

2020-21

ANNUAL REPORT

FIRST CAPITAL EQUITY FUND



First Capital
A Janashakthi Group Company

First Capital Asset Management Limited

About First Capital Asset Management Limited

First Capital Asset Management Limited is a subsidiary of First Capital Holdings PLC, a Janashakthi Group Company. First Capital provides a diverse range of financial advisory services and products through our integrated business platform in four specialised segments - Capital Markets Advisory, Wealth Management, Fixed Income and Equities. First Capital Holdings PLC is listed on the Colombo Stock Exchange (CSE) since 1994 (Ticker: CFVF), and exemplifies requisite financial transparency and governance standards. Reflecting credit fundamentals including a robust capital structure, liquidity, risk controls and earnings profile, we have been rated “A” by ICRA Lanka Limited.

First Capital Asset Management Limited has two business segments namely, Investment (Portfolio) Management and Management of Unit Trust Funds regulated by the Securities and Exchange Commission of Sri Lanka (SEC). The Bank of Ceylon (BOC) acts as the Trustee for our Unit Trust Funds.

CONTENTS

	Page
Fund Manager's Report	1
<u>Financial Reports</u>	
Independent Auditor's Report	4
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Unitholders' Funds	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Reconciliation on Net Assets	27
Corporate Information	28

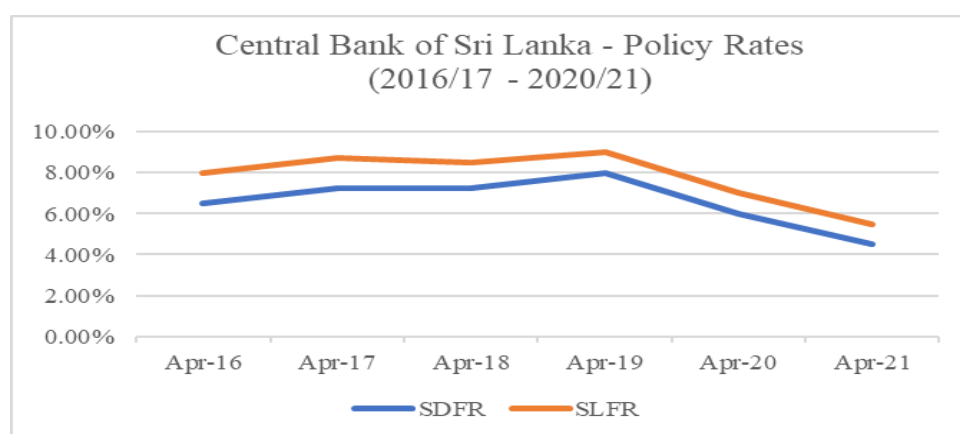
REPORT OF THE MANAGER

We wish to submit you the Audited Financial Statements of First Capital Equity Fund for the year ended 31st March 2021.

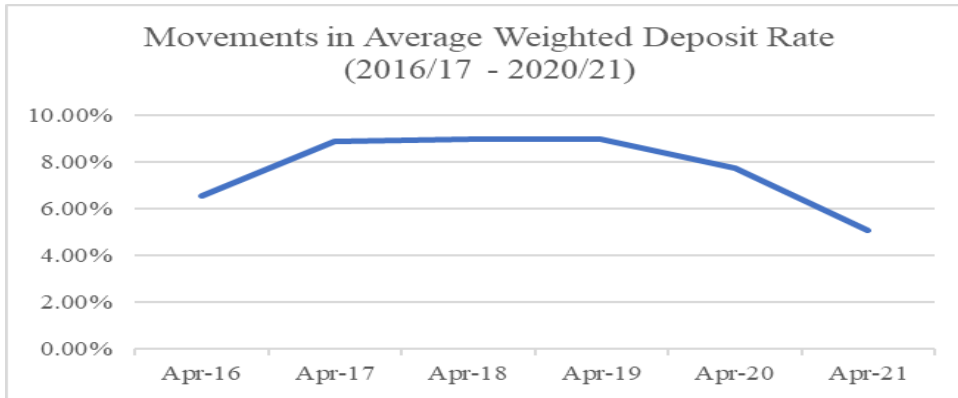
Economic and Industry Overview

Sri Lanka confronted a severe economic shrinkage in 2020, recording 3.6% contraction in GDP in the midst of persisted COVID-19 pandemic woes. The economy began to stabilise during the second half of the year with lifting of lockdowns and gradual resurrection of business operations along with the consumer demand, that was dimmed by the re-surge of 2nd wave of the pandemic occurred towards the end of the year 2020. The country is going through another lockdown amidst the 3rd wave of COVID-19 potentially slowing down economic activity. Nonetheless, the country wide rapid vaccination programmes increased private consumption amidst prevailing low-interest rates and the anticipated future foreign direct investments are expected to fasten the economic recovery in 2021 and beyond.

The market liquidity remained positive throughout 2020 and surged up to over LKR 200Bn during December 2020, while the domestic interest rates were kept low through the continuous injection of liquidity by the Central Bank of Sri Lanka (CBSL). Meanwhile, the private credit growth improved to 7.5% in March 2021 (year-on-year) indicating a gradual revival amidst rising uncertainty. The CBSL continued to extend relief measures to households and businesses affected by the economic distress via adopting an accommodative monetary policy, concessional credit schemes, debt moratorium, etc. to induce private sector credit growth.



