



# LVL ENERGY FUND LIMITED



## PROSPECTUS

INITIAL PUBLIC OFFERING OF 120 MILLION  
ORDINARY SHARES AT LKR 10 PER SHARE

Financial Advisor and Manager to the Offer

 **ACUITY**<sup>®</sup>

A joint venture of DFCC Bank and HNB

INVITATION TO INVEST IN THE INITIAL PUBLIC OFFERING OF  
LVL ENERGY FUND LIMITED  
THROUGH AN OFFER FOR SUBSCRIPTION OF  
ONE HUNDRED AND TWENTY MILLION (120,000,000)  
NEW ORDINARY VOTING SHARES AT LKR 10.00 PER SHARE

All resident Applicants should indicate in the Application for Shares, their NIC number or the company registration number as the case may be, the passport number may be indicated only if the Applicant does not have an NIC number.

As per the Directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System (Private) Limited (CDS) dated November 30, 2010, all Shares allotted must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, in order to facilitate the uploading of allotted Shares to their CDS account.

Please note that upon the allotment of Shares under this Offer, the allotted Shares would be credited to the Applicant's CDS account so indicated. Please note that SHARE CERTIFICATES SHALL NOT BE ISSUED.

Any Application which does not carry a valid CDS account number or indicates a number of a CDS account which is not opened at the time of closure of the subscription list or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment will be made.

You can open a CDS account through any member/trading member of the Colombo Stock Exchange (CSE) as set out in Annexure F or through any Custodian Banks as set out in Annexure G of this Prospectus.

**Related Party Transactions**

**We hereby declare that DFCC Bank PLC, who acts as one of the Underwriters and Bankers to the Offer and Acuity Partners Private Limited who acts as the Financial Advisor and Manager to the Offer and LVL Energy Fund Limited are related parties and have common Directors on each of the said entities' Boards. Nevertheless, there is no conflict of interest arising between the said parties as all transactions are carried out at arm's length.**

This Prospectus is dated 27 November 2017

The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus. If there are any material changes in the affairs of the Company from the date of this Prospectus, till the Company's Shares are listed; such material changes will be duly disclosed.

If you are in doubt regarding the contents of this document or if you require any advice in this regard, you should consult your stockbroker, bank manager, lawyer or any other professional advisor.

The Colombo Stock Exchange (CSE) has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed or reports included in the Prospectus. Moreover, the CSE does not regulate the pricing of the shares, which is decided solely by the Company/Issuer.

This Prospectus has been prepared from information provided by LVL Energy Fund Limited (hereinafter referred to as 'LEF' or 'Company') and its Directors and/or from publicly available sources. The Company and its Directors having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading.

Where representations regarding the future performance of the Company have been given in this Prospectus, such representations have been made after due and careful enquiry of the information available to the Company and making assumptions that are considered to be reasonable at the present point in time in their best judgment.

The Company accepts responsibility for the information contained in this Prospectus. While the Company has taken reasonable care to ensure full and fair disclosure of information, prospective investors are advised to carefully read this Prospectus and rely on their own examination and assessment of the Company including the risks involved prior to making any investment decision.

No person is authorized to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorized by the Company.

## REGISTRATION OF THE PROSPECTUS

A copy of this Prospectus has been delivered to the Registrar General of Companies of Sri Lanka for registration in accordance with the provisions contained in the Companies Act No. 07 of 2007.

The following documents were attached to the copy of the Prospectus delivered to the Registrar General of Companies.

▪ **The written consent of the Financial Advisor & Manager to the Offer**

The Financial Advisor & Manager to the Offer have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as the Financial Advisor & Manager to the Offer and for the inclusion of their statements/declarations in the form in which it is included in the Prospectus.

▪ **The written consent of the Registrars to the Offer and Company Secretary**

The Registrars to the Offer and Company Secretary have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Registrars to the Offer and Company Secretary in the Prospectus.

▪ **The written consent of the Auditors & Reporting Accountants to the Company and to the Offer**

The Auditors & Reporting Accountants to the Company have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Auditors & Reporting Accountants to the Company and for the inclusion of their report/statements in the form and context in which it is included in the Prospectus.

▪ **The written consent of the Lawyers to the Offer**

The Lawyers to the Offer have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their name as Lawyers to the Offer in the Prospectus.

▪ **The written consent of the Bankers to the Offer**

The Bankers to the Offer have given and have not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their names as Bankers to the Offer in the Prospectus.

▪ **The written consent of the Independent Valuer to the Offer**

The Independent Valuer to the Offer has given and has not before the delivery of a copy of the Prospectus for registration withdrawn their written consent for the inclusion of their names as Independent Valuer to the Offer in the Prospectus.

A declaration made by each of the Directors of the Company in terms of the Companies Act No. 07 of 2007 confirming that each of them have read the provisions of the Companies Act No. 07 of 2007 and the CSE Listing Rules relating to the issue of the Prospectus and that those provisions have been complied with.

**This Prospectus has not been registered with any authority outside Sri Lanka. Non-resident investors may be affected by the laws of the jurisdictions of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and the laws of Sri Lanka, when making their investment.**

## **Representation**

No Person is authorized to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorized by the Company.

## **Forward Looking Statements**

Any statements included in this Prospectus that are not statements of historical fact constitute 'Forward Looking Statements'. These can be identified by the use of forward looking terms such as 'expect', 'anticipate', 'intend', 'may', 'plan to', 'believe', 'could' and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Company operates and its ability to respond to them, the Company's ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Company.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future.

Given the risks and uncertainties that may cause the Company's actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking Statements in this Prospectus, investors are advised not to place sole reliance on such statements.

## **Investment Considerations**

It is important that this Prospectus is read carefully prior to making an investment decision. For information concerning certain risk factors, which should be considered by prospective investors, see 'Investment Considerations and Associated Risk Factors' in Section 12.0 of this Prospectus.

## **Presentation of Currency Information and Other Numerical Data**

The financial statements of the Company and currency values of economic data or industry data in a local context will be expressed in Sri Lanka Rupees. References in the Prospectus to 'LKR', 'Rupees', and 'Rs.' are references to the lawful currency of Sri Lanka. Reference to 'USD' is with reference to United States Dollars, the official currency of the United States of America, while reference to 'Taka' is with reference to Bangladeshi Taka, the official currency of Bangladesh. Certain numerical figures in the Prospectus have been subject to rounding adjustments; accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### **Presentation of Macroeconomic and Industry Data**

Economic and industry data used throughout this Prospectus are derived from various other industry data sources, which the Company believes to be reliable, but the accuracy and completeness of that information is not guaranteed. Similarly, industry surveys and other publications, while believed to be reliable, have not been independently verified and neither the Company nor the Manager to the Offer makes any representation as to the accuracy of that information.

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## OFFER AT A GLANCE

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<b>Company/Issuer</b>	LVL Energy Fund Limited
<b>Number and Type of Securities to be Offered</b>	120,000,000 New Ordinary Voting Shares of the Company
<b>Share Offer/Issue Price</b>	LKR 10.00 per Share
<b>Amount to be Raised</b>	LKR 1,200,000,000.00
<b>Minimum Subscription per Application</b>	<p>Minimum subscription per Application is 100 New Shares (LKR 1,000/-). Applications exceeding the minimum subscription should be in multiples of 100 New Shares.</p> <p>The minimum subscription of 100 Shares will be allocated to each Applicant.</p>
<b>Offer Opening Date</b>	14 December 2017
<b>Offer Closure Date</b>	4 January 2018 or such earlier date on which the Offer of 120,000,000 New Shares are oversubscribed. Refer Section 3.10 of this Prospectus for further details on the Offer Closure Date.
<b>Basis of Allotment</b>	As described in Section 3.6 of this Prospectus
<b>CSE Listing</b>	<p>To be listed on the Main Board of the CSE subject to compliance with the minimum Public Holding requirement set out in SEC Directive Ref: SEC/LEG/16/11/13 which stipulates that minimum 20% of shares for which a listing is sought should be in the hands of a minimum number of 500 public shareholders. In the event where such requirement is not met, the Company would seek a listing on the Diri Savi Board of the CSE, subject to meeting minimum public holding requirement set out in SEC Directive Ref: SEC/LEG/16/11/13 which stipulates that minimum 10% of shares for which a listing is sought should be in the hands of minimum number of 200 public shareholders.</p>

## DEFINITIONS/INTERPRETATIONS

The following definitions/interpretations apply throughout this Prospectus, unless the context otherwise requires:

<b>Applicant/s</b>	Any investor who submits an Application Form under this Prospectus
<b>Application Form, Application</b>	The Application Form that constitutes part of this Prospectus through which the investors may apply for the New Shares
<b>Articles of Association</b>	Articles of Association of LVL Energy Fund Limited
<b>Auditors and Reporting Accountants to the Company and the Offer</b>	KPMG
<b>AWPLR</b>	Last quoted Average Weighted Prime Lending Rate published by the Central Bank of Sri Lanka
<b>Bn</b>	Billion
<b>BPDB</b>	Bangladesh Power Development Board
<b>bps</b>	Basis Points
<b>c.</b>	Circa
<b>CAGR</b>	Cumulative Annual Growth Rate
<b>CBSL</b>	Central Bank of Sri Lanka
<b>CDS</b>	Central Depository Systems (Private) Limited
<b>CEB</b>	Ceylon Electricity Board
<b>Companies Act</b>	Companies Act No. 07 of 2007
<b>CSE</b>	Colombo Stock Exchange
<b>Directors</b>	The Directors for the time being of the Company, unless otherwise stated
<b>DFCC</b>	DFCC Bank PLC
<b>EPS</b>	Earnings Per Share
<b>Foreign Investor</b>	<ul style="list-style-type: none"> <li>▪ Citizens of Sri Lanka who are resident outside Sri Lanka and above 18 years of age;</li> <li>▪ Corporate bodies incorporated or established outside Sri Lanka;</li> <li>▪ Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas);</li> <li>▪ Regional and country funds approved by the SEC</li> </ul> Please refer Section 7.1 for further information.
<b>FYE</b>	Financial Year Ending
<b>FY</b>	Financial Year
<b>GDP</b>	Gross Domestic Product

<b>IPO</b>	Initial Public Offering
<b>Issue, Offer</b>	An invitation to the public by the Company to subscribe to the Offered Shares to be issued via an offer for subscription as detailed in this Prospectus
<b>Issuer</b>	LVL Energy Fund Limited
<b>LOI</b>	Letter of Intent
<b>LVL</b>	Lanka Ventures PLC
<b>LKR, Rs., Rupees</b>	Sri Lanka Rupees
<b>Local Time</b>	Sri Lanka Time
<b>Market Day</b>	Any day on which the CSE is open for trading
<b>Mn</b>	Million
<b>NAV</b>	Net Asset Value
<b>NBT</b>	Nation Building Tax
<b>NEA</b>	Nepal Electricity Authority
<b>New Shares, Offered Shares</b>	One Hundred and Twenty Million (120,000,000) new Ordinary Voting Shares to be issued by the Company to the public at the Share Offer Price
<b>NIC</b>	National Identity Card
<b>NPR</b>	Nepal Rupees
<b>Offer Closing/Closure Date</b>	The date of closure of the subscription list as set out in Section 3.10 of this Prospectus
<b>Offer Opening Date</b>	The date of opening of the subscription list as set out in Section 3.10 of this Prospectus
<b>Ordinary Shares, Shares, Issued and Paid up Ordinary Shares</b>	Ordinary shares of the Company, with the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in dividends paid by the Company and the right to an equal share in the distribution of the surplus assets of the Company in liquidation.
<b>P/E</b>	Price Earnings Ratio
<b>POA</b>	Power of Attorney
<b>PPA</b>	Power Purchase Agreement
<b>Prospectus</b>	This Prospectus dated 27 November 2017 issued by the Company
<b>Retail Individual Investor</b>	Local and foreign investor/s who apply for up to a maximum of 10,000 Shares (including 10,000 Shares with value of not more than LKR 100,000.00).
<b>ROE</b>	Return on Equity

<b>SEC</b>	The Securities and Exchange Commission of Sri Lanka
<b>Share Offer Price, Share Issue Price</b>	The price at which the New Shares will be offered to the Public, as detailed in this Prospectus. Share Offer price of LKR 10.00 per Ordinary Voting Share
<b>SLAS, SLFRS, LKAS</b>	Sri Lanka Accounting Standards
<b>Stated Capital</b>	The Stated Capital of LVL Energy Fund Limited
<b>SPPA</b>	Standardized Power Purchase Agreement
<b>The Board, The Board of Directors</b>	The Board of Directors of LVL Energy Fund Limited
<b>VAT</b>	Value Added Tax
<b>WHT</b>	Withholding Tax
<b>YTD</b>	Year to Date
<b>YoY</b>	Year on Year

## 1.0 CORPORATE INFORMATION

<b>The Company/Issuer</b>	LVL Energy Fund Limited
<b>Registered Office</b>	Ocean Lines Building No: 46/12, Nawam Mawatha Colombo 02, Sri Lanka Tel: +94 11 243 9201
<b>Date, Place and Authority of Incorporation</b>	Incorporated under the Companies Act No. 17 of 1982 on 26 June 2006 and Re-registered under the Companies Act No.07 of 2007 on 17 January 2008 in Colombo, Sri Lanka
<b>Company Registration Number (as a Public Company)</b>	PV 1966 PB
<b>Company Secretary</b>	<b>Corporate Services (Private) Limited</b> No: 216, de Saram Place, Colombo 10, Sri Lanka Tel: +94 11 4605180 Fax: +94 11 4718220
<b>Auditors to the Company</b>	<b>KPMG</b> (Chartered Accountants) No: 32A, Sir Mohamed Macan Markar Mawatha, Colombo 03, Sri Lanka Tel : +94 11 5426426 E-mail: kpmgsl@kpmg.com
<b>Board of Directors</b>	<b>Mr. L. H. A. L. Silva</b> - Non-Executive Chairman
	<b>Mr. A. J. Alles</b> – Non-Executive Director
	<b>Mr. S. E. De Silva</b> – Non-Executive Independent Director
	<b>Mr. T. W. De Silva</b> - Non-Executive Director
	<b>Mr. A. R. Munasinghe</b> – Non-Executive Independent Director
	<b>Mr. M. R. Abeywardena</b> - Non-Executive Director
	<b>Mr. M. A. Wijetunge</b> - Non-Executive Director
	<b>Mr. D. S. Arangala</b> – Chief Executive Officer/Executive Director

## 2.0 RELEVANT PARTIES TO THE OFFER

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<b>Financial Advisor and Manager to the Offer</b>	<b>Acuity Partners (Private) Limited</b> No: 53, Dharmapala Mawatha Colombo 03, Sri Lanka Tel: +94 11 2206206 Fax: +94 11 2437149
<b>Lawyers to the Offer</b>	<b>Messrs. F J &amp; G De Saram (Attorneys-at-Law)</b> No: 216, De Saram Place Colombo 10, Sri Lanka Tel: +94 11 4718200 Fax: +94 11 4718220
<b>Auditors and Reporting Accountants to the Offer</b>	<b>KPMG (Chartered Accountants)</b> No: 32A, Sir Mohamed Macan Markar Mawatha, Colombo 10, Sri Lanka Tel: +94 11 5426426
<b>Registrars to the Offer</b>	<b>Corporate Services (Private) Limited</b> No: 216, de Saram Place, Colombo 10, Sri Lanka Tel: +94 11 4605180 Fax: +94 11 4718220
<b>Bankers to the Offer</b>	<b>DFCC Bank PLC</b> No: 73/5, Galle Road Colombo 03, Sri Lanka Tel: +94 11 2442442 Fax: +94 11 2440376
<b>Independent Valuer to the Offer</b>	<b>Capital Alliance Partners Limited</b> Level 5, Millennium House No: 46/58, Nawam Mawatha Colombo 02, Sri Lanka Tel: +94 11 23177777 Fax: +94 11 23177788

## 3.0 DETAILS OF THE OFFER

### 3.1 Objectives of the Offer

The proceeds of the IPO will be utilized for the following purposes.

**TABLE 3.1– OBJECTIVES OF THE OFFER**

Objectives	Amount (LKR Mn)	Timeline	Current Holding %	Proposed Holding %	Whether Investment/ utilization is in RPT or not
1 Settlement of bridge finance loan of DFCC Bank PLC in terms of loan agreement dated 6 April 2016	300.00	31 Dec 2017	N/A	N/A	Yes
2 Settlement of short term loan borrowed for the purpose of redeeming the preference shares issued to DFCC Bank PLC. Refer subsection “Description on the redemption of preference shares issued to DFCC Bank PLC” for more details of the said loan.	180.00	30 Sept 2017	N/A	N/A	Yes
3 Equity investment in following hydro power projects					
<b><u>Bambarapana Hydro Power Project**</u></b>					
Settlement of LKR 140 Mn short term bridge loan obtained from DFCC Bank PLC for the purpose of equity Investment in Bambarapana Hydro Power (Private) Limited. Refer Subsection “I. Bambarapana Mini Hydro Power Project” for more details of the project and the said loan.	140.00	Nov 2017	Nil	40%	No
<b><u>Pupulaketiya Hydro Power Project**</u></b>					
Equity Investment in Pupulaketiya Hydro Power (Private) Limited	115.00	Apr 2018 to Oct 2019	100%	90%	No
<b><u>Makari Gad Hydro Power Project** (Nepal) *</u></b>					
Equity Investment in LTL Energy (Private) Limited	465.00	Sept 2017 to Jun 2019	Nil	45%	No
<b>Total</b>	<b>1,200.00</b>				

\* Makari Gad Hydro Power project will be undertaken by Makari Gad Hydropower Private Limited, a company incorporated in Nepal. LEF’s equity investment in the project will be channelled through LTL Energy (Private) Limited, a company incorporated in Sri Lanka in which LEF will have a Rupee investment equivalent to USD 3 Million which will represent approximately 45% shareholding in the company.

\*\* In Power and Energy industry, projects are identified by the project name than the company name. The CEB assigns names for each project and there will not be two projects carrying the same name.

#### **Important Note**

Kindly note, if there are any changes to the circumstances due to risk factors highlighted in Section 3.1, the Company may use the funds appropriately subject to obtaining prior approval from shareholders as highlighted in Section 3.1.

The listing through the IPO would also facilitate LEF to broad-base ownership of the Company as per the 'Public Holding' (as per the SEC Directive dated 17th November 2016 (SEC/LEG/16/11/13)) which would strengthen its identity through increased visibility and brand image.

#### **Description on settlement of bridge finance loan of DFCC Bank PLC**

The bridge finance loan of DFCC Bank PLC was obtained on the following dates as shown in Table 3.2, for the purpose of supporting project investment activities of the Company. In terms of the Loan Agreement dated 6 April 2016 between LEF and DFCC Bank PLC, the loan is repayable in bullet payment on or before 29 December 2017. This proposed transaction was reviewed by Related Party Transactions Review Committee and approved by the Board. Accordingly, LEF intends to settle the loan in full by 29 December 2017 out of the IPO proceeds.

Out of the total bridge finance loan amount, LKR 179 Mn was obtained to fund the working capital requirements of project development activities relating to Campion Hydro (Private) Limited. The balance bridge finance loan amount LKR 121 Mn was obtained for the purpose of increasing LEF's shareholding in Nividhu (Private) Limited and Unit Energy Lanka (Private) Limited as set out in Section 4.1.

**TABLE 3.2— BRIDGE FINANCE LOAN DETAILS**

<b>Loan Obtained Date</b>	<b>Amount (Rs. Mn)</b>
16 June 2016	25.00
29 June 2016	25.00
28 September 2016	150.00
30 December 2016	100.00
<b>Total</b>	<b>300.00</b>

#### **Description on the redemption of preference shares issued to DFCC Bank PLC**

As shown in Table 3.3, LEF issued the said preference shares to DFCC Bank PLC at a price of LKR 10.00 per share on the following dates.

**TABLE 3.3— PREFERENCE SHARES DETAILS**

<b>Date of Issuance</b>	<b>Number of Shares</b>	<b>Amount (LKR Mn)</b>
31 December 2012	30,000,000	300.00
12 February 2014	15,000,000	150.00
30 September 2014	6,000,000	60.00
03 November 2014	7,500,000	75.00
02 March 2015	7,500,000	75.00
22 September 2015	8,000,000	80.00
18 December 2015	10,000,000	100.00
26 February 2016	3,000,000	30.00
31 May 2016	9,000,000	90.00
<b>Total</b>	<b>96,000,000</b>	<b>960.00</b>

The 18 Mn preference shares identified to be redeemed out of IPO proceeds are part of two preference share issues with DFCC, aggregating to 66 Mn preference shares issued for a total consideration of LKR 660 Mn. In addition to this, LEF has issued 30 Mn preference shares for a total consideration of LKR 300 Mn to DFCC of which, no part will be redeemed out of IPO proceeds.

The balance outstanding as at 31 March 2017 of the said 30 Mn preference shares was 22.5 Mn. Accordingly, from and out of the total 96 Mn preference shares issued by the Company to DFCC, 55.5 Mn preference shares have been redeemed and the balance outstanding as at 31 March 2017 was 40.5 Mn amounting to a total outstanding value of LKR 405 Mn. DFCC Bank PLC is the only preference shareholder. The said preference shares were issued under following terms;

Nature of the Preference shares;

- Non-voting cumulative redeemable preference shares
- Dividend at the rate of AWPLR+0.5% with no sharing of surplus assets of the Company upon liquidation or return of capital.

Since the redemption of 18 Mn preference shares amounting to LKR 180 Mn on 30 September 2017 preceded the IPO, the Company obtained a loan from the DFCC Bank PLC to meet this requirement which will be settled out of IPO proceeds.

### **Description of the projects referred in the objectives of the Issue**

LVL Energy Fund Limited was formed for the purpose of consolidating all of Lanka Ventures PLC's investments in the energy sector in year 2006. The management of LEF has not been changed since then and their experience in relation to the power projects is over 10 years period.

It is required to undertake power projects under special purpose vehicles for each project. Accordingly, each project will be undertaken by separate project company. LEF will invest in each such project company along with a project partner. The project companies have not commenced operation as yet; hence financial statements are not available. Each project will be undertaken by a separate project company. LEF will invest in such project company along with a project partner. Ownership details of the projects to be financed under the objectives of the issue are given in Table 3.4 below.

In terms of CSE Listing Rule 3.1.2 (d), brief descriptions of the businesses that LEF intends to invest in are provided below. Further, the requirement to address the future prospects and the opinion of experts on the valuations of such investments have been taken into account in the Independent Valuation Report when arriving at the IPO share price (Please refer Sections 02, 03 and 04 of Annexure E for further details).

#### **I. Bambarapana Mini Hydro Power Project**

The project is constructed across Uma Oya in Bambarapana in Badulla district. The PPA for a period of 20 years has been signed with the CEB. The catchment area is about 180.5 km<sup>2</sup> with an average annual rainfall of 1,709 mm and an average daily flow of 4.3 m<sup>3</sup>/s. The project has a design flow of 6.5 m<sup>3</sup>/s with a gross head of 46 m.

The installed capacity is 2.5 MW and the expected energy generation is 8.7 GWh per annum. Accordingly, the plant factor works out to 40%. It will comprise two Francis type turbines of 1.7 MW and 0.8 MW each. The project is expected to be commissioned in November 2017. The cost of the Bambarapana project is LKR 850 Mn, funded through LKR 350 Mn equity and LKR 500 Mn debt. Of the total funds raised through the IPO, LKR 140 Mn will be invested as LEF's equity investment in the Bambarapana Project, which represents 40% shareholding.

However, in view of the urgent requirement for equity funding, on 30 June 2017 LEF made the equity investment of LKR 140 Mn in Bambarapana by obtaining a bridge finance loan of LKR 140 Mn from DFCC

Bank PLC on the basis that the loan will be settled out of IPO proceeds. The investment will be utilized for construction and purchase of fixed assets.

**Land Particulars of the Project** - Out of the 11 A 2 R 14 P state land required for the project 9 A 1 R 14 P has been obtained on a 25 year lease at the rate of LKR 440,000/- per year for the first 5 years and the remaining 2 A 0 R 40 P on annual permit.

## II. Pupilaketiya Mini Hydro Power Project

The project will be set up across Hulanda Oya in Kollone in Ratnapura district. The PPA for a period of 20 years has been signed with the CEB. The catchment area is about 5 km<sup>2</sup> with an average annual rainfall of 3,320 mm and an average daily flow of 0.32 m<sup>3</sup>/s. The project has a design flow of 0.65 m<sup>3</sup>/s with a gross head of 293 m. Construction of the project is expected to commence in FY 2017/18.

The installed capacity is 1.4 MW and the expected energy generation is 4.29 GWh per annum. Accordingly the plant factor works out to 35%. It will comprise two Pelton type turbines of 0.7 MW each. The project is expected to be commissioned in October 2019. The cost of the Pupilaketiya project is LKR 375 Mn, funded through LKR 150 Mn equity and LKR 225 Mn debt. The Company's investment will be utilized for construction and acquisition of fixed assets.

**Land Particulars of the Project** - 2 A 3 R 15 P state land that is required for the project will be obtained on long-term lease or annual permit as the case may be. The process of securing land is currently underway along with the renewal of CEA approval as mentioned under the footnote to the table below. Compensation has been paid to users of land and necessary documentation has been handed over to Kolonne Divisional Secretary for processing. Based on past experience of the Management, the Company does not foresee a situation of it not being able to secure land, as the Divisional Secretary by letter dated 15 October 2014 has granted permission to the company to clear the land that comes under its purview; (i) with the consent of users and (ii) without felling large trees.

### Details of Approvals Required for Projects in Sri Lanka

Approving Authority	Status	
	Pupilaketiya	Bambarapana
Central Environmental Authority (CEA)	Obtained *	Obtained
Forest Department	Obtained	Obtained
Public Utilities Commission of Sri Lanka – Generation License	Obtained	Obtained
Ceylon Electricity Board (CEB) – SPPA	Obtained **	Obtained
Sustainable Energy Authority (SEA) – Energy Permit	Obtained	Obtained
National Water Supply and Drainage Board	Obtained	Obtained
Department of Archaeology	N/A	Obtained
Irrigation Department	Obtained	Obtained
Agrarian Department	Obtained	Obtained
PradeshiaSabha	Obtained	Obtained
Divisional Secretary	Obtained	Obtained

*\*Lapsed on 14 October 2016 (validity of approval is 36 months). By letter dated 23<sup>rd</sup> December 2016 the Company has sought renewal of approval.*

*\*\*Lapsed on 19 August 2016 (validity of approval is 24 months). The Company will seek activation of the SPPA after renewing approval from CEA*

In terms of the PPAs, companies are given a time period of 23 months and an additional 1 month to construct and commence commercial operation. Not meeting this timeline is a cause for termination of the PPAs.

### III. Makari Gad Hydro Power Project - Nepal

The project will be set up across Makari Gad in Darchula district of the far western development region of Nepal. Installed capacity of the project will be 10 MW. The PPA covering a period of 30 years has been signed with the Nepal Electricity Authority. Expected annual energy generation is 69.8 GWh, with 53.2 GWh during the wet period and 16.6 GWh during the dry period. Accordingly, the plant factor works out to 80%. Gross head of the project is 924 m and the design flow is 1.35 m<sup>3</sup>/s.

The cost of the Makari Gad project is USD 22.50 Mn, funded through USD 6.75 Mn equity and USD 15.75 Mn debt. Of the total funds raised through the IPO, LKR 465 Mn will be utilized for construction and acquisition of fixed assets pertaining to the Makari Gad project. The land required for the project mainly consists of state land. Identification, surveying and securing of land is currently underway. Construction of access road to the project site has already commenced in September 2017. Project construction will begin in March 2018, after financial closure. The project is expected to be commissioned in June 2019.

#### **Details of Approvals Required for Makari Gad Project in Nepal**

Approving Authority	Status
Ministry of Environment - EIA Approval	Obtained
Nepal Electricity Authority – PPA	Obtained
Department of Electricity Development - Generation License	Obtained
Department of Electricity Development - Survey License for transmission line	Obtained

**TABLE 3.4– PROJECT COMPANY AND PROJECT PARTNER DETAILS**

Description	Pupulaketiya*	Bambarapana*	Makari Gad*
Project Company	Pupulaketiya Hydro Power (Private) Limited	Bambarapana Hydro Power (Private) Limited	Makari Gad Hydropower (Private) Limited
Pre-implementation LEF % Holding	100%**	NIL	NIL
Post-Implementation LEF % Holding	90%**	40%	45%
Project Partner and % holding	Pacific Hydro Electric SL (Private) Limited 10%	LTL Projects (Private) Limited 60%	LTL Holdings (Private) Limited 55%
Date and Authority of Incorporation	24 Sept 2009 Registrar of Companies, Sri Lanka	2 Feb 2010 Registrar of Companies, Sri Lanka	4 Feb 2014 Registrar of Companies, Nepal
Price at which Shares will be issued	Rs. 10.00	Rs. 10.00	NPR. 100.00 which is the par value of shares
Board of Directors	-D. S.Arangala -K. Maheshwaran	-U. C. T. Warnakulasuriya -H. D.Chaminda -K. P. M. Fernando -M. M. Cassim	-D. A. J. Nanayakkara -S. Ganegoda -K. C. Thakur
Principle Business	Carry on the business of generation, distribution, sales, marketing or application in whatsoever method or form of energy or electricity using hydro resources.		
No. of Shares Issued	90,000 shares	18,550,000 shares	468,389 shares

*\*In respect of the above mentioned projects, PPAs' have been signed after obtaining all the necessary approvals.*

*\*\*LEF's holding in Pupuleketiya project reduces to 90%, as a result of Pacific Hydro Electric SL (Pvt) Ltd's equity infusion at the latter stages of the project which is equivalent to 10% shareholding.*

### **Specific risks associated with the Objectives of the Offer**

- a. **Cost overruns and timely execution of the planned projects** – In future, the estimated raw material prices for the project constructions could rise to unexpected levels which would lead to cost overruns and time delays for implementation of the new projects. The new projects can also encounter time delays in the event of any natural perils such as floods and landslides. The prices and supply of these raw materials are beyond the control of sector participants and depends on local and global economic conditions. In the event of cost over-runs in excess of higher tariffs, the Company plans to resort to internally generated funds and/or bank borrowings. The signed SPPA for the said projects indicate a specific timeline to complete and to begin commercial operations of the projects. Hence, timely achievement of the objectives will not be adversely impacted.
- b. **Risk of not being able to obtain the state land required for the Pupuleketiya project**- In terms of securing land for the proposed Pupuleketiya project, based on past experience of the Management, the Company does not foresee a situation where it will not be able to secure lands that are required for the said project. It is not unusual to encounter procedural delays in completing this process. Having regard to this, the Divisional Secretary of the area where the project is being set up, has given permission to construct the project pending completion of the formalities relating to land acquisition. Hence, risk of not being able to secure lands identified for this particular project is minimized.
- c. **Risk of not being able to renew the lapsed CEA approval and reactivate the PPA** - Pupuleketiya projects' Central Environmental Authority (CEA) approval and the Standardized Power Purchase Agreement signed with CEB have lapsed. Procedural delays in renewing CEA approval and reactivation of PPA are common in this sector. Based on past experience, the Company expects renewal of CEA approval by 31 December 2017 and reactivation of the PPA within 3 months thereafter. Since the project has already obtained CEA approval and PPA has already been signed, it is unlikely that CEA approval will not be renewed or PPA will not be reactivated. The Company does not envisage commencing construction of the project until CEA approval is renewed and accordingly project is expected to commence commercial operation in October 2019. The Company is confident that it will meet fresh timelines stipulated in renewed CEA approval and reactivated PPA as it plans to commence commercial operation in October 2019. CEA and CEB are unlikely to impose limitations on the renewed approvals or on the features or timeline of the project.
- d. The Related Party Transaction Review Committee (RTP) of LEF has discussed in detail, at the meeting held on 29 November 2016, regarding the related party transactions stemming from objectives of the IPO and recommended to the Board to settle the Rs. 300 Mn bridge finance loan obtained from DFCC Bank PLC and also recommended to redeem the Rs. 180 Mn cumulative redeemable preference shares of DFCC Bank PLC out of the proceeds of the IPO. Thus, non-achievement of the said objectives is eliminated.

In the event the funds are not utilized for the proposed objectives (for reasons beyond the control of the Company) and utilized for such other purpose, such utilization for other purposes shall be done only after the Company makes an initial announcement to the market, and after the receipt of shareholder approval on the objective deviation by means of an Extraordinary General Meeting (EGM) and receipt of other relevant regulatory approvals. CSE will be notified of the outcome of the EGM.

The Company will begin utilizing IPO proceeds from FY 2017/18 onwards depending on the progress of construction of each project. The funds would be invested in Treasury Bills, Repurchase Agreements and Fixed Deposits in commercial banks at current market rates (interest rates vary between 9.30% p.a. - 11.00% p.a. depending on the tenure and the type of investment) during the interim period until utilization.

LEF undertakes to disclose the progress of the utilization of proceeds in all of their future interim and annual financial statements, until funds are fully utilized for the respective objectives stated in the Prospectus in the format presented below.

### **Continuous Disclosure regarding status of utilization of funds raised via IPO**

#### **IPO Proceeds utilization as at dd-mm-yyyy**

Objective number	Objective as per Prospectus	Amount allocated as per prospectus in LKR	Proposed date of Utilization as per prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amounts utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (e.g.: whether lent to related party/s etc.)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

*In the event the proceeds raised are fully utilized in terms of the objectives disclosed in the prospectus prior to submission of the Company's next immediate financial statements (i.e. either interim financial statements or annual report), the Company to disclose the fact that proceeds have been utilized in its entirety as per the above template.*

### **3.2 The Offer**

The Offer contemplated herein shall constitute an invitation made to the general public to purchase One Hundred and Twenty Million (120,000,000) New Ordinary Voting Shares of the Company at the Share Offer Price of Sri Lanka Rupees Ten (LKR 10.00) per Ordinary Voting Share.

### **3.3 Nature of the New Shares**

The Offered Shares shall, upon allotment, rank equal and pari passu in all respects with the other existing Ordinary Voting Shares of the Company and such Shares shall confer on the holder thereof the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in any dividend that may be paid by the Company after the allotment of the Offered Shares and the right to an equal share in the distribution of the surplus assets of the Company in a liquidation.

### **3.4 Size of the Offer**

If fully subscribed, the Offer would raise Sri Lankan Rupees One Billion and Two Hundred Million (LKR 1,200,000,000.00).

### 3.5 Share Offer Price

The Share Offer Price for the Ordinary Voting Shares will be Sri Lankan Rupees Ten (LKR 10.00) per Share. The Board of Directors of LEF is of the opinion that the Share Offer Price is fair and reasonable to the Company and to all existing shareholders of the Company.

#### **Basis for Offer Price**

The Share Offer Price was determined by the Company in consultation with the Independent Valuers to the Offer and the Financial Advisor and Manager to the Offer in accordance with the independent valuation report compiled by the Independent Valuer to the Offer. A copy of the independent valuation report is enclosed as Annexure E of this Prospectus. The Company has also considered the qualitative factors such as Business Operations of LVL Energy Fund Limited provided in Section 4.0 of this Prospectus, when arriving at the Offer Price.

In compliance with CSE Listing Rule 3.1.4 (c), the Valuer declared that 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 in determining the IPO Price and the Valuer has made all the inquiries that he believes are desirable and appropriate in order to arrive at a competent independent opinion. Further, the qualifications and experience of the Independent Valuer can be found in Section 08 of Annexure E.

The net asset value of the ordinary voting share excluding minority interest was LKR 4.90 as at 31 March 2017, and the Share Offer Price is 2.04 times the Net Asset Value.

The investors should read the following summary with the risk factors included under Section 12 of this Prospectus and the details of the Company and its financial statements included in this Prospectus. Summary of Share price valuations derived from the Independent Valuer's Report (IVR) is given below;

<b>Valuation Method</b>	<b>Source</b>	<b>Value (LKR)</b>	<b>(Discount)/Premium to IPO Price</b>
Net Assets Value per share	Prospectus	5.21	92.3%*
SOTP Value (Lower)	IVR	10.60	(5.66%)
SOTP Value (Upper)	IVR	16.62	(39.8%)
PER Valuation	IVR	13.18	(24.1%)

\* SOTP Valuation is the best model to grasp the full value of the Company.

With passage of time the Independent Valuer prepared four valuation reports since 07 March 2017 in support of the listing application. As per the reports the lower value had reduced from LKR 11.50 to LKR 10.60 whilst the upper value has increased from LKR 16.50 to LKR 16.62.

### 3.5.1 Quantitative Factors

The following quantitative aspects were taken into consideration;

#### **Earnings per Share (EPS) and Return on Equity (ROE)**

<b>For the Period Ended</b>	<b>Basic Earnings per Share (LKR)*</b>	<b>Diluted Earnings per Share (LKR)*</b>	<b>Return on Equity (%)****</b>
31 March, 2013 - Audited	1.76	1.76	9.58
31 March, 2014 - Audited***	0.53	0.53	14.09
31 March, 2015 - Audited	0.67**	0.67**	14.74
31 March, 2016 – Audited	0.71	0.71	15.72
31 March, 2017 – Audited	0.94	0.94	18.73
<b>Average</b>	<b>0.92</b>	<b>0.92</b>	<b>14.57</b>

\*LEF does not have any dilutive instruments in its capital structure; Basic Earnings per Share and Diluted Earnings per Share are given in respect of the Group financial information

\*\*Subsequent to subdivision of shares in the proportion of 1:6, as per the resolution dated 18 September 2014

\*\*\* Restated in 31 March 2015 Audited Financial Statements

\*\*\*\*Excluding minority interest

#### **Price Earnings Ratio (P/E)**

The P/E in relation to the Share Offer Price of LKR 10.00 was,

- Based on the basic EPS for the financial year ended 31 March 2017 of LKR 0.94, the P/E is 10.64 times.
- Based on the average EPS of LKR 0.92, the P/E is 10.87 times.
- The P/E range of the industry peers is as given below;

	<b>Name of the Peer Company</b>	<b>P/E*</b>
Highest	Lotus Hydro Power PLC	202.90 times
Lowest	Vallibel Power Erathna PLC	11.34 times
Industry Composite**		14.30 times***

Source – CSE (Comparable listed companies in the power sector), Audited financial statements

\* Closing price as at 31 July 2017 & EPS for the YE 31 March 2017 were considered in deriving the P/E ratio for peer entities

\*\*Sector Classification – Power & Energy

\*\*\* Published by the CSE as at 03 August 2017

#### **Net Asset Value (NAV) and Price to Book Value Ratio (P/BV)**

The P/BV in relation to the Share Offer Price of LKR 10.00 was,

- Based on the NAV per share for the financial year ended 31 March 2017 of LKR 4.90, the PBV is 2.04 times.
- Based on the NAV per share for the quarter ended 30 June 2017 of LKR 5.21, the PBV is 1.92 times.
- Post IPO NAV per share is LKR 6.14, adjusted to reflect the NAV as at 30 June 2017 and Number of Shares in Issue assuming the full subscription of the Shares via the IPO.
- The P/BV range of the industry peers is as given below;

	Name of the Peer Company	P/BV*
Highest	Vallibel Power Erathna PLC	2.70 times
Lowest	Lotus Hydro Power PLC	0.98 times
Industry Composite**		1.10 times***

Source – CSE (Comparable listed companies in the power sector), Company quarterly statements

\* Closing price as at 31 July 2017, Book Value as at 31 March 2017 excluding Minority Interest

\*\*Sector Classification – Power & Energy

\*\*\* Published by the CSE as at 03 August 2017

### Peer Entity Accounting Ratios

A peer company comparison of the quantitative factors discussed above using market data as at 31 March, 2017 is provided below;

Peer Company	Net Asset Value per Share (LKR)	Earnings per Share (EPS) (LKR)	P/E (x)	P/BV (x)	Return on Equity (%)
Resus Energy PLC	14.87	(1.35)	N/A	1.42	(9.11)
Lotus Hydro Power PLC	6.00	0.03	202.90	0.98	0.48%
Panasian Power PLC	2.44	0.04	66.45	1.19	1.79
Vallibel Power Erathna PLC	2.78	0.66	11.34	2.70	23.82
Vidullanka PLC	2.41	0.05	95.16	2.16	2.27

Source – CSE (Comparable listed companies in the power sector), Company quarterly report

Closing price as at 31 July, 2017

Sector Classification – Power & Energy

Book Values/ Equity Value and Return on Equity are calculated excluding Minority Interest

### 3.5.2 Qualitative Factors

The following qualitative factors were considered by the Company when arriving at the Share Offer Price.

- The important role the power & energy sector plays in the Sri Lankan economy and its expected growth potential
- LEF's proven track record and significant expertise in successful power project investments
- LEF's heavily diversified portfolio of projects in terms of source of energy and geographical diversification in and outside of Sri Lanka
- The backing of solid project partners who are industry leaders in the power generation and EPC contract segments

### 3.6 Basis of Allotment

The allotment of the Offered Shares will be made to various categories of Applicants, as set out below:

Investor Category	Percentage of Offer
Unit Trust Investor Category <sup>1</sup>	10%
Retail Individual Investor Category <sup>2</sup>	40%
Non-Retail Investor Category <sup>3</sup>	50%
	<b>100%</b>

<sup>1</sup> 'Unit Trust Investors' includes growth or balanced Unit Trusts operated by Managing Companies licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to operate such Unit Trusts, where such Unit

**Trusts comprises of not less than five hundred unit holders resident in Sri Lanka who together hold at least 50% of that fund.**

**Applications made under the Unit Trust Investor category should accompany a confirmation by the trustee confirming that such unit trust is in conformity with the criteria defined by the SEC directive dated 06 June 2011 – SEC/LEG/11/06/01 and CSE Listing Rule 3.1.5(b)(iii). Only one Application should be made under each category.**

**<sup>2</sup> Retail Individual Investor shall mean an individual investor who subscribes for a maximum of Ten Thousand (10,000) Shares or a value of not more than Rupees One Hundred Thousand (LKR 100,000.00) in a particular Share class, whichever is higher.**

**<sup>3</sup> Investors who do not fall under the Retail Individual Investor Category stated above will be deemed as Non-Retail Investors for Share allotment purposes. (All corporate bodies incorporated or established in Sri Lanka or outside Sri Lanka, global, regional or country funds approved by the SEC and all provident funds, trust funds, and contributory pension schemes registered/incorporated/established in Sri Lanka, shall fall under the Non-Retail Investor Category irrespective of the quantum of Shares applied for).**

The investor categories have been selected to ensure the broadest possible spread of shareholders while treating all Applicants in a fair manner.

In determining the basis of allotment within the Retail Individual Investor Category, investors who subscribe for a smaller number of Shares shall be given priority.

In the event of an under-subscription in the Unit Trust Investor Category, the Retail Individual Investor Category shall be given first priority in allotment of the under-subscribed Shares.

In the event of an under-subscription in the Retail Individual Investor Category, the Unit Trust Investor Category shall be given first priority in the allotment of the under-subscribed Shares.

In the event of an under-subscription in the Non-Retail Investor Category, Retail Individual Investor Category will be given first priority followed by Unit Trust Investor Category in the allotment of the under-subscribed Shares.

Redistribution will not apply in the event of an oversubscription or under-subscription in all three categories stated above.

It should be noted that the Board shall reserve the right to allocate up to 50% of the number of Shares to be allotted under this Prospectus on a preferential basis, to Non-Retail investor/s of strategic and operational importance with whom the Company might have mutually beneficial relationships in the future.

Out of the 50% of Shares on offer (that amounts to 60,000,000 Shares) allocated to the Non-Retail Investor Category, 50,000,000 Shares would be allotted to institutional, strategic investor/s on a preferential basis. The 50,000,000 Shares to be preferentially allotted to the said institutional, strategic investor/s would be 83.33% of the total number of Shares allotted to Non-Retail Investor Category and such preferential allotment to the said institutional, strategic investor/s would represent 41.67% of the total Shares on offer through the IPO. Hence, the post-IPO number of Shares to be held by the said institutional, strategic investor/s would represent 8.59% of the issued quantity of the Company.

In the event of an oversubscription, the Board will endeavour to decide the basis of allotment in a fair manner as soon as practicable so as to ensure compliance with the CSE Listing Rules. The maximum allocation under preferential allotment is 50%.

A written confirmation informing successful Applicants on their allotment of New Shares will be dispatched within Ten (10) Market Days from the Offer Closure Date as required by the CSE.

### **3.7 Cost of the Offer**

The total cost associated with the Offer is estimated to be approximately LKR 36 million which is c.3.00% of the value of the IPO. These include all direct costs and expenses associated with the Offer, inclusive of but not limited to the initial listing fees to the CSE, management/advisory fees payable to the Financial Advisor and Manager to the Offer, brokerage commission, underwriting commission, fees for the registrar function, legal, consultancy and accountancy fees, independent valuer's fees, advertising and promotional costs, printing costs and stamp duty. The costs will be recovered from internally generated funds.

### **3.8 Listing**

The Offer herein contemplated comprises of One Hundred and Twenty Million (120,000,000) New Ordinary Voting Shares of the Company. If fully subscribed, the New Shares will amount to 20.61% of the Issued and Paid up Ordinary Shares of the Company, subsequent to the Offer.

An Application has been made to the CSE for permission for a listing of the entire Issued and Paid up Ordinary Voting Shares of the Company subsequent to the Offer.

LEF has already complied with Rule 2.1.2 (a), Rule 2.1.2 (b) and Rule 2.1.2 (c) of the CSE Listing Rules.

It is expected that the Company will meet the minimum Public Holding requirement set out in SEC Directive Ref: SEC/LEG/16/11/13 which stipulates that, 20% of the total number of Shares for which a listing is sought should be in the hands of a minimum number of 500 public shareholders and on the completion of the Issue pursuant to which the listing of the entire Ordinary Shares of the Company will take place on the Main Board of the CSE.

In the event of an under subscription where LEF is unable to meet the requirement of SEC Directive Ref: SEC/LEG/16/11/13, upon closure of the Offer, the Company would alternatively opt for a listing on the 'Diri Savi' Board of the CSE, subject to meeting the minimum public holding requirement set out in SEC Directive Ref: SEC/LEG/16/11/13.

Aforesaid SEC directive stipulates that 10% of the total number of Shares for which a listing is sought should be in the hands of a minimum number of 200 public shareholders and meets further requirements set out in the CSE Listing Rule 2.1.3, with regards to being listed on the Diri Savi Board.

However, in the event where LEF is unable to meet the requirements as per the SEC Directive dated 17 November 2016 (SEC/LEG/16/11/13), upon closure of the Offer, the Ordinary Voting Shares of the Company will not be listed on the CSE. In such an event the subscription amounts will be returned to the Applicants.

It should be noted that the aforesaid public holding requirements would be calculated by considering all Shares that are freely tradable, on the date of Listing.

The Shares mentioned in Section 8.1 will be locked in to be in compliance with CSE Listing Rules 2.1.1(d) and SEC's Letter dated 23 January 2017.

### **3.9 Brokerage**

Brokerage at the rate of zero decimal five per centum (0.5%) of the value of the New Shares will be paid in respect of the number of New Shares allotted on Applications bearing the original seal of any bank operating in Sri Lanka or a member/trading member of the CSE or Acuity Partners or any other intermediary appointed by the Company and the Manager to the Offer involved in the marketing of the Offer.

### **3.10 Opening of Subscription List and Offer Closing Date**

The subscription list for the New Shares will open at 9.00 a.m. on 14 December 2017 and shall, subject to the occurrence of the events in the following paragraph, remain open for Fourteen (14) Market Days (including the Offer Opening Date) until closure at 4.30 p.m. on 4 January 2018.

In the event of an oversubscription of the 120,000,000 New Shares, the Company shall inform the CSE in writing immediately of such fact and the subscription list will be closed at 4.30 p.m. on the same day on which it is fully subscribed. Also, the Board reserves the discretion to close the subscription list on any Market Day within the period of Fourteen (14) Market Days, irrespective of whether the Offer is oversubscribed or not, by providing One (01) Market Day's prior notice to the CSE.

## 4.0 BUSINESS OPERATIONS OF LVL ENERGY FUND LIMITED

### 4.1 Overview

LEF, incorporated in June 2006 as a fully owned subsidiary of Lanka Ventures PLC. LEF was formed for the purpose of consolidating all of LVL's investments in the energy sector. As a result, several joint-venture relationships were formed with reputed project developers in order to undertake the development and operation of power generation projects.

