

Monday, 03 December 2018
(Valuation date: Wednesday, 04 July 2018)

Browns Investments PLC

Independent Valuation Report to the Board of Directors of Browns Investments PLC
on the valuation of Browns Investments PLC and Browns Capital PLC
in arriving at a Share Swap Ratio
for the proposed amalgamation of Browns Investments PLC with Browns Capital PLC

Prepared by



CAPITAL ALLIANCE PARTNERS LIMITED

Level 05, "Millennium House",
46/58, Nawam Mawatha,
Colombo 02,
Sri Lanka.

We, Capital Alliance Partners Limited ("CAL") hereby declare that we possess the requisite expertise to perform reports of this nature involving quoted company categorised under the Diversified Holdings Sector

The Board of Directors
Browns Investments PLC
No. 34, Sir Mohamed Macan Marker Mawatha
Colombo 03
Sri Lanka.

Dear Sir/Madam,

Independent Valuation Report to the Board of Directors of Browns Investments PLC on the valuation of Brown Investments PLC and Browns Capital PLC and the resultant Share Swap Ratio on the proposed amalgamation of Browns Investment PLC with Browns Capital PLC

Further to our assignment to provide you with an independent valuation on Browns Investments PLC and Browns Capital PLC and the resultant Share Swap Ratio, please find enclosed herewith a comprehensive report incorporating the same.

Thank you,
Yours faithfully,

Capital Alliance Partners Limited

A handwritten signature in blue ink, appearing to read 'Vishnu Balachandran', written over a horizontal line.

Vishnu Balachandran
Executive Vice President
Head of Investment Banking

Declaration

We, Capital Alliance Partners Limited ("CAL"), acting as the "Independent Valuer" to the Board of Directors Browns Investments PLC (hereinafter referred to as the "Valuer") in connection with the proposed amalgamation of Browns Investments PLC with Browns Capital PLC, hereby declare that the Valuer is neither a related party of the applicant entity as defined in Sri Lanka Accounting Standards nor has a significant interest or financial connection with the applicant entity and/or the group. The Valuer is a member of good standing in a professional association relevant to the valuation assignment undertaken and has the necessary skills and resources available at his disposal to arrive at a competent independent opinion and the resultant swap ratio.

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Glossary of terms

Amalgamation	Amalgamation of Browns Capital PLC with Browns Investments PLC
ASPI	All Share Price Index
AWPLR	Average Weighted Prime Lending Rate
BIL	Browns Investments PLC
CAL	Capital Alliance Partners Limited
Comps	Comparable Companies
CSE	Colombo Stock Exchange
DCF	Discounted Cash Flow
EBIT	Earnings before Interest & Tax
EBITDA	Earnings before Interest, Tax, Depreciation & Amortization
EPS	Earnings per Share
EV	Enterprise Value
FCFF	Free Cash Flow to Firm
FLCH	Browns Capital PLC
FY	Financial Year
LKR	Sri Lanka Rupee
LKRm	Sri Lanka Rupee (in million)
Mn	Millions
MW	Megawatt
NAV	Net Asset Value
Offeror	Browns Investments PLC
Offeree	Browns Capital PLC
PAT	Profit after Tax
P/B	Price to Book Ratio
P/E	Price to Earnings Ratio
SEC	Securities & Exchange Commission of Sri Lanka
Shareholders	Shareholders of Browns Investments PLC
SOTP	Sum of the Parts
the Assignment	Provide an independent valuation and a fair share swap ratio
the Board	The Board of Directors of BIL
TGR	Terminal Growth Rate
TTM	Trailing Twelve Months
USD	US Dollar
Valuation Date	Wednesday, 04 July 2018
WACC	Weighted Average Cost of Capital

1 Introduction

1.1 Executive summary

CAL valued Browns Investments PLC ("BIL") using Sum of the Parts ("SOTP") valuation employing P/E relative, P/B relative, EV/EBITDA relative, Net Asset Value ("NAV"), Fair value and Investment value based on the appropriateness to each of the companies under BIL. Accordingly, CAL concludes LKR 3.86 as a fair value for each share of BIL.

CAL valued Browns Capital PLC ("FLCH") using Sum of the Parts ("SOTP") valuation employing Discounted Cash Flow ("DCF") analysis, P/B transaction relative, EV/Hectare transaction relative, P/B relative, Net Asset Value ("NAV") and Market value based on the appropriateness to each of the companies under FLCH. Accordingly, CAL concludes LKR 7.79 as a fair value for each share of FLCH.

Both BIL and FLCH are holding companies which comprise of businesses in different industries. CAL has used different valuation techniques to value each subsidiary under BIL and FLCH considering the nature of each business. The fair values for the shares of BIL and FLCH have been arrived at based on a SOTP valuation as it is the most appropriate and commonly used method to value companies of this nature.

Based on the above, the resultant share swap ratio is two shares of BIL for one share of FLCH (2:1)

However, CAL cautions investors that valuations as at a particular date are highly subjective. CAL considered different methodologies for each company under BIL and FLCH based on the nature of the operations, the industry in which each company operates and the relative significance of the said company to the overall Group. While the comparable peers under different relative valuation methodologies were selected based on their appropriateness, they may not provide an optimal comparison. The methodology adopted in arriving at the value of each company is illustrated under section 3.3.

1.2 Background to the assignment

BIL is the strategic investment vehicle of the Browns Group and one of the leading investment holding companies, with interests in leisure, plantation and agriculture, construction and investments. FLCH is a subsidiary of BIL, where BIL currently holds a 60.79% controlling stake of FLCH. Furthermore, FLCH is a diversified company, with interests in plantation, renewable energy and real estate.

