



Senkadagala Finance PLC  
Annual Report 2011/2012

From Plans to  
**PROGRESS**



# From Plans to **PROGRESS**

Last year, we laid our plans as a base from which we could grow and expand more than ever before. This year, our payoff has been exceptional, a testimony to our forward thinking and well-considered strategy. Our team, together with our wide customer base has made this a reality and we will follow through with our commitment to expansion and development by utilising the strengths of these valued partners. With a positive outlook and a zeal to make the best of future opportunities, we will continue to be a future-oriented company that will always move from plans to progress.



# VISION

Our vision is to be a leading financial institution in Sri Lanka that delivers high quality services and achieves excellence in all spheres of activity while being socially conscious, at all times.

# MISSION

To provide a wide range of diversified financial services and to acquire a portfolio of loanable funds that yields an adequate return to our shareholders, whilst safeguarding the interests of our depositors and other stakeholders.

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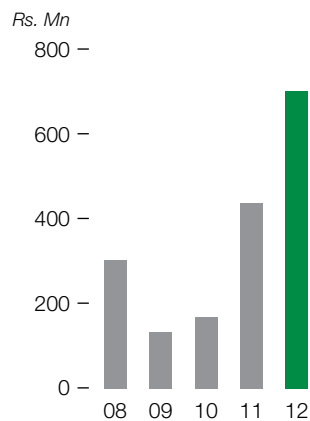


# From Plans to **PROGRESS**

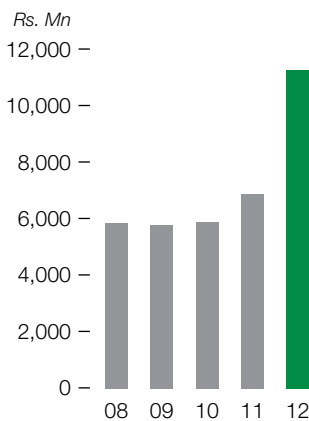
Our continued investment in the training of our valued staff during the year in review has been extremely beneficial in bringing our plans to fruition. By focusing on strengths and filling the deficits we have been reinforced with a team that is ready to take challenges and seize opportunities while working together as a streamlined and dynamic unit.



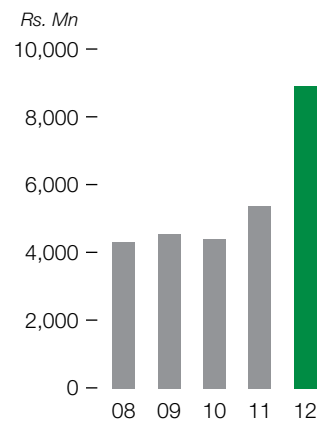
Profit Before Taxation



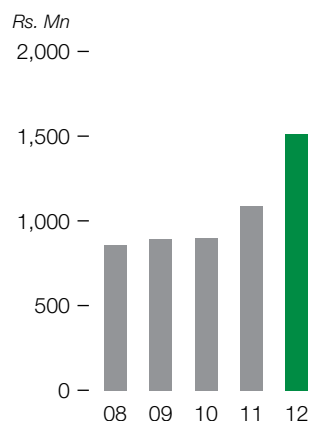
Total Assets



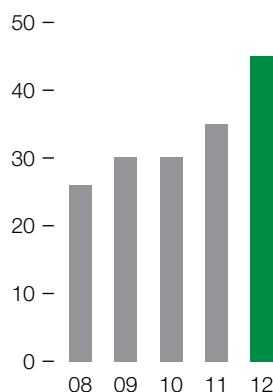
Advances Portfolio



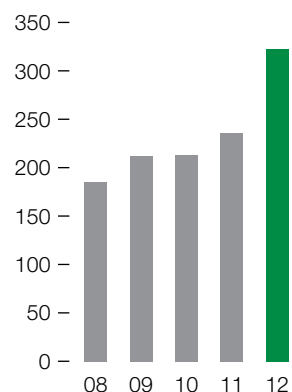
Shareholders' Funds



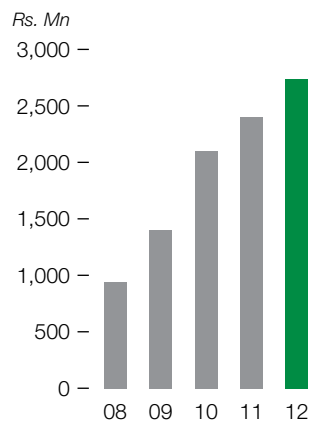
Operating Locations



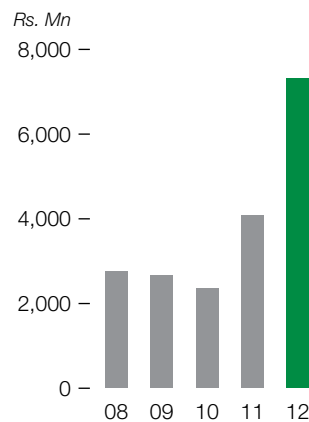
Staff Strength



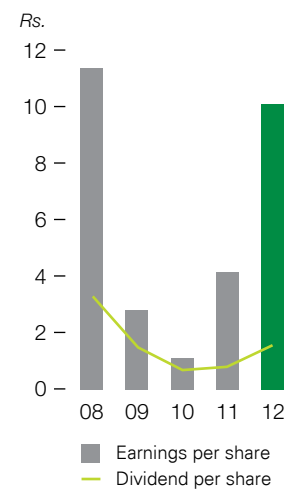
Deposits from customers



New business granted during the year



EPS and DPS





(in Rs. Million)	2012	2011	% Change
<b>Results of the year</b>			
Total advances disbursed	7,325	4,069	80
Net flow of total deposits	344	299	15
Securitised loans obtained	4,569	1,021	348
Debentures issued	559	300	86
Capital expenditure incurred	243	103	136
Gross Income	2,089	1,671	25
Fund-based Income	1,871	1,493	25
Fee-based Income	218	178	22
Gross Interest cost	806	679	19
Interest on deposits	266	268	(1)
Interest on borrowing	325	223	46
Interest on debentures	214	189	13
Profit before taxation	701	436	61
Profit after taxation	506	222	128
Gross dividends	81	43	88
<b>Financial Position at year-end</b>			
Shareholders' funds (Capital and reserves)	1,510	1,084	39
Total deposit base (Fixed deposits, CDs, Savings)	2,736	2,393	14
Borrowing	4,691	1,415	232
Advances portfolio	8,902	5,365	66
Total Assets	11,251	6,852	64
<b>Information per ordinary share</b>			
Earnings per Share (Rs.)	9.49	4.17	128
Dividends per Share (Rs.)	2.38	1.19	100
Net assets per Share (Rs.)	28.29	20.31	39
<b>Ratios</b>			
Return on average shareholders' funds (%)	54.08	43.80	23
Return on average total assets (%)	7.75	6.84	13
Interest cost to interest earned ratio	43.06	45.50	(5)
Gross interest cover	1.87	1.64	14
Equity as a % of total assets	13.42	15.82	(15)
Fitch Rating	BBB+	BBB+	

# From Plans to **PROGRESS**

Updating our information systems has remained a high priority over the years and we have always been up to date with the latest technology in order to maintain a seamless, efficient process for all our business activities. Utilising the best in IT, we will continue to be abreast of industry standards and provide the best in service.







The financial year ended 31st March 2012 was a very good year for the company. New business garnered by the company during the year ended 31st March 2012 grew by 80% over the previous year.



**C. L. de Alwis**  
*Chairman*



Profit before VAT & tax

Rs. 701 mn



I have pleasure in presenting to you the Annual Report and Audited Accounts of Senkadagala Finance PLC for the financial year ended on 31st March 2012.

I have set out below a brief overview of the progress of the company during the last financial year and the outlook for the current year.

### Significant events

The company continued its drive to expand its outreach by adding new locations to its service network. 15 new service centres were opened during the year and approval has been received to establish 5 more service centres and a branch in the current year which will take the total number of locations available to our clientele at the end of the year up to 51. After the year-end, the company also opened 3 new sites to engage in pawn broking.

The Finance Business Act, No. 42 of 2011 was enacted in November 2011 governing the activities of companies engaged in deposit-taking. The act gave significant authority to the Central Bank of Sri Lanka to exercise greater control over licensed finance companies (LFCs, formerly RFCs) and to obtain more information on the operations of these companies. The ability to monitor these institutions more closely will enable the Central Bank to take early evasive action to prevent a LFC from going into sudden, irreversible decline as happened in the not too distant past. This is a particularly salutary aspect of the new legislation as it will give the investing public greater confidence when investing with LFCs and help LFCs in their drive to raise public funds through deposits.

### The Financial Services sector

The excellent market conditions which prevailed in the financial year ended 31st March 2011 continued into the first quarter of the following financial year, 2011/2012. Motor vehicles were imported and sold locally at very reasonable prices. Effective demand for motor vehicles was high and, with regular shipments, vehicle dealers were able to turn over their stocks at short intervals. High levels of liquidity prevailed in the market and interest rates remained steady.

However, soon after the end of the first quarter, the Central Bank of Sri Lanka, recognising that the high liquidity in the market was creating inflationary pressures in the economy, took steps to reduce liquidity in the market by introducing a number of steps to combat this trend, particularly tightening credit made available by commercial banks. As the year progressed, liquidity continued to become tighter and new business proposals gradually declined. With the reduced business activity, risk profiles changed and risk levels increased in general. Clients previously considered low-risk became marginal while some marginal clients slipped into default. Repayment was under increasing pressure and lenders had to exercise greater caution than in previous years to keep their portfolios at required levels of quality.

Towards the end of the year, some LFCs restricted their activity in the market for some time, partly due to pressures caused by an increase in non-performing advances and partly due to the scarcity of funds in the market. The high interest rates also caused some market resistance though it did, at the same time, spur the collection of deposits.

### The Company's performance

The financial year ended 31st March 2012 was a very good year for the company. New business garnered by the company during the year ended 31st March 2012 grew by 80% over the previous year.

Loans and advances increased from Rs. 5.4 billion at the end of the previous financial year to Rs. 8.9 billion on 31st March 2012, an increase of 66%.

Net interest income derived from loans and advances during the year amounted to Rs. 1,064,998,747 reflecting an increase of 31%. Though this is marginally lower than the 34% achieved in the previous year it is commendable in the light of the sharp rise in market interest rates in the latter part of the financial year.

Profit before tax was Rs. 643 million compared to Rs. 349 million in the previous year. This is an increase of 84%.

After providing for tax on the profits earned during the year amounting to Rs. 137 million (previous year: Rs. 127 million), we are left with a profit for the year of Rs. 506 million, compared to Rs. 222 million in the previous year.

Your directors paid an interim dividend of 11.3% amounting to Rs. 60,305,840 out of the profits during the year and now propose to pay a third interim dividend of 7% amounting Rs. 37,357,600 and a final dividend of 5.5% amounting to Rs. 29,352,400, making the total dividend paid out to 23.8% for the year.

After payment of the dividend, a sum of Rs. 425,698,771 remains out of the profit of the year. Your directors propose to transfer a sum of Rs. 330,307,548 to reserves leaving an amount of Rs. 66,184,280 as retained profit.

### Sri Lanka Economy – Outlook in brief

During FY 2011/2012, the Central Bank of Sri Lanka introduced a number of measures to reduce the expansion of credit which was growing at a faster pace than anticipated. As a result, liquidity in the market gradually reduced and interest rates rose. The Central Bank reduced the targeted level of growth in the economy signalling a general slowing down of the economy.



The reduced liquidity which affected the market in the last quarter of the financial year initially caused an increase in demand for the financial services of LFCs, probably as a result of businesses converting assets purchased using short term bank accommodations to medium term financing such as leasing in order to free-up their bank facilities for working capital purposes. After the end of the financial year, however, most such conversions had been put in place and the demand dried up.

Interest rates are likely to remain high in FY 2012/2013 and this will act as a brake on economic growth. Consequently, the year is likely to feature mainly as a year of consolidation.

### Licensed Finance Company (LFC) sector

On 31st March 2012, pressured by the deteriorating balance of payments position, the government of Sri Lanka increased the import duties and related taxes on the importation of motor vehicles to Sri Lanka by Gazette notification. It is likely that the government's objective is not only to curb the importation of motor vehicles in the short term but also to maintain a tight hold on petroleum bills in the longer term. Clearly, with these objectives, the government is likely to keep import duties on motor vehicles at this level for at least the next 2 – 3 years.

While the increased duty is of greatest significance to motor vehicles of higher engine capacities, the increase in import duty applicable to every type of motor vehicle is such that it will deter most potential purchasers of motor vehicles. Since the main business of the company is to provide financial assistance for the purchase of motor vehicles, this increase will undoubtedly shrink our potential market and depress our earnings significantly in the next few years. As a result, it would be unrealistic to expect that the management will maintain the same rate of growth that it achieved in recent years during the current year.

With a view to supplementing its income in future years, the company embarked on a programme to introduce pawn broking services to the public. These services are aimed at an entirely different segment of the economy in which there are already a number of well-established LFCs operating with great success. The company is new to this field and needs time to understand the characteristics and behaviour of this particular market and the possible risks of operating in it. As such, we do not intend to invest a great deal in this new area of business immediately and so, it is not expected to contribute significantly to the profit of the company in the next 2 – 3 years. However, traditionally, this has been a field in which loan losses have been consistently low. It also reduces, quite considerably, the maturity gap between a financial institution's assets and liabilities. For these reasons, it makes very good sense for the company to diversify into this field.

### Appreciation

On 31st December 2011, in keeping with the rules of the Central Bank of Sri Lanka for Licensed Finance Companies, Mr. S. K. Wickremesinghe resigned from the board of directors and as Chairman of the company. Mr. Wickremesinghe, during his tenure as Chairman of the company, helped broaden the outlook of the company and introduced many processes to strengthen particularly the corporate governance of the company. He initiated an Audit Committee of the board and, as its Chairman, set up a wide-ranging and rigorous process of continuous internal audit which is of immense value to the accounting and management controls exercised by the company. I am pleased to take this opportunity, on behalf of the directors of the company, to place on record our appreciation of the contribution Mr. Wickremesinghe made to the company during his term as its Chairman.


It gives me great pleasure to inform you that Mr. Wickremesinghe has, at the invitation of the board, kindly consented to act as advisor to the board of directors.

During the previous year, the directors were saddened to lose one of its members with the demise of Mr. Cyril Herath. Mr. Herath was a very keen and active participant at meetings of the board of directors and of the audit committee, and his wise counsel was greatly valued by the board. His presence will be sadly missed.

In the relatively short period that I have functioned as Chairman of the board of directors, I have been privileged to enjoy the support and guidance of my fellow directors and I would like to take this opportunity to express my gratitude to them.

I would also like to thank the Managing Director and staff of the company for their hard work and dedication during the past year which has resulted in the excellent results achieved by the company.

The Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and his staff have been very supportive of the company during the past year and I thank them for their cooperation and assistance.



**C. L. de Alwis**  
Chairman

Colombo  
10th June 2012



The growth of our business was facilitated by the expansion of our outreach with the addition of 15 new service centres during the year. We now have a network of 45 locations in operation with plans to open a fully fledged branch in Jaffna, including pawn broking and foreign currency bureau services, and five more service centres during the financial year ending 31st March 2013.



**Lakshman Balasuriya**

*Managing Director/Chief Executive Officer*



Total Assets  
Rs. 11.2 bn



The Licensed Finance Companies sector enjoyed excellent market conditions for the major part of the financial year ended 31st March 2012. The previous financial year was a very good one for the sector and the excellent market conditions continued well into FY 2011/12.

The demand for new motor vehicles continued unabated. Interest rates were low at the beginning of the year and, though they did tend to rise continuously through the year, the increase was very gradual and predictable, presenting no problems for fund management. Economic growth continued and commercial activity remained high resulting in good repayment of debt and very low default. Liquidity in the market was good and raising funds presented no difficulty. Conditions were such that licensed finance companies (LFCs) had the opportunity to expand at unprecedented rates.

However, while the opportunity to expand was always present, the issues of effective demand and long term sustainability were aspects that needed to be addressed. While the management did push the boundaries in expanding its loan portfolio during the year, we were also careful to keep a watchful eye on portfolio quality so that it did not deteriorate while we also ensured we maintained a high level of liquidity at all times.

Halfway during the year, the rapid rate of expansion of credit in the market gave rise to fears of inflationary pressures and the Central Bank of Sri Lanka stepped in to curtail credit, mainly from the banking sector. The curtailing of credit acted as a dampener on the market at this stage and business activity declined gradually. The lack of liquidity created upward pressure on interest rates in the market causing problems to businesses which had expanded beyond or close to a point that was not sustainable. Many businesses had difficulty coping with the tighter liquidity. This company's caution in engaging in measured expansion of its portfolio paid off and we were mainly unaffected by the constricted market situation though we did find that some of our clients were affected by the tighter liquidity resulting in slower repayment for a while. On the whole, however, our collection ratio stayed at its previous high levels and continued that way right up to the end of the financial year. This is reflected in the excellent ratio of non-performing assets at the year-end. It was not just the trading and industrial sector that was adversely affected by the situation. Some of the larger LFCs which had engaged in rapid expansion of their portfolios during the preceding period were compelled to curtail lending, partly due to their lines of credit being fully utilised and partly due to rising debt recovery problems.

The operations of Senkadagala Finance PLC were not affected either by a lack of financial resources or by rising default and we continued to operate as before in the market, though we did have to alter our approach to credit assessment to take into account the deteriorating market conditions. This did not affect the growth of our portfolio of receivables during the year which grew by 66% to Rs. 8.9 billion at 31st March 2012. Our total asset base on 31st March 2012 stood at Rs. 11.2 billion having grown 64% during the year from Rs. 6.8 billion at the end of the previous year.

The growth of our business was facilitated by the expansion of our outreach with the addition of 15 new service centres during the year. We now have a network of 45 locations in operation with plans to open a fully fledged branch in Jaffna, including pawn broking and foreign currency bureau services, and five more service centres during the financial year ending 31st March 2013.

While we did enjoy an excellent overall growth rate in receivables, we were not completely in line with targets so far as sales mix was concerned. Our penetration into the leasing segment of the market continued to be low while our hire-purchase business continued to thrive. This is unfortunate because the overall post-tax return is higher in finance leasing than in hire-purchase. This is reflected in the company's rate of high pre-tax profitability of 34% and comparatively low post-tax profitability of 29%.

Most LFCs enjoy a very low incidence of Corporate Tax because they concentrate on giving greater weight in their portfolio to lease receivables than to hire-purchase. We have been less successful in this area of marketing and need to focus on this aspect during the current year. While we did make progress in this direction during the year, we need to strive harder to increase the lease component closer to 70% in the future. In the year under review, lease finance constituted 54% of the new business executed while the hire purchase component was 45%. Clearly, providing the members of our marketing staff with specialised training in aspects of lease marketing is necessary to achieve this objective. Greater emphasis on leasing in our short term operational targets is necessary. Focusing on leasing unregistered vehicles through vendor leasing packages will help achieve this objective.

Interest income derived from our portfolio of receivables during the year ended 31st March 2012 amounted to Rs. 1.8 billion compared to Rs. 1.4 billion in the previous year, an increase of 25%.

Net interest income as a percentage of total income grew from 49% in FY 2010/11 to 51% in the FY 2011/12. In a period of rising interest rates, it is usual to suffer a decline in this percentage. We avoided this by increasing the hire-purchase portion of our portfolio, which is priced higher in the market, and reducing the lower-priced leasing component. However, the pay-off for this is a higher incidence of income tax on profit during the year. Overall growth rates in the LFC sector during this period were 90% for leasing, 58% for secured loans and 35% for pawn broking. The interest margin (defined as net interest income as a percentage of average interest-earning assets) during the year under review was 9% compared to 12% in the previous year. This was the result of the unusually high rate of growth in our portfolio (66%) during the year. The comparative figure for the LFC sector as a whole was 6.4%.

The net income from operations during the year under review amounted to Rs. 1.2 billion compared to Rs. 0.99 billion in the previous year. This is an improvement of 29% over the preceding year. In comparison, operating expenses grew by only 14% during the year, - from Rs. 518 million last year to Rs. 589 million.

Consequently, our profit before loan losses grew by 46% to Rs. 693 million (2010/11 – Rs. 473 million).

I mentioned earlier in this report that our collection ratio remained high throughout the year. This is reflected quite clearly in the provision for loan losses required for the portfolio at the end of the year. These provisions are made strictly in line with requirements set out in Directions issued by the Central Bank of Sri Lanka. We made an additional provision of Rs. 8 million at the end of the year compared to the increase in provision amounting to Rs. 64 million in 2010/11.

Profit before tax for the year amounted to Rs. 701 million compared to Rs. 435 million in FY 2010/11, an increase of 61%.

Taxation for the year, comprising value added tax on financial services and income tax totalled Rs. 195.9 million. This is marginally less than in the previous year which was Rs. 213 million.

The profit after tax in the financial year ended 31st March 2012 was Rs. 506 million. This is a remarkable increase of 128% over the profit earned in the previous year of Rs. 222 million.

This makes the return on equity for the year 34% which is a significant improvement on the figure of the previous year of 21% and is ahead of the average for the industry in the year under review which is 25%.

The profit after tax represents a return on assets of 4.5% for the year. In FY 2010/11, we achieved a return of 3.2% on our assets. The average return on assets in the LFC sector for the period is around 5% this year.

The capital employed by the company grew to Rs. 1.5 billion on 31st March 2012 which is a 39% increase from Rs. 1 billion a year back. The comparative increase in the entire LFC sector was 60% in 2011.

Along with the transfers made to reserves out of the profits of the year and the retained earnings after paying dividends, the company's total equity (or core capital) at the end of the year is Rs. 1,509 million and our core capital ratio (as a percentage of risk weighted assets) is 15.2% which is well in excess of the required minimum of 5%. This is in line with the rest of the LFC sector. The total capital ratio is also 15.2% while the minimum requirement is 10% and the sector average is 14%.

The ratio of capital funds to total deposits increased from 45.3% at the beginning of the year to 55.2% at the end while the industry average was 20% and the minimum requirement is fixed at 10%.

The funds employed by the company in its operations, other than the capital, consisted mainly of term loans and time deposits.

