



ANNUAL REPORT 2016

COMMERCIAL DEVELOPMENT COMPANY PLC

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CORPORATE INFORMATION

Name of the Company

Commercial Development Company PLC

Legal Form

A public limited liability company incorporated in Sri Lanka on March 14, 1980, under the Companies Ordinance No.51 of 1938 and quoted in the Colombo Stock Exchange in March 1983. The Company was re-registered under the Companies Act No.07 of 2007, on January 17, 2008.

Company Registration No.

PQ 114

Accounting Year-end

December 31

Stock Exchange Listing

The Ordinary Shares of the Company are listed on the Main Board of the Colombo Stock Exchange.

Registered Office

“Commercial House”

No. 21, Sir Razik Fareed Mawatha,
Colombo 01,
Sri Lanka.

Telephone/ Facsimile: +9411-2447300

E-mail: cdccompany@combank.net

Tax Payer Identification No. (TIN)

124010578

Lawyers

Messrs Julius & Creasy,
41, Janadhipathi Mawatha,
Colombo 01,
Sri Lanka.

Auditors

KPMG,
Chartered Accountants,
32A, Sir Mohamed Macan Markar Mawatha,
Colombo 03,
Sri Lanka.

Registrars

S S P Corporate Services (Pvt) Ltd.,
No. 101, Inner Flower Road,
Colombo 03,
Sri Lanka.
Telephone: +9411-2573894, +9411-2576871
Facsimile: +9411-2573609
E-mail: sspsec@sltnet.lk

(Kindly direct any queries about the administration of the shareholding to the above Company)

Board of Directors

Mr. B.R.L. Fernando - Chairman
Mr. J. Durairatnam - Managing Director
Mr. A.L. Gooneratne
Mr. A.T.P. Edirisinghe
Mr. L.D.A. Jayasinghe
Mr. U.I.S. Tillakawardana

Company Secretary

Mr. L.W.P. Indrajith

Board Audit Committee

Mr. B.R.L. Fernando - Chairman
Mr. A.L. Gooneratne
Mr. A.T. P. Edirisinghe
Mr. L.D.A. Jayasinghe
Mr. J. Durairatnam (By invitation)

Board Remuneration Committee

Mr. B.R.L. Fernando - Chairman
Mr. A.T.P. Edirisinghe
Mr. L.D.A. Jayasinghe
Mr. J. Durairatnam (By invitation)

Principal Banker

Commercial Bank of Ceylon PLC

Associate Company

Commercial Insurance Brokers (Pvt) Ltd.



FINANCIAL HIGHLIGHTS

		2016	2015	Change %
Results for the Year (Rs.'000)				
	Page			
Gross Revenue	30	329,257	316,988	3.87
Profit Before Taxation	30	391,654	321,897	21.67
Taxation	30	65,212	62,103	5.01
Profit After Taxation	30	326,442	259,794	25.65
Gross Dividends	33	60,000	60,000	-
Position at the Year End (Rs.'000)				
	Page			
Shareholders' Funds	33	1,975,867	1,707,839	15.70
Current Assets	32	207,208	160,864	28.81
Current Liabilities	32	45,578	42,960	6.09
Total Assets	32	2,364,677	2,064,361	14.55
Information per Ordinary Share (Rs.)				
	Page			
Earnings (Basic)	51	27.20	21.65	25.65
Dividends	52	5.00	5.00	-
Net Assets Value at the year end	32	164.66	142.32	15.70
Market Value at the year end	73	75.10	92.60	(18.90)
Key Financial Ratios				
Return on Average Shareholders' Funds - ROE (%)		17.72	16.05	1.67
Return on Average Assets - ROA (%)		14.74	13.19	1.55
Price Earnings (times)		2.76	4.28	(35.51)
Year on year growth in Earnings (%)		3.87	14.85	(10.98)
Dividend Yield (%)		6.66	5.40	1.26
Dividend Cover (times)		5.44	4.33	25.64
Dividend Payout Ratio (%)		18.38	23.10	(4.72)
Current Ratio (times)		4.55	3.74	21.66
Quick Assets Ratio (times)		4.54	3.74	21.39
Interest Cover (times)		214.67	186.84	14.90



CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, I warmly welcome all the members of the Company to the thirty seventh Annual General Meeting to be held on May 08, 2017 in order to present the Annual Report encompassing a review of all our activities together with the Audited Statement of Accounts for the year ended December 31, 2016.

Revenue for the year at Rs. 329.257 million recorded a marginal improvement of Rs. 12.269 million compared to the previous year as rent income remained at the same level due to the two year lease rental renewal cycle.

Revenue increase from outsourced staff fell short though recorded an improvement of 4.50% in comparison to the previous year as capacity utilization was at a lower level than planned. Consequently, net operating profit for the year showed an improvement of 21.15% in comparison to the previous year. The fair value gain on investment property recorded a higher increase of Rs. 62.149 million boosting profit before tax to Rs. 391.654 million.

Our building which was completed in 1982 continues to show signs of wear and tear though we have carried out regular planned maintenance programmes. This year the air conditioning system has shown signs of potential breakdowns and efficiency shortfalls. Being conscious that newer systems may result in substantial energy savings we obtained the services of a consultant and commissioned a study of our air conditioning system. As a result of this study, we awarded a contract for upgrading most of the hardware at a cost of Rs. 70 million which is expected to improve the office space cooling while generating approximately 30% reduction in electricity charges. Work on this project is expected to be completed by end June this year. The Commercial Bank will benefit from this lower electricity consumption and the resultant savings. However, it will help us to enhance our rental values in the short term.

As highlighted in the last year we continued to expand the span of services we provide to our parent company, Commercial Bank of Ceylon PLC, while efforts are being

made to re-cavass the provision of our expertise and strengths to parties other than our parent. To this end and also to meet the minimum public float requirements of the Colombo Stock Exchange, the Commercial Bank has continued to divest part of its equity holdings. During the year a further 51,573 shares were sold thus bringing down the Commercial Bank's holding to 93.85% as at the balance sheet date. It is pertinent to mention that the Securities and Exchange Commission of Sri Lanka has granted time till June 30, 2017 to be compliant with this requirement.

As the liquidity position remained favorable, the Directors resolved to pay a second interim dividend of Rs. 2.50 per share in March 2017. The Directors have now recommended a final dividend of Rs. 0.50 per share for the year ended December 31, 2016 which together with the first interim dividend paid of Rs. 2/- per share in December 2016 and Rs. 2.50 to be paid in March 2017 adds up to a total dividend of Rs. 5/- per share for the year. The dividend payout ratio amounts to 18.38% in comparison to the 23.10% in the previous year. This exceeds the stipulated minimum of 10% under the deemed dividend tax legislation. The net assets per share recorded a growth rate of 15.70% and stood at Rs. 164.66 per share as at the year end with the inclusion of the retained profits for the current year. The market capitalization of the Company reflected the overall volatility of the equities quoted on the Colombo Stock Exchange with the Commercial Bank disposing some of their holdings virtually at 50% of book value.

I wish to inform the members that both Mr. J. Durairatnam and Mr. A.L. Gooneratne retire in terms of Article 84 of the Articles of Association and being eligible offer themselves for re-election at the Annual General Meeting with unanimous support of the Board of Directors. The undersigned and Mr. A.T.P. Edirisinghe too retire as both of us are over 70 years of age. The Company however has received resolutions from two shareholders giving Special Notices under Section 210 of the Companies Act No. 07 of 2007 that the



retirement age at 70 will not be applicable to both Mr. B.R.L. Fernando and Mr. A.T.P. Edirisinghe. With the receipt of these resolutions the Directors have unanimously resolved to recommend the re-election of both Mr. B.R.L. Fernando and Mr. A.T.P. Edirisinghe to the members at the forthcoming Annual General Meeting.

I conclude this brief message expressing my sincere thanks to all Board members for their insights, debate and contributions. I also thank the Managing Director, General Manager and all staff members for their dedication, commitment and inputs. I will be failing in my duty should I not thank our External Auditors, Messrs KPMG for completing the audit in a timely manner and all our valued shareholders for their trust and support at all times.

B. R. L. Fernando

Chairman

Colombo

February 17, 2017



PROFILES OF THE BOARD OF DIRECTORS

Name and the status of the Director	Skills and Experience	Other Current Appointments	Previous Appointments	Shareholding in the Company
<p>Mr. B.R.L. Fernando Chairman</p> <p>Chairman of the Board since December 21, 2009</p> <p>Director since February 23, 2007</p> <p>Chairman of Board Audit Committee and Board Remuneration Committee</p> <p>Non-Executive Independent Director</p>	<p>A Fellow of The Institute of Chartered Accountants of Sri Lanka with considerable exposure to the banking, manufacturing, agricultural and trading sectors in Sri Lanka</p>	<p>Non-Executive Chairman - Akzo Nobel Paints Lanka (Pvt) Limited</p> <p>Non-Executive Director - First Guardian Equities (Pvt) Limited, Ceylon Tea Brokers PLC and St. Nicholas' Education Services Limited</p> <p>Member of the Working Committee on the Science & Technology Policy Research of the National Science Foundation</p> <p>Trustee of the Japan-Sri Lanka Technical & Cultural Association (JASTECA)</p>	<p>Director and Deputy Chairman - Commercial Bank of Ceylon PLC</p> <p>Non-Executive Chairman - CIC Holdings PLC and Chemanex PLC until his retirement in December 2013</p> <p>Executive Chairman of CIC Holdings PLC and its subsidiaries upto March 2009</p> <p>Served on the Board of Directors of the Insurance Corporation of Ceylon, the State Mortgage and Investment Bank, Employees Trust Fund and as a Member of the Telecom Regulatory Commission and the 2010 Taxation Commission</p>	<p>Nil</p>
<p>Mr. J. Durairatnam</p> <p>Managing Director/ Director since July 28, 2014</p> <p>Executive Director</p>	<p>Possesses substantial professional experience in Banking covering all aspects of International Trade, Off shore Banking, Credit, Operations and Information Technology</p> <p>At Commercial Bank, he has served in several management positions, including Chief Operating Officer, Deputy General Manager, Assistant General Manager-International Division and Head of Imports, counting 9 years was as a member of the Corporate Management</p> <p>Holds a Bachelors Degree from the University of Peradeniya</p>	<p>Managing Director/Chief Executive Officer - Commercial Bank of Ceylon PLC</p> <p>Director - Lanka Financial Services Bureau Ltd, Sri Lanka Banks' Association (Guarantee) Ltd and Financial Ombudsman Sri Lanka (Guarantee) Ltd</p>	<p>None</p>	<p>Nil</p>
<p>Mr. A. L. Gooneratne Director</p> <p>Director since September 17, 1993</p> <p>Member of the Board Audit Committee</p> <p>Non-Executive Independent Director</p>	<p>Fellow member of The Institute of Chartered Accountants, United Kingdom and Wales</p> <p>Fellow member of The Institute of Chartered Accountants, Sri Lanka</p> <p>Higher National Diploma in Business Studies United Kingdom</p>	<p>Managing Director- Melstacorp PLC</p> <p>Chairman - Subsidiaries of Melstacorp PLC namely - Melsta Regal Finance Limited, Melsta Logistics (Pvt) Limited, Bellvantage (Pvt) Limited,</p> <p>Director - Subsidiaries of Melstacorp PLC. namely - Periceyl (Pvt) Limited, Balangoda Plantation PLC, Lanka Bell Limited, Texpro Industries Limited, Bogo Power Limited and Continental Insurance Limited</p> <p>Alternate Director - Distilleries Company of Sri Lanka PLC.; Aitken Spence PLC</p> <p>Independent Director - Textured Jersey PLC and Lanka IOC PLC</p>	<p>Managing Director - Commercial Bank of Ceylon PLC (from 1996 to April 2012) and Commercial Development Company PLC</p> <p>Founder Chairman - Financial Ombudsman Sri Lanka (Guarantee) Ltd</p> <p>Chairman - Sri Lanka Banks' Association (Guarantee) Ltd and Commercial Insurance Brokers (Pvt) Limited</p> <p>Director - Sri Lankan Air Lines Ltd (from 2002 - 2004)</p>	<p>Nil</p>



PROFILES OF THE BOARD OF DIRECTORS

Name and the status of the Director	Skills and Experience	Other Current Appointments	Previous Appointments	Shareholding in the Company
<p>Mr. A.T.P. Edirisinghe Director</p> <p>Director since April 04, 2008</p> <p>Member of the Board Audit Committee and the Board Remuneration Committee</p> <p>Non-Executive Independent Director</p>	<p>Fellow of The Institute of Chartered Accountants of Sri Lanka</p> <p>Fellow of the Chartered Institute of Management Accountants, UK</p> <p>Diploma in Commercial Arbitration</p> <p>Counts over 47 years experience in both public practice and in the private sector</p>	<p>Consultant/Advisor - HLB Edirisinghe & Company, Chartered Accountants</p> <p>Managing Director - PE Management Consultants (Pvt) Ltd</p> <p>Serves on the Boards of some other quoted companies wherein some companies he also serves as Chairman/Member of the Audit Committee, as a Chairman / Member of the Remuneration Committee and Chairman/Member of the Related Party Transactions Committee</p>	<p>Senior Partner - HLB Edirisinghe & Company, Chartered Accountants</p> <p>Deputy Group Finance Director and holding over 10 Directorates in the John Keels Group Companies</p>	Nil
<p>Mr. L.D.A. Jayasinghe Director</p> <p>Director since December 21, 2009</p> <p>Member of the Board Audit Committee and the Board Remuneration Committee</p> <p>Non-Executive Independent Director</p>	<p>Fellow of The Institute of Chartered Accountants of Sri Lanka</p> <p>Fellow of The Institute of Certified Management Accountants of Sri Lanka</p> <p>Counting over 29 years of experience in public practice and 13 years in the private sector</p>	<p>Senior Partner - Jayasinghe & Company, an established firm of Chartered Accountants</p> <p>Serves as Director in a number of private limited companies</p>	<p>Past President - The Association of Accounting Technicians of Sri Lanka</p>	Nil
<p>Mr. U.I.S. Tillakawardana Director</p> <p>Director since December 01, 2011</p> <p>Non-Executive Non Independent Director</p>	<p>Fellow Member of Association of HR Professionals Sri Lanka</p> <p>Graduate Member - Sri Lanka Institute of Directors</p> <p>MBA - University of Sri Jaywardenepura</p> <p>Degree in Law (LL.B) - University of Colombo</p>	<p>Deputy General Manager - Human Resource Management - Commercial Bank of Ceylon PLC</p> <p>Director - Commercial Insurance Brokers (Pvt) Ltd., an Associate Company of Commercial Development Company PLC</p> <p>Non Executive Director - Maldives Commercial Bank, Maldives</p>	<p>Past President of Association of HR Professionals</p> <p>Prior to joining the Bank Isuru has held leadership positions in following organisations;</p> <ul style="list-style-type: none"> – Group Director - HR , Hemas PLC – Chief Operating Officer, Sri Lanka Insurance Corporation – General Manager - HR, Union Assurance PLC – Assistant General Manager, Colombo Stock Exchange 	Nil



CORPORATE GOVERNANCE

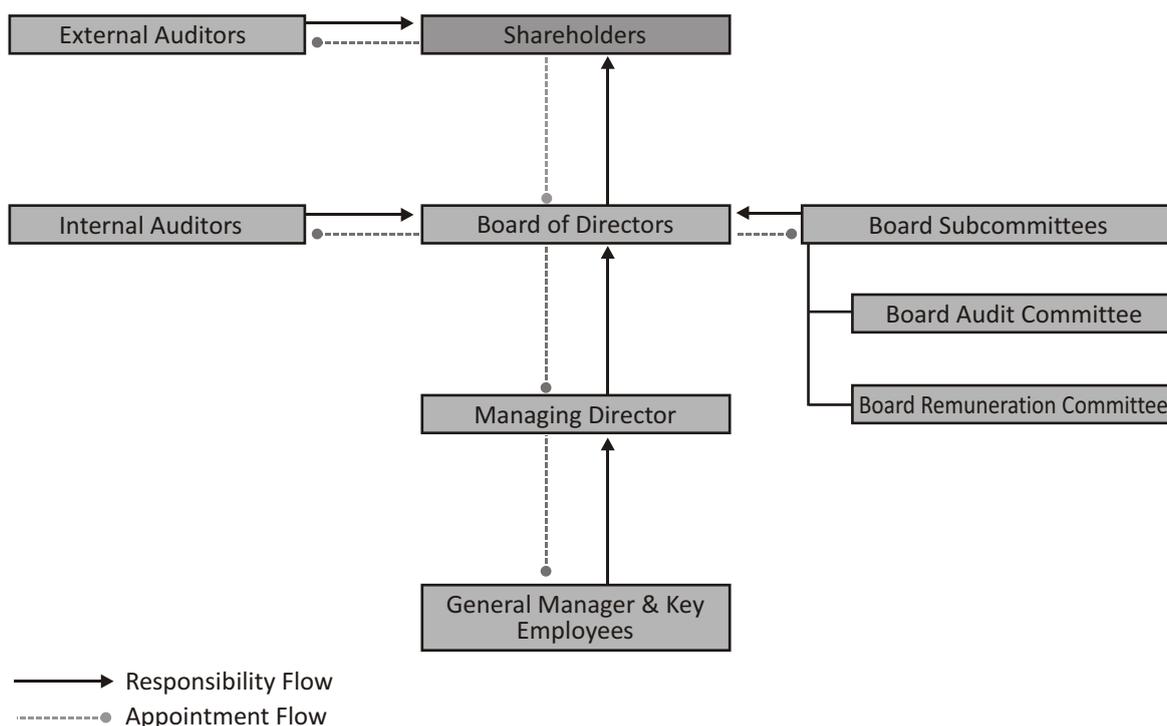
High standards of corporate governance are key to driving performance and delivering value to our key stakeholders. Commercial Development Company PLC has honed its governance structures, policies and processes over the years with inputs from its parent company, Commercial Bank of Ceylon PLC to build an organisation that is effective and accountable with a high degree of transparency. As the highest decision making body of the Company, the Board sets the tone at the top and is responsible for reviewing the effectiveness of its corporate governance mechanisms, maintaining an appropriate balance between empowerment and accountability with explicit statements of values and standards of conduct expected of its officers and employees.

