2017/18

Annual Report

First Capital

First Capital Treasuries PLC

CONTENTS

FINANCIAL HIGHLIGHTS

For the year ended 31st March	2018	2017	Variance
Income Statement (Rs'000)			
Income	2,510,251	2,536,109	-1%
Net trading income before expenses	998,191	489,275	104%
Profit after tax	1,670,871	343,765	386%
Total comprehensive income	1,670,433	348,175	380%
Selected return ratios (Percentage)			
Return on average equity	69.73%	22.19%	214%
Return on total assets	6.55%	1.57%	317%
Financial position (Rs'000)			
Total assets	25,502,684	21,939,536	16%
Total sharholders' funds	3,131,280	1,660,917	89%
Stated capital	256,500	256,500	-
Funds employed (Equity/ Debt)	25,336,553	21,848,224	16%
Selected Ratios (Time/ Percenatge)			
Leverage Ratio (Debt to Equity)	7.09	12.15	-42%
Interest Cover	1.50	1.17	28%
Capital Adequacy Ratio	14.69%	29.72%	-51%
Shares related information			
Earnings per share (Rs.)	108.57	22.34	386%
Dividend per share (Rs.)	13.00	8.10	60%
Net assets per share (Rs.)	203.46	107.92	89%
Dividend payout ratio (Percenatge)	11.97%	36.26%	-67%
Number of shares issued	15,390,000	15,390,000	-

CHAIRMAN'S REVIEW

As I recap the results for the year ended 31st March 2018, I am indeed pleased to note that your Company, First Capital Treasuries PLC (FCT) exceeded all expectations to table outstanding results for the year under review. However, before I get into the details, I would first like to touch on the immediate operating environment, which I'm sure you will find relevant when evaluating your Company's performance for the year.

Operating Environment

The Primary Dealer (PD) sector recorded gradual moderation of its activities during the year, with the participation in primary market auctions in respect of Treasury bills and Treasury bonds by PD's showing a mixed performance. Of the 52 Treasury bill auctions conducted in 2017, participation of Bank PDs, Standalone PDs and Employees' Provident Fund (EPF) accounted for 66.6%, 26.7% and 6.7%, respectively. However, participation in Treasury bond auctions was dominated by Standalone PDs accounting for 37.6% share from the total bonds accepted through the 16 auctions conducted in 2017.

Secondary market transactions in government securities decreased significantly by 22.6% to Rs. 17,085.8Bn in 2017, compared to Rs. 22,073.7Bn reported in 2016.

The total assets of the PD sector increased by 29.7% from Rs. 260.0Bn in 2016 to Rs. 337.2Bn in 2017, with government securities accounting for over 93% of the total assets of the industry. The industry-wide trading portfolio also increased from Rs. 96.6Bn at end 2016 to Rs. 127.6Bn by end 2017. The result – a decrease in the proportion of trading portfolio to total investment portfolio from 43.4% at end 2016 to 40.6% at end 2017, thus enabling the industry to reduce high market risk exposure.

Furthermore with PD's continuing to leverage their large portfolio of risk free government securities to obtain funds to bridge any unforeseen liquidity gaps, the overall liquidity risk exposure of the PD industry further decreased 2017. Despite the substantial year-on-year increase in net interest income, the industry had to contend with significant reduction in capital gains in 2017, which saw the PDs industry's profit after tax drop from Rs. 14.7Bn in 2016 to Rs. 13.4Bn during 2017 (Source - CBSL Annual Report 2017).

Operating Results of the Company

The Company made steady all-round progress and succeeded in delivering what is perhaps the best performance to-date in FCT's 35 years history. Net Trading Income (NTI) grew by 86% year-on-year from Rs. 461Mn in 2016/17 to Rs. 859Mn for the year under review, indeed a commendable achievement that testifies to the capability of our fund managers to optimize the trading opportunities and interest spreads. Meanwhile active participation in the secondary market enabled FCT to record fair value gains of Rs. 139Mn for the year under review, a substantial increase over the previous year. Interestingly, it is also quite a departure from the industry trend, where a decline in fair value gains was reported in 2017.

Collectively, the higher trading income (realised) and fair value gains together saw Net Trading Income before operating expenses reached Rs. 998Mn in 2017/18 compared to Rs. 489Mn recorded in the previous year.

Healthy topline results together with a deferred tax asset of Rs. 847Mn, pushed up FCT's profit after tax to Rs. 1.67Bn for the year under review, the best ever results reported by the Company to-date.

In yet another historical milestone, FCT's asset base crossed the Rs. 25Bn mark to settle Rs. 25.5Bn as at 31st March 2018. Government Securities accounted for over 92% of the Company's assets.

Stewardship and Compliance

Given the recent turmoil in the local PD industry, we at FCT have renewed our commitment to fully comply with all applicable regulatory directives applicable to Primary Dealers.

Chairman's Review Contd.

There are many pieces of legislation that impact on our business and we firmly believe that only by strictly adhering to all these standards, we can avoid significant legal and economic risks to our Company and at the same time preserve the legitimate interests of all our stakeholders.

The Board provides leadership and oversight and sets the tone for a compliance culture across the Company. All of our employees are provided necessary training to enable them to understand and comply with laws, rules and regulations applicable to their jobs. We also continue to make regular investments to improve processes, risk management systems, portfolio monitoring and support functions, to further enhance our compliance culture.

I am happy to announce that thanks to a solid financial track record and the relentless commitment to comply with the CBSL's Capital Adequacy requirements and all other mandatory compliance requirements for primary dealers, FCT succeeded in retaining its A- credit rating issued by ICRA Lanka, a feat we have achieved for past three consecutive years.

Outlook and Strategy

While it is difficult to predict with any certainty the factors that may influence our immediate operating environment, one thing remains clear; FCT is well positioned to overcome any challenges in the industry and the market environment in order to meet performance targets in the years ahead.

Moreover, I am confident that by reorienting our strategies to focus on improving scalability, we will be able to ensure the Company's growth trajectory stays consistently above the industry average in the coming years.

Appreciations

To conclude, I wish to thank my colleagues on the Board for their enthusiastic participation in all board matters. I take this opportunity to also thank the Director/CEO, the senior management and the entire staff of FCT for their commitment and passion that has made it possible for the Company to achieve phenomenal results in the year under review. My thanks are also due to the officials of the Central Bank of Sri Lanka for their advice and support.

Finally, a special word of thanks is due to our shareholders, clients, bankers and other stakeholders for the trust and confidence placed in the Company. I seek your valued patronage in the years ahead as well.

(Sgd.)
Nishan Fernando
Chairman

BOARD OF DIRECTORS

NISHAN FERNANDO
MBA (USJP), FCA, ACMA (UK), CGMA
INDEPENDENT NON - EXECUTIVE CHAIRMAN

Nishan Fernando is a Fellow Member of the Institute of the Chartered Accountants and the Institute of the Chartered Global Management Accountants with Associate Membership of the Chartered Institute of Management Accountants, UK. He holds a Master's Degree in Business Administration from the Postgraduate Institute of Management, University of Sri Jayewardenepura, and is a Graduate of the Sri Lanka Institute of Directors.

He counts over 26 years of experience, during which period he held the position of CFO/ Head of Finance at Sri Lanka Telecom PLC, Odel PLC and Goodhope Asia. Nishan is a Past President / Council Member of the Institute of Chartered Accountants of Sri Lanka. He has served on the International Accounting Education Standards Board of the International Federation of Accountants, and of the Board of South Asian Federation of Accountants. He is currently serving as a member of the Consultative Advisory Group of International Accounting Education Standards Board.

He had been a Commission Member of the Securities and Exchange Commission of Sri Lanka and has also served on the Accounting and Auditing Standards Monitoring Board, Governing Boards of Postgraduate Institute of Management and of National Institute of Business Management. He served on the Sri Lanka Accounting Standards Committee for twelve years during which period chaired it for four years and chairs the SLFRS Implementation and Interpretation Task Force of CA Sri Lanka.

Other principal appointments
Managing Director: BDO Consulting (Private) Limited
Chairman: First Capital Holdings PLC and its subsidiaries

DINESH SCHAFFTER
LLB (HONS), EXECUTIVE MBA (INSEAD), ACMA(UK)
MANAGING DIRECTOR

Dinesh Schaffter serves as the Managing Director of First Capital Treasuries PLC. He has a finance background with managerial, investment and deal-making expertise of over 25 years. He has executed a range of transactions focused on change of control, capital formation and capital market strategy. These include M&A, debt and equity offerings, restructuring and business valuations.

He is an Associate Member of The Chartered Institute of Management Accountants. He also holds a Bachelor of Laws (Honours) Degree from the UK and an Executive Master of Business Administration Degree from INSEAD, France.

Other principal appointments
Managing Director: First Capital Holdings and its subsidiaries, Dunamis Capital PLC, Kelsey Developments PLC.

Board of Directors Contd.

DILSHAN WIRASEKARA
DIRECTOR / CHIEF EXECUTIVE OFFICER

Dilshan Wirasekara, Director / Chief Executive Officer of First Capital Treasuries PLC is an experienced professional with a career spanning over 22 years, comprising diversified expertise in financial services including, banking, treasury and investment management, capital market strategy and corporate finance advisory.

Having joined First Capital in 2013 Wirasekara steered the Company, a full service investment bank holding licenses in stock brokering, unit trust management, margin trading and debt brokering in addition to its prominent position in the government securities market, to establish itself as a significant contributor to the local capital market industry. He spearhead the formation of key debt structuring deals with internationally based development Financial Institutions as well the signing of strategic partnerships with foreign institutions focusing on emerging markets such as Sri Lanka.

He was the former General Manager of Softlogic Capital PLC, guiding investment and trading portfolio management across subsidiaries, inclusive of the Group's Licensed Finance Company, Composite Insurer and Equity Brokerage; prior to which he was Head of Treasury at Nations Trust Bank PLC.

He specialises in Asset and Liability Risk Management having secured the accolade of leading and representing two Sri Lankan companies in winning the International Bank Asset and Liability competition organized annually by the Netherlands Development Finance Company (FMO), German Investment Corporation (DEG) and Proparco – a subsidiary of the Agence Française de Développement (AFD).

Dilshan Wirasekara is an Alumnus of INSEAD having successfully completed his Executive Professional Education at INSEAD Business School in Fontainebleau, France.

Other principal appointments
Director: Colombo Stock Exchange
Director/ CEO: First Capital Holdings PLC and its subsidiaries

MINETTE PERERA
FCA (SL), FCMA (UK), FCCA (UK)
Independent Non-Executive Director

Minette Perera was the Group Finance Director of the MJF Group, which comprises several tea growing, packing and exporting companies, supplying the "Dilmah Tea" brand around the world, from September 2000 till March 2013. During the period of her employment with the MJF Group, she was appointed a Director of the MJF Group of Companies including MJF Holdings Limited and held the Board positions till December 2014. She has also held board positions before joining the MJF Group.

Minette is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants of UK and the Association of Chartered Certified Accountants of UK. She has over 40 years working experience as a qualified accountant having worked in leading local and international companies as an Executive Director.

Other principal appointments
Non-Executive Director: First Capital Holdings PLC and its subsidiaries, Orient Finance PLC , Dilmah Ceylon Tea Company PLC (formerly Ceylon Tea Services PLC), Kahawatte Plantations PLC, Talawakelle Tea Estates PLC and Forbes & Walker (Pvt) Lmited.

Board of Directors Contd.

CHANDANA DE SILVA
BSc(Lond), FCA (England & Wales), FCA (SL)
Independent Non-Executive Director

Chandana de Silva has 25 years of managerial, financial experience and strategic acumen acquired in Sri Lanka and the United Kingdom. He held several senior management positions including that of Chief Financial Officer of a Nasdaq quoted telecom services company during his twenty-three years of work experience in the UK. Since moving back to Sri Lanka in 2002, he worked for MAS Holdings in a variety of roles and established its Supply Chain Management function, set up the MAS training center and was the Chief Executive Officer of the MAS Investment Division when he left in 2011. He currently serves as a management consultant to clients in the investment, property development and IT sectors and promotes competency development in negotiation and influencing skills.

Chandana is a Fellow Member of the Institute of Chartered Accountants in England and Wales and in Sri Lanka. He holds a Bachelor of Science in Mathematics and Management from the University of London, UK.

Other principal appointments
Non-Executive Director: First Capital Holdings PLC and its subsidiaries,Dunamis Capital PLC, Kelsey Developments PLC, Pre Fab Engineering Projects (Private) Limited, Premier Synthetic Leather Manufacturers (Private) Limited, Eureka Technologies (Private) Limited, 24/7 Techies (Private) Limited, Sea-Change Partners Lanka (Private) Limited, Bairaha Farms PLC.

NISHAN DE MEL
BA(Harvard), MPhil (Oxon), DPhil (Oxon)
Independent Non-Executive Director
(Appointed to the Board with effect from 13th October 2017)

Nishan de Mel is the Executive Director of Verité Research (Pvt) Limited, a think tank providing analytical research and advisory services on economic, political and legal issues in Sri Lanka and Asia. He is an economist with extensive academic, policy and private sector experience.