The unit trust industry exhibited a significant growth during 2020 owing to the interest rates bottoming out that shifted the client focus towards alternative investments that yield substantial returns, thereby making fixed deposits and bank savings less attractive amidst the rising wealth supported by the excess liquidity, blended with the extensive market awareness campaigns.



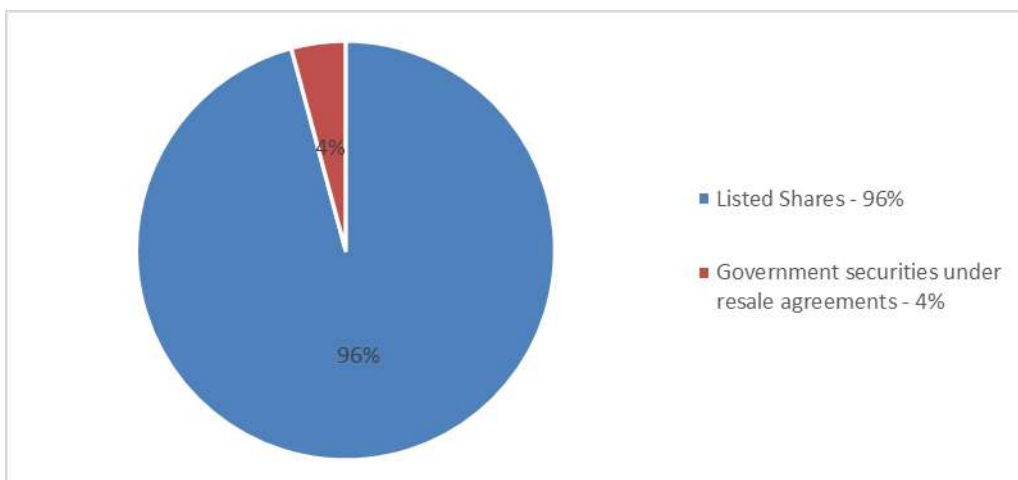
During 2020/21, there were 16 licensed unit trust management companies with 67 funds in operation. Total assets under management were Rs. 221Bn as at 31st March 2021 (Source: The Unit Trust Association of Sri Lanka).

Fund Performance

First Capital Equity Fund reported a Profit after Tax of Rs. 40Mn for the year ended 31st March 2021 compared to a Loss after Tax of Rs. 6.5Mn in the previous year (2019/20).

The Fund reported a return of 97% during the year ended 31st March 2021 compared to the Equity Market return of 56% (All Share Price Index perspective). The return reported in the previous year (2019/20) was a negative return of 13% compared to the Equity Market negative return of 18% (All Share Price Index perspective). The Funds under Management as at 31st March 2021 were Rs. 79Mn compared to Rs. 42Mn as at 31st March 2020. The asset allocation of the Fund as at the reporting date is as follows.

Asset Allocation as at 31st March 2021



Future Outlook

As a result of the COVID-19 pandemic, Sri Lanka's economy contracted by 3.6% in 2020. The Central Bank of Sri Lanka anticipates that growth estimates to be revised to below 5.0% from an earlier expectation of 6.0% amidst extensive restrictions on businesses, livelihoods, and many aspects of everyday lives resulting in a heavier toll on the economy. However, the economy is expected to recover in the short to medium term supported by the Government's stimulus measures introduced, improved business sentiments fuelled by the COVID-19 vaccination drive and improving prospects of the global economy. Nevertheless, the effort to maintain the prevailing low interest rate environment will be contested to a certain extent with Sri Lanka's challenging medium-term debt service requirement.

Shifting gears to a higher level, the Sri Lankan equities market has risen in 2020, owing to low interest rates and expansionary monetary policy initiatives. Despite the economic uncertainties, greater liquidity in the system, ongoing infrastructure investments, and spending by the government as a result of the third COVID wave are likely to drive the equities market. Furthermore, a closer look at regional markets indicates that Sri Lanka remains undervalued in comparison to regional counterparts. Consistent COVID-19 containment measures through accelerated vaccination drive and a clearer economic route in the medium term will function as catalysts for drawing investments to the market, therefore helping to re-rate the market valuations.

Appreciations

We take this opportunity to thank our valued unitholders for the confidence placed in us. We also place on record our appreciation for the unstinted support extended by the Securities and Exchange Commission of Sri Lanka and our Trustee, Bank of Ceylon.

We convey our sincere thanks to the Board of Directors, Management Team and Staff of First Capital Asset Management Limited.

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST CAPITAL EQUITY FUND

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Capital Equity Fund ("the Fund"), which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in unitholders' funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the fund as at 31 March 2021, 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 fund in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements, 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.

Other Information

The fund management company is responsible for the other information. The other information comprises the report of the manager, but does not include in the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the Manager's report and we will not, express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

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

The fund management company 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 the 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, Fund manager is responsible for assessing the fund'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 fund manager either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by fund manager.
- Conclude on the appropriateness of fund manager'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 fund'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 fund 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.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of the Rule 27(3) of the Unit Trust Code of September 2011 issued by the Securities and Exchange Commission of Sri Lanka under the Act No. 36 of 1987 and the trust deed.