The core objective of the Corporate Governance rules and regulations is to ensure that the interests of all stakeholders are reasonably safeguarded. Thus, the Board strives to take all possible steps to comply with best practices on Corporate Governance as it builds trust among stakeholders and establishes a basis for responsible business conduct.

The Board of Directors acknowledges their responsibility for the Governance practices in place at the Company and the need to ensure high standards of accountability to all stakeholders. The Company conducts its business activities in accordance with the letter and spirit of high standards of good governance embracing the best practices as enumerated in various Codes and Guidelines.

This Corporate Governance Report details the Governance Structure in place at the Company and discusses the extent to which the Company adheres to the requirements of best practices in furtherance of enhancing shareholder value, whilst maintaining the highest standards of integrity, accountability, transparency and business ethics in the governance of activities of the Company. The Governance Structure in place at the Company is aimed at satisfying the legitimate claims of all stakeholders and to fulfill the Corporate Governance responsibilities in a transparent manner. The Governance Structure of the Company originates with an independent, engaged and committed Board of Directors.

The diagram given below portrays the Governance Structure of the Company.





CORPORATE GOVERNANCE

The Company places greater emphasis on adhering to principles of good governance and strives to ensure strict compliance with the Continuing Listing Requirements set out in the Listing Rules of the Colombo Stock Exchange (CSE Rules), the Code of Best Practices in Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (CA Sri Lanka & SEC Code) and statutory provisions contained in the Companies Act No.07 of 2007.

Board of Directors

Composition of the Board and the Board Balance

The Board of Directors of the Company as at December 31, 2016, consisted of six Directors. They possess a wide knowledge and expertise in the fields of finance, corporate management and corporate law with varied business and professional experience in order to direct, lead and control the Company's business activities successfully.

The names and 'Executive/Non-Executive' & 'Independence' status of the Directors are as follows:

Name of the Director	Executive / Non-Executive Status	Status of Independence
Mr. B. R. L. Fernando (Chairman)	Non-Executive	Independent
Mr. J. Durairatnam (Managing Director)	Executive	Non-Independent
Mr. A.L. Gooneratne	Non-Executive	Independent
Mr. A.T.P. Edirisinghe	Non-Executive	Independent
Mr. L.D.A. Jayasinghe	Non-Executive	Independent
Mr. U.I.S. Tillakawardana	Non-Executive	Non-Independent

All Non-Executive Directors of the Company have submitted declarations on their independence or non independence as required by the Rule No. 7.10.2 (b) of the Listing Rules of the Colombo Stock Exchange ('the CSE').

Although both Mr. B.R.L. Fernando, the Chairman and Mr. A.L. Gooneratne, a Director of the Company have served on the Board continuously for more than nine years, are however determined as Independent Directors

after taking into consideration all the relevant circumstances as provided in the Section 7.10.3 (b) of the Listing Rules of the CSE. Furthermore, the institutions in which they are Directors do not directly or indirectly get involved in the day today management of either the Company or its Associate and as such are independent of management and free of business relationships.

In terms of Rule No. 7.10.4 (g) of the Listing Rules of the CSE, Mr. J. Durairatnam, the Managing Director of the Company cannot be considered as an Independent Director as he serves on the Board of the Commercial Bank of Ceylon PLC ('the Bank') in the capacity of the Managing Director of the Bank, which has a material business connections with the Company together with a significant shareholding. In addition, Mr. U.I.S. Tillakawardana, a Director of the Company, cannot also be considered as an Independent Director as per Rule No. 7.10.4 (f) as he functions as the Deputy General Manager - Human Resource Management, a Member of the Key Management Personnel of the Bank.

Nevertheless as more than one third of the Board being comprised of Non-Executive Directors and more than one third of such Non-Executive Directors being 'Independent', the Company adheres to the requirements of the CA Sri Lanka & SEC Code and the Listing Rules of the CSE and thus ensures their independence and integrity to an even higher standard.



CORPORATE GOVERNANCE

The Chairman is responsible for leading the Board and for its effectiveness. The Managing Director's role is primarily to conduct the business activities of the Company with the help of the management and the staff. Hence, the roles of the Chairman and Managing Director are clearly distinct from one another. The Chairman is also the ultimate point of contact for shareholders, particularly on matters related to Corporate Governance.

In addition, each Director has a continuing responsibility to determine whether he has a potential or actual conflict of interest arising from any external involvements or other interests.

Further, the Chairman, with the assistance of other Directors annually assesses the Board composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of this assessment are taken into account when new Board appointments are considered and when incumbent Directors come up for re-election.

Role and Responsibility of the Board

The Board is collectively responsible for the formulation of the overall business strategy and for monitoring the efficient and effective implementation of same. The Board also bears the final responsibility for maintaining the integrity of financial information and the effectiveness of the Company's internal control and risk management. Thus, its functions include;

- Formulation of short and long term strategies towards sustainable growth
- Ensuring compliance with applicable laws and regulations
- Ensuring that a system of proper Internal Control is in place
- Review of the management and operational information
- Adoption of the Annual Report and the Accounts and the Interim Financial Statements before same are released to the CSE / published
- Review of exposure to key operational risks

- Approval of annual budgets, monitoring progress towards achieving those budgets and
- Sanctioning major capital expenditure and acquisition of assets

The Board is supported by two Board appointed subcommittees, namely, the Audit Committee and the Remuneration Committee, in addition to the Company's management team headed by the Managing Director. All Directors have access to the Company Secretary who is responsible to the Board in ensuring that the Board procedures are followed up and applicable rules and regulations are complied with. These arrangements provide a regular forum for monitoring the effectiveness and in ensuring the efficiency of the Board's performance. In its governance of the Company's affairs, the Board strives to balance the interests of the Company, its shareholders, employees and other stakeholders. The Board is responsible ultimately for the Company's performance.

Financial Acumen and Knowledge

Majority of the members of the Board are Chartered Accountants and several members have considerable experience in the banking and financial sectors. They possess necessary acumen and knowledge to offer guidance to the Board on matters of finance. The Board of Directors brings a wide range of expertise needed for the overall direction, strategy and achievement of financial objectives of the Company. The 'Profiles of the Board of Directors' as set out on pages 06 and 07 reflect the depth of knowledge and experience individually and collectively gained by them, whilst serving in a variety of public and private sector institutions.

Access to Information

The Board is provided with accurate and complete information that is required for effective deliberations and for the arrival of informed decisions on all matters pertaining to the Company through the Board Audit Committee. The Board receives accurate, relevant and comprehensive papers relating to all matters itemised in the Agenda of Board meetings well in advance. Such information generally includes a detailed analysis of financials, all aspects of operations, background and/or



CORPORATE GOVERNANCE

explanatory information relating to matters brought before the Board, copies of disclosure documents, budgets and forecasts. The Interim Financial Statements are submitted in advance of each meeting to enable the Directors to make informed decisions. The Directors have access to the Company's management at all times, to receive advice and information on topical matters, new regulations and practices that would further the interests of the Company. The Directors are also able to seek professional advice when deemed necessary, for fulfilling their directorial responsibilities, at the Company's expense.

Appointment to the Board and Re-election

The Articles of Association of the Company mandates that one third of the Directors, including the Chairman, retire and submit themselves for re-election at every Annual General Meeting. The retirement of each Director is determined according to who has served the longest period of time in office, since his/her appointment or re-appointment, as the case may be. Further, there is a formal and transparent procedure in place for the appointment of new Directors to the Board.

While there were no new appointments during the year under review, four Directors including Mr. B.R.L. Fernando, the Chairman of the Company and Mr. A.T.P. Edirisinghe both of whom are over 70 years old are due to be re-elected at the 37th Annual General Meeting of the Company. The Articles also provides that newly appointed Directors, if any, whether they are appointed to fill a casual vacancy or to serve as an additional Director, can hold office only until the next Annual General Meeting of the Company following such appointment, after which they must seek re-election.

Appraisal of Board Performance and the Managing Director's Performance

The performance of the Board is evaluated by the Chairman with the Board's assistance. The Board Subcommittees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement. Assessment of performance of the

Managing Director is carried out by the Board at the end of each year to ensure that pre-agreed targets have been achieved or if not whether there are acceptable reasons for not achieving them.

Board Audit Committee

The Board Audit Committee consists of four Non-Executive Directors all of whom are senior Chartered Accountants. Mr. B.R.L. Fernando serves as the Chairman of the Committee. The Committee is responsible for reviewing the financial reporting process, the system of internal controls, the audit process and the Company's process for monitoring compliance with the requirements of the Companies Act and other applicable laws and regulations. The Committee also reviews the status of the independence of the External Auditors of the Company, Messrs KPMG, and have satisfied themselves that they are independent. The Report of the Board Audit Committee is given on pages 22 and 23.

Board Remuneration Committee

The Board Remuneration Committee consists of three Non-Executive Independent Directors. Mr. B.R.L. Fernando chairs the Committee while Mr. A.T.P. Edirisinghe and Mr. L.D.A. Jayasinghe serve as the other two members of the Committee.

The mandate of the Committee includes setting guidelines and policies to formulate compensation packages which attract, motivate and are capable of retaining the highly qualified and experienced Directors and Key employees in the Company. In this regard, the Committee sets the criteria such as qualifications, experience and key attributes required and the eligibility, to be considered for appointment or promotion. The Report of the Board Remuneration Committee is given on page 24.

Aggregate remuneration paid to the Executive and Non-Executive Directors of the Company is given in the Note 07 to the Financial Statements on page 50.



CORPORATE GOVERNANCE

Accountability and Audit

The Board considers it within their topmost priorities that complete disclosure of financial and non financial information is made, within the parameters of realistic commercial practices. The Board pays great attention to the adoption of sound and accurate reporting practices ensuring that an honest and balanced assessment is presented at all times. The Board is well aware of its responsibility to present regulatory and statutory reporting in a balanced and understandable manner and a statement to this effect is given in the 'Statement of Directors Responsibility' that appears on pages 26 and 27.

The Independent Auditors' Report is given on page 29.

Status of Directors' Attendance to the Meetings

The names of the Directors and their attendance at Board meetings and Board Subcommittee meetings are tabulated below.

Name of the Director	Main Board		Board Audit Committee		Board Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mr. B.R.L. Fernando (Chairman)	5	5	4	4	1	1
Mr. J. Durairatnam (Managing Director)	5	5	4 *	4 *	1 *	1 *
Mr. A.L. Gooneratne	5	5	4	4	N/A	N/A
Mr. A.T.P. Edirisinghe	5	5	4	4	1	1
Mr. L.D.A. Jayasinghe	5	5	4	4	1	1
Mr. U.I.S. Tillakawardana	5	4	N/A	N/A	1 *	1 *

* - *Attended by invitation*

N/A - *Not Applicable*

Shareholders

The Annual General Meeting is a major event in the Company's calendar to communicate with shareholders and encourage their active participation. Individual shareholders are encouraged to present at the Annual General Meeting of the Company and exercise their voting rights. The Company adequately communicates with all shareholders by ensuring that they are informed of this position by dispatching necessary Notices in time. Separate resolutions are proposed for all substantially separate issues to provide shareholders with the opportunity to deal with each significant matter separately. The Board is of the view that this mechanism promotes better stewardship while assuring transparency.



CORPORATE GOVERNANCE

ADHERENCE TO THE CORPORATE GOVERNANCE RULES OF THE COLOMBO STOCK EXCHANGE FOR LISTED COMPANIES

CSE Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report or Other Remarks
7.10.1 (a)	Non-Executive Directors	Two or at least one third of the total number of Directors to be Non-Executive Directors.	Complied	Corporate Governance [Page 09]
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher, to be Independent.	Complied	Corporate Governance [Page 09]
7.10.2 (b)	Independent Directors	Each Non-Executive Director to submit a declaration of Independence / Non-independence in the prescribed format.	Complied	Corporate Governance [Page 09]
7.10.3 (a)	Disclosure relating to Directors	The Board to make a determination as to the Independence or Non-Independence of each Non- Executive Director annually and names of Independent Directors to be disclosed in the Annual Report.	Complied	Corporate Governance [Page 09]
7.10.3 (b)	Disclosure relating to Directors	The basis for the Board to determine whether a Director is Independent, if criteria specified for Independence is not met.	Complied	Corporate Governance [Page 09]
7.10.3 (c)	Disclosure relating to Directors	A brief resume of each Director to be included in the Annual Report containing information on the nature of his/ her expertise in relevant functional areas.	Complied	Profiles of the Board of Directors [Page 06]
7.10.3 (d)	Disclosure relating to Directors	Provide a brief resume of new Directors appointed to the Board with details specified in Rule 7.10.3(a), (b) and (c) mentioned above.	Not applicable	There were no new appointments during the year
7.10.5 (a)	Composition of Remuneration Committee	<ul style="list-style-type: none"> To comprise of a minimum of two Independent Non-Executive Directors or Non-Executive Directors, a majority of whom to be Independent, whichever be higher. 	Complied	Corporate Governance and Board Remuneration Committee Report
		<ul style="list-style-type: none"> A Non-Executive Director to be appointed as the Chairman of the Committee. 	Complied	Board Remuneration Committee Report [Page 24]



CORPORATE GOVERNANCE

ADHERENCE TO THE CORPORATE GOVERNANCE RULES OF THE COLOMBO STOCK EXCHANGE FOR LISTED COMPANIES

CSE Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report or Other Remarks
7.10.5 (b)	Functions of Remuneration Committee	Recommend the remuneration payable to the executive directors and Chief Executive Officer and/or equivalent position thereof, to the Board which will make the final determination upon consideration of such recommendations.	Complied	Board Remuneration Committee Report [Page 24]
7.10.5 (c)	Disclosure in the Annual Report on Remuneration Committee	<ul style="list-style-type: none"> The names of Directors comprising the remuneration committee and contain a statement of the remuneration policy. 	Complied	Board Remuneration Committee Report [Page 24]
		<ul style="list-style-type: none"> Aggregate remuneration paid to executive and non-executive Directors. 	Complied	Note 7 to the Financial Statements [Page 50]
7.10.6 (a)	Composition of Audit Committee	<ul style="list-style-type: none"> To comprise of a minimum of two Independent Non-Executive Directors or Non-Executive Directors a majority of whom to be Independent, whichever be higher. 	Complied	Corporate Governance and Board Audit Committee Report [Pages 11 and 22]
		<ul style="list-style-type: none"> A Non-Executive Director be appointed as the Chairman of the Committee. 	Complied	Board Audit Committee Report [Page 22]
		<ul style="list-style-type: none"> Unless otherwise determined by the Audit Committee the Chief Executive Officer and the Chief Financial Officer to attend Audit Committee Meetings. 	Complied	Board Audit Committee Report [Page 22]
		<ul style="list-style-type: none"> The Chairman of the Audit Committee or one member be a member of a professional accounting body. 	Complied	Board Audit Committee Report [Page 22]



CORPORATE GOVERNANCE

ADHERENCE TO THE CORPORATE GOVERNANCE RULES OF THE COLOMBO STOCK EXCHANGE FOR LISTED COMPANIES

CSE Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report or Other Remarks
7.10.6 (b)	Functions of the Audit Committee	a. Overseeing the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards.	Complied	Board Audit Committee Report [Page 22]
		b. Ensuring Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Complied	Board Audit Committee Report [Page 22]
		c. Overseeing the processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards.	Complied	Board Audit Committee Report [Page 22]
		d. Assessment of the Independence and performance of the External Auditors.	Complied	Board Audit Committee Report [Page 22]
		e. Making recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors, and approving the remuneration and terms of engagement of External Auditors.	Complied	Board Audit Committee Report [Page 23]
7.10.6 (c)	Disclosure in the Annual Report on Audit Committee	a. Names of Directors comprising the Audit Committee.	Complied	Board Audit Committee Report [Page 22]
		b. The Audit Committee to make a determination of the Independence of the Auditors and disclose the basis for such determination.	Complied	Board Audit Committee Report [Page 23]
		c. The Annual Report to contain a Report of the Audit Committee setting out of the manner of compliance with their functions.	Complied	Board Audit Committee Report [Page 22]



ANNUAL REPORT OF THE BOARD OF DIRECTORS

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY THE SECTION 168 OF THE COMPANIES ACT NO. 07 OF 2007

1. General

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended December 31, 2016 of the Commercial Development Company PLC, ('the Company') and the Independent Auditors' Report on these Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007 ('the Companies Act').

The Company is a public limited liability company incorporated in Sri Lanka on March 14, 1980 under the Companies Ordinance No. 51 of 1938, quoted in the main Board of the Colombo Stock Exchange ('the CSE') in March 1983 and re-registered as per the requirements of the Companies Act on January 17, 2008, under the Company Registration No. PQ 114.

