On a Positive Note

Commercial Development
Company PLC

Annual Report

2022

On a Positive Note

In times of challenge and strife, it is vital that one chooses to strike the “right notes”... the “positive notes” in enterprise, that give the best chance of riding the storm and emerging relatively unscathed. The year in review was one of great challenge both for the Company, our sole client Commercial Bank of Ceylon PLC and indeed the country as a whole. Positivity and hope are at the forefront of our efforts going forward.

Contents

About the Company

Commercial Development Company PLC was incorporated on March 14, 1980 as a subsidiary of Commercial Bank of Ceylon PLC ("the Bank"), its sole client, which owns a 90% stake as of December 31, 2022, (90% as of December 31, 2021). The Company has been listed on the Colombo Stock Exchange since March 1983 and has a market capitalisation of Rs. 1,146 Mn. as of the end of 2022.

The services which the Company is allowed to provide to the Bank are specified - and restricted by the Central Bank of Sri Lanka (CBSL). Within this sphere, the four primary lines of business provided by the Company in relation to the Bank are:

- Renting premises
- Outsourcing staff
- Hiring out vehicles
- Providing other utility services

The Company has, time and again, sought the permission of the CBSL to expand its role in relation to the Bank, in addition to serving external clientele, and other lines of related businesses, but has met with limited success to date. However, this attempt will be continued in year 2023 in order to obtain the necessary approvals.

The Company's real estate portfolio includes the Commercial House building at No. 21, Sir Razik Fareed Mawatha, Colombo 1, which houses the Head Office and the Foreign Branch of Commercial Bank. The Company also owns two other properties in Negombo and Tangalle, which are also rented to the Bank.

About the Report

The 43rd Annual Report of Commercial Development Company PLC covers the 12-month period from January 1, to December 31, 2022, in keeping with the Company's usual annual reporting cycle for financial reporting. This Report follows the Company's most recent Report for the year ended December 31, 2021. The context and comparable facts are given within this Report, where applicable.

This Annual Report has been prepared by combining salient elements of the International Integrated Reporting Framework, and, as such, presents a range of non-financial information in addition to traditional financial commentary. The Report has the overarching purpose of providing a comprehensive, multi-faceted account of the Company's performance during the year under review.

The theme of this Report "On a Positive Note" captures the essence of the Company's primary objective and relationship with the Bank. Commercial Development Company PLC has remained steadfast and unwavering in its commitment towards the remarkable growth and commanding presence of Commercial Bank of Ceylon PLC, its sole client and principal shareholder. Having successfully weathered the travails of the pandemic, and even performing well above expectations, the Company is committed to marshalling its resources and resoluteness in successfully navigating the turbulent waters ahead, as the nation faces unprecedented crises in the local economy, as well as emerging challenges on the global stage. Commercial Development Company PLC reaffirms its commitment to upholding the interests of all stakeholders, the nation and her people.

Comments and questions about this Report are welcome, and can be directed to:

Company Secretary,

Commercial Development Company PLC
No. 8 – 4/2, York Arcade Building
Leyden Bastian Road
Colombo 1
Sri Lanka.

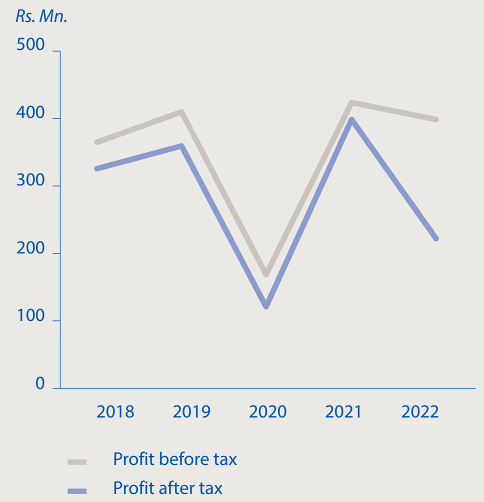
Our Purpose

Being committed
to our client's success
through the provision
of prompt, professional
and personalised
services

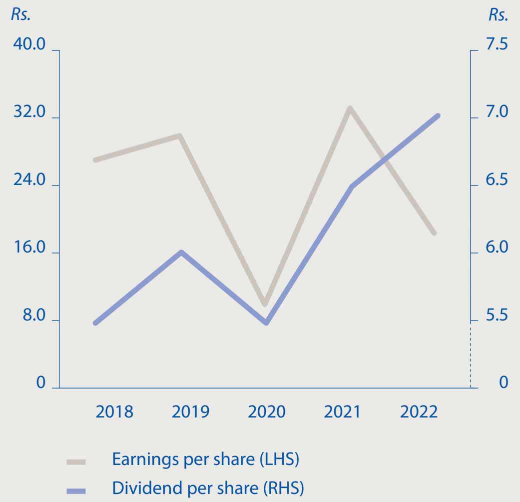
Financial Highlights

	Page No.	2022	2021	Change %
Results for the year (Rs. '000)				
Gross revenue	78	**631,128**	632,287	(0.18)
Gross profit	78	**306,521**	339,903	(9.82)
Profit before taxation	78	**401,289**	427,265	(6.08)
Taxation	78	**176,912**	25,759	586.80
Profit after taxation	78	**224,377**	401,506	(44.12)
Gross dividends	104	**84,000**	78,000	7.69
Position at the year end (Rs. '000)				
Investment property	80	**3,031,216**	2,966,713	2.17
Current assets	80	**878,986**	714,120	23.09
Current liabilities	80	**103,867**	74,995	38.50
Total assets	80	**4,055,083**	3,785,349	7.13
Shareholders' funds	80	**3,417,424**	3,327,363	2.71
Information per ordinary share (Rs.)				
Net assets value at the year end	80	**284.79**	277.28	2.71
Earnings (Basic)	78	**18.70**	33.46	(44.12)
Dividends	104	**7.00**	6.50	7.69
Market value at the year end	148	**95.50**	136.00	(29.78)
Key financial ratios				
Return on average shareholders' funds – ROE (%)		**6.65**	12.70	(6.05)
Return on average assets – ROA (%)		**5.72**	11.10	(5.38)
Price earnings (times)		**5.11**	4.06	25.86
Year-on-year growth in earnings (%)		**(0.18)**	38.99	(39.17)
Dividend yield (%)		**7.33**	4.78	2.55
Dividend cover (times)		**2.67**	5.15	(48.15)
Dividend payout ratio (%)		**37.44**	19.43	18.01
Current ratio (times)		**8.46**	9.52	(11.13)
Quick assets ratio (times)		**8.46**	9.52	(11.13)
Interest cover (times)		**26.11**	98.87	(73.59)

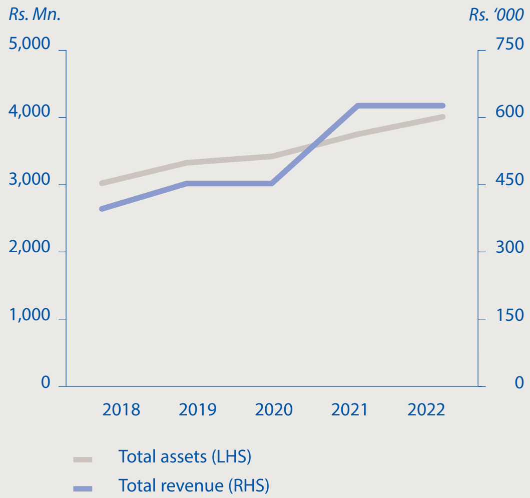
Profit Before and After Tax



Earnings and Dividend per Share



Total Assets and Revenue



Chairman's Message

We continue to maintain compliance standards, practices and good governance protocols in line with our prestigious parent, in the spirit of each requirement. We confirm that we are fully compliant in all aspects including the minimum public holding in line with the Listing Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka.

Chairman's Message

> To address the fiscal deficit, we have implemented austerity measures and a steep increase in tax rates. Our current-year results reveal a 44% decrease in profits after taxation compared to the previous year, primarily due to higher taxes and a significant provision for deferred taxation. Our strong relationship with our single tenant and parent has greatly contributed to the results we have achieved.

On behalf of the Board of Directors of the Commercial Development Company PLC, it is my privilege to submit to our shareholders an overview of our stewardship by way of the Annual Report and the Audited Financial Statements for the financial year ended December 31, 2022.

The adverse conditions that began with the outbreak of the pandemic last year gained further traction due to a severe fuel shortage, leading to widespread political unrest across the country. Presently, we are facing an increase in fuel, power, and transportation costs, among other rising expenses, as a result of the global upward revision of fuel prices and a sharp depreciation of the Sri Lankan Rupee. Uncertainties associated with the Rupee have resulted in a decline in USD inflows, exacerbating dwindling reserves and leading to an unfortunate sovereign default in our national commitments.

Upon reflection, managing the virus that caused the global pandemic last year appears to be a minor occurrence when compared to the self-inflicted damage we are presently experiencing as a country due to our unsustainable consumption patterns. Ill-conceived policy frameworks led the country and our economy down an unsustainable path of misplaced subsidies, poorly evaluated investments, and public sector overstaffing, ultimately resulting in a reduction in productivity across all sectors. Corrective measures are yet to be implemented. Upon reviewing our past balance sheets, the substantial fair value gain on land highlights the effects of scarcity, inflation, and the depreciation of the SLR. As citizens, we too did not adequately respond to these early warning signals.

Turnover for the year was virtually stagnant as we witnessed a decline in the previous year's revenue on account of sanitation. Gross Margins declined by a little under 10% with higher costs biting in at a slower pace. Higher finance income and a lower fair value gain helped to bridge the shortfall above with Profit before Tax recording a shortfall of a little over 6% in comparison to the previous year.

Provision for Income Tax increased from Rs. 25.7 Mn. to Rs. 176.9 Mn., sharply impacting earnings per share. As highlighted last year, the building is now over 40 years and is in need of a major overhaul. This is unfortunately pushed back with the current unsettled conditions. We also continue to lobby the Central Bank to lift the restrictions placed on the Company with regard to diversification.

The dividend payment last year was made in two tranches recording a dividend of Rs. 6.50 per share. The Directors have now recommended a final dividend of Rs. 4.00 per share for 2022. An interim dividend of Rs. 3.00 per share was paid on December 30, 2022. Accordingly, the total dividend for the year will be Rs. 7.00 per share with a payout ratio of 37.44% compared to the payout ratio of 19.43% in the previous year.

Our contribution to the national economy by way of taxation amounted to Rs. 198.2 Mn., this year.

Recognising the forthcoming significant repair expenses, the Board of Directors made the decision to alter the Board's composition, which was heavily centered around finance. As a result, Dr R A Attalage was invited to join the Board of Directors on January 1, 2023, bringing with him a wealth of experience and knowledge in structural engineering, which is critical at this time. It would be prudent to introduce additional civil engineering skills in future as and when Board positions become available.

I take this opportunity to express my sincere thanks to all members of the Board of Directors for their incisive debate, unstinted support and commitment to sharing their vast experience and knowledge. Your contribution is the very foundation on which the Company has positioned itself for the future. The former Managing Director, Mr S Renganathan relinquished office on May 11, 2022 on his retirement from the Commercial Bank of Ceylon PLC. We thank him for the new trajectory he instituted strengthening the relationship of the Company and the inter related Departments of the Bank and wider exposure to selected employees to chart their career paths in subsidiaries. Mr Renganathan benefited from his stint in Bangladesh and shared his experiences with all who came into contact with him. We wish him a happy retirement while urging him to share his vast experience.

We welcome the new Managing Director, Mr Sanath Manatunge, who is no stranger to us and pledge to work closely with him to make his life easier. Our thanks go out to the Chief Executive Officer, Mr Ruwan De Silva and staff at all levels for a job well done with self-motivation in a spirit of achievement.

Our thanks to the Bank's Inspection Department, the Internal Auditors and Messrs. KPMG for their professionalism. Last and not least, our thanks go out to our valued shareholders for their trust and support at all times.

B R L Fernando
Chairman
February 22, 2023

Managing Director's Review

The structure and scope of our business model, which enables us to derive entirety of our revenue from our parent company, cushioned us from the shocks that had assailed virtually all enterprises in the country. Having a regular and reliable source of income also enabled us to perform in a consistent manner, overcoming many economic and political setbacks which characterised the business landscape in Sri Lanka during the year under review.

Rent Income from Premises

"Commercial House", our parent company's Head Office building in Colombo 1, is nearly 40 years old, and is in need of major improvements to its structure and interiors. However, despite it being projected to be undertaken in 2022, we were compelled to postpone the renovations to year 2023 in view of constraints encountered in the process of selecting reputed contractors given the prevailing economic condition. As a responsible Corporate Citizen, the Company extends its full cooperation to the Green practices adopted by Commercial Bank Group. Accordingly, the Company assisted Commercial Bank to install solar panels on "Commercial House" building and Tangalle branch building a few years ago.

The current shift towards hybrid working environments and the contraction of the economy has led to a sizable reduction in the demand for office space, which is especially apparent in the Central Business District in Colombo 1, where the Commercial House building stands.

Outsourcing of Staff

This function is limited to the provision of staff for non-core banking duties, as Commercial Bank restricts its core functions to in-house staff, as per banking regulations. However, being a subsidiary, our staff enjoy a higher level of acceptance and inclusion in the discharge of their duties within the Bank. During the year, our parent company had drawn up plans to deploy sales staff outsourced from us, for business canvassing. This was shelved due to the escalation of interest rates, which rendered the sale of lending products considerably difficult and risky. As a result, the Company had to face the loss of projected income which could have been derived from the outsourcing of about 50 sales team members, including senior staff.

Renting of Vehicles

Income from renting of vehicles to Commercial Bank has shown a marginal increase. The escalation in cost of spare parts and repairs, in some cases by many folds, has hampered the opportunities that the Company had to earn a higher income from this line of business since the Bank increased the rentals with effect from April 2022. We look forward to transforming our current fleet to electric and hybrid vehicles, in keeping with our commitment to reducing the carbon footprint, as well as reducing operating costs.

While our operational performance has been excellent, the recently imposed taxes have severely impacted our financial performance, which is discussed in detail later in this review.

As a subsidiary of Commercial Bank of Ceylon PLC, which is also our main client and principal shareholder, our financial performance during the year can be examined in terms of our main lines of businesses authorised by the Central Bank of Sri Lanka (CBSL). These are: rent income from premises (43%), outsourcing services (36%), renting of vehicles (14%), and other utility services (7%), which are reviewed below. The share of revenue from each of these lines of business is given within parentheses.

Utility Services

The pandemic-induced need for sanitising of buildings gave the Company a tremendous boost in income in 2021. However, after gradually curtailing this operation, it was totally discontinued in the first quarter of 2022. The Company continues to provide regular maintenance and utility services to the Bank's Head Office and certain branches, as well as holiday bungalows. The loss of revenue from the sanitisation business has been compensated to a greater extent by the additional income generated from investments amounting to Rs. 43 Mn., as a result of the prevailing high interest rates. The Company could not secure the anticipated business of operating the Bank's telephone board due to cost factors.

Empowering and Developing our Human Resources

In keeping with our policy of sharing the benefits of exceptional financial performance, we offered bonus payments to the staff in April and December, which amounted to four months' salary in total. A special allowance was also paid to all employees to meet the inflationary pressure. Medical expenses for a number of critically ill employees were borne by the Company, and medical insurance for employees was increased by a substantial amount.

In addition, a total of 18 training programmes were conducted for the career and personal development of staff, combining virtual and in-person training modes. Staff members earning relatively lower incomes were provided financial assistance to undergo training at a number of Government approved institutions including German Tech, and Vocational Training Authority of Sri Lanka. Once they achieve NVQ Level 2 or 3, priority is given for them to be absorbed to a higher employment category such as Maintenance Assistants/Officers, which elevate their social standing and lifestyle.

Considering the economic hardships, all the staff members were granted a salary increment which included an ex-gratia payment. The Company also took the important step of providing financial assistance for staff members earning relatively lower incomes to engage in income-generating activities such as home gardening, mushroom cultivation, poultry farming during their spare time. This was intended to help them to overcome their dire financial situation caused by the increasing cost of living. Spouses of staff members were also included in this initiative. Employees were assured of their job security, which the Company considered as an essential means of allaying their fears of losing their livelihood during this difficult period.

Results of Operations

With Commercial Bank being the sole tenant and the recipient of all other services provided by the Company, the Company managed to maintain revenue at the previous year's level. Inflationary pressures caused cost of sales and administration expenses to record a sharp increase, but the impact was partly offset by an increase in net finance income. Accordingly, the Company managed to report a profit before tax of Rs. 401.3 Mn. compared to Rs. 427.3 Mn. in 2021. However, the recent changes to the tax legislation which saw the corporate tax rate increasing from 24% to 30% had a significant adverse impact on the profit after tax which dropped by 44.1% to Rs. 224.4 Mn.

Looking Forward

Commercial Development Company PLC is a cash-rich institution with a range of options available to invest its resources. The prevailing high interest rate regime has given us the opportunity to invest in financial assets offering higher yields, resulting in enhanced earnings for our investors.

As we look forward to the future with renewed hope and confidence, my special thanks are due to Mr S Renganathan, former Managing Director, who carried out a tremendous job of keeping the Company in good shape despite the daunting challenges of the times. I also wish to extend my appreciation to the Chairman, other members of the Board of Directors, senior management and staff of the Company, our regulators and all our stakeholders who have reposed their trust in our ability to continue delivering value in an ethical, professional and sustainable manner in the years ahead.

S C U Manatunge
Managing Director
February 22, 2023

Chief Executive Officer's Review

As the CEO of Commercial Development Company PLC (CDC), I am proud to announce that the Company accomplished its goals and reached new milestones in 2022 despite the unprecedented economic crisis. As the parent company holding a 90% stake as well as the sole beneficiary of our services, we are honoured to be a part of the Commercial Bank of Ceylon PLC Group. I gratefully acknowledge that all our efforts have always been supported by our parent company.

Financial Performance

In 2022, CDC continued to do well in three out of the four business lines. Our largest source of revenue came from building rentals, accounting for 43% of our total revenue. Due to increased maintenance costs and insurance premiums, CDC and the Bank agreed to raise the rental rates for vehicles hired out to the Bank. This resulted in an 8% increase in gross profit from the vehicle rental business compared to the previous year. We managed to maintain the contribution from our outsourcing business at a consistent level. Revenue and gross profits generated from our utility services totalled Rs. 42.0 Mn. and Rs. 11.6 Mn. respectively.

The revenue and gross profit from the sanitising business declined in 2022 compared to those of 2021, as this business line was discontinued towards the end of the first quarter of the year under review with the end of the pandemic. However, the resulting adverse impact on the Company's performance was more than offset by the management's decision to move funds from low-yielding to high-yielding deposits consequent to the rise in market interest rates, generating an additional interest income of Rs. 42.9 Mn. during the year leading to a positive impact on the bottom line.

Company reported a profit before tax of Rs. 401.3 Mn. in 2022 compared to Rs. 427.3 Mn. reported in 2021. However, due to a substantial increase in the deferred tax provision following the increase in the income tax rate from 24% to 30% during the year and an adjustment done to the tax charge in 2021, tax charge for the year substantially increased to Rs. 176.9 Mn. compared to Rs. 25.8 Mn. in 2021. Therefore, the Company's net profit for 2022 decreased to Rs. 224.4 Mn. compared to Rs. 401.5 Mn. reported in 2021.

Our Dedicated Workforce

CDC's workforce is its most valuable asset, and the Company benefits greatly from its competent employees who have demonstrated their ability to handle crisis situations. In return, CDC goes the extra mile to ensure the wellbeing of its staff and considers it a top priority. Despite the restrictive measures many corporates have taken to reduce costs, CDC has made all staff payments on time and even made an additional bonus payment in April 2022.

> Viewed in the context of the challenges posed by the pandemic and numerous other disturbing developments during the year, CDC remained steadfast and managed to achieve remarkable results. However, the economic meltdown did hinder our plans to expand into new businesses we had planned for. Nevertheless, we are confident in our ability to overcome any difficulties that may arise in 2023.
>
> Our focus has always been on providing an exceptional service to Commercial Bank (the Bank), and we are proud to say that we successfully maintained that track record in 2022 too. The bond between CDC and the Bank is strong, and we firmly believe that our contributions have helped it maintain its standards.

I am pleased to announce that CDC achieved a milestone in its 40-year journey when it implemented the much-awaited new Human Resources Information System (HRIS), which has streamlined the HR operations, reduced paper usage and eliminated manual work relating to attendance, salaries, overtime and many other operations in the Human Resources Division. This has enhanced operational efficiency and contained costs for both CDC and the Bank.

To support employee development and well-being, CDC conducted 18 high-quality training programmes with the support of industry experts. The Company recognises the importance of training programmes that prepare employees for future challenges and has focused on developing their skills which will help elevate their career prospects and financial standing. Qualified and competent staff members are given first opportunity when vacancies arise for senior positions, before considering recruitment of external candidates.

Responsible Citizenship

As a responsible corporate citizen, all taxes, statutory payments, municipal rates, utility bills, and other dues have been promptly settled on the due. At the same time, the Company took on three CSR projects aimed at improving the lives of young, school children from low-income families.

The first CSR project was held at the "S TIBET MAHINDA VIDYALAYA" primary school in Wennawatte/Sedawatte, where the children received school supplies such as books, bags, and shoes and a meal. The second and third projects focused on career development for students taking their GCE (O/L) and (A/L) exams at "RAJASINGHE MAHA VIDYALAYA" in Colombo 9 and "P M PERERA VIDYALAYA" in Batuwita, Horana. Gifts and a meal were offered to the participating students at the end of the programmes.

Our Gratitude

Despite the economic turmoil the country is going through from 2019 onwards, the Company was able to achieve remarkable results in 2022 thanks to the collective efforts of all employees, under the guidance and leadership of the former Managing Director, Mr S Renganathan and newly appointed Managing Director, Mr S C U Manatunge.

We extend our best wishes to Mr S Renganathan who retired in May 2022, and acknowledge the valuable contributions he made to the Company's success and the well-being of its employees. We also wish his successor, Mr S C U Manatunge, all the best in guiding and leading the Company towards a bright future.

It is likely that there will be challenges ahead in Sri Lanka's macroeconomic environment in 2023, but we are confident of turning these obstacles into opportunities, leading the Company to even greater success in the coming year.

Ruwan De Silva
Chief Executive Officer

February 22, 2023

Context for Our Performance

Global Economic Outlook

The global economy experienced sluggish conditions in most regions during the year, compounded by the war in Ukraine, surging oil and commodity prices, supply chain backlogs, and lingering effects of the pandemic. International Monetary Fund's World Economic Outlook forecasts global economic growth to slow from 3.2% this year to 2.7% next year, which is the weakest scenario since 2001.

Sri Lankan Economy

The devastation of the pandemic had receded considerably as the year began, and the economy began its gradual ascent towards normality. While exports have hovered at around USD 1 Bn. each month, rising inflation in Europe and the USA are likely to hinder future growth. The apparel sector, which accounted for 57% of exports, earning USD 8 Bn. in the first nine months of the year, expects a drop in orders during the coming year. However, on a positive note, exports under four free-trade deals totalled Rs. 229.1 Bn. while imports amounted to Rs. 32.29 Bn., making exports 7 times as large as imports.

Sri Lanka's tourism earnings crossed the USD 1.02 Bn. mark in October reflecting a 546% YOY increase. Over 800,000 arrivals are expected by the end of the year. Though foreign remittances have fallen 40.2% to USD 2.9 Bn. in the first 10 month, a target of USD 1 Bn. per month is expected to be achieved by the end of 2023.

The construction industry, which employs over 600,000 people continues to be in the doldrums, due to rising material costs and wages, as well as restrictions on the import of machinery and materials. 70% of Government projects are on hold due to lack of funds and non-payment of arrears to private contractors.

A consortium comprising a UN team and NGOs has extended their joint Humanitarian Needs and Priorities (HNP) Plan, with the aim of providing life-saving assistance to 3.4 Mn. people across the country, which could help alleviate food security issues in the near future.

According to World Bank data, the Sri Lankan economy contracted by 4.8% during the first half of 2022, and inflation reached an unprecedented 64.3% in August, with food inflation reaching 93.7%. Real GDP is expected to fall by 9.2% in 2022 and a further 4.2% in 2023.

However, the IMF bailout package and anticipated Foreign Direct Investments during the coming year, along with improved fiscal management, are expected to put the Sri Lankan economy back on track. The Government has embarked on a multi-pronged approach towards reviving the economy, including restructuring loss-making State-Owned Enterprises (SOEs), reducing imports, curtailing state expenditure, and improving the business climate, which bode well for the future of the economy. The Government is also negotiating with a number of foreign governments in order to commence infrastructure and employment generation projects.

Banking Industry Outlook

Having Commercial Bank of Ceylon PLC as its sole client, the Company's fortunes are directly dependent on the Bank's performance, which in turn is impacted by the overall outlook of the banking sector, which has shown signs of stress during the year.

In addition, the bleak overall economic scenario, as well as the 'new normal' of working from home and growth in online banking has resulted in a sharp drop in demand for office space. As the Company derives a major portion of its income from renting office space, this is likely to impact revenue in the short term, until demand improves as a result of an overall economic resurgence.

However, Company assures to optimise the opportunities that may be created even in this crisis situation as the Company always believes the crisis are bundled with opportunities.

Business Model for Sustainable Value Creation

Sustainable Value Creation Model

In addition to its sole client, Commercial Bank of Ceylon PLC, the Company has a multitude of stakeholders, who, by definition, may be considerably impacted by its activities. Stakeholders also include those whose actions may, in turn, affect the Company's ability to achieve its strategic objectives in a successful manner.

Commercial Development Company PLC (CDC) engages its stakeholders by means of a holistic, multi-stakeholder approach in relation to its value creation model. Hence, it is imperative for CDC to have a sound understanding of who its stakeholders are, which of them are important to the Company, and conversely, why the Company is important to them. This will help CDC to adapt its business model in a manner that is best suited to create and maximise value for such stakeholders, individually and collectively.

The Company is of the firm view that its ability to create sustainable value for itself, and the value it creates for its stakeholders, are interrelated and mutually reinforcing. The value created by the Company for itself can be considered as a resource, and thus, a form of capital. This underscores the fact that CDC's capital is not limited to the financial capital reported on the balance sheet.

As the Company creates value for itself and its stakeholders over the short, medium, and long terms, it will continue to focus on its multiple capitals which are the inputs to its business activities.

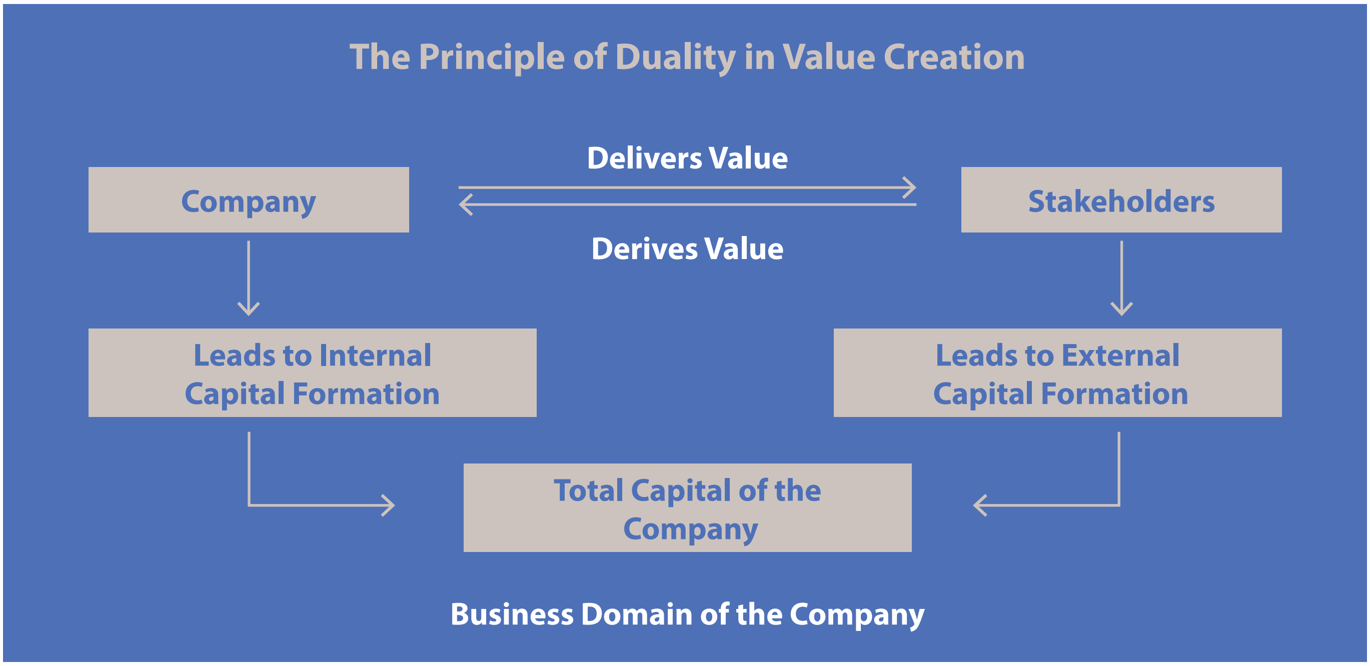
Furthermore, the CDC's overall stocks of capital are continually increased, decreased, or preserved over time through continuous interactions and transformations through such activities.