LEF holds stakes in six operational mini-hydro power projects with a cumulative capacity of 16.9 MW and total investment of LKR 574.8 million. The Company has two investments in wind power sector with a combined capacity of 15.3 MW. These two projects were undertaken by Pawan Danavi (Pvt) Limited and Nala Dhanavi (Pvt) Limited in which the company has a shareholding of 40% and 49% respectively. Aforementioned companies are accordingly treated as equity accounted investee companies in the financial statements of LEF. The first wind power project was commissioned in August 2012 and the second project was commissioned in June 2013. LEF's total investment in wind power sector is LKR 666.6 million.

On the thermal energy front, LEF has two investments with a combined capacity of 104.4 MW. LEF invested LKR 386.5 million in Raj Lanka Power Company, the project company of 52.2 MW thermal power plant in Rajshahi district in Bangladesh which commenced commercial operations in January 2014. LEF made its second investment of LKR 653.0 million in Lakdhanavi Bangla Power Company, the project company of Comilla power project of 52.21 MW thermal power plant which is located in Comilla district in Bangladesh which commenced commercial operations in January 2015. LEF's total investment in thermal power sector is LKR 1,039.5 million.

Total Group Revenue and Profit after Tax of LEF as at 31 March 2017 stood at LKR 236.89 Mn and LKR 464.93 Mn respectively. However, the revenue of the following 3 subsidiaries of LEF was not accounted in the Audited Financial Statements for the year ended 31 March 2017 for the following reasons;

Name of Subsidiary Company	Explanation
Lanka Energy International (Pvt) Ltd	Principal activity of the company is investing in the equity and equity related financial instruments of new and existing companies outside Sri Lanka which undertake projects with potential for high growth. Therefore, the main source of income is share of profit from associates.
LVS Energy (Pvt) Ltd	Principal activity of the company is investing in companies that establish, own and operate power generation projects in Sri Lanka. Therefore, the main source of income is dividend income from its subsidiary (Unit Energy Lanka (Private) Limited).
Pupulaketiya Mini Hydro Power (Pvt) Ltd	The Company obtained all necessary approvals and the SPPA was signed on 19 September 2014. The project construction is expected to commence in financial year 2017/18 and the project is to be completed by October 2019, which will result in revenue generation thereafter.

The total investments in operational power projects made by LEF currently stands at approximately LKR 2,280.9 million. Further LKR 740 million will be invested in three hydro power projects that are to be constructed in the near future.

Further information on Raj Lanka Power Company Limited and Lakdhanavi Bangla Power Limited is given below;

### **Raj Lanka Power Company Limited**

Raj Lanka Power Company Limited was incorporated on 18 August 2011 by the Registrar of Joint Stock Companies and Firms, Bangladesh. LEF's shareholding in this Company is 20.25% and balance shares are held by Lakdhanavi Limited and A&A Fashion Sweaters Limited. This investment was made at the start-up stage of the project at the par value of Bangladeshi Taka 10.00 per share. The names of the Directors are as follows;

- Mr. U.D. Jayawardana
- Mr. M.J.M.N. Marikkar
- Mr. R.K. Pitigalage
- Ms. M. Begum
- Mr. D.S. Arangala
- Mr. K. Maheshwaran
- Mr. U.G. Sarath
- Mr. M.A. Wadud

### **Lakdhanavi Bangla Power Limited**

Lakdhanavi Bangla Power Limited was incorporated on 18 August 2011 by the Registrar of Joint Stock Companies and Firms, Bangladesh. LEF's shareholding in this Company is 33.16% and balance shares are held by Lakdhanavi Limited and Sawam Holdings (Pte) Ltd. This investment was made at the start-up stage of the project at the par value of Bangladeshi Taka 10.00 per share. The names of the Directors are as follows;

- Mr. U.D. Jayawardana
- Mr. M.J.M.N. Marikkar
- Mr. R.K. Pitigalage
- Mr. D.A.J. Nanayakkara
- Mr. D.S. Arangala
- Mr. K. Maheshwaran
- Mr. U.G. Sarath
- Mr. M.A. Wijetunge

Table 4.1 below shows the Company's operational projects and the projects in the pipeline.

**TABLE 4.1 – OPERATIONAL PROJECTS AND PROJECTS TO BE CONSTRUCTED**

Project	Installed Capacity (MW)	Company Name	LEF Holding (%)	LEF Equity Investment (LKR Mn)	Project Partner*
<b>OPERATIONAL PROJECTS</b>					
<b>Belihul Oya &amp; Assupini Ella</b> (Hydro)	6.2	Nividhu (Pvt) Ltd	25.0%	120.2	LTL Holdings (Pvt) Limited
<b>Kadawala</b> (Hydro)	6.0	Unit Energy Lanka (Pvt) Ltd	55.0%	135.4	VS Hydro (Private) Limited
<b>Neluwa</b> (Hydro)	2.2	Neluwa Cascade Hydro Power (Pvt) Ltd	49.0%	58.8	Hayleys Power Limited
<b>Theberton</b> (Hydro)	1.3	Sapthakanya Hydro Electric Company (Pvt) Ltd	85.0%	142.4	Developers of Guruluwana, Nuggedola & Agra Oya Hydro Projects
<b>Campion</b> (Hydro)	1.2	Campion Hydro (Private) Ltd	84.3%	118.0	Developers of Guruluwana, Nuggedola & Agra Oya Hydro Projects
<b>Pawan Danavi</b> (Wind)	10.2	Pawan Danavi (Pvt) Ltd	40.0%	424.0	LTL Holdings (Pvt) Limited
<b>Nala Dhanavi</b> (Wind)	5.1	Nala Dhanavi (Pvt) Ltd	49.0%	242.6	LTL Projects (Pvt) Limited
<b>Rajshahi</b> (Thermal - Bangladesh)	52.2	Raj Lanka Power Company Ltd	20.3%	386.5	Lakdhanavi Limited
<b>Comilla</b> (Thermal – Bangladesh)	52.2	Lakdhanavi Bangla Power Ltd	33.2%	653.0	Lakdhanavi Limited
<b>Total</b>	<b>136.6</b>			<b>2,280.9</b>	
<b>PROJECTS UNDER CONSTRUCTION / TO BE CONSTRUCTED</b>					
<b>Pupulaketiya</b> (Hydro)	1.4	Pupulaketiya Hydro Power (Pvt) Ltd	90%	135.0**	Pacific Hydro Electric SL (Pvt) Limited
<b>Bambarapana</b> (Hydro)	2.5	Bambarapana Hydro Power (Pvt) Ltd	40%	140.0	LTL Projects (Pvt) Limited
<b>Makari Gad</b> (Hydro)	10.0	Makari Gad Hydropower (Pvt) Ltd	45%	465.0	LTL Holdings (Pvt) Limited
<b>Total</b>	<b>13.9</b>			<b>740.0</b>	
<b>Grand Total</b>	<b>150.5</b>			<b>3,020.9</b>	

Investment in all projects were made at start-up stage at no discount or premium except in the case of Nividhu (Private) Limited and Unit Energy Lanka (Private) Limited.

\* Project partner is responsible for Implementing and carrying out operational and maintenance functions of the project.

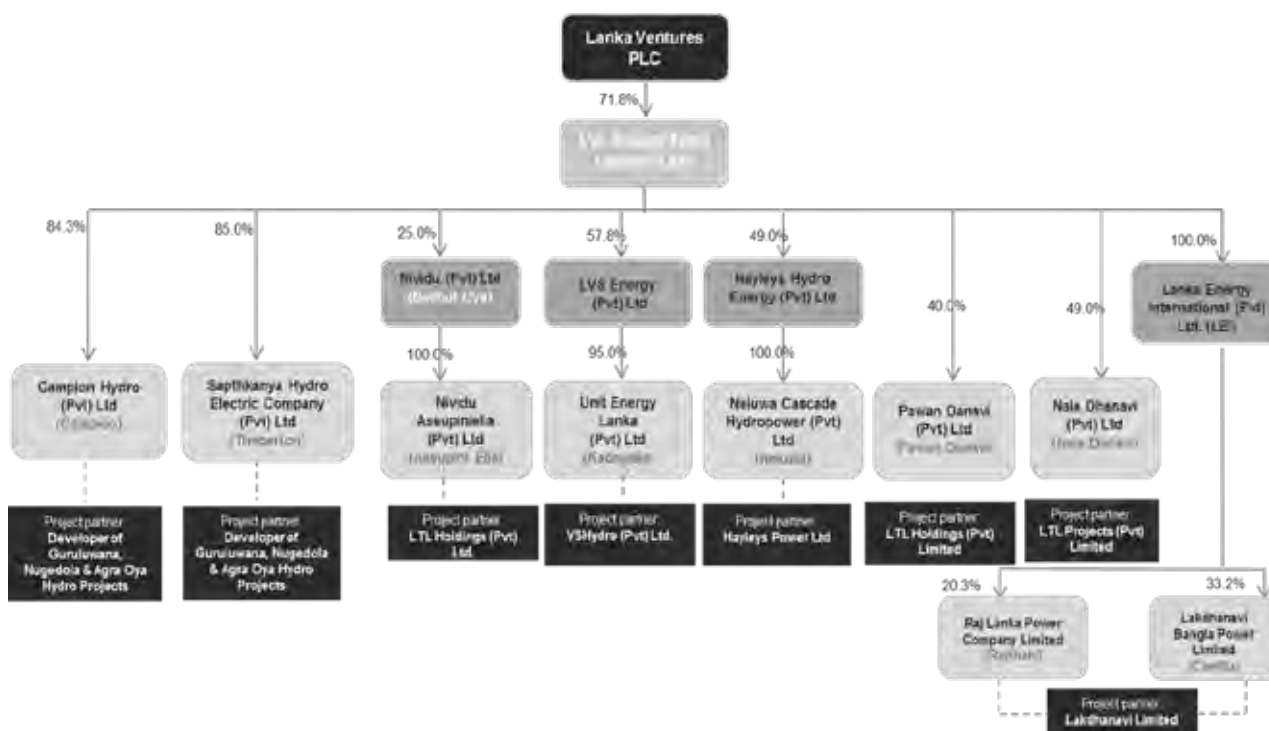
\*\*In respect of the LKR 135 Mn identified for the Pupuleketiya power project in the above table, LKR 20 Mn has been already incurred by LEF at the initial stages of the said project. The balance amount LKR 115 Mn would be sourced from the IPO.

LEF does in-house project evaluations using project appraisal techniques such as IRR and NPV to determine financial viability of identified projects before investing. LEF does not do valuations or obtain valuations from external sources for investments as they are start-up ventures.

Investment in all projects was made at the start-up stage at no discount or premium except in the following instances:

- (i) Increase in shareholding in Nividhu (Private) Limited from 15% to 25% in June 2016 with the purchase of 2,187,667 shares for a total consideration of LKR 87,167,215/- from a foreign shareholder who sold its stake of 6,560,000 shares to the other shareholders.
- (ii) Increase in shareholding in Unit Energy Lanka (Private) Limited from 47% to 55% in August 2016 with the purchase of 1,704,737 shares for a total consideration of LKR 34,094,740/- from foreign and local shareholders.

#### 4.2 Group Structure – Operational Projects



Populaketiya is not included in group structure as it is still not an operational project. All companies shown under the group structure are operational projects.

**Lanka Ventures PLC** - Lanka Ventures PLC (LVL) was incorporated in February 1992 as a venture capital company. The original shareholders of the company included Asian Development Bank, John Keells Holdings PLC, Forbes & Walker Limited and DFCC Bank PLC. The company obtained a listing for its shares at the Colombo Stock Exchange in 1995.

Following the listing on the CSE, Hatton National Bank PLC also became a major shareholder of the Company. As at 31 March 2009, DFCC Bank PLC and Hatton National Bank PLC were the major shareholders of the company with shareholdings of 58% and 20% respectively. In January 2010, the two banks sold their shareholdings to Acuity Partners (Private) Limited, a joint venture company equally held by the two banks. Accordingly, Acuity Partners (Private) Limited held 79.58% of LVL as at 30 June 2017.

From its inception LVL had been investing in a wide array of sectors, though, mainly focusing on investments in energy and healthcare sectors. In June 2006 LVL formed a fully owned subsidiary under the name LVL Energy Fund (Private) Limited to channel all its investments in the energy sector.

Table 4.2 below shows the key financial data of Lanka Ventures PLC for the past five years.

**Table 4.2 – Selected Financial Data for Lanka Ventures PLC**

<b>For the Year Ended 31 March</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>LKR '000</b>					
Investment Income	71,875	46,335	49,815	31,338	5,226
Power Generation Income	-	46,270	239,090	248,351	224,457
<b>Total Income</b>	<b>121,591</b>	<b>122,701</b>	<b>298,717</b>	<b>303,478</b>	<b>251,140</b>
<b>Operating Profit</b>	<b>82,875</b>	<b>30,432</b>	<b>168,680</b>	<b>172,858</b>	<b>120,968</b>
<b>Share of Profit Net of Tax of Equity Accounted Investees</b>	<b>62,900</b>	<b>222,023</b>	<b>263,955</b>	<b>303,892</b>	<b>424,188</b>
Finance Cost	(37,823)	(86,647)	(64,195)	(103,178)	(163,402)
Income Tax	(7,039)	(15,537)	(45,353)	(41,946)	(40,742)
<b>Profit for the Year</b>	<b>100,913</b>	<b>150,271</b>	<b>334,577</b>	<b>331,626</b>	<b>451,245</b>
<b>Profit Attributable to Equity Holders of the Company</b>	<b>89,636</b>	<b>139,299</b>	<b>186,322</b>	<b>187,247</b>	<b>288,635</b>
<b>Shareholders' Funds (Mn)</b>	1,096.73	1,302.69	1,523.22	1,632.46	1,726.65
<b>Total Assets (Mn)</b>	1,856.29	2,779.99	3,578.03	3,841.85	4,153.22
<b>Earnings per Share (LKR)</b>	1.79	2.79	3.73	3.74	5.77
<b>Net Asset per Share (LKR)</b>	21.93	26.05	30.46	32.65	34.53

### 4.3 Project Partners

**LTL Holdings (Pvt) Ltd** – Starting with an investment of LKR 25 mn in the early 1980s, LTL Holdings (Pvt) Ltd (LTL Holdings) has become one of the premier engineering companies in Sri Lanka, enjoying international recognition and is now worth approximately LKR 25 Bn. Formally known as Lanka Transformers Group of Companies, LTL Holdings has a very strong commitment to excellence, which is showcased in their superior products such as transformers, fabricated steel structures and switch gear. They were awarded the Engineering Excellence Award by The Institute of Engineers Sri Lanka in 2015. Catering to over 20 countries globally, over 50% of their products are exported, subsequent to meeting the entire domestic requirements.

LTL Holdings is renowned as Engineering, Procurement and Construction (EPC) contractors of major power projects (thermal, hydro and wind) and has a well-earned reputation as the trusted brand for Grid Substations and Power Generating Stations. LTL Holdings has also pioneered independent power production in Sri Lanka and currently operates 300 MW Kerawalapitiya thermal power plant as well as the two 52 MW Power Plants in Bangladesh. They have also in the past built and operated a number of emergency power plants to help meet the power shortages in the national system.

**VS Hydro (Pvt) Ltd.** – The Vidya Silpa group of companies of which VS Hydro (Pvt) Ltd (VS Hydro) is an integral part, is a small but growing and innovative group of companies focusing entirely on science, IT and renewable energy technology with several group companies. VS Hydro is the flagship company in the group involved in owning, design, development, operation and maintenance of small hydropower projects in Sri Lanka and overseas.

VS Hydro was incorporated in 2003 as the successor to the hydropower sector operations carried out by Vidya Silpa, a company owned by the Sumanasekera family which was established by Vidya Nidhi Premasiri Sumanasekera, the pioneer of private sector owned small hydro power plants in Sri Lanka.

VS Hydro has been involved in the development of 15 hydro power projects in Sri Lanka with a total installed capacity of 52.8 MW, including the largest private sector hydro power projects implemented in Sri Lanka to date. In addition to implementing projects on behalf of their clients, VS Hydro has also developed several projects on their own, with joint venture partners who came in as financiers for the projects. VS Hydro has significant shareholding in these projects and carries out operation and maintenance of these projects as well. In 2006, the company made a decision to expand its operations overseas and as a result, suitable opportunities were explored in East Africa and South-East Asia and have been involved in the development of seven hydro power plants in Uganda and Kenya.

**Hayleys Power Ltd** – Hayleys Power currently provides 5.2 MW capacity of hydro power to the National Grid and supplies a total of 20 GWh of energy annually to the Grid. Hayleys Power is further developing several more hydro power plants in order to provide 15 MW to the National Grid in the future.

Hayleys Power also provides complete turnkey solutions, develops and constructs power projects and supplies turbine generators for hydro power projects. The group also added another 10 MW capacity to the National Grid through its wind turbine generators by commencing commercial operations of Nirmalapura Wind Power plant in August 2012. The venture is the latest step towards boosting the power requirements of the nation through renewable and sustainable ‘green’ energy.

#### 4.4 Current Projects of LEF

**Belihul Oya Mini Hydro Power Plant** – The project area is located about 10.5 km North East of Balangoda Town near Balangoda Haputale main road. The catchment area of the project is about 21.5 km<sup>2</sup>. The upper boundary of the catchment extends up to Horton Plains. This catchment is mainly fed by the North East monsoon and the average rainfall is about 2,638 mm. This produces an average daily flow of 0.98 m<sup>3</sup>/s. Gross head of the project is 178 m and design flow is 1.5m<sup>3</sup>/s. The installed capacity of the project is 2.2 MW and average energy generation is 9.0 GWh per annum. There are two units of Turgo type of turbines with the capacity of 1.1 MW each and M/s Wasserkraft Volk AG was the equipment supplier for the project.

The project was commissioned in May 2002. At the installed capacity of 2.2 MW and the annual average energy generation of 9.0 GWh, the plant factor works out to 47%. Table 4.3 shows the plant performance over the years.

**TABLE 4.3 – PLANT PERFORMANCE OF BELIHUL OYA**

Year	Annual Generation (MWh)	Annual Revenue (LKR Mn)
2008	9,729	87.5
2009	8,371	87.2
2010	11,292	124.1
2011	8,975	94.7
2012	6,925	67.6
2013	11,451	134.6
2014	8,796	131.9
2015	11,215	169.7
2016	4,195	62.1

**Assupini Ella Mini Hydro Power Plant** – The project is located in the upper reaches of Maha Oya on the border of Gampola and Mawanella electorates. The catchment area at the intake is 27 km<sup>2</sup> with an average rainfall of 2,134 mm per year. This produces an average river flow of 1.5m<sup>3</sup>/s. Gross head of the project is 210 m and design flow is 2.2 m<sup>3</sup>/s. The installed capacity of the project is 4.0 MW and average energy generation is 16.3 GWh per annum. There are two units of Pelton type turbines with the capacity of 2 MW each. M/s VA Tech was the equipment supplier for the project.

The project was commissioned in November 2005. At the installed capacity of 4.0 MW and annual average energy generation of 16.3 GWh, the plant factor works out to 47 %. Table 4.4 shows the plant performance over the years.

**TABLE 4.4 – PLANT PERFORMANCE OF ASSUPINI ELLA**

Year	Annual Generation (MWh)	Annual Revenue (LKR Mn)
2008	17,060	153.6
2009	16,953	178.9
2010	17,903	199.1
2011	16,314	170.0
2012	12,460	119.8
2013	16,754	195.8
2014	16,311	243.2
2015	18,161	272.7
2016	5,487	79.8

**Kadawala Mini Hydro Power Plant** – The project area lies between Watawala and Kadawala in the Ginigathhena electorate of Nuwara Eliya district. The project land is owned by Carolina Estate of Watawala Plantations PLC. The catchment area of the project is about 26 km<sup>2</sup>. Since the project site is located in the wet zone area, the catchment receives a high annual rainfall (approximately 4,406 mm/year) mainly from the Southwest monsoon between May and October. The installed capacity of the project is 6 MW and the average energy generation is 13 GWh per annum. Gross head of the project is 132 m and design flow is 5.2 m<sup>3</sup>/s. There are two units of horizontal shaft Francis type of turbines and M/s Voith Siemens Hydro Kraftwerkstechnik GmbH & Co was the equipment supplier for the project.

The project was commissioned in March 2008. At the installed capacity of 6 MW and the annual average energy generation of 13 GWh, the plant factor works out to 25%. Table 4.5 shows the plant performance over the years.

**TABLE 4.5 – PLANT PERFORMANCE OF KADAWALA**

Year	Annual Generation (MWh)	Annual Revenue (LKR Mn)
2008	11,275	100.9
2009	12,324	131.1
2010	14,398	160.4
2011	9,540	99.7
2012	9,026	86.3
2013*	4,754	56.0
2014	14,671	218.5
2015	15,090	225.1
2016	11,712	167.3

\* The plant was non-operational between May and September 2013 due to repairs undertaken following a flash flood.

**Neluwa Mini Hydro Power Plant** – The project lies across Gin Ganga and is located on the border of Galle and Kalutara districts. The catchment area at the diversion site is about 340 km<sup>2</sup>. The catchment receives an average annual rainfall of 3,973 mm which produces an average river flow of 22.24 m<sup>3</sup>/s. Gross head of the project is 6 m and design flow is 40 m<sup>3</sup>/s. The installed capacity of the project is 2.2 MW and average energy generation is 6.3 GWh per annum. There are two open-fume Kaplan type turbines with a rated output of 1.1 MW per turbine and M/s Gugler Hydro Energy GmbH was the equipment supplier for the project.

The project was commissioned in January 2008. At the installed capacity of 2.2 MW and the annual average energy generation of 6.3 GWh, the plant factor works out to 33%. Table 4.6 shows the plant performance over the years.

**TABLE 4.6 – PLANT PERFORMANCE OF NELUWA**

Year	Annual Generation (MWh)	Annual Revenue (LKR Mn)
2008	5,668	51.7
2009	6,748	72.1
2010	6,445	72.3
2011	6,469	68.4
2012	6,517	57.8
2013	6,120	72.0
2014	6,022	90.3
2015	6,258	94.0
2016	4,150	60.7

**Theberton Mini Hydro Power Plant** – The project lies across Maskeli Oya at Therberton Estate located in Kiriwaneliya village in Nuwara Eliya district. The catchment area is about 10 km<sup>2</sup> with an average annual rainfall of 4,086 mm, and an average daily flow of 1.10 m<sup>3</sup>/s. The project has a design flow of 1.95 m<sup>3</sup>/s with a gross head of 90m.

The installed capacity is 1.3 MW and the expected energy generation is 4.6 GWh per annum. There is one 0.8 MW Francis type turbine supplied by Fuchun Industry Development Company and one 0.5 MW Turgo type turbine supplied by Hongya Power Generating Equipment. The plant was commissioned in September 2015. At the installed capacity of 1.3 MW and expected annual energy generation of 4.6 GWh, the plant factor works out to 41%. Table 4.7 shows the plant performance.

**TABLE 4.7 – PLANT PERFORMANCE OF THEBERTON**

Year	Annual Generation (MWh)	Annual Revenue (LKR Mn)
2015*	1,707	29.7
2016	3,324	58.1

\*September - December 2015

**Campion Mini Hydro Power Plant** – The project lies across Kehelgamuwa Oya in Bogawantalawa in Nuwara Eliya District. The catchment area is about 27 km<sup>2</sup> with an average annual rainfall of 2,384 mm and an average daily flow of 1.35 m<sup>3</sup>/s. The project has a design flow of 2.1 m<sup>3</sup>/s with a gross head of 76 m.

The installed capacity is 1.2 MW and the expected energy generation is 4.76 GWh per annum. There are two Francis type turbines of 0.4 MW and 0.8 MW each supplied by Hongya Power Generating Equipment, China. The project was commissioned in May 2017. At the installed capacity of 1.2 MW and expected annual generation of 4.76 GWh, the plant factor works out to 45%. No generation data is available as the plant was commissioned only in May 2017.

**Pawan Danavi Wind Power Plant** – This project is located in Kalpitiya peninsula in Puttalam district. The installed capacity of the project is 10.2 MW comprising 12 turbines of 850 KW each supplied by Gamesa. The hub height and rotor diameter of the turbines are 65 m and 58 m respectively.

The project commenced commercial operation in August 2012. At the installed capacity of 10.2 MW and expected annual energy generation of 30.1 GWh per annum, the plant factor works out to 34%. Table 4.8 shows the plant performance over the years.

**TABLE 4.8 – PLANT PERFORMANCE OF PAWAN DANAVI**

Year	Annual Generation (MWh)	Annual Revenue (LKR Mn)
2012*	3,190	79.7
2013	29,403	739.2
2014	26,595	672.1
2015	24,218	614.9
2016	25,663	656.8

\*Supply restricted to 2 MW until March 2013.

**Nala Dhanavi Wind Power Plant** – This project is also located in Kalpitiya Peninsula in Puttalam district in close proximity to Pawan Danavi project. The project comprises six turbines of 850 KW each supplied by Gamesa. The project commenced commercial operation in June 2013.

At the installed capacity of 5.1 MW and expected annual energy generation of 15.3 GWh, plant factor works out to 34%. Table 4.9 shows the plant performance over the years.

**TABLE 4.9 – PLANT PERFORMANCE OF NALA DANAVI**

Year	Annual Generation (MWh)	Annual Revenue (LKR Mn)
2013	8,657	180.2
2014	14,192	297.5
2015*	13,091	276.2
2016	13,879	294.2

**Rajshahi (Bangladesh) Thermal Power Plant** – The 52.2 MW thermal power plant promoted under the project company Raj Lanka Power Co. Ltd, is located in Rajshahi district in Bangladesh approximately 200 km from Dhaka. The plant is designed to use Heavy Furnace Oil (HFO) as the main fuel and Diesel can be used as a back-up fuel. The facility includes six complete HFO/Gas based reciprocating engines (Wärtsilä 20V32) each coupled with a generator (ABB AMG - 11.115MVA). The construction work was completed and the plant commenced commercial operations in January 2014. The plant was setup and is operated by Lakdhanavi Limited (LDL) which currently manages a thermal capacity in excess of 300 MW in Sri Lanka.

Lanka Energy International (Pvt) Ltd (LEI), a subsidiary of LEF, has invested a sum of LKR 386.5 million (USD 3 million) and holds 20.3% of equity ownership in the project. The project company is expected to be listed on the Dhaka Stock Exchange (DSE) at a future date providing for an exit for LEI's investment. Table 4.10 shows the plant performance over the last two years.

**TABLE 4.10 – PLANT PERFORMANCE OF RAJSHAHI**

Year	Annual Generation (MWh)	Annual Revenue (BDT Mn)
2014	170,089	2,993,082
2015	164,879	2,956,603
2016	204,102	2,874,577

**Comilla (Bangladesh) Thermal Power Plant** – The 52.2 MW thermal power plant promoted under the project company Lakdhanavi Bangla Power Ltd, is located in Comilla district in Bangladesh approximately 100 km from Dhaka. The plant is designed to use HFO as the main fuel and Diesel can be used as a back-up fuel. The facility includes six complete HFO/Gas based reciprocating engines (Wärtsilä 20V32) each coupled with a generator (ABB AMG - 11.115MVA). The construction work was completed and the plant commenced commercial operations in January 2015. The plant was setup and is operated by LDL.

LEI has invested a sum of LKR 653 million (USD 5 million) and holds 33.2% of equity ownership in the project. This project company is also expected to be listed on the Dhaka Stock Exchange (DSE) at a future date providing an exit for LEI's investment. Table 4.11 shows the plant performance.

**TABLE 4.11 – PLANT PERFORMANCE OF COMILLA**

Year	Annual Generation (MWh)	Annual Revenue (BDT Mn)
2015	147,886	2,464,996
2016	174,848	2,501,342

#### 4.5 Tariff Structure for Mini Hydro and Wind Power Projects

The projects are under two tariff categories namely avoided cost based tariff and three-tier tariff. Avoided cost based tariff applies to 15-year PPAs signed prior to 2008 and the tariff is announced every year by the CEB. The three tier tariff that applies to 20-year PPAs is determined at the time of signing the PPA and is set out in the PPA. In the case of projects that come under the avoided cost based tariff, their tariff in any given year cannot be less than 90% of the first year tariff. Table 4.12 shows the Tariff Structures for each of the projects.

**Table 4.12 – Tariff Structures**

Project Type	PPA Signed	Tariff Rate Signed at	Current Tariff (LKR/kWh)
<b>Mini Hydro Projects</b>		<b>Dry/Wet</b>	<b>Dry/Wet</b>
		<b>Avoided Cost</b>	<b>Avoided Cost</b>
Assupini Ella	Dec 2004	6.06 / 5.85 (LKR/kWh)	16.32 / 14.22
Kadawala	Feb 2008	9.65 / 8.94 (LKR/kWh)	16.32 / 14.22
Neluwa	April 2005	6.05 / 5.30 (LKR/kWh)	16.32 / 14.22
Belihul Oya	May 2002, PPA extended from May 2017 to May 2022	5.23 (LKR/kWh)	5.23
Project Type	PPA Signed	Current Tariff	
<b>Hydro Projects</b>			
Makari Gad	Dec 2015	Tariff Rate is signed at 8.40 / 4.80 (NPR/kWh) and the tariff to increase at 3% p.a. in first 5 years and remain constant thereafter	
Project Type	PPA Signed	Three Tier	Three Tier
<b>Mini Hydro Projects</b>			
Theberton	April 2014	17.39 (LKR/kWh)	17.47
Campion	April 2014	17.39 (LKR/kWh)	N/A
Pupulaketiya	Sept 2014	17.39 (LKR/kWh)	N/A
Bambarapana	Apr 2015	17.39 (LKR/kWh)	N/A
Project Type	PPA Signed	Three Tier	Three Tier
<b>Wind</b>			
PawanDanavi	Dec 2009	24.99 (LKR/kWh)	25.52
Nala Dhanavi	Dec 2010	20.81 (LKR/kWh)	21.25

#### **4.6 Assumptions and Risk Factors Associated with the Future Plans of LVL Energy Fund Limited**

The Company expects to explore further investment opportunities in South Asia in order to diversify its investment portfolio and thereby further minimize risks.

The prospects for private sector driven energy projects in Sri Lanka and South Asia region with particular focus on Nepal and Bangladesh would be well supported by the expected positive future outlook of the industry in these countries. Assumptions and risk factors associated with these markets are discussed in detail in Section 12.

## 5.0 CORPORATE STRUCTURE

### 5.1 Board of Directors

The Board of Directors guides and supervises the business and operations of the Company. The Board consists of two (02) Non-Executive Independent Directors, five (05) Non-Executive Non-Independent Directors (including the Chairman) and one (01) Executive Director. As at the date of this Prospectus, the composition of the Board is as follows.

**TABLE 5.1 - DETAILS OF LVL ENERGY FUND LIMITED BOARD OF DIRECTORS**

Name	Age	Address	Designation
Mr. L. H. A. L. Silva	57	75/1A Dutugemunu Street, Kalubowila, Dehiwela	Non-Executive Chairman
Mr. A. J. Alles	51	4/3, Sunset Wing, Trillium Residencies, 153, Elvitigala Mawatha, Colombo 08	Non-Executive Director
Mr. S. E. De Silva	68	155/4, Galle Road, Colombo 04	Non-Executive Independent Director
Mr. T. W. De Silva	57	6/9, Layards Road, Colombo 05	Non-Executive Director
Mr. A. R. Munasinghe	73	29, Station Road, Dehiwela	Non-Executive Independent Director
Mr. M. R. Abeywardena	50	248/25, Lotus Grove, Off Hill Street, Dehiwela	Non-Executive Director
Mr. M.A. Wijetunge	57	8, Rampart Road, Ethul Kotte	Non-Executive Director
Mr. D. S. Arangala	59	17/4, Salmal Mawatha, Nedimala, Dehiwela	Chief Executive Officer/Executive Director

### 5.2 Profiles of the Board of Directors

#### **Mr. L. H. A. L. Silva – Non Executive Chairman**

Mr. Silva is the CEO of DFCC Bank PLC since 15 August 2017.

Mr. Silva started his professional career with the Department of Inland Revenue of Sri Lanka and joined the DFCC Banking Group in 1987. He was seconded to the services of DFCC Vardhana Bank in 2003 and functioned as the Chief Operating Officer of DFCC Vardhana Bank from the year 2003 until his appointment as the Chief Executive Officer in January 2010.

Mr. Silva holds a B.Com (Special) Degree from the University of Kelaniya and an MBA from the Postgraduate Institute of Management of the University of Sri Jayawardenepura. He is also an Associate Member of the Association of Development Financing Institutions in Asia and the Pacific.

**Mr. A. J. Alles – Non-Executive Director**

Mr. Alles is the Managing Director/Chief Executive Officer of Hatton National Bank PLC and has been in that position since July 2013. He counts over 30 years of banking experience having served in international banks, HSBC Sri Lanka and also Hatton National Bank PLC during September 2002 – June 2005. Having returned to Sri Lanka from the UAE in September 2010, Mr. Alles re-joined HNB in the capacity of Chief Operating Officer.

Mr. Alles holds an MBA in Finance from the University of Stirling, UK and is a Member of the Institute of Bankers of Sri Lanka. He is a Member of the Sri Lanka Institute of Directors and also serves as a member of the Advisory Committee of Sri Lanka Business & Biodiversity Platform.

**Mr. S. E. De Silva - Non-Executive Independent Director**

Mr. De Silva was an Executive Director of WKV Group of companies. He joined DFCC Bank PLC in 1987 and functioned in different positions until retirement in 2004 as a Vice President. Prior to joining DFCC, Mr. De Silva has worked in the copper industry in Zambia and steel industry in Sri Lanka. He has wide experience and considerable exposure to the renewable energy sector. He functioned as a director of several companies operating mini-hydro power generation plants in Sri Lanka and Uganda.

Mr. De Silva holds an Honours Degree in Mechanical Engineering and is a Graduate Member of the Institute of Engineers, Australia. He is also an Associate in Development Banking of ADFIAP.

**Mr. T. W. De Silva – Non-Executive Director**

Mr. Tyrone de Silva is the Executive Vice President responsible for Strategic Planning and Subsidiaries at DFCC Bank PLC. He also oversees the Investment Banking business of the Bank which is carried out through Acuity Partners (Private) Limited. Mr. De Silva joined DFCC Bank in 1989 and has been involved in the Bank's Corporate Finance and Capital Markets businesses throughout his career. He has participated in DFCC Bank's corporate structuring transactions including the set up or acquisition of subsidiaries and associates of the DFCC Group. Besides his planning function at DFCC Bank, Mr. De Silva is also involved in the strategic planning and performance monitoring of the member companies in the DFCC Group. In the latter part of his career, Mr. De Silva was placed in charge of Corporate Banking at DFCC Bank and was subsequently appointed as the Head of the Bank's Lending Business in the capacity of Executive Vice President. In October 2015, he took on his present responsibilities.

Mr. De Silva is a member of DFCC Bank's management committees dealing with Credit, Investments, Special Loans and Information Technology. He also participates in various Board Sub-Committees and serves as Director on the Boards of DFCC Group companies including Lanka Ventures PLC and those in which the Bank has a significant interest. Prior to his career at DFCC Bank, he was employed as a foreign exchange and money broker for a period of seven years gaining an in-depth exposure to foreign exchange and fixed income trading, structuring of swap deals and other hybrid transactions.

Mr. De Silva holds a Master of Business Administration degree from the University of Warwick (UK). He is also a Graduate Member of the Institute of Mechanical Engineers (UK). He has extensive international training in various aspects of management, banking and finance.

**Mr. A. R. Munasinghe - *Non-Executive Independent Director***

Mr. Munasinghe has had over three decades of experience in the manufacturing industry in Sri Lanka. He was the former Director/General Manager of Acme Printing and Packaging Limited. He has also functioned as Works Manager at State Fertilizer Manufacturing Corporation and the Senior Instrument Engineer at Ceylon Petroleum Corporation's Refinery. He has held the position of President, Sri Lanka Energy Managers Association and the Sri Lanka Institute of Packaging in the past. At present he serves as a director of Lanka Ventures PLC.

Mr. Munasinghe is an Engineering Graduate of the University of Ceylon, Peradeniya and holds a Master's Degree in Business Administration from the University of Sri Jayawardenepura. He also holds Post Graduate Diplomas in Production Engineering and Engineering Design from Colchester College of Technology, England and Enfield College of Technology, England respectively.

**Mr. M. R. Abeywardena - *Non-Executive Director***

Mr. Ray Abeywardena is the Managing Director/Group CEO of Acuity Partners (Private) Limited. He has been associated with Sri Lanka's capital markets for over 30 years, primarily as a Stockbroker and since 2009 as an Investment Banker. Prior to being appointed as Group CEO/MD of Acuity Partners (Private) Limited, Mr. Abeywardena served as the CEO/MD of Acuity Stockbrokers (Pvt) Ltd from 2001 to end 2008. From 1998-2000, he functioned as the Managing Director of Forbes ABN Amro Securities.

Mr. Abeywardena is a member of the Chartered Institute of Marketing (UK) and holds a Master's Degree in Business Administration from the University of Wales.

**Mr. M. A. Wijetunge - *Non-Executive Director***

Mr. Wijetunge is a Marine Engineer by profession and an entrepreneur. He is the inventor of highly specialized anti-ballistic composite material for body armour and de-mining vehicle armour.

**Mr. D. S. Arangala - *Chief Executive Officer/Executive Director***

Mr. Arangala is the Chief Executive Officer of the Company. He functioned as the Chief Executive Officer of Lanka Ventures PLC from July 2002 to April 2016. He represents the Company on the boards of its investee companies. Prior to joining LVL he worked at Capital Development and Investment Company Limited, the pioneer venture capital company in Sri Lanka for over 14 years and at the time of leaving held the position of Assistant General Manager. He commands considerable knowledge and experience in investing in private equity, venture capital and capital markets being associated with the industry for over 30 years.

He has a Bachelor of Engineering of the Royal Melbourne Institute of Technology (RMIT), Melbourne, Australia and holds a Graduate Diploma in Quality Technology from the same institute. He is a Graduate member of the Institute of Engineers, Australia.

## **Related Party Transactions**

We hereby declare that DFCC Bank PLC, who acts as one of the Underwriters and Bankers to the Offer and Acuity Partners (Private) Limited who acts as the Financial Advisor and Manager to the Offer and LVL Energy Fund Limited are related parties and have common Directors on each of the said entities Board. Nevertheless, there is no conflict of interest arising between the said parties as all transactions are carried out at arm's length. Please refer below table for the details of common directors of the above said related parties.

**TABLE 5.2 – COMMON DIRECTOR'S DETAILS**

<b>Common Director's Name</b>	<b>Company Name</b>	<b>Capacity</b>
Mr. L. H. A. L. Silva	DFCC Bank PLC	Chief Executive Officer/ Executive Director
	Acuity Partners (Pvt) Ltd	Non-Executive Director
	LVL Energy Fund Limited	Chairman
Mr. T. W. De Silva	Acuity Partners (Pvt) Ltd	Non-Executive Director
	DFCC Bank PLC	Executive Vice President
	LVL Energy Fund Ltd	Non-Executive Director
Mr. M. R. Abeywardena	Acuity Partners (Pvt) Ltd	Managing Director/Group Chief Executive Officer
	LVL Energy Fund Ltd	Non-Executive Director

### **5.3 Other Directorships Held by the Board of Directors**

**TABLE 5.3 - OTHER DIRECTORSHIPS**

<b>Name of Director</b>	<b>Other Directorships Held</b>
<ul style="list-style-type: none"> <li>▪ Mr. L.H.A.L. Silva</li> </ul>	<ul style="list-style-type: none"> <li>▪ DFCC Bank</li> <li>▪ DFCC Consulting (Private) Ltd</li> <li>▪ Synapsys Limited</li> <li>▪ Lanka Financial Services Bureau Ltd</li> <li>▪ Acuity Securities Limited</li> <li>▪ Acuity Partners (Private) Limited</li> <li>▪ Lanka Industrial Estates Limited</li> <li>▪ Sri Lanka Banks' Association (Guarantee) Limited</li> <li>▪ Lanka Ventures PLC - Chairman</li> </ul>
<ul style="list-style-type: none"> <li>▪ Mr. A. J. Alles</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hatton National Bank PLC</li> <li>▪ Lanka Financial Services Bureau Limited</li> <li>▪ HNB Grameen Finance Limited - Chairman</li> <li>▪ Lanka Ventures PLC</li> <li>▪ Acuity Partners (Private) Limited</li> </ul>
<ul style="list-style-type: none"> <li>▪ Mr. S. E. De Silva</li> </ul>	<ul style="list-style-type: none"> <li>▪ DFCC Consulting (Private) Limited</li> <li>▪ Lanka Ventures PLC</li> </ul>
<ul style="list-style-type: none"> <li>▪ Mr. T. W. De Silva</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lindel Industrial Laboratories Limited - Chairman</li> <li>▪ Acuity Partners (Private) Limited</li> <li>▪ Acuity Stockbrokers (Private) Limited</li> <li>▪ Acuity Securities Limited</li> <li>▪ DFCC Consulting (Private) Limited</li> <li>▪ Lanka Industrial Estates Limited</li> <li>▪ National Asset Management Limited</li> <li>▪ Plastipak Industrial Textiles (Private) Limited</li> <li>▪ Plastipak Lanka Limited</li> <li>▪ Synapsys Limited</li> <li>▪ Sun Tan Beach Resorts (Private) Limited</li> <li>▪ Guardian Acuity Asset Management Limited</li> <li>▪ Lanka Ventures PLC</li> </ul>

▪ Mr. A. R. Munasinghe	▪ Lanka Ventures PLC
▪ Mr. M. R. Abeywardena	<ul style="list-style-type: none"> <li>▪ Acuity Partners (Private) Limited</li> <li>▪ Acuity Stockbrokers (Private) Limited – Chairman</li> <li>▪ Acuity Securities Limited - Chairman</li> <li>▪ Guardian Acuity Asset Management Limited - Chairman</li> <li>▪ Lanka Ventures PLC</li> <li>▪ Softlogic Life Insurance PLC</li> <li>▪ Colombo Stock Exchange – Chairman</li> <li>▪ Central Depository Systems (Pvt) Ltd – Chairman</li> <li>▪ Associated Newspapers of Ceylon Ltd</li> </ul>
▪ Mr. M. A. Wijetunge	<ul style="list-style-type: none"> <li>▪ Dinima High Performance Materials (Private) Limited - Chairman</li> <li>▪ Harsha International (Private) Limited</li> <li>▪ Sawam Holdings Pte Ltd</li> <li>▪ Lakdhanavi Bangla Power Ltd</li> </ul>
▪ Mr. D. S. Arangala	<ul style="list-style-type: none"> <li>▪ Lanka Energy International (Private) Limited</li> <li>▪ Nividhu (Private) Limited</li> <li>▪ Nividhu Assupiniella (Private) Limited</li> <li>▪ LVS Energy (Private) Limited</li> <li>▪ Unit Energy Lanka (Private) Limited</li> <li>▪ Hayleys Hydro Energy (Private) Limited</li> <li>▪ Pupalaketiya Mini Hydro Power (Private) Limited</li> <li>▪ Pawan Dhanavi (Private) Limited</li> <li>▪ Nala Danavi (Private) Limited</li> <li>▪ Saphakanya Hydro Electric Company (Private) Limited</li> <li>▪ Raj Lanka Power Company Limited</li> <li>▪ Lakdhanavi Bangla Power Limited</li> <li>▪ Champion Hydro (Private) Limited</li> <li>▪ Durdans Heart Centre (Private) Limited</li> <li>▪ Renuka Agri Foods PLC</li> </ul>

## 5.4 Directors' Interest in Shares

### 5.4.1 Directors' Direct Shareholdings in the Company

The Directors' direct shareholdings in the Company as at the date of the Prospectus are tabulated below.

**TABLE 5.4 – DIRECTORS' SHAREHOLDINGS IN LEF AS AT THE DATE OF THE PROSPECTUS**

Name of Director	Number of Shares Held	Percentage of Shareholding (%)
Mr. L. H. A .L Silva	Nil	-
Mr. A. J .Alles	Nil	-
Mr. S. E. De Silva	06	0.0000013%
Mr. T. W. De Silva	Nil	-
Mr. A. R. Munasinghe	Nil	-
Mr. M. R. Abeywardena	Nil	-
Mr. M. A. Wijetunge	67,911,668	14.69%
Mr. D. S. Arangala	4,455,000	0.96%

### 5.4.2 Sale or Purchase of Shares by the Directors

There were no sales, transfers or purchases of shares made by the Directors of the Company during the last 12 months prior to the date of this Prospectus.

### **5.4.3 Directors' Emoluments**

The Directors, including the Chief Executive Officer, were paid LKR 4,381,000.00 as remuneration and fees during FYE 2016/17. The Directors, including the Chief Executive Officer, are expected to be paid remuneration and fees during FYE 2017/18 to an approximate extent of LKR 4,600,050.00.

### **5.4.4 Directors' Interest in Assets**

The Directors hold no interest in assets acquired, disposed or leased by the Company during the two years preceding the IPO. Furthermore, it is not proposed that the Directors will hold any interest in assets to be acquired, disposed or leased by the Company in the two years subsequent to the IPO.

### **5.4.5 Directors' Interest in Material Contracts**

There are no contracts or arrangements in force as at the date of this Prospectus in which the Directors of the Company are materially interested in relation to the business of the Company.

### **5.4.6 Statement – Directors**

The Directors of the Company has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

## **5.5 Stated Capital of the Company**

As at the date of this Prospectus, the stated capital of the Company, in terms of section 58 of the Companies Act is Sri Lankan Rupees One Billion Eight Hundred and Ninety Three Million Nine Hundred and Seventy Two Thousand Two Hundred and Sixty Eight (LKR 1,893,972,268) constituting of monies received by the Company for the issue of Four Hundred and Sixty Two Million Two Hundred and Seventy Eight Thousand One Hundred and Seventeen (462,278,117) fully paid up Ordinary Voting Shares and Ninety Six Million (96,000,000) preference shares (from and out of which Seventy Seven Million Two Hundred and Fifty Thousand (77,250,000) preference shares have been redeemed).

The stated capital as per the Statement of Financial Position reflects only the subscription monies received in respect of ordinary shares of the Company. The cumulative redeemable preference shares in issue are treated as a liability in terms of LKAS 32 and shown accordingly in the Statements of Financial Position.

## 5.6 Overview of the Capital Structure

The detailed breakdown of the stated capital of the Company is given below.

**TABLE 5.5 - STATED CAPITAL OF LEF**

	31 March 2015	31 March 2016	31 March 2017
Stated Capital (LKR)	1,897,300,020	1,940,270,020	2,111,472,268
No. of Ordinary Shares in Issue	412,470,836	420,252,836	462,278,117*
No. of Preference Shares	54,000,000	57,000,000	40,500,000

LEF had ordinary shares outstanding 420,252,836 as at 31 March 2016. Subsequently, LEF carried out a rights issue on 30 June 2016 at the ratio of 1:10 and the number of shares issued at the rights issue worked out to 42,025,281 shares instead of 42,025,283 shares (10% x 420,252,836). The difference of 02 shares arises as a result of rounding down the decimals of number of shares to be issued for each shareholder when computed on an individual basis.

\*Rights issue - an additional 42,025,281 shares at a price of LKR 8.00 and a ratio of 1:10

### Statutory restrictions on free transferability of shares

From the outstanding 462,278,117 ordinary shares, SEC via the letter dated 23 January 2017, has determined that shares held by the promoters, directors, key management personnel and parties acting in concert, which amounts to 409,537,287 ordinary shares would be subject to a “lock-in” for a period of Twelve (12) months from the date of listing.