The revised Public Holding threshold requirements to be on the Main Board of the CSE as per the revised Listing Rules on minimum Public Holding applicable to all listed public companies, is as follows;

Revised Threshold Requirements - Main Board of the CSE

OPTION	MINIMUM THRESHOLDS FOR COMPLIANCE		
	Float- Adjusted Market Capitalization	Public Holding Percentage	Number of Public Shareholders
1	Rs. 10 bn	-	500
2	Rs. 7.5 bn	5%	500
3	Rs. 5.0 bn	7.5%	500
4	Rs. 2.5 bn	10%	500
5	-	20%	500

The revised Public Holding threshold requirements to be on the Diri Savi Board of the CSE as per the revised Listing

Rules on minimum Public Holding applicable to all listed public companies, is as follows;

Revised Threshold Requirements - Diri Savi Board of the CSE

OPTION	MINIMUM THRESHOLDS FOR COMPLIANCE		
	Float- Adjusted Market Capitalization	Public Holding Percentage	Number of Public Shareholders
1	Rs. 1 bn	7.5%	200
2	-	10%	200

The registered office of the Company is at No. 21, 'Commercial House', Sir Razik Fareed Mawatha, Colombo 01.

The details set out herein provide the pertinent information required by the Companies Act, the Listing Rules of the CSE and recommended best practices on Corporate Governance.

This Report was approved by the Board of Directors on February 17, 2017. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within statutory deadlines.

2. Review of Business

2.1 Review on operations of the Company

The 'Chairman's Message' appearing on pages 04 and 05 provides an overall assessment on the financial performance & financial position of the Company and the state of the affairs as required by the Section 168 of the Companies Act and the recommended best accounting practices.

2.2 Principal Business Activities

The nature of the principal business activities of the Company as required by the Section 168 (1) (a) of the Companies Act is given in Note 1.2 to the Financial Statements on page 35. There were no significant changes in the nature of the principal business activities of the Company during the financial year under review.



ANNUAL REPORT OF THE BOARD OF DIRECTORS

2.3 Financial Statements

The Financial Statements of the Company prepared in compliance with the requirements of the Sections 151 and 168 (1) (b) of the Companies Act, are given on pages 30 to 68.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that the Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 30 to 68 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Companies Act and the Listing Rules of the CSE. The 'Statement of Directors' Responsibility' appearing on pages 26 and 27 forms an integral part of this Report.

2.5 Independent Auditors' Report

The 'Independent Auditors' Report' on the Financial Statements for the year ended December 31, 2016, as required by the Section 168 (1) (c) of the Companies Act is given on page 29.

2.6 Significant Accounting Policies and changes during the year

As required by the Section 168 (1) (d) of the Companies Act, the Significant Accounting Policies adopted in the preparation of the Financial Statements of the Company are stated on pages 38 to 48. There were no changes to the Accounting Policies adopted by the Company during the year.

2.7 Entries in the Interests Register

An Interests Register is maintained by the Company, as per the Companies Act. All Directors have made declarations as provided for in the Section 192 (1) and (2) of the Companies Act aforesaid. All related entries were made in the Interests Register on Directors' interests in contracts, remuneration paid to the Directors, etc during the year under review. The Directors do not hold shares in the Company as disclosed on page 20 under the sub-heading of 'Directors' Interest in Shares'. The Interests Register is available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d) of the Companies Act.

2.8 Directors' Remuneration

Directors' remuneration, in respect of the Company for the financial year ended December 31, 2016 is given on Note 7 to the Financial Statements on page 50 as required by the Section 168 (1) (f) of the Companies Act.

2.9 Donations

No donations were made during the year and this information forms an integral part of the Report of the Board of Directors as required by the Section 168 (1) (g) of the Companies Act.

3. Gross Income

The gross income of the Company for 2016 was Rs. 329.257 Mn., (Rs. 316.988 Mn., in 2015).



ANNUAL REPORT OF THE BOARD OF DIRECTORS

4. Dividends and Reserves

4.1 Profit and Appropriations

Details of appropriation of Profit of the Company are given below:

For the year ended December 31,	2016 Rs.'000	2015 Rs.'000
Profit from operations for the year	374,176	308,849
Add : Net Finance Income	12,354	9,041
Add : Share of profit of Equity accounted investee, Net of Tax	5,124	4,007
Profit before Tax	391,654	321,897
Less : Income Tax Expense	(65,212)	(62,103)
Net profit after taxation	326,442	259,794
Add : Amounts recognised in Other Comprehensive Income, Net of Tax	835	6,579
Total Comprehensive Income for the year, Net of Tax	327,277	266,373
Add : Unclaimed Dividends written back	661	-
Add : Unappropriated profit brought forward	187,722	163,764
Less: Super Gains Tax Paid	-	(27,581)
Transfers to Fair Value Adjustment Reserve	(216,588)	(154,834)
Profit available for appropriation	299,072	247,722
Less: 1st Interim dividend of Rs. 2.00 per share (Rs. 2.00 per share in 2015)	(24,000)	(24,000)
Less: 2nd Interim Dividend Proposed - Rs.2.50 per share (2015 - Nil)	(30,000)	-
Less: Final Dividend proposed - Rs. 0.50 per share (Rs. 3.00 per share in 2015)	(6,000)	(36,000)
Unappropriated profit carried forward	239,072	187,722

4.2 Provision for taxation

Income tax expense has been computed at the rate of 28% as given in Note 9 to the Financial Statements on page 51.

The Company has also provided deferred tax on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes'.

4.3 Dividend on Ordinary Shares

The Company paid a 1st interim dividend of Rs. 2.00 per ordinary share in December 2016 (An interim dividend of Rs. 2.00 per share was paid in December 2015). This interim dividend was paid out of the profits of the Company, hence, subjected to a 10% withholding tax.

In addition, a 2nd interim dividend of Rs. 2.50 per ordinary share was declared by the Board of Directors of the Company to be paid in March 2017 (There was no

2nd interim dividend for 2015). This 2nd interim dividend too will be paid out of the profits of the Company, hence, will be subjected to a 10% withholding tax.

Further, the Board of Directors have proposed the payment of Rs. 0.50 per share as a final dividend for the year 2016 (Rs. 3.00 in 2015) partly out of dividends received and partly out of taxable profits of the Company. The portion of dividend that will be paid out of taxable profits of the Company will be subject to a withholding tax at the rate that will prevail at the time of payment of such dividend.

On this basis, the total dividend payout ratio amounts to 18.38% of the profit after tax of 2016 compared to 23.10% for 2015. This is well above the minimum dividend payout ratio of 10% (10% in 2015) stipulated in the Deemed Dividend Tax rule.

The Board of Directors fulfilled the requirement of the Solvency Test in terms of the Section 31 (3) of the



ANNUAL REPORT OF THE BOARD OF DIRECTORS

Companies Act immediately after the payment of the 1st interim dividend and would ensure the compliance of Solvency Test after the payment of aforesaid 2nd interim dividend and the final dividend proposed to be paid in March 2017 and May 2017, respectively.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment conforming to the statutory provision.

4.4 Reserves

A summary of the Company's reserves is given below:

As at December 31,	2016 Rs. '000	2015 Rs. '000
Fair Value Adjustment Reserve	1,580,740	1,364,152
Available for Sale Reserve	55	(35)
Retained Earnings	275,072	223,722
Total	1,855,867	1,587,839

5. Property, Plant and Equipment

Details on Capital expenditure on Property, Plant and Equipment are given in Note 11 to the Financial Statements on page 52. There was no capital expenditure approved and contracted for at the year-end.

6. Investment Properties

The land and buildings held to earn rental income and for capital appreciation are classified as Investment Property. Investment Property is stated at 'Fair Value' based on the valuations carried out by Professional valuers and the difference between the carrying values and the fair values had been taken to the Income Statement. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of the property. The residual lease period of the Land in Colombo as at December 31, 2016 was 64 years. Details of the Investment Property are given in Note 12 to the Financial Statements on page 53.

7. Information on Shares

7.1 Stated Capital

The Stated Capital as at December 31, 2016 was Rs. 120 Mn., consisting of 12,000,000 ordinary shares and this remained unchanged during the year under review.

7.2 Share Information

Information on market value of ordinary shares is given on page 73.

7.3 Shareholdings

There were 752 registered shareholders (723 in 2015) holding Ordinary Voting Shares as at December 31, 2016. The distribution of shareholding is given on page 72. It is pertinent to mention that our principal shareholder, the Commercial Bank of Ceylon PLC has already sold 83,988 shares, bringing its stake down to 93.85% as at December 31, 2016 in response to the requirement on minimum public holding as mandated by the Listing Rules of the CSE. The Company is optimistic that it will be able to comply with the revised Listing Rules that require all Listed Companies to be compliant on the minimum public holding in the hands of public shareholders by June 30, 2017.

7.4 Substantial Shareholdings

The details of top twenty shareholders are given on page 71.

7.5 Equitable Treatment to Shareholders

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

8. Directors

8.1 List of Directors

Names of the Directors of the Company as at the end of 2016, as required by the Section 168 (1) (h) of the Companies Act are given below:

Mr. B.R.L. Fernando (Chairman)
Mr. J. Durairatnam (Managing Director)
Mr. A.L. Gooneratne
Mr. A.T.P. Edirisinghe
Mr. L.D.A. Jayasinghe
Mr. U.I.S. Tillakawardana

8.2 New appointments

None

8.3 Resignations

None



ANNUAL REPORT OF THE BOARD OF DIRECTORS

8.4 Recommendations for re-election

Mr. J. Durairatnam

In terms of Clause 84 of the Articles of Association of the Company, Mr. J. Durairatnam retires by rotation and being eligible is recommended for re-election.

Mr. A.L. Gooneratne

In terms of Clause 84 of the Articles of Association of the Company, Mr. A.L. Gooneratne retires by rotation and being eligible is recommended for re-election.

Mr. B.R.L. Fernando

A Special Notice has been received by the Company from Mr. K.K. Wijayaweera, a shareholder of the Company informing his intention to move an ordinary resolution stating that age limit stipulated in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. B.R.L. Fernando who has attained the age of 74 years.

(Resolution is stated on page 76 under Notice of Meeting)

Mr. A.T.P. Edirisinghe

A Special Notice has been received by the Company from Mr. M. Thiyagaraja, a shareholder of the Company informing his intention to move an ordinary resolution stating that age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. A.T.P. Edirisinghe who has attained the age of 71 years.

(Resolution is stated on page 76 under Notice of Meeting)

8.5 Directors' Interests in Shares

The Directors did not hold shares of the Company as at December 31, 2016.

8.6 Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed in Note 26 under 'Related Party Disclosures' on page 61. These interests have been declared at Directors'

Meetings. As a practice, Directors have refrained from voting on matters in which they were interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

9. Compliance with Laws and Regulations

The Company has not engaged in any activities contravening the laws and regulations.

10. Environmental Protection

The Company has not to the best of its knowledge engaged in any activity which is harmful to the environment.

11. Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments to the Government, other regulatory institutions and related to the employees have been made in time.

12. Events after the Reporting Period

There have not been any material events that occurred subsequent to the date of the Statement of Financial Position that require adjustments to the Financial Statements other than those disclosed in Note 32 to the Financial Statements on page 68.

13. Auditors

13.1 Appointment of Auditors

The retiring Auditors, Messrs KPMG have signified their willingness to continue in office. A resolution to re-appoint them as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

13.2 Auditors' Remuneration and Interest in Contracts with the Company

The Auditors, Messrs KPMG were paid Rs. 540,000/- for the year ended December 31, 2016 (Rs. 510,000/- in 2015) as audit and audit related services by the Company. In addition, they were paid Rs. 287,377/- for the year ended December 31, 2016 (Rs. 262,388/- in 2015) by the Company, for non audit-related services including tax



ANNUAL REPORT OF THE BOARD OF DIRECTORS

consultancy services. This information is disclosed as required by the Section 168 (1) (i) of the Companies Act.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company, or its Associate other than being the Auditors for Company's Associate. This information is disclosed as required by the Section 168 (j) of the Companies Act.

14. System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of Internal Controls covering financial operations and compliance control required to carry on the business of the Company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records. Controls over financial reporting were also reviewed during the year to ensure that the financial reporting process is sound.

15. 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 is compliant with the Codes of Best Practice on Corporate Governance issued by regulators as detailed in the Section on 'Corporate Governance' on pages 08 to 15.

16. Outstanding Litigation

There were no litigations pending against the Company as at December 31, 2016.

17. Going Concern

The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern basis.

18. Notice of Meeting

Notice of Meeting relating to Thirty Seventh Annual General Meeting is given on page 76.

19. Acknowledgment of the Contents of the Annual Report

As required by the Section 168 (1) (k) of the Companies Act, the Board of Directors does hereby acknowledge the contents of this Annual Report.

For and on behalf of the Board of Directors,

B.R.L. Fernando
Chairman

J. Durairatnam
Managing Director

L.W.P. Indrajith
Company Secretary

Colombo
February 17, 2017



BOARD AUDIT COMMITTEE REPORT

Composition of the Committee

The Board appointed Audit Committee ('the Committee') as at December 31, 2016 comprised the following Non-Executive Directors of the Company.

Mr. B.R.L. Fernando (Chairman)
Mr. A.L. Gooneratne
Mr. A.T.P. Edirisinghe
Mr. L.D.A. Jayasinghe

The Chairman and all the other members of the Committee are Fellow members of The Institute of Chartered Accountants of Sri Lanka and possess wide expertise in finance and related fields.

The Managing Director, Mr. J. Durairatnam attended the meetings by invitation.

The Company Secretary of the Company functions as the Secretary of the Committee.

The profiles of the members are given on pages 06 and 07.

The responsibilities of the Committee are governed by the Rules and Regulations which are approved and adopted by the Board. The Board fulfils its overall responsibility to the shareholders in relation to the integrity of the Company's financial reporting process in accordance with the Companies Act and other legislative reporting requirements including adequacy of disclosures in the Financial Statements in accordance with the Sri Lanka Accounting Standards.

The Committee also has a responsibility to ensure that the system of internal controls of the Company are in accordance with legal and regulatory requirements. The Committee also evaluates the performance and the independence of the Company's External and Internal Audit functions.

Terms of Reference

The Committee focuses on the following aspects in discharging its responsibilities.

- review of accounting policies and supervision of preparation and presentation of Financial Statements and adequacy of disclosures made in accordance with the Sri Lanka Accounting Standards
- oversee the procedures in relation to internal controls
- ensure compliance with the requirements of the Companies Act No.07 of 2007 and other financial reporting requirements and regulations
- ensure the independence and effectiveness of the External and Internal Auditors
- recommend the appointment and fees of the External and Internal Auditors

Mandate and Role

The Committee examines matters relating to the Financial Reporting System of the Company and the External and Internal Audits of the Company. Its duties include a detailed review of the Financial Statements and Management Accounts, internal control procedures, Accounting Policies and compliance with the Sri Lanka Accounting Standards. The Committee also reviews the overall adequacy of the systems for compliance with legal, regulatory and ethical requirements. It also decides on the appointment and fees of the External Auditors, having given due consideration to the independence of the External Auditors. The Committee assesses the major business and control risks and the control environment prevalent in the Company.



BOARD AUDIT COMMITTEE REPORT

Annual Report and the Accounts and the Interim Financial Statements prepared for publication were reviewed and recommended by the Committee before submission of same to the Board. Members of the management of the Company were also invited to participate in the meetings as and when the necessity arose.

The Committee, with the concurrence of the Board, outsourced the internal audit function to a reputed firm of Chartered Accountants. The Inspection Department of the Commercial Bank of Ceylon PLC too reviewed the operations and performance of the Company from the perspective of a subsidiary of the Bank. The Committee having noted the above, instructed the management to initiate corrective actions where necessary. The observations of the internal audit reports were considered by the Committee and corrective action initiated by the Management on reported weaknesses. The Committee having reviewed the operations and existing internal control procedures is of the view that adequate controls and procedures are in place to provide reasonable assurance to the Board that the assets of the Company are properly accounted for and safeguarded and that the financial position is monitored according to information made available.

As far as the Directors are aware and according to the Auditors' written confirmation, the External Auditors are independent and they do not have any interest in contracts with the Company or its Associate.

The Committee has recommended to the Board of Directors that Messrs KMPG, Chartered Accountants, be re-appointed as Auditors for the financial year ending December 31, 2017 subject to the approval of the shareholders at the forthcoming Annual General Meeting.

The Committee is satisfied that the effectiveness of the organisational structure of the Company in the implementation of the accounting policies and operational controls provide reasonable assurance that

the affairs of the Company are managed in accordance with accepted policies and that assets are properly accounted for and adequately safeguarded.

Meetings

The Committee met four times during the year under review. A table showing the record of attendance at meetings appears on page 12. The proceedings of the Committee were regularly reported to the Board.

B. R. L. Fernando
Chairman - Board Audit Committee

Colombo
February 17, 2017



BOARD REMUNERATION COMMITTEE REPORT

Composition of the Committee

The Board appointed Remuneration Committee ('the Committee') of the Company consisted of the following Non-Executive Independent Directors.

Mr. B.R.L. Fernando (Chairman)
Mr. A.T.P. Edirisinghe
Mr. L.D.A. Jayasinghe

The Managing Director, Mr. J. Durairatnam attended the meetings by invitation.

The Company Secretary of the Company functions as the Secretary of the Committee.

The profiles of the members are given on pages 06 and 07.

Mandate and Role

The mandate of the Committee is to determine and design a remuneration policy that attracts and retains highly qualified and experienced personnel to the Company and compensates for their performance.

The Committee is responsible for the determination of the compensation of all Directors and Key Management Personnel of the Company. The Committee also recommends the appointment of Key Management Personnel to the Company.

The remuneration of the Chairman of the Board is determined by the Board, excluding the Chairman. The remuneration of the Non-Executive Directors is determined by the Board, including the Non-Executive Directors.

In addition, Key Management Personnel headed by the Managing Director of the Company assist the Committee by providing relevant information such as remuneration of Directors and employees. Managing Director also provides relevant market survey data to enable the Committee to make more effective recommendations on remuneration matters to the Board.

Meetings

The Committee met once during the year ended December 31, 2016. A table showing the record of attendance at meetings appears on page 12. The proceedings of the Committee were regularly reported to the Board.