SJMS Associates

SJMS ASSOCIATES

Chartered Accountants

Colombo

30 June 2021

FIRST CAPITAL EQUITY FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2020/2021 Rs.	2019/2020 Rs.
Income	7	20,619,044	2,377,858
Direct expenses	8	<u>(1,130,707)</u>	<u>(68,793)</u>
Net trading income		19,488,337	2,309,065
Unrealised gain / (loss) on fair valuation of financial assets recognised through profit or loss - measured at fair value		23,862,120	(6,671,725)
		<u>43,350,457</u>	<u>(4,362,660)</u>
Administration expenses	9	(3,266,427)	(1,780,719)
Other operating expenses	10	<u>(18,150)</u>	<u>(318,464)</u>
Profit / (loss) before taxation		40,065,880	(6,461,843)
Income tax expenses	11	-	-
Profit / (loss) for the year		<u>40,065,880</u>	<u>(6,461,843)</u>
Other comprehensive income		-	-
Total comprehensive income / (expense) for the year		<u>40,065,880</u>	<u>(6,461,843)</u>

Figures in bracket indicate deductions.

The attached notes from 1 to 24 form an integral part of these financial statements.

FIRST CAPITAL EQUITY FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Assets			
Cash at bank	12	895,544	1,007,680
Financial assets recognised through profit or loss - measured at fair value	13	72,964,302	35,593,245
Financial assets - at amortised cost	14	3,192,230	5,558,793
Taxes receivable	15	-	-
Dividend receivables		2,915,999	656,524
Total Assets		<u>79,968,075</u>	<u>42,816,242</u>
Unit holders' funds and liabilities			
Liabilities			
Accruals and other payables	16	1,023,111	736,275
Total Liabilities		<u>1,023,111</u>	<u>736,275</u>
Unit holders' funds			
Net assets attributable to unit holders		<u>78,944,964</u>	<u>42,079,967</u>
Total Unit holders' Funds and Liabilities		<u>79,968,075</u>	<u>42,816,242</u>
Net assets per unit (Rs.)	17	<u>1,358.67</u>	<u>689.69</u>

The attached notes from 1 to 24 form an integral part of these financial statements.

The Management Company of First Capital Equity Fund is responsible for the preparation and presentation of these financial statements in accordance with the Sri Lanka Accounting Standards.

Approved by the Fund Management Company on 30 June 2021.


Mangala Jayashantha
Chief Financial Officer
First Capital Asset Management Limited
Fund Management Company


Dilshan Wirasekara
Director / Chief Executive Officer
First Capital Asset Management Limited
Fund Management Company


Dinesh Schaffter
Managing Director
First Capital Asset Management Limited
Fund Management Company

FIRST CAPITAL EQUITY FUND
STATEMENT OF CHANGES IN UNIT HOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 2021

	Unit Capital	Retained Earnings/ (Loss)	Total
	Rs.	Rs.	Rs.
Balance as at 1 April 2019	64,825,004	(13,376,315)	51,448,689
Increase due to unit creation during the year	1,462,363	-	1,462,363
Decrease due to unit redemption during the year	(4,369,242)	-	(4,369,242)
Decrease in net assets attributable to unit holders	-	(6,461,843)	(6,461,843)
Balance as at 31 March 2020	61,918,125	(19,838,158)	42,079,967
Balance as at 1 April 2020	61,918,125	(19,838,158)	42,079,967
Decrease due to unit redemption during the year	(3,200,883)	-	(3,200,883)
Increase in net assets attributable to unit holders	-	40,065,880	40,065,880
Balance as at 31 March 2021	58,717,242	20,227,722	78,944,964

Figures in brackets indicate deductions.

The attached notes from 1 to 24 form an integral part of these financial statements.

**FIRST CAPITAL EQUITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2021**

	2020/2021 Rs.	2019/2020 Rs.
Cash flows from operating activities		
Profit / (loss) before taxation	40,065,880	(6,461,843)
Adjustment for :		
Unrealized (gain) / loss on fair valuation of financial assets - at fair value through profit and loss	(23,862,120)	6,671,725
Provision for tax receivable	-	306,964
Operating profit before working capital changes	16,203,760	516,846
Increase in financial assets - at fair value through profit and loss	(13,508,937)	(5,936,968)
(Increase) / decrease in financial assets - at amortised cost	2,366,563	9,027,013
(Increase) / decrease in dividend receivables	(2,259,475)	(415,668)
Increase / (decrease) in accruals and other payables	286,836	266,481
Cash flows generated from operations	3,088,747	3,457,704
Net cash flows generated from operating activities	3,088,747	3,457,704
Net cash flows from investing activities	-	-
Cash flows from / (used in) financing activities		
Capital infused / (redeemed) by unit holders (Net)	(3,200,883)	(2,906,879)
Net cash flows used in financing activities	(3,200,883)	(2,906,879)
Net (decrease) / increase in cash and cash equivalents during the year	(112,136)	550,825
Cash and cash equivalents at the beginning of the year	1,007,680	456,855
Cash and cash equivalents at the end of the year (Note 12)	895,544	1,007,680

Figures in bracket indicate deductions.

The attached notes from 1 to 24 form an integral part of these financial statements.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

1. Reporting entity

First Capital Equity Fund is an Open-Ended Unit Trust approved by the Securities and Exchange Commission of Sri Lanka on 30 July 2015.

The registered office/ place of business of the Unit Trust are located at No. 2, Deal Place, Colombo 03. First Capital Asset Management Limited is the Managing Company of First Capital Equity Fund while Bank of Ceylon has been appointed as the Trustee.