**TABLE 5.6 – DETAILS OF ISSUANCE OF ORDINARY SHARES**

Date	Year 2013/14		Year 2014/15		Year 2015/16		Year 2016/17	
	No. of Shares	Price per Share (Rs.)	No. of Shares	Price per Share (Rs.)	No. of Shares	Price per Share (Rs.)	No. of Shares	Price per Share (Rs.)
1-Apr-13	58,000,444*							
27-May-13	1,000,000	45	-	-	-	-	-	-
2-Oct-13	1,111,110	45	-	-	-	-	-	-
21-Oct-13	1,000,000	45	-	-	-	-	-	-
21-Feb-14	1,132,288	45	-	-	-	-	-	-
26-Mar-14	934,823	45	-	-	-	-	-	-
	<b>63,178,665</b>	-	-	-	-	-	-	-
30-May-14	-	-	225,000	45	-	-	-	-
24-Jun-14	-	-	375,000	45	-	-	-	-
8-Jul-14	-	-	376,891	45	-	-	-	-
	-	-	<b>976,891</b>	-	-	-	-	-
18-Sep-14	-	-	384,933,336**	-	-	-	-	-
26-Nov-14	-	-	5,000,000	8	-	-	-	-
31-Dec-14	-	-	2,625,000	8	-	-	-	-
6-Mar-15	-	-	3,162,500	8	-	-	-	-
13-Mar-15	-	-	10,687,500	8	-	-	-	-
30-Mar-15	-	-	6,062,500	8	-	-	-	-
	-	-	<b>412,470,836</b>	-	-	-	-	-
30-Jun-15	-	-	-	-	<b>7,782,000</b>	1.67	-	-
30-Jun-16	-	-	-	-	-	-	<b>42,025,281</b>	8

Article 12(2) of the Articles of Association of the Company provides that the Company may subdivide all of the shares of the Company or all of the shares in a particular class of shares in the Company into a greater number of shares, in proportion to those shares, leaving unaffected the relative voting and distribution rights of the holders of those shares, by following a procedure to effect such subdivision as the Board may consider appropriate. Accordingly, the Board of the Company has the power and the authority to carry out a sub-division of shares following such procedure as it may consider appropriate and it is not necessary to obtain the approval of shareholders for a sub-division of shares of the Company that is affected with the authority of the Board. Preference shareholders weren't entitled for rights issue nor were they subject to subdivision of shares.

\*Total issued No of shares as at 1 April 2013

\*\* On 18 Sep 2014, Company had a sub division of shares in the proportion of 1:6.

## 5.7 Twenty Largest Shareholders of the Company as at the date the Prospectus

**TABLE 5.7 – TWENTY LARGEST SHAREHOLDERS OF THE COMPANY AS AT THE DATE OF THE PROSPECTUS**

	<b>Name</b>	<b>No. of Shares</b>	<b>Percentage (%)</b>
1	Lanka Ventures PLC	331,885,609	71.79%
2	Mr. M. A. Wijetunge	67,911,668	14.69%
3	Equity Investments Lanka Limited	15,033,330	3.25%
4	Guardian Capital Partners PLC	10,312,500	2.23%
5	Mr. D. S. Arangala	4,455,000	0.96%
6	AWIS Holdings (Private) Limited	3,300,000	0.71%
7	Mr. K. Maheshwaran	3,000,000	0.65%
8	Ms. M. M. F. Zareena	2,970,000	0.64%
9	Merchant Bank of Sri Lanka & Finance PLC	2,500,000	0.54%
10	Mr. C. R. Perera	2,310,000	0.50%
11	J. B. Cocoshell (Private) Limited	2,100,000	0.45%
12	Mr. K. T. Konesh	2,090,000	0.45%
13	Dinima High Performance Materials (Pvt) Ltd	1,880,004	0.41%
14	Mr. J. D. N. Kekulawala	1,375,000	0.30%
15	Dr. W. S. E. Fernando	1,062,500	0.23%
16	Mr. N. D. P. Hettiaratchy	750,000	0.16%
17	Askold (Private) Limited	750,000	0.16%
18	Mr. N. A. R. R. Silva	687,500	0.15%
19	Mr. W. M. D. B. Iddawela	625,000	0.14%
20	Cocoshell Activated Carbon Co (Pvt) Ltd	625,000	0.14%

## 5.8 Senior Management

As mentioned under Section 5.10, the Company has entered into a Fund Management Agreement with LVL. Administration expenses including staff costs attributable to the Chief Executive Officer and Directors' Fees are given in Note 10 to the Audited Financial Statements.

## 5.9 Statement – Chief Executive Officer

The Chief Executive Officer of the Company has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

## 5.10 Management Agreements

### I. Fund Manager - Lanka Ventures PLC (LVL):

All investment and divestment decisions are made by LEF. Identification of investment opportunities, project appraisal and monitoring and day to day administrative functions such as treasury management and preparation of accounts are done by LVL. Please refer Annex D for further details of the Management Agreement.

### II. Business Experience and Competencies:

Publicly listed venture capital Company operating in venture capital business from 1992. LEF was managed by LVL since inception in 2006.

### III. Nature of duties outsourced: Administrative and other day to day functions of LEF are carried out by the management of LVL. There are no duties outsourced to third parties.

### IV. Consideration as per agreement: LKR 1,000,000/- per annum

## 5.11 Dividends

### 5.11.1 Dividend Policy

Subject to the provisions of the Companies Act and the Articles of Association of the Company, the Board of Directors may recommend and declare distributions to shareholders by way of dividends from and out of the profits of the Company. The dividend rate will be determined based on a number of factors, including but not limited to the Company's earnings, investment requirements and overall financial condition.

### 5.11.2 Dividend History

The Company has declared and paid the following dividends during the last five financial years immediately preceding the date of this Prospectus;

**TABLE 5.8 – DIVIDEND HISTORY – ORDINARY SHARES**

LKR	Financial Year Ended				
	31 Mar 2013	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017
Interim Dividend per Share	0.50	1.50	-	-	0.34
Final Dividend per Share	0.50	0.45	0.35	0.55	0.26
<b>Total Dividend per Share for the Year</b>	<b>1.00</b>	<b>1.95</b>	<b>0.35</b>	<b>0.55</b>	<b>0.60</b>
<b>Total Dividend Paid (Amount)</b>	<b>56,778,222</b>	<b>120,097,730</b>	<b>137,395,418</b>	<b>231,139,060</b>	<b>277,366,870</b>

### DIVIDEND HISTORY – PREFERENCE SHARES

**TABLE 5.9 – DIVIDEND HISTORY – PREFERENCE SHARES**

	Cumulative redeemable preference shares - LKR 300 Mn - Agreement dated 03 Jan 2012				
	2013	2014	2015	2016	2017*
Outstanding Value as at 31 Mar (LKR)	300,000,000	240,000,000	180,000,000	120,000,000	60,000,000
Outstanding No of Shares as at 31 Mar	30,000,000	24,000,000	18,000,000	12,000,000	6,000,000*
Rate of Dividend	AWPLR + 0.5% p.a.				
Dividend Paid (LKR)	-	15,332,975	31,680,641	16,806,575	11,953,973

**TABLE 5.10 – DIVIDEND HISTORY – PREFERENCE SHARES**

	Cumulative redeemable preference shares - LKR 360 Mn - Agreement dated 27 Dec 2013				
	2013	2014	2015	2016	2017*
Outstanding Value as at 31 Mar (LKR)	-	150,000,000	360,000,000	240,000,000	120,000,000
Outstanding No of Shares as at 31 Mar	-	15,000,000	36,000,000	24,000,000	12,000,000*
Rate of Dividend	AWPLR + 0.5% p.a.				
Dividend Paid (LKR)	-	-	1,894,438	21,199,047	23,063,696

**TABLE 5.11 – DIVIDEND HISTORY – PREFERENCE SHARES**

	Cumulative redeemable preference shares - LKR 300 Mn - Agreement dated 01 Sep 2015				
	2013	2014	2015	2016	2017
Outstanding Value as at 31 Mar (LKR)	-	-	-	210,000,00	225,000,000
Outstanding No of Shares as at 31 Mar	-	-	-	21,000,00	22,500,000*
Rate of Dividend	AWPLR + 0.5% p.a.				
Dividend Paid (LKR)	-	-	-	6,310,731.90	30,338,577.47

\* 18 Mn preference shares identified to be redeemed out of IPO proceeds are part of two preference share issues with DFCC aggregating to 66 Mn preference shares issued for the total consideration of LKR 660 Mn. In addition to this, LEF has issued 30 Mn preference shares for the total consideration of LKR 300 Mn to DFCC of which no part will be redeemed out of IPO proceeds. The balance outstanding as at 31 March 2017 of the said 30 Million preference shares was 22.5 Mn. Accordingly, from and out of the total 96 Mn preference shares issued by the Company to DFCC, 55.5 Mn have now been redeemed and the balance outstanding as at 31 March 2017 was 40.5 Mn amounting to a total outstanding value of LKR 405.0 Mn.

## 5.12 Details of Material Indebtedness

LEF's debt and loan capital particulars are as follows:

**TABLE 5.12 – DEBT AND LOAN CAPITAL PARTICULARS AS AT 30 JUNE 2017**

Financial institution	Principle value (LKR)	Capital outstanding as at 30 June 2017	Repayable within One Year (LKR)	Repayable after One Year (LKR)
<b>Interest Bearing Borrowings</b>				
HNB	300,000,000	206,250,000	75,000,000	131,250,000
DFCC	300,000,000	300,000,000	300,000,000	-
DFCC	140,000,000	140,000,000	140,000,000	-
<b>Cumulative Redeemable Preference Shares*</b>				
DFCC	300,000,000	60,000,000	60,000,000	-
DFCC	360,000,000	120,000,000	120,000,000	-
DFCC	300,000,000	225,000,000	75,000,000	150,000,000

In terms of CSE Listing Rule 3.1.12.e (ii) there are no further debt and loan capital particulars to be disclosed other than the particulars set out in the above table.

\*Cumulative redeemable preference shares were issued at LKR 10.00 per share

There were no material contingent liabilities, including acceptances and guarantees outstanding as at the date of this Prospectus.

There were no mortgages or charges on assets of the Company as at the date of this Prospectus. There were no leases, lease purchases, hire purchases, and capital commitments of the Company as at the date of this Prospectus.

### **5.13 Working Capital**

The Board is of the opinion that the working capital is sufficient for the purpose of carrying out day to day operations of the Company.

### **5.14 Material Contracts**

There are no material contracts entered into by the Company other than those contracts entered into in the ordinary course of business.

### **5.15 Details of Commissions Paid**

No commission has been paid in the Two (02) years preceding the Offer or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any Shares of the Company.

### **5.16 Details of Benefits Paid to Promoters**

No benefit has been paid or given within the Two (02) years preceding the Offer and there are no benefits intended to be paid or given to any promoter.

### **5.17 Taxation**

**Income Tax:** Taxation will be based on the elements of income and expenditure as reported in the financial statements and computed at a concessionary rate of 12% as the Company is categorized as a venture capital firm.

### **5.18 Takeover Offers**

There have been no takeover offers by third parties in respect of the Company's shares during the past two years and no takeover offers have been made by the Company in respect of shares of third parties.

### **5.19 Litigation, Disputes and Contingent Liabilities**

There were no legal, arbitration or mediation proceedings pending against the Company as at the date of this Prospectus, which may have or which had in recent past any significant effects on the financial position or future operations or profits of the Company. There were no penalties imposed by any regulatory or statutory authority against the Company. Also, as at the date of this Prospectus, there are no material contingent liabilities that would affect the current and future profits of the Company.

### **5.20 Corporate Governance Practices**

The Board of Directors is responsible for the governance of the Company and is committed to business integrity and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and development of best practices.

**Remuneration Committee** – Remuneration Committee of Lanka Venture PLC will function as the remuneration committee of LEF as well.

The Remuneration Committee of the Board comprises of three (03) Non-Executive Directors, the majority of whom are independent as shown below.

- Mr. S. E. De Silva – *Chairman (Non-Executive Independent Director)*
- Mr. T. W. De Silva – *(Non-Executive Director)*
- Mr. A. R. Munasinghe – *(Non-Executive Independent Director)*

The Company’s remuneration policy is based on the following principles:

- To deliver improved shareholder value by ensuring that individual performance and reward reflect and reinforce the business objectives of the Company.
- To support recruitment, motivation and retention of high quality senior executives.
- To ensure that performance is the key factor in determining individual reward.

**Audit Committee** – Audit Committee of Lanka Venture PLC will function as the Audit committee of LEF as well. The composition of the Committee is as follows:

- Ms. I. R. D Thenbandu\*– *Chairperson*
- Mr. S. E. De Silva - *(Non-Executive Independent Director)*
- Mr. A. R. Munasinghe- *(Non-Executive Independent Director)*

*\*Ms. I.R.D Thenbandu is a Non-Executive Director of Lanka Ventures PLC (LVL), the parent entity of LEF and the Chairperson of LVL’s Audit Committee. Ms. I.R.D Thenbandu is not a director of LEF.*

**Related Party Transaction Review Committee (RPTRC)** – Related Party Transactions Review Committee of Lanka Venture PLC will function as the Related Party Transactions Review Committee of LEF as well. The composition of the Committee is as follows:

- Mr. A. R. Munasinghe – *Chairman (Independent Director)*
- Mr. S. E. De Silva - *(Independent Director)*

The committee at the meeting held on 29 November 2016 discussed in detail, the related party transactions stemming from objectives of the IPO and decided to recommend to the Board to settle the LKR 300 Mn bridge finance loan that was obtained from DFCC Bank PLC and also recommended to redeem the 18 Mn cumulative redeemable preference shares of DFCC Bank PLC amounting to a total outstanding value of LKR 180 Mn out of the proceeds of the IPO.

Further, the Company declares that all related party transactions under the IPO objectives would be carried out in compliance with Section 9.0 of the CSE Listing Rules.

## 6.0 OTHER INFORMATION

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### 6.1 Minimum Subscription and Underwriting

There is no minimum amount required to be raised in this Offer. However, due to the Underwriting arrangement detailed below, a minimum amount of LKR 700 Mn will be raised through this IPO.

In the event of an undersubscription of the IPO, LEF would still be able to meet the objectives of the issue through the LKR 700 Mn funding from Underwriting together with bank borrowings.

In terms of ranking of priority to allocate the minimum amount that will be raised through the LKR 700 Mn worth of underwriting arrangement detailed in Section 6.1 of this prospectus, LEF prioritizes to settle LKR 620 Mn debt identified in the objectives of the issue. The balance subscriptions through the Underwriting agreement, LKR 80 Mn together with bank borrowing of LKR 500 will be utilized for the purpose of funding Pupuleketiya and Makari Gad projects.

#### **Details of Underwriting**

The Company has entered into Underwriting Agreements with DFCC Bank PLC (DFCC) and Sampath Bank PLC (Sampath) with regards to the IPO. In the event of an undersubscription, DFCC Bank PLC and Sampath Bank PLC, the Underwriters, will collectively subscribe up to a maximum of 70,000,000 Shares (collectively underwrite 58.33% of the total Shares issued via the IPO) at the Share Offer Price amounting to a total value of LKR 700 Mn.

Of the said 70,000,000 Shares, 37,030,000 Shares will be underwritten by DFCC and 32,970,000 Shares will be underwritten by Sampath at the Share Offer Price, amounting to LKR 370.3 Mn and LKR 329.7 Mn respectively (i.e. DFCC and Sampath will underwrite 30.86% and 27.48% respectively of the total Shares issued via the IPO).

The Company shall seek a listing irrespective of whether the Offer is fully subscribed or not (subject to the Company satisfying the requirement of the SEC Directives for such a listing as more fully described in Section 3.8 of this Prospectus). In the event of an under subscription (subject to the Company satisfying the minimum public holding requirement as stipulated in SEC Directive Ref: SEC/LEG/16/11/13), the subscribers will be allotted the Shares they have applied for and the funds raised will be utilized to meet the objectives of the Offer, as stipulated in Section 3.1 of this Prospectus.

However, in the event the Company is unable to fulfil the minimum public holding requirement as stipulated in SEC Directive Ref: SEC/LEG/16/11/13, the money collected will be returned to Applicants on or before the expiry of Ten (10) Market Days from the Offer Closing Date (excluding the Offer Closing Date) and the Company will not be listed on the CSE.

#### **Profile of the Underwriters**

##### **DFCC Bank PLC**

DFCC Bank was set up in 1955 as Sri Lanka's pioneer Development Finance Institution on the recommendation of the World Bank and is one of the oldest development banks in Asia. It is renowned for its project financing and SME (Small and Medium Enterprises) financing expertise and has pioneered many new industries. In October 2015, DFCC Bank and its 99% owned subsidiary, DFCC Vardhana Bank were amalgamated. DFCC Bank

is now a fully-fledged Licensed Commercial Bank offering the range of development banking and commercial banking products and services. DFCC Bank is rated AA-(lka) by Fitch Ratings (Lanka) Limited.

DFCC Bank's services are delivered island-wide through 99 branches and 39 service points at Sri Lanka Post outlets. Customers also have access to over 3,600 ATMs across the country as well as zero cost cash withdrawals, via any Lankapay member bank. DFCC Bank also offers Internet and mobile banking services through innovative digital technology.

### **Sampath Bank PLC**

Sampath Bank PLC is one of Sri Lanka's premier Licensed Commercial Banks and is ranked as the 3<sup>rd</sup> largest private sector bank in the country, operating through 229 Branches and 383 ATMs including 85 offsite ATMs. Incorporated in 1986 and listed on the main board of the Colombo Stock Exchange, Sampath Bank PLC is renowned for its pioneering role in Sri Lanka's banking industry. In 1988, Sampath Bank launched the first multipoint network of automated teller machine in Sri Lanka. The Bank also introduced the first debit card in South Asia in 1997.

Sampath Bank is one of the most technologically advanced banks in Sri Lanka since its landmark achievement of becoming the first bank in Sri Lanka to operate with a fully computerized database and related technologies in 1987.

The Bank continues to successfully combine both conventional brick and mortar banking concept with the latest developments in technology to deliver a superior banking experience to all customers.

The Bank serves a full spectrum of customer segments, including retail, large corporates, middle market and Small and Medium Enterprises. Sampath Bank's continued growth and success is founded on a highly diversified and well-balanced business model and a robust multi-channel environment.

Sampath Bank was awarded as the "Best Retail Bank 2016 in Sri Lanka" for three consecutive years, from 2014-2016 by the World Finance Magazine, UK. The Bank has also been honoured as "Sri Lanka's Best Bank" for the fourth time by the prestigious EuroMoney Award for Excellence in 2017. All latest financial information of Sampath Bank is available on the website of CSE [www.cse.lk](http://www.cse.lk) and the website of the Bank [www.sampath.lk](http://www.sampath.lk).

## **6.2 Inspection of Documents**

Articles of Association, Auditor's Reports and the Audited Financial Statements for five (05) financial years immediately preceding the date of this Prospectus, Interim Financial Statements for the three (03) months ended 30 June 2017, independent valuation report by the Independent Valuer to the Offer and the Management Agreements of the Company and all other relevant documents, would be made available for inspection by the public during normal working hours at the registered office of the Company, Ocean Lines Building, 46/12, Nawam Mawatha, Colombo 02 for a period not less than Fourteen (14) Market Days as per Rule 3.1.19 (a) of the CSE Listing Rules.

As stipulated in Rule 3.1.19 (b) of the CSE Listing Rules, the Prospectus, Application Form and Articles of Association of the Company will be available on the website of the CSE, [www.cse.lk](http://www.cse.lk) and website of the Company, [www.lvlenergyfund.lk](http://www.lvlenergyfund.lk) for a period of not less than Fourteen (14) Market Days. In addition to that, the above said documents will be hosted on the website of the Manager to the Offer, [www.acuity.lk](http://www.acuity.lk) for a period of not less than Fourteen (14) Market Days.

As stipulated in Rule 3.1.19 (c) of the CSE Listing Rules, the independent valuation report prepared by the Independent Valuer to the Offer, justifying the Share Offer Price will be available on the website of the CSE, [www.cse.lk](http://www.cse.lk) and website of the Company, [www.lvlenergyfund.lk](http://www.lvlenergyfund.lk) for a period of Two (02) months commencing from the date of granting approval in-principle for listing of shares of the Company by the CSE. In addition to that, the above said document will be hosted on the website of the Manager to the Offer, [www.acuity.lk](http://www.acuity.lk) for a period of Two (02) months commencing from the date of granting approval in-principle for listing of shares of the Company by the CSE

### 6.3 Degree of Dependence on Customers and Borrowers

The Company is dependent on the performance of a few customers in its normal course of business. Some of the key third parties whom the Company is reliant upon are discussed below.

Ceylon Electricity Board (CEB) / Bangladesh Power Development Board (BPDB)/Nepal Electricity Authority (NEA) – Project revenue is entirely dependent on its sole customer, the CEB, BPDP and NEA for the purchase of all the electricity generated by power projects across three different countries.

They have entered into SPPAs with project companies to purchase electricity for 15, 20 or 30 years as given in table 6.1 below.

Further to the above, the SPPAs signed also include a termination clause which could be triggered by events such as; the company failing to receive all approvals and permits required to operation of the facility within 23 months from the date of signing the SPPA, company failing to begin commercial operation within a month from the aforesaid milestone; the company fails to complete, abandons or cancels construction of the plant; the company fails to deliver an aggregate energy output equal to seven times the average energy output delivered during specific period as stipulated in relevant SPPA's etc. The Company will not deliberately default any of the SPPA conditions. However, in an occurrence of default which is beyond the control of the Company, the Company will make representations to the CEB/BPDB/NEA setting out the reasons for such default and make its best efforts to restore the operation of the SPPA.

**TABLE 6.1 DETAILS OF SIGNED POWER PURCHASED AGREEMENTS**

Project	Tenure of PPA (Years)	Starting From
Belihul-Oya	15	May 2002 (Extended from May 2017 up to May 2022)
Assupini-Ella	15	November 2005
Kadawela	15	March 2008
Neluwa	15	January 2008
Theberton	20	September 2015
Campion*	20	April 2017
Pupulaketiya	20	Commercial Operation Date
Bambarapana	20	Commercial Operation Date
Makari Gad	30	Commercial Operation Date
Pawan Danavi	20	August 2012
Nala Dhanavi	20	June 2013
Rajshahi	15	January 2014
Comilla	15	January 2015

\* Funding for the Campion project was sourced from the bridge finance loan from DFCC Bank PLC, referred to in Section 3.1.

These power projects are 'must run' facilities under the SPPA's and accordingly the CEB, BPDP and NEA are obliged to purchase all energy output of the plants. The company is solely dependent on CEB, BPDB and NEA for generation of revenue. Dependency on CEB, BPDB and NEA based on installed capacity of projects will be as follows:

<b>Utility</b>	<b>MW Capacity</b>
CEB	36.1
BPDB	104.4
NEA	10.0
<b>Total</b>	<b>150.5</b>

## 7.0 PROCEDURE FOR APPLICATION

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### 7.1 Eligible Applicants

Applications are invited from the following categories of investors, **having a Valid Account in the Central Depository System (Private) Limited (CDS Account):**

- I. Citizens of Sri Lanka who are resident in or outside Sri Lanka and above 18 years of age; or
- II. Companies, corporations or institutions incorporated or established within Sri Lanka; or
- III. Corporate bodies incorporated or established outside Sri Lanka; or
- IV. Approved unit trusts licensed by the SEC; or
- V. Approved provident funds and contributory pension schemes registered/incorporated/ established in Sri Lanka (in this case, Applications should be in the name of the Trustee/Board of Management in order to facilitate the opening of the CDS account); or
- VI. Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas); or
- VII. Global, regional and country funds approved by the SEC.

Applications made by **individuals less than 18 years of age** or those in the names of **sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected.**

**Applications from the Public shall be given priority when allocating Shares, 'Public' as defined in the CSE Listing Rules.**

**Applications submitted under the Unit Trust Investor Category should conform to the criteria defined by the SEC Directive (Ref: SEC/LEG/11/03/36 of 10 March 2011).**

Eligible Applicants may fall into one of the following categories.

- i. Retail Individual Investor Category
- ii. Unit Trust Investor Category
- iii. Non-Retail Investor Category

Please refer Section 7.2.1 for the definitions of the aforementioned categories.

### 7.2 The Procedure for Application

Applicants applying for the New Shares should submit their Applications in the manner set out in this Prospectus.

The Prospectus will be made available free of charge from the collection points listed in Annex F. The Prospectus can also be downloaded from [www.cse.lk](http://www.cse.lk), [www.lvlenergyfund.lk](http://www.lvlenergyfund.lk) and [www.acuity.lk](http://www.acuity.lk).

#### 7.2.1 How to Apply

**APPLICANTS SHOULD APPLY ONLY THROUGH ONE INVESTOR CATEGORY (INCLUDING JOINT APPLICANTS) AND WOULD BE PERMITTED TO SUBMIT ONLY ONE APPLICATION FORM. TWO OR MORE APPLICATIONS SUBMITTED BY THE SAME APPLICANT EITHER UNDER THE SAME CATEGORY OR A DIFFERENT CATEGORY WILL BE CONSTRUED AS MULTIPLE APPLICATIONS AND WILL BE REJECTED.**

Only one Application should be made by an Applicant under the **Unit Trust Category**.

Applicants must apply for the New Shares on the Application Form, which constitutes part of this Prospectus. The Application Form should be legibly completed and be received by the Registrar to the Offer.

#### **Retail Individual and Non-Retail Investor Category**

Applicants falling under the **Retail Individual and Non-Retail Investor Categories** should apply for the Shares on the **WHITE coloured** Application Form printed for this purpose, which constitutes part of this Prospectus. Such Application Forms will be made available from the collection points listed in Annex F and can also be downloaded from [www.cse.lk](http://www.cse.lk) , [www.lvlenergyfund.lk](http://www.lvlenergyfund.lk) and [www.acuity.lk](http://www.acuity.lk). **Exact size copies of the Application form printed on WHITE coloured paper as specified herein will also be permissible under the Retail Individual and Non-Retail Investor Categories.** The completed Application Forms should be submitted to the Registrars to the Offer.

‘Retail Individual Investor’ as defined by the CSE Listing Rules, shall mean an individual investor who subscribes for a maximum of 3,000 shares or a value of not more than LKR 100,000.00 in a particular share class, whichever is higher.

**In this instance, local and foreign individual investor/s who apply for up to a maximum of 10,000 Shares (including 10,000 Shares) (value of not more than LKR 100,000.00) will be deemed as Retail Individual investors for share allotment purposes.**

**All non-resident applicants and corporate applicants should ensure that the passport number/company registration number and the CDS Identification Number (CDS ID) are stated in the relevant cages of the Application Form.**

#### **Unit Trust Investor Category**

Applicants applying under the **Unit Trust Investor Category** must apply for the Shares using the separate **YELLOW coloured** Application Form printed for this purpose, which constitutes part of this Prospectus. Such Application Forms will be made available through the registered office of the Company, Ocean Lines Building, 46/12, Nawam Mawatha, Colombo 02, and Acuity Partners (Private) Limited, 53, Dharmapala Mawatha, Colombo 03. **Exact size copies of the Application form printed on YELLOW coloured paper as specified herein will also be permissible under the Unit Trust Investor Category.** The completed Application Forms should be submitted directly to the Manager to the Offer, who will forward the same to the Registrars to the Offer.

**Applications submitted under the Unit Trust Investor Category should submit a confirmation by the trustee confirming that such unit trust is in conformity with the criteria defined by the SEC Directive dated June 6 2011 (Ref: SEC/LEG/11/06/01) and CSE Listing Rules, 3.1.5(b)(iii).**

‘Unit Trust Investors’ includes growth or balanced Unit Trusts operated by managing companies licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to operate such Unit Trusts, where such Unit Trust comprises of not less than five hundred unit holders resident in Sri Lanka who together hold at least 50% of that fund.

An Applicant of a Joint Application, applying through another Application Form, is deemed to have made multiple Applications and will be rejected.

An Applicant who has made an Application under a margin trading account should not apply individually or jointly on a separate Application Form. Such Applications will also be construed as multiple Applications and will be rejected.

Subject to the above, the Company/Manager/Registrars to the Offer reserve the right to reject multiple Applications and suspected multiple Applications which are not allowed or to accept only one Application Form at their discretion.

***Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to reject any Application or to accept any Application in full or part, for whatsoever reason.***

***Please note that Applicant information such as full name, address, NIC number/passport number and residency will be downloaded from the database of CDS, based on the CDS account number indicated in the Application Form. Such information shall take precedence over information provided in the Application Form.***

***Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts will be rejected.***

***Care must be taken to follow the instructions on the reverse of the Application Form. Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.***

**PLEASE NOTE THAT AN ALLOTMENT OF SHARES WILL ONLY BE MADE IF YOU HAVE A VALID CDS ACCOUNT AT THE TIME OF SUBMISSION OF APPLICATION.**

**Applicants have the option of having their Shares ‘locked’ in the CDS. Shares that are ‘locked’ will not be available for trading purposes and will not be visible to the participant. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her ‘locked’ balance in the CDS account, the said Shares would be deposited to Applicant’s ‘trading’ balance in the CDS account.**

#### **Operation of a ‘locked’ balance in the CDS**

In order to preserve the confidentiality of shareholder information and to ensure that securities are not made available for trading for those shareholders who do not want to trade the securities, the CDS provides a mechanism where securities can be ‘locked’ in the CDS account.

The CDS maintains two balances for each CDS account, namely a ‘trading’ balance and a ‘locked’ balance. The trading balance would be visible to the CDS participant and all dealings and trading would be permitted on the said trading balance, as done normally.

As opposed to the trading balance, the locked balance will not be visible to the CDS participant and all dealings on such locked balance would be suspended thereby maintaining the confidentiality of the information and also safeguarding the account holder from any unauthorized sale by a broker.

At the option and request of an account holder, the CDS would transfer a named quantity of securities from the locked balance to the trading balance of a CDS account and/or from the trading balance to the locked balance.

### 7.2.2 Number of Shares Applied

**Application should be made for a minimum of One Hundred (100) Shares [for a value of Sri Lankan Rupees One Thousand (LKR 1,000/-)] and in multiples of One Hundred (100) Shares thereof.**

Applications made for less than **One Hundred (100) Shares** or for a number which is not in multiples of One Hundred (100) Shares will be rejected and the accompanying cheques, bank drafts or bank guarantees will not be sent for clearing but be returned via ordinary post at the risk of the Applicant, or in the case of Joint Applicants, the first named Applicant. **The cheque or bank draft or bank guarantee or RTGS transfer should be issued/carried out to the exact value of the number of Shares applied for multiplied by the Share Issue Price.** Cheques, bank drafts, bank guarantees or RTGS transfers not conforming to the above requirement will be rejected at the outset.

Please refer Section 7.3.1 for details with respect to the mode of remittance.

### 7.2.3 Identification Information

All Applicants should disclose their identification/registration information by filling in the space provided in the Application Form for this purpose.

**Applicants are requested to state their residency and nationality in the appropriate spaces provided in the Application Form.**

**The NIC, passport, or company registration number as the case may be, must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected.**

Resident Applicants may use the passport for purposes of identification only if they do not have a NIC number.

Tabulated below is the relevant identification information that a prospective investor should provide depending on the legal status:

Citizenship/Legal Form	Identification Information				
	NIC Number	Passport Number	Company Registration Number	Common Seal/ Rubber Stamp	CDS Account Number
Sri Lanka Citizens	√				√
Sri Lanka Citizens with no NIC Number*		√			√
Foreign Citizens**		√			√
Corporate Entities***			√	√	√

*\* In the case of Sri Lankan citizens, the passport number will be accepted only when the NIC number is not available. The CDS account must be for the same passport number.*

*\*\* Foreign citizens must state the passport number in the space provided.*

*\*\*\* The company registration number must be provided. The common seal or rubber stamp should be affixed and the Application Form duly signed as stipulated in the constitutional documents of such Applicants.*

**A valid CDS account number must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected. All information about the Applicant (i.e name, address, nationality and NIC or passport number) will be downloaded from the database of the CDS, based on the number given in the Application Form. In the event of any discrepancy between the information in the CDS and in the Application Form, the information in the CDS shall take precedence.**

If the CDS account number is not indicated in the Application Form, or the number indicated in the form is found to be inaccurate/incorrect, or the account number indicated is not opened at the time of closing the Offering such Application will be rejected and no allotments of Shares will be made.

#### 7.2.4 Key Responsibility of a Non-Resident Investor

Non-resident investors may be affected by the laws of the jurisdiction of their residence. If non-resident investors wish to apply for the New Shares, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

#### 7.2.5 Margin Trading

Applicants who wish to apply through their margin trading account should submit the Applications in the name of the 'margin provider/Applicant's name' signed by the margin provider.

The Applicants should state the relevant CDS account number relating to the margin trading account in the space provided for the CDS account number in the Application Form. The Shares shall be uploaded to the CDS account indicated in the Application Form.

The NIC, passport, or company registration number of the Applicant as the case may be, must be stated in the Application Form.

Resident Applicants may use the passport for purposes of identification, only if they do not have a NIC number.

A photocopy of the margin trading agreement must be submitted along with the Application.

Please note that the margin provider can apply under its own name and such Applications will not be construed as multiple Applications. Details of multiple Applications are available under Section 7.2.1.

#### 7.2.6 Applications Made Under Power of Attorney

In the case of Applications made under Power of Attorney (POA), a copy of the said POA, **certified by a Notary Public** to be a true copy of the original, should be lodged with the Registrars to the Offer along with the Application Form. **The original POA should not be attached.**

#### 7.2.7 Joint Applications

If the ownership of the Shares is desired in the name of one Applicant, full details should be given only under the heading, **SOLE/FIRST APPLICANT** in the Application Forms. In the case of joint Applicants, the signatures and particulars in respects of all Applicants must be given under the relevant headings in the Application Form.

Joint Application Forms are permitted only for natural persons not exceeding three Applicants. Joint Applicants should note that there should not be a combination of residents of Sri Lanka and non-residents. An Applicant of a joint Application shall not apply through a separate Application Form either individually or jointly.

## 7.2.8 Submission of Applications

Application Forms properly and legibly filled in accordance with the instructions thereof, along with the applicable remittance (cheque or bank draft or bank guarantee or RTGS transfer only) for the full amount payable on Application should be enclosed in a sealed envelope marked '**LVL Energy Fund Limited – IPO**' on the top left-hand corner and be addressed and dispatched by post or courier or delivered by hand to the Registrars to the Offer at the following address **prior to 4.30 p.m. Local Time on the Issue Closing Date.**

### **Corporate Services (Private) Limited**

No: 216, de Saram Place,  
Colombo 10, Sri Lanka  
Tel: +94 11 4605180  
Fax: +94 11 4718220

Applications may also be handed over to the Financial Advisor and Manager to the Offer, Bankers to the Offer and its designated branches, members and trading members of the CSE as set out in Annex F **prior to 4.30 p.m. Local Time on the Offer Closing Date.**

In the case of Applications dispatched under the Unit Trust Category the Application Forms should be submitted to the Manager to the Offer, who will forward the same to the Registrars to the Offer. Applications submitted under the Unit Trust Investors category should accompany a written confirmation by the Trustee confirming that such unit trust is in conformity with the criteria defined by the SEC Directive dated 06 June 2011 (SEC/LEG/11/06/01) and CSE Listing Rule, 3.1.5(b) (iii).

In the case of Applications dispatched by courier or post, such Applications should reach the Registrars to the Offer **not later than 4.30 p.m. Local Time on the Market Day immediately following the Offer Closing Date.** Any Applications received after the above deadline shall be rejected even though the courier or post mark is dated prior to the Offer Closing Date.

## 7.3 Payment of Application Monies

### 7.3.1 Mode of Remittance

- (a) Payment in full for the total value of Shares applied for should be made separately in respect of each Application either by cheque or bank draft or bank guarantee drawn upon a licensed commercial bank operating in Sri Lanka or RTGS transfer directed through any licensed commercial bank operating in Sri Lanka, as the case may be subject to (b) below.  
The remittances on Applications will be deposited in a separate bank account in the name of '**LVL Energy Fund Limited – IPO**'.
- (b) The amount payable should be calculated by multiplying the number of Shares applied for under a particular category by the Share Offer Price of LKR 10.00. If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee, the Application will be rejected.
- (c) **Payments for Applications for Shares of a value below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) may be supported by a cheque or bank draft or bank guarantee.** In such instances, Application Form should be accompanied by only one cheque or bank draft or bank guarantee and should be issued for the **full amount** indicated in the Application Form. **Any Application for Shares of**

**a value below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) accompanied by two or more cheques or bank drafts or bank guarantees will be rejected at the outset.**

**Applicants making Applications for Shares of a value above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) will be permitted to submit multiple bank drafts (not cheques) or multiple bank guarantees or RTGS transfer on the Offer Opening Date.** Such Applicants are required to attach a list to the Application Form giving details of payment, such as the amount of bank draft/bank guarantee, name of bank, name of branch and bank draft number/bank guarantee number.

**Applications for Shares of a value above Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) accompanied by multiple bank drafts or multiple bank guarantees will not be rejected.**

**Cash will not be accepted.** Anyone wishing to pay cash should obtain a bank draft from a Licensed Commercial Bank in Sri Lanka.

### **7.3.2 Cheques or Bank Drafts – Resident Sri Lankan Investors**

Cheques or bank drafts should be drawn on any Licensed Commercial Bank in Sri Lanka and crossed '**Account Payee Only**' and made payable to '**LVL Energy Fund Limited – IPO**'.

Cheques or bank drafts accompanying Application Forms made for less than **One Hundred (100)** Shares, i.e. for a value of Sri Lankan Rupees One Thousand Only (LKR 1,000/-) or for a number which is not in multiples of One Hundred (100) Shares (as mentioned in Section 7.2.2) will not be sent for clearing and shall be returned via ordinary post at the risk of the Applicant, or in the case of joint Applicants, to the first named Applicant.

In the event that cheques are not realized within Two (02) Market Days from the date of presenting the same to the bank for clearing, the Directors reserve the right to reject the Applications and return the Application monies. No allocation of Shares will be made to such Applicants.

**Applicants residing in outstation areas from which cheque clearance may take over Two (02) Market Days are advised to make payment via bank drafts to avoid any delays.**

Cheques must be honored on the first presentation to the bank for the Application to be valid. Applications supported by cheques which are not honored on first presentation will be rejected.

### **7.3.3 Bank Guarantees – Resident Sri Lankan Investors**

Applications made by resident Sri Lankan investors backed by bank guarantees presented in line with the requirements set out in Section 7.3.1 will be accepted. Bank guarantees will be presented to the respective banks only after the New Shares have been allotted. Bank guarantees should be issued by any Licensed Commercial Bank in Sri Lanka and in favour of '**LVL Energy Limited – IPO**' in a manner acceptable to the Company and payable on demand.

**Bank guarantees should be valid for a minimum of One (01) month from Offer Opening Date (i.e. 14 December 2017).**

Applicants are advised to ensure that sufficient funds / facilities are available in order to honour the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Offer. It is advisable that the Applicants discuss with their respective bankers the matters with regard to the issuance of bank

guarantees and all charges involved. All expenses with regard to such bank guarantees should be borne by the Applicants.

#### **7.3.4 RTGS Transfers – Resident Sri Lankan Investors**

In case of RTGS transfers (only for Application valued above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-), such transfer should be made to the credit of **'LVL Energy Fund Limited – IPO'** bearing the account number **007001011671 at DFCC Bank PLC – Corporate/City Branch with value on the Offer Opening Date (i.e. the funds to be made available to the above account/s).**

The Applicants should obtain a confirmation from the Applicant's bank, to the effect that arrangements have been made to transfer payment in full for the total value of Shares applied for to the credit of **'LVL Energy Fund Limited – IPO'** bearing the account number **007001011671 at DFCC Bank PLC – Corporate/City Branch** with value on Offer Opening Date (i.e. the fund to be made available to the above account on the Offer Opening Date and should be attached to the Application Form.

#### **7.3.5 Foreign Currency Remittances**

This section is applicable to;

- i. Citizens of Sri Lanka who are above 18 years of age and resident overseas;
- ii. Corporate bodies incorporated or established outside Sri Lanka;
- iii. Regional or country funds approved by the SEC;
- iv. Foreign citizens (irrespective of whether they are resident in Sri Lanka or overseas) who are above 18 years of age.

The abovementioned Applicants should make their payments using one of the following methods as the case may be.

- (a) A foreign investor may invest through a "Securities Investment Account" (SIA) maintained with any licensed commercial bank in Sri Lanka. The procedure for arranging payments through a SIA is presented below;
  - A Foreign Investor may use the services of a custodian bank as an intermediary when investing in the Sri Lankan securities market;
  - The intermediary may open a SIA, on investor's behalf;
  - In conjunction with the SIA, an account with the CDS must be opened in case the investor does not already possess a valid CDS account;
  - In respect of regional or country funds investing for the first time in Sri Lanka, the intermediary will facilitate the approval process regulated by the SEC;
  - Payment for Shares should be made through a bank draft or bank guarantee issued by a licensed commercial bank in Sri Lanka or through a RTGS transfer against the funds arranged through the SIA and made payable to **'LVL Energy Fund Limited – IPO'**.
- (b) A foreign investor may invest through inward remittances of foreign currency held in a Foreign Currency Banking Unit (FCBU) account of the Applicant maintained with any Licensed Commercial Bank in Sri Lanka. The procedure for arranging payments through a FCBU account is presented below;
  - The Applicant should forward the Application Form supported by an unconditional bank guarantee drawn on the Applicant's FCBU account pending allotment of the Offered Shares with confirmation from the LCB that upon notification of the allotment of Shares, the allotment value would be remitted through the Applicant's SIA.

- Upon allotment of Offered Shares, foreign currency to the extent of the Sri Lanka Rupee equivalent value of Offered Shares allotted would be called on the bank guarantee drawn on the Applicant's FCBU account.
  - The requisite funds would then be credited to a SIA opened in favour of the Applicant via the aforementioned FCBU account. This procedure would protect a prospective investor from any losses accruing due to fluctuating exchange rates.
- (c) In addition to the payments made through SIA and FCB as mentioned above, a foreign citizen resident in Sri Lanka under the Resident Guest Scheme may invest through a Resident Guest Foreign Currency Account (RGFCA) or Resident Guest Rupee Current Account (RGRCA) that investors maintain with any LCB in Sri Lanka. An investor who wishes to avail him/herself of this facility should make the payment for New Shares through a bank draft or an unconditional bank guarantee in Sri Lanka Rupees or by converting foreign currency funds available in the RGFCA/RGRCA as the case maybe (based on the guidelines provided by the Exchange Control Department of CBSL) and made payable to '**LVL Energy Fund Limited – IPO**'.

**Cheques or bank drafts or bank guarantees should be endorsed by the issuing custodian bank, to the effect that, arrangements have been made to facilitate such payment to be made against funds available in the individual's SIA account. The endorsement must be clearly indicated on the cheque or bank draft or the bank guarantee. Alternatively, a document detailing the endorsement could be submitted along with the payment and Application.**

**Applications supported by foreign currency remittances should be made in conformity with requisite declarations accompanied by the documentation stipulated by the Controller of Exchange of the Central Bank of Sri Lanka.**

**Any refund payments to Foreign Investors are made in terms of Section 7.7 of this Prospectus.**

#### **7.3.6 Restrictions Applicable to Foreign Citizens Resident in Sri Lanka**

Foreign citizens resident in Sri Lanka may make payments through Sri Lanka Rupee Accounts, only if they possess dual citizenship where one such citizenship is Sri Lankan. **Foreign citizens having Sri Lankan citizenship should attach a certified copy of the citizenship certificate with the Application Form.**

Foreign citizens residing in Sri Lanka having valid residency visas should note that they cannot make remittances via cheques or bank drafts or bank guarantees or RTGS transfers drawn upon Sri Lanka Rupee accounts maintained with any licensed commercial bank in Sri Lanka but may do so via SIA account as detailed in Section 7.3.5 above. **Applications made by foreign citizens not in accordance to the foregoing shall be rejected.**

#### **7.4 Rejection of Applications**

- i. Application Forms which are incomplete in any way and/or are not in accordance with the terms and conditions set out in this Prospectus will be rejected at the absolute discretion of the Company/Managers/Registrars to the Offer.
- ii. Any Application Form which does not provide the NIC, passport (where NIC is not available) or company registration number as the case may be, will be rejected.
- iii. Applications delivered by hand after 4.30 p.m. Local Time on the Issue Closing Date will be rejected. Applications received by courier/post after 4.30 p.m. Local Time on the succeeding Market Day

immediately following the Issue Closing Date, will also be rejected even if they carry a courier acceptance date/postmark date earlier than the Closing Date.

- iv. Applications made for less than One Hundred (100) Shares or for a number which is not in multiple of One Hundred (100) Shares will be rejected.
- v. **An Application which does not carry a CDS account number, or indicates a number of a CDS account which is not opened at the time of the closure of the subscription list (either at the time fixed for closing or on the date on which the Offering is subscribed), or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment of Shares will be made.**
- vi. Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts, will be rejected.
- vii. The company reserves the right to reject multiple Applications and suspected multiple Applications which are not allowed, as mentioned in Section 7.2.1.
- viii. Payment for Applications of New Shares of a value below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) accompanying two or more cheques and bank drafts or bank guarantees as mentioned in Section 7.3.1, will be rejected at the outset.
- ix. Applications made by individuals below 18 years of age or those in the names of sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected.

***Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to reject any Application or to accept any Application in full or part, for whatsoever reason.***

#### **7.5 Banking of Payments**

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Market Day after the Closure Date of the subscription list, in terms of the CSE Listing Rules.

#### **7.6 Returning of Monies on Rejected Applications**

Where an Application Form is rejected, the cheque or bank draft or bank guarantee received in respect of the Application will be returned via ordinary post at the risk of the Applicant. In the case of joint Applicants, the cheque or bank draft or bank guarantee received in respect of the Application will be returned to the first named Applicant.

Where the Application Form is accepted and the cheque or bank draft or bank guarantee is not honoured by the bank at the first presentation, the Application will also be rejected and the dishonoured cheque or bank draft or bank guarantee will be returned via ordinary post at the risk of the Applicant. In the case of joint Applicants, the dishonoured cheque or bank draft or bank guarantee will be returned to the first named Applicant.

#### **7.7 Refunds on Applications**

Where an Application is accepted only in part or rejected in its entirety subsequent to cheques being realised, the balance/entirety of the monies received on Application as the case may be, will be refunded, such refunds will be made on or before the expiry of Ten (10) Market Days from the Closure Date (excluding the Closure Date) as required by the CSE Listing Rules. As required by Section 2.4(k) of the CSE Listing Rules, Applicants would be entitled to receive interest at the rate of last quoted Average Weighted Prime Lending Rate (AWPLR) published during the immediately preceding week by the Central Bank of Sri Lanka or any other authority (in

the event Central Bank of Sri Lanka ceases to publish the AWPLR) plus five per centum (5.00%) for the delayed period on any refunds not made by the expiry of the aforementioned period.

**It is the responsibility of Non-Residents/Foreign Investors to ensure that their SIA details are accurately provided under “Refund Payment Instructions” on the Application Form to forward the refund to SIA through which the application was made.**

#### **Refunds via Sri Lanka Inter-bank Payment Systems (SLIPS)**

1. The refund payment will be made to the bank account specified by the Applicant through the SLIPS on or before the expiry of Ten (10) Market Days from the Closure Date (Excluding the Closure Date) as required by the CSE Listing Rules and a payment advice shall be issued to the Applicant provided that the Applicant has submitted accurate and complete details of Applicant’s bank account in the Application Form. However, SLIPS transfers are subject to a maximum limit of Sri Lanka Rupees Five Million (LKR 5,000,000/-) imposed by the CBSL with effect from October 29, 2010 as per Operating Instruction Circular No. 11/2010 dated October 25,2010.
2. Even though the Applicant has requested for SLIPS transfer for refund amounts and submitted accurate and complete details of the bank account in the Application Form, refund amounts exceeding Sri Lanka Rupees Five Million (LKR 5,000,000/-) will be made by a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In the case of a joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Application Form.
3. In the event the refund payment is effected via SLIPS based on the bank account details provided by the Applicant in the Application Form, but is rejected by the Applicant’s bank due to inaccurate or incomplete information, such refund payments would be made via a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In such instances, the Company together with the Registrars to the Offer will send the refund cheques to such Applicants at the earliest possible time and the Applicant should not hold the Company or the Registrars to the Offer accountable for such delays.