In Sri Lanka, he has been a Member of the Presidential Task Force on Health Sector Reform, Presidential Committee on Tobacco, Alcohol and Dangerous Drug Regulation and the National Steering Committee on Social Security. He has also served as the Executive Director of the International Centre for Ethnic Studies and on the Board of the Sri Lanka Foundation. Internationally, Nishan has held several governing, teaching and research positions, including as Lecturer in Economics at Oxford University.

He holds Masters and Doctoral degrees in Economics from the University of Oxford, UK and a Bachelor of Arts degree in Economics from Harvard University, USA.

Other principal appointments
Director: First Capital Holding PLC and its subsidiaries, Eureka Technology Partners (Pvt) Limited, Bartleet & Company Limited

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Directors of First Capital Treasuries PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2018 which were approved by the Directors on 3rd August 2018.

REVIEW OF OPERATIONS

During the year under review, the Company reported total revenue of Rs. 2,510Mn compared to Rs. 2,536Mn reported in the previous year.

Net Trading Income before expense for the year is Rs. 998Mn (2016/17- Rs. 489Mn) and consequently, profit before tax increased to Rs. 823Mn from Rs. 344Mn in the previous year.

PRINCIPAL ACTIVITIES

The main activity of the Company is operating as a Primary Dealer in Government Securities.

LEGAL STATUS

First Capital Treasuries PLC was incorporated on 19th August 1982 under the provisions of the Companies Act No. 17 of 1982 and re- registered under the Companies Act No. 7 of 2007.

FINANCIAL RESULTS

The Company's net profit after tax was Rs. 1,671Mn compared with net profit after tax of Rs. 344Mn in year 2016/17. This includes recognition of a deferred tax asset of Rs. 847Mn.

A summary of the financial results for the year is set out below.

	2017/18 Rs.'000	2016/17 Rs.'000
Revenue	2,510,251	2,536,109
Profit before tax	823,406	343,765
Profit after tax	1,670,871	343,765
Total comprehensive income	1,670,433	348,175

The financial statements of the Company are set out on pages 25 - 58 of the Annual Report.

BOARD OF DIRECTORS

Directorate

The following were the Directors of the Company as at 31st March 2018.

1. Mr. Nishan Fernando
2. Mr. Dinesh Schaffter
3. Mr. Dilshan Wirasekara
4. Ms. Minette Perera
5. Mr. Chandana de Silva
6. Dr. Nishan de Mel

The profiles of the Directors are given in pages 5 to 7 of the Annual Report.

Annual Report of the Board of Directors Contd.

INTEREST IN SHARES

Directors/Chief Executive Officer and their shareholdings as at 31st March 2018 were as follows:

	No.of Shares 31.03.2018	No.of Shares 31.03.2017
Mr. Nishan Fernando	Nil	Nil
Mr. Dinesh Schaffter	01	01
Mr. Dilshan Wirasekara	Nil	Nil
Ms. Minette Perera	Nil	Nil
Mr. Chandana de Silva	Nil	Nil
Dr. Nishan de Mel	Nil	Nil

OTHER DIRECTORSHIP/ SIGNIFICANT POSITIONS OF DIRECTORS

Information of the other Directorships/ significant positions of the present Directors of the Company are given on pages 5 - 7.

RELATED PARTY TRANSACTIONS

Related party transactions have been declared at the meetings of the Directors and are detailed in Note 29 to the financial statements.

DIRECTORS' INTERESTS

As required by the Companies Act, No. 7 of 2007, an Interests Register was maintained by the Company during the period under review. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The Interests Register is available for inspection as required under the Companies Act.

The Company carries out transactions in the ordinary course of business with entities in which a Director of the Company is a Director. The transactions with entities where a Director of the Company either has control or exercises significant influence have been classified as related party transactions and disclosed in Note 29 to the Financial Statements.

REMUNERATION AND FEES

Details of Directors remuneration and fees are set out in Note 9 to the financial statements. All fees and remuneration have been duly approved by the Board of Directors of the Company.

RISK AND INTERNAL CONTROL

The Board of Directors has satisfied itself that there exists an effective and comprehensive system of internal controls to monitor, control and manage the risks to which the Company is exposed, to carry on its business in an orderly manner, to safeguard its assets and to secure as far as possible the reliability and accuracy of records.

CORPORATE GOVERNANCE

The Directors acknowledge their responsibility for the Company's corporate governance and the system of internal control. The Directors are responsible to the shareholders for providing strategic direction to the Company and safeguarding the assets of the Company. The Board is satisfied with the effectiveness of the system of internal control for the period up to the date of signing the financial statements. The compliance with recommended corporate governance practices are disclosed in pages 14 - 18 of the Annual Report.

The performance of the Company is monitored by way of regular review meetings. These meetings provide an opportunity to ensure that progress is in line with agreed targets. Regular Board meetings are held to further strengthen the review process and ensure compliance with all statutory and regulatory obligations.

DIVIDEND

The Board of Directors declared an interim dividend of Rs. 13.00 per share totaling Rs. 200.07Mn for the year ended 31st March 2018 (2016/17 - Rs. 124.65Mn).

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements is given on pages 29 - 58. There were no changes in the accounting policies adopted by the Company during the year under review.

GOING CONCERN

The Board of Directors has reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

CAPITAL EXPENDITURE

Details of property, plant and equipment and their movements during the year are given in Note 19 to the financial statements.

RESERVES

The movements in reserves during the financial year 2017/18 have been presented in the Statement of Changes in Equity on page 27 of the Annual Report.

INCOME TAX EXPENSES

Income tax expenses have been computed in accordance with the provision of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto as disclosed in Note 10 to the financial statements.

STATED CAPITAL

The stated capital of the Company as at 31st March 2018 was Rs. 256.5Mn consisting of 15,390,000 ordinary shares.

SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDERS

As at 31st March 2018, there were three registered shareholders. Share information as at 31st March 2018 is given below.

Name of the Shareholder	No of Shares held as at 31st March 2018	Percentage of Shareholding (%)
First Capital Limited	14,534,999	94.44
Employee Trust Fund Board	855,000	5.56
Mr. Dinesh Schaffter	01	-
Total	**15,390,000**	**100.00**

CORPORATE DONATIONS

Company did not make charitable donations during the year (2016/17 – Nil).

STATUTORY PAYMENTS AND COMPLIANCE WITH LAWS AND REGULATIONS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time, and that the Company has not engaged in any activities contravening laws and regulations.

EQUAL OPPORTUNITIES

The Company is committed to providing equal opportunities to all employees irrespective of their gender, marital status, age, religion, race or disability. It is the Company's policy to give full and fair consideration to persons, with respect to applications for employment, continued employment, training, career development and promotion, having regard for each individual's particular aptitudes and abilities.

EVENTS OCCURRING AFTER THE REPORTING DATE

There were no material events after the financial reporting date which requires an adjustment to or a disclosure in the financial statements other than those disclosed in Note 32 to the financial statements.

INDEPENDENT AUDITORS

During the period under review, the Company's Auditors were Messrs KPMG, Chartered Accountants. The fees paid to auditors are disclosed in Note 9 to the financial statements.

Based on the declaration from Messrs KPMG, and as far as the Directors are aware, the Auditors do not have any relationship or interest in the Company, other than as disclosed in the above paragraph.

Messrs KPMG, Chartered Accountants, have expressed their willingness to continue in office as Auditors of the Company for the ensuing year.

In accordance with the Companies Act, No. 7 of 2007, a resolution proposing the re-appointment of Messrs KPMG, Chartered Accountants, as Auditors to the Company will be submitted at the Annual General Meeting.

Annual Report of the Board of Directors Contd.

INDEPENDENT AUDITOR'S REPORT

The independent Auditor's report on the financial statements is given on pages 21 - 24 of the Annual Report.

AUDITORS' RIGHT TO INFORMATION

Each person who is a Director of the Company at the date of approval of this report confirms that:

As far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware. Each Director has taken all the steps that he or she ought to have taken as a Director to make him or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 26th September 2018. The notice convening the Meeting and the agenda are given on page 61 of the Annual Report.

This Annual Report is signed for and on behalf of the Board.

(Sgd.)
K H L Corporate Services Limited
Secretaries

(Sgd.)
Dilshan Wirasekara
Director/ Chief Executive Officer

(Sgd.)
Dinesh Schaffter
Managing Director

3rd August 2018
Colombo

STATEMENT OF DIRECTORS' RESPONSIBILITY

Set out below are the responsibilities of the Directors in relation to the Financial Statements of the company.

The Directors of the company are responsible for ensuring that the company keeps proper books of accounts of all the transactions and prepare and present the financial statements to the shareholders in accordance with the relevant provisions of the Companies Act, No. 7 of 2007 and other statutes which are applicable in the preparation of financial statements. The financial statements comprise of the Statements of Financial Position as at 31st March 2018, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow for the year ended and Notes thereto. The Directors are required to prepare these financial statements on a going concern basis unless it is not appropriate.

The Directors confirm that the financial statements of the Company give a true and fair view of;

- The state of affairs of the Company as at 31st March 2018
  and
- The financial performance of the Company for the financial year ended 31st March 2018

The financial statements of the Company for the year ended 31st March 2018 incorporated in this report have been prepared in accordance with the Companies Act, No. 7 of 2007, Sri Lanka Accounting Standards (LKAS/SLFRS) and Listing Rules of the Colombo Stock Exchange.

The financial statements of the Company have been certified by the Chief Financial Officer of the Company who is responsible for the preparation of financial statements as required by the Companies Act, No. 7 of 2007. The financial statements have been signed by two Directors on 3rd August 2018 in accordance with Section 150 (1) (c) and 152 (1) (c) of the Companies Act.

Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Company's transactions and also determine the Company's financial position with reasonable accuracy at any time are maintained by the Company enabling the preparation of financial statements and further enabling the financial statements to be readily and properly audited, in accordance with the Section 148 (1) of the Act. The Directors have therefore caused the Company to maintain proper books of accounts and regularly review financial reports at their meetings. The Board also reviews and approves all interim financial statements prior to their release. The Board of Directors accepts the responsibility for the integrity and objectivity of the financial statements presented. The Directors confirm that the financial statements have been prepared using appropriate Accounting Policies on a consistent basis and appropriate estimates and judgments made to reflect the true substance and form of transactions.

Directors 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 laid down effective and comprehensive internal control systems.

The Auditors of the Company, Messrs KPMG who were reappointed in accordance with a resolution passed at the last Annual General Meeting were provided with all necessary information required by them in order to carry out their audit and to express an opinion which is contained on pages 21 - 24 of this Annual Report.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the financial reporting date have been paid or where relevant provided for.

Directors further confirm that after considering the financial position, operating conditions and regulatory and other factors, they have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future and that the Going Concern basis is the most appropriate in the preparation of these financial statements.

(Sgd.)
K H L Corporate Services Limited
Secretaries

3rd August 2018
Colombo

CORPORATE GOVERNANCE

The Directors acknowledge their responsibility for the Company's corporate governance and the need to ensure the highest standards of accountability to all stakeholders.

First Capital Treasuries PLC is fully committed to the principles of good governance and recognises that good corporate governance is the corner-stone of a successful organisation.

The Company is committed to act with integrity, transparency and fairness in all of its dealings, and considerable emphasis is placed by the Board on the development of systems, processes and procedures to ensure the maintenance of high standards throughout the organisation.

BOARD COMPOSITION AND INDEPENDENCE

The Board comprises of four Non-Executive Independent Directors and two Executive Directors all of whom possess a broad range of skills and experience across a range of industries and functional areas. Detailed profiles of each member of the Board are provided in a separate section of this Annual Report (pages 5 - 7).

The Independence of the Directors is assessed in accordance with the Listing Rules of Colombo Stock Exchange and the Independent Non- Executive Directors have declared their independency in writing.

The Board meets frequently in order to ensure the effective discharge of its duties. Formal Board Meetings were held four times during the year and performance review meetings were held monthly at which a majority of directors were present.

BOARD RESPONSIBILITIES

The Directors are responsible for the formulation of the Company's business strategy and in ensuring the existence of an adequate risk management framework. The Non- Executive Directors bring independent judgment to bear on issues of strategy and performance. The Board is satisfied with the effectiveness of the system of internal control in the Company for the period up to the date of signing the financial statements.

The Board carries responsibility for ensuring that the senior management team possesses the relevant skills and expertise required in the management of the Company and that a suitable succession planning strategy is in place. The Directors also ensure adherence to laws and regulations pertaining to the functioning of the organisation. The Senior Manager - Risk and Compliance functions as the Compliance Officer to ensure compliance with all regulatory and statutory requirements and proper reporting of all compliance matters to the Board. The Board of Directors exercises oversight of the compliance function.

The Board reviews strategic and operational issues, approves interim and annual financial statements and annual budgets, assesses performance and ensures compliance with all statutory and regulatory obligations. Members of the Board are expected to attend the Annual General Meeting of shareholders, Board and Review Meetings. Material is provided to members of the Board well in advance of scheduled meetings to allow adequate time for review and familiarisation and to facilitate decision making at meetings.