1.1. Principal activities

The Unit Trust engages in investment in equity shares on behalf of its clients.

There were no significant changes in the nature of the principle activities of the Unit Trust during the year under review.

1.2. Approval of financial statements

These financial statements of the fund for the year ended 31 March 2021 authorised for issue by the Fund Management Company and the Trustee on 30 June 2021.

2. Basis of preparation

2.1. Statement of compliance

The financial statements of the Unit Trust which comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in unit holders' funds, statement of cash flows and notes thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by Securities and Exchange Commission of Sri Lanka.

The statement of financial position is presented on a liquidity basis and assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

2.2. 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 financial assets recognised through profit or loss are measured at fair value.

2.3 Functional and presentation currency

The financial statements are presented in Sri Lankan Rupees, which is the Unit Trust's functional currency.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with the 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 are described in the relevant Notes as follows.

- Recognition and measurement of financial instruments (Note 4.1.1 to 4.1.5)
- Identification, measurement and assessment of impairment (Note 4.1.6)

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

2.5. Going concern

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

3. Materiality and presentation

Each material class of similar item 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. Where appropriate, the significant accounting policies are disclosed in the succeeding notes.

Assets and liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by Sri Lanka Accounting Standards.

4. Significant accounting policies

4.1. Financial Instruments

4.1.1. Initial Recognition

Financial assets and liabilities are initially recognized on the trade date, i.e the date that the Fund becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

4.1.2. Initial measurement of financial instrument

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, the Fund measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the statement of profit or loss.

4.1.3. Measurement categories of financial assets and liabilities

The Fund classifies all its financial assets in the following measurement categories:

- those to be measured at amortised cost
- those to be measured at fair value through profit or loss

Financial liabilities of the Fund are measured at amortised cost, and includes all financial liabilities, other than those measured at fair value through profit or loss. The financial liabilities of the Fund include accrued expenses and other payables.

4.1.4. Subsequent measurement

Amortised cost: A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments at amortised cost in the statement of financial position comprise of investments in Resale agreements against Government Securities and Fixed Deposits. Any gain or loss arising on de-

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

recognition is recognised directly in profit or loss and presented in realised gain/(loss) on debt instruments held at amortised cost.

FVPL: A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding
Or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell
Or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminate or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within unrealised gains/(losses) in the period in which it arises. Financial assets at fair value through profit or loss at statement of financial position comprise of investment in Government Securities and Corporate Debt Securities.

4.1.5. Financial liabilities

a) Initial recognition and measurement

The Fund determines the classification of its financial liabilities at initial recognition.

The Fund's financial liabilities comprise of accrued expenses and other payables in the Statement of Financial Position.

b) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss and other comprehensive income statement when the liabilities are derecognised as well as through the EIR amortisation process.

4.1.6. Identification, measurement and assessment of impairment

The Fund assesses on a forward-looking basis, the expected credit losses (ECLs) associated with its debt instruments not held at fair value through profit or loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures from which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Fund uses the ratings from either Fitch Rating Lanka Limited or ICRA Lanka Limited as applicable to determine the significant deterioration in credit risk and to estimate the ECLs.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

4.1.6. Identification, measurement and assessment of impairment (Contd..)

Consistent with the policies of the Fund, investments when rated below BBB- are considered as non-investment grade investments and the Fund considers such investments as having incurred significantly deteriorated credit risk. Such investments are considered for lifetime ECL calculation.

Further, movements within the ratings of the investment grade stipulate significant deterioration of credit risk. Significant deterioration is measured through a two notches downgrade of the external credit rating of the counterparty since the origination of the instrument.

For debt instruments at amortized cost issued by Sovereign, the Fund applies the low risk simplification.

At each reporting date the Unit Trust 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 assets(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 (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Unit Trust on terms that the Unit Trust would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Unit Trust considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Unit Trust uses of historical trends of the probability of default, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

Impairment loss on assets carried at amortised cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment loss is recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment loss on fair value through other comprehensive income is recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income 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 previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

4.1.6. Identification, measurement and assessment of impairment (Contd..)

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

The Unit Trust writes off certain loans and advances and investment securities when they are determined to be uncollectible.

4.1.7. Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the Statement of Financial Position, the counterparty liability is included under borrowings. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

4.1.8. Impairment of non-financial assets

The carrying amounts of the Unit Trust's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. For intangible assets that have indefinite useful lives, the recoverable amount is estimated each year. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment loss is recognised in profit or loss.

An impairment loss recognised in prior periods is assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.1.9. De-recognition

A financial asset is de-recognised when,

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

4.1.10. Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.2. Dividend payable

Dividend payable is recognised at the time the dividend recommended and declared by the Board of Directors of the fund managing company.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

4.3. Provision

A provision is recognised if, as a result of a past event, the Unit Trust 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.

4.4. 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.

4.5. Interest

Interest income and expenses 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 liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Unit Trust estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Interest income and expenses presented in the Statement of Profit and Loss and other Comprehensive Income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis and fair value changes in financial asset measured at fair value through profit and loss.

Fair value changes on all other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income in the statement of comprehensive income.

Interest income is recognised on net of withholding tax up to 31st December 2019 and on gross basis with effect from 1st January 2020 in line with the notice issued by Department of Inland Revenue on changes to Inland Revenue Act No. 24 of 2017.