B.R.L. Fernando

Chairman - Board Remuneration Committee

Colombo

February 17, 2017



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Financial Calendar - 2016

Final Dividend for 2015 paid on May 11, 2016
 1st Interim Dividend for 2016 paid on December 09, 2016
 Annual Report and Accounts for 2016 signed on February 17, 2017
 Thirty Seventh Annual General Meeting to be held on May 08, 2017
 2nd Interim Dividend for 2016 proposed to be paid on March 14, 2017
 Final Dividend for 2016 proposed to be paid on May 19, 2017

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange - 2016

For the 3 months ended March 31, 2016 (unaudited) - Submitted on April 29, 2016
 For the 3 and 6 months ended June 30, 2016 (unaudited) - Submitted on July 28, 2016
 For the 3 and 9 months ended September 30, 2016 (unaudited) - Submitted on October 27, 2016
 For the 3 months and year ended December 31, 2016 (unaudited) - Submitted on February 17, 2017

Proposed Financial Calendar - 2017

2nd Interim Dividend for 2016 to be paid on March 14, 2017
 Final Dividend for 2016 to be paid on May 19, 2017
 Interim Dividend for 2017 to be paid in December 2017
 Annual Report and Accounts for 2017 to be signed in February 2018
 Thirty Eighth Annual General Meeting to be held in April 2018
 Final Dividend for 2017 proposed to be paid in May 2018

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

For the 3 months ended March 31, 2017 (unaudited) - will be submitted on or before May 15, 2017
 For the 3 and 6 months ended June 30, 2017 (unaudited) - will be submitted on or before August 15, 2017
 For the 3 and 9 months ended September 30, 2017 (unaudited) - will be submitted on or before November 15, 2017
 For the 3 months and year ended December 31, 2017 (unaudited) - will be submitted on or before February 28, 2018



STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors, in relation to the Financial Statements of the Commercial Development Company PLC ('the Company') is set out in this statement. The responsibilities of External Auditors in relation to the Financial Statements are set out in the 'Independent Auditors Report' given on page 29.

In terms of Sections 150 (1) and 151 (1) of the Companies Act No. 07 of 2007 ('the Companies Act'), the Directors are responsible for ensuring that the Company keeps proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Company as at end of each financial year and of the financial performance of the Company for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2016, the Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Company give a true and fair view of;

- the financial position of the Company as at the Reporting date; and
- the financial performance of the Company for the financial year ended on the Reporting date.

Compliance Report

The Board of Directors also wishes to confirm that;

(a) the Financial Statements for the year 2016, presented in this Annual Report have been prepared based on Sri Lanka Accounting Standards (SLFRS and LKAS) which came into effect from January 01, 2012 are in agreement with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Listing Rules of the Colombo Stock Exchange ('the CSE') and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka ('the SEC').

- (b) they accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.
- (c) in preparing the Financial Statements exhibited on pages 30 to 68 including, appropriate Accounting Policies selected and applied based on the financial reporting framework on a consistent basis, while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected.
- (d) they have taken appropriate steps to ensure that the Company maintains proper books of account and reviews the financial reporting system at their regular meetings and also through the Board Audit Committee ('the BAC'). The Report of the BAC is given on pages 22 and 23. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the BAC.
- (e) the Financial Statements of the Company have been certified by the Company's Accountant, the officer responsible for their preparation, as required by the Section 150 (1) (b) of the Companies Act. In addition, the Financial Statements of the Company have been signed by two Directors of the Company on February 17, 2017 as required by the Section 150 (1) (c) of the Companies Act. Under the Section 148 (1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Company's transactions and the Company's financial position are maintained, with reasonable accuracy, at any point of time, enabling preparation of the Financial Statements, in accordance with the Companies Act to facilitate proper audit of the Financial Statements.
- (f) they also have taken reasonable measures to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls, comprising of internal checks, internal audit and

**STATEMENT OF DIRECTORS' RESPONSIBILITY**

financial and other controls required to carry on the business of the Company in an orderly manner and safeguard its assets and secure as far as practical, the accuracy and reliability of the records.

- (g) as required by the Section 56 (2) of the Companies Act, they have authorised distribution of dividends paid and proposed upon being satisfied that the Company would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act and have obtained in respect of dividends paid and proposed, and also for which approval is now sought, necessary certificates of solvency from the External Auditors.
- (h) as required by the Sections 166 (1) and 167 (1) of the Companies Act, this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE.
- (i) all shareholders have been treated equitably in accordance with the original terms of issue.
- (j) the Company has met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the CSE, where applicable.
- (k) the Company's External Auditors, Messrs KPMG who were appointed in terms of the Section 158 of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting, were provided with every opportunity to undertake the inspections they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Company together with all the financial records, related data and Minutes of shareholders' and Directors' Meetings and expressed

their opinion which appears as reported by them on page 29.

- (l) to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the Reporting date have been paid or, where relevant, provided for.
- (m) after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the CA Sri Lanka and the SEC, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements.

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,

L.W.P. Indrajith
Company Secretary

Colombo
February 17, 2017



MANAGING DIRECTOR'S AND ACCOUNTANT'S RESPONSIBILITY STATEMENT

The Financial Statements of the Company are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Listing Rules of the Colombo Stock Exchange and Guidelines issued by the Securities and Exchange Commission of Sri Lanka.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise stated in the Notes accompanying the Financial Statements. Application of Significant Accounting Policies and estimates that involve a high degree of judgement and complexity were discussed with the Board Audit Committee ('the BAC') and Company's External Auditors. Comparative information has been re-stated to comply with the current presentation, where applicable. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Company during the year under review. We also confirm that the Company has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis, in order to ensure that the Financial Statements reflect in true and fair manner, the form and substance of transactions, and reasonably present the Company's state of affairs. Accordingly, the Company has taken proper and sufficient care in designing a System of Internal Control and accounting records, for safeguarding assets, preventing and detecting frauds as well as other irregularities, which are regularly reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the

established policies and procedures of the Company were constantly followed. Inherent limitations however need to be recognised in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Company were audited by our External Auditors Messrs KPMG, Chartered Accountants and their Report is given on page 29. The BAC of the Company meets quarterly in order to review reports of internal auditor, Financial Statements and connected reports to be submitted to shareholders, and to discuss issues arising from audit, internal controls and financial reporting etc. Both external and internal auditors are afforded full and free access to the members of the BAC to discuss any matter of substance, if any.

We confirm that the Company has complied with all applicable laws and regulations and there is no litigation pending against the Company.

We also confirm that all taxes, duties, levies and statutory payments of the Company and contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the Reporting date have been paid or where relevant provided for.

J. Durairatnam
Managing Director

W.H. Wijesekara
Accountant

Colombo
February 17, 2017



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF COMMERCIAL DEVELOPMENT COMPANY PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Commercial Development Company PLC, ('the Company'), which comprise the statement of financial position as at December 31, 2016, and the income statement, 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 30 to 68 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal

control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, 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, the financial statements of the Company, comply with the requirements of section 151.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka.

February 17, 2017

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

M.R. Mihular FCA	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



COMMERCIAL DEVELOPMENT COMPANY PLC
INCOME STATEMENT

For the year ended December 31,

	<u>Note</u>	<u>Page No.</u>	<u>2016 Rs. '000</u>	<u>2015 Rs. '000</u>	<u>Change %</u>
Gross Revenue	5	50	329,257	316,988	3.87
Cost of Sales			(183,363)	(173,004)	5.99
Gross Profit			145,894	143,984	1.33
Other Income	6	50	12,433	8,337	49.13
Administrative Expenses			(24,977)	(22,149)	12.77
Fair Value Gain on Investment Property	12	53	240,826	178,677	34.78
Operating Profit	7	50	374,176	308,849	21.15
Net Finance Income	8	50	12,354	9,041	36.64
Share of Profit of Equity Accounted Investee, Net of Tax	13	56	5,124	4,007	27.88
Profit before Tax			391,654	321,897	21.67
Income Tax Expense	9	51	(65,212)	(62,103)	5.01
Profit for the year attributable to Owners of the Company			326,442	259,794	25.65
Earnings per Share					
Basic (Rs.)	10	51	27.20	21.65	25.65
Diluted (Rs.)	10	51	27.20	21.65	25.65

The Notes appearing on pages 35 to 68 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.



COMMERCIAL DEVELOPMENT COMPANY PLC
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31,	Page	2016	2015	Change	
<u>Note</u>	<u>No.</u>	<u>Rs. '000</u>	<u>Rs. '000</u>	<u>%</u>	
Profit for the year		326,442	259,794	25.65	
Other Comprehensive Income, Net of Tax					
Items that will never be reclassified to profit or loss					
Actuarial Gains / (losses) on Defined Benefit Plans	21	59	1,022	9,398	(89.13)
Related Tax	22	60	(286)	(2,631)	(89.13)
			<u>736</u>	<u>6,767</u>	(89.12)
Share of Other Comprehensive Income of the Equity Accounted Investee, Net of Tax	13	56	99	(188)	(152.66)
			<u>99</u>	<u>(188)</u>	(152.66)
Items that are or may be reclassified to profit or loss					
Net change in fair value of Available-for-sale Financial Assets			125	(53)	(335.85)
Related Tax	22	60	(35)	15	(333.33)
			<u>90</u>	<u>(38)</u>	(336.84)
Other Comprehensive Income, Net of Tax			<u>925</u>	<u>6,541</u>	(85.86)
Total Comprehensive Income			<u>327,367</u>	<u>266,335</u>	22.92

The Notes appearing on pages 35 to 68 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.



COMMERCIAL DEVELOPMENT COMPANY PLC
STATEMENT OF FINANCIAL POSITION

As at December 31,	Note	Page No.	2016 Rs. '000	2015 Rs. '000	Change %
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	11	52	100,054	90,331	10.76
Investment Property	12	53	2,005,826	1,765,000	13.64
Equity Accounted Investee	13	56	42,693	39,270	8.72
Deposits Receivable	14	57	8,896	8,896	-
			<u>2,157,469</u>	<u>1,903,497</u>	13.34
Current Assets					
Inventories			86	63	36.51
Trade and Other Receivables	15	57	14,975	14,854	0.81
Short Term Investments	16	57	159,289	123,101	29.40
Cash and Cash Equivalents	17	57	32,858	22,846	43.82
			<u>207,208</u>	<u>160,864</u>	28.81
Total Assets			<u>2,364,677</u>	<u>2,064,361</u>	14.55
EQUITY AND LIABILITIES					
Equity					
Stated Capital	18	57	120,000	120,000	-
Other Reserves	19	58	1,580,795	1,364,117	15.88
Retained Earnings			275,072	223,722	22.95
Total Equity			<u>1,975,867</u>	<u>1,707,839</u>	15.70
Non-Current Liabilities					
Deposits Payables	20	58	29,063	27,345	6.28
Employee Benefits	21	58	16,633	13,970	19.06
Deferred Taxation	22	60	297,536	272,247	9.29
			<u>343,232</u>	<u>313,562</u>	9.46
Current Liabilities					
Trade and Other Payables	23	61	18,387	17,648	4.19
Deferred Revenue	24	61	6,351	5,135	23.68
Current Tax Liabilities	25	61	20,840	20,177	3.29
			<u>45,578</u>	<u>42,960</u>	6.09
Total Liabilities			<u>388,810</u>	<u>356,522</u>	9.06
Total Equity and Liabilities			<u>2,364,677</u>	<u>2,064,361</u>	14.55
Net Assets Value per Ordinary Share (Rs.)			<u>164.66</u>	<u>142.32</u>	15.70

The Notes appearing on pages 35 to 68 form an integral part of these Financial Statements.

These Financial Statements have been prepared and presented in compliance with the requirements of the Companies Act No. 07 of 2007.

W.H. Wijesekara
Accountant

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board;

B.R.L. Fernando
Chairman

Colombo
February 17, 2017

J. Durairatnam
Managing Director


COMMERCIAL DEVELOPMENT COMPANY PLC
STATEMENT OF CHANGES IN EQUITY

	Stated Capital	Other Reserves		Retained Earnings	Total Equity
		Fair Value Adjustment Reserve	Available for Sale Reserve		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01, 2015	120,000	1,209,318	3	199,764	1,529,085
Super Gains Tax for the year 2013	-	-	-	(27,581)	(27,581)
Adjusted Balance as at January 01, 2015	<u>120,000</u>	<u>1,209,318</u>	<u>3</u>	<u>172,183</u>	<u>1,501,504</u>
Total Comprehensive Income for the year					
Profit for the year 2015	-	-	-	259,794	259,794
Other Comprehensive Income for the year 2015	-	-	(38)	6,579	6,541
	<u>-</u>	<u>-</u>	<u>(38)</u>	<u>266,373</u>	<u>266,335</u>
Transaction with Equity Holders, recognised directly in Equity					
Final Dividend for 2014	-	-	-	(36,000)	(36,000)
Interim Dividend for 2015	-	-	-	(24,000)	(24,000)
Transfer of Fair Value Gains on Investment Property (Note 19.1 on Page 58)	-	154,834	-	(154,834)	-
	<u>-</u>	<u>154,834</u>	<u>-</u>	<u>(214,834)</u>	<u>(60,000)</u>
Balance as at December 31, 2015	<u>120,000</u>	<u>1,364,152</u>	<u>(35)</u>	<u>223,722</u>	<u>1,707,839</u>
Balance as at January 01, 2016	120,000	1,364,152	(35)	223,722	1,707,839
Total Comprehensive Income for the year					
Profit for the year 2016	-	-	-	326,442	326,442
Other Comprehensive Income for the year 2016	-	-	90	835	925
	<u>-</u>	<u>-</u>	<u>90</u>	<u>327,277</u>	<u>327,367</u>
Transaction with Equity Holders, recognised directly in Equity					
Final Dividend for 2015	-	-	-	(36,000)	(36,000)
First Interim Dividend for 2016	-	-	-	(24,000)	(24,000)
Transfer of Fair Value Gains on Investment Property (Note 19.1 on page 58)	-	216,588	-	(216,588)	-
Write back of Unclaimed Dividends	-	-	-	661	661
	<u>-</u>	<u>216,588</u>	<u>-</u>	<u>(275,927)</u>	<u>(59,339)</u>
Balance as at December 31, 2016	<u>120,000</u>	<u>1,580,740</u>	<u>55</u>	<u>275,072</u>	<u>1,975,867</u>

The Notes appearing on pages 35 to 68 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

**COMMERCIAL DEVELOPMENT COMPANY PLC
STATEMENT OF CASH FLOWS**
For the year ended December 31,

	Note	Page No.	2016 Rs. '000	2015 Rs. '000
Cash Flows from Operating Activities				
Profit before tax			391,654	321,897
Non-cash adjustments to reconcile Profit before Tax to Net Cash Flows				
Depreciation	11	52	28,882	26,093
Fair Value Gain on Investment Property	12	53	(240,826)	(178,677)
Share of Profit of Equity Accounted Investee, Net of Tax	13	56	(5,124)	(4,007)
Interest Income	8	50	(14,097)	(10,694)
Provision for Employee Benefits	21	59	3,832	4,364
Interest Expense	8	50	1,711	1,603
Finance Lease Interest			-	76
Gain on Disposal of Property Plant & Equipment	6	50	(12,037)	(8,268)
			153,995	152,387
Working Capital Adjustments				
Increase in Inventory			(23)	(36)
(Increase)/Decrease in Trade & Other Receivables			(121)	10,242
Increase in Deposits Receivable			-	(3,421)
Increase/(Decrease) in Deposits Payables			7	(337)
Increase in Deferred Revenue			1,216	3,045
Increase/(Decrease) in Trade & Other Payables			2,005	(10,854)
			157,079	151,026
Employee Benefits paid	21	58	(147)	(2,301)
Super Gains Tax paid			-	(27,581)
Current Tax paid	25	61	(39,401)	(36,816)
Net Cash Flow Generated from Operating Activities			117,531	84,328
Cash Flows from Investing Activities				
Acquisition of Property, Plant & Equipment	11	52	(38,605)	(38,404)
Purchase of Investment Property	12	53	-	(55,523)
Proceeds from Sale of Property, Plant & Equipment			12,037	13,076
Interest Received			14,097	10,694
Dividend Received	13	56	1,620	540
Net Change in Short Term Investments			(36,063)	39,012
Net Cash Flow Used in Investing Activities			(46,914)	(30,605)
Cash Flows from Financing Activities				
Dividend Paid			(60,605)	(59,750)
Capital Payment on Finance Leases			-	(2,204)
Interest Payment on Finance Leases			-	(76)
Net Cash Flow Used in Financing Activities			(60,605)	(62,030)
Net Increase/(Decrease) in Cash & Cash Equivalents			10,012	(8,307)
Cash & Cash Equivalents at the Beginning of the year			22,846	31,153
Cash & Cash Equivalents at the End of the year	17	57	32,858	22,846

The Notes appearing on pages 35 to 68 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.



COMMERCIAL DEVELOPMENT COMPANY PLC NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 Corporate Information

Commercial Development Company PLC ('the Company') is a public limited liability company listed on the Colombo Stock Exchange ('the CSE'), incorporated on March 14, 1980, (and domiciled) in Sri Lanka. The Company was re-registered under the Companies Act No. 07 of 2007 ('the Companies Act'). The registered office of the Company is situated at 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka. The ordinary shares of the Company have a primary listing on the Main Board of the CSE.

The staff strength of the Company as at December 31, 2016 was 226 (234 as at December 31, 2015).

The Commercial Bank of Ceylon PLC is the immediate and ultimate parent of the Company.