Bank codes and branch codes could be obtained from the following website, through the Quick Links access;  
[http://www.lankaclear.com/products\\_and\\_services/sl\\_interbank\\_payment\\_system\\_guideline.php](http://www.lankaclear.com/products_and_services/sl_interbank_payment_system_guideline.php)

#### **Refunds via Crossed Cheque**

1. If the Applicant has not provided details of the bank account in the Application Form or has provided inaccurate or incomplete details of the bank account with respect to refunds via SLIPS, the refund payment will be made by a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In the case of a joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Applicant Forms.
2. A request for cancellation of crossing on the refund cheque, in instances where the Applicant does not maintain a current account, should be addressed to the Registrars to the Offer in writing, stating the cheque number and the fact that the Applicant does not maintain a current account. The refund cheque and a clear photocopy of the Applicant’s NIC should accompany the letter.

In the event of a refund cheque being delivered by hand by a third party to the Registrars to the Offer for cancellation of crossing, a letter of authorization signed by the Applicant stating the NIC number of such third party should also be presented with the refund cheque. Refund cheques on which the crossings have been cancelled by the Registrars to the Offer should preferably be collected in person or by third party authorized by the Applicant. Where an Applicant has requested the delivery of the cheque on which the crossing has been cancelled via post, such cheque will be sent at the risk of the Applicant.

## **7.8 Successful Applicants and CDS Lodgement**

The Shares allotted will be directly uploaded to the respective CDS accounts given in the Application Form before the expiry of Eighteen (18) Market Days from the Issue Closing Date as requested by the CSE Listing Rules.

A written confirmation, upon the completion of crediting the respective CDS accounts will be sent to the shareholder within Two (2) Market Days of crediting the CDS accounts by ordinary post to the address provided by each shareholder in their respective Applications.

Applicants have the option of having their Shares 'locked' in the CDS. Shares that are 'locked' will not be available for trading purposes and will not be visible to the participant. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her 'locked' balance in the CDS account, the said Shares would be deposited to Applicant's 'trading' balance in the CDS account.

Refer Section 7.2.1 for the definition of 'locked'.

New Shares shall not be transferable by the shareholders during the period between the date of allotment of the New Shares and up to the date of listing (excluding the date of listing) of the Ordinary Shares on the CSE. Further, the Company shall not allot any Shares of the Company (other than the allotment of New Shares) or transfer existing Shares during the interim period between the date of the Initial Listing Application and the date of listing of the Shares of the Company.

Upon the Ordinary Shares being listed on the CSE, such Shares shall be freely transferable except for those Shares mentioned in Section 8.2 of this Prospectus, which will be locked-in to be in compliance with CSE Listing Rules 2.1.1(d) and SEC letter dated 23 January 2017.

## **7.9 Declaration to the CSE and Secondary Market Trading**

The Company will submit to the CSE a "Declaration" on the Market Day immediately following the day on which the Applicants' CDS accounts are credited with the New Shares. Trading of the Ordinary Shares on the secondary market will commence on or before the Third (3<sup>rd</sup>) Market Day from the receipt of the Declaration by the CSE as per the CSE Listing Rules.

## 8.0 CAPITAL STRUCTURE

### 8.1 Shareholding Structure Pre and Post IPO

The current and the post IPO shareholding structures are illustrated below.

**TABLE 8.1 - SHAREHOLDING STRUCTURE – PRE AND POST IPO**

Name	Pre IPO		Post IPO	
	Number of Ordinary Shares	Percentage	Number of Ordinary Shares	Percentage
<b>Existing Shareholders</b>	<b>462,278,117</b>	<b>100.00%</b>	<b>462,278,117</b>	<b>79.39%</b>
Existing Shareholders – Public	52,740,830	11.41%	52,740,830	9.06%
Existing Shareholders – Shares held by the promoters, directors, key management personnel and parties acting in concert	409,537,287	88.59%	409,537,287	70.33%
<b>IPO Shareholders</b>	-	-	<b>120,000,000</b>	<b>20.61%</b>
<b>Total</b>	<b>462,278,117</b>	<b>100.00%</b>	<b>582,278,117</b>	<b>100.00%</b>

In terms of CSE Listing Rule 2.1.1(d)(iv), the Company submitted an application dated 20 December 2016 to the SEC. Accordingly, the SEC approved the said application subject to the shares continued to be held by the promoters, directors, key management personnel and parties acting in concert, as defined in Section 8.2, namely 409,537,287 shares, as shown in Tables 8.3 and 8.4 below, would be subject to a “lock-in” for a period of Twelve (12) months from the date of listing. As such, these shares would not be available for secondary market trading on the CSE upon LEF obtaining listing of its shares subsequent to the IPO contemplated via this Prospectus until the expiry of the aforesaid Twelve (12) month period from the respective date of listing.

Further, the share allotments of all “Public” shareholders that took place during the period of Twelve (12) months immediately preceding the date of the Initial Listing Application (Annexure H), will not be subject to a lock-in, in terms of CSE Listing Rule 2.1.1 (d) (iv). Since there were no share transfers among the shareholders categorized neither as “Public” nor “Non-Public” during the period of twelve (12) months immediately preceding the date of an Initial Listing Application, no further shares will be subject to a lock-in, in terms of CSE Listing Rule 2.1.1 (d) (iii).

**TABLE 8.2 - SHAREHOLDING STRUCTURE AND SHAREHOLDERS CATEGORY – PRE AND POST IPO**

No.	Category of Shareholders		No of Shareholders	Locked - in Shares	The months after which the Shares will be available for trading	No. of Shares	No. of Shares as % of Total No. of Shares
<b>Pre IPO Position</b>							
1	Non-Public (excluding the shareholders identified under row 3 below)	Shares held prior to the Rights Issue	Nil	N/A	N/A	N/A	N/A
		Shares offered via the Rights Issue		N/A	N/A	N/A	N/A
2	Public (excluding the shareholders identified under row 3 below)	Shares held prior to the Rights Issue	34	N/A	N/A	46,431,164	10.04%
		Shares offered via the Rights Issue		N/A	N/A	6,309,666	1.36%
3	Promoters, Directors, Key management personnel and parties acting in concert (Parties identified by the SEC by way of their approval letter dated 23 Jan 2017)	Shares held prior to the Rights Issue	07	373,821,672	12	373,821,672	80.87%
		Shares offered via the Rights Issue		35,715,615	12	35,715,615	7.73%
<b>Total</b>			<b>41</b>	<b>409,537,287</b>	<b>-</b>	<b>462,278,117</b>	<b>100.00%</b>

<b>Post IPO Position</b>							
1	Non-Public (excluding the shareholders identified under row 3 below)	Shares held prior to the Rights Issue		N/A	N/A	N/A	N/A
		Shares offered via the Rights Issue		N/A	N/A	N/A	N/A
2	Public (excluding the shareholders identified under row 3 below)	Shares held prior to the Rights Issue		N/A	N/A	46,431,164	7.97%
		Shares offered via the Rights Issue		N/A	N/A	6,309,666	1.08%
3	Promoters, Directors, Key management personnel and parties acting in concert (Parties identified by the SEC by way of their approval letter dated 23 Jan 2017)	Shares held prior to the Rights Issue		373,821,672	12	373,821,672	64.20%
		Shares offered via the Rights Issue		35,715,615	12	35,715,615	6.13%
4	Public (IPO Shares)		-	N/A	N/A	120,000,000	20.61%
<b>Total</b>				<b>409,537,287</b>	<b>-</b>	<b>582,278,117</b>	<b>100.00%</b>

**TABLE 8.3 – SHARES LOCKED-IN – PRE IPO**

Category of Shareholders (Pre-Listing)	Locked-in Shares	The Months after which the Shares will be Available for Trading	No. of Shares	No. of Shares as a percentage of Total Number of Shares in Issue (Pre-Listing)
Promoters, directors, key management personnel and parties acting in concert	Shares held by Promoters, directors, key management personnel and parties acting in concert prior to the date of the Initial Listing Application - Locked-in	12 months from the date of listing	409,537,287	88.59%
Public *	Not Locked-in	Same day as the New Shares would be traded	52,740,830	11.41%
<b>Total</b>	-	-	<b>462,278,117</b>	<b>100.00%</b>

\* 'Public' defined under the definition mentioned in CSE Listing Rules 2.1.1(d) (Refer Section 8.2 of the Prospectus)

The Company hereby confirms that the information furnished herewith shall remain unchanged to the date of listing.

**Pre-IPO Public Holding (Shares held by the 'Public' as a percentage of the total Pre-IPO number of Shares), as per the 'Public' definition provided in the CSE Listing Rules is 11.41%.**

**TABLE 8.4 – SHARES LOCKED-IN – POST IPO**

Category of Shareholders (Post-Listing)	Locked-in Shares	The Months after which the Shares will be Available for Trading	No. of Shares	No. of Shares as a percentage of Total Number of Shares in Issue (Post-Listing)
Promoters, directors, key management personnel and parties acting in concert	Locked-in	12 months from the date of listing	409,537,287	70.33%
Public *	Not Locked-in (Pre IPO Shares)	-	52,740,830	9.06%
Public	Not Locked-in (IPO Shares)	-	120,000,000	20.61%
<b>Total</b>			<b>582,278,117</b>	<b>100.00%</b>

\* 'Public' defined under the definition mentioned in CSE Listing Rules 2.1.1(d) (Refer Section 8.2 of the Prospectus)

**Post-IPO Public Holding (total unlocked-Shares post-IPO that will be held by the Public as a percentage of the total Shares in issue Post-IPO), as per the 'Public' definition provided in the CSE Listing Rules is 29.67%.**

## 8.2 Free Transferability of Shares

In accordance with CSE Listing Rule 2.1.1(d):

- All Shares held by "Non-Public Shareholders"\* prior to twelve (12) months from the date of an Initial Listing Application shall be locked-in for a period of six (06) months from the date of listing of the entity.
- All Shares held by "Public Shareholders"\*\* prior to twelve (12) months from the date of an Initial Listing Application shall not be locked-in.

- All shares acquired by way of a transfer from another shareholder (irrespective of being Non-Public or Public Shareholders) during the period of twelve (12) months immediately preceding the date of an Initial Listing Application shall be locked in for a minimum of six (6) months from the date of listing or twelve (12) months from the date of acquisition of those shares, whichever is longer.
- All Shares acquired by way of an allotment during the period of twelve (12) months immediately preceding the date of an initial listing application shall be dealt with by the discretion vested in the Securities and Exchange Commission under Section 28A of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 where the Commission grants a waiver to an entity in terms of the said provision.

\* Non-Public Shareholders, shall mean the following parties who hold, directly or indirectly, shares of the Company;

- a) its parent, any subsidiary or associate companies or any subsidiaries or associates of its parent company;
- b) its Directors who are holding office as directors of the entity and their close family members;
- c) Chief Executive Officer and his/her close family members;
- d) Key Management Personnel and their close family members;
- e) Any party acting in concert with the parties set out in a), b), c) and d) above;
- f) Shareholders whose shares are in a locked account with the CDS due to a statutory or regulatory requirement other than those shareholders exempted under (h) below and whose shares have been subject to a voluntary lock-in at the option of the shareholder
- g) Employees of the Company, who have been allotted shares of a Listed Entity which are directly or indirectly controlled by the management or the majority shareholder of the Company
- h) Any Entity or an individual or individuals jointly or severally holding 5% or more of the shares of the Listed Entity if the Company is a Diri Savi Board Entity and 10% or more of the shares if the Company is a Main Board Entity, except where such shareholder is;
  - i. a statutory institution managing funds belonging to contributors or investors who are members of the public; or
  - ii. an entity established as a unit trust or any other investment fund approved by the SEC; or
  - iii. not a related party declared in terms of Sri Lanka Accounting Standards or a party acting in concert declared in terms of the Company Takeovers and Mergers Code.

'Close Family Member' shall mean the spouse or a financially dependent child.

'Key Management Personnel' shall mean those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

\*\* Public Shareholders shall mean any party who hold Shares of the Company other than the parties identified as 'Non-public shareholders' abovementioned.

The details of the lock-in periods for the shares are mentioned in Table 8.3 and 8.4 above, and the shares that will be subject to a lock-in will not be will be available for trading.

### 8.3 Other Securities

The Company has not issued any convertible debt securities or any other class of shares other than the shares stated above. Further there are no securities of the same or other class subscribed or sold privately in conjunction with this IPO.

### 8.4 Share Re-Purchases or Redemptions

The Company has not engaged in any share re-purchase, redemption or stated capital reduction exercises in relation to ordinary shares of the company in two years preceding the date of this Prospectus.

The details of redemption of cumulative redeemable preference shares in the Company during the two years preceding the date of this Prospectus are given below;

**TABLE 8.5 – PREFERENCE SHARE REDEMPTIONS**

<b>Financial Year</b>	<b>Date Redeemed</b>	<b>Number of Shares Redeemed</b>	<b>Amount Redeemed (LKR)</b>
2015/16	30-Sep-15	18,000,000	180,000,000.00
		<b>18,000,000</b>	<b>180,000,000.00</b>
2016/17	30-Sep-16	21,750,000	217,500,000.00
	31-Mar-17	3,750,000	37,500,000.00
		<b>25,500,000</b>	<b>255,000,000.00</b>
2017/18	30-Sep-17	21,750,000	217,500,000.00
		<b>21,750,000</b>	<b>217,500,000.00</b>

## 9.0 POWER SECTOR - SRI LANKA

### 9.1 Overview

Energy in Sri Lanka is produced primarily from Thermal Power & Hydro Power, with the balance being made up of Mini Hydro Power, Wind Power and other Non-Conventional Renewable Energy (NCRE) sources such as Dendro Power and Solar Power. The maximum recorded demand for electricity in 2016 was 2,453 MW, with the installed capacity at about 4,018 MW. The net generation for 2016 was 14,418 GWh ([http://www.ceb.lk/index.php?aam\\_media=25917](http://www.ceb.lk/index.php?aam_media=25917)). The statutory body responsible for the supply of energy is the Ceylon Electricity Board (CEB), established in 1969 under the Ceylon Electricity Board Act No. 17 of 1969. The CEB comes under the purview of the Ministry of Power & Energy. The CEB is the largest electricity company in Sri Lanka, having almost a monopoly of the market, and controlling all the major functions of electricity generation, transmission & distribution and retailing in Sri Lanka. It is one of the only two on-grid electricity companies in the country; the other being Lanka Electricity Company (Pvt) Ltd, also known as LECO, in which CEB has a 55.2% majority stake. The Public Utilities Commission of Sri Lanka (PUCSL) is the regulator of the energy sector.

The CEB also has agreements with Independent Power Producers (IPPs) or Private Power Producers (PPPs) to produce energy from renewable sources such as mini hydro & wind. This is regulated by the Sri Lanka Sustainable Energy Authority (SLSEA).

**TABLE 9.1 – OPERATIONAL STATISTICS - 2016**

	Unit	2015	2016	Change YoY (%)
<b>No. of Power Stations</b> (with PPPs)	No	210	232	10.5
<b>Installed Capacity</b> (with PPPs)	MW	3,847	4,018	4.4
<b>Maximum Demand</b> (with PPPs)	MW	2,283	2,453	7.4
<b>Net Generation</b> (with PPPs)	GWh	13,090	14,148	8.1
<b>Trans. &amp; Distri. Losses</b> (on Net Generation)	%	9.96	9.63	(0.3)
<b>Gross Units Sold</b>	GWh	11,786	12,785	8.5
<b>Avg. Sale Price per Unit</b>	LKR/kWh	16.00	16.18	1.1
<b>% of Households Electrified</b>	%	98.5 <sup>a</sup>	99.3 <sup>a</sup>	0.8
<b>Avg. Electricity Consumption per kWh/person</b>	kWh/person	562	603	7.3

<sup>a</sup>Estimated

Source: CEB Statistical Digest, 2016 [http://www.ceb.lk/index.php?aam\\_media=25917](http://www.ceb.lk/index.php?aam_media=25917)

### 9.2 Future Outlook

According to the Long Term Generation Expansion Plan, CEB projects electricity demand and generation in Sri Lanka to increase at a 5 year average growth rate of 5.9% respectively from 2018 to 2022. Accordingly, the power sector will be required to generate an output of circa 20,331 GWh by 2022. [http://www.pucsl.gov.lk/english/wp-content/uploads/2017/05/LTGEP\\_2018-2037.pdf](http://www.pucsl.gov.lk/english/wp-content/uploads/2017/05/LTGEP_2018-2037.pdf)

As a result, the supply mix of the power sector is expected to move towards a thermal based generation system as the total hydro capacity has remained nearly the same over the past few years. Shown below is the expected capacity addition by plant type according to the 'Generation Expansion Plan' published by CEB.

**TABLE 9.2 – CAPACITY ADDITIONS BY PLANT TYPE**

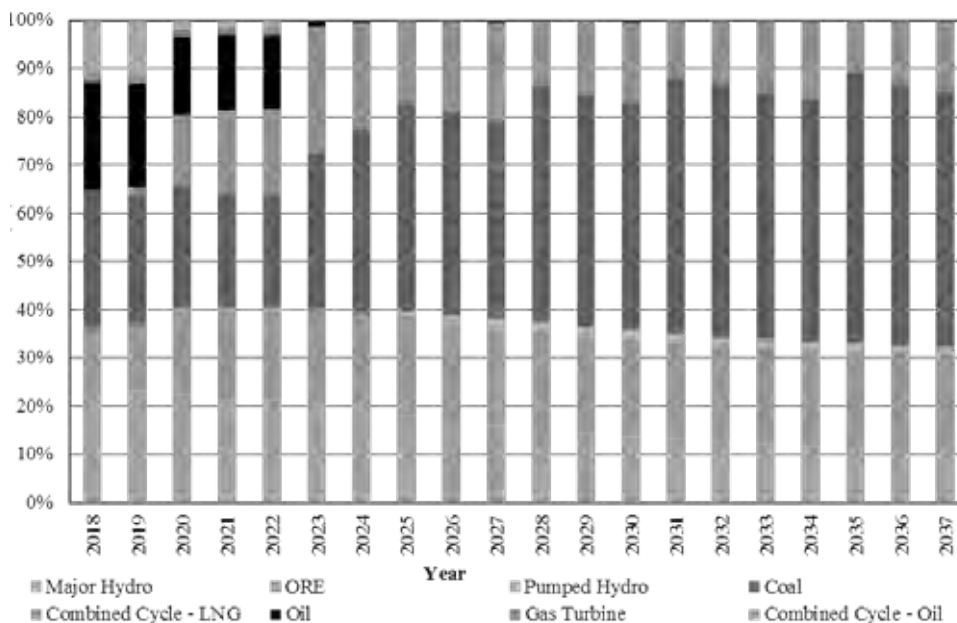
Type of Plant	2018 (MW)	2019-2022 (MW))	2023-2027 (MW)	2028-2032 (MW)	2033-2037 (MW)	Total Capacity Additions	
						MW	%
Gas Turbines	-	105	-	-	-	105	1.26%
Reciprocating Engines	320	-	-	-	-	320	3.83%
Coal	-	-	900	1,200	600	2,700	32.29%
Liquefied Natural Gas (LNG)	-	600	-	-	900	1,500	17.94%
Major Hydro	-	241	-	-	-	241	2.88%
Pumped Hydro	-	-	600	-	-	600	7.17%
Other Renewable Energy	180	726	613	615	763	2,897	34.64%
<b>Total</b>	<b>500</b>	<b>1,672</b>	<b>2,113</b>	<b>1,815</b>	<b>2,263</b>	<b>8,363</b>	<b>100.00%</b>

Source: CEB

[http://www.pucsl.gov.lk/english/wp-content/uploads/2017/05/LTGEP\\_2018-2037.pdf](http://www.pucsl.gov.lk/english/wp-content/uploads/2017/05/LTGEP_2018-2037.pdf)

The share of coal based generation capacity is 25% and it only increases up to 32% by 2037. Current Major Hydro capacity contribution is 32% under average hydro condition where as it will be 23% and 15% in the year 2025 and 2037 respectively. Current share of oil based capacity is 31% and it gradually decreases with the introduction of LNG and Coal based thermal power plants in the first half of the forecast period and then the capacity share becomes negligible leading up to only 4% in 2037. Pumped Hydro capacity will be introduced to the system in 2025 and its capacity contribution in 2037 is 5%.

**GRAPH 9.1 – CAPACITY MIX OVER THE NEXT TWENTY YEARS**



Source: CEB

[http://www.pucsl.gov.lk/english/wp-content/uploads/2017/05/LTGEP\\_2018-2037.pdf](http://www.pucsl.gov.lk/english/wp-content/uploads/2017/05/LTGEP_2018-2037.pdf)

Sri Lanka has become increasingly open to local and foreign investors involved in power projects. Opportunities exist for investors and developers in the private sector to build, operate, and own power projects. It takes substantial time for development of large power plants. However, Sri Lanka’s utility is faced with an increasing need for generation capacity to meet immediate and growing demand. Sri Lanka’s utility is currently entering into Letters of Intent with any qualified parties who can identify potential hydropower sites, and is signing PPA with these parties once all required regulatory compliances are met.

## 10.0 POWER SECTOR - BANGLADESH

### 10.1 Overview

Energy in Bangladesh is produced primarily from Natural Gas with the balance being made up of Hydro, Coal, Furnace Oil, and Diesel. According to the Bangladesh Power Development Board, (BPDB), currently, approximately 77% of the population has access to electricity with a per capita generation of 324kWh ([http://www.bpdb.gov.bd/download/annual\\_report/Annual%20Report%202015-16.pdf](http://www.bpdb.gov.bd/download/annual_report/Annual%20Report%202015-16.pdf), [http://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/page/4f81bf4d\\_1180\\_4c53\\_b27c\\_8fa0eb11e2c1/%28E%29\\_FR\\_PSMP2016Summary\\_revised.pdf](http://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/page/4f81bf4d_1180_4c53_b27c_8fa0eb11e2c1/%28E%29_FR_PSMP2016Summary_revised.pdf)).

The total installed capacity as of FYE 2016 in public and private sector was 12,365MW, which includes 2,974MW from IPP's 2,028MW from rental power plants, 600MW from India and the balance from other means. The system total generation for 2016 was 52,193Gwh ([http://www.bpdb.gov.bd/download/annual\\_report/Annual%20Report%202015-16.pdf](http://www.bpdb.gov.bd/download/annual_report/Annual%20Report%202015-16.pdf)).

**TABLE 10.1 – KEY STATISTICS**

Particulars	2014/15	2015/16	Change (%)
Installed Capacity as of June (MW)	11,534	12,365	7.20
Maximum Peak Generation (MW)	7,817	9,036	15.59
Maximum Peak Demand (MW)	10,283	11,405	10.91
Net Energy Generation (GWh)	45,863	52,193	13.87
Transmission Loss (%)	2.74	2.73	(0.36)
Per Capita Generation (kWh)	290	324	11.79

Source: BPDB

### 10.2 Future Outlook

Due to shortage and inadequate new generation addition in the past few years, demand for electricity outpaced the generation capacity which caused persistent load shedding. In order to mitigate this demand-supply gap, an aggressive plan is prepared by the Government of Bangladesh for new generation addition.

The yearly generation addition program to support this forecasted peak demand is given below.

**TABLE 10.2 – ANNUAL INCREMENTAL GENERATION PLAN (MW)**

Year	2015	2016	2017	2018	2019	2020	2021	Total
Public	848	885	202	1,397	1,611	1,000	1,900	9,661
Private	1,110	328	130	630	1,152	1,811	612	5,773
Power Import		100	500				1,300	1,900
<b>Total</b>	<b>1,958</b>	<b>1,313</b>	<b>2,650</b>	<b>2,027</b>	<b>2,763</b>	<b>2,811</b>	<b>3,812</b>	<b>17,334</b>

Source: BPDB

[http://www.bpdb.gov.bd/download/annual\\_report/Annual%20Report%202014-15.pdf](http://www.bpdb.gov.bd/download/annual_report/Annual%20Report%202014-15.pdf)

However, the challenges faced by the Bangladeshi power sector, such as system losses, delays in completion of new plants, low plant efficiency, erratic power supply, electricity theft, blackouts and shortages of funds for power plant maintenance still remain providing opportunity for more investment.

## 11.0 POWER SECTOR - NEPAL

### 11.1 Overview

According to the Nepal Electricity Authority, the annual peak demand of the Integrated Nepal Power System (INPS) in fiscal year 2015/16 was 1,385.3 MW, with 585 MW load shedding. Out of the power actually supplied, 2,168.49 GWh was contributed by the Nepal Electricity Authority, the Government authority responsible for generation, transmission and distribution of electricity, 1,173.14 GWh by IPP and 1,758.41 GWh was imported from India. Compared to the preceding fiscal year's figure of MW, the annual peak power demand of the INPS registered a growth rate of 7.30%. (*Nepal Electricity Authority Annual Report – 2015/16: [http://www.nea.org.np/images/supportive\\_docs/year-review-2015-16.pdf](http://www.nea.org.np/images/supportive_docs/year-review-2015-16.pdf)*).

Total energy sales including sales to India remained stable at 3,743.71 GWh in 2015/16 as compared to the previous year. The total number of consumers at the end of 2015/16 grew by 6.07% and reached 2.97 million at the end of 2015/16. Out of the total number of consumers, domestic, industrial and other remaining consumer categories accounted for 94.18%, 1.47% and 4.36%, respectively. However, in terms of sales, the corresponding shares are 48.40%, 32.29% and 19.31% of total sales. (*Nepal Electricity Authority Annual Report – 2015/16: [http://www.nea.org.np/images/supportive\\_docs/year-review-2014-15.pdf](http://www.nea.org.np/images/supportive_docs/year-review-2014-15.pdf)*).

**TABLE 11.1 – TOTAL ENERGY AVAILABLE AND PEAK DEMAND**

Particulars	2010	2011	2012	2013	2014	2015	2016*
Peak Demand (MW)	885.28	946.10	1,026.65	1,094.62	1,200.98	1,291.10	1,385.30
NEA Hydro Generation	2,108.65	2,122.08	2,357.43	2,273.11	2,288.23	2,365.64	2,168.49
NEA Thermal Generation	13.01	3.40	1.56	18.85	9.65	1.24	0.07
<b>NEA Total Generation (GWh)</b>	<b>2,121.66</b>	<b>2,125.48</b>	<b>2,358.99</b>	<b>2,291.96</b>	<b>2,297.88</b>	<b>2,366.88</b>	2,168.56
Power Purchased from India	638.68	694.05	746.07	790.14	1,318.75	1,369.89	1,758.41
Power Purchased from IPPs	591.43	1,038.84	1,073.57	1,175.98	1,070.47	1,268.93	1,173.14
<b>Power Purchased Total (GWh)</b>	<b>1,230.11</b>	<b>1,732.89</b>	<b>1,819.64</b>	<b>1,966.12</b>	<b>2,389.21</b>	<b>2,638.81</b>	<b>2,931.55</b>
<b>Available Energy (GWh)</b>	<b>3,351.77</b>	<b>3,858.37</b>	<b>4,178.63</b>	<b>4,258.08</b>	<b>4,687.09</b>	<b>5,005.70</b>	<b>5,100.11</b>

\* *Provisional figures*

Source: NEA

### 11.2 Future Outlook

According to the Nepal Electricity Authority, it is expected that the NEA's current shortfall of supply over demand would continue for several years with peak load expected to reach 5,785.3 MW in 2033/34. This would further enhance growth potential for companies that are seeking investments in the energy sector in Nepal.

## 12.0 INVESTMENT CONSIDERATIONS AND ASSOCIATED RISK FACTORS

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### 12.1 Risk Factors

Prior to investing in the New Shares, prospective investors should pay particular attention to the fact that the Company and its business activities are subject to a number of risk factors which may be within or outside the control of the Company.

The risk factors that follow may be considered material to investors in making an informed judgment on the Company. If any of the considerations and uncertainties given below develops into actual events, the Company's business, financial conditions or results of operations and prospects could be adversely affected. However, given the strategic initiatives employed by the Company, the business operation of the Company is expected to be sustainable in the foreseeable future.

### 12.2 Risks Related to the Industry

**Political and economic stability** – The significance of the electricity industry for a country's economic growth has been increasing over the years. Therefore, an unstable political environment could reduce the economic growth of the country and thereby reduce the demand for energy. Hence, the political stability of the country along with stable economic policies is vital for the development of the industry. The average electricity demand in Sri Lanka has traditionally reflected the GDP growth pattern and it is expected that growing investment in infrastructure development, especially in the Northern and Eastern parts of the island will accelerate economic development in the country which will create enhanced opportunities in the power sector.

**Regulatory changes** – The Sri Lankan government has traditionally exercised a significant influence over generation, transmission and distribution of electricity and the power sector. However, the sector could be affected by regulations imposed by the GOSL and LEF's current operations and all intended expansion plans will be sensitive to any changes in Government's energy policies. However, positive revisions to the power sector were witnessed with the enactment of the Electricity Act No. 20 of 2009 by the Government, which signified increased deregulation with enhanced private sector participation.

Globally with growing concerns on global warming and more emphasis on cleaner and greener technologies, environment protection laws are regularly being strengthened. There will be a move towards encouraging investments in green energy development such as tapping of unutilized hydro, wind and solar power. Apart from minor emissions during the construction and maintenance phases of these projects, they are considered as sources that supply greenhouse emission free electricity. They are encouraged to a greater extent at a time when the national grid is increasingly reliant on fossil fuels.

**Changes in environmental regulation** – The Company strictly adheres to all relevant environmental protection laws. However, new and stricter environmental regulations might come into existence in the future. If so, the Company might have to incur additional costs on compliance which may result in an increase in the cost base. However, the Company has an experienced management team and has taken due care in carrying out its operations within the regulatory framework which should mitigate the risk of failure to comply with these environmental laws.

### 12.3 Risks Related to Hydro and Wind Power Plant Operations

**Fluctuations in weather conditions and future rainfall patterns** – The Company is currently operating six mini-hydro power plants with a total capacity of 16.9 MW and is planning to develop three more hydro plants with a total capacity of 13.9 MW during the financial year 2017/18. As run-of-river hydro power technology is used in mini hydro power projects, the amount of power generated by a plant depends on the available water flow. The Asian monsoons have led to distinct seasonal variations in the rainfall patterns of Sri Lanka, giving rise to wet and dry seasons, with significantly higher water flow levels and power generation during the wet season. Further, the increasing levels of deforestation have led to prolonged draught weather conditions and sudden unexpected floods in many catchment areas, both of which are two extreme conditions that are detrimental to the power generation in a country. However, the geo-climatic setting in Sri Lanka is considered to be particularly conducive to harness hydroelectricity, especially given the humid conditions and the hilly terrain of the highlands of the country. Geographical diversification in LEF's hydro power project investments is expected to minimize the downside of seasonal variations in the rainfall patterns to a certain extent. When selecting projects for investment, services of professional consultants are obtained to conduct feasibility and hydrology studies to verify energy potential at each site.

**Wind availability** – In wind power projects the amount of power generated by a plant depends on the availability of wind resource at the site. LEF's wind power projects are located in Kalpitiya and according to the Wind Energy Resource Atlas, developed by National Renewable Energy Laboratory, US, North-Western coastal region from the Kalpitiya Peninsula North to Mannar Island and the Jaffna Peninsula contain the best sites that are well exposed to the strong Southwest monsoon winds. Further, given current economic climate and infrastructure status in Sri Lanka, the Kalpitiya Peninsula is the most promising site for near term potential for cost effective utility scale wind power development.

**International crude oil prices** – The international crude oil prices could affect the future revenues of four of the existing mini hydro power projects as their SPPA's are based on avoided cost based tariff, where the tariff is based on the avoided cost of the most expensive thermal unit displaced. Therefore, the tariff should follow, to some extent, the rate of increase of global crude oil prices.

However, the risk posed by a decline in future oil prices is countered to some extent with the existence of SPPA terms, where the minimum tariff applicable for the plants would not decline to less than 90% of the first-year tariff received from the CEB by that particular mini hydro power project.

**Cost overruns of the planned projects** – In future, the estimated raw material prices for construction such as sand, cement, steel, metal etc. and the purchase price of plant and equipment such as turbines, generators, penstock, pipes, etc. could rise to unexpected levels which would lead to cost overruns and time delays for implementation of the new projects, thus affecting the overall financial performance of the entity. The prices and supply of these raw materials are beyond the control of sector participants and depends on local and global economic conditions, competition, transportation costs, taxes and import duties etc. However, the new tariff structure applicable to the future projects is cost-based. Therefore, any increase in construction costs would translate to higher tariffs, which may negate, to some extent, the effect of higher cost of implementation on the Company's bottom line. In the event of cost over-runs in excess of higher tariffs, the Company plans to resort to internally generated funds and/or bank borrowings.

**Expiry of SPPA terms** – The existing power projects have an expected operational life span of up to 30 years and the SPPAs for existing/new plants have been signed for a period of 15, 20 or 30 years from the dates of their commercial operations. Thereafter, SPPAs will be extendable by mutual consent. However, the risk of

CEB exercising their right to refusal to purchase any electrical energy generated after the expiry of the SPPA term persists for all existing power projects in the sector.

**Risks relating to competition in the power generation sector** – All private sector power generation companies enter into a PPA which remains valid for a stipulated tenure. Therefore, increased competition in the power generation sector has no bearing on the current or future operations of the Company.

**Exchange rate fluctuations** – In order to set up and run the power plant, project companies procure plant and equipment from Europe and other countries, as such the payment will be made in foreign currency. Therefore, Rupee depreciation against foreign currencies can have a negative effect on the cost of the electro mechanicals of the project.

**Execution risk** – The Company's future performance depends partly on the execution of the planned new projects in a timely manner, on budget and at targeted efficiency levels. If any unforeseen business working capital shortages arise as a result of delay in executing the planned projects and operating the existing projects, the Company would resort to short-term borrowings.

**Natural perils** – Despite all the preventive maintenance and precautions undertaken by the project companies, the risk remains of damages caused by natural disasters such as earthquakes, landslides, earth-slips, floods, thunder storms and lightning and these have been mitigated to some extent by comprehensive insurance covers.

#### **12.4 Risks Related to Thermal Power Plants**

The following risks are identified for the projects that currently exist and may come up in the future in different geographical locations. Nevertheless, LEF has managed to mitigate the following risks in terms of the thermal power plants that are already in operation.

**Project implementation risk** – Implementation risk involves power plant construction risk, project management risk and machinery procurement risk in relation to the projects that may come up in the future. All above factors would ultimately lead to time and cost overruns and in certain circumstances abandonment of the project. The project company would be liable to pay liquidated damages to relevant authorities of the operational countries for time overruns caused due to delays on the part of the Company. Further, projects will be insulated against cost overruns, since a project partner would construct the power plants on a turnkey basis and will bear the risk of cost overruns. Therefore, the implementation risks related to thermal power plant projects are minimized.

**Operation and maintenance (O&M) risk** – This risk involves the inability of the power plant to operate at a desired level thereby reducing the revenue generation potential of the Company. Operations and maintenance risk could arise from use of inferior equipment, inexperienced personnel and lack of technical knowledge on proper operations and maintenance practices of power plants.

The operations and maintenance of the power plant would be undertaken by experienced personnel. The projects will utilize brand new equipment supplied by reputed manufacturers mainly in Europe reducing the risk of unscheduled break downs. The spare parts would be sourced only from original equipment manufacturers which are covered in the O&M agreement. Considering the above, the proposed project's O&M risk is mitigated to a greater extent.

**Fuel supply risk** – Uninterrupted supply of fuel is a pre-requisite for continuous operation of thermal power plants. Any disruption to fuel supply can affect the availability of the power plant and hence revenue generation potential. The Company would make arrangements to ensure uninterrupted supply of fuel. Further, the projects will include fuel storage tanks capable of storing sufficient fuel for uninterrupted fuel supply. The projects would have a properly managed fuel transportation system in place to ensure security of fuel supply.

**Fuel price and inflation risk** – This is the risk that volatilities of fuel prices and general inflation negatively affecting the profitability of the Company. The tariff structures for IPPs are designed in such a way that a project would have guaranteed profitability provided the plant maintains its availability factor. The fuel cost is a pass through item where fluctuations in fuel prices would be borne by the relevant Ministries of power and energy. Further, the tariff structure covers all foreign and local scalable cost items separately which are adjusted for local and foreign inflation indices so that inflation risk is passed on to the Ministries of power and energy.

**Technology risk** – Technological risk involves technological obsolescence, adopting an untested technology which may fail and lack of longevity of plant and equipment. Selecting the right technology is very critical for a power generation project that has a life span of 15 years. Technological failures could adversely impact on the efficiency of power generation and increase running costs of the power plant in the long term. Plant and equipment will be sourced from leading power plant manufacturers in the world. Further, the technology proposed to be used in the projects is well tested and the equipment suppliers will give an assurance with regard to the availability of spare parts during the life of the project.

**Foreign exchange risk** – Foreign exchange risk involves adverse fluctuations in the exchange rate that could increase the operating expenses of the Company. This could happen when revenue or operating expenses of the Company are incurred/denominated in foreign currency. The projects are not exposed to the foreign exchange risk related to operating expenses since the local and foreign operating expenses are computed in respective currencies in the tariff structure.

**Environmental risks** – Electricity generated using Heavy Furnace Oil will give rise to emissions that might cause harm to the environment. Also the process involves heavy machinery that might create noise/sound pollution that might cause inconvenience on the locality surrounding the plant. The projects would comply with all applicable environmental rules and regulations relevant to the country where the plants operate in. The projects will obtain environmental clearance from the Ministries of Environment and other regulatory authorities.

**Credit risk** – Credit risk involves the projects' inability to service the debt capital or repayment of debt capital promptly on due dates. This could happen due to lack of profit or cash flows to support the servicing of debt. PPA's ensure the revenue up to 15,20 and 30 years since the power and energy state authorities are obligated to pay at least the capacity charge (provided the plant is available) which is sufficient to service the debt. The payment obligations (undisputed) of such authorities have been unconditionally and irrevocable guaranteed by the relevant Government. Further, the escrow mechanism provides a better control over the cash flows of the projects to lenders.

**Force majeure risk** – In general, a force majeure event refers to events and/or circumstances that adversely affect the performance of either party relating to their respective obligations under the PPAs. Nonetheless these events would be considered relevant only if they are not within reasonable control of neither of the parties. Hence, an element of risk arises to this regard.

## **12.5 Capital Market Related Risks**

### **Non-existence of prior market for the Shares**

Prior to the IPO there has been no public market for the Company's Shares. There can be no assurance that an active trading market for the Shares will develop or if developed, will be sustained, or that the market price of the Shares shall not decline below the Share Issue Price. The Share Issue Price may not be indicative of the market price for the Company's Shares after completion of the IPO.

### **Price volatility in the secondary market**

The price of the Shares may fluctuate due to and not limited to the following: variations in operating results, changes in operating environment, transitions in the regulatory front, strategic alliances or acquisitions, industrial or environmental laws, fluctuations in the market prices for products or raw materials, macroeconomic factors and external events. Price of Shares may follow general investor sentiment prevalent in the market at a given time. In addition, the price of the Shares in the market will fluctuate as a result of share trading volumes.

### **Shares May Not be a Suitable Investment for All Investors**

Each potential investor in Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to evaluate Shares, the merits and risks of investing in Shares and the information contained or incorporated by reference in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in Shares and the impact the Shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in Shares, including where the settlement currency is different from the currency in which such investor's principal financial activities are denominated;
- understand thoroughly the terms of Shares and be familiar with any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

## 13.0 STATUTORY DECLARATIONS

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### Statutory Declaration by the Directors

27 November 2017

We, the undersigned, who are named in the Prospectus as Directors of LVL Energy Fund Limited, hereby declare and confirm that we have read the provisions of the CSE Listing Rules and of the Companies Act No.7 of 2007 and any amendments to it relating to the issue of the Prospectus and that those provisions have been complied with.

This Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of LEF have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to LEF and making assumptions that are considered to be reasonable at the present point in time in our best judgement.

The parties to the Offer have submitted declarations to the Company declaring that they have complied with all regulatory requirements applicable to such parties, and that such parties have no conflict of interest with the Company.

<b>Name</b>	<b>Designation</b>	<b>Signature</b>
<b>Mr. L.H.A.L Silva</b>	Non-Executive Chairman	Sgd
<b>Mr. A. J. Alles</b>	Non-Executive Director	Sgd
<b>Mr. S. E. De Silva</b>	Non-Executive Independent Director	Sgd
<b>Mr. T. W. De Silva</b>	Non-Executive Director	Sgd
<b>Mr. A. R. Munasinghe</b>	Non-Executive Independent Director	Sgd
<b>Mr. M. R. Abeywardena</b>	Non-Executive Director	Sgd
<b>Mr. M. A. Wijetunge</b>	Non-Executive Director	Sgd
<b>Mr. D. S. Arangala</b>	Chief Executive Officer/Executive Director	Sgd

### **Statutory Declaration by the Manager to the Offer – Acuity Partners (Private) Limited**

We, Acuity Partners (Private) Limited, of 53, Dharmapala Mawatha, Colombo 3 being the Financial Advisors and Managers to the Offer of LVL Energy Fund Limited, hereby declare and confirm to the best of our knowledge and belief that the Prospectus constitutes full and true disclosure of all material facts about the Offer and of LEF, whose Ordinary Shares are being Offered for Subscription.

Sgd.  
Director

Sgd.  
Director

### **Statutory Declaration by the Company**

An application has been made to the CSE for permission to deal in and for a listing for all of the Ordinary Shares of the Company and those Ordinary Shares which are the subject of this Offer for Subscription. Such permission will be granted when shares are listed on the CSE. The CSE assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the CSE is not to be taken as an indication of the merits of the Company or of the Shares Offered.

Sgd.  
Director

Sgd.  
Director

### **Statutory Declaration by the Independent Valuer to the Offer - Capital Alliance Partners Limited**

We, Capital Alliance Partners Limited, acting as the "Independent Valuer to the Offer" (hereinafter referred to as the "Valuer") in connection with the proposed Initial Public Offer of LVL Energy Fund Limited, 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 in determining the IPO Price and the Valuer has made all the inquiries that he believes are desirable and appropriate in order to arrive at a competent independent opinion.

Sgd.  
Director

Sgd.  
Director

# ANNEXURE A : ACCOUNTANTS' REPORT AND FIVE YEAR SUMMARY



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

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
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+94 - 11 254 1249  
Internet : www.kpmg.com/lk

24 August 2017

The Board of Directors  
LVL Energy Fund Limited  
2<sup>nd</sup> Floor, SayuruSevana  
46/12, NawamMawatha,  
Colombo 02

Dear Sirs,

## ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF LVL ENERGY FUND LIMITED.

This report has been prepared for the inclusion in the prospectus issued in connection with the initial public offering of 120,000,000 new ordinary voting shares at Rupees 10 each of LVL Energy Fund Limited.

We have examined the financial statements of LVL Energy Fund Limited (Company) and the consolidated financial statements of the company and its subsidiaries (Group) from the financial years ended 31 March 2013 to 31 March 2017, as auditors.

### 1 INCORPORATION

LVL Energy Fund Limited is a company with limited liability, incorporated and domiciled in Sri Lanka. It was incorporated on 26 June 2006 under the provisions of Companies Act No 17 of 1982 and it was reregistered under the provisions of Companies Act No 07 of 2007.

### 2 FINANCIAL STATEMENTS

#### 2.1 FIVE YEAR SUMMARY OF FINANCIAL STATEMENTS (REFER ANNEXURE 01)

A summary of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash flows of LVL Energy Fund Limited for the financial years ended 31 March 2013 to 31 March 2017, based on the audited financial statements of the company will be available at the registered office of the company as mentioned in Section 6.2 of the prospectus.

Summaries presented for Assets, Liabilities and Shareholder funds for and cash flow the financial years of March 2017, March 2016, March 2015, March 2014 and March 2013 are based on the financial statements prepared in accordance with SLFRSs which were effective from 01 January 2012 and applied from the date of transition of 1 April 2011.

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

M.R. Mihular FCA  
T.J.S. Rajakaner FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapakse FCA  
C.P. Jayatilaka FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Principals - S.R.I. Perera FCMA(UK), LL.B. Attorney-at-law, H.S. Gunewardene ACA  
Ms. C.T.K.N. Perera ACA

## 2.2 AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Statement of Financial Position as at 31 March 2017, related Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow for the year then ended and a summary of significant accounting policies and other explanatory notes are available at the registered office of the company as mentioned in Section 6.2 of the prospectus. We have audited these financial statements and our report dated 01 August 2017 is attached to the financial statements.

## 2.3 AUDIT REPORTS

We have audited the financial statements of the company and group for the financial years ended 31 March 2017, 31 March 2016, 31 March 2015, 31 March 2014 and 31 March 2013

We have issued unqualified audit opinions for 31 March 2017, 31 March 2016, 31 March 2015, 31 March 2014 and 31 March 2013.

## 2.4 APPLICATION OF ACCOUNTING STANDARDS AND ACCOUNTING POLICIES

The financial statements of the company and the group for the years ended 31 March 2013 to 31 March 2017 comply with applicable Sri Lanka Accounting Standards

The accounting policies of the company and group are stated in detail in the audited financial statements of LVL Energy Fund Limited for the year ended 31 March 2017. Changes in accounting policies of the company and the group during 31 March 2013 to 31 March 2017 are given below.

<b>Financial Year</b>	<b>Adoption of revised/new accounting standards and related changes in accounting policies</b>
31 March 2013	<p>The Institute of Chartered Accountants of Sri Lanka had issued a new volume of Sri Lanka Accounting Standards which became applicable for financial periods beginning on or after 01 January 2012. These were the group's first consolidated financial statements prepared in accordance with SLFRS and SLFRS 1 First time adoption.</p> <p>The company changed the basis of measurement of its investments from cost method to fair value method for the investments at available for sale financial assets and to amortized cost method for the held to maturity financial assets as specified in LKAS 39 Financial Instruments- Recognition and Measurement.</p> <p>Share issue expense which had been charged against the stated capital in 2011 was charged against retained earnings as required by LKAS 39</p> <p>Investment in Kankiriya-Thambiliya Mini Hydro Power (Private) Limited which had been classified as other long term investments was reclassified as investment in subsidiary from June 2012</p> <p>An associate company, Neluwa Cascade Hydro Power (Private) Limited recognized interest expense on the corporate guarantee in accordance with</p>

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SLFRSs. Accordingly share of profits recognized under the previous GAAP was adjusted.

Retained earnings of Neluwa Cascade Hydro Power (Private) Limited which is an associate of the company as at 31 March 2011 was restated due to change in deferred tax which resulted in a change in share of earnings of the consolidated financial statements of LVL Energy Fund Limited in 2011. The Company had not adjusted consolidated financial statements for the year 2011. Upon identification of the error, retained earnings as at 31 March 2011 was restated accordingly.

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31 March 2014 Investment in Raj Lanka Power Company Limited was previously classified as an available for sale financial asset under long term investments. This investment was reclassified as an investment in equity accounted investees with effect from 19 February 2013 as evidence of significant influence as set out in LKAS 28- Investment in Associates was noted over the investee

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31 March 2015 Following the adoption of SLFRS 10 – Consolidated Financial Statements, Unit Energy Lanka (Private) Limited was treated as a subsidiary which was previously treated as an equity accounted investee. Accounts were re-stated to reflect this change.

During the financial year 2013/14 Raj Lanka Power Company Limited in Bangladesh had capitalized the cost of fuel used for machine testing purpose during the commission period. However it was subsequently revealed that part of such fuel were consumed during commercial operation of the plant which was required to be expensed in the profit or loss of 2013/14. Accordingly accounts were restated.

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31 March 2016 There were no material changes

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31 March 2017 There were no material changes

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## 2.5 DIVIDENDS

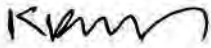
The company had paid the following dividends in respect of Ordinary Shares during the five years ended up to 31 March 2017.

Financial year	Gross Dividend (Rs)	Divided per share (Rs)
2013	29,000,222	0.50
2014	120,097,729	1.95
2015	137,395,418	0.35
2016	231,139,060	0.55
2017	277,366,868	0.60

## 2.6 EVENTS AFTER THE REPORTING DATE

There have been no material events after the reporting date that require adjustments or disclosure in the financial statements.