Necessary advice and guidance is provided to the senior management team at performance review meetings which provide an opportunity to evaluate progress and ensure accountability of the senior management team.

A strong focus on training and career development has created a committed and empowered workforce who continues high standards of achievement.

BOARD BALANCE

Executive and Independent Non-Executive Directors on the Board who are professionals / academics / business leaders hold senior positions in their respective fields ensure a right balance between executive expediency and independent judgment as no individual Director or small group of Directors dominate the Board discussion and decision making.

Directors are provided with monthly reports of performance and minutes of the Boards Meetings and are given the specific documentation necessary, in advance of such meetings.

There is a distinct and clear division of responsibilities between the Chairman and the Management to ensure that there is a balance of power and authority. The Chairman is responsible for ensuring Board effectiveness and conduct whilst the Management has overall responsibilities over the operating units, organisational effectiveness and implementation of Board policies and decisions.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's Articles of Association call for one third of the Non-Executive Directors retire at each Annual General Meeting and the Director who retires are those who have served for the longest period after their appointment /re appointment. The company ensures the compliance on the said aspects annually.

BOARD COMMITTEES (STATUTORY)

To assist the Board in discharging its duties, various Board Sub Committees have been established. The functions and terms of references of the Board Committees are clearly defined.

AUDIT COMMITTEE

The Audit Committee of First Capital Holdings PLC (Parent Company) functions as Audit Committee of First Capital Treasuries PLC. The Report of the Audit Committee is presented on pages 19 - 20 and the duties of the Committee are included therein.

REMUNERATION COMMITTEE

The Remuneration Committee of Dunamis Capital PLC (Ultimate Parent Company) functions as the Remuneration Committee of First Capital Treasuries PLC. Composition of the Committee, mandate of the Committee and other details are shown on Page 17.

SHAREHOLDERS RELATIONS

The Board considers the Annual General Meeting as a prime opportunity to communicate with shareholders. The Shareholders are given the opportunity of exercising their rights at the Annual General Meeting. The Notice of the Annual General Meeting and the relevant documents required are published and sent to the shareholders timely. The Company circulates the agenda for the meeting and shareholders vote on each issue separately.

All shareholders are invited and encourage participating at the Annual General Meeting. The Annual General Meeting provides an opportunity for shareholders to seek and obtain clarifications and information on the performance of the Company. The external Auditors are also present at the Annual General Meeting to render any professional assistance that may be required. Shareholders who are not in a position to attend the Annual General Meeting in person are entitled to have their voting rights exercised by a proxy of their choice.

The Company published quarterly Financial Statements in a timely manner as its principle communication with shareholders and others. This enables stakeholders to make a rational judgment of the Company.

INTERNAL AUDIT AND CONTROL

The Board is responsible for the Company's internal control and its effectiveness. Internal control is established with emphasis placed on safeguarding assets, making available accurate and timely information and imposing great discipline on decision making. It covers all controls, including financial, operational and compliance control and risk management. It is important to state, that any system can ensure only reasonable and not absolute assurance that errors and irregularities are prevented or detected within a reasonable time.

Corporate Governance Contd.

The Internal Audit function of the company has been outsourced to M/s. PricewaterhouseCoopers.
The Internal Audit reports along with management comments are discussed with Audit Committee and with the Board. Further, at each meeting, follow up issues from previous meeting are also discussed in order to make sure implementation of appropriate policies and procedures as prevention mechanism.

EXTERNAL AUDIT

The Company engages the services of independent external auditors to conduct an audit and obtain reasonable assurance on whether the financial statements and relevant disclosures are free from material misstatements. The independent auditors directly report their findings to the Audit Committee which has the overall responsibility of financial statement integrity and the reporting process.

M/s. KPMG are the External Auditors of the Company. In addition to the audit services, M/s. KPMG also provides certain non-audit services as well. However, External Auditors would not engage in any services which may compromise the independence of the Auditor. All such services have been provided with the full knowledge of the Audit Committee and are assessed to ensure that there is no compromise on the independence of the External Auditors.

The Audit Committee appraises the performance of External Auditors on an annual basis. Based on the evaluation results the Committee proposes the appointment of the External Auditors to the Board for endorsement and approval of the shareholders. The endorsement is submitted to the shareholders for approval at the Annual General Meeting (AGM). The representatives of the External Auditors are expected to be present at the AGM and have the opportunity to make a statement on the Company's financial statements and results of operations if they desire to do so. The External Auditors are also expected to be available to respond to the questions during the meeting.

There were no disagreements with the Company's External Auditors on any matter of accounting principles or practices, financial statements disclosures, or auditing scope or Procedures in the period under review.

COMPANY SECRETARIES

KHL Corporate Services Limited serves as the Company Secretaries for First Capital Treasuries PLC. The Company Secretaries ensure compliance with Board procedures, the Companies Act, Regulations of the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange. The Company Secretaries keep the Board informed of relevant new regulations and requirements.

Company's adherence to the Corporate Governance Rules as required by Section 7.10 of the Listing Rules of the Colombo Stock Exchange are summarised below;

	CSE Rule	Status of Compliance	Details/Reference
7.10.1 Non-Executive Director (NED)			
a./b./c.	At least 2 members or one third of the Board, whichever is higher should be NEDs as at the conclusion of immediately preceding AGM. Any change to this ratio should be rectified within 90 days.	Complied	Three out of Five Directors were NEDs as at the conclution of immidiatly preceding AGM.
7.10.2 Independent Directors			
a.	At least 2 or one third of the NEDs, whichever is higher shall be independent.	Complied	All Four Non-Executive directors are determined to be independent.
b.	Each NED should submit annually a signed and dated declaration of his/her independence or non-independence.	Complied	All NEDs have submitted their confirmations on independence as per the criteria laid down in the listing rules.

Corporate Governance Contd.

	CSE Rule	Status of Compliance	Details/Reference
7.10.3 Disclosures Relating to Directors			
a./b.	The Board should determine the independence or otherwise of the NEDs and disclose in the annual report the names of the NEDs determined to be 'independent".	Complied	Profile of Directors in pages 5 - 7.
c.	A brief resume of each Director with information on his/her area of expertise should be included in the annual report.	Complied	
d.	Upon appointment to the Board, a brief resume of the new director should be provided to the Exchange for dissemination to the public.	Complied	
7.10.5 Remuneration Committee			
a. 1	Remuneration committee should comprise at least 2 independent NEDs or more than 2 NDEs majority of whom shall be independent.	Complied	The Remuneration Committee of Dunamis Capital PLC (Ultimate Parent Company) functions as Remuneration Committee of First Capital Treasuries PLC. The Remuneration Committee consists of two Non-Executive Directors namely, Mr. Eardley Perera and Mr. Chandana de Silva and an Executive Director, Mr. Dinesh Schaffter. Mr. Eardley Perera functions as the Chairman of the committee. The committee is mandated with ensuring accountability, transparency and fairness in reward structures that recognised the relationship between performance and reward. The committee functions with delegated authority from the Board and is responsible for setting the Company's remuneration policy and ensuring its continued ability to attract and retain high caliber candidates. The Company bases remuneration on both individual and company performance whilst paying due regard to staff retention. The committee recommends increment levels and determines the remuneration payable to the executive directors. The aggregate remuneration paid to the Directors is given in the Note 9 to the financial statements.
a. 2	One NED shall be appointed as chairman of the committee by the Board of Directors.	Complied	
b.	Remuneration committee shall recommend the remuneration of the CEO and Executive Directors to the Board.	Complied	
c.	The Annual Report should include the names of the Remuneration committee members, a statement of remuneration policy and the aggregate remuneration paid to Executive and Non-Executive Directors.	Complied	

Corporate Governance Contd.

	CSE Rule	Status of Compliance	Details/Reference
7.10.6 Audit Committee			
a. 1	Audit Committee should comprise at least 2 independent NEDs or more than 2 NEDs majority of whom shall be independent.	Complied	Audit Committee Report on pages 19 - 20.
a. 2	One NED shall be appointed as chairman of the committee by the Board of Directors.	Complied	
a. 3	Chief Executive Officer and the Chief Financial Officer shall attend the Audit Committee meetings.	Complied	
a. 4	The chairman of the Audit Committee or one member should be a member of a recognised professional accounting body.	Complied	
B Functions of the Audit Committee			
b.1	Overseeing the preparation,presentation of the financial statements and adequacy of disclosures in accordance with SLFRS/LKAS.	Complied	
b. 2	Overseeing the compliance with financial reporting requirements and information requirements as per laws and regulations.	Complied	
b. 3	Overseeing the processes to ensure internal controls and risk management functions are adequate to meet the requirements of Sri Lanka Auditing Standards.	Complied	
b. 4	Assessing the independence and performance of the external auditors.	Complied	
b. 5	Making recommends to the Board pertaining to appointment or reappointment or removal of external auditors and to approve their remuneration and terms of engagement.	Complied	
C	The annual report should include the names of the audit committee members, the basis for the determination of the independence of the external auditors and a report of the Audit Committee setting out the manner of compliance with the above requirements during the specified period.	Complied	

AUDIT COMMITTEE REPORT

First Capital Holdings PLC is the Parent Company of First Capital Treasuries PLC, which is the primary dealer arm of the First Capital Group. The Audit Committee of First Capital Holdings PLC thus functions as the Audit Committee of First Capital Treasuries PLC which has complied with the policies and procedures set out by the Group Audit Committee.

Composition of Group Audit Committee

The Group Audit Committee consists of three Independent Non-Executive Directors of the company. The Committee is chaired by Ms. Minette Perera.

The members of the Group Audit Committee are as follows.

Ms. Minette Perera – Chairperson – Independent Non-Executive Director
Mr. Nishan Fernando – Independent Non-Executive Director
Dr. Nishan de Mel - Independent Non-Executive Director
(appointed with effect from 20th February 2018)

Brief profiles of the members of the Group Audit Committee are given on Pages 5 to 7 of the Annual Report.

Meetings

Five audit committee meetings were held during the year under review. Director/ Chief Executive Officer, Chief Financial Officer, Senior Manager- Finance, Senior Manager- Risk and Compliance and Senior Manager- Legal attend the meetings by invitation. The External auditors and Internal auditors are also present at meetings on a need basis. The proceedings of the Audit Committee meetings are reported to the Board of Directors on a regular basis.

Functions

The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities, primarily through:

- Overseeing management's conduct of the Company's financial reporting process and systems of internal accounting and financial controls;

- Monitoring the independence and performance of the Company's external auditors; and

- Providing an avenue of communication among the external auditors, internal auditors, management and the Board.

Audit Committee Report Contd.

Financial Reporting System

The Committee reviewed the financial reporting system adopted by the company with particular reference to the following;

- The preparation, presentation and adequacy of the disclosures in the Company's annual and interim financial statements in accordance with the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007 and other applicable statutes.
- The underlying rationale and basis for the significant estimates and judgments to the financial statements.

Internal Audit

The Internal Audit function of the company has been outsourced to M/s. PricewaterhouseCoopers. Control weaknesses highlighted in the internal audit reports were examined by the Committee and follow up action taken by the management on the audit recommendations were also reviewed. The committee reviewed the effectiveness of the internal audit function and the scope and procedures for internal audit during the ensuing year.

External Audit

External Auditor's management letters pertaining to the previous year's audit and the Management's responses thereto were discussed during the year. Follow up action taken by the management to ensure that the recommendations contained in the management letter were implemented was reviewed. Further, the draft annual financial statements for 2017/18 were also reviewed with the External Auditors prior to release.

The Committee reviewed the non-audit services provided by the auditors to ensure that the provision of these services does not impair their independence.

The fees payable to the auditors have been recommended by the committee to the Board for approval.

Having reviewed the effectiveness of the External Audit, the Group Audit Committee also recommended to the Board of Directors that Messrs KPMG be reappointed as Auditors for the financial year ending 31st March 2019, subject to the approval of the shareholders at the Annual General Meeting.

(Sgd.)
Minette Perera (Ms.)
Chairperson –Audit Committee

3rd August 2018
Colombo

INDEPENDENT AUDITOR'S REPORT

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

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TO THE SHAREHOLDERS OF FIRST CAPITAL TREASURIES PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Capital Treasuries PLC ("the Company"), which comprise the statement of financial position as at 31st March 2018, and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 25 to 58.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st March 2018, and of its financial performance and its 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.

1. Valuation of financial instruments

Refer to the significant accounting policy in note 3.7.7 and explanatory notes 12, 13 and 21 to the financial statements.

Risk Description

The Company's investment portfolio which is carried at fair value makes up 92 % of the total assets (by value) as at 31st March 2018.

This is considered to be the key driver of the Company's capital and revenue performance. The fair value of financial instruments that are traded in an active market is determined based on quoted market prices. The exercise of judgment and the use of estimates and assumptions is in particular required for instruments where observable market prices or market parameters are not available. For such instruments, the fair value is determined through the use of valuation techniques or models applied by the Company.