At this juncture, the Board of BIL hopes to amalgamate BIL with FLCH and has requested CAL to act in the capacity of an independent valuer to value both BIL and FLCH and arrive at a share swap ratio for the reference of the Board of BIL.

1.3 Terms of reference

CAL's terms of reference in respect to this assignment involves presenting to the Board of Directors of BIL the value of BIL and FLCH shares and providing an indication on the share swap ratio for the Board of BIL to use as a reference to make a recommendation on the proportion of shares in which the amalgamation will be affected.

2 Overview

Browns Investments PLC

Browns Investments PLC (“BIL”) was incorporated in 2008 as a Subsidiary of Brown and Company PLC (“BRWN”) as the strategic investment vehicle of the Browns Group to capitalize on the post war economic boom in Sri Lanka. BIL is listed on the Diri Savi Board of the Colombo stock exchange under the diversified holdings sector.

BIL has aggressively ventured into a number of sectors since inception through investments and joint ventures. BIL has a strong presence in the leisure sector with a cumulative room capacity of 403 rooms and has investments in many fast growing sectors such as real estate, plantations and agriculture, construction and investments.

Browns Capital PLC

Browns Capital PLC (“FLCH”) formerly known as Free Lanka Capital Holdings, was established in 1992. FLCH is predominantly involved in the plantation and renewable energy space and fully owns the property management company that owns the head office property of Browns Capital PLC. FLCH is listed on the Diri Savi Board of the Colombo stock exchange under the diversified holdings sector.

The plantation sector with 57,000 acres of land spread across the country accounts for the production of 12.5 Mn kg of tea and 4 Mn kg of rubber per annum in the country. The renewable energy sector of the company currently has a capacity of 10MW and expects to expand its sustainable footprint with 15MW hydro power projects in the pipeline.

Figure 2.1 Browns Investments PLC – Holding Structure

Source: Company

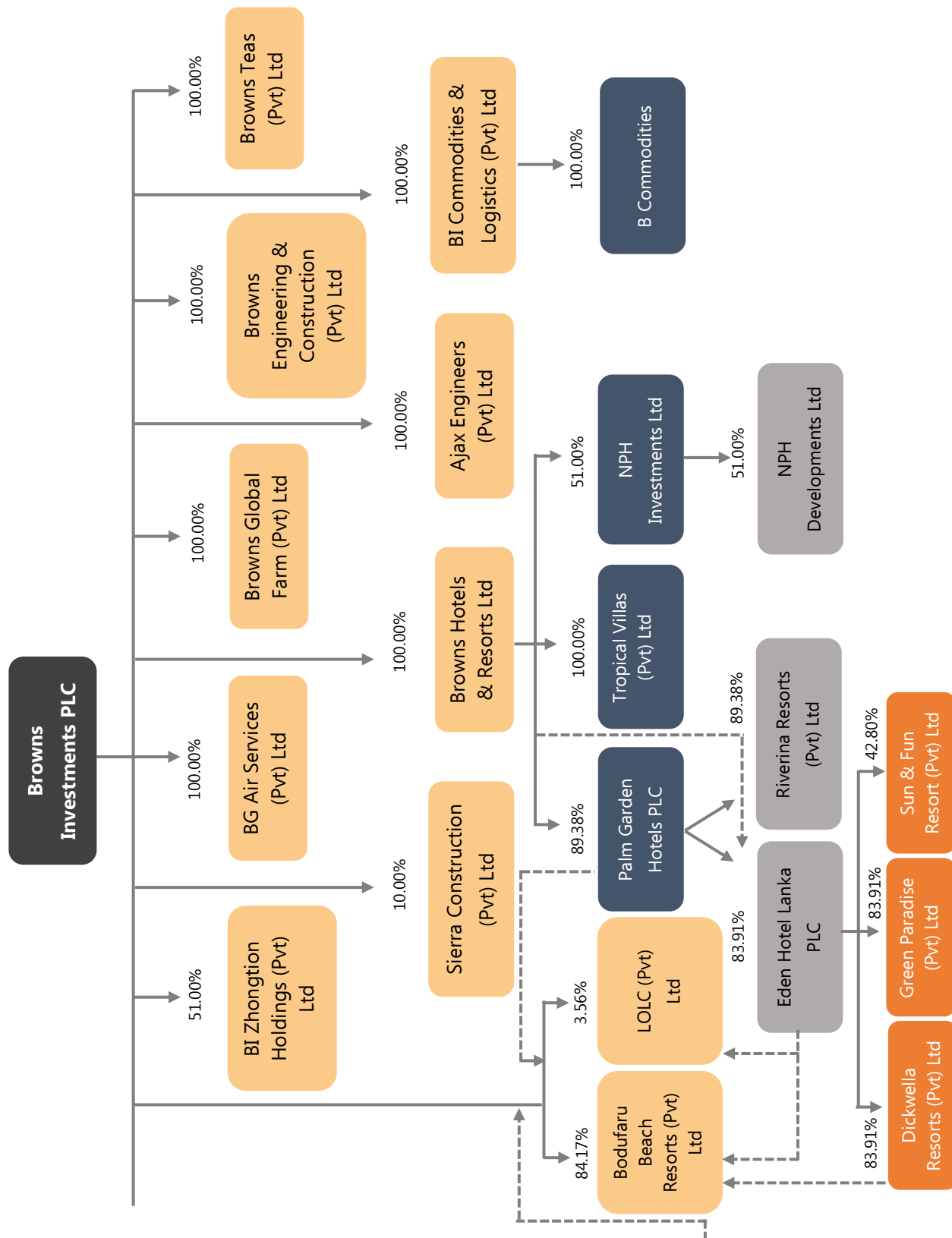
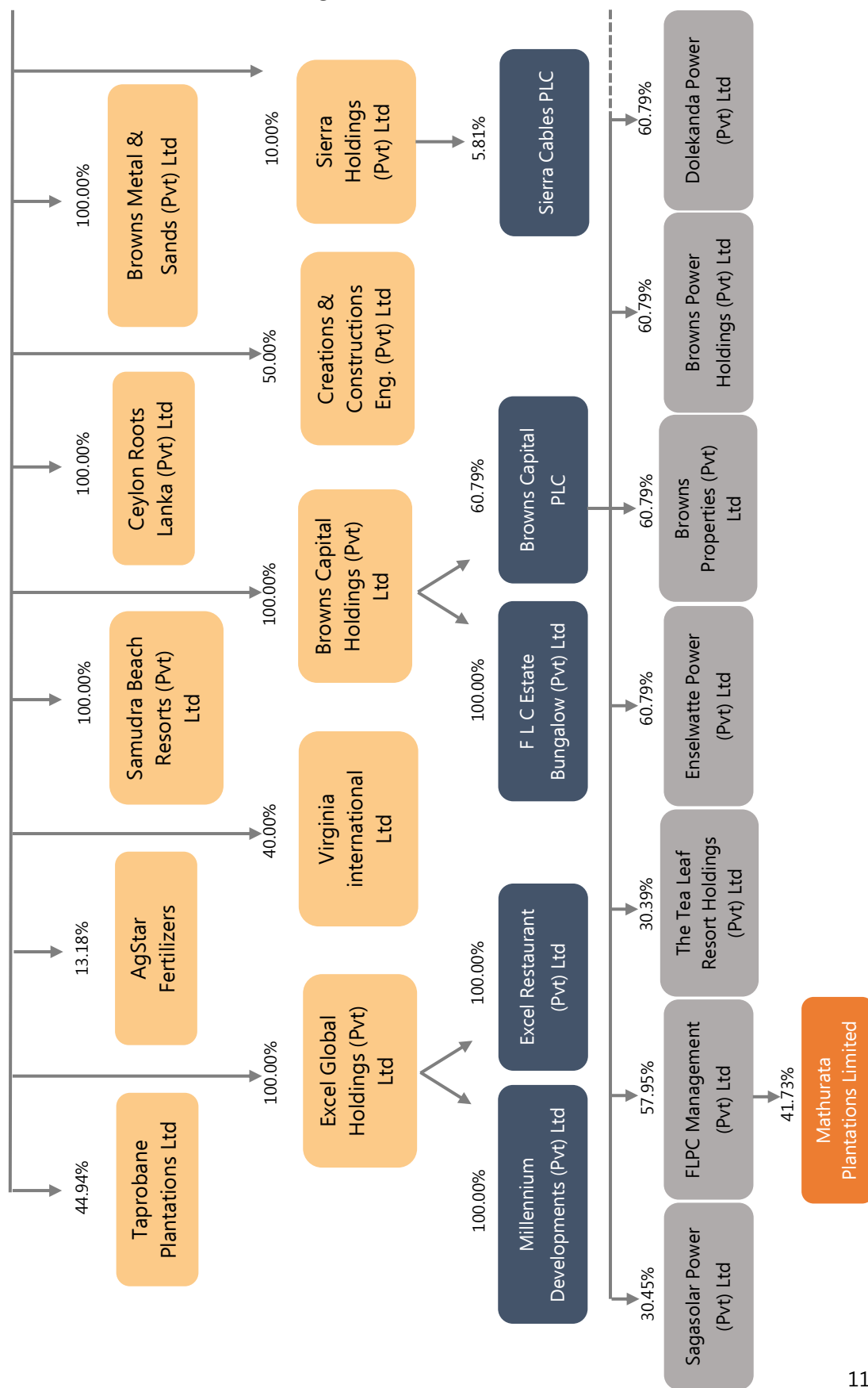