4.6. Gain/ (loss) on securities

i. Unrealised gains / (losses) on financial assets at FVTPL

Unrealised gains / (losses) on financial assets at FVTPL includes all gains and losses that arise from changes in fair value of the financial assets at FVTPL as at the reporting date.

ii. Realised gains / (losses) on financial assets at FVTPL

Realised gains / (losses) on financial assets at FVTPL includes realised trading gains and losses on sale of quoted equity securities.

4.7. Income tax expenses

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of Inland Revenue Act.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. The fund is not liable to pay income tax as at the reporting date in accordance with the Inland Revenue Act No. 24 of 2017. The fund's income generated through investment business are treated as "pass through vehicles" under the provisions of Inland Revenue Act No. 24 of 2017.

FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

4.8. Statement of cash flows

The statement of cash flows has been prepared using the "Indirect 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.

4.9. Events occurring after the reporting period

Events occurring after the reporting period are those events, favorable and unfavorable, 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 the financial statements.

5. 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.

6. New Accounting Standard amendments issued but not effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued following new Sri Lanka Accounting Standard amendments (SLFRSs/LKASs) which will become applicable for financial periods beginning after on or after 1st April 2021. Accordingly, the Fund has not applied the following new standard amendments in preparing these Financial Statements.

The following amended standards are not expected to have a significant impact on the Fund's financial statements.

6.1. Interest Rate Benchmark Reform (IBOR) (Amendments to SLFRS 9 and SLFRS 7)

IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Fund. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate.

The standard includes amendments in respect of:

- Modification of a financial asset or a financial liability measured at amortised cost
- Additional relief for hedging relationships

On 15 January 2021, the CA Sri Lanka issued Interest Rate Benchmark Reform (Phase 1 and Phase 2) which is mandatory for application in respect of annual periods beginning on or after 1 January 2021.

6.2. Onerous Contracts - Cost of fulfilling the contract (Amendments to LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets)

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The above amendment to Standard will be effective for annual reporting periods beginning on or after 1 January 2022.

FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

	2020/2021 Rs.	2019/2020 Rs.
7. Income		
Dividend income	3,871,299	1,466,326
Interest income on financial assets - at amortised cost	301,909	872,987
Gain on sale of financial assets - fair value through profit or loss	16,379,287	32,378
Penalty	66,549	6,167
	<u>20,619,044</u>	<u>2,377,858</u>
8. Direct expenses		
Brokerage and taxes	1,128,891	68,293
Interest expense on repurchase agreements	1,816	-
Other direct expenses	-	500
	<u>1,130,707</u>	<u>68,793</u>
9. Administration expenses		
Management fee	617,669	537,195
Performance fee	2,376,258	1,015,720
Trustee fee	153,429	139,109
Auditor's remuneration	119,071	88,695
	<u>3,266,427</u>	<u>1,780,719</u>
10. Other operating expenses		
Bank charges	18,150	11,500
Provision for tax receivable (<i>Note 10.1</i>)	-	306,964
	<u>18,150</u>	<u>318,464</u>
10.1 Provision for Tax Receivable		
Provision had made for the remaining withholding tax receivable of the Fund in prior year since the recoverability is remote in line with the prevailing tax legislation. No any tax receivables identified during 2020/2021 period. The Fund is not subject to income tax as an entity.		
11. Income Tax Expenses		
First Capital Equity Fund is a Unit Trust licensed by the Securities and Exchange Commission of Sri Lanka. Unit Trust is defined as "Pass through vehicle" and is not taxed as an entity in accordance with the Inland Revenue Act, No. 24 of 2017 and the amendments thereto (2019/2020 - nil).		
Reconciliation between current tax expense and the accounting profit		
Profit / (loss) before tax as per financial statements	40,065,880	(6,461,843)
Add / (less): Exempted income	(40,065,880)	6,461,843
Taxable income / (loss)	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>
	31.03.2021	31.03.2020
	Rs.	Rs.
12. Cash at bank		
Bank of Ceylon - Corporate Branch (<i>Note 12.1</i>)	895,544	1,007,680
	<u>895,544</u>	<u>1,007,680</u>

12.1 Bank balances are maintained only to settle day to day operations. Excess cash balances are reviewed on a daily basis and transferred the same to investment account. Remaining cash at bank represent current account balance with banks, which are due on demand. Accordingly no impairment provision is required.

FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

	31.03.2021	31.03.2020
	Rs.	Rs.
13. Financial assets recognised through profit or loss - measured at fair value		
Listed shares (<i>Note 13.1</i>)	72,964,302	35,593,245
	72,964,302	35,593,245