Yours Faithfully



**Chartered Accountants**

Colombo

SR/PK

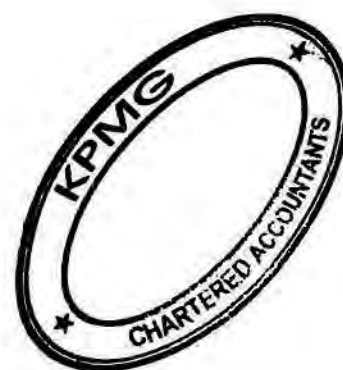
## Consolidated Statement of Profit or Loss and Other Comprehensive Income

All amounts in Sri Lanka Rupees Thousands

	Note 1	Note 1	Company Note 1	Note 2	Note 1
<i>For the year ended 31 March</i>	2017	2016	2015	2014	2013
<b>Revenue</b>					
-Investment income	323,970	268,493	199,325	130,075	29,823
-Interest income	10,011	3,953	1,380	11,846	26,764
-Other income	16,414	1,066	8,963	5,415	2,103
-Subsidiary company income	-	-	-	-	-
	<u>350,395</u>	<u>273,512</u>	<u>209,668</u>	<u>147,336</u>	<u>58,690</u>
<b>Operating expenses</b>					
-Administrative expenses	(6,534)	(19)	(4)	(4)	(3)
-Other operating expenses	(2,775)	(2,930)	(8,538)	(2,380)	(3,276)
-Direct expenses - subsidiaries	-	-	-	-	-
<b>Results from operating activities</b>	<u>341,086</u>	<u>270,563</u>	<u>201,126</u>	<u>144,952</u>	<u>55,411</u>
Available for sale financial assets reclassified from OCI	108,263	-	-	-	-
Finance cost	(110,325)	(63,288)	(40,651)	(45,460)	(14,248)
Share of profit of equity accounted investees, net of tax	-	-	-	-	-
<b>Profit before income tax</b>	<u>339,024</u>	<u>207,275</u>	<u>160,475</u>	<u>99,492</u>	<u>41,163</u>
Tax expense	13	622	(482)	-	(3,616)
<b>Profit for the year</b>	<u>339,037</u>	<u>207,897</u>	<u>159,993</u>	<u>99,492</u>	<u>37,547</u>
<b>Other comprehensive income, net of tax</b>					
Net change in fair value of available for sale financial assets	(5,616)	(3,571)	32,028	28,453	(8,412)
Reclassification of available for sale reserve to profit/(loss)	(108,263)	-	-	-	-
Foreign operations-foreign currency translation difference	-	-	-	-	-
<b>Other comprehensive income for the year, net of tax</b>	<u>(113,879)</u>	<u>(3,571)</u>	<u>32,028</u>	<u>28,453</u>	<u>(8,412)</u>
<b>Total comprehensive income for the year</b>	<u>225,158</u>	<u>204,326</u>	<u>192,021</u>	<u>127,945</u>	<u>29,135</u>
<b>Profit attributable to :</b>					
-Equity holders of the company	339,037	207,897	159,993	99,492	37,547
-Non controlling interest	-	-	-	-	-
<b>Profit for the year</b>	<u>339,037</u>	<u>207,897</u>	<u>159,993</u>	<u>99,492</u>	<u>37,547</u>
<b>Total comprehensive income attributable to :</b>					
-Equity holders of the company	225,158	204,326	192,021	127,945	29,135
-Non controlling interest	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<u>225,158</u>	<u>204,326</u>	<u>192,021</u>	<u>127,945</u>	<u>29,135</u>

Note 01 - Published Financial Statements

Note 02 - Restated in 2015



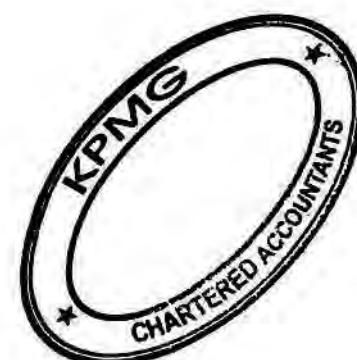
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

All amounts in Sri Lanka Rupees Thousands

	Note 1 2017	Note 1 2016	Group Note 1 2015	Note 2 2014	Note 1 2013
<i>For the year ended 31 March</i>					
<b>Revenue</b>					
-Investment income	279	23,820	40,703	34,979	30,352
-Interest income	12,158	6,934	2,481	12,597	26,778
-Other income	-	-	11	-	2,103
-Subsidiary company income	224,457	248,351	239,090	46,270	-
	<b>236,894</b>	<b>279,105</b>	<b>282,285</b>	<b>93,846</b>	<b>59,233</b>
<b>Operating expenses</b>					
-Administrative expenses	(6,975)	(527)	(41)	(4)	(3)
-Other operating expenses	(9,695)	(9,435)	(17,257)	(23,297)	(4,968)
-Direct expenses- subsidiaries	(88,767)	(81,499)	(72,162)	(31,252)	-
<b>Results from operating activities</b>	<b>131,457</b>	<b>187,644</b>	<b>192,825</b>	<b>39,293</b>	<b>54,262</b>
Available for sale financial assets reclassified from OCI	108,263	-	-	-	-
Gain on disposal of a subsidiary	900	-	-	-	-
Finance cost	(153,575)	(94,088)	(60,530)	(71,622)	(14,251)
Share of profit of equity accounted investees, net of tax	423,360	303,893	263,955	222,023	62,900
<b>Profit before income tax</b>	<b>510,405</b>	<b>397,449</b>	<b>396,250</b>	<b>189,694</b>	<b>102,911</b>
Tax expense	(45,472)	(40,540)	(44,082)	(15,536)	(3,730)
<b>Profit for the year</b>	<b>464,933</b>	<b>356,909</b>	<b>352,168</b>	<b>174,158</b>	<b>99,181</b>
<b>Other comprehensive income, net of tax</b>					
Net change in fair value of available for sale financial assets	(5,616)	(3,571)	32,028	28,453	(8,412)
Reclassification of available for sale reserve to profit /(loss)	(108,263)	-	-	-	-
Share of other comprehensive income from equity accounted investees	8,629	(59)	-	-	-
Foreign operations-foreign currency translation difference	6,356	64,470	17,356	-	-
<b>Other comprehensive income for the year, net of tax</b>	<b>(98,894)</b>	<b>60,840</b>	<b>49,384</b>	<b>28,453</b>	<b>(8,412)</b>
<b>Total comprehensive income for the year</b>	<b>366,039</b>	<b>417,749</b>	<b>401,552</b>	<b>202,611</b>	<b>90,769</b>
<b>Profit attributable to :</b>					
-Equity holders of the company	424,000	295,819	260,832	192,243	99,041
-Non controlling interest	40,933	61,090	91,336	(18,085)	140
<b>Profit for the year</b>	<b>464,933</b>	<b>356,909</b>	<b>352,168</b>	<b>174,158</b>	<b>99,181</b>
<b>Total comprehensive income attributable to :</b>					
-Equity holders of the company	325,105	356,659	303,790	220,696	90,629
-Non controlling interest	40,934	61,090	97,762	(18,085)	140
<b>Total comprehensive income for the year</b>	<b>366,039</b>	<b>417,749</b>	<b>401,552</b>	<b>202,611</b>	<b>90,769</b>

Note 01 - Published Financial Statements

Note 02 - Restated in 2015



## Statement of Financial Position

All amounts in Sri Lanka Rupees Thousands

	Note 1	Note 1	Company Note 1	Note 2	Note 1
As at 31 March	2017	2016	2015	2014	2013
<b>Assets</b>					
<b>Non current assets</b>					
Property plant and equipment	-	-	-	-	-
Investment in subsidiaries	1,490,197	1,409,888	1,297,888	776,289	388,289
Investment in equity accounted investees	989,261	725,350	725,350	725,350	725,350
Intangible assets	-	-	-	-	-
Available for sale financial assets	-	146,860	150,431	118,403	136,423
<b>Total non current assets</b>	<b>2,479,458</b>	<b>2,282,098</b>	<b>2,173,669</b>	<b>1,620,042</b>	<b>1,250,062</b>
<b>Current assets</b>					
Loans and receivables	-	-	10,995	49,473	-
Amounts due from related parties	71,320	40,159	23,307	60,384	30,271
Income tax receivable	1,894	1,881	1,259	291	-
Other receivables	124,564	-	-	3,257	17,451
Cash and cash equivalents	47,717	62,868	64,222	11,648	86,822
<b>Total current assets</b>	<b>245,495</b>	<b>104,908</b>	<b>99,783</b>	<b>125,053</b>	<b>134,544</b>
<b>Total assets</b>	<b>2,724,953</b>	<b>2,387,006</b>	<b>2,273,452</b>	<b>1,745,095</b>	<b>1,384,606</b>
<b>Equity</b>					
Stated capital	1,706,472	1,370,270	1,357,300	1,093,040	860,020
Available for sale reserve	-	113,879	117,450	85,422	56,969
Retained earnings	64,764	4,571	29,257	10,784	36,050
<b>Total equity</b>	<b>1,771,236</b>	<b>1,488,720</b>	<b>1,504,007</b>	<b>1,189,246</b>	<b>953,039</b>
<b>Liabilities</b>					
<b>Non current liabilities</b>					
Interest bearing borrowings	150,000	225,000	200,000	-	-
Cumulative redeemable preference shares	150,000	315,000	360,000	330,000	240,000
<b>Total non current liability</b>	<b>300,000</b>	<b>540,000</b>	<b>560,000</b>	<b>330,000</b>	<b>240,000</b>
<b>Current liabilities</b>					
Interest bearing borrowings	377,408	77,297	1,269	-	-
Cumulative redeemable preference shares	273,311	280,395	207,441	90,022	70,186
Amounts due to related parties	-	-	-	106,181	89,672
Other payables	2,998	594	735	29,646	29,490
Income tax payable	-	-	-	-	2,219
<b>Total current liabilities</b>	<b>653,717</b>	<b>358,286</b>	<b>209,445</b>	<b>225,849</b>	<b>191,567</b>
<b>Total liabilities</b>	<b>953,717</b>	<b>898,286</b>	<b>769,445</b>	<b>555,849</b>	<b>431,567</b>
<b>Total equity and liabilities</b>	<b>2,724,953</b>	<b>2,387,006</b>	<b>2,273,452</b>	<b>1,745,095</b>	<b>1,384,606</b>

Note 01 - Published Financial Statements

Note 02 - Restated in 2015



## Consolidated Statement of Financial Position

All amounts in Sri Lanka Rupees Thousands

	Note 1 2017	Note 1 2016	Group Note 1 2015	Note 2 2014	Note 1 2013
<i>As at 31 March</i>					
<b>Assets</b>					
<b>Non current assets</b>					
Property plant and equipment	1,048,986	825,422	709,039	437,782	10,266
Investment in subsidiaries	-	-	-	-	-
Investment in equity accounted investees	2,597,549	2,206,180	2,076,798	1,816,796	999,023
Intangible assets	64,131	88,623	58,307	4,494	-
Available for sale financial assets	-	146,860	150,431	118,403	391,823
<b>Total non current assets</b>	<b>3,710,666</b>	<b>3,267,085</b>	<b>2,994,575</b>	<b>2,377,475</b>	<b>1,401,112</b>
<b>Current assets</b>					
Loans and receivables	9,962	11,056	52,880	65,690	-
Amounts due from related parties	437	437	310	2,282	26,777
Income tax receivable	2,106	1881	1,259	318	-
Other receivables	155,534	26,750	19,415	35,197	42,267
Cash and cash equivalents	83,316	128,231	115,325	13,298	87,135
<b>Total current assets</b>	<b>251,355</b>	<b>168,355</b>	<b>189,189</b>	<b>116,785</b>	<b>156,179</b>
<b>Total assets</b>	<b>3,962,021</b>	<b>3,435,440</b>	<b>3,183,764</b>	<b>2,494,260</b>	<b>1,557,291</b>
<b>Equity</b>					
Stated capital	1,706,472	1,370,270	1,357,300	1,093,040	860,020
Revaluation reserve	8,301	-	-	-	-
Available for sale reserve	-	113,879	117,450	85,422	56,969
Translation reserve	81,756	75,400	10,930	-	-
Retained earnings	467,644	322,161	283,405	185,708	116,872
<b>Total equity attributable to equity holders of the company</b>	<b>2,264,173</b>	<b>1,881,710</b>	<b>1,769,085</b>	<b>1,364,170</b>	<b>1,033,861</b>
Non controlling interest	171,355	272,005	214,310	384,038	91,812
<b>Total equity</b>	<b>2,435,528</b>	<b>2,153,715</b>	<b>1,983,395</b>	<b>1,748,208</b>	<b>1,125,673</b>
<b>Liabilities</b>					
<b>Non current liabilities</b>					
Interest bearing borrowings	314,397	370,000	384,842	111,165	-
Cumulative redeemable preference shares	490,000	402,000	450,000	330,000	240,000
Deferred tax liability	38,169	44,401	38,237	21,676	-
<b>Total non current liability</b>	<b>842,566</b>	<b>816,401</b>	<b>873,079</b>	<b>462,841</b>	<b>240,000</b>
<b>Current liabilities</b>					
Interest bearing borrowings	402,369	166,682	103,049	51,128	-
Cumulative redeemable preference shares	273,311	283,486	207,519	90,022	70,186
Amounts due to related parties	-	-	-	106,180	89,672
Other payables	6,260	6,546	11,240	35,881	29,567
Income tax payable	1,987	8,610	5,482	-	2,193
<b>Total current liabilities</b>	<b>683,927</b>	<b>465,324</b>	<b>327,290</b>	<b>283,211</b>	<b>191,618</b>
<b>Total liabilities</b>	<b>1,526,493</b>	<b>1,281,725</b>	<b>1,200,369</b>	<b>746,052</b>	<b>431,618</b>
<b>Total equity and liabilities</b>	<b>3,962,021</b>	<b>3,435,440</b>	<b>3,183,764</b>	<b>2,494,260</b>	<b>1,557,291</b>

Note 01 - Published Financial Statements

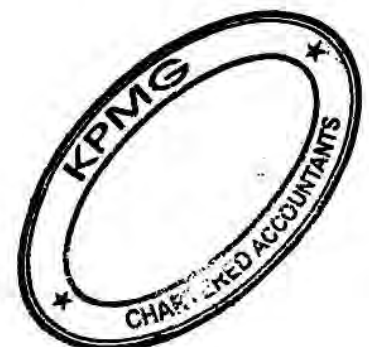
Note 02 - Restated in 2015



## Statement of Changes in Equity

All amounts in Sri Lanka Rupees Thousands

Company	Stated capital	Available for sale reserve	Retained earnings	Total
Balance as at 31 March 2012	711,090	65,381	57,285	833,756
Profit for the year	-	-	37,547	37,547
Net change in fair value of available-for-sale financial assets	-	(8,412)	-	(8,412)
<b>Total comprehensive income for the year</b>	-	<b>(8,412)</b>	<b>37,547</b>	<b>29,135</b>
<b>Transactions with equity holders recognized directly in equity</b>				
<b>contributions by &amp; distribution to equity holders</b>				
Issue of shares during the period	148,930	-	-	148,930
Share issue expenses	-	-	(2,004)	(2,004)
Final dividend paid for 2011/2012	-	-	(27,778)	(27,778)
Interim dividend payable for 2012/2013	-	-	(29,000)	(29,000)
	<u>148,930</u>	<u>-</u>	<u>(58,782)</u>	<u>90,148</u>
<b>Balance as at 31 March 2013 (Note 01)</b>	<b>860,020</b>	<b>56,969</b>	<b>36,050</b>	<b>953,039</b>
Profit for the year	-	-	99,492	99,492
Net change in fair value of available-for-sale financial assets	-	28,453	-	28,453
<b>Total comprehensive income for the year</b>	-	<b>28,453</b>	<b>99,492</b>	<b>127,945</b>
<b>Transactions with equity holders recognized directly in equity</b>				
<b>contributions by &amp; distribution to equity holders</b>				
Issue of shares during the period	233,020	-	-	233,020
Share issue expenses	-	-	(4,660)	(4,660)
Interim dividend for 2013/2014	-	-	(91,667)	(91,667)
Interim dividend payable for 2013/2014	-	-	(28,430)	(28,430)
	<u>233,020</u>	<u>-</u>	<u>(124,757)</u>	<u>108,263</u>
<b>Balance as at 31 March 2014 (Note 02)</b>	<b>1,093,040</b>	<b>85,422</b>	<b>10,784</b>	<b>1,189,246</b>



## Statement of Changes in Equity

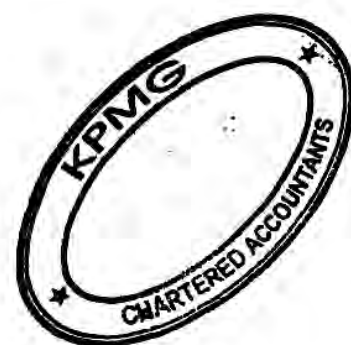
All amounts in Sri Lanka Rupees Thousands

## Company

Balance as at 31 March 2014	1,093,040	85,422	10,784	1,189,247
Profit for the year	-	-	159,993	159,993
Net change in fair value of available-for-sale financial assets	-	32,028	-	32,028
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>32,028</b>	<b>159,993</b>	<b>192,021</b>
<b>Transactions with equity holders recognized directly in equity</b>				
<b>contributions by &amp; distribution to equity holders</b>				
Issue of shares during the period	264,260	-	-	264,260
Share issue expenses	-	-	(4,125)	(4,125)
Dividend paid	-	-	(137,395)	(137,395)
	<b>264,260</b>	<b>-</b>	<b>(141,520)</b>	<b>122,740</b>
<b>Balance as at 31 March 2015 (Note 01)</b>	<b>1,357,300</b>	<b>117,450</b>	<b>29,257</b>	<b>1,504,007</b>
Profit for the year	-	-	207,897	207,897
Net change in fair value of available-for-sale financial assets	-	(3,571)	-	(3,571)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(3,571)</b>	<b>207,897</b>	<b>204,326</b>
<b>Transactions with equity holders recognized directly in equity</b>				
<b>contributions by &amp; distribution to equity holders</b>				
Issue of shares during the period	12,970	-	-	12,970
Share issue expenses	-	-	(1,444)	(1,444)
Dividend paid	-	-	(231,139)	(231,139)
	<b>12,970</b>	<b>-</b>	<b>(232,583)</b>	<b>(219,613)</b>
<b>Balance as at 31 March 2016 (Note 01)</b>	<b>1,370,270</b>	<b>113,879</b>	<b>4,571</b>	<b>1,488,720</b>
Profit for the year	-	-	339,037	339,037
Reclassification of available for sale reserve to profit/(loss)	-	(108,263)	-	(108,263)
Net change in fair value of available-for-sale financial assets	-	(5,616)	-	(5,616)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(113,879)</b>	<b>339,037</b>	<b>225,158</b>
<b>Transactions with equity holders recognized directly in equity</b>				
<b>contributions by &amp; distribution to equity holders</b>				
Issue of shares during the period	336,202	-	-	336,202
Share issue expenses	-	-	(1,477)	(1,477)
Dividend paid	-	-	(277,367)	(277,367)
	<b>336,202</b>	<b>-</b>	<b>(278,844)</b>	<b>57,358</b>
<b>Balance as at 31 March 2017 (Note 01)</b>	<b>1,706,472</b>	<b>-</b>	<b>64,764</b>	<b>1,771,236</b>

Note 01 - Published Financial Statements

Note 02 - Restated in 2015



## LVL Energy Fund Limited

## Statement of Changes in Equity

All amounts in Sri Lanka Rupees Thousands

Group	Attributable to equity holders of the group			Retained earnings	Non controlling interest	Total
	Stated capital	Revaluation reserve	Available for sale reserve			
Balance as at 31 March 2012	711,090	-	65,381	76,613	91,672	944,756
Profit for the year	-	-	-	99,041	140	99,181
Net change in fair value of available-for-sale financial assets	-	-	(8,412)	-	-	(8,412)
Total comprehensive income	-	-	(8,412)	99,041	140	90,769
Transactions with equity holders recognized directly in equity contributions by & distribution to equity holders	148,930	-	-	-	-	148,930
Issue of shares during the period	-	-	-	(2,004)	-	(2,004)
Share issue expenses	-	-	-	(27,778)	-	(27,778)
Final dividend for 2011/2012	-	-	-	(29,000)	-	(29,000)
Interim dividend payable for 2012/2013	-	-	-	(58,782)	-	(58,782)
Balance as at 31 March 2013 (Note 01)	860,020	-	56,969	116,872	91,812	1,125,673
Impact of changes in accounting policies	-	-	-	857	40,804	41,661
Restated balance as at 01 April 2013	860,020	-	56,969	117,729	132,616	1,167,334
Profit for the year	-	-	-	192,243	(18,085)	174,158
Net change in fair value of available-for-sale financial assets	-	-	28,453	-	-	28,453
Total comprehensive income	-	-	28,453	192,243	(18,085)	202,611
Transactions with equity holders recognized directly in equity contributions by & distribution to equity holders	233,020	-	-	-	-	233,020
Issue of shares during the period	-	-	-	493	269,507	270,000
Change in ownership without change in control	-	-	-	(4,660)	-	(4,660)
Share issue expenses	-	-	-	(91,667)	-	(91,667)
Interim dividend for 2013/2014	-	-	-	(28,430)	-	(28,430)
Interim dividend payable for 2013/2014	-	-	-	(124,264)	269,507	378,263
Balance as at 31 March 2014 (Note 02)	1,093,040	-	85,422	185,708	384,038	1,748,208



## LVL Energy Fund Limited

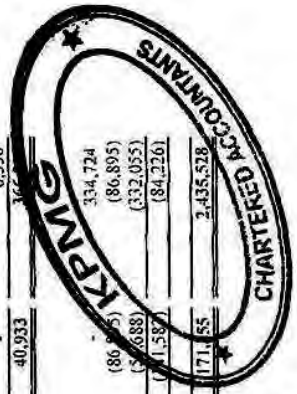
## Statement of Changes in Equity

All amounts in Sri Lanka Rupees Thousands

Group	Stated capital	Revaluation reserve	Attributable to equity holders of the group	Retained earnings	Total	Non controlling interest	Total
			Reserve	earnings			
			Available for sale reserve				
			Translation reserve				
Balance as at 31 March 2014	1,093,040	-	85,422	185,708	1,364,170	384,038	1,748,208
Profit for the year	-	-	-	260,832	260,832	91,336	352,168
Net change in fair value of available-for-sale financial assets	-	-	32,028	-	32,028	-	32,028
Foreign operations - foreign currency translation difference	-	-	-	10,930	10,930	6,426	17,356
Total comprehensive income	-	-	32,028	260,832	303,790	97,762	401,552
Transactions with equity holders recognized directly in equity contributions by & distribution to equity holders							
Issue of shares during the period	264,260	-	-	-	264,260	-	264,260
Share issue expenses	-	-	-	(4,125)	(4,125)	-	(4,125)
Shares issued to minority shareholders by subsidiaries	-	-	-	(21,615)	(21,615)	47,093	47,093
Acquisition of NCI without change in control	-	-	-	(137,395)	(137,395)	(288,885)	(310,300)
Dividend paid	264,260	-	-	(163,135)	101,125	(267,490)	(166,365)
Balance as at 31 March 2015 (Note 01)	1,357,300	-	117,450	283,405	1,769,085	214,310	1,983,395
Profit for the year	-	-	-	295,819	295,819	61,090	356,909
Net change in fair value of available-for-sale financial assets	-	-	(3,571)	-	(3,571)	-	(3,571)
Equity accounted investees - share of other comprehensive income	-	-	-	(59)	(59)	-	(59)
Foreign operations - foreign currency translation difference	-	-	64,470	-	64,470	-	64,470
Total comprehensive income	-	-	(3,571)	295,760	356,659	61,090	417,749
Transactions with equity holders recognized directly in equity contributions by & distribution to equity holders							
Issue of shares during the period	12,970	-	-	(1,444)	11,526	48,000	59,526
Cumulative preference dividend - Neluwa Cascade Hydro Power (Private) Limited	-	-	-	(24,421)	(24,421)	-	(24,421)
Dividend paid	12,970	-	-	(231,139)	(231,139)	(51,395)	(282,534)
Balance as at 31 March 2016 (Note 01)	1,370,270	-	113,879	322,161	1,881,710	272,005	2,153,715
Profit for the year	-	-	-	424,000	424,000	40,933	464,933
Net change in fair value of available-for-sale financial assets	-	-	(5,616)	-	(5,616)	-	(5,616)
Reclassification of available for sale reserve to profit/(loss)	-	-	(108,263)	-	(108,263)	-	(108,263)
Share of other comprehensive income from equity accounted investees	-	8,301	-	328	8,629	-	8,629
Foreign operations - foreign currency translation difference	-	-	-	6,356	6,356	-	6,356
Total comprehensive income	-	8,301	(113,879)	424,328	325,106	40,933	366,039
Transactions with equity holders recognized directly in equity contributions by & distribution to equity holders							
Issue of shares during the period	536,202	-	-	(1,478)	534,724	(86,895)	447,829
Acquisition of NCI without change in control	-	-	-	(277,367)	(277,367)	(332,955)	(610,322)
Dividend paid	336,202	-	-	(278,843)	57,357	(1,138)	56,219
Balance as at 31 March 2017 (Note 01)	1,706,472	8,301	81,756	467,644	2,264,173	171,55	2,435,728

Note 01 - Published Financial Statements

Note 02 - Restated in 2015



Statement of cash flows

All amounts in Sri Lanka Rupees Thousands

	Company				
	Note 01 2017	Note 01 2016	Note 01 2015	Note 01 2014	Note 01 2013
<b>For the year ended 31 March</b>					
<b>Cash flows from operating activities</b>					
Profit before tax	339,024	207,275	160,475	99,492	41,163
<b>Adjustments for:</b>					
Interest income	(10,011)	(3,953)	(6,880)	(17,846)	(58,690)
Dividend income	(373,970)	(268,493)	(193,825)	(124,075)	-
Other income	(16,414)	(1,066)	(8,963)	(5,415)	-
Interest expense	51,709	20,991	9,591	-	-
Preference dividend	58,273	42,271	30,993	35,169	-
Depreciation	-	-	-	-	-
Amortization	-	-	-	-	-
Available for sale financial assets reclassified from OCI	(108,263)	-	-	-	-
Share of profit of equity accounted investees (net of income tax)	-	-	-	-	-
	<b>(9,652)</b>	<b>(2,975)</b>	<b>(8,608)</b>	<b>(12,675)</b>	<b>(17,527)</b>
<b>Changes in</b>					
Loans and receivables	-	1,066	-	-	-
Amounts due from related parties	(18,661)	(16,852)	37,077	(27,831)	(30,071)
Other receivables	(124,564)	-	3,257	-	1,035
Other payables	2,403	(141)	(28,911)	726	9,422
Amounts due to related parties	-	-	(106,180)	16,508	(6,614)
<b>Cash generated/ (used) from operating activities</b>	<b>(150,474)</b>	<b>(18,901)</b>	<b>(103,365)</b>	<b>(23,272)</b>	<b>(43,755)</b>
Interest paid	(51,598)	(19,963)	(8,322)	-	-
Taxes paid	-	-	-	(1,326)	(79)
<b>Net cash from operating activities</b>	<b>(202,072)</b>	<b>(38,864)</b>	<b>(111,688)</b>	<b>(24,598)</b>	<b>(43,834)</b>
<b>Cash flows from investing activities</b>					
Interest received	10,011	3,953	23,867	19,077	44,012
Dividend received	373,970	279,488	182,830	135,987	-
Disposal / acquisition of venture capital investments	-	-	40,000	-	-
Investment in subsidiaries	(111,894)	(112,000)	(521,600)	(388,000)	(265,666)
Investment in equity accounted investees	(87,167)	-	-	-	(282,550)
Cost incurred to obtain approval for power projects	-	-	-	-	-
Disposal / acquisition of property, plant & equipment	-	-	-	-	-
<b>Net cash generated / (used) from investing activities</b>	<b>134,920</b>	<b>171,440</b>	<b>(274,903)</b>	<b>(232,936)</b>	<b>(504,204)</b>
<b>Cash flows from financing activities</b>					
Dividends paid	(277,367)	(231,139)	(137,395)	(120,667)	(27,778)
Issue of ordinary shares	336,202	12,970	264,260	233,020	148,930
Net proceeds from interest bearing borrowings	225,000	100,000	200,000	-	-
Issue of ordinary shares - by subsidiary	-	-	-	-	-
Share issue expenses	(1,477)	(1,444)	(4,125)	(4,660)	(2,004)
Acquisition of non controlling interest	-	-	-	-	-
Net proceeds from cumulative redeemable preference shares	(165,000)	30,000	150,000	90,000	300,000
Preference dividend paid	(65,357)	(44,317)	(33,575)	(15,333)	-
<b>Net cash generated / (used) from financing activities</b>	<b>52,001</b>	<b>(133,930)</b>	<b>439,165</b>	<b>182,360</b>	<b>419,148</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	<b>(15,151)</b>	<b>(1,354)</b>	<b>52,574</b>	<b>(75,774)</b>	<b>(125,890)</b>
Cash & cash equivalents at 01 April	62,868	64,222	11,648	86,822	2,572
Cash & cash equivalents at 31 March	47,717	62,868	64,222	11,648	86,822

Note 01 - Published financial statements



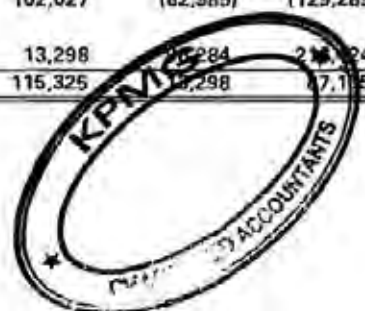
Statement of cash flows

All amounts in Sri Lanka Rupees Thousands

	Note 01 2017	Note 01 2016	Group Note 01 2015	Note 02 2014	Note 01 2013
<b>For the year ended 31 March</b>					
<b>Cash flows from operating activities</b>					
Profit before tax	510,405	397,449	396,250	189,694	102,911
<b>Adjustments for:</b>					
Interest income	(12,158)	(6,934)	(7,981)	(18,597)	(58,703)
Dividend income	-	(22,936)	(33,921)	(28,675)	-
Other income	-	-	(11)	-	-
Interest expense	77,179	41,464	23,870	-	-
Preference dividend	75,171	52,077	35,061	35,169	-
Depreciation	30,038	17,867	17,853	17,779	-
Amortization	319	188	188	188	-
Available for sale financial assets reclassified from OCI	(108,263)	-	-	-	-
Share of profit of equity accounted investees (net of income tax)	(423,360)	(303,893)	(263,955)	(222,023)	(62,900)
	<b>149,331</b>	<b>175,382</b>	<b>167,354</b>	<b>(26,465)</b>	<b>(18,692)</b>
<b>Changes in</b>					
Loans and receivables	26,635	30,831	(22,537)	6,753	-
Amounts due from related parties	(3,914)	(127)	5,229	(3,399)	(26,397)
Other receivables	(104,612)	(7,335)	8,534	1,979	(1,875)
Other payables	(280)	(8,425)	(24,638)	(2,531)	9,447
Amounts due to related parties	-	-	(106,180)	16,507	(6,614)
<b>Cash generated/ (used) from operating activities</b>	<b>67,160</b>	<b>190,327</b>	<b>27,764</b>	<b>(7,155)</b>	<b>(44,136)</b>
Interest paid	(75,630)	(40,892)	(22,601)	-	-
Taxes paid	(15,661)	(6,693)	(23)	(1,373)	(95)
<b>Net cash from operating activities</b>	<b>(24,031)</b>	<b>142,742</b>	<b>5,139</b>	<b>(8,528)</b>	<b>(44,231)</b>
<b>Cash flows from investing activities</b>					
Interest received	12,158	6,934	147,773	109,808	44,010
Dividend received	210,765	226,982	22,926	40,587	-
Disposal / acquisition of venture capital investments	-	-	40,000	-	(255,400)
Investment in subsidiaries	-	-	-	-	-
Investment in equity accounted investees	(87,167)	-	(131,100)	(653,000)	(282,550)
Cost incurred to obtain approval for power projects	-	(30,504)	(54,001)	-	-
Disposal / acquisition of property, plant & equipment	(253,603)	(134,350)	(289,110)	(2,673)	(10,266)
<b>Net cash generated / (used) from investing activities</b>	<b>(117,847)</b>	<b>69,062</b>	<b>(263,511)</b>	<b>(505,278)</b>	<b>(504,206)</b>
<b>Cash flows from financing activities</b>					
Dividends paid	(332,055)	(282,534)	(163,093)	(120,667)	(27,778)
Issue of ordinary shares	336,202	12,970	264,260	233,020	148,930
Net proceeds from interest bearing borrowings	178,535	48,220	324,329	(21,538)	-
Issue of ordinary shares - by subsidiary	-	48,000	47,093	270,000	-
Share issue expenses	(1,478)	(1,444)	(4,125)	(4,660)	(2,004)
Acquisition of non controlling interest	(86,895)	-	(310,500)	-	-
Net proceeds from cumulative redeemable preference shares	85,000	30,000	240,000	90,000	300,000
Preference dividend paid	(82,346)	(54,110)	(37,566)	(15,333)	-
<b>Net cash generated / (used) from financing activities</b>	<b>96,963</b>	<b>(198,898)</b>	<b>360,398</b>	<b>430,821</b>	<b>419,148</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	<b>(44,915)</b>	<b>12,906</b>	<b>102,027</b>	<b>(82,985)</b>	<b>(129,289)</b>
<b>Cash &amp; cash equivalents at 01 April</b>	<b>128,231</b>	<b>115,325</b>	<b>13,298</b>	<b>25,284</b>	<b>21,224</b>
<b>Cash &amp; cash equivalents at 31 March</b>	<b>83,316</b>	<b>128,231</b>	<b>115,325</b>	<b>15,298</b>	<b>(7,115)</b>

Note 01 - Published financial statements

Note 02 - Restated in 2015



# ANNEXURE B : INDEPENDENT AUDITOR'S REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017



KPMG  
(Chartered Accountants)  
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## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF LVL ENERGY FUND LIMITED

#### Report on the Financial Statements

We have audited the accompanying financial statements of LVL Energy Fund Limited, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at March 31, 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### Board's Responsibility for the Financial Statements

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

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

#### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at March 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

1  
M.R. Mihular FCA  
T.J.S. Rajakeri FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyaratne FCA  
R.M.D.B. Rajapakse FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA  
Ms. C.T.K.N. Perera ACA



### **Report on Other Legal and Regulatory Requirements**

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

- a) The basis of opinion and scope and limitations of the audit are as stated above
- b) In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
  - The financial statements of the Company give a true and fair view of its financial position as at March 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

A handwritten signature in black ink, appearing to be 'K. M. M.' with a stylized flourish at the end.

CHARTERED ACCOUNTANTS

Colombo

01 August 2017

**LVL ENERGY FUND LIMITED**
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

(All amounts in Sri Lanka Rupees thousands)

	Notes	Group		Company	
		2017	2016	2017	2016
<b>For the year ended 31 March</b>					
<b>Revenue</b>					
Investment income	6	279	23,820	323,970	268,493
Interest income	7	12,158	6,934	10,011	3,953
Other income	8	-	-	16,414	1,066
Subsidiary company income	9	224,457	248,351	-	-
		<b>236,894</b>	<b>279,105</b>	<b>350,395</b>	<b>273,512</b>
<b>Operating expenses</b>					
Administrative expenses	10	(6,975)	(527)	(6,534)	(19)
Sales and establishment expenses		(40)	(293)	-	-
Other operating expenses		(9,655)	(9,142)	(2,775)	(2,930)
Direct expenses - subsidiaries	9	(88,767)	(81,499)	-	-
<b>Results from operating activities</b>		<b>131,457</b>	<b>187,644</b>	<b>341,086</b>	<b>270,563</b>
Available for sale financial assets reclassified from OCI		108,263	-	108,263	-
Gain on disposal of a subsidiary		900	-	-	-
Finance cost	11	(153,575)	(94,088)	(110,325)	(63,288)
Share of profit of equity accounted investees, net of tax	12	423,360	303,893	-	-
<b>Profit before income tax</b>		<b>510,405</b>	<b>397,449</b>	<b>339,024</b>	<b>207,275</b>
Tax expense	13	(45,472)	(40,540)	13	622
<b>Profit for the year</b>		<b>464,933</b>	<b>356,909</b>	<b>339,037</b>	<b>207,897</b>
<b>Other comprehensive income, net of income tax</b>					
Net change in fair value of available-for-sale financial assets		(5,616)	(3,571)	(5,616)	(3,571)
Reclassification of available for sale reserve to profit / (loss)		(108,263)	-	(108,263)	-
Share of other comprehensive income from equity accounted investees		8,629	(59)	-	-
Foreign operations - foreign currency translation difference		6,356	64,470	-	-
<b>Other comprehensive income for the year, net of income tax</b>		<b>(98,894)</b>	<b>60,840</b>	<b>(113,879)</b>	<b>(3,571)</b>
<b>Total comprehensive income for the year</b>		<b>366,039</b>	<b>417,749</b>	<b>225,158</b>	<b>204,326</b>
<b>Profit attributable to:</b>					
Equity holders of the company		424,000	295,819	339,037	207,897
Non-controlling interest		40,933	61,090	-	-
<b>Profit for the year</b>		<b>464,933</b>	<b>356,909</b>	<b>339,037</b>	<b>207,897</b>
<b>Total comprehensive income attributable to:</b>					
Equity holders of the company		325,105	356,659	225,158	204,326
Non-controlling interest		40,934	61,090	-	-
<b>Total comprehensive income for the year</b>		<b>366,039</b>	<b>417,749</b>	<b>225,158</b>	<b>204,326</b>
<b>Earnings per share on profit</b>					
Basic earnings per share	14	0.94	0.71	0.75	0.50

The notes to the Financial Statements form an integral part of these Financial Statements.

**LVL ENERGY FUND LIMITED**
**STATEMENT OF FINANCIAL POSITION**

(All amounts in Sri Lanka Rupees thousands)

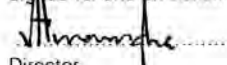
<b>As at 31 March</b>	<b>Notes</b>	<b>Group</b>		<b>Company</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>					
<b>Non current assets</b>					
Property, plant and equipment	16	1,048,986	825,422	-	-
Investment in subsidiaries	17	-	-	1,490,197	1,409,888
Investment in equity accounted investees	18	2,597,549	2,206,180	989,261	725,350
Intangible assets	19	64,131	88,623	-	-
Available for sale financial assets	20	-	146,860	-	146,860
<b>Total non current assets</b>		<b>3,710,666</b>	<b>3,267,085</b>	<b>2,479,458</b>	<b>2,282,098</b>
<b>Current assets</b>					
Loans and receivables	21	9,962	11,056	-	-
Amounts due from related parties	22	437	437	71,320	40,159
Income tax receivables	31.1	2,106	1,881	1,894	1,881
Other receivables	23	155,534	26,750	124,564	-
Cash & cash equivalents	24	83,316	128,231	47,717	62,868
<b>Total current assets</b>		<b>251,355</b>	<b>168,355</b>	<b>245,495</b>	<b>104,908</b>
<b>Total assets</b>		<b>3,962,021</b>	<b>3,435,440</b>	<b>2,724,953</b>	<b>2,387,006</b>
<b>Equity</b>					
Stated capital	26	1,706,472	1,370,270	1,706,472	1,370,270
Revaluation reserve		8,301	-	-	-
Available for sale reserve		-	113,879	-	113,879
Translation reserve		81,756	75,400	-	-
Retained earnings		467,644	322,161	64,764	4,571
<b>Total equity attributable to equity holders of the company</b>		<b>2,264,173</b>	<b>1,881,710</b>	<b>1,771,236</b>	<b>1,488,720</b>
Non controlling interest		171,355	272,005	-	-
<b>Total equity</b>		<b>2,435,528</b>	<b>2,153,715</b>	<b>1,771,236</b>	<b>1,488,720</b>
<b>Liabilities</b>					
<b>Non current liabilities</b>					
Interest bearing borrowings	27	314,397	370,000	150,000	225,000
Cumulative redeemable preference shares	28	490,000	402,000	150,000	315,000
Deferred tax liability	29	38,169	44,401	-	-
<b>Total non current liabilities</b>		<b>842,566</b>	<b>816,401</b>	<b>300,000</b>	<b>540,000</b>
<b>Current liabilities</b>					
Interest bearing borrowings	27	402,369	166,682	377,408	77,297
Cumulative redeemable preference shares	28	273,311	283,486	273,311	280,395
Other payables	30	6,260	6,546	2,998	594
Income tax payable	31.2	1,987	8,610	-	-
<b>Total current liabilities</b>		<b>683,927</b>	<b>465,324</b>	<b>653,717</b>	<b>358,286</b>
<b>Total liabilities</b>		<b>1,526,493</b>	<b>1,281,725</b>	<b>953,717</b>	<b>898,286</b>
<b>Total equity and liabilities</b>		<b>3,962,021</b>	<b>3,435,440</b>	<b>2,724,953</b>	<b>2,387,006</b>

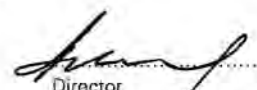
I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No 07 of 2007.

  
 Finance Manager

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

Signed for and on behalf of the Board.

  
 Director  
 Colombo  
 01 August 2017

  
 Director

The notes to the Financial Statements form an integral part of these Financial Statements.

**LVL ENERGY FUND LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

(All amounts in Sri Lankan Rupees Thousands)

Group	Stated capital	Attributable to equity holders of the group			Retained earnings	Total	Non controlling interest	Total
		Revaluation reserve	Available for sale reserve	Translation reserve				
<b>Balance as at 01 April 2015</b>	1,357,300	-	117,450	10,930	283,405	1,769,085	214,310	1,983,395
Profit for the year	-	-	-	-	295,819	295,819	61,090	356,909
Net change in fair value of available-for-sale financial assets	-	-	(3,571)	-	-	(3,571)	-	(3,571)
Share of other comprehensive income from equity accounted investee	-	-	-	-	(59)	(59)	-	(59)
Foreign operations - foreign currency translation difference	-	-	-	64,470	-	64,470	-	64,470
<b>Total comprehensive income</b>	-	-	<b>(3,571)</b>	<b>64,470</b>	<b>295,760</b>	<b>356,659</b>	<b>61,090</b>	<b>417,749</b>
<b>Transactions with equity holders recognized directly in equity contributions by &amp; distribution to equity holders</b>								
Issue of shares during the period	12,970	-	-	-	(1,444)	11,526	48,000	59,526
Cumulative preference dividend - Neluwa Cascade Hydro Power (Private) Limited	-	-	-	-	(24,421)	(24,421)	-	(24,421)
Dividend paid	-	-	-	-	(231,139)	(231,139)	(51,395)	(282,534)
<b>Balance as at 31 March 2016</b>	<b>12,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(257,004)</b>	<b>(244,034)</b>	<b>(3,395)</b>	<b>(247,429)</b>
	<b>1,370,270</b>	<b>-</b>	<b>113,879</b>	<b>75,400</b>	<b>322,161</b>	<b>1,881,710</b>	<b>272,005</b>	<b>2,153,715</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>424,000</b>	<b>424,000</b>	<b>40,933</b>	<b>464,933</b>
Net change in fair value of available-for-sale financial assets	-	-	(5,616)	-	-	(5,616)	-	(5,616)
Reclassification of available for sale reserve to profit/(loss)	-	-	(108,263)	-	-	(108,263)	-	(108,263)
Share of other comprehensive income from equity accounted investees	-	8,301	-	-	328	8,629	-	8,629
Foreign operations - foreign currency translation difference	-	-	-	6,356	-	6,356	-	6,356
<b>Total comprehensive income</b>	<b>-</b>	<b>8,301</b>	<b>(113,879)</b>	<b>6,356</b>	<b>424,328</b>	<b>325,106</b>	<b>40,933</b>	<b>366,039</b>
<b>Transactions with equity holders recognized directly in equity contributions by &amp; distribution to equity holders</b>								
Issue of shares during the period	336,202	-	-	-	(1,478)	334,724	-	334,724
Acquisition of NCI without change in control	-	-	-	-	-	-	(86,895)	(86,895)
Dividend paid	336,202	-	-	-	(277,367)	(277,367)	(54,688)	(332,055)
<b>Balance as at 31 March 2017</b>	<b>1,706,472</b>	<b>8,301</b>	<b>-</b>	<b>81,756</b>	<b>467,644</b>	<b>2,264,173</b>	<b>171,355</b>	<b>2,435,528</b>

The notes to the Financial Statements form an integral part of these Financial Statements.

**LVL ENERGY FUND LIMITED**
**STATEMENT OF CHANGES IN EQUITY**

(All amounts in Sri Lanka Rupees thousands)

Company	Stated capital	Available for sale reserve	Retained earnings	Total
<b>Balance as at 01 April 2015</b>	1,357,300	117,450	29,257	1,504,007
Profit for the year	-	-	207,897	207,897
Net change in fair value of available-for-sale financial assets	-	(3,571)	-	(3,571)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(3,571)</b>	<b>207,897</b>	<b>204,326</b>
<b>Transactions with equity holders recognized directly in equity</b>				
<b>contributions by &amp; distribution to equity holders</b>				
Issue of shares during the period	12,970	-	-	12,970
Share issue expenses	-	-	(1,444)	(1,444)
Dividend paid	-	-	(231,139)	(231,139)
	<b>12,970</b>	<b>-</b>	<b>(232,583)</b>	<b>(219,613)</b>
<b>Balance as at 31 March 2016</b>	<b>1,370,270</b>	<b>113,879</b>	<b>4,571</b>	<b>1,488,720</b>
Profit for the year	-	-	339,037	339,037
Reclassification of available for sale reserve to profit/(loss)	-	(108,263)	-	(108,263)
Net change in fair value of available-for-sale financial assets	-	(5,616)	-	(5,616)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(113,879)</b>	<b>339,037</b>	<b>225,158</b>
<b>Transactions with equity holders recognized directly in equity</b>				
<b>contributions by &amp; distribution to equity holders</b>				
Issue of shares during the period	336,202	-	-	336,202
Share issue expenses	-	-	(1,477)	(1,477)
Dividend paid	-	-	(277,367)	(277,367)
	<b>336,202</b>	<b>-</b>	<b>(278,844)</b>	<b>57,358</b>
<b>Balance as at 31 March 2017</b>	<b>1,706,472</b>	<b>-</b>	<b>64,764</b>	<b>1,771,236</b>

The notes to the Financial Statements form an integral part of these Financial Statements.

**LVL ENERGY FUND LIMITED**  
**STATEMENT OF CASH FLOWS**

(All amounts in Sri Lanka Rupees thousands)

<i>For the year ended 31 March</i>	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>				
Profit before tax	510,405	397,449	339,024	207,275
<b>Adjustments for:</b>				
Interest income	(12,158)	(6,934)	(10,011)	(3,953)
Dividend income	-	(22,936)	(323,970)	(268,493)
Other income	-	-	(16,414)	(1,066)
Interest expense	77,179	41,464	51,709	20,991
Preference dividend	75,171	52,077	58,273	42,271
Depreciation	30,038	17,967	-	-
Amortization	319	188	-	-
Available for sale financial assets reclassified from OCI	(108,263)	-	(108,263)	-
Share of profit of equity accounted investees (net of income tax)	(423,360)	(303,893)	-	-
	<b>149,331</b>	<b>175,382</b>	<b>(9,652)</b>	<b>(2,975)</b>
<b>Changes in</b>				
Loans & receivables	26,635	30,831	-	1,066
Amounts due from related parties	(3,914)	(127)	(18,661)	(16,852)
Other receivables	(104,612)	(7,335)	(124,564)	-
Other payables	(280)	(8,425)	2,403	(141)
<b>Cash generated / (used) from operating activities</b>	<b>67,160</b>	<b>190,327</b>	<b>(150,474)</b>	<b>(18,901)</b>
Interest paid	(75,630)	(40,892)	(51,598)	(19,963)
Taxes paid	(15,561)	(6,693)	-	-
<b>Net cash from operating activities</b>	<b>(24,031)</b>	<b>142,742</b>	<b>(202,072)</b>	<b>(38,864)</b>
<b>Cash flows from investing activities</b>				
Interest received	12,158	6,934	10,011	3,953
Dividend received	210,765	226,982	323,970	279,488
Investment in subsidiaries	-	-	(111,894)	(112,000)
Investment in equity accounted investees	(87,167)	-	(87,167)	-
Cost incurred to obtain approval for power projects	-	(30,504)	-	-
Disposal / acquisition of property plant and equipment	(253,603)	(134,350)	-	-
<b>Net cash generated / (used) from investing activities</b>	<b>(117,847)</b>	<b>69,062</b>	<b>134,920</b>	<b>171,440</b>
<b>Cash flows from financing activities</b>				
Dividend paid	(277,367)	(231,139)	(277,367)	(231,139)
Dividend paid to minority share holders by subsidiary	(54,688)	(51,395)	-	-
Issue of ordinary shares	336,202	12,970	336,202	12,970
Issue of ordinary shares to minority by subsidiaries	-	48,000	-	-
Net proceeds from interest bearing borrowings	178,535	48,220	225,000	100,000
Share issue expenses	(1,478)	(1,444)	(1,477)	(1,444)
Acquisition of non controlling interest	(86,895)	-	-	-
Net proceeds from cumulative redeemable preference shares	85,000	30,000	(165,000)	30,000
Preference dividend paid	(82,346)	(54,110)	(65,357)	(44,317)
<b>Net cash generated/ (used) from financing activities</b>	<b>96,963</b>	<b>(198,898)</b>	<b>52,001</b>	<b>(133,930)</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	<b>(44,915)</b>	<b>12,906</b>	<b>(15,151)</b>	<b>(1,354)</b>
<b>Cash &amp; cash equivalents at 01 April</b>	<b>128,231</b>	<b>115,325</b>	<b>62,868</b>	<b>64,222</b>
<b>Cash &amp; cash equivalents at 31 March (Note 24)</b>	<b>83,316</b>	<b>128,231</b>	<b>47,717</b>	<b>62,868</b>

The notes to the Financial Statements form an integral part of these Financial Statements.