Figure 2.1 Browns Investments PLC – Holding Structure (Cont'd)



3 Sum of the Parts Valuation

3.1 Summary valuations- Browns Investments PLC

Segment	Valuation Methodology	Holding (%)	Total Equity Value (LKR 000')	Effective equity value (LKR 000')
Leisure	Refer section 3.3.1.1			6,941,626
Property				
Land Bank- BIL	Fair Value	100.00%	1,513,782	1,513,782
NPH Investments (Pvt) Ltd	NAV	51.00%	2,817,227	1,436,786
Construction				
Ajax Engineers (Pvt) Ltd	EV/EBITDA	100.00%	553,481	553,481
Creations Wooden Fabricators (Pvt) Ltd	NAV	50.00%	(2,242)	(1,121)
Browns Engineering & Construction (Pvt) Ltd	NAV	100.00%	299,961	299,961
Plantations/Browns Global Farm (Pvt) Ltd	NAV	100.00%	2,325	2,325
Browns Capital PLC	Refer Table 3.2	60.79%	10,653,382	6,476,191
Equity Investments				
Sierra Holdings (Pvt) Ltd	NAV	10.00%	5,064,899	506,490
Sierra Constructions (Pvt) Ltd	NAV	10.00%	4,081,172	408,117
AgStar PLC	Market price	13.18%	1,045,589	137,809
Taprobane Plantations Ltd	NAV	44.94%	(44,937)	(20,195)
LOLC (Pvt) Ltd	NAV	2.26%	3,522,196	79,570
Other				
BI Zhongtian Holdings (Pvt) Ltd	NAV	51.00%	1,434	731
Browns Teas (Pvt) Ltd	NAV	100.00%	(43)	(43)
BI Commodities and Logistics (Pvt) Ltd	P/E	100.00%	243,153	243,153
Total				18,578,663
(Net debt)/ Net cash at the holding company				(907,068)
Loans from related party				(5,903,600)
Loans to related party				2,185,350
Related party payables				(2,159,668)
Related party receivables				2,553,562
Total Value of BIL				14,347,239
Number of shares				3,720,000,000
Value per share of BIL (LKR)				3.86

Based on SOTP valuation, the total equity value of BIL is LKR 14,347 Mn with a per share value of LKR 3.86.