The business model appearing on pages 18 and 19 provides a clear and concise visual depiction of how CDC transforms its input capitals into outputs and outcomes through its range of business activities.

CDC's business activities, which are conducted in line with its Purpose and Strategy, encompass, a) renting premises, b) outsourcing staff, c) hiring out vehicles, and d) providing other utility services. These activities also provide the backdrop for the Company's Corporate Governance Strategy, in addition to how it faces risks and takes on opportunities in the operating environment.

Continuous and systematic scanning of the environment, especially information relating to events, trends, and relationships within its external and internal operating environments, enables the Company to identify risks and opportunities. Based on the information gathered, CDC formulates its strategic plan, focusing on a course of action that would enable it to achieve its objectives most efficiently and effectively; and create value for its stakeholders over time.

The diagram given below is based on the Principle of Duality, which depicts the delivery of value to stakeholders, and the deriving of value from them, resulting from the Company's activities in relation to creating value.



Inputs

Capital position as at January 1, 2022
for the year ended December 31, 2022

Internal Capitals

Financial
- Shareholders' funds Rs. 3,327.4 Mn.
- 1,000 shareholders
- Dividend per share Rs. 6.50
- Market capitalisation Rs. 1,632.0 Mn.

Intellectual
- Institutionalised knowledge
- Board approved policies covering many operational spheres
- Streamlined systems and procedures
- Intangible assets Rs. 2.7 Mn.

External Capitals

Manufactured
- Property, plant and equipment Rs. 90.9 Mn.
- Investment properties Rs. 2,966.7 Mn.
- Extent of rentable space 130,566 sq.ft.

Human
- Staff cadre of 207 employees
- Cumulative service of 1,835 years
- Staff retention ratio 94%

Social and relationship
- Anchor tenant – Commercial Bank
- 483 Suppliers and service providers
- Robust and longstanding relationships

Natural
- Energy consumption 1,757,780 kWh
- Water consumption 4,425,599 litres
- Collecting/disposing garbage in a responsible manner

Value Creating Activities

Corporate Governance

Purpose

Renting of premises

Hiring of vehicles

Outsourcing of staff

Other utility services

Strategy

Risks and Opportunities

External Environment
(Including economic conditions, political developments, technological changes, societal issues, environmental challenges and outlook)

Outputs

Outputs to stakeholders

Shareholders
- Profit after tax Rs. 224.4 Mn.
- Net assets value per share Rs. 284.79
- Dividend per share Rs. 7.00

Government institutions/regulators
- Taxes paid Rs. 198.2 Mn.
- Fully compliant with the relevant rules and regulations

Tenants
- Reliable, responsive and resourceful service in an economically viable, socially responsible and environmentally friendly manner

Employees
- Total remuneration of Rs. 127.8 Mn.
- In-house training and development
- Enhanced employee productivity

Business partners
- Opex paid for services Rs. 361.3 Mn.
- Capex paid for plant and equipment Rs. 31.4 Mn.

Community
- CSR activities
- Assisted school children by donating Rs. 400,000 worth of goods

Outcomes

Capital position as at December 31, 2022 for the year ended December 31, 2022

Financial
- Shareholders' funds Rs. 3,417.4 Mn.
- 1,010 Shareholders
- Market capitalisation Rs. 1,146 Mn.

Intellectual
- Institutionalised knowledge
- Board approved policies covering operations
- Streamlined systems and procedures
- Intangible assets Rs. 2.1 Mn.

Manufactured
- Property, plant and equipment Rs. 131.8 Mn.
- Investment properties Rs. 3,031.2 Mn.
- Extent of rentable space 130,566 sq.ft.

Human
- Staff cadre of 213 employees
- Cumulative service of 1,995 years
- Staff retention ratio 94%

Social and relationship
- Anchor tenant – Commercial Bank
- 504 Suppliers and service providers
- Robust and longstanding relationships

Natural
- Energy consumption 1,721,679 kWh
- Water consumption 5,230,213 litres
- Collecting/disposing garbage in a responsible manner

Stakeholder Engagement

Stakeholders are individuals or entities, separate from and not forming part of the Company, who are materially affected by its activities. This definition also covers those whose actions and opinions are likely to have an impact on the Company. In this Report, key stakeholder groups as identified by the Company are:

- Shareholders
- Tenants
- Employees
- Suppliers and business partners
- Government and regulatory authorities
- Society and environment

It is important for the Company to be closely engaged with its key stakeholders in alignment with its strategic direction, as they have a significant role to play in terms of helping the Company realise its vision and mission. In order to create sustainable value, the Company should identify and implement effective means of engaging with stakeholders, in a manner that meets their aspirations, expectations, and concerns.

In terms of the Company's perspective, value creation is the difference between value delivered to stakeholders and value derived from them. Thus, the Company is aware of its need to maintain proactive and positive stakeholder relationships (please refer to the diagram on "Principle of Duality" on page 17). In order to address the concerns of these distinct and diverse groups, the Company makes every effort to ensure the free flow of relevant, accurate, and timely information to its stakeholders, while accepting their viewpoints and taking the required action where necessary. A case in point is the publication of interim and Annual Financial Statements, as well as periodic market announcements to the Colombo Stock Exchange made by the Company with regard to the information on its shares and performance.

The Company has in place a range of channels and methods of engagement through which it communicates with its stakeholders, even though Commercial Bank of Ceylon PLC owns a 90% stake, and the remaining 10% is held by public other shareholders as of December 31, 2022. Several other means and methods are at the disposal of the Company, through which it engages with stakeholders at varying intervals, on a range of relevant topics. The scope and degree of engagement with different groups of stakeholders are in accordance with the level of the potential impact on or by each group of stakeholders, as well as the nature of relationships with them.

Having a scale of interactions at varying levels enables the Company to gauge the expectations of each group of stakeholders, and derive the benefit from their wealth of knowledge and experience. It also enables the Company to assess and improve on its quality of service to each group, rectify shortcomings and provide continuous improvements which enhance the quality of the Company's, risk management, and compliance efforts, in addition to identifying new business opportunities. Company-wide shared responsibility is maintained across every point of stakeholder contact through this formal engagement structure. Given below are the mechanisms, means of engagement, and an assessment of stakeholder concerns:

Stakeholder	Topics of Concern	Engagement Method	Frequency
Shareholders	Financial performance	Annual General Meeting	Annual
	Shareholder returns	Annual Report	Annual
	Governance	Extraordinary General Meeting	As required
	Risk management	Interim Financial Statements	Quarterly
	Related party transactions	Announcements to CSE	As required
	Expansion	One-to-one meetings	As required
	Transparency	Internal and external audits	Ongoing and annual
Tenants	Rent and other charges	Review meetings	As required
	Facilities and utilities	Feedback evaluation	As required
	Maintenance, security	Correspondence	As required
	Service quality	Periodic updates	As required
	Staff training/development	Field visits	As required
	Fire drills/risks associated	Announcements	At least once a year
	Waste management		

Stakeholder	Topics of Concern	Engagement Method	Frequency
Employees	Recruitment and retention	Review meetings	As required
	Salaries and remuneration	One-to-one meetings	As required
	Training and development/ career progression	Appraisals/training and workshops	Annual
	Welfare	Policies and procedures	As required
	Performance appraisal	Evaluating feedback	As required
	Health and safety	Operational guidelines	As required
	Grievances	Close relationships with the Employers Federation of Ceylon (EFC)	As required
	Future plans		Ongoing
Suppliers and business partners	Registrations	Correspondence	As required
	Quality	One-to-one meetings	As required
	Scope of work	Policies and procedures	As required
	Terms and conditions	Media releases	As required
	Pricing	Supplier visits	As required
	Warranties	Resolving complaints	As required
		Collaborations	As required
Government and regulatory authorities	Compliance	Statutory reporting	As specified
	Tax liabilities	Periodic payments and returns	As specified
	Labour regulations	Submissions to policymakers	As required
	Employee terminal benefits	Meetings and consultations	As required
		CSE disclosures and announcements	As required
Society and environment	Ethical behaviour	Being subject to Group audit, risk and Compliance	Periodic
	Business conduct	Tone at the top	Ongoing
	CSR activities	Compliance culture	Ongoing
	Social and environmental impact of business activities	Assisted school children by donating Rs. 400,000 worth of goods	December 2022
	Compliance culture	Shouldering the responsibilities of terminally ill employees	Ongoing
		Other CSR activities Ongoing	Ongoing

Management Discussion and Analysis

Financial Capital

Unlike other capitals discussed later in this chapter, the financial capital comprising stated capital, retained earnings, other reserves as well as debt capital (if any) refers to the pool of funds available for the Company for use in the production of goods or the provision of services and is reflected "on balance sheet".

Prudent management of the financial capital is imperative to achieve the Company's broad and specific strategic objectives. It is financial capital combined with other forms of capitals that enables value creation and delivering on stakeholder expectations, while ensuring viability and sustainability of the Company's operations.

An analysis of the results of operations for the year ended December 31, 2022 and the financial position of the Company as at December 31, 2022 is given below.

Profit

The Company recorded a profit before tax of Rs. 401.3 Mn. for the year compared to Rs. 427.3 Mn. recorded for the year 2021. Although the composition has somewhat changed (Refer table below), the total revenue remained at the same level as in 2021. In addition to the marginal drop in revenue due to discontinuation of sanitization business which brought an additional revenue of Rs. 58.0 Mn. last year, the decrease in profit before tax can mainly be attributed to a 11.0% increase in cost of sales and a 11.9% increase in administrative expenses (both due to inflationary pressures) and a 27.6% decrease in fair value gain on investment properties, compared to the previous year. However, the negative impact was partly offset by an increase in net finance income by 109.7% due to an increase in financial investments and the rise in market interest rates.

Composition of Total Revenue

	2022		2021	
	Rs. '000	%	Rs. '000	%
Rent income on premises	271,371	43.0	268,984	42.5
Outsourcing services	226,715	35.9	197,728	31.3
Vehicle hiring income	90,995	14.4	75,216	11.9
Other utility services	42,047	6.7	90,359	14.3
Total revenue	631,128	100.0	632,287	100.0

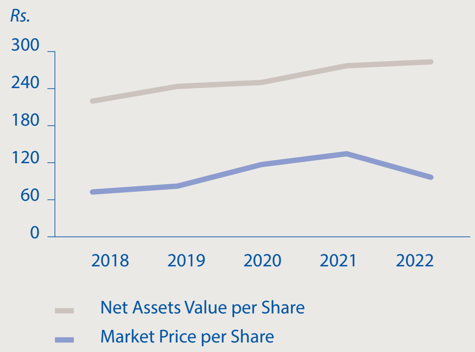
Income tax expense for the year recorded a significant increase of 586.8% from Rs. 25.8 Mn. in 2021 to Rs. 176.9 Mn. This is primarily due to the increase in the corporate tax rate from 24% to 30% during the year resulting in the provision for income tax to go up from Rs. 82.9 Mn. to Rs. 93.2 Mn. and deferred tax from a reversal of Rs. 49.2 Mn. to a provision of Rs. 83.7 Mn. year on year. In addition, the income tax expense recognised in 2021 was lower as a result of reversals of income tax of Rs. 7.9 Mn. and deferred tax of Rs. 49.2 Mn. arising from the reduction in the corporate income tax rate from 28% to 24% effective from January 1, 2020, which were applicable for 2020, but recognised in the income tax expense in 2021 in accordance with accounting standards.

Consequently, profit after tax recorded a significant decrease of 44.1% from Rs. 401.5 Mn. in 2021 to Rs. 224.4 Mn. in 2022. Earnings per share followed suit and declined from Rs. 33.46 to Rs. 18.70 year on year.

Financial Position

The total assets of the Company grew to Rs. 4,055.08 Mn. as at December 31, 2022 from Rs. 3,785.3 Mn. a year ago or by 7.1%. Investment properties portfolio that generates rental income for the Company accounted for 74.8% of the total assets (78.4% in 2021) as at the year end. The net assets of the Company stood at Rs. 3,417.4 Mn. as at December 31, 2022, which represents a growth of Rs. 90.1 Mn. or 2.7% over the year 2021. The main contributory factor for the increase in net assets was the profits retained after the payment of dividends for the previous year. Net assets value per share too recorded a corresponding growth to Rs. 284.79 from Rs. 277.28 in 2021.

Net Assets Value and Market Price per Share



Management Discussion and Analysis

Value Added Statement

	2022 Rs. '000	%	2021 Rs. '000	%
Value added:				
Income from providing services	631,128		632,287	
Cost of services	(91,796)		(90,490)	
Value added by providing services	539,332		541,797	
Other Income	2,040		78	
Fair value gain on investment properties	64,503		89,132	
Net Finance Income	64,955		30,976	
Total value added	670,830		661,983	

Distribution of value added

Value added to employees:				
Salaries, wages, and other benefits	(227,249)	34	(192,845)	29
To shareholders:				
Dividends	(84,000)	13	(78,000)	12
To Government:				
Income and deferred tax	(176,912)	26	(25,759)	4
To expansion and growth:				
Depreciation	(42,292)	6	(41,873)	6
Retained income	(140,377)	21	(323,506)	49
Gross value distributed	(670,830)	100	(661,983)	100

Intellectual Capital

The intangible assets and resources owned and controlled by a company are crucial for its performance, progress, and market valuation. The manner in which an organisation successfully develops and deploys its intellectual capital – such as brands, patents, trademarks, and processes – provides a competitive edge in generating value. Intellectual capital, in the case of Commercial Development Company (CDC), comprises a variety of elements: managerial capabilities, brand and reputation, business ethics, systems and processes, tacit knowledge, internal auditing, labour relations, and organisational culture. This encompasses accumulated knowledge, which is distinctive, built up over the years, and possessed by the Company and its employees in the form of information, ideas, insights, cognitive and technical skills, and capabilities. As a strategic measure, out of the three senior managerial positions, two positions are seconded by the parent company, Commercial Bank. This measure had been initiated few years ago to ensure the best practices of the parent company are implemented in CDC. For the past few years, the Company operations are elevated to a commendable level, in all fronts, due the said decision taken by the parent company to second its staff for the key positions in CDC.

The image and reputation of CDC are inextricably linked with - and defined by its parent company, which owns a 90% stake. It strengthens the Company's risk management, as well as audit and regulatory compliance, in alignment with the guidelines of the Central Bank of Sri Lanka. This is in addition to the internal audit functions outsourced by the Company to Messrs B R De Silva & Company. The Inspection and Risk Management divisions of the parent company, closely monitoring the Company operations in order to minimise various risk factors.

Resource personnel sent by way of secondment to the parent company further strengthens CDC's multi-functional experience, thus enhancing its managerial capabilities. The Company has built up a formidable level of tacit knowledge, technical skills, and expertise during its operations of over four decades. High level of talent retention has enabled the transfer of knowledge and skills across different functionalities, as well as to new staff, which is of particular strength to the Company. Staff members are encouraged and given opportunities to share their experience and leverage their knowledge through formal and informal means across the Organisation.

The implementation of the Human Resource Information System (HRIS) for the automation of human resource functions has further enhanced the existing systems and processes within the Company. This has improved efficiency, accuracy, and relevance of organisational processes in line with the ongoing business expansion. The implementation of the HRIS has enabled the Human Resources Department to maintain a master database containing the details of all employees, facilitating the automation of attendance, leave, claims and payroll functions of the workforce. The payroll module in this system enables the Human Resources Department to effectively maintain salary grades and other allowances, advances and loans, overtime, no-pay calculations, and PAYE - tax functions, to name a few. Furthermore, this system enables employees to make applications for leave, claims, and checking of attendance.

The Company is confident the migration of key accounts related operations to a cloud-based computing system through an advanced Oracle Cloud Infrastructure will ease the operations while assuring the productivity as well as the clarity.

Going forward, the proposal of undertaking of the telephone operations of Commercial Bank of Ceylon PLC will further enhance the intellectual capital of CDC. This new business line is not expected to result in any significant capital expenditure, as it could be implemented with the existing resources of the Company.

Manufactured Capital

Manufactured capital plays a pivotal role in the value creation model of Commercial Development Company PLC, as it is primarily engaged in the ownership and development of property. The Company's portfolio of manufactured capital encompasses investments in real estate assets and infrastructural facilities needed for carrying out activities connected with its primary lines of business. These revolve around renting company-owned properties and vehicles, outsourcing human resources, and other utility services.

96% of the Company's manufactured capital is in the form of investment properties, which include the Commercial House building at Colombo 1, the Commercial Bank branch in Tangalle, and the car park of the Commercial Bank branch in Negombo.

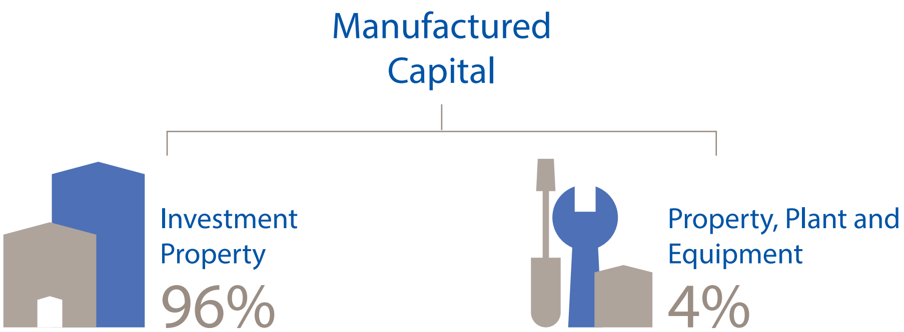
The Company also manages the operations of 18 holiday bungalows of the Bank in its management possession, which form another of its revenue streams. The property rental portfolio accounts for 43% of the operating income, which amounted to Rs. 271.3 Mn. as of December 31, 2022. The tenancy agreement with the Bank already includes a provision to increase the rental for the year 2023 in keeping with prevailing market rates which in turn will result in an increase in rental income on investment property for the ensuring year. The total rental income thus derived from investment property can be attributed as follows: 97.4% from Commercial House, 1.4% from Tangalle branch, and 1.2% from car park of the Commercial Bank branch in Negombo.

Commercial Bank of Ceylon PLC, the Company's sole client, holds the right of tenancy to the Commercial House building, which occupies a prime location in the heart of Colombo's premier business area. While the building has been in occupation for over four decades, structural adjustments and improvements carried out during this period have been limited in their scope.

The Company had agreed to bear the cost of all structural improvements to the building, as part of the new rental agreements negotiated with the Bank, which offers competitive rentals on par with prevailing market rates.

The rental agreement also provides for maintenance work, especially in relation to air conditioners, thereby adding a new revenue stream to the business.

It is the utmost responsibility of CDC to maintain the Commercial Bank Head Office building at its best while assuring all infrastructure facilities are in place. In this context, CDC has made extra efforts to avail uninterrupted power supply to the building during the power shortages prevailed in 2022, as a result of economic meltdown. Since it was not possible to purchase new generators, CDC initiated rapid measures to facelift the generators with the support of the agents in order to sustain the power supply any crisis situation.



The Company entrusts the valuation of all of its investment properties each year to professional valuers based on accepted methods of valuation, to arrive at a fair value that reflects current market conditions. The annual valuation carried out during the year indicated a fair value gain on properties owned by the Company.

The Company's fleet of luxury vehicles, currently leased out to the Commercial Bank of Ceylon PLC, is likely to be replaced by new vehicles in the coming years, which would reduce the running and maintenance costs. During the year, Company purchased another three high-end vehicles, at the request of Commercial Bank.

Plans for the Head Office building as well as other properties envisage the installation of solar panels, intending to reducing the cost incurred on power consumption. Centralised air conditioning plant was installed in year 2017 in the Head Office building for the same purpose.

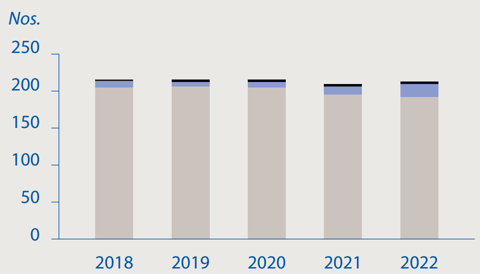
Following the outbreak of COVID-19, several companies have adopted large-scale automation and online working, thereby reducing their need for office space. In addition, businesses, in general, have scaled down their operations and the opening of new branches, due to the prevailing economic downturn. The overall result has been a drastic reduction in the demand for office space, which has impacted the Company's rental operations considerably. The opening of several mixed development projects in Colombo during recent times, and the proposed opening of the Colombo Port City in the near future could lead to further erosion in the demand for office space within the City's main business area around Colombo 1.

Human Capital

The Company's team of 213 experienced and trained individuals has been providing its sole client, Commercial Bank of Ceylon PLC, an effective and efficient service that is geared towards long-term, sustainable value creation. The Company has a unique advantage in this respect, as its employees are familiar with the personnel, working environment, and working styles of the client, and also have an exceptionally high retention rate. This ensures strict confidentiality in the performance of their duties, which is essential in the banking sector.

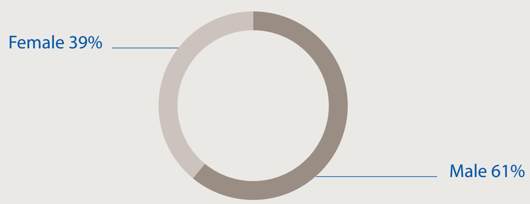
Workforce Composition

Number of Employees



- As of December 31, 2022, the total employees of CDC stood at 213 of whom 61% were male and 39% were female employees.
- Out of its total employees of 87% have an employment period of over 6 years and 16% have an employee period of over 10 years with the Company.
- The analysis of permanent employees by age indicates that 45% are between the ages of 31-40 years and 44% between the ages of 41-50.

Gender Analysis of Employees –2022



Service Analysis of Employees – 2022

Years of service	Male	Female	Total
Less than 5	23	4	27
6 - 10	82	70	152
11 - 15	13	3	16
16 - 20	9	1	10
Over 21	4	4	8
Total	131	82	213

Age Analysis of Employees – 2022

Age (years)	Male	Female	Total
18 - 20	0	0	0
21 - 30	6	1	7
31 - 40	54	42	96
41 - 50	62	33	95
51 - 55	7	5	12
Over 56	2	1	3
Total	131	82	213

Employee Recruitment by Age – 2022

Age (years)	Male	Female	Total
18 - 20	0	0	0
21 - 30	3	0	3
31 - 40	3	1	4
41 - 50	6	1	7
51 - 55	1	0	1
Over 56	0	0	0
Total	13	2	15

Training and Development by Grade – 2022

	Male	Female	Total
Senior Management and above	1	0	1
Executive Staff	1	0	1
Non-Executive Staff	53	21	74
Total	55	21	76

The low staff turnover over the past years is proof of the trust and satisfaction placed by employees in the Company, as well as the excellent working environment, career progression, and emoluments on offer.

Employee Turnover by Grade – 2022

	Male	Female	Total
Senior Management and above	0	0	0
Executive Staff	0	0	0
Non-Executive Staff	8	4	12
Total	8	4	12

Employee Turnover by Age – 2022

Age (years)	Male	Female	Total
18 - 20	0	0	0
21 - 30	0	2	2
31 - 40	1	2	3
41 - 50	3	0	3
51 - 55	1	0	1
Over 56	3	0	3
Total	8	4	12

Employee Benefits

Overcoming the effects of the pandemic in the past, and the prevailing economic downturn, the Company has been providing staff members with regular annual increments, thereby mitigating the effects of soaring inflation to an extent. Staff members have also been encouraged to engage in revenue-generating projects such as poultry farming, and mushroom and vegetable cultivation during their spare time and weekends. This could result in an extra revenue stream, food for home use or sale, or even a potential self-employment opportunity.

Staff bonuses, ex-gratia payments and performance-based increments have been offered by way of incentives during the year, in addition to their remuneration. Furthermore, considering the prevailing economic condition of the country, the staff was offered with a special monthly payment and increased the existing meal allowance as well.

Furthermore, gift vouchers have been presented to all staff members at the year-end.

Employee Development

As a company that firmly believes in strengthening the intellectual resources and skills of employees, and providing them with career development opportunities, CDC has been holding regular internal and external programmes during the year. These include:

Name of course/programme	Internal/ external trainer	No. of participants	Duration/ hours
Awareness programme to improve maintenance standards of branches and Head Office building	External	9	6 hrs
Fire safety	Internal	12	4 hrs
Operation and preventive maintenance – Diesel generators	External	1	6 hrs
Spoken English	External	15	20 hrs
Attitude development for maintenance staff	External	1	6 hrs
Awareness programme to improve the maintenance standards of data centres	Internal	10	4 hrs
NVQ 4 – Electrical maintenance	External	1	150 hrs
Electrical Installation and safety procedure	Internal	3	4 hrs
NVQ 4 – Air conditioning maintenance	External	1	150 hrs
Designing cost effective CCTV systems for buildings.	External	2	8 hrs
Lightning and sound systems for auditoriums	External	6	4 hrs
Workshop on entrepreneurship (mushroom cultivation)	External	15	8 hrs

The Human Resource Department has also conducted a number of internal training programmes in-person or via online platforms on a range of career-relevant skills such as personal development and communication skills and covering technical skills as well. Well-experienced and qualified resource personnel were invited to conduct these programmes.

Employees are encouraged and given assistance to follow higher education programmes to enhance their capabilities and career opportunities. High performers are given preference for advancing within the Company. The lower grades employees are encouraged to follow training courses, conducted in reputed Technical Training Institutes.

This policy of promoting from within, rather than recruiting from outside, has resulted in a performance-oriented culture, where merit-based career advancement is considered the norm. The Company's website was developed in-house, reflecting the commitment, and multiple talents of the staff.

New HRIS System

A new Human Resources Information System (HRIS) has been successfully implemented. This software solution helps the Company to maintain, manage, and process detailed employee information and human resources-related policies and procedures, thereby saving time, effort and money.

The HRIS system was developed by CBC Tech Solutions Limited, a fully-owned subsidiary of Commercial Bank. It includes four main modules:

- e-Attendance
- e-Leave
- e-Claims
- Payroll

The use of biometric devices at all of the Company's premises to mark attendance has been useful in automating attendance and related functions.

Employee Wellbeing and Engagement

The CDC Newsletter, "CDC Focus", introduced in 2021 has been gathering momentum, providing a platform to showcase the talents of employees, which had hitherto remained hidden and unexpressed. The newsletter also provides a platform for the children of staff members to express their talents in visual arts and writing, including original poetry. In addition, details of CSR projects, training programmes and educational articles are included.

Social and Relationship Capital

Creating and delivering value, both for the Company as well as its stakeholders, calls for the maintenance of mutually beneficial relationships among all concerned. In pursuit of this objective, the Company has been diligently focused on delivering value to its customers, business partners, investors and communities in its areas of operation, as well as the larger social environment. This effort has resulted in the establishment of enduring trust and loyalty between the Company and its stakeholders. Commercial Bank of Ceylon PLC remains the sole customer of the Company since its inception in 1980, as well as the foundation upon which it rests and derives sustenance. This parent-subsidiary relationship has stood the test of time by being exemplary, and intertwined in creating value for each other.

Sole Customer

The profitability and growth of the Company lie in its ability to function effectively as the subsidiary of the largest private sector bank in Sri Lanka, which in turn depends on the growth of the economy as a whole, and the banking sector in particular. The core services offered to the Bank by the Company extend beyond the renting of premises and vehicles, outsourcing of staff, and the provision of utility services. The outsourcing of staff remains particularly important, as the Company has achieved a high degree of specialisation in this respect, in addition to being able to ensure the confidentiality of such staff engagement.