1.2 Principal Business Activities and Nature of Operations of the Company and its Associate

Entity	Principal Business Activities	Ownership as at December 31, 2016	Ownership as at December 31, 2015
Commercial Development Company PLC. (Reporting entity)	Property development & related ancillary services and providing the manpower needs for various support services which are unrelated to providing core banking services to the customers of the Commercial Bank of Ceylon PLC.	N/A	N/A
Commercial Insurance Brokers (Pvt) Ltd. (Associate)	Insurance brokering.	20%	20%

There were no significant changes in the nature of the principal business activities of the Company and its Associate during the financial year under review.

1.3 Financial Statements

These Financial Statements as at and for the year ended December 31, 2016 comprise the Company and its interest in the Associate accounted for under the Equity Method.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act, and provide appropriate disclosures as required by the Listing Rules of the CSE.

These Standards are listed at www.casrilanka.com.

The Company did not adopt any inappropriate accounting treatments which are not in compliance with the requirements of the SLFRSs, and regulations governing the preparation and presentation of the Financial Statements. Details of the Company's Accounting Policies, are presented in Note 3.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act and the SLFRSs.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and the certification on the Statement of Financial Position on pages 16, 26 and 32 respectively.

These Financial Statements include the following components:

- an Income Statement and a Statement of Profit or Loss and Other Comprehensive Income (OCI) providing the information on the financial performance of the Company for the year under review (Refer pages 30 and 31),
- a Statement of Financial Position providing the information on the financial position of the Company as at the year-end (Refer page 32),



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review (Refer page 33),
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs to utilise those cash flows (Refer page 34), and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 35 to 68).

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended December 31, 2016 (including comparatives) were approved and authorised for issue by the Board of Directors on February 17, 2017.

2.4 Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Items	Measurement Basis	Note No.
Investment Property	Fair Value	12
Short Term Investments classified as Available-for-sale financial instruments	Fair Value	16
Net Defined Benefit Liability	Liability for Defined Benefit Obligations is recognised as the present value of the Defined Benefit Obligation plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	21.1

2.5 Functional and Presentation Currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the Functional Currency). These Financial Statements are presented in Sri Lankan Rupees, the Company's Functional and Presentation Currency. There was no change in the Company's Presentation and Functional Currency during the year under review.

2.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard or Interpretation, and as specifically disclosed in the Accounting Policies of the Company.

2.7 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

2.9 Use of Judgements and Estimates

In preparing the Financial Statements of the Company in conformity with SLFRSs the management has made judgements, estimates and assumptions that affect the



COMMERCIAL DEVELOPMENT COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustments in the year ended December 31, 2016 is set out below.

2.9.1 Going Concern

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

2.9.2 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded in the Statement of financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models.

The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements, as described in Note 3.2.8 on page 41.

2.9.3 Impairment Losses on Other Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.9.4 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Assumptions are made to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies (Refer Note 3.25.2 on page 47).

2.9.5 Defined Benefit Obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 21.2 on page 59 for the assumptions used.

2.9.6 Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies other than those stated above that have significant effects on the amounts recognised in the Financial Statements are described in Note 30 on page 67.

2.10 Events after the Reporting Period

Events after the Reporting Period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting period have been considered and appropriate disclosures are made in Note 32 on page 68 where necessary.



COMMERCIAL DEVELOPMENT COMPANY PLC NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company, unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

RECOGNITION OF ASSETS & LIABILITIES

3.1 Associates

Associates are those entities in which the Company has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Company holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of the Sri Lanka Accounting Standards - LKAS 28 on 'Investments in Associates and Joint Venture'. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Financial Statements include the Company's share of the income and expenses and equity movements of the equity-accounted investee, after adjustments to align the Accounting Policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. Accordingly, under the Equity Method, investments in Associates are carried at cost plus post-acquisition changes in the Company's share of net assets of the Associate and are reported as a separate line item in the Statement of Financial Position. The Income Statement reflects the Company's share of current year's profit or loss of the Associate. Any change in OCI of the investee is presented as part of the Company's OCI. In addition, where there has been a change recognised directly in the equity of the Associate, the Company recognises its share of any such changes and discloses same, when applicable, in Equity through OCI.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. If the Associate subsequently reports profits, the Company resumes recognising its share of those

profits only after its share of the profits equal the share of losses not recognised previously.

The Company discontinues the use of the Equity Method from the date that it ceases to have significant influence over an Associate and accounts for such investment in accordance with the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Unrealised gains and losses resulting from transactions between the Company and the Associates are eliminated to the extent of the interest in such Associate.

The Financial Statements of the Associate has a common financial year which ends on December 31.

There are no significant restrictions on the ability of the Associate to transfer funds to the Parent (the Company) in the form of cash dividend or repayment of loans and advances.

Details of the Company's Associate (Equity accounted investee) together with its fair value and the Company's share of contingent liabilities of such Associate if any, are set out in Notes 13 and 30 to the Financial Statements on pages 56 and 67, respectively.

3.2 Financial Instruments : Initial Recognition, Classification and Subsequent Measurement

3.2.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date the Company becomes a party to the contractual provisions of the instrument.

3.2.2 Initial Measurement of Financial Instruments

The classification of Financial Instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

Financial Instruments are measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.



COMMERCIAL DEVELOPMENT COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

3.2.2.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rate (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.2.3 Classification and Subsequent Measurement of Financial Assets

The Company classifies its financial assets into one of the following categories:

- Loans and receivables; and
- Available-for-sale.

Financial assets classified under Available for Sale and Loans and Receivables are presented in Notes 27.2 and 27.3 on page 63.

The subsequent measurement of financial assets depends on their classification.

3.2.3.1 Financial Assets Classified as Loans and Receivables

Financial Assets classified as 'Loans and Receivables' include Deposits Receivable, Trade and Other Receivables and Cash and Cash Equivalents. After initial measurement, these are subsequently measured at amortised cost using the EIR, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment

charges for loans and other losses'. Financial Assets classified under 'Loans and Receivables' are presented in Note 27.3 on page 63.

3.2.3.2 Available for Sale Financial Assets

Available-for-sale financial assets include investments in debt securities. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'available-for-sale reserve'. When the financial investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Income Statement. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding Available-for-Sale financial investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available-for-Sale financial investments are recognised in the Income Statement when the right to receive the payment has been established. The losses arising from impairment of such investments if any, are recognised in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available for Sale Reserve'.

Financial Assets classified under 'Available for Sale' are presented in Note 27.2 on page 63.

3.2.4 Classification and Subsequent Measurement of Financial Liabilities

At inception, a financial liability is classified at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

3.2.4.1 Financial Liabilities at Amortised Cost

Financial liabilities that are not designated at fair value through profit or loss, are classified under Deposits Payables and Trade and Other Payables as appropriate, where the substance of the contractual arrangement



COMMERCIAL DEVELOPMENT COMPANY PLC NOTES TO THE FINANCIAL STATEMENTS

results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial recognition, such Financial Liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.2.5 Reclassification of Financial Instruments

In certain circumstances, the Company is permitted to reclassify Financial Instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Income Statement.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

The Company does not reclassify any Financial Instrument into the fair value through profit or loss category after initial recognition.

3.2.6 Derecognition of Financial Assets and Financial Liabilities

3.2.6.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when;

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - The Company has transferred substantially all the risks and rewards of the asset; or
 - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

When there is a continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.



COMMERCIAL DEVELOPMENT COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

3.2.6.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.2.7 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.2.8 Fair Value Measurement

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 3.8 on page 43.

3.2.9 Impairment of Financial Assets

The Company assesses at each Reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(a) Impairment Losses on Financial Assets carried at Amortised Cost

The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset level and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

(b) Impairment Losses on Available-for-sale Financial Assets

Impairment losses on Available-For-Sale financial assets are recognised by reclassifying the losses accumulated in the Available for Sale Reserve in equity to the Income Statement. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

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

3.3 Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

3.3.1 Operating Leases - Company as a Lessor

Leases where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents, if any, are recognised as revenue in the period in which they are earned.

3.4 Property, Plant & Equipment

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

3.4.1 Basis of Recognition

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

3.4.2 Basis of Measurement

An item of Property, Plant & 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 subsequent costs (excluding the costs of day-to-day servicing). 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 and capitalised borrowing costs. Purchased software which is an integral to the functionality of the related Computer Equipment is capitalised as Computer Software.

When parts of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

3.4.2.1 Cost Model

The Company applies the Cost Model to all Property, Plant & Equipment and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

3.4.3 Subsequent Cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

3.4.4 Depreciation

Depreciation is calculated to write off the cost of items of Property, Plant and Equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative years are as follows:

<u>Class of Asset</u>	<u>% Per Annum</u>	<u>Period</u>
Motor Vehicles	20	5 years
Computer Equipment	20	5 years
Computer Software	20	5 years
Office Equipment	20	5 years
Furniture & Fittings	20	5 years

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

Depreciation methods, useful lives and residual values are reassessed at each Reporting date and adjusted if appropriate.



COMMERCIAL DEVELOPMENT COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

3.4.5 Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment'.

3.5 Investment Property

3.5.1 Classification

Property which is held to earn rental income or for capital appreciation or for both are classified as Investment Property.

3.5.2 Basis of Measurement

Investment Property is measured initially at cost, including transaction costs.

3.5.3 Subsequent Measurement

Subsequent to initial recognition, Investment Property is stated at fair value, which reflects market conditions at the Reporting date. Gains or losses arising from changes in the fair value of Investment Property are included in the Income Statement in the period in which they arise. Fair values are evaluated annually by accredited external independent valuers, applying a valuation model recommended by the relevant accounting standard.

3.5.4 Derecognition

Investment Property is 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 Income Statement in the period of derecognition.

The Fair Value Adjustment Reserve represents the difference between the cost and revalued/fair valued

amount of Investment Property from the date that it was identified as Investment Property.

3.6 Inventory

Inventories are valued at lower of the cost and estimated net realisable value after making necessary allowance for obsolete and slow moving items. Net realisable value is the price at which the inventories can be sold in the normal course of the business after allowing for cost of realisation and/or cost of conversion from their existing state to saleable condition.

The weighted average cost basis is adopted to arrive at the cost of inventories.

3.7 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, and call deposits with original maturities of three months or less. For the purpose of the cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Details of cash and cash equivalents are given in Note 17 to the Financial Statements on page 57.

3.8 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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



COMMERCIAL DEVELOPMENT COMPANY PLC NOTES TO THE FINANCIAL STATEMENTS

best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

Fair Value Hierarchy

The Company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the Company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

- (a) quoted market prices in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on recognition of the instrument.

An analysis of fair value measurement of financial assets and liabilities is provided in Note 27 on page 63.

3.9 Impairment of Non-Financial Assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets.

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount



COMMERCIAL DEVELOPMENT COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

rate that reflects current market assessments of the time value of money and the risks specific to the asset or Cash Generating Unit (CGU).

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The Company's corporate assets do not generate separate cash inflows.

Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Dividend Payable

Dividend on ordinary shares are recognised as a liability and deducted from Equity when they are recommended and declared by the Board of Directors and approved by the shareholders as at the reporting date. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved or recommended by the Board after the Reporting date are disclosed as an event after the Reporting Period in accordance with the Sri Lanka Accounting Standard - LKAS 10 on 'Events after the Reporting Period' in Note 32 on page 68.

3.11 Trade and Other Payables

Trade and Other Payables are recorded at amounts expected to be payable at the Reporting date.

Details of Trade and Other Payables are given in Note 23 on page 61.

3.12 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.13 Employee Benefits

3.13.1 Short-Term Employee Benefits

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

3.13.2 Defined Contribution Plans

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

3.13.2.1 Employees' Provident Fund

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to Employees' Provident Fund managed by the Central Bank of Sri Lanka.

3.13.2.2 Employees' Trust Fund

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

3.13.3 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit 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 amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.



COMMERCIAL DEVELOPMENT COMPANY PLC NOTES TO THE FINANCIAL STATEMENTS

With the adoption of Sri Lanka Accounting Standards LKAS 19 on 'Employee Benefits', which became effective from January 1, 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The obligation is not externally funded.

Actuarial gains and losses

The re-measurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised in Other Comprehensive Income.

3.14 Contingencies and capital commitments

All material capital commitments and contingent liabilities of the Company are disclosed in the respective notes to the Financial Statements.

3.15 Earnings Per Share (EPS)

The Company presents basic and diluted EPS data for its Ordinary Shares. Basic EPS is calculated by dividing the profit or loss that is attributable to Ordinary Shareholders of the Company by the weighted-average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. Diluted EPS was not calculated since there was no dilution of Ordinary Shares outstanding at any time during the year.

Details of Earnings Per Share are given in Note 10 on page 51.

RECOGNITION OF INCOME AND EXPENSES

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. The following specific recognition criteria must also be met before revenue is recognised.

3.16 Rent Income

Rental income of the Company represents the income derived from letting the Company's Investment Property. Rent income arising from operating leases on Investment Property are accounted on a straight line basis over the lease terms.

3.17 Outsourcing Services Income

Outsourcing Services Income is derived by outsourcing staff to the Commercial Bank of Ceylon PLC. This income is recognised on accrual basis and as per the terms of the Outsourcing Agreements.

3.18 Vehicle Hiring Income

Income from hiring of vehicles is recognised on accrual basis and as per the terms of the hiring arrangements.

3.19 Other Utility Services

Income from other utility services represents income derived from providing janitorial services, air conditioning services and other premises related maintenance services to the Commercial Bank of Ceylon PLC. This income is recognised on accrual basis.

3.20 Other Income

Other Income includes gains or losses on sale of Property, Plant and Equipment and miscellaneous income which are recognised on accrual basis.

3.21 Finance Income and expenses

Interest income and expenses are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.



COMMERCIAL DEVELOPMENT COMPANY PLC

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3.22 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividend income from the Associate is recognised in the 'Equity Accounted Investee' as a deduction from the investment.

3.23 Expenditure Recognition

Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement.

3.24 Borrowing Cost

Borrowing costs are recognised as an expense in the period in which they are incurred, except those that are directly attributable to the acquisition, construction or production of a qualifying asset which are capitalised as part of the cost of the asset during the period of such development.

3.25 Income Tax Expense

Income tax expense comprises current and deferred tax.

Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in Equity or in OCI, in which case it is recognised in Equity or in OCI.

3.25.1 Current Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the Reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, at the rates specified.

3.25.2 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 not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused 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 used. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each Reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of Investment Property measured at fair value is presumed to be recovered through sale, and the Company has not rebutted this presumption.

3.25.3 Tax Exposures

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that



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causes the Company to change its judgements regarding the adequacy of existing tax liabilities. Such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

3.26 Withholding Tax on Dividends Distributed by the Company and its Associate

- ***Withholding tax on dividends distributed by the Company***

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

- ***Withholding tax on dividends distributed by Associate***

Dividends received by the Company from its Associate, have attracted a 10% deduction at source.

3.27 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard - LKAS 7 on 'Statement of Cash Flows'. Cash and Cash Equivalents includes of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and Cash Equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 17 on page 57.



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4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements. Accordingly, these Accounting Standards have not been applied in preparing these Financial Statements.

The following new standards are not expected to have a significant impact of the Company's Financial Statements.

New or Amended Standards	Summary of the Requirements	Possible Impact on Financial Statements
SLFRS 9 – 'Financial Instruments'	<p>SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.</p> <p>Effective date of SLFRS 9 is January 01, 2018.</p>	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 9.
SLFRS 15 – 'Revenue from Contracts with Customers'	<p>SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, and LKAS 11 Construction Contracts.</p> <p>SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018, with early adoption permitted.</p>	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 15.
SLFRS 16 – 'Leases'	<p>SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.</p> <p>SLFRS 16 is effective for annual reporting periods beginning on or after January 01, 2019.</p>	Not expected to have a significant impact.



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For the year ended December 31,	2016 Rs. '000	2015 Rs. '000
5. Gross Revenue		
Rent Income on Premises	125,296	121,748
Outsourcing Services	129,776	124,185
Vehicle Hiring Income	55,615	53,349
Other Utility Services	18,570	17,706
	<u>329,257</u>	<u>316,988</u>
6. Other Income		
Gain on Disposal of Property Plant & Equipment	12,037	8,268
Miscellaneous Income	396	69
	<u>12,433</u>	<u>8,337</u>
7. Operating Profit		
Operating profit is stated after charging all expenses including the following :		
Auditors' Remuneration		
Statutory audit and audit related services	540	510
Non audit related services	287	262
Directors' Emoluments	2,100	1,800
Depreciation	28,882	26,093
Staff Costs (Note 7.1)	86,045	79,231
Direct Operating Expenses on Investment Property that generated Rental Income	18,825	18,786
Note 7.1 - Staff Cost		
Salaries	71,489	65,102
Employees' Provident Fund	8,579	7,812
Employees' Trust Fund	2,145	1,953
Provision for Employee Benefits	3,832	4,364
	<u>86,045</u>	<u>79,231</u>
8. Net Finance Income		
8.1 Finance Income		
Interest income on Government Treasury Bills	12,293	8,674
Interest income on Call Deposits	1,589	1,831
Interest income on Staff Loans	215	189
	<u>14,097</u>	<u>10,694</u>
8.2 Finance Cost		
Bank Charges	32	50
Notional Interest Expense on Rent Deposits made by tenants	1,711	1,603
	<u>1,743</u>	<u>1,653</u>
Net Finance Income	<u>12,354</u>	<u>9,041</u>



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For the year ended December 31,	2016 Rs.'000	2015 Rs.'000
9. Income Tax Expense		
9.1 Recognised in Profit or Loss		
Current Tax Expense		
Current Tax Expense for the year	40,064	37,881
Dividend Tax deducted at source on Dividend Received	180	60
	<u>40,244</u>	<u>37,941</u>
Deferred Tax Expense		
(Origination)/Reversal of Deferred Tax Assets	1,614	(373)
Origination of Deferred Tax Liabilities	23,354	24,535
	<u>24,968</u>	<u>24,162</u>
Income Tax Expense (Note 9.3)	<u>65,212</u>	<u>62,103</u>
9.2 Recognised in Other Comprehensive Income		
Available-for-sale Financial Assets	35	(15)
Re-measurement of Defined Benefit Liability	286	2,631
	<u>321</u>	<u>2,616</u>

9.3 Reconciliation of Effective Tax Rate

A reconciliation between Tax Expense and the product of Accounting Profit multiplied by the Statutory Tax Rate is as follows;

	2016		2015
	Rs. '000		Rs. '000
Profit for the year	326,442		259,794
Income Tax Expense	65,212		62,103
Profit before tax	<u>391,654</u>		<u>321,897</u>
Tax effect using the Domestic Tax Rate	28.0%	109,663	28.0%
Tax effect on Non-deductible Expenses	3.2%	12,527	3.3%
Tax effect on Tax-Exempt Income	-17.2%	(67,431)	-15.5%
Tax effect on Deductible Expenses	-3.7%	(14,515)	-4.0%
Reversal / (Origination) of Deferred Tax Assets	0.4%	1,614	-0.1%
Origination of Deferred Tax Liabilities	6.0%	23,354	7.6%
	<u>16.7%</u>	<u>65,212</u>	<u>19.3%</u>

10. Earnings Per Share and Dividend Per Share

10.1 Basic Earnings Per Share

The calculation of Basic Earnings per Share is done by dividing the profit attributable to Ordinary Shareholders, by the weighted average number of Ordinary Shares in issue during the year.

