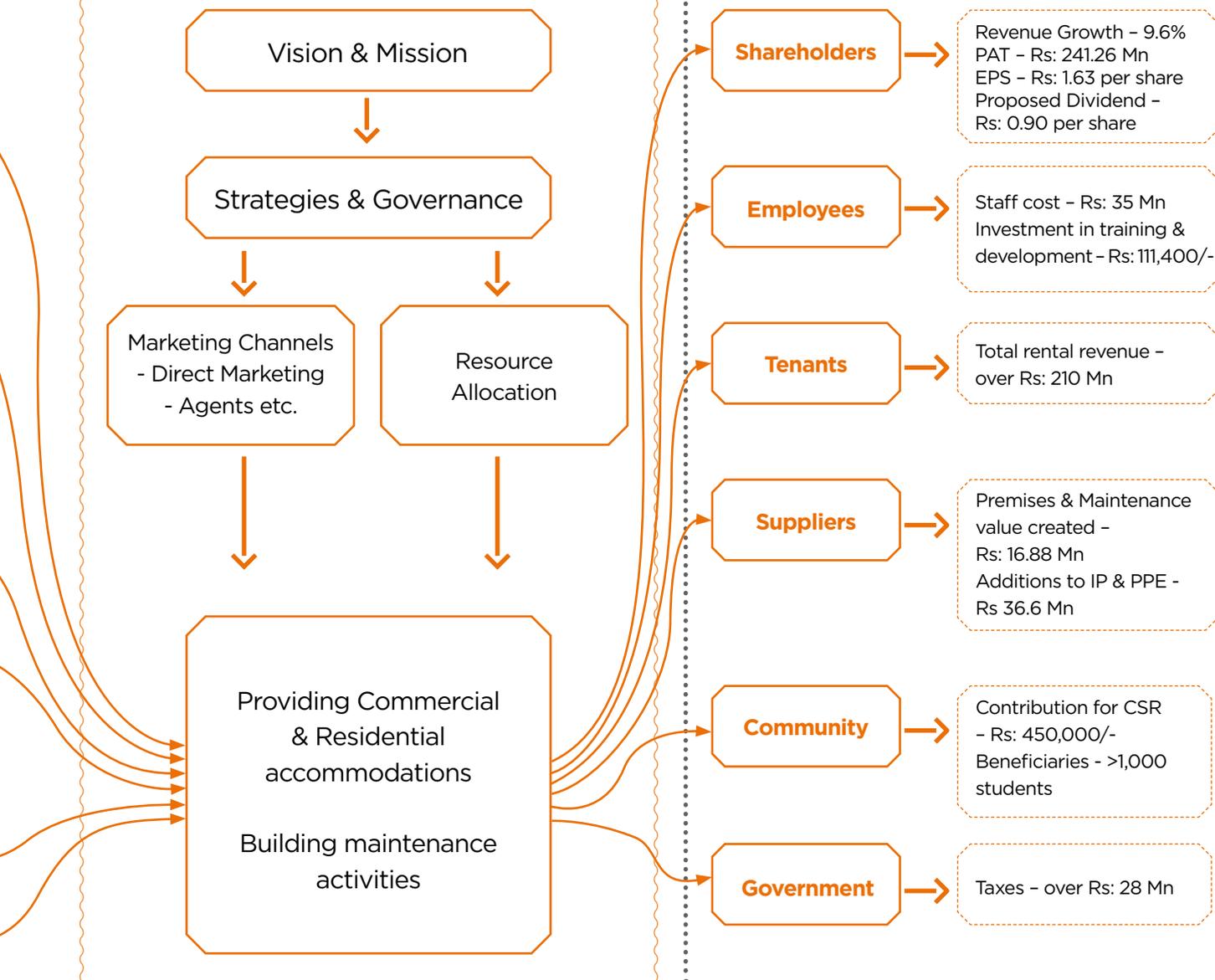
We have sought to entrench our strategy of differentiation in the areas of tenants' relationship management, responsible behaviour, advantage on prime commercial location with sea view, to deliver a better return to our stakeholders.



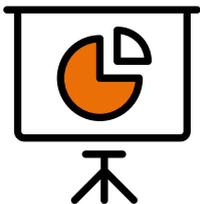
Details of the value derived and distribution are described in our report of sustainability through value creation on pages 61 to 71.

VALUE CREATION PROCESS

VALUE DELIVERED TO



MANAGEMENT DISCUSSIONS AND FINANCIAL REVIEW



Market Review:

Although the anticipated economic growth in the first half of the year 2017 was not achieved, it improved by the end of the year. The Government's effort to improve the infra-structure facilities continued paving the way for development of real estate sector. An indication by the Condominium Management Authority that there is an increase in the issue of number of certification license in the Greater Colombo area; one could expect increase in the number of high rise buildings in the outskirts of the City. However, the Megapolis Development Project as well as Master Plans for up scaling the Capital to a modern "Financial City", is expected to open doors for tremendous investment opportunities for both domestic and foreign investors. This activity is expected to increase or maintain the demand for rental accommodation especially in the city limits.

In the path of developing economy, the Government is encouraging private sector companies to improve and enhance their management skills to merge with the incoming foreign investors. In this context companies are engaging Experts

and Professionals on short and long term periods to improve skills of their staff. There are also foreign experts engaged in Government's ongoing projects. Marketing opportunities can be explored for rental accommodation

Opening up of star class hotels in the latter half of the year, and Sri Lanka being highlighted as safest destination for travel, saw tremendous increase in tourist arrivals. Tourists with long stay plans prefer cost effective medium level apartments in buildings less than 10 to 12 stories with modern facilities.

Seylan Developments PLC will be focusing on such markets to maintain high occupancy level.



Future Outlook:

The immediate future the Company is expected to bring about change and important milestone in its growth with the acquisition of four floors of Seylan Towers currently owned by the Seylan Bank PLC. This will increase the revenue base of the Company and will ensure a better management in the provision of services and maintenance in the future.

The company has already commenced exploring minor structural changes with a view of expanding rentable areas in the building to accommodate increased activities of the Parent Company with a long term increase in revenue.

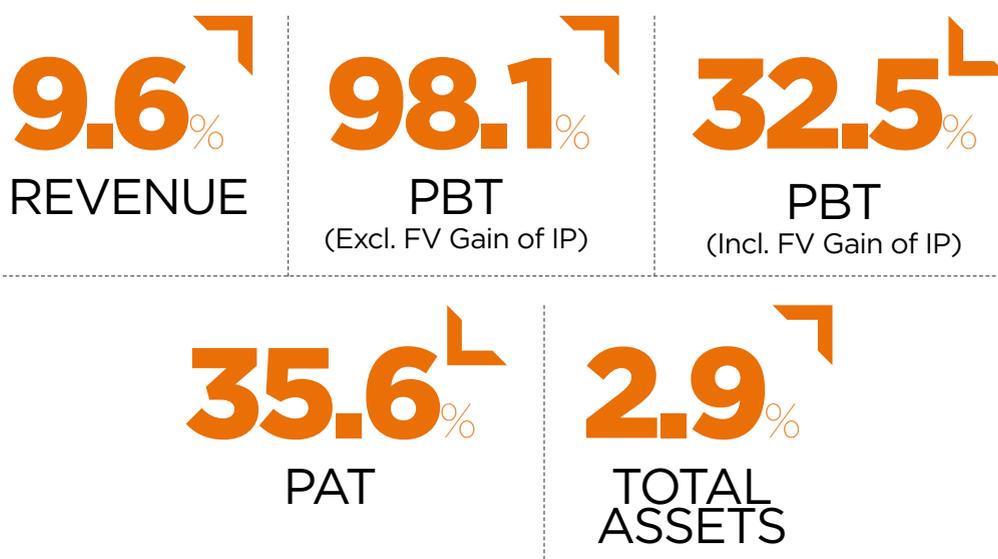
In the present competitive market for renting apartments and office space, the Company plans to improve the quality of services and facilities provided to its tenants, at the same time managing efficiently the maintenance cost, with a view to improve the revenue, there by enhance shareholders' value.

MANAGEMENT DISCUSSIONS AND FINANCIAL REVIEW (Contd.)



FINANCIAL REVIEW

During the year 2017 the company recorded an outstanding performance, after the New Management took office since 2010. In spite of the property development industry has been forced to operate in a very challenging environment and some restrictions from the regulators, the achieved results demonstrate the underlying potential of Company to create financial value to its stakeholders.



The Company surpassed the Rs: 200 Mn rental income

recording Rs: 211.62 Mn, signifying a growth of 9.6% compared to previous year.

The Company's revenue is derived from leasing spaces at the Seylan Towers

Occupancy at the year end 100%.

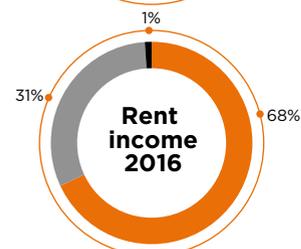
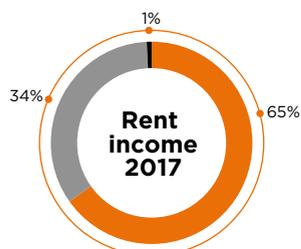
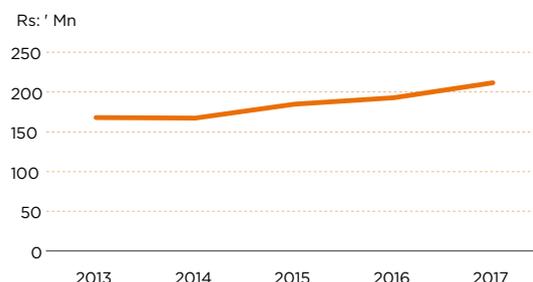
Moreover, the profitability of the Company before tax (excl. fair value gain of Investment Properties) stood at Rs. 260.44 Mn, almost doubled (increase of 98.1%) the previous year corresponding profit of Rs: 131.44Mn.

MANAGEMENT DISCUSSIONS AND FINANCIAL REVIEW (Contd.)

Revenue:

During this 12 months period, the company recorded a rental income of Rs: 211.62 Mn coupled with a remarkable growth of 9.6%, which signifies an increase of Rs.18.5 Mn over the previous year. The increase is mainly due to increase of rent from the parent company, Seylan Bank PLC and the maintaining of high occupancy of Apartments throughout the year. Apartments' occupancy rate at the year end was 100%.

The Company refurbished certain apartments with improved facilities, to meet the increasing competition in the business of renting apartments but with new lease terms.

**Rental income****Other Income:**

The property at Union Place was disposed at a consideration of Rs: 729.96 Mn and recorded a profit on disposal amounting Rs: 46.16 Mn during the year under review.

The property at Kataragama disposed at the book value and no profit or loss recorded during the year.

Expenses

During the year under review, the combined administrative, maintenance, personnel and marketing expenses decreased by 23%, to Rs. 85.99 Mn as against Rs. 111.59 Mn recorded in the previous year mainly due to high maintenance expenses incurred on previous year for building upkeep and apartment maintenance.

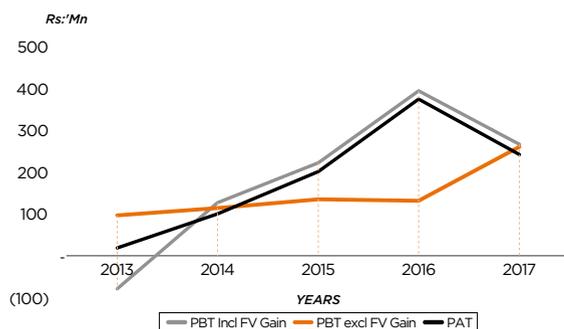
Changes in fair value of Investment Properties

The Company recorded an overall gain of Rs: 5.36 Mn in 2017 from valuation of investment properties compared to Rs: 262.47 Mn recorded in the previous year. Gains were recorded from the property at Seylan Tower Rs: 5.14 Mn and again from the property at Moratuwa by Rs: 0.23 Mn during the year 2017. In year 2016, the Company recorded a high gain from the valuation of the property at Union Place amounting Rs: 259.5 Mn. Realized profit of Rs: 46.16 Mn was accounted in 2017 after the disposal of the property during the year under review.

MANAGEMENT DISCUSSIONS AND FINANCIAL REVIEW (Contd.)

Profitability

The pre-tax profit excluding fair value gain of Investment properties recorded a strong growth of 98.1% demonstrating a sound financial performance of the Company. However, the pre-tax profit including fair value gain of Investment properties shows 32.5% decline to Rs: 265.8 Mn 2017 compared to Rs.393.91 Mn recorded in previous year mainly due to high fair value gain recorded in the Union Place Property in previous year. However, the realized profit exceeding the fair value gain shown in the previous year was recorded in 2017. The net profit after tax also recorded a decrease of 35.6 % and stood at Rs: 241.26 Mn.

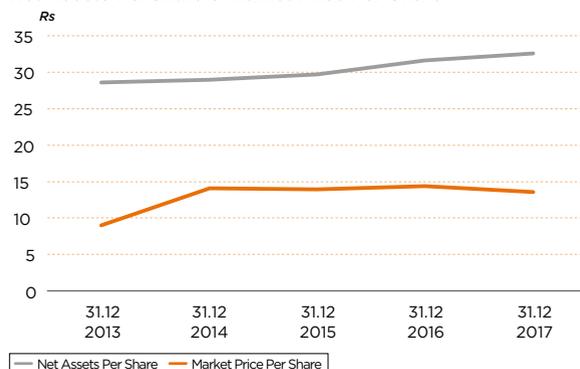


The graph that follows, illustrates the Company's PBT including and excluding fair value gain or loss from Investment Properties. It indicates a significant increase of PBT excluding fair value gain or loss compared to previous years mainly due to profit on disposal of the property at Union Place and investment income earned thereon during the year under review. Further expenses also shows a significant decrease compared to previous year as indicated in previous paragraphs.

Shareholders' Funds

Shareholders' Funds increased by Rs: 139.5 Mn due to positive performance recorded for 2017. Accordingly, as at 31st December 2017, the Net Assets per share of the Company was at Rs. 32.59 marking an appreciation of 3% when compared to that of 31st December 2016.

Net Assets Per Share & Market Price Per Share



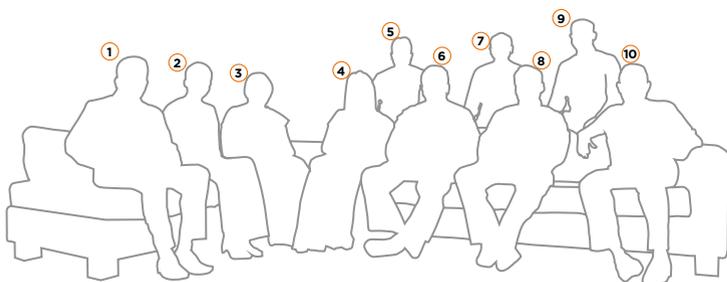
The Company proposes a first and final dividend of Rs: 0.90 per share amounting Rs: 133,168,374/- out of profit arising from the financial year 2017 (2016- Rs.0.75 per share totaling Rs.110,973,645/-), which is subject to the approval of the shareholders at the Annual General Meeting to be held on 29th March 2018.

Financial Reporting

The Company is committed to adopt best practices for financial reporting and to maintain a close watch on new developments in the financial reporting environment. Seylan Developments PLC takes pride itself on its achievement in winning the Gold award for the 6th consecutive year under the category of "Land and Property" at the financial reporting competition organized by the Institute of Chartered Accountants of Sri Lanka.

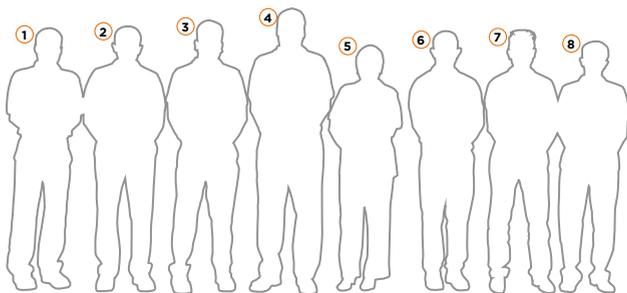


Team of Seylan



- 1 Mr. S. Nandakumara
- 2 Mrs.Nayanee Thilakarathna
- 3 Mrs. Gayani Dissanayake
- 4 Mrs. Nirmala Arangalage
- 5 Mr. Kumara Priyadarshana
- 6 Major.Palitha Saputhanthri (retd.)
- 7 Mr. Jayasiri Perera
- 8 Mr.Kanishka Udayanga
- 9 Mr. Madhura Botheju
- 10 Mr. Duminda Hapuarachchi

Developments



- 1 Mr. Prathap Karunasekara
- 2 Mr. Sampath Hemachandra
- 3 Mr. Thusitha Jayathilake
- 4 Mr. Anura Nishantha
- 5 Mrs. Sandya Perera
- 6 Mr. Kamal Premakumara
- 7 Mr. Chandana Gunawardana
- 8 Mr. M. G. Dayananda

RISK MANAGEMENT REPORT

Introduction

Every business organization faces risks in varying forms, which may affect their chances of success. Understanding these risks and effectively managing them will greatly assist organizations in achieving long-term success. Integrated Risk Management (IRM) policy, continue to be followed at Seylan Developments PLC (SDP), will enable to eliminate potential risks.

Risk Management is an integral part of SDP's business model. The effective management of risk is critical to achieve the theme for the year 2017, which is "Looking Beyond"

Risk Management

Risk arises out of an uncertain future event or condition. It may affect the business objective either positively or negatively. Risk management is the identification, assessment and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor and control the probability and or impact of unfortunate events or to maximize the realization of opportunities.

Types of Risks

Identifying the types of risks that a business may face, is important to recognize and plan to face them. Risks can be mainly categorized as follows.

- **Opportunity-based:** (Risk from choosing one option over other option)

By deciding to commit your resources to one opportunity over another, risk missing a better opportunity than getting unexpected results.

- **Uncertainty-based:** (Risk from uncertainty or unknown events such as natural disasters or loss of suppliers).

It is hard to predict these events and the damage they can cause. It is hard to control the damage once these events occur.

Examples of uncertainty-based risks includes, damage by fire, flood or other natural disasters, unexpected financial loss due to an economic downturn, or bankruptcy of other businesses that owe our money, loss of important suppliers or customers, decrease in market share because new competitors or products enter the market.

In order to reduce the impact of uncertain events in our business Seylan Developments has taken many steps according to the Integrated Risk Management (IRM) Framework. Accordingly, we have developed an emergency management plan to reduce the damage to our business operation in an emergency situation and get advice on how to improve the

operations while minimizing risks.

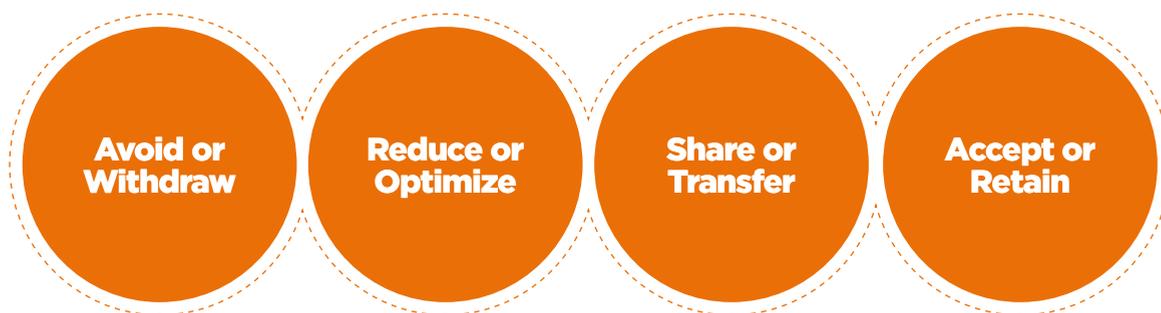
- **Hazard-based** (Risk from dangerous materials or actions)

This type of risks come from dangerous situations in the workplace. Some common examples for hazard-based risks are equipment related hazards caused by faulty equipment such as machinery, psychological hazards caused by bullying and harassment, discrimination, heavy workload or mismatch of employee skills with job duties etc.

Seylan Developments has taken many steps to manage or reduce the risks such as accidents and injuries by making workplace safe under workplace health and safety (WHS) laws and obtaining necessary insurance policies such as workmen's compensation & group assurance insurance to cover injuries or harms to employees.

Risk Mitigation Strategies

In risk management, after risk identification and risk quantification, the process of risk mitigation is initiated. Risk mitigation relates to initiation of steps to reduce the adverse impact of risk.



Avoid or withdraw stands for not undertaking an activity, which carries risk. Exposure to risk avoided altogether by this strategy. The negative impact of this is loss of business opportunity, which is damaging to the organization as organization are promoted to do business. If activities are stopped because they carry a risk, it will amount to loss of business opportunity, which is damaging to the organization. Potential profit required to sustain the organization therefore in real terms avoidance may be very expensive.

Reduce or optimize stands for reducing the severity of the impact. Impact of undertaking an activity can be positive or negative and risk is associated with negative impact. Risk can be optimized by balancing the negative impact and the benefits from undertaking the activity.

Share or transfer stands for the burden of loss or benefit of gain from a risk with other parties. When a cost of management of risk through other options hinders the achievement of organizational goals, the risk will be retained.

Accept or retain is implemented when cost of managing the risk through other options is higher or hinders the achievement of organizational goals & the risk will be retained. Then the decision is taken to manage the risk. Risk acceptance or retention helps in growth of business and profits and it can be used along with other strategies.