The Company has also been entrusted with the maintenance of 369 units of air conditioners at Commercial House and of other branches in the Western Province, electrical wiring services, in addition to the administration of the 18 holiday bungalows on behalf of the Bank. Skilled and trained technicians are deployed for routine servicing activities, as well as installations and emergency breakdowns. An efficient and on-time service is ensured at all times, which has earned the appreciation of the Bank over the years. The utility services, provided by CDC is governed by an agreement, which renews annually. CDC always assures a rapid and trustworthy service to Commercial Bank at market rates. It is found that Commercial Bank is greatly benefitted from this service as the jobs are delegated to reliable and competent staff, attached to its own subsidy. At the end of the day both entities, Commercial Bank as well as Commercial Development Company, gain win/win situation from this unique business.

The Company also rents out and maintains a fleet of vehicles to the Bank as part of its service offering. CDC outsources its staff for certain non-core activities of the Bank, including the roles of telephone operators, drivers, maintenance staff, caretakers, and other support staff. The Company taking full charge of these ancillary functions enables the Bank to focus on its business priorities. While the ravages of the COVID-19 pandemic are over, this period has provided the Company with valuable insights into meeting its obligations to the Bank in times of uncertainty and emergency. The Company's highly evolved ability to meet the Bank's needs has endowed it with the innate sense to adapt its services and methods of delivery to meet emergencies and difficult circumstances.

Expanding the customer base, or providing the current customer with a broader range of services could significantly enhance financial performance and professional profile of the Company. However, despite continued efforts in this direction, the Company has met with limited success due to restrictions imposed by the regulatory authorities in granting the required permission. Even though the continuous efforts of the Company were not successful in this context, another attempt will be made to do outside businesses as a measure of expansion.

Business Partners

The portfolio of services offered by the Company requires the expertise and partnership of engineering companies, professionals of varied categories, and local agents of vehicle manufacturers. The wide range of skills and expertise of these business partners across different fields complements the Company's managerial skills, and ensures the meeting of its service obligations towards its parent company. As such, the Company enters into contracts with such business partners to extend its services effectively to the Bank. In this context, Company always seeks the reputed companies as its business partners to ensure the ultimate benefit is passed to Commercial Bank, the only customer of Commercial Development Company.

Community

Extending its consideration and goodwill towards society, the Company engages in its Corporate Social Responsibility activities in fields where it feels its presence would be of vital importance and wide-ranging impact. During the year under review, the Company focused its attention on 3 inadequately funded schools in Wennawatte/Sedawatte, Grandpass, and Horana.

In this regard, the first CSR project was conducted at TIBET S MAHINDA VIDYALAYA, at Wennawatte, Sedawatte. This is a primary school and parents of all children are low income earners and suffer from poverty. Accordingly, all children were provided with books, shoes and other requirements, followed by nutritional lunch.

The second and third CSR projects were focused on school children, who are preparing for their Ordinary Level Examination and the intention was to motivate them on career development.

Accordingly, schools named, RAJASINGHE MAHA VIDYALAYA Grandpass and P M PERERA VIDYALAYA, Batuwita, Horana were selected to conduct two separate programmes on "Career Development".

Through the well-planned awareness programmes, the school children of these two schools were educated about the opportunities available in the outside world, how to earn reasonable level of qualifications, the best way to train themselves and also to avoid various kinds of risk factors. The two programmes were also followed by nutritional meals and distribution of school books.

Natural Capital

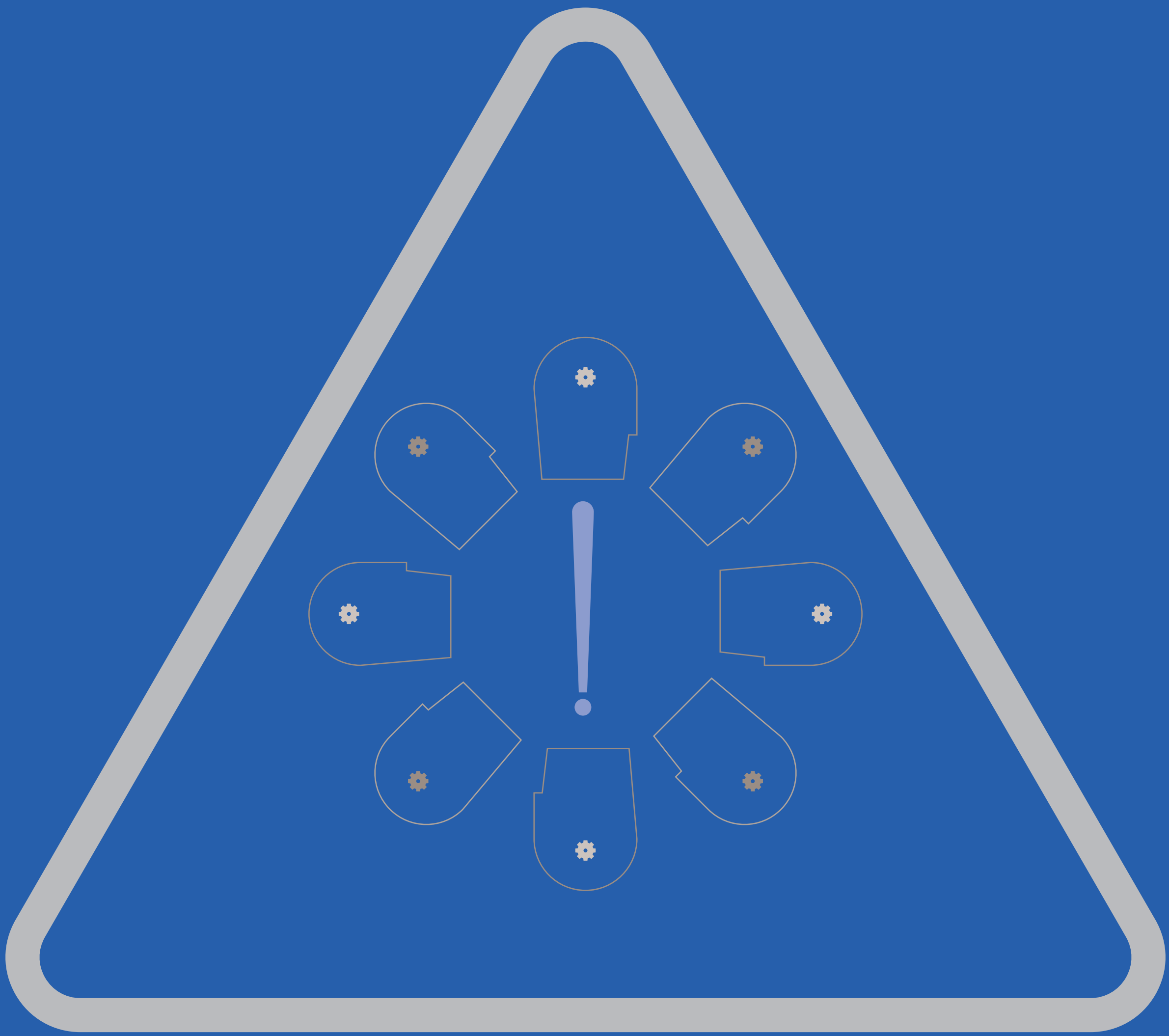
Natural capital refers to all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current, or future prosperity of an organisation. This includes air, water, land, minerals and forests, biodiversity and ecosystem health. When natural capital is incorporated into an organisation's decision-making process, it forms the basis for improvement in several areas including supply chain management, risk assessment and management, business sustainability, resilience, and environment-friendly production and operations.

While CDC as a purely service-based organisation, has no significant impact on the natural environment, considerable effort has been taken to keeping its carbon footprint and other environment-related metrics to the barest minimum. This stand is further reinforced by its relationship with Commercial Bank of Ceylon PLC, which has achieved carbon neutrality for all of its operations, and the stated goal of being a net-zero carbon company, with responsible environmental stewardship.

Some of the initiatives undertaken by CDC in furthering its environment-related policy during the year include:

- A decision was made to replace all CFC-emitting air conditioners by 2030. To achieve this goal, the Company will train its staff, allocate the necessary funding, and put the required processes in place. As an initiative, a comprehensive training was provided to Air Conditioner (AC) maintenance staff with regard to "Refrigerant Recovery, Recycle and Reclaiming", the training was conducted at Ceylon German Technical Institute with the coordination of Air Resource Management and National Ozone Unit Of Ministry of Environment.
- In order to minimise the power consumption, a number of measures have been implemented; Power factor correction to its maximum level and optimum operations in AC compressor motors. Power factor correction to its maximum level through Capacitor Bankers and optimum operations in AC compressor motors.
- A power saving Centralised air conditioning plant had been installed few years ago in the Head Office building to reduce costs as well as and impact on the environment.
- CDC extended its total cooperation to install Solar panels on "Commercial House" rooftop. This is in addition to the assistance provided to install Solar panels on the building, owned by CDC at Tangalle, rented to Commercial Bank Tangalle branch. Both projects are operating successfully, availing a maximum power saving and also supporting the environment.
- Current fleet of fossil fuel vehicles will be replaced with hybrid or electric vehicles in the future. While reducing fuel-related costs, it will also lessen maintenance, making a positive impact on the environment.

Implementation of the Human Resource Information System (HRIS) is of particular significance, as it allows the HR department and employees to contact each other and perform a range of work-related functions in a paperless environment. This has reduced the time and effort expended as part of the normal workflow, and the carbon footprint of the Company. Furthermore, the Company has also increased the use of CFL and LED bulbs as well as the central air conditioning to utilise its energy resources effectively and efficiently.



Governance and Risk Management

Board of Directors and Profiles

Mr B R L Fernando
Chairman

Mr S C U Manatunge
Managing Director

Mr A L Gooneratne
Director

Mr A T P Edirisinghe
Director

Mr L D A Jayasinghe
Director

Mr U I S Tillakawardena
Director

Dr R A Attalage
Director

Mr B R L Fernando

Chairman

- Chairman of the Board since December 21, 2009
- Director since February 23, 2007
- Chairman of the Board Audit Committee and the Board Remuneration Committee
- Non-Executive Independent Director

Skills and experience

Fellow of The Institute of Chartered Accountants of Sri Lanka with considerable exposure to the banking, manufacturing, agricultural, and trading sectors in Sri Lanka.

Other current appointments

Chairman – First Guardian Equities (Pvt) Ltd., Tropibar (Pvt) Ltd., Tropical Abundance (Pvt) Ltd., and Noorani Estates (Pvt) Ltd.

Director – Ceylon Tea Brokers PLC, St. Nicholas' Education Services (Pvt) Ltd., and Lanka Hydraulic Institute (Pvt) Ltd.

Previous appointments

Director and Deputy Chairman – Commercial Bank of Ceylon PLC

Non-Executive Chairman – CIC Holdings PLC and Chemanex PLC, until his retirement in December 2013

Non-Executive Chairman – Akzo Nobel Paints Lanka (Pvt) Ltd., until his retirement in August 2018

Executive Chairman – CIC Holdings PLC and its subsidiaries up to March 2009

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.

President and a Trustee of the Japan-Sri Lanka Technical and Cultural Association (JASTECA).

Shareholding in the Company: Nil

Mr S C U Manatunge

Managing Director

- Managing Director of the Company since May 12, 2022

Skills and experience

Fellow of Chartered Institute of Management Accountants – UK (FCMA – UK)

Fellow Member of the Institute of Bankers – Sri Lanka (FIB)

Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA)

Fellow of the Chartered Management Institute, UK (FCMI)

MBA – University of Sri Jayewardenepura with a Merit Pass

Other current appointments

Deputy Chairman – Commercial Bank of Maldives (Pvt) Ltd. since 2016

Director – Lanka Financial Services Bureau Ltd.

Vice Chairperson – Sri Lanka Bank's Association (Guarantee) Ltd.

Vice Chairman – International Chamber of Commerce Sri Lanka

Council Member – Employers' Federation of Ceylon

Executive Member – Council for Business with Britain

Previous appointments

Executive Director/Chief Operating Officer – Commercial Bank of Ceylon PLC

Deputy General Manager – Corporate Banking – Commercial Bank of Ceylon PLC

Chief Risk Officer – Commercial Bank of Ceylon PLC

President – Association of Banking Sector Risk Professionals in 2014

Council Member – Association of Professional Bankers (APB)

Member – CIMA – "Thought Leadership Committee"

Adjudged the "Chief Information Security Officer of the Year" at the EC – Council Global CISO Forum held in Atlanta – USA in September 2013 in recognition of his outstanding contribution in strengthening and promoting information security practices and IT Risk Management.

Resource person at the Training Centre of the Central Bank of Sri Lanka and the Institute of Bankers of Sri Lanka.

Shareholding in the Company: Nil

Mr A L Gooneratne

Director

- Director since September 17, 1993
- Member of the Board Audit committee
- Non-Executive Independent Director

Skills and experience

Fellow Member of The Institute of Chartered Accountants in England and Wales

Fellow Member of The Institute of Chartered Accountants of Sri Lanka

Higher National Diploma in Business Studies, United Kingdom

Other current appointments

Non-Executive Independent Director Lanka IOC PLC

Non-Executive Independent Director Teejay Lanka PLC

Previous appointments

Managing Director – Commercial Bank of Ceylon PLC (from 1996-2012) and Commercial Development Company PLC (from 1996-2012)

Founder Chairman – Financial Ombudsman Sri Lanka (Guarantee) Ltd.

Chairman – Sri Lanka Banks Association (Guarantee) Ltd.

Chairman – Commercial Insurance Brokers (PVT) Ltd.

Director – Commercial Leasing PLC

Director – Sri Lankan Airlines Ltd. (From 2002-2004)

Managing Director – Melstacorp PLC (from 2012-September 2022)

Board Member of several Melstacorp PLC Group subsidiary companies including the following Public Listed Subsidiary companies; Aitken Spence PLC, DCSL PLC, Browns Beach Hotel PLC, Balangoda plantations PLC.

Shareholding in the Company: Nil

Mr A T P Edirisinghe

Director

- Director since April 4, 2008
- Member of the Board Audit Committee and the Board Remuneration Committee
- Non-Executive Independent Director

Skills and experience

Fellow of The Institute of Chartered Accountants of Sri Lanka, Fellow of the Chartered Institute of Management Accountants – UK

ICLP Diploma in Commercial Arbitration. Counts over 53 years' experience in both public practice and in the private sector

Other current appointments

Consultant/Advisor – BAKERTILLY Edirisinghe & Company, Chartered Accountants

Managing Director – PE Management Consultants (Pvt) Ltd.

Serves on the Boards of several other quoted and non-quoted companies where he also serves as a member of the Audit Committee, as a member of the Remuneration Committee and a member of the Related Party Transactions Review Committee being Chairman of some of them and as a member of a Group Nominations Committee.

Previous appointments

Senior Partner – HLB Edirisinghe & Company, Chartered Accountants.

Deputy Group Finance Director and holding over 10 Directorates in the John Keells Group of Companies

Shareholding in the Company: Nil

Mr L D A Jayasinghe

Director

- Director since December 21, 2009
- Member of the Board Audit Committee and the Board Remuneration Committee
- Non-Executive Independent Director

Skills and experience

Fellow of The Institute of Chartered Accountants of Sri Lanka, Fellow of The Institute of Certified Management Accountants of Sri Lanka, Counting over 34 years of experience in public practice and 14 years in the private sector.

Other current appointments

Senior Partner – Jayasinghe & Company, Chartered Accountants

Serving as Director in a number of companies

Previous appointments

Past President – The Association of Accounting Technicians of Sri Lanka

Shareholding in the Company: Nil

Mr U I S Tillakawardena

Director

- Director since December 1, 2011
- Non-Executive Non-Independent Director

Skills and experience

Fellow Member – Association of HR Professionals Sri Lanka.

Graduate Member – Sri Lanka Institute of Directors

MBA – University of Sri Jayewardenepura. Degree in Law (LLB) – University of Colombo

MA – University of Colombo

Other current appointments

Chief HR Officer – Commercial Bank of Ceylon PLC

Director – Commercial Insurance Brokers (Pvt) Ltd.

Non-Executive Director – Commercial Bank of Maldives (Pvt) Limited.

Previous appointments

Past President of Association of HR Professionals

Prior to joining the Bank, he has held leadership positions in the following organisations:

Group Director – HR, Hemas PLC

Chief Operating Officer – Sri Lanka Insurance Corporation

General Manager – HR, Union Assurance PLC

Assistant General Manager – Colombo Stock Exchange

Shareholding in the Company: Nil

Dr R A Attalage

Director

- Appointed on January 1, 2023
- Non-Executive Independent Director

Skills and experience

Ph.D., Ecole des Mines de Paris, France

D.E.A. (Degree of Profound Studies), Ecole des Mines de Paris, France

M. Eng., Asian Institute of Technology

B.Sc. Engineering (Hons) in Mechanical Engineering, University of Moratuwa

Other current appointments

Dean, Faculty of Graduate Studies & Research/Professor in Mechanical Engineering – Sri Lanka Institute of Information Technology

Previous appointments

Senior Professor in Mechanical Engineering – University of Moratuwa

Deputy Vice Chancellor – University of Moratuwa

Professor in Mechanical Engineering – University of Moratuwa Commissioner, Public Utilities Commission, Government of Sri Lanka

Visiting Professor in the International Cooperation Centre for Engineering Education Development (ICCEED) – Toyohashi University of Technology, Japan

Chairman – National Institute of Fisheries & Nautical Engineering, Government of Sri Lanka

Shareholding in the Company: Nil

Executive Management

Mr Ruwan De Silva

Chief Executive Officer

Mr Ruwan De Silva is an experienced and professional Banker, who joined Commercial Bank in year 1984, just after leaving the school. In May 2019, Mr De Silva was appointed by the Commercial Bank Management to serve for Commercial Development Company in the capacity of the Chief Executive Officer on secondment.

He had worked nearly 36 years for Commercial Bank in a number of divisions and had earned extensive experience in Branch Banking, Foreign Operations, Trade Finance and Corporate Banking. Prior to undertaking the responsibilities at Commercial Development Company, Mr De Silva was serving for Commercial Bank in the capacity of Senior Branch Manager in Personal Banking Division.

Professional Qualifications

- Masters in Financial Economics – University of Colombo
- Postgraduate Degree in Development Economics – University of Colombo
- Associate member of Association of Professional of Bankers – Sri Lanka

Mr W H Wijesekara

Accountant

Mr Wijesekara joined CDC in April 2011. Prior to joining CDC, he also served as a Senior Assistant Accountant for CBC Tech Solutions Limited, a fully owned subsidiary of Commercial Bank of Ceylon PLC. Mr Wijesekara also possesses multi-sectoral financial experience in Information Technology, telecommunication services and travel and tourism industry with an overall tenure of 23 years.

Professional Qualifications

- Associate Member of the Institute of Certified Management Accountants of Sri Lanka (ACMA, SL)
- Finalist of Association of Chartered Certified Accountants, UK (ACCA-UK)

Mrs Kumari Perera

Head of Human Resources

Mrs Perera has been working for Commercial Bank approximately for three decades. In year 2020, she was seconded by Commercial Bank Management to undertake the responsibilities in Human Resources Division in Commercial Development Company.

Mrs Perera, a qualified professional in HR, holds the position of Head of Human Resources in Commercial Development Company.

Professional Qualifications

- Master of Business Administration – Cardiff Metropolitan University
- Associate member of Association of Professional Bankers – Sri Lanka
- Currently following Chartered Qualification in Human Resource Management (CIPM)
- Certificate in Labour Law and Industrial Relations at the Employers' Federation of Ceylon
- Diploma in Personal and Professional Communication – University of West London
- Past President of Commercial Bank Toastmasters Club
- Certificate of Competent Communicator/ Competent Leader – International Toastmasters
- Advanced Leader Bronze – International Toastmasters

Corporate Governance

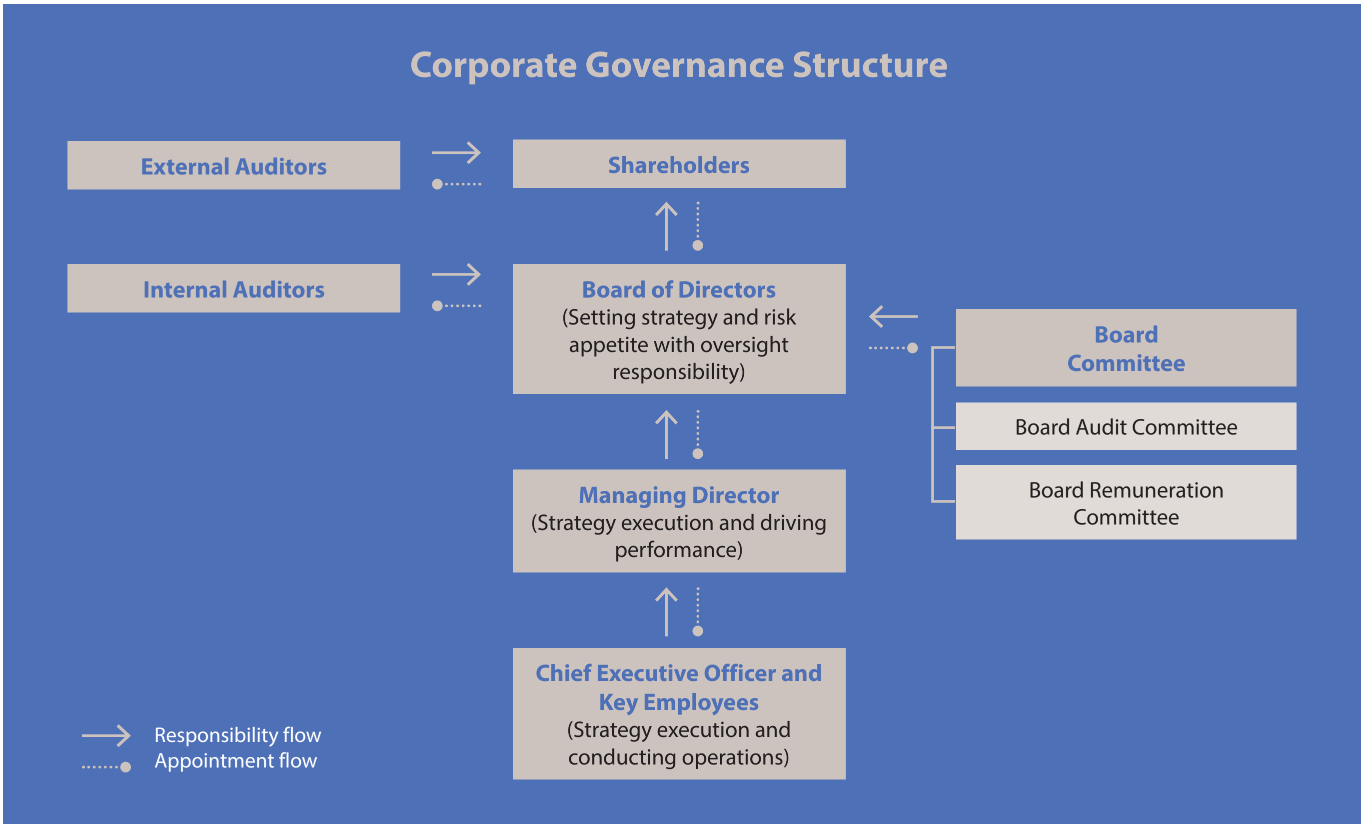
The Board is accountable to the shareholders to create and deliver sustainable value through oversight of the management of the business, approving strategic plans, monitoring their implementation, and providing the necessary support for their successful execution. The Board performs its responsibilities within a clearly defined governance framework supported with appropriate monitoring, communication, and reporting mechanisms. Through this framework, the Board, without abdicating its responsibilities, delegates its governance responsibilities to key committees of the Board and the Management.

The system through which corporate entities are directed, managed and controlled is what we define as corporate governance and at Commercial Development Company (CDC) we strive to implement this system in an accountable and transparent manner. CDC's robust governance framework and sound principles have proven to be a solid foundation in driving sustainable value.

The Board retains ultimate accountability and collective responsibility for the performance and affairs of the Company and ensures that the Company adheres to high standards of ethical behaviour. It is this system that enables delivery of value to CDC's stakeholder groups, even as the Company derives value from them. To ensure that the system remains robust CDC takes into account the legitimate interests and expectations of all stakeholders, emerging developments, and opportunities.

The Company operates within a clearly defined governance structure enabling the Board to provide strategic guidance and risk oversight whilst adhering to regulatory requirements. The structure also provides for delegation of authority while retaining effective control. The Board delegates authority to the relevant Board Subcommittees and the Executive Management of the Company with clearly defined mandates and authority levels whilst maintaining its accountability.

The Company's governance structure is illustrated in the diagram below:



Governance and Risk Management

The Board has set in place a governance framework and structure appropriate to the Company's size, nature, complexity, and risk profile. These are reviewed when necessary, to adapt to regulatory developments, internal requirements, and reflect best practices. The framework is built on the core principles of transparency, accountability, and ethical conduct which are essential for the creation, enhancement and maintenance of a sustainable business model.

The governance structure in place focuses on the responsibility of the Board of Directors, Board Subcommittees and Senior Management of the Company who formulate, execute, and monitor the Company's business objectives.

It further endorses the operating structure of the Organisation, assignment of responsibilities and authority levels, setting up of reporting lines and information to be conveyed as well as the deployment of systems of internal control, including risk controls, compliance and internal audit.

Being a listed entity and with the largest private sector bank as the parent company, adhering to principles of good governance is of critical importance to the Company. Hence, it strives to ensure strict compliance with the Continuing Listing Requirements set out in the Listing Rules of the Colombo Stock Exchange (Listing Rules), the requirements of the Securities and Exchange Commission of Sri Lanka, the Code of Best Practice on Corporate Governance ("the Code") issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and statutory provisions contained in the Companies Act No. 07 of 2007 and amendments thereto.

The Company continuously reviews all systems and procedures to ensure transparency and accountability and continued adherence to the stipulated guidelines.

The Board of Directors

The governance structure of the Company is derived from an independent, engaged and committed Board of Directors. The governance structure's aim is to satisfy the legitimate claims of all stakeholders and to fulfil the Company's corporate governance responsibilities in a transparent manner.

In overseeing the Company's performance, the Board of Directors acts as representatives of the shareholders ensuring that CDC continues to operate in the best interest of all stakeholders.

The Composition of the Board and the Board Balance

As at December 31, 2022, the Company's Board of Directors consisted of six eminent professionals from a wide variety of fields. Their expertise ranges from finance, corporate management and corporate law with varied professional experience, enabling them to successfully direct, lead and control the Company's business activities. The Board is sufficiently diverse to enhance its effectiveness, promote healthy and constructive exchange of views and create an environment where diverse perspectives are embraced.

The names and "Executive/Non-Executive" and "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 S C U Manatunge (Appointed on May 12, 2022)	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 Tillakawardena	Non-Executive	Non-Independent
Dr R A Attalage (Appointed on January 1, 2023)	Non-Executive	Independent

In order to further strengthen the governance and diversity of Board expertise, the Board of Directors appointed Dr R A Attalage as a Director of the Company with effect from January 1, 2023. With expertise in the fields of green sustainable energy and green building projects, he will be able to contribute to further improve the Company's performance.

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.

The Board has determined that Mr B R L Fernando, the Chairman and Directors, Messrs A L Gooneratne, A T P Edirisinghe, and L D A Jayasinghe, as independent despite serving on the Board continuously for more than nine years, after taking into consideration all the relevant circumstances as provided in Section 7.10.3 (b) of the Listing Rules.

In addition, it was also determined that the institutions in which they are Directors do not directly or indirectly get involved in the operational management of the Company and as such they are independent of management and free of business relationships.

In terms of Rule No. 7.10.4 (g) of the Listing Rules, Mr S C U Manatunge, the Managing Director of the Company, is not an Independent Director as he serves on the Board of the Commercial Bank of Ceylon PLC ("the Bank") in the capacity of its Managing Director/Chief Executive Officer. The Bank has material business connections with the Company together with a significant shareholding. In addition, Mr U I S Tillakawardena, a Director of the Company, is not an Independent Director as per Rule No. 7.10.4 (f) as he functions as the Chief Human Resource Officer a member of the Key Management Personnel of the Bank.

In line with the requirements of the Code of Best Practice in Corporate Governance of CA Sri Lanka and the Listing Rules of the Colombo Stock Exchange, more than one third of the Board consists of Non-Executive Directors and more than one third of such Non-Executive Directors are "Independent" thus ensuring their independence and integrity to an even higher standard.