	2016	2015
Profit attributable to Ordinary Shareholders (Rs.'000)	326,442	259,794
Weighted Average number of Ordinary Shares ('000)	12,000	12,000
Basic Earnings Per Share (Rs.)	<u>27.20</u>	<u>21.65</u>



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10.2 Diluted Earnings Per Share

There was no dilution of Ordinary Shares outstanding at any time during the year. Therefore, Diluted Earnings per Share is the same as Basic Earnings per Share.

10.3 Dividend Per Share

	<u>2016</u>	<u>2015</u>
Dividend paid / proposed during the year (Rs.'000)	60,000	60,000
Weighted Average number of Ordinary Shares ('000)	12,000	12,000
Dividend Per Share (Rs.)	5.00	5.00

11. Property, Plant and Equipment

Rs.'000

	<u>Motor Vehicles</u>	<u>Computer Equipment</u>	<u>Computer Software</u>	<u>Office Equipment</u>	<u>Furniture & Fittings</u>	<u>Total 2016</u>	<u>Total 2015</u>
Cost							
Balance as at January 01,	191,648	1,196	208	1,116	312	194,480	183,145
Additions	38,280	142	63	42	78	38,605	38,404
Disposals	(18,595)	-	-	-	-	(18,595)	(26,848)
Write-off	-	-	-	-	-	-	(221)
Balance as at December 31,	211,333	1,338	271	1,158	390	214,490	194,480
Accumulated Depreciation							
Balance as at January 01,	102,201	996	26	639	287	104,149	100,317
Charge for the year	28,566	86	52	148	30	28,882	26,093
Disposals	(18,595)	-	-	-	-	(18,595)	(22,041)
Write-off	-	-	-	-	-	-	(220)
Balance as at December 31,	112,172	1,082	78	787	317	114,436	104,149
Carrying Value							
As at December 31, 2016	99,161	256	193	371	73	100,054	
As at December 31, 2015	89,447	200	182	477	25		90,331
Gross Value of fully depreciated Assets as at December 31,							
	<u>39,827</u>	<u>981</u>	<u>-</u>	<u>537</u>	<u>312</u>	41,657	<u>59,633</u>

Title restrictions on Property, Plant and Equipment

There were no Property, Plant and Equipment pledged as security for liabilities. Hence there were no restrictions on the title of such Property, Plant and Equipment as at December 31, 2016.

Acquisition of Property, Plant and Equipment during the year

During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 38.6 Mn. (2015 - Rs. 38.4 Mn.).

Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year (2015 - Nil).



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12. Investment Property

	Land	Buildings	Rs.'000
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance as at January 01, 2015	643,300	887,500	1,530,800
Additions through acquisitions	41,429	10,700	52,129
Additions through subsequent capital expenditure	-	3,394	3,394
Fair Value Gain	93,521	85,156	178,677
Balance as at December 31, 2015	<u>778,250</u>	<u>986,750</u>	<u>1,765,000</u>
Balance as at January 01, 2016	778,250	986,750	1,765,000
Fair Value Gain	154,262	86,564	240,826
Balance as at December 31, 2016	<u>932,512</u>	<u>1,073,314</u>	<u>2,005,826</u>

12.1 Details of Investment Property

Location	Extent	Fair Value Rs. '000
No 21, Sir Razik Fareed Mawatha, Colombo 01	(Note 12.1.1)	
- Land	58.48 P	870,000
- Building	126,309 Sq.ft	<u>1,055,000</u>
		<u>1,925,000</u>
No 48, Matara Road, Tangalle	(Note 12.1.2)	
- Land	48.76 P	62,512
- Building	4,257 Sq.ft	<u>18,314</u>
		<u>80,826</u>
Balance as at December 31, 2016		<u>2,005,826</u>

The above mentioned Investment Property are stated at fair value, and has been determined based on the valuations performed by professionally qualified Independent Valuers as at December 31, 2016. Investment Property were appraised in accordance with the Sri Lanka Accounting Standards - LKAS 40 on Investment Property. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value have been used which are based upon assumptions including future rental income, anticipated maintenance costs, appropriate discount rate, remaining lease period and making reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are approximated within an appropriate range of values.



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12.1.1 Property situated in Colombo

Investment Property is stated at fair value, and has been determined based on the valuation performed by Mr. P.B. Kalugalagedara, a Chartered Valuer as at December 31, 2016.

The significant assumptions used by the Valuer are as follows;

	<u>2016</u>	<u>2015</u>
Long term growth in future rentals (per annum)	5%	5%
Anticipated maintenance cost (per annum)	45%	45%
Yield / Discount rate (per annum)	6%	6%

Income from Investment Property situated in Colombo

For the year ended December 31,	<u>2016</u> <u>Rs.'000</u>	<u>2015</u> <u>Rs.'000</u>
Rental Income from Investment Property (Note 5)	121,534	121,748
Direct Operating Expenses (including maintenance) generating Rental Income	(17,674)	(18,786)
Net Profit from Investment Property carried at Fair Value	<u>103,860</u>	<u>102,962</u>

The residual lease period of the Land as at December 31, 2016 was 64 years.

12.1.2 Property situated in Tangalle

This Property is stated at fair value, and has been determined based on the valuation performed by Mr. G.M. Gamage, an Independent Incorporated Valuer as at December 31, 2016

Income from Investment Property situated in Tangalle

For the year ended December 31,	<u>2016</u> <u>Rs.'000</u>	<u>2015</u> <u>Rs.'000</u>
Rental Income from Investment Property (Note 5)	3,762	-
Direct Operating Expenses (including maintenance) generating Rental Income	(1,151)	-
Net Profit from Investment Property carried at Fair Value	<u>2,611</u>	<u>-</u>



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12.2 Information on Fair Value Measurement

Name of Professional Valuer/ Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain recognised on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
Mr. P.B. Kalugalagedara No 21, Sir Razik Fareed Mawatha, Colombo 01. - Land - Building	Investment Method Gross monthly rental Years purchase (Present value of 1 unit per period)	 Rs. 13,241,300 p.m. 15.44	731,000	974,000	870,000	1,055,000	139,000	81,000
Mr. G.M. Gamage No 48, Matara Road, Tangalle. - Land - Building	Market Comparable Method Price per perch for land Price per square feet for building Depreciation rate	 Rs. 1,200,000 p.p. Rs. 3,500 to 5,500 p.sq.ft. 5%	47,250	12,750	62,512	18,314	15,262	5,564
TOTAL			778,250	986,750	932,512	1,073,314	154,262	86,564

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs used in measuring fair value of Investment Property categorised as Level 3 in the fair value hierarchy are tabulated below:

Valuation Technique	Significant Unobservable Valuation Inputs (Ranges of each Property are given in the table above)	Sensitivity of the Fair Value Measurement to Inputs
Market Comparable Method This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and the condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square feet for building Depreciation rate for building	Estimated fair value would increase/ (decrease) if; Price per perch of land increase/ (decreases) Price per square feet for building increase/(decreases) Depreciation rate for building increases/(decreases)
Investment Method This method involves capitalisation of the expected rental income at an appropriate rate of years purchase currently characterised by the real estate market.	Gross annual rentals Years purchase (Present value of 1 unit per period)	Estimated fair value would increase / (decrease) if; Gross annual rentals increases / (decreases) Years purchase increases/(decreases)



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13. Equity Accounted Investee

The Company has a stake of 20% in Commercial Insurance Brokers (Pvt) Ltd whose principal business activity is the provision of insurance brokering services in Sri Lanka.

	2016 Rs.'000	2015 Rs.'000
13.1 Value of the Equity Accounted Investee		
Balance as at January 01,	39,270	36,051
Current year's Share of Comprehensive Income (Note 13.3)		
Included in Profit or loss (Note 13.1.1)	5,124	4,007
Included in Other Comprehensive Income (Note 13.1.2)	99	(188)
	<u>5,223</u>	<u>3,819</u>
Net Dividend received	(1,620)	(540)
Dividend tax deducted at source on Dividend received	(180)	(60)
	<u>(1,800)</u>	<u>(600)</u>
Balance as at December 31,	<u>42,693</u>	<u>39,270</u>
13.1.1 Included in Profit or Loss		
Share of Profit before Tax	7,541	6,500
Share of Current Tax Charge	(2,326)	(2,606)
Share of Deferred Tax	(91)	113
Share of Profit, Net of Tax	<u>5,124</u>	<u>4,007</u>
13.1.2 Included in Other Comprehensive Income		
Share of Other Comprehensive Income before Tax	138	(261)
Related Share of Deferred Tax	(39)	73
Share of Other Comprehensive Income, Net of Tax	<u>99</u>	<u>(188)</u>

The following table illustrates summarised information of the Company's investment in Commercial Insurance Brokers (Pvt) Ltd;

13.2 Carrying Amount of Interest in Associate

	2016 Rs.'000	2015 Rs.'000
As at December 31,		
Financial Position of Equity Accounted Investee		
Non Current Assets	143,516	141,015
Current Assets	152,333	128,868
Non-Current Liabilities	(22,366)	(21,199)
Current Liabilities	(60,020)	(52,334)
Net Assets	<u>213,463</u>	<u>196,350</u>
Percentage Ownership Interest	20%	20%
Company's Share of Net Assets (20%)	<u>42,693</u>	<u>39,270</u>
Carrying Amount of Interest in Equity Accounted Investee	<u>42,693</u>	<u>39,270</u>



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For the year ended December 31,	2016 Rs.'000	2015 Rs.'000
13.3 Company's Share of Comprehensive Income		
Financial Performance of Equity Accounted Investee		
Revenue	232,302	212,673
Profit for the year, Net of Tax	25,614	20,033
Other Comprehensive Income	499	(939)
Comprehensive Income	<u>26,113</u>	<u>19,094</u>
Company's Share of Comprehensive Income (20%)	<u>5,223</u>	<u>3,819</u>
As at December 31,	2016 Rs.'000	2015 Rs.'000
14. Deposits Receivable		
Refundable Deposit at Ceylon Electricity Board	8,700	8,700
Refundable Deposits at Other Suppliers	196	196
	<u>8,896</u>	<u>8,896</u>
Note 14.1		
No fair value adjustment has been made as these deposits do not have a defined period.		
15. Trade and Other Receivables		
Trade Receivables	588	604
Amount due from Commercial Bank of Ceylon PLC	9,260	8,500
Insurance premium paid in advance	3,475	3,737
Staff Loans	1,194	1,503
Prepaid staff cost	44	81
Other Receivables	414	429
	<u>14,975</u>	<u>14,854</u>
Trade Receivables are non-interest bearing and generally on 15 to 30 day terms.		
16. Short Term Investments		
Investments in Treasury Bills (Classified as available for sale)	159,289	123,101
	<u>159,289</u>	<u>123,101</u>
17. Cash and Cash Equivalents		
Call Deposits	32,833	22,838
Cash in Hand	25	8
	<u>32,858</u>	<u>22,846</u>
18. Stated Capital		
12,000,000 Ordinary Shares	120,000	120,000
	<u>120,000</u>	<u>120,000</u>



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As at December 31,	2016 <u>Rs.'000</u>	2015 <u>Rs.'000</u>
19. Other Reserves		
Fair Value Adjustment Reserve (Note 19.1)	1,580,740	1,364,152
Available for Sale Reserve (Note 19.2)	55	(35)
	<u>1,580,795</u>	<u>1,364,117</u>

19.1 Fair Value Adjustment Reserve

Balance as at January 01,	1,364,152	1,209,318
Transfer of Fair Value Gain on Investment Property, Net of Tax	216,588	154,834
Balance as at December 31,	<u>1,580,740</u>	<u>1,364,152</u>

Any gains arising from fair value adjustment of the Investment Property are transferred from Retained Earnings to Fair Value Adjustment Reserve and any losses incurred are transferred to Fair Value Adjustment Reserve to the extent that loss does not exceed the balance held in the said Reserve.

19.2 Available for Sale Reserve

Balance as at January 01,	(35)	3
Unrealised Gain/(Loss) on Available for sale Financial Assets, Net of Tax	90	(38)
Balance as at December 31,	<u>55</u>	<u>(35)</u>

Available for sale reserve comprise of the impact arising from the changes in the market values of Financial Assets classified under Available for Sale.

As at December 31,	2016 <u>Rs.'000</u>	2015 <u>Rs.'000</u>
20. Deposits Payables		
Refundable Deposits from tenants	29,063	27,345
	<u>29,063</u>	<u>27,345</u>

The Deposits Payables consists of deposits received from tenants which should be repaid after the termination of the tenancy agreements. Average tenancy period is two years.

As at December 31,	2016 <u>Rs. '000</u>	2015 <u>Rs. '000</u>
21. Employee Benefits		
21.1 Defined Benefit Plans - Provision for Employee Benefits		
Present Value of Unfunded Obligation (Note 21.1.1)	16,633	13,970
	<u>16,633</u>	<u>13,970</u>

21.1.1 Movement in the Present Value of the Employee Benefits Unfunded Obligation

Balance as at January 01,	13,970	21,305
Provision recognised during the year (Note 21.1.1.1)	3,832	4,364
Actuarial (Gain) / loss during the year (Note 21.1.1.2)	(1,022)	(9,398)
	<u>16,780</u>	<u>16,271</u>
Payments during the year	(147)	(2,301)
Balance as at December 31,	<u>16,633</u>	<u>13,970</u>



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For the year ended December 31,

	2016 Rs. '000	2015 Rs. '000
21.1.1.1 Provision recognised in the Income Statement		
Current Service Cost	2,365	2,340
Interest on Obligation	1,467	2,024
	<u>3,832</u>	<u>4,364</u>
21.1.1.2 Provision/(Reversal) recognised in Other Comprehensive Income		
Actuarial (Gain)/loss during the year	(1,022)	(9,398)
	<u>(1,022)</u>	<u>(9,398)</u>
21.2 Principal Actuarial Assumptions Used	2016	2015
(a) Discount Rate	11.5%	10.5%
(b) Future Salary Increase Rate	10%	10%
(c) Retirement Age	55 Years	55 Years

The Company obtains an actuarial valuation from Mr. M. Poopalanathan (AIA), Qualified Actuary, of Messrs Actuarial and Management Consultants (Pvt) Ltd., using Projected Unit Credit Method.

21.3 Sensitivity Analysis

If there is a change in the discount rate or future salary growth rate by 1%, following would be the present value of Defined Benefit Obligation;

As at December 31,	2016		2015	
		Present Value Rs. '000		Present Value Rs. '000
Increase				
Discount rate (1% movement)	12.5%	15,592	11.5%	12,963
Future salary growth (1% movement)	11%	17,812	11%	15,111
Decrease				
Discount rate (1% movement)	10.5%	17,806	9.5%	15,116
Future salary growth (1% movement)	9%	15,568	9%	12,948

21.4 Defined Contribution Plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

For the year ended December 31,	2016 Rs. '000	2015 Rs. '000
Employees' Provident Fund		
Employer's contribution (12%)	8,579	7,812
Employees' contribution (8%)	5,719	5,208
Employees' Trust Fund (3%)	<u>2,145</u>	<u>1,953</u>
	<u>16,443</u>	<u>14,973</u>



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As at December 31 ,	2016 Rs. '000	2015 Rs. '000
22. Deferred Taxation		
Deferred Tax Liabilities (Note 22.1)	302,479	278,804
Deferred Tax Assets (Note 22.2)	<u>(4,943)</u>	<u>(6,557)</u>
	297,536	272,247
22.1 Deferred Tax Liabilities		
Balance as at January 01,	278,804	251,638
Deferred Tax Liabilities originated during the year recognised in Income Statement	23,354	24,535
Deferred Tax Liabilities originated during the year recognised in Other Comprehensive Income	321	2,631
Balance as at December 31,	302,479	278,804
22.2 Deferred Tax Assets		
Balance as at January 01,	6,557	6,169
Deferred Tax Assets originated / (reversed) during the year recognised in Income Statement	(1,614)	373
Deferred Tax Assets originated during the year recognised in Other Comprehensive Income	-	15
Balance as at December 31,	4,943	6,557

22.3 Reconciliation of Deferred Tax Liabilities and Deferred Tax Assets

As at December 31,	Statement of Financial Position			
	2016		2015	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
Deferred Tax Liabilities				
Investment Property	1,061,730	297,284	971,119	271,913
Property, Plant and Equipment	17,456	4,888	15,213	4,260
Actuarial Gain	1,022	286	9,398	2,631
Available for Sale Reserve	76	21	-	-
	<u>1,080,284</u>	<u>302,479</u>	<u>995,730</u>	<u>278,804</u>
Deferred Tax Assets				
Employee Benefits	17,655	4,943	23,368	6,543
Available for Sale Reserve	-	-	48	14
	<u>17,655</u>	<u>4,943</u>	<u>23,416</u>	<u>6,557</u>



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

As at December 31 ,	2016 Rs. '000	2015 Rs. '000
23. Trade and Other Payables		
Trade Payables	40	1,256
VAT Payable	3,099	2,017
Accrued Expenses	7,213	5,543
Overtime Payable	1,626	1,370
EPF and ETF Payable	1,391	1,286
Dividend Payable	3,988	5,254
Other Payables	1,030	922
	<u>18,387</u>	<u>17,648</u>
24. Deferred Revenue		
Rent received in advance	4,015	2,546
Insurance reimbursements received in advance	2,336	2,589
	<u>6,351</u>	<u>5,135</u>
25. Current Tax Liabilities		
Balance as at January 01,	20,177	19,112
Provision made during the year	40,064	37,881
Payments made during the year	(39,401)	(36,816)
Balance as at December 31,	<u>20,840</u>	<u>20,177</u>

26. Related Party Disclosures

26.1 Transactions with Key Management Personnel

According to LKAS 24 on 'Related Party Disclosures', Key Management Personnel (KMP), are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including executive and non executive Directors) and the General Manager of the Company have been classified as KMP of the Company.