Risk Management Framework of Seylan Developments PLC

Board of Directors of SDP has taken steps to review the implementation

of Integrated Risk Management (IRM) through Internal Audit Committee. The committee is responsible to make sure that the risk management policies and procedures are implemented in a successful manner. The Executive Risk Management Committee (ERMC) has been appointed under General Manager. The Risk Officer (RO) appointed maintains a Risk Register (Risk Log), which is an important component of the overall risk management framework. Recordings of potential risk areas identified with the assistance of staff members is used to assess, and manage risks down to acceptable levels through a review and updating process. The recording of critical issues in the Risk Register will assist avoidance of similar events in the future.

RISK MANAGEMENT REPORT (Contd.)

Potential Benefits of Risk Management

Better decision-making through a good understanding of risks and their likely impact.



Risk Management Process



RISK MANAGEMENT REPORT (Contd.)

RISK RATING & MITIGATION STRATEGIES

Like hood - Key : **C**=Certain ; **L**= Likely ; **P**=Possible ; **U**=Unlikely ; **R**=Rare

Impact - Key : **V** = Very High; **H**=High; **M**= Medium; **L**=Low

Description of Risk	Risk Rating		Mitigation Strategies
	Like hood	Impact	
<p>Strategic Risk</p> <p>Risks occur from failure to meet strategic goals of the company, delays and cost over runs by variations, etc.</p>	U	L	<p>Company works under the Strategic Business Plan approved by the Board of Directors.</p> <p>Annual Budget is approved by the Board of Directors prior to the commencement of respective financial year. Variations are reviewed on monthly basis.</p> <p>Company follows contractual procedures and controls.</p>
<p>Political Risk</p> <p>Unfavorable legislative changes and policies.</p>	P	M	<p>Pro-actively monitoring risks presented by political and legislative changes, budget proposals with the advice of Auditors, Tax Consultants.</p>
<p>Legal Regulatory Framework Risk</p> <p>Law suits against the company may lead to the risk of penalties and legal fees, loss of reputation and loss of stakeholders' confidence.</p>	R	L	<p>As a public quoted company by considering its duty of fulfilling the statutory obligations and not acting in a manner of violation internal or external parties' rights. For this purpose company has retained the services of Tax consultant, Legal consultant & a service of Professional Company Secretariat for their regulatory requirements. Company also is a member of The Employers' Federation of Ceylon.</p>

RISK MANAGEMENT REPORT (Contd.)

Like hood - Key : **C**=Certain ; **L**= Likely ; **P**=Possible ; **U**=Unlikely ; **R**=Rare

Impact - Key : **V** = Very High; **H**=High; **M**= Medium; **L**=Low

Description of Risk	Risk Rating		Mitigation Strategies
	Like hood	Impact	
Liquidity Risk			
It is the possibility of the company suffering a loss due to insufficient financial resources at its disposal, to meet its obligations, as and when they fall due.	U	L	The finance position of the company is regularly monitored by the Management and as advised by Board of Directors / Audit Committee.
Credit Risk			
The credit risk of the company is mainly derived from the rent receivable from its tenants. The inflation rates, foreign currency fluctuations could affect the company in recovering the cash installments from the tenants.	P	M	As the company's main source of income, the company maintains 100 % rent recovery by taking rent advances and security deposits in order to avoid bad debts.
Interest Rate Risk			
It is the risk arising from fluctuation of interest over the net income. This could lead to high cost of borrowings or lower interest income resulting impacts over its profitability.	R	L	Company manages its financial operations without external borrowings and if necessity arises borrows from the Parent Company.
Risk of depending on key customers			
Risk occurring from loss of key customers may have material impact to the Company's performance.	L	H	Company has rented the East Tower to its Parent Company and major portion of apartments to diplomatic missions. Even though the relationships are long standing, threats from new entrants to the property market is increasing.

RISK MANAGEMENT REPORT (Contd.)

Like hood - Key : **C**=Certain ; **L**= Likely ; **P**=Possible ; **U**=Unlikely ; **R**=Rare

Impact - Key : **V** = Very High; **H**=High; **M**= Medium; **L**=Low

Description of Risk	Risk Rating		Mitigation Strategies
	Like hood	Impact	
<p>Risk on depending on key suppliers.</p> <p>As a service organization managing a key property the risk occurs on breakdown of any essential services on its plants & equipment needs to be maintained and upkeep to highest expected levels.</p>	U	M	Company has entered in to comprehensive maintenance agreement for elevators, generators, chillers normal service agreements for other key operations.
<p>Competition</p> <p>Risks arising from new commercial & residential developments.</p>	P	M	Company monitors and observes new commercial & residential developments and facilities and upkeeps its facilities catering for the demand.
<p>Brand & Reputation Risk</p> <p>Risk relating to product quality, timely delivery and service standards.</p>	L	M	<p>Action has been taken to maintain high quality service standards and timely attending for tenants' requirements.</p> <p>Regulatory reviewing of customer comments and feedbacks.</p>
<p>Fraud Risk</p> <p>The risks that the internal control weaknesses leading to corruptions and employee abusing entrusted power for private gain leading to misappropriation of assets or fraudulent financial reports, have negative impact and risk on the company.</p>	R	L	By implementing a different levels of authorization and cross department recommendation process the Company has taken required measures to minimize or eliminate the fraud or corruption risks. Company follows a practice of obtaining competitive quotations and bids from respective parties guaranteeing maximum financial benefits. In addition to company has selected a qualified and professional external party as the Internal Auditors in order for further strengthening the proper application of company policies & procedures.

RISK MANAGEMENT REPORT (Contd.)

Like hood - Key : **C**=Certain ; **L**= Likely ; **P**=Possible ; **U**=Unlikely ; **R**=Rare

Impact - Key : **V** = Very High; **H**=High; **M**= Medium; **L**=Low

Description of Risk	Risk Rating		Mitigation Strategies
	Like hood	Impact	
Human Capital Risk			
Risk arising from inability to attract and retain qualified and experienced staff, drop in productivity, quality and increase human errors.	U	M	<p>Company has reduced its labour turnover by implementing the various Human Resource Management practices the year under review.</p> <p>Also follows up a training & development to update and develop the knowledge of employees</p>
Health & Safety Risk			
Risk occurring from threats to personal, staff, tenants and general public.	U	L	<p>The company performs proper training programs and workplace safety practices. Seylan Developments PLC Conducts Fire Execution Drills annually for enhancing safety.</p> <p>The company has obtained all required insurance covers reference to industrial safety by considering the safety of its employees, tenants and general public.</p> <p>During the current year there were no work place accidents recorded.</p>
Environment Risk			
Loss or damage caused by unusual climate conditions, including drought, heat, flood, cold, storm, winds and natural disasters etc.	R	M	<p>In order to face uncontrollable risks that occur due to natural disasters, changes in weather and climate disaster, management plans are drawn up and the required insurance covers are obtained.</p>

DIRECTORS' STATEMENT ON INTERNAL CONTROL

INTRODUCTION

The following statement fulfills the requirement to publish the Directors' Statement on Internal Control in terms of the Code of Best Practice on Corporate Governance (2013) issued by The Institute of Chartered Accountants of Sri Lanka and The Securities and Exchange Commission of Sri Lanka.

Seylan Developments PLC developed and established a sound internal control system with the intention of achieving the goals and objectives of the Company. The system will ensure reliable financial and managerial reporting, while complying with laws and regulations as well as internal policies and procedures.

Accordingly, 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 2017.

BOARD RESPONSIBILITY

The Board of Directors is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and the Company's assets. The Board has established an ongoing process for identifying, evaluating, and managing the significant risks faced by the Company. This process includes enhancing the system of internal controls as and when there are changes to business environment

or regulatory guidelines. The process is regularly reviewed by the Board.

The Board is of the view the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

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 38 of this report.

INTERNAL CONTROL FRAMEWORK

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 Practice on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The Company's Internal Audit function provides comfort on the efficiency and effectiveness of the Internal Control System. It monitors compliance with policies and procedures on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of non-compliance.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

(i) Clear and Structured Organizational Reporting Lines

Based on the hierarchical organizational structure the Company has defined lines of responsibility for reporting and accountability and delegation of authority.

The Board Committees are established to assist the Board

DIRECTORS' STATEMENT ON INTERNAL CONTROL (Contd.)

in ensuring the effectiveness of the Company's operations. More details of Board Committees are described in the Statement of Corporate Governance on Pages 39 to 54 of the Annual Report. The operations are directed towards corporate objectives, policies, strategy and annual budget taking into consideration the business environment and internal operating conditions.

Comprehensive Board Papers are presented at monthly Board Meetings, which include financial and non-financial matters such as monthly results, business strategies, explanation of Company's performances in comparison with budgets, key operational issues, and corporate activities for deliberation and for either approval or directions.

(ii) Financial Performance Review

The Board reviewed the ongoing financial performance of the Company on 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 practice in corporate governance by observing the highest standards of integrity and behavior in all activities of 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 the employees of the Company play an important role in establishing, maintaining and enhancing the reputation, image and brand of the Company. All staff members are committed to ensure observance to the standards of integrity and behavior to the expectation of the Company.

(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 Internal Auditors to ensure compliance. The policies and procedures are reviewed periodically by the Audit Committee they are current and relevant.

(v) Risk Management

Risk Management is vital for continued improvement of profitability and enhancement of shareholder value. The Board regards risk management as an integral part of business operations.

A Corporate Risk Management Framework was developed and

documented via a Corporate Risk Policy which sets out in a comprehensive manner the process adopted by the Company towards risk identification, evaluation, and control and monitoring. The Company maintains a register to record risk events to monitor action taken to remedy situation. The Company quarterly reports to Seylan Bank PLC, being the parent company, on risk control assessments.

Further information on the Company's risk management activities is highlighted in the Risk Management Report on pages 28 to 34 of this Annual Report.

(vi) Information and Communication

The Company has defined lines of responsibility for reporting and accountability. 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 employee skills, 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 the Company's objectives.

DIRECTORS' STATEMENT ON INTERNAL CONTROL (Contd.)

(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. The comments made by Internal Auditors in connection with the internal control system during the financial year 2017 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate. Senior and functional line management are tasked

to ensure management action plans are carried out effectively and regular follow-up audits are performed to monitor the continued compliance.

In addition to this internal mechanism, the Company also receives extensive and detailed 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.

(ix) Quality, Health, Safety and Environment

A clear, formalized framework is in place to prevention of accidents, the 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 having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objective and can only provide reasonable and not absolute assurance against material misstatements or loss.

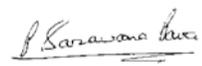
The Board of Directors confirm that the financial reporting system of Seylan Developments PLC has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.



Kapila Ariyaratne
Chairman



Somadasa Palihawadana
Deputy Chairman



Ponniah Saravanapavan
Chairman - Audit Committee

16 th February 2018



PONNAMPERUMA & CO.

Chartered Accountants

INTERNAL AUDITOR'S REPORT

We, **PONNAMPERUMA & Co., (Chartered Accountants)** were appointed as internal auditors for the year ended 31st December 2017.

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

- Review and monitoring of Internal Controls system of 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 31st December 2017, 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.


PONNAMPERUMA & Co.

Chartered Accountants

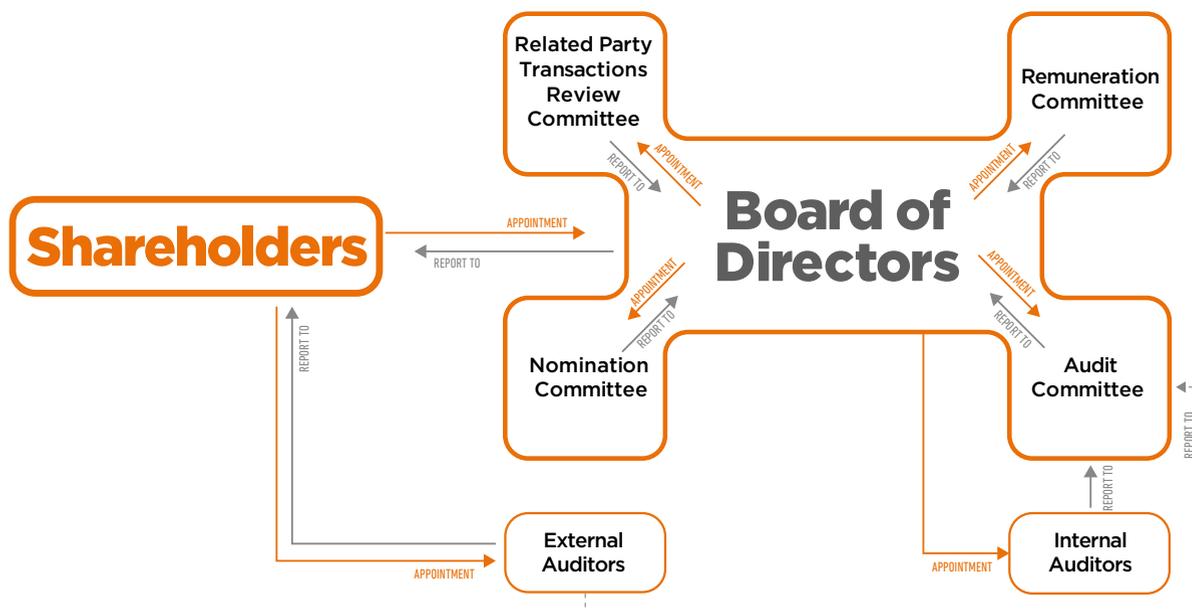
Colombo.

February 15, 2018



CORPORATE GOVERNANCE REPORT

Structure of the Corporate Governance of the Company



Statement of Corporate Governance

Seylan Developments PLC (SDP) is one of the Companies which have completed a quarter century in Property Development Sector in Sri Lanka. SDP is a Public Company, listed in the Colombo Stock Exchange, with BOI status and is the subsidiary of Seylan Bank PLC.

Corporate Governance at SDP focuses on promoting corporate impartially, transparency, and accountability in directing and administrating the organization. All policies and principles were introduced and implemented to

ensure and preserve the best interest of all stakeholders. The objective of this Annual Report including the Financial Statements is to brief the stakeholders and the general public, the activities of the company in a transparent manner during 2017.

Commitment towards Corporate Governance

Directors of company believe that their effort will help to ensure balancing in the interest of all its stakeholders while focusing long term sustainable growth. SDP places a strong emphasis on Corporate Governance, striving to align business practices with the

best interest of all stakeholders, and maximize transparency through timely disclosure of information and financial reporting.

Statement of Compliance

Seylan Developments PLC established and practices in a consistent manner with the requirements given in the Code of Best Practice on Corporate Governance (2013) issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka and listing rules of the Colombo Stock Exchange.

CORPORATE GOVERNANCE REPORT (Contd.)

Role of Board of Directors

The Board of Directors of SDP is professionals qualified in diverse fields in the society. All Directors engage their talents, practice and knowledge to shield the interests of the stakeholders with a high sense of integrity and independent judgment. The Board of Directors were dominant in giving strategic and leadership guidance in formulating a steady and stable structure for conducting the affairs of the Company. The detail profile of Directors is given on pages 16 to 19.

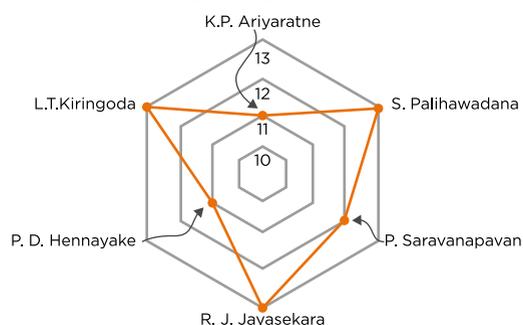
The Board of Directors has the ultimate decision making authority, using that authority they make decision balancing the operational management team to adopt highest level of integrity, function in compliance with applicable rules and regulations and delegate the necessary authority to perform their duties. Every Director has unrestricted access to information and assistance of Senior Management and the Company Secretary. All the Directors are given prior notices regarding Board Meetings and board papers are circulated in advance all Board Members. This will enable them to pursue through board papers in order to actively participate as well as make fruitful discussion in decision making.

Composition of Board of Directors and attendance of meetings

At the end of the year 2017 the Board consisted of six Directors, of whom two were Chartered Accountants, two were Experienced Bankers, one Chartered Engineer and a Chartered Architect. They were highly qualified professionals in banking, accountancy, engineering and architectural fields. All the Directors were Non-Executive and four of them represented the parent entity Seylan Bank PLC and two of them being independent.

Name	Executive	Non-Executive	Independent	Non Independent
Mr. K.P. Ariyaratne - Chairman	x	√	x	√
Mr. S. Palihawadana - Deputy Chairman	x	√	x	√
Mr. P. Saravanapavan	x	√	√	x
Mr. R. J. Jayasekara	x	√	x	√
Mr. P. D. Hennayake	x	√	x	√
Mr. L. T. Kiringoda	x	√	√	x

Attendance of the Directors for the Board Meetings during the Year 2017



Board met thirteen times during the year 2017

Financial Acumen

The Board Members possess the acumen, wisdom and practice offer the Board, directive on financial function. Two of the Board Members are Chartered Accountants with substantial experience and also members of Audit Committee offer guidance on financial matters to the Board. Directors also obtain views of the expertise when necessary to realize the objectives of the organization.

CORPORATE GOVERNANCE REPORT (Contd.)

Board Committees

The ultimate responsibility of good Corporate Governance rests with the Board of Directors. In order to establish strong environment on Corporate Governance, specific responsibilities of the Directors have been delegated to the following Board sub committees:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Related Party Transactions Review Committee

Board Sub Committees - composition and attendance of meetings 2017.

Sub Committees	Executive	Independent Non-Executive	Non Independent Non-Executive	Total Members	Number of Meetings
Audit Committee	-	2	1	3	4
Remuneration Committee	-	2	1	3	2
Nomination Committee	-	1	1	2	-
Related Party Transactions Review Committee	-	2	1	3	4

The details and role of the Board sub committees are described below;

Audit Committee

The audit committee consists of three members. Mr. P. Saravanapavan, an Independent Non-executive Director as well as a Fellow Member of the Institute of Chartered Accountants of Sri Lanka functioned as the Chairman and other Members of Committee were Mr. L T Kiringoda an Independent Non-executive Director as well as a Chartered Architect and Mr. Ramesh Jayasekara, a Non-executive Director as well as an Associate Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Marketing of

U.K. and an Associate Member of the Certified Management Accountants of Sri Lanka. Briefly describe in role of the committee are as follows,

1. To ensure that the Company's internal controls and risk management system are adequate, effective and is in operation throughout the year.
2. To ensure of financial statements are free from material misstatements and in accordance with Sri Lanka Accounting Standards.
3. To ensure compliance with legal and regulatory requirements such as Companies Act No. 7 of 2007, rules of CSE, BOI, etc.

4. Review the reports of External Auditors & Internal Auditors and ensure that their recommendations are implemented.

5. To liaise with External Auditors, Internal Auditors, Management & Board of Directors and ensure the independence of External & Internal Auditors.

During the year 2017, the audit committee met 04 times with participation of External & Internal Auditors by invitation. The Company Secretary performs the secretarial function. A Report of the Board Audit Committee appears on pages 55 to 56.

CORPORATE GOVERNANCE REPORT (Contd.)

Nomination Committee

The Nomination Committee consists of two Non- Executive Directors, chaired by Mr. S. Palihawadana-Deputy Chairman of the company and Mr. P Saravanapavan, Independent Non-executive Director was a member of the committee. In the event of a vacancy or vacancies in the Board, the role of the Nomination Committee is to select qualified nominees, with a view of maintaining the balance & independence, and recommends them to the Board for appointment. As there were no changes in the Board of Directors during the year 2017, no meeting of the committee was held during the year.

Remuneration Committee

Remuneration Committee includes three Non-executive Directors of whom two of them were Independent Directors. The role of the Committee is to recommend the salary increments and bonus payments based on the Remuneration Policy of the company and the performance evaluation of staff members compiled by the General Manager. Committee Members are;

1. Mr. P. Saravanapavan – Chairman - *Independent Non-Executive Director*
2. Mr. S. Palihawadana – Member - *Non-Executive Director*
3. Mr. L T Kiringoda –Member - *Independent Non-Executive Director*

General Manager and Accountant participate on invitation. The Report of the Board Remuneration Committee appears on Page No 57.

Related Party Transactions Review Committee

The Related Party Transactions Review Committee was formulated in 2014, by the Board of Directors as a sub Committee to review the transactions with the Parent Company are carried out in order to full fill the best practice of Corporate Governance and in accordance with the listing rule section 09.

The Members of the Committee are

- Mr. L T Kiringoda –Chairman - *Independent Non-executive Director*
- Mr. P. Saravanapavan – Member - *Independent Non-executive Director*
- Mr. P. D. Hennayake - Member / *Non-executive Director*
- Mr. Nandasiri Ponnampereuma - *Representative of Internal Auditors participates by invitation.*

The company's Secretary performs the secretarial function.

The rules pertaining to Related Party Transactions to ensure the interests of the shareholders as a whole should be taken in to consideration by a listed entity when entering into Related Party Transactions. Further provide certain measures to prevent substantial shareholders taking advantage of their holdings.

The Report of the Related Party Transactions Review Committee appears on Page No 58.

Disclosure of Directors' Remuneration

Since all the Directors of the Company were Non-Executive Directors, they receive a fee for participating at Board Meetings and other committee meetings and do not receive any other perquisites or benefits other than what is discussed at Note 08 in the financial statements.

Re-Election

The provisions of the Articles of Association, one fourth of the Directors, excluding the Chairman and Deputy Chairman retires and submit them for re appoint 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 article company can fill a casual vacancy or 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

CORPORATE GOVERNANCE REPORT (Contd.)