The Chairman is responsible for effectively leading the Board. The Managing Director's role is primarily to conduct the business activities of the Company with the help of the Management and the staff. As a result, the roles of the Chairman and the Managing Director are clearly distinct from one another and hence have been separated. The Chairman is also the point of contact for shareholders, particularly on matters related to corporate governance.

Each Director of the Company is also responsible to determine his or her potential or actual conflicts of interest arising from any external involvements or other interests.

Further, the Chairman evaluates the Board's composition on a yearly basis, with the assistance of other Directors, to ascertain the alignment of the knowledge and experience of the Board with the strategic direction of the Company. The findings of this assessment are taken into account when the appointments and re-election of the Directors take place.

Role and Responsibility of the Board

The Articles of Association of the Company and the provisions of the Companies Act No. 07 of 2007 and amendments thereto determine the role of the Board. While exercising their powers in the best interest of shareholders and the Company as a whole, Board members are duty bound to act in good faith. The Directors take measures to ensure that their own personal interests do not come before and are not in conflict with the interests of the Company. Periodic reviews ensure that the Board is continuously working towards compliance.

Formulating the overall business strategy and monitoring the efficient and effective implementation of same is the collective responsibility of the entire Board. In order to effectively exercise this responsibility, the Board appoints Board committees to assist it in fulfilling its stewardship function. These committees review systems of internal control, internal and external audit, risk management and financial reporting to shareholders. The final responsibility for maintaining the integrity of financial information and the effectiveness of the Company's internal control and risk management rests with the Board. As such, its functions include:

- Formulation of short-term 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 management and operational information
- Approval of the Annual Report and the Interim Financial Statements prior to publication
- 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 committees. They are the Board Audit Committee (BAC) and the Board Remuneration Committee (BRC). In turn, these Committees are supported by the Company's Management team which is headed by the Managing Director.

Responsibility to the Board in ensuring that all Board procedures are followed up and that applicable rules and regulations are complied with falls on the Company Secretary. All Directors have access to the Company Secretary. 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, given its responsibility for the Company's performance.

Financial Acumen and Knowledge

The Board of Directors together encompasses a diverse range of expertise needed for the overall direction, strategy, and achievement of financial objectives of the Company. While a number of Board members have considerable expertise in finance-related fields, four out of the seven members are senior Chartered Accountants. As a result, these members possess the necessary acumen and knowledge to offer guidance to the Board on matters of finance.

The depth of knowledge and experience individually and collectively gained by them and a list of the various public and private sector institutions where they are Directors are set out on pages 38 to 41 in the "Board of Directors and Profiles."

Access to Information

Through the Board Audit Committee (BAC), the Board is provided with accurate and complete information necessary for effective deliberations and making informed decisions on all matters pertaining to the Company. The Board is also privy to 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 explanatory information relating to matters brought before the Board, copies of disclosure documents, budgets and forecasts. The Interim Financial Statements are also submitted in advance of each meeting to enable the Directors to make informed decisions. Advice and information on topical matters, new regulations and practices that would further the interests of the Company are accessible to the Directors through the Company's Management at all times. The Company also bears any expenses incurred by the Directors when they seek professional advice, as deemed necessary, in order to fulfil their directorial responsibilities.

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 reappointment, as the case may be. Further, there is a formal and transparent procedure in place for the appointment of new Directors to the Board.

Upon relinquishment of his position by Mr S Renganathan, former Managing Director of the Company from the Board on May 11, 2022, Mr S C U Manatunge was appointed as the new Managing Director effective from May 12, 2022. Accordingly, five Directors including the new Managing Director and four other Directors, viz. Mr B R L Fernando, the Chairman of the Company, Mr A T P Edirisinghe, Mr L D A Jayasinghe and Mr A L Gooneratne who are over the age of 70 years are due to be re-elected at the 43rd 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. Therefore, in addition to the above mentioned five Directors, Dr R A Attalage who was appointed to the Board on January 1, 2023 is due to be re-elected at the 43rd Annual General Meeting of the Company to be held on March 31, 2023.

Appraisal of Board Performance and the Managing Director's Performance

The Board assists the Chairman in assessing its performance. The Board committees carry out a self-assessment each year to ensure they function effectively and efficiently with the objective of facilitating continuous improvement. The Board also conducts a performance assessment of the Managing Director at the end of each year to evaluate how effectively pre-agreed targets have been met.

Board Audit Committee

The BAC is led by the Chairman, Mr B R L Fernando, and consists of four Non-Executive Directors, all of whom are senior Chartered Accountants. This 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 BAC also reviews the status of the independence of the External Auditors of the Company, Messrs KPMG, and has satisfied itself that they are independent. The Report of the BAC is given on pages 52 and 53.

Board Remuneration Committee

Chaired by Mr B R L Fernando, the BRC consists of three Non-Executive Independent Directors. Mr A T P Edirisinghe and Mr L D A Jayasinghe serve as the other two members of the Committee.

Setting guidelines and policies to formulate compensation packages which attract, motivate and are capable of retaining highly qualified and experienced Directors and key employees in the Company is part of the BRC's mandate. In this regard, the BRC sets the criteria such as qualifications, experience and key attributes required for eligibility, when considering appointment or promotion. The Report of the BRC is given on page 54.

Aggregate remuneration paid to the Executive and Non-Executive Directors of the Company is given in Note 10 to the Financial Statements on page 98.

Status of Directors' Attendance at Meetings

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)	4	4	4	4	1	1
Mr S C U Manatunge (Managing Director)*	3	3	3**	3**	1**	1**
Mr A L Gooneratne	4	4	4	4	N/A	N/A
Mr A T P Edirisinghe	4	3	4	3	1	1
Mr L D A Jayasinghe	4	4	4	4	1	1
Mr U I S Tillakawardena	4	4	N/A	N/A	N/A	N/A
Mr S Renganathan (Former Managing Director)***	1	1	1**	1**	N/A	N/A

**Appointed w.e.f. May 12, 2022*

***Attended by invitation*

**** Relinquished his position w.e.f. May 11, 2022*

N/A – Not applicable

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 for Financial Reporting" that appears on pages 63 and 64.

The Independent Auditors' Report is given on pages 75 to 77.

Board Related Party Transactions Review Committee

As the parent company is also a listed company, the Securities and Exchange Commission of Sri Lanka has permitted the Related Party Transactions Review Committee of the parent company to oversee the related party transactions of the listed companies in the Commercial Bank Group, of which Commercial Development Company PLC is a subsidiary.

The Report of the Board Related Party Transactions Review Committee is given on page 55.

Shareholders

The Board and the Management acknowledge their responsibility to represent the interests of shareholders and to maximise their long-term return.

In fulfilling these expectations of the shareholders, the Company has the following primary objectives:

- Provide a reasonable return to shareholders maintaining a satisfactory return on equity
- Provide a satisfactory distribution of dividends out of the profits earned
- Communicate effectively and efficiently with shareholders in order to keep them informed of the operations of the Company.

A significant event in the Company's calendar for communicating with shareholders and encouraging their active participation in the Annual General Meeting. Individual shareholders are encouraged to be present at the Annual General Meeting of the Company and exercise their voting rights. To ensure that shareholders are kept well informed, the Company communicates effectively with all shareholders by dispatching necessary notices on time. To provide shareholders with the opportunity to deal with each concern adequately, separate resolutions are proposed for each major item. The Board is of the view that this mechanism promotes better stewardship while assuring transparency.

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 45)
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher, to be independent.	Complied	Corporate Governance (Page 45)
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 44)
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 44)
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 44)
7.10.3 (c)	Disclosure relating to Directors	A brief résumé of each Director to be included in the Annual Report containing information on the nature of his/her expertise in relevant functional areas.	Complied	Board of Directors and Profiles (Pages 38 to 41)

CSE Rule No.	Subject	Applicable requirement	Compliance status	Applicable section in the Annual Report or other remarks
7.10.3 (d)	Disclosure relating to Directors	Provide a brief résumé of new Directors appointed to the Board with details specified in Rule 7.10.3 (a), (b) and (c) mentioned above.	Complied	Board of Directors and Profiles (Pages 38 to 41)
7.10.5 (a)	Composition of Remuneration Committee	To comprise a minimum of two Independent Non-Executive Directors or Non-Executive Directors, a majority of whom to be Independent, whichever is higher.	Complied	Corporate Governance and Report of the Board Remuneration Committee (Pages 47 and 54)
		A Non-Executive Director to be appointed as the Chairman of the Committee.	Complied	Report of the Board Remuneration Committee (Page 54)
7.10.5 (b)	Functions of Remuneration Committee	Recommend the remuneration payable to the Executive Directors and the Chief Executive Officer and/or equivalent position thereof, to the Board which will make the final determination upon consideration of such recommendations.	Complied	Report of the Board Remuneration Committee (Page 54)
7.10.5 (c)	Disclosure in the Annual Report on Remuneration Committee	The names of Directors comprising the Remuneration Committee and contain a statement of the remuneration policy.	Complied	Report of the Board Remuneration Committee (Page 54)
		Aggregate remuneration paid to Executive and Non-Executive Directors.	Complied	Note 10 to the Financial Statements (Page 98)
7.10.6 (a)	Composition of Audit Committee	To comprise 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 Report of the Board Audit Committee (Pages 46 and 52)
		A Non-Executive Director be appointed as the Chairman of the Committee.	Complied	Report of the Board Audit Committee (Page 52)
		Unless otherwise determined by the Audit Committee, the Chief Executive Officer and the Chief Financial Officer to attend Audit Committee meetings.	Complied	Report of the Board Audit Committee (Page 52)
		The Chairman of the Audit Committee or one member be a member of a professional accounting body.	Complied	Report of the Board Audit Committee (Page 52)

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	Report of the Board Audit Committee (Page 52)
		b. Ensuring Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Complied	Report of the Board Audit Committee (Page 52)
		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	Report of the Board Audit Committee (Page 52)
		d. Assessment of the Independence and performance of the External Auditors.	Complied	Report of the Board Audit Committee (Page 52)
		e. Making recommendations to the Board pertaining to appointment, reappointment and removal of External Auditors, and approving their remuneration and terms of engagement.	Complied	Report of the Board Audit Committee (Page 52)
7.10.6 (c)	Disclosures in the Annual Report on Audit Committee	a. Names of Directors comprising the Audit Committee.	Complied	Report of the Board Audit Committee (Page 52)
		b. The Audit Committee to make a determination of the independence of the Auditors and disclose the basis for such determination.	Complied	Report of the Board Audit Committee (Page 52)
		c. The Annual Report to contain a Report of the Audit Committee setting out of the manner of compliance with their functions.	Complied	Report of the Board Audit Committee (Page 52)

CSE Rule No.	Subject	Applicable requirement	Compliance status	Applicable section in the Annual Report or other remarks
9.3.2 (a)	Disclosures in the Annual Report on related party transactions	In the case of non-recurrent related party transactions, if aggregate value of the nonrecurrent related party transactions exceeds 10% of the equity or 5% of the total assets, whichever is lower, of the Company, as per the latest Audited Financial Statements specified information must be presented in the Annual Report.	Complied	Note 34.4 to the Financial Statements (Page 134)
9.3.2 (b)	Disclosures in the Annual Report on related party transactions	In the case of recurrent related party transactions, if the aggregate value of the recurrent related party transactions exceeds 10% of the gross revenue in the Income Statement as per the latest Audited Financial Statements, the Company must disclose the aggregate value of recurrent related party transactions entered into during the financial year in its Annual Report. The name of the related party and the corresponding aggregate value of the related party transactions entered into with the same related party must be presented.	Complied	Note 34.4 to the Financial Statements (Page 134)
9.3.2 (c)	Disclosures in the Annual Report on related party transactions	Annual Report shall contain a report by the Related Party Transactions Review Committee.	Complied	Report of the Board Related Party Transactions Review Committee (Page 55)
9.3.2 (d)	Disclosures in the Annual Report on related party transactions	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with the rules pertaining to related party transactions.	Complied	Report of the Board Related Party Transactions Review Committee (Page 55)

Report of the Board Audit Committee

Composition of the Committee

The Board appointed Audit Committee ("the Committee") comprised the following Non-Executive Directors of the Company as at December 31, 2022:

- 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 (CA Sri Lanka) and possess wide expertise in finance and related fields. The Managing Director, Mr S C U Manatunge attended the meetings by invitation.

The Chief Executive Officer being responsible for overall operations of the company attends meetings by invitation.

The Accountant of the Company, who is responsible for preparation of Financial Statements, attends meetings by invitation.

The Company Secretary functions as the Secretary of the Committee.

The profiles of the members are given on pages 38 to 41. 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 No. 07 of 2007 and amendments thereto 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 (including estimates and judgements made by the Management and adoption of new accounting standards)
- Overseeing the procedures in relation to internal controls
- Ensuring compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto and other financial reporting requirements and regulations
- Ensuring the independence and effectiveness of the External and Internal Auditors
- Recommending 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.

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 and the Integrated Risk Management Department of the Commercial Bank of Ceylon PLC 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.

The Committee has recommended to the Board of Directors that Messrs KPMG, Chartered Accountants, be reappointed as Auditors for the financial year ending December 31, 2023 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 47. The proceedings of the Committee meetings were regularly reported to the Board.

B R L Fernando
Chairman – Board Audit Committee

Colombo
February 22, 2023

Report of the Board Remuneration Committee

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 Company Secretary functions as the Secretary of the Committee.

The profiles of the members are given on pages 38 to 41.

Terms of Reference

The overall focus of the Committee:

- To set guidelines for policies with regard to compensation and benefit packages that motivate/retain the capable qualified staff and highly skilled staff of the Company.
- To assess and recommend to the Board with regard to succession planning of Key Management Personnel and align the organisational structure accordingly.
- To set the criteria such as qualifications, experience, and the required competencies to be considered for appointment of Key Management Positions.
- To direct on relevant matters connected to general areas of Human Resources Management of the Company in order to uphold the best HR practices in formulating policies.
- To recommend to the Board, the matters such as compensation of the Chairman, other members of the Board of Directors while ensuring that no Director is involved in deciding or recommending his or her own remuneration.
- To focus on a suitable bonus to the executive/non-executive staff according to the overall achievements of the Company for pre-agreed individual targets, which will be based on various performance parameters.
- To decide the compensation structures for all staff of the Company.
- To make recommendations to the Board with regard to the additional/new expertise required for the Company.
- To make deliberations with regard to industrial relations and regulatory matters that may lead to financial losses to the Company and to direct the Key Management Personnel accordingly.

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 are 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, 2022. A table showing the record of attendance at meetings appear on page 47. The proceedings of the Committee meetings were regularly reported to the Board.

B R L Fernando
Chairman – Board Remuneration Committee

Colombo
February 22, 2023

Report of the Board Related Party Transactions Review Committee

As the parent company is also a listed Company, the Securities and Exchange Commission of Sri Lanka (SEC) has permitted the Related Party Transactions Review Committee of the parent company to oversee the related party transactions of the listed Companies in the Commercial Bank Group, of which Commercial Development Company PLC is a subsidiary.

Objective

To exercise oversight on behalf of the Board of the Company in complying with the Code on Related Party Transactions (RPTs) issued by the Securities and Exchange Commission of Sri Lanka ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by CA Sri Lanka and the CSE.

Functions

The Committee primarily relied on processes that were validated from time to time and periodic reporting by the relevant entities and Key Management Personnel (KMP) with a view to ensuring:

- Compliance with the Code;
- Protection of shareholder interests; and
- Maintenance of fairness and transparency.

The Committee reviewed all recurrent and non-recurrent related party transactions carried out by the Company with its parent and other related companies in the Commercial Bank Group.

Composition of the Committee

- Prof A K W Jayawardane (Chairman)
  Independent Non-Executive Director of Commercial Bank of Ceylon PLC
  Appointed in March 2022

- Mr L D Niyangoda
  Independent Non-Executive Director of Commercial Bank of Ceylon PLC
  Appointed in August 2016

- Mr R Senanayake
  Independent Non-Executive Director of Commercial Bank of Ceylon PLC
  Appointed in October 2020

Regular Attendance by Invitation

- Mr S C U Manatunge
  Managing Director of the Company and Managing Director/Chief Executive Officer of Commercial Bank of Ceylon PLC

- Mr S Prabagar
  Executive Director/Chief Operating Officer of the Commercial Bank of Ceylon PLC

Secretary to the Committee

Mr L W P Indrajith
Secretary and Assistant General Manager – Finance of Commercial Bank of Ceylon PLC.

Meetings

The Committee held four meetings during the year under review as required by Section 9.2.4 of the Listing Rules of the CSE. The Committee reviewed all related party transactions carried out by its subsidiaries during the year at its quarterly meetings. The proceedings of the Committee meetings which also included activities under its Terms of Reference, were regularly reported to the Board of Directors of the parent company.

Directors' Statement on Internal Control

This Report is presented in accordance with the requirement to publish the Directors' Statement on Internal Controls as per Section D.1.5 of the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka.

The Board of Directors is responsible for the adequacy and effectiveness of the Company's system of internal control on financial reporting. The system of internal control has been however designed to manage the Company's key risk areas within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the Company's policies and objectives. Hence, the Company's internal control system can only provide reasonable but not absolute assurance against material misstatements of management and financial information and records or against financial losses.

The Board has established a mechanism for identifying, evaluating and managing material risks. This process includes enhancing the system of internal control when needed in line with changes in the business environment or regulation. The Management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation, and monitoring of suitable internal controls to control risks.

Strengthening System of Internal Control

The following processes have been established for reviewing the adequacy and integrity of the system of internal controls pertaining to financial reporting:

- Relevant Heads of Departments have been delegated the task of applying controls to capture and record transactions for financial reporting. The Accountant has been delegated the task of preparing the management accounts, interim and annual financial statements in line with applicable standards and other regulations.
- The Company has outsourced the internal audit function to an independent firm of Chartered Accountants, which carries out periodic internal audits to verify compliance with policies and procedures and the effectiveness of the internal control systems and providing feedback of such reviews to the Audit Committee on any non-compliance and recommendations for improvements.
- The internal audit function has sought confirmations by Management on internal controls adopted and confirmed to the Board on same upon testing of such controls.
- As a subsidiary of Commercial Bank of Ceylon PLC, Company's operations are subjected to review by the Bank's Inspection, Risk Management and Compliance Departments, as required by the directions of the CBSL. The feedback of such reviews is periodically submitted to the Board Audit Committee.
- The Board Audit Committee which is set up on Terms of Reference approved by the Board of Directors meets regularly to review internal control issues identified by Internal Auditors in their periodic reviews, matters highlighted by the External Auditors following statutory audit and any other matters referred to it by the Management.
- The Board Audit Committee further reviews work of Internal Auditors on their scope and quality of audits. The Committee follows up with the Management and in turn provides feedback to the Board on any matters of concern for their deliberation and resolution.
- The matters highlighted by the External Auditors relating to the internal controls in 2021 were attended to and corrective measures were initiated to rectify such concerns.

Confirmation by the Board

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting. Based on the established internal control mechanism explained above, the Board confirms that the financial reporting system of the Company has been designed and continuously upgraded to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is done in line with Sri Lanka Accounting Standards.

By order of the Board,

B R L Fernando
Chairman

S C U Manatunge
Managing Director

February 22, 2023

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 and amendments thereto.

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, 2022 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') and amendments thereto.

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 22, 2023. 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.

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 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 registered office of the Company is situated at No. 8 – 4/2, York Arcade Building, Leyden Bastian Road, Colombo 1, Sri Lanka.

Ordinary Voting shares of Commercial Development Company PLC is listed in Diri Savi Board of the CSE.

Percentage of public holding in the stated capital of the Company as at December 31, 2022 was 10% and there were 1009 shareholders representing the public holding percentage stated above.

Existing Float Adjusted Market Capitalisation of the Company as at December 31, 2022 was Rs. 114.6 Mn.

2. Review of Business

2.1 Review on operations of the Company

The "Chairman's Message", "Managing Director's Review", "Chief Executive Officer's Review" and the "Management Discussion and Analysis" appearing on pages 8, 10, 13, and 24 provide an overall assessment on the financial performance and 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 1.3 to the Financial Statements on page 84. There were no significant changes in the nature of the principal business activities of the Company during the financial year under review.

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 78 to 142.

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 78 to 142 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 for financial Reporting" appearing on pages 63 and 64 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, 2022, as required by the Section 168 (1) (c) of the Companies Act is given on pages 75 to 77.

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 86 to 142. There were no changes to the Accounting Policies adopted by the Company during the year except the changes as required by new Accounting Standards.

Changes in Significant Accounting Policies are disclosed in Note 5 to the Financial Statements on Page 86.

2.7 Entries in the Interests Register

An Interests Register is maintained by the Company, as per the requirements of 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 61 under the subheading 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, 2022 is given in Note 10 to the Financial Statements on page 99 as required by the Section 168 (1) (f) of the Companies Act.

2.9 Donations

The Company accommodated the basic needs of school children in selected schools by donating books, shoes, school bags and food items worth Rs. 400,000/-.

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 2022 was Rs. 631.1 Mn., (Rs. 632.3 Mn., in 2021).

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,	2022 Rs. '000	2021 Rs. '000
Profit from operations for the year	336,334	396,289
Add: Net finance income	64,955	30,976
Profit before tax	**401,289**	427,265
Less: Income tax expense	(176,912)	(25,759)
Net profit after taxation	**224,377**	401,506
Add/Less: Amounts recognised in other comprehensive income, Net of tax (*)	(294)	2,621
Total comprehensive income for the year, Net of tax (*)	**224,083**	404,127
Add: Unclaimed dividends written back	349	316
Add: Unappropriated profit brought forward	741,199	545,661
Less: Surcharge tax paid	(50,556)	–
Transfers to/from fair value reserve – investment property	11,669	(130,905)
Profit available for appropriation	**926,744**	819,199
Less: Interim dividend of Rs. 3.00 per share (Rs. 2.50 per share in 2021)	(36,000)	(30,000)
Less: Final Dividend of Rs. 4.00 per share (Rs. 4.00 per share in 2021)	(48,000)	(48,000)
Unappropriated profit carried forward	**842,744**	741,199

**Excluding unrealised gains/(losses) on Debt Investments at FVOCI (Treasury Bills)*

4.2 Provision for Taxation

Income tax expense has been computed at the rate of 24% and 30% as given in Note 12 to the Financial Statements on page 100.

The Company has also provided for 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 an interim dividend of Rs. 3.00 per ordinary share in December 2022 (an interim dividend of Rs. 2.50 per share was paid in December 2021).

In addition, Directors recommended the payment of Rs. 4 per share as a final dividend for the year 2022. (Rs. 4.00 per share in 2021).This final dividend is to be approved at the Annual General Meeting to be held on March 31, 2023.

On this basis, the total dividend payout ratio amounts to 37.44% of the profit after tax of 2022 compared to 19.43% for 2021.

The Board of Directors fulfilled the requirement of the solvency test in terms of the Section 31 (3) of the Companies Act immediately after the payment of the interim dividend and would ensure the compliance of solvency test after the payment of aforesaid final dividend proposed to be paid on April 27, 2023. Provided however in instances where the shareholder has given accurate dividend disposal instructions to the CDS or the Company by providing the bank account number, the proposed final dividend shall be directly credited to such bank account on or before April 12, 2023 which is within three (3) market days from and excluding the "Record Date".

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 requirements.

4.4 Reserves

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

As at December 31,	**2022 Rs. '000**	2021 Rs. '000
Fair value reserve – Investment property	**2,406,680**	2,418,349
Fair value reserve – Financial assets	**–**	(185)
Retained earnings	**890,744**	789,199
Total	**3,297,424**	3,207,363

5. Property, Plant and Equipment

Details on Capital expenditure on property, plant and equipment are given in Note 17 to the Financial Statements on page 106. There was no capital expenditure approved and contracted for at the year-end.

6. Investment Property

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, 2022 was 59 years.

Details of the investment property are given in Note 19 to the Financial Statements on page 112.

7. Information on Shares

7.1 Stated Capital

The stated capital as at December 31, 2022 was Rs. 120.0 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 148.

7.3 Shareholdings

There were 1010 registered shareholders (1000 in 2021) holding Ordinary Voting Shares as at December 31, 2022. The distribution of shareholding is given on page 147.

7.4 Substantial Shareholdings

The details of top twenty shareholders are given on page 146.

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 2022, as required by the Section 168 (1) (h) of the Companies Act are given below:

Mr B R L Fernando (Chairman)

Mr S C U Manatunge (Managing Director)

Mr A L Gooneratne

Mr A T P Edirisinghe

Mr L D A Jayasinghe

Mr U I S Tillakawardena

Dr R A Attalage (Appointed w.e.f. January 1, 2023)

8.2 New appointments

Mr S C U Manatunge (Appointed w.e.f. May 12, 2022)

Dr R A Attalage (Appointed w.e.f. January 1, 2023)

8.3 Resignations/Relinquishments

Mr S Renganathan (relinquished the position of Managing Director w.e.f. May 11, 2022)

8.4 Recommendations for Re-election

Mr S C U Manatunge

In terms of Clause 91 of the Articles of Association of the Company, Mr S C U Manatunge who was appointed to the Board on May 12, 2022 holds office until the Annual General Meeting to be held on March 31, 2023 following his appointment. Mr S C U Manatunge being eligible for re- election offers himself for re-election by the shareholders.

Dr R A Attalage

In terms of Clause 91 of the Articles of Association of the Company, Dr R A Attalage who was appointed to the Board on January 1, 2023 holds office until the Annual General Meeting to be held on March 31, 2023 following his appointment. Dr R A Attalage being eligible for re- election offers himself for re-election by the shareholders.

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 shall not be applicable to Mr B R L Fernando who has attained the age of 80 years.

(Resolution is stated on page 156 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 shall not be applicable to Mr A T P Edirisinghe who has attained the age of 77 years.

(Resolution is stated on page 156 under Notice of Meeting)

Mr L D A Jayasinghe

A Special Notice has been received by the Company from Mr T Vedamanickam, 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 shall not be applicable to Mr L D A Jayasinghe who has attained the age of 74 years.

(Resolution is stated on page 156 under Notice of Meeting)

Mr A L Gooneratne

A Special Notice has been received by the Company from Mr A J R Manual, 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 shall not be applicable to Mr A L Gooneratne who has attained the age of 70 years.

(Resolution is stated on page 156 under Notice of Meeting)

8.5 Directors' Interests in Shares

The Directors (including the Chief Executive Officer) did not hold shares of the Company as at December 31, 2022 (The Directors, including the Chief Executive Officer did not hold shares as at December 31, 2021).

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 34 under "Related Party Disclosures" on page 132 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 39 to the Financial Statements on page 141.

13. Auditors

13.1 Appointment of Auditors

The retiring Auditors, Messrs KPMG have signified their willingness to continue in office. A resolution to reappoint them as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting to be held on March 31, 2023.

13.2 Auditors' Remuneration and Interest in Contracts with the Company

The Auditors, Messrs KPMG were paid Rs. 960,000/- for the year ended December 31, 2022 (Rs. 796,250/- in 2021) as audit and audit related services by the Company. In addition, they were paid Rs. 465,850/- for the year ended December 31, 2022 (Rs. 391,667/- in 2021) by the Company, for non-audit related services including tax 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. 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 43 to 51.

16. Outstanding Litigation

Details of litigations pending against the Company are given in Note 38.1 to the Financial Statements on page 141.

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 forty third Annual General Meeting is given on page 155.

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

S C U Manatunge
Managing Director

L W P Indrajith
Company Secretary

February 22, 2023

Statement of Directors' Responsibility for Financial Reporting

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 pages 75 to 77.

In terms of Sections 150 (1), 151 (1), 152, and 153 (1) and (2) of the Companies Act No. 07 of 2007 and amendments thereto, 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 the Statement of Financial Position as at December 31, 2022, 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 December 31, 2022; 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) In preparing the Financial Statements exhibited on pages 78 to 142 including, appropriate Accounting Policies have been 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.

(b) The Financial Statements for the year 2022, prepared and presented in this Annual Report are in agreement with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007 and amendments thereto, 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 by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

(c) 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. 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 52 and 53 The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the BAC.

(d) They accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

(e) 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 internal checks, internal audit, 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.

(f) 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.

(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 is prepared in time. A copy thereof is sent to every shareholder of the Company who have expressed desire to receive a hard copy 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, instead of sending a soft copy in a CD. Considering the prevailing situation in the country, we have hosted a soft copy of this Annual Report in the Company’s website (https//www.cdcplc.net), in addition to the soft copy thereof available in the CSE website for the benefit of other shareholders within the stipulated period of time.