Accordingly, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- Testing the key controls over identification, measurement and management of valuation risk as well as evaluating the methodologies and input parameters used by the Company in determining fair values.
- Comparing observable inputs against independent sources and externally available market data and re-performing independent valuations.
- Obtaining and agreeing with the third party confirmations on a sample basis.
- Assessing the adequacy of the disclosures in the financial statements.

2. Recoverability of deferred tax assets

Refer to the significant accounting policy in note 3.6.3 and explanatory note 17 to the financial statements.

Risk Description

The Company has recognized deferred tax asset of Rs. 848Mn as at 31st March 2018 in respect of the future benefit of deductible temporary differences and undisputed accumulated tax losses which management considered would probably be utilised or recovered in the future through the generation of future taxable profits or set-off against deferred tax liabilities.

The recognition of deferred tax assets relies on the exercise of significant judgment by management in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated and future reversals of existing taxable temporary differences.

We identified the recognition of deferred tax assets as a key audit matter because of its significance to the financial statements and the significant management judgment and estimation required in forecasting of future taxable profits which could be subject to error or potential management bias.

Our audit procedures included:

- Assessing and challenging the Company's approach for evaluating the likelihood of the recoverability of deferred tax assets. This included challenging the key assumptions used by the management in the preparation of future taxable profits forecasts of the Company by comparing the most significant inputs used in the forecasts, including future revenue, margins and operating cost growth rates, with the historical performance of the entity, management's forecasts used for other purposes and our knowledge of the business and the industry based on internal and external sources of information.
- Challenging the key assumptions underpinning the Company's financial projections against historical performance and estimates.
- Obtaining a legal opinion from external legal counsel and tax consultants on undisputed tax losses in order to evaluate the probability of claiming such undisputed tax losses.
- Evaluating the adequacy of the disclosures in the financial statements in accordance with the relevant Accounting Standards.

Other Information

Management is responsible for the other information. These financial statements does not include the other information.

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

Independent Auditor's Report Contd.

KPMG

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 auditors' 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.

Independent Auditor's Report Contd.

KPMG

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 3029.

KPMG

Chartered Accountants
Colombo
3rd August 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March	Note	2018 Rs.'000	2017 Rs.'000
Income	5	**2,510,251**	2,536,109
Direct Expenses	6	**(1,651,367)**	(2,075,273)
Net Trading Income		**858,884**	460,836
Other Income	7	48	3,552
Gain on Fair Valuation of Financial Instruments - Held for Trading	8	**139,259**	24,887
		998,191	489,275
Operating Expenses			
Personnel Expenses		**(101,525)**	(64,888)
Premises, Equipment and Establishment Expenses		**(44,498)**	(50,960)
Other Operating Expenses		**(28,762)**	(29,662)
		(174,785)	(145,510)
Profit before Taxation	9	**823,406**	343,765
Taxation	10	**847,465**	-
Profit for the Year		**1,670,871**	343,765
Other Comprehensive Income for the year			
Items that will never be reclassified to Profit or Loss			
Actuarial Gain/ (Loss) on Retirement Benefit Obligation		**(608)**	4,410
Tax Effect on Other Comprehensive Income		**170**	-
Other Comprehensive Income		**(438)**	4,410
Total Comprehensive Income for the Year		**1,670,433**	348,175
Basic Earnings per Share (Rs.)	11	**108.57**	22.34

Figures in brackets indicate deductions.
The notes disclosed on pages 29 to 58 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31st March	Note	2018 Rs.'000	2017 Rs.'000
ASSETS			
Cash at Banks and in Hand		**3,077**	13,731
Derivative Financial Instruments	12	**47,868**	24,075
Financial Investments - Held for Trading	13	**23,376,073**	15,384,251
Financial Investments - Loans and Receivables	14	**968,887**	6,369,562
Financial Investments - Available for Sale	15	**1,000**	1,000
Receivable from Related Companies	16	**5,239**	480
Taxes Receivable		**12,093**	12,093
Deferred tax asset	17	**847,635**	-
Other Assets	18	**239,030**	130,835
Property, Plant and Equipment	19	**1,393**	2,581
Intangible Assets	20	**389**	928
Total Assets		**25,502,684**	21,939,536
LIABILITIES			
Bank Overdraft		**2,759**	-
Derivative Financial Instruments	21	**21,659**	2,240
Securities sold under Repurchase Agreements	22	**21,691,825**	19,677,003
Creditors, accrued Charges and Other Payables		**9,568**	18,203
Payable to Related Companies	23	**42,478**	1,253
Taxes Payable		**81,452**	61,016
Borrowing on Listed Debentures	24	**510,689**	510,304
Retirement Benefit Obligations	25	**10,974**	8,600
Total Liabilities		**22,371,404**	20,278,619
EQUITY			
Stated Capital	26	**256,500**	256,500
Risk Reserve	27	**1,072,726**	905,639
Retained Earnings		**1,802,054**	498,778
Total Equity		**3,131,280**	**1,660,917**
Total Equity and Liabilities		**25,502,684**	**21,939,536**
Net Assets per Share (Rs.)		**203.46**	107.92

The notes disclosed on pages 29 to 58 form an integral part of these Financial Statements.
I certify that these Financial Statements are prepared and presented in compliance with the requirements of the Companies Act No. 07 of 2007.

Mangala Jayashantha
Chief Financial Officer

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,

Dilshan Wirasekara
Director / Chief Executive Officer

Dinesh Schaffter
Managing Director

3rd August 2018
Colombo

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March	Stated Capital Rs.'000	Risk Reserve Rs.'000	Retained Earnings Rs.'000	Total Equity Rs.'000
Balance as at 1st April 2016	256,500	871,262	309,639	1,437,401
Total Comprehensive Income for the Year				
Profit for the Year	-	-	343,765	343,765
Other Comprehensive Income for the Year	-	-	4,410	4,410
Total Comprehensive Income	-	-	348,175	348,175
<u>Transactions with Equity Holders</u>				
Distribution to Equity Holders				
Dividend paid (Note 28)	-	-	(124,659)	(124,659)
Total distribution to Equity Holders	-	-	(124,659)	(124,659)
Total Transactions with Equity Holders	-	-	(124,659)	(124,659)
Transfers to Risk Reserve (Note 27)	-	34,377	(34,377)	
Balance as at 31st March 2017	256,500	905,639	498,778	1,660,917
Balance as at 1st April 2017	**256,500**	**905,639**	**498,778**	**1,660,917**
Total Comprehensive Income for the Year				
Profit for the Year	-	-	1,670,871	1,670,871
Other Comprehensive Income for the Year	-	-	(438)	(438)
Total Comprehensive Income	-	-	1,670,433	1,670,433
<u>Transactions with Equity Holders</u>				
Distribution to Equity Holders				
Dividend paid (Note 28)	-	-	(200,070)	(200,070)
Total distribution to Equity Holders	-	-	(200,070)	(200,070)
Total Transactions with Equity Holders	**-**	**-**	**(200,070)**	**(200,070)**
Transfers to Risk Reserve (Note 27)	-	167,087	(167,087)	-
Balance as at 31st March 2018	**256,500**	**1,072,726**	**1,802,054**	**3,131,280**

Figures in brackets indicate deductions.
The notes disclosed on pages 29 to 58 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Cash Flows from Operating Activities		
Interest Receipts and Gains realised	**2,509,176**	2,533,987
Interest Payments and Other Direct Cost	**(1,238,588)**	(1,787,728)
Other Receipts	**48**	45
Cash Payments to Employees and Suppliers	**(170,545)**	(137,889)
Operating profit before changes in operating assets and liabilities	**1,100,091**	608,415
(Increase)/ Decrease in Financial Investments - Loans and Receivables	**5,401,751**	(463,700)
(Increase)/ Decrease in Financial Investments - Held for Trading	**(7,856,931)**	(6,154,318)
(Increase)/ Decrease in Other Assets	**(108,195)**	6,756
(Increase)/ Decrease in Receivables from Related Companies	**(4,813)**	(58)
Increase/ (Decrease) in Securities sold under Repurchase Agreements	**1,602,427**	6,118,187
Increase/ (Decrease) in Payables to Related Companies	**40,542**	(2,242)
Increase/ (Decrease) in Creditors and Accrued Charges	**12,533**	23,864
Cash generated from operations	**187,405**	136,904
Tax paid	**-**	-
Net cash flows generated from operating activities	**187,405**	136,904
Cash Flows from Investing Activities		
Acquisition of Property, Plant and Equipment (Note 19)	**(574)**	(1,448)
Acquisition of Intangible Assets (Note 20)	**(174)**	(423)
Proceeds from Sale of Property, Plant and Equipment	**-**	3,507
Net cash flows generated from/ (used in) investing activities	**(748)**	1,636
Cash Flows from Financing Activities		
Dividend paid (Note 28)	**(200,070)**	(124,659)
Net cash flows used in financing activities	**(200,070)**	(124,659)
Net increase (decrease) in cash and cash equivalents	**(13,413)**	13,881
Cash and cash Equivalents at the beginning of the year	**13,731**	(150)
Cash and cash Equivalents at the end of the year (Note A)	**318**	13,731
Note A		
Cash at banks and in hand	**3,077**	13,731
Bank overdraft	**(2,759)**	-
	318	13,731

Figures in brackets indicate deductions.
The notes disclosed on pages 29 to 58 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 Domicile and Legal Form

First Capital Treasuries PLC ("the Company") is a public company with limited liability incorporated on 19th August 1982, domiciled in Sri Lanka. The Company was re-registered under the Companies Act No. 07 of 2007. The registered office and place of business of the Company is at No. 2, Deal Place, Colombo 03.

1.2 Principal Activities and Nature of Operations

The Company engages in the business operations of a Primary Dealer in Government Securities. There were no significant changes in the nature of the principal activities of the company during the financial year under review.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent entity is First Capital Limited. In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is Dunamis Capital PLC which is incorporated in Sri Lanka.

2. BASIS OF PREPERATION

2.1 Statement of Compliance

The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared 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 No. 7 of 2007 and provided appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31st March 2018 were authorised for issue by the Board of Directors on 3rd August 2018.

2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following,

- Non – derivative financial instruments held for trading are measured at fair value.
- Derivative financial instruments are measured at fair value.
- Financial investments - available for sale are measured at fair value.
- Retirement benefit obligations - present value of the defined benefit obligations.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

2.5 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.

Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

Assets and liabilities are offset and the net amount reported in the Statement of Financial Position only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset unless required or permitted by Sri Lanka Accounting Standards.

2.6 Use of Estimates and Judgments

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is set out below.

2.6.1 Going Concern

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

2.6.2 Fair Valuation of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible. However, if this is not available, judgment is required to establish fair values.

2.6.3 Defined Benefit Obligations

The Company annually measures the present value of the promised retirement benefits for gratuity, which is a Defined Benefit Plan. The cost of providing benefits under the defined benefits plans is determined using the projected unit credit method. This involves making assumptions on discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.6.4 Useful Life Time of Property, Plant and Equipment

The Company reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign Currency

3.1.1 Foreign Currency Transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate (Closing rate) at that 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 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 spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

3.2 Interest Income and Expense

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

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

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Company's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of profit or loss and other comprehensive income.

3.3 Gain/ (Loss) on Sale of Financial Investments Held for Trading

Gain/(Loss) on Sale of Financial Investments Held for Trading comprises realised trading gains/(loss) on disposal of government securities are presented in direct income as gain on sale of financial investments- Held For Trading through profit or loss in the statement of profit or loss and other comprehensive income.

3.4 Gain/ (Loss) on Fair Valuation of Financial Investments

Gain/ (Loss) on Fair Valuation of Financial Investments comprises unrealised gains/ (losses) on fair valuation (mark to market valuation) of government securities and derivative financial instruments, are presented in the statement of profit or loss and other comprehensive income.

3.5 Dividend Income

Dividend income is recognised in profit or loss on an accrual basis when the Company's right to receive the dividend is established. This is usually on the ex-dividend date for equity securities. Dividends are presented in other income.

3.6 Taxation

3.6.1Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax assets and liabilities and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

Notes to the Financial Statements Contd.

3.6.2 Current Tax

The Company is a primary dealer licensed by the Central Bank of Sri Lanka whose interest income derived through government securities does not form a part of receipt on trade of business for the purpose of computing assessable income of the Company in accordance with the Section 32 of Inland Revenue Act No. 10 of 2006.

3.6.3 Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted on the reporting date.

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 nor loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is 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.

3.6.4 Other Tax Exposures

3.6.4.1 Withholding Tax on Dividend (WHT)

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

3.6.4.2 Value Added Tax on Financial Services (FSVAT)

The financial value addition of the Company is computed based on the section 25A of the VAT Act No. 14 of 2002 and subsequent amendments thereto is liable for Value Added Tax on Financial Services at 15% .

3.6.4.3 Economic Service Charge (ESC)

In accordance with the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set- off against the income tax payable in the two subsequent years.

3.6.4.4 Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1st January 2011 on the liable turnover as per the relevant provisions of the Act.

3.7 Financial Assets and Financial Liabilities

3.7.1 Recognition and Initial Measurement

The Company initially recognises all financial assets and liabilities on the settlement date.