3.2 Summary valuations- Browns Capital PLC

Segment	Valuation Methodology	Holding (%)	Total Equity Value (LKR 000')	Effective equity value (LKR 000')
Plantations/Mathurata Plantations Limited	EV/Hectare, P/B (Transaction relative)	68.64%	1,315,947	1,061,954
Renewable energy/Sagasolar Power (Pvt) Ltd	DCF	50.10%	892,548	447,167
Real estate and property/ Browns Properties (Pvt) Ltd	Revalued amount	100.00%	1,836,182	1,836,182
Equity investments				
Bodufaru Beach resort (Pvt) Ltd	P/B Relative	11.00%	2,320,790	255,287
LOLC (Pvt) Ltd	NAV	2.14%	3,522,196	75,375
Other entities				
Browns Power Holdings (Pvt) Ltd	NAV	100.00%	228,091	228,091
Dolekanda Power (Pvt) Ltd	NAV	100.00%	8,819	8,819
Enselwatte Power (Pvt) Ltd	NAV	100.00%	(4,433)	(4,433)
Tea Leaf Resort Holdings	NAV	50.00%	(4,584)	(2,292)
Total				3,906,148
(Net debt)/ Net cash at the holding company				482,494
Loans to related party				6,046,913
Related party receivables				217,827
Total Value of FLCH				10,653,382
Number of shares				1,368,000,000
Value per share of FLCH (LKR)				7.79

Based on SOTP valuation, the total equity value of FLCH is LKR 10,653 Mn with a per share value of LKR 7.79.

3.3 Valuations of individual companies

3.3.1 Companies under BIL

3.3.1.1 Leisure sector

Segment	Valuation Methodology	Net Book Value (LKR 000')	Holding (%)	Total Equity Value (LKR 000')	Effective equity value (LKR 000')
Eden Resort & Spa	P/B relative	3,087,934	83.91%	1,983,838	1,664,639
Dickwella Resort & Spa	P/B relative	1,138,751	83.91%	731,588	613,876
Calm Resort & Spa	P/B relative	126,097	42.80%	81,011	34,673
Paradise Resort & Spa	P/B relative	1,263,616	83.91%	811,808	681,188
Tropical Villas	P/B relative	327,410	100.00%	210,344	210,344
Samudra Beach	P/B relative	2,389,248	100.00%	1,534,968	1,534,968
Riverina Resort	P/B relative	327,712	89.38%	210,538	188,179
Bodufaru Beach Resort Pvt Ltd	P/B relative	3,612,415	77.48%	2,320,790	1,798,220
Excel restaurants (Pvt) Ltd	P/B relative	66,866	100.00%	42,958	42,958
BG Air Services (Pvt) Ltd	P/B relative	4,091	100.00%	2,628	2,628
Millennium Developments	P/B relative	5,883,098	100.00%	3,779,586	3,779,586
Palm Garden Hotel PLC	NAV	1,491,885	89.38%	1,491,885	1,333,447
Browns Hotels & Resorts	NAV	(3,148,152)*	100.00%	(3,148,152)	(3,148,152)*
Excel Global Holdings (Pvt) Ltd	NAV	(197,593)*	100.00%	(197,593)	(197,593)*
Total					8,538,960
Eden Resort & Spa related party payable					(1,597,334)**
Total Value of Leisure sector					6,941,626
P/B relative					0.64x

**CAL assumed the gearing ratio of Eden Resort & Spa to be 57% based on the average of the groups' operational hotels and management indication. Therefore, the additional debt which is not necessary for the operations of Eden Resort & Spa but is in the books as a result of Eden Resort and Spa being a holding company was removed from the overall value of the leisure sector.

Palm Garden Hotel PLC, Browns Hotels & Resorts and Excel Global Holdings (Pvt) Ltd are valued at NAV excluding the investments in subsidiaries, since the three companies are holding companies. The calculation of the equity value for the three companies is given below.

Company	Net Asset Value (LKR 000')	Investment in subsidiaries (LKR 000')	Total Equity Value (LKR 000')
Palm Garden Hotel PLC	1,491,885	-	1,491,885
Browns Hotels & Resorts	2,700,790	5,848,942	(3,148,152)*
Excel Global Holdings (Pvt) Ltd	199,305	396,898	(197,593)*

*The negative equity is as a result of the holding companies leveraging themselves to invest in their subsidiaries. (In addition to the claim by shareholders on equity for LKR 2,700 Mn creditors have a claim of LKR 3,148 Mn in the case of Browns Hotel and Resorts.)

P/B relative*

Comparable peer	Market Capitalization (LKR 000') ¹	Net Asset Value (LKR 000')	P/B (x)
Beruwala Resorts PLC	420,000	640,929	0.66
The Fortress Resorts PLC	1,208,665	1,755,079	0.69
The Lighthouse Hotel PLC	1,541,000	2,865,163	0.54
Mahaweli Reach Hotels PLC	771,890	1,121,954	0.69
Average P/B relative			0.64

Source: Colombo Stock Exchange

¹Market Capitalization as at 14 June 2018

*CAL has considered the above comparable peers in calculating the P/B relative, as the selected companies are more in line with the operations of the hotels under Browns Investments PLC.

Based on the Peer Average P/B relative for operational businesses in the leisure space and the NAV of the holding companies, the total equity value of the leisure sector is LKR 6,942 Mn.

3.3.1.2 Land Bank – BIL

CAL considered the fair value of land bank which is categorised as investment property under the company financial statement of Browns Investments PLC for FY17/18 as the equity value.