(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) 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 by CA Sri Lanka, 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.

(l) 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) and 152 (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 22, 2023 as required by the Section 150 (1) (c) and 152 (1) (c) of the Companies Act.

(m) 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 pages 75 to77.

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 22, 2023

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 and amendments thereto, 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 restated 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 position, 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.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended December 31, 2021.

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 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 pages 75 to 77. 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.

Details of litigations pending against the Company are given in Note 38.1 to the Financial Statements on page 141.

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.

S C U Manatunge
Managing Director

W H Wijesekara
Accountant

Colombo
February 22, 2023

Risk Management

Risk which is the probability that the actual performance may be different from the expected performance, is an inherent aspect of any venture, commercial or otherwise. Commercial Development Company PLC (CDC) is no exception. An element of risk is present in varying degrees of frequency and magnitude in all the activities and interactions it undertakes in the process of delivering value to and deriving value from its stakeholders. Risk and return are positively co-related since higher risks yield higher returns to compensate the risk.

As a 90% owned subsidiary of Commercial Bank of Ceylon PLC (Bank), CDC has put in place a risk governance framework and risk management function in the Company to guide and aid the process of value creation. Its operations come under the purview of the Integrated Risk Management function of the Bank too as specified by the CBSL that banks are required to manage risk on a Group basis.

Objectives

The primary objectives of the Company's risk governance framework and the risk management function are:

- Establish the necessary organisational structure for the management and oversight of risk;
- Ensure that risks assumed are commensurate with the returns generated;
- Develop strategies and execute them for managing risk;
- Institutionalise a strong risk culture within the Company;
- Establish functional responsibility for decisions relating to accepting, transferring, mitigating and minimising risks and recommending ways of doing so;
- Periodically evaluate the risk exposures on an ongoing basis;
- Estimate potential losses that could arise from its risk exposures.

Key Developments in 2022

Major initiatives relating to risk governance and risk management during the year included:

- Full implementation of the Human Resources Information System (HRIS), a major achievement for the Company with quality improvements visible in many areas such as improved accuracy levels and enhanced operational efficiencies.
- Bids were called from reputed structural engineering firms to initiate the renovations to be done in "Commercial House" building.
- The Radiator Core of the standby 500 KVA BENZ Generator was replaced at a substantial cost in order to face any form of crisis situation due to the CEB power interruptions.
- Special action plan was initiated to provide fuel and also to keep the standby generators at its best condition to provide an uninterrupted power supply in "Commercial House".
- Funds held in low interest generating deposits/treasury bills were reinvested in high yielding deposits, to secure a noticeable increase in interest income.
- Initiated a new programme to carry-out comprehensive inspections periodically on all vehicles rented to the Bank, in order to mitigate any risk factors which staff attached to the Bank may be exposed to.
- In order to reduce the cost and also for the purpose of close monitoring, a new system was implemented to obtain transport services from a reputed service provider. Due to the close monitoring, the cost has reduced to a considerable extent.
- Well-structured, 18 external and internal training programmes were conducted for the prospective employees, who are seeking career development.

Risk Profile

During the year and as at the year end, there were no incidents that resulted in financial losses/reputational damage or potential to cause such losses/damage to the Company in future. There was no pending litigation by or against the Company, except as disclosed in Note 38.1 to the Financial Statements on page 141.

Some of the indicators are given in the table below:

Indicator	**2022**	2021
Equity to total assets	**84.3%**	88.0%
On balance sheet gearing ratio	**19.0%**	14.0%
Litigation against the Company	**One High Court Appeal Case**	One High Court Appeal Case
Tax assessments pending	**No**	No

Outlook and Plans for 2023 and Beyond

CDC's sustainability is intrinsically linked to the sustainability of the Bank, especially given the fact that the Company's services are currently provided primarily to the Bank. The Bank's ability to create value in the short, medium and long term in turn largely depends on the global and local socioeconomic backdrop.

Plans for 2023

Major initiatives relating to risk governance and risk management planned for the year 2023 and onwards include:

- Completion of waterproofing treatment at "Commercial House" building.
- To further expand providing manpower services to the Bank by diversifying into different categories.
- Efforts to canvass more business from the Bank; the entire operation of Telephone Board of the Bank.
- Strategies to be implemented to enhance profitability as well as service standards of air-conditioning services provided to the Bank.
- Assisting the Bank to improve the standards of the Penthouse at "Commercial House".
- Sell four old vehicles and to recall a vehicle to be deployed in AC business.
- To undertake the management of two new holiday bungalows.
- To continue to make an effort to seek the approval of the Central Bank to provide services to parties outside the Bank.

Risk Governance Framework

The Board is responsible for risk governance. As a result, it takes on the task of establishing the necessary organisational structure for the management and oversight of risk, defining the extent of risk exposures that the Company is willing to undertake and institutionalising a strong risk culture.

Applying best practice in corporate governance to risk management is an important function and it is conducted with the support of the parent company. The Board of Directors has established a governance structure comprising Board oversight, Board committees and executive functions through which authority is exercised and decisions are taken and implemented. The Board facilitates accountability for risk at all levels of the Company and across all types of risk that the Company is exposed to. The organisation of the Company's risk governance is detailed below.

Board of Directors

The Board of Directors is the body responsible for strategy and policy formulation, objective setting and for overseeing executive functions (refer pages 38 to 41 for the profiles of the Board members). As such, it has the overall responsibility for understanding the risks assumed by the Company for ensuring that they are appropriately managed. The Board discharges this responsibility both directly and indirectly.

- Directly - by determining the extent of risk exposures to be undertaken
- Indirectly - by delegating oversight responsibility to the Board committees which work closely with the Company's executive functions and by assessing the effectiveness of the risk management function and reporting to the Board on a regular basis.

The tone at the top and the corporate culture reinforced by the ethical leadership of the Board and that of the parent company play a key role in managing risk at the Company. As a result, the Company is committed to undertaking its business in a responsible, transparent, and socially and environmentally conscious manner. CDC demands the highest level of honesty, integrity and accountability from all its employees, a sine qua non considering the fact that its services are primarily provided to Commercial Bank of Ceylon PLC.

Board Committees

The two Board committees set up by the Board assist it in discharging its oversight responsibilities for risk management. They are as follows:

- Board Audit Committee (BAC)
- Board Remuneration Committee (BRC)

Formal terms of reference for the Board Remuneration Committee appears in the Report of the Board Remuneration Committee on page 54.

As the parent company is also a listed company, the Securities and Exchange Commission of Sri Lanka has permitted the Related Party Transactions Review Committee of the parent company to oversee the related party transactions of the listed companies in the Commercial Bank group, of which Commercial Development Company PLC is a subsidiary.

Among other duties, these committees periodically review and make recommendations to the Board on the subjects coming under their purview.

Details relating to composition, terms of reference, authority, meetings held and attendance, activities undertaken during the year etc., of these Board committees are given in the respective Committee reports on pages 52 to 55.

Executive Responsibility

The Company's Executive Management is responsible for the execution of the strategies and plans in accordance with the mandate of the Board of Directors while maintaining the risk exposures within approved risk levels.

Although the Company has not set up formal executive level committees to spearhead execution of strategies and plans relating to risk management, as a subsidiary of the Bank, CDC comes under the purview of the Bank's Group Risk Management function.

As a result, besides the external and internal audits carried out by reputed audit firms, the Company is periodically inspected by the Bank's Inspection Department and the Integrated Risk Management Unit to ensure that the operations conform to required standards. Based on these inspections, the Company receives a number of audit/inspection/risk reports periodically which contain guidelines to streamline the operations and also to minimise the risk factors.

Based on the recommendations of these reports, the Company has taken a number of precautionary measures such as:

- Automation of staff attendance through Biometric Devices which are installed at workstations and integrated with the HRIS System.
- Setting up of a Training Calendar for the Staff and providing training opportunities for employees to enhance their technical skills required in their ongoing assignments to mitigate business risk.
- Development of a Terms of Reference for the Board Remuneration Committee.
- Installing fire extinguishers at the CDC Head Office premises for the safety of its staff.
- Obtained a corporate package from a taxi service which is operated through a mobile application for staff traveling, eliminating administrative hassles associated with the previous manual voucher-based system.

Risk Management Function

The Company's Risk management function is responsible for identifying, assessing and mitigating risks; finding risk mitigation methods; being on alert for early warning signs; forecasting potential for future losses and implementing plans to contain losses/risk transfer.

Risk Management Infrastructure

The Company's risk management infrastructure consists of both human and physical resources that enhance its readiness to identify and manage risk. These resources include the mandate, policies and procedures, limits, tools, databases, competencies, communications etc. The Company invests significantly in resources to build capacity in risk management infrastructure and to ensure that such infrastructure is up to date.

Risk Governance Structure

Given that managing risk is a responsibility of each and every employee for which each and every employee needs to understand the risks the Company is exposed to, CDC provides appropriate training/awareness to its people, disseminating knowledge and enhancing skills on all aspects related to their job responsibilities.

Risk Management Policies and Procedures

Besides the risk governance framework referred to above, the Company has developed a number of policies and related procedures to strengthen its risk management function. These include a Human Resources Policy, Asset Procurement and Disposal Policy, Record Classification/Management/Retention/Destruction Policy, and Business Continuity Plan, all of which were developed during the year 2020 continue to be reviewed and updated as necessary at a minimum on a yearly basis.

Risk Management Framework

In order to ensure a structured approach to managing all its risk exposures, the Company has developed a risk management framework. Underpinned by organisational structures, systems, processes, procedures, controls and industry best practices, it takes into account all risks and uncertainties the Company is exposed to.

Risk Management

The Company employs a combination of tools and measures for identifying, measuring, managing and reporting risks. These include organisational structure, system of internal controls and segregation of duties, periodic communication with stakeholders, adherence to compliance requirements, institutionalising lessons learned and historical experience, maintenance of log records, preventive maintenance schedules, customer comments and complaints, insurance, exit interviews with staff members, periodic audits etc.

Once a risk is identified, the Company decides on one or more of three possible options, viz. risk avoidance, risk control/management and risk transfer (via insurance). In general, risks that do not generate commensurate rewards are avoided while risks relating to activities that generate a commensurate return are controlled/managed. Risks with low probability/frequency of occurrence, but with high potential impact are insured.

Types of Risks

Further to the Credit, Market (liquidity and interest rate risks) and Operational risks relating to financial instruments (see Note 36 on Financial Risk Management to the Financial Statements on page 137), the Company is exposed to a number of other risks.

A list of such risks and a detailed description of risk management measures in place are given below:

Risk category	Risk description	Risk mitigation measures	Risk level
Credit risk	Counterparties failing to honour their contractual obligations to the Company	Credit risk of the Company is limited to financial instruments. Since the Company provides its services and invoices therefor primarily to the Bank, credit risk is minimal.	Low
Market risk	Interest rate risk arising from exposure to financial instruments due to fluctuations in market interest rates	Monitoring of market interest rates, matching tenures of assets and liabilities, seeking advice from the Bank Treasury	Medium
	Liquidity risk	Cash flow projections, working capital management, contingency funding arrangements	Low
Operational Risk	Human resource related risks such as failure to attract/retain/develop staff	Review of exit interviews, review of remuneration and making remuneration package competitive	Average

Risk category	Risk description	Risk mitigation measures	Risk level
	Health and safety risk	Adoption of best practices	Average
		Periodic fire drills, training, Human Resources Policy. In addition, the Company ensures that periodic medical checkups are conducted for drivers.	
		Maintenance staff is given uniforms, safety shoes and other required safety gears. Maintenance staff exposed to higher work-related accident risk is given special work-related training.	
		Company sponsored Insurance to cover the medical expenses of all employees	
	Risk of damage to physical assets	Scheduled periodic maintenance, availability of insurance from reputed Insurance companies	High
	Public liability arising from potential incidents relating to properties	Regular maintenance and review/monitoring of properties by experts, insurance cover, 24-hour security and surveillance	Average
	Thefts and frauds	System of internal controls, security and surveillance, internal and external audits, audits conducted by the Inspection Department and the Integrated Risk Management Unit of the Bank, HR policies governing the disciplinary actions for employees	Low
	Disruptions to IT and information Systems	Business Continuity Plan	High
		Information Security Policy (ISP)	
Legal and compliance risk	Potential for losses or penalties/ restrictions being imposed for failure to meet legal and other compliance requirements	Company comes under the Group compliance requirement of the Bank as required by the CBSL	Average
		In addition, compliance documents/checklists are reviewed at the quarterly Audit Committee meetings	
		Also, the Company seeks professional advice as appropriate from reputed firms of auditors, lawyers etc. whenever the need arises	

Risk category	Risk description	Risk mitigation measures	Risk level
Business continuity risk	Natural or man-made risks which could impact continuity of business operations	Besides other controls and mitigatory measures referred to under other risk categories, a formal Business Continuity Plan was developed and approved by the Board in 2020	High
Reputational Risk	May arise from failure to meet compliance requirements, poor service standards/unprofessional behaviour and any negative publicity	Giving compliance related matters due prominence, operational procedures and training on providing quality services	Average
Strategic risk	Failure to maximise opportunities and achieve financial targets, impact of erroneous strategic decisions, failure to meet customer expectations	According highest priority to risk related matters at the Board level and ongoing oversight and customer interactions	Average
	Business concentration risk due to all its services being currently provided to the Bank	Company intends to continue to seek permission from the CBSL to allow the Company to provide its services to other parties as well, enabling it to diversify its sources of revenue to leverage growth opportunities	High

Financial Statements

Financial Calendar – 2022 and 2023

Dividend Calendar – 2022

Final Dividend 2021 paid on April 8, 2022 and April 26, 2022

Interim Dividend for 2022 paid on December 30, 2022

Final Dividend for 2022 proposed to be paid on or before April 12, 2023 and April 27, 2023

Annual General Meeting Calendar – 2022

Annual Report and Accounts for 2022 signed on February 22, 2023

Forty Third Annual General Meeting to be held on March 31, 2023

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange – 2022

For the 3 months ended March 31, 2022 (unaudited) – Submitted on May 13, 2022

For the 3 and 6 months ended June 30, 2022 (unaudited) – Submitted on August 8, 2022

For the 3 and 9 months ended September 30, 2022 (unaudited) – Submitted on October 25, 2022

For the 3 months and year ended December 31, 2022 (unaudited) – Submitted on February 23, 2023

Dividend Calendar – 2023

Final Dividend for 2022 to be paid on or before April 12, 2023 and April 27, 2023

Interim Dividend for 2023 to be paid in December 2023

Final Dividend for 2023 proposed to be paid in April 2024

Annual General Meeting Calendar – 2023

Annual Report and Accounts for 2023 to be signed in February 2024

Forty Fourth Annual General Meeting to be held in March 2024

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange – 2023

For the 3 months ending March 31, 2023 (unaudited) – will be submitted on or before May 15, 2023

For the 3 and 6 months ending June 30, 2023 (unaudited) – will be submitted on or before August 15, 2023

For the 3 and 9 months ending September 30, 2023 (unaudited) – will be submitted on or before November 15, 2023

For the 3 months and year ending December 31, 2023 (unaudited) – will be submitted on or before February 29, 2024

Independent Auditors' Report

KPMG
(Chartered Accountants)
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TO THE SHAREHOLDERS OF COMMERCIAL DEVELOPMENT COMPANY PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Commercial Development Company PLC ("the Company"), which comprise the statement of financial position as at December 31, 2022, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 78 to 142 of the Annual Report.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at December 31, 2022, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investment Property

Refer Note 19 to the Financial Statements

Risk Description	Our response
As at the reporting date December 31, 2022, land and building (including buildings on leasehold land) carries at fair value, classified as Investment properties amounted to Rs. 3,031 Mn. Investment property comprise of leasehold land with a value of Rs. 1,700,000,000/-, freehold land of Rs. 185,000,000/- and building of Rs. 1,146,216,000/- located in Colombo, Negombo and Tangalle, and represented 75% of total assets. The Company has recorded a fair value gain of Rs. 64,503,000/- during the year, in respect of its investment property. Management assessment of fair value of these investment properties is based on the valuation performed by a qualified independent property valuer in accordance with recognized industry standards. The valuation of the investment property requires the application of significant judgment and estimation in the selection of the appropriate valuation methodology to be used and in estimating the key assumptions applied. These key assumptions include capitalization rate, future rental growth, anticipated maintenance cost and depreciation rate. A change in key assumptions will have a significant impact on the valuation.	Our audit procedures included; • Assessing the objectivity, independence, competence and qualifications of the independent external property valuers; • Assessing the appropriateness of the valuation techniques used by the external valuer, including key assumptions applied and conclusions made in deriving the fair value of the properties and comparing the same with evidence of current market practice. • Assessing the key inputs used in the valuation by the independent external valuer against our expectations based on our experience, externally published market comparable and our knowledge of property market, consultation with internal valuation specialist; and • Assessing the adequacy of the disclosures in the financial statements, including the description and appropriateness of the inherent degree of subjectivity and key assumptions in the estimates.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2599.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka
February 28, 2023

Income Statement

For the year ended December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000	Change %
Revenue	8.1	97	631,128	632,287	(0.18)
Cost of sales			(324,607)	(292,384)	11.02
Gross profit			306,521	339,903	(9.82)
Other income	9	98	2,040	78	2,515.38
Administrative expenses			(36,730)	(32,824)	11.90
Fair value gain on investment property	19.1	113	64,503	89,132	(27.63)
Operating profit	10	98	336,334	396,289	(15.13)
Finance income	11.1	100	77,837	34,984	122.49
Finance costs	11.2	100	(12,882)	(4,008)	221.41
Net finance income			64,955	30,976	109.69
Profit before tax			401,289	427,265	(6.08)
Income tax expense	12.4	102	(176,912)	(25,759)	586.79
Profit for the year attributable to owners of the company			224,377	401,506	(44.12)
Earnings per share					
Basic and diluted (Rs.)	13	103	18.70	33.46	(44.12)

The Accounting Policies and Notes appearing on pages 84 to 142 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000	Change %
Profit for the year			224,377	401,506	(44.12)
Other comprehensive income, net of tax					
Items that will never be reclassified to profit or loss					
Actuarial (loss)/gain on defined benefit plans	27.2.1	124	(402)	3,449	(111.66)
Related tax	29.4	128	108	(828)	(113.05)
Net actuarial (loss)/gain on defined benefit plans			(294)	2,621	(111.22)
Items that are or may be reclassified to profit or loss					
Net change in fair value of debt investments at FVOCI			243	(243)	(200.00)
Related tax	29.4	128	(58)	58	(200.00)
Net change in fair value of debt investments at FVOCI, net of tax			185	(185)	(200.00)
Other comprehensive income, net of tax			(109)	2,436	(104.47)
Total comprehensive income			224,268	403,942	(44.48)

The Accounting Policies and Notes appearing on pages 84 to 142 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Financial Position

As at December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000	Change %
ASSETS					
Non-current assets					
Property, plant and equipment	17	106	131,768	90,897	44.96
Intangible assets	18	110	2,132	2,762	(22.81)
Investment property	19	112	3,031,216	2,966,713	2.17
Deposits receivables	20	118	10,980	10,857	1.13
Total non-current assets			3,176,096	3,071,229	3.41
Current assets					
Trade and other receivables	21	119	53,042	43,011	23.32
Financial investments	22	119	671,482	565,585	18.72
Cash and cash equivalents	23	120	154,462	105,524	46.38
Total current assets			878,986	714,120	23.09
Total assets			4,055,082	3,785,349	7.13
EQUITY AND LIABILITIES					
Equity					
Stated capital	24	120	120,000	120,000	–
Other reserves	25	120	2,406,680	2,418,164	(0.47)
Retained earnings			890,744	789,199	12.87
Total equity			3,417,424	3,327,363	2.71
Non-current liabilities					
Deposits payables	26	122	56,760	54,492	4.16
Employee benefits	27	122	61,078	50,966	19.84
Lease liabilities – long-term	28	126	69,138	14,374	380.99
Deferred taxation	29	127	346,815	263,159	31.79
Total non-current liabilities			533,791	382,991	39.37
Current liabilities					
Trade and other payables	30	129	26,894	16,958	58.59
Lease liabilities – short-term	28	126	15,963	5,080	214.23
Deferred revenue	31	130	8,515	10,566	(19.41)
Current tax liabilities	32	130	52,495	42,391	23.84
Total current liabilities			103,867	74,995	38.50
Total liabilities			637,658	457,986	39.23
Total equity and liabilities			4,055,082	3,785,349	7.13
Net assets value per ordinary share (Rs.)			284.79	277.28	2.71

The Accounting Policies and Notes appearing on pages 84 to 142 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 and amendments thereto.

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

S C U Manatunge
Managing Director

Colombo,
February 22, 2023

Statement of Changes in Equity

	Note	Page No.	Stated Capital	Other Reserves: Fair Value Reserve – Investment Property	Other Reserves: Fair Value Reserve – Financial Assets	Retained Earnings	Total Equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1, 2021			120,000	2,287,444	–	587,661	2,995,105
Total comprehensive income for the year							
Profit for the year 2021			–	–	–	401,506	401,506
Other comprehensive income for the year 2021			–	–	(185)	2,621	2,436
Total comprehensive income for the year 2021			–	–	(185)	404,127	403,942
Transaction with equity holders, recongnised directly in equity							
Final dividend for 2020			–	–	–	(42,000)	(42,000)
Interim dividend for 2021			–	–	–	(30,000)	(30,000)
Write back of unclaimed dividends			–	–	–	316	316
Transfer of fair value gains on investment property	25.1	121	–	130,905	–	(130,905)	–
Balance as at December 31, 2021			120,000	2,418,349	(185)	789,199	3,327,363
Balance as at January 1, 2022			120,000	2,418,349	(185)	789,199	3,327,363
Adjustment for Surcharge tax	12.7	103	–	–	–	(50,556)	(50,556)
Adjusted balance as at January 1, 2022			120,000	2,418,349	(185)	738,643	3,276,807
Total comprehensive income for the year							
Profit for the year 2022			–	–	–	224,377	224,377
Other comprehensive income for the year 2022			–	–	185	(294)	(109)
Total comprehensive income for the year 2022			–	–	185	224,083	224,268
Transaction with equity holders, recongnised directly in equity							
Final dividend for 2021			–	–	–	(48,000)	(48,000)
Interim dividend for 2022			–	–	–	(36,000)	(36,000)
Write back of unclaimed dividends			–	–	–	349	349
Transfer of fair value losses on investment property	25.1	121	–	(11,669)	–	11,669	–
Balance as at December 31, 2022			120,000	2,406,680	–	890,744	3,417,424

The Accounting Policies and Notes appearing on pages 84 to 142 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Cash Flows

For the year ended December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Cash flows from operating activities				
Profit before tax			401,289	427,265
Non-cash adjustments to reconcile profit before tax to net cash flows				
Depreciation	17	106	41,662	41,634
Amortisation	18	110	630	239
Fair value (gain)/loss on investment property	19	112	(64,503)	(89,132)
Interest income	11	99	(77,837)	(34,984)
Provision for employee benefits	27	122	10,876	4,844
Interest expense	11	99	12,453	3,640
Gain on disposal of property, plant and equipment	9	98	(1,933)	–
			322,637	353,506
Changes in;				
Inventories			–	18
Trade and other receivables			(10,030)	4,419
Deposits receivable			(123)	324
Deposits payables			(535)	14,048
Deferred revenue			(2,051)	8,725
Trade and other payables			9,242	199
Cash generated from operating activities			319,140	381,239
Employee benefits paid	27	122	(1,166)	(2,205)
Interest paid on leases	28	126	(9,649)	(992)
Surcharge tax paid	12.7	103	(50,556)	–
Current tax paid	32	130	(83,102)	(61,389)
Net cash generated from operating activities			174,667	316,653
Cash flows from investing activities				
Purchase of property, plant and equipment	17	106	(31,453)	(24,950)
Purchase of intangible assets	18	110	–	(2,412)
Improvements to investment property	19	112	–	(902)
Proceeds from sale of property, plant and equipment			28,203	8,442
Interest received			47,181	22,443
Disposal/(investments) in treasury bills			80,000	(80,000)
Investment in fixed deposits			(155,000)	(267,000)
Net cash generated from investing activities			(31,069)	(344,379)
Cash flows from financing activities				
Payment of lease liabilities			(11,703)	(5,649)
Dividends paid			(82,957)	(71,534)
Net cash used in financing activities			(94,660)	(77,183)
Net increase in cash and cash equivalents			48,938	(104,909)
Cash and cash equivalents at the beginning of the year			105,524	210,433
Cash and cash equivalents at the end of the year	23	120	154,462	105,524

The Accounting Policies and Notes appearing on pages 84 to 142 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Financial Statements Table of Contents

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 No. 8 – 4/2, York Arcade Building, Leyden Bastian Road, Colombo 1 , Sri Lanka. The ordinary shares of the Company have a listing on the CSE.

The staff strength of the Company as at December 31, 2022 was 213 (207 as at December 31, 2021).

1.2 Parent Entity and Ultimate Parent Entity

The Company's controlling entity and ultimate parent undertaking is Commercial Bank of Ceylon PLC which is incorporated in Sri Lanka.

1.3 Principal Business Activities and Nature of Operations of the Company

Property development and related ancillary services and providing the manpower needs for various support services which are unrelated to providing core banking services to the customers of Commercial Bank of Ceylon PLC.

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

1.4 Financial Statements

These Financial Statements as at and for the year ended December 31, 2022 comprise the Company only.

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 and LKASs) 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 Colombo Stock Exchange.

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. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

As per the Addendum to Statement of Alternative Treatment (SoAT) on Accounting for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 issued by CA Sri Lanka on August 10, 2022, the Surcharge Tax liability be recognised as on April 7, 2022 and record the corresponding expenditure as an adjustment to the opening retained earnings in the Statement of Changes in Equity in the first day of the financial year, which includes April 7, 2022, with necessary disclosures.

Details of the Company's significant accounting policies followed during the year are given on Note 6 on pages 86 to 93.

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" for financial reporting and the certification on the Statement of Financial Position on pages 57, 63 and 80 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 78 and 79),
- a Statement of Financial Position providing the information on the financial position of the Company as at year-end (Refer page 80),
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review (Refer page 81),

- 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 82), and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 84 to 142).

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended December 31, 2022 (including comparatives) were approved and authorised for issue by the Board of Directors on February 22, 2023.

2.4 Basis of Measurement

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

Item	Basis of measurement	Note	Page No.
Investment Property	Investment Property is measured at cost at the time of acquisition and subsequently at fair value.	19	112
Financial Investments	Financial Investments are measured at amortised cost or fair value.	22	119
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.	27.2	123
Deposits Receivable	Deposits Receivable are measured at present value initially and subsequently at amortised cost.	20	118
Deposits Payables	Deposits Payables are measured at present value initially and subsequently at amortised cost.	26	122
Lease Liabilities	Lease Liabilities are measured at amortised cost using effective interest method.	28	126

No adjustments have been made for inflationary factors affecting the financial statements.

2.5 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.

Offsetting

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.

2.6 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".

2.7 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".

2.8 Going Concern

The Directors have made an assessment of the Company's 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 of the Company continue to be prepared on a going concern basis.

2.9 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability.

The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

3. Functional and Presentation Currency

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

There was no change in the Company's presentation and functional currency during the year under review.

4. Use of Judgements and Estimates

In preparing these Financial Statements, management has made judgements and estimates that affect the application of the Company's 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 estimates are recognised prospectively.

4.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following Notes:

Item	Note	Page No.
Revenue recognition: whether revenue is recognised over time or at a point in time	8	96
Fair value of Investment Property: whether the Company is able to generate revenues upto the end of the lease period	19	112
Lease term: whether the Company is reasonably certain to exercise extension options	6.3	90

4.2 Assumptions and Estimation

Uncertainties Information about assumptions and estimation uncertainties as at December 31, 2022 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following Notes:

Item	Note	Page No.
Measurement of defined benefit obligations: key actuarial assumptions.	27.3	124
Determining the fair value of investment properties on the basis of significant unobservable inputs.	19.3.2	116
Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.	38	141

5. Changes in Significant Accounting Policies

New and amended standards and interpretations

Several amendments apply from January 1, 2022, but do not have an impact on the Financial Statements of the Company. The Company has not early adopted any standards or amendments that have been issued but are not yet effective.

6. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company, except as specified in Note 5.

