

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the BOC Property Development and Management (Private) Limited (“Company”) for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including material accounting policy information , was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2025 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

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

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

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic Financial Statements to be prepared of the Company.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation ;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5. Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendations
(i) As per the Lease Agreements with all lessees, the rent shall be paid in advance on the first day of each month. However, trade and related party receivable balance of the Company as at 31 December 2025 was Rs.148,458,544 from which Rs. 114,669,285 or 77.24 per cent were in arrears over 90 days period. Out of over 90 days receivable balance, mainly Rs.93,856,012 were from Bank of Ceylon Super Grade Branch - Kandy and Bank of Ceylon Central Provincial Office in Cey Bank House - Kandy and Rs 20,729,495 were from Bank of Ceylon - Western Province North, Bank of Ceylon Super Grade Branch and Engenuity (Pvt) Ltd in Merchant tower – Kollupitiya (MT). Hence, it was observed that the Company was unable to collect the trade and related party receivable balance as agreed in the lease agreements. Out of the total trade and related party receivable balance, Rs. 114,987,545 or 77.45 per cent is receivable from Ceybank House Kandy and the balance of Rs.33,470,999 or 22.55 per cent is receivable from MT - Kollupitiya Building. Since the Company had increased the rate of rent from January 2024 onwards, the Bank of	It is relevant to mention that Bank of Ceylon Western Province North branch paid the total outstanding on 30.07.2026. According to the officials of the Central they are in the process of obtaining BOC Board approval for the payment since the amount involved is beyond their financial authority level. The legal confirmation of the draft lease agreement relating to the Bank of Ceylon Kollupitiya Super Grade branch is yet to received. Further Colombo Stock Exchange fully settled their outstanding.	The Company should strengthen its receivable management and collection procedures to ensure that rental income is collected in accordance with the terms and conditions of the respective lease agreements. Further, management should ensure that all lease agreements are regularly reviewed and that revised rental rates are promptly communicated, invoiced and collected from lessees. A periodic receivable ageing review should also be carried out by management, with particular attention to balances outstanding for more than 90 days. Responsibility

Ceylon Western Province North branch, Super Grade Kollupitiya Branch located at MT Kollupitiya building and Bank of Ceylon branches in Ceybank House – Kandy are due to be paid the difference of rent amount (current rate - previous rate) up to the end of the year 2025. Further, Bank of Ceylon Super Grade branch located at MT – Kollupitiya and Colombo Stock Exchange in Ceybank House –Kandy who have renewed the rent agreement in 2025 had also not paid the revised rent for 2025.

should be assigned to relevant officers for monitoring and follow-up of overdue balances.

Although the lease agreement of Engenuity (Pvt) Ltd had ended on December 2021, the outstanding balance of Rs.3, 847,913 had not been recovered up to the date of audit on 25 June 2026.

Legal actions has been initiated to recover outstanding from Engenuity (Pvt) Ltd. (Case No. DMR 1375/23- The ex parte judgement in the relevant case has been refixed to 06.10.2026, on third time.

It is recommended to take appropriate actions to recover the outstanding dues without incurring a loss to the Company.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 251 million and the corresponding profit in the preceding year amounted to Rs.282 million. Therefore, a deterioration amounting to Rs.31 million of the financial result was observed. An increase of depreciation and amortisation expenses by 143 per cent and finance cost by 100 per cent were the main reason for the decrease of the financial result during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/(Decrease) (Rs.)	Variance %	Reason for the Variance
Depreciation and amortization expenses	55,637,520	143.06	-Lease rentals have increased drastically in respect of new lease agreement signed for BOC Merchant Tower Kollupitiya and Ceybank House Kandy which cause for the increase of Right of Use assets (ROU assets).

Finance Income	(26,180,758)	(15.6)	-Interest income has decreased due to decrease in market interest rates.
Revenue	64,139,768	13.99	- Rental Income increased due to monthly Rental increase w.e.f. 25 January 2025 for Ceybank House Kandy (CBH) and BOC Merchant Tower (MT) w.e.f. 01 April 2025.
Staff cost	3,992,199	5.27	-Staff cost had increased mainly due to salary increments granted during the year 2025.
Other income	(223,024)	(31.05)	-Other Income has decreased due to Lobby sales were not allowed in first half in year 2025, due to modifications in Ground floor of BOC MT Building.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review and the preceding year are given below.

	Year	
	2025	2024
Net Profit Ratio – Before Tax (percentage)	56	66
Current Ratio (Number of time)	10	14.4
Net Current Assets to Total Assets (Number of Times)	0.27	0.34

It was observed that, the Company's profitability declined during the year under review, with the decrease of Net Profit Ratio (Before Tax) from 66 per cent in 2024 to 56 per cent in 2025. The Current Ratio decreased from 14.4 times in 2024 to 10.0 times in 2025, indicating a reduction in short term liquidity.

3. Accountability and Good Governance

3.1 Objectives and Corporate Plan

Audit Issue

The Company, a wholly owned subsidiary of the Bank of Ceylon, had obtained two blocks of land from the Bank of Ceylon on a lease basis and developed them into two commercial buildings, namely BOC Merchant Tower, Kollupitiya and Cey Bank House, Kandy, with approximately floor areas of 92,924.48 sq. ft. and 53,097.78 sq. ft., respectively. The principal activity of the Company is the leasing of these properties and generation of rental income from thereon.

During the year under review, the Company had leased the entire available floor area of the BOC Merchant Tower, Kollupitiya, and Cey Bank House, Kandy to 10 and 04 tenants, by generating rental income of Rs.337, 804,404 and Rs. 184,785,961 respectively. Rental income from two properties increased by 11 per cent and 31 per cent, respectively compared with the preceding year. The increase was mainly attributable to the revision of rental rate per square foot by Rs. 30 for BOC Merchant Tower, Kollupitiya and Rs. 55-75 for Cey Bank House, Kandy, together with the continued full occupancy of the available space in both properties. Furthermore, the Company incurred Rs.54,927,800 on maintenance and other related expenses during the year under review, with a view to providing high-quality services to tenants and to ensure smooth and uninterrupted operation of the premises.

However, the company had not formulated and implemented a comprehensive strategy specifically addressing the long-term management and development of these properties, including rental income optimization, occupancy management, maintenance planning, asset value enhancement of its property assets.

Management Comment

Agreed.

Recommendations

The Company should formulate, approve and implement a comprehensive property management strategy aligned with its corporate objectives, covering rental income optimization, occupancy management, maintenance planning, asset value enhancement and efficient utilization of its property assets.