3.3.1.3 NPH Investments (Pvt) Ltd

	(LKR 000')
NAV as at 31 March 2018 (USD)	17,790
Exchange rate as at 02 July 2018	158.36
NAV as at 31 March 2018 (LKR)	2,817,227
Holding (%)	51.00%
Effective equity Value	1,436,786

Based on the NAV, the equity value of NPH Investments (Pvt) Ltd is LKR 1,437 Mn. The company has made investments in an apartment complex in Maldives which is still under construction. Therefore, CAL considered the NAV of the company as its equity value.

3.3.1.4 Ajax Engineers (Pvt) Ltd

	(LKR 000')	Net Debt	(LKR 000')
EBITDA	143,131	Total debt	328,945
EV/EBITDA relative	4.12x	Cash	(45,252)
Enterprise value	589,287	Net debt	283,692
Net Debt	(283,692)		

Related party receivables	247,886
Equity Value	553,481

EV/EBITDA relative*

Comparable peer	Market Capitalization (LKR 000') ¹	EV (LKR 000')	EBITDA (LKR 000')	EV/EBITDA (x)
Access Engineering PLC	16,100,000	24,737,198	3,905,451	6.33x
Illiquidity & size discount				35%
EV/EBITDA relative				4.12x

Source: Colombo Stock Exchange

¹Market Capitalization as at 18 June 2018

*CAL has considered Access Engineering in calculating the EV/EBITDA relative, as Access Engineering PLC is the only listed company in Sri Lanka which is in line with the operations of Ajax Engineers (Pvt) Ltd.

Based on the EV/EBITDA relative, the equity value of Ajax Engineers (Pvt) Ltd is LKR 553 Mn. A discount of 35% was applied to the EV/EBITDA relative based on the illiquidity and the scale of Ajax Engineers (Pvt) Ltd compared to the peer company considered.

3.3.1.5 AgStar PLC

To arrive at the equity value of BIL's stake in AgStar PLC, CAL has considered the Market Capitalization of AgStar PLC since it is a listed company. The market capitalisation of Agstar PLC as at 20 June 2018 was LKR 1,046 Mn.

3.3.1.6 BI Commodities and Logistics (Pvt) Ltd

	(LKR 000')	Assumptions	
Budgeted earnings for FY19	43,800	Risk free rate	10.00%
Discount factor	0.87	Risk premium	7.00%
Discounted value	38,112	Ke	17.00%
P/E relative (Manufacturing sector)	6.38x	Kd	14.00%
Equity Value	243,153	Tax	28.00%
		Kd (1-tax)	10.08%
		Gearing	30.00%
		WACC	14.92%

CAL calculated the value of BI Commodities and Logistics (Pvt) Ltd based on the P/E relative valuation method by considering the manufacturing sector P/E relative of 6.38x due to the lack of comparable companies in the industry the company operates in. Further, since the company is expected to be fully operational only in FY19, the budgeted earnings for FY19 provided by the management are discounted to present terms at a discount factor of 0.87 derived using a WACC of 14.92%.

3.3.1.7 Rationale for using NAV for the valuation of companies

Sierra Holdings (Pvt) Ltd (10.00%), Sierra Constructions (Pvt) Ltd (10.00%) and Lanka Orix Leasing Company (Pvt) Ltd (2.26%) are equity investments where BIL has no controlling stake. Therefore, NAV has been considered as the value of equity for each company.

Tabrobane Plantations Limited, Browns Global Farm (Pvt) Ltd, Creations Wooden Fabrications (Pvt) Ltd, BI Zhongtian Holdings (Pvt) Ltd and Browns Teas (Pvt) Ltd are valued at NAV, since the size of the said companies are fairly negligible compared to the overall valuation of BIL.

Browns Engineering & Construction (Pvt) Ltd was incorporated on 29th January 2018 and is still in the designing phase of its first construction project. Therefore, CAL considered the NAV of the company as the value of equity.

3.3.2 Companies under FLCH

3.3.2.1 Mathurata Plantations Limited

	(LKR 000')	Net Debt	(LKR 000')
Transaction P/B valuation		Net Debt	
P/B relative	1.7x	Non-current liabilities	28,188
NAV	1,311,103	Current liabilities	172,212
Equity value ^a	2,204,267	Cash	(7,998)
EV/Hectare valuation		Net debt	192,401
EV/Hectare relative	1,114	Transaction P/B relative	
Total Hectares (ha)	4,551	Pussellawa Plantations (LKR 000')	
Enterprise value	5,071,708	Transaction value	4,694,547
Net debt	(192,401)	Stake sold	45.10%
Loans from related party	(2,331,716)	Total value	10,409,195
Related party payables	(365,758)	NAV	6,191,414
Related party receivables	390	Transaction P/B relative	
Equity value ^b	2,182,223	1.7x	
Average equity value^{(a+b)/2}	2,193,245		
Illiquidity discount	40%		
Final equity value	1,315,947		

Transaction EV/Hectare relative

Comparable peer	Equity value (LKR 000')	Net debt (LKR 000')	Enterprise value (LKR 000')	Total hectares (ha)	EV/Hectare (LKR 000')
Pussellawa Plantations	10,409,195	364,565	10,773,760	5,946	1,812
Agalawatta Plantations PLC	450,000 *	2,347,152	2,797,152	6,709	417
Average EV/Hectare relative					1,114

Source: Colombo Stock Exchange

* Market Capitalization as at 02 May 2018

The equity value of Mathurata Plantations Limited is LKR 1,316 Mn. CAL considered the average equity value derived using the transaction P/B valuation and EV/Hectare valuation when valuing Mathurata Plantations Limited. An illiquidity discount of 40% was applied to the average equity value given that the comparable transactions have materialized at significant premiums to the market.