These accounting policies have been applied consistently by the Company

Set out below is an index of the significant accounting policies:

6.1 Foreign Currency

6.1.1 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

6.1.2 Foreign operations

The Company does not have any foreign operations that is a subsidiary, associate, joint venture or a branch. Therefore there is no exchange differences recognised in other comprehensive income.

6.2 Financial Assets and Financial Liabilities

6.2.1 Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair Value through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

6.2.2 Classification

6.2.2.1 Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principle and Interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets not classified as measured at amortised cost or FVOCI are classified as FVTPL measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

6.2.2.1.1 Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

6.2.2.1.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers :

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

6.2.2.1.3 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

6.2.2.2 Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

6.2.3 Derecognition

6.2.3.1 Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial 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 derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

6.2.3.2 Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

6.2.4 Subsequent measurement and gains and losses

6.2.4.1 Financial assets

Financial Assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial Assets at Amortised Cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt Investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity Investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

6.2.4.2 Financial liabilities

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

6.2.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

6.3 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

6.3.1 As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "lease liability" in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

6.3.2 As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies SLFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of "other revenue".

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from SLFRS 16.

6.4 Inventories

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.

6.5 Impairment

6.5.1 Non derivative financial assets

Financial instruments and contract assets

The Company recognises loss allowances for Expected Credit Losses (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Presentation of Allowance for ECL in the Statement of Financial Position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

6.5.2 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than investment properties, inventories 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 categorised together into the smallest category of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (CGUs).

The "recoverable amount" of an asset or CGU 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 rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

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

6.6 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.

6.7 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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

6.7.1 Use of assumptions and estimation uncertainty

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

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to management.

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 19.3.2 – Investment Property on pages 116 to 118;
- Note 35 – Financial Instruments on pages 134 to 136.

6.8 Standards Issued but not yet Effective

A number of new standards are effective for annual periods beginning after January 1, 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Once the standards become effective after January 1, 2023, the following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after January 1, 2023. However, the IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than January 1, 2024. Due to these ongoing developments, the company is unable to determine the impact of these amendments on the consolidated financial statements in the period of initial application. The company is closely monitoring the developments.

Deferred tax related to assets and liabilities arising from a single transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences. eg: Leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after January 1, 2023. For leases and decommissioning liabilities associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions the amendments apply to transactions that occur after the beginning of the earliest period presented. The Company does not recognise any deferred tax asset or liability on such single transactions.

Other Standards

- SLFRS 17 Insurance Contracts and amendments to SLFRS 17 Insurance Contracts
- Disclosure of accounting policies (amendments to LKAS 1 and SLFRS practice statement 2)
- Definition of accounting estimates (amendments to LKAS 8)

7. Operating Segments

Accounting Policy

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Company's other components, whose operating results are regularly reviewed by the Company's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Company's corporate management include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses and tax assets and liabilities.

7.1 Basis for Segmentation

The Company has the following four strategic divisions, which are its reportable segments. These divisions offer different services, and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment

Reportable Segment	Operations
Rent income on premises	Property development and letting of Investment Property.
Outsourcing services	Provision of manpower needs for various support services which are unrelated to providing core banking services to the Customers of Commercial Bank of Ceylon PLC
Vehicle hiring income	Hiring of motor vehicles to the Commercial Bank of Ceylon PLC
Other utility services	Provision of janitorial services, air conditioning services and other premises related maintenance services to the Commercial Bank of Ceylon PLC

7.2 Information about Reportable Segments and Reconciliations to SLFRS Measures

Information related to each reportable segment is set out below. Segment profit/loss before tax is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

As at December 31,	2022 %	2021 %
Assets		
Rent income on premises	96	97
Outsourcing services	–	–
Vehicle hiring income	4	3
Other utility services	–	–
Total	100	100

For the year ended December 31,	2022 %	2021 %
External revenue		
Rent income on premises	43	43
Outsourcing services	36	31
Vehicle hiring income	14	12
Other utility services	7	14
Total	100	100
Profit before tax		
Rent income on premises	79	77
Outsourcing services	6	5
Vehicle hiring income	11	7
Other utility services	4	11
Total	100	100

For the year ended December 31, 2022

	Reportable Segments					Unallocated Amounts	Total
	Rent Income on Premises	Outsourcing Services	Vehicle Hiring Income	Other Utility Services	Sub Total		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External revenue	271,371	226,715	90,995	42,047	631,128	–	631,128
Inter-segment revenue	–	–	–	–	–	–	–
Segment revenue	271,371	226,715	90,995	42,047	631,128	–	631,128
Segment profit before tax	234,895	16,884	33,972	11,644	297,395	103,894	401,289
Interest income	–	–	–	–	–	77,837	77,837
Interest expense	(2,804)	–	(8,255)	–	(11,059)	(1,823)	(12,882)
Depreciation/Amortisation	–	–	(31,763)	–	(31,763)	(10,529)	(42,292)
Fair value gain on investment property	64,503	–	–	–	64,503	–	64,503
Income tax expense	–	–	–	–	–	(176,912)	(176,912)
Segment assets	3,062,398	–	116,016	12,675	3,191,089	863,993	4,055,082
Capital expenditure	–	–	108,660	–	108,660	143	108,803
Segment liabilities	69,215	52,640	71,423	879	194,157	443,501	637,658

For the year ended December 31, 2021

	Reportable Segments					Unallocated Amounts	Total
	Rent Income on Premises	Outsourcing Services	Vehicle Hiring Income	Other Utility Services	Sub Total		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External revenue	268,984	197,728	75,216	90,359	632,287	–	632,287
Inter-segment revenue	–	–	–	–	–	–	–
Segment revenue	268,984	197,728	75,216	90,359	632,287	–	632,287
Segment profit before tax	328,573	23,156	29,716	44,655	426,100	1,165	427,265
Interest income	–	–	–	–	–	34,984	34,984
Interest expense	(2,648)	–	(285)	–	(2,933)	(1,075)	(4,008)
Depreciation/Amortisation	–	–	(33,050)	–	(33,050)	(8,823)	(41,873)
Fair value gain on investment property	89,132	–	–	–	89,132	–	89,132
Income tax expense	–	–	–	–	–	(25,759)	(25,759)
Segment assets	2,991,509	–	65,374	8,401	3,065,284	720,065	3,785,349
Capital expenditure	902	–	24,810	–	25,712	2,438	28,150
Segment liabilities	68,289	43,785	1,626	799	114,499	343,487	457,986

7.3 Major Customer

Revenue of the Company is mainly represented by the revenue with the Commercial Bank of Ceylon PLC (The Parent), which is approximately Rs. 625 Mn. (2021: Rs. 619 Mn.) of the Company's total revenue.

7.4 Geographic Information

The Company functions in one geographic location (Sri Lanka only). Accordingly, geographic information is not presented in the financial statements.

8. Revenue

Accounting Policy

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Rent income on premises	This represents the income from letting the Company's investment property. The performance obligation is satisfied over time as the properties are being used by the customer. The customer is invoiced on a monthly basis.	Rent income is recognised as revenue on a straight line basis over the term of the lease (recognition over time).
Outsourcing services	This represents the income from the outsourcing of staff to the Commercial Bank of Ceylon PLC. The performance obligation is satisfied as and when the Company's staff have completed a month of work based on the agreements. The customer is invoiced on a monthly basis.	This income is recognised over time on a monthly basis.
Vehicle hiring income	Hiring of motor vehicles to the Commercial Bank of Ceylon PLC. The performance obligation is satisfied as and when the service is rendered by the Company. The customer is invoiced on a monthly basis.	This income is recognised over time on a monthly basis.
Other utility services	Provision of janitorial services, air conditioning services, other premises related maintenance services and bungalow administration services to the Commercial Bank of Ceylon PLC. The performance obligation is satisfied as and when the service is rendered by the Company. The customer is invoiced on a monthly basis.	This income is recognised over time on a monthly basis.

8.1 Revenue Streams

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Rent income on premises	271,371	268,984
Outsourcing services	226,715	197,728
Vehicle hiring income	90,995	75,216
Other utility services	42,047	90,359
Total revenue	631,128	632,287

8.2 Disaggregation of Revenue from Contracts with Customers

The Company's revenue is from local customers in Sri Lanka and the products and services offered by the Company to its customers are services in its line of business. Revenue from contracts with customers is disaggregated by the timing of revenue recognition as follows;

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Timing of revenue recognition		
Products and services transferred over time		
Rent income on premises	271,371	268,984
Outsourcing services	226,715	197,728
Vehicle hiring income	90,995	75,216
Other utility services	42,047	90,359
	631,128	632,287
Products transferred at a point in time	–	–
Total revenue	631,128	632,287

8.3 Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

As at December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Receivables, which are included in trade and other receivables	21	119	35,103	24,442
Deferred revenue	31	130	8,515	10,566

No revenue was recognised in 2022 from performance obligations satisfied (or partially satisfied) in previous periods.

No information is provided about remaining performance obligations as at December 31, 2022 or as at December 31, 2021 that have an original expected duration of one year or less, as allowed by SLFRS 15.

9. Other Income

Accounting Policy

Other Income includes gains or losses on sale of Property, Plant and Equipment and miscellaneous income which are recognised when the related performance obligation is satisfied.

Gains and losses on disposal of assets

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Gain on disposal of property, plant and equipment	1,933	–
Miscellaneous income	107	78
Total other income	2,040	78

10. Operating Profit

Accounting Policy

Operating profit is the result generated from the continuing principal revenue-producing activities of the Company as well as other income and expenses related to operating activities.

Expense 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.

For the purpose of presentation of the Income Statement, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company's performance.

Borrowing Costs

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.

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

Operating profit is stated after charging all expenses including the following :

For the year ended December 31,	Note	2022 Rs.'000	2021 Rs.'000
Auditor's remuneration			
Statutory audit and audit related services		960	796
Non audit services		466	392
Directors' emoluments	10.1	3,530	2,880
Depreciation and amortisation		42,292	41,873
Staff costs	10.2	138,773	125,598
Direct operating expenses on investment property that generated rental income		31,942	27,262

10.1 Directors Emoluments

Directors' emoluments represents fees paid to both Executive and Non-Executive Directors of the Company.

10.2 Staff Costs

	2022 Rs.'000	2021 Rs.'000
Salaries	111,215	105,004
Employees' provident fund	13,346	12,600
Employees' trust fund	3,336	3,150
Provision for employee benefits	10,876	4,844
Total staff costs	138,773	125,598

11. Net Finance Income

Accounting Policy

Finance Income and Costs

The Company's finance income and expenses include:

- Interest income
- Interest expense

Interest income and Costs are recognised using the effective interest rate method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

11.1 Finance Income

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Interest on government treasury bills	11,261	745
Interest on money market investments	4,091	4,044
Interest on fixed deposits	61,124	28,796
Interest on staff loans and other deposits	1,361	1,399
Total finance income	77,837	34,984

11.2 Finance Costs

For the year ended December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Interest expense on leases recognised for right-of-use assets	28	126	9,649	992
Interest expense on rent deposits made by tenants	26	122	2,804	2,648
Bank charges			429	368
Total finance costs			12,882	4,008
Net finance income			64,955	30,976

12. Income Tax Expense

Accounting Policy

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.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

12.1 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. 24 of 2017 and subsequent gazette notifications thereto. According to this act, the Company is liable for current tax at 24% and 30% for the first and second half of the year respectively. (2021 – 24%).

Current tax assets and liabilities are offset only if certain criteria are met.

12.2 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.

Temporary differences in relation to a right-of-use asset and lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

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. Deferred tax assets and liabilities are offset only if certain criteria are met.

12.3 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 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.

12.4 Recognised in Profit or Loss

For the year ended December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Current tax expense				
Current tax expense for the year	32	130	93,220	82,943
(Over)/Under provision for prior years	32	130	(14)	(7,921)
Total current tax			93,206	75,022
Deferred tax expense				
Origination (reversal) of deferred tax liabilities	29.1	127	21,024	(4,219)
Origination of deferred tax assets	29.2	127	(3,123)	(523)
Impact of rate change	29.4	128	65,805	(44,521)
Total deferred tax			83,706	(49,263)
Income tax expense			176,912	25,759

12.5 Recognised in Other Comprehensive Income

For the year ended December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Items that are or may be reclassified subsequently to profit or loss – Debt investment at FVOCI	29.4	128	58	(58)
Items that will not be reclassified to profit or loss – Remeasurement of defined benefit liability	29.4	128	(108)	828
Total deferred tax recognised in other comprehensive income			(50)	770

12.6 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;

For the year ended December 31,	%	2022 Rs. '000	%	2021 Rs. '000
Profit for the year		224,377		401,506
Income tax expense		176,912		25,759
Profit before tax		401,289		427,265
Tax effect using the domestic tax rate	27.0	108,348	24.0	102,544
Tax effect on non-deductible expenses	4.8	19,448	2.7	11,540
Tax effect on tax-exempt income	(4.8)	(19,350)	(5.0)	(21,392)
Tax effect on deductible expenses	(3.8)	(15,226)	(2.3)	(9,749)
Under provision of tax for the previous year	0.0	(14)	(1.9)	(7,921)
Total current tax expenses	23.2	93,206	17.6	75,022

12.7 Surcharge tax

The Surcharge Tax Act No 14 of 2022 (Act) was certified by the Speaker and published as a Supplement to Part II of the Gazette of the Democratic Socialist Republic of Sri Lanka on April 8, 2022. As per the said Act, Surcharge Tax is payable by company or each company of a group of companies (holding and subsidiaries) subject to the taxable income threshold specified in the Act.

As per the Addendum to Statement of Alternative Treatment (SoAT) on Accounting for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 issued by CA Sri Lanka on August 10, 2022, the Surcharge Tax liability be recognised and record the corresponding expenditure as an adjustment to the opening retained earnings in the Statement of Changes in Equity with necessary disclosures.

Accordingly, Company is liable to the Surcharge Tax liability amounting to Rs. 50.6 Mn. and the said adjustment has been incorporated in the Financial Statements during the year ended December 31, 2022.

	Rs.
Taxable Income for Y/A 2020/2021 (including dividend received from the Associate)	202,225,367
Surcharge Tax Liability (25% of Taxable Income for Y/A 2020/2021)	50,556,342
Surcharge Tax is a one off tax which should be paid in two equal installments to the Commissioner General of Inland Revenue as follows;	
1st Installment – on or before April 20, 2022	25,278,171
2nd Installment – on or before July 20, 2022	25,278,171

13. Earnings per Share

Accounting Policy

The calculation of Basic Earnings per Share is done by dividing the profit attributable to Ordinary Shareholders of the Company, by the weighted average number of Ordinary Shares outstanding. Diluted Earnings Per Share is calculated by dividing the profit attributable to Ordinary Shareholders of the Company by the weighted average number of ordinary shares outstanding, adjusted for the effects of all potentially dilutive ordinary shares.

13.1 Basic Earnings per Share

For the year ended December 31,	2022	2021
Profit attributable to ordinary shareholders (Rs. '000)	224,377	401,506
Weighted average number of ordinary shares ('000)	12,000	12,000
Basic earnings per share (Rs.)	18.70	33.46

13.2 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.

14. Dividend per Share

Accounting Policy

Dividend per share is calculated by dividing the dividend paid/proposed for the year attributable to ordinary share holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Dividends 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. 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 after the reporting date and not provided for, 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" as stated in Note 39 on page 141.

For the year ended December 31,	Note	2022	2021
Dividend paid/proposed during the year (Rs. '000)	14.1	84,000	78,000
Weighted average number of ordinary shares ('000)		12,000	12,000
Dividend per share (Rs.)		7.00	6.50

14.1 Dividend Paid/Proposed during the year

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Interim dividend of Rs. 2.50 per share for 2021 paid on December 6, 2021 and December 17, 2021.	–	30,000
Final dividend of Rs. 4.00 per share paid on April 8 and April 26, 2022	–	48,000
Interim dividend of Rs. 3.00 per share for 2022 paid on December 30, 2022.	36,000	
Final dividend of Rs. 4.00 per share proposed for 2022	48,000	–
Total dividend paid/proposed for the year	84,000	78,000

14.2 Compliance with section 56 and 57 of the Companies Act No. 07 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 Section 57, subject to relevant regulatory adherence, prior to declaring the dividends.

15. Adjusted Earnings Before Interest, Tax, Depreciation, and Amortisation (Adjusted EBITDA)

Management has presented the performance measure adjusted EBITDA because it monitors this performance measure at a consolidated level and it believes that this measure is relevant to an understanding of the Company's financial performance. Adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the impact of net finance income, taxation, depreciation, amortisation.

Adjusted EBITDA is not a defined performance measure in SLFRS Standards. The Company's definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

15.1 Reconciliation of adjusted EBITDA to Profit from Continuing Operations

For the year ended December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Profit from continuing operations			224,377	401,506
Income tax expense	12.4	102	176,912	25,759
Profit before tax			401,289	427,265
Adjustments for:				
– Net finance income	11.2	100	(64,955)	(30,976)
– Depreciation/amortisation	17 and 18	106 and 110	42,292	41,873
Adjusted EBITDA			378,626	438,162

16. Classification of Financial Assets and Financial Liabilities

See Accounting Policies in Note 6.2 on page 87.

The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

Item	Note	Page No.	As at December 31, 2022				As at December 31, 2021			
			Fair Value through Profit or Loss Rs. '000	Fair Value through Other Comprehensive Income Rs. '000	Amortised Cost Rs. '000	Total Rs. '000	Fair Value through Profit or Loss Rs. '000	Fair Value through Other Comprehensive Income Rs. '000	Amortised Cost Rs. '000	Total Rs. '000
Financial assets										
Deposits receivable	20	118	–	–	10,980	10,980	–	–	10,857	10,857
Trade and other receivables	21	119	–	–	45,037	45,037	–	–	35,093	35,093
Financial investments	22	119	–		671,482	671,482	–	80,502	485,083	565,585
Cash and cash equivalents	23	120	–	–	154,394	154,394	–	–	105,484	105,484
Total financial assets			–		881,893	881,893	–	80,502	636,517	717,019
Financial liabilities										
Deposits payables	26	122	–	–	56,760	56,760	–	–	54,492	54,492
Trade and other payables	30	129	–	–	3,044	3,044	–	–	2,350	2,350
Lease liabilities	28	126	–	–	85,101	85,101	–	–	19,454	19,454
Total financial liabilities			–	–	144,905	144,905	–	–	76,296	76,296

17. Property, Plant, and Equipment

Accounting Policy

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

Basis of Recognition

Property, Plant and 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.

When significant 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.

Basis of Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and 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.

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

Subsequent Cost
Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

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:

Class of Asset	% Per annum	Period
Leased building (right-of-use asset)	–	Over the lease period
Motor vehicles	20	5 years
Leased motor vehicles	20	5 years
Computer equipment	20	5 years
Office equipment	20	5 years
Furniture and fittings	20	5 years
Interior decorations and partitions	20	5 years

The depreciation rates are determined separately for each significant part of an item of Property, Plant and 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.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Derecognition
An item of Property, Plant and 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 and Equipment, the remaining carrying amount of the replaced part is derecognised as required by the Sri Lanka Accounting Standard – LKAS 16 on "Property, Plant and Equipment".

Reclassification to investment property
When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

17.1 Reconciliation of Carrying Amount

	Right-of-use Assets Building Rs.'000	Motor Vehicles Rs.'000	Right-of-use Asset-Leased Motor Vehicles Rs.'000	Computer Equipment Rs.'000	Office Equipment Rs.'000	Furniture & Fittings Rs.'000	Interior Decorations & Partitions Rs.'000	Total Rs.'000
Cost								
Balance as at January 1, 2021	11,545	271,432	8,050	4,362	1,795	1,851	3,499	302,534
Additions for the year 2021	–	24,810	–	–	26	–	–	24,836
Recognition ROU asset on new lease	19,244	–	–	–	–	–	–	19,244
Disposals/terminations during the year 2021	(11,545)	(21,250)	–	–	–	–	–	(32,795)
Balance as at December 31, 2021	19,244	274,992	8,050	4,362	1,821	1,851	3,499	313,819
Additions for the year 2022	–	–	–	129	–	14	–	143
Recognition ROU asset on new lease	–	–	108,660	–	–	–	–	108,660
Disposals during the year 2022	–	(49,410)	–	–	–	–	–	(49,410)
Balance as at December 31, 2022	19,244	225,582	116,710	4,491	1,821	1,865	3,499	373,212
Accumulated depreciation								
Balance as at January 1, 2021	8,658	186,890	3,670	1,885	1,158	1,228	2,152	205,641
Charge for the year 2021	4,490	33,690	1,609	641	191	313	700	41,634
Disposals/terminations during the year 2021	(11,545)	(12,808)	–	–	–	–	–	(24,353)
Balance as at December 31, 2021	1,603	207,772	5,279	2,526	1,349	1,541	2,852	222,922
Charge for the year 2022	4,811	22,063	13,080	641	190	268	609	41,662
Disposals during the year 2022	–	(23,140)	–	–	–	–	–	(23,140)
Balance as at December 31, 2022	6,414	206,695	18,359	3,167	1,539	1,809	3,461	241,444
Carrying value								
As at December 31, 2022	12,830	18,887	98,351	1,324	282	56	38	131,768
As at December 31, 2021	17,641	67,220	2,771	1,836	472	310	647	90,897

17.2 Leased Property, Plant, and Equipment

The details of leased Property, Plant, and Equipment are as follows;

	Carrying value of the asset		Carrying value of the liability	
As at December 31,	2022	2021	2022	2021
Leased motor vehicles	98,351	2,771	71,423	1,626
Right-of-use assets – Building **	12,830	17,641	13,678	17,828
Total carrying value	111,181	20,412	85,101	19,454

** The future rentals of the Building have been discounted and recognised as right-of-use-assets. The corresponding liabilities have been recorded as lease liabilities.

17.3 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. 108.8 Mn. (2021 – Rs. 24.8 Mn.). Cash payments amounting to Rs. 31.4 Mn. (2021 – Rs. 24.9 Mn.) was paid during the year for the acquisition of Property, Plant and Equipment.

17.4 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year (2021 – Nil).

17.5 Temporarily Idle Property, Plant, and Equipment

There were no temporarily idle property, plant and equipment as at the reporting date (2021 – Nil).

17.6 Fully-Depreciated Property, Plant, and Equipment

The cost of fully-depreciated property, plant, and equipment of the Company which are still in use is as follows:

As at December 31,	2022 Rs. '000	2021 Rs. '000
Motor vehicles	136,307	136,307
Computer equipment	1,182	1,175
Office equipment	888	868
Furniture and fittings	1,691	330
Total cost of fully-depreciated assets	140,068	138,680

17.7 Title Restrictions on Property, Plant, and Equipment

There were no Property, Plant and Equipment pledged as security for liabilities, except for leased motor vehicles as described in Note 17.2. Hence there were no restrictions on the title of such Property, Plant and Equipment as at the reporting date, except for those motor vehicles obtained under finance leases.

17.8 Impairment of Property, Plant, and Equipment

The Board of Directors has assessed the potential impairment loss of Property, Plant and Equipment as at December 31, 2022 especially considering the impact that the present economic condition could have on Company assets. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Property, Plant and Equipment.

17.9 Compensation from Third Parties for Items of Property, Plant, and Equipment

There were no compensation received/receivable from third parties for items of Property, Plant and Equipment that were impaired, lost or given up.

17.10 Amount of Contractual Commitments for the Acquisition of Property, Plant, and Equipment

The Company had no contractual commitments for the acquisition of Property, Plant and Equipment as at the reporting date. (2021: Nil)

18. Intangible Assets

Accounting Policy

The Company applies the requirements of Sri Lanka Accounting Standards – LKAS 38 on "Intangible Assets" in accounting for its identifiable non-monetary assets without physical substance.

Basis of Recognition

An intangible asset is recognised if it is possible that future economic benefits associated with the assets will flow to the Company and cost of the asset can be measured reliably.

Research and development	Expenditure on research activities is recognised in profit or loss as incurred Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses
Other intangible assets	Other intangible assets are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Basis of Measurement

Intangible assets acquired separately are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the Statement of Profit or Loss in the year in which the expenditure is incurred.

Useful Economic Lives, Amortisation and Impairment

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with finite useful lives are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation of intangible assets with a finite life is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date on which they are available for use. The estimated useful lives are as follows:

Asset category	% per annum	Amortisation period (years)
Computer software	20	5

De-recognition of Intangible Assets

An intangible asset is de-recognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss.

18.1 Reconciliation of Carrying Amount

	Computer software Rs. '000
Balance as at January 1, 2021	1,008
Additions for the year 2021	2,412
Balance as at December 31, 2021	3,420
Additions for the year 2022	–
Balance as at December 31, 2022	3,420
Accumulated amortisation	
Balance as at January 1, 2021	419
Amortisation for the year 2021	239
Balance as at December 31, 2021	658
Amortisation for the year 2022	630
Balance as at December 31, 2022	1,288
Carrying value	
As at December 31, 2022	2,132
As at December 31, 2021	2,762

Software in intangible assets mainly consists of the HRIS system and computer software user license acquired by the Company.

Intangible assets with a cost of Rs. 270,500/- (2021 – Rs. 271,000/-) have been fully amortised and continue to be in use by the Company.

There were no intangible assets pledge by the Company as security for facilities obtained from the Banks (2021 – Nil).

19. Investment Property

Accounting Policy

Classification

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

Basis of Measurement

Investment property is measured initially at cost, including transaction costs. The carrying value of an investment property includes the cost of replacing part of an existing investment property, at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of the investment property.

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.

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.

Transfers

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property or inventory (WIP), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property or inventory (WIP), the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Fair Value Reserve – Investment property

The fair value reserve – Investment property represents the post-tax difference between the cost and revalued/fair valued amount of Investment Property from the date that it was identified as Investment property.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Rental Income

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

19.1 Reconciliation of Carrying Amount

	Leasehold Land Rs. '000	Freehold Lands Rs. '000	Buildings Rs. '000	Total Rs. '000
Balance as at January 1, 2021	1,597,030	173,000	1,106,649	2,876,679
Additions through subsequent capital expenditure	–	902	–	902
Change in fair value	103,195	11,628	(25,691)	89,132
Balance as at December 31, 2021	1,700,225	185,530	1,080,958	2,966,713
Balance as at January 1, 2022	1,700,225	185,530	1,080,958	2,966,713
Additions through subsequent capital expenditure	–	–	–	–
Change in fair value	(225)	(530)	65,258	64,503
Balance as at December 31, 2022	1,700,000	185,000	1,146,216	3,031,216

19.2 Details of Investment Property

Location				Carrying Amount/Fair Value	
As at December 31,	Note	Page No.	Extent	2022 Rs. '000	2021 Rs. '000
No. 21, Sir Razik Fareed Mawatha, Colombo 1	19.2.1	114			
– Leasehold land			58.48 P	1,700,000	1,700,225
– Building			126,809 Sq.ft	1,121,216	1,051,284
Sub total				2,821,216	2,751,509
No. 48, Matara Road, Tangalle	19.2.2	114			
– Freehold land			48.76 P	85,000	88,530
– Building			4,284 Sq.ft	25,000	29,674
Sub total				110,000	118,204
No. 18, Fernando Avenue, Negombo	19.2.3	115			
– Freehold land			18.65 P	100,000	97,000
Sub total				100,000	97,000
Balance as at December 31,				3,031,216	2,966,713

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, 2022. 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.

The leasehold land held under an operating lease, classified as investment property has been stated at fair value as required by paragraph 33 of LKAS 40 – "Investment Property".

19.2.1 Property situated in Colombo

Investment Property situated at Colombo 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, 2022 in the report dated January 14, 2023.

The significant assumptions used by the Valuer are as follows:

	2022 %	2021 %
Long-term growth in future rentals (per annum)	4	3 – 4
Anticipated maintenance cost (per annum)	45	45
Yield/Discount rate (per annum)	6.25	6.25

Income from Investment Property situated in Colombo

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Rental income from investment property	264,249	261,942
Direct operating expenses (including maintenance) generating rental income	(31,920)	(27,243)
Net profit from investment property carried at fair value	232,329	234,699

The residual lease period of the Land as at December 31, 2022 was 59 years. The remaining useful lifetime of the building as at December 31, 2022 was 38 years.

19.2.2 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, 2022 in the report dated December 27, 2022.