Directors submitted for re-election are provided to the shareholders along with notice of the Annual General Meeting, enabling them to make informed decisions on such appointments.

Corporate Disclosure and Shareholder Relationship

All sensitive information in relation to activities of the company is promptly communicated via Colombo Stock exchange (CSE) to the stakeholders. Further the Board of Directors credence to the fact that stakeholders must necessarily be granted an opportunity to communicate their views and expound their concerns.

The Annual General Meeting provides the good platform to express their views. Quarterly financial reports are updated in the Colombo Stock Exchange website for shareholders' information. Updated financial information is also available in the Company's web site www.seylandevelopments.com. The parent company, Seylan Bank PLC also publishes Consolidated Financial Statements on quarterly and annual basis.

Accordance Companies Act No 7 of 2007, Annual General Meeting (AGM) should be held within six months from the end of the financial year. Seylan Developments PLC makes every endeavour to hold the AGM within three months of end of financial year, after providing a copy of annual report at the time of such

notice in terms of the regulations. Active participation of shareholders is always welcome by the Board of Directors.

Annual Reports are prepared to provide information pertaining to the activities of the company in a transparent manner according to the best practice of Corporate Governance to its stakeholders. It is pertinent to mention that SDP won the Gold Award for six consecutive years for the Annual Reports from 2011 to 2016 and a Silver Award in the year 2010, under the category of "Land & Property" Companies, in the annual report award competition organized by the Institute of Chartered Accountants of Sri Lanka.

Accountability and internal Control in Financial Reporting

The Company has taken appropriate steps to provide the all financial and non-financial information to its stakeholders for every quarter in accordance with Sri Lanka Accounting Standards (LKASs), Listing Rules of Colombo Stock Exchange and the Companies Act No. 07 of 2007.

Board Members are directly responsible for company's affairs & performance to benefit of stakeholders of the company. Hence Directors of the company and the Management focus their concern to provide complete disclosure of financial and non-financial information in accordance with

prevailing Code of Best Practice on Corporate Governance.

Internal Control

In order to ensure that the financial statements presented to the stakeholders are free from material misstatements and in accordance with the current regulations mentioned above, the Board of Directors takes responsibility to maintain a strong internal control system within the company. The Board periodically reviews and assesses the internal control system in operation with a view to increase the efficiency of the company's financial reporting system.

In this context the company has engaged the services of a Professional Audit firm M/s Ponnamparuma & Company to carry out internal audit function to ensure the control systems is in operation throughout the year. Their quarterly reports are deliberated at the Audit Committee meetings and the Board of Director's are briefed with necessary recommendations. A report from Internal Auditors is given in page 38 of the Annual Report.

The Board of Directors ensures that the timely reporting to shareholders and compliance with the Statutory requirements in terms of the Company's Act No.7 of 2007.

CORPORATE GOVERNANCE REPORT (Contd.)

Code of business Conduct and Ethics

Although there is no written code of conduct of the Directors, they being members of registered Professional Bodies are conscious of the duties required of them. The Company is compliant with the Code of Best Practice on Corporate Governance (2013) jointly issued by the SEC and ICASL. The Directors are aware of the revision of the Code of Best Practice in Corporate Governance

which came to operation from 01st January 2018, and will take necessary actions to implement in due course.

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 is 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

Rule No	Subject	Applicable Requirement	Compliance Status	Reference
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 40.
7.10.2 (a)	Independent Directors	Two or one- third of Non- Executive Directors, whichever is higher should be independent	Complied.	Refer on page 40.
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 of Directors of Seylan Developments PLC on the state of affairs of the Company for the year on pages 73 to 79.
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 40.

CORPORATE GOVERNANCE REPORT (Contd.)

Rule No	Subject	Applicable Requirement	Compliance Status	Reference
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	Not applicable	-
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 pages 16 to 19.
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 57.
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 57.
7.10.5 (b)	Function of Remuneration Committee.	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors.	Complied.	Refer Report of the Board Remuneration Committee on page 57 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 set out; a/. Names of Directors comprising the Remuneration Committee. b/. Statement of remuneration policy. c/. Aggregate remuneration paid to Executive & Non-Executive Directors.	Complied.	Refer on page 57. Refer on page 57. Refer Directors' emoluments on page 103, Note 08.
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 55 to 56.

CORPORATE GOVERNANCE REPORT (Contd.)

Rule No	Subject	Applicable Requirement	Compliance Status	Reference
7.10.6 (a)	Composition of Audit Committee.	Shall comprise of Non-Executive Directors, a majority of who shall be independent.	Complied.	Two of three Non- Executive Directors are independent. Refer Report of the Board Audit Committee pages 55 to 56.
		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/General Manager who are authorized & represent in place CEO and Accountant representing Finance division participate for the meetings.
		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;	Complied.	Refer on pages 55 to 56 for the functions of Audit Committee.
		a. Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards.		
		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 55 to 56 for the functions of Audit Committee.
		c. 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 55 to 56 for the functions of Audit Committee.

CORPORATE GOVERNANCE REPORT (Contd.)

Rule No	Subject	Applicable Requirement	Compliance Status	Reference
7.10.6 (b)	Audit Committee Functions	d. Assessment of the independence and performance of the external Auditors.	Complied.	Refer on pages 55 to 56 for the functions of Audit Committee.
		e. 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 55 to 56 for the functions of Audit Committee.
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee.	a. Names of Directors comprising the Audit Committee.	Complied.	Refer on pages 55 to 56 for the functions of Audit Committee.
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determinations.	Complied.	Refer Annual Report of the Board of Directors of Seylan Developments PLC on the state of affairs of the Company for the year on pages 73 to 79.
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance with their functions.	Complied.	Refer on pages 55 to 56 for the functions of Audit Committee.

CORPORATE GOVERNANCE REPORT (Contd.)

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

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 General Manager have been separated on pages 6 to 13. CEO's functions are covered by Head of Operations / General Manager. Complied
Board Balance A.5.5	Should identify the independent Non-Executive Directors.	The Board Consist six non-executive Directors. Two out of six is independent. Complied
Nominations Committee A.7.1	The Chairman and members of the Nomination Committee should be identified. When new Directors are appointed, the following details should be disclosed.	Refer Page 60. Complied
Appointment of New Directors A.7.3	<ul style="list-style-type: none"> ■ a brief résumé of each Director; ■ the nature of his expertise in the relevant functional areas; ■ the names of Companies in which the Director holds Directorships or memberships in Board committees; and ■ Whether such Director can be considered independent. 	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 19. Complied
Appraisal of Board Performance A.9.3.	Should disclose how performance evaluation have been conducted	Performance evaluation of the Board and individual Directors takes place annually on a self-appraisal basis.

CORPORATE GOVERNANCE REPORT (Contd.)

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Board Related Disclosures A.10.1	<p>The following details pertaining to each Director should be disclosed</p> <ul style="list-style-type: none"> ■ Name, qualification and brief profile; ■ The nature of his/her expertise in relevant functional areas; ■ Immediate family and/or material business relationship with other Directors of the Company; ■ whether executive, non-executive and / or independent Director; ■ Names of other listed Companies in Sri Lanka in which the Director concerned serves as a Director; ■ 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; ■ Number/percentage of Board meetings of the Company attended during the year; ■ The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity; ■ 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. 	<p>Complied</p> <p>Directors' profiles with their qualifications, areas of expertise etc. are given on pages 16 to 19.</p> <p>Details of directorships/other positions held, Directors' interests in contracts and related party transactions are disclosed in Note 24 of the Financial Statements given on pages 122 to 124 and Annual Report of the Board of Directors of Seylan Developments PLC on the state of affairs of the company for the year on pages 73 to 79.</p> <p>Details of Board meetings and Board subcommittees, their composition, attendance by Directors of meetings held during the year are given on pages 40, 55 to 60.</p>
Disclosure of Remuneration B.3 and B.3.1	<ul style="list-style-type: none"> ■ A Statement of Remuneration Policy and details of Remuneration of the Board as a whole. ■ 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 	<p>Complied</p> <p>Refer Report of the Board Remuneration Committee on page 57 and also Note 08 of the Audited Financial Statements.</p>

CORPORATE GOVERNANCE REPORT (Contd.)

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Major transactions C.3 & C 3.1	<ul style="list-style-type: none"> All major transactions entered into by the Company should be disclosed. 	All major transaction are reported quarterly annual financial statement and Colombo Stock Exchange web site.
Audit Committee D.3.4	<ul style="list-style-type: none"> Names of the members of the Audit Committee should be disclosed. Basis for determining the independence of Auditors. 	<p>Complied</p> <p>Refer the Report of the Board Audit Committee on pages 55 to 56.</p> <p>Refer Annual Report of the Board of Directors of Seylan Developments PLC on the state of affairs of the Company for the year on pages 73 to 79.</p>
Code of Business Conduct and Ethics D.4.1 & D.4.2	<ul style="list-style-type: none"> Should disclose whether the Company has a Code of Business Conduct & Ethics for Directors and members of the Senior Management team. Should also disclose an affirmative declaration that they have abided by such Code. The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code. 	<p>Will be complied with the implement of revised Corporate Governance guidelines.</p> <p>Refer Page 44.</p>
Going Concern D.1.5	<ul style="list-style-type: none"> Should report that the Company is a going concern, with supporting assumptions and qualifications as necessary 	<p>Complied</p> <p>Refer Annual Report of the Board of Directors of Seylan Developments PLC on the state of affairs of the Company for the year on pages 73 to 79.</p>

B. Remuneration Committee Report

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Members of Remuneration Committee B.1.3	<ul style="list-style-type: none"> The names of the members of Remuneration Committee should be disclosed in the Remuneration Committee Report. 	<p>Complied</p> <p>Refer the Report of the Board Remuneration Committee on page 57.</p>

CORPORATE GOVERNANCE REPORT (Contd.)

C. Directors' Report

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Directors' Report D.1.2	<p>Should contain the following declarations made by the Directors,</p> <ul style="list-style-type: none"> ■ The Company has not engaged in any activities, which contravenes laws and regulations; ■ The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; ■ The Company has made all endeavors to ensure the equitable treatment of shareholders; ■ The business is a going concern with supporting assumptions or qualifications as necessary; and ■ They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence herewith. 	<p>Complied</p> <p>Refer Annual Report of the Board of Directors of Seylan Developments PLC on the state of affairs of the Company for the year on pages 73 to 79.</p>

D Financial Statements

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Financial Statements D.1.3	<ul style="list-style-type: none"> ■ The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements. ■ Auditors should also have a statement about their reporting responsibility. 	<p>Complied</p> <p>Refer on pages 80 to 81.</p> <p>Refer on page 85.</p>
Related Party Transactions D. 1.7	<ul style="list-style-type: none"> ■ Should disclose the related parties and related party transactions as specified by Sri Lanka Accounting Standards, SEC regulations and other related regulations. 	<p>Complied</p> <p>Refer Note 24 on pages 122 to 124.</p>

CORPORATE GOVERNANCE REPORT (Contd.)

E. Management Report

Subject & Ref.	Corporate Governance Principle	Level of Compliance
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"> ■ industry structure and developments; ■ opportunities and threats; ■ risks and concerns; ■ internal control systems and their adequacy; ■ social and environmental protection activities carried out by the Company; ■ financial performance; ■ material developments in human resources/ industrial relations; and ■ prospects for the future 	<p>Complied.</p> <p>Refer on pages 80 to 81.</p> <p>Refer Chairman's Review on pages 6 to 9.</p> <p>Refer Risk Management Report and Directors' Statement of Internal Control on pages 28 to 38.</p> <p>Refer Management Discussion and Financial Review on pages 22 to 25.</p>

F. Corporate Governance Report

Subject & Ref.	Corporate Governance Principle	Level of Compliance
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 39 to 54.</p>

G. Audit Committee Report

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Audit Committee report D 3.3	Should set out the work carried out by the Committee.	<p>Complied.</p> <p>Refer on pages 55 to 56.</p>

CORPORATE GOVERNANCE REPORT (Contd.)

H. Statement of Internal Control

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Statement of Internal Control D.1.3 & D.2.3	<p>Should disclose the following as a minimum.</p> <p>a) The Board should summarise the process it has applied in reviewing the design and effectiveness of the system of internal control</p> <p>b) 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>c) 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>d) 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>e) 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>f) Should ensure that its disclosures provide meaningful, high level information and do not give a misleading impression.</p> <p>g) 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 35 to 38.</p>

CORPORATE GOVERNANCE REPORT (Contd.)

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Statement of Internal Control D.1.3 & D.2.3	<p>h) 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>	<p>Complied.</p> <p>Refer Directors' Statement of Internal Control on pages 35 to 38.</p>

I. Sustainability Reporting

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Sustainability Reporting G.1 to G.1.7	<p>Disclose the policies and procedures adopted to develop a sustainable business in the context of;</p> <ul style="list-style-type: none"> ■ Sustainable economic performance; ■ The environment; ■ Labour practices; ■ Society; ■ Product responsibility; ■ Stakeholder identification, engagement & effective communication; 	<p>Complied.</p> <p>Refer the Report of Sustainability through Value Creation on pages 61 to 71.</p>

REPORT OF THE BOARD AUDIT COMMITTEE

Terms of reference:

The Audit Committee charter was approved by the Board in January 2011 which set out the terms of reference governing the Audit Committee. It provides clear direction on the role of the Committee and its composition. It also ensures that the activities of the Audit Committee are in line with 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:

Mr. P. Saravanapavan, an Independent, Non-Executive Director continued as the Chairman of the Audit Committee during the financial year. He is a Fellow member of the Institute of Chartered Accountant of Sri Lanka, and carries over 40 years experience in the banking and financial sector locally and overseas. The other members of the Committee are Independent Non-Executive Director Mr. L. T. Kiringoda, an Architect by profession and Mr. Ramesh Jayasekara, Director and a qualified Chartered Accountant.

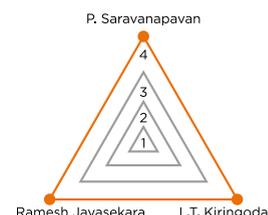
The External Auditors M/s KPMG and the Internal Auditors M/s Ponnampereuma & Company attended the Audit Committee meetings by invitation.

Meetings:

Audit Committee meetings are held at least once a quarter. During the year under review the Committee met four times. The attendance of members at these meetings is as follows.

Name	Attended
Mr. P. Saravanapavan	4
Mr. L. T. Kiringoda	4
Mr. Ramesh Jayasekara	4

* Committee met four times during the year 2017



The engagement partner or a representative from M/s KPMG - External Auditors and a partner from M/s Ponnampereuma & Co. - Internal Auditors attended all meetings.

The Company's Secretaries M/s SSP Corporate Services (Pvt) Ltd. functions as secretary to the Committee, General Manager Rtd. Major. Palitha Saputhanthri and Mrs. Nirmala Arangalage (Accountant) participates meetings by invitation to provide financial information and required details for deliberations.

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

The Chairman of the Committee forwards quarterly reports to the Chairperson of the Audit Committee of Seylan Bank PLC, the parent company, on the important matters discussed at its meetings.

Activities and Responsibilities in Financial Reporting:

Since the Board of Directors had delegated the responsibility of financial reporting to the Audit Committee, The Committee reviewed and discussed the financial reporting systems adopted by the company in the preparation of quarterly and annual financial statements. The main focus is to ensure that the financial statements presented to the Management & External Auditors are reliable, consistent with the Accounting policies adopted, free from material misstatements and its compliance with the Sri Lanka Accounting Standards and the provisions of the Companies Act No.7 of 2007. The Committee also reviews the Quarterly Internal Audit Reports and deliberates with the Internal Auditors on their quarterly audit findings.

Tasks of Audit Committee:

The Committee reviewed the un-audited quarterly interim financial statements for the four quarters before forwarding to Directors' Approval and submission

REPORT OF THE BOARD AUDIT COMMITTEE (Contd.)

to the Colombo Stock Exchange. The Committee also reviews the year-end financial statements before certification by External Auditors together with supporting information including significant assumptions and judgements made in the preparation of the financial statements.

The Committee pursues the Management Letter issued by the External Auditors and take measures to implement their recommendations.

Internal Control & Risk Management:

As an on-going exercise, the Committee along with the Internal Auditors M/s Ponnampereuma & Co reviews the existing internal control system to ensure that it is effective and in operation throughout the financial year. Action is taken to implement any recommendation by the Internal Auditors highlighted in their quarterly reports.

The Committee reviews, evaluates, monitor the risk events identified from the register maintained for recording risk events. Follow up actions are taken to monitor avoidance of similar events.

The Chairman of the Committee, quarterly reports to the Board Integrated Risk Management Committee of Seylan Bank PLC, the parent company, details of risk events identified and action taken for avoidance.

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.

Internal Audit:

The Board of Directors approved the continuance of the services of M/s. Ponnampereuma & Company, a professional audit firm to carryout Internal Audit function. Their scope was to review the internal control system in operation to ensure effectiveness and operation. The review is done on a monthly basis and reported quarterly. Quarterly reports are deliberated at the Audit Committee meetings.

External Audit:

The Committee meets with the engagement Partner of M/s KPMG Chartered Accountants during the Audit Committee meetings and on the occasions by appointment to discuss matters indicated in the Management Letter, and matters relating to valuations and impairment of investment projects. In line with the best practice, M/s KPMG rotated the audit to another engagement partner during the year. We wish to record our appreciation for the contribution of the outgoing partner and welcome the incoming partner. The Auditors presented an

Audit Plan for audit for the financial year and the scope and approach of their work were discussed to ensure that no limitations are placed in their independence and the conduct of the Audit.

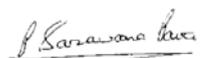
The Audit Committee has recommended to the Board of Directors for the re-appointment of the M/s KPMG Chartered Accountants as Auditors of the company for the financial year ending 31st December 2018, subject to the approval of the shareholders at the Annual General Meeting.

Committee Evaluation:

The annual evaluation of the Committee by Mr. Kapila Ariyaratne - the Chairman and Mr. Ramesh Jayasekara - Director in accordance of best practice of Corporate Governance was performed and deemed satisfactory.

Conclusion:

The Audit Committee is satisfied that the accounting policies, operational controls and the risk management process of the company provides reasonable assurance that the affairs of the company are managed satisfactorily in financial reporting, statutory & regulatory compliance and safeguarding the assets.



P. Saravanapavan.

Chairman - Audit Committee

16th February 2018.

REPORT OF THE BOARD REMUNERATION COMMITTEE

Terms of Reference:

The terms of reference is based on the Remuneration Policy approved by the Board of Directors during 2014. The Committee in discharging its responsibility ensures that the total remuneration package is competitive and in par with remunerations of employees working in similar business organization. The Committee recommend to the Board of Directors, annual salary increments, bonuses and other perks based on performance evaluation.

Composition:

The following members were appointed by the Board to the remuneration Committee.

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

Mr. L. T. Kiringoda - *Member*
(Independent Non-Executive)

Mr. S. Palihawadana - *Member*
(Non-Executive)

M/s SSP Corporate Services (Pvt) Ltd., functions as Secretary to the committee. Rtd. Major Palitha Saputhanthri, General Manager provides staff evaluation based on operational targets, which is deliberated by the committee before finalizing their appraisal grades. Mrs. Nirmala Arangalage, Accountant assist the committee by providing necessary details for discussions. Both Rtd. Major Palitha Saputhanthri, General Manager & Mrs. Nirmala

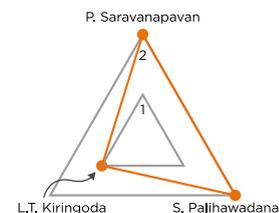
Arangalage, Accountant, attend committee meetings by invitation.

Attendance:

The Committee attendance of the Directors at the Remuneration Committee meeting during the year is as follows;

Name of the Director	Attended
Mr. P. Saravanapavan	2
Mr. L. T. Kiringoda	1
Mr. S. Palihawadana	2

* Committee met two times during the year 2017



Scope:

The Committee reviews the Organizational structure and evaluates job descriptions on a bi annual basis with a view to ensure that staff members are multi-skilled over a period of time. The minutes of meetings after approval is circulated among Directors .

Committee Activity:

The Remuneration Policy approved the Board in 2014 was revised to incorporate changes as suggested by the Board. The committee recommended to the Board for approval bonus payments in April 2017 and in December 2017. The committee evaluated a salary revision as per the remuneration policy and recommended salary increments to be implemented from January 2018, subject to obtaining Board approval.

Committee Evaluation:

The annual evaluation of the Committee was performed by the Chairman with the assistance of Mr. R.J. Jayasekara – Director, in accordance with the Corporate Governance the guidelines to ensure effectiveness and was deemed satisfactory.

P. Saravanapavan.

Chairman - Remuneration Committee
16th February 2018.

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Composition of the Committee:

The following members were appointed by the Board to the Related Party Transactions Review Committee:

Mr. L. T. Kiringoda – *Chairman - Independent & Non- Executive Director*

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

Mr. P. D. Hennayake – *Member - Non- Executive Director*

M/s SSP Corporate Services (Pvt.) Ltd., *functions as Secretaries.*

The following officers attend meetings by invitation

Mr. Nandasiri Ponnampereuma – *Internal Auditor - M/s. Ponnampereuma & Co.*

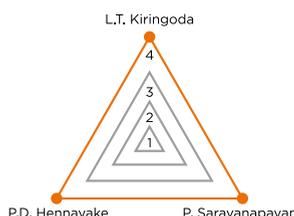
Rtd. Maj. Palitha Saputhanthri – *General Manager - Seylan Developments PLC*

Mrs. Nirmala Arangalage – *Accountant - Seylan Developments PLC*

Attendance:

Name	Attendance
Mr. L. T. Kiringoda	4
Mr. P. Saravanapavan	4
Mr. P. D. Hennayake	4

* Committee met four times during the year 2017



Matters Discussed:

The Committee met four times during the financial year 2017 and matters relating to lease agreement, reimbursement expenses such as electricity, water, insurance and assignment of selected staff to perform duties at Parent Company were deliberated with recommendations submitted to the Board.