3.3.2.2 Sagasolar Power (Pvt) Ltd

Revenue assumptions and forecast

	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Power plant capacity in kW	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Number of days in operation	365	365	365	365	365	365	365
Total radiation collection area (Sq. meters)	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Annual average global horizontal irradiation (kWh/Sq. meter)	2,003	2,003	2,003	2,003	2,003	2,003	2,003
<i>Solar module efficiency</i>	<i>15.5%</i>	<i>15.5%</i>	<i>15.4%</i>	<i>15.3%</i>	<i>15.2%</i>	<i>15.2%</i>	<i>15.1%</i>
<i>Annual degradation factor</i>	<i>0.0%</i>	<i>0.0%</i>	<i>1.0%</i>	<i>0.4%</i>	<i>0.4%</i>	<i>0.4%</i>	<i>0.4%</i>
<i>Performance ratio</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>	<i>80.0%</i>
Electricity generated (MW)	19,628	19,883	19,684	19,605	19,527	19,448	19,371
Tariff rate	23.10	23.10	23.10	23.10	23.10	23.10	23.10
Total revenue (LKRm)	453	459	455	453	451	449	447
Cost of electricity generated (LKRm)	(194)	(180)	(181)	(182)	(190)	(191)	(193)
Administrative expenses (LKRm)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
Earnings before interest and tax (LKRm)	241	260	253	249	239	235	230

The revenue assumptions are held constant from FY21E, until the end of the useful lifetime of the project. Total lifetime of the project is assumed to be 20 years based on the Power Purchase Agreement. Company has a remaining useful lifetime of 19 years which will end in FYE37.

Valuation results

LKRm (1/3)	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Post tax EBIT	260	253	249	239	235	230	225
Depreciation & Amortization	141	141	141	141	141	141	141
Capex	1	1	1	1	1	1	1
Working capital investment	(93)	1	0	1	0	0	0
Free cash flow to firm (FCFF)	310	397	392	382	377	373	368
WACC	12.24%	12.24%	12.24%	12.24%	12.24%	12.24%	12.24%
Year	0	1	2	3	4	5	6
Discount Factor	0.891	0.794	0.707	0.630	0.561	0.500	0.446
Discounted Cash flow	276	315	277	241	212	186	164

LKRm (2/3)	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Post tax EBIT	220	151	147	143	139	134	122
Depreciation & Amortization	141	141	141	141	141	141	142
Capex	1	1	1	1	1	1	1
Working capital investment	0	1	0	0	0	0	1
Free cash flow to firm (FCFF)	363	294	290	286	282	278	266
WACC	12.24%	12.24%	10.49%	10.49%	10.49%	10.49%	10.49%
Year	7	8	9	10	11	12	13
Discount Factor	0.397	0.407	0.369	0.334	0.302	0.273	0.247
Discounted Cash flow	144	120	107	95	85	76	66

LKRm (3/3)	FY33E	FY34E	FY35E	FY36E	FY37E
PV FCFF	58	52	46	41	31
PV of scrap value					-

DCF Summary	(LKR 000')	Assumptions	Stage I	Stage II
Total debt	1,722,267	Risk free rate	10.00%	10.00%
Cash	(23,373)	Risk premium	5.00%	5.00%
Net debt	1,698,894	Ke	15.00%	15.00%
Enterprise Value	2,591,443	Kd	10.40%	10.40%
Net Debt	(1,698,894)	Tax	0.00%	28.00%
Equity Value	892,548	Kd (1-tax)	10.40%	7.49%
		Gearing	60.00%	60.00%
		WACC	12.24%	10.49%

Based on the DCF analysis, the total equity of Sagasolar Power (Pvt) Ltd (10MW solar plant) is LKR 893 Mn.

3.3.2.3 Browns Properties (Pvt) Ltd

	(LKR 000')	Net Debt	(LKR 000')
Investment property	1,981,000	Total debt	502,778
Illiquidity discount	15%	Cash	(142,136)
	1,683,850	Net debt	360,642
Net debt	(360,642)		
Related party payables	(16,358)		
Related party receivables	15,585		
Loans to related party	513,747		
Equity value	1,836,182		

Based on the revalued amount as at 2018, the value of Browns Properties (Pvt) Ltd is LKR 1,836 Mn. The property is currently being used as the head office for Browns Group thus resulting in a delay in value realisation. Therefore, a discount of 15% was applied considering the lack of liquidity of the asset.

3.3.2.4 Bodufaru Beach Resort (Pvt) Ltd

The same methodology used to value Bodufaru Beach Resort (Pvt) Ltd for BIL as illustrated under section 3.3.1.1 has been used in valuing the said company for FLCH, using the same P/B relative of 0.64x and incorporating the stake directly held by FLCH.

3.3.2.5 Rationale for using NAV for the valuation of companies

Lanka Orix Leasing Company (Pvt) Ltd (2.14%) is an equity investment where FLCH has no controlling stake. Therefore, NAV has been considered as the value of equity.

Browns Power Holdings (Pvt) Ltd, Dolekanda Power (Pvt) Ltd, Enselwatte Power (Pvt) Ltd and Tea Leaf Resort Holdings are valued at the NAV, since the four companies are non-operational.

4 Valuation methodology

4.1 Methodology adopted to arrive at the SOTP valuation

CAL adopted the following methodology in arriving at the SOTP valuation for BIL and FLCH.