However, for financial assets/ liabilities held at fair value through profit and loss any changes in fair value from the trade date to settlement date is accounted in profit or loss while for available for sale financial assets any change in fair value from the trade date to settlement date is accounted in Other Comprehensive Income.

Notes to the Financial Statements Contd.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.7.2 Classification and subsequent measurement

Financial Assets

At inception, a financial asset is classified in one of the following categories:

- at fair value through profit or loss (either as held for trading or designated at fair value through profit or loss)
- loans and receivables
- held to maturity financial assets
- available-for-sale financial assets

Financial Liabilities

The Company initially recognises all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

3.7.2.1 Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

A financial asset or a financial liability is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated at fair value through profit or loss when;

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis
- The asset or liabilities include embedded derivatives and such derivatives are required to be recognised separately

Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

3.7.2.2 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Securities purchased under resale agreements and fixed deposits are classified as loans and receivables.

3.7.2.3 Held-to-Maturity Financial Assets (HTM)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years. How ever, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

- sales or reclassifications after the Company has collected substantially all of the asset's original principal; and

- sales or reclassifications attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

Notes to the Financial Statements Contd.

3.7.2.4 Available-for -Sale Financial Assets (AFS)

'Available-for-sale investments' are non-derivative investments that are designated as available- for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

3.7.2.5 Financial Liabilities measured at Amortised Cost

Financial liabilities not classified as fair value through profit or loss is recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest rate method.

Borrowing on debentures and repurchase agreements are classified as financial liabilities measured at amortized cost.

3.7.3 Derecognition

3.7.3.1 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 other comprehensive income is recognised in profit or loss. 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.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3.7.3.2 Financial Liabilities

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

Where an existing financial liability is replaced by another from the same borrower on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.7.4 Reclassification

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances:

- To the available for sale category where in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or
- To the loan and receivables category where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Company has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Company has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the profit or loss over the remaining life of the financial asset, using the effective interest method.

3.7.5 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle 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 LKASs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.7.6 Amortised Cost Measurement

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

3.7.7 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.

When 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.

The best evidence of the fair value of a financial instrument at 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 at 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 that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized 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.

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.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.7.8 Identification, Measurement and Assessment of Impairment

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by Comparing together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Company uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised.

If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

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

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

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

The Company writes off a lending or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Company Credit determines that there is no realistic prospect of recovery.

3.8 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with banks that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

For the purpose of the Statement of Cash Flows, cash and cash equivalents, net of unfavourable balances.

3.9 Repurchase Agreements (Repo)/Reverse Repurchase Agreements (Reverse Repo)

Securities sold subject to repurchase agreements (Repos) remain on the balance sheet; the counterparty liability is included under borrowings. Securities purchased under agreements to resell (Reverse Repos) are re corded as loans and advances. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the agreements using the effective interest method. Further, difference between purchase and resale price is treated as interest income and accrued over the life of the agreements using the effective interest method.

3.10 Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are catego rised as trading unless they are designated as hedging instruments. The Company has not designated any deriv atives as hedging instruments and has not followed hedge accounting as at the reporting date.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in profit or loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and parties intend to settle the cash flows on a net basis.

Notes to the Financial Statements Contd.

3.11 Property, Plant and Equipment

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

3.11.1 Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

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

3.11.2 Subsequent Costs

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

3.11.3 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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

Asset Type	Useful Life Time (Years)
Computer Equipment	3
Fixtures and Fittings	3
Furniture	3
Office Equipment	3
Motor Vehicles	3

3.11.4 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in profit or loss when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised.

3.12 Intangible Assets

3.12.1 Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three years.

Notes to the Financial Statements Contd.

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

3.13 Impairment of Non-Financial Assets

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

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

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Impairment losses are recognised in profit or loss. 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 recognized.

3.14 Debt Securities Issued

Debt securities issued, borrowing on debentures and short term borrowings are the Company's sources of debt funding. When the Company sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a borrowing, and the underlying asset continues to be recognised in the Company's financial statements.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Debt securities issued, borrowing on debentures and short term borrowing are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.15 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.

3.16 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

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 reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

3.17 Employee Benefits

3.17.1 Defined Contribution Plan

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

3.17.1 (a) Employees' Provident Fund

The Company and employee contribute 12% - 15% and 8% - 10% respectively on the salary of each employee to the Employees' Provident Fund.

3.17.1 (b) Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund maintained by the Employees' Trust Fund Board.

3.17.2 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Gratuity

Gratuity is a Defined Benefit Plan. The Company annually measures the present value of the promised retirement benefits for gratuity, which is a Defined Benefit Plan. The cost of providing benefits under the defined benefits plans is determined using the projected unit credit method.

Gain or loss arising as a result of changes in assumptions is recognized in other comprehensive income (OCI) in the period in which it arises.

The Gratuity liability is not externally funded. These items are grouped under Defined Benefit Liability in the Statement of Financial Position.

3.17.3 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.

3.18 Earnings Per Share (EPS)

The Company presents Basic Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

3.19 Statement of Cash Flows

The Statement of Cash Flow has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard - (LKAS 7) "Statement of Cash Flows". Cash and cash equivalents comprise 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.

3.20 Subsequent Events

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

All material and important events that occurred after the reporting date have been considered and appropriate disclosures are made in Note 32 to the Financial Statements.

3.21 Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such re-classifications have been provided in notes to the financial statements.

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

Certain new standards, amendments and interpretations to existing standards have been published by the Institute of Chartered Accountants of Sri Lanka, but are not effective as at the reporting date. Possible impact on the financial statements of the application of the above new standards have not yet been assessed, and the company intends to adopt these standards, interpretations and amendments to existing standards that are ex pected to be relevant to the Company's financial statements when they become effective.

Notes to the Financial Statements Contd.

4.1 SLFRS 9 - Financial Instruments

SLFRS 9, issued in July 2014, is effective for annual periods beginning on or after 1st January 2018, with early adoption permitted. It replaces LKAS 39 – "Financial Instruments: Recognition and Measurement".

The company will apply SLFRS 9 as issued in July 2014 with effect from annual reporting period commencing on 1st January 2018 based on the transitional provisions.

The Company has assessed the impact on transition based on gap analysis and quantifications performed on its Financial Statements as at 31st March 2017 on adoption of SLFRS 9 with the assistance of an external consultant.

The Company is now in the process of testing and refining the data and models used for the calculation of initial impact assessment. SLFRS 9 include three major sections as follows.

- Classification and measurement of financial assets and financial liabilities
- Impairment of financial assets
- Hedge accounting

Scope	LKAS 39 requirement	SLFRS 9 requirement	Impact to the Company
Financial asset classification and measurement	Four categories (HTM, L&R, FVTPL and AFS) Classification is based on ability and intention to hold and the marketability of the instrument	Three categories (Amortised cost, FVTPL and FVTOCI) Classification is based on characteristics of financial instruments and the business model of the portfolio	No significant impact to the Company.
Financial liabilities	Two categories – FVTPL and amortised cost	Two categories – FVTPL and amortised cost	No change
Impairment	Incurred loss approach	Expected loss approach	No significant impact to the Company.
Hedge accounting	*Hedging relationship consists only of eligible hedging instruments and eligible hedged items. *Hedge effectiveness requirements: - Effectiveness can be reliably measured - Hedge is expected to be highly effective - Hedge is assessed on an on-going basis *Voluntary discontinuation of hedge accounting is allowed.	* The general requirement remains unchanged. However, certain items that were not eligible as hedged items or hedging instruments under LKAS 39 are now eligible under SLFRS 9. *Hedge effectiveness requirements: - Economic relationship exists - Credit risk does not dominate value changes - Designated hedge ratio is consistent with risk management strategy *Discontinuation of hedge accounting only under specified circumstances	No impact to the Company

HTM - Held to maturity
L&R - Loans and receivables
FVTPL - Fair value through profit or loss
FVTOCI - Fair value through other comprehensive income
AFS - Available for sale

The summary of the impact to the Company is presented below:

Classification and Measurements

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI (Fair Value through Other Comprehensive Income) and FVTPL (Fair Value Through Profit or Loss). It eliminates the existing LKAS 39 categories of held for trading, held to maturity, loans and receivables and available for sale.

All equity instruments should be fair valued either through profit or loss or OCI. Fair value through Other Comprehensive Income (OCI) is an irrecoverable option without recycling (i.e. the amount recognised in OCI/Reserves cannot be transferred to P&L at the time of disposal).

The standard will affect the classification and measurement of financial assets held as at 1st April 2018 as follows:

- Trading assets and derivative assets held for risk management, which are classified as held for trading and measured at FVTPL under LKAS 39, will also be measured at FVTPL under SLFRS 9.
- Short term and Long-term Lending, Corporate debts securities and Fixed deposits that are classified as loans and receivables and measured at amortised cost under LKAS 39 will in general also be measured at amortised cost under SLFRS 9,
- Held-to-maturity investment securities measured at amortised cost under LKAS 39 will in general also be measured at amortised cost under SLFRS 9,
- Debt investment securities that are classified as available for sale under LKAS 39 may, under SLFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances,
- The equity investment securities that are classified as available for sale under LKAS 39 will be designated as FVOCI on 1st April 2018.

The company has reviewed the loan agreements and the objectives of asset portfolios to evaluate whether any of the condition triggers change in the classifications. However, the Company has not identified any significant changes to the Company's present measurement rules based on impact analysis performed.

SLFRS 9 does not change the measurement rules of financial liabilities.

Impairment

SLFRS 9 brings out the concept of expected loss against the incurred loss principle used in LKAS 39. Accordingly,

a) Life Time Expected Credit Loss (ECL) to be provided for all loans. However, if loan's credit risk has not increased significantly from the grant date, the expected loss should be restricted only to 12 months period.

b) The provision should be based on Exposure at Default (EAD) instead of outstanding balance used under LKAS 39.

c) Expected loss to be measured by internal estimates of following loss statistics:

- Probability of Default (PD) derived through age bucket transition matrix
- Loss Given Default (LGD)-based on historical recoveries of defaulted loans

d) Incorporate forward looking information to adjust loss statistics calculated by the Company. This forward-looking information includes macroeconomic factors such as gross domestic production, inflation etc.

e) SLFRS 9 requires provision to be made for all financial assets including foreign currency denominated Government Securities and corporate debentures.

Hedge Accounting

Hedge accounting guidelines prescribed by SLFRS 9 do not have any impact to the company as hedge accounting is not applied by the company currently.

4.2 SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 – “Revenue from Contracts with Customers” establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance under LKAS 18 – “Revenue” and LKAS 11 – “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”.

SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

The Company will adopt these standards when they become effective. Based on the preliminary review, there is no significant impact via the said accounting standards on the financial statements of the Company for the year ended 31st March 2018.

4.3 SLFRS 16 - Leases

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

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

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

Notes to the Financial Statements Contd.

For the year ended 31st March

5 Income	2018 Rs.'000	2017 Rs.'000
Gain on sales of financial investments - Held for trading	**515,633**	18,032
Interest income on financial investments - Held for trading	**1,594,738**	1,530,615
Interest income on financial investments - Loans and receivables	**399,880**	987,462
	2,510,251	2,536,109

6 Direct Expenses	2018 Rs.'000	2017 Rs.'000
Interest expenses on repurchase agreements	**1,585,398**	2,017,751
Brokerage cost	**18,084**	9,671
Interest expenses on listed debentures	**47,885**	47,851
	1,651,367	2,075,273

7 Other Income	2018 Rs.'000	2017 Rs.'000
Profit on sale of Property, Plant and Equipment	**-**	3,507
Dividend income	**36**	27
Miscellaneous income	**12**	18
	48	3,552

8 Gain on Fair Valuation of Financial Investments	2018 Rs.'000	2017 Rs.'000
Gain from fair valuation of financial investments -Held for trading	**134,894**	23,077
Gain from fair valuation of derivative financial instruments	**4,365**	1,810
	139,259	24,887

Gain on fair valuation of Financial Investments - Held for Trading and Derivative Financial Instruments have been accounted for in accordance with the LKAS 39.

9 Profit before Taxation	2018 Rs.'000	2017 Rs.'000

Profit before taxation is stated after charging all the expenses including the following:

Directors' emoluments	**24,303**	10,486
Auditors' remuneration - Audit services	**420**	385
Auditors' remuneration - Other services	**100**	90
Depreciation on Property, Plant and Equipment (Note 19)	**1,762**	4,564
Amortisation of intangible assets (Note 20)	**713**	1,047
Retirement benefit cost (Note 25)	**1,766**	2,011
Salaries	**42,876**	34,679
Employer's contribution to EPF and ETF	**6,944**	6,910
Legal fees	**4,357**	3,514

Notes to the Financial Statements Contd.

10 Taxation

	2018 Rs.'000	2017 Rs.'000
Recognised in Profit or Loss		
Current tax expenses (Note 10.2)	**-**	-
Deferred tax asset recognised during the year (Note 17)	**847,465**	-
	847,465	-
Recognised in Other Comprehensive Income		
Deferred tax asset recognised during the year (Note 17)	**170**	-

10.1 Interest Income derived in Primary Market Transactions

First Capital Treasuries PLC is a primary dealer licensed by the Central Bank of Sri Lanka whose interest income derived through government securities does not form a part of receipt on trade or business for the purpose of computing assessable income of the Company in accordance with the Section 32 of Inland Revenue Act No. 10 of 2006.