Time deposits held by the company, grew by 14% from Rs. 2.3 billion to Rs. 2.7 billion, - slightly more than the previous year's growth of 14%. In comparison, deposits of the LFC sector grew by 27% during the year. The company clearly has less than its share of the deposit market in spite of the wide outreach we command through our 45-branch network. We clearly need to address this shortcoming by creating a greater emphasis on deposit marketing in the company. Currently, our marketing efforts are mainly focused on the other services we offer, especially leasing and hire-purchase. Advertising and publicity campaigns backed by a stronger focus on marketing deposits through our branches will help correct this lacuna in the company's marketing framework.

The term debt of the company, consisting mainly of securitised loans and unsecured debentures, increased by a huge 133% from Rs. 2.7 billion at the beginning of the year to Rs. 6.3 billion on 31st March 2012.

In considering our funding mix, it is clear that we have shown a preference for term loans and debentures obtained mainly from institutional lenders rather than time deposits and savings deposits raised from the general public, which is the more conventional source of funds for LFCs. At the commencement of the year, the ratio of deposits to term loans was 46:54 and at the end of the year it had altered to 30:70.

There are many reasons for this; chief among these is that term loans and debentures are certainly less costly than deposits in the present market. This is so, not merely on the agreed rate of interest, but is even more so when the cost of administration is considered. Deposits are usually for a period of a year and are renewed annually. Every time a deposit is renewed, a small administrative cost is incurred by the company. Once a term loan is drawn, no further administrative cost is incurred during the life of the loan and no renewal or other service is required. Term loans are drawn in large amounts while deposits are collected in small amounts over a long period of time requiring a large workforce spread through the branches.

More important than these extra costs, term loans are helpful in the company's risk management process since they are mainly secured by our receivables and their repayment is matched to our receivables while deposits are repayable usually in 12 months which creates maturity gaps in cash flows.

However, also in the interests of effective risk management, the company strives to keep a balance between funding sources preferring not to place too much reliance on any one avenue. As such, the company will make greater efforts in the current year to increase the deposit component of its funding.

Continuing with our advances in risk management, we have recorded significant gains during the year in our efforts at controlling credit risk. Our gross non-performing assets ratio (as a percentage of our total receivables) is 1.15% (compared to 2.28% in the previous year). This is an excellent result. It is the lowest recorded in the history of the company and is very much lower than the rest of the sector which has recorded a ratio of around 5.1% at the end of the year. Our net NPA ratio (after allowing for provisions) is 0.44%, compared to 0.8% in the previous year and 1.9% in the LFC sector.

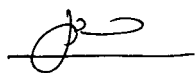
This has been possible mainly due to the emphasis we have placed in the last 2-3 years on equipping our staff with the knowledge and skills necessary to engage in practical credit evaluation as well as methods of recognising default early and acting early to manage delayed repayment effectively. We continue with our staff training programmes and much of our success in this area is attributed to this. Our training is conducted mainly in our own training centre and is designed by professional trainers in business education utilising professionals selected from the industry with years of valuable practical experience in different aspects of our work.

Also in connection with risk management, it is pertinent to note that our liquid assets at the end of the financial year amounted to Rs. 1,277 million in comparison to Rs. 617 million at the end of the previous year while the liquid assets ratio was 48% in comparison to 26% in the previous year. The minimum stipulated by the Central Bank of Sri Lanka is 10%.

As our Chairman has mentioned in his report, the import duties on motor vehicles was increased by Gazette notification on 30th March 2012. The increase was very sharp and was such that the prices of new vehicles have risen beyond the reach of a large section of the market. Since the increase, there has been a sharp drop in purchases of new motor vehicles. This has had an adverse impact on the business of the LFC sector and of this company. Much of the business executed since then has been for financing of used vehicles. Financing of used vehicles is mainly through hire-purchase due to the incidence of value added tax in leasing. As I explained earlier in this report, hire-purchase results in a lower post-tax return and gives us a lower profit after tax. While we continue to add to our portfolio with the same determination as before and at the same pace, we must realistically expect that the rate of growth in our profits which we achieved in the year just concluded is unlikely to be repeated in the current year.

In the meantime, we will look in to expanding our services to related areas of business in order to supplement our income in the years to come. One such area of business commenced by the company after the end of the financial year is pawn broking. There are a number of LFCs already operating very successfully in this field and though we will not invest a great deal in it initially, we expect that we will establish ourselves in pawn broking during the next 2-3 years after which it will be a useful contributor to our bottom line. At the date of this report, we are operating three centres offering pawn broking services and two more are ready to commence operations shortly.

We are all aware that the year ahead of us will be a difficult one for the LFC sector. The high rate of import duty on motor vehicles is expected to continue for the next 2-3 years at least. Current restrictions on the granting of credit by banks will not last as long but will probably only be eased gradually and not before the end of this year. While this will make it difficult for LFCs to get new business during the year, the greater fear is that if the credit restrictions are not properly managed, the economy will start to slow down. This could cause a drop in liquidity in the industrial and commercial sectors which will result in deterioration in repayment patterns of existing accommodations. While we are hopeful that the situation will not deteriorate to that extent, the industry needs to be aware of the possibility and prepare for it by carefully managing its existing portfolio.



**Lakshman Balasuriya**

*Managing Director/Chief Executive Officer*

Colombo  
20th June 2012.



## Board of Directors

### Chandra Lal de Alwis

B.B.M.

*Chairman*

(Appointed w.e.f. 1st January 2012)

Mr. Chandra Lal de Alwis joined the board of Senkadagala Finance PLC as Chairman on 1st January 2012. He is currently serving as a director on the boards of Ceylon Tapes (Pvt) Ltd., Link Natural Products (Pvt) Ltd. and Laugfs Gas PLC. Mr. de Alwis is also a past Chairman of CAL Exports (Pvt) Ltd., past Managing Director of Chemanex PLC and past director of Chemanex Adhesives Ltd. and Yasui Lanka (Pvt) Ltd.

### Lakshman Balasuriya

B.Sc. (Lond.), M.Sc. (Lancaster)

*Managing Director/Chief Executive Officer*

Mr. Balasuriya is a director of E.W. Balasuriya & Co. (Pvt) Ltd., Senkadagala Hotels Ltd. and Thompsons Beach Hotels Ltd. He has over 27 years of experience in finance, hotels and other commercial fields.

### Dr. Asoka Balasuriya

B.Sc. (Lond.), Ph.D. (Lond.)

*Director*

Dr. Balasuriya has over 30 years' experience in the field of gems and jewellery. He is Chairman of E. W. Balasuriya & Co. (Pvt) Ltd. and is also a director of Senkadagala Hotels Ltd. and Thompson Beach Hotels Ltd.

### Mrs. Lakshmi Fernando

B.Sc. (Hons.)

*Director*

Mrs. Fernando has many years' experience in the field of finance as well as in hotel management. She is a director of E.W. Balasuriya & Co. (Pvt) Ltd., Senkadagala Hotels Ltd. and Thompsons Beach Hotels Ltd.

### Dr. Mahendra Balasuriya

B.V.Sc.

*Director*

Dr. Balasuriya is a director of E.W. Balasuriya & Co. (Pvt) Ltd., Senkadagala Hotels Ltd. and Thompsons Beach Hotels Ltd. He has over 27 years of experience in hotels and related fields.

### Ajith Fernando

F. C. M. A., M.A. (Colombo)

*Director*

Mr. Fernando is a fellow member of the Chartered Institute of Management Accountants of the United Kingdom and has a MA in Financial Economics from the University of Colombo. He counts over 20 years' experience in the capital markets of Sri Lanka. In 2000, he founded Capital Alliance Ltd. in partnership with Asia Capital Ltd. Currently, he is the group CEO of the Capital Alliance group which includes Capital Alliance Ltd., a primary dealer of government securities, appointed by the Central Bank of Sri Lanka and Capital Alliance Securities (Pvt) Ltd, a trading member of the Colombo Stock Exchange. In addition, he serves on the boards of HDFC Bank PLC and many private companies. He is Deputy Chairman of the Financial Ombudsman's office and a director of the Lanka Financial Services Bureau.





# From Plans to **PROGRESS**

With the addition of 15 new service centres, our company has expanded its reach up to 45 locations which means our brand of service goes out to more people than ever before. Our progress however does not end there, with more expansionary measures in store in the year ahead including the opening of a fully fledged branch in Jaffna by 2013.

### Global economic conditions

The year 2011 was dominated by a series of disastrous economic events that prevented even a slim chance of global economic recovery. The year saw some European economies in free fall triggered by the Euro zone debt crisis. The resulting fiscal and financial instability proved too much of a strain for these economies to withstand resulting in international rating agencies downgrading the sovereign ratings of many of these nations further destabilising the global economy. Worldwide, financial markets remained sluggish during the year, with many developed economies continuing to maintain the trend of low short term interest rates. Despite increasing inflationary pressures resulting from escalating credit and asset prices, advanced economies attempted to stimulate global economic recovery by relaxing monetary restrictions. However, this did not have the desired effect and global economic growth was lacklustre at best, recording only 3.8% in 2011 compared with the robust 5.2% achieved in the previous year.

### Sri Lankan Economic Conditions

In contrast to the dismal performance of the global economy, Sri Lanka recorded an admirable 8.3% growth rate during 2011, the highest ever post-independence growth. The Sri Lankan economy showed remarkable buoyancy with growth in excess of 8% for the second consecutive year. This post-war momentum was largely due to the industry and service sectors. The revival of economic activities in the north and east and the development of the island-wide infrastructure network further enhanced the growth impetus in the country.

The unemployment rate declined to an all-time low of 4.2% in 2011, a testament to the measure of economic success. The annual average inflation rate was 6.7% while the year-on-year annual rate of inflation, which experienced some fluctuation at the beginning of the year, stabilised at a healthy 4.9% by December 2011. Imports grew by a staggering 50.7% while the growth in exports trailed far behind and grew by only 22.4% during the year. This was also reflected in the rapidly expanding trade deficit which grew to reach 16.4% of GDP and in the balance of payments which increased to US\$ 1.1 million at the year end. By the end of 2011, the Rupee experienced a marginal depreciation of 2.6% against the US Dollar. However, the total expenditure and net lending quotient was maintained at 21.4% of GDP, while the overall fiscal deficit was 6.9% of GDP, only marginally above forecast.

The ratio of government debt decreased from 81.9% in 2010 to 78.5% in 2011. It was the first time in nearly three decades that the ratio has dropped below 80%. This prompted the government to issue the fourth international sovereign bond amounting to US Dollars 1 billion, during the year.

### Financial sector development and outlook

In an effort to curb uncontrolled spending and reign in the burgeoning trade deficit the Government of Sri Lanka (GoSL) took aggressive steps to prevent the country's fiscal and financial environment from spinning out of control. GoSL made moves to encourage private sector investments by reducing key policy interest rates in January 2011. Following the reduction, market interest rates remained stable for the first nine months of the year but climbed sharply in the final quarter. These effects are discussed below.

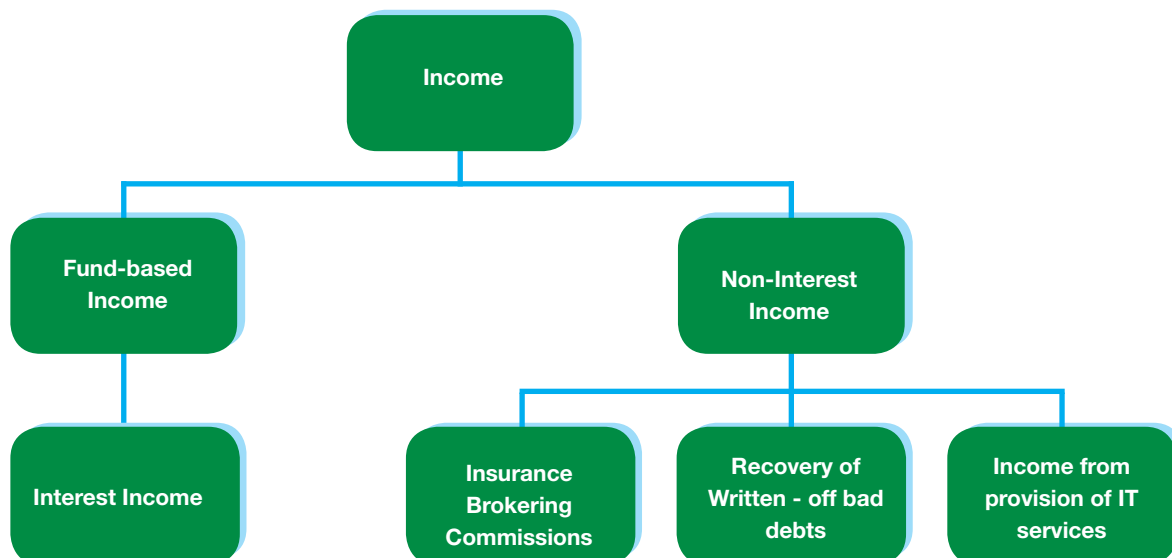
The failure of finance companies in the recent past highlighted the inadequate financial regulatory mechanisms in the country. The Finance Companies Act was replaced by the Finance Business Act in November 2011. The Act is designed to help weed out unlicensed financial institutions engaging in unlawful deposit taking. A stringent supervisory and regulatory structure has been developed to introduce discipline to financial markets. Consequently, the quality and integrity of the financial institutions in the market are expected to improve significantly. Market optimism and investor confidence in the country's financial system has been restored backed by a sharp decline in the non-performing loan (NPL) ratio. All prudential indicators were maintained with adequate capital and liquidity buffers and robust profit levels. The financial sector on the whole experienced significant expansion nationwide, with growing exposure in the north and east of the country, particularly in the banking, leasing and insurance segments.

The Central Bank decision in February 2012 to allow the Rupee to free float had many significant consequences. Key among them was the severe detrimental impact on the import of motor vehicles. This had an adverse effect on the financial sector as well.

During the year, GoSL also introduced a number of industry-specific tax incentives as a stimulus package to attract investments to target specific economic sectors. The changes in the tax structure, specifically the reduction in the corporate tax rate and the VAT component on financial services were effected via the 2011 budget in November 2011. In the last quarter of 2011, the Central Bank introduced a rapid increase in interest rates which severely contained the interest margins enjoyed by the Licensed Finance Companies (LFC). Within this context, borrowing has become increasingly difficult and costly.

## Business Review

FY 2012 was a remarkable year for Senkadagala Finance PLC. The booming vehicle market provided the required impetus for a promising start to the year 2012. The company was able to successfully sustain this momentum even in the face of the economic uncertainty experienced towards the end of the year.



The company achieved an 80% growth in overall business volume during the year from Rs. 4.1 billion in 2011 to Rs. 7.3 billion in 2012.

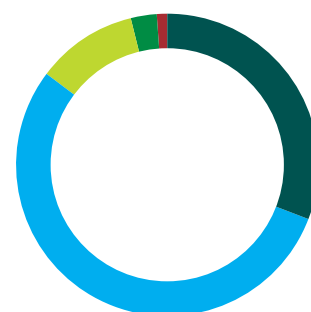
## Leasing

The core operational focus of the company, during FY 2011/12 was to enhance the leasing segment of the business. The favourable macro-economic conditions in the market ensured that the company's leasing arm fared exceedingly well during the year. The lease portfolio as at the end of FY 2011/12 was Rs. 4.3 billion compared to Rs. 1.4 billion at the end of FY 2010/11. A massive year-on-year growth rate of 203% was achieved in FY 2011/12 in comparison to the growth of 60% recorded in FY 2010/11. The interest income attributable to leasing also grew in tandem with the portfolio and ended the year with a 154% growth rate.

## Hire Purchase

The hire purchase portfolio grew by 18% to Rs. 4.4 billion compared to Rs. 3.7 billion last year. The interest earned from hire purchases grew from Rs. 1,008 million in 2011 to record Rs. 1,016 million in the current year, a marginal growth. The shrinkage in net interest margin in hire purchase was brought about by rising interest rates in the market resulting in higher costs of borrowing all of which could not be passed on to the market due to high market resistance, especially towards the end of the financial year.

## Fund-based Income



Finance leases	31%
Hire purchases	54%
Other Loans and Advances	11%
Money market investments	3%
Treasury bills	1%

## Loans

The loan portfolio ended the year on a positive note with a commendable year-on-year growth of 66%. New business generated during the year was Rs. 7.3 billion compared with Rs 4 billion in the previous year, a growth of 80%.

### Recovery Strategy

Senkadagala Finance has consistently adopted a stringent debt recovery policy supported by comprehensive training in debt recovery mechanisms for field personnel. The success of the methodology used is evidenced by the company's declining non-performing loan portfolio after it reached its peak in 2009. Since then, the greater debt service capacity of new customers introduced to the company together with the company's aggressive recovery drive has resulted in a steep decline in the company's non-performing loans.

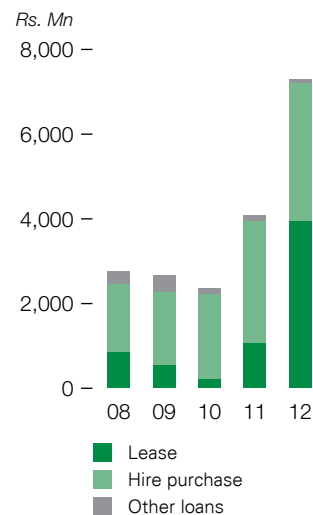
Senkadagala Finance's loan recovery ratio was 96.62% for leases and 96.10% for hire purchases.

### Non-Performing Assets

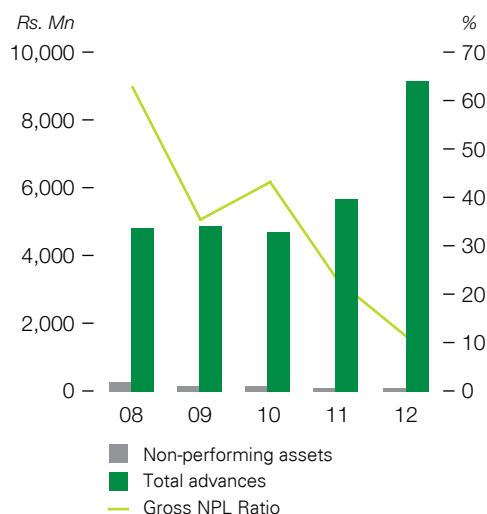
Senkadagala Finance PLC has earned the proud distinction of maintaining one of the lowest non-performing asset (NPA) ratios in the LFC sector in Sri Lanka. During the year, the company continued to improve its NPA ratio which reached 1.15% by the end of FY 2011/12. We believe our success is due to the stringent and practical credit evaluation mechanism in place together with the strategy of continuous staff training practiced by the company. Despite the increased level of activity, we are confident of improving even further on our NPA ratio in the forthcoming year.

The company's loan losses showed a dramatic improvement of 90% during the year due to the aggressive recovery strategy we practice together with our uncompromising policy of taking immediate legal action against all defaulting borrowers. The company incurred only Rs. 6.3 million during the year as loan losses compared to Rs. 64.8 million in the previous year.

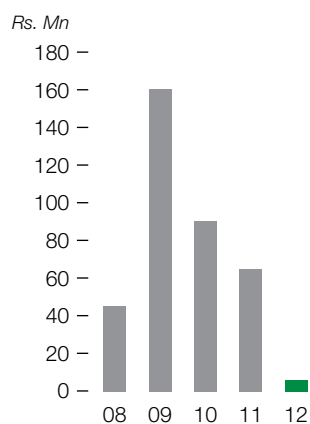
### New business granted during the year



### Non-performing assets



### Loan losses and Provisions





### Sourcing of funds

The company's operations during the year were funded through a combination of internally generated funds and externally sourced funds. As much as 81% of the previous years' earnings were reinvested in the company, during the current year. The liabilities arising from external funding sources consist of three main components. Securitised debt accounted for 48% while deposits of customers made up 28% and debentures were 17% of the total liabilities. Much of the company's expansion plans during the year were carried out utilising external funding sources.

The Company's debenture liabilities are a combination of unlisted, unsecured redeemable debentures and rated debentures. At the close of the year, the debenture liability had increased from Rs. 1.3 billion in 2011 to Rs. 1.7 billion in 2012, a 26% YoY growth.

During the year, the company maintained a floating to fixed rate loan ratio of 33:67. This is an excellent ratio for liquidity purposes and we believe that this healthy position is an adequate buffer to protect the company against any adverse market conditions. It will also give tremendous confidence to depositors and lenders of the company.

### Capital Adequacy

Risk weighted assets of the company experienced a slight decline towards the end of the year mainly due to the significant growth rate enjoyed during the year. The company's core capital ratio (and the total risk weighted capital ratio) as at the close of the year stood at 16.14%, well in excess of the statutory requirement of 5% (and 10%).

### Branch Network Expansion

During the year, the company enhanced its island-wide reach further through a well-planned expansion strategy. Fifteen new service centres were commissioned during the year. This brought the total number of branches and service centres of Senkadagala Finance to forty five by the end of FY 2012. The fixed assets of the company grew by 30% mainly due to the rapid outreach expansion.

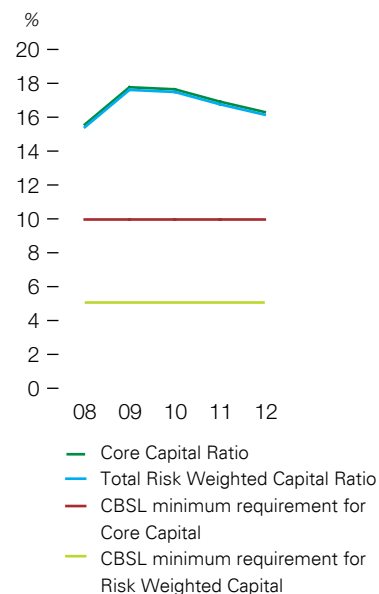
The company's aim is to establish a presence in these areas initially and it is not expected that the new units will contribute significantly to income in the next three years. Instead, Senkadagala Finance intends to consolidate its presence in these areas and to gradually create an appreciation of its services amongst the business community in the locality.