The significant assumptions used by the Valuer are as follows;

	2022 %	2021 %
Anticipated maintenance cost (per annum)	25	20
Yield/Discount rate (per annum)	6.00	5.50

Income from Investment Property situated in Tangalle

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Rental income from investment property	3,861	3,796
Direct operating expenses (including maintenance) generating rental income	(22)	(19)
Net profit from investment property carried at fair value	3,839	3,777

Remaining period of lifetime of the building as at December 31, 2022 was 44 years.

19.2.3 Property situated in Negombo

This Property is stated at fair value, and has been determined based on the valuation performed by Mr G H A P K Fernando, a Chartered Valuation Surveyor as at December 31, 2022 in the reported dated December 31, 2022.

Income from Investment Property situated in Negombo

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Rental income from investment property	3,261	3,246
Direct operating expenses (including maintenance) generating rental income	–	–
Net profit from investment property carried at fair value	3,261	3,246

19.3 Information on Fair Value Measurement

19.3.1 Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year.

Fair value hierarchy

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

	Level1	level2	Level3	Total
2022				
Investment Property	–	–	3,031,216	3,031,216
2021				
Investment Property	–	–	2,966,713	2,966,713

19.3.2 Summary of fair vale measurement of investment property

For the year ended December 31, 2022

Name of Professional Valuer/Location and Address	Valuation Technique	Significant unobservable inputs	Value	Range of Estimates for Unobservable Inputs
(1) **Mr P B Kalugalagedara** No. 21, Sir Razik Fareed Mawatha, Colombo 01				
		Future rental income	monthly rent average Rs. 223/- per sq. ft	Fair value will increase/ (decrease) if expected monthly rentals increase/ (decrease).
- Land	Investment method (discounting the Cash flow system)	Remaining useful life of the building	38 Years	Fair value will increase/ (decrease) if remaining useful life increase/ (decrease).
- Building		Risk adjusted discount rates for commercial and residential segments	6.25%	Fair value will increase/ (decrease) if discount rate decrease/ (increase).
(2) **Mr G M Gamage** No. 48, Matara Road, Tangalle				
- Land	Investment method (discounting the Cash flow system)	Gross Monthly Rental	Ground Floor: monthly rental income of Rs. 105/- per sq.ft.	Fair value will increase/ (decrease) if price increase/ (decrease).
- Building			Upper Floor: monthly rental income of Rs. 58/- per sq.ft.	Fair value will increase/ (decrease) if price increase/ (decrease).
(3) **Mr G H A P K Fernando** No. 18, Fernando Avenue, Negombo				
- Land	Market direct comparison method	Price per perch for land	Rs. 5,400,000 per perch	Fair value will increase/ (decrease) if price increase/ (decrease).
Total				

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Carrying Value before Revaluation of			Revalued Amount of			Revaluation Gain/(Loss) recognised on		
Land Rs. '000	Buildings Rs. '000	Total Rs. '000	Land Rs. '000	Buildings Rs. '000	Total Rs. '000	Land Rs. '000	Buildings Rs. '000	Total Rs. '000
1,700,225	1,051,284	2,751,509	1,700,000	1,121,216	2,821,216	(225)	69,932	69,707
88,530	29,674	118,204	85,000	25,000	110,000	(3,530)	(4,674)	(8,204)
97,000	-	97,000	100,000	-	100,000	3,000	-	3,000
1,885,755	1,080,958	2,966,713	1,885,000	1,146,216	3,031,216	(755)	65,258	64,503

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs 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)

20. Deposits Receivables

See Accounting Policy in Note 6.2 on page 87.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Refundable deposit – Ceylon Electricity Board (CEB)	8,720	8,720
Refundable deposit – Colombo Fort Land & Building Company PLC	2,154	2,031
Refundable deposits with other suppliers	106	106
Total deposit receivables	10,980	10,857

20.1 No fair value adjustment has been made for refundable deposits with CEB and other suppliers as these deposits do not have a defined period.

21. Trade and other Receivables

See Accounting Policy in Note 6.2 on page 87.

A receivable represents the Company's right to an amount of consideration that is unconditional.

As at December 31,	Note	2022 Rs. '000	2021 Rs. '000
Financial assets			
Trade receivables	21.1	2,318	3,392
Amount due from Commercial Bank of Ceylon PLC		32,785	21,050
Receivables from contracts with customers		35,103	24,442
Staff loans		8,905	9,772
Other receivables		1,029	879
Total financial assets		45,037	35,093
Non financial assets			
Prepaid staff cost		67	213
Insurance premium paid and other prepayments		7,938	7,705
Total non-financial assets		8,005	7,918
Total trade and other receivables		53,042	43,011

21.1 Trade Receivables are non-interest bearing and generally on 15 to 30 day credit terms.

22 Financial Investments

See Accounting Policy in Note 6.2 on page 87.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Investments in fixed deposits – at amortised cost	671,482	485,083
Investments in treasury bills – at FVOCI	–	80,502
Total financial investments	671,482	565,585

The Company has invested Rs. 500,000,000/- in Fixed Deposits for 1 year at 20% p.a. interest at CBC Finance Limited which is a fully owned subsidiary of Commercial Bank of Ceylon PLC (the Parent).

Further, the Company has also invested Rs.120,000,000/- for 400 days Fixed Deposits for 1 year at 25% p.a. interest at Commercial Bank of Ceylon PLC (the Parent).

23. Cash and Cash Equivalents

Accounting Policy

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts, if any.

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.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Cash at bank	154,394	105,484
Cash in hand	68	40
Total cash and cash equivalents	154,462	105,524

The Company's cash at bank consists of balances with Commercial Bank of Ceylon PLC (the Parent).

24. Stated Capital

Accounting Policy

The ordinary shares of the Company are quoted in the Colombo Stock Exchange. Holders of ordinary shares are entitled to receive dividends as declared from time to time, and are eligible to one vote per share at the General Meeting of the Company.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with LKAS 12.

As at December 31,	2022 Rs. '000	2021 Rs. '000
12,000,000 Ordinary shares	120,000	120,000
Total stated capital	120,000	120,000

25. Other Reserves

As at December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Fair value reserve – Investment property	25.1	121	2,406,680	2,418,349
Fair value reserve – Financial assets	25.2	121	–	(185)
Total other reserves			2,406,680	2,418,164

25.1 Fair Value Reserve – Investment Property

Any gains arising from the fair value adjustments from investment property are transferred from retained earnings to the fair value reserve – investment property and any losses incurred are transferred to the fair value reserve – investment property to the extent that the loss does not exceed the balance held in the said reserve.

	Note	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,		2,418,349	2,287,444
Transfer of fair value gains on investment property	25.1.1	(11,669)	130,905
Balance as at December 31,		2,406,680	2,418,349

25.1.1 Transfer of fair value gains on investment property

For the year ended December 31,	2022				2021			
	Pre-tax Fair Value Gain/(Loss) Rs. '000	Related tax Rs. '000	Impact on Rate Change Rs. '000	Post-tax Fair Value Gain/(Loss) Rs. '000	Pre-tax Fair Value Gain/(Loss) Rs. '000	Related tax Rs. '000	Impact on Rate Change Rs. '000	Post-tax Fair Value Gain/(Loss) Rs. '000
Leasehold land	(225)	–	–	(225)	103,195	–	–	103,195
Freehold land	(530)	160	(3,719)	(4,089)	11,628	(2,791)	2,014	10,851
Building	65,258	(19,578)	(53,035)	(7,355)	(25,691)	6,166	36,384	16,859
Total	64,503	(19,418)	(56,754)	(11,669)	89,132	3,375	38,398	130,905

25.2 Fair Value Reserve – Financial Assets

Fair value reserve – financial assets comprises of the impact arising from the changes in market values of financial assets at fair value through other comprehensive income.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,	(185)	–
Gain/(Loss) on financial assets at FVOCI – Net of tax	185	(185)
Balance as at December 31,	–	(185)

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26. Deposits Payables

Accounting Policy

See Accounting Policy in Note 6.2 on page 87.

Deposits payables are the aggregate amount of obligations to pay for deposits received from tenants which are refundable. Deposits payables are initially recorded at their fair value and subsequently carried at amortised cost.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,	54,492	37,796
Deposits received during the year	85	25,219
Day 1 difference	(621)	(11,171)
Notional interest expense for the year	2,804	2,648
Balance as at December 31,	56,760	54,492

26.1 The Deposits payables as at the reporting date consists of deposits received from Commercial Bank of Ceylon PLC and other tenants which should be repaid after the termination of the tenancy agreements. Average tenancy period is 4 years.

The balance includes deposits payables of Rs. 55.6 Mn. (2021 – Rs. 53.4 Mn.) with Commercial Bank of Ceylon PLC (The Parent).

27. Employee Benefits

Accounting Policy

A. 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.

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.

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.

B. 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. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and any charge in the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

27.1 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,	2022 Rs. '000	2021 Rs. '000
Employees' Provident Fund		
Employer's contribution (12%)	13,346	12,600
Employees' contribution (8%)	8,897	8,400
Employees' Trust Fund (3%)	3,336	3,150

27.2 Defined Benefit Plans – Provision for Employee Benefits

As at December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Present value of unfunded obligation	27.2.1	124	61,078	50,966
Balance as at December 31,			61,078	50,966

27.2.1 Movement in the present value of the employee benefits unfunded obligation

For the year ended December 31,	Note	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,		50,966	51,776
Provision recognised during the year	27.2.1.1	10,876	4,844
Actuarial (gain)/loss during the year	27.2.1.2	402	(3,449)
Sub total		62,244	53,171
Payments made during the year		(1,166)	(2,205)
Balance as at December 31,		61,078	50,966

27.2.1.1 Provision recognised in the Income Statement

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Current service cost	5,270	4,859
Interest on obligation	5,606	3,883
Past service cost	–	(3,898)
Total provision recognised in income statement	10,876	4,844

27.2.1.2 Provision recognised in Other Comprehensive Income

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Actuarial (gain)/loss during the year	402	(3,449)
Total actuarial (gain)/loss recognised in other comprehensive income	402	(3,449)

27.3 Principal Actuarial Assumptions Used

For the year ended December 31,	2022	2021
(a) Discount rate (%)	18.0	11.0
(b) Future salary increase rate (%)	16.0	9.0
(c) Retirement age (years)	60	60

The Company obtained an actuarial valuation from Mr M Poopalanathan (AIA), Qualified Actuary, of Messrs Actuarial and Management Consultants (Pvt) Ltd., using Projected Unit Credit Method dated January 16, 2023.

27.4 Sensitivity Analysis

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

	2022		2021	
	%	Effect Rs. '000	%	Effect Rs. '000
Increase				
Discount rate (1% movement)	19.0	(5,295)	12.0	(4,887)
Future salary growth (1% movement)	17.0	6,094	10.0	5,717
Decrease				
Discount rate (1% movement)	17.0	6,058	10.0	5,683
Future salary growth (1% movement)	15.0	(5,407)	8.0	(4,994)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

27.5 Maturity Analysis of the Payments

The following payments are expected on employee benefit liabilities in future years.

	Defined Benefit Obligation	
As at December 31,	2022 Rs. '000	2021 Rs. '000
Future working life time		
Less than one year	2,443	2,108
Between 1-2 years	7,208	6,670
Between 3-5 years	8,357	4,576
Between 6-10 years	14,260	10,924
Beyond 10 years	28,810	26,688
Balance as at December 31,	61,078	50,966

The average duration of the defined benefit plan obligation at the end of the reporting period is 11.32 years for the Company (2021 – 12.32 years).

28. Lease Liabilities

Accounting Policy

See Accounting Policy in Note 6.3 on page 90.

As explained in Note 6.3 to the Financial Statements, the Company has applied SLFRS 16 using the modified retrospective approach in 2019 and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4.

As at December 31,	Note	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,		19,454	5,973
Recognition of right-of-use asset		77,350	19,130
Interest expense for the year		9,649	992
Repayments during the year		(21,352)	(6,641)
Balance as at December 31,		85,101	19,454
The above balance is made up as follows:			
Payable within one year		15,963	5,080
Payable after one year		69,138	14,374
Total		85,101	19,454
Lease liabilities arising from purchase of a motor vehicle	28.1	71,423	1,626
Lease liabilities arising from right-of-use assets		13,678	17,828
		85,101	19,454

28.1 The above balance consists of the lease creditor balance with Commercial Bank of Ceylon PLC in respect of purchasing motor vehicles under finance leases. Details of carrying value of the assets pledged as securities are given in Note 17.7 on page 109 to the Financial Statements.

Information about the Company's exposure to interest rate, foreign currency and liquidity risks is included in Note 36 on page 137

28.1.1 Terms and Repayment Schedule

The terms and conditions of outstanding lease payables to Commercial Bank of Ceylon PLC are as follows;

	Currency	Nominal interest rate	Year of maturity	As at December 31, 2022		As at December 31, 2021	
				Face value Rs.'000	Carrying amount Rs.'000	Face value Rs.'000	Carrying amount Rs.'000
Lease liabilities arising from purchase of a motor vehicle	LKR	13.75% – 22.5%	2027	112,013	71,423	1,829	1,626
Total finance lease liabilities				112,013	71,423	1,829	1,626

29. Deferred Taxation

Accounting Policy

See Accounting Policy in Note 12 on page 100.

Net deferred tax (assets)/liabilities of an entity cannot be set-off against another entity's deferred tax (assets)/liabilities as there is no legally enforceable right to set-off.

As at December 31,	Note	2022 Rs. '000	2021 Rs. '000
Deferred tax liabilities	29.1	365,392	275,494
Deferred tax assets	29.2	(18,577)	(12,335)
Balance as at December 31,		346,815	263,159

29.1 Deferred Tax Liabilities

As at December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,			275,494	326,332
Provision/(Reversal) during the year recognised in income statement	29.4	128	21,024	(4,219)
Impact of rate change during the year recognised in income statement	29.4	128	68,874	(46,619)
Balance as at December 31,			365,392	275,494

29.2 Deferred Tax Assets

As at December 31,	Note	Page No.	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,			12,335	14,680
(Reversal)/Origination during the year recognised in income statement	29.4	128	3,123	523
(Reversal)/Origination during the year recognised in other comprehensive income	29.4	128	50	(770)
Impact of rate change during the year recognised in income statement	29.4	128	3,069	(2,098)
Balance as at December 31,			18,577	12,335

29.3 Reconciliation of Deferred Tax Liabilities and Deferred Tax Assets

As at December 31,	Note	Page No.	Statement of Financial Position 2022 Temporary Difference Rs. '000	2022 Tax Effect Rs. '000	2021 Temporary Difference Rs. '000	2021 Tax Effect Rs. '000
Deferred tax liabilities						
Investment property – Building			1,134,960	340,488	1,068,096	256,343
Property, plant and equipment			21,058	6,317	17,311	4,155
Intangible assets			509	153	509	122
Fair value gain on freehold land	29.5	129	61,446	18,434	61,976	14,874
Total			1,217,973	365,392	1,147,892	275,494
Deferred tax assets						
Employee benefits			61,078	18,323	50,966	12,232
Fair value reserve – Financial assets			–	–	243	58
Lease liabilities			13,678	4,103	17,829	4,279
Right-of-use asset			(12,829)	(3,849)	(17,640)	(4,234)
Total			61,927	18,577	51,398	12,335

29.4 Movement of Deferred Tax Liabilities and Deferred Tax Assets

For the year ended December 31, 2022	Note	Page No.	Balance as at January 1, 2022 Rs. '000	Recognised through Income Statement: Impact of the rate Change Rs. '000	Recognised through Income Statement: Origination/ Reversal Rs. '000	Recognised through Other Comprehensive Income Rs. '000	Balance as at December 31, 2022 Rs. '000
Deferred tax liabilities							
Investment property – Building			256,343	64,085	20,060	–	340,488
Property, plant and equipment			4,155	1,039	1,123	–	6,317
Intangible assets			122	31	–		153
Fair value gain on freehold land	29.5	129	14,874	3,719	(159)	–	18,434
Total			275,494	68,874	21,024	–	365,392
Deferred tax assets							
Employee benefits			12,232	3,058	2,925	108	18,323
Fair value reserve – Financial assets			58	–	–	(58)	–
Lease liabilities			4,279	1,069	(1,245)	–	4,103
Right-of-use assets			(4,234)	(1,058)	1,443	–	(3,849)
Total			12,335	3,069	3,123	50	18,577

For the year ended December 31, 2021	Note	Balance as at January 1, 2021 Rs. '000	Recognised through Income Statement: Impact of the rate Change Rs. '000	Recognised through Income Statement: Origination/ Reversal Rs. '000	Recognised through Other Comprehensive Income Rs. '000	Balance as at December 31, 2021 Rs. '000
Deferred tax liabilities						
Investment property – Building		305,645	(43,663)	(5,639)	–	256,343
Property, plant and equipment		6,556	(937)	(1,464)	–	4,155
Intangible assets		33	(5)	94		122
Fair value gain on freehold land	29.5	14,098	(2,014)	2,790	–	14,874
Total		326,332	(46,619)	(4,219)	–	275,494
Deferred tax assets						
Employee benefits		14,497	(2,071)	634	(828)	12,232
Fair value reserve – Financial assets		–	–	–	58	58
Lease liabilities		991	(142)	3,430	–	4,279
Right-of-use assets		(808)	115	(3,541)	–	(4,234)
Total		14,680	(2,098)	523	(770)	12,335

29.5 As per the Inland Revenue Act No. 24 of 2017, which became effective from April 1, 2018, capital assets/business assets attract tax at applicable corporate tax rate on gains at the time of disposal. Accordingly, deferred tax liability of Rs. 18,433,865/- has been recognised as at December 31, 2022 (2021: Rs. 14,874,292/- at the rate of 24%) at the rate of 30% on revaluation surplus relating to Freehold Land which are classified as business assets for tax purposes, although the same is classified as Investment Property for accounting purposes.

29.6 Unrecognised Deferred Tax Assets and Liabilities

There were no unrecognised deferred tax assets or liabilities as at the reporting date (2021: Nil).

30. Trade and Other Payables

Accounting Policy

See Accounting Policy in Note 6.2 on page 87.

The Company initially recognises financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Non-financial liabilities include accruals and advances and these payables are recorded at the amounts that are expected to be paid.

Trade and other payables are normally non-interest bearing and settled within one year.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Financial liabilities		
Dividend payable	3,044	2,350
	3,044	2,350
Non-financial liabilities		
VAT payable	7,312	3,303
Accrued expenses	10,623	6,989
Overtime payable	2,343	2,125
EPF and ETF payable	2,194	2,028
Other payables	1,378	163
	23,850	14,608
Total	26,894	16,958

31. Deferred Revenue

Accounting Policy

See Accounting Policy in Note 8 on page 96.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Rent received in advance	8,515	10,566
Total	8,515	10,566

32. Current Tax Liabilities

Accounting Policy

See Accounting Policy in Note 12 on page 100.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Balance as at January 1,	42,391	28,758
Provision made during the year	93,220	82,943
(Over)/Under provision for prior years	(14)	(7,921)
Payments made during the year	(83,102)	(61,389)
Balance as at December 31,	52,495	42,391

33. Leases

33.1 Leases as Lessee (SLFRS 16)

The Company entered into a lease agreement with Urban Development Authority for lease of property for a period of 99 years ending April 1, 2081. This property has been sub-let and the existing sub-lease effective from January 1, 2021 will expire after a period of 4 years ending December 31, 2024.

The Company entered into a lease agreement with Colombo Fort Land and Building PLC for lease of office space for a period of 4 years ending August 31, 2025.

Information about leases for which the Company is a lessee is presented below.

33.1.1 Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

As at December 31, 2022	Property, Plant and Equipment		Investment Property	Total
	Building Rs. '000	Motor Vehicles Rs. '000	Leasehold Land Rs. '000	Rs. '000
Balance at January 1,	17,641	2,771	1,700,225	1,720,637
Recognition ROU asset on new lease	–	108,660	–	108,660
Depreciation for the year	(4,811)	(13,080)	–	(17,891)
Change in fair value	–	–	(225)	(225)
Balance at December 31,	12,830	98,351	1,700,000	1,811,181

33.1.2 Amounts recognised in profit or loss

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Interest on lease liabilities	9,649	992
Depreciation of right-of-use assets	17,891	6,099
Total	27,540	7,091

33.1.3 Amounts recognised in statement of cash flows

The Company has classified:

- cash payments for the principal portion of lease payments as financing activities.
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Company.
- short-term lease payments and payments for leases of low-value assets as operating activities.

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Total cash outflow for leases	21,352	6,641
Total	21,352	6,641

33.2 Leases as Lessor

33.2.1 Operating leases

The Company leases out its investment property. The Company has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 19 on page 112 sets out information about the operating leases of investment property.

Rental income recognised by the Company during 2022 was Rs. 271,370,815/- (2021 – Rs. 268,984,198/-).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

As at December 31,	2022 Rs. '000	2021 Rs. '000
Operating leases under SLFRS 16		
Less than one year	260,774	253,827
One to two years	264,560	257,024
Two to three years	6,707	260,779
Three to four years	5,222	4,513
Total	537,263	776,143

34. Related Party Disclosures

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard LKAS 24 on "Related Party Disclosures".

34.1 Parent and Ultimate Controlling Party

The Company's immediate and ultimate controlling party is Commercial Bank of Ceylon PLC.

34.2 Key Management Personnel

According to LKAS 24 "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors and the Chief Executive Officer of the Company have been classified as Key Management Personnel (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 Key Management Personnel of the Company.

34.2.1 Transactions with key management personnel

For the year ended December 31,	2022 Rs. '000	2021 Rs. '000
Short-term benefits	4,574	3,676
Post employment benefits	–	–

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

34.2.2 Transactions with Close Family Members (CFM) of KMP

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependants of the KMP or the KMP's domestic partner. CFM are related parties to the Company.

There are no transactions with the CFM of the KMP of the Company during the year (2021: Nil).

34.3 Related Party Transactions

The value of all transactions carried out by the Company with its related parties during the year ended December 31, 2022 and comparative year are summarised below:

Name of the Related Party	Relationship	Nature of Transactions	Value of Transactions 2022 Rs. '000	Value of Transactions 2021 Rs. '000
Commercial Bank of Ceylon PLC	Parent	**Income**		
		Rent income on premises	265,386	255,570
		Outsourcing services	226,715	197,728
		Vehicle hiring income	90,995	75,216
		Other utility services	42,047	90,359
		Interest income	15,520	4,789
		Reimbursement of expenses	57,094	60,065
		Expenses		
		Bank charges	429	368
		Lease interest expense	8,255	285
		Insurance renewals through bancassurance	2,971	3,653
		Expenses incurred	57,094	60,065
Commercial Insurance Brokers (Pvt) Limited	Affiliate	**Expenses**		
		Insurance renewal	11,408	10,112
CBC Finance Limited	Affiliate	**Investments**		
		Investment in fixed deposit	549,315	467,000
		Income		
		Interest income	60,957	28,796
CBC Tech Solutions Limited	Affiliate	**Expenses**		
		Purchase of HRIS system and IT services	**630**	2,758

The Deposits payables to Commercial Bank of Ceylon PLC as at the reporting date amounted to Rs. 55.6 Mn. (Rs. 53.4 Mn. in 2021)

Receivable from Commercial Bank of Ceylon PLC is disclosed in Note 21 on page 119.

34.4 Related Party Transactions Review Committee

As permitted under the Section 9.2.3 of the Listing Rules of the Colombo Stock Exchange, the Related Party Transactions Review Committee of the Parent Company, Commercial Bank of Ceylon PLC (CBC), functions as the Related Party Transactions Review Committee of the Company.

A summary of all transactions carried out by the Company with CBC is tabled at the meetings of the Board Related Party Transactions Review Committee of CBC for the information of the members of the Committee.

Disclosure Requirement under Section 9.3.2 (a) and 9.3.2 (b) of the CSE Listing Rules

As per rule No. 9.3.2 (a) the Company does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited Financial Statements of the Company.

As per rule No. 9.3.2 (b), the Company has following recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the gross revenue/income as per the latest Audited Financial Statements of the Company.

Name of the related party	Relationship	Nature of the transaction	Aggregate value of related party transactions entered into during the financial year		Aggregate value of related party transactions as a % of net revenue	
			2022 Rs. '000	2021 Rs. '000	2022 %	2021 %
Commercial Bank of Ceylon PLC	Parent	Rent income, Outsourcing services, Vehicle hiring income, Other utility service, Interest income and Reimbursement of expenses.	697,757	683,727	111	108
		Bank charges, Lease Interest expense, Insurance renewals through bancassurance and Expenses incurred	68,749	64,371	11	10

The Company carried out transactions in the ordinary course of business on an arm's length basis at terms and conditions under normal commercial terms.

35. Fair Values of Financial Instruments

Accounting Policy

See Accounting Policy in Note 6.7 on page 92.

35.1 Valuation Models

The Company measures fair values using the fair value hierarchy, as described in Note 6.7.1 on page 93.

35.2 Valuation Framework

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Accountant.

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes:
- Verifying that the broker or pricing service is approved by the Company for use in pricing the relevant type of financial instrument
- Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the standards, including the level in the fair value hierarchy in which the valuations should be classified.

Any changes to the fair value methodology is reported to the Company's Audit Committee.

35.3 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.

As at December 31, 2022			Fair value hierarchy			Total
	Note	Page No.	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Rs. '000
Financial assets at FVOCI						
Treasury bills	22	119	–	–	–	–
			–	–	–	–

As at December 31, 2021			Fair value hierarchy			Total
	Note	Page No.	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Rs. '000
Financial assets at FVOCI						
Treasury bills	22	119	80,502	–	–	80,502
			80,502	–	–	80,502

As Treasury bills/bonds are valued using Central Bank published rates, investments in treasury bills/bonds are classified under level 1.

Transfers between Levels 1 and 2

There were no transfers from Level 1 to 2 or Level 2 to Level 1 in 2022 and no transfers in either direction in 2021.

35.4 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 tables does not include non-financial assets and liabilities.

	2022		2021	
	Carrying value Rs. '000	Fair value Rs. '000	Carrying value Rs. '000	Fair value Rs. '000
Financial assets at amortised cost:				
Deposits receivable	10,980	10,980	10,857	10,857
Trade receivables	2,318	2,318	3,392	3,392
Amount due from Commercial Bank of Ceylon PLC	32,785	32,785	21,050	21,050
Staff loans	8,905	8,905	9,772	9,772
Financial investments	671,482	671,482	485,083	485,083
Cash and cash equivalents	154,394	154,394	105,484	105,484
Other receivables	1,029	1,029	879	879
Total	881,893	881,893	636,517	636,517
Other financial liabilities:				
Deposits payables	56,760	56,760	54,492	54,492
Lease liabilities	85,101	85,101	19,454	19,454
Dividend payable	3,044	3,044	2,350	2,350
Total	144,905	144,905	76,296	76,296

Determination of Fair Values

Financial Assets

The carrying amount of 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 prevailing at loan grant date.

Carrying values of deposits and trade and other receivables have been considered as the fair value due to the timing of cash flows.

Financial Liabilities

Carrying value of all financial liabilities has been considered as the fair value due to the timing of cash due.

Fair valuation methodology and significant unobservable valuation inputs

The fair value of fixed rate financial assets and liabilities carried at amortised cost 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 demand deposits and savings deposits which do not have a specific maturity.

36. 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 this Financial Statements.

Risk Management Framework

The Board of Directors has the 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.

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.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company audit committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

36.1 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investments in debt securities. The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

The maximum credit risk of the Company is limited to the carrying value of these financial assets,

Carrying Value as at December 31,	2022 Rs. '000	2021 Rs. '000
Trade receivables	2,318	3,392
Amounts due from Commercial Bank of Ceylon PLC ("the Parent")	32,785	21,050
Staff loans	8,905	9,772
Deposits receivable	10,980	10,857
Financial investments	671,482	565,585
Cash and cash equivalents	154,394	105,484
Other receivables	1,029	879
	881,893	717,019

No impairment losses on financial assets and contract assets are recognised in profit or loss for the year ended December 31, 2022 (2021: Nil).

(i) Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 8 on page 96.

A summary of the Company's exposure to credit risk for trade receivables and contract assets is as follows.