A decision made by the Board of Review of the Department of Inland Revenue in respect of income tax for the year 2003/04 acknowledged the above position in July 2010. No tax provisions have been made in this regard in the financial statements subsequently. However the said judgment does not preclude the Department of Inland Revenue from issuing assessments in the future. Details relating to current assessments have been dis closed in Note 30 to the financial statements (Contingent Liabilities).

10.2 Reconciliation of accounting profit to income tax	**2018 Rs. '000**	2017 Rs. '000
Profit before taxation	**823,406**	343,765
Less : Exempted income	**(36)**	(3,533)
Add : Disallowable expenses	**31,251**	40,298
Less : Allowable expenses	**(3,028)**	(8,768)
Exclusion of interest income (Section 32)	**(1,994,618)**	(2,517,746)
Tax loss	**(1,143,025)**	(2,145,984)
Income Tax Expenses	**-**	-

10.3 Accumulated Tax Losses		
Balance at the beginning of the year	**10,076,690**	7,930,706
Loss incurred during the year	**1,143,025**	2,145,984
Loss utilised during the year	**-**	-
Balance at the end of the year	**11,219,715**	10,076,690

11 Basic Earnings per Share

Basic Earnings per Share has been calculated by dividing profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For the year ended 31st March	**2018**	2017
Profit attributable to ordinary shareholders (Rs.'000)	**1,670,871**	343,765
Weighted average number of ordinary shares in issue	**15,390,000**	15,390,000
Basic Earnings per share (Rs.)	**108.57**	22.34

Notes to the Financial Statements Contd.

AS AT 31st MARCH

12 Derivative Financial Instruments

	2018 Rs.'000	2017 Rs.'000
Forward purchase contracts - Government securities	**46,162**	-
Forward sale contracts - Government securities	**1,706**	24,075
	47,868	24,075

13 Financial Investments - Held for Trading

	Market Value		Face Value	
	2018 Rs.'000	2017 Rs.'000	**2018 Rs.'000**	2017 Rs.'000
Treasury bills	**11,110,362**	556,464	**12,006,394**	575,860
Treasury bonds	**12,265,711**	14,827,787	**11,887,847**	15,088,672
	23,376,073	15,384,251	**23,894,241**	15,664,532

13.1 Securities pledged as Collateral

The Government securities classified as financial investment - Held for trading and following securities have been pledged as collateral for Repurchase Agreements entered into by the Company as at 31st March 2018.

	Market Value		Face Value	
	2018 Rs.'000	2017 Rs.'000	**2018 Rs.'000**	2017 Rs.'000
Treasury bills	**10,416,609**	509,352	**11,369,774**	569,835
Treasury bonds	**11,597,113**	13,493,027	**11,467,622**	14,121,217
	22,013,722	14,002,379	**22,837,396**	14,691,052

14 Financial Investments - Loans and Receivables

	2018 Rs.'000	2017 Rs.'000
Investments under resale agreements - Treasury bills	**10,246**	157,129
Investments under resale agreements - Treasury bonds	**958,641**	6,212,433
	968,887	6,369,562

14.1 Securities received as Collateral

	Market Value		Face Value	
	2018 Rs.'000	2017 Rs.'000	**2018 Rs.'000**	2017 Rs.'000
Treasury bills	**10,462**	174,525	**11,298**	190,800
Treasury bonds	**1,691,789**	6,896,492	**1,684,831**	7,241,726
	1,702,251	7,071,017	**1,696,129**	7,432,526

The Company is entitled to repledge the securities received as collateral for its Borrowings (Repos) and requires to return the said collateral to the respective counterparties at the time of the settlement of outstandings (Reverse Repos). Accordingly, the Company has repledged market value of treasury bills and bonds amounting to Rs. 4.6Mn and Rs. 1,378.6Mn respectively as at 31st March 2018.

15 Financial Investments - Available for Sale

	2018 Rs.'000	2017 Rs.'000
Investment in Lanka Financial Service Bureau Limited	**1,000**	1,000
	1,000	1,000

16 Receivable from Related Companies

	2018 Rs.'000	2017 Rs.'000
First Capital Markets Limited	**196**	50
First Capital Limited	**-**	271
First Capital Equities (Pvt) Limited	**4,004**	140
First Capital Asset Management Limited	**243**	-
First Capital Holdings PLC	**740**	19
Kelsey Homes (Pvt) Limited	**41**	-
KHL Corporate Services Limited	**15**	-
	5,239	480

Notes to the Financial Statements Contd.

17 Deferred Tax Asset

	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	-	-
Recognised in profit or loss during the year	847,465	-
Recognised in other comprehensive income during the year	170	-
Balance at the end of the year	847,635	-

17.1 Deferred tax asset is recognised by considering the brought forward tax losses of which, the amount in the opinion of the Directors, will be available to allow the benefit of the loss to be realised in accordance with LKAS 12 and provisions of Inland Revenue Act No. 24 of 2017. The deferred tax asset has been computed on the basis of 28% (corporate tax rate which is applicable for 2017/18).

Deferred tax is attributable to the followings;

	2018		2017	
	Taxable/ (Deductible) Temporary Difference Rs.'000	Tax Effect Rs.'000	Taxable/ (Deductible) Temporary Difference Rs.'000	Tax Effect Rs.'000
On Property, Plant and Equipment	(307)	(86)		
On Retirement benefit obligations	10,974	3,072	-	-
On Accumulated tax losses	3,016,605	844,649	-	-
	3,027,272	847,635	-	-

17.2 Deferred tax asset has not been recognised in respect of the Company's brought forward tax losses as at 31st March 2018 amounting to Rs. 8,203.1Mn since it is not probable that future taxable profit will be available against which the Company can use the benefits therein. Reconciliation is as follows.

	2018 Rs.'000	2017 Rs.'000
Tax losses considered for recognition of Deferred Tax Asset	3,016,605	-
Tax losses not considered for recognition of Deferred Tax Asset	8,203,110	10,076,690
	11,219,715	10,076,690

18 Other Assets

	2018 Rs.'000	2017 Rs.'000
Rent deposit	30,875	37,375
Advance paid for Land and Premises (Note 31 a)	77,300	77,300
Prepayments and other receivable	14,857	16,030
Staff loans (Note 18.1)	331	130
Gain on forward purchase contracts	115,667	-
	239,030	130,835

18.1 Staff Loans

	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year		
Disbursements during the year	130	284
Recoveries during the year	364	17
Balance at the end of the year	(163)	(171)
	331	130

Notes to the Financial Statements Contd.

19 Property, Plant and Equipment

	Office Equipment Rs.'000	Furnitures Rs.'000	Fixtures & Fittings Rs.'000	Motor Vehicles Rs.'000	Total Rs.'000
Cost					
As at 1st April 2017	30,807	7,347	19,052	10,800	68,006
Additions	574	-	-	-	574
Disposals	(14,204)	-	-	-	(14,204)
As at 31st March 2018	**17,177**	**7,347**	**19,052**	**10,800**	**54,376**
Accumulated Depreciation					
As at 1st April 2017	28,529	7,306	18,790	10,800	65,425
Charge for the year	1,466	41	255	-	1,762
Disposals	(14,204)	-	-	-	(14,204)
As at 31st March 2018	**15,791**	**7,347**	**19,045**	**10,800**	**52,983**
Carrying Value As at 31st March 2018	**1,386**	**-**	**7**	**-**	**1,393**
Carrying value As at 31st March 2017	2,278	41	262	-	2,581

Based on the assessment of potential impairment carried out by the Company as at 31st March 2018, no provision was required to be made in the Financial Statements.

Property, Plant and Equipment included fully depreciated assets having a gross amount of Rs. 50,038,213 as at 31st March 2018 (2017/18 Rs. 62,118,207).

There were no capitalised borrowing cost related to the acquisition of Property, Plant and Equipment during the year (2016/17 - Nil).

There were no restrictions on the title of the Property, Plant and Equipment as at 31st March 2018.

There were no items of Property, Plant and Equipment pledged as security as at 31st March 2018.

There were no temporary idle items of Property, Plant and Equipment as at 31st March 2018.

20 Intangible Assets

	Software Rs.'000	Total Rs.'000
Cost		
As at 1st April 2017	14,638	14,638
Additions during the year	174	174
As at 31st March 2018	**14,812**	**14,812**
Accumulated Amortization/Impairment		
As at 1st April 2017	13,710	13,710
Amortisation during the year	713	713
Balance as at 31st March 2018	**14,423**	**14,423**
Carrying Value as at 31st March 2018	**389**	**389**
Carrying Value as at 31st March 2017	928	928

21 Derivative Financial Instruments

	2018 Rs.'000	2017 Rs.'000
Forward purchase contracts - Government securities	**376**	-
Forward sale contracts - Government securities	**21,283**	2,240
	21,659	2,240

22 Securities sold under Repurchase Agreements	2018 Rs.'000	2017 Rs.'000
Against treasury bills	**6,719,964**	265,173
Against treasury bonds	**14,971,861**	19,411,830
	21,691,825	19,677,003

23 Payable to Related Companies	2018 Rs.'000	2017 Rs.'000
Dunamis Capital PLC	**683**	728
First Capital Limited	**41,795**	-
First Capital Asset Management Limited	**-**	525
	42,478	1,253

24 Borrowing on Listed Debentures	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	**510,304**	509,953
Accrual of interest	**47,885**	47,851
Sub Total	**558,189**	557,804
Less : Settlement of interest (Coupon)	**(47,500)**	(47,500)
Balance at the end of the year	**510,689**	510,304

24.1 The debentures consist of 5,000,000 Rated, Subordinated, Unsecured, Redeemable 5 year (2015/2020) listed debentures at a face value of Rs. 100/- interest payable at a rate of 9.5% annually issued in February 2015. The debentures are quoted on the Colombo Stock Exchange.

Tenure	No.of Debentures	Face Value Rs.'000	Carrying value 31.03.2018 Rs.'000	Carrying value 31.03.2017 Rs.'000	Allotment Date	Maturity Date	Rate of Interest	Frequency on Interest
5 Year	5,000,000	500,000	510,689	510,304	5-Feb-15	6-Feb-20	9.50% (AER-9.50%)	Annually

25 Retirement Benefit Obligations	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	**8,600**	12,327
Amount recognised in Profit or Loss for the year		
Gratuity charge for the year	**820**	615
Interest charge for the year	**946**	1,396
Amount recognised in Other Comprehensive Income for the year		
Actuarial (Gain)/Loss for the year	**608**	(4,410)
Benefits paid during the year	**-**	-
Transfers to group companies during the year	**-**	(1,328)
Balance at the end of the year	**10,974**	8,600

As required by Sri Lanka Accounting Standard LKAS 19 - "Employee Benefits", gratuity liability is provided for based on the Projected Unit Credit Method.

25.1 Principle Assumptions used:		
Discount rate/interest rate	**11%**	13%
Expected annual average salary increment	**7.5%**	8%
Staff turnover factor	**7%**	5%
Retirement age of employees	**55 Years**	55 Years

25.2 Sensitivity of the assumptions used

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

Decrease in discount rate by 1%	**829**	317
Increase in discount rate by 1%	**(757)**	(745)
Decrease in salary increment by 1%	**(788)**	(774)
Increase in salary increment by 1%	**849**	342

26 Stated Capital

	2018 Rs.'000	2017 Rs.'000
15,390,000 Ordinary Shares	**256,500**	256,500

27 Risk Reserve

	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	**905,639**	871,262
Transfer during the year	**167,087**	34,377
Balance at the end of the year	**1,072,726**	905,639

The Company made a transfer of 10% (2016/17-10%) of its profit after tax to the risk reserve in accordance with the directions issued by the Central Bank of Sri Lanka.

28 Dividend

The Board of Directors declared an interim dividend of Rs.13.00 per share totalling Rs. 200.07Mn for the year ended 31st March 2018 (2016/17- Rs. 8.10 per share totaling Rs. 124.65Mn).

29 Related Party Disclosures

29.1 Directorships in Other Companies

The Directors of First Capital Treasuries PLC are also Directors of the following Companies.