### Information Systems

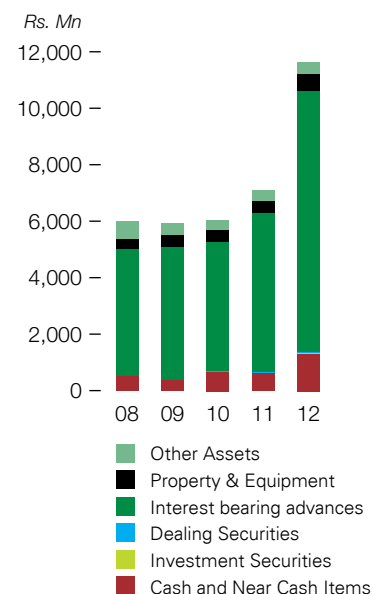
Senkadagala Finance continued to maintain all operational functions on a sophisticated IT platform. The company firmly believes that the IT function is a strategic resource and a core value creator for the organisation. Accordingly, the company has always recognised the importance of a progressive IT function to ensure long term corporate growth. During the year, the company revamped the entire network of servers which were upgraded to improve overall efficiency and to facilitate a gamut of enhanced services through the branch network. In addition, during the year a state-of-the-art disaster recovery centre was established at the Wattala branch, which will act as a remote back-up and data storage hub for the entire company.

The company continued to develop its website enabling its customers to access their savings accounts and details of their fixed deposits online. Payment details for leasing and hire purchase obligations to the company are also now available to our clients through the website enabling the company to provide an improved and faster service to our clientele at a greatly reduced cost.

### Capital Adequacy

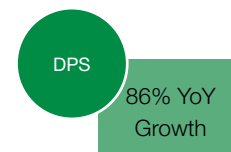
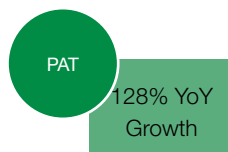


### Distribution of Assets



*“Without continual growth and progress, such words as improvement, achievement, and success have no meaning.”*

*Benjamin Franklin*



In 2012, Senkadagala Finance PLC continued to consolidate its position as a leading financial institution in Sri Lanka. During the year, the company grew exponentially having successfully built on the financial market conditions of the previous year.

FY 2011/12 brought success at many levels.

## Income

	2011 Rs	2012 Rs	Change
Total Income	1.67 billion	2.08 billion	+25%
Interest Income	1.49 billion	1.87 billion	+25%
Interest Expenses	679 million	806 million	+19%
Net Interest Income	814 million	1.065 billion	+31%

## Interest Income

Over 90% of the company's income for the year was fund based, and was generated mainly from its leasing and hire purchase business. In the previous year, interest income from leases comprised only 14% of the total income, whereas in the current financial year, it has increased to 23%, a remarkable 154% year-on-year increase. It is a testament to the company's success in redirecting the core business focus towards leasing in FY 2011/12.

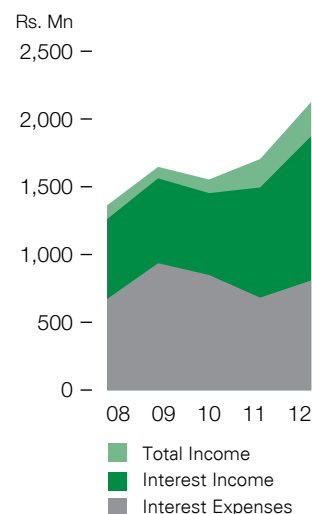
## Interest Expenses

The increase in interest expenses was primarily attributable to the sourcing of term loans through securitisation of receivables which increased by 53% from Rs. 212.7 million in 2011 to Rs. 324.9 million in the year under review. It is noteworthy that despite the 14% increase in the deposit portfolio during the year, the total interest paid out on the portfolio decreased by 1%. The company launched an advertising campaign in the 4th quarter of the financial year targeted at increasing the volume of funds mobilised through deposits.

## Other Operating Income

A major portion of the other operating income is generated by commissions received from insurers. This insurance service available to existing customers generated an income of Rs. 44.82 million in 2012 compared with Rs. 27.01 million in 2011. This was a commendable 66% growth attributable mainly to the increase in the loan portfolio during the year. Other operating income included gains due to the recovery of bad debts and fees charged for IT services rendered to related companies with 19% and 12% contributions respectively.

## Interest Income and Expenses



## Operating Expenses

The operating expenses of the year increased by 14% from Rs. 518 million in 2010/11 to Rs. 589 million in FY 2011/12. This was largely due to the expenses incurred by the company's branch expansion programme.

## Profitability

Despite the significant cost outlays incurred under the branch expansion programme, the company posted an unprecedented profit before tax of Rs. 701 million in 2011/12 as against Rs. 436 million in the previous year, an impressive 61% YoY growth. Tax planning, streamlined management and strict operational control ensured a profit after tax of Rs. 506 million in FY 2012 compared to Rs. 222 million recorded in 2011, a phenomenal 128% YoY growth.

## Taxation

Throughout the year the company engaged in a number of very successful tax planning initiatives, which resulted in considerable reduction in VAT from Rs. 85.96 million in 2011 to Rs 58.09 million in FY 2011/12. This was a 32% decline despite the tremendous increase in income. This was achieved mainly by switching the focus of the company's marketing efforts from hire purchases to finance leasing which is not liable to VAT on Financial Services. Careful tax planning and stringent control ensured that income tax increased marginally from Rs. 127 million in 2010/11 to Rs. 137 million in the year under review, a 8% decrease.

## Assets

### Loans and Advances

Senkadagala Finance's loans and advances grew by 66%, well above the industry average of 46%. The lease portfolio experienced a phenomenal 203% growth in the year under review. In contrast, the hire purchase portfolio saw only a modest growth of 18% during the year.

As indicated by the graph, it is evident that the company's strategic focus in enhancing its leasing business has been a success.

## Asset Quality

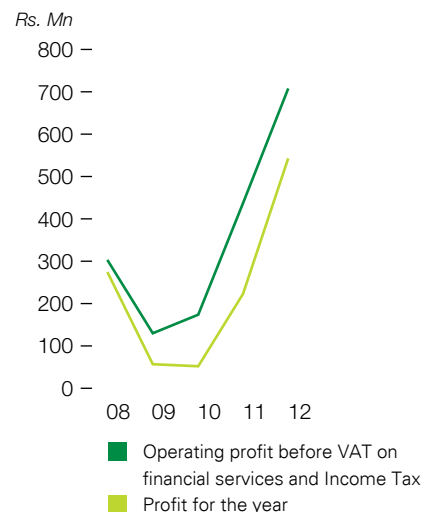
	2011 Rs. '000s	2012 Rs. '000s
Total Receivable	5,678,920	9,199,671
Non-performing Advances	129,197	106,214
Non-performing Loan (NPL) Ratio	2.28%	1.15%

## Liquidity

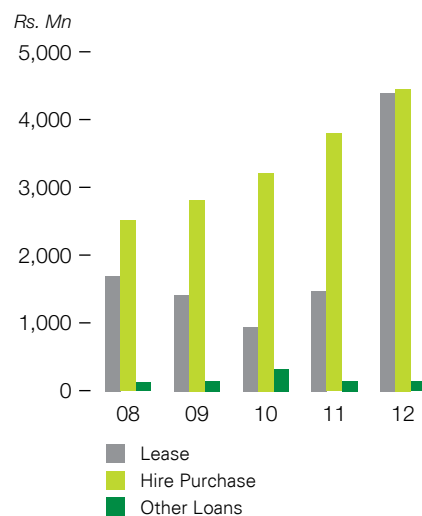
The liquid assets of the company as at 31st March 2012 amounted to Rs. 1.3 billion, an increase of 107% over the previous years' figure of Rs. 617 million. During the year, Senkadagala Finance continued to balance the effects of its conservative funding policy while maintaining a healthy liquidity position. Short term borrowing through bank overdrafts was kept to a minimum.

	2011	2012
Liquid Asset Ratio	27%	49%
Liquid Assets / Total Assets	9%	11%

## Profits



## Loans and Advances product-wise



### Interest Earning Assets

During the year, the company limited its exposure to the securities market from September 2011. Hence the company remained relatively immune to the drastic impact arising from the plunge in the stock market in the second half of 2011. The company actually recorded an overall 18% improvement in the value of its securities portfolio from Rs 48.3 million in 2010/11 to Rs. 57.1million in 2011/12.

However, the return on securities in 2011/12 was only 2%, a sharp reduction from the 102% return in the previous year. Since dealing securities account for only 0.45% of total assets, the effects of the fall in value did not impact Senkadagala Finance heavily, but a provision of Rs. 6 million was made during the year to take into account possible losses.

### Liabilities

The low interest rate environment at the commencement of the year prompted Senkadagala Finance to finance much of its expansion plans through long term loans. This proved to be the right move especially in the light of the interest rate fluctuations that arose towards the close of the year. During the year, the company maintained a floating to fixed rate loan ratio of 33:67.

### Gearing

The increase in the company's borrowing during the year resulted in an average gearing ratio of 5.89 on 31st March 2012, which was marginally above the industry standard of 4.73 for the year.

### Shareholders' Funds

Shareholders' funds continued to increase, recording, a growth of 42% from Rs. 1,084 million in 2011 to Rs. 1,539 million at the end of the year under review. There was no new capital infusion during the year.

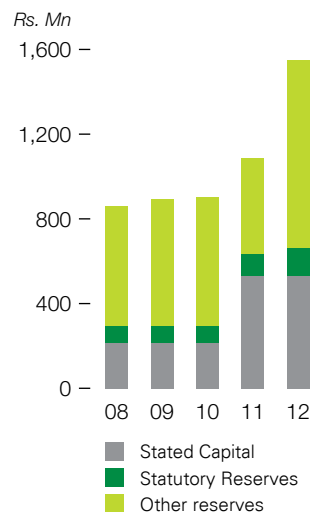
### Earnings per Share (EPS)

The Basic EPS recorded in 2011/12 was Rs. 9.49, an increase of 128% when compared with Rs. 4.17 in 2010/11

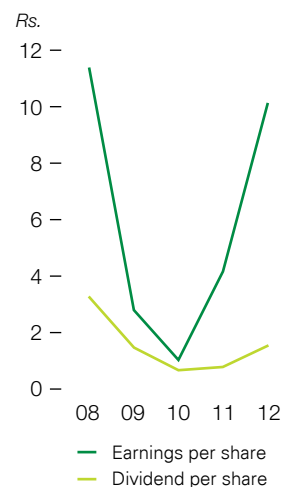
### Dividend

An interim dividend of Rs. 80.6 million was paid during the year. This amounted to 15% of the annual earnings compared with the 19% payout in the previous year. Dividend per share (DPS) for 2011/12 was Rs. 1.51 in comparison to Rs. 0.81 of in the previous year. The dividend cover for 2012 was 7 times compared with 5 times in the previous year. This is an increase of 29%.

### Shareholders' Funds



### EPS and DPS



*“A good company delivers excellent products and services, and a great company does all that and strives to make the world a better place.”*

*William Ford Jr., Chairman, Ford Motor Co.*

The modern corporate environment is a very demanding one, in which companies are expected not only to strive for business excellence but also to act with greater awareness to create lasting change to the social challenges that persist in society. At Senkadagala Finance PLC, we are driven by our conscience and consider our Corporate Social Responsibility (CSR) role very seriously. Our actions stem from the deep rooted belief that positive change can only be brought about through continued commitment and increased responsibility.



Kusum Sevana Day care centre

During the year, the company continued to support the “Kusum Sevana” project. Kusum Sevana is a Day care/ Pre-school managed by the Good Shepherd’s Convent in Kotahena that provides a safe haven for impoverished children in the area. These street children had been marginalised by society due to either the lack of resources or the absence of stable family support. At present, the centre provides education and care to over 150 children below the age of six. Although the centre has been in operation for over three decades, even the basic facilities had fallen in to a state of complete disrepair due to inadequate resources. Three years ago, Senkadagala Finance undertook to maintain the centre as the company’s key CSR project with the aim of supporting the

most vulnerable and desolate elements of society. Since then, many changes have taken place at Kusum Sevana. The centre was completely revamped and a number of new facilities added, creating a more child-friendly environment at the centre. In addition, the company provides meals, school equipment and stationery to children at the centre enriching lives and nurturing dreams. The success of our efforts during the past three years has added new momentum to the company’s commitment to the project which will be continued as an ongoing CSR initiative into the foreseeable future.

Senkadagala Finance strongly believes that education is the key to the future of human development. The company’s actions during the year capture the essence of this premise. Widespread efforts were made to uplift the standard of education throughout the country. A number of significant contributions were made to both primary and secondary schools with the aim of strengthening the infrastructure facilities and common amenities accessible to the student population in these schools.

We are well aware that adequate health care is a fundamental need for human sustenance. Insufficient funding is usually an insurmountable obstacle in achieving this goal. Recognising this need, during the year the company commenced a series of concentrated initiatives to support those in need of medical assistance. Accordingly, a number of deserving individuals were identified and provided with financial relief to fulfill their medical requirements. As part of the health drive, the company extended its support to the fight against cancer. The lack of financial resources at the medical institutions in the forefront of the battle against cancer was identified as a key barrier to obtaining high priced life saving drugs.



Support those in need of medical assistance

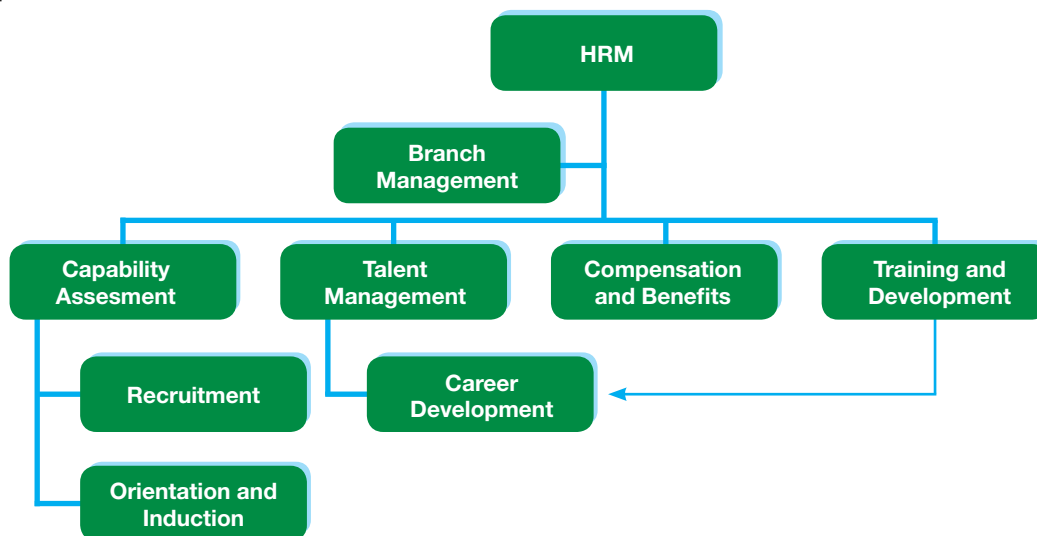
The patients undergoing treatment for cancer are some of the most vulnerable elements in society. The dire consequences caused by their life threatening situations have marginalised these patients and their families, many of whom are in desperate need of medical assistance and nutritional support. Accordingly, during the year, Senkadagala Finance stepped in to purchase a range of high value prescription medication and immunisation material, in addition to a substantial stock of milk powder and infant nutritional supplements for the younger patients.



## Senkadagala Finance PLC

### Human Resource Management (HRM)

In the past, the Human Resource function has been widely theorised and debated with little practical impact on the corporate world. Increasingly, however the HRM function has emerged as a driving force behind organisational success by mapping out its strategic direction, while employer / employee goal congruence ensures long term sustainability. At Senkadagala Finance PLC we fully recognise the importance of a stable, well-managed HRM function. We are committed to recruit, retain and develop our talent pool that would truly reflect our corporate identity. Our HR policies have evolved in cognizance with the changing corporate landscape and the comprehensive HRM module we adopt encapsulates fair practices within a framework of ethical conduct.



### Branch Management

At the crux of the Company's HRM function is the concept of a "Planned Workforce" adopted for all potential branches. Each branch is staffed by a manager, a secretary and three marketing executives, all of whom are recruited from the locality as far as is possible. A pre-determined plan focuses on five potential locations at a time for proposed branches. Once locations are identified and Central Bank approval has been obtained the staffing requirements of each branch are addressed and the recruitment process is initiated by way of press publicity.

### Recruitment and Selection

Senkadagala Finance adheres to the structured recruitment and selection guidelines set out by the management, in order to maintain consistency over time. All potential candidates are evaluated based on their qualifications and experience. Selected applicants are then shortlisted and interviewed by a panel comprising of the company's senior management. The selection criteria are determined by the specific vacancy in the company. Recruitment is based not only on the candidates' academic proficiencies but also on their practical outlook and mannerisms. This process has served the company well and has resulted in accumulating a dynamic and result-oriented human resource pool over the years.

### Orientation and Induction

All new recruits are expected to follow a comprehensive orientation and induction programme over a period of three to four months. The programme outlines a series of rigorous on-the-job practical training sessions and induction into the Senkadagala Finance corporate culture, work practices and ethics. The Company ensures that all new recruits are trained in environments similar to those which they would eventually be serving in. Thus, providing not only geographical familiarity but also allowing the staff to be attuned to the needs of the potential regional clientele.

### Career Development

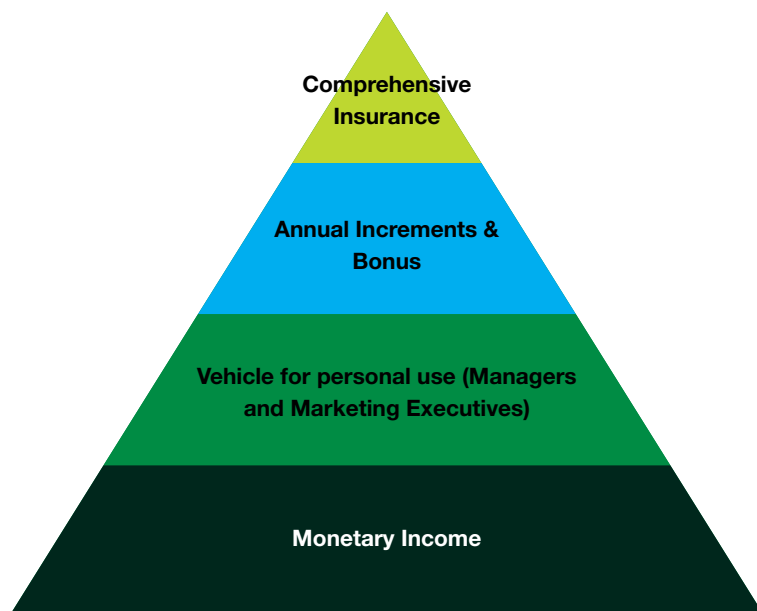
The company's career development plan is aligned to its goal of fair and equitable HRM practices. The structured career progression plan for branch managers is based entirely on the actual branch performance. Branch targets are established and agreed on prior to the

commencement of the financial year following joint discussion between the management and the respective branch managers. Actual performance, which is maintained for every employee on the computer system and which is available for all to see, is then evaluated against the pre-determined parameters. This method of performance measurement being totally transparent ensures the elimination of any sort of discrimination and favouritism. The Company has found that it gives the employees confidence in the system and also encourages a competitive spirit amongst the staff which is beneficial to the staff as well as to the Company.

Career progression for the executive cadre is determined by “The Executive Score System”, a completely transparent performance evaluation technique maintained on an interactive IT platform. All executives are allocated “points” based on their performance and target achievement, both on an individual basis and in relation to the respective branch. The system allows each individual easy access to his own performance record at any given time to establish his standing. The interactive feedback mechanism allows employees who are self-motivated to map out their career progression path within the organisation. The executive score is also used in retrospect to establish the annual incentive payment or “bonus” applicable to each employee.

### *Compensation and Benefits*

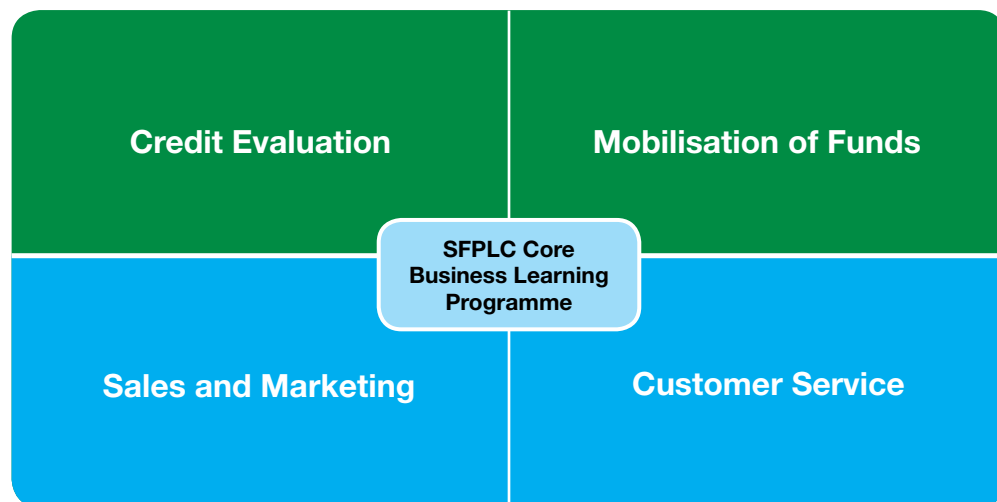
Senkadagala Finance believes that employee gratification is a multi-layered structure comprising of monetary and non-monetary benefits. Our employees are entitled to this attractive package which has been developed on par with industry standards.



### *Training and Development*

Training and development continues to remain an integral element of the HRM function. The Company follows a proactive two pronged approach towards training and development. On the one hand, we focus on training of new recruits and developing their skills and proficiency levels to ensure optimum performance standards prior to deployment in their new roles. On the other hand, the training of existing staff is conducted on an on-going basis in areas deemed relevant to knowledge enrichment, improved efficiency and eventual career enhancement. The Company's annual training agenda is diligently planned ahead of the financial year following careful consideration of the existing requirements, market conditions and its business impact on the organisation.

In keeping with our proactive approach, we continue to provide our executive staff island-wide with regular business-focused training sessions. A total of forty staff members from all branches are selected on a rotation basis every quarter to participate in the “Core Business Learning Programme”. The programme content has been developed as an intense industry focused learning tool. External trainers are recruited to conduct these sessions. Timely and relevant data and statistics are used at each session that empowers participants with updated knowledge and decision making skills.