## **1. Reporting entity**

LVL Energy Fund Limited is a limited liability Company incorporated and domiciled in Sri Lanka. The address of the Company's registered office is No. 46/12, Navam Mawatha, Colombo 02.

The Consolidated Financial Statements of the Company as at and for the year ended 31 March 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its equity accounted investees. The Financial Statements of all Companies within the Group are prepared for a common financial year which ends 31 March 2017.

Lanka Ventures PLC is the parent company for LVL Energy Fund Limited, which has 71.79% controlling interest and the ultimate parent is Acuity Partners (Private) Limited. Hatton National Bank PLC and DFCC Bank PLC jointly control Acuity Partners (Private) Limited.

LVL Energy Fund Limited ('the Company') and its subsidiaries (together 'the Group') invest in the equity and equity related financial instruments of new and existing companies of Sri Lanka which undertake projects with potential for high growth.

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

## **2. Basis of preparation**

### **2.1 Statement of compliance**

The Consolidated Financial Statements of the Group and the Financial Statements of the Company which comprise the Statement of financial position, Statement of profit or loss and other comprehensive income, Statement of changes in equity, Statement of cash flows and notes thereto have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and comply with the requirements of Companies Act No. 7 of 2007.

### **2.2 Approval of Financial Statements by Directors**

The consolidated and Company's Financial Statements were authorised for issue by the Board of Directors in accordance with the resolution of the directors on 01 August 2017.

### **2.3 Basis of measurement**

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

- Available-for-sale financial assets are measured at fair value

### **2.4 Functional and presentation currency**

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

### **2.5 Use of estimates and judgments**

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

**LVL ENERGY FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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

In particular, Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are described in the following notes:

- i. Note 3.3 - Identification, measurement and assessment of impairment of financial assets -
- ii. Note 3.3 - Recognition and measurement of financial instruments
- iii. Note 3.11.2 - Recognition of deferred tax liabilities

## **2.6 Changes in accounting policies**

No changes in accounting policies have taken place during the year ended 31 March 2017

## **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated. The accounting policies of the company have been consistently applied by the Group entities where applicable and deviations if any, have been disclosed accordingly.

### **3.1 Basis of consolidation**

#### **3.1.1 Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognized in profit or loss immediately. Transaction cost are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in statement of profit or loss and other comprehensive income.

#### **3.1.2 Subsidiaries**

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the consolidated financial statement from the date on which control commences until the date on which control ceases.

##### **3.1.2.1 Critical judgments in applying the entity's accounting policies**

The directors have concluded that the group has control and voting rights over its subsidiaries as depicted in Note 3.1.2.2.

**LVL ENERGY FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**3.1.2.2 Interest in subsidiaries**

Set out below are the group's principal subsidiaries as at 31 March 2017.

<b>Name of the entity</b>	<b>Place of business / Country of incorporation</b>	<b>Percentage of ownership held by the group</b>	<b>Principal services</b>
LVS Energy (Private) Limited	Kolannawa – Sri Lanka	57.75%	Investment in power generation companies
Unit Energy Lanka (Private) Limited	Ginigathena – Sri Lanka	54.86%	Building and operating of mini hydropower stations and supply of electricity to the National Grid.
Lanka Energy International (Private) Limited	Colombo – Sri Lanka	100.00%	Investing in new and existing companies outside Sri Lanka which undertake projects with potential for high growth
Sapthakanya Hydro Electric Company (Private) Ltd	Norton Bridge - Sri Lanka	85.00%	Building and operating of mini hydropower stations and supply of electricity to the National Grid.
Pupulaketiya Mini Hydro Power (Private) Limited	Ratnapura - Sri Lanka	100.00%	Building and operating of mini hydropower stations and supply of electricity to the National Grid.
Campion Hydro (Private) Limited	Bogawantalawa – Sri Lanka	84.29%	Building and operating of mini hydropower stations and supply of electricity to the National Grid.

**3.1.3 Non-controlling interest (NCI)**

NCI are measured at their proportionate share of acquirer's identifiable net assets at the date of acquisition. Changes in the group interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**3.1.4 Loss of control**

When the group loses control over a subsidiary, it derecognizes the asset and liabilities of the subsidiary, and any related NCI (if applicable) and other components of equity. Any resulting gain or loss is recognized in the statement of profit or loss and other comprehensive income. Any interest in the former subsidiary is measured at fair value when control is lost.

**3.1.5 Interests in equity – accounted investees**

The group's interests in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

### **3.1.6 Transactions eliminated on consolidation**

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee against the investment in the investee. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### **3.2 Foreign currency translation**

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into rupees at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into rupees at the exchange rates at the dates of the transactions. Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially as such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

### **3.3 Financial instruments**

The Group classifies non-derivative financial assets into the following categories: available-for-sale financial assets and loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

#### **(a) Non-derivative financial assets and financial liabilities – Recognition and de-recognition**

The Group initially recognizes loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Group de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such de-recognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

**LVL ENERGY FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

**(a-i) Non-derivative financial assets – Measurement**

<b><i>Loans and receivable</i></b>	These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. Loans and receivables comprise cash and cash equivalents and trade and other receivables, including related party receivables.
<b><i>Available-for-sale financial assets</i></b>	These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive income and accumulated in the available for sale reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to statement of profit or loss and other comprehensive income.

***Cash and Cash Equivalents***

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand form an integral part of the groups cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flow.

***Trade and other receivables***

Trade and other receivables are stated at their estimated realisable amounts.

**(a-ii) Non-derivative financial liabilities – Measurement**

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

**(a-iii) Fair value measurement**

SLFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date.

A Fair value measurement requires an entity to determine all the following;

1. the particular asset or liability that is the subject of the measurement
2. for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
3. the principal (or most advantageous) market for the asset or liability.
4. the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market

participants at the measurement date under current market conditions (ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

#### ***Determination of Fair values***

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

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

#### ***Amortised cost***

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

#### ***(a-iv) Reclassification***

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

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

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

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

**(b) Impairment**

**(b-i) Non-derivative financial assets**

Financial assets not classified at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers
- the disappearance of an active market for a security; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

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

*Financial assets measured at amortised cost*

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held to maturity investment securities. Interest on the impaired asset continues to be recognized. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through the statement of profit or loss and other comprehensive income.

*Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve to the statement of profit or loss and other comprehensive income. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in statement of profit or loss and other comprehensive income. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through statement of profit or loss; otherwise, it is reversed through OCI.

*Equity accounted investees*

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

**(b-ii) Non-financial assets**

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

Impairment losses are recognized in the statement of profit or loss and other comprehensive income. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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 amortization, if no impairment loss had been recognized.

**3.4 Property, plant and equipment**

**3.4.1 Recognition and measurement**

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that asset.

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

**3.4.2 Subsequent costs**

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the Statement of Income as incurred. Costs incurred in using or redeploying items are not included under carrying amount of an item.

### **3.4.3 Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. In the year of acquisition depreciation is computed on proportionate basis from the month the asset is put in to use and no depreciation will be charged to the month in which the particular asset was disposed. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate

Plant and machinery	30 Years
Building	30 Years
Computer systems	4 Years
Motor vehicle	5 Years
Office equipment	5 Years
Furniture and fittings	8 Years

### **3.4.4 Capital Work-in-Progress**

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalization.

### **3.4.5 Derecognition**

The carrying amount of an item of property, plant & equipment is derecognized on disposal. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" in of profit or loss.

When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

### **3.4.6 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

### **3.5 Intangible assets**

Intangible assets that are acquired by the Group include right to use land and cost incurred to obtain approval for power projects, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

### **3.5.1 Subsequent expenditure**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognized in the statement of profit or loss and other comprehensive income as incurred.

### **3.5.2 Amortisation**

Amortisation is recognized in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current periods are as follows:

Right to use lands	-	27 Years
Approval cost	-	15 Years

### **3.6 Stated capital**

#### *Ordinary share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### **3.7 Trade and other Payables**

Trade and other payables are stated at their cost.

### **3.8 Provisions**

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### **3.9 Commitments and contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's share of any contingencies and capital commitments of a Subsidiary, Associate for which the Company is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

### **3.10 Income and expenses and basis of measurement**

#### **3.10.1 Interest**

Interest income is recognized on a time proportion basis using the effective interest rate method as set out in LKAS 39 – Financial Instruments Recognition and Measurement.

#### **3.10.2 Dividend income**

Dividend income is recognised in profit or loss on an accrual basis when the Company's right to receive the dividend is established.

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This is usually on the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on available-for-sale equity securities are presented in dividend income.

**3.10.3 Other income**

Other Income is recognized on an accrual basis.

**3.10.4 Expenditure**

The expenses are recognised on an accrual basis. All expenses incurred in the ordinary course of business and in maintaining property, plant & equipment in a state of efficiency is charged against income in arriving at the profit for the year.

**3.10.5 Profit / loss from sale of property, plant and equipment**

Profit / loss from sale of property, plant and equipment are recognised in the period in which the sale occurs and is classified as other operating income.

**3.11 Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity or other comprehensive income.

**3.11.1 Current tax**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified in Note 13.

Provision for taxation on overseas subsidiaries/equity accounted investees are made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes in those countries.

**3.11.2 Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the

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reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax is not recognized for the undistributed profits of subsidiaries as the parent company has control over the dividend policy of its subsidiaries and distribution of those profits.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**3.11.3 Offsetting**

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

**3.11.4 Withholding tax on dividends**

Dividend distributed out of taxable profit of the local Subsidiaries attracts a 10% deduction at source and is not available for set off against the tax liability of the Company. Thus, the withholding tax deducted at source is added to the tax expense of the Subsidiaries in the Consolidated Financial Statements as a consolidation adjustment.

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

**3.12 Earnings per share**

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

**3.13 Comparatives**

Except when a standard permits or requires otherwise, comparative information is disclosed in respect of the previous period. Where the presentation or classification of items in the Financial Statements are amended, comparative amounts are reclassified unless it is impracticable.

**3.14 Cash flow statement**

The Cash Flow Statement 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. The cash and cash equivalent include cash in hand, balances with banks and repurchase agreements.

**3.15 Events occurring after the reporting period**

All material events the reporting date have been considered and where appropriate, adjustments or disclosures have been made in respective notes to the Financial Statements.

### **3.16 Director's responsibility statement**

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

## **4. Financial risk management**

### **4.1 Introduction and overview**

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

### **4.2 Risk management framework**

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board consists of three Directors with wide financial and commercial knowledge and experience.

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

### **4.3 Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's investment in debt securities and amounts due from related parties.

### **4.4 Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The group ensures its liquidity is maintained by investing in short, medium and long-term financial instruments to support operational and other funding requirements. The group determines its liquidity requirements by the use of both short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period and the same is reviewed on an annual basis.

### **4.5 Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The

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objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**4.6 Operational risk**

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

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's 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 management within the Company. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- training and professional development
- ethical and business standards

**4.7 Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Company's approach to capital management during the year. Company wishes to raise additional capital to invest in more diversified investments to mitigate the future operational risk.

**5. New accounting standards issued but not effective as at reporting date**

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued the following new Sri Lanka Accounting Standards which will become applicable for financial period after 1st April 2017. Accordingly, these Standards have not been applied in preparing these Financial Statements.

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<b>New or amended Standards</b>	<b>Summary of requirements</b>
SLFRS 09 Financial Instruments	SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply SLFRS 9 initially on 1 January 2018.

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SLFRS 15 Revenue from contract with customers	SLFRS 15 establishes a comprehensive framework for determining revenue recognition by a 5 step model and will replace the existing LKAS 18 & LKAS 11.  SLFRS 15, will be applicable for the financial periods beginning on or after 1 January 2018.
SLFRS 16 – Leases	SLFRS 16 replaces existing leases guidance including LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.  The standard is effective for annual periods beginning on or after 1 January 2019.

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The extent of the impact of the above standards to the Financial Statements has not been determined as at 31 March 2017.

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For the Year ended 31 March	Group		Company	
	2017	2016	2017	2016
<b>6 Investment income</b>				
Dividend income	-	22,936	323,970	268,493
Management fee	279	884	-	-
	<b>279</b>	<b>23,820</b>	<b>323,970</b>	<b>268,493</b>
<b>7 Interest income</b>				
Interest on savings	1,483	2,514	-	-
Interest on fixed deposits	1,630	-	1,601	-
Interest on security purchased under resale agreement	9,045	4,420	8,410	3,953
	<b>12,158</b>	<b>6,934</b>	<b>10,011</b>	<b>3,953</b>
<b>8 Other income</b>				
Interest income on advances given to related parties	-	-	16,414	1,066
	<b>-</b>	<b>-</b>	<b>16,414</b>	<b>1,066</b>
<b>9 Subsidiary company income</b>				
Power generation income	224,457	248,351	-	-
Direct expenses	(88,767)	(81,499)	-	-
	<b>135,690</b>	<b>166,852</b>	<b>-</b>	<b>-</b>

Subsidiary company income constitutes power generation income of Unit Energy Lanka (Private) Limited and Saphakanya Hydro Electric Company (Private) Limited. Income from other sources in these companies are shown under the relevant line item under Revenue.

**10 The result from operating activities is after charging all expenses including the following;**

Staff salaries	3,728	-	3,728	-
Defined contribution plan cost (EPF,ETF)	559	-	559	-
Bonus	1,604	-	1,604	-
Directors' fees	653	-	653	-
Management fees	1,000	1,000	1,000	1,000
Auditors' remuneration	787	754	317	317
Depreciation	30,038	17,967	-	-
Amortization	319	188	-	-
<b>11 Finance cost</b>				
Borrowing & other charges	78,404	42,011	52,052	21,017
Dividend on cumulative redeemable preference shares	75,171	52,077	58,273	42,271
	<b>153,575</b>	<b>94,088</b>	<b>110,325</b>	<b>63,288</b>

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**12 Share of profit of equity accounted investees**

The Group's share of profit from its equity accounted investees for the year was Rs. 423,360,157/- (2015 - Rs 303,892,247/-)

During the year, Company received dividend (net of WHT) of Rs. 131,652,022/-, Rs. 32,744,250/- and Rs. 46,368,603/- from Pawan Danavi (Private) Limited, Nala Dhanavi (Private) Limited and Nividhu (Private) Limited respectively (2016 - Rs. 129,744,000/-, 70,339,500/- and Nil) respectively.

Lanka Energy International (Private) Limited received a dividend (net of WHT) of Rs. 45,658,415/- (2016 - Nil) from Lakshana Bangla Power Limited during the financial year.

None of the Group's equity accounted investees are publicly listed entities and consequently do not have published price quotations.

Summary of financial information for equity accounted investees are as follows.

2016	Country of incorporation	Ownership	Current assets	Non current assets	Total assets	Current liabilities	Non current liabilities	Total liabilities	Net assets	Income	Expenses	Profit / (loss)	Group's share of profit / (loss)
	Sri Lanka	40.00%	139,772	2,324,086	2,463,858	372,685	641,014	1,013,699	1,450,159	628,357	(287,208)	341,149	136,700
	Sri Lanka	49.00%	1,527	119,100	120,627	202	-	202	120,425	-	(557)	(557)	(273)
	Sri Lanka	49.00%	71,971	1,257,067	1,329,038	198,489	606,016	804,505	524,533	281,150	(173,329)	107,821	52,832
	Sri Lanka	49.00%	19,870	309,058	328,928	47,948	72,053	120,001	208,927	92,257	(50,818)	41,439	20,305
	Bangladesh	20.25%	1,498,841	6,621,782	8,120,623	1,805,503	3,756,276	5,561,779	2,558,844	5,390,131	(5,154,518)	235,613	47,712
	Bangladesh	33.16%	2,071,800	6,262,077	8,333,877	1,891,054	4,187,143	6,078,197	2,255,680	4,773,224	(4,632,642)	140,582	46,617
			3,803,781	16,893,170	20,696,951	4,315,881	9,262,502	13,578,383	7,118,568	11,165,719	(10,299,072)	866,647	303,893
<b>2017</b>	<b>Country of incorporation</b>	<b>Ownership</b>	<b>Current assets</b>	<b>Non current assets</b>	<b>Total assets</b>	<b>Current liabilities</b>	<b>Non current liabilities</b>	<b>Total liabilities</b>	<b>Net assets</b>	<b>Income</b>	<b>Expenses</b>	<b>Profit / (loss)</b>	<b>Group's share of profit / (loss)</b>
	Sri Lanka	40.00%	86,209	2,189,525	2,275,734	455,392	394,731	850,123	1,425,611	661,381	(320,229)	341,152	136,461
	Sri Lanka	49.00%	16,933	119,100	136,033	287	-	287	135,746	-	(758)	(758)	(371)
	Sri Lanka	49.00%	53,916	1,185,955	1,239,871	213,520	474,222	687,742	552,129	294,342	(199,920)	94,422	46,267
	Sri Lanka	49.00%	17,957	294,339	312,296	54,687	50,140	104,827	207,469	62,847	(46,859)	15,988	7,834
	Bangladesh	20.25%	1,454,652	6,611,456	8,076,108	1,945,639	3,220,555	5,166,194	2,909,915	5,019,474	(4,759,980)	259,494	52,547
	Bangladesh	33.16%	1,454,313	6,245,576	7,709,889	1,402,868	3,796,244	5,199,112	2,510,777	3,899,285	(3,381,307)	517,977	171,761
	Sri Lanka	43.88%	3,896	77,004	80,900	-	-	-	80,900	-	-	-	-
	Sri Lanka	43.88%	24,271	10,383	34,654	3,914	-	3,914	30,740	-	-	-	-
	Sri Lanka	25.00%	115,226	147,056	262,282	30,194	-	30,194	232,088	39,527	(37,807)	1,720	7,426
	Sri Lanka	25.00%	78,899	95,673	174,572	25,856	1,903	27,759	146,813	58,751	(53,013)	5,738	1,435
			3,326,272	16,976,067	20,302,339	4,132,357	7,937,795	12,070,152	8,232,187	10,036,606	(8,799,873)	1,236,733	423,360

\* Group profit share of Nividhu (Private) Limited includes gain on bargain purchase of Rs. 6,995,556 as mentioned in note 18.

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	Group		Company	
	2017	2016	2017	2016
<b>13 Tax expense</b>				
Income tax (note 13.1)	51,704	34,376	(13)	(622)
Deferred tax (note 29)	(6,232)	6,164	-	-
	<b>45,472</b>	<b>40,540</b>	<b>(13)</b>	<b>(622)</b>

**13.1 Income tax expense**

Liability to income tax of the Company and its subsidiaries has been computed in accordance with the provisions of Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

Current tax charge	53,136	35,126	1,405	128
Under/(over) provision of previous years	(1,432)	(750)	(1,418)	(750)
	<b>51,704</b>	<b>34,376</b>	<b>(13)</b>	<b>(622)</b>

**13.1.1 Reconciliation between accounting profit and taxable income**

Profit / (loss) before income tax	510,405	397,449	339,024	207,275
Disallowable expenses	152,214	71,570	59,208	43,609
Allowable expenses	(1,551)	(1,151)	-	-
Income from other sources and exempt income	(552,653)	(322,309)	(450,249)	(269,559)
<b>Taxable business profit/(loss) for the year</b>	<b>108,415</b>	<b>145,559</b>	<b>(52,017)</b>	<b>(18,675)</b>

Other income liable for tax	20,202	3,646	18,014	1,066
<b>Total statutory income</b>	<b>128,617</b>	<b>149,205</b>	<b>18,014</b>	<b>1,066</b>

Tax loss utilized	(45,090)	(51,494)	(6,305)	-
<b>Assessable / taxable income</b>	<b>83,527</b>	<b>97,711</b>	<b>11,709</b>	<b>1,066</b>

Income tax charged at the rate of 12%	10,112	128	1,405	128
Income tax charged at the rate of 10%	-	9,563	-	-
Income tax charged at the rate of 17.5%	-	46	-	-
Income tax charged at the rate of 28%	33	210	-	-
With holding tax on dividend	42,991	25,179	-	-
<b>Tax expense for the year</b>	<b>53,136</b>	<b>35,126</b>	<b>1,405</b>	<b>128</b>

The Company tax rate is 12% and the other companies in the Group are taxed at following rates;

<b>Name of the Company</b>	<b>Applicable tax rate</b>	
	2017	2016
Unit Energy Lanka (Private) Limited	12%	10%
Sapthakanya Hydro Electric Company (Private) Limited	12%	12%
LVS Energy (Private) Limited	28%	28%
Lanka Energy International (Private) Limited	28%	28%

**13.1.2 Tax losses**

	Group		Company	
	2017	2016	2017	2016
Unutilized tax losses at the beginning of the year	113,249	152,141	18,301	-
Tax losses recognized during the year	52,058	12,602	51,892	18,675
	165,307	164,743	70,193	18,675
Tax losses utilized	(45,090)	(51,494)	(6,305)	(374)
Unutilized tax losses at the end of the year	<b>120,217</b>	<b>113,249</b>	<b>63,888</b>	<b>18,301</b>

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**14 Basic earnings per share**

Basic earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, as per the requirements of the Sri Lanka Accounting Standards LKAS 33 - Earnings per share.

During the period the Company issued 42,025,281 ordinary shares.

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Weighted average number of ordinary shares in issue</b>				
Present number of ordinary shares ('000)	462,278	420,253	462,278	420,253
Weighted average number of ordinary shares in issue ('000)	451,772	418,307	451,772	418,307
Profit attributable to equity holders of the company	424,000	295,819	339,037	207,897
Earnings per share	0.94	0.71	0.75	0.50

Diluted earnings per share is same as computed above.

**15 Dividend per share**

Dividend per share is based on the dividend relevant for the year.

	<b>Company</b>	
	<b>2017</b>	<b>2016</b>
Dividend	277,367	231,139
Number of ordinary shares ('000)	462,278	420,253
Dividend per share	0.60	0.55

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**16 Property, plant and equipment (Group)**

	Land	Plant & Machinery	Building	Work in progress	Total
<b>Cost</b>					
Balance as at 01 April 2015	10,383	532,807	2,828	288,756	834,774
Transfers during the year	-	288,756	-	(288,756)	-
Additions/(disposals) during the year	-	63,026	-	71,324	134,350
<b>Balance as at 31 March 2016</b>	<b>10,383</b>	<b>884,589</b>	<b>2,828</b>	<b>71,324</b>	<b>969,124</b>
<b>Accumulated depreciation</b>					
Balance as at 01 April 2015	-	(125,631)	(104)	-	(125,735)
Charge for the year	-	(17,848)	(119)	-	(17,967)
<b>Balance as at 31 March 2016</b>	<b>-</b>	<b>(143,479)</b>	<b>(223)</b>	<b>-</b>	<b>(143,702)</b>
<b>Carrying amounts</b>	<b>10,383</b>	<b>741,110</b>	<b>2,605</b>	<b>71,324</b>	<b>825,422</b>
<b>Cost</b>					
Balance as at 01 April 2016	10,383	884,589	2,828	71,324	969,124
Transfers during the year	-	-	-	-	-
Additions/(disposals) during the year	(10,383)	-	-	263,986	253,603
<b>Balance as at 31 March 2017</b>	<b>-</b>	<b>884,589</b>	<b>2,828</b>	<b>335,310</b>	<b>1,222,727</b>
<b>Accumulated depreciation</b>					
Balance as at 01 April 2016	-	(143,479)	(223)	-	(143,703)
Charge for the year	-	(29,919)	(119)	-	(30,038)
<b>Balance as at 31 March 2017</b>	<b>-</b>	<b>(173,398)</b>	<b>(342)</b>	<b>-</b>	<b>(173,741)</b>
<b>Carrying amounts</b>	<b>-</b>	<b>711,191</b>	<b>2,486</b>	<b>335,310</b>	<b>1,048,986</b>

- (a) On reassessment of fair values of Group's assets, it had been identified that there is no permanent impairment of property, plant and equipment which requires a provision in the Financial Statements.
- (b) During the period there was an addition of Rs. 263,985,644/- to work-in progress in respect of Campion Hydro (Private) Limited which has not commenced its operations yet.
- (c) Refer note no. 27 for information regarding property plant & equipment pledged as securities for liabilities obtained by subsidiaries.

	2017		2016	
	% of holding	Cost of investment	% of holding	Cost of investment
<b>17 Investment in subsidiaries (Company)</b>				
LVS Energy (Private) Limited	57.75%	135,397	52.63%	101,303
Kankiriya - Thambiliya Mini Hydro Power (Private) Limited	-	-	100.00%	31,585
Lanka Energy International (Private) Limited	100.00%	1,085,000	100.00%	1,085,000
Sapthakanya Hydro Electric Company (Private) Limited	85.00%	142,800	58.33%	98,000
Pupulaketiya Mini Hydro Power (Private) Limited	100.00%	9,000	100.00%	9,000
Campion Hydro (Private) Limited	84.29%	118,000	73.91%	85,000
		<b>1,490,197</b>		<b>1,409,888</b>

- 17.1** LVS Energy (Private) Limited owns 95.00% (2016 - 89.19%) of Unit Energy Lanka (Private) Limited, which is treated as a subsidiary of LVL Energy Fund Limited in the Consolidated Financial Statements.
- 17.2** Company has lost the control over the Kankiriya-Thambiliya Mini Hydro Power (Private) Limited on 30 March 2017, by transferring its investments of Rs. 31.5 Mn and Receivables of 4 Mn to Parambe (Private) Limited and obtained shares of Rs. 35.5 Mn (43.88%)

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**17.3 Non controlling interest (NCI)**

The following table summarizes the information related to each of the Group's subsidiaries that has material NCI, before any intra - group eliminations.

As at 31 March	2017		2016			
	LVS Energy (Private) Limited	Unit Energy Lanka (Private) Limited	LVS Energy (Private) Limited	Unit Energy Lanka (Private) Limited	Campion Hydro (Private) Limited	Sapthakanya Hydro Electric Company (Private) Limited
<b>NCI Percentage</b>	<b>42.25%</b>	<b>45.14%</b>	<b>47.37%</b>	<b>53.06%</b>	<b>26.09%</b>	<b>41.67%</b>
Non current assets	217,000	380,309	192,000	398,709	104,324	351,107
Current assets	85	33,965	6,496	71,826	9,344	14,771
Non - current liabilities	-	151,128	-	131,401	-	175,000
Current liabilities	173	28,037	3,269	72,271	-	15,580
<b>Net assets</b>	<b>216,912</b>	<b>235,109</b>	<b>195,227</b>	<b>266,862</b>	<b>113,668</b>	<b>175,298</b>
Carrying amount of NCI	91,644	106,121	92,479	141,597	29,652	73,041
Revenue	94,286	166,064	87,284	140,199	-	27,619
Profit for the year	93,822	78,031	86,940	104,957	(1,332)	13,125
Other comprehensive income for the year, net of income tax	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>93,822</b>	<b>78,031</b>	<b>86,940</b>	<b>104,957</b>	<b>(1,332)</b>	<b>13,125</b>
Profit allocated to NCI	39,640	38,617	41,184	55,690	(348)	5,469
OCI allocated to NCI	-	-	-	-	-	-
Cash flows from operating activities	90,717	(3,922)	89,917	45,365	(1,977)	23,989
Cash flows from investment activities	(25,000)	-	-	(2,657)	10,676	(49,669)
Cash flows from financing activities	(72,137)	(11,465)	(86,400)	(51,780)	-	36,758
<b>Net cash increase (decrease) in cash</b>	<b>(6,420)</b>	<b>(15,387)</b>	<b>3,517</b>	<b>(9,072)</b>	<b>8,699</b>	<b>11,078</b>

Campion Hydro (Private) Limited (15.71%) and Sapthakanya Hydro Electric (Private) Limited (15.00%) are not considered as material NCI during the year.

**17.3.1 Acquisition of NCI**

Investor Company	Investee Company	Investment	Increase in holding %	Number of shares acquired	Cash consideration paid to NCI
<b>LVL Energy Fund Limited</b>	Sapthakanya Hydro Electric Company (Private) Limited	44,800	26.67%	4,480,000	44,800
	Campion Hydro (Private) Limited	8,000	10.37%	800,000	8,000
	LVS Energy (Private) Limited	9,095	5.12%	454,737	9,095
<b>LVS Energy (Private) Limited</b>	Unit Energy Lanka (Private) Limited	25,000	7.92%	1,250,000	25,000
		<b>86,895</b>			

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**18 Investment in equity accounted investees**

Company	% of Ownership	2017		2016		Share of OCI	Foreign currency adjustment	Dividend distribution	As at 31 March
		Preference dividend	Share of profits	2017	2016				
Hayleys Hydro Energy (Private) Limited	49.00%	58,800		58,800	58,800				
Pawan Danavi (Private) Limited	40.00%	424,000		424,000	424,000				
Nala Dhanavi (Private) Limited	49.00%	242,550		242,550	242,550				
Nividhu (Private) Limited	25.00%	228,411		-	-				
Parambe Hydro (Private) Limited	43.88%	35,500		-	-				
		<b>989,261</b>		<b>725,350</b>					
<b>Group</b>	<b>Effective holding</b>	<b>As at 01 April</b>	<b>Acquisitions</b>	<b>Share of profits</b>	<b>Preference dividend</b>	<b>Share of OCI</b>	<b>Foreign currency adjustment</b>	<b>Dividend distribution</b>	<b>As at 31 March</b>
<b>2016</b>									
Hayleys Hydro Energy (Private) Limited	49.00%	56,131	-	(273)	-	-	-	-	55,858
Neluwa Cascade Hydro Power (Private) Limited	49.00%	51,340	-	20,305	(24,421)	(59)	-	-	47,165
Pawan Danavi (Private) Limited	40.00%	587,524	-	136,700	-	-	-	(144,160)	580,064
Nala Dhanavi (Private) Limited	49.00%	274,527	-	52,832	-	-	-	(70,340)	257,019
Lakhanavi Bangla Power Limited	33.16%	670,050	-	46,617	-	-	31,236	-	747,903
Raj Lanka Power Company Limited	20.25%	437,225	-	47,712	-	-	33,234	-	518,171
		<b>2,076,797</b>	-	<b>303,893</b>	<b>(24,421)</b>	<b>(59)</b>	<b>64,470</b>	<b>(214,500)</b>	<b>2,206,180</b>
<b>2017</b>									
Hayleys Hydro Energy (Private) Limited	49.00%	55,858	-	(371)	-	3	-	-	55,490
Neluwa Cascade Hydro Power (Private) Limited	49.00%	47,165	-	7,834	-	325	-	-	55,324
Pawan Danavi (Private) Limited	40.00%	580,064	-	136,461	-	-	-	(146,280)	570,245
Nala Dhanavi (Private) Limited	49.00%	257,019	-	46,267	-	-	-	(32,744)	270,542
Lakhanavi Bangla Power Limited	33.16%	747,903	-	171,761	-	-	(3,881)	(83,210)	832,573
Raj Lanka Power Company Limited	20.25%	518,171	-	52,547	-	8,301	10,237	-	589,256
Nividhu (Private) Limited *	25.00%	-	228,411	7,426	-	-	-	(48,653)	187,184
Nividhu Assupiniella (Private) Limited	25.00%	-	-	1,435	-	-	-	-	1,435
Parambe Hydro (Private) Limited	43.88%	-	-	-	-	-	-	-	-
Kankiriya - Thambliya Mini Hydro Power (Private) Limited	43.88%	-	35,500	-	-	-	-	-	35,500
		<b>2,206,180</b>	<b>263,911</b>	<b>423,360</b>	-	<b>8,629</b>	<b>6,356</b>	<b>(310,887)</b>	<b>2,597,549</b>

(All amounts in Sri Lanka Rupees thousands)

▪ **Acquisition of interest in Nividhu (Private) Limited**

The Company increased its shareholding in Nividhu (Private) Limited on 22 June 2016 from 15% to 25% for Rs. 87,167,215/-. Accordingly the investment which was previously classified as an available for sale financial asset under long term investments is now treated as an equity accounted investee. Cumulative change in fair value in respect of this investment amounting to Rs. 108.3 Mn was transferred from available for sale reserve to Profit or Loss.

Fair Value of the shares acquired (2,186,667 shares @ 43.06)	94,163
Cost of Acquisition	87,167
<b>Gain on bargain purchase</b>	<b>6,996</b>
Transfer of fair value of the investment (Note 25.5.2)	141,244
Additional investment	87,167
<b>Total</b>	<b>228,411</b>

Summarised financial information of the above Companies are disclosed in note 12.

**19 Intangible assets**

**Group**

	2017			2016		
	Approval cost	Right to use land	Total	Approval cost	Right to use land	Total
<b>Cost</b>						
As at the beginning of the year	84,505	5,105	89,610	54,001	5,105	59,106
(+) Additions/ (transfers)	(24,172)	-	(24,172)	30,504	-	30,504
As at the end of the year	<u>60,333</u>	<u>5,105</u>	<u>65,438</u>	<u>84,505</u>	<u>5,105</u>	<u>89,610</u>
<b>Accumulated amortization</b>						
As at the beginning of the year	-	(987)	(987)	-	(799)	(799)
(+) Amortization for the period	(132)	(188)	(320)	-	(188)	(188)
As at the end of the year	<u>(132)</u>	<u>(1,175)</u>	<u>(1,307)</u>	<u>-</u>	<u>(987)</u>	<u>(987)</u>
	<b>60,201</b>	<b>3,930</b>	<b>64,131</b>	<b>84,505</b>	<b>4,118</b>	<b>88,623</b>

Approval cost consist of expenditure incurred in connection with approvals, Surveys and engineering designs in respect of Pupulaketiya Hydro Power (Private) Limited (Rs. 28,351,537/-) and Campion Hydro (Private) Limited (Rs. 30,000,000/-). These costs are to be amortized with effect from commencement of commercial operations.

Land rights relate to the land in Peragahamulla, Ginigathhena on which the power plant owned by Unit Energy Lanka (Private) Limited is located.

There has been no impairment of intangible assets that requires a provision in the Financial Statements. Method used in estimating recoverable amount was based on value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the assets.

**20 Available for sale financial assets**

**Group/ Company**

	2017			2016		
	No. of shares	Cost of investment	Fair value	No of shares	Cost of investment	Fair value
Nividhu (Private) Limited						
		-	-	3,280,000	32,980	146,860
		<u>-</u>	<u>-</u>		<u>32,980</u>	<u>146,860</u>

The Company increased its shareholding in Nividhu (Private) Limited on 22 June 2016 from 15% to 25% for Rs. 87,167,215/-. Accordingly the investment which was previously classified as an available for sale financial asset under long term investments is now treated as an equity accounted investee. Cumulative change in fair value in respect of this investment amounting to Rs. 108.3 Mn was transferred from available for sale reserve to Profit or Loss. (Refer Note no. 25.5.2)

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**21 Loans and receivables**

	Group		Company	
	2017	2016	2017	2016
Receivable from Ceylon Electricity Board	9,343	10,437	-	-
Other receivables	619	619	-	-
	<b>9,962</b>	<b>11,056</b>	<b>-</b>	<b>-</b>

**22 Amounts due from related parties**

Acuity Partners (Private) Limited	437	437	437	437
Lanka Energy International (Private) Limited	-	-	26	534
Sapthakanya Hydro Electric Company(Private) Limited	-	-	43,925	14,159
Campion Hydro (Private) Limited	-	-	6,138	480
Kankiriya-Thambiliya Mini Hydro Power (Private) Limited	-	-	-	3,847
Pupulaketiya Hydro Power (Private) Limited	-	-	20,794	20,702
	<b>437</b>	<b>437</b>	<b>71,320</b>	<b>40,159</b>

**23 Other receivables**

Prepayments	6,076	26,736	-	-
Dividend receivable	24,870	-	-	-
Receivable from Bambarapana Hydro (Private) Limited	124,000	-	124,000	-
Other receivables	588	14	564	-
	<b>155,534</b>	<b>26,750</b>	<b>124,564</b>	<b>-</b>

**24 Cash and cash equivalents**

Cash at bank and in hand	32,126	57,423	2,523	818
Short term investments	51,190	70,808	45,194	62,050
	<b>83,316</b>	<b>128,231</b>	<b>47,717</b>	<b>62,868</b>

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**25 Financial risk management and financial instruments**

**25.1 Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows.

	Notes	Carrying amounts			
		Group		Company	
		2017	2016	2017	2016
Available for sale financial assets	20	-	146,860	-	146,860
Loans and receivables	21	9,962	11,056	-	-
Amounts due from related parties	22	437	437	71,320	40,159
Other receivables	23	155,534	26,750	124,564	-
Cash & cash equivalents	24	83,316	128,231	47,717	62,868
		<u>249,249</u>	<u>313,334</u>	<u>243,601</u>	<u>249,887</u>

**Ageing**

The ageing of loans and receivables (Loans and receivables, amounts due from related parties and other receivables) at the reporting date was as follows.

	Carrying amounts			
	Group		Company	
	2017	2016	2017	2016
Below 30 days	29,515	10,512	-	-
30 - 45 days	3,077	-	-	-
46 - 60 days	1,077	981	-	-
Over 61 days	132,264	26,750	195,884	40,159
	<u>165,933</u>	<u>38,243</u>	<u>195,884</u>	<u>40,159</u>

There were no objective evidence of impairment as a result of one or more loss events that occurred subsequent to their initial recognition. Hence no impairment provision made in the financial statements as at 31 March 2017.

(All amounts in Sri Lanka Rupees thousands)

25 Financial risk management and financial instruments (continued.)

25.2 Exposure to liquidity risk

The following are the contractual maturities of financial liabilities:

*The maturity analysis of liabilities - 2017*

Group	Carrying Value	Current			Non Current	
		Up to 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cumulative redeemable preference shares	763,311	273,311	75,000	290,000	125,000	
Interest bearing borrowings	718,766	402,368	118,697	195,701		
<b>Company</b>						
Company	Carrying Value	Current			Non Current	
		Up to 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cumulative redeemable preference shares	423,311	273,311	75,000	75,000		
Interest bearing borrowings	527,408	377,408	75,000	75,000		

*The maturity analysis of liabilities - 2016*

Group	Carrying Value	Current			Non Current	
		Up to 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cumulative redeemable preference shares	685,486	283,486	291,000	111,000		
Interest bearing borrowings	536,682	166,682	105,000	265,000		
<b>Company</b>						
Company	Carrying Value	Current			Non Current	
		Up to 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cumulative redeemable preference shares	595,395	280,395	255,000	60,000		
Interest bearing borrowings	302,297	77,297	75,000	150,000		

25.3 Exposure to market risk

25.3.1 Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts

31 March	2017 BDT	2016 BDT
Investment in equity accounted investees		
Raj Lanka Power Company Limited	234,920	234,920
Lakdhanavi Bangla Power Limited	386,800	386,800
Share of profit of equity accounted investees (net of income tax)		
Raj Lanka Power Company Limited	28,172	26,690
Lakdhanavi Bangla Power Limited	92,030	25,066

The following exchange rates applied on 31 March

Spot rate at 31 March	2017	2016
Bangladesh Taka (BDT)	1.8909	1.8360

Sensitivity analysis

A strengthening /(weakening) of the LKR and BDT against all other currencies at 31 March would have affected the measurement of financial instruments denominated in a foreign currency and increased /(decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016, albeit that the impact of reasonably possible foreign exchange rate variances were nil, as indicated below.

	Equity		Profit or loss	
	Strengthening	Weakening	Strengthening	Weakening
31 March 2017 BDT (10% movement)	22,729	(22,729)	22,729	(22,729)
31 March 2016 BDT (10% movement)	9,502	(9,502)	9,502	(9,502)

(All amounts in Sri Lanka Rupees thousands)

**25 Financial risk management and financial instruments (continued.)****25.3.2 Interest rate risk**

At the reporting date the interest rate profile of the Group's and the Company's interest-bearing financial instruments were:

As at 31 March	Carrying amounts			
	Group		Company	
	2017	2016	2017	2016
<b>Fixed rate instruments</b>				
Financial assets	51,190	70,742	45,194	62,050
Financial liabilities	-	-	-	-
	<u>51,190</u>	<u>70,742</u>	<u>45,194</u>	<u>62,050</u>
<b>Variable rate instruments</b>				
Financial assets	-	-	-	-
Financial liabilities	1,480,077	1,222,168	950,719	897,691
	<u>1,480,077</u>	<u>1,222,168</u>	<u>950,719</u>	<u>897,691</u>

**25.4 Analysis of financial instruments by measurement basis**

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

Group	Note	Fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity investments	Other financial liabilities	Total
<b>2017</b>							
<b>Financial assets</b>							
Available for sale Financial assets	20	-	-	-	-	-	-
Loans and receivables	21	-	-	9,962	-	-	9,962
Amounts due from related parties	22	-	-	437	-	-	437
Other receivables	23	-	-	155,534	-	-	155,534
Cash & cash equivalents	24	-	-	83,316	-	-	83,316
		-	-	<u>249,249</u>	-	-	<u>249,249</u>
<b>Financial Liabilities</b>							
Interest bearing borrowings	27	-	-	-	-	716,766	716,766
Cumulative redeemable preference shares	28	-	-	-	-	763,311	763,311
Other payables	30	-	-	-	-	6,260	6,260
		-	-	-	-	<u>1,486,337</u>	<u>1,486,337</u>
<b>2016</b>							
<b>Financial assets</b>							
Available for sale financial assets	20	-	146,860	-	-	-	146,860
Loans and receivables	21	-	-	11,056	-	-	11,056
Amounts due from related parties	22	-	-	437	-	-	437
Other receivables	23	-	-	26,750	-	-	26,750
Cash & cash equivalents	24	-	-	128,231	-	-	128,231
		-	<u>146,860</u>	<u>166,474</u>	-	-	<u>313,334</u>
<b>Financial Liabilities</b>							
Interest bearing borrowings	27	-	-	-	-	536,682	536,682
Cumulative redeemable preference shares	28	-	-	-	-	685,486	685,486
Other payables	30	-	-	-	-	6,546	6,546
		-	-	-	-	<u>1,228,714</u>	<u>1,228,714</u>

25 Financial risk management and financial instruments (continued.)

25.4 Analysis of financial instruments by measurement basis (continued.)

Company - 2017

	Note	Fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity investments	Other financial liabilities	Total
<b>Financial assets</b>							
Available for sale financial assets	20	-	-	-	-	-	-
Loans and receivables	21	-	-	-	-	-	-
Amounts due from related parties	22	-	-	71,320	-	-	71,320
Other receivables	23	-	-	124,564	-	-	124,564
Cash & cash equivalents	24	-	-	47,717	-	-	47,717
		-	-	243,601	-	-	243,601
<b>Financial Liabilities</b>							
Interest bearing borrowings	27	-	-	-	-	527,408	527,408
Cumulative redeemable preference shares	28	-	-	-	-	423,311	423,311
Other payables	30	-	-	-	-	2,998	2,998
		-	-	-	-	953,717	953,717

Company - 2016

	Note	Fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity investments	Other financial liabilities	Total
<b>Financial assets</b>							
Available for sale financial assets	20	-	146,860	-	-	-	146,860
Loans and receivables	21	-	-	-	-	-	-
Amounts due from related parties	22	-	-	40,159	-	-	40,159
Other receivables	23	-	-	-	-	-	-
Cash & cash equivalents	24	-	-	62,868	-	-	62,868
		-	146,860	103,027	-	-	249,887
<b>Financial Liabilities</b>							
Interest bearing borrowings	27	-	-	-	-	302,297	302,297
Cumulative redeemable preference shares	28	-	-	-	-	595,395	595,395
Other payables	30	-	-	-	-	594	594
		-	-	-	-	898,286	898,286

The Company does not anticipate the fair value of the above to be significantly different to their carrying values and consider the impact as non material for disclosure.

25.5 Fair value measurement

25.5.1 The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level of the fair value hierarchy.

Group / Company

	Note	Level 1	Level 2	Level 3	Total
<b>2017</b>					
Available for sale financial assets	20	-	-	-	-
<b>2016</b>					
Available for sale financial assets	20	-	-	146,860	146,860

There were no transfers between Level 1, Level 2 and Level 3 during 2016 and 2017.

## 25 Financial risk management and financial instruments (continued.)

## 25.5 Fair value measurement (continued)

## 25.5.2 Movement of the financial assets Available-for-sale, classified as "Level 3" in the fair value hierarchy

## Group / Company

## 2017

Balance as at 01 April 2016	146,860
Net change in fair value	(5,616)
Balance as at 22 June 2016	141,244
Fair value of investment transferred to equity accounted investee	(141,244)
<b>Balance as at 31 March 2017</b>	<b>-</b>

## 2016

Balance as at 01 April 2015	150,431
Net change in fair value	(3,571)
<b>Balance as at 31 March 2016</b>	<b>146,860</b>

## 25.5.3 Valuation techniques and significant unobservable inputs

## Group / Company

The following table show the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used, at the date of transfer of AFS investment to equity accounted investee.

Type	Valuation technique	Significant unobservable data	
Equity instruments (Preference shares) Nividhu (Private) Limited	The fair value of equity is measured using the discounted cash flow approach considering the Free Cash Flow to Equity (FCFE).	Tariff growth	0%
		Terminal values (LKR)	
		Belihul Oya	86,517,036
		Assupini Ella	245,971,574
		Projected generation	
		Belihul Oya	88.00%
		Assupini Ella	92.00%
		Inflation	6.10%
		Cost of equity	15.60%
		Discount for lack of control	5%
Discount for lack of marketability	10%		

## 25.5.4 Sensitivity analysis

For the fair values of equity instruments, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have following effects.

## Group / Company

	Fair Value	Change in OCI
Projected generation (10% decrease)	130,368	(10,876)
Tariff growth (2% increase)	149,436	8,192
Cost of equity @ 25%	118,786	(22,458)
Cost of equity @ 15%	150,143	8,898
Inflation @ 10%	119,916	(21,328)
Terminal value (20% decrease)	135,877	(5,367)

**LVL ENERGY FUND LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in Sri Lanka Rupees thousands)

**26 Stated capital**

	Group		Company	
	2017	2016	2017	2016
Balance as at 1 April	1,370,270	1,357,300	1,370,270	1,357,300
Issued during the year	336,202	12,970	336,202	12,970
<b>Balance as at 31 March</b>	<b>1,706,472</b>	<b>1,370,270</b>	<b>1,706,472</b>	<b>1,370,270</b>
<b>Number of shares</b>				
As at 1 April	420,252,836	412,470,836	420,252,836	412,470,836
Issued during the year	42,025,281	7,782,000	42,025,281	7,782,000
<b>As at 31 March</b>	<b>462,278,117</b>	<b>420,252,836</b>	<b>462,278,117</b>	<b>420,252,836</b>

During the year the Company issued ordinary shares to the value of Rs. 336,202,248/- in a form of rights issue at a rate of 8/- per share.