Name of the Company	Relationship	Mr. Nishan Fernando	Mr. Dinesh Schaffter	Mr. Dilshan Wirasekara	Ms. Minette Perera	Mr. Chandana de Silva	Dr. Nishan de Mel *
Dunamis Capital PLC	Ultimate Parent	-	Managing Director	-	-	Director	-
First Capital Holdings PLC	Intermediary Parent	Chairman	Managing Director	Director	Director	Director	Director
First Capital Limited	Immediate Parent	Chairman	Managing Director	Director	Director	Director	Director
First Capital Asset Management Limited	Subsidiary of the immediate parent	Chairman	Managing Director	Director	Director	Director	Director
First Capital Markets Limited	Subsidiary of the immediate parent	Chairman	Managing Director	Director	Director	Director	Director
First Capital Equities (Private) Limited	Subsidiary of the immediate parent	Chairman	Managing Director	Director	Director	Director	Director
First Capital Trustee Services (Private) Limited	Subsidiary of the immediate parent	-	Managing Director	Director	-	-	-
Kelsey Developments PLC	Subsidiary of the ultimate parent	-	Managing Director	-	-	Director	-
Kelsey Homes (Private) Limited	Subsidiary of the ultimate parent	-	Managing Director	-	-	-	-
Prefab Engineering Project (Private) Limited	Subsidiary of the ultimate parent	-	Director	-	-	Director	
K H L Corporate Services Limited	Subsidiary of the ultimate parent	-	Director	-	-	-	-
Twid Capital (Private) Limited	Subsidiary of the ultimate parent	-	-	-	-	-	-
Premier Synthetic Leather Manufacturers (Private) Limited	Related party through KMP	-	Director	-	-	Director	-
Nextventures Limited	Related party through KMP	-	Director	-	-	-	-
Sprout (Private) Limited	Related party through KMP	-	-	-	-	-	-

KMP - Key Management Personnel

* Dr. Nishan de Mel has been appointed as a Director of the Company on 24th November 2017. He has also been appointed as a Directors of First Capital Holdings PLC and its other subsidiaries namely First Capital Limited, First Capital Asset Management Limited, First Capital Markets Limited and First Capital Equities (Pvt) Limited.

First Capital Asset Management Limited manages licensed Unit Trusts namely First Capital Wealth Fund, First Capital Fixed Income Fund, First Capital Gilt Edged Fund, First Capital Money Market Fund and First Capital Equity Fund which are also treated as Related Parties of the Company.

The Company carries out transactions with parties who are defined as related parties as per Sri Lanka Accounting Standard LKAS 24, "Related Party Disclosure", in the ordinary course of its business. The details of such transactions are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

Notes to the Financial Statements Contd.

29.2 Transactions with Parent and Ultimate Parent

Nature of Transaction	2017/18 Rs.'000	2016/17 Rs.'000
Statement of Profit or Loss and Other Comprehensive Income		
Interest income on resale agreements	**271,188**	731,320
Interest expenses on repurchase agreements	**3,356**	205
Interest expense on debentures	**27,407**	27,313
Reimbursement of expenses	**8,328**	12,148
Gain/(Loss) realised on sale of government securities	**(13,504)**	93,036
Statement of Changes in Equity		
Dividend paid	**170,060**	117,733
Statement of Financial Position		
Borrowings on Listed Debentures	**295,619**	294,440
Securities purchased under re-sale agreements (Government Securities)	**166,550**	5,467,261
Current account payable	**42,470**	728
Current account receivable	**740**	290

Transactions with Subsidiaries of the Parent

Nature of Transaction	2017/18 Rs.'000	2016/17 Rs.'000
Statement of Profit or Loss and Other Comprehensive Income		
Interest expenses on repurchase agreements	**1,607**	1,360
Statement of Financial Position		
Securities sold under repurchase agreements (Government Securities)	**16,337**	19,599
Current account receivable	**4,443**	190
Current account Payable	**-**	525

29.3 Transaction with other related parties

Nature of Transaction	2017/18 Rs.'000	2016/17 Rs.'000
Statement of Profit or Loss and Other Comprehensive Income		
Interest income on resale agreements	**37,101**	10,461
Gain/(loss) realised on sale of government securities	**677**	(16,828)
Interest expenses on repurchase agreements	**1,757**	16,398
Secretarial fees paid	**273**	315
Statement of Financial Position		
Securities purchased under re-sale agreements (Government Securities)	**-**	35,565
Securities sold under repurchase agreements (Government Securities)	**902,033**	154,676
Current account receivables	**56**	-

Outstanding trading investments (Resale agreements with parent company) at year end are secured (i.e. collateralised via assets without guarantees). Other investments and current account balances with related parties are unsecured. The settlement of all transactions occurs in cash. No expenses have been recognised in the current year or previous years for bad or doubtful debts in respect of amounts owed by related parties.

Notes to the Financial Statements Contd.

29.4 Transactions with Key Management Personnel (KMP) and their Close Family Members (CFM)

According to Sri Lanka Accounting Standards LKAS 24 "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of the entity. Accordingly, the Board of Directors have been classified as key management personnel of the entity.

Close Family Members of a Key Management Person are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Entity. They may include;

a. The individual's domestic partner and children;

b. Children of the individual's domestic partner; and

c. Dependants of the individual or individual's domestic partner

Close Family Members are related parties to the Entity.
Transactions with Key Management Personnel and their close family members are disclosed below.

Nature of Transaction	**2017/18 Rs.'000**	2016/17 Rs.'000
Statement of Profit or Loss and Other Comprehensive Income		
Emoluments paid - short term benefits	**24,303**	16,410
Interest income on resale agreements	**75**	13,001
Interest expense on repurchase agreements	**477**	476
Statement of Financial Position		
Securities purchased under re-sale agreements (Against government securities)	**-**	-
Securities sold under re-purchase agreements (Agaianst government securities)	**6,016**	32,247

30 Contingent Liabilities

There were no material contingent liabilities as at the reporting date which require disclosures in the financial statements for the year ended 31st March 2018 other than the following:

* The Company has appealed against an income tax assessment for 2008/09 amounting to Rs. 101.3Mn to the Court of Appeal. Further, the Company has appealed against assessments on income tax (2012/13 and 2013/14) and financial VAT (2010/11 and 2012/13) amounting to Rs. 340.5Mn and Rs. 152.6Mn respectively to the Tax Appeals Commission. The hearing of said appeals has not been concluded yet.

* The Company has appealed against assessments on income tax (2014/15) and financial VAT (2013/14, 2014/15 and 2015/16) amounting to Rs. 243.5Mn and Rs. 158.1Mn respectively to the Department of Inland Revenue and hearing has not been determined yet.

The related appeals against the said assessments and determinations have been duly submitted. Based on the tax consultant's opinion, the Board of Directors of the Company is of the view that no liability would arise on the above mentioned tax matters as they are outside the scope of chargeability of taxes.

There were no other material litigations or claims that could have a material impact on the financial position of the Company, or which would lead to a disclosure in the financial statements for the year ended 31st March 2018.

31 Commitments

There were no material capital commitments as at the reporting date which require disclosures in the financial statements other than those disclosed below:

(a) Capital Commitments

The Company entered into a sale and purchase agreement to acquire a property (land and premises) for a consideration of Rs.382Mn and an advance of Rs.77.3Mn was paid. However, in consequent to the seller failing to honor the terms of the agreement, legal proceedings were initiated against the seller and the District Court granted an interim order in favour of the Company, against the Seller disposing and alienating the property to any third party. The legal proceedings have not been concluded yet.

(b) Other Commitments

The value of forward purchase contracts (Government Securities) as at 31st March 2018 is Rs. 13,116Mn and the value of forward sales contracts (Government Securities) as at 31st March 2018 is Rs. 1,592Mn.

32 Events after the reporting period

There were no material events after the reporting period, which require disclosures or to adjustments in the financial statements.

33 Financial Risk Management

Overview

The Company has exposure to the following risks via financial instruments.

- Market Risk
- Liquidity Risk
- Credit Risk
- Operational Risk

33.1 Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has established an Enterprise Risk Management Committee (ERMC) which is tasked with reviewing wide-ranging risk categories that includes market, liquidity, credit and operational risk. Functionally, ERMC identifies, measures, monitors and controls risk while keeping the Board of Directors informed.

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

33.2 Market Risk

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

Management of market risk includes the following elements:

- The operational authority for managing market risk is vested with the Investment Committee (IC).
- Interest rate risk is managed within the approved limits by the Investment Committee.

33.3 Liquidity Risk

Liquidity risk is the risk that the Company will not have adequate financial resources to meet Company's obligations as when they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

- Taking steps to ensure, as far as possible, that it will always have adequate financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Maturity Analysis of Financial Assets and Financial Liabilities

As at 31st March 2018	Carrying Amount Rs. '000	On demand Rs. '000	Upto 3 Months Rs. '000	3 Months to 1 Year Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 Years Rs. '000
Assets							
Cash at banks and in hand	3,077	3,077	-	-	-	-	-
Derivative financial instruments	47,868	-	47,868	-	-	-	-
Financial investments - Held for trading	23,376,073	-	84,043	11,146,993	10,957,570	591,540	595,927
Financial investments - Loans and receivables	968,887	-	968,276	-	611	-	-
Financial investments - Available for sale	1,000	-	-	-	-	-	1,000
Receivable from related companies	5,239	5,239	-	-	-	-	-
Total	**24,402,144**	**8,316**	**1,100,187**	**11,146,993**	**10,958,181**	**591,540**	**596,927**
As at 31st March 2017	21,793,099	14,211	6,522,433	619,241	13,946,828	118,817	571,569

Maturity Analysis of Financial Assets and Financial Liabilities

As at 31st March 2018	Carrying Amount Rs. '000	On demand Rs. '000	Upto 3 Months Rs. '000	3 Months to 1 Year Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 Years Rs. '000
Liabilities							
Bank overdrafts	2,759	2,759	-	-	-	-	-
Derivative financial instruments	21,659	-	21,659	-	-	-	-
Securities sold under repurchase agreements	21,691,825	-	20,127,832	1,087,748	472,990	-	3,255
Payable to related companies	42,478	42,478	-	-	-	-	-
Borrowing on Debentures	510,689	-	-	10,689	500,000	-	-
Total	**22,269,410**	**45,237**	**20,149,491**	**1,098,437**	**972,990**	**-**	**3,255**
As at 31st March 2017	**20,190,800**	**1,253**	**17,382,936**	**1,186,737**	**1,396,967**	**222,907**	**-**

33.4 Credit Risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to m eet its contractual obligations and arises principally from the Company's investment in reverse repo agreements and forward transactions.

Management of credit risk includes the following components:

- Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Limiting concentration of exposures to counterparties.
- Reviewing compliance through regular audits by internal audit.

Credit Quality by Class of Financial Assets

As at 31st March 2018	Neither Past due nor impaired Rs. '000	Past due but not impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets				
Cash at banks and in hand	**3,077**	-	-	**3,077**
Derivative financial instruments	**47,868**	-	-	**47,868**
Financial investments - Held for trading	**23,376,073**	-	-	**23,376,073**
Financial investments - Loans and receivables	**968,887**	-	-	**968,887**
Financial investments - Available for sale	**1,000**	-	-	**1,000**
Receivable from related companies	**5,239**	-	-	**5,239**
Total	**24,402,144**	**-**	**-**	**24,402,144**
As at 31st March 2017				
Assets				
Cash at banks and in hand	13,731	-	-	13,731
Derivative financial instruments	24,075	-	-	24,075
Financial investments - Held for trading	15,384,251	-	-	15,384,251
Financial investments - Loans and receivables	6,369,562	-	-	6,369,562
Financial investments - Available for sale	1,000	-	-	1,000
Receivable from related companies	480	-	-	480
Total	21,793,099	-	-	21,793,099

Analysis of Concentration Risk

The following table shows the risk concentration by sector for the components of Statement of Financial Position.

As at 31st March 2018	Cash at Banks and in Hand Rs. '000	Derivative Financial Instruments Rs. '000	Financial Investments - Held for Trading Rs. '000	Financial Investments - Loans and Receivables Rs. '000	Financial Investments - Available for sale Rs. '000	Receivable from Related Companies Rs. '000
Sector wise breakdown						
Government	**-**		**23,376,073**	**-**	**-**	**-**
Corporate	**3,077**	**46,829**	**-**	**291,196**	**1,000**	**5,239**
Others	**-**	**1,039**	**-**	**677,691**	**-**	**-**
Total	**3,077**	**47,868**	**23,376,073**	**968,887**	**1,000**	**5,239**
As at 31st March 2017						
Sector wise breakdown						
Government	-	-	15,384,251	-	-	-
Corporate	13,731	252	-	6,234,069	1,000	480
Others	-	23,823	-	135,493	-	-
Total	13,731	24,075	15,384,251	6,369,562	1,000	480

33.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including 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.

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

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

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

Compliance with Company's internal controls and procedures is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management of the Company with summaries submitted to the Audit Committee.

34 Financial Instruments - Fair Value Measurement

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level- 1
Financial Instruments that are measured in whole or in partly by reference to published quotes in an active market. A Financial Instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange and those prices represent actual and regularly occurring market trans actions on an arm's length basis.

Level- 2
Financial instruments that are measured at fair value on regular basis. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined using relevant information generated by the market transactions involving comparable securities.

Level- 3
Financial Instruments that are not supported by observable market prices information.

The following tables compare the fair values of the financial instruments with their carrying values.