All training programmes are conducted in-house in the Company's state-of-the-art training facility at the Wattala branch. During the year, as many as 15 "Core Business Learning Programmes" were conducted at the Wattala training centre.

Specific external training in other areas was provided to selected staff members during the year, as detailed below.

Training Programmes for 2011/12			
Date	Programme	Participation	Participants
07 May 2011	The Correct Interpretation of Credit Reports - Kandy	Secretaries & Executives	10
28 May 2011	The Correct Interpretation of Credit Reports - Galle	Secretaries & Executives	8
25 Jun 2011	Hire Purchase & Leasing – Kandy	Managers & Executives	8
02 Jul 2011	Spoken English - 16 Saturdays	Secretaries & Executives	30
28 Jul 2011	Anti - Money Laundering/Combating Terrorist Financing Awareness Programme - Ratnapura	Managers & Executives	4
30 Jul 2011	Concepts of Law related to Financial Institutions & Importance of proper documentation for effective debt recovery.	Managers & Executives	5
12 Aug 2011	Workshop on briefs to lawyers	Managers	5
16 Aug 2011	Workshop on briefs to lawyers	Managers	8
19 Aug 2011	Workshop on briefs to lawyers	Managers	7
21 Sep 2011	Important remedies in Law	Managers & Executives	15
20-21 Oct 2011	Credit evaluation and sales & marketing training	Managers	35
03 Dec 2011	Training Programme on Deposits	Secretaries & Executives	38
21 Jan 2012	The Correct Interpretation of Credit Reports - Kurunegala	Secretaries & Executives	10
17 Feb 2012	Credit evaluation	Executives	28
25 Feb 2012	The Correct Interpretation of Credit Reports - Badulla	Secretaries & Executives	6
02 Mar 2012	Credit evaluation	Executives	28
16 Mar 2012	Credit evaluation	Executives	24
24 Mar 2012	The Correct Interpretation of Credit Reports - Anuradhapura	Secretaries & Executives	4

## Branch and service centre opening



- |                |                 |                 |
|----------------|-----------------|-----------------|
| 1. Ampara      | 6. Homagama     | 11. Mawanella   |
| 2. Avissawella | 7. Kaduruwela   | 12. Seeduwa     |
| 3. Chilaw      | 8. Kalutara     | 13. Tangalle    |
| 4. Dambulla    | 9. Kotahena     | 14. Trincomalee |
| 5. Gampola     | 10. Mahiyangana | 15. Vavuniya    |





## Management of Risk

The company's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. Risk is an integral component of the business model of any finance company. Accordingly, the purpose of risk management is that the institution properly identifies measures and handles risks and prepares adequate reports on all these efforts so that the extent of risks which the company has assumed have been compensated with adequate return.

With this in mind, the company has established and operates mechanisms, which ensure the ongoing assessment of relevant risk types on an individual basis and of the overall risk position of the organisation.

At Senkadagala Finance PLC, the board of directors approves the Integrated Risk Management Policy, which sets the objectives, principles, processes and responsibilities for risk management within the company. The policy sets guidelines for defining, quantifying, monitoring and reporting financial risks. The Integrated Risk Management Committee, which is a subcommittee of the board, is responsible for reviewing the effectiveness of risk controls and procedures including the identification, assessment and reporting of risks and the risk-governance structure and compliance with risk control policies, procedures and regulations.

More specifically, the committee is responsible for ensuring

- Integrity and adequacy of the risk management function of the company
- Adequacy of the company's capital
- Risk exposures and risk profiles of the company are within acceptable parameters and to make recommendations to the board of directors on any action required
- The compliance of the company's operations with relevant laws, regulations and standards.

The company is primarily exposed to credit risk, market risk, liquidity risk, operational risk and regulatory risk.

### Credit Risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender. In order to manage credit risk, the company has established robust policies for credit appraisal and the staff is regularly trained in evaluating creditworthiness of prospective clients. Senkadagala Finance PLC manages high-risk sectors through sector restrictions that require prior high-level clearance before taking on new exposures even for small amounts. Once credit facilities are funded, they are continually monitored to identify changes in risk profiles. Further, sourcing and approval of clients are segregated to achieve independence. Recovery and NPA management are also given greater emphasis and are aggressively monitored.

**In this context, the company has had tremendous success and, during the year, reduced its loan losses by 90% from the previous year, i.e., from Rs. 37.8 mn to a reversal of Rs. 7.8 mn, and its net non-performing advances ratio from 0.8% to 0.44% or, in absolute terms, from Rs. 45.49 mn to Rs. 40.11 mn.**

### Market Risk

Market risk is the risk of potential losses accruing through adverse fluctuation in market interest rates, equity prices and exchange rates. Of these markets risks, the more frequent and most likely is the risk of adverse fluctuation of interest rates. The effect of such adverse movements could have an immediate and direct bearing on the company. Interest rate risk is the risk of loss in the net interest income of the company due to adverse changes in market interest rates. The company routinely assesses its asset and liability profile in terms of interest rate risk and, depending on this assessment, necessary realignments in the asset and liability structure are undertaken.

**During the year, the company was careful to maintain its funding mix to minimise the effect of the current rising trend of interest rates in the market which, clearly, is likely to continue for at least the next year. By the year-end, the company had achieved a ratio of 33:67 between its floating rate and fixed rate funding.**

### Liquidity Risk

Liquidity risk is the risk of inadequate resources to meet financial obligations in time and in full, at an acceptable cost. As was seen in some registered finance companies in the recent past, liquidity risk can pose serious threats to the existence of finance companies. The company understands the importance of a robust liquidity risk management policy and constantly monitors the liquidity position of the company.

**Senkadagala Finance PLC has maintained a healthy liquid assets portfolio constantly and for the year 2011-12, the liquid asset ratio was 48.5 percent, well above the minimum statutory requirement of 10 percent. Government Securities to Average Deposits Ratio was recorded at 11.86 percent which is more than the minimum statutory ratio of 7.5 percent.**

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and from external events. Senkadagala Finance PLC manages operational risks in a variety of ways. These include maintaining a comprehensive system of internal controls including disaster recovery plans and business continuity plans, using technology to automate processes and reduce manual errors, monitoring and analysing risk, events and trends, employing experienced staff, monitoring business activities by compliance and audit professionals, requiring education and training of employees, and emphasising the importance of management oversight.

**The company has in place a process of continuous internal audit utilising the services of Messrs. Ernst & Young, Chartered Accountants.**

### Regulatory Risk

Regulatory risk is the risk of non-compliance with applicable legislation, regulation and regulatory directives. Senkadagala Finance PLC manages day-to-day regulatory risk primarily by educating and training employees about regulatory requirements, establishing and maintaining appropriate policies and procedures, and monitoring for compliance. The company has appointed a Compliance Officer for communicating regulatory requirements to each business unit, ensuring that business units have appropriate policies and procedures in place and that staff are trained to meet regulatory requirements and for tracking, escalating and reporting significant issues and findings to senior management and the Board.

**In this latter process, the Compliance Officer is supported and assisted by the company's internal auditors, Messrs. Ernst & Young who also report on any issues of non-compliance, with both internal and external regulations. Compliance with regulatory requirements is also documented through formal procedure manuals for each business unit.**

### Reputation Risk

Reputation risk is the risk to earnings, capital or brand arising from negative public or employee opinion. A company's reputation is a valuable business asset in its own right, essential to optimising shareholder value. Reputation risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, earnings and capital. Credit, liquidity, interest rate, operational, and regulatory risks must all be managed effectively in order to safeguard the company's reputation.



The concept of Corporate Governance has been defined as a system by which companies are directed, managed and controlled. Effective, transparent and accountable governance of affairs of the company by its management, including the conduct of the board, ensures good corporate governance. Moreover, governance of financial institutions should aim at protecting the interests of all stakeholders such as shareholders, customers, suppliers, creditors, depositors, regulators and the general public.

We, at Senkadagala Finance PLC, place a strong emphasis on adopting and implementing sound principles and practices of good corporate governance. The company's policy of employing principles and practices of good governance ensures that its affairs are conducted in an effective and transparent manner and is well communicated to all its branches, service centres and departments within the organisation.

The company, during the year, has committed to comply with all corporate governance requirements including the following.

- The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (CSE) of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (ICASL).
- The Direction on Corporate Governance for Registered Finance Companies issued by the Central Bank of Sri Lanka (CBSL) under Direction No. 3 of 2008 and amendments there to which is effective from 1 January 2009.
- The Continuing Listing Requirements, Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange (CSE).

### Board of Directors and Board Committees

The board consists of a Chairman, a Managing Director/Chief Executive Officer, executive directors and non-executive directors. There are six directors on the board of Senkadagala Finance PLC of whom two, including the Chairman, hold office in a non-executive capacity and are also independent. The board of directors is multifaceted and has been drawn from a cross-section of industries. Their expertise in their respective fields as well as inherent talents and skills has contributed immensely to making effective and informed board decisions. A brief description of the directors is given in page 19 of this Annual Report.

The main functions and the responsibilities of the board of directors are;

- ensuring satisfactory management of the resources of the company
- driving the business of the company to ensure long term growth and creation of value to stakeholders
- formulating, reviewing and monitoring successful implementation of competitive business strategies
- ensuring the appointment of a competent Chief Executive Officer and an effective management team, approving the organisational structure and succession planning of the company
- ensuring implementation of an effective internal control system
- ensuring compliance with legal requirements and ethical standards
- securing a sound risk management system for the company
- deciding on major capital investments and the acquisition and disposal of property and premises
- approving the annual budget and the corporate plan
- approving credit facilities beyond the limit delegated to the Chief Executive Officer and the Credit Committee
- approving the annual and interim financial statements for publication

The responsibilities of the Chief Executive Officer and of the Chairman have been clearly defined, adhering to best corporate governance practices.

The number of meetings of the board held during the year and individual attendance of members is as follows.

Name of Director	Directorship status	Meetings held	Meetings attended
Mr. S. K. Wickremesinghe	Chairman (Independent non-executive director) Resigned - 31/12/2011.	11	08
Mr. C. L. de Alwis	Chairman (Independent non-executive director) Appointed - 01/01/2012.	11	03
Mr. L. Balasuriya	Managing Director/Chief Executive Officer (Executive director)	11	11
Mr. R. Balasuriya	(Non-executive director) Resigned - 31/12/2011.	11	06
Dr. A. Balasuriya	Director-Operations (Executive director)	11	09
Dr. M. Balasuriya	Director-Planning (Executive director)	11	09
Mrs. L. Fernando	Director-Human Resources (Executive director)	11	08
Dr. Mrs. G. Madan Mohan	(Non-executive director) Resigned - 31/12/2011.	11	07
Mr. W. A. T. Fernando	(Independent non-executive director)	11	07

Dr. Mrs. G. Madan Mohan was represented by her alternates.

Senkadagala Finance PLC has outsourced its secretarial functions to a firm of qualified company secretaries. The board obtains independent professional advice in various matters from external sources, as and when the necessity arises.

## Board Committees

Several committees have been appointed by the board with the objective of improving governance. The board considers the level of experience and expertise of each member when appointing them to the following committees.

### Audit Committee

The Audit Committee comprises of two independent non-executive directors and an executive director. The Managing Director/CEO, the Additional CEO and Assistant General Manager – Accounts attend the meeting by invitation. The committee invites representatives of the internal auditors and of the external auditors for meetings to discuss audit matters raised in monthly internal audit reports and management letters arising from statutory audits of external auditors. Other members of the management team attend the meeting as and when the need arises.

The report of the audit committee is set out in the page 41 in this annual report.

The number of meetings of the Audit Committee held during the year and individual attendance by directors is as follows.

Name of Director	Directorship status	Meetings held	Meetings attended
Mr. S. K. Wickremesinghe	Chairman (Independent non-executive director) Resigned - 31/12/2011.	5	4
Mr. C. L. de Alwis	Chairman (Independent non-executive director) Appointed - 01/01/2012.	5	1
Mrs. L. Fernando	Director - Human Resources (Executive director)	5	4
Mr. W. A. T. Fernando	(Independent non-executive director)	5	4
<b>By Invitation</b>			
Mr. L. Balasuriya	Managing Director/Chief Executive Officer (Executive director)	5	5

### Remuneration Committee

The Remuneration Committee comprises of two directors, and the Managing Director/CEO. This committee is entrusted with the responsibility of maintaining competitive remuneration packages. The committee determines the remuneration of the executive directors, the Managing Director/CEO and other senior officers of the company and ensures that they are in line with industry standards.

Details of Committee members and their attendance at meetings are as follows.

Name of Director	Directorship status	Meetings held	Meetings attended
Mr. S. K. Wickremesinghe	Chairman (Independent non-executive director) Resigned - 31/12/2011.	2	2
Mr. C. L. de Alwis	Chairman (Independent non-executive director) Joined - 01/01/2012.	2	2
Dr. M. Balasuriya	Director - Planning (Executive director)	2	2
Mr. W. A. T. Fernando	(Independent non-executive director)	2	2
By Invitation			
Mr. L. Balasuriya	Managing Director/ Chief Executive Officer (Executive director)	2	2

### Integrated Risk Management Committee

The committee comprises of three directors and the Chairman and the Managing Director/CEO attend by invitation. Members of the senior management team participate in this meeting as and when necessary.

The responsibilities of the committee have been set as reviewing the effectiveness of risk controls and procedures including the identification, assessment and reporting of risks and the risk governance structure and compliance with risk control policies, procedures and regulations.

The Committee did not meet during the year.

# Report of the Audit Committee

The Board of Directors established the Audit Committee with responsibility for overseeing the preparation and presentation of the company's financial statements and ensuring adequate disclosure in the financial statements in accordance with the Companies Act, No 7 of 2007 and applicable Sri Lanka Accounting Standards. Arising from this, the committee is responsible for ensuring the adequacy and efficiency of internal controls adopted by the company in maintaining accounting records and preparing financial statements and makes recommendations to the board of directors on matters regarding the internal and external auditors including their independence, performance, terms of engagement and remuneration.

## Composition

Until his resignation (on December 31, 2011) Mr. S. K. Wickremesinghe, the former Chairman of the board of directors chaired the Audit Committee. From January 2012 to the end of the financial year, Mr. C. L. de Alwis, current Chairman of the board of directors, chaired the Audit Committee. Thereafter, the board of directors appointed Mr. W. A. T. Fernando as Chairman of the Audit Committee. Mr. Fernando is a fellow member of the Chartered Institute of Management Accountants and is an independent non-executive director on the board of directors of the company. The following directors are members of the committee.

- Mr. C. L. de Alwis, Chairman of the Board and non-executive director
- Mrs. L. Fernando, Director – Human Resources

The Managing Director/Chief Executive Officer, the Additional Chief Executive Officer, the Assistant General Manager-Accounts, the Senior Financial Officer, Internal Auditor, representatives of Messrs. Ernst & Young, the firm of Internal Auditors and of Messrs. KPMG Ford, Rhodes, Thornton & Co., the firm of External Auditors attend meetings by invitation to brief the committee on specific issues. Other senior managers of the company also attend whenever their presence is requested.

## Policy and Scope

The Committee discharges its responsibilities through a series of meetings during the year. At these meetings, the committee reviews the reports of the internal auditors and of the external auditors of the company and interim and final financial statements of the company ensuring their compliance with statutory and other requirements. Attendance of the members at these meetings is set out on page 39 of this Annual Report.

The committee ensures that there is no conflict of interest between the company and its auditors. A statement to this effect has been received from the auditors in terms of section 163 (3) of the Companies Act, No. 7 of 2007.

(Sgn)

**W. A. T. Fernando**

*Chairman*

Audit Committee

Colombo, Sri Lanka.

June 20, 2012

# Report of the Remuneration Committee

The Remuneration Committee, appointed by the board of directors, comprises of three directors.

## Composition

Until his resignation on December 31, 2011, Mr. S. K. Wickremesinghe, then Chairman of the board of directors chaired the Remuneration Committee. From January 2012 to date Mr. C. L. de Alwis, Chairman of the board of directors, chairs the Remuneration Committee and the following directors are members of the committee.

Dr. M. Balasuriya, Director - Planning

Mr. L. Balasuriya, Managing Director/Chief Executive Officer.

Brief profiles of the members are set out on page 19 of the Annual Report.

## Policy

The company's remuneration policy aims to attract, motivate and retain talent in a highly competitive environment with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the company. The company remuneration framework for the Managing Director and the corporate management team is designed to create and enhance value for all stakeholders of the company and to ensure alignment between short and long-term interests of the company.

## Scope

The committee reviews all significant human resource policies and initiatives, salary structure and terms and conditions relating to staff at senior executive level. The committee deliberates upon and recommends to the board of directors the remuneration packages, annual increments and bonuses of the Managing Director, members of the corporate management team and senior staff.

The Managing Director, who is responsible for the overall management of the company, attends all meetings and participates in the deliberations except when his own interest, performance and compensation are discussed.

## Fees

All non-executive directors receive a fee for attendance at board meetings and for serving on committees.

## Committee Meetings

Attendance of the members at meetings is set out in page 40 of this Annual Report.

## Access to Professional Advice

The committee is authorised to seek external professional advice as and when it deems it is necessary.

(Sgn)

**C. L. de Alwis**

*Chairman*

Remuneration Committee

Colombo, Sri Lanka.

June 20, 2012



# Annual Report of the Board of Directors of Senkadagala Finance PLC

The directors have pleasure in submitting their report and the audited accounts of Senkadagala Finance PLC for the year ended 31st March 2012, which was approved by the board of directors on 16th May 2012.

## Status of the Company

The company is a public quoted company bearing Registration No. PB 238 PQ and listed in the *Diri Savi* board of the Colombo Stock Exchange.

## Management and financial review

The Chairman's message on pages 10 - 13 and the management review and analysis on pages 22 - 25 provide a detailed description and analysis of the operations of the company for the year under review.

## Principal lines of business

The principal lines of business of the company include providing financial accommodation in the form of finance leases, hire purchase and commercial loans. Additional lines of business include pawn broking, real estate finance, bill discounting, investment in money market instruments and the acceptance of term deposits, certificates of deposit and savings deposits. No significant changes occurred in the principal activities of the company during the year under review.

## Branch expansion and future developments

Senkadagala Finance PLC is engaged in a branch expansion program. Currently, Senkadagala Finance PLC has 30 branches and 15 service centres. The company offers a fully automated state-of-the-art Savings Account system with ATM card facility. Senkadagala Finance PLC is the first finance company in Sri Lanka to issue an ATM card which can be accessed at over 23 million ATM locations worldwide.

## Responsibility in respect of the accounts

The directors are responsible for the preparation of financial statements, the maintaining of proper accounting records and disclosures regarding accounting policies and principles. The directors are satisfied that the financial statements presented in pages 49 to 84 inclusive give a true and fair view of the affairs of the company as at 31 March 2012 and the profit of the year then ended.

The directors are confident that in preparing these financial statements, proper accounting policies have been applied consistently supported by prudent judgment.

## Statutory payments

The directors are of the view that all statutory payments in relation to government agencies and employees have been made up to date.

## Corporate governance

The directors are responsible for the governance of the company including establishment and maintenance of the company's system of internal controls. The directors are of the view that proper internal control systems are prevalent within the organisation.

## Going concern

The directors are satisfied that the company has at its disposal adequate resources to continue in business in the foreseeable future; and hence the going concern concept is adopted in the preparation of the financial statements.

## Internal control

The directors of the company are responsible for setting out the policy regarding internal control. The set of internal control procedures laid down seek to manage against material errors or omissions, losses, fraudulent practices and to safeguard assets and secure as far as is possible the accuracy and reliability of the records.



## Income

The income of the company during the year was Rs. 2,088,715,596 (2010/2011 – Rs. 1,670,956,454), an analysis of which is given in Note 3 of the Financial Statements on page 64 of this report.

Profits and Appropriations for the year ended 31st March 2012.

Financial Year	2011/2012 Rs.	2010/2011 Rs.
Profit before Income Tax	643,259,018	349,625,533
Income Tax on Profit	136,974,567	127,225,964
Profit after Income Tax	506,284,451	222,399,569
Retained Profit brought forward	(29,206,943)	(33,126,827)
Profit available for appropriation	477,077,508	189,272,742

Appropriated as follows

Financial Year	2011/2012 Rs.	2010/2011 Rs.
Transfer to Reserve Fund	30,000,000	13,500,000
Transfer to General Reserve	220,000,000	145,000,000
Transfer to Investment Fund Reserve	80,307,548	16,751,605
Total Gross Dividend	80,585,680	43,228,080
Retained profit carried forward	66,184,280	(29,206,943)

## Capital Expenditure

The total expended on capital expenditure amounted to Rs. 224.75 million (2010/2011 – Rs. 102.30 million). Details of property, plant and equipment are available on pages 74 - 76 of this report. Details relating to the depreciation charge for the year are also available on page 75.

## Reserves

The aggregate reserves as at 31st March 2012 amounted to Rs. 976.08 million. The aggregate reserves as at 31st March 2011 were Rs. 550.39 million. Movement in reserves during the year is given in the Statement of Changes in Equity on page 52.

The components of the aggregate reserves are set out below:

As at 31st March	2012 Rs.	2011 Rs.
Statutory Reserve Fund	130,036,033	100,036,033
General Reserve	682,810,392	462,810,392
Investment Fund Reserve	97,059,153	16,751,605
Profit and Loss Account	66,184,280	(29,206,943)
Total Reserves	976,089,858	550,391,087

## Taxation

The Company accounts for deferred taxation under the liability method on all timing differences. Details are disclosed in Note 2.1.5 on page 56 and Note 33 on page 78 of this report.

## Annual Report of the Board of Directors of Senkadagala Finance PLC Contd.

### Dividends

The following dividends were declared and paid during the financial year.

Dividend	Date of Payment
1st Interim	16th December 2011
2nd Interim	15th March 2012
3rd Interim	06th June 2012
Final	Subject to shareholder approval at the AGM

### Stated Capital and Debentures

The stated capital as at 31st March 2012 was Rs. 533.68 million, consisting of 53,368,000 shares in issue. Details of the stated capital are given in Note 34 of the financial statements on page 79 of this report.

### Debentures

The Company raised Rs. 359 million through a private placement of 5-year redeemable debentures of Rs. 100 each during the year 2011/2012. Rs. 200 million was raised through rated debentures of Rs. 1,000 each redeemable in 3 years. Details of the debentures in issue as at 31st March 2012 are given in Note 31 of the financial statements on page 77.