Commercial Bank of Ceylon PLC is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Company. Therefore, the Directors of the Commercial Bank of Ceylon PLC have also been identified as KMP of the Company.

The compensation paid to KMP are as follows:

For the year ended December 31,	2016 Rs.'000	2015 Rs.'000
Short Term Benefits	4,053	3,616
Post Employment Benefits	258	238

No other payments such as termination benefits and share based payments have been paid to KMP during the year.



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

26.2 Related Party Transactions

The value of all transactions carried out by the Company with its Parent and the Associate during the year ended December 31, 2016 are summarised below;

Name of the Related Party	Relationship	Nature of Transactions	Value of	Value of
			Transactions	Transactions
			2016	2015
			Rs. '000	Rs. '000
Commercial Bank of Ceylon PLC	Parent	<u>Income</u>		
		Rent Income on Premises	120,418	116,655
		Outsourcing Services	129,776	124,185
		Vehicle Hiring Income	55,615	53,349
		Other Utility Services	18,570	17,706
		Interest Income	13,882	10,505
		Proceeds on reimbursement of losses on sale of Motor Vehicles to Bank's Executive Staff	-	3,080
		<u>Expenses</u>		
		Interest Expenses	-	76
		Bank Charges	32	50
		Insurance Renewals through Bancassurance	786	2,739
Commercial Insurance Brokers (Pvt) Ltd	Associate	<u>Expenses</u>		
		Insurance Renewal	6,166	5,701

The Company has invested in Government Treasury Bills through Commercial Bank of Ceylon PLC as at the Reporting date amounting to Rs. 159.3 Mn. (Rs. 123.1 Mn. in 2015)

The Deposits Payables to Commercial Bank of Ceylon PLC as at the Reporting date amounted to Rs. 28.6 Mn. (Rs. 26.9 Mn. in 2015)

Receivable from Commercial Bank of Ceylon PLC is disclosed in Note 15 on page 57.

The related party transactions were carried out in the ordinary course of business on an arm's length basis at commercial rates.

26.3 Related Party Transactions Review Committee

Related Party Transactions Review Committee of the parent Company, the Commercial Bank of Ceylon PLC, functions as the Related Party Transactions Review Committee of the Company.



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

27. Determination of Fair Values

This note explains the methodology for valuing the financial assets and liabilities of the Company and provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

27.1. Valuation Models

The Company measures fair values using the fair value hierarchy, as described in Note 3.2.8 on page 41.

27.2 Valuation Methodologies of Financial Instruments Measured at Fair Value

The following table analyses financial instruments measured at fair value at the Reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

	Fair Value Hierarchy			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at December 31, 2016				
Available for Sale Financial Assets:				
Treasury bills	159,289	-	-	159,289
	<u>159,289</u>	<u>-</u>	<u>-</u>	<u>159,289</u>

	Fair Value Hierarchy			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at December 31, 2015				
Available for Sale Financial Assets:				
Treasury bills	123,101	-	-	123,101
	<u>123,101</u>	<u>-</u>	<u>-</u>	<u>123,101</u>

27.3 Fair Values of Financial Assets and Liabilities not carried at Fair Value

Set out below is a comparison of the carrying amounts and fair values of the financial instruments of the Company which are not measured at fair value in the Financial Statements. This table does not include non-financial assets and liabilities.

As at December 31,	2016		2015	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Loans and Receivables :				
Deposits Receivable	8,896	8,896	8,896	8,896
Trade and Other Receivables	11,456	11,456	11,036	11,036
Cash and Cash Equivalents	32,858	32,858	22,846	22,846
	<u>53,210</u>	<u>53,210</u>	<u>42,778</u>	<u>42,778</u>
Financial Liabilities :				
Deposits Payables	29,063	29,063	27,345	27,345
Trade and Other Payables	5,654	5,654	7,880	7,880
	<u>34,717</u>	<u>34,717</u>	<u>35,225</u>	<u>35,225</u>



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

Financial Assets

The carrying amount of the cash and cash equivalents approximate fair value due to the relatively short maturity of the financial instruments.

The fair value of the Loans to staff has been computed based on the interest rates that prevailed at loan grant dates.

Carrying values of the Deposits Receivables and Trade and Other Receivables have been considered as the fair value due to the timing of the cash flows.

Financial Liabilities

Carrying value of all Financial Liabilities has been considered as the fair value due to the timing of the cash due.

Fair Valuation Methodology and Significant Unobservable Valuation Inputs

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and receivables) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of Fair Value Measurement to Unobservable Inputs

A significant increase/decrease in the market interest rate would result in lower/higher fair value being disclosed.

Assets for which Fair Value approximates Carrying Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to call deposits which does not have a specific maturity.

27.4 Note 12.2 on page 55 provides information on significant unobservable inputs used as at December 31, 2016 used in measuring fair value of Land and Buildings categorised as Level 3 in the fair value hierarchy.

27.5 Reconciliation of Revaluation Reserve pertaining to Land and Buildings is found in the Statement of Changes in Equity on Page 33.



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

28. Financial Risk Management

Introduction and Overview

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

1. Credit risk
2. Liquidity risk
3. Interest Rate risk
4. Operational risk

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

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

Financial Risk Management Objectives and Policies

The objective of the financial risk management strategy of the Company is to minimise the impact of risks that arise due to the use of financial instruments. The risks that are unmanaged can potentially result in the Company being unable to achieve its budgeted profits in a given financial year. Hence, importance is given by the Company to manage financial risk.

28.1 Credit Risk

Credit risk refers to the risk carried by the Company owing to a counter party defaulting on its contractual obligations in relation to a financial instrument or customer contract. The total carrying amount of the credit risk pertaining to the Company as at December 31, 2016 is the summation of balances under the following categories of financial assets.

Carrying Value as at December 31,	2016	2015
	Rs. '000	Rs. '000
Trade Receivables	588	604
Amount due from Commercial Bank of Ceylon PLC	9,260	8,500
Staff Loans	1,194	1,503
Deposits Receivable	8,896	8,896

The maximum credit risk of the Company is limited to the carrying value of these financial assets as at December 31, 2016.

The credit risk arising from the deposits made in financial institutions are managed by the Company policy directions provided by the Board of Directors.



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

28.1 Credit Risk (Cont.)

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

28.2 Liquidity Risk

The liquidity risk of the Company arises from having insufficient cash resources to meet its obligations as they arise. Insufficient liquidity resources could have an adverse impact on the Company's operations while impairing investor, customer and supplier confidence thereby weakening its competitive position. The Company had adopted a number of strategies in order to ensure that sufficient cash resources are available to meet both operational and investment liquidity whilst meeting its debt servicing obligations.

The Company closely monitors cash inflows and outflows both at consolidated and sector levels to ensure matching of cash flows wherever possible.

As at December 31, 2016	Contractual Cash Flows			
	Carrying Amount Rs. '000	6 Months or Less Rs. '000	6-12 Months Rs. '000	Over One year Rs. '000
Financial Assets				
Deposits Receivable	8,896	-	-	8,896
Trade and Other Receivables	11,456	11,456	-	-
Short Term Investments	159,289	159,289	-	-
Cash and Cash Equivalents	32,858	32,858	-	-
	<u>212,499</u>	<u>203,603</u>	<u>-</u>	<u>8,896</u>
Financial Liabilities				
Deposits Payables	29,063	29,063	-	-
Trade and Other Payables	5,654	5,654	-	-
	<u>34,717</u>	<u>34,717</u>	<u>-</u>	<u>-</u>
As at December 31, 2015				
Financial Assets				
Deposits Receivable	8,896	-	-	8,896
Trade and Other Receivables	11,036	11,036	-	-
Short Term Investments	123,101	123,101	-	-
Cash and Cash Equivalents	22,846	22,846	-	-
	<u>165,879</u>	<u>156,983</u>	<u>-</u>	<u>8,896</u>
Financial Liabilities				
Deposits Payables	27,345	-	27,345	-
Trade and Other Payables	7,880	7,880	-	-
	<u>35,225</u>	<u>7,880</u>	<u>27,345</u>	<u>-</u>

The Company has implemented a strategic working capital management plan across whereby the receivables are closely monitored and debtor's period is minimised.



COMMERCIAL DEVELOPMENT COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

28.3 Interest Rate Risk

The interest rate risk of the Company arises from financial instruments which are exposed to variable or fixed interest rates. Variable interest rates expose the Company to cash flow difficulties due to the impact on the quantum of interest payable. Financial instruments with fixed interest rates are subject to variations in fair values due to market interest rate movements.

The Company closely monitors market interest rate movements and implements appropriate strategies in order to minimise the interest rate risk associated with financial instruments.

There are no financial instruments that carries Interest Rate Risk as at the Reporting date.

28.4 Operational Risk

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Company.

29. Litigation and Claims

There were no pending litigation or claims as at the Reporting date.

30. Capital Commitments and Contingent Liabilities

The Company has leased the land situated at Colombo from the Urban Development Authority for a period of 99 years. The residual lease period as at December 31, 2016 was 64 years. The Company pays an annual nominal lease rent of Rs. 150 per acre. The future minimum lease payment on the lease as at December 31, 2016 amounted to Rs. 9,600.

There were no significant contingent liabilities or capital commitments relating to the Company and its Associate outstanding as at the Reporting date except for those as disclosed above.

31. Comparative Information

The previous year's figures have been re-classified where necessary to conform to current year's presentation.



COMMERCIAL DEVELOPMENT COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS

32. Events after the Reporting Period

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements, except as disclosed below:

32.1 Second Interim Dividend - 2016

The Board have approved a second interim dividend of Rs. 2.50 per share on February 17, 2017 to be paid on March 14, 2017 to the shareholders of the Company.

In accordance with the Sri Lanka Accounting Standard - LKAS 10 on 'Events After the Reporting Period', this second interim dividend has not been recognised as a liability as at December 31, 2016. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% will be imposed on dividends declared.

32.2 Final Dividend - 2016

The Board of Directors of the Company have recommended the payment of a final dividend of Rs. 0.50 per share to the shareholders of the Company for the year ended December 31, 2016.

This dividend is yet to be approved at the Annual General Meeting to be held on May 08, 2017. In accordance with the Sri Lanka Accounting Standard - LKAS 10 on 'Events After the Reporting Period', this proposed final dividend has not been recognised as liability as at December 31, 2016. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% will be imposed on dividends declared.

Compliance with Section 56 and 57 of Companies Act No. 7 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 17, 2017 has been audited by Messrs KPMG.



INFORMATION TO STAKEHOLDERS

1. COMPLIANCE REPORT ON THE CONTENTS OF ANNUAL REPORT IN TERMS OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE (CSE)

Commercial Development Company PLC has complied with all the requirements of the Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a Listed Entity. The table below provides reference to the relevant sections of this Annual Report where specified information is found together with page references for the convenience of the readers.

Rule No.	Disclosure Requirement	Section/Reference	Page/s
7.6 (i)	Names of persons who held the position of Directors during the financial year	• Note 8.1 on the Annual Report of the Board of Directors	19
7.6 (ii)	Principal activities of the Company during the year and any changes therein	• Note 1.2 to the Financial Statements	35
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	• Item 03 of the Information to Stakeholders	71
7.6 (iv)	The public holding percentage	• Item 04 of the Information to Stakeholders	71
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year	• Note 8.5 on the Annual Report of the Board of Directors	20
7.6 (vi)	Information pertaining to material foreseeable risk factors	• Item 05 of the Information to Stakeholders	72
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	• Item 06 of the Information to Stakeholders	72
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties	• Item 07 of the Information to Stakeholders	72
7.6 (ix)	Number of shares representing the stated capital	• Note 18 to the Financial Statements on 'Stated Capital'	57
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	• Item 08 of the Information to Stakeholders	72
7.6 (xi)	Ratios and market price information:		
	• Equity - Dividend per share, dividend payout ratio, net asset value per share, market value per share	• Financial Highlights	03
	• Debt - Interest rate of comparable Government security, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year	• Financial Highlights	03
	• Any changes in credit rating	• The Company has not sought a Credit Rating	-



INFORMATION TO STAKEHOLDERS

Rule No.	Disclosure Requirement	Section/Reference	Page/s
7.6 (xii)	Significant changes in the Company's fixed assets and the market value of land, if the value differs substantially from the book value	<ul style="list-style-type: none"> Note 12 to the Financial Statements on 'Investment Property' 	53
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	<ul style="list-style-type: none"> The Company did not issue any shares during the year 	-
7.6 (xiv)	Information in respect of Employee Share Option Schemes (ESOPs) <ul style="list-style-type: none"> Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) Highest, lowest & closing price of the share recorded during the financial year 	<ul style="list-style-type: none"> The Company does not have an ESOPs Item 09 of the Information to Stakeholders 	- 73
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c). of Section 7 of the Listing Rules	<ul style="list-style-type: none"> Corporate Governance Report Profiles of the Board of Directors Board Remuneration Committee Report Board Audit Committee Report 	08 06 24 22
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	<ul style="list-style-type: none"> Note 26 to the Financial Statements on 'Related Party Disclosures' 	61

2. Stock Exchange Listing

The Ordinary shares of the Company are listed in the Main Board of the Colombo Stock Exchange (CSE).

The unaudited Interim Financial Statements for the first three quarters of 2016 were submitted to the CSE within 45 days from the respective quarter ends, as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE (The Company duly complied with this requirement for 2015).

The Company duly submitted the unaudited Interim Financial Statements for the year 2016 to the CSE within applicable statutory deadlines as required by the Rule No. 7.4(a)(i) of the Listing Rules of the CSE. (The Company also duly complied with this requirement for 2015.)

The Audited Income Statement and the Statement Profit or Loss and Other Comprehensive Income for the year ended December 31, 2016 and the Audited Statement of Financial Position as at December 31, 2016 will be submitted to the CSE within five months from the Statement of Financial Position date, which is within the required deadline as required by the Rule No. 7.5 (a) of the Listing Rules of the CSE. (The Company duly complied with this requirement for 2015).

The Stock Exchange ticker symbol for Company's shares is 'COMD'.



INFORMATION TO STAKEHOLDERS

3. Twenty Largest Shareholders as at December 31,		2016		2015 ^(*)	
Name of the Shareholder		No. of Shares	%	No. of Shares	%
01.	Commercial Bank of Ceylon PLC	11,261,717	93.85	11,313,290	94.28
02.	British American Technologies (Pvt) Ltd.	56,100	0.47	56,100	0.47
03.	First Capital Markets Limited/K. Laveendrakumar	46,871	0.39	46,610	0.39
04.	Binanthi Shamani Rasanayagam	36,000	0.30	36,000	0.30
05.	Gajath Chrysantha Goonetilleke	28,213	0.24	5,700	0.05
06.	Estate of lat Surendra Wickremasinghe	27,200	0.23	27,200	0.23
07.	Manel Senanayake	24,000	0.20	24,000	0.20
08.	Assetline Leasing Company Ltd/K.Laveendrakumar	22,341	0.19	22,341	0.19
09.	Sithamparapillai Gowrisangar	18,978	0.16	13,200	0.11
10.	Amirally Lukmanjee	14,946	0.12	14,946	0.12
11.	Seylan Bank PLC/Shermal Hemaka Jayasuriya	13,235	0.11	9,900	0.08
12.	Iddagoda Liyanage Samantha Nandika Kumara	12,599	0.10	12,599	0.10
13.	Puvendran Gajendra	12,000	0.10	7,700	0.06
14.	Mallory Evan Wijesinghe	12,000	0.10	12,000	0.10
15.	Douglas Sudirikku Jayawickrama	10,000	0.08	10,000	0.08
16.	Kaluarachchige Shanti Anula Fernando	10,000	0.08	10,000	0.08
17.	Sithampalam Abishek	10,000	0.08	10,000	0.08
18.	William Ryan Herbert Perera	10,000	0.08	10,000	0.08
19.	Abdul Vadood Marvaan Macan Markar	7,200	0.06	7,200	0.06
20.	Chintha Mahil Goonasekara	6,125	0.05	6,125	0.05
		11,639,525	97.00	11,654,911	97.12
	Others	360,475	3.00	345,089	2.88
	Total	12,000,000	100.00	12,000,000	100.00

(*) Comparative shareholdings as at December 31, 2015 of the 20 largest shareholders as at December 31, 2016.