The following matters were deliberated pertaining to the rent agreement with Seylan Bank PLC;

- Revision of lease agreement with Seylan Bank PLC, from January 2018, and to include the floor areas to be purchased
- Request for an increase in the existing Security Deposit

Owing to Seylan Developments PLC being a subsidiary of Seylan Bank PLC, the provisions of the Banking Act No. 30 of 1988 and the Amendment Act No. 19 of 1995, placed restrictions on investments in projects outside the scope of Bank related activities. In the light of things the Board considered investing the funds by purchasing back the four floors of the East Tower, which was sold to Seylan Bank PLC in 2004. The Committee met on two special sessions and deliberated on the Board consideration to buy back the four floors from Seylan Bank PLC and submitted to the Board the observations and recommendations in relation to the transaction.

The Committee ensured the compliance with Section 9 of the Rules of CSE and the code of SEC regarding Related Party Transactions.

Maintenance of the Building:

A sub-committee headed by General Manager and comprising Assistant Maintenance Engineer and a representative from Parent Company's Premises Division were appointed to identify common issues with a view to find early solutions.

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE *(Contd.)*

Risk factors affecting the Employees, Customers of the Parent Company and the tenants to the apartments were considered by the Risk Management Committee and steps were taken to safeguard their interests.

Future Meetings:

It was decided to meet at least once a quarter in the year 2018.



L. T. Kiringoda

Chairman - Related Party Transactions Review Committee

16th February 2018.

REPORT OF THE BOARD NOMINATION COMMITTEE

Committee Members:

The Nomination Committee appointed by the Board comprises of two Non - Executive Directors one of whom being independent. The following Directors functioned on the Nomination committee at the year ended 31.12.2017.

Mr. S. Palihawadana - Chairman
(Non - Executive)

Mr. P. Saravanapavan - Member
(Independent and Non - Executive)

Role of the Committee:

In case of a vacancy or vacancies in the Board the Nomination Committee selects qualified nominees, bearing in mind that the

Board is ultimately responsible for selection and appointment with an objective of maintaining a balance of independence according to Corporate Governance Guidelines and recommend to the Board for appointment.

Composition of Directors:

There were six (6) Non-Executive Directors during the year 2017, two of whom was independent. The Board of Directors was of the view that there is no necessity for the change in numbers as the present composition of the Board complies with the existing Corporate Governance guidelines.

Committee Evaluation:

The annual evaluation of the nomination committee was conducted by the Chairman with the contribution from Mr. Ramesh Jayasekara - Director, in accordance with the Corporate Governance guidelines and was deemed to be satisfactory.



Mr. S. Palihawadana

*Chairman - Nomination Committee
16th February 2018.*

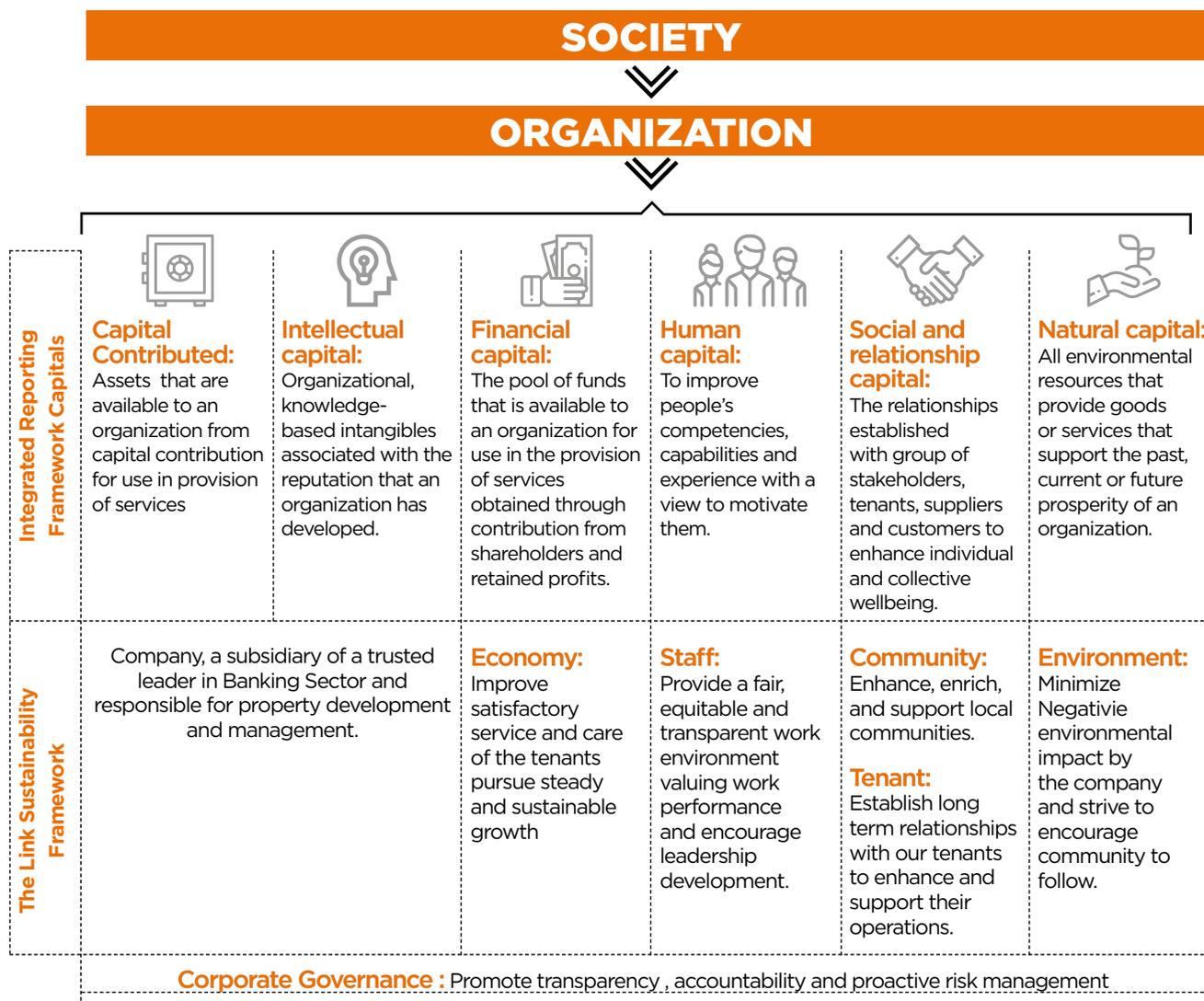
SUSTAINABILITY THROUGH VALUE CREATION

"Development which meets the needs of current generations without compromising the ability of future generations to meet their own needs".

The Brundtland Commission's report

1. Sustainability Framework:

As depicted in our value creation model on page 20, our sustainability policy and principles evolves in creating value to our stakeholders. The Integrated Reporting Framework followed presents the concept six "capitals" which reflect its ability to create value over time. These capitals represent critical inputs in to the Seylan Developments business model as such; we have chosen to follow the Integrated Reporting Framework Capitals are linked to different elements of our Sustainability Framework.



SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

2. Sustainability Concept

In today's context sustainability talks about a broader concept. Accordingly, the organizations must act in a responsible manner to make available resources to support future generations while utilizing them to achieve organization's objectives. Sustainability is seen as global concept and the same is explaining under the three pillar model based on environmental, economic & social consideration which must always regarded as belonging together.

As a corporate entity during past years from the date of commencement of our business operations we have ensured that our decisions, actions and impacts are sustainable and positive at all times. We are extremely sensible that as a corporate body involved in property development & management business we have operated our business in a sustainable manner, while making our stakeholders as part of our journey of progress.

3. The Parameters of our report:

Our sustainability report established on the Global Reporting Initiative (GRI) guidelines. The reporting has been reinforced with G3.1 sustainability indicators which define the contents, quality and the boundaries outlined in the GRI reporting principles. The report encompasses the period from 01st January 2017 to 31st December 2017.

We have analyzed 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 2016.

4. Sustainability Principles of Seylan Developments:

Seylan Developments PLC was incorporated as a limited liability company and reregistered under the Companies Act No. 07 of 2007, and is listed in Colombo Stock Exchange (CSE). The company's core business is Management and Maintenance of the Condominium property at 90, Galle Road, Colombo -03.

Our business objective is to provide affordable and comfortable accommodation to our tenants. It extends beyond just building towards Art and Architecture exquisite with class and technology. Though our activities are limited to a certain extent by the regulators, Central Bank under the Banking Act No.30 Of 1988, we support initiatives across the sector to create a balanced and harmonized built environment.

We operate in a competitive market environment. In principle we always take proactive measures to minimize the effects at any given time. This has driven us to achieve enhance business growth ensuring that we remain within compliance benchmarks in the industry.

5. Our Sustainability Policy

Our prime responsibility is to improve living standards of our tenants, customers, building users, shareholders and our employees. Secondly it's our duty to safe guard our environment and contributing to saving of natural resources, conserving energy while minimizing the carbon foot print in creating a better future for the next generation.

We as the subsidiary of a leading financial institute requires in improving our asset value continuously and reasonably within changing market conditions. We operate within applicable accounting standards monitored by audit and Risk management framework.

We also comply with all applicable laws and regulations of the country and statutory principles with best Corporate Governance practices. Our employees with their technical and entrepreneurial skills are the strength behind our success; therefore we create a knowledge gaining culture at our work place where they are exposed to improvements of modern technological advancements.

We continuously review our operational procedures on industry practices and technological improvements along within the triple pillar model based on environmental, economic & social consideration principles.

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

	Challenges	Opportunities	Risks	Our Strategies
Economic	* Market Competition.	* Investment Opportunities.	* loss of key customers.	* Constant Improvements on Services.
	* Price fluctuations on material and labor.	* Brand name as the subsidiary of Seylan Bank.	* Undesirable Capital expenditure.	* Enhance Research & Development.
Environmental	* Emerging high rise developments.	* Pro-active measures take on system improvements.	* Threats of environmental pollution due to waste emissions.	* Effective Building Management Systems (BMS).
	* Out dated systems and procedures.	* Enhanced Energy & Waste management.	* Increase in the carbon footprint.	* Energy auditing & Monitoring.
Social	* Aging work population.	* Developing Multi skills of workers.	* Possibilities for higher employee retention within a competitive labor market.	* Performance Incentives.
	* Lack of skilled Blue collar workers in the market.	* Structured Training Programs. * Participating in community development programs.	* Cost reduction and strained employee relationships.	* Industry based training. * Active CSR participation.

6. Sustainable Developments

During the year under review company invested Rs. 36.63 Mn as capital expenses on the Seylan Tower Building. In addition company has spent Rs. 16.88 Mn as operational expenses on routine maintenance for the year 2017.

The Company ensures that sustainable development is featured at all strategic levels, supported by Board of Directors 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 educational facilities to under privileged students providing equipments in improving technical Knowledge, empowering people on CSR activities, and also creating a sustainable environment. .

7. Scale of Operations

As at 31st December 2017, the total asset of the Company was Rs.5,48 Bn and the total equity of the Company is Rs.4.82 Bn. During the year under review the Company recorded a profit after tax of Rs. 241.26 Mn.

Any questions or clarifications about this Sustainability Report should be directed to the General Manager of Seylan Developments PLC, Major Palitha Saputhanthri (Retd.) on Telephone No. 011 2456590.

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

8. Commitments and Engagements

8.1 Our Stakeholders & their Expectations

Company identifies its key stakeholders as tenants, employees, investors, suppliers, government, legal & regulatory bodies and society. We have clearly identified the different stakeholder expectations and have formulized our responses accordingly. This varies from effective management that delivers sustainable wealth, product innovation, performance linked remuneration, transparent procurement 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 within 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 of 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 Colombo Stock Exchange (CSE) as stipulated.

It is highlighted here that Company's reporting quality is maintained to the highest standards being Six times Gold winners in the years 2011 to 2016 apart from the Silver they won in the year 2010 under Land and Property sector at the Annual Reports Award competition conducted by the Institute of Chartered Accountants of Sri Lanka.

8.4 Recognizing Stakeholders

Stakeholder engagement is important for an organization to further align business practices to achieve long term sustainability. 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 stakeholders and welcome their constructive suggestions through proper communication channels.

8.5 Materiality Assessment

Our goal for this report is to address the issues our stakeholders such as investors, customers, employees, supplier's community, environment and business partners, who cares about most and to inform anyone looking for information about our progress as a responsible company in a clear, comprehensive and accessible way. Issues that we consider material are those that have a direct or indirect impact on our stakeholders' decisions to do business with us. In this context, the sustainability report reflects the company's significant economic, environmental and social impacts that would substantively influence the assessment and decisions of its stakeholders.

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

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 (Tenants) (Individual, corporate)	<ul style="list-style-type: none"> Tenants are our key stake holders and they are the very reason we exist. Cordial relationships with them maximize our service excellence. 	<ul style="list-style-type: none"> One to one meetings Discussion forums Customer feed backs 	<ul style="list-style-type: none"> Product quality Service standards Affordable Price Facilities 	<ul style="list-style-type: none"> Provisioning of modern and comfort accommodation with highest standards at competitive prices. Availability of round the clock security, maintenance and customer service at the door step with minimum down time.
Suppliers	<ul style="list-style-type: none"> A dependent supplier base provides opportunities in attending to service needs on time. 	<ul style="list-style-type: none"> Supplier Registration 	<ul style="list-style-type: none"> Price fluctuations Delays in delivery. 	<ul style="list-style-type: none"> Proper procurement policies. Better negotiations Proper inventory management systems
Employees	<ul style="list-style-type: none"> The internal customers; the pillars of the organization. 	<ul style="list-style-type: none"> Direct reporting Open door policy at all management levels. 	<ul style="list-style-type: none"> Employee Development Health & Safety requirement. Organizational ethics work force diversity 	<ul style="list-style-type: none"> Merit based recruitment & selection. Employee Welfare Insurance Staff Loans Medical Performance linked rewards
Investors / Shareholders	<ul style="list-style-type: none"> Corporate responsibility Increasing Shareholder wealth Business Ethics 	<ul style="list-style-type: none"> Annual General Meeting. Internal & External Audit procedures Web updating/CSE reports 	<ul style="list-style-type: none"> ROI Good governance Practices Risk management controls Transparency 	<ul style="list-style-type: none"> The Company recorded an EPS of Rs. 1.63 per ordinary share, which is a decrease of 35.57 % over the previous year's EPS of Rs. 2.53. The Board of Directors has recommended a first and final dividend of Rs: 0.90 per share amounting Rs: 133,168,374/- which requires to be approved by the shareholders at the AGM.

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

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
Government, Legal & Regulatory Bodies	<ul style="list-style-type: none"> to have system controls all Statutory payments in order BOI, Labor issues, Taxes and tariff controls 	<ul style="list-style-type: none"> Representation through associations, Acts and circulars, 	<ul style="list-style-type: none"> Penalties, Loss of reputation Loss of shareholder confidence. 	<ul style="list-style-type: none"> Implementations of regulatory monitors Conduct compliance reviews at various levels. Good Code of ethics.
Society / Pressure groups / Media	<ul style="list-style-type: none"> External Environment (PESTEL) factors Sustainable developments Green concepts in reducing the carbon foot print. 	<ul style="list-style-type: none"> Correspondence, Discussions, Media coverage. 	<ul style="list-style-type: none"> Waste disposal Energy efficiency. Potential for future growth. 	<ul style="list-style-type: none"> Reducing environmental impacts SDP promotes initiatives such as internal paper recycling, energy saving lighting (LED), Effective maintenance of AC system, Generators, water supply etc.

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 in 2015 was one aspect of reducing the impact on the national grid. This year in strengthening the efforts it was communicated to our tenants 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 PERFORMANCE

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 stakeholders.

9.1.2 Economic Performance Indicators

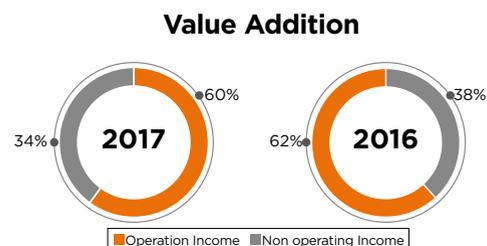
Economic impacts of our activities across key stakeholder segments are as follows;

Value Addition:

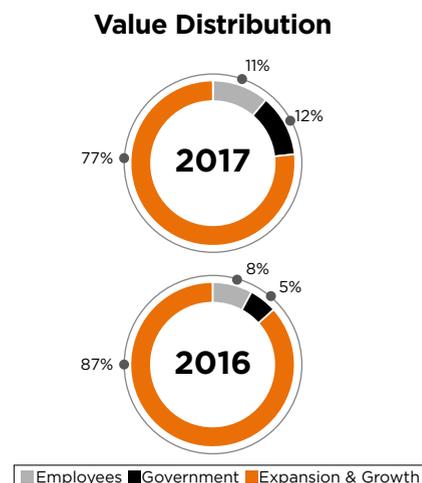
The value statement depicts the generation of wealth and its distribution among the stakeholders by acting responsibly in all of our businesses/ social activities throughout the organization.

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

Value Added Statement	2017	2016
	Rs.'000	Rs.'000
Operating Income	212,537	194,009
Cost of Services	(48,054)	(73,670)
Value Added Services provided by SDP	164,483	120,339
Non-Operating Income	141,332	312,906
	305,815	433,245



	2017		2016	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Value Allocated to Employees				
Salaries, Wages and Other Benefits		35,142		34,089
To Government				
Income Tax & Deferred Tax	24,539		19,324	
Stamp Duty	8		6	
VAT & NBT	4,088	28,635	4,437	23,767
To Expansion and Growth				
Surplus / (Deficit)	241,261		374,581	
Depreciation	776	242,038	808	375,389
		305,815		433,245



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 companies contribute 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.

	2017	2016
Employer contribution to the trust fund	572,502	535,501
Employer contribution to the provident fund	1,627,578	2,144,204

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

9.1.4 Retirement Gratuity Plan

Employees are entitled to gratuity payment under the Gratuity Act No. 12 of 1983 and its subsequent amendments as No.41 of 1990. 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**

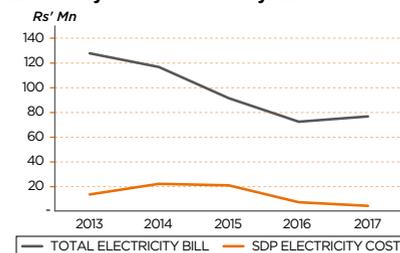
We ensure that all our processes and systems functions within specified environmental parameters. As an organization, we are committed to the efficient and sustainable use of our natural resources. At the same time we take every necessary step to promote and practice conservation methods in minimizing 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.

9.2.2 Environmental Performance Indicators**Energy Conservation**

Energy conservation was discussed at length at the last years report where the company was able to achieve 40% reduction on the monthly energy Bills.

The savings were more than it was originally pledged and the payback period has been shortened to 2.1 years (December 2017) against 3.3 years (January 2019) as it was originally pledged.

Electricity cost of last five years**Waste Management**

The first step is the separation and management of waste at the source. The public is responsible. If this step is not performed, the other steps will not work. Therefore, the public must sort out and if possible compost.

The national solid waste management policy was made by the Ministry of Environment and Natural Resources in 2007. It contains policy objectives and policy principles, the waste management hierarchy, aspects pertaining to source reduction, reuse and recycling, the latter however

does not involve final disposal such as through recovery, incineration and land filling.

Solid waste management has been a day to day topic for years but no proper program executed. However the national solid waste management policy was made by the Ministry of Environment and Natural Resources in 2007. It contains policy objectives and policy principles, the waste management hierarchy, aspects pertaining to source reduction, reuse and recycling, the latter however does not involve final disposal such as through recovery, incineration and land filling.

We as a responsible corporate entity have taken steps to modernize the garbage collection area of Seylan Towers by allocating specific spaces for the segregated garbage collected from various locations of Seylan Towers.

With this initiative we have strengthen the collecting and segregating process of all the waste differently as paper, glass, scrapped iron, and polythene and organic. And we have fully cooperated with Colombo Municipal Council collection process of segregated garbage. We are happy say that necessary steps have been taken in contributing to minimize the carbon foot print in the immediate environment.

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

9.3 SOCIAL PERFORMANCE**9.3.1 Empowering the Workers**

We 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 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	25	96.00%
Contract	01	4.00%
Total	26	100%

Breakdown of Employees per Category according to Gender

Gender	Supervisory/Technical	Clerical & Allied	Executive	Total
Male	14	04	03	21
Female	01	01	03	05
Total	15	05	06	26

Breakdown of Employees per Category according to Ethnic Group

Ethnic Group	Supervisory/Technical	Clerical & Allied	Executive	Total
Sinhala	14	05	06	25
Tamil	01	-	-	01
Muslim	-	-	-	-
Burger	-	-	-	-
Others	-	-	-	-
Total	15	05	06	26

Breakdown of Employees according to Age

Age	No. of Employees
< 20	-
20 - 29	-
30 - 39	03
40 - 49	14
>50	09
Total	26

Breakdown of Employees according to No of years' service

Period of Service	No. of Employees
< 05	02
05 - 09	04
10 - 19	18
20 - 29	02
>30	-
Total	26

SUSTAINABILITY THROUGH VALUE CREATION (Contd.)