The holders of ordinary shares are entitled to recover dividends as declared from time to time, and are entitled to one vote per individual at meetings of shareholders or one vote per share in case of poll.

Outstanding value of redeemable preference shares as at 31 March 2017 was Rs. 405 Mn which are classified as a financial liability. According to the Companies Act No. 07 of 2007, redeemable preference shares form a part of the stated capital.

Stated capital as per the requirements of the Companies Act No. 07 of 2007.

	Note	Group		Company	
		2017	2016	2017	2016
Ordinary share capital	26	1,706,472	1,370,270	1,706,472	1,370,270
Redeemable preference shares	28	745,000	660,000	405,000	570,000
Stated capital as per the Companies Act No. 07 of 2007		<u>2,451,472</u>	<u>2,030,270</u>	<u>2,111,472</u>	<u>1,940,270</u>

**27 Interest bearing borrowings**

As at 01 April	536,682	487,891	302,297	201,269
Repayments during the year	(311,465)	(51,780)	(75,000)	-
Obtained during the period	490,000	100,000	300,000	100,000
Interest payable/ overpaid at the end of the year	1,549	571	111	1,028
<b>As at 31 March</b>	<b>716,766</b>	<b>536,682</b>	<b>527,408</b>	<b>302,297</b>
Repayments due within one year	402,369	166,682	377,408	77,297
Repayments due after one year	314,397	370,000	150,000	225,000
	<u>716,766</u>	<u>536,682</u>	<u>527,408</u>	<u>302,297</u>

Financial institution	Security	Repayment terms and maturity	Nominal interest rate	Principal value	Amount outstanding
<b>LVL Energy Fund Limited</b>					
Hatton National Bank PLC	Unsecured	48 equal monthly installments commenced in April 2016.	AWPLR of the preceding month plus 1.25% p.a.	300,000	227,408
DFCC Bank PLC	Unsecured	Repayable in one installment on or before 29 December 2017.	AWPLR of the preceding month plus 1.20% p.a.	300,000	300,000
				<b>Sub total</b>	<b>527,408</b>
<b>Unit Energy Lanka (Private) Limited</b>					
Commercial Bank of Ceylon PLC	Machinery and equipment in Carolina Estate, Watawala, Gampola.	Repayment is in 35 monthly installments commenced in March	AWPLR of the preceding month plus 2.50% p.a.	50,000	47,920
				<b>Sub total</b>	<b>47,920</b>
<b>Campion Hydro (Private) Limited</b>					
Commercial Bank of Ceylon PLC	Leasehold right of land and immovable project assets in Campion Tea Estate, Bogawanthalawa.	77 equal monthly installments commencing in September 2018.	AWPLR of the preceding month plus 2.00% p.a.	140,000	141,438
				<b>Sub total</b>	<b>141,438</b>
				<b>Total interest bearing borrowings</b>	<b>716,766</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in Sri Lanka Rupees thousands)

**28 Cumulative redeemable preference shares**

Date	Security	Repayment terms and maturity	No. of shares	Dividend rate	Balance as at 01 April 2016	Issued during the year	Redeemed during the year	Balance as at 31 March 2017
<b>LVL Energy Fund Limited</b>								
31-Dec-12	Unsecured	Redemption of these preference shares are in 05 equal annual installments that commenced on 30 September 2013.	30,000,000	AWPLR of the preceding quarter plus 0.5% p.a.	120,000	-	(60,000)	60,000
2 Mar-15	Unsecured	Redemption of these preference shares are in 03 equal annual installments that commenced on 30 September 2015.	36,000,000	AWPLR of the preceding month plus 0.5% p.a.	240,000	-	(120,000)	120,000
22-Sep-15 18-Nov-15 26-Feb-16 31-May-16	Unsecured	Redemption of these preference shares will be in 08 equal bi-annual installments commencing from 30 September 2016.	8,000,000 10,000,000 3,000,000 9,000,000	AWPLR of the preceding month plus 0.5% p.a.	80,000 100,000 30,000 -	- - - 90,000	- - (75,000) -	225,000
<b>Sub Total</b>					<b>570,000</b>	<b>90,000</b>	<b>(255,000)</b>	<b>405,000</b>
<b>Unit Energy Lanka (Private) Limited</b>								
6-Feb-15	Unsecured	Redemption of these preference shares will be in 09 consecutive equal quarterly installments commencing from 30 June 2019.	9,000,000	AWPLR of the preceding month plus 3.5% p.a.	90,000	-	-	90,000
<b>Sub Total</b>					<b>90,000</b>	<b>-</b>	<b>-</b>	<b>90,000</b>
<b>Campion Hydro (Private) Limited</b>								
30-Dec-16	Unsecured	Redemption of these preference shares will be commencing from 31 December 2020 in twenty consecutive equal quarterly installments.	10,000,000	AWPLR of the preceding month plus 3.0% p.a.	-	100,000	-	100,000
<b>Sub Total</b>					<b>-</b>	<b>100,000</b>	<b>-</b>	<b>100,000</b>
<b>Sapthakanya Hydro Electric Company (Private) Limited</b>								
31-Jan-17	Unsecured	Redemption of these preference shares will be commencing from 31 December 2020 in twenty consecutive equal quarterly installments.	15,000,000	AWPLR of the preceding month plus 3.0% p.a.	-	150,000	-	150,000
<b>Sub Total</b>					<b>-</b>	<b>150,000</b>	<b>-</b>	<b>150,000</b>
<b>Total</b>					<b>660,000</b>	<b>340,000</b>	<b>(255,000)</b>	<b>745,000</b>

	Group		Company	
	2017	2016	2017	2016
Balance as at 01 April	685,486	657,519	595,395	567,441
Preference shares issued during the year	340,000	210,000	90,000	210,000
Preference shares redeemed during the year	(255,000)	(180,000)	(255,000)	(180,000)
	<b>770,486</b>	<b>687,519</b>	<b>430,395</b>	<b>597,441</b>
Preference dividend recognized during the year	75,171	52,077	58,273	42,271
Preference dividend paid during the year	(82,346)	(54,110)	(65,357)	(44,317)
	<b>763,311</b>	<b>685,486</b>	<b>423,311</b>	<b>595,395</b>
<b>Non current liabilities</b>				
Redeemable after one year	490,000	402,000	150,000	315,000
<b>Current liabilities</b>				
Redeemable within one year	273,311	283,486	273,311	280,395
	<b>763,311</b>	<b>685,486</b>	<b>423,311</b>	<b>595,395</b>

**LVL ENERGY FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in Sri Lanka Rupees thousands)

**29 Deferred tax liability - Group**

Deferred tax (assets) and liabilities are calculated on all taxable and deductible temporary differences arising from differences between accounting bases and tax bases of assets and liabilities.

The amount shown in the statement of financial position represents the following:

As at 31 March	2017	2016
<b>Liabilities</b>		
Plant and equipment	44,854	58,566
<b>Assets</b>		
Tax losses	(6,685)	(14,165)
<b>Net deferred tax liability</b>	<b>38,169</b>	<b>44,401</b>

The taxable and deductible temporary differences mainly arise from property, plant & equipment and tax losses.

	Balance as at 31st March 2016	Recognised in profit or loss	Balance as at 31st March
Plant and equipment	58,566	(13,712)	44,854
Tax losses	(14,165)	7,480	(6,685)
	<b>44,401</b>	<b>(6,232)</b>	<b>38,169</b>

**29.1 Unrecognized deferred tax assets**

As at 31 March 2017, a deferred tax asset of Rs. 7,666,551/- (2016 - Rs. 2,196,147/-) was not recognized since it is not probable that adequate taxable profits will be available in the foreseeable future to absorb these amounts.

	Company			
	2017	2016	2017	2016
<b>Taxable temporary differences</b>	-	-		
<b>Deductible temporary differences</b>				
Tax losses	7,667	2,196		
	<b>7,667</b>	<b>2,196</b>		
<b>30 Other payables</b>				
Dividend payable	-	3,069	-	-
Other payables	6,260	3,477	2,998	594
	<b>6,260</b>	<b>6,546</b>	<b>2,998</b>	<b>594</b>

**31 Income tax receivable/ payable**

**31.1 Income tax receivable**

	2017	2016	2017	2016
Balance as at 01 April	1,881	1,259	1,881	1,259
Provision for the year	(1,437)	(128)	(1,405)	(128)
WHT deduction	50	-	-	-
WHT on associate company dividend	-	-	-	-
Under/(over) provision in the previous years	1,418	750	1,418	750
Payments during the year	194	-	-	-
Balance receivable as at 31 March	<b>2,106</b>	<b>1,881</b>	<b>1,894</b>	<b>1,881</b>

**LVL ENERGY FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in Sri Lanka Rupees thousands)

	2017	2016	2017	2016
<b>31.2 Income tax payable</b>				
Balance as at 01 April	8,610	5,483	-	-
Provision for the year	51,699	34,998	-	-
WHT deduction	(119)	(706)	-	-
WHT on associate company dividends	(42,991)	(25,179)	-	-
Under/(over) provision in the previous years	(14)	-	-	-
Payments during the year	(15,198)	(5,986)	-	-
Balance payable as at 31 March	<u>1,987</u>	<u>8,610</u>	-	-

The tax receivables and payables are from separate group companies and do not have a right to set off.

**32 Capital commitments and contingencies**

**Contingencies and commitment – Group**

As per the Power Purchase Agreement (PPA), the following Companies (Equity accounted investees) shall secure Bangladesh Power Development Board (BPDB) an irrecoverable and unconditional bank guarantee as a security for compliance with Company's performance obligations. The amounts of bank guarantees as at 31 March 2017 are as follows :

	Amount (Rs.)	Banks
Lakdhanavi Bangla Power Limited	222,832,847	City Bank
Raj Lanka Power company Limited	219,730,143	Standard Bank

The above Companies are obliged to pay this bank guarantee amount to BPDB on demand in case of liquidity damage or other damage, interest or other amounts that the Company shall be required to pay BPDB.

The impact to the Group will be limited to the Company's shareholding in the respective equity accounted investees.

There were no other commitments and contingencies as at the reporting date for the Company.

**33 Events after the reporting date**

There are no events that occurred since the reporting date which would require adjustment to or disclosure in the Financial Statements.

**34 Related parties**

Lanka Ventures PLC (LVL) is the parent company for LVL Energy Fund Limited, which has 71.79% controlling interest and the ultimate parent is Acuity Partners (Private) Limited. Hatton National Bank PLC and DFCC Bank jointly control Acuity Partners (Private) Limited.

**LVL ENERGY FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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(All amounts in Sri Lanka Rupees thousands)

**34.1 Transactions with key management personnel**

Key management personnel include all the members of the Board of Directors of the Company, the acting CEO of Lanka Ventures PLC, Finance Manager and the Investment analyst of Lanka Ventures PLC, having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly.

Board of Directors of the Company are as follows;

Mr. A. J. Alles  
Mr. A. R. Fernando  
Mr. T. W. De Silva  
Mr. S. E. De Silva  
Mr. A. R. Munasinghe  
Mr. M. R. Abeywardena  
Mr. M. A. Wijetunge  
Mr. D. S. Arangala

Mr. A. J. Alles is the Managing Director/Chief Executive Officer of Hatton National Bank PLC. He is a director of Acuity Partners (Private) Limited and Lanka Ventures PLC.

Mr. A. R. Fernando is a director and Chief Executive Officer of the DFCC Bank PLC. He is the Chairman of Acuity Partners (Private) Limited and director of Acuity Stockbrokers (Private) Limited and Lanka Ventures PLC.

Mr. T. W. De Silva is the Executive Vice President - Investment, International Relations and Strategic planning of DFCC Bank PLC. He is a director of Lanka Ventures PLC, Acuity Partners (Private) Limited, Acuity Stockbrokers (Private) Limited and alternate director of Acuity Securities Limited.

Mr. S. E. De Silva is a director of Lanka Ventures PLC.

Mr. A. R. Munasinghe is a director of Lanka Ventures PLC.

Mr. M. R. Abeywardena is the Managing Director/Chief Executive Officer of Acuity Partners (Private) Limited. He is the chairman of Acuity Stockbrokers (Private) Limited and Acuity Securities Limited. He is a director of Lanka Ventures PLC.

Mr. M. A. Wijetunge is a director of Lakdhanavi Bangla Power Limited.

Mr. K. Maheshwaran who is the Acting Chief Executive Officer of Lanka Ventures PLC is a director of LVS Energy (Private) Limited, Unit Energy Lanka (Private) Limited, Pawan Danavi (Private) Limited, Lanka Energy International (Private) Limited, Kankiriya-Thambiliya Mini Hydro Power (Private) Limited, Nala Dhanavi (Private) Limited, Raj Lanka Power Company Limited, Lakdhanavi Bangla Power Limited, Pupalaketiya Mini Hydro Power (Private) Limited, Sapthakanya Hydro Electric Company (Private) Limited, Champion Hydro (Private) Limited and he is an alternate director of Nividhu (Private) Limited.

Mr. D. L. Wijesekara who is the Finance Manager of Lanka Ventures PLC is a director of LVS Energy (Private) Limited, Unit Energy Lanka (Private) Limited and Kankiriya-Thambiliya Mini Hydro Power (Private) Limited and Champion Hydro (Private) Limited. He was appointed as a director of Sapthakanya Hydro Electric Company (Private) Limited 08 July 2016.

Ms. Ayoma Nanayakkara who is the Investment Analyst of Lanka Ventures PLC was appointed as a director in Champion Hydro (Private) Limited with effect from 08 August 2016.

(All amounts in Sri Lanka Rupees thousands)

**34.2 Transactions with key management personnel****(i) Key management personnel compensation**

Compensation paid to / on behalf of key management personnel of the company are as follows.

	Group		Company	
	2017	2016	2017	2016
Director's remuneration	653	-	653	-
Short term employee benefits	4,819	-	4,819	-
Post employment benefits	-	-	-	-

**34.3 Other related party transactions**

Company enters into transactions with related parties in the ordinary course of business on an arm's length basis on terms similar to comparable transactions with unrelated parties.

Outstanding balances at year end are unsecured and settlement occurs in cash. No guarantees were given or received in respect of the outstanding balances. Company did not recognize any provision for doubtful debt related to the amount of outstanding balances and did not recognize any expenses during the year in respect of bad or doubtful debts from related parties.

Name of the related party	Relationship	Nature of transaction	2017		2016	
			Transactions during the period	Balance as at 31 March	Transactions during the period	Balance as at 31 March
DFCC Bank PLC	Joint holder of the ultimate parent company	Redeemable preference shares	(165,000)	405,000	30,000	570,000
		Preference dividend	(65,357)	18,311	(44,317)	25,394
		Term loan	-	-	-	-
Hatton National Bank PLC	Joint holder of the ultimate parent	Term loan	(75,000)	225,000	100,000	300,000
		Interest on term loan	(31,383)	2,408	(19,962)	2,297
Acuity Securities Limited	Subsidiary of ultimate parent company	TB repurchase interest	6,431	19	1,185	-
		TB repurchase - Investment	-	45,194	-	-
Acuity Partners (Private) Limited	Subsidiary of ultimate parent company	Placement fee	-	-	310	-
		Audit fees	-	437	-	437
Lanka Ventures PLC	Parent company	Management fees	(750)	250	(1,000)	-
Lanka Energy International (Private) Limited	Subsidiary company	Current account	508	26	(244)	534
Kankiriya - Thambiliya Mini Hydro Power (Private) Limited	Subsidiary company	Current account	3,847	-	(148)	3,847
Unit Energy Lanka (Private) Limited	Subsidiary company	Interest income	1,818	-	-	-
Pupulaketiya Hydro Power (Private) Limited	Subsidiary company	Current account	(92)	20,794	(1,694)	20,702
Sapthakanya Hydro Electric Company (Private) Limited	Subsidiary company	Current account	29,766	43,925	(14,159)	14,159
Campion Hydro (Private) Limited	Subsidiary company	Current account	5,658	6,138	(480)	480

## ANNEXURE C : INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

### LVL ENERGY FUND LIMITED

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Unaudited)

(All amounts in Sri Lanka Rupees thousands)

	Group		Company	
	Period ended 30 June		Period ended 30 June	
	2017	2016	2017	2016
<b>Revenue</b>				
Investment income	63	106	-	-
Interest income	854	1,374	410	749
Subsidiary company income	65,535	73,931	-	-
Other income	-	-	1,916	433
	<b>66,453</b>	<b>75,411</b>	<b>2,326</b>	<b>1,182</b>
<b>Operating expenses</b>				
Administrative expenses	(1,795)	(1,373)	(1,795)	(1,373)
Sales and establishment expenses	(25)	-	-	-
Other operating expenses	(2,310)	(8,293)	(644)	(642)
Direct expenses - subsidiaries	(22,689)	(24,017)	-	-
<b>Results from operating activities</b>	<b>39,633</b>	<b>41,729</b>	<b>(112)</b>	<b>(832)</b>
Available for sale financial assets - reclassified from OCI	-	108,263	-	108,263
Share of profit of equity accounted investees (net of income tax)	155,107	150,595	-	-
Finance cost	(45,427)	(33,882)	(29,103)	(23,618)
<b>Profit/(loss) before income tax</b>	<b>149,314</b>	<b>266,705</b>	<b>(29,215)</b>	<b>83,813</b>
Tax expense	(2,795)	(4,297)	(55)	-
<b>Profit/(loss) for the period</b>	<b>146,519</b>	<b>262,408</b>	<b>(29,270)</b>	<b>83,813</b>
<b>Profit/(loss) attributable to:</b>				
Equity holders of the company	138,427	247,381	(29,270)	83,813
Non-controlling interest	8,092	15,027	-	-
<b>Profit/(loss) for the period</b>	<b>146,519</b>	<b>262,408</b>	<b>(29,270)</b>	<b>83,813</b>
<b>Other comprehensive income, net of income tax</b>				
Net change in fair value of available-for-sale financial assets	-	(5,616)	-	(5,616)
Reclassification of available for sale reserve to profit/ (loss)	-	(108,263)	-	(108,263)
Foreign operations - foreign currency translation difference	7,667	15,604	-	-
<b>Other comprehensive income for the period, net of income tax</b>	<b>7,667</b>	<b>(98,276)</b>	<b>-</b>	<b>(113,879)</b>
<b>Total comprehensive income for the period</b>	<b>154,186</b>	<b>164,132</b>	<b>(29,270)</b>	<b>(30,067)</b>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the company	146,094	149,105	(29,270)	(30,067)
Non-controlling interest	8,092	15,027	-	-
<b>Total comprehensive income for the period</b>	<b>154,186</b>	<b>164,132</b>	<b>(29,270)</b>	<b>(30,067)</b>
Basic earnings per share (Rs.)	0.30	0.59	(0.06)	0.20

**LVL ENERGY FUND LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)**

(All amounts in Sri Lanka Rupees thousands)

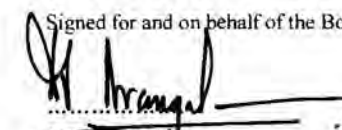
	Group As at 31 June 2017	Company As at 30 June 2017	Group As at 31 March 2017 Audited	Company As at 31 March 2017 Audited
<b>Assets</b>				
<b>Non current assets</b>				
Property, plant and equipment	1,044,990	-	1,048,986	-
Investment in subsidiaries	-	1,490,197	-	1,490,197
Investment in equity accounted investees	2,900,327	1,129,261	2,597,549	989,261
Intangible assets	63,718	-	64,131	-
<b>Total non current assets</b>	<b>4,009,035</b>	<b>2,619,458</b>	<b>3,710,666</b>	<b>2,479,458</b>
<b>Current assets</b>				
Loans and receivables	63,628	-	9,962	-
Amounts due from related parties	461	88,147	437	71,320
Income tax receivables	2,106	2,000	2,106	1,894
Other receivables	34,512	564	155,534	124,564
Cash and cash equivalents	148,958	125,410	83,316	47,717
<b>Total current assets</b>	<b>249,666</b>	<b>216,120</b>	<b>251,355</b>	<b>245,495</b>
<b>Total assets</b>	<b>4,258,701</b>	<b>2,835,578</b>	<b>3,962,021</b>	<b>2,724,953</b>
<b>Equity</b>				
Stated capital	1,706,472	1,706,472	1,706,472	1,706,472
Revaluation reserve	8,301	-	8,301	-
Translation reserve	89,424	-	81,756	-
Retained earnings	606,071	35,494	467,644	64,764
<b>Total equity attributable to equity holders of the Company</b>	<b>2,410,268</b>	<b>1,741,966</b>	<b>2,264,173</b>	<b>1,771,236</b>
Non controlling interest	179,447	-	171,355	-
<b>Total equity</b>	<b>2,589,715</b>	<b>1,741,966</b>	<b>2,435,528</b>	<b>1,771,236</b>
<b>Liabilities</b>				
<b>Non current liabilities</b>				
Interest bearing borrowings	435,841	271,250	314,397	150,000
Cumulative redeemable preference shares	490,000	150,000	490,000	150,000
Deferred tax liability	38,793	-	38,169	-
<b>Total non current liabilities</b>	<b>964,633</b>	<b>421,250</b>	<b>842,566</b>	<b>300,000</b>
<b>Current liabilities</b>				
Interest bearing borrowings	402,107	377,147	402,369	377,408
Cumulative redeemable preference shares	285,703	285,703	273,311	273,311
Other payables	15,707	9,512	6,260	2,998
Income tax payables	837	-	1,987	-
<b>Total current liabilities</b>	<b>704,353</b>	<b>672,362</b>	<b>683,927</b>	<b>653,717</b>
<b>Total liabilities</b>	<b>1,668,986</b>	<b>1,093,612</b>	<b>1,526,493</b>	<b>953,717</b>
<b>Total equity and liabilities</b>	<b>4,258,701</b>	<b>2,835,578</b>	<b>3,962,021</b>	<b>2,724,953</b>
Net assets per share (Rs.)	5.21	3.77	4.90	3.83

I certify that the financial statements comply with the requirements of the Companies Act No. 07 of 2007.

  
D L Wijesekara  
Finance Manager

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board.

  
D S Arangan  
Director

29 August 2017

  
A R Munasinghe  
Director

**LVL ENERGY FUND LIMITED**  
**STATEMENT OF CHANGES IN EQUITY (Unaudited)**  
*(All amounts in Sri Lanka Rupees thousands)*

Group	Stated capital	Revaluation reserve	Available for sale reserves	Translation reserve	Retained earnings	Non controlling interest	Total
<b>Balance as at 01 April 2016</b>	1,370,270	-	113,879	75,400	322,161	272,005	2,153,715
Profit/(loss) for the period	-	-	-	-	247,381	15,027	262,408
Available-for-sale financial assets - net change in fair value	-	-	(5,616)	-	-	-	(5,616)
Reclassification on profit/(loss)	-	-	(108,263)	-	-	-	(108,263)
Foreign operations - foreign currency translation difference	-	-	-	15,604	-	-	15,604
<b>Total comprehensive income for the period</b>	-	-	(113,879)	15,604	247,381	15,027	164,131
<b>Transactions with equity holders recognized directly in equity</b>							
Issue of shares during the period	336,202	-	-	-	-	-	336,202
Dividend paid	-	-	-	-	-	-	-
	336,202	-	-	-	-	-	336,202
<b>Balance as at 30 June 2016</b>	<b>1,706,472</b>	-	-	<b>91,004</b>	<b>569,542</b>	<b>287,031</b>	<b>2,654,048</b>
<b>Balance as at 01 April 2017</b>	1,706,472	8,301	-	81,756	467,644	171,355	2,435,528
Profit/(loss) for the period	-	-	-	-	138,427	8,092	146,519
Foreign operations - foreign currency translation difference	-	-	-	7,667	-	-	7,667
<b>Total comprehensive income for the period</b>	-	-	-	7,667	138,427	8,092	154,186
<b>Transactions with equity holders recognized directly in equity</b>							
Issue of shares during the period	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
<b>Balance as at 30 June 2017</b>	<b>1,706,472</b>	<b>8,301</b>	-	<b>89,424</b>	<b>606,071</b>	<b>179,447</b>	<b>2,589,714</b>
<b>Company</b>							
	<b>Stated capital</b>		<b>Available for sale reserves</b>		<b>Retained earnings</b>		<b>Total</b>
Balance as at 01 April 2016	1,370,270		113,879		4,571		1,488,720
Profit/(loss) for the period	-		-		83,813		83,813
Available-for-sale financial assets - net change in fair value	-		(5,616)		-		(5,616)
Reclassification of available-for-sale reserve to profit/(loss)	-		(108,263)		-		(108,263)
<b>Total comprehensive income for the period</b>	-		(113,879)		83,813		(30,067)
<b>Transactions with equity holders recognized directly in equity</b>							
Issue of shares during the period	336,202		-		-		336,202
Dividend paid	-		-		-		-
	336,202		-		-		336,202
<b>Balance as at 30 June 2016</b>	<b>1,706,472</b>		-		<b>88,384</b>		<b>1,794,855</b>
<b>Balance as at 01 April 2017</b>	1,706,472		-		64,764		1,771,236
Profit/(loss) for the period	-		-		(29,270)		(29,270)
<b>Total comprehensive income for the period</b>	-		-		(29,270)		(29,270)
<b>Transactions with equity holders recognized directly in equity</b>							
Issue of shares during the period	-		-		-		-
Dividend paid	-		-		-		-
	-		-		-		-
<b>Balance as at 30 June 2017</b>	<b>1,706,472</b>		-		<b>35,494</b>		<b>1,741,966</b>

**LVL ENERGY FUND LIMITED**  
**CONSOLIDATED STATEMENT OF CASHFLOWS (Unaudited)**

*(All amounts in Sri Lanka Rupees thousands)*

For the Period ended 30 June	Group		Company	
	2017	2016	2017	2016
<b>Cash flows from operating activities</b>				
Profit/(loss) before income tax	149,314	266,705	(29,215)	83,813
<b>Adjustments for:</b>				
Depreciation	9,485	7,462	-	-
Amortization of land rights	413	47	-	-
Share of profit from equity accounted investees	(155,107)	(150,595)	-	-
Interest income on investments	(854)	(1,374)	(410)	(749)
Other income	-	-	(1,916)	(433)
Available for sale financial assets - reclassified from OCI	-	(108,263)	-	(108,263)
Dividend on preference shares	23,833	18,692	12,392	15,741
Interest expense	21,535	14,841	16,701	7,567
	<b>48,618</b>	<b>47,515</b>	<b>(2,447)</b>	<b>(2,324)</b>
<b>Changes in</b>				
Loans and receivables	(53,664)	(60,080)	-	-
Amounts due from related parties	6,065	(100)	(16,827)	(73,456)
Other receivables	121,011	(3,082)	124,000	(1,981)
Other payables	3,360	5,530	8,239	853
<b>Cash generated from operating activities</b>	<b>125,390</b>	<b>(10,217)</b>	<b>112,965</b>	<b>(76,907)</b>
Taxes paid	(3,319)	-	-	-
Interest paid	(23,235)	(14,511)	(16,931)	(16,353)
<b>Net cash from operating activities</b>	<b>98,836</b>	<b>(24,730)</b>	<b>96,033</b>	<b>(93,260)</b>
<b>Cash flows from investing activities</b>				
Interest received	854	1,374	410	749
Acquisition of property, plant and equipment	(5,489)	-	-	-
Investment in equity accounted investees	(140,000)	(87,167)	(140,000)	(87,167)
<b>Net cash from investing activities</b>	<b>(144,634)</b>	<b>(85,793)</b>	<b>(139,590)</b>	<b>(86,419)</b>
<b>Cash flows from financing activities</b>				
Preference dividend paid	(11,440)	(2,940)	-	-
Net change in cumulative redeemable preference shares	-	90,000	-	90,000
Net change in interest bearing borrowings	122,881	11,330	121,250	31,250
Issue of shares during the period	-	336,202	-	336,202
<b>Net cash from financing activities</b>	<b>111,441</b>	<b>434,592</b>	<b>121,250</b>	<b>457,452</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>65,642</b>	<b>324,070</b>	<b>77,693</b>	<b>277,773</b>
<b>Cash and cash equivalent as at 01 April</b>	<b>83,316</b>	<b>128,231</b>	<b>47,717</b>	<b>62,868</b>
<b>Cash and cash equivalent as at 30 June</b>	<b>148,958</b>	<b>452,301</b>	<b>125,410</b>	<b>340,641</b>

#### Explanatory Notes :

- 1 The interim financial statements are subject to audit.
- 2 The same accounting policies and methods of computation have been followed in interim financial statements as compared with the most recent audited financial statements.
- 3 The interim financial statements have been prepared in accordance with LKAS 34 - Interim Financial Reporting.
- 4 Where items have been regrouped, comparative information in relation to previous year have been presented in line with information pertaining to the current period.
- 5 The stated capital comprises 462,278,117 ordinary shares.
- 6 During the period the company obtained a loan of Rs. 140.0 Mn from DFCC Bank PLC and repaid Rs. 18.8 Mn of the term loan obtained from Hatton National Bank PLC.
- 7 For the financial year ended 31 March 2017 a dividend of Rs. 0.34 per ordinary share amounting to Rs. 157,174,560/- was declared on 14 October 2016 and was paid on 20 October 2016 and a dividend of Rs. 0.26 per ordinary share amounting to Rs. 120,192,310/- was declared on 13 February 2017 and was paid on 22 February 2017.
- 8 For the financial year ended 31 March 2017 preference dividend of Rs. 49,114,718/- was paid on 30 September 2016 and a preference dividend of Rs. 16,241,527/- was paid on 31 March 2017.
- 9 Events occurring after the reporting date: No circumstances have arisen since the reporting date which would require adjustment to or disclosure in the interim financial statements other than those disclosed in these notes.
- 10 The company is charged Rs. 1.0 Mn per annum as management fees by its parent company, Lanka Ventures PLC.
- 11 There were no contingent liabilities during the period under review that require disclosure in interim financial statements.

**ANNEXURE D : FUND MANAGEMENT AGREEMENT BETWEEN LVL ENERGY FUND LIMITED AND LANKA VENTURES PLC**

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BETWEEN

**LVL ENERGY FUND LIMITED**  
("FUND COMPANY")

AND

**LANKA VENTURES PLC**  
("FUND MANAGER")

**FUND MANAGEMENT AGREEMENT**

RELATING TO

**LVL ENERGY FUND LIMITED**

- 31 MARCH 2016 -

This Agreement is made on the 31<sup>st</sup> day of March 2016.

**BETWEEN:-**

(1) **LVL Energy Fund Limited (the "Fund Company")**, a company incorporated in Sri Lanka with its registered office located at 2<sup>nd</sup> Floor, Ocean Lines Building, 46/12 Navam Mawatha, Colombo 02

and

(2) **Lanka Ventures PLC (the "Fund Manager")** a company incorporated in Sri Lanka with its registered office located at 2<sup>nd</sup> Floor, Ocean Lines Building, 46/12 Navam Mawatha, Colombo 02

**WHEREAS:-**

(A) The Fund Management Agreement dated 13<sup>th</sup> September 2011 entered into between the Fund Company and the Fund Manager expires on 31<sup>st</sup> March 2016.

and

(B) The Fund Company wishes to enter into a fresh Fund Management Agreement with the Fund Manager with the view to engaging the professional services of the Fund Manager to invest the Fund Company's funds and to provide related services in connection with the Fund Company's investments.

Now it is hereby agreed as follows:-

**1. DEFINITIONS**

1.1 All reference to "Fund Company" in this Agreement shall be deemed to refer to LVL Energy Fund Limited;

1.2 All reference to "Fund Manager" in this Agreement shall be deemed to refer to Lanka Ventures PLC;

1.3 "Effective Date" means the first day of April Two Thousand and Sixteen (01<sup>st</sup> April 2016);

1.4 "Investee Company" means any company in which the funds of the Fund Company are invested; and

1.5 "Investment" means any investment of the Fund Company's funds made in accordance with the Fund Company's investment strategy set out in Appendix I to this Agreement.

1.6 "Investment Committee" means a committee appointed by the Fund Company to review investment and divestment proposals made by the Fund Manager before recommending them for approval by the Fund Company.

## 2. SERVICES TO BE RENDERED BY THE FUND MANAGER

### 2.1 Appointment of Investment Manager:

The Fund Company hereby appoints the Fund Manager as its investment manager and the Fund Manager hereby accepts the appointment under the terms and conditions as set out in this Agreement.

### 2.2 Identification of Investment Opportunities:

The Fund Manager shall identify opportunities and generate deal flows for making investments out of the Fund Company's funds in accordance with the Fund Company's investment strategy set out in Appendix I to this Agreement.

### 2.3 Investment Appraisal and Monitoring

The Fund Manager shall be responsible for appraisal of investment proposals and recommending investments to the Investment Committee for its consideration and approval prior to submitting same for approval by the Fund Company. The Fund Manager shall also be responsible for monitoring of Investments, informing the Fund Company of the status of Investments on a regular basis and recommending to the Investment Committee divestment of Investments prior to obtaining approval for divestment by the Fund Company.

### 2.4 Responsibility for Investment Appraisal and Recommendation:

The Fund Manager shall have the sole and exclusive responsibility and complete discretion to appraise and recommend Investments to the Fund Company provided that:-

- (i) the Fund Manager has conducted due diligence on such Investments and the Investments are in accordance with the guidelines set out in the Fund Company's investment strategy set out in Appendix I to this Agreement;
- (ii) the Fund Manager supports its recommendations in sufficient detail as required by the Fund Company; and
- (iii) the Investments have been approved by the Investment Committee.

### 2.5 Short-term deployment and Funds:

The Fund Manager is authorized to invest the funds of the Fund Company in the short-term money market over such period or periods as it may think fit in the best interests of the Fund Company.

### 2.6 Full Discretion to Invest and Divest:

The Fund Company shall have the sole and exclusive responsibility and complete discretion to make and divest Investments as it deems fit.

## 2.7 Authority to Contract:

The Fund Company may authorize the Fund Manager to do any act or to execute any document or to enter into any contract or agreement for the purposes of generating deal flows, exercising due diligence, making Investments, monitoring Investee Companies or divesting Investments on behalf of the Fund Company as might be necessary or incidental to the performance of its functions and obligations under this Agreement.

## 2.8 Custody of Assets:

The Fund Manager at its discretion shall have the right to function as the custodian of all the Fund Company's assets or appoint a third party to perform the said function.

## 2.9 Borrowings and Guarantees

The Fund Manger shall not borrow any money on behalf of the Fund Company or charge any assets of the Fund Company. The Fund manager shall not give any third party any guarantee on behalf of the Fund Company.

## 2.10 Liaison between Fund Company and Fund Manager

The Fund Manager shall at all times obey and comply with directions issued by the Chief Executive Officer of the Fund Company in relation to the day-to-day performance of duties and responsibilities of the Fund Manger under this Agreement.

## 2.11 Administrative Functions:

In addition to the above mentioned investment management services, the Fund Manager shall provide to the Fund Company the following administrative services:

- (i) the preparation and maintenance of books of accounts and records including receipts and disbursements relating to the Fund Company's activities;
- (ii) the monitoring of the Fund Company's Investments;
- (iii) facilitate the conduct of Investment Committee, board, general and other meetings of the Fund Company;
- (iv) provision of office space and other facilities to the Chief Executive Officer of the Fund Company to perform his duties and responsibilities assigned by the Fund Company;
- (v) furnishing or facilitating the furnishing of reports and other records required by the Fund Company from time to time in relation to the Fund Company and its operations;
- (vi) establishment and operation of the Fund Company's bank accounts under operating guidelines to be mutually agreed between the Fund Manager and the Fund Company; and

- (vii) the preparation of the Fund Company's annual report under the direction of the Chief Executive Officer of the Fund Company to ensure that the annual general meeting of the Fund Company can be held within the time frame stipulated by law.

#### 2.12 Financial Statements:

The Fund Manager shall ensure that consolidated financial statements of the Fund Company are prepared in accordance with the following guidelines:

- (i) monthly financial statements in a format acceptable to the Fund Company within ten (10) days of the end of each month;
- (ii) quarterly financial statements conforming to the requirements of the Colombo Stock Exchange within thirty (30) days of the end of each quarter;
- (iii) financial statements for the period 01<sup>st</sup> January to 31<sup>st</sup> December reviewed by the Fund Company's auditor within thirty (30) days of the end of each calendar year; and
- (iv) annual audited financial statements within ninety (90) days of the end of each financial year.

### 3. DELEGATION BY THE FUND MANAGER

The Fund Manager may delegate any of its obligations under this Agreement, with the exception of its functions and obligations under clauses 2.2, 2.3, 2.4, 2.5, 2.11 and 2.12 herein which shall be the sole and exclusive responsibility of the Fund Manager.

### 4. MANAGEMENT FEES AND EXPENSES

- 4.1 As consideration for the services to be provided by the Fund Manager to the Fund Company, the Fund Company shall pay to the Fund Manager a fee of Rupees one million (Rs.1,000,000/-) annually which fee shall be paid in twelve (12) equal monthly installments on or before the end of each month.
- 4.2 The Fund Company should pay all costs, fees, statutory and other charges and expenses associated with the purchase, proposed purchase, holding, proposed holding, sale and proposed sale of the Investments.
- 4.3 The Fund Company shall also pay all costs, fees, statutory and other charges and expenses associated with incorporation, voluntary liquidation and annual audit of the Fund Company and the provision of company secretarial services and legal services to the Fund Company.
- 4.4 The Fund Company shall bear stamp duty, fiscal levies and charges and other expenses and costs payable to outside parties in connection with making Investments so far as the same cannot be recovered from the Investee Company.

- 4.5 The cost of investigating and evaluating investment opportunities shall be borne by the Fund Manager. The cost of monitoring of Fund Company's Investments shall also be borne by the Fund Manager provided however the cost of such investigation, evaluation and monitoring to the extent that can be recovered from the Fund Company or the Investee Companies shall not be borne by the Fund Manager. The administrative expenses relating to routine book-keeping, preparation of any financial statements including the yearly financial statements for purposes of audit shall be borne by the Fund Manager.
- 4.6 The Fund Manager shall recover from the Fund Company such fees as may be payable for the provision of any other services requested by the Fund Company from time to time.

5. **LIMITATION OF LIABILITY**

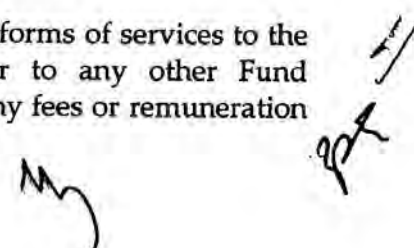
The Fund Manager shall not be liable to the Fund Company for any act or omission pursuant to this Agreement if committed by a director, officer, employee, agent or representative of the Fund Manager whose current and future appointments have been or shall be in accordance with established corporate practices made with reasonable care except for acts or omissions attributable to gross negligence, dishonesty, fraud, bad faith or willful misconduct of such person.

6. **INDEMNITY**

The Fund Company shall indemnify and hold harmless, the Fund Manager and each of its directors, officers, employees, agents and representatives, from any loss, liability, claim or damage (including lawyer's fees and court expenses) arising as a result of or in connection with the Fund Manager's services rendered hereunder. This indemnity shall not apply to any losses or liabilities which are attributable to the gross negligence, dishonesty, fraud, bad faith or willful misconduct of any director, officer, employee, agent or representative of the Fund Manager.

7. **SERVICES TO OTHER COMPANIES**

The Fund Manager may provide management and other forms of services to the Investee Companies, potential Investee Companies or to any other Fund Company provided that there is no conflict of interest. Any fees or remuneration earned in this respect shall accrue to the Fund Manager.



**8. OTHER FUNDS**

In addition to managing the Fund Company's funds, the Fund Manager shall be entitled to manage its own funds and any other existing funds and mobilize and / or manage any future funds.

**9. TERM**

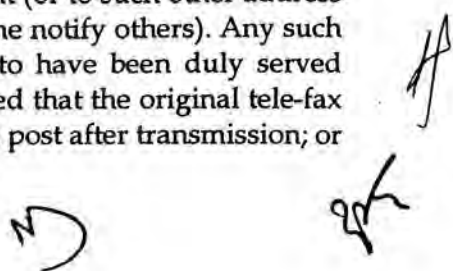
This Agreement shall take effect from the Effective Date and shall continue until 31<sup>st</sup> March 2021, unless otherwise terminated by mutual consent of the parties hereto in writing. This Agreement may be extended on terms acceptable to the parties hereto.

**10. TERMINATION**

- 10.1 Without prejudice to Clause 9 above, the Fund Company may terminate this Agreement at any time if the Fund Manager is in material default under the terms of this Agreement and such default is not remedied within thirty (30) days after receipt of notice to that effect from the Fund Company.
- 10.2 Without prejudice to Clause 9 above, the Fund Manager may terminate this Agreement at any time if :-
- (i) the Fund Company is in material default under the terms of this Agreement and such default is not remedied within thirty (30) days after receipt of notice to that effect from the Fund Manager; or
  - (ii) it becomes illegal for the Fund Manager to continue to manage the Fund Company's funds.
- 10.3 Without prejudice to Clause 9, 10.1 and 10.2 above, this Agreement shall be terminated on the date of the winding up or the appointment of a receiver of the Fund Company or the Fund Manager.

**11. NOTICES**

All notices, demand or other communications required or permitted to be given or made hereunder shall be in writing and delivered personally or sent by prepaid registered post or tele-fax transmission addressed to the intended recipient thereof at its address set out in this Agreement (or to such other address or tele-fax number that any party may from time to time notify others). Any such notice, demand or communication shall be deemed to have been duly served immediately (if given by tele-fax transmission) provided that the original tele-fax transmission shall have been forthwith sent by prepaid post after transmission; or (if give or made by letter) two (02) days after posting.

Handwritten initials and marks, including a large 'H' and a signature-like mark, located to the right of the text in clause 11.

**12. TIME OF ESSENCE**

Any time, date or period mentioned in any provision of this Agreement may be extended by mutual agreement between the parties hereto but as regards any time, date or period originally fixed and not extended or any time, date or period so extended as aforesaid time shall be of the essence.

**13. AMENDMENT**

The provisions of this Agreement shall supersede all previous understandings, agreements and the like reached between the parties hereto whether written or oral. This Agreement including Appendix I constitutes the entire understanding between the parties hereto and shall not be modified or amended except with the prior written consent of the parties hereto.

**14. GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with the laws of Sri Lanka from time to time in force.

IN WITNESS WHEREOF the parties hereto have caused their respective Common Seals to be set at Colombo on this 31<sup>st</sup> day of March 2016.

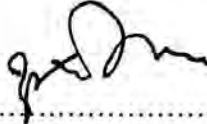
The common seal of LVL Energy Fund Limited

was affixed hereunto on this 31<sup>st</sup> day of

March Two Thousand and Sixteen in the

presence of Mohandas A. Wijetunge and  
Sunil Eksath De Silva..., Directors who do

thereby attest the sealing hereof

  
.....

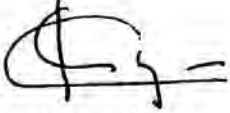
Director

   
.....

Director


Witnesses:

1.

Name: K. Maheshwaran 

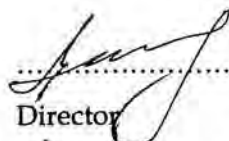
Address: 46/12 Navam Mawatha, Colombo 02

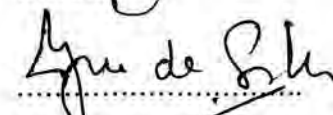
2.

Names: D. L. Wijesekara 

Address: 46/12 Navam Mawatha, Colombo 02

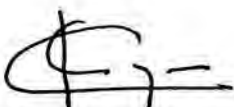
The common seal of Lanka Ventures PLC  
was affixed hereunto on this 31<sup>st</sup> day of  
March Two Thousand and Sixteen in the  
presence of Tyrone Wilfrid De Silva... and  
Sunil Eksath De Silva....., Directors who do  
thereby attest the sealing hereof

  
.....  
Director

  
.....  
Director


Witnesses:

1.

Name: K. Maheshwaran 

Address: 46/12, Navam Mawatha, Colombo 02

2.

Names: D. L. Wijesekara 

Address: 46/12 Navam Mawatha, Colombo 02

## Appendix I

### INVESTMENT STRATEGY

The Fund Company's investment policy is to invest its assets in the power and energy sector principally in companies with growth potential that are deemed by the Fund Manager to be reasonably priced given their potential values and risks. The Fund Company's investment strategy is designed to utilize the unique strengths of the Fund Manager to add value to the Fund Company's investments.

Overall, the Fund Company will pursue an investment strategy of diversification by geographic area, energy source, stage and size of investment, investment partner and investment instrument to spread risks. The Fund Company will invest in well-managed businesses, usually in which the deployment of new technology enable the long-term development of profitable companies. The Fund Company believes in backing quality management which possesses long-term orientation. Market size and growth characteristics, competitive advantage, investment pricing will be other key considerations. Investments will only be made after careful screening and evaluation.

### INVESTMENT CRITERIA

(a) Investment Size:

Investment in each Investee Company will not exceed thirty five percent (35%) of the total fund base of the Fund Company. It is however recognized that in the initial years during which time the investment portfolio is built-up, each investment as a percentage of total fund base can exceed 35%.

(b) Investment Return:

Only those investments that have the potential to produce an above-average rate of return will be considered.

(c) Stage of Financing:

The Fund Company will invest in both the establishment of new enterprises and expansion, diversification, or acquisition of existing businesses. The Fund Company will also participate in successive rounds of later stage financing of well performing businesses or in businesses that have the potential to perform well pursuant to infusion of new capital. Enterprises that need capital for restructuring will also qualify for investment.

(d) Investment Standards:

The key considerations in selecting investments will be:

- (i) Management : its quality, maturity and experience
- (ii) Market : its long-term growth potential
- (iii) Product : which can give rise to acceptable level of profitability

MJ A  
PR

(e) **Availability of Liquid Reserves:**

The Fund Company will not make any commitment to invest unless fully funded by cash in hand or in banks or by callable capital.

(f) **Real Estate Ownership:**

The Fund Company will not own any real estate unrelated to its portfolio of investments.

(g) **Co-investments:**

The Fund Company may co-invest with the Fund Manager or with other funds managed by the Fund Manager in making investments in companies.

### **INVESTMENT INSTRUMENTS**

The Fund Company's investments principally will be in the form of equity or equity-type instruments. These instruments will include inter alia, common stock, preferred stock, convertible debentures or any other equivalent quasi-equity instruments. Any one or combination of these instruments may be utilized in each investment. The structure to be chosen will take into account the specific characteristics of the investment situation: the cash-flow debt-service coverage, solvency, business plan, financial need and business risk of the investee company, investment pricing and divestment strategies. The Fund Company will not be precluded from utilizing where appropriate instruments such as subordinated debt in the form of debentures or otherwise with or without convertible features.

### **INDEBTEDNESS OF INVESTEE COMPANIES**

The Fund Company will not guarantee the indebtedness of its investee companies.

### **INVESTMENT MONITORING**

Generally, board representation by the Fund Manager or other monitoring mechanism will be determined for each investment, depending on the circumstances under which the investment is made. The monitoring system will require regular operating statements from each investee company. The Fund Company will utilize this information as an early-warning system to determine when corrective action is to be taken in order to minimize losses.

### **DIVESTMENTS**

The Fund Company will plan for divestment before an investment is made and if appropriate will seek an understanding with the investee company at the time of investment for listing of its shares and/or enter into a put agreement with the sponsors of the investee company. A redemption feature can also be introduced to the instrument as a means of exit.

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# ANNEXURE E : INDEPENDENT VALUATION REPORT PUBLISHED BY THE INDEPENDENT VALUER TO THE OFFER TO ASCERTAIN THE VALUE OF LVL ENERGY FUND LIMITED'S ORDINARY SHARES

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Wednesday, 27 September 2017  
(Valuation date: Friday, 22 September 2017)

## LVL Energy Fund Limited

Independent Valuation Report to  
The Board of Directors and Shareholders of LVL Energy Fund Limited on the  
Proposed IPO

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 a quoted company categorised under the Power & Energy Sector



The Board of Directors,  
LVL Energy Fund Ltd,  
"Sayuru Sevana",  
46/12, Nawam Mawatha,  
Colombo 02,  
Sri Lanka.