13.1 Financial assets at fair value through profit or loss

Listed Shares

	31.03.2021			31.03.2020		
	Number of Shares	Market value of Shares (Rs.)	Percentage holding of each investment against the Net Asset Value of the fund	Number of Shares	Market value of Shares (Rs.)	Percentage holding of each investment against the Net Asset Value of the fund
Access Engineering PLC	280,000	6,188,000	8%	280,000	3,696,000	9%
Asian Hotels & Properties PLC	54,057	2,021,732	3%	54,057	1,567,653	4%
Nations Trust Bank PLC	86,810	4,800,594	6%	86,810	5,486,392	13%
Seylan Bank PLC	106,318	4,592,937	6%	102,986	2,275,991	5%
Janashakthi Insurance PLC	117,507	3,513,459	4%	117,507	2,667,409	6%
Alumex PLC	341,200	3,684,960	5%	170,600	1,228,320	3%
Commercial Bank of Ceylon	100,648	8,605,404	11%	15,291	918,989	2%
LOLC Holdings PLC	10,523	3,072,716	4%	10,000	908,000	2%
John Keells Holdings PLC	65,000	9,652,500	12%	20,000	2,308,000	5%
Sampath Bank PLC	165,000	8,877,000	11%	15,000	1,785,000	4%
Hatton National Bank PLC	100,000	9,720,000	12%	-	-	
Softlogic Life Insurance PLC	270,000	8,235,000	10%	-	-	
ACL Plastics PLC	-	-	-	25,000	2,880,000	7%
Lanka Walltile PLC	-	-	-	34,700	1,426,170	3%
Royal Ceramics Lanka PLC	-	-	-	61,537	3,439,918	8%
Tokyo Cement Company (Lanka) PLC	-	-	-	118,100	2,657,250	6%
Hayleys PLC	-	-	-	18,998	2,348,153	6%
Total		72,964,302			35,593,245	

	31.03.2021	31.03.2020
	Rs.	Rs.
14. Financial assets - at amortised cost		
Government securities under resale agreements (<i>Note 14.1</i>)	3,192,230	5,558,793
	3,192,230	5,558,793

14.1 This represents investment in Resale agreements entirely backed by Government Securities. No impairment provisions derived through these investments.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

	31.03.2021	31.03.2020
	Rs.	Rs.
15. Taxes receivable		
Balance at the beginning of the year	-	306,964
Provision for tax receivable	-	(306,964)
Balance at the end of the year	<u>-</u>	<u>-</u>
16. Accruals and other payables		
Management fee payable	65,550	84,404
Trustee fee payable	16,283	9,789
Audit fees payable	110,565	88,694
Performance fee payable	508,843	231,518
Other payable	321,870	321,870
	<u>1,023,111</u>	<u>736,275</u>
17. Net assets per unit		
Net assets (Rs.)	78,944,964	42,079,967
Total number of units	58,104	61,013
Net assets per unit (Rs.)	<u>1,358.67</u>	<u>689.69</u>

FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

18. Analysis of financial instrument by measurement basis

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

As at 31 March 2021	Mesured at Fair Value Rs.	Amortized Cost Rs.	Carried at Cost Rs.	Total Rs.
<u>Assets</u>				
Cash at bank	-	895,544	-	895,544
Financial assets				
Financial assets recognised through profit or loss - measured at fair value	72,964,302	-	-	72,964,302
Financial assets - at amortised cost	-	3,192,230	-	3,192,230
Total	72,964,302	4,087,774	-	77,052,076
<u>Liabilities</u>				
Accruals and other payables	-	-	1,023,111	1,023,111
Total	-	-	1,023,111	1,023,111
As at 31 March 2020	Mesured at Fair Value Rs.	Amortized Cost Rs.	Carried at Cost Rs.	Total Rs.
<u>Assets</u>				
Cash at bank	-	1,007,680	-	1,007,680
Financial assets				
Financial assets recognised through profit or loss - measured at fair value	35,593,245	-	-	35,593,245
Financial assets - at amortised cost	-	5,558,793	-	5,558,793
Total	35,593,245	6,566,473	-	42,159,717
<u>Liabilities</u>				
Accruals and other payables	-	-	736,275	736,275
Total	-	-	736,275	736,275

19. Determining of fair value and hierarchy of fair value

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

As at 31 March 2021	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total fair value Rs.
Financial assets measured at fair value				
Financial assets recognised through profit or loss - measured at fair value				
- Investment in listed shares	72,964,302	-	-	72,964,302
	72,964,302	-	-	72,964,302
As at 31 March 2020	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total fair value Rs.
Financial assets measured at fair value				
Financial assets recognised through profit or loss - measured at fair value				
- Investment in listed shares	35,593,245	-	-	35,593,245
	35,593,245	-	-	35,593,245

Level 1 - Financial Instruments that are measured in whole or in part 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 transactions 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.

Due to the nature of the short term maturity, Carrying value of the financial asset at amortised cost are approximated to their fair value.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

20. Financial risk management

Overview

The Unit Trust has exposure to the following risks via financial instruments.

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

This Note presents information about the Unit Trust's exposure to each of the above risks and the objectives, policies and processes for measuring and managing risk.

20.1 Risk management framework

The Board of Directors of the fund management company has the overall responsibility for the establishment and oversight of the Unit Trust's risk management framework. The Managing 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. The committee members have been assigned the responsibility to manage these risks prudently.

Unit Trust's risk management policies are established to identify and analyse the risk confronted by the Unit Trust, 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, products and services offered.

20.1(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Unit Trust'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.

- Overall authority for managing market risk is vested with the Board of Directors.
- 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.