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

Breakdown of Employees resignation / retirement according to age

Age	No. of Employees
< 20	-
20 - 29	-
30 - 39	-
40 - 49	01
>50	03

Breakdown of Employees resignation according to gender

Gender	No. of Resignations
Male	03
Female	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 Surgical & Hospitalization Insurance cover from The Sri Lanka Insurance Corporation and a Critical Insurance cover obtained from AIA Insurance Company. In addition the Company pays a fixed allowance for every employee to obtain outer patient medical expenses. Additionally by way of a Group Assurance insurance policy all employees are cover for the critical illness, temporary or permanent disability and also with a natural & accidental death cover.

In order to minimize risk and repetition of health and safety related issues we practice all work place safety rules and regulations. There were no accidents recorded 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



9.4.2 Social Performance Indicators

CSR Activities (Corporate Social Responsibility):



As similar to last year our theme on Corporate Social Responsibility for the year 2017 was in par with that of our parent company Seylan Bank Plc. The company offered in providing of facilities required for a school library at Piliyandala Dharmaraja Maha Vidyalaya in the Western Province at an approximate cost of Rs.450,000/- All renovations works were done by the participation of the staff and the maintenance unit of Seylan Developments Plc. This would not have been possible without the generosity shown by our valued shareholders in approving part of their returns to be spent on CSR activities at the AGM held on 31st March 2017.

The Library with other facilities such as Internet was handed over to the School at a heartwarming event participated by Seylan Developments' officials, School Principal, teachers, students and other well-wishers on 05th February 2018.

BUSINESS MODEL OF SEYLAN DEVELOPMENTS PLC



ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SEYLAN DEVELOPMENTS PLC ON THE STATE OF AFFAIRS OF THE COMPANY FOR THE YEAR

1. General:

The Board of Directors of Seylan Developments PLC has pleasure in presenting their Report on the state of affairs of the Company together with the Audited Financial Statements for the year ended 31st December 2017. The details set out herein provide the pertinent information required under Section 168 of the Companies Act No. 07 of 2007, the Colombo Stock Exchange Listing Rules and the recommended best practices on Corporate Governance.

The financial statements of the Company were approved by the Board of Directors on 16th February 2018 and are stated in pages no. 86 to 132 of this Annual Report.

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, Code of Best Practice on Corporate Governance (2013) jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Seylan Developments PLC is 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. The registered office of the Company is located at Level 15, Seylan Towers, No. 90, Galle Road, Colombo 03.

2. Review of the Business

2.1 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. There were no significant changes to the principal activities of the Company during the year.

The Company disposed the properties at Union Place and Kataragama during the year under review and funds will be utilized to buyback the four floors of Seylan Towers presently owned by Seylan Bank PLC. An analysis of the financial and operational performance and future business plans of the Company are described in the management discussion on pages 22 to 25 of this report. Further Chairman's Review on pages 6 to 9 and the General Manager's Review on pages 10 to 13 of the Annual report, together with the audited financial statements reflect the state of affairs of the Company.

2.2 Financial Statements and Financial Reporting:

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (LKASs), issued by the Institute of Chartered Accountants of Sri Lanka.

The Audited Financial Statements of the Company for the financial year ended 31st December 2017 certified by the Accountant and signed by two Directors in terms of Section 151 and 168 (i) (b) of the Companies Act No: 07 of 2007 as published in this Annual Report form an integral part of this Report.

2.3 Auditor's Report:

The Auditors of the Company M/s KPMG - Chartered Accountants carried out the audit on the financial statements for the year ended 31 December 2017 and the Auditors Report on those financial statements is given in page 85 of this Annual Report.

2.4 Accounting Policies:

The accounting policies adopted by the Company in the preparation of financial statements are stated in pages 92 to 101. Those accounting policies have been applied consistently to all periods presented in these financial statements.

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SEYLAN DEVELOPMENTS PLC ON THE STATE OF AFFAIRS OF THE COMPANY FOR THE YEAR (Contd.)

3. Board of Directors:

The Board of Directors of the Company as at December 31, 2017 consisted of six Directors with wide knowledge and experience in the finance, banking, engineering and architectural sectors.

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

Name of the Director	Executive / Non-Executive Status	Independent / Non-Independent Status
Mr. K. P. Ariyaratne (<i>Chairman</i>)	Non-Executive	Non-Independent
Mr. S. Palihawadana (<i>Deputy Chairman</i>)	Non-Executive	Non-Independent
Mr. P. Saravanapavan	Non-Executive	Independent
Mr. R. J. Jayasekara	Non-Executive	Non-Independent
Mr. P. D. Hennayake	Non-Executive	Non-Independent
Mr. L. T. Kiringoda	Non-Executive	Independent

The qualifications and experience of the Directors are given in the 'Board of Directors - Profiles' on pages 16 and 19.

3.1 Recommendations for Re-Election of Directors:

In terms of Article 93(a) of the Articles of Association, Mr. Ramesh Jayasekara retires by rotation at the Annual General Meeting of the Company and offers himself for re-election.

Mr. P. Saravanapavan who has attained the age of 72 years intends to be re-appointed as a Director of the Company in terms of Section 211 of the Companies Act No.07 of 2007.

3.2 Directors' Responsibility for Financial Reporting:

The Directors are responsible for the preparation of Financial Statements of the Company which were in conformity with the records of accounts and subsidiary books 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 86 to 132 have been prepared in conformity with the requirements of the Sri Lanka Financial Reporting Standards (SLFRS), Sri Lanka Accounting Standards (LKAS), 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 pages 80 to 81 of this Annual Report.

3.3. Board Committees

The Board of Directors has appointed four Committees to assist the Board. They are Audit Committee, Remuneration Committee, Related Party Transactions Review Committee and Nomination Committee. While the first three Committees are required by the Listing Rules of Colombo Stock Exchange, functioning of all four Committees are recommended by the Code of Best Practice on Corporate Governance (2013) issued jointly by the Securities and Exchange Commission and the Institute of Chartered Accountants of Sri Lanka. The terms of reference of each Committee is set by the Board.

3.4 Meetings of the Board of Directors:

Twelve regular monthly meetings and one special meeting were held during the year. The details of the Directors' meetings which comprise Board Meetings, Audit Committee Meetings, Remuneration Committee Meetings, Related Party Transactions Review 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, Related Party Transactions Review Committee Report etc.

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SEYLAN DEVELOPMENTS PLC
ON THE STATE OF AFFAIRS OF THE COMPANY FOR THE YEAR (Contd.)

4. Entries in the Interest 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.

List of other directorships (stating executive / non-executive / independent status) held by the Directors are provided in the annexure to this Report.

4.1 Directors' interest in Contracts

Directors' interests in contracts with the Company, both direct and indirect are disclosed on page 122 to 124.

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.

Note 24 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

4.2 Directors' interest in shares

Directors of the Company who have interests in the shares of the Company have disclosed their shareholdings in compliance with Section 200 of the Companies Act.

Directors' Interests in Ordinary Shares of the Company

Individual ordinary shareholdings of Directors were as follows:

As at December 31,	2017	2016
Mr. K. P. Ariyaratne (Chairman)	25,000 shares	25,000 shares
Mr. S. Palihawadana (Deputy Chairman)	10,000 shares	10,000 shares
Mr. P. Saravanapavan	Nil	Nil
Mr. R. J. Jayasekara	Nil	Nil
Mr. P. D. Hennayake	Nil	Nil
Mr. L. T. Kiringoda	Nil	Nil

4.3 Directors' Remunerations

Directors' remuneration, in respect of the Company for the financial year ended December 31, 2017 is given on Note 24 on the Financial Statements on page 122.

5. 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 (2013) issued by regulators as detailed in the Section on 'Corporate Governance' on pages 39 to 54.

6. Dividend:

The Board of Directors, recommended the payment of first and final dividend of Rs: 0.90 per share for the financial year ended 31st December 2017, to be approved by the Shareholders at the Annual General Meeting of the Company to be held on 29th March 2018. The Company paid a First and Final Ordinary Dividend of Rs: 0.75 per share for the year 2016 on 31st March 2017.

The Directors are satisfied that the Company would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007 immediately after the proposed dividend. Board has obtained a Certificate of Solvency from the External Auditors, pursuant to providing the Statements of Solvency in respect of the proposed dividend payments.

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SEYLAN DEVELOPMENTS PLC
ON THE STATE OF AFFAIRS OF THE COMPANY FOR THE YEAR (Contd.)

7. Financial Results

7.1 Turnover

The Company recorded a turnover of Rs: 211.62 mn (2016 - Rs: 193.07 mn). During the year under review.

7.2 Operating Results:

Details of profit relating to the Company are given below:

For the year ended December 31	2017 Rs: 000'	2016 Rs:000'
Profit from operations for the year	183,712	363,216
Add : Net Finance Income	82,088	30,689
Profit before taxation	265,801	393,905
Less : Provision for taxation	(24,539)	(19,324)
Net Profit after taxation	241,262	374,581

Profit after tax shows a decrease of Rs: 133.32 Mn (35.6%) compared to previous year mainly due to high gain recorded on changes of fair value of Investment Properties amounting Rs: 262.47 Mn in previous year compared to Rs: 5.36 Mn recorded in current year.

7.3 Donations:

The Donations recommended for the year amounted to Rs: 450,000/- (2016 - Rs: 450, 000/-). The powers for authorization of donations was given to the directors at the Annual General Meeting.

7.4. Taxation

Provision for taxation has been computed as indicated in Note 10 to the Financial Statements.

7.5 Capital Expenditure:

The total capital expenditure incurred on the acquisition and additions of Property, Plant & Equipment and Investment Property of the Company during the year is given in the Notes 12 and 13 to the Financial Statements. Capital expenditure approved and contracted as at the year ended 31st December 2017 is also given in Note 28.2 to the Financial Statements

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SEYLAN DEVELOPMENTS PLC
ON THE STATE OF AFFAIRS OF THE COMPANY FOR THE YEAR (Contd.)

7.6 Reserves

Total reserves as at the end of the financial year are as follows,

	2017 Rs: 000'	2016 Rs: 000'
Total Reserves	3,177,177	3,037,674

7.7 Stated Capital

The stated capital of the Company as at 31st December 2017 was Rs: 1,664,391,650/-.

The shares issued by the Company is given in the table below;

	2017	2016
Ordinary Voting Shares	147,964,860	147,964,860

8. Share Information:

Information on shareholding is given on pages 134 to 135.

9. Shareholdings:

There were 6,164 registered shareholders (2016 - 6, 229) holding Ordinary Voting Shares as at December 31, 2017.

An analysis of the distribution of shareholdings and lists of twenty largest shareholdings of the Company are published on page 134 of this Annual Report.

10. Investors' Information:

Information including earnings, profitability, dividends, net assets and market value per share is given under Financial Highlights of this Annual Report.

11. Risk Management and System of Internal Controls:

The Board considers that strong internal controls are integral to sound management of the Company and is committed to maintaining financial, operational and risk management controls over all its activities. Further details of these aspects are discussed in the Corporate Governance Report, Audit Committee Report, Risk Management Report and Board of Directors' Statement on Internal Controls available on pages 39 to 54, pages 55 to 56, pages 28 to 34 and pages 35 to 38 respectively.

12. Declaration

The Directors declare that:

- I. To the best of their knowledge and belief, the Company has not engaged in any activity, which contravenes laws and regulations of the country.
- II. 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 or provision has been made for outstanding amounts.
- III. There were no contingent liabilities and litigations pending against the Company as at December 31, 2017, other than the cases disclosed in Note 25 on page 124.
- IV. All material interests in contracts involving the Company has been disclosed by them and refrained from voting on matters in which they were materially interested.
- V. The Company has made all endeavors to ensure equitable treatment of all shareholders.
- VI. The business is a going concern and that the Board of Directors has reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SEYLAN DEVELOPMENTS PLC ON THE STATE OF AFFAIRS OF THE COMPANY FOR THE YEAR (Contd.)

Statements are prepared considering the Company as a going concern.

VII. Internal controls covering financial, operational, risk management and compliance controls have been reviewed, and have obtained reasonable assurance from Internal Audit of their effectiveness and successful adherence.

13. Events after the Reporting Period:

No events have occurred after the Reporting Date which would require adjustments to or disclosure in the accounts, other than those given in Note 26 to the Financial Statements.

14. 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 Audit Committee recommends to the shareholders for re-appointment of M/s KPMG - Chartered Accountant as Auditors of the Company for the financial year 2018.



Kapila Ariyaratne
Chairman



Somadasa Palihawadana
Deputy Chairman



SSP Corporate Services (Pvt) Ltd
Company Secretary

16th February 2018
Colombo

Audit Fees payable / paid are as follows;

	2017 Rs: 000'	2016 Rs: 000'
Audit Fees	1,025.86	1,013.40
Audit Related Fees	23.18	94.51

Independence of the Auditors:

Based on the assessment carried out by the Board Audit Committee upon adoption of a policy for the engagement of Auditors and in the opinion that the External Auditors, M/s KPMG can be deemed to be independent for all intents and purposes considering the following factors;

- No partner from the firm is on the Board of Seylan Developments PLC or on the Board of Parent Company.
- The audit and non-audit fees are negotiated and are not above industry norms.
- The firm had the necessary skills to completely carry out the non-audit related assignments entrusted to them.
- The Auditors do not receive fees from other assignments except as stated above.
- Partner and Audit team rotation was complied with in 2017.
- M/s KPMG is a firm of high repute.

15. Notice of Meeting:

The Annual General Meeting is scheduled to be held at the Samudra Hotel, No: 78, Galle Road, Colombo 03 on 29th March 2018 at 2.30 pm. Notice of Meeting relating to the Twenty Sixth Annual General Meeting is given on page 138 of this Annual Report.

For and on behalf of the Board of Directors of Seylan Developments PLC

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SEYLAN DEVELOPMENTS PLC
ON THE STATE OF AFFAIRS OF THE COMPANY FOR THE YEAR (Contd.)

ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

Directors Interest Register and Directors' Interest in Transactions as at 31st December 2017

The Company carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Company is a Director of such entities

The entities in which the Directors of the Companies held directorships as at the above date are disclosed below:

The transactions (if any) of the Company with the Directors and with these entities are disclosed in Note 24 to the Financial Statements on pages 122 to 124.

Entity	Directorship (Executive / Non Executive Status)
Mr. Kapila Ariyaratne (Chairman)	
Listed Entities	
Seylan Bank PLC	Executive Director
Unlisted Entities	
Esots (Pvt) Limited	Non-Executive Chairman
Lanka Financial Services Bureau Limited	Non-Executive Director
Sesot (Pvt) Limited	Non-Executive Chairman
Seyshop (Pvt) Limited	Non-Executive Chairman
Seybest (Pvt) Limited	Non-Executive Chairman
Seyfest (Pvt) Limited	Non-Executive Chairman
Sotse (Pvt) Limited	Non-Executive Chairman
Mr. S. Palihawadana (Deputy Chairman)	
Mr. P. Saravanapavan	
Mr. Ramesh Jayasekera	
Mr. Piyal Hennayake	
Mr. L. T. Kiringoda	
	No Directorships

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors are responsible in terms of the provisions of the Companies Act No.07 of 2007, to ensure compliance of the requirements set out there in leading to the preparation of Financial Statements, to reflect a true and fair view of the affairs of the company. In addition the Directors are responsible that the Company maintains complete set of records to account all transactions without omissions and prepare Statement of Financial Position of the Company at the reporting date and the Statement of profit or loss and Comprehensive Income for the year ending on the reporting date, with reasonable accuracy and without material misstatement therein.

Confirmation of Directors' Responsibility:

The Directors of Seylan Developments PLC confirm that to the best of their knowledge that

- The Financial Statements prepared and published on pages 86 to 132 of this Annual Report in conformity of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act, gives a true and fair view of the state of affairs of the Company for the year ended 31st December 2017.
- The Financial statements for the year ended 31st December 2017 presented in this Annual Report are agreement with the records and accounts maintained by

the Company, are in conformity with the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act No.07 of 2007, the Listing Rules of the Colombo Stock Exchange, and the Code of Best Practices on Corporate Governance (2013) issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

- In preparing the Financial Statements for the year ended 31st December 2017, appropriate accounting policies have been selected and applied on a consistent basis with material departures if any disclosed in the Financial Statements together with the rationale for the same. (Refer pages 92 to 101)
- Proper records of accounts have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

The Directors also confirm that,

- The financial reporting system is also reviewed by the Board through the management accounts submitted monthly basis at Board meetings. The Company's Quarterly un-audited Financial Statements and the Year End Financial Statements are circulated among Members of the Audit Committee and deliberated

at the Committee Meetings to ensure compliance before recommending to the Board of Directors for their approval.

- Adequate measures had been taken to safeguard the assets of the Company. In this regard Internal Control Systems had been designed to prevent and detect irregularities and fraud.

External Auditors' Reviews and Opinion:

The Company's Auditors, M/s KPMG was engaged to carry out reviews according to their Audit Plan and sample checks on the effectiveness of the systems of internal control as they consider appropriate and necessary to express their opinion on the Financial Statements made available together with all other financial records. Auditors also examine Minutes of meetings of the Board, the Board Sub-Committees, quarterly reports of the Internal Auditors and related information in concluding their opinion which appears on pages 85 of this Annual Report.

Internal Control Mechanism over Financial Reporting:

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets and ensure continuity of operations. To this end,

STATEMENT OF DIRECTORS' RESPONSIBILITY (Contd.)

the Board appointed a Professional Audit firm to perform the internal audit function and report on a quarterly basis. Their reports are reviewed and corrective measures taken on weakness identified and their recommendation.

The Company continued to follow risk management policies and procedures in identifying such risks and establish appropriate control environment for ensuring proper monitoring and correction of deficiencies.

Solvency:

The Board of Directors confirms that they have authorized the distribution of the proposed dividend after having satisfied that the Company would meet the solvency test



Kapila Ariyaratne

Chairman

in terms of the provisions of the Companies Act No.07 of 2007 immediately after the dividend payment. The Board has obtained a Certificate of Solvency from the External Auditors in relation to the proposed dividend payment.

The Directors confirms that to the best of their knowledge and belief, all statutory payments due payable to all statutory and regulatory authorities as at the Reporting Date, have been paid by the Company or relevant provisions had been made.

Going Concern:

The Directors after considering the financial positions, operating conditions, regulatory and other factors and such other matters required to be addressed in the



Somadasa Palihawadana

Deputy Chairman

Corporate Governance Code and belief that the Company has adequate resources to continue in operations for the foreseeable future. The Financial Statements of the Company have accordingly been prepared on a Going Concern basis.

Conclusion:

The Directors are of the view that they have discharged their obligations as set out in this Statement.



SSP Corporate Services (Pvt) Ltd

Company Secretary

*16th February 2018
Colombo*

FINANCIAL STATEMENTS

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FINANCIAL CALENDAR

Financial Calendar - 2017

25th Annual General Meeting held on 31st March 2017

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange - 2017

- 🕒 For the three months ended March 31, 2017 (un-audited) on May 12, 2017
- 🕒 For the six months ended June 30, 2017 (un-audited) on August 01, 2017
- 🕒 For the nine months ended September 30, 2017 (un-audited) on November 06, 2017
- 🕒 For the twelve months ended December 31, 2017 (audited) on February 19, 2018.

Financial Statements for the year ended 31st December 2017 signed on 16th February 2018

First and Final Ordinary Dividend for the year ended 31st December 2016 paid on 31st March 2017.

Proposed Financial Calendar - 2018

26th Annual General Meeting to be held on 29th March 2018

Submission of Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange - 2018

- 🕒 For the three months ended March 31, 2018 (un-audited) on or before May 15, 2018
- 🕒 For the six months ended June 30, 2018 (un-audited) on or before August 15, 2018
- 🕒 For the nine months ended September 30, 2018 (un-audited) on or before November 15, 2018
- 🕒 For the twelve months ended December 31, 2018 (un-audited) on or before February 28, 2019

First and Final Ordinary Dividend - Payable for the year ended 31st December 2017 (subject to approval of the shareholders at the AGM to be held on 29th March 2018) on or before 10th April 2018



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

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

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 31st December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and, cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 86 to 132 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 31st December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company and the financial statements of the Company, comply with the requirements of section 151 of the Companies Act.