Dear Sir/Madam,

**Independent Valuation Report to the Board of Directors and Shareholders of LVL Energy Fund Limited on the proposed Initial Public Offering**

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Further to our mandate to provide you with an independent valuation to be included in the IPO prospectus of LVL Energy Fund Limited, please find enclosed a comprehensive valuation report incorporating the same.

Thank you,  
Yours faithfully,

**Capital Alliance Partners Limited**

A handwritten signature in black ink, appearing to read 'Vishnu Balachandran', with a long horizontal flourish extending to the right.

**Vishnu Balachandran**  
Head of Capital Markets



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## **Declaration**

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We, Capital Alliance Partners Limited ("CAL"), acting as the "Independent Valuer to the Issue" (hereinafter referred to as the "Valuer") in connection with the proposed Initial Public Offer of LVL Energy Fund Limited, 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 in determining the IPO Price and the Valuer has made all the inquiries that he believes are desirable and appropriate in order to arrive at a competent independent opinion.

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## Glossary of terms

ASPI	All Share Price Index
AWPLR	Average Weighted Prime Lending Rate
CAL	Capital Alliance Partners Limited
Comps	Comparable Companies to LEF Energy Fund Limited
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 Cashflow to Firm
FY	Financial Year
IPO	Initial Public Offer
LEF	LEF Energy Fund Limited
LKR	Sri Lanka Rupee
LKRm	Sri Lanka Rupee (in million)
LVEN	Lanka Ventures PLC
NAV	Net Asset Value
PAT	Profit after Tax
PER	Price to Earnings Ratio
Point valuation	A single price point arrived at using a single basis
PPA	Power Purchase Agreement
SEC	Securities & Exchange Commission of Sri Lanka
USD	US Dollar
the Assignment	Provide an independent valuation to be included in the IPO Prospectus of LVL Energy Fund Limited
the Board	The Board of Directors of LVL Energy Fund Limited
Ordinary Voting Shares	Ordinary Voting Shares of LVL Energy Fund Limited
Offeror	LVL Energy Fund Limited
Shareholders	Shareholders of LVL Energy Fund Limited
SOTP	Sum of the Parts
TGR	Terminal Growth Rate
TTM	Trailing Twelve Months
Valuation Date	Friday, 22 September 2017
WACC	Weighted Average Cost of Capital

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## 1 Introduction

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### 1.1 Executive summary

CAL valued LVL Energy Fund Limited (“LEF”) using few fundamental valuation methods: Sum of the Parts (“SOTP”) valuation using Discounted Cash Flow (“DCF”) analysis and PER Relative. Based on this, CAL concludes that LEF shares value in the range of LKR10.60– LKR16.62

However, CAL offers following cautions to investors:

**Point valuations are highly subjective.** CAL considered a few methods to provide balance, but concluded that a SOTP was more appropriate viz a viz the available alternatives due to the following reason.

- a. LEF has significant investments in several power plants in Sri Lanka and overseas consolidated as Subsidiaries and Associates which have commenced and which will commence operations over different time periods. Thus, we believe SOTP valuation using DCF analysis is the best model to grasp the full value of the company whose project pipeline is laid with initial commitments till FY19 and will generate cash flows 15-30 years in to the future from there onwards.
- b. LEF has several close CSE-listed substitutes. CAL’s “Power and Energy Sector Peers” – Vallibel Power Erathna PLC, Vidullanka PLC, Panasia Power PLC, Lotus Hydro Power PLC, Mackwoods Energy PLC and Resus Energy PLC are also listed Companies that boast heavy investments in the power and energy generation similar to that of LEF. These, companies are operationally comparable to LEF, but company level PERs exhibit a broad variation. However we take it as a secondary valuation mode.
- c. EV/EBITDA and PBV relatives are irrelevant in the case of LEF as seven out of the ten operative power plants are consolidated as Associates.

### 1.2 Background to the assignment

LEF is a subsidiary of LVEN, where LVEN currently holds a 71.79% controlling stake of LEF. Furthermore, LEF is a fund that invests in power generation projects both domestically and internationally. As such, the Company presently holds investments in Sri Lanka and Bangladesh and is to invest in Nepal.

At this juncture, the Company hopes to publicly list its shares on the Colombo Stock Exchange by way of an IPO to raise a total of LKR1.2b. LKR720m will be used to fund and invest in the following projects:



Project	Capacity (MW)	Investment Quantum (LKRm)
Pupuluketiya	1.4	115
Bambarapana	2.5	140
Makarigad	10.0	465

A further LKR480m will be used for the settlement of borrowings and redemption of preference shares. Thus, the board of directors of LEF has appointed CAL to conduct an independent valuation of LEF shares.

### **1.3 Terms of reference**

CAL's terms of reference in respect to this assignment involve presenting to the Board of Directors and Shareholders of LEF (the "Shareholders") the value of LEF shares at the point of the IPO.

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## 2 LVL Energy Fund Limited – Profile

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LVL Energy Fund Limited (“LEF”) was incorporated in June 2006 as a fully owned subsidiary of Lanka Ventures PLC (“LVEN”) for the purpose of bringing LVEN’s investments in the renewable energy sector under one company and accelerating investments in the sector. In this connection several joint-venture relationships were formed with reputed project developers in order to undertake the development and operation of power generation projects.

LEF holds stakes in six operational mini-hydro power projects with a cumulative capacity of 16.9MW and a total investment of LKR574.8m. The Company has two investments in the wind power sector with a combined capacity of 15.3MW. The first wind project was commissioned in August 2012 and the second project was commissioned in a record 4 months in June 2013. LEF’s total investment in the wind power sector is LKR666.6m.

On the thermal energy front, LEF has two investments with a combined capacity of 104.4MW. LEF has invested LKR386.5m (USD3m) in Raj Lanka Power Company, a 52.2MW thermal power plant in the Rajshahi district in Bangladesh which commenced commercial operations in January 2014. LEF made its second investment of LKR653.0m (USD5m) in Lakdhanavi Bangla Power Company, the project company of Comilla Power Project, a 52.2MW thermal power plant located in the Comilla district in Bangladesh, which commenced commercial operation in January 2015. LEF’s total investment in thermal power sector is LKR1,039.5m.

The investments in Bangladesh were channeled through Lanka Energy International (Pvt) Ltd., an investment vehicle which is created by LEF for the purpose of investing in overseas projects. The Company will further invest in a hydro power plant in Nepal which is to commence construction. LEF will make a total investment of LKR465m (USD3m) in Makarigad Power Company which has a total capacity of 10MW.

The total investments in power projects made by LEF currently stands approximately at LKR2,280.9m. Expansion plans for the future of LEF are mainly focused on exploring opportunities in both renewable and non-renewable energy projects in Sri Lanka, Bangladesh, Nepal and East Africa.

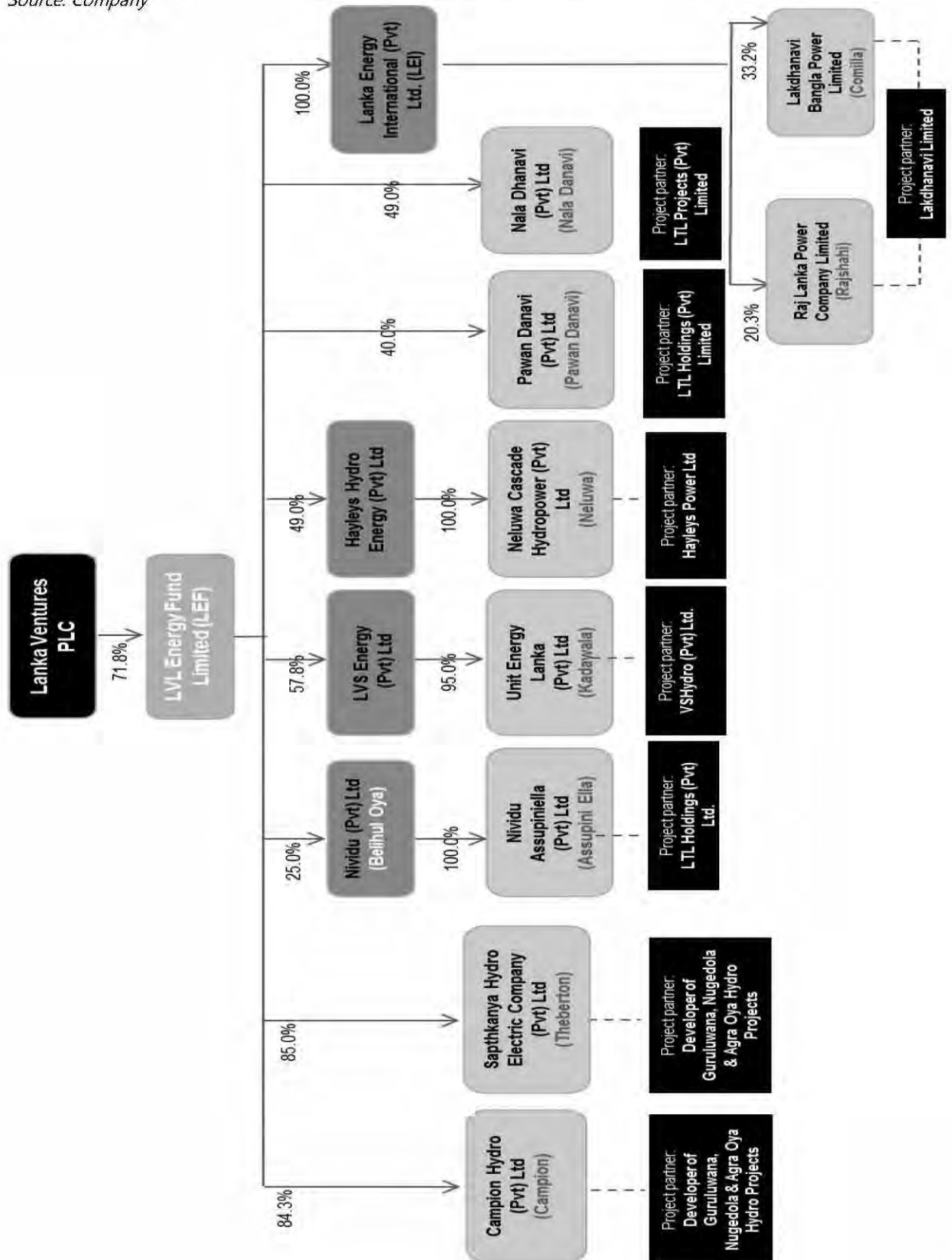
**Table 2.1 LVL Energy Fund Limited – Project portfolio**

Holding Company	Project	Type	Country	Capacity (MW)	LEF's investment (LKRm)	LEF's stake
<b>Projects in commercial operation</b>						
Nividhu (Private) Limited	Belihul Oya & Assupiniella	Hydro	Sri Lanka	6.2	120.2	25.0%
Unit Energy Lanka (Private) Limited	Kadawala	Hydro	Sri Lanka	6.0	135.4	54.9%
Neluwa Cascade Hydro Power (Private) Limited	Neluwa	Hydro	Sri Lanka	2.2	58.8	49.0%
Sapthakanya Hydro Electric Company (Private) Limited	Theberton	Hydro	Sri Lanka	1.3	142.4	85.0%
Pawan Danavi (Private) Limited	Pawandanavi	Wind	Sri Lanka	10.2	424.0	40.0%
Nala Dhanavi (Private) Limited	Naladhanavi	Wind	Sri Lanka	5.1	242.6	49.0%
Raj Lanka Power Company Limited	Rajshahi	Thermal	Bangladesh	52.2	386.5	20.3%
Lakdhanavi Bangla Power Limited	Comilla	Thermal	Bangladesh	52.2	653.0	33.2%
Champion Hydro (Private) Limited	Champion	Hydro	Sri Lanka	1.2	118.0	84.3%
<b>Projects under construction/to be constructed</b>						
Pupulaketiya Hydro Power (Private) Limited	Pupulaketiya	Hydro	Sri Lanka	1.4	135.0	90.0%
Bambarapana Hydro Power (Private) Limited	Bambarapana	Hydro	Sri Lanka	2.5	140.0	40.0%
Makari Gad Hydropower Private Limited	Makarigad	Hydro	Nepal	10.0	465.0	45.0%
<b>Total</b>				<b>150.5</b>	<b>3,020.9</b>	

*Source: Company*

**Figure 2.1 LVL Energy Fund Limited – Holding Structure**

Source: Company



### 3 Sum of the Parts Valuation

#### 3.1 Summary valuations

Table 3.1 Summary valuations

Power project	PV of cashflow (LKRm)	Net debt (LKRm)	Fair value of equity (LKRm)	LEF's stake	Fair value of LEF's stake (LKRm)
Lakdhanavi Bangla	11,195.2	(3,262.3)	7,932.9	33.2%	2,630.6
Raj Lanka	9,799.1	(3,327.2)	6,471.9	20.3%	1,310.6
Naladhanavi	1,572.2	(480.5)	1,091.7	49.0%	534.9
Pawandhanavi	3,461.7	(425.6)	3,036.2	40.0%	1,214.5
Nividhu	173.2	100.6	273.9	25.0%	68.5
Nividhu Asupiniella	559.8	138.7	698.5	25.0%	174.6
Neluwa Cascade	438.9	(64.6)	374.2	49.0%	183.4
Sapthakanya	369.4	(117.1)	252.3	85.0%	214.5
Unit Energy	974.0	(39.0)	935.0	54.9%	513.4
Campion	373.9	(221.8)	152.1	84.3%	128.2
Bambarapana	867.8	(500.0)	367.8	40.0%	147.1
Makarigad	3,807.2	(2,395.1)	1,412.1	45.0%	635.4
Pupulaketiya	400.9	(225.0)	175.9	90.0%	158.3
<b>Total</b>	<b>33,993.3</b>	<b>(10,818.9)</b>	<b>23,174.4</b>		<b>7,913.9</b>
Net debt at group level					(237.7)
<b>Total value of LEF</b>					<b>7,676.2</b>
Number of shares (m)					582.3
<b>Value per share of LEF (LKR)</b>					<b>13.18</b>

The IPO price of LKR10.00 per share is at a discount to the SOTP valuation.

### 3.2 Sensitivity to WACC and TGR

Given the sensitivity of the DCF to the Weighted Average Cost of Capital ("WACC") and Terminal Growth Rate ("TGR"), CAL computed a valuation range taking into consideration multiple combinations of WACC and TGR.

**Table 3.2 Sensitivity table**

		WACC				
		-2.0%	-1.0%	Base case	+1.0%	+2.0%
TGR	-0.2%	16.49	14.70	13.15	11.79	10.60
	-0.1%	16.53	14.72	13.16	11.81	10.61
	Base case	16.56	14.75	<b>13.18</b>	11.82	10.62
	+0.1%	16.59	14.77	13.20	11.84	10.63
	+0.2%	16.62	14.80	13.22	11.85	10.65

### 3.3 Forecasts and valuations of individual power projects

#### 3.3.1 Lakdhanavi Bangla

**Table 3.3 Lakdhanavi Bangla - Financial forecasts**

LKRm	FY18E	FY19E	FY20E
Revenue	7,003.0	7,688.7	8,511.1
EBITDA	1,242.9	1,260.5	1,336.8
EBIT	1,005.2	1,018.0	1,089.5
PAT	732.0	773.9	878.0
FCFF	809.5	1,173.8	1,235.8

Forecast assumptions	
PPA validity	2029
Tariff basis	Bided cost
EBIT margins	3.0% - 13.2%
Capex : sales	0.4%
WC : sales	8.2%
Tax rate	Exempt

**Table 3.4 Lakdhanavi Bangla – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	700.3	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	878.4	K <sub>d</sub> (1-t)	12.0%
PV FCFF <sub>3</sub>	800.0	W <sub>d</sub>	55.0%
PV FCFF <sub>4</sub> – PPA expiry	7,697.4	K <sub>e</sub>	20.0%
PV FCFF <sub>Terminal value</sub>	1,119.1	W <sub>e</sub>	45.0%

<b>PV of cash flow</b>	<b>11,195.2</b>	WACC	15.6%
		TGR	0.5%

### 3.3.2 Raj Lanka

**Table 3.5 Raj Lanka - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	6,800.8	7,439.0	8,146.7	PPA validity	2028
EBITDA	1,069.3	1,044.4	1,011.9	Tariff basis	Bided cost
EBIT	776.1	745.4	706.8	EBIT margins	3.0% - 10.0%
PAT	390.6	435.5	477.3	Capex : sales	0.4%
FCFF	825.2	937.1	893.3	WC : sales	12.2%
				Tax rate	Exempt

**Table 3.6 Raj Lanka – Discounted cashflows**

LKRm	DCF assumptions
PV FCFF <sub>1</sub>	R <sub>f</sub> 10.0%
PV FCFF <sub>2</sub>	K <sub>d</sub> (1-t) 12.0%
PV FCFF <sub>3</sub>	W <sub>d</sub> 55.0%
PV FCFF <sub>4 – PPA expiry</sub>	K <sub>e</sub> 20.0%
PV FCFF <sub>Terminal value</sub>	W <sub>e</sub> 45.0%
<b>PV of cash flow</b>	<b>9,799.1</b>
	WACC 15.6%
	TGR 0.5%

### 3.3.3 Naladhanavi

**Table 3.7 Naladhanavi - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	294.4	300.0	338.9	PPA validity	2033
EBITDA	259.4	263.6	283.6	Tariff basis	Three tier
EBIT	186.9	191.1	211.1	EBIT margins	55.0% - 62.3%
PAT	114.6	137.8	181.2	Capex : sales	0.4% - 1.6%
FCFF	255.4	257.9	279.3	WC : sales	8.1%
				Tax rate	Exempt till 2020 12.0% thereafter

**Table 3.8 Naladhanavi – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	225.1	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	200.3	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	191.2	W <sub>d</sub>	55.0%
PV FCFF <sub>4-PPA expiry</sub>	785.0	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	170.6	W <sub>e</sub>	45.0%
<b>PV of cash flow</b>	<b>1,572.2</b>	WACC	13.5%
		TGR	0.5%

### 3.3.4 Pawandhanavi

**Table 3.9 Pawandhanavi - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	701.2	711.0	825.3	PPA validity	2032
EBITDA	637.3	718.1	456.5	Tariff basis	Three tier
EBIT	501.1	581.8	320.2	EBIT margins	60.0% - 65.0%
PAT	453.1	481.6	578.9	Capex : sales	0.4% - 1.6%
FCFF	623.8	634.0	713.9	WC : sales	8.0%
				Tax rate	Exempt till 2020 12.0% thereafter

**Table 3.10 Pawandhanavi – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	549.8	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	492.5	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	488.8	W <sub>d</sub>	55.0%
PV FCFF <sub>4-PPA expiry</sub>	1,501.1	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	429.6	W <sub>e</sub>	45.0%
<b>PV of cash flow</b>	<b>3,461.7</b>	WACC	13.5%
		TGR	0.5%

### 3.3.5 Nividhu

**Table 3.11 Nividhu - Financial forecasts**

LKRm	FY18E	FY19E	FY20E
Revenue	57.6	48.7	48.7
EBITDA	35.0	24.9	24.9
EBIT	34.0	24.9	24.9
PAT	24.2	17.9	17.9
FCFF	29.9	23.0	21.7

Forecast assumptions	
PPA validity	2022
Tariff basis	Avoided cost
EBIT margins	51.1%
Capex : sales	0.4%
WC : sales	13.9%
Tax rate	12.0%

**Table 3.12 Nividhu – Discounted cashflows**

LKRm	DCF assumptions
PV FCFF <sub>1</sub>	R <sub>f</sub>
PV FCFF <sub>2</sub>	K <sub>d</sub> (1-t)
PV FCFF <sub>3</sub>	W <sub>d</sub>
PV FCFF <sub>4</sub> – PPA expiry	K <sub>e</sub>
PV FCFF <sub>Terminal value</sub>	W <sub>e</sub>
<b>PV of cash flow</b>	<b>173.2</b>
	WACC
	TGR

### 3.3.6 Nividhu Asupiniella

**Table 3.13 Nividhu Asupiniella - Financial forecasts**

LKRm	FY18E	FY19E	FY20E
Revenue	238.5	238.5	238.5
EBITDA	214.6	213.1	213.1
EBIT	189.2	187.7	187.7
PAT	157.0	155.7	155.7
FCFF	191.2	189.6	189.6

Forecast assumptions	
PPA validity	2027
Tariff basis	Avoided cost
EBIT margins	65.0% - 78.7%
Capex : sales	0.4% - 2.2%
WC : sales	11.6%
Tax rate	12.0%

**Table 3.14 Nividhu Asupiniella – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	168.5	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	147.3	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	129.8	W <sub>d</sub>	55.0%
PV FCFF <sub>4-PPA expiry</sub>	21.1	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	93.0	W <sub>e</sub>	45.0%
<b>PV of cash flow</b>	<b>559.8</b>	WACC	13.5%
		TGR	0.5%

### 3.3.7 Neluwa Cascade

**Table 3.15 Neluwa Cascade - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	88.3	88.3	88.3	PPA validity	2023
EBITDA	65.5	64.3	65.5	Tariff basis	Avoided cost
EBIT	52.6	51.4	52.6	EBIT margins	59.6%
PAT	37.8	39.6	43.3	Capex : sales	0.4% - 1.4%
FCFF	57.0	57.8	58.8	WC : sales	4.1%
				Tax rate	12.0%

**Table 3.16 Neluwa Cascade – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	50.3	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	44.9	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	40.3	W <sub>d</sub>	55.0%
PV FCFF <sub>4-PPA expiry</sub>	117.7	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	185.7	W <sub>e</sub>	45.0%
<b>PV of cash flow</b>	<b>438.9</b>	WACC	13.5%
		TGR	0.5%

### 3.3.8 Sapthakanya

**Table 3.17 Sapthakanya - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	81.2	82.2	83.3	PPA validity	2035
EBITDA	68.2	68.6	69.3	Tariff basis	Three tier
EBIT	56.5	57.0	57.7	EBIT margins	65.0% - 69.3%
PAT	31.2	32.4	34.0	Capex : sales	0.4% - 1.4%
FCFF	46.5	68.1	68.9	WC : sales	12.0%
				Tax rate	Exempt till 2021 12.0% thereafter

**Table 3.18 Sapthakanya – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	40.9	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	52.9	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	47.1	W <sub>d</sub>	55.0%
PV FCFF <sub>4</sub> – PPA expiry	196.1	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	32.3	W <sub>e</sub>	45.0%
<b>PV of cash flow</b>	<b>369.4</b>	WACC	13.5%
		TGR	0.5%

### 3.3.9 Unit Energy

**Table 3.19 Unit Energy - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	183.8	183.8	183.8	PPA validity	2023
EBITDA	138.4	136.1	148.9	Tariff basis	Avoided cost
EBIT	120.5	118.2	131.0	EBIT margins	65.0%
PAT	87.9	76.1	85.8	Capex : sales	0.4% - 1.4%
FCFF	121.9	121.2	131.7	WC : sales	3.8%
				Tax rate	12.0%

**Table 3.20 Unit Energy – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	107.4	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	94.1	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	90.1	W <sub>d</sub>	55.0%
PV FCFF <sub>4</sub> – PPA expiry	264.6	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	417.7	W <sub>e</sub>	45.0%
<b>PV of cash flow</b>	<b>974.0</b>	WACC	13.5%
		TGR	0.5%

### 3.3.10 Campion

**Table 3.21 Campion - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	82.9	83.5	84.4	PPA validity	2037
EBITDA	62.8	62.8	63.3	Tariff basis	Three tier
EBIT	50.9	51.0	51.5	EBIT margins	57.0% - 65.0%
PAT	15.0	18.2	22.7	Capex : sales	0.4% - 2.0%
FCFF	52.5	62.4	62.9	WC : sales	12.0%
				Tax rate	Exempt till 2022 12.0% thereafter

**Table 3.22 Campion – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	46.3	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	48.5	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	43.1	W <sub>d</sub>	55.0%
PV FCFF <sub>4</sub> – PPA expiry	217.2	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	18.9	W <sub>e</sub>	45.0%
<b>PV of cash flow</b>	<b>373.9</b>	WACC	13.5%
		TGR	0.5%

### 3.3.11 Bambarapana

**Table 3.23 Bambarapana - Financial forecasts**

LKRm	FY18E	FY19E	FY20E
Revenue	69.2	180.9	149.9
EBITDA	67.6	174.1	140.8
EBIT	60.5	145.8	112.4
PAT	47.6	95.1	66.3
FCFF	69.3	154.0	150.5

Forecast assumptions	
PPA validity	2037
Tariff basis	Three tier
EBIT margins	65.0% - 75.0%
Capex : sales	0.4% - 2.0%
WC : sales	12.0%
Tax rate	Exempt till 2025 12.0% thereafter

**Table 3.24 Bambarapana – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	61.3	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	120.1	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	103.9	W <sub>d</sub>	60.0%
PV FCFF <sub>4</sub> – PPA expiry	533.1	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	49.4	W <sub>e</sub>	40.0%
<b>PV of cash flow</b>	<b>867.8</b>	WACC	13.1%
		TGR	0.5%

### 3.3.12 Makarigad

**Table 3.25 Makarigad - Financial forecasts**

LKRm	FY18E	FY19E	FY20E
Revenue	-	-	574.7
EBITDA	-	-	539.9
EBIT	-	-	459.7
PAT	-	-	270.6
FCFF	-	-	472.9

Forecast assumptions	
PPA validity	2049
Tariff basis	Fixed
EBIT margins	70.0% - 80.0%
Capex : sales	0.4% - 3.3%
WC : sales	11.3%
Tax rate	Exempt till 2029 20.0% thereafter

**Table 3.26 Makarigad – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	-	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	-	K <sub>d</sub> (1-t)	9.6%
PV FCFF <sub>3</sub>	325.7	W <sub>d</sub>	65.0%
PV FCFF <sub>4 – PPA expiry</sub>	3,353.3	K <sub>e</sub>	20.0%
PV FCFF <sub>Terminal value</sub>	128.3	W <sub>e</sub>	35.0%
<b>PV of cash flow</b>	<b>3,807.2</b>	WACC	13.2%
		TGR	0.5%

### 3.3.13 Pupulaketiya

**Table 3.27 Pupulaketiya - Financial forecasts**

LKRm	FY18E	FY19E	FY20E	Forecast assumptions	
Revenue	-	-	91.8	PPA validity	2038
EBITDA	-	-	88.4	Tariff basis	Three tier
EBIT	-	-	72.0	EBIT margins	51.0% - 78.0%
PAT	-	-	47.4	Capex : sales	0.4% - 2.5%
FCFF	-	-	69.2	WC : sales	11.0%
				Tax rate	12.0%

**Table 3.28 Pupulaketiya – Discounted cashflows**

LKRm		DCF assumptions	
PV FCFF <sub>1</sub>	-	R <sub>f</sub>	10.0%
PV FCFF <sub>2</sub>	-	K <sub>d</sub> (1-t)	10.6%
PV FCFF <sub>3</sub>	47.8	W <sub>d</sub>	60.0%
PV FCFF <sub>4 – PPA expiry</sub>	327.8	K <sub>e</sub>	17.0%
PV FCFF <sub>Terminal value</sub>	25.3	W <sub>e</sub>	40.0%
<b>PV of cash flow</b>	<b>400.9</b>	WACC	13.1%
		TGR	0.5%

A delay in the commencement of Pupulaketiya by a year will reduce total value of LEF by LKR41.9m or LKR0.07 per share.

## 4 Price to Earnings Relative Valuation

### 4.1 Summary valuations

**Table 4.1 Summary valuations**

	LKRm
FY19E PAT attributable to shareholders of LEF	790.5
Market cap. weighted peer average PER	13.4x
FY19E target value of LEF	10,631.4
Weighted average cost of equity	17.7%
<b>PV of LEF</b>	<b>7,675.3</b>
Number of shares (m)	582.3
<b>Value per share of LEF (LKR)</b>	<b>13.18</b>

*Source: Company financials, CSE*

The IPO price of LKR10.00 per share is at a discount to the PER relative valuation.

**Table 4.2 FY19E PAT attributable to shareholders of LEF**

Power project	FY19E PAT (LKRm)	LEF's stake	FY19E PAT to shareholders (LKRm)
Lakdhanavi Bangla	773.9	33.2%	256.62
Raj Lanka	435.5	20.3%	88.19
Naladhanavi	137.8	49.0%	67.50
Pawandhanavi	481.6	40.0%	192.64
Nividhu	17.9	25.0%	4.48
Nividhu Asupiniella	155.7	25.0%	38.93
Neluwa Cascade	39.6	49.0%	19.39
Sapthakanya	32.4	85.0%	27.55
Unit Energy	76.1	54.9%	41.80
Campion	18.2	84.3%	15.35
Bambarapana	95.1	40.0%	38.05
Makarigad	-	45.0%	-

Pupulaketiya	-	90.0%	-
<b>Total</b>	<b>2,263.9</b>		<b>790.5</b>

**Table 4.3 CSE peer comp**

Listed energy sector peer	Market Cap. (LKRm)	TTM PAT to shareholder (LKRm) *	PER
Resus Energy PLC	1,226.2	(90.7)	nm
Mackwoods Energy PLC	270.0	(3.3)	nm
Vallibel Power Erathna PLC	5,752.7	427.8	13.4
Panasian Power PLC	1,350.0	(3.9)	nm
Lotus Hydro Power PLC	610.9	(18.7)	nm
Vidullannka PLC	4,184.1	(36.6)	nm
<b>Market cap. weighted peer average PER</b>			<b>13.4</b>

*Source: CSE*

\* Trailing Twelve Month Profit After Tax to Shareholders was arrived as follows

TTM PAT = Profit attributable to shareholders for Year Ended 31 March 2017 + Profit attributable to shareholders for Quarter Ended 30 June 2017 - Profit attributable to shareholders for Quarter Ended 30 June 2016

## 5 Valuation methodology

### 5.1 Methodology adopted to arrive at the SOTP valuation

CAL adopted the following methodology in the preparation of financial forecasts and to arrive at the SOTP valuation for LEF.

- The audited financial statements of individual companies for the year ended 31 March 2016 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 management budgets for FY2017-2019 were reviewed as the first point of reference.
- Revenue was forecast taking into consideration the expected output (derived using plant capacity and plant load factor) and price (either based on PPA or bided cost). CAL relied on information contained in PPAs furnished by the company.
- The cost assumptions in the budgets were reviewed to ensure consistency with actual past performance, cost structure and industry norms.
- Assumptions on EBIT margins were made beyond the budgeted financials, up until the validity of the PPAs.
- Tax rates were assumed based on investment agreements (where ever applicable – CAL relied on management disclosure) or standard rates.
- Assumptions were made with regards to capital expenditure and investment in working capital.
- FCFF was computed as follows.  
FCFF = Tax adjusted EBIT + Depreciation – Capital expenditure – Incremental net working capital
- Discounting of cashflows: In order to arrive at an intrinsic value for each individual plant, the future FCFF's were discounted using the following formula:

$$V_0 = \left[ \sum_{t=1}^n \frac{FCFF_t}{(1+WACC)^t} \right] + TV_n$$

Where:

$V_0$  = Intrinsic value at year 0

$FCFF_t$  = Free cash flow to firm in year t

WACC = Weighted average cost of capital

$TV_n$  = Present value of terminal value at year n

Further, the Gordon's Growth Model was used to calculate  $TV_n$  with the following formula:

$$TV_n = \frac{FCFF_n (1+g)}{(WACC - g) \times (1+WACC)^n}$$

Where:

g = Terminal growth rate

FCFF<sub>n</sub> = Free cash flow to firm in year n

The Weighted Cost of Capital captures the effects of both equity and debt capital of an organisation when calculating the required rate of return. In order to compute the WACC for each individual plant, the formula below was used:

$$WACC = w_d r_d (1 - t) + w_e r_e$$

Where:

$w_d$  = Target gearing ratio

$r_d$  = Before-tax marginal cost of debt

$t$  = Company's marginal tax rate

$w_e$  = 1- $w_d$

$r_e$  = Marginal cost of equity

- Fair value of equity was computed by deducting the current net debt position of each company from its discounted FCFF, where current net debt position was computed as follows.  
Net debt = Term loan + Preference shares + Financial liabilities – Cash and cash equivalent

## 5.2 Methodology adopted to arrive at the PER relative valuation

CAL adopted the following methodology to arrive at the PER relative valuation for LEF.

- The market capitalisation weighted Price to Earnings ratio of the "Power and Energy Sector Peers" was computed. This included Vallibel Power Erathna PLC, Vidullanka PLC, Panasian Power PLC, Lotus Hydro Power PLC, Mackwoods Energy PLC and Resus Energy PLC.
- LEF's FY19E PAT attributable to shareholders was multiplied by the market capitalisation weighted peer average PER to arrive at a FY19E target valuation for LEF.  
(FY19E PAT attributable to shareholders was considered for this computation as more plants are expected to commence commercial operation over the next 2 year, reflecting a more sustainable level of earnings).
- This was discounted by the simple weighted average cost of equity of all power projects to arrive at the valuation of LEF as of today.

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## 6 Risks

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**The future performance of LEF is subject to a number of risks that may or may not be within the control of the Company. Should any of the risks highlighted here materialise, it could have an adverse effect on the performance of the Company and its ordinary share price. This section highlights the main sources of risk, but not necessarily all risks faced by the Company.**

### **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.

### **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.

### **Interest Rate Increases**

As at 31 August 2017, LEF, its subsidiaries and associates had c. LKR11.1b in net debt exposure. The domestic borrowing rates have been decreasing over the past couple of months resulting in a corresponding decrease in cost of borrowings for LEF as majority of the loans are secured at PLR+ interest rates. A reversal of this trend will result in an increase in cost of borrowings.

### **Environmental impacts**

For instance the annual energy prediction from the hydro system is based on long-term average flows, but year-to-year flows can vary significantly about this average: this can be very beneficial if you have a series of wetter years, but it can go the other way as well and have several dryer years.



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## **7 Value recommendation**

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We summarise the rationale for CAL's recommendation as follows:

- The SOTP suggest a price in the range of LKR10.60– LKR16.62
- The PER relative valuation indicates a price of LKR13.18

Despite the PER relative valuation coincidentally being equal to the SOTP valuation, given the limitations cited in PER relative valuation, CAL concludes its valuation recommendation based on the SOTP valuation in the range of LKR10.60– LKR16.62 a share of LEF.



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## **8 Individuals materially participating in the valuation assignment**

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### **Deshan Pushparajah – Head of Investment Banking**

Deshan is a Charterholder of the CFA Institute (USA), Associate Member of the Association of Chartered Certified Accountants (UK), Fellow Member of the Chartered Institute of Management Accountants (UK) and holds a BSc in Applied Accounting from Oxford Brookes University (UK). He has substantial experience in both the Equity and Debt Capital Markets space both private and public and has led the Capital Markets teams in the IPO's carried out by CAL.

### **Vishnu Balachandran- Head of Capital Markets**

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.

### **Ashvanth Vijayaram – Junior Financial Analyst**

Ashvanth is an ACCA affiliate and a Sri Lankan prize winner. After finishing ACCA in 2015 he started lecturing and subsequently joined CAL. He is also reading for his Bachelor in Business Administration specialising in Finance from the University of Colombo.



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## 9 Disclaimer

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CAL's analysis is based on information obtained from the audited financial and unaudited management accounts supplied by LEF management. CAL accepted all such information as accurate and acted with due care and consideration in preparing the report. However 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 LEF.

Neither CAL nor any of its employees involved in this assignment have a financial interest in LEF. 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 LEF's ownership of said properties. Neither has CAL explored the possibility of liens or encumbrances lodged against the properties.

This report is for the use of the Board of Directors and shareholders of LEF 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 27 September 2017 and will be valid for a period of five months from the date of opening of the subscription list. A factor to be considered for this report is that the valuations carried out are done based on financial data released by LEF. Where the data provided were incomplete, we have used reasonable judgment.

## ANNEXURE F : COLLECTION POINTS

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Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

### **Manager to the Offer**

#### **Acuity Partners (Private) Limited**

53, Dharmapala Mawatha,

Colombo 3

T: 011 2206206

### **Registrars to the Offer**

#### **Corporate Services (Private) Limited**

No: 216, de Saram Place,

Colombo 10,

T: 011 4605180, 011 4718220

### **Members & Trading Members of the CSE**

#### **Acuity Stockbrokers (Private) Limited**

53, Dharmapala Mawatha,

Colombo 3

T: 011 2206206

#### **Asha Phillips Securities Limited**

321, Galle Road,

2<sup>nd</sup> Floor, Lakshmans Building, Colombo 3

T: 011 2429100

#### **Asia Securities (Private) Limited**

2<sup>nd</sup> Floor, 176/1 - 2/1,

Thimbirigasyaya Road, Colombo 5

Tel. 011 7722000

#### **Assetline Securities (Private) Limited**

120, 120A, Pannipitiya Road,

Battaramulla

T: 011 4700100

#### **Bartleet Religare Securities (Private) Limited**

Level G, 'Bartleet House',

65, Braybrooke Place, Colombo 2

T: 011 5220200

#### **Candor Equities Limited**

Level 8, South Wing, 'Millennium House',

46/58, Nawam Mawatha, Colombo 2

T: 011 2359100

#### **Capital Trust Securities (Private) Limited**

42, Mohamed Macan Markar Mawatha,

Colombo 3

T: 011 2174174-5

#### **Claridge Stockbrokers (Private) Limited**

97, Ananda Rajakaruna Mawatha,

Colombo 10

T: 011 2689248

#### **CT CLSA Securities (Private) Limited**

4-14, Majestic City,

10, Station Road, Colombo 4

T: 011 2552290-4

#### **Capital Alliance Securities (Private) Limited**

Level 5, 'Millenium House',

46/58, Navam Mawatha, Colombo 2

T: 011 2317777

#### **Enterprise Ceylon Capital (Private) Limited**

26<sup>th</sup> Floor, East Tower,

World Trade Centre, Colombo 1

T: 011 2372541

#### **First Capital Equities (Private) Limited**

2, Deal Place,

Colombo 3

T: 011 2639898

#### **First Guardian Equities (Private) Limited**

32<sup>nd</sup> Floor, East Tower,

World Trade Centre, Colombo 1

T: 011 5884400

#### **J B Securities (Private) Limited**

150, St. Joseph Street,

Colombo 14

T: 011 2490900

**John Keells Stock Brokers (Private) Limited**

186, Vauxhall Street,  
Colombo 2  
T: 011 2306250

**LOLC Securities Limited**

481, T B Jayah Mawatha,  
Colombo 10  
T: 011 5889889

**Navara Securities (Private) Limited**

12B, Gregory's Road,  
Colombo 07  
T: 011 2358700/20

**Richard Pieris Securities (Private) Limited**

55/20, Vauxhall Lane,  
Colombo 2  
T: 011 7448900, 011 5900800

**SMB Securities (Private) Limited**

02, Gower Street,  
Colombo 05  
T: 011 4388138

**Somerville Stockbrokers (Private) Limited**

1A, Park Way, Park Road  
Colombo 5  
T: 011 2502852, 011 2502854

**TKS Securities (Private) Limited**

4<sup>th</sup> Floor, 245, Dharmapala Mawatha,  
Colombo 7  
T: 011 7857799

**Lanka Securities (Private) Limited**

228/1, Galle Road,  
Colombo 4,  
T: 011 4706757, 011 2554942

**Nation Lanka Equities (Private) Limited**

44, Guildford Crescent,  
Colombo 7  
T: 011 4658658

**NDB Securities (Private) Limited**

Level 2, NDB Capital Building,  
135, Bauddhaoka Mawatha, Colombo 4  
T: 011 2314170-8, 011 2131000

**SC Securities (Private) Limited**

5<sup>th</sup> Floor, 26B, Alwis Place,  
Colombo 3  
T: 011 4711000, 011 4711001

**Softlogic Stockbrokers (Private) Limited**

6, 37<sup>th</sup> Lane, Queens Road,  
Colombo 03  
T: 011 7277000

**Taprobane Securities (Private) Limited**

2<sup>nd</sup> Floor, 10, Gothami Road,  
Colombo 08  
T: 011 5328200, 011 5328100

**DFCC Bank PLC – Branches**

<b>Branch Name</b>	<b>Branch Address</b>	<b>Telephone</b>
<b>Avissawella</b>	No: 27,29, Yatiyantota Road, Avissawella	036 223 3900
<b>Balangoda</b>	No: 115, Barnes Ratwatta Mawatha, Balangoda	045 228 8822
<b>Bandaragama</b>	No: 63/1, Kalutara Road, Balangoda	038 229 0788
<b>Borella</b>	No: 14, Cotta Road, Colombo 08	011 269 0069
<b>City Office</b>	No: 73/5, Galle Road, Colombo 03	011 244 2442
<b>Eheliyagoda</b>	No: 13, Main Street, Eheliyagoda	036 225 8144
<b>Embilipitiya</b>	No: 202, Rasika Building Main Street, Embilipitiya	047 226 1369
<b>Galle</b>	No: 93, Wackwella Road, Galle	091 222 7372
<b>Gangodawila</b>	No: 601/1, High Level Road, Nugegoda	011 244 2711
<b>Horana</b>	No: 49, Panadura Road, Horana	034 226 5331
<b>Jaffna</b>	No: 141, KKS Road, Jaffna	021 222 1444
<b>Kadawatha</b>	No: 341, Kandy Road, Kadawatha	011 292 2340
<b>Kaduwela</b>	No: 506G, Colombo Road, Kaduwela	011 254 8170
<b>Kahawatta</b>	No: 166, Main Street, Kahawatta	045 227 0222
<b>Kalawana</b>	No: 70, Matugama Road, Kalawana	045 225 5411
<b>Kalutara</b>	No: 282, Main Street Kalutara South	034 223 6363
<b>Kandy</b>	No: 05, Deva Veediya, Kandy	081 223 4411
<b>Kiribathgoda</b>	No: 60, Kandy Road, Kiribathgoda	011 291 0965
<b>Kotahena</b>	No: 200, George R. De Silva Mawatha, Colombo 13	011 233 7601
<b>Kottawa</b>	No: 29, High Level Road, Kottawa	011 278 3886
<b>Kurunegala</b>	No: 25, Rajaphilla Road, Kurunegala	037 222 4142
<b>Maharagama</b>	No: 135, High Level Road, Maharagama	011 283 8668
<b>Malambe</b>	No: 09, Athurugiriya Road, Malambe	011 244 2714
<b>Matara</b>	No: 5, Hakmana Road, Matara	041 222 5500
<b>Mathugama</b>	No: 116/1, Agalawatta Road, Mathugama	034 224 7606
<b>Mt. Lavinia</b>	No: 295, Galle Road, Mt. Lavinia	011 271 7547
<b>Narahenpita</b>	No: T-29,30, Dedicated Economic Centre, Narahenpita	011 236 9651
<b>Nawala</b>	No: 540, Nawala Road, Rajagiriya	011 288 0880
<b>Nugegoda</b>	No: 24, Nawala Road, Nugegoda	011 281 4038
<b>Panadura</b>	No: 389, Gall Road, Panadura	038 224 1630
<b>Pettah</b>	Unit 8,9,10, People's Park Complex, Colombo 11	011 233 5457
<b>Piliyandala</b>	No: 1, Old Road, Piliyandala	011 260 9700
<b>Premier Banking Centre</b>	No: 6B, Albert Crescent, Colombo 07	011 268 0000
<b>Ramanayake Mawatha</b>	No: 73, W.A.D. Ramanayake Mawatha, Colombo 02	011 231 0500
<b>Rathnapura</b>	No: 46, Bandaranayake Mawatha, Rathnapura	045 222 3667
<b>Wattala</b>	No: 424, Negombo Road, Wattala	011 294 9148

## ANNEXURE G : CUSTODIAN BANKS

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Bank of Ceylon Head Office 11th Floor, 04, Bank of Ceylon Mawatha, Colombo 01. Tel: +94 11 2 317 777 / +94 11 2 448 348 +94 11 2 338 742-55 / +94 11 2 544 333	Banque Indosuez C/O Hatton National Bank Limited Cinnamon Garden Branch 251, Dharmapala Mawatha, Colombo 07. Tel: +94 11 2 686 537 / +94 11 2 689 176
Citi Bank, N A 65 C, Dharmapala Mawatha. P. O. Box 888, Colombo 07. Tel: +94 11 2 447 316-8 / +94 11 2 447 318 +94 11 2 449 061 / +94 11 2 328 526 / +94 11 4 794 700	Commercial Bank of Ceylon PLC Commercial House 21, Bristol Street, P.O. Box 853, Colombo 01. Tel: +94 11 2 445 010-15 / +94 11 2 381 935 +94 11 2 430 420 / +94 11 2 336 700
Deutsche Bank AG P.O. Box 314, 86, Galle Road, Colombo 03. Tel: +94 11 2 447 062 / +94 11 2 438 057	Hatton National Bank PLC HNB Towers, 479, T. B. Jayah Mawatha, Colombo 10. Tel: +94 11 2 664 664
Pan Asia Banking Corporation PLC Head Office 450, Galle Road, Colombo 03. Tel: +94 11 2 565 565	Nations Trust Bank PLC 242, Union Place, Colombo 02. Tel: +94 11 4 711 411
Public Bank Berhad 340, R A De Mel Mawatha, Colombo 03. Tel: +94 11 2 576 289, +94 11 7 290 200-7	People's Bank Head Office, 5th Floor, Sir Chittampalam A Gardiner Mawatha, Colombo 02. Tel: +94 11 2 781 481, +94 11 2 378 419 +94 11 2 446 315-6, +94 11 2 430 561
Seylan Bank PLC Level 8, Ceylinco Seylan Towers, 90, Galle Road, Colombo 03. Tel: +94 11 2 456 789, +94 11 4 701 812 +94 11 4 701 819, +94 11 4 701 829	Sampath Bank PLC 110, Sir James Peiris Mawatha, Colombo 02. Tel: +94 11 5 331 441
State Bank of India 16, Sir Baron Jayathilake Mawatha, Colombo 01. Tel: +94 11 2 326 133-5, +94 11 2 439 405-6 +94 11 2 447 166, +94 11 2 472 097	Standard Chartered Bank 37, York Street, P. O. Box 112, Colombo 01. Tel: +94 11 4 794 400, +94 11 2 480 000
Union Bank of Colombo PLC 64, Galle Road, Colombo 03. Tel: +94 11 2 374 100	The Hong Kong and Shanghai Banking Corporation Limited 24, Sir Baron Jayathilake Mawatha, Colombo 01. Tel: +94 11 2 325 435, +94 11 2 446 591 +94 11 2 446 303, +94 11 2 346 422

## ANNEXURE H : SHARE ALLOTMENTS MADE DURING THE PAST 12 MONTHS

Shareholder	Shares Issued on 30 June, 2016
Lanka Ventures PLC	31,885,615
Mr. M. A. Wijetunge	3,125,000
Equity Investments Lanka Limited	1,366,666
Mr. K. T. Konesh	290,000
Mr. C. R. Perera	210,000
Ms. M. M. F. Zareena	270,000
AWIS Holdings (Private) Limited	300,000
Mr. J. D. N. Kekulawala	125,000
Askold (Private) Limited	250,000
Cocoshell Activated Carbon Company (Private) Limited	125,000
Mrs. S. Kokilavani	37,500
Mr. D. M. A. E. Dissanayake	37,500
Mr. D. M. Sanath	25,000
Mr. K. A. G. Abhayaratne	50,000
Mrs. M. V. Fernando	37,500
Mr. M. W. De Silva	41,250
Sisira Investors Limited	41,250
Calton Hill Limited	41,250
Mr. N. D. P. Hettiaratchy	125,000
Shalsri Investments (Private) Limited	187,500
Mr. G. M. S. Wahid	31,250
Dr. S. P. Jayawardena	31,250
Mrs. R. S. B. Perera	31,250
Mr. V. H. Gunatilaka	37,500
Guardian Capital Partners PLC	937,500
Mr. D. L. S. R. Perera	62,500
J. B. Cocoshell (Private) Limited	1,100,000
Dr. W. S. E. Fernando	437,500
Mr. N. A. R. R. Silva	62,500
Mr. D. S. Arangala	405,000
Mr. K. Maheshwaran	300,000
Ms. G. A. Welgamage	18,000
<b>Total</b>	<b>42,025,281</b>

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