### Compliance with Laws and Regulations

The directors are of the belief that the Company has not engaged in any activities contravening the law and has complied with all applicable regulations.

### Employment Policies

The Company is an equal opportunity employer. In its goals and objectives, it seeks to achieve excellence and market orientation in its service. Continuous training and social participation amongst employees are encouraged. A holistic approach prevails in the Company's strategic outlook where a participatory management style ensures that employees are involved in the decision making process. Incentive schemes which are related to employee performance is one of the ways in which the Company ensures that rewards are directly related to performance. A Remuneration Committee ensures that a balance is struck between performance and related employee rewards structures.

The Company has also set up an in-house training facility in order to ensure that all employees meet certain standard requirements before job placement and also to enhance the existing skills of its staff. The Company had 322 employees as at 31st March 2012 (2011 - 235).

### Environment

The directors are of the belief that the Company does not engage in any form of activity that is detrimental to the environment. Compliance with all environmental regulations has been adhered to during the year.

### Risk Management

Specific steps taken by the Company in managing risks are detailed on pages 36 to 37 of this report.

### Vision and Mission

The Company's vision and mission are stated in page 2 of this report.

### Shareholdings

There were 20 registered shareholders holding ordinary shares of the Company as at 31st March 2012. The distribution of shareholdings is set out in page 88 of this report.

### Equitable Treatment to Shareholders

The Company has taken all possible steps to ensure equitable treatment to all its shareholders.

## Directors

The board of directors of Senkadagala Finance PLC consists of directors with financial and commercial experience. The qualifications and experience of the directors are stated on page 19 of this report.

The following were directors during the year.

- Mr. S. K. Wickremesinghe (*Resigned - 31.12.2011*)
- Mr. C. L. de Alwis (*Appointed - 01.01.2012*)
- Mr. Lakshman Balasuriya
- Dr. Asoka Balasuriya
- Mr. Rohan Balasuriya (*Resigned - 31.12.2011*)
- Dr. Mahendra Balasuriya
- Mrs. Lakshmi Fernando
- Dr. (Mrs.) Gayathri Madan Mohan (*Resigned - 31.12.2011*)
- Mr. L. G. D. C. L. S. Herath (*Ceased to be a director on 08.09.2011*)
- Mr. W. A. T. Fernando

## Board and Committee Meetings

A number of board meetings, Audit Committee meetings and Remuneration Committee meetings were held during the year at the Registered Office of the Company. Members of each of these committees have attended these meetings on a regular basis.

## Recommended for re-election

In accordance with the Finance Companies (Corporate Governance) Direction, No. 3 of 2008, Mr. C. L. de Alwis retires and is recommended for re-election as a director at the next Annual General Meeting of the company to be held on 15th August 2012 with the full support of the board.

## Directors and shareholdings

The directors of the Company at the date of the report are shown below together with their respective shareholdings:

As at 31st March	2012	2011
Mr. C. L. de Alwis	–	–
Mr. L. Balasuriya ( <i>jointly in 2012</i> )	3,065,832	3,065,832
Dr. A. Balasuriya	3,065,832	3,065,832
Dr. M. Balasuriya	3,065,832	3,065,832
Mrs. L. Fernando	2,570,002	2,570,002
Mr. W. A. T. Fernando	–	–

## Directors' Interests in Debentures

There were no debentures registered in the names of any of the directors at the beginning and at the end of the year.

## Directors' Interests in Contracts

According to Sri Lanka Accounting Standard 30 (Revised 2005) Related Party Disclosures, key management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly the members of the board of directors of the company (including executive and non-executive directors), and of the Ultimate Parent Company have been classified as key management personnel of the Company.

## Compensation of key management personnel

		2012 Rs.	2011 Rs.
Short term employee benefits	Board of Directors	15,520,000	6,821,500

## Annual Report of the Board of Directors of Senkadagala Finance PLC Contd.

### Donations

A sum of Rs.573,591 (2010/2011 – Rs. 353,275) was paid out by way of donations during the year under review.

### Provisions

The provisions made in the accounts in respect of bad and doubtful debts are well in excess of the mandatory provisions stipulated by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka. Further, when necessary, provisions are made for the fall in value of equity investments.

### Post Balance Sheet Events

No post balance sheet events have arisen that would require disclosure in the accounts.

### Information on Company Shares

Information relating to the shares of the Company is available under 'Share Information' on page 88 of this report.

### Shareholders of the company

The ten largest shareholders of the company as at 31st March 2012 were:

Name	31/03/2012 No. of shares	31/03/2011 No. of shares
E.W. Balasuriya & Co. (Pvt) Ltd	30,088,050	30,088,050
Hallsville Trading Group INC	4,080,000	-
Dr. A. Balasuriya	3,065,832	3,065,832
Mr. R. Balasuriya	3,065,832	3,065,832
Dr. M. Balasuriya	3,065,832	3,065,832
Dr. (Mrs.) G. Madan Mohan	3,065,832	3,065,832
Mrs. L .Fernando	2,570,002	2,570,002
Mr. L. Balasuriya	-	3,065,832
Mr. L. Balasuriya/Mr. S.K. Balasuriya	1,532,916	-
Mr. L. Balasuriya/Ms. A.S. Balasuriya	1,532,916	-
Mr. D.K.C.R. Fernando	495,830	495,830

### Appointment of Auditors

The financial statements of the year under review have been audited by Messrs. KPMG Chartered Accountants, who offer themselves for re-appointment. A resolution will be proposed at the Annual General Meeting to re-appoint them as auditors and authorising the directors to fix their remuneration.

By order of the board of  
SENKADAGALA FINANCE PLC

(Sgn)

**Managers and Secretaries (Private) Limited**

*Secretaries*

Colombo  
16th May 2012

# Independent Auditors' Report



**KPMG**  
**Kandy Branch**  
 (Chartered Accountants)  
 "Silverdale" Complex  
 35, Yatinuwara Vidiya,  
 Kandy 02000,  
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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SENKADAGALA FINANCE PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Senkadagala Finance PLC, which comprise the balance sheet as at March 31, 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 55 to 84.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2012 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act, No. 7 of 2007 and the Finance Business Act, No. 42 of 2011.

**Chartered Accountants**  
 Kandy - May 16, 2012

SR/RHR/DMGBD/KKLS

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  
 C.P. Jayatileke FCA  
 Ms. S. Joseph FCA  
 S.T.D.L. Perera FCA

Ms. M. P. Perera FCA  
 T.J.S. Rajakarier FCA  
 Ms. S.M.B. Jayasekara ACA  
 G.A.U. Karunaratne ACA

P.Y.S. Perera FCA  
 W.W.J.C. Perera FCA  
 W.K.D.C. Abeyrathne ACA

## Income Statement

For the year ended 31st March		2012	Restated
	Note	Rs.	2011
			Rs.
<b>Income</b>	3	2,088,715,596	1,670,956,454
Interest income	4	1,870,542,417	1,493,088,201
Interest expenses	5	(805,543,671)	(679,358,198)
Net interest income		1,064,998,746	813,730,003
Other income	6	218,173,179	177,868,253
<b>Net income from operations</b>		1,283,171,925	991,598,256
<b>Operating expenses</b>	7		
Personnel costs	8	(178,027,246)	(142,058,211)
Depreciation of property, plant and equipment		(90,225,229)	(73,794,971)
Amortisation of intangible assets		(7,065,502)	(6,857,753)
Other expenses	9	(314,377,787)	(295,468,999)
		(589,695,764)	(518,179,934)
<b>Profit before loan loss provision</b>		693,476,161	473,418,322
Reversal/ (provision) for loan losses	10	7,871,031	(37,834,119)
<b>Profit before VAT on Financial Services and Income Tax</b>		701,347,192	435,584,203
Value Added Tax on Financial Services		(58,088,174)	(85,958,670)
<b>Profit before Income Tax</b>		643,259,018	349,625,533
Income Tax expense	11	(136,974,567)	(127,225,964)
<b>Profit for the year</b>		506,284,451	222,399,569
Basic earnings per share	12	9.49	4.17
Dividend per share	13	2.38	1.19

Figures in brackets indicate deductions.

The Notes to the financial statements form an integral part of these financial statements.

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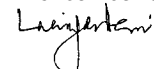
## Balance Sheet

As at 31st March	Note	2012 Rs.	Restated 2011 Rs.
<b>Assets</b>			
Cash and cash equivalents	14	336,563,265	419,137,459
Deposits with Licensed Commercial Banks	15	637,118,275	-
Investment in government securities		304,111,412	198,509,828
Dealing securities	16	51,147,407	48,344,770
Investment securities	17	14,165,755	14,165,755
Net investment in Finance Lease	18	4,339,581,639	1,433,045,267
Net investment in Hire Purchase	19	4,399,674,002	3,744,169,894
Commercial loans	20	26,593,015	50,147,583
Other Loans and Advances	21	135,663,383	137,158,687
Other receivables	22	400,841,647	324,171,770
Advances and receivables	23	45,961,286	48,662,155
Deferred asset	24	1,994,914	4,133,281
Property, plant and equipment	25	512,846,463	396,504,943
Intangible assets	26	44,911,478	33,463,630
<b>Total assets</b>		<b>11,251,173,941</b>	<b>6,851,615,022</b>
<b>Liabilities</b>			
Deposits from customers	27	2,736,429,636	2,392,741,865
Borrowing	28	4,691,062,659	1,414,764,929
Current tax liabilities	29	14,945,227	88,077,149
Employee benefit obligation	30	28,109,529	22,564,095
Debentures	31	1,670,000,000	1,330,000,000
Other liabilities	32	450,856,734	415,835,989
Deferred tax liability	33	150,000,298	103,559,908
<b>Total liabilities</b>		<b>9,741,404,083</b>	<b>5,767,543,936</b>
<b>Equity</b>			
Stated capital	34	533,680,000	533,680,000
Statutory reserve fund	35	130,036,033	100,036,033
General reserve	36	682,810,392	462,810,392
Investment fund reserve account	37	97,059,153	16,751,605
Retained earnings/(accumulated loss)		66,184,280	(29,206,943)
<b>Total equity</b>		<b>1,509,769,858</b>	<b>1,084,071,087</b>
<b>Total liabilities and equity</b>		<b>11,251,173,941</b>	<b>6,851,615,022</b>

Figures in brackets indicate deductions.

The Notes to the financial statements form an integral part of these financial statements.

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act, No. 7 of 2007 and Finance Business Act, No. 42 of 2011.

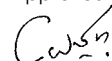


**Lalith J de Alwis**

Additional Chief Executive Officer

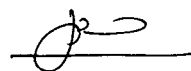
The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board.



**Chandra Lal de Alwis**

Chairman



**Mr. L. Balasuriya**

Director

Colombo, Sri Lanka  
May 16, 2012



## Statement of Changes in Equity

	Stated capital	Statutory reserve fund	General reserve	Investment fund reserve account	Retained earnings / (Accumulated loss)	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st April 2010	213,472,000	86,536,033	638,018,392	-	(33,126,827)	904,899,598
Profit for the year restated (Note A)	-	-	-	-	222,399,569	222,399,569
Issue of bonus shares	320,208,000	-	(320,208,000)	-	-	-
Transfers to reserves	-	13,500,000	145,000,000	16,751,605	(175,251,605)	-
Dividend paid	-	-	-	-	(43,228,080)	(43,228,080)
<b>Restated balance as at 31st March 2011</b>	<b>533,680,000</b>	<b>100,036,033</b>	<b>462,810,392</b>	<b>16,751,605</b>	<b>(29,206,943)</b>	<b>1,084,071,087</b>
Balance as at 1st April 2011	533,680,000	100,036,033	462,810,392	16,751,605	(29,206,943)	1,084,071,087
Profit for the year	-	-	-	-	506,284,451	506,284,451
Transfers to reserves	-	30,000,000	220,000,000	80,307,548	(330,307,548)	-
Dividend paid	-	-	-	-	(80,585,680)	(80,585,680)
<b>Balance as at 31st March 2012</b>	<b>533,680,000</b>	<b>130,036,033</b>	<b>682,810,392</b>	<b>97,059,153</b>	<b>66,184,280</b>	<b>1,509,769,858</b>

**Note A**

The Company made a prior year adjustment in order to rectify the under provision of deferred taxation, during the year ended 31st March 2011, in accordance with Sri Lanka Accounting Standards 10- Accounting Policies, Changes in Accounting Estimates and Error.

The Company has charged Rs.30,970,793 as deferred tax liability for the year ended 31st March 2011. The Company had erroneously considered Motor Cars in computing deferred taxation. This error has now been corrected and the profit for the said year has been restated as follows.

Profit for the year ended 31st March 2011 as previously stated	253,370,362
Deferred tax under provision	(30,970,793)
Profit for the year ended 31st March 2011 as restated	222,399,569

Figures in brackets indicate deductions.

The Notes to the financial statements form an integral part of these financial statements.

## Cash Flow Statement

For the year ended 31st March	2012 Rs.	Restated 2011 Rs.
<b>Cash flows from operating activities</b>		
Interest and commission receipts	1,870,542,417	1,493,088,201
Interest payments	(805,543,671)	(679,358,198)
Recovery of bad debts	40,284,566	46,838,748
Other operating income	142,889,043	111,115,085
Operating expenditure	(66,541,282)	(101,901,692)
Cash payments to employees and suppliers	(434,004,292)	(410,903,857)
<b>Operating cash flow before changes in operating assets and liabilities (Note A)</b>	<b>747,626,781</b>	<b>458,878,287</b>
<b>(Increase) / decrease in operating assets</b>		
Investments in Government securities	(105,601,584)	(35,317,675)
Deposits with Licensed Commercial Banks	(637,118,275)	-
Net funds advanced to customers	(3,529,119,578)	(1,023,536,729)
Advances and receivables	2,700,869	4,892,978
Deferred expenses	(35,956,092)	-
Trade and other receivables	(76,669,877)	(18,371,962)
	<b>(4,381,764,537)</b>	<b>(1,072,333,388)</b>
<b>Increase / (decrease) in operating liabilities</b>		
Deposits from customers	343,687,771	298,264,206
Gratuity paid	(307,600)	(337,500)
Other liabilities	32,688,747	174,538,513
	<b>376,068,918</b>	<b>472,465,219</b>
<b>Cash used in operating activities</b>	<b>(3,258,068,838)</b>	<b>(140,989,882)</b>
Taxes paid	(163,666,098)	(47,621,021)
<b>Net cash used in operating activities</b>	<b>(3,421,734,936)</b>	<b>(188,610,903)</b>
<b>Cash flows from investing activities</b>		
Dividend receipts	1,429,616	821,418
Purchase of dealing securities	(8,802,778)	(24,768,488)
Purchase of property, plant and equipment	(224,753,044)	(102,302,021)
Purchase of intangible assets	(18,513,350)	(763,481)
Proceeds from sale of property, plant and equipment	51,756,250	34,194,796
<b>Net cash used in investing activities</b>	<b>(198,883,306)</b>	<b>(92,817,776)</b>
<b>Cash flows from financing activities</b>		
Securitised loans obtained	4,568,600,000	1,020,910,000
Debentures issued	559,000,000	300,000,000
Repayment of securitised loans	(1,292,302,270)	(1,034,526,671)
Redemption of unlisted debenture	(219,000,000)	(60,000,000)
Dividends paid	(79,842,542)	(42,786,951)
<b>Net cash generated from financing activities</b>	<b>3,536,455,188</b>	<b>183,596,378</b>

For the year ended 31st March	2012 Rs.	Restated 2011 Rs.
Net decrease in cash and cash equivalents	(84,163,054)	(97,832,301)
Cash and cash equivalents at the beginning of the year	390,154,785	487,987,086
Cash and cash equivalents at the end of the year	305,991,731	390,154,785
<b>Reconciliation of cash and cash equivalents</b>		
Cash and cash equivalents	336,563,265	419,137,459
Bank overdraft	(30,571,534)	(28,982,674)
	305,991,731	390,154,785
<b>(Note A)</b>		
<b>Reconciliation of operating profit</b>		
Profit before income tax	643,259,018	349,625,533
Dividends	(1,429,616)	(821,418)
Provision for bad debts on loans and advances	5,105,203	17,465,535
Reversal of provision for trade and other receivables	(2,552,935)	-
Provision for bad debts on trade and other receivables	429,724	35,127,714
General provision for bad debts	-	1,056,287
Loans written-off	3,133,714	-
Write-off of receivables on insurance premium and search fees	-	2,151,080
Provision for impairment	6,593,067	5,595,276
Reversal of general provision on repossessed stocks	(20,579,804)	(21,410,693)
Depreciation	97,290,730	80,652,724
Provision for retiring gratuity	5,853,034	5,269,958
Impairment of investment in shares	6,000,141	-
Profit on disposal of motor vehicles	(33,569,954)	(19,093,002)
Amortization of structural fees	38,094,459	3,259,293
	747,626,781	458,878,287

Figures in brackets indicate deductions.

The Notes to the financial statements form an integral part of these financial statements.

# Notes to the Financial Statements

## 1. Corporate information

### 1.1 Domicile and legal form

Senkadagala Finance PLC is a listed company domiciled in Sri Lanka incorporated under the Companies Ordinance, No 51 of 1938 on March 29, 1968 and registered under the Finance Companies Act, No.78 of 1988 replaced by the Finance Business Act, No. 42 of 2011. The registered office of the company is situated at No. 267, Galle Road, Colombo 3. The company re-registered under the Companies Act, No. 7 of 2007.

As a licensed finance company, it is supervised by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

### 1.2 Principal activities and nature of operations

The principal lines of business of the company can be broadly classified under two categories – fund-based and fee-based. The fund-based services include finance leasing, hire purchase finance, trade loans and pledge loans.

### 1.3 Number of employees

The number of employees of the Company at the end of the period was 322 (2011 – 235).

### 1.4 Responsibility for Financial Statements

The board of directors is responsible for the preparation and presentation of the financial statements of the company in accordance with the provisions of the Companies Act, No. 7 of 2007 and Sri Lanka Accounting Standards.

The financial statements of Senkadagala Finance PLC for the year ended March 31, 2012, were authorised for issue by a resolution of the board of directors on May 16, 2012.

These financial statements include the following components:

- an Income Statement providing information on the financial performance of the company for the period under review.
- a Balance Sheet providing information on the financial position of the company at the end of the period under review.
- a Statement of Changes in Equity providing information on the changes in shareholders' equity during the period under review.
- a Cash Flow Statement providing information on the cash and cash equivalents generating ability of the company and the utilisation of those cash flows.
- notes to the financial statements comprising accounting policies used and other notes.

### 1.5 Parent Enterprise and Ultimate Parent Enterprise

The company is a subsidiary of E. W. Balasuriya and Company (Private) Limited, which is incorporated and domiciled in Sri Lanka.

## 2. Summary of Significant Accounting Policies

### 2.1 General Policies

#### 2.1.1 Basis of Preparation

##### Statement of Compliance

The Balance Sheet, and the related Statements of Income, Changes in Equity and Cash Flow together with the Accounting Policies and Notes (Financial Statements) of Senkadagala Finance PLC as at March 31, 2012 and for the period then ended, comply with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act, No. 7 of 2007, Finance Business Act, No. 42 of 2011 and Finance Leasing Act No, 56 of 2000 and the amendments to these acts and provide appropriate disclosures as required by the Central Bank of Sri Lanka and listing rules of the Colombo Stock Exchange.

#### 2.1.1(a) Basis of Measurement

The financial statements of the company are prepared under the historical cost convention basis. No adjustments have been made for inflationary factors affecting the financial statements.

**2.1.1(b) Presentation and Functional Currency**

The financial statements of the company are presented in Sri Lanka Rupees, which is the company's functional currency.

**2.1.1(c) Significant Accounting Judgments, Estimates and Assumptions**

The preparation of financial statements in conformity with SLAS requires the management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances and assumptions based on such knowledge and expectations of future events. Hence actual experience and results may differ from these judgments and estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, if the revision affects only that period or in the period of the revision and future periods as well, if the revision affects both current and future periods.

Revisions to accounting estimates are dealt with in accordance with Sri Lanka Accounting Standard No. 10 Accounting Policies, Changes in Accounting estimates and errors. (Revised 2005).

**2.1.2 Going Concern**

When preparing the financial statements, the directors have made an assessment of the ability of the Company to continue as a going concern in the foreseeable future and they do not foresee a need for liquidation or cessation of trading, taking into account all available information about the future.

**2.1.3 Change to the Accounting Policies**

There were no changes to the accounting policies adopted by the company during the period under review.

**2.1.4 Comparative Information**

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance inter-period comparability.

The accounting policies adopted by the company are consistent with those of the previous financial period as permitted by Sri Lanka Accounting Standard No. 3 (Revised 2005) on 'Presentation of Financial Statements'. However, when the presentation or classification of items in the financial statements is amended, comparative amounts are also re-classified to conform with the current period presentation, where necessary.

**2.1.5 Income Tax expense**

Tax expense comprises current tax and deferred tax.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

**(a) Current Taxes**

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Provision for taxation is based on the elements of income and expenditure as reported in the financial statements and computed in terms of the provisions of the Inland Revenue Act, No. 10 of 2006 and amendments thereto, at the rate of 28% (2011 – 33.33%).

**(b) Deferred Taxation**

Deferred tax is provided on temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised on all temporary differences.

Deferred tax assets are recognised for all deductible differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the period when the assets are recognised, or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

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 authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

**(c) Value Added Tax on Financial Services**

The base for the computation of services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

**(d) Economic Service Charge**

In accordance with the provisions of the Finance Act, No.11 of 2004 and amendments thereto, the ESC was introduced with effect from 1st April 2004. Currently, ESC is payable at 1% on "Liable Turnover" and deductible from Income Tax payments. Unclaimed ESC, if any can be carried forward and set off against the income tax payable in five subsequent years.

**2.2 Assets and bases of their valuation****2.2.1 Cash and Short Term Funds (Cash and Cash Equivalents)**

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call at short notice. They are brought in to the financial statement at the face value.

**2.2.2 Government of Sri Lanka Treasury Bills****(a) Investment in Treasury bills held for dealing purposes**

Held-for-dealing investments are those investments that the Company acquires or invests in principally for the purpose of selling, or holds as part of a portfolio that is managed for short term profit. These investments are initially recognized at cost and subsequently measured at market value in the Balance Sheet. Gains and losses on marked-to-market valuation are dealt through the Income Statement.