Chartered Accountants

Colombo

16th February 2018

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	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December,

Amounts in Sri Lankan Rupees

	Note	2017	2016
Revenue	4	211,617,984	193,070,430
Other income	5	52,722,576	19,269,994
		264,340,560	212,340,424
Personnel costs	6	(35,142,027)	(34,088,756)
Premises, equipment, establishment expenses		(31,663,493)	(49,487,734)
Administrative expenses		(18,607,594)	(26,373,492)
Marketing expenses		(577,360)	(1,639,706)
Results from operating activities before change in fair value of investment properties		178,350,086	100,750,736
Change in fair value of investment properties	7	5,362,377	262,465,500
Results from operating activities	8	183,712,463	363,216,236
Net finance income	9	82,088,132	30,688,961
Profit before income taxation		265,800,595	393,905,197
Income tax expenses	10	(24,538,989)	(19,323,798)
Profit for the year		241,261,606	374,581,399
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	20.3	10,085,807	(2,627,212)
Defined benefit plan actuarial (losses) / gains	16.2.e	(870,003)	497,107
Revaluation of property, plant and equipment		-	2,202,348
Deferred tax liability on revaluation of property, plant & equipment		-	(616,657)
Reversal of revaluation of property, plant & equipment written off / impaired		-	(121,530)
Deferred tax liability on reversal of revaluation		-	48,168
Net change in fair value of available for sale financial assets reclassified to profit or loss	20.3	(972)	-
Other comprehensive income for the year, net of income tax		9,214,832	(617,776)
Total comprehensive income for the year		250,476,438	373,963,623
Earnings per share (Rs.)	11	1.63	2.53

The notes on pages 91 to 132, form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

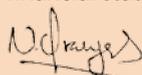
As at 31 December,

Amounts in Sri Lankan Rupees

	Note	2017	2016
Assets			
Non current assets			
Property, plant & equipment	12	4,138,501	4,623,890
Investment properties	13	4,282,356,400	4,240,957,000
Other investments	14.1	-	56,645,890
Total non current assets		4,286,494,901	4,302,226,780
Current assets			
Inventories	15	3,697,117	3,688,515
Trade and other receivables	16	57,403,384	50,479,738
Assets held for sale	17	-	702,000,000
Other investments	14.2	159,440,902	250,110,311
Cash and cash equivalents	18	974,902,820	18,374,123
Total current assets		1,195,444,223	1,024,652,687
Total assets		5,481,939,124	5,326,879,467
Equity and liabilities			
Equity			
Stated capital	19	1,644,391,650	1,644,391,650
Reserves	20	523,384,404	513,299,569
Retained earnings		2,653,792,704	2,524,374,746
Total equity		4,821,568,758	4,682,065,965
Non current liabilities			
Deferred tax liability	21	475,668,472	485,298,391
Total non current liabilities		475,668,472	485,298,391
Current liabilities			
Trade and other payables	22	160,830,875	149,571,608
Income tax payable	23	23,871,019	7,082,054
Bank overdrafts	18	-	2,861,449
Total current liabilities		184,701,894	159,515,111
Total liabilities		660,370,366	644,813,502
Total equity and liabilities		5,481,939,124	5,326,879,467
Net Assets per share (Rs.)		32.59	31.64

The notes on pages 91 to 132, 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 (Ms.) - 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



S. Palihawadana - Deputy Chairman

Colombo - 16th February 2018

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December,

Amounts in Sri Lankan Rupees

	Stated capital	Capital reserve	Revaluation reserve	Available for sale reserve	Retained earnings	Total
Balance as at 01.01.2016	1,644,391,650	525,493,650	405,281	(11,433,981)	2,238,024,658	4,396,881,258
Total Comprehensive income for the year						
Profit for the year	-	-	-	-	374,581,399	374,581,399
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	(2,627,212)	-	(2,627,212)
Defined benefit plan actuarial gains	-	-	-	-	497,107	497,107
Revaluation of property, plant and equipment	-	-	2,202,348	-	-	2,202,348
Deferred tax liability on revaluation of property plant & equipment	-	-	(616,657)	-	-	(616,657)
Reversal of revaluation of property plant & equipment written off/ impaired	-	-	(172,028)	-	50,498	(121,530)
Deferred tax liability on reversal of revaluation	-	-	48,168	-	-	48,168
Total comprehensive income for the year	-	-	1,461,831	(2,627,212)	375,129,004	373,963,623
Transactions recorded directly in equity						
Dividend paid	-	-	-	-	(88,778,916)	(88,778,916)
Balance as at 31.12.2016	1,644,391,650	525,493,650	1,867,112	(14,061,193)	2,524,374,746	4,682,065,965
Balance as at 01.01.2017	1,644,391,650	525,493,650	1,867,112	(14,061,193)	2,524,374,746	4,682,065,965
Total Comprehensive income for the year						
Profit for the year	-	-	-	-	241,261,606	241,261,606
Other comprehensive income						
Net change in fair value of available-for-sale financial assets	-	-	-	10,085,807	-	10,085,807
Defined benefit plan actuarial losses	-	-	-	-	(870,003)	(870,003)
Net change in fair value of available for sale financial assets reclassified to profit or loss	-	-	-	(972)	-	(972)
Total comprehensive income for the year	-	-	-	10,084,835	240,391,603	250,476,438
Transactions recorded directly in equity						
Dividend paid	-	-	-	-	(110,973,645)	(110,973,645)
Balance as at 31.12.2017	1,644,391,650	525,493,650	1,867,112	(3,976,358)	2,653,792,704	4,821,568,758

The notes on pages 91 to 132, form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December,

Amounts in Sri Lankan Rupees

	2017	2016
Cash flows from operating activities		
Receipt from operating activities	218,176,717	210,637,255
Cash payments to employees, suppliers and tax authorities	(85,657,344)	(108,004,047)
Interest payments	(681,823)	(1,039,392)
Operating profit before changes in operating assets	131,837,550	101,593,816
(Increase)/Decrease in operating assets :		
Stock & receivables	(7,562,952)	(17,596,282)
Increase/(Decrease) in operating liabilities :		
Deposits & trade payables	5,748,618	7,194,285
Cash generated from operations	130,023,216	91,191,819
Income tax paid	(11,665,440)	-
Net cash from operating activities	118,357,776	91,191,819
Cash flows from investing activities		
Interest received	84,166,212	32,146,284
Purchase of non-dealing securities	(22,951,623)	(80,838,051)
Disposal of non-dealing securities	179,159,435	46,391,992
Purchase of property, plant and equipment	(589,246)	(243,825)
Proceeds from disposal of investment properties	748,163,843	-
Proceeds from disposal of property, plant and equipment	94,417	-
Additions to investment properties	(36,037,023)	(1,197,026)
Net cash from investing activities	952,006,015	(3,740,626)
Cash flows from financing activities		
Dividends paid	(110,973,645)	(88,778,916)
Net cash from financing activities	(110,973,645)	(88,778,916)
Net increase in cash and cash equivalents	959,390,146	(1,327,723)
Cash and cash equivalents at beginning of year	15,512,674	16,840,397
Cash and cash equivalents at end of year	974,902,820	15,512,674
Reconciliation of cash and cash equivalents		
Cash and short term funds	974,902,820	18,374,123
Bank overdraft	-	(2,861,449)
	974,902,820	15,512,674

The notes on pages 91 to 132, form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December,

Amounts in Sri Lankan Rupees

	2017	2016
Cash flows from operating activities		
Profit before tax	265,800,595	393,905,197
Adjustments for		
Provision for gratuity	(460,294)	(328,372)
Depreciation	776,362	808,124
Impairment	-	183,906
Changes in fair value of investment properties	(5,362,377)	(262,465,500)
Provision for impairment of trade and other receivables	307,414	3,163,959
Profit on disposal of investment properties	(46,163,843)	-
Finance income	(84,000,980)	(33,634,569)
Net change in fair value of financial assets at fair value through profit or loss	1,192,323	1,595,696
Amortisation of pre paid staff expenses	(86,418)	138,867
Change in interest income of staff loan & staff cost on SLFRS adjustments	(165,232)	(107,411)
Write back of payables	-	(1,666,081)
Operating profit before working capital changes	131,837,550	101,593,816

The notes on pages 91 to 132, form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 01 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 2017 is 26 (2016- 29).

Note 02 Basis of preparation

2.1) Statement of compliance

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs & LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 07 and 2007.

The Company’s financial statements were authorized for issue by the Board of Directors on 16th February 2018.

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:

- Investment property is measured at fair value. (Note 13)
- Financial instruments at fair value through profit or loss are measured at fair value. (Note 14.2.1)
- Available-for-sale financial assets are measured at fair value. (Note 14.2.3)
- 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 16.2)
- Assets held for sale have been recognized at fair value (Note 17)

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 SLFRSs 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

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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 13 - Investment property

Note 14 - Fair value of financial instruments

Note 16.2 - Measurement of defined benefit obligations

Note 17 - Assets held for sale

Note 21 - Deferred taxation

2.5) Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

Note 03 Summary of significant accounting policies

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

3.1) Foreign currency transactions

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

3.2) Financial instruments

The Company classifies non-derivative financial assets into the category of loans and receivables, fair value through profit or loss, available for sale financial assets and assets held to maturity.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

3.2.1) Non-derivate financial assets and financial liabilities- Recognition and de-recognition

The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Company de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset

are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such de-recognized financial assets that is created or retained by the company is recognized as a separate asset or liability.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

3.2.2) Non-derivative financial assets- Measurement

3.2.2.1) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly 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, including any interest or dividend income, are recognised in profit or loss.

3.2.2.2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payment 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.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

Trade receivables

Trade and other receivables are stated at their estimated realisable amount.

3.2.2.3) Available for sale financial assets

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to statement of profit or loss and other comprehensive income.

3.2.2.4) Held to maturity financial assets

These assets are initially recognised at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

3.2.3) Non derivative financial liabilities

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities

are measured at amortized cost using the effective interest method.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Other financial liabilities comprise trade & other payables and amounts due to related companies.

3.2.4) Fair value measurement

SLFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date.

A fair value measurement requires an entity to determine all the following;

1. the particular asset or liability that is the subject of the measurement
2. for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

3. the principal (or most advantageous) market for the asset or liability.
4. the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

Determination of fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

- Level 1 - Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Fair value measurements using inputs other than quoted prices included within Level 1 that

are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices);and

- Level 3 - Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

3.2.5) Impairment

Non-derivative financial assets

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 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 will enter bankruptcy, or the disappearance of an active market for a security.

The Company considers evidence of impairment for

receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

(the “cash-generating unit, or CGU”).

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

3.3) 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 on the disposal of property plant and equipment and other non-current assets including investments have been accounted for in profit or loss, having deducted the proceeds on disposal, the carrying amount of the assets and related selling expenses.

3.4) Expenses

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

3.5) 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.

3.6) 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.

3.7) 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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 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.

3.8) 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.

3.9) 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 comprehensive

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

income. Any decrease in the carrying amount is recognised as an expense in the statement of comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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

	Depreciation	Useful life
Furniture & fittings	10%	10
Office Equipment	20%	05
Tools	33.33%	03
Other equipment	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.

3.10) 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;

	Amortisation	Useful Life
Accounting software	20%	05

3.11) 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.

3.12) 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 recognized 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

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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 the 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 in the period of derecognition.

3.13) 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 the statement of 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.

3.14) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on the disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with the Company's

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

other accounting policies. Impairment losses on initial classification as held for sale and subsequent gain and losses on pre-measurement are recognized in profit or loss.

3.15) 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, and other costs incurred in bringing them to their existing location and condition.

3.16) 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.

3.17) Stated capital

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

3.18) Reserves

3.18.1) Capital reserve

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

3.18.2) Revaluation reserve

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

3.18.3) Available for sale reserve

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

3.19) 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.

3.20) 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 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

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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 - 06)

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 - 06)

3.21) Commitments and contingencies

Commitments and contingencies as at the reporting date, is disclosed in Notes 25 and 28 to the financial statements.

3.22) Events after the reporting date

All material and important events which occur after the reporting date have been considered and disclosed in Note 26 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 pages 80 to 81 for the statement of the Directors' responsibility for financial reporting.

3.24) Comparative information

The comparative information is re-classified where 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 the 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 1 January 2018. Accordingly, these Standards have not been applied in preparing these financial statements. The Company has not assessed the potential impact on its financial statements resulting from their application.

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, depending on the entity's business model for managing contractual cash flows characteristics of the financial asset.

SLFRS 9 will be effective for financial periods beginning on or after 1 January 2018.

SLFRS 15 – Revenue from contract with customers

SLFRS 15 establishes a comprehensive framework for determining revenue recognition by a 5 step model and will replace the existing LKAS 18 & LKAS 11.

SLFRS 15, will be applicable for the financial periods beginning on or after 1 January 2018.

SLFRS 16 - Lease

SLFRS 16 requires lessees to recognise on their Statement of Financial Position as leases liabilities with the corresponding right of use assets. The profit or loss recognition pattern for recognised leases will be similar to existing finance lease accounting, with interest and depreciation expense recognized separately in Profit or Loss.

SLFRS 16 is effective for annual periods beginning on or after 1st January 2019.

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Note 04 Revenue

	2017	2016
Rental income	211,617,984	193,070,430
	211,617,984	193,070,430

Note 05 Other income

	2017	2016
Work order income	919,510	938,292
Miscellaneous income	5,639,223	18,331,702
Profit from disposal of investment property	46,163,843	-
	52,722,576	19,269,994

Note 06 Personnel costs

	2017	2016
Salary and wages (Including Directors' emoluments)	20,534,912	19,128,723
Statutory EPF	2,299,189	2,144,204
Statutory ETF	574,797	535,501
Staff allowances	1,858,387	1,805,000
Reversal of retirement benefits obligations (Note 16.1.d)	(460,294)	(328,372)
Other staff expenses	10,335,036	10,803,700
	35,142,027	34,088,756

Note 07 Change in fair value of investment properties

	2017	2016
Investment property - Seylan Towers	5,137,377	5,348,650
Investment property - Union Place	-	259,500,000
Investment property - Kataragama	-	(2,833,150)
Investment property - Moratuwa	225,000	450,000
	5,362,377	262,465,500

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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Note 08 Results from operating activities

Results from operating activities is stated after deducting all operating expenses including the followings,

	2017	2016
Directors' emoluments	2,288,800	2,165,511
Auditor's remuneration - Audit	1,025,861	1,013,404
Non audit	23,183	94,511
Depreciation (Note 12)	776,362	808,124
Legal fees	112,000	206,250
Professional fees	2,000,281	1,349,764

Note 09 Finance income and expenses

09.1 Finance income

	2017	2016
Interest income on loans and receivables	582,220	491,542
Interest income on bank deposits	62,308,055	2,713,371
Interest income on debentures	21,273,196	30,537,067
Gain on disposal of financial assets at fair value through profit or loss	1,769	-
Net change in fair value of available for sale financial assets reclassified to profit or loss	972	-
	84,166,212	33,741,980

09.2 Finance expenses

Interest on overdraft	92,081	521,998
Bank charges	203,933	380,839
Foreign exchange loss	589,743	37,093
Loss on disposal of financial assets at fair value through profit or loss	-	4,702
Other finance expenses	-	512,691
Net change in fair value of financial assets at fair value through profit or loss	1,192,323	1,595,696
	2,078,080	3,053,019
Net finance income	82,088,132	30,688,961

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

For the year ended 31 December,

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Note 10 Income tax expenses

	2017	2016
Current tax (Note 10.1)	34,264,369	9,470,853
Over provision for taxation	(95,461)	(34,737)
	34,168,908	9,436,116
Deferred income tax		
Deferred taxation (reversal)/charge (Note 21)	(9,629,919)	9,887,682
	(9,629,919)	9,887,682
Income tax expense reported in the statement of profit or loss	24,538,989	19,323,798

10.1 Reconciliation between accounting profit and taxable income

	2017	2016
Profit before income tax	265,800,595	393,905,197
Less: Income from other sources	(128,555,558)	(45,558,526)
Changes in fair value of investment property	(5,362,377)	(262,465,500)
Disallowable expenses	5,487,850	13,694,716
Allowable expenses	(15,887,805)	(49,938,254)
Tax profit on disposal of capital assets	5,167,310	(313,350)
Adjusted tax profit	126,650,015	49,324,283
Total Statutory Income		
Adjusted tax profit	126,650,015	49,324,283
Taxable interest income	62,308,055	2,713,371
	188,958,070	52,037,654
Less : Tax losses set off	(66,135,325)	(18,213,179)
Assessable income	122,822,745	33,824,475
Less: Qualifying payment		
Donation to government	(450,000)	-
Taxable income	122,372,746	33,824,475
Tax liability		
Taxable income at 28%	34,264,369	9,470,853
Effective Tax Rate (Note 10.3)	9.2%	4.9%
Effective Tax Rate (Excluding Deferred Tax) (Note 10.3)	12.9%	2.4%

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

For the year ended 31 December,
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10.2 Accumulated Tax Losses

	2017	2016
Balance as at 1st January	843,229,597	861,442,776
Tax loss for the year	-	-
Loss set off during the year	(66,135,325)	(18,213,179)
Accumulated loss carried forward	777,094,272	843,229,597

10.3 Reconciliation of effective tax rate

	%	2017	%	2016
Profit before income tax		265,800,595		393,905,197
Income tax using domestic tax rate	28.0%	74,424,167	28.0%	110,293,455
Disallowable expenses	0.6%	1,536,598	1.0%	3,834,520
Allowable expenses	-1.7%	(4,448,585)	-3.5%	(13,982,711)
Exempt income	-14.1%	(37,497,022)	-21.9%	(86,246,727)
Tax loss utilized	-4.7%	(12,411,701)	-1.2%	(4,833,780)
Qualifying payments	-0.0%	(126,000)	0.0%	-
Tax profit on disposal of capital assets	0.0%	1,446,847	0.0%	(87,738)
Current tax on profit for the year	8.6%	22,924,303	2.3%	8,977,019
Tax on interest income	0.0%	17,446,255	0.0%	759,744
Over provided in prior years	0.0%	(95,461)	0.0%	(34,737)
Tax loss utilized	0.0%	(6,106,189)	0.0%	(265,910)
Current tax on profit for the year	12.9%	34,168,908	2.4%	9,436,116
Charge to deferred tax	-3.6%	(9,629,919)	2.5%	9,887,682
Total income tax expense	9.2%	24,538,989	4.9%	19,323,798

Note 11 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 year.

	2017	2016
Profit attributable to ordinary shareholders	241,261,606	374,581,399
Weighted average number of ordinary shares	147,964,860	147,964,860
Basic earnings per ordinary share (Rs)	1.63	2.53

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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Note 12 Property, plant & equipment

	Office, machine, tools & equipment	Furniture & fittings	Apartment assets	Total
Cost / Revaluation				
Balance as at 01st January 2016	3,719,357	2,062,562	3,766,554	9,548,473
Additions	243,825	-	-	243,825
Revaluation	(391,420)	277,048	-	(114,372)
Impairments	(89,453)	(12,128)	-	(101,581)
Write off	(57,150)	-	(3,766,554)	(3,823,704)
Transfers	(37,226)	-	-	(37,226)
Balance as at 31st December 2016	3,387,933	2,327,482	-	5,715,415
Balance as at 01st January 2017	3,387,933	2,327,482	-	5,715,415
Additions	589,246	-	-	589,246
Disposals	-	(103,000)	-	(103,000)
Write off	(107,150)	(420,135)	-	(527,285)
Balance as at 31st December 2017	3,870,029	1,804,347	-	5,674,376
Accumulated depreciation				
Balance as at 01st January 2016	1,782,860	902,462	1,755,022	4,440,344
Charge for the year	605,748	202,376	-	808,124
Revaluation	(1,475,838)	(840,881)	-	(2,316,719)
Write off	(55,600)	-	(1,755,022)	(1,810,622)
Transfers	(29,602)	-	-	(29,602)
Balance as at 31st December 2016	827,568	263,957	-	1,091,525
Balance as at 01st January 2017	827,568	263,957	-	1,091,525
Charge for the year	589,919	186,443	-	776,362
Disposals	-	(8,583)	-	(8,583)
Write off	(107,150)	(216,279)	-	(323,429)
Balance as at 31st December 2017	1,310,337	225,538	-	1,535,875
Net book value as at 31st December 2016	2,560,365	2,063,525	-	4,623,890
Net book value as at 31st December 2017	2,559,692	1,578,809	-	4,138,501

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12.1 Revaluation of office machine, tools & equipment and furniture & fittings

In October 2016 valuation of office machines, tools & equipment and furniture & fittings was carried out by a professionally qualified valuer Mr. S. K. Guruge, (Incorporated valuer - A.I.V). The Company recognised revaluation surplus of Rs.2,202,348/- over net book value as at 01st October 2016 to the credit of the revaluation reserve.

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

	Office machine and equipment	Furniture and Fittings	Total
Cost	14,228,271	9,907,684	24,135,955
Accumulated depreciation	(12,664,783)	(9,874,442)	(22,539,225)
Net book value	1,563,488	33,242	1,596,730

12.2 Apartment Assets - Write - off

Apartment assets have been included in the investment property valuation. Hence it has been written off from property, plant & equipment in 2016.

12.3 Fully Depreciated Assets

Property, plant & equipment includes fully-depreciated assets having a gross carrying amount of Rs. 629,167/- (2016 - Rs. 629,167/-)

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Note 13 Investment properties

	Property at Colombo 3 (A)		Property at Moratuwa (B)	Property at Ja-Ela (C)	Property at Union Place	Property at Kataragama		Capital work in progress	Total
	Leasehold land	Building, plant & machinery				Land	Building		
Balance as at 1st January 2016	1,642,745,807	2,589,154,193	2,250,000	-	420,000,000	3,250,000	21,894,474	-	4,679,294,474
Additions during the year	-	1,008,350	-	-	-	-	188,676	-	1,197,026
Changes in fair value	3,839,418	1,509,232	450,000	-	259,500,000	-	(2,833,150)	-	262,465,500
Transfer to assets held for sale	-	-	-	-	(679,500,000)	(3,250,000)	(19,250,000)	-	(702,000,000)
Balance as at 31st December 2016	1,646,585,225	2,591,671,775	2,700,000	-	-	-	-	-	4,240,957,000
Balance as at 1st January 2017	1,646,585,225	2,591,671,775	2,700,000	-	-	-	-	-	4,240,957,000
Additions during the year	-	29,575,623	-	-	-	-	-	6,461,400	36,037,023
Changes in fair value	114,780,558	(109,643,181)	225,000	-	-	-	-	-	5,362,377
Balance as at 31st December 2017	1,761,365,783	2,511,604,217	2,925,000	-	-	-	-	6,461,400	4,282,356,400

Investment property	Address	Extent	Date of valuation	Market value
Property at Colombo 3	No: 90, Galle Road, Colombo 03	OA - 3R - 24.55 P	31st December 2017	4,272,970,000
Property at Moratuwa	Moratuwa Lake Villas, St. Peters Rd, Moratuwa	OA - 1R - 05.00 P	31st December 2017	2,925,000
				4,275,895,000

(A) 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 lease for the period of 99 years with Urban Development Authority. 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 is classified as an Investment Property and 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 consisting two towers where the east tower is a multi-storey prime office

complex and west tower comprising 16 luxury residential apartments. The total plinth area owned by Seylan Developments PLC is 177,761 sq.ft..