Price Sensitivity as follows

	Effect on the profit or loss for the year 2020/2021 Rs.	Effect on the profit or loss for the year 2019/2020 Rs.
Increase in share price - 1%	729,643	355,932
Decrease in share price - 1%	(729,643)	(355,932)

20.1(b) Liquidity Risk

Liquidity risk is the risk that the Unit Trust will not have adequate financial resources to meet Unit Trusts'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 Unit Trust's reputation.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

Maturity analysis of the financial assets and financial liabilities

	Carrying amount	Up to 3 months	3 Months to 1 year	1-3 years	3-5 years	Over 5 years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 31 March 2021						
<u>Assets</u>						
Cash at bank	895,544	895,544	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	72,964,302	72,964,302	-	-	-	-
Financial assets - at amortised cost	3,192,230	3,192,230	-	-	-	-
Total financial assets	<u>77,052,076</u>	<u>77,052,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 March 2020						
<u>Assets</u>						
Cash at bank	1,007,680	1,007,680	-	-	-	-
Financial assets recognised through profit or loss measured at fair value	35,593,245	35,593,245	-	-	-	-
Financial assets - at amortised cost	5,558,793	5,558,793	-	-	-	-
Total financial assets	<u>42,159,718</u>	<u>42,159,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

20.1(c) Credit Risk

Credit risk is the risk of financial loss to the Unit Trust if a client or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Unit Trust's investment in corporate debt securities and investment in reverse repo agreements.

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

	12 Month Expected Credit Losses	Life Time Expected Credit Losses not credit impaired	Life Time Expected Credit Losses credit impaired	Total
	Rs.	Rs.	Rs.	Rs.
As at 31 March 2021				
<u>Assets</u>				
Cash at bank	895,544	-	-	895,544
Financial assets - at amortised cost	3,192,230	-	-	3,192,230
Total financial assets	<u>4,087,774</u>	<u>-</u>	<u>-</u>	<u>4,087,774</u>
As at 31 March 2020				
<u>Assets</u>				
Cash at bank	1,007,680	-	-	1,007,680
Financial assets - at amortised cost	5,558,793	-	-	5,558,793
Total financial assets	<u>6,566,473</u>	<u>-</u>	<u>-</u>	<u>6,566,473</u>

FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

20.1(d) Analysis of concentration risk

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

As at 31 March 2021	Cash at Bank	Financial assets recognised through profit or loss - measured at fair value	Financial assets - at amortised cost	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.
<u>Sector wise breakdown</u>				
Government	895,544	-	-	895,544
Corporate	-	72,964,302	3,192,230	76,156,532
Total	895,544	72,964,302	3,192,230	77,052,076
<hr/>				
As at 31 March 2020	Cash at Bank	Financial assets recognised through profit or loss - measured at fair value	Financial assets - at amortised cost	Total Financial Assets
<u>Sector wise breakdown</u>				
Government	1,007,680	-	-	1,007,680
Corporate	-	35,593,245	5,558,793	41,152,038
Total	1,007,680	35,593,245	5,558,793	42,159,718

20.1 (e) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the fund'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 Unit Trust'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 each business unit. This responsibility is supported by the development of overall Unit Trust'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 Unit Trust'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 business unit with summaries submitted to the Audit Committee.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

21. Related party disclosures

21.1 Directorships in other companies

The Directors of First Capital Asset Management Limited (Managing Company of the Unit Trust) and First Capital Holdings PLC (Parent Company of the Business Cluster) are also Directors of the following companies.

Name of the company	Relationship	Mr. Nishan Fernando	Mr. Dinesh Schaffter	Mr. Dilshan Wirasekara	Mr. Eardley Perera	Ms. Minette Perera	Mr. Chandana Lal de Silva	Dr. Nishan de Mel	Mr. Prakash Schaffter	Mr. Ramesh Schaffter
Janashakthi Limited	Ultimate Parent	-	Director	-	Director	-	Chairman	-	Deputy Chairman	Managing Director/Group CEO
Janashakthi Insurance PLC	Subsidiary of the Ultimate Parent	-	-	-	Director	-	-	-	Chairman	Director
Janashakthi Capital Limited	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	Director	Director
Orient Finance PLC	Subsidiary of the Ultimate Parent	-	-	-	-	Director	-	-	Director	Director
Orient Capital Limited	Subsidiary of the Ultimate Parent	-	-	-	-	-	-	-	Director	Director
First Capital Limited	Immediate Parent	Chairman	Managing Director	Director/CEO	Director	Director	Director	Director	-	-
First Capital Treasuries PLC	Subsidiary of Immediate Parent	Chairman	Managing Director	Director/CEO	-	Director	Director	Director	Director	Director
First Capital Markets Limited	Subsidiary of Immediate Parent	Chairman	Managing Director	Director/CEO	Director	Director	Director	Director	-	-
First Capital Equities (Private) Limited	Subsidiary of Immediate Parent	Chairman	Managing Director	Director	Director	Director	Director	Director	-	-
First Capital Trustee Services	Subsidiary of Immediate Parent	-	Managing Director	Director/CEO	-	-	-	-	-	-
Kelsey Developments PLC	Subsidiary of the Ultimate Parent	-	Director	-	Chairman	-	Director	-	Director	Director
Kelsey Homes (Private) Limited	Subsidiary of the Ultimate Parent	-	Managing Director	-	Director	-	Director	-	-	-
K H L Corporate Services Limited	Subsidiary of the Ultimate Parent	-	Director	-	-	-	-	-	Director	Director
Kelsey Homes (Central Park) Limited (formerly Twid Capital (Private) Limited)	Subsidiary of the Ultimate Parent	-	Director	-	Director	-	Director	-	-	-
Premier Synthetic Leather Manufacturers (Private) Limited	Related party through KMP	-	Director	-	-	-	-	-	Director	Director
Thornton Engineering (Private) Limited	Related party through KMP	-	Director	-	-	-	Director	-	-	-
Nextventures Limited	Related party through KMP	-	Director	-	-	-	-	-	-	-