**(b) Securities purchased under re-sale agreements**

Securities purchased under re-sale agreements are government securities purchased subject to an agreement to sell at a predetermined price at a future date. They are recorded separately in the financial statements at the consideration paid. The difference between the purchase and sale price represents interest income and is recognized in the Income Statement over the period of the resale agreement.

**2.2.3 Investments****(a) Dealing Securities**

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are recorded at the lower of cost and market value on an aggregate portfolio basis in total. Unrealised losses on revaluation of dealing securities at the lower of cost and market value are taken to the Income Statement.

**(b) Investments in Associates**

Investments in associates are accounted under the cost method in the company's financial statements.

**(c) Investment Securities**

Investment securities are stated at cost in the company's financial statements.

**2.2.4 Loans and Advances to Customers (lease, hire purchase, commercial loans and other loans and advances)****2.2.4 (a) Rental receivable on lease assets**

Assets leased to customers which transfer substantially all the risks and rewards incidental to ownership other than the legal title are accounted for as finance leases in accordance with Sri Lanka Accounting Standard, No. 19 (Revised 2005) on Lease and reflected in the balance sheet after eliminating unearned interest income, initial rental received and provision for doubtful debts.

**2.2.4 (b) Hire purchase assets**

Assets hired to customers under hire purchase agreements, which transfer all the risks and rewards incidental to ownership as well as legal title at the end of such contractual period are classified as hire purchase receivables. Such assets are accounted for in the same manner as those of finance leases.

**2.2.4(c) Commercial loans and Other loans and advances**

Loans and advances and other receivable are stated in the balance sheet net of provision for bad and doubtful debts and interest in suspense.

**2.2.4(d) Non-Performing Loans and Advances**

Loans and advances which are six months in arrears of due capital and/or interest are classified as non-performing in accordance with Direction No. 3 of 2006 issued by the Central Bank of Sri Lanka.

In case of rescheduled accommodations, when, in aggregate, the period of time the payment of installments have been in arrear before rescheduling (if any) and after rescheduling is 6 months or more, the accommodations are deemed non-performing.

**2.2.4(e) Pawning receivables**

The company provides pawning facilities with maturity periods of 12 months. Amounts receivable on pawning are included in Loans and Advances at the amounts expected to be recovered.

**2.2.5 Provision for loan losses**

Provision for possible loan losses is made on the basis of a continuous review of all advances to customers in accordance with Finance Company Direction, No. 3 of 2006 (Provision for bad and doubtful debt) issued by the Central Bank of Sri Lanka and in accordance with Sri Lanka Accounting Standard No. 33, Revenue Recognition and Disclosure in the Financial Statements of Finance Companies. Accordingly, specific provisions have been made as follows:

All advances in arrear for a period of 6 to 12 months	50%
All advances in arrear for over 12 months	100%

A specific provision is made on pawning receivables after discounting the value of the security, if no payment is received within one month from the contractual maturity date.

In addition, wherever it is considered prudent, further provisions are made on specifically identified loans and advances.

**2.2.6 Trade and other receivables**

Loans and advances and trade and other receivables are stated in the balance sheet net of provision for bad and doubtful debts.



### 2.2.7 Property, plant and equipment

#### (a) Basis of recognition and measurement of property, plant & equipment

The company applies the requirements of Sri Lanka Accounting Standard No. 18, (Property, Plant & Equipment)

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Subsequent expenditure incurred for the purpose of acquiring, extending or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. These assets are stated at cost less accumulated depreciation, which is provided for on the basis specified below.

#### (b) Depreciation

The provision for depreciation is calculated by using the straight line method on the cost of property, plant & equipment other than freehold land, in order to write-off such amounts over the estimated useful economic lives of these assets in equal instalments. The depreciation charges are determined separately for each item of property, plant & equipment and begin to depreciate when it is available for use.

The estimated useful lives of the different types of assets are as follows:

Buildings	5% per annum (20 years)
Office equipment	10% per annum (10 years)
Computers and other equipment	25% per annum ( 4 years)
Furniture and fittings	10% per annum (10 years)
Motor vehicles	16.67% per annum ( 6 years)
Generators	12.5% per annum ( 8 years)
Interior construction	20% per annum ( 5 years)

### 2.2.8 Intangible Assets

#### 2.2.8.1 Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with Sri Lanka Accounting Standard No. 37, Intangible Assets. Accordingly, these assets are stated in the balance sheet at cost less accumulated amortization and accumulated impairment loss.

#### 2.2.8.2 Amortisation

The amortisation expense on intangible assets is recognised in the Income Statement in the expense category consistent with the function of the intangible assets.

#### 2.2.8.3 Computer Software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is done at 12% per annum of cost.

### 2.2.9 Impairment

The Company assesses at each Balance Sheet date whether there is objective evidence that an asset is impaired. An asset is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Balance Sheet date ("a loss event"), and that loss event or events have had an impact on the estimated realisable value of the asset.

The Company first assesses whether objective evidence of impairment exists for financial assets that is significant (except for loans and advance explained below).

When a loan is irrecoverable, it is written off against the related provision. Such loans are written off after all necessary recovery procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are included under "Other Income" in the Income Statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the Income Statement.

## **2.3 Liabilities and provisions**

### **2.3.1 Commitments and contingencies**

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 Balance Sheet but are disclosed unless the occurrence is remote.

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

### **2.3.2 Deposits from Customers**

Deposits from customers include interest-bearing savings deposits, term deposits and certificates of deposit. They are stated in the balance sheet at the amount payable. Interest accrued is charged to the income statement.

### **2.3.3 Borrowing**

Borrowing includes revolving facilities and securitised debt. assets securitization facilities. Interest accrued is charged to the Income Statement.

### **2.3.4 Debentures**

These represent the funds borrowed by the company for medium term funding requirements. These are recorded in the balance sheet at the cash value to be realised at settlement. Interest accrued on these debentures is charged to the Income Statement.

### **2.3.5 Employee benefits**

#### **2.3.5.1 Defined Benefit Plans - Retiring Gratuity**

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

The service of a qualified actuary is obtained to determine the value of the defined benefit obligation of the company. The valuation is done on an ongoing basis and uses a Projected Unit Credit Method, which projects the current data using actuarial assumptions as specified in note 2.3.5.1 (a) below and calculates a projected benefit at the participant's assumed retirement date. The actuarial value of this projected benefit is then valued and discounted to the valuation date to derive the current liability.

The actuarial gains or losses are recognised in the Income Statement in the period in which they arise.

### **Funding Arrangement**

Gratuity liabilities are not externally funded.

Gratuity payments are made by the company according to the Gratuity Act, No. 12 of 1983. Accordingly, the company is liable to pay gratuity to permanent employees who have completed a minimum of five years' service in the company at the rate of 50% of the last salary drawn for each completed year of service.

**2.3.5.1 (a) The principal actuarial assumptions used in determining the cost are;**

- (i) Retirement age - normal retirement age of 55 years
- (ii) Payment of benefit – Gratuity is assumed to be paid immediately provided the participant has 5 years of service credit at the time of departure.
- (iii) Salary scale - annual increase of 10%
- (iv) Rate of interest - 10%

**2.3.5.2 Defined Contribution Plan**

**(a) Employees' Provident Fund**

The company and employees contribute 12% and 8% respectively of the salary of each employee to the approved Employees' Provident Fund.

**(b) Employees' Trust Fund**

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

**2.4 Income statement**

**2.4.1 Revenue Recognition**

**(a) Lease**

In accordance with Sri Lanka Accounting Standard No. 19 (Revised 2005) on Leases, recognition of finance income on leasing is accounted based on a pattern reflecting a constant periodic rate of return on capital outstanding. The excess of aggregate rentals receivable over the cost of leased assets constitutes the total unearned interest income at the commencement of the contract. The company recognises the interest income from unearned income on the lease on an accrual basis over the term of the lease in proportion to the remaining balance of the lease. However, the recognition of income ceases when the recovery of principal or interest is in arrear for six months or more. Thereafter, interest income is accounted for on a cash basis.

**(b) Hire Purchase**

Recognition of interest income from hire purchase facilities is the same as that of leases, which recognises interest income based on a pattern reflecting a constant rate of return on the capital outstanding.

**(c) Commercial loans and other loans and advances**

Recognition of interest income from loans and advances is similar to that of leases, which recognises interest income based on a pattern reflecting a constant rate of return on the capital outstanding.

**(d) Pawning advances**

Interest on pawning advances is recognised on an accrual basis over a maximum period of 12 months.

**(e) Interest income on investment in government securities**

Interest receivable is taken to the Income Statement on an accrual basis, based on a pattern reflecting a constant periodic rate of return. Interest from government securities is grossed up with the notional tax credit available under the Inland Revenue Act, No. 10 of 2006.

**(f) Interest income from deposits at banks**

Interest receivable from deposits at banks is taken to the Income Statement on an accrual basis.

**(g) Dividend income**

Dividend income is recognised in the Income Statement on the date that the company's right to receive payment is established.

**(h) Recovery of bad debts written off**

The recovery of bad debts written off is recognised in the Income Statement as and when the debts are recovered.

**(i) Commission Income**

Recognition of commission income on insurance business arranged by the company in the Income Statement is on a cash basis.

**(j) Profit/loss from the sale of property, plant and equipment**

Profits and losses arising from the sale of property, plant and equipment are recognised in the Income Statement in the period in which the sale occurs.

**(k) Profit on sales of repossessed vehicles stock**

Net profit / loss from sale of leased assets is recognised in the period in which the sale occurs and is classified as other income/expense.

**2.5 Expenditure Recognition**

All the expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the income in arriving at the profit for the year.

**Interest Expenses and Other Expenses**

Interest payable and other expenses are recognised on an accrual basis.

**2.6 Cash Flow Statement**

The cash flow statement has been prepared by using the "Direct Method" in compliance with SLAS-9, Cash Flow Statement. Cash and cash equivalents comprise mainly of cash balances and call deposits. Cash and cash equivalents are presented net of bank overdrafts for the purpose of the cash flow statement.

**2.7 Deposit Insurance Scheme**

In accordance with Direction No. 1 of 2010 issued by the Central Bank of Sri Lanka, the Sri Lanka Deposit Insurance Scheme, which was effected from October 1st, 2010, all licensed finance companies are required to pay an insurance premium calculated at the rate of 0.15% per annum payable monthly for all eligible deposits as at the end of the month. Eligible deposits include all the time deposits held by the company except for,

- (a) Deposit liabilities to member institutions
- (b) Deposit liabilities to the Government of Sri Lanka inclusive of Ministers, departments and local governments.
- (c) Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined by the Finance Companies (Corporate Governance) Direction, No. 3 of 2008.
- (d) Deposit liabilities held as collateral against any accommodation granted.
- (e) Deposits falling within the meaning of abandoned property in terms of the Finance Companies Act, the funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant directions issued by the Monetary Board.

**2.8 Earnings per share**

The company presents Basic Earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The details of the Earnings per Share are given in Note No. 12 on page 67.

**2.9 Maturity Analysis**

The company has analysed its assets and liabilities according to relevant categories of maturity as specified by SLAS 33 "Revenue Recognition and Disclosures in the Financial Statements of Finance Companies" based on the remaining period from the Balance Sheet date to the contractual maturity date. The analysis is set out in Note 41 to the Accounts on page 83.

## 2.10 Segment Reporting

A segment is a distinguishable component of the Company that is engaged in providing services (Business Segment).

In accordance with Sri Lanka Accounting Standard No. 28 on Segment Reporting, segmental information is presented in respect of the Company in Note 42 to the Accounts on page 84. The segments comprise of financing and investing.

Segment results, assets and liabilities include those items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of head office expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

## 2.11 Events after the balance sheet date

All material post balance sheets events have been considered and appropriate adjustments/ disclosures have been made in the financial statements, wherever necessary.

## 2.12 Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by accounting standards.

### Offsetting of Assets and Liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- A current enforceable right to off set the asset and liability; and
- An intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.
- Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

## 2.13 Effect of accounting standard issued but not yet effective

Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, all existing Sri Lanka Accounting Standards have been prefixed as Sri Lanka Financial Reporting Standards (SLFRS) or Sri Lanka Accounting Standards (LKAS) which are commonly referred to as Sri Lanka Accounting Standards, corresponding to International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS), respectively. The council of the Institute of Chartered Accountants of Sri Lanka mandated all specified business enterprises to adopt these new accounting standards effective for financial periods beginning on or after January 1, 2012.

Accordingly, the company will be adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS applicable to the financial period commencing April 1, 2012. The company is reviewing its accounting policies and financial reporting for the transition. Priority has been given to considering the preparation of the opening Balance Sheet in accordance with new SLFRS as at April 1, 2011 and as at April 1, 2012. This will form the basis of accounting for the new SLFRSs for the future, and is required when the company prepares its first new SLFRS-compliant financial statements for the year ending March 31, 2013.

## For the year ended 31st March

	Note	2012 Rs.	2011 Rs.
<b>3 Income</b>			
Interest income	4	1,870,542,417	1,493,088,201
Other income	6	218,173,179	177,868,253
		2,088,715,596	1,670,956,454

**4 Interest income**

Finance leases		581,410,746	228,853,969
Hire purchases		1,016,248,780	1,008,660,032
Loans and advances		22,593,414	21,437,441
Commercial loans		9,167,232	19,479,833
Fixed deposit loans		3,234,001	2,786,726
Money market investments		28,283,775	29,243,868
REPO income	4.1	23,769,710	15,052,420
Treasury bills	4.1	20,112,872	17,019,638
Default charges		165,721,887	150,554,274
		1,870,542,417	1,493,088,201

**4.1 Notional tax credit for withholding tax on government securities in secondary market transactions.**

Section 137 of the Inland Revenue Act, No. 10 of 2006 provides that a company which derives interest income from secondary market transactions in government securities would be entitled to a notional tax credit (being one ninth of net interest income), provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net interest earned by the company from secondary market transactions in government securities (Treasury bills) and Repo investment for the year have been grossed up in the financial statements, and the resulting notional tax credit amounts to Rs. 2,011,287 (2011 - Rs.1,701,964) and Rs. 2,376,971 (2011 - Rs. 1,505,242) respectively for the Company.

## For the year ended 31st March

	Note	2012 Rs.	2011 Rs.
<b>5 Interest expenses</b>			
Fixed deposits		260,382,482	262,604,846
Certificates of deposit		324,779	180,084
Savings deposits		5,711,331	4,981,739
Securitised loans		324,984,062	212,697,143
Debentures		214,141,017	188,521,002
Corporate loans		-	10,373,384
		805,543,671	679,358,198

## For the year ended 31st March

	Note	2012 Rs.	2011 Rs.
<b>6 Other income</b>			
Finance charges		25,978,284	15,556,291
Commission income		44,817,947	27,077,278
Bad debts recovered		40,284,566	46,838,748
Dividend income		1,429,616	821,418
Interest on insurance premium receivable		25,394,680	25,086,716
Sundry income		6,305,924	3,277,439
Legal fees		3,506,234	-
Rent income		1,714,286	1,857,143
Inspection fees		1,938,214	1,573,381
Profit on disposal of motor vehicles		33,569,954	19,093,002
Profit on share trading		892,143	36,686,837
Income taxation over provision written back		7,341,331	-
Fees charged for IT services		25,000,000	-
		218,173,179	177,868,253

**7 Operating expenses**

Operating expenses include the following:

Internal Auditors' remuneration		5,400,000	5,400,000
External Auditors' remuneration - Audit fee		600,000	550,000
- Audit related services		574,451	551,127
Amortisation of securitised loan structuring fee		38,094,459	3,259,293
Legal expenses		4,862,649	4,419,874
Directors' emoluments		15,520,000	6,821,500
Deposit Insurance premium		3,436,806	1,618,730
Provision for diminution in market value of dealing securities		6,000,141	-

**8 Personnel costs**

Salaries and wages		132,142,576	109,105,141
Contribution to Employees' Provident Fund		16,326,492	13,164,557
Contribution to Employees' Trust Fund		4,081,623	3,291,139
Directors' emoluments		15,520,000	6,821,500
Retirement benefit obligation	8.1	5,853,034	5,269,958
Other personnel costs		4,103,521	4,405,916
		178,027,246	142,058,211

**8.1 Employee benefit obligation**

Amount recognised in the Income Statement

Current service cost		3,070,946	2,555,783
Interest cost		2,782,088	2,714,175
		5,853,034	5,269,958



## For the year ended 31st March

	Note	2012 Rs.	2011 Rs.
<b>9 Other expenses</b>			
Administrative expenses		55,037,959	64,323,765
Establishment expenses		150,849,649	128,022,193
Selling expenses		108,490,179	103,123,041
		<b>314,377,787</b>	<b>295,468,999</b>

**10 (Reversal)/ provision for loan losses**

Specific provision	10.1	785,256	36,777,832
General Provision	10.2	(8,656,287)	1,056,287
		<b>(7,871,031)</b>	<b>37,834,119</b>

**10.1 Specific provision**

Lease		6,433,160	3,867,555
Hire purchase		11,937,005	15,106,070
Commercial loan		3,309,036	4,948,799
Repossessed stock		6,593,067	5,595,276
Loans written-off		3,133,714	-
Trade and other receivables		429,724	35,127,713
		<b>31,835,706</b>	<b>64,645,413</b>

Provision reversed during the year			
Finance lease		(4,213,745)	(1,889,829)
Hire purchase		(8,818,888)	(1,352,932)
Commercial loans		(3,541,365)	(3,214,128)
Repossessed stock		(11,923,517)	(21,410,692)
Trade and other receivables		(2,552,935)	-
		<b>785,256</b>	<b>36,777,832</b>

**10.2 General Provision**

Repossessed stock		-	1,056,287
		-	1,056,287
Reversed during the year - General provision for repossessed stock		<b>(8,656,287)</b>	<b>-</b>
		<b>(8,656,287)</b>	<b>1,056,287</b>

**11 Income Tax expense**

Current tax expense	11.1	90,534,177	94,634,252
Deferred tax charge / (reversal) for the year		46,440,390	32,591,712
		<b>136,974,567</b>	<b>127,225,964</b>

### 11.1 Reconciliation between Income Tax expense and the accounting profit

For the year ended 31st March

	Note	2012 Rs.	2011 Rs.
Net profit before tax		643,259,018	349,625,533
<b>Adjustments</b>			
Non-taxable income		(59,513,267)	(68,815,484)
Interest income from lease		(581,410,746)	(228,853,969)
Disallowable expenses		214,283,676	191,262,928
Allowable expenses		(133,706,983)	(69,258,030)
Lease rentals, net of capital allowances		238,606,602	104,943,916
Taxable profit on disposal of fixed assets		1,818,046	802,255
Total statutory income		323,336,346	279,707,149
Carried forward tax losses		-	-
Taxable income		323,336,346	279,707,149
Income Tax rate		28%	33%
Income Tax		90,534,177	93,235,716
Social Responsibility Levy rate		-	1.5%
Social Responsibility Levy		-	1,398,536
Income Tax on profit for the year		90,534,177	94,634,252
Effective tax rate		14.07%	27.07%

## 12 Basic earnings per share

Basic earnings per share has been calculated by dividing the net profit for the period attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Profit attributable to ordinary shareholders of the Company (Rs.)	506,284,451	222,399,569
Weighted average number of ordinary shares	53,368,000	53,368,000
Basic earnings per share (Rs.)	9.49	4.17

## 13 Dividend per share

Dividends per share is calculated by dividing the proposed and/or paid dividend to ordinary shareholders of the Company, by the number of ordinary shares in issue.

### 13.1 Dividend paid for the year

1st interim dividend paid (2011/12- Rs. 0.53, 2010/11- Rs. 0.46)	28,285,040	24,549,280
2nd interim dividend paid (2011/12- Rs. 0.60)	32,020,800	-
3rd interim dividend paid (2010/11- Rs. 0.38)	-	18,678,800
	60,305,840	43,228,080

### 13.2 Dividend proposed for the year

Proposed 3rd interim dividend (2011/12-Rs.0.70)	13.2.1	37,357,600	-
Proposed final dividend (2011/12- Rs. 0.55, 2010/11- Rs. 0.38)	13.2.1	29,352,400	20,279,840
Total dividend		127,015,840	63,507,920

Dividend per share (inclusive of proposed dividends)	2.38	1.19
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**13.2.1 Proposed interim and final dividend**

The board of directors has declared the interim dividend of Rs. 0.70 per share for the 9 months period ended December 31, 2011, on May 16, 2012. Further, a final dividend of Rs. 0.55 (2010/11- Rs. 0.38) per share for the year ended March 31, 2012, is recommended by the directors subject to the approval of shareholders at the Annual General Meeting for the year of 2011/12. In accordance with SLAS 12 (Revised 2005) on Events after the Balance Sheet Date, the proposed dividend is not recognised as a liability in the financial statements as at the year end.