(B) The Property at Moratuwa was valued by Sunil Fernando & Associates (Pvt) Ltd and having recent experience in the location and category of the investment property being valued. The assumptions used for the valuation are,

a) It's a well established residential area.

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- b) Commercial development is expected along Galle Road.
- c) Being in close proximity to Moratuwa, enjoying easy accessibility to Colombo City.
- d) Comparison method of valuation has been adopted.
- (C) The Ja-Ela Commercial Complex was a joint venture project and the Directors of the joint venture party agreed to allocate a 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 the said marked portion and the it was 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 Company initiated arbitration process as permitted by the joint agreement with the Standard Credit Finance Ltd (Formerly known as Ceylinco Investment & Reality Ltd) and awaiting for the arbitration award.

Fair value hierarchy

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

	Level 1	level 2	Level 3	Total
2017				
Investment Property	-	-	4,240,957,000	4,240,957,000
2016				
Investment Property	-	-	4,275,895,000	4,275,895,000

The fair value measurement for all investment properties has been categorized as Level 3 fair value based on the inputs to the valuation techniques used.

Sensitivity of assumptions employed in investment property 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 investment property valuation.

Increase / (Decrease) in Rent - Property at Seylan Towers	Increase / (Decrease) in per perch value - Property at Moratuwa	2017		2016	
		Sensitivity Effect on Statement of profit or loss Increase/ (Reduction) in results for the year (Rs' Mn)	Sensitivity Effect on Investment Property Increase/ (Decrease) in the Asset (Rs' Mn)	Sensitivity Effect on Statement of profit or loss Increase/ (Reduction) in results for the year (Rs' Mn)	Sensitivity Effect on Investment Property Increase/ (Decrease) in the Asset (Rs' Mn)
5%	-	213.65	213.65	211.91	211.91
(5%)	-	(213.65)	(213.65)	(211.91)	(211.91)
-	5%	0.15	0.15	0.14	0.14
-	(5%)	(0.15)	(0.15)	(0.14)	(0.14)

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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.

Location	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Seylan Tower	Market rental based income method of Valuation and Depreciated Replacement Value basis of valuation have been adopted.	<p>Market rental based on current market rentals of World Trade Centre (WTC) adjusted to take cognizance of location of central business district and peripherals.</p> <p>Rentals of apartment buildings have been taken as comparable residential market for sea view and other side.</p> <p>Full life of the building is taken as 99 years and the remaining life is considered as per lease agreement.</p> <p>Risk adjusted discount rates for residential and commercial segment of the subject property has been used.</p>	<p>The estimated fair value would increase (decreased) if:</p> <ol style="list-style-type: none"> 1. expected market rental were higher (lower) 2. the risk adjusted discount rate were lower (higher)
Moratuwa	Open market method	<p>The increase in mortgage interest rates tend to affect the demand for landed property adversely as borrowers tend to obtain less funds through mortgaging</p> <p>The formation of national government tends to Increase of investors' confidence and demand for the landed property</p> <p>In the current market situation described above, Moratuwa shows prices ranging from Rs: 50,000/- per perch to Rs: 100,000/- per perch.</p>	<p>The estimated fair value would increase (decreased) if:</p> <ol style="list-style-type: none"> 1. mortgage interest were lower (higher) 2. the formation of national government were higher (lower) 3. market value of the land were higher (lower)

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Note 14 Other investments

14.1 Non current investments

	2017	2016
Held to maturity investments (Note 14.1.1)	-	56,645,890
Available-for-sale financial assets (Note 14.1.2)	-	-
	-	56,645,890

The financial assets designated as non current investment - held to maturity as at 31.12.2016 were classified to current investments during the year 2017.

The financial assets designated as available for sale are unquoted equity securities.

14.1.1 Held to maturity investments (Non current)

Quoted debentures	2017	2016
Seylan Bank PLC (500,000 Debentures of Rs: 100/- each)	-	56,645,890
	-	56,645,890

14.1.2 Available-for-sale financial assets

Unquoted equities	2017			2016		
	No. of Shares	Cost	Market value / fair value	No. of Shares	Cost	Market value / fair value
Asian Finance Company Limited	75,000	750,000	-	75,000	750,000	-
Certis Lanka Home Nursing & Swift Care (Pvt) Ltd.	75,000	750,000	-	75,000	750,000	-
Ceylinco International Realty (Pvt) Ltd	200,000	2,000,000	-	200,000	2,000,000	-
International Consultancy & Corporate Services (Pvt) Ltd	5,000	50,000	-	5,000	50,000	-
Standard Credit Finance Ltd.	8,040,969	44,040,969	-	8,040,969	44,040,969	-
	8,395,969	47,590,969	-	8,395,969	47,590,969	-
Less: Provision for impairment as at 31 December		(47,590,969)	-		(47,590,969)	-
Fair value for the investment securities		-	-		-	-

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14.2 Current investments

	Note	2017	2016
Financial assets designated at fair value through profit or loss	14.2.1	5,348,803	6,564,489
Held to maturity investments	14.2.2	57,871,198	118,384,388
Available-for-sale financial assets	14.2.3	96,220,901	125,161,434
		159,440,902	250,110,311

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 financial assets designated as available for sale are quoted debentures.

The Company's exposure to credit and interest rate risk related to other investments is disclosed in Note 29.

14.2.1 Financial assets designated at fair value through profit or loss

Quoted	2017			2016		
	No.of Shares	Cost / Valuation	Market value / fair value	No.of Shares	Cost / Valuation	Market value / fair value
Commercial Leasing and Finance PLC	1,981,038	9,905,190	5,348,803	1,989,239	9,946,195	6,564,489
	1,981,038	9,905,190	5,348,803	1,989,239	9,946,195	6,564,489

14.2.2 Held to maturity investments (current)

	2017	2016
Quoted debentures		
People's Leasing & Finance PLC (500,000 Debentures of Rs: 100/- each)	-	54,170,144
Merchant Bank of Sri Lanka PLC (125,000 Debentures of Rs: 100/- each)	-	12,925,342
Seylan Bank PLC (500,000 Debentures of Rs: 100/- each)	56,645,890	-
Unquoted debentures		
Nation Lanka Finance PLC (1,000 Debentures of Rs: 100/- each)	100,000	100,000
Fixed deposits		
Seylan Bank PLC	1,225,308	51,288,902
The Standard Credit Finance Ltd	497,848	497,848
	58,469,046	118,982,236
Less: Provision for impairment	(597,848)	(597,848)
	57,871,198	118,384,388

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The impairment provision for the above was recognized due to the uncertainty of the recoverability of the assets. The provision includes fixed deposit investment in Standard Credit Finance Limited and Debenture investments in Nation Lanka Finance PLC.

14.2.3 Available-for-sale financial assets

	2017			2016		
	No. of Debentures / Shares	Cost	Market value / fair value	No. of Debentures / Shares	Cost	Market value / fair value
Quoted debentures						
DFCC Bank PLC*	-	-	-	382,300	39,025,370	36,800,210
Seylan Bank PLC*	1,000,000	100,197,260	96,220,901	1,000,000	100,197,260	88,360,000
		100,197,260	96,220,901		139,222,630	125,160,210
Quoted shares						
Merchant Bank of Sri Lanka & Finance PLC	-	-	-	90	250,000	1,224
		-	-		250,000	1,224
Total		100,197,260	96,220,901		139,472,630	125,161,434

* Market values were determined by using indirectly observable inputs.

14.2.4 Details of quoted debentures are as follows;

	ISIN	Issued Date	Maturity Date	Rate (%)	Cost
Seylan Bank PLC					
Seylan Bank PLC (1,000,000 debentures)	LK0182D22767	23-Dec-14	22-Dec-18	8.00%	100,197,260
					100,197,260

Note 15 Inventories

	2017	2016
Maintenance materials	3,697,117	3,773,281
Less: Provision for slow moving stock	-	(84,766)
	3,697,117	3,688,515

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Note 16 Trade and other receivables

	2017	2016
Trade receivables	11,547,049	5,802,056
Trade and other receivables from related companies	18,118,742	4,510,989
Other receivables	17,551,640	16,687,167
Advances & Deposits	17,431,290	34,011,819
	64,648,721	61,012,031
Less: Provision for impairment (Note 16.1)	(18,400,608)	(20,388,144)
Loans and Receivables	46,248,113	40,623,887
Prepayments	2,896,706	1,222,589
Prepaid staff expenses	338,533	303,520
Plan assets (Note 16.2)	7,920,032	8,329,742
	57,403,384	50,479,738

16.1 Provision movement for the year

	2017	2016
Balance as at 1st January	20,388,144	24,764,592
Provisions recovered / reversal during the year	(250,000)	(400,000)
Provision during the year	307,414	3,163,959
Amounts written off during the year as uncollectible	(2,044,950)	(7,140,406)
Balance as at 31st December	18,400,608	20,388,144

16.2 Plan assets

The amount recognized in the statement of financial position

	2017	2016
Present value of defined benefit obligations - (Note 16.2.b)	(7,049,308)	(5,834,334)
Fair value of plan assets - (Note 16.2.c)	14,969,340	14,164,076
Provision for defined benefit obligations (Note 16)	7,920,032	8,329,742

16.2.a Plan assets consist the following

	2017	2016
Repo and fixed deposits	144,976	735,198
Treasury Bills	14,775,655	13,362,738
Cash	48,709	66,140
	14,969,340	14,164,076

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16.2.b Movement in the present value of defined benefit obligations

	2017	2016
Liability for defined benefit obligations as at 1 January	5,834,334	5,842,349
Current service cost	497,628	422,054
Interest cost	670,948	584,235
Actuarial losses / (gains)	671,398	(734,773)
Gratuity payable (including benefits paid by the plan)	(625,000)	(279,531)
Liability for defined benefit obligations as at 31st December	7,049,308	5,834,334

16.2.c Movement in plan assets

	2017	2016
Fair value of plan assets as at 1 January	14,164,076	13,346,612
Expected return	1,628,870	1,334,661
Benefits paid / payable	(625,000)	(279,531)
Actuarial gains / (loss)	(198,606)	(237,666)
Fair value of plan assets as at 31 December	14,969,340	14,164,076

16.2.d Amount recognized in the statement of profit or loss

	2017	2016
Current service cost	497,628	422,054
Interest cost	670,948	584,235
Expected return on plan assets	(1,628,870)	(1,334,661)
	(460,294)	(328,372)

16.2.e Amount recognized in the statement of other comprehensive income

	2017	2016
Actuarial loss / (gain) arising from		
Demographic assumptions	-	(573,801)
Financial assumptions	705,500	(97,301)
Experience adjustments	(34,103)	(63,671)
Plan assets	198,606	237,666
	870,003	(497,107)

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16.2.f Actuarial assumptions

	2017	2016
Normal retirement age	55 years	55 years
Rate of discount	11.00%	11.50%
Expected return on plan asset as at 1st January	11.50%	10.00%
Salary increase	16% p.a. on January 2018 and 5% p.a. thereafter.	5% p.a. on January 2017, 7% p.a. in January 2018 and 5% p.a. thereafter.
	Next increment due on 01st January 2018	Next increment due on 01st January 2017

16.2.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 comprehensive income 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.

Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment	2017		2016	
		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%	**	(0.401)	(0.401)	(0.340)	(0.340)
(1%)	**	0.442	0.442	0.376	0.376
*	1%	0.495	0.495	0.426	0.426
*	(1%)	(0.454)	(0.454)	(0.388)	(0.388)

* Discount Rate fixed at
2017 11.00%
2016 11.50%

** Salary increment rates for
2017 16% on January 2018 and 5% thereafter.
2016 5% for 1st year, 7% for 2nd year and 5% thereafter

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Note 17 Assets held for sale

	2017	2016
Balance as at 1st January	702,000,000	-
Add : Additions during the year (Note 17.1)	-	702,000,000
Less: Disposals during the year (Note 17.2)	(702,000,000)	-
Balance as at 31st December	-	702,000,000

17.1 Additions during the year

	2017	2016
Property at Union Place	-	679,500,000
Property at Kataragama	-	22,500,000
	-	702,000,000

17.2 Disposals during the year

During the year 2017, the Company disposed the properties situated at Union Place and Kataragama for considerations of Rs: 729,957,000/- and Rs: 22,500,000/- respectively. Relevant disposal gains were recognized in the profit or loss statement accordingly.

Note 18 Cash and cash equivalents

	2017	2016
Favourable cash & cash equivalents		
Cash and bank balances	16,832,915	6,851,391
REPO investments	-	11,522,732
Fixed deposits	843,448,254	-
Money market savings account	114,621,651	-
	974,902,820	18,374,123
Unfavourable cash & cash equivalents		
Bank overdraft	-	(2,861,449)
	-	(2,861,449)
Total cash & cash equivalents for the purpose of cash flows statement	974,902,820	15,512,674

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Note 19 Stated capital

	Number	2017	2016
Ordinary shares			
On issue as at 1 January	147,964,860	1,644,391,650	1,644,391,650
On issue as at 31 December	147,964,860	1,644,391,650	1,644,391,650

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.

Dividends

The following dividends were declared and paid by the Company;

	2017	2016
Rs: 0.75 per qualifying ordinary share (2016: Rs:0.60)	110,973,645	88,778,916
	110,973,645	88,778,916

Note 20 Reserves

	2017	2016
Capital reserve (Note 20.1)	525,493,650	525,493,650
Revaluation reserve (Note 20.2)	1,867,112	1,867,112
Available for sale reserve (Note 20.3)	(3,976,358)	(14,061,193)
	523,384,404	513,299,569

20.1 Capital reserve

	2017	2016
Balance as at the beginning of the year	525,493,650	525,493,650
Balance as at the end of the year	525,493,650	525,493,650

Capital Reserve was created for the redemption of preference shares amounting Rs: 540Mn 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 the Financial Statements.

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20.2 Revaluation reserve

	2017	2016
Balance as at the beginning of the year	1,867,112	405,281
Transfer during the year	-	1,461,831
Balance as at the end of the year	1,867,112	1,867,112

Revaluation reserve represents the surplus related to the revaluation of property plant and equipment as explained in Note 12.

20.3 Available for sale reserve

	2017	2016
Balance as at the beginning of the year	(14,061,193)	(11,433,981)
Net change in fair value of available for sale financial assets	10,085,807	(2,627,212)
Net change in fair value of available for sale financial assets reclassified to profit or loss	(972)	-
Balance as at the end of the year	(3,976,358)	(14,061,193)

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

Note 21 Deferred tax liability

Deferred tax

The amount shown in the statement of financial position represents the following:

	2017	2016
Deferred tax liabilities	693,254,868	721,402,678
Deferred tax assets	(217,586,396)	(236,104,287)
Net tax liabilities	475,668,472	485,298,391

The movement in the deferred tax account is as follows:

	2017	2016
At the beginning of the year	485,298,391	474,842,220
Release to P/L (Note 10)	(9,629,919)	9,887,682
Release to OCI	-	568,489
At the end of the year	475,668,472	485,298,391

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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Analysis of deferred tax assets and liabilities

	2017		2016	
	Temporary Difference	Tax	Temporary Difference	Tax
Deferred tax liabilities				
Property, plant & equipment	1,577,793	441,782	2,282,080	638,982
Revaluations	2,030,320	568,489	2,030,320	568,489
Investment property	2,472,302,132	692,244,597	2,572,125,738	720,195,207
	2,475,910,245	693,254,868	2,576,438,138	721,402,678
Deferred tax assets				
Accumulated tax losses	777,094,272	217,586,396	843,229,597	236,104,287
	777,094,272	217,586,396	843,229,597	236,104,287
	1,698,815,973	475,668,472	1,733,208,541	485,298,391

Movement in deferred tax balances during the year

	Balance 1 January 2016	Recognized in P/L	Recognized in OCI	Balance as at 31 December 2016	Recognized in P/L	Recognized in OCI	Balance as at 31 December 2017
Property plant and equipment	1,328,979	(689,997)	-	638,982	(197,200)	-	441,782
Revaluations	-	-	568,489	568,489	-	-	568,489
Investment property	706,656,074	13,539,133	-	720,195,207	(27,950,610)	-	692,244,597
Accumulated tax losses	(233,142,833)	(2,961,454)	-	(236,104,287)	18,517,891	-	(217,586,396)
	474,842,220	9,887,682	568,489	485,298,391	(9,629,919)	-	475,668,472

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

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Note 22 Trade and other payables

	2017	2016
Trade payables	4,981,563	6,699,839
Accrued expenses	11,827,991	14,406,611
Rent in advance and security deposits	29,913,524	16,614,384
Payables to related companies	30,000,000	30,000,000
Provision for Corporate Guarantees (Note 22.1)	59,800,000	58,000,000
Other payables	24,307,797	23,850,773
	160,830,875	149,571,608

22.1 Provision for Corporate Guarantees

Seylan Developments PLC has made a full provision for the Guarantee given on behalf of Ceylinco Packaging (Pvt) Ltd amounting Rs: 38 Mn, since they are not in operation. The Company has denied any liability on this claim on the basis that the claimant is unable to produce any original documentation.

A further provision of Rs: 21.8 Mn as at the end of the year 2017 (2016 - Rs: 20Mn) was made for the Guarantee given on behalf of Ceylinco Industries Co. Ltd based on their utilization. The Company has not received any claims on this guarantee to date.

However, as a matter of prudence, the above mentioned provisions have been made in the financial statements.

Note 23 Income tax payable

	2017	2016
As at the beginning of the year	7,082,054	(1,434,162)
Income tax for the year	34,264,369	9,470,853
Over provision reversal	(95,461)	(34,737)
Less: Tax paid	(10,651,943)	-
Notional tax	(42,795)	(174,485)
With holding taxes	(5,352,240)	(6,768)
ESC Receivable	(1,332,965)	(738,647)
As at the end of the year	23,871,019	7,082,054

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Note 24 Related party transactions

Parent and the ultimate controlling party

The Company is a subsidiary of Seylan Bank PLC, which owns 70.51% 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 their close family members as Key Management Personnel of the Company.

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

a. Key Management Personnel compensation for the period comprised:

	2017	2016
Short term employee benefits	2,288,800	2,165,511

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 08 in the financial statements.

b. Other related party transactions

The Company has the following financial transactions during the year 2017 with its related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates.

The party given below are considered related party mainly due to significant influence arising as a result of common directorships and through shareholdings.

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

Parties accommodated	Director / Key Management Personnel (Relationship)	Transaction	Transaction for the year ended 31 December 2017		Balance outstanding as at 31 December 2017
			Transaction value	Aggregate value of Related Party Transactions as a % of Net Revenue	
Parent Company and Directors					
Seylan Bank PLC	* Mr. K. P. Ariyaratne (Executive Director / Chief Executive Officer)	* Loans, advances & security deposit	-	-	(30,000,000)
	* Mr. S. Palihawadana (DGM - Treasury, Head of Primary Dealer Unit & Gold Investment Unit)	* Charges (OD interest/ Bank Charges etc.)	296,015	0.14%	-
	* Mr. R. J. Jayasekara (Chief Risk Officer)	* Interest income (Fixed Deposits & Debentures)	78,058,055	36.89%	15,104,909
	* Mr. P. D. Hennayake (DGM - Project Finance)	* Investments			
		Debentures	-	-	150,000,000
		Fixed Deposits	844,609,427	399.12%	844,609,427
		Money Market			
		Savings Account	114,621,651	54.16%	114,621,651
		* Demand Deposits	-		16,792,915
		* Administrative services			
		Rent	139,954,288	66.14%	-
		Expense reimbursement	62,629,845	29.60%	9,812,539
		* Disposal of Property, Plant & Equipment	108,579	0.05%	108,579
		* Dividends (Gross)	78,249,084	36.98%	-
	* Overdraft facility - (Rs. 175 mn)	-		-	

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

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c. Seylan Development Employees' Gratuity Trust Fund

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

- Mr. S. Palihawadana
- Mr. P. Saravanapavan
- Mr. R. J. Jayasekara
- Mr. P. D. Hennayake

The above trust fund has invested in REPO's and Treasury Bills at Seylan Bank PLC amounting Rs. 144,975.80 and Rs: 13,660,961.95 as at 31st December 2017 respectively.

Note 25 Contingent Liabilities

There are no contingent liabilities as at the reporting date other than what is disclosed below;

- (a) Income tax for the year of assessment 2010/11 (Assessment no: ITR 13291100053 V 1) determined by the Tax Appeal Commission dated 14.08.2017 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 2012/13 (Rs: 9,269,763/-, Assessment no: ITA 15301100123 V1). Written submission forwarded on 02.11.2017, Awaiting for the determination of Commissioner General of Inland Revenue.

The Company is of the view that the above assessments will not have any material impact on the Financial Statements.

Note 26 Events after the reporting date

Proposed Final Dividend

The Board of Directors of the Company recommended that a final dividend of Rs. 0.90 per share, be paid by way of dividend for the financial year ended December 31, 2017, 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 what is disclosed above.

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Note 27 Comparative information

The comparative information have been reclassified whenever necessary to conform with the current year's presentation in order to provide a better presentation.