- The financial statements of individual companies for the year ended 31 March 2018 were considered as the base year.
- Information on investment in subsidiaries and equity accounted investees were obtained from the financial statements and management disclosures.
- The group structure of BIL and FLCH were obtained and cross checked with financial statements
- All companies under BIL and FLCH were categorised under several industries as given below
 - BIL – Leisure, Property and construction, Plantation and other
 - FLCH – Power, Plantations, Property and other
- Based on the industry and its complexity, different valuation methodologies were employed to each company to arrive at the value of each company under BIL and FLCH.
- The total equity value of the individual companies and the effective holding in each company by BIL and FLCH were considered to arrive at the SOTP valuation of the two group companies
- Once the SOTP valuations were obtained, the company level net debt of the two holding companies, BIL and FLCH were adjusted to reflect the final value of BIL and FLCH.
- In the absence of financial statements of companies which are not yet fully operational or envisaged to not have a major impact on the business model, CAL relied on the budgets of the company to be used as a point of reference.

Method	Definition
P/B Relative	A P/B ratio measures a company's market value to its book value. A company's fair value is determined by applying the P/B ratio of its nearest peer or comparable peer group to the company's book value.
Discounted Cash Flow (DCF) Based Approach	DCF is a valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future free cash flow projections and discounts them to arrive at a present value estimate, which is used to arrive at a fair market value for the company.
P/E Relative	A P/E ratio provides a factually-based, earnings derived comparative valuation. A company's fair value is determined by applying the P/E ratio of its nearest peer or a comparable peer group to the company's earnings.
EV/EBITDA Relative	EV/EBITDA is a ratio that measures a company's enterprise value with its earnings before interest, tax, depreciation and amortization. It is typically used for businesses which are of a capital intensive nature.
Book or Net Asset Value	Book or liquidation value is based on balance sheet accounting values. This method ignores the market value of a share, and instead refers exclusively

	to balance sheet values (adjusted for known off balance sheet assets and liabilities).
Transaction P/B Relative	A Transaction P/B ratio measures a company's transaction value to its book value. A company's fair value is determined by applying the transaction P/B ratio of its nearest peer or comparable peer group to the company's book value.
Transaction EV/Hectare Relative	Transaction EV/Hectare is a ratio that measures a company's transaction enterprise value to its total number of hectares. It is typically used for businesses which are in the plantation industry.

5 Risks

The future performance of BIL and FLCH is subject to a number of risks in each of the industries the companies operate in that may or may not be within the control of the two Companies. Should any of the risks highlighted here materialise, it could have an adverse effect on the performance of each Company and its equity value. This section highlights the main sources of risk, but not necessarily all risks faced by the two Companies.

5.1 Power sector

5.1.1 Government tariff directives

The Feed-in Tariff is a Government scheme that could be subject to change. Thus, the magnitude and the direction of the revision would directly hit the top line and the bottom-line of the company.

5.1.2 Renewal of PPAs

There is a presumption of renewal, but it is subjected to Government's policy decisions. Further, if any new environmental legislation has come into force it is possible that the power generation systems will need upgrading to meet the new requirements, at additional cost.

5.2 Leisure Sector

5.2.1 Increase in Competition

The tourism industry in Sri Lanka is made up of a large number of players. With international hotel operators (i.e Shangri La, Marriot, Hilton) investing or entering into contract to manage properties in Sri Lanka, BIL faces the prospect of increased competition. This could have an impact on BIL's profitability.

5.2.2 Non-performance of contractor/ Increase in the cost of construction

The non-performance of the contractors will undesirably affect project completion and will result in cost overruns. Provided that several of the hotels under BIL are currently under construction, any delay in the completion of the hotels and any increase in the cost of construction will negatively impact the share price of BIL.

5.2.3 Decline in Sri Lanka Tourism

Any unanticipated event that may cause an undesirable perspective concerning Sri Lanka as a travel destination will have an extensive effect on operations of the Company's hotels. A decline in Sri Lanka tourism would impact BIL's hotels ability to attract travelers which would ultimately have an adverse impact on the Company's revenue and profitability.

5.3 Plantation Sector

5.3.1 Climate Change

Being an agricultural product, tea plantations in general are heavily reliant on the climatic conditions of the region. As a result, a high yield is often associated with conducive agro-climatic conditions. Similarly, an increase in unfavourable weather conditions could lead to a significant drop in the production of tea leading to a decline in sales which invariably affects revenue and profits as a whole.

In addition to the risk of not having the consistent rainfall needed for the production of tea, there is also a risk of natural disasters on the harvest such as droughts, landslides, flooding and other related natural disasters that may lead to destruction in the landscape of the plantations as well as the crops.

5.3.2 Increase in costs of production

The cost of production of a kilogram of black tea in Sri Lanka was found to be the highest when compared to other tea producing countries around the world. Among the main contributors to the increasing costs, labour takes a foremost place contributing to 70% of the total cost of production. Labour also tends to have a compounding effect on the increase due to biennial wage increases which are not related to an individual's or the group's performance due to pressure created by trade unions.

Additionally, the increase in cost of fertilizer, energy, pesticides, land preparation and other general maintenance expenses would add to the increase in total costs.

5.3.3 Trade Unions

The tea industry faces an increasing number of demands and requests from trade unions which include better working conditions and higher wages. The pressure from the Unions to increase wages becomes a constantly increasing cost for the business as most employee contracts are governed by collective agreements.

This enables the trade unions to lobby for wage increases irrespective of employee performances resulting in additional costs for the Company with little or no increase in productivity. At present, labour costs accounts for over 70% of the total cost of production and as a result any variance in the above may affect the profitability of the business.

5.3.4 Volatile global tea prices

The bulk tea produced from each individual estate takes the form of a perfectly competitive product in the market and functions as a 'price taker'. Therefore, the planters are forced to produce on the industry demand and supply trends, making planters more susceptible to changes in the global tea prices and the prices seen at the tea auctions. As a result, the existing macro-economic conditions prevailing in the market such as the global supply of tea, export demand for tea, geopolitical uncertainties, free trade agreements and the changes in global consumer trends may have a significant effect on the prices of tea fetched at the auctions.