As at 31st March	Note	2012 Rs.	2011 Rs.
<b>14 Cash and cash equivalents</b>			
Cash in hand		47,963,451	19,875,290
Balances with Licensed Commercial Banks		288,599,814	399,262,169
		<b>336,563,265</b>	<b>419,137,459</b>

**15 Deposits with Licensed Commercial Banks**

Hatton National Bank		556,271,868	-
DFCC Vardana Bank		80,846,407	-
		<b>637,118,275</b>	<b>-</b>

**16 Dealing securities**

Quoted shares	16.1	57,147,548	43,344,770
Debentures - Commercial Bank - 13% (50, 000 Debentures of Rs.100 each)		-	5,000,000
		<b>57,147,548</b>	<b>48,344,770</b>
Provision for diminution in market value of dealing securities		(6,000,141)	-
		<b>51,147,407</b>	<b>48,344,770</b>

As at 31st March

	No. of Shares	2012 Cost Rs.	Market Value Rs.	No. of Shares	2011 Cost Rs.	Market Value Rs.
<b>16.1 Quoted shares</b>						
<b>Bank, Finance and Insurance</b>						
Central Finance Company PLC	22,387	243,207	3,834,893	4,333	243,207	5,518,942
National Development Bank PLC	668	500	82,030	334	500	106,880
Commercial Bank of Ceylon PLC	2,672	258,096	267,200	312	72,450	82,930
<b>Beverage, Food and Tobacco</b>						
Ceylon Tobacco PLC	3,100	142,017	1,596,810	3,100	142,017	1,109,800
<b>Hotels and Travels</b>						
Aitken Spence PLC	495	3,355	55,787	495	3,355	48,510
<b>Investment Trust</b>						
National Equity Fund	147,494	969,661	2,986,759	131,400	600,925	2,986,759
Namal Acuity Value Fund	25,000	1,250,000	1,575,000	25,000	1,250,000	2,130,000
<b>Manufacturing</b>						
Royal Ceramics Lanka PLC	20	273	2,300	20	273	3,140
<b>Diversified Holdings</b>						
John Keells Holdings PLC	2,582	13,800	531,892	1,937	13,800	553,207
Hayleys PLC	113	7,175	40,680	113	7,175	43,166
<b>Trading</b>						
Lanka Indian Oil Corporation PLC	5,500	148,500	106,700	5,500	148,500	96,800
		3,036,584	11,080,051		2,482,202	12,680,134
Orion Portfolio (Note 16.2)		54,110,964	52,027,951		40,862,568	50,623,873
<b>Total cost and market value</b>		<b>57,147,548</b>	<b>63,108,002</b>		<b>43,344,770</b>	<b>63,304,007</b>

## 16.2 Portfolio Investment (Orion Fund Management)

<b>Bank, Finance &amp; Insurance</b>						
Ceylinco Insurance PLC	10,000	1,560,322	3,043,000	10,000	1,560,322	2,889,000
Commercial Bank of Ceylon PLC	66	4,722	6,600	33	4,722	8,771
Hatton National Bank PLC	23,000	1,997,328	2,173,500	7,500	235,815	1,066,500
Seylan Bank PLC	86,666	3,720,858	2,513,314	50,000	2,437,548	1,965,000
The Finance Company PLC	-	-	-	50,000	884,803	850,000
<b>Beverage, Food &amp; Tobacco</b>						
Ceylon Cold Stores PLC	20,000	2,062,853	1,800,000	-	-	-
Distilleries Company of Sri Lanka PLC	65,000	10,061,377	9,425,000	60,000	9,343,425	10,800,000
Kotmale Holdings PLC	80,000	3,406,750	3,160,000	-	-	-
Lanka Milk Foods (CWE) PLC	65,713	6,359,457	6,426,731	65,713	6,359,457	7,681,850

As at 31st March

	No. of Shares	2012 Cost Value Rs.	Market Shares Rs.	No. of Value	2011 Cost Rs.	Market Rs.
<b>16.2 Portfolio Investment (Orion Fund Management)</b>						
<b>Chemicals &amp; Pharmaceuticals</b>						
CIC Holdings PLC	50,000	2,226,039	3,255,000	35,000	905,412	3,780,000
Haycarb PLC	13,300	2,049,981	2,128,000	1,300	229,821	202,020
<b>Diversified</b>						
Carsons Cumberbatch PLC	-	-	-	2	157	1,270
<b>Footwear &amp; Textile</b>						
Hayleys Mgt Knitting Mills PLC	17,200	592,803	204,680	30,400	1,047,745	1,082,240
<b>Healthcare</b>						
Ceylon Hospitals PLC	38,838	1,205,012	2,151,625	34,821	932,936	2,789,162
<b>Hotels &amp; Travels</b>						
Brown Beach Hotels PLC	40,000	637,646	584,000	-	-	-
Dolphin Hotels PLC	-	-	-	10,000	256,098	516,000
Eden Lanka Hotel PLC	10,000	323,587	308,000	-	-	-
Taj Lanka Hotels PLC	60,000	1,869,510	1,854,000	-	-	-
<b>Investment Trusts</b>						
Renuka Holdings PLC	20,000	525,824	520,000	-	-	-
<b>Land &amp; Property</b>						
C T Land Development PLC	5,000	111,570	121,000	5,000	111,570	164,500
Overseas Realty (Ceylon) PLC	-	-	-	150,000	2,265,154	2,250,000
<b>Manufacturing</b>						
Dipped Products PLC	50,000	6,177,582	5,005,000	50,000	6,177,582	5,805,000
Pelwatte Sugar Industries PLC	31,000	1,064,794	728,500	-	-	-
Tokyo Cement Company (Lanka) PLC	65,000	2,059,005	1,755,000	50,000	1,519,024	2,200,000
ACME Printing & Packaging PLC	-	-	-	41,200	948,941	877,560
<b>Power &amp; Energy</b>						
Hemas Power PLC	20,000	455,044	440,000	-	-	-
Lanka IOC PLC	100,000	1,855,697	1,940,000	50,000	945,611	880,000
<b>Telecommunications</b>						
Dialog Axiata PLC	350,000	3,783,203	2,485,000	350,000	3,783,203	3,675,000
Sri Lanka Telecom PLC	-	-	-	20,000	913,221	1,140,000
<b>Total cost and market value</b>		<b>54,110,964</b>	<b>52,027,951</b>		<b>40,862,568</b>	<b>50,623,873</b>

As at 31st March	Note	No. of Shares	2012 Rs.	2011 Rs.
<b>17 Investment securities (Unquoted)</b>				
Senkadagala Hotels Limited		467,109	13,957,555	13,957,555
Credit Information Bureau of Sri Lanka		82	8,200	8,200
Finance Houses Consortium (Pvt) Ltd.		20,000	200,000	200,000
			14,165,755	14,165,755

## 18 Net Investment in Finance Lease

Lease rental receivable within one year from balance sheet date		1,987,791,334	754,875,359
Lease rental receivable between one year and five years from balance sheet date		4,001,773,529	1,201,817,189
Lease rental receivable in respect of non-performing leases		20,014,968	21,943,126
		6,009,579,831	1,978,635,674
Unearned interest income		(1,632,374,328)	(515,282,689)
Initial lease payment		(12,898,638)	(13,209,219)
Pre-paid lease rentals		(11,996,951)	(6,589,639)
		4,352,309,914	1,443,554,127
Specific provision on bad & doubtful debt lease receivables	18.1	(12,728,275)	(10,508,860)
Net Investment in finance leases		4,339,581,639	1,433,045,267

### 18.1 Movement in specific provision for bad & doubtful lease receivables

Balance at the beginning of the year	10,508,860	8,531,134
Specific provision made during the year	6,433,160	3,867,555
Less: reversal of specific provision	(4,213,745)	(1,889,829)
Balance at the end of the year	12,728,275	10,508,860

## 19 Net investment in hire purchase

Hire purchase installment receivable within one year from balance sheet date	2,220,235,439	2,062,771,795
Hire purchase installment receivable between one year and five years from balance sheet date	3,782,209,183	3,001,494,829
Hire purchase installment receivable in respect of non-performing HP advances	39,087,803	40,526,211
	6,041,532,425	5,104,792,836
Unearned interest income	(1,599,186,990)	(1,324,458,886)
Pre-paid rentals hire purchase installments	(17,162,375)	(13,773,115)
	4,425,183,060	3,766,560,835
Specific provision for bad & doubtful debt hire purchase receivables	19.1	(25,509,058)
		(22,390,941)
Net Investment in hire purchase	4,399,674,002	3,744,169,894

### 19.1 Movement in specific provision for bad & doubtful hire purchase receivables

Balance at the beginning of the year	22,390,941	8,637,803
Specific provision made during the year	11,937,005	15,106,070
Less: reversal of specific provision	(8,818,888)	(1,352,932)
Balance at the end of the year	25,509,058	22,390,941

As at 31st March

	Note	2012 Rs.	2011 Rs.
<b>20 Commercial loans</b>			
Commercial loan installments receivable within one year from balance sheet date		17,944,682	32,198,907
Commercial loan installments receivable between one year and five years from balance sheet date		18,779,765	36,244,944
Commercial loan installments receivable in respect of non-performing commercial loans		22,779,641	21,994,294
		59,504,088	90,438,145
Unearned interest income		(16,868,761)	(23,838,458)
Pre-paid loan installments		(597,808)	(775,271)
		42,037,519	65,824,416
Specific provision on bad & doubtful commercial loans	20.1	(15,444,504)	(15,676,833)
Net Investment in commercial loans		26,593,015	50,147,583
<b>20.1 Movement in specific provision for bad &amp; doubtful commercial loans</b>			
Balance at the beginning of the year		15,676,833	13,942,162
Specific provision made during the year		3,309,036	4,948,799
Less: reversal of specific provision		(3,541,365)	(3,214,128)
Balance at the end of the year		15,444,504	15,676,833
<b>21 Other loans and advances</b>			
Balance receivable on repossessed stock		50,044,265	73,781,712
Provision for balance receivable on repossessed stock	21.1	(6,593,067)	(20,579,804)
		43,451,198	53,201,908
Personal loan installments receivable within one year from balance sheet date		39,724,909	35,977,587
Personal loan installments receivable between one year and five years from balance sheet date		77,869,170	72,612,975
Unearned interest income		(43,646,061)	(40,590,364)
Pre-paid installments		(4,139,987)	(2,978,528)
		113,259,229	118,223,578
Pawnbroking advances		1,366,000	-
Loans against fixed deposits		21,038,154	18,935,109
Net Investment in Loans and Advances		135,663,383	137,158,687
<b>21.1 Movement in provision for balances receivable on repossessed stock</b>			
Specific provision	21.1.1	6,593,067	11,923,517
General provision	21.1.2	-	8,656,287
Balance at the end of the year		6,593,067	20,579,804
<b>21.1.1 Specific provision for balances receivable on repossessed stock</b>			
Balance at the beginning of the year		11,923,517	27,738,933
Provision made during the year		6,593,067	5,595,276
Less: Reversal of provision on repossessed stock		(11,923,517)	(21,410,692)
Balance at the end of the year		6,593,067	11,923,517



## As at 31st March

	Note	2012 Rs.	2011 Rs.
<b>21.1.2 General provision for balances receivable on repossessed stock</b>			
Balance at the beginning of the year		8,656,287	7,600,000
Provision made during the year		-	1,056,287
Less: Reversal of provision on repossessed stock		(8,656,287)	-
Balance at the end of the year		-	8,656,287

**22 Other receivables**

Rentals in arrear		183,707,723	199,286,474
Staff debtors		8,753,056	7,885,283
Discounting of cheques		490,000	490,000
Insurance		98,178,150	83,885,331
Advances allowed to car sales		13,562,662	21,773,426
Search fees and seizing charges receivable		2,024,821	1,649,810
Western Union MMBL		893,792	704,600
Goods and Services Tax recoverable		8,720,525	11,020,826
Value Added Tax recoverable		52,763,988	19,046,975
Advance payments		33,094,258	11,202,677
Savings charges		976,410	327,815
Sundry debtors		10,097,251	2,026,266
		413,262,636	359,299,483
Provision for bad and doubtful debts on other receivables	22.1	(12,420,989)	(35,127,713)
		<b>400,841,647</b>	<b>324,171,770</b>

**22.1 Movement in provision for other receivables**

Balance at the beginning of the year		35,127,713	-
Provision for the year		429,724	35,127,713
Bad debts written-off		(20,583,513)	-
Reversal of specific provision on trade and other receivables		(2,552,935)	-
Balance at the end of the year		12,420,989	35,127,713

**23 Advances and receivables**

Deposits		3,117,284	2,122,284
Pre - paid rent		35,827,637	19,755,699
Advance Company Tax recoverable		-	6,125,619
Advance paid for fixed assets		2,950,871	884,701
Cash cover on securitised loans		2,509,287	5,861,393
Funds held at Orion Fund Management		1,556,207	13,912,459
		<b>45,961,286</b>	<b>48,662,155</b>

## As at 31st March

2012  
Rs.                      2011  
Rs.

**24 Deferred asset**

	Note	2012 Rs.	2011 Rs.
Balance at the beginning of the year		4,133,281	7,392,573
Charged during the year		(2,138,367)	(3,259,292)
Balance at the end of the year		1,994,914	4,133,281

Loan structuring fees paid have been deferred prior to 2010/11 and charged to the Income Statement over the period of repayment of the loans.

**25 Property, plant and equipment**

Cost	As at 01.04.2011 Rs.	Additions Rs.	Disposals Rs.	As at 31.03.2012 Rs.
Land and buildings	119,768,144	-	-	119,768,144
Furniture and fittings	77,049,999	302,476	-	77,352,475
Office equipment	71,936,549	26,711,409	-	98,647,958
Air-conditioning equipment	25,389,856	7,048,035	1,117,165	31,320,726
Computer and accessories	104,080,707	29,962,060	388,384	133,654,383
Facsimile machines	886,650	277,500	-	1,164,150
Generators	32,420,500	-	-	32,420,500
Motor vehicles	203,869,381	128,630,694	56,638,591	275,861,484
Photostat machines	5,618,676	1,836,950	-	7,455,626
Fixtures and fittings	80,606,482	25,966,420	-	106,572,902
Printers	15,788,193	4,017,500	-	19,805,693
	737,415,137	224,753,044	58,144,140	904,024,041

Accumulated depreciation	As at 01.04.2011 Rs.	Charge for the Period Rs.	Charge on Disposals Rs.	As at 31.03.2012 Rs.
Buildings	9,666,814	1,201,314	-	10,868,128
Furniture and fittings	40,376,252	7,555,681	-	47,931,933
Office equipment	27,357,593	7,823,956	-	35,181,549
Air-conditioning equipment	18,706,712	4,007,847	1,117,165	21,597,394
Computer and accessories	81,532,955	10,640,762	388,384	91,785,333
Facsimile machines	466,192	89,099	-	555,291
Generators	17,472,211	3,884,557	-	21,356,768
Motor vehicles	69,423,008	41,389,389	38,452,295	72,360,102
Photostat machines	4,829,416	753,197	-	5,582,613
Fixtures and fittings	57,212,829	11,150,472	-	68,363,301
Printers	13,866,211	1,728,955	-	15,595,166
	340,910,194	90,225,229	39,957,844	391,177,578
Net book value	396,504,943			512,846,463

### 25.1 Fully depreciated property, plant & equipment

The cost of fully depreciated property, plant & equipment of the company still in use as at the balance sheet date is as follows:

As at 31st March	2012 Rs.	2011 Rs.
Buildings	3,000,000	3,000,000
Furniture and fittings	10,317,377	-
Office equipment	1,395,175	-
Air-conditioning equipment	10,868,532	10,716,379
Computer and accessories	50,279,227	40,437,606
Facsimile machines	33,750	-
Generators	4,909,548	1,344,048
Motor vehicles	2,308,819	-
Photostat machines	3,904,625	3,138,675
Printers	12,153,270	3,483,060
Fixtures and fittings	35,081,696	35,081,695

### 25.2 Property, plant & equipment retired from active use

The following fully depreciated property, plant & equipment of the company was retired from active use as at the Balance Sheet date.

Furniture and fittings	1,643,057	1,609,557
Office equipment	2,690,503	2,680,468
Air-conditioning equipment	942,573	1,456,713
Computer and accessories	20,179,401	20,321,821
Facsimile machines	126,500	100,000
Photostat machines	302,050	302,050
Printers	665,826	473,320

### 25.3 Land and buildings

	Extent	2012 Rs.	Current Value	2011 Rs.
<b>Land</b>				
Deen's Road, Colombo 10	6.000 P	500,000	24,000,000	500,000
12, Kotugodella Veediya, Kandy Lot 1	9.875 P	7,542,068	82,485,000	7,542,068
12, Kotugodella Veediya, Kandy Lot 2	18.000 P	70,679,827	113,400,000	70,679,827
7/4, Mawilmada Road, Kandy	38.380 P	7,779,960	28,117,081	7,779,960
Hyway Park, Amunugama, Pothuhera	0 A. 2 R. 23 P	6,240,000	22,245,853	6,240,000
		92,741,855	270,247,934	92,741,855
<b>Building</b>				
Deen's Road, Colombo 10	152 sq mts	3,000,000	-	3,000,000
98, Yatinuwara Veediya, Kandy	1,900 sq ft	6,060,760	56,160,000	6,060,760
7/4, Mawilmada Road, Kandy	1,327 sq ft	5,230,914	4,282,919	5,230,914
Hyway Park, Amunugama, Pothuhera	885 sq ft	8,222,998	2,624,147	8,222,998
433, Negombo Road, Hendala Junction, Wattala	-	4,511,617	-	4,511,617
		27,026,289	63,067,067	27,026,289
<b>Total</b>		119,768,144	333,315,001	119,768,144

The values of the properties set out above have been obtained from a report issued by a qualified valuer, Mr. C. Palamakumbura (FSI) dated March 24, 2012. These values have not been incorporated in the financial statements.

**26 Intangible assets**

As at 31st March	2012	2011
Software programme	Rs.	Rs.
<b>Cost</b>		
Balance at the beginning of the year	122,293,067	121,529,586
Additions during the year	18,513,350	763,481
Balance at the end of the year	140,806,417	122,293,067
<b>Amortisation</b>		
Balance at the beginning of the year	88,829,437	81,971,684
Amortised during the year	7,065,502	6,857,753
Balance at the end of the year	95,894,939	88,829,437
Net book value	44,911,478	33,463,630

As at 31st March	Note	2012	2011
		Rs.	Rs.
<b>27 Deposits from customers</b>			
Savings deposits		101,812,730	83,986,416
Certificates of deposit	27.1	2,924,831	2,897,349
Fixed deposits	27.2	2,631,692,075	2,305,858,100
		2,736,429,636	2,392,741,865

**27.1 Certificates of deposit**

Face value	3,100,000	3,100,000
Interest in suspense	(175,169)	(202,651)
	2,924,831	2,897,349

**27.2 Fixed deposits**

Fixed deposits	2,541,140,921	2,223,920,112
Accrued interest	90,551,154	81,937,988
	2,631,692,075	2,305,858,100

**28 Borrowings**

Assets securitised loans	4,691,062,659	1,414,764,929
	4,691,062,659	1,414,764,929

**Securities pledged**

Lease and hire purchase aggregate portfolio amounting to Rs.5,583,895,620 have been pledged as security for the above loans.

As at 31st March

	Note	2012 Rs.	2011 Rs.
<b>29 Current tax liabilities</b>			
Income Tax payable		110,664,836	132,676,702
Income Tax payment		(69,926,787)	(20,817,496)
Economic Service Charges		(19,208,755)	(17,295,531)
Withholding Tax on Treasury bill and Repo interest		(4,388,258)	(3,207,206)
Withholding Tax on interest income		(2,195,809)	(3,279,320)
		14,945,227	88,077,149

**30 Employee benefit obligation**

Present value of defined benefit obligation		30,608,056	22,220,771
Unrecognised actuarial gains/(loss)	30.2	(2,498,527)	343,324
Net retirement benefit obligation		28,109,529	22,564,095

**30.1 Movement of the employee benefit obligation**

Balance at the beginning of the year		22,564,095	17,631,637
Retirement benefit expense for the year		5,853,034	5,269,958
Benefits paid during the year		(307,600)	(337,500)
Balance at the end of the year		28,109,529	22,564,095

**30.2 Unrecognised actuarial loss**

Present value of defined benefit obligation at the beginning of the year		22,564,095	17,631,637
Current service cost		3,070,946	2,555,783
Interest cost		2,782,088	2,714,175
Benefits paid during the year		(307,600)	(337,500)
Expected total present value of defined benefit obligation at the end of the year		28,109,529	22,564,095
Actual present value of defined benefit obligation at the end of the year		30,608,056	22,220,771
Actuarial loss at the end of the year		(2,498,527)	343,324

Mr.Piyal S. Goonethilake, professional actuary carried out an actuarial valuation of the defined benefit gratuity on 2nd April 2012. The valuation was carried out using the Projected Unit Credit Method, the method recommended by Sri Lanka Accounting Standard, No. 16 of ( Revised 2006) on "Employee benefit"

**31 Debentures**

At the beginning of the year		1,330,000,000	1,090,000,000
Issued during the year		559,000,000	300,000,000
Redeemed during the year		(219,000,000)	(60,000,000)
At the end of the year		1,670,000,000	1,330,000,000

**31.1**

Type	Purpose of debenture	Interest rate (p.a)	Due/settlement dates	2012 Rs.	2011 Rs.
<b>Rated debentures</b>					
2011/2014	Working capital		3 years from the date of allotment	200,000,000	-
<b>Unsecured, unlisted, redeemable debentures</b>					
2006/2011	Working capital	16% (Fixed)	5 years from the date of allotment	-	219,000,000
2007/2012		16% (Fixed)		241,000,000	241,000,000
2008/2013		16% (Fixed)		240,000,000	240,000,000
2009/2014		16% (Fixed)		270,000,000	270,000,000
2009/2014		14.5% (Fixed)		80,000,000	80,000,000
2010/2015		14.5% (Fixed)		120,000,000	120,000,000
2010/2015		14.0% (Fixed)		100,000,000	100,000,000
2010/2015		12.0% (Fixed)		60,000,000	60,000,000
2011/2016		12.0% (Fixed)		100,000,000	-
2011/2016		13.0% (Fixed)		159,000,000	-
2011/2016		13.15% (Fixed)		20,000,000	-
2011/2016		14.20% (Fixed)		80,000,000	-
				1,670,000,000	1,330,000,000

As at 31st March	2012 Rs.	Restated 2011 Rs.
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**32 Other liabilities**

Accrued Expenditure - Non Interest	8,628,524	33,919,775
Accrued Expenditure - Interest	88,395,464	83,819,516
Securitized loan installment	5,626,712	978,129
Payable to suppliers	253,391,675	217,517,567
Bank overdraft	30,571,534	28,982,674
Tax liabilities excluding Income Tax	28,104,968	16,260,878
Dividend payable	2,427,169	1,684,031
Other liabilities	33,710,688	32,673,419
	450,856,734	415,835,989

**33 Deferred tax liability**

Balance at the beginning of the year	103,559,908	70,968,196
Deferred tax charge / (reversal) for the year	46,440,390	32,591,712
Balance at the end of the year	150,000,298	103,559,908

	31.03.2012 Temporary Difference	Tax Effect	Temporary Difference	Restated 31.03.2011 Tax Effect
<b>33.1 Deferred tax liabilities</b>				
Balance as at 1st April ( Restated )	392,420,908	109,877,854	220,397,910	77,139,268
Impact on rate change reversed to Income Statement	-	-	-	(15,427,854)
Originating during the year	171,315,223	47,968,262	61,413,022	17,195,646
Underprovision of deferred tax liability (Refer Note 'A' in Statement of Changes in Equity)	-	-	110,609,976	30,970,793
	563,736,131	157,846,116	392,420,908	109,877,854

### 33.2 Deferred tax assets

Balance as at 1st April	22,564,095	6,317,946	17,631,637	6,171,073
Impact on rate change reversed to Income Statement	-	-	-	(1,234,215)
Tax effect on retirement benefit obligation	5,456,684	1,527,872	4,932,458	1,381,088
	28,020,779	7,845,818	22,564,095	6,317,946

## 34 Stated capital

Ordinary shares			
53,368,000 ordinary shares		533,680,000	533,680,000
Balance as at 01.04.2010 - 21,347,200 ordinary shares		533,680,000	213,472,000
Bonus Share Issue in November 2010			
3 for every 2 held 32,020,800 ordinary Shares		-	320,208,000
Balance as at 31.03.2011 - 53,368,000 ordinary shares		533,680,000	533,680,000

### As at 31st March

	Note	2012 Rs.	2011 Rs.
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## 35 Statutory reserve fund

Balance at the beginning of the year	100,036,033	86,536,033
Transfers during the year	30,000,000	13,500,000
Balance at the end of the year	130,036,033	100,036,033

The Reserve Fund is maintained in compliance with Direction No. 1 of 2003 of the Central Bank of Sri Lanka (Capital Funds) issued to Lincensed Finance Companies.