As at December 31,	2022		2021	
	Non-Credit Impaired Rs. '000	Credit Impaired Rs. '000	Non-Credit Impaired Rs. '000	Credit Impaired Rs. '000
Current (Not past due)	2,318	–	3,392	–
1-30 days past due	–	–	–	–
31-90 days past due	–	–	–	–
More than 90 days past due	–	–	–	–
Total gross carrying amount	2,318	–	3,392	–
(-) Loss allowance	–	–	–	–
	2,318	–	3,392	–

(ii) Amount due from Commercial Bank of Ceylon PLC (the Parent)

Revenues of the Company is mainly represented by the revenue from the Commercial Bank of Ceylon PLC (The Parent), which is approximately Rs. 625 Mn. (2021: Rs. 619 Mn.) of the Company's total revenue. The Commercial Bank of Ceylon PLC is a public limited liability company listed on the Colombo Stock Exchange (CSE), incorporated on June 25, 1969. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. Its credit rating, A(lka) was rated by Fitch Ratings Lanka Ltd. as at the reporting date [2021: AA – (lka)].

(iii) Cash and cash equivalents

The cash and cash equivalents are held with the Commercial Bank of Ceylon PLC which is rated A(lka) by Fitch Ratings Lanka Ltd. [2021: AA – (lka)].

(iv) Financial instruments

The Fixed deposit held with the CBC Finance Limited which is rated BBB+(lka) by Fitch Ratings Lanka Ltd.

36.2 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 has 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, 2022	Carrying Amount	Contractual Cash Flows			
		Total	6 Months or Less	6-12 Months	Over One Year
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial liabilities					
Deposits payables	56,760	63,292	–	–	63,292
Lease liabilities	85,101	127,351	15,920	15,646	95,785
Dividend payables	3,044	3,044	3,044	–	–
	144,905	193,687	18,964	15,646	159,077

As at December 31, 2021	Carrying Amount	Contractual Cash Flows			
		Total	6 Months or Less	6-12 Months	Over One Year
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial liabilities					
Deposits payables	54,492	63,206	–	–	63,206
Lease liabilities	19,454	22,712	3,321	3,321	16,070
Dividend payables	2,350	2,350	2,350	–	–
	76,296	88,268	5,671	3,321	79,276

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

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities over the next 360 days. The ratio of investments to total financial liabilities was 5.70 at December 31, 2022 (2021: 8.80).

36.3 Market Risk

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

The Company's exposure to market risk is limited only to interest rate risk as at the reporting date.

36.3.1 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 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.

The interest rate profile of the Company's interest-bearing financial instruments as reported to the management is as follows.

Carrying Value as at December 31,	2022 Rs. '000	2021 Rs. '000
Financial assets		
Financial investments	671,482	565,585
Financial liabilities		
Lease liabilities	85,101	19,454

36.4 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 behaviour. 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 of the Company.

37. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Company monitors capital using a ratio of "net debt" to "adjusted equity". Net debt is calculated as total liabilities (as shown in the Statement of Financial Position) less cash and cash equivalents. Adjusted equity comprises all components of equity.

The Company's net debt to adjusted equity ratio was as follows:

As at December 31,	2022 Rs. '000	2021 Rs. '000
Total liabilities	637,659	457,986
Cash and cash equivalents	(154,462)	(105,524)
Net debt	483,197	352,462
Total equity	3,417,424	3,327,363
Adjusted equity	3,417,424	3,327,363
Net debt to adjusted equity ratio	14%	11%

Increase in liabilities as at December 31, 2022 has resulted to the increase in the net debt to adjusted equity ratio from 11% to 14%. Liabilities has increased mainly due to increase in current and deferred tax liabilities consequent to increase in corporate tax rate.

38. Contingent Liabilities and Commitments

Accounting Policy

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.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

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

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.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37.

38.1 Litigations and Claims

A case was filed against the Company by a former employee at the Labour Tribunal, Negombo. The Labour Tribunal ordered that the said employee be compensated with Rs. 2,034,000/- . The Company has appealed against this order to the High Court.

No provision is made in the Financial Statements as the lawyers are of the opinion that the outcome of the potential liability on this case cannot be assessed with reasonable certainty at this stage.

Except for the above, there were no significant contingent litigations and claims against the Company outstanding as at the reporting date.

38.2 Capital Commitments

There were no contracts for capital expenditure of material amounts approved or contracted for as at reporting date.

38.3 Financial Commitments

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

39. Events Occurring after the Reporting Date

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements, other than disclosed below.

39.1 Final Dividend – 2022

The Board of Directors has recommended the payment of a final dividend of Rs. 4/- per share for the year ended December 31, 2022 which was approved at the Board Meeting held on February 22, 2023.

This final dividend is yet to be approved at the Annual General Meeting to be held on March 31, 2023. 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 a liability as at December 31, 2022.

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by the 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 22, 2023 has been audited by Messrs KPMG.

40. Impact of Economic Conditions to the Financial Statement

Sri Lanka is currently in an economic, fiscal and monetary turmoil which has resulted in an economic recession. This has been further fueled by the rating downgrade to "Default Imminent (C)" when the Government of Sri Lanka announced that it will withhold payments to bonds and foreign debts on April 12, 2022.

In light of the decreasing foreign reserves, Central Bank of Sri Lanka made several policy decisions such as floating the rupee on March 10, 2022, which led to a rapid rupee depreciation against major foreign currencies. The severe shortage of foreign currency has left the Government of Sri Lanka unable to pay for essential imports, including fuel, foods, gas, and medicine. At the same time, Sri Lanka's annual inflation scaled to 18.7 percent in March 2022 from 3.9 percent in April 2021. At this outset banks restricted and imposed controls on the foreign currency payments made to outside of Sri Lanka, which disrupted the economy based on imports and consumption. Inflation that continued to rise during the period from April to August 2022 showed a slight declining trend from 29.80 to 64.30. Additionally, the restrictions imposed were also reviewed and reversed allowing the economy to function with limited restriction.

Company's responses on the impact on the future operations and the financial condition of the Company

However despite the negative macroeconomic outlook, the Company continued to maintain its operation at profit. The Management will continue to monitor the situation and take required mitigating actions to minimize the impact of macro economic factors while ensuring that the business operations are carried out without disruption. Since, the Company's main operation is related to earning rent income the company don't expect a significant disruption to it's business in the future.

41. Comparative Information

Where necessary information has been restated to conform to current year's presentation and classification.

42. Board of Director's Responsibility for Financial Reporting

The Directors are responsible for the preparation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Supplementary Information

Investor Information

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	Section 8.1 in the Annual Report of the Board of Directors	60
7.6 (ii)	Principal activities of the Company during the year and any changes therein	Note 1.3 to the Financial Statements	84
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	Section 3 of the Investor Information	146
7.6 (iv)	The float adjusted market capitalisation, public holding percentage, number of public shareholders and under which option the Company complies with the minimum public holding requirement	Section 4 of the Investor Information	146
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year	Section 8.5 in the Annual Report of the Board of Directors	61
7.6 (vi)	Information pertaining to material foreseeable risk factors	Section 5 of the Investor Information	147
7.6 (vii)	Details of material issues pertaining to employees and industrial Relations	Section 6 of the Investor Information	147
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties	Section 7 of the Investor Information	147
7.6 (ix)	Number of shares representing the stated capital	Note 24 to the Financial Statements on "Stated Capital"	120
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Section 8 of the Investor Information	147
7.6 (xi)	Ratios and market price information: **Equity** – Dividend per share, dividend payout ratio, net asset value per share, market value per share **Debt** – (only if listed) – Interest rate of comparable Government security, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year, any changes in credit rating	Financial Highlights The Company has not issued debt securities which are listed on CSE.	6
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	Note 19.1 to the Financial Statements on "Investment Property"	113

Rule No.	Disclosure requirement	Section/Reference	Page/s
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	The Company did not issue any shares during the year	–
7.6 (xiv)	Information in respect of Employee Share Option Plan schemes (ESOPs):	The Company does not have ESOPs	–
	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, and closing prices of the share recorded during the financial year	Section 9 of the Investor Information	148
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	Corporate Governance Report Board	43
		Profiles of the Board of Directors	38
		Board Remuneration Committee Report	54
		Board Audit Committee Report	52
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	Note 34 to the Financial Statements on "Related Party Disclosures"	132

2. Stock Exchange Listing

The ordinary shares of the Company are listed on the *Diri Savi* Board of the Colombo Stock Exchange (CSE).

The unaudited Interim Financial Statements for the first three quarters of 2022 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 2021)

The Company duly submitted the unaudited Interim Financial Statements for the year 2022 to the CSE on February 23, 2023 (within applicable statutory deadlines) 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 2021.)

The Audited Income Statement and the Statement of Profit or Loss and Other Comprehensive Income for the year ended December 31, 2022 and the Audited Statement of Financial Position as at December 31, 2022 will be submitted to the CSE within five months from the date of the Statement of Financial Position, 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 2021.)

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

3. Twenty Largest Shareholders

As at December 31,		2022		2021 (*)	
		No. of Shares	%	No. of Shares	%
1.	Commercial Bank of Ceylon PLC	10,800,000	90.00	10,800,000	90.00
2.	Assetline Leasing Co. LTD./British American Technologies (Pvt) Ltd.	56,100	0.47	56,100	0.47
3.	Hatton National Bank PLC/Kandaiah Kanapathipillai Shujeevan	49,994	0.42	50,807	0.42
4.	People's Merchant Finance PLC/K Laveendrakumar	48,371	0.40	48,371	0.40
5.	Binanthi Shamini Rasanayagam	44,570	0.37	36,000	0.30
6.	Amirally Lukmanjee	44,168	0.37	44,168	0.37
7.	Mestiyage Don Saddhamangala Goonatilleke	41,960	0.35	–	–
8.	People's Leasing & Finance PLC/K Laveendrakumar	30,228	0.25	30,228	0.25
9.	Gajath Chrysantha Goonetilleke	30,077	0.25	30,077	0.25
10.	Estate of late Surendra Wickremasinghe (Deceased)	27,200	0.23	27,200	0.23
11.	Sithamparapillai Gowrisangar	27,000	0.23	25,500	0.21
12.	Sampath Bank PLC/Abishek Sithampalam	26,000	0.22	26,000	0.22
13.	Zoebaly Gulamabass Carimjee	25,000	0.21	25,000	0.21
14.	Manel Senanayake	24,000	0.20	24,000	0.20
15.	Wijewickrama Pathinayakage Asanka Dinunuwan	22,000	0.18	20,200	0.17
16.	Durga Sithampalam	21,500	0.18	21,500	0.18
17.	Arunasalam Sithampalam	19,055	0.16	19,055	0.16
18.	Dehiwalage Sunil Priyantha Perera	18,213	0.15	18,213	0.15
19.	Lankesh Jude Roshitha Dissanayake	14,000	0.12	34,433	0.29
20.	Gunendra Rasitha Sellahewa	14,000	0.12	6,500	0.05
		11,383,436	94.88	11,343,352	94.53
Other		616,564	5.12	656,648	5.47
Total		12,000,000	100.00	12,000,000	100.00

*Comparative shareholdings as at December 31, 2021 of the 20 largest shareholders as at December 31, 2022 .

4. The Public Holding

Existing Float Adjusted Market Capitalisation of the Company as at December 31, 2022 was Rs. 114,600,000/-. (Rs. 163,200,000/- as at December 31, 2021).

The percentage of public holding in the share capital of the Company as at December 31, 2022 was 10% representing 1,009 shareholders (10% representing 999 shareholders as at December 31, 2021).

The Company complies with the minimum public holding as a continuous listing requirement as per the Option 2 of the Listing Rule No. 7.13.1 (b) of the Colombo Stock Exchange.

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.

Details of litigations pending against the Company are given in Note 38 to the Financial Statements on page 141.

7. Extents, Locations, Valuations and the Number of Buildings of the Entity's Land Holdings and Investment to Property

Location	Extent (Perches)	Cost or revaluation of land (Rs. '000)	Number of buildings	Buildings (Square Feet)	Cost or revaluation of building (Rs. '000)	Total value (Rs. '000)
1. "Commercial House" Building No. 21, Sir Razik Fareed Mawatha Colombo 1.	58.48	1,700,000	1	126,309	1,121,216	2,821,216
2. No. 148, Matara Road, Tangalle.	48.76	85,000	1	4,257	25,000	110,000
3. No. 18, Fernando Avenue, Negombo.	18.65	100,000	–	–	–	100,000

The Company did not hold lands and buildings as at the statement of financial position date, other than the investment properties mentioned above.

8. Analysis of Shareholders

8.1 Distribution Schedule of the Number of Holders and Percentage of Holding In Ordinary Shares

As at December 31,	2022				2021			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 to 1,000 shares	850	84.15	158,043	1.32	838	83.80	161,253	1.35
1,001 to 10,000 shares	136	13.47	408,824	3.40	140	14.00	424,015	3.53
10,001 to 100,000 shares	23	2.28	633,133	5.28	21	2.10	614,732	5.12
100,001 to 1,000,000 shares	0	0	0	0	0	0	0	0
Over 1,000,000 shares	1	0.10	10,800,000	90.00	1	0.10	10,800,000	90.00
Total	1010	100.00	12,000,000	100.00	1000	100.00	12,000,000	100.00

8.2 Composition of Shareholders

As at December 31,	2022				2021			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Resident	996	98.60	11,971,165	99.76	986	98.60	11,954,925	99.62
Non-resident	14	1.40	28,835	0.24	14	1.40	45,075	0.38
Total	1,010	100.00	12,000,000	100.00	1,000	100.00	12,000,000	100.00

9. Market Value of Shares

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

	2022	2021
Highest price during the year (Rs.)	150.00	212.00
Date of the highest price	January 13	June 30
Lowest price during the year (Rs.)	83.00	98.00
Date of the lowest price	July 08	March 19
Year-end price (Rs.)	95.50	136.00

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. 1,146.0 Mn. (Rs. 1,632.0 Mn. as at December 31, 2021).

Decade at a Glance

Statement of Comprehensive Income

Year ended December 31,	2022 Rs. '000	2021 Rs. '000	2020 Rs. '000	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000
Operating results										
Revenue	631,128	632,287	454,906	453,849	396,770	354,489	329,257	316,988	275,997	266,024
Cost of sales	(324,607)	(292,384)	(252,017)	(264,407)	(221,914)	(187,436)	(183,363)	(173,004)	(150,235)	(145,901)
Gross profit	306,521	339,903	202,889	189,442	174,856	167,053	145,894	143,984	125,762	120,123
Other income	2,040	78	23,163	4,930	13,436	8,672	12,433	8,337	13,712	10,896
Administrative expenses	(36,730)	(32,824)	(31,182)	(32,609)	(28,733)	(29,198)	(24,977)	(22,149)	(21,647)	(24,276)
Fair value gain/(loss) on investment properties	64,503	89,132	(45,046)	237,283	197,174	317,588	240,826	178,677	210,934	77,000
Operating profit	336,334	396,289	149,824	399,046	356,733	464,115	374,176	308,849	328,761	183,743
Net finance income	64,955	30,976	12,011	4,786	5,488	12,681	12,354	9,041	11,604	13,855
Share of profit of equity-accounted investee, net of tax	–	–	9,438	9,158	6,566	5,742	5,124	4,007	1,539	3,558
Profit before tax	401,289	427,265	171,273	412,990	368,787	482,538	391,654	321,897	341,904	201,156
Income tax expense	(176,912)	(25,759)	(48,691)	(49,773)	(40,240)	(55,760)	(65,212)	(62,103)	(66,469)	(49,755)
Profit for the year attributable to owners of the Company	224,377	401,506	122,582	363,217	328,547	426,778	326,442	259,794	275,435	151,401
Other comprehensive income										
Items that will never be reclassified to profit or loss										
Actuarial gains/(losses) on defined benefit plans, net of tax	(294)	2,621	(709)	841	(2,675)	(6,366)	736	6,767	(69)	223
Share of other comprehensive income of the equity-accounted investee, net of tax	–	–	44,213	14	(66)	(33)	99	(188)	(226)	11
Items that are or may be reclassified to profit or loss										
Net change in fair value of debt investments at FVOCI, net of tax	185	(185)	71	101	(236)	9	90	(38)	(222)	(115)
Other comprehensive income for the year, net of tax	(109)	2,436	43,575	956	(2,977)	(6,390)	925	6,541	(517)	119
Total comprehensive income for the year, net of tax	224,268	403,942	166,157	364,173	325,570	420,388	327,367	266,335	274,918	151,520

Statement of Financial Position

As at December 31,	2022 Rs. '000	2021 Rs. '000	2020 Rs. '000	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000
Assets										
Non-current assets										
Property, plant and equipment	131,768	90,897	96,893	129,777	142,835	91,816	99,861	90,149	82,828	46,873
Intangible assets	2,132	2,762	589	615	85	139	193	182	-	-
Investment properties	3,031,216	2,966,713	2,876,679	2,911,000	2,673,717	2,472,183	2,005,826	1,765,000	1,530,800	1,320,000
Equity accounted investee	–	–	–	57,274	51,102	46,602	42,693	39,270	36,051	35,638
Deposits receivable	10,980	10,857	11,181	11,014	10,818	10,690	8,896	8,896	5,475	5,425
	3,176,096	3,071,229	2,985,342	3,109,680	2,878,557	2,621,430	2,157,469	1,903,497	1,655,154	1,407,936
Current assets										
Inventories	–	–	18	18	105	85	86	63	27	66
Trade and other receivables	53,042	43,011	47,429	41,623	62,051	53,842	14,975	14,854	25,096	23,065
Financial investments	671,482	565,585	206,288	73,329	67,269	62,340	159,289	123,101	162,166	166,838
Cash and cash equivalents	154,462	105,524	210,433	119,282	16,810	15,688	32,858	22,846	31,153	8,957
	878,986	714,120	464,168	234,252	146,235	131,955	207,208	160,864	218,442	198,926
Total assets	4,055,082	3,785,349	3,449,510	3,343,932	3,024,792	2,753,385	2,364,677	2,064,361	1,873,596	1,606,862
Equity and liabilities										
Equity										
Stated capital	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Other reserves	2,406,680	2,418,164	2,287,444	2,327,101	2,091,222	1,887,396	1,580,795	1,364,117	1,209,321	1,028,747
Retained earnings	890,744	789,199	587,661	453,609	391,096	328,859	275,072	223,722	199,764	153,420
Total equity	3,417,424	3,327,363	2,995,105	2,900,710	2,602,318	2,336,255	1,975,867	1,707,839	1,529,085	1,302,167
Non-current liabilities										
Lease liabilities	69,138	14,374	1,626	5,974	3,146	–	–	–	–	2,205
Deposits payables	56,760	54,492	37,796	34,120	27,199	23,959	29,063	27,345	26,079	23,193
Employee benefits	61,078	50,966	51,776	41,533	36,618	28,247	16,633	13,970	21,305	16,418
Deferred tax liabilities	346,815	263,159	311,652	319,253	314,253	313,189	297,536	272,247	245,469	213,999
	533,791	382,991	402,850	400,880	381,216	365,395	343,232	313,562	292,853	255,815
Current liabilities										
Trade and other payables	26,894	16,958	16,609	20,629	21,503	21,706	18,387	17,648	28,252	9,617
Lease liabilities	15,963	5,080	4,347	5,374	618	–	–	–	2,204	14,760
Deferred revenue	8,515	10,566	1,841	8,336	10,374	12,800	6,351	5,135	2,090	4,600
Current tax liabilities	52,495	42,391	28,758	8,003	8,763	17,229	20,840	20,177	19,112	19,903
	103,867	74,995	51,555	42,342	41,258	51,735	45,578	42,960	51,658	48,880
Total equity and liabilities	4,055,082	3,785,349	3,449,510	3,343,932	3,024,792	2,753,385	2,364,677	2,064,361	1,873,596	1,606,862
Information on shares										
Earnings per share (Rs.)	18.70	33.46	10.22	30.27	27.38	35.56	27.20	21.65	22.95	12.62
Dividend per share (Rs.)	7.00	6.50	5.50	6.00	5.50	5.00	5.00	5.00	5.00	4.00
Net assets value per share (Rs.)	284.79	277.28	249.59	241.73	216.86	194.69	164.66	142.32	127.42	108.51
Other information										
Number of employees	213	207	212	212	214	215	226	234	245	171

Glossary

Accounting Policies

The specific principles, bases, conventions, rules, and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Actuarial Gain/Loss

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

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

Basis Point (BP)

One hundredth of a percentage point (0.01%); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

Business Model

The organisational structure that enables the Company to undertake its activities to deliver value to and derives value from the stakeholders, leading to sustainable value creation.

Cash Equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Cash Generating Unit (CGU)

The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Commitments

Credit facilities approved but not yet utilised by the clients as at the reporting date.

Compound Annual Growth Rates (CAGR)

The constant rate of growth of a variable such as revenue or assets over a period of time if it were to grow at an even rate.

Contingencies

A condition or situation, the ultimate outcome of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Credit Risk

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 trade other receivables and investment in debt securities.

Current Assets Ratio

Current assets divided by current liabilities.

Deferred Taxation

Sum set aside in the Financial Statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. interest rate) that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend Payout Ratio

Dividends per share divided by earnings per share, indicates the percentage of the Company's earning that is paid out to shareholders in cash.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

Earnings before interest and tax includes other operating income.

Earnings per Ordinary Share (EPS)

The profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate (ETR)

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Equity Instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Fair Value

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.

Finance Lease

A lease in which the lessee acquires all financial benefits and risks attaching to ownership of the asset under lease.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial Assets Measured at Amortised Cost

Financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

FVOCI include debt and equity instruments measured at fair value through other comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation, and are not held for trading.

Financial Assets Measured at Fair Value through Profit or Loss (FVTPL)

All financial assets other than those classified at Amortised Cost or FVOCI are classified as measured at FVTPL. These are held for trading or managed and their performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Gearing

Proportion of total interest bearing liabilities to capital employed.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment loss

Impairment losses are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Interest Cover

Number of times interest charge is covered by earnings before interest and tax.

Investment Properties

Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

Market Capitalisation

The value of an entity obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Net Assets

Total assets minus current liabilities, long term liabilities, and non-controlling interests.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Parent Company

A Parent company is a company that owns enough voting stock in another entity firm to control management and operation by influencing or electing its Board of Directors.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by the earnings per share.

Price to Book Value

Market price of a share divided by the net assets value of a share.

Quick Assets Ratio

Current assets excluding inventories, divided by current liabilities.

Related Parties

One party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transaction (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

Return on Average Shareholders' Funds (ROE)

Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

Segment Reporting

Disclosure of the Company's assets, income and other information, broken down by activity and geographical area.

Alphabetical Index

Notice of Meeting

Notice is hereby given that the Forty-third Annual General Meeting (AGM) of Commercial Development Company PLC (the "Company") will be held on March 31, 2023 at 10.00 am at the Auditorium of Commercial Bank of Ceylon PLC, 9th Floor Commercial Bank Union Place Branch Building, No. 1, Union Place Colombo 2.

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, 2022 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 Sanath Chandima Udayakumara Manatunge
   (b) Dr Rahula Anura Attalage
   (c) Mr Bentotage Robert Lakshman Fernando*
   (d) Mr Antoine Theodore Priyalal Edirisinghe **
   (e) Mr Lokubalasuriyage Don Asoka Jayasinghe***
   (f) Mr Amitha Lal Gooneratne****

4. (a) To reappoint 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 2023.

By Order of the Board

L W P Indrajith
Company Secretary

Colombo
March 9, 2023

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, No. 8 – 4/2, York Arcade Building, Leyden Bastian Road, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.*

Special Notice – 1

*A Special Notice dated December 14, 2022 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 80 years on August 1, 2022 and that he be re-elected as a Director of the Company".

Special Notice – 2

**A Special Notice dated December 15, 2022 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 77 years on September 11, 2022 and that he be re-elected as a Director of the Company".

Special Notice – 3

***A Special Notice dated December 15, 2022 has been received by the Company from Mr T Vedamanickam a shareholder of the Company giving notice of his intention to move the following resolution in regard to the re-election of Mr L D A Jayasinghe, 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 Lokubalasuriyage Don Asoka Jayasinghe, who attained the age of 74 years on November 17, 2022 and that he be re-elected as a Director of the Company".

Special Notice – 4

****A Special Notice dated December 17, 2022 has been received by the Company from Mr A R J Manuel a shareholder of the Company giving notice of his intention to move the following resolution in regard to the re-election of Mr A L Gooneratne, 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 Amitha Lal Gooneratne, who attained the age of 70 years on April 27, 2022 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 Sanath Chandima Udayakumara Manatunge	Whom failing
Dr Rahula Anura Attalage	Whom failing
Mr Bentotage Robert Lakshman Fernando	Whom failing
Mr Antoine Theodore Priyalal Edirisinghe	Whom failing
Mr Lokubalasuriyage Don Asoka Jayasinghe	Whom failing
Mr Amitha Lal Gooneratne	Whom failing
Mr Udul Isuru Sri Tillakawardena	

as my/our Proxyholder to represent me/us and* .... to vote for me/us on my/our behalf as indicated below at the Forty-Third Annual General Meeting of the Company to be held on March 31, 2023 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, 2022 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		
	(a)	Mr Sanath Chandima Udayakumara Manatunge		
	(b)	Dr Rahula Anura Attalage		
	(c)	Mr Bentotage Robert Lakshman Fernando (Please see Special Notice received from Mr K K Wijayaweera)		
	(d)	Mr Antoine Theodore Priyalal Edirisinghe (Please see Special Notice received from Mr M Thiyagaraja)		
	(e)	Mr Lokubalasuriyage Don Asoka Jayasinghe (Please see Special Notice received from Mr T Vedamanickam)		
	(f)	Mr Amitha Lal Gooneratne (Please see Special Notice received from Mr A J R Manuel)		
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 2023.		

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

....	....	....
Folio Number	Signature/s of shareholder/s	NIC/PP/Co. Reg. No. of shareholder/s

* 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 forty-eight (48) hours before the time appointed for the holding of the meeting.

Commercial Development Company PLC
No. 8 – 4/2, York Arcade Building,
Leyden Bastian Road,
Colombo 1,
Sri Lanka.

REQUEST TO SHAREHOLDERS

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE "FOLIO NUMBER" APPEARING IN THE ADDRESS LABEL [PASTED ON THE ENVELOPE CONTAINING THE NOTICE OF MEETING] IN THE SPACE PROVIDED FOR "FOLIO NUMBER" IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NUMBER" WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

Stakeholder Feedback Form

Dear Reader,
We welcome your valuable ideas/comments on our Annual Report.

To request information or submit a comment/query to the Company, please provide the following details and return this page to –

The Company Secretary
Commercial Development Company PLC
No. 8-4/2, York Arcade Building,
Leyden Bastian Road,
Colombo 1,
Sri Lanka.

Name: ....

....

Permanent Mailing Address: ....

....

....

Contact Number/s –

– Phone: ....

– Fax: ....

– Email: ....

Name of Company (If Applicable) ....

Designation (If Applicable) ....

Company Address (If Applicable) ....

Queries/Comments

....

....

....

....

....

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 reregistered 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 Diri Savi Board of the Colombo Stock Exchange.

Registered Office
No. 8 – 4/2, York Arcade Building,
Leyden Bastian Road,
Colombo 1, Sri Lanka.
Phone/Facsimile: +94 11 244 7300
Email: info@cdcplc.net
Website: www.cdcplc.net

Tax Payer Identification No. (TIN)
124010578

Lawyers
Julius & Creasy
Julius & Creasy Building,
No. 371, R A De Mel Mawatha,
P.O. Box 154, Colombo 3,
Sri Lanka.
Phone: +94 11 242 2601 (5 Lines)
Facsimile: +94 11 244 6663
Email: juliusc@lankacom.net
jcship@sltnet.lk

Auditors
KPMG,
Chartered Accountants,
32A, Sir Mohamed Macan Markar Mawatha, Colombo 3,
Sri Lanka.

Registrars
S S P Corporate Services (Pvt) Ltd.,
No. 101, Inner Flower Road,
Colombo 3, Sri Lanka.
Phone: +94 11 257 3894,
+94 11 257 6871
Facsimile: +94 11 257 3609
Email: sspsec@sltnet.lk
(Kindly direct any queries about the administration of the shareholding to the above Company)

Principal Banker
Commercial Bank of Ceylon PLC

Board of Directors
Mr B R L Fernando – Chairman

Mr S C U Manatunge – Managing Director

Mr A L Gooneratne

Mr A T P Edirisinghe

Mr L D A Jayasinghe

Mr U I S Tillakawardana

Dr R A Attalage – (Appointed w.e.f January 1, 2023)

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 S C U Manatunge (By invitation)

Board Remuneration Committee
Mr B R L Fernando – Chairman

Mr A T P Edirisinghe

Mr L D A Jayasinghe

Mr S C U Manatunge (By invitation)

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Commercial Development
Company PLC

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