5.4 Real Estate and Property

5.4.1 Drop in value of property

The real estate arm of the Browns Group constructs and manages buildings, condominiums and land banks. A drop in value of real estate will negatively affect both the value of the businesses and the amount that can be charged as rent for the properties already developed.

5.4.2 Increase in cost of production

Cost over runs can reduce margins of the properties currently being developed and result in the reduction of profits of the property sector thus contributing to a decline in group profits.

5.5 General Risks

5.5.1 Local macro-economic conditions

Any changes in the macro economic conditions of the country can have an impact on the business operations and profitability of all the subsidiaries of BIL and FLCH. Any slowdown in the economy could dampen consumer confidence which would ultimately impact consumer purchases and Foreign Direct Investments. This could have an adverse effect on multiple sectors that the two companies have interests in.

5.5.2 Exchange rate movement

Any changes in the exchange rate movement can significantly affect the businesses of the two companies since the companies are involved in businesses that have a direct link with the exchange rate such as tourism and plantations.

5.5.3 Interest rate

As at 31 March 2018, BIL has c.LKR 6,644 Mn in bank borrowings. An increase in the domestic borrowing rates will result in a corresponding increase in cost of borrowings for BIL.

5.5.4 Operational Risks

Operational risks are defined as the risks that arise due to breakdowns in internal procedures, employees, systems and processes of the company. Any risks that disrupt the normal flow of a business's prospects would result in an impact on the company's profitability and ability to carry out operations efficiently.

5.5.5 Natural disasters

The company's projects are vulnerable to various natural disasters such as earthquakes, tsunamis and floods. In the event that such a disaster arises, any ongoing or completed projects would be affected. Ongoing projects could be halted which could cause the cost of the project to escalate and reduce the company's margins. In addition to this the day to day running of the businesses of BIL and FLCH may come to a halt as a result of the said natural disasters.

6 Value indication

We summarise the valuation results as follows:

- The SOTP valuation suggests a price of LKR 3.86 for each share of BIL
- The SOTP valuation suggests a price of LKR 7.79 for each share of FLCH

Accordingly, CAL derived a share swap ratio of two shares of BIL for every share of FLCH (2:1)

7 Individuals materially participating in the valuation assignment

Vishnu Balachandran- Executive Vice President - Head of Investment Banking

Vishnu joined CAL in 2011 and has been a key driver in concluding many noteworthy M&A advisory transactions and debt issuances. Prior to joining CAL, he worked as an Equity Analyst at Amba Research, covering FMCG and retail markets in East Asia. Vishnu is a CFA Charterholder (USA), an Associate Member of the Chartered Institute of Management Accountants (UK) and holds a bachelor's in Business Administration from the University of Colombo.

Suvimal De Costa, CFA, ACMA, BSc – Vice President - Investment Banking

Suvimal joined CAL in 2015 and has been overseeing capital markets transactions. Prior to joining CAL, he worked as an analyst in the Financial Advisory Division of Ernst & Young and joined NDB Securities Research division. As the Assistant Manager, Research, he covered Banking & Finance, Land & Property and Manufacturing Sectors in the Colombo Stock Exchange. Later he joined Goodhope Asia Holdings Strategic Finance Division, which primarily looked at group's investments in Indonesia and Malaysia. Suvimal is a CFA Charter holder (USA), an Associate Member of the Chartered Institute of Management Accountants (UK) and holds a Bachelor's degree in Finance from the University of Sri Jayewardenepura.

Ashvanth Vijayaram – Associate - Investment Banking

Ashvanth joined CAL in early 2017 and has been involved in a number of M&A transactions since. He is an Affiliate of the Association of Chartered Certified Accountants (UK) and holds a Bachelor's degree in Business Administration (Finance) from the University of Colombo. Prior to joining CAL Ashvanth lectured at the Mercury Institute of Management.

Dakshitha Vithanage – Analyst, Investment Banking

Dakshitha joined CAL in early 2018. He currently reads for a Bachelor's degree in Finance from the University of Sri Jayewardenepura and he is an Affiliate of the Chartered Institute of Management Accountants (UK).

8 Disclaimer

CAL's analysis is based on information obtained from the audited financial and unaudited management accounts supplied by BIL management. CAL accepted all such information as accurate and acted with due care and consideration in preparing the report. Nothing has come to the attention of CAL to believe that the facts and data set forth in the report are incorrect. However, CAL assumes no responsibility for errors or omissions in information furnished by BIL.

Neither CAL nor any of its employees involved in this assignment have a financial interest in BIL. The fee for the preparation of this report is not contingent upon results reported.

CAL did not investigate either property titles or the directors' claims of BIL's ownership of said properties. Neither has CAL explored the possibility of liens or encumbrances lodged against the properties.

This report is intended solely for the use of the Board of Directors of BIL for the purpose set out in Section 1.2 of this report and should not be used for any other purpose.

Neither all nor part of the contents of this report shall be disseminated to the public, through advertising, public relation, news, sales or any other public media without prior approval of Capital Alliance Partners Limited.

In carrying out this Assignment, analyses deemed to be appropriate and assessments that were possible and practical within the time available have been carried out. Financial information and market data from the CSE and Bloomberg have also been used for this Assignment.

The value recommendations given in this report are valid as at 04 July 2018 and a reasonable period of time there on. The use of these value recommendations will not be appropriate after the passage of a substantial time period (generally 6 months from 04 July 2018) and/or where material changes have taken place in the operating environment of the two Companies. A factor to be considered for this report is that the valuations carried out are done based on financial data released by BIL. Where the data provided were incomplete, we have used reasonable judgment and we take responsibility for the same.