4. Public Holding Percentage

The Percentage of public holding in the share capital of the Company as at December 31, 2016 was 6.15% representing 750 shareholders. (5.72% representing 721 shareholders as at December 31, 2015).

As per the Directive issued by the Securities and Exchange Commission of Sri Lanka (SEC) on November 17, 2016, the rules on minimum public holding applicable to all listed Companies have been revised. Considering the above mentioned revised rules applicable for companies listed in the Main Board, it is more preferable for the Commercial Development Company PLC to maintain a minimum public holding of 20% in the hands of 500 public shareholders as at December 31, 2016 since the existing float-adjusted market capitalization of the Company is far below the other options with different threshold requirements specified by the SEC.

Although, the Company is not compliant with the aforesaid requirement as at December 31, 2016, it is hopeful that the Company will be able to comply with the aforesaid rule within the grace period of six months allowed ending upto June 30, 2017 as permitted by the SEC. It is pertinent to mention that the parent Company of the



INFORMATION TO STAKEHOLDERS

Company, Commercial Bank of Ceylon PLC has already taken appropriate measures to dispose its shares held in the Commercial Development Company PLC, despite adverse market conditions prevented in complying with the 20% minimum public holding requirement as at December 31, 2016.

5. Information pertaining to material foreseeable risk factors of the entity

The Company does not foresee any material risks affecting its business in the foreseeable future.

6. Details of material issues pertaining to employees and industrial relations of the entity

There were no material issues pertaining to employees and industrial relations of the Company during the year under review.

7. Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties

Location	Extent (Perches)	Cost or Revaluation of Land (Rs. '000)	Buildings (Square Feet)	Cost or Revaluation of Building (Rs. '000)	Total Value (Rs '000)
'Commercial House' Building No. 21, Sir Razik Fareed Mawatha Colombo 01.	58.48	870,000	126,309	1,055,000	1,925,000
No. 148, Matara Road, Tangalle.	48.76	62,512	4,257	18,314	80,826

The Company did not hold lands and buildings as at the Statement of Financial Position date, other than the Investment Property detailed above.

8. Analysis of Shareholders as at December 31, 2016

8.1 Distribution schedule of the number of holders and percentage of holding in ordinary shares

As at December 31,	2016				2015			
	No. of Share-holders	%	No. of Shares	%	No. of Share-holders	%	No. of Shares	%
1 to 1,000 shares	635	84.44	136,859	1.14	611	84.51	134,069	1.12
1,001 to 10,000 shares	103	13.70	276,941	2.31	100	13.83	276,743	2.31
10,001 to 100,000 shares	13	1.73	324,483	2.70	11	1.52	275,898	2.29
100,001 to 1,000,000 shares	0	0.00	0	0.00	0	0.00	0	0.00
Over 1,000,000 shares	1	0.13	11,261,717	93.85	1	0.14	11,313,290	94.28
Total	752	100.00	12,000,000	100.00	723	100.00	12,000,000	100.00



INFORMATION TO STAKEHOLDERS

8.2 Composition of Shareholders

As at December 31,	2016				2015			
	No. of Share-holders	%	No. of Shares	%	No. of Share-holders	%	No. of Shares	%
Resident	738	98.14	11,973,263	99.78	711	98.34	11,973,479	99.78
Non-Resident	14	1.86	26,737	0.22	12	1.66	26,521	0.22
Total	752	100.00	12,000,000	100.00	723	100.00	12,000,000	100.00

9. Market Value of Shares

The market value of the Company's ordinary shares was as follows:

	<u>2016</u>	<u>2015</u>
Highest Price during the year (Rs.)	95.00	119.00
Date of the Highest Price	June 30	August 17
Lowest Price during the year (Rs.)	65.00	90.00
Date of the Lowest Price	March 15	December 17
Year-end Price (Rs.)	75.10	92.60

10. Market Capitalisation

Market Capitalisation of the Company which is the number of the ordinary shares in issue multiplied by the market value of a share as at the end of the year was Rs. 901.2 Mn. (Rs. 1,111.2 Mn. as at December 31, 2015).



TEN YEAR SUMMARY

Rs. '000

Income Statement

Year ended December 31,

	As per SLAS			
	2007	2008	2009	2010
OPERATING RESULTS				
Gross Revenue	125,268	140,461	180,367	206,828
Cost of Sales	(50,050)	(61,116)	(120,971)	(146,376)
Gross Profit	75,218	79,345	59,396	60,452
Other Operating Income	2,434	9,433	23,014	14,011
Administrative Expenses	(11,171)	(17,118)	(13,654)	(13,979)
Profit from Operations	66,481	71,660	68,756	60,484
Finance Cost	(1,373)	(5,272)	(852)	(336)
Fair Value gain on Investment Property	-	71,568	-	-
Profit before share of Associate Company	65,108	137,956	67,904	60,148
Share of profit of Associate Company	3,165	4,985	1,026	2,176
Profit before Taxation	68,273	142,941	68,930	62,324
Provision for Taxation	(23,828)	(38,294)	(26,766)	6,328
Profit after Taxation	44,445	104,647	42,164	68,652

Balance Sheet

As at December 31,

ASSETS

Non-Current Assets

	2007	2008	2009
Property, Plant & Equipment	115,649	134,443	220,348
Investment Property	638,432	710,000	719,407
Investment in Associate	21,046	24,613	24,792
	<u>775,127</u>	<u>869,056</u>	<u>964,547</u>

Current Assets

Debtors	33,052	37,538	39,891
Advances and Deposits Recoverable	5,603	11,031	11,548
Staff Loans	1,301	906	901
Short Term Investments	87,906	84,022	98,439
Cash and Cash Equivalents	14,447	15,125	11,256
	<u>142,309</u>	<u>148,622</u>	<u>162,035</u>
Total Assets	917,436	1,017,678	1,126,582

EQUITY AND LIABILITIES

Capital and Reserves

Stated Capital	120,000	120,000	120,000
Revaluation Reserve	424,425	444,231	444,231
Retained Earnings	30,047	98,693	104,858
Shareholders' Funds	<u>574,472</u>	<u>662,924</u>	<u>669,089</u>

Non-Current Liabilities

Deferred Liabilities	16,267	16,267	16,387
Deferred Taxation	159,596	152,723	152,966
Interest Bearing Loans & Borrowings	89,270	107,564	189,675
Employee Benefits	5,523	7,828	7,325
	<u>270,656</u>	<u>284,382</u>	<u>366,353</u>

Current Liabilities

Creditors	5,114	5,638	6,097
Rent Received in Advance	498	2,059	1,165
Unclaimed Dividends	1,565	1,564	1,564
Dividends Payable	24,000	18,000	24,000
Income Tax Payable	3,441	5,498	5,257
Interest Bearing Loans & Borrowings	37,690	37,613	53,057
	<u>72,308</u>	<u>70,372</u>	<u>91,140</u>
Total Equity and Liabilities	917,436	1,017,678	1,126,582

INFORMATION ON SHARES

Earnings Per Share (Rs.)	3.70	8.72	3.51
Dividend Per Share (Rs.)	3.50	2.50	3.00
Net Assets Value Per Share (Rs.)	47.87	55.24	55.76

OTHER INFORMATION

No. of Employees	49	50	51
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TEN YEAR SUMMARY

Rs. '000

Statement of Comprehensive Income

Year ended December 31,	As per SLFRS						
	2010	2011	2012	2013	2014	2015	2016
OPERATING RESULTS							
Revenue		226,165	244,222	266,024	275,997	316,988	329,257
Cost of Sales		(136,580)	(148,555)	(145,901)	(150,235)	(173,004)	(183,363)
Gross Profit		89,585	95,667	120,123	125,762	143,984	145,894
Other Income		4,836	14,252	10,896	13,712	8,337	12,433
Administrative Expenses		(16,584)	(30,753)	(24,276)	(21,647)	(22,149)	(24,977)
Fair value gain on Investment Property		269,853	241,237	77,000	210,934	178,677	240,826
Operating Profit		347,690	320,403	183,743	328,761	308,849	374,176
Net Finance Income		8,413	9,445	13,855	11,604	9,041	12,354
Share of Profit of Equity Accounted Investee, Net of Tax		3,848	3,920	3,558	1,539	4,007	5,124
Profit before Tax		359,951	333,768	201,156	341,904	321,897	391,654
Income Tax Expense		(21,612)	(99,406)	(49,755)	(66,469)	(62,103)	(65,212)
Profit for the year attributable to Owners of the Company		338,339	234,362	151,401	275,435	259,794	326,442
Other Comprehensive Income							
Items that will never be reclassified to profit or loss							
Actuarial Gains/(Losses) on Defined Benefit Plans, Net of Tax		(176)	(817)	223	(69)	6,767	736
Share of Other Comprehensive Income of the Equity Accounted Investee, Net of Tax		(180)	(101)	11	(226)	(188)	99
Items that are or may be reclassified to profit or loss							
Net change in fair value of Available-for-sale Financial Assets, Net of Tax		(203)	514	(115)	(222)	(38)	90
Other Comprehensive Income for the year, Net of Tax		(559)	(404)	119	(517)	6,541	925
Total Comprehensive Income for the year, Net of Tax		337,780	233,958	151,520	274,918	266,335	327,367

Statement of Financial Position

As at December 31,	2010	2011	2012	2013	2014	2015	2016
ASSETS							
Non-Current Assets							
Property, Plant & Equipment	190,853	142,077	87,439	46,873	82,828	90,331	100,054
Investment Property	722,120	982,130	1,243,000	1,320,000	1,530,800	1,765,000	2,005,826
Equity Accounted Investee	26,502	29,690	32,789	35,638	36,051	39,270	42,693
Deposits Receivable	5,242	5,242	5,242	5,425	5,475	8,896	8,896
	<u>944,717</u>	<u>1,159,139</u>	<u>1,368,470</u>	<u>1,407,936</u>	<u>1,655,154</u>	<u>1,903,497</u>	<u>2,157,469</u>
Current Assets							
Inventories	58	295	194	66	27	63	86
Trade and Other Receivables	30,475	23,714	13,839	23,065	25,096	14,854	14,975
Income Tax Receivable	-	792	-	-	-	-	-
Short Term Investments	83,253	140,478	114,193	166,838	162,166	123,101	159,289
Cash and Cash Equivalents	33,765	2,668	16,547	8,957	31,153	22,846	32,858
	<u>147,551</u>	<u>167,947</u>	<u>144,773</u>	<u>198,926</u>	<u>218,442</u>	<u>160,864</u>	<u>207,208</u>
Total Assets	1,092,268	1,327,086	1,513,243	1,606,862	1,873,596	2,064,361	2,364,677
EQUITY & LIABILITIES							
Equity							
Stated Capital	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Other Reserves	444,260	520,476	451,709	1,028,747	1,209,321	1,364,117	1,580,795
Retained Earnings	138,091	440,074	626,938	153,420	199,764	223,722	275,072
Total Equity	<u>702,351</u>	<u>1,080,550</u>	<u>1,198,647</u>	<u>1,302,167</u>	<u>1,529,085</u>	<u>1,707,839</u>	<u>1,975,867</u>
Non-Current Liabilities							
Lease Creditors	161,670	95,788	23,992	2,205	-	-	-
Deposits Payables	17,289	19,586	21,882	23,193	26,079	27,345	29,063
Employee Benefits	8,172	10,278	13,612	16,418	21,305	13,970	16,633
Deferred Tax Liabilities	119,501	48,218	198,117	213,999	245,469	272,247	297,536
	<u>306,632</u>	<u>173,870</u>	<u>257,603</u>	<u>255,815</u>	<u>292,853</u>	<u>313,562</u>	<u>343,232</u>
Current Liabilities							
Trade and Other Payables	7,199	5,156	8,388	9,617	28,252	17,648	18,387
Lease Creditors	61,889	60,731	33,410	14,760	2,204	-	-
Deferred Revenue	5,910	3,849	1,714	4,600	2,090	5,135	6,351
Current Tax Liabilities	5,422	-	13,481	19,903	19,112	20,177	20,840
Bank Overdraft	2,865	2,930	-	-	-	-	-
	<u>83,285</u>	<u>72,666</u>	<u>56,993</u>	<u>48,880</u>	<u>51,658</u>	<u>42,960</u>	<u>45,578</u>
Total Equity and Liabilities	1,092,268	1,327,086	1,513,243	1,606,862	1,873,596	2,064,361	2,364,677

INFORMATION ON SHARES

Earnings Per Share (Rs.)	5.72	28.19	19.53	12.62	22.95	21.65	27.20
Dividend Per Share (Rs.)	3.00	4.00	4.00	4.00	5.00	5.00	5.00
Net Assets Value Per Share (Rs.)	58.53	90.05	99.89	108.51	127.42	142.32	164.66

OTHER INFORMATION

No. of Employees	51	55	172	171	245	234	226
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NOTICE OF MEETING

Notice is hereby given that the Thirty Seventh Annual General Meeting (AGM) of Commercial Development Company PLC ('the Company') will be held at the Conference Room of the Commercial Bank of Ceylon PLC, 7th Floor, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo - 01, on May 8, 2017 at 10.00 a.m. for the following purposes.

1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2016 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Board of Directors.
3. To re-elect Directors in place of those retiring by rotation or otherwise, as given below.
 - (a) Mr. Jegatheesan Durairatnam
 - (b) Mr. Amitha Lal Gooneratne
 - (c) Mr. Bentotage Robert Lakshman Fernando*
 - (d) Mr. Antoine Theodore Priyalal Edirisinghe **
4. (a) To re-appoint Messrs KPMG, as recommended by the Board of Directors, as Auditors to the Company for the ensuing year
(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the ensuing year
5. To authorise the Board of Directors to determine donations for 2017.

By Order of the Board.

L.W.P. Indrajith
Company Secretary

Colombo
March 31, 2017

Notes

1. A shareholder entitled to attend, speak and vote at the AGM is entitled to appoint a proxyholder to attend, speak and vote instead of him/her.
2. A proxyholder need not be a member of the Company. The Form of Proxy is enclosed at the end of this Annual Report.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo - 01, not less than 48 hours before the time appointed for the holding of the meeting.



SPECIAL NOTICES

SPECIAL NOTICE - 1

- * A Special Notice dated February 15, 2017 has been received by the Company from Mr. K.K. Wijayaweera, a Shareholder of the Company giving notice of his intention to move the following resolution in regard to the re-election of Mr. B.R.L. Fernando, at the forthcoming AGM of the Company.

“That the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. Bentotage Robert Lakshman Fernando, who attained the age of 74 years on August 1, 2016 and that he be re-elected as a Director of the Company”.

SPECIAL NOTICE - 2

- ** A Special Notice dated February 15, 2017 has been received by the Company from Mr. M. Thiyagaraja, a Shareholder of the Company giving notice of his intention to move the following resolution in regard to the re-election of Mr. A.T.P. Edirisinghe, at the forthcoming AGM of the Company.

“That the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. Antoine Theodore Priyalal Edirisinghe, who attained the age of 71 years on September 11, 2016 and that he be re-elected as a Director of the Company”.



FORM OF PROXY

I / We of

 being a member/s of Commercial Development Company PLC, hereby appoint
 (NIC No.) of
 whom failing :

- | | |
|-------------------------------------------|--------------|
| Mr. Bentotage Robert Lakshman Fernando | Whom failing |
| Mr. Jegatheesan Durairatnam | Whom failing |
| Mr. Amitha Lal Gooneratne | Whom failing |
| Mr. Antoine Theodore Priyalal Edirisinghe | Whom failing |
| Mr. Lokubalasureyage Don Asoka Jayasinghe | Whom failing |
| Mr. Udul Isuru Sri Tillakawardana | |

as my/ our Proxyholder to represent me/us and * to vote
 for me/ us on my/ our behalf as indicated below at the Thirty Seventh Annual General Meeting of the Company to be
 held on May 08, 2017 and at any adjournment thereof and at every poll which may be taken in consequence thereof.
 (Please indicate your preference with an 'X' in the relevant box).

	For	Against
1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2016 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Board of Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those retiring by rotation or otherwise		
(a) Mr. Jegatheesan Durairatnam	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. Amitha Lal Gooneratne	<input type="checkbox"/>	<input type="checkbox"/>
(c) Mr. Bentotage Robert Lakshman Fernando (Please see Special Notice received from Mr. K.K. Wijayaweera)	<input type="checkbox"/>	<input type="checkbox"/>
(d) Mr. Antoine Theodore Priyalal Edirisinghe (Please see Special Notice received from Mr. M. Thiyagaraja)	<input type="checkbox"/>	<input type="checkbox"/>
4. a. To re-appoint Messrs KPMG, as recommended by the Board of Directors, as Auditors to the Company for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
b. To authorise the Board of Directors to determine the remuneration of the Auditors for the ensuing year	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2017.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/ our hand/ seal given on this day of Two Thousand and Seventeen.

..... Folio Number Signature/s of Shareholder/s NIC/PP/Co. Reg. No. of Shareholder/s
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* If you wish your Proxyholder to speak at the meeting you should insert the words "to speak and" in the space indicated with the asterisk and initial such insertion.



FORM OF PROXY

Instructions as to Completion

1. Perfect the Form of Proxy, after filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. In case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
3. The completed Form of Proxy should be deposited at the registered office of the Company at the under noted address not less than 48 hours before the time appointed for the holding of the meeting.

Commercial Development Company PLC
"Commercial House"
No.21, Sir Razik Fareed Mawatha,
Colombo 01.

COMMERCIAL DEVELOPMENT COMPANY PLC

"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
Colombo 01,
Sri Lanka.

Tel / Fax : 2447300
e-mail : cdcompany@combank.net