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 Fund 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 Fund and is comparable with what is applied to transactions between the Fund and its unrelated customers. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

**FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

21.2 Transaction with managing company

Name of the company	Nature of the Transaction	Year ended 31.03.2021		Year ended 31.03.2020	
		2020/2021	Amounts owed (to) / by the Related Party as at 31-03-2021	2019/2020	Amounts owed (to) / by the Related Party as at 31-03-2019
First Capital Asset Management Limited	Management fee	617,669	(65,550)	537,195	(84,404)
	Performance fee	2,376,258	(508,843)	1,015,720	(231,518)
	Bank balance	-	(321,870)	-	(321,870)
	Investment in Unit Trust	-	(51,629,549)	-	(26,208,220)
	Benefit Accrued on Unit Trust	(25,421,329)	-	(3,825,460)	-

21.3 Transaction with ultimate parent company/ parent company/ immediate parent company, subsidiaries of the immediate parent of the managing company

Nature of transaction	2020/2021	Amounts owed (to) / by the Related Party as at 31-03-2021	2019/2020	Amounts owed (to) / by the Related Party as at 31-03-2019
Interest income	285,254	-	872,987	-
Interest expense	1,816	-	-	-
Resale agreements	-	3,192,230	-	5,558,793
Brokerage cost	644,236	-	33,462	-
Investment in listed shares	-	3,513,459	-	2,667,409

21.4 Transactions with key management personnel (KMP) and their close family members (CFM)

According to Sri Lanka Accounting Standard 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 or indirectly, including any director (whether executive or otherwise) of that entity. Accordingly, the Board of Directors of Managing company and its parent companies has 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 the individual's domestic partner

Close Family Members are related parties to the Entity.

Transactions with KMP/CFM	Year ended 31.03.2021		Year ended 31.03.2020	
	2020/21	Amounts owed (to) / by the Related Party as at 31-03-2021	2019/20	Amounts owed (to) / by the Related Party as at 31-03-2020
Investment in Unit Trust	-	-	-	-

22. Capital commitments and contingent liabilities

There were no material capital commitments and contingent liabilities as at the reporting date which require disclosure in the financial statements.

23. Events occurred after the reporting period

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

FIRST CAPITAL EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

24. Impact on COVID-19 Pandemic

The World Health Organisation declared COVID 19 as a Global Pandemic situation on 11th March 2020. The pandemic significantly affected the Sri Lankan economy as well as the business environment. The situation is being continued effecting many aspects of the country. With the declaration of COVID 19 as a Global Pandemic situation and in response to the serious threat imposed on public health and safety, Sri Lankan Government enforced several measures to control the pandemic in March 2020.

The Country began to stabilise during the second half of year 2020 with lifting of lockdowns and gradual resurrection of business operations along with the consumer demand, that was lowered by the re-surge of 2nd wave of the pandemic occurred towards the end of year 2020. The Country has been going through another distress as a result of 3rd wave of COVID 19 since April 2021.

COVID-19 Pandemic had a low impact on the Managing Company's general business routines. The Managing Company followed the government guidelines and acted to ensure the safety of employees, stakeholder and business partners. The Managing Company was equipped with a strong Business Continuity Plan. Accordingly, the Managing Company was better prepared and equipped to face such contingent situations when the Government initially imposed curfew in March 2020. The Managing Company had adequate infrastructure in place to face such emergency and therefore the impact on the business operations was minimal. The outbreak of COVID-19 does not have a significant impact on the performance, liquidity and valuation of assets of the Managing Company.

FIRST CAPITAL EQUITY FUND
RECONCILIATION OF NET ASSET VALUE REPORTED AS AT 31ST MARCH 2021

	Rs.
Net Asset Value as per Monthly Return	78,961,661
Adjustment on Under provision for Audit Fee	(16,697)
Net Asset Value as per Audited Financial Statements	78,944,964

CORPORATE INFORMATION

NAME OF THE FUND (UNIT TRUST)

First Capital Equity Fund

FUND MANAGING COMPANY

First Capital Asset Management Limited (PB
187)

TRUSTEE OF THE FUND

Bank of Ceylon

REGISTERED OFFICE OF FUND MANAGING COMPANY

No. 2, Deal Place
Colombo 3
Sri Lanka

BOARD OF DIRECTORS OF FUND MANAGING COMPANY

Mr. Nishan Fernando
Mr. Dinesh Schaffter
Mr. Dilshan Wirasekara
Mr. Eardley Perera
Ms. Minette Perera
Mr. Chandana de Silva
Dr. Nishan de Mel

SECRETARIES

K H L Corporate Services Limited
No. 15, Walukarama Road
Colombo 3

EXTERNAL AUDITORS

Messrs SJMS Associate (Deloitte)
Chartered Accountants
No. 11, Castle Lane
Colombo 4

INTERNAL AUDITORS

Messrs PricewaterhouseCoopers
Chartered Accountants
No. 100, Braybrooke Place
Colombo 2

PRINCIPAL BANKERS

Bank of Ceylon
Sampath bank