Note 28 Commitments

28.1 Lease commitments

28.1.1 Leases as lessee

The Company had entered in to a 99 year operating lease with the UDA (Urban Development Authority) with the view to 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	2017	2016
Less than one year	150	150
More than one year	10,350	10,500
	10,500	10,650

28.1.2 Leases as lessor

The Company leases out its investment property held under operating leases (see note 13) to its tenants based on contracts.

Future minimum lease payments	2017	2016
Less than one year	200,697,263	171,454,594
More than one year	162,887,903	1,882,638

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 2017 Rs. 211,617,984/- was recognized as rental income in profit or loss (2016 : 193,070,430/-). Repairs and maintenance expenses recorded under premises, equipment, establishment expenses for the year ended 31st December 2017 is Rs: 16,883,366/-. (2016: Rs. 31,223,239/-)

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Direct operating expenses (including repairs and maintenance) arising from investment property that generate rental income during the period is Rs: 66,107,245/- (2016 - Rs: 75,628,647/-).

Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period is Rs: 901,025/- (2016 - Rs: 2,127,121/-).

28.2 Capital commitments

Capital expenditure approved by the Board of Directors for which provisions has not been made in these financial statements as at 31st December 2017 are approximately as follows:

	2017 Rs'
Approved and contracted for	863,950/-
Approved but not contracted for (Note 28.2.1)	934,000,000/-

28.2.1 Approved but not contracted for

The Board of Directors of Seylan Developments PLC has approved to purchase the floor areas of Seylan Towers owned by Seylan Bank PLC, comprising 3,476 sq. meters at a consideration of Rs: 934 Mn.

Note 29 Financial instruments

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

- Credit risk
- Market risk
- Liquidity 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.

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 in debt securities.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 65 percent (2016: 68 percent) of the Company's revenue is attributable to sales transactions with a single customer

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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.

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	
		2017	2016
Available-for-sale financial assets	14.1, 14.2	96,220,901	125,161,434
Held-to-maturity investments	14.1, 14.2	57,871,198	175,030,278
Financial assets designated at fair value through profit or loss	14.2	5,348,803	6,564,489
Loans and receivables	16	46,248,113	40,623,887
Cash and cash equivalents	18	974,902,820	18,374,123
		1,180,591,834	365,754,211

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

	Carrying amount	
	2017	2016
Corporate Customers	3,318,840	3,272,601
Residential Customers	8,228,209	2,529,455
	11,547,049	5,802,056

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Impairment losses

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

	2017		2016	
	Gross	Impairment	Gross	Impairment
Not past Due	27,354,115	-	33,261,512	-
Past due 0-90 days	17,775,317	-	7,204,867	-
Past due 91-365 days	1,403,451	284,770	157,507	-
More than one year	18,115,838	18,115,838	20,388,144	20,388,144
	64,648,721	18,400,608	61,012,030	20,388,144

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

	2017	2016
Balance as at 1 January	20,388,144	24,764,592
Impairment loss recognised	307,414	3,163,959
Impairment reversed / written off	(2,294,950)	(7,540,407)
Balance as at 31 December	18,400,608	20,388,144

The impairment loss as at 31 December 2017 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 90 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 90 days, relates to customers that have a good payment record with the Company.

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.

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Market risk

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

Profile

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

	Carrying amount	
	2017	2016
Fixed rate instruments		
Financial assets	154,092,099	300,190,488
Financial liabilities	-	2,861,449
	154,092,099	303,051,937
Variable rate instruments		
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.

Debt securities

The Company limits its exposure to credit risk by investing only in liquid debt securities. Management does not expect any counterparty to fail to meet its obligations, except for impaired debt securities described below.

	AA-	A-	BBB+	Unrated
Investments in debt securities	-	96,220,901	56,645,890	-
	-	96,220,901	56,645,890	-

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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:

	2017	2016
Balance as at 1 January	48,188,817	58,117,601
Impairment loss recognised	-	4,040,969
Impairment reversed / written off	-	(13,969,753)
Balance as at 31 December	48,188,817	48,188,817

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.

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 they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

31 December 2017 Non - derivative financial liabilities	Contractual cash flows					
	Carrying amount	Total	2 months or less	2 - 12 months	1 - 2 years	2 - 5 years
Bank overdrafts	-	-	-	-	-	-
Trade payables	4,981,563	4,981,563	3,813,554	555,337	-	612,672
	4,981,563	4,981,563	3,813,554	555,337	-	612,672

31 December 2016 Non - derivative financial liabilities	Contractual cash flows					
	Carrying amount	Total	2 months or less	2 - 12 months	1 - 2 years	2 - 5 years
Bank overdrafts	2,861,449	2,861,449	2,861,449	-	-	-
Trade payables	6,699,839	6,699,839	776,845	4,467,497	1,455,497	-
	9,561,288	9,561,288	3,638,294	4,467,497	1,455,497	-

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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;

	2017	2016
Total liabilities	660,370,366	644,813,502
Less: cash and cash equivalents	(974,902,820)	(15,512,674)
Net debt	(314,532,454)	629,300,828
Total equity	4,821,568,758	4,682,065,965
Debt to adjusted capital ratio at 31 December	(0.07)	0.13

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 2017		31st December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Assets measured at fair value					
Financial assets designated at fair value through profit or loss	14.2	5,348,803	5,348,803	6,564,489	6,564,489
Available-for-sale financial assets	14.2	96,220,901	96,220,901	125,161,434	125,161,434
		101,569,703	101,569,703	131,725,923	131,725,923
Assets not measured at fair value					
Held to maturity investments	14.1 & 14.2	57,871,198	56,448,106	175,030,278	179,093,686
Loans and receivables	16	46,248,113	46,248,113	40,623,886	40,623,886
Cash and cash equivalents	18	974,902,820	974,902,820	18,374,123	18,374,123
		1,079,022,131	1,077,599,039	234,028,287	238,091,694
Liabilities not measured at fair value					
Trade and other payables	22	160,830,875	160,830,875	149,571,608	149,571,608
Bank overdraft	18	-	-	2,861,449	2,861,449
		160,830,875	160,830,875	152,433,057	152,433,057

NOTES TO THE FINANCIAL STATEMENTS (Contd...)

As at 31 December,

Amounts in Sri Lankan Rupees

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 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: 47,590,969/- and Rs: 100,197,260/-. Unquoted shares were fully impaired. Quoted debentures were valued using cash flow basis of valuation since there were no any trades

recorded during the year 2017.

Held to maturity investments

Held to maturity investments includes quoted debentures, fixed deposits and unquoted debentures amounting to Rs. 56,645,890/-, Rs: 1,723,156/- and Rs. 100,000/- respectively. Quoted debentures were valued using cash flow method of valuation in ascertaining fair value as at 31.12.2017 since there were no any trades recorded during the year 2017.

Loans and receivables

Loans and receivables includes trade and other receivables of the Company arising from day to day transactions. The Company provided 32% of outstanding balance as at 31st December 2017 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.

Trade and other payables

The carrying amount of trade and other payables includes payable to creditors of the Company in normal course 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.

	Note	Level 1	Level 2	Level 3	Total
2017					
Financial assets designated at fair value through profit or loss	14.2	5,348,803	-	-	5,348,803
Available-for-sale financial assets	14.2	-	96,220,901	-	96,220,901
2016					
Financial assets designated at fair value through profit or loss	14.2	6,564,489	-	-	6,564,489
Available-for-sale financial assets	14.2	-	125,161,434	-	125,161,434

For financial assets, there were no transfers between Level 1, Level 2, Level 3 during 2017 and 2016.

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SHAREHOLDERS' AND DIRECTORS' HOLDING INFORMATION

SHARE INFORMATION

Range Of Share Holding	No Of Share Holders	Total Number Of Shares	% As At	
			31.12.2017	31.12.2016
1 - 1,000	3,733	913,830	0.61%	0.63%
1,001 - 10,000	1,993	6,220,251	4.21%	4.14%
10,001 - 100,000	380	10,596,890	7.16%	7.19%
100,001 - 1,000,000	52	12,784,070	8.64%	9.38%
Over 1,000,000	6	117,449,819	79.38%	78.66%
TOTAL	6,164	147,964,860	100.00%	100.00%

Public Share Holding - 29.46%

No of Share Holders as at 31st December 2017 - 6,164

No of public shareholders - 6,160

TWENTY MAJOR SHAREHOLDERS

	31.12.2017		2016 Comparative Holdings of the Top 20 Holders in 2017	
	NO OF SHARES	%	NO OF SHARES	%
1 Seylan Bank PLC	104,332,112	70.51	104,332,112	70.51
2 Mr Perera Kulappuarachchige Don Dammika	8,546,640	5.78	8,546,640	5.78
3 Mr. Udeshi Anant Hargovind	1,925,495	1.30	830,200	0.56
4 Mr. Fuad Mushtaq Mohamed	1,357,672	0.92	1,180,617	0.80
5 Mrs Udeshi (DESC) Majula Moraji	1,287,900	0.87	1,287,900	0.87
6 Union Bank of Colombo PLC / Mr. Abishek Sithampalam	835,674	0.56	835,674	0.56
7 Hatton National Bank PLC / Arunasalam Sithampalam	824,554	0.56		
8 Asian Guild Financial Services (Pvt) Ltd	609,121	0.41	609,121	0.41
9 Zagra Investment Consultants (Pvt) Ltd	594,200	0.40	594,200	0.40
10 Mr. Patel Saifuddin Esmail	589,927	0.40	552,337	0.37
11 Mr. Tay Biak Chye	505,948	0.34	505,948	0.34
12 Mr. Ragupathy Arunasalam	352,974	0.24	352,974	0.24
13 Bank of Ceylon A/C Ceybank Century Growth Fund	348,926	0.24	313,428	0.21
14 Mr. Gautam Rahul	344,000	0.23	311,000	0.21
15 Mr. Van Oostenbrugge Alexander	321,400	0.22	321,400	0.22
16 Mr. Upasena Kankanamge Don Nirosha Thushan Kumara	311,000	0.21	311,000	0.21
17 Asha Financial Services Limited / Mr. C. N. Pakianathan	306,000	0.21		
18 Nation Lanka Capital Ltd / Sadun Priyanath Samaratunge	300,000	0.20	300,000	0.20
19 Mr. Perera Pulukkuttiralalage Bandula	299,575	0.20		
20 Mr. Fernando Kadupitige Gabriel Gerard	283,823	0.19		
Total Shares held by the Top 20 Holders	124,276,941			
Balance Shares held by other Shareholders	23,687,919			
Total Shares	147,964,860		147,964,860	
Total Shareholders	6,164		6,229	

DIRECTORS' SHAREHOLDINGS

Name Of The Director	No. Of Shares 31.12.2017	No. Of Shares 31.12.2016
Mr. Kapila Ariyaratne	25,000	25,000
Mr S. Palihawadana	10,000	10,000
Mr. P. Saravanapavan	-	-
Mr. R. J. Jayasekara	-	-
Mr. P. D. Hennayake	-	-
Mr. L. T. Kiringoda	-	-

TEN YEARS AT A GLANCE

Amounts in Sri Lankan Rupees

Statement of Comprehensive Income	2017*	2016*	2015*
Total Income	264,340,560	212,303,331	196,837,822
Rent Income	211,617,984	193,070,430	185,282,579
Other Income	52,722,576	19,232,901	11,555,243
	264,340,560	212,303,331	196,837,822
Operating Expenses	(85,990,474)	(111,589,688)	(93,092,795)
Changes In Fair Values of Investment Properties	5,362,377	262,465,500	87,133,324
Operating Profit	183,712,463	363,179,143	190,878,351
Net Finance Income / (Expenses)	82,088,132	30,726,054	30,931,674
Profit / (Loss) Before Tax	265,800,595	393,905,197	221,810,025
Tax	(24,538,989)	(19,323,798)	(20,503,587)
Profit/(Loss) After Tax	241,261,606	374,581,399	201,306,438
Other Comprehensive Income, Net of Tax	9,214,832	(617,776)	(10,650,404)
Total Comprehensive Income	250,476,438	373,963,623	190,656,034

Statement of Financial Position	2017*	2016*	2015*
Property , Plant & Equipments	4,138,501	4,623,890	5,108,129
Investment Property	4,282,356,400	4,240,957,000	4,679,294,474
Investment - Security & Projects	-	56,645,890	137,917,636
Current Asset	1,195,444,223	1,024,652,687	191,719,761
Total Assets	5,481,939,124	5,326,879,467	5,014,040,000
Current Liabilities	184,701,894	159,515,111	142,316,522
Non Current Liabilities	475,668,472	485,298,391	474,842,220
Total Liabilities	660,370,366	644,813,502	617,158,742
Net Assets	4,821,568,758	4,682,065,965	4,396,881,258
Capital & Reserves			
Stated Capital	1,644,391,650	1,644,391,650	1,644,391,650
Reserves	523,384,404	513,299,569	514,464,950
Retained Earning	2,653,792,704	2,524,374,746	2,238,024,658
Shareholder's Fund	4,821,568,758	4,682,065,965	4,396,881,258
Weighted Average Number of Shares	147,964,860	147,964,860	147,964,860
Earning/(Loss) Per Share (Rs.)	1.63	2.53	1.36
Net Asset Per Share (Rs.)	32.59	31.64	29.72
Dividend Per Share (Rs.)	-	0.75	0.60
Market Value Per Share Year End (Rs.)	13.60	14.40	13.90
Staff Members (No.s)	26	29	28

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

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

	2014*	2013*	2012*	2011*	2010**	2009 Restated**	2008 Restated**
	185,972,927	181,831,650	163,340,665	210,913,075	153,993,181	149,000,620	186,770,518
	167,157,428	168,174,406	156,975,913	148,451,419	143,156,566	139,751,049	148,881,839
	18,815,499	13,657,244	6,364,752	62,461,656	10,836,615	9,249,571	37,888,679
	185,972,927	181,831,650	163,340,665	210,913,075	153,993,181	149,000,620	186,770,518
	(107,595,405)	(117,117,975)	(80,651,621)	(174,352,003)	(96,975,953)	(213,824,743)	(438,743,215)
	12,998,276	(176,072,079)	9,297,021	-	-	350,567,145	(29,329,592)
	91,375,798	(111,358,404)	91,986,065	36,561,072	57,017,228	285,743,022	(281,302,289)
	35,392,989	31,363,681	16,121,378	(13,525,064)	(84,701,319)	(190,316,068)	(104,103,440)
	126,768,787	(79,994,723)	108,107,443	23,036,008	(27,684,091)	95,426,954	(385,405,729)
	(26,957,573)	98,408,415	(67,424,971)	(8,525,047)	(55,525)	(662,589)	(7,061,622)
	99,811,214	18,413,692	40,682,472	14,510,961	(27,739,616)	94,764,365	(392,467,351)
	(1,125,898)	(601,240)	3,990,733	434,246	-	-	-
	98,685,316	17,812,452	44,673,205	14,945,207	-	-	-
	2014*	2013*	2012*	2011*	2010*	2009 Restated**	2008 Restated**
	6,248,928	4,752,457	3,276,586	3,227,055	5,494,921	13,932,509	1,402,102,935
	4,505,250,000	4,457,202,500	4,647,399,250	4,638,504,146	4,802,584,153	4,591,472,487	1,151,493,932
	137,917,636	139,446,173	-	878,364	2,383,319	253,606,884	498,331,609
	233,453,996	203,933,856	297,127,459	161,344,225	62,741,153	119,004,210	463,530,345
	4,882,870,560	4,805,334,986	4,947,803,295	4,803,953,790	4,873,203,546	4,978,016,090	3,515,458,821
	144,481,201	145,603,763	167,169,971	114,744,501	1,018,810,711	821,301,761	649,458,890
	453,982,873	429,621,152	531,384,164	469,836,848	463,772,331	609,804,069	576,065,982
	598,464,074	575,224,915	698,554,135	584,581,349	1,482,583,042	1,431,105,830	1,225,524,872
	4,284,406,486	4,230,110,071	4,249,249,160	4,219,372,441	3,390,620,504	3,546,910,260	2,289,933,949
	1,644,391,650	1,644,391,650	1,644,391,650	1,644,391,650	1,356,078,570	1,356,078,570	1,356,078,570
	524,742,604	525,899,331	525,927,896	525,927,896	-	2,073,232,126	926,339,375
	2,115,272,232	2,059,819,090	2,078,929,614	2,049,052,895	2,034,541,934	117,599,564	7,516,004
	4,284,406,486	4,230,110,071	4,249,249,160	4,219,372,441	3,390,620,504	3,546,910,260	2,289,933,949
	147,964,860	147,964,860	147,964,860	123,212,163	73,982,430	73,982,430	73,982,430
	0.67	0.12	0.27	0.12	(0.37)	1.28	(5.30)
	28.96	28.59	28.72	28.52	45.83	47.94	30.95
	0.50	0.30	0.25	0.10	-	-	-
	14.10	9.00	9.10	12.30	17.00	9.50	4.50
	30	31	31	31	35	45	48

NOTICE OF MEETING

SEYLAN DEVELOPMENTS PLC – PQ 151

NOTICE IS HEREBY GIVEN THAT THE TWENTY SIXTH ANNUAL GENERAL MEETING OF SEYLAN DEVELOPMENTS PLC WILL BE HELD ON THURSDAY, 29TH MARCH 2018 AT 2.30 P.M. AT SAMUDRA HOTEL, NO. 78, GALLE ROAD, COLOMBO 3, FOR THE FOLLOWING PURPOSES:-

AGENDA

1. To consider and adopt the Annual Report of the Directors and the Statement of Audited Accounts for the year ended 31st December 2017 and to receive the Report of the Auditors thereon.
2. To declare a First and Final Dividend of Rs 0.90. per Ordinary Share as recommended by the Directors.
3. To re-elect Mr. R.J. Jayasekara who retires by rotation in terms of Article 93 (a) of the Company's Articles of Association as a Director of the Company.
4. To re-appoint as a Director Mr. P. Saravanapavan, who is over 70 years of age. The Company has received notice of intention to pass the undernoted as an Ordinary Resolution in compliance with Section 211 of the Companies Act No. 07 of 2007.

Ordinary Resolution:

“That Mr. P. Saravanapavan who has attained the age of 72 years be and is hereby re-appointed as a Director of the Company and it is hereby declared as provided for in Section 211 of the Companies Act No.07 of 2007 that the age limit of 70 years referred to in section 210 of the said Companies Act shall not apply to Mr. P Saravanapavan.”

5. To re-appoint the retiring auditors, M/s KPMG, Chartered Accountants and to authorize the Directors to determine their remuneration.
6. To authorize the Directors to determine contributions to charities and other donations for the year 2018/2019.
7. 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

16th February 2018

FORM OF PROXY

SEYLAN DEVELOPMENTS PLC - PQ 151

Annual General Meeting

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 03	failing him
Mr. Somadasa Palihawadana of Kotte	failing him
Mr. Ponniah Saravanapavan of Dehiwela	failing him
Mr. R. J. Jayasekara of Colombo 04	failing him
Mr. P.D Hennayake of Colombo 06	failing him
Mr. L.T. Kiringoda of Battaramulla	failing him

as my /our Proxy to represent me/us and vote and speak for me/us on my/our behalf at the Twenty Sixth Annual General Meeting of the Company to be held on 29th March 2018 at 2.30 p.m. at the Samudra Hotel, No. 78, Galle Road, Colombo 3 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 2017 and to receive the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a First and Final dividend of Rs 0.90 per Ordinary Share as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. R.J. Jayasekara who retires by rotation in terms of Article 93 (a) of the Company's Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint as a Director Mr. P. Saravanapavan, who is over 70 years of age. The Company has received notice of intention to pass the undenoted as an Ordinary Resolution in compliance with Section 211 of the Companies Act No. 07 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>

Ordinary Resolution:

"That Mr. P. Saravanapavan who has attained the age of 72 years be and is hereby re-appointed as a Director of the Company and it is hereby declared as provided for in Section 211 of the Companies Act No.07 of 2007 that the age limit of 70 years referred to in Section 210 of the said Companies Act shall not apply to Mr. P. Saravanapavan".

5. 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"/>
6. To authorize the Directors to determine contributions to charities and other donations for the year 2018/2019.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand/s thisday of2018

.....
NIC Number / Reg. No

.....
(Signatures)

SEYLAN DEVELOPMENTS PLC – PQ 151

INSTRUCTIONS FOR COMPLETION OF THE 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 Resolutions. If no indication is given, the Proxy in his/her discretion may vote as he/she 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 Articles 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
Fax: 011-2423249
E-mail: seylandplc@sltnet.lk
Web: www.seylanddevelopments.com

BOARD OF DIRECTORS

Mr. Kapila Ariyaratne

Chairman / Non-Executive Director

Mr. S. Palihawadana

Deputy Chairman / Non-Executive
Director

Mr. P. Saravanapavan

Independent Non-Executive Director

Mr. R. J. Jayasekara

Non-Executive Director

Mr. P. D. Hennayake

Non-Executive Director

Mr. L. T. Kiringoda

Independent Non-Executive Director

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

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

1st January to 31st December

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.

For any Clarifications on this Report,
Please Contact:
The Accountant
Seylan Developments PLC
Level 15, Seylan Towers,
90, Galle Road, Colombo 03
Email :nirmala@seylanddevelopments.com
Tel: 011-2456390
Fax: 011-2423249



SEYLAN DEVELOPMENTS PLC

Level 15, Seylan Towers, No.90, Galle Road, Colombo-03.
T. 011 2 452 697 - 8 | F. 011 2 423 249 | e. seylandplc@slt.net.lk