34.1 Fair Values Versus the Carrying Amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follow;

As at 31st March	2018		2017	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
Financial Assets measured at Fair Value				
Derivative financial instruments	**47,868**	**47,868**	24,075	24,075
Financial investments - Held for trading	**23,376,073**	**23,376,073**	15,384,251	15,384,251
Financial investments - Available for sale	**1,000**	**1,000**	1,000	1,000
Financial Assets not measured at Fair Value				
Cash at banks and in hand	**3,077**	**3,077**	13,731	13,731
Financial investments - Loans and receivables	**968,887**	**968,887**	6,369,562	6,369,562
Receivable from related companies	**5,239**	**5,239**	480	480
Total Financial Assets	**24,402,144**	**24,402,144**	21,793,099	21,793,099

As at 31st March	2018 Carrying Amount Rs. '000	2018 Fair Value Rs. '000	2017 Carrying Amount Rs. '000	2017 Fair Value Rs. '000
Financial Liabilities measured at Fair Value				
Derivative financial instruments	**21,659**	**21,659**	2,240	2,240
Financial Liabilities not measured at Fair Value				
Securities sold under re -purchase agreements	**21,691,825**	**21,692,396**	19,677,003	19,630,142
Payable to related companies	**42,478**	**42,478**	1,253	1,253
Borrowing on Debentures	**510,689**	**493,052**	510,304	460,872
Total Financial Liabilities	**22,266,651**	**22,249,585**	20,190,800	20,094,507

34.2 Financial Instruments- Fair Value

The following tables show an analysis of financial instruments at fair value and by level of fair value hierarchy.

As at 31st March 2018	Total Carrying Value Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
Financial Assets measured at Fair Value					
Derivative Financial Instruments					
Forward purchase contracts	46,162	46,162	-	-	46,162
Forward sale contracts	1,706	1,706	-	-	1,706
	47,868	47,868	-	-	47,868
Financial Investments - Held for trading					
Investment in government securities	23,376,073	23,376,073	-	-	23,376,073
	23,376,073	23,376,073	-	-	23,376,073
Financial investments - Available for sale	1,000	-	-	1,000	1,000
	23,424,941	23,423,941	-	1,000	23,424,941
Financial Assets not measured at Fair Value					
Financial Investments - Loans and Receivables	968,887	-	-	968,887	968,887
Receivable from Related Companies	5,239	-	-	5,239	5,239
	974,126	-	-	974,126	974,126
Total Financial Investments	**24,399,067**	**23,423,941**	**-**	**975,126**	**24,399,067**
Financial Liabilities measured at Fair Value					
Derivative Financial Instruments					
Forward purchase contracts	376	376	-	-	376
Forward sale contracts	21,283	21,283	-	-	21,283
	21,659	21,659	-	-	21,659
Financial Liabilities not measured at Fair Value					
Securities sold under Re Purchase Agreements	21,691,825	-	-	21,691,825	21,692,396
Payable to Related Companies	42,478	-	-	42,478	42,478
Borrowing on Listed Debentures	510,689	-	510,689	-	493,052
	22,244,992	-	510,689	21,734,303	22,227,926
Total Financial Liabilities	**22,266,651**	**21,659**	**510,689**	**21,734,303**	**22,249,585**

Notes to the Financial Statements Contd.

As at 31st March 2017	Total Carrying Value Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Fair Value Rs. '000
Financial Assets measured at Fair Value					
Derivative Financial Instruments					
Forward purchase contracts	-	-	-	-	-
Forward sale contracts	24,075	24,075	-	-	24,075
	24,075	24,075	-	-	24,075
Financial Investments - Held for trading					
Investment in government securities	15,384,251	15,384,251	-	-	15,384,251
	15,384,251	15,384,251	-	-	15,384,251
Financial investments - Available for sale	1,000	-	-	1,000	1,000
	15,409,326	15,408,326	-	1,000	15,409,326
Financial Assets not measured at Fair Value					
Financial Investments - Loans and Receivables	6,369,562	-	-	6,369,562	6,369,562
Receivable from Related Companies	480	-	-	480	480
	6,370,042	-	-	6,370,042	6,370,042
Total Financial Investments	21,779,368	15,408,326	-	6,371,042	21,779,368
Financial Liabilities measured at Fair Value					
Derivative Financial Instruments					
Forward sale contracts	2,240	2,240	-	-	2,240
	2,240	2,240	-	-	2,240
Financial Liabilities not measured at Fair Value					
Securities sold under Re purchase Agreements	19,677,003	-	-	19,630,142	19,630,142
Payable to Related Companies	1,253	-	-	1,253	1,253
Borrowing on Listed Debentures	510,304	-	460,872	-	460,872
	20,188,560	-	460,872	19,631,395	20,092,267
Total Financial Liabilities	20,190,800	2,240	460,872	19,631,395	20,094,507

INFORMATION ON LISTED DEBENTURES

1 Information of Listed Debentures

Allotment Date	Frequency on Interest Payment	No. of Debentures Issued and Alloted	Face Value Rs.000	Rate of Interest	Tenure	Date Of Maturity
5-Feb-2015	Annually	5,000,000	500,000	9.50% (AER - 9.50%)	5 Years	6-Feb-2020

2 Objectives of the Issue

The Company has achieved the following objectives as stipulated in the prospectus issued to raise Rs. 500Mn via the Debenture Issue made in February 2015.

Objective as per prospectus	Amount allocated as per Prospectus in Rs.	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amount Utilised in Rs. (B)	% of Utilisation against allocation (B / A)
To minimise asset/ liability mismatch in the balance sheet To minimise the interest rate risk by issuing Listed Debentures with a fixed interest rate	500Mn	500Mn	100%	500Mn	100%

3 Market Value as at 31st March 2018

Debentures have been traded during the year ended 31st March 2018. Last traded price has been recognised as the market value.

Debenture Interest Yield	As at 31-03-2018	As at 31-03-2017
5 year fixed rate (9.50 % p.a. payable annually)	**9.50%**	9.24%

Yield of Comparable Government Securities	As at 31-03-2018	As at 31-03-2017
5 Year treasury bond	**9.75%**	11.98%

4 Debt Ratios

Debt Ratios	As at 31-03-2018	As at 31-03-2017
Debt/ equity ratio (times)	**7.09**	12.15
Quick asset ratio (times)	**1.12**	1.11
Interest cover (times)	**1.50**	1.17

5 Credit Ratings

ICRA Lanka Limited re-affirmed the credit rating of A- for the Company and the rating of long term debts (debentures) of BBB+.

FIVE YEAR SUMMARY

Year ended 31st March	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000
TRADING RESULTS			Based on LKAS/SLFRS		
Gross income	**2,510,251**	2,536,109	847,442	1,937,351	1,420,891
Profit before tax	**823,406**	343,765	11,213	729,705	517,944
Taxation	**847,465**	-	-	-	-
Profit after tax	**1,670,871**	343,765	11,213	729,705	517,944
Other comprehensive income/ (expense)	**(438)**	4,410	(697)	2,414	(3,168)
Total comprehensive income	**1,670,433**	348,175	10,516	732,119	514,776

As at 31st March	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000
FINANCIAL POSITION					
ASSETS					
Cash at banks and in hand	**3,077**	13,731	1,382	2,120	3,960
Derivative financial instruments	**47,868**	24,075	40,861	40,609	6,878
Financial investments - Held for trading	**23,376,073**	15,384,251	9,206,856	8,637,938	11,531,581
Financial investments - Available for sale	**1,000**	1,000	1,000	1,000	1,000
Financial investments - Loans and receivables	**968,887**	6,369,562	5,903,738	7,323,882	911,215
Taxes receivable	**12,093**	12,093	12,093	11,051	-
Property, plant and equipment	**1,393**	2,581	5,697	18,991	31,692
Other assets	**1,092,293**	132,243	139,565	59,928	65,683
TOTAL ASSETS	**25,502,684**	**21,939,536**	**15,311,192**	**16,095,519**	**12,552,009**
LIABILITIES					
Bank overdrafts	**2,759**	-	1,532	-	2,694
Derivative financial instruments	**21,659**	2,240	20,835	31,359	1,008
Securities sold under re-purchase agreements	**21,691,825**	19,677,003	13,271,621	14,011,649	11,156,646
Tax payables	**81,452**	61,016	37,358	33,929	26,425
Retirement benefit obligations	**10,974**	8,600	12,327	9,368	9,911
Borrowings on listed debentures	**510,689**	510,304	509,953	505,143	-
Other liabilities	**52,046**	19,456	20,165	77,186	29,569
TOTAL LIABILITIES	**22,371,404**	**20,278,619**	**13,873,791**	**14,668,634**	**11,226,253**
EQUITY					
Stated capital	**256,500**	256,500	256,500	256,500	256,500
Risk reserve	**1,072,726**	905,639	871,262	870,141	687,715
Retained earnings	**1,802,054**	498,778	309,639	300,244	381,541
TOTAL EQUITY	**3,131,280**	**1,660,917**	**1,437,401**	**1,426,885**	**1,325,756**
TOTAL EQUITY AND LIABILITIES	**25,502,684**	**21,939,536**	**15,311,192**	**16,095,519**	**12,552,009**

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of First Capital Treasuries PLC will be held on 26th September 2018 at the Board Room at No.2 Deal Place, Colombo 3, at 9.00 am to transact the following businesses.

1. To receive the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31st March 2018 together with the report of the Auditors thereon.

2. To re-elect Ms. Minette Perera who retires by rotation in terms of Article 90 of the Articles of Association of the Company and offers herself for re-election.

3. To re-elect Dr. Nishan de Mel who was appointed on 24th November 2018 and retires in terms of Article 96 of the Articles of Association of the Company and offers himself for re-election.

4. To re-appoint Messrs KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and autho rise the Directors to determine their remuneration.

5. To authorise the Directors to determine and make donations.

Sgd.
K H L Corporate Services Limited
Secretaries

At Colombo
27th August 2018

Note:
1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.

2. A proxy need not be a member of the Company.

3. A Form of Proxy is enclosed for this purpose.

4. The Completed Form of Proxy must be deposited at the Office of the Company, No.15, Walukarama Road, Colombo 3 not less than 48 hours before the time fixed for the meeting.

FORM OF PROXY

I / We, ... of ....
....being a Member/s of First Capital Treasuries PLC, hereby appoint

Mr/Mrs/Miss ....
.....................................(holder of NIC No. ....) of ....
.... whom failing,

1.	Mr. Nishan Fernando	failing him
2.	Mr. Dinesh Schaffter	failing him
3.	Mr. Chandana de Silva	failing him
4.	Ms. Minette Perera	failing her
5.	Dr. Nishan de Mel	failing him
6.	Mr. Dilshan Wirasekara	

as my/our Proxy to represent me / us and vote on my/our behalf at the Annual General Meeting of the Company to be held on 26th day of September 2018 at the Board Room at No.2, Deal Place, Colombo 3 at 9.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Please indicate your preference by placing a 'X' in the box of your choice against each Resolution.

		FOR	AGAINST
1.	Receiving of the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31st March 2018 together with the report of the Auditors thereon.	☐	☐
2.	Re-election of Ms. Minette Perera who retires by rotation in terms of Article 90 of the Articles of Association of the Company.	☐	☐
3.	Re-appoint Dr. Nishan de Mel who retires in terms of Article 96 of the Articles of Association of the Company and offers himself for re-election.	☐	☐
4.	Re-appointment of Messrs KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and authorising the Directors to determine their remuneration	☐	☐
4.	Authorising Directors to determine and make donations.	☐	☐

Signed on this .... day of .... 2018.

Signature/s..................................

....
Shareholder's N.I.C./P.P./Co. Reg. No.

FORM OF PROXY Contd.

INSTRUCTIONS FOR THE COMPLETION OF THE FORM OF PROXY

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address, by signing in the space provided and fill in the date of signature and your National Identity Card Number.

2. The completed Form of Proxy should be deposited at the Office of the S**ecretaries, K H L Corporate Services Limited of No.15, Walukarama road, Colombo 03**, 48 hours before the time appointed for the holding of the meeting.

3. If an Attorney has signed the Form of Proxy, the related Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

4. If the Shareholder is a company or a corporate body, the Proxy should be executed under its Common Seal in accordance with its Articles of Association or Constitution.

5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

CORPORATE INFORMATION

Name of Company	-	First Capital Treasuries PLC
Legal Form	-	Public Limited Liability Company listed on the Colombo Stock Exchange (Incorporated in Sri Lanka on 19th August 1982)
Company Registration Number	-	P B 127/PQ
Registered Office	-	No. 2, Deal Place, Colombo 3, Sri Lanka
Board of Directors	-	Mr. Nishan Fernando Mr. Dinesh Schaffter Mr. Dilshan Wirasekara Ms. Minette Perera Mr. Chandana de Silva Dr. Nishan de Mel
Secretaries	-	K H L Corporate Services Limited No. 15, Walukarama Road Colombo 3 Tel: 0112 145030
Registrars	-	SSP Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 3 Tel: 0112 573894
Lawyers	-	Messrs Neelakandan & Neelakandan Attorneys - at - Law and Notaries Public M&N Building (Level 5) No. 2, Deal Place Colombo 3
External Auditors	-	Messrs KPMG Chartered Accountants 32 A, Sir Mohamad Macan Marker Mawatha P .O. Box 186 Colombo 3
Principal Bankers	-	Seylan Bank PLC Bank of Ceylon People's Bank Commercial Bank of Ceylon PLC Hatton National Bank PLC National Development Bank PLC