As stipulated in the said direction, every Licensed Finance Company shall maintain a Reserve Fund and make transfers to such reserve fund out of the net profits of each year after due provisions has been made for taxation and bad and doubtful debts on the following basis.

Capital Funds to Deposit Liabilities	% of transfer to Reserve Fund
Not less than 25%	5%
Less than 25% and not less than 10%	20%
Less than 10%	50%

Accordingly, the company has transferred 5% of its net profit after taxation to the Reserve Fund as the company's Capital Funds to Deposit Liabilities, belongs to not less than 25% category.

As at 31st March	Note	2012 Rs.	2011 Rs.
<b>36 General reserve</b>			
Balance at the beginning of the year		462,810,392	638,018,392
Issue of bonus shares		-	(320,208,000)
Transfers during the year		220,000,000	145,000,000
Balance at the end of the year		682,810,392	462,810,392

General reserve represents amount set aside by the Directors for future expansions and to meet any contingencies.

### 37 Investment fund reserve account

Balance at the beginning of the year		16,751,605	-
Transfers during the year	37.1	80,307,548	16,751,605
Balance at the end of the year		97,059,153	16,751,605

The investment Fund Reserve Account is credited in accordance with the Central Bank guidelines issued to create an Investment Fund Reserve which comprise, 8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates specified in the VAT Act for payment of VAT and 5% of the profit before tax calculated for payment of Income Tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self assessment of tax.

As at 31st March	Note	2012 Rs.	2011 Rs.
<b>37.1 Transfers during the year</b>			
8% of profits calculated for the payment of Value Added Tax on Financial Services		66,322,191	16,751,605
5% of profit before tax calculated for the payment of Income Tax		13,985,357	-
		80,307,548	16,751,605

## 38 Related party transactions

Related party	Name of director	Nature of the transaction	Amount (paid)/ received during the Year		Receivable as at 31st March	
			2011/12	2010/11	2012	2011
			Rs.	Rs.	Rs.	Rs.
38.1	Transactions with ultimate parent company					
E.W.Balasuriya & Company (Pvt) Ltd	Mr. L. Balasuriya-	Payment of rent expenses	(3,459,369)	(3,482,136)		
	Managing Director/ CEO of	Rent income	(45,432,956)	(24,371,321)		
	Senkadagala Finance PLC	Rent income	1,714,286	1,857,143		
	Dr. M. Balasuriya	Income for IT services	25,000,000	-	8,000,000	Nil
	Dr. A. Balasuriya	rendered				
	Mrs. L. Fernando					
38.2	Transactions with other related parties					
Senkadagala Hotels Limited (Company holds 32.27% approximately of the issued share capital of Senkadagala Hotels Limited)	Mr. L. Balasuriya-	Payment of rent expenses	(787,800)	(852,800)	Nil	Nil
	Managing Director/ CEO of					
	Senkadagala Finance PLC					
	Dr. M. Balasuriya					
	Dr. A. Balasuriya					
	Mrs. L. Fernando					

### 38.3 Transactions with key management personnel (KMP) of the Company

According to Sri Lanka Accounting Standard 30 (Revised 2005) Related Party Disclosures, key management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the AGM Accounts, DGM Operation, DGM IT, General Manager, Additional CEO and the members of the board of directors of the company (including executive and non-executive directors), and of the Ultimate Parent Company have been classified as key management personnel of the Company.

#### 38.3.1 Compensation of key management personnel

		2012 Rs.	2011 Rs.
Short term employee benefits	Board of Directors	15,520,000	6,821,500
	Other KMP	13,149,200	12,251,108

#### 38.3.2 Post Employment benefits to key management personnel

The key management personal are entitled to gratuity provisions as prescribed by the provisions of the Payment of Gratuity Act and such provision as at March 31, 2012 amounts to Rs. 8,085,221 (2010/11- Rs. 7,767,371)

**38.3.3 Deposits held by key management personnel**

	2012 Rs.	2011 Rs.
Deposits held with the Company	2,735,617	2,030,363

**39 Commitments and contingencies****39.1 Capital expenditure commitments**

Capital expenditure approved by the Board of Directors for which provision has not been made in the financial statements amounted to approximately the following:

	2012 Rs.	2011 Rs.
Approved but not contracted for	42,000,000	-
Approved and contracted for	2,500,000	15,020,914
	44,500,000	15,020,914

**39.2 Contingent liabilities**

There were no contingent liabilities at the balance sheet date, which require adjustments to or disclosure in the financial statements.

**40 Events after the balance sheet date**

On May 16, 2012, the board of directors declared an interim dividend of Rs. 0.70 per share for the 9 month period ended December 31, 2011, Further, a final dividend of Rs. 0.55 per share for the year ended March 31, 2012, is recommended by the board of directors subject to the approval of shareholders at the Annual General Meeting for the year 2011/12. In accordance with SLAS 12 (Revised 2005) on Events after the Balance Sheet date, the proposed dividend is not recognised as a liability in the financial statements as at the year end.

Except as mentioned above, there were no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the financial statements.

## 41 Maturity Analysis

An analysis of the total assets employed and the total liabilities of the company as at 31st March 2012, based on the remaining period from the balance sheet date to the respective contractual maturity dates is given below.

	Up to 3 Months Rs	3 to 12 Months Rs	1 to 3 years Rs	More than 3 years Rs	Total as at 31.03.2012 Rs
Interest earning Assets					
Bank and cash balances	336,563,265	-	-	-	336,563,265
Deposits with Licensed Commercial Banks	637,118,275	-	-	-	637,118,275
Investment in government securities	213,946,285	90,165,127	-	-	304,111,412
Stock out on hire	898,874,643	2,561,262,773	1,791,912,383	3,829,502,030	9,081,551,829
Debtors	169,155,153	55,922,640	16,309,369	27,370,895	268,758,057
Total interest earning assets	2,255,657,622	2,707,350,540	1,808,221,752	3,856,872,925	10,628,102,838
Non-interest earning assets					
Dealing securities	-	51,147,407	-	-	51,147,407
Investment securities	-	-	-	14,165,755	14,165,755
Property, plant and equipment	-	-	-	557,757,941	557,757,941
Total assets	2,255,657,622	2,758,497,947	1,808,221,752	4,428,796,621	11,251,173,941
Percentage (%) 31.03.2012	20.05	24.52	16.07	39.36	100
	Up to 3 Months Rs	3 to 12 Months Rs	1 to 3 years Rs	More than 3 years Rs	Total as at 31.03.2012 Rs
Interest bearing liabilities					
Deposits	289,012,142	1,322,175,074	444,793,969	485,159,735	2,541,140,921
Certificates of deposit	-	2,924,831	-	-	2,924,831
Savings accounts	-	101,812,730	-	-	101,812,730
Bank overdraft	30,571,534	-	-	-	30,571,534
Securitised debt	609,093,839	1,431,785,224	2,344,733,595	305,450,000	4,691,062,659
Debentures	60,000,000	357,000,000	614,000,000	639,000,000	1,670,000,000
Total interest bearing liabilities	988,677,516	3,215,697,860	3,403,527,564	1,429,609,735	9,037,512,675
Non-interest bearing liabilities	156,569,992	288,036,661	51,536,617	207,748,138	703,891,408
Total liabilities	1,145,247,508	3,503,734,521	3,455,064,181	1,637,357,873	9,741,404,083
Percentage (%) 31.03.2012	11.76	35.97	35.47	16.81	100
Shareholders' funds	-	-	-	1,509,769,858	1,509,769,858
Total Shareholders' funds and liabilities	1,145,247,508	3,503,734,521	3,455,064,181	3,147,127,731	11,251,173,941

## 42 Segment reporting

As at 31st March (Rs. '000s)	Leasing		Hire Purchases		Other Advances		Investments / Property		Insurance		Unallocated		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2006	2012	2012	2012	2011
<b>Revenue</b>														
Interest	581,411	228,854	1,016,249	1,008,660	34,995	43,704	72,166	61,316	-	-	-	-	1,704,821	1,342,534
Commissions	-	-	-	-	-	-	-	-	70,213	52,164	-	-	70,213	52,164
Rent	-	-	-	-	-	-	1,714	1,857	-	-	-	-	1,714	1,857
Dividends	-	-	-	-	-	-	1,430	821	-	-	-	-	1,430	821
Other income	-	-	-	-	-	-	34,462	55,780	-	-	276,076	217,800	310,539	273,580
Total revenue	581,411	228,854	1,016,249	1,008,660	34,995	43,704	109,772	119,774	70,213	52,164	276,076	217,800	2,088,716	1,670,956
Profit before tax													643,259	349,626
Taxation													(136,975)	(127,226)
Profit after tax													506,284	222,400
Segment Assets	4,377,206	1,463,353	4,442,345	3,780,334	128,757	158,160	1,909,292	1,112,640	-	-	393,575	337,128	11,251,174	6,851,615
Segment Liabilities	2,805,920	815,376	4,904,471	3,593,723	168,886	155,712	529,767	426,740	-	-	1,332,360	775,993	9,741,404	5,767,544

## Depositor Information

### Value of Deposit Base

As at 31st March	2008	2009	2010	2011	2012
Value of Term Deposits (Rs. '000s)	905,528	1,343,060	2,027,465	2,305,858	2,631,692
Value of Certificates of Deposit (Rs. '000s)	12,469	13,913	69	2,897	2,925
Value of Savings Deposits (Rs. '000s)	19,318	41,178	66,944	83,986	101,813

### Rate of Interest Basis as at 31 March 2012

	No. of Deposits	Value (Rs. '000s)	% of Total
Less than 12%	1869	857,459	32.58%
More than or equal to 12% and less than 14%	1799	1,421,127	54.00%
More than or equal to 14% and less than 16%	343	303,609	11.54%
More than or equal to 16% and less than 18%	17	6,307	0.24%
More than 18%	154	43,191	1.64%
TOTAL	4182	2,631,692	100.00%

### Deposit Interest Paid/Interest Cover/Liquid Assets Cover

	2008	2009	2010	2011	2012
Fixed deposits, savings deposits & certificates of deposit interest paid (Rs. '000s)	101,079	197,225	272,649	267,767	266,418
Deposit interest cover (Times)*	4.00	1.69	1.63	2.63	3.63
Liquid assets as a % of the deposit base**	54.53	28.59	31.49	25.81	46.70

\* Deposit interest cover is obtained by dividing the pre-tax profit before payment of interest to depositors by the interest paid to depositors.

\*\* Finance companies are required to maintain as at the close of business of any one day a minimum of 15% of its deposit base in the form of liquid assets.

## Capital Adequacy Ratio

(in Rs. '000s)	2012	2011	2010	2009	2008
<b>Risk Weighted Assets</b>					
<b>On-Balance Sheet-Total Assets</b>	11,251,174	6,851,615	5,871,825	5,767,265	5,819,694
Cash & current accounts with banks	233,762	247,801	343,263	123,112	136,841
Deposits with banks	739,919	171,336	153,034	113,335	280,586
Sri Lanka government Treasury Bills	304,111	198,510	163,192	143,350	93,947
<b>Loans &amp; Advances</b>	8,901,512	5,364,521	4,300,179	4,409,967	4,388,080
Against deposits with the company	134,297	137,159	81,775	73,126	54,928
Loans against gold and gold jewellery	1,366	-	-	-	-
Other loans & advances	8,765,849	5,227,363	4,218,405	4,336,842	4,333,152
Fixed assets	557,758	429,969	422,658	401,969	359,627
Other assets	514,111	439,478	489,499	575,531	560,614
<b>Capital Base</b>					
<b>Tier I : Core Capital</b>	1,509,770	1,084,071	904,366	892,661	856,896
Issued and paid up Ordinary shares	533,680	533,680	213,472	213,472	213,472
Statutory Reserve Fund	130,036	100,036	86,536	83,536	79,536
General & other reserves	682,810	462,810	638,018	638,018	603,018
Investment fund reserve account	97,059	16,752	-	-	-
Retained profit/(Accumulated losses)	66,184	(29,207)	(33,660)	(42,365)	(39,130)
<b>Tier 2 : Supplementary Capital</b>	-	-	-	-	-
Eligible revaluation reserves	-	-	-	-	-
Eligible general provisions	-	-	-	-	-
Approved hybrid capital instruments	-	-	-	-	-
Minority interest arising from preference shares issued by subsidiaries	-	-	-	-	-
Eligible approved unsecured subordinated term debt	-	-	-	-	-
<b>Total Capital Base</b>	1,509,770	1,084,071	904,366	892,661	856,896



## Capital Adequacy Ratio contd.

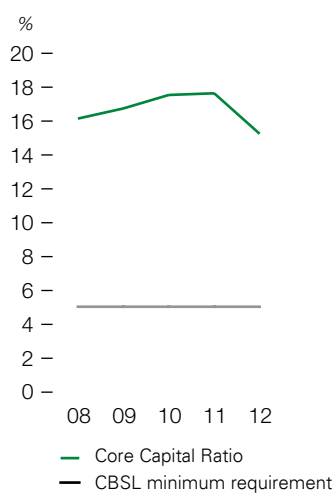
**Core Capital Ratio**  $\frac{\text{Core Capital} \times 100}{\text{Risk weighted assets}}$

	2012	2011	2010	2009	2008
<b>Core Capital Ratio</b>	<b>15.24%</b>	<b>17.68%</b>	<b>17.52%</b>	<b>16.73%</b>	<b>16.14%</b>
<i>CBSL minimum requirement</i>	<i>5.00%</i>	<i>5.00%</i>	<i>5.00%</i>	<i>5.00%</i>	<i>5.00%</i>

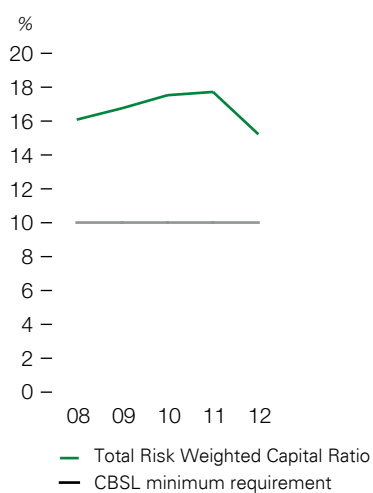
**Total Risk Weighted Capital Ratio**  $\frac{\text{Capital Base} \times 100}{\text{Risk weighted assets}}$

	2012	2011	2010	2009	2008
<b>Total Risk Weighted Capital Ratio</b>	<b>15.24%</b>	<b>17.68%</b>	<b>17.52%</b>	<b>16.73%</b>	<b>16.14%</b>
<i>CBSL minimum requirement</i>	<i>10.00%</i>	<i>10.00%</i>	<i>10.00%</i>	<i>10.00%</i>	<i>10.00%</i>

**Core Capital Ratio**



**Total Risk Weighted Capital Ratio**



## Share Information

Twenty Largest Shareholders as at 31st March	2012		2011	
	Number of shares	%	Number of shares	%
E. W. Balasuriya & Co. (Pvt) Limited	30,088,050	56.38	30,088,050	56.38
Hallsville Trading Group INC	4,080,000	7.65	-	0.00
Dr. (Mrs.) G. Madan Mohan	3,065,832	5.74	3,065,832	5.74
Dr. Asoka Balasuriya	3,065,832	5.74	3,065,832	5.74
Mr. Rohan Balasuriya	3,065,832	5.74	3,065,832	5.74
Dr. Mahendra Balasuriya	3,065,832	5.74	3,065,832	5.74
Mrs. Lakshmi Fernando	2,570,002	4.82	2,570,002	4.82
Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,532,916	2.87	-	0.00
Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,532,916	2.87	-	0.00
Mr. D. K. C. R. Fernando	495,830	0.93	495,830	0.93
Mrs. Sanoona Thaha	389,000	0.73	389,000	0.73
Mrs. Chandra Fernando	155,600	0.29	155,600	0.29
Estate of Late Mr. D. G. K. Hewamallika	155,600	0.29	155,600	0.29
Mr. Edmund Wijenayake Balasuriya	41,660	0.08	41,660	0.08
Mr. Muhudugama Marambage Ariyaratne	22,400	0.04	22,400	0.04
Mr. P. P. K. Ikriwatte	12,502	0.02	2,052,502	3.85
Mr. Jagath Kashyapa Jayatileke	12,492	0.02	2,052,492	3.85
Ms. Rajini Dullewe	6,100	0.01	6,100	0.01
Mr. Chan Y. Ching	4,800	0.01	4,800	0.01
Ms. Srimalrangani Aluvihare Ching	4,800	0.01	4,800	0.01
Mr. L. Balasuriya	-	-	3,065,832	5.74
	53,367,996	100.00	53,367,996	100.00
Other shareholders	4	0.00	4	0.00
Total	53,368,000	100.00	53,368,000	100.00

## Shareholding as at 31st March

From	To	Resident shareholders			Non resident shareholders			Total shareholders		
		Number of Holders	Number of Shares	%	Number of Holders	Number of Shares	%	Number of Holders	Number of Shares	%
1	1,000	1	4	0.00	0	-	-	1	4	0.00
1,001	10,000	3	15,700	0.03	0	-	-	3	15,700	0.03
10,001	100,000	4	89,054	0.17	0	-	-	4	89,054	0.17
100,001	1,000,000	4	1,196,030	2.24	0	-	-	4	1,196,030	2.24
Over 1,000,000 shares		8	47,987,212	89.92	1	4,080,000	7.65	9	52,067,212	97.56
			49,288,000	92.35		4,080,000	7.65		53,368,000	100.00

## Public Holding

The percentage of shares held by the public as at 31st March 2012 is 21.57% (2011 - 10.08%)

## Sources and Distribution of Funds

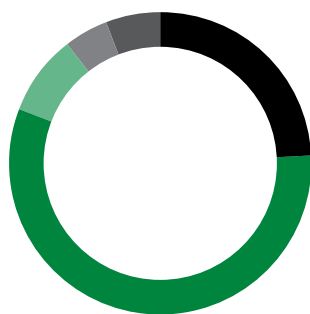
### Sources of Funds

(in Rs. '000s)	2008	2009	2010	2011	2012
Depositors' funds	937,315	1,398,151	2,094,478	2,392,742	2,736,430
Bank & other institutional borrowing	3,671,211	3,241,083	2,518,382	2,744,765	6,361,063
Internally generated funds	643,424	679,189	690,894	550,391	976,090
Share capital	213,472	213,472	213,472	533,680	533,680
Other sources	354,272	235,370	354,601	630,037	643,912
Total	5,819,694	5,767,265	5,871,826	6,851,615	11,251,174

### Utilisation of Funds

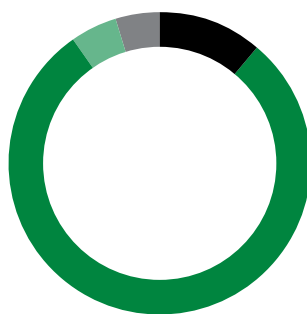
(in Rs. '000s)	2008	2009	2010	2011	2012
Cash & near cash items	511,373	379,798	659,489	617,647	1,277,793
Interest-bearing assets excluding money market Instruments	4,305,258	4,529,585	4,399,519	5,364,521	8,901,512
Fixed assets	359,627	401,969	422,658	429,969	557,758
Other assets	643,436	455,913	396,286	439,478	514,111
Total	5,819,694	5,767,265	5,877,951	6,851,615	11,251,174

#### Sources of Funds



Depositors' funds	24%
Bank & other institutional borrowing	56%
Internally generated funds	9%
Share capital	5%
Other sources	6%

#### Utilisation of Funds



Cash & near cash items	11%
Interest-bearing assets excluding money market Instruments	79%
Fixed assets	5%
Other assets	5%

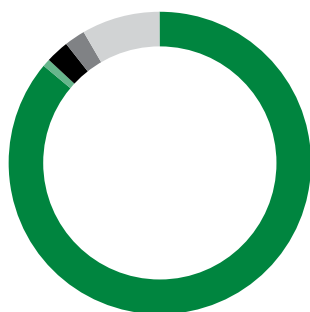
## Sources of Income

(in Rs. '000s)	2011	%	2012	%
Interest Income from loans and advances	1,431,772	85.69%	1,798,376	86.10%
Interest Income from government securities	17,020	1.02%	20,113	0.96%
Income from other Investments	44,296	2.65%	52,053	2.49%
Commission Income	27,077	1.62%	44,818	2.15%
Other Income	150,791	9.02%	173,355	8.30%
Total	1,670,956		2,088,716	

## Utilisation of Income

(in Rs. '000s)	2011	%	2012	%
Suppliers of funds as interest	679,358	40.66%	805,544	38.57%
Employees	142,058	8.50%	178,027	8.52%
Other suppliers	413,956	24.77%	403,797	19.33%
Government as taxes	213,185	12.76%	195,063	9.34%
Shareholders as dividends	43,228	2.59%	80,586	3.86%
Invested in the business	179,171	10.72%	425,699	20.38%
Total	1,670,956		2,088,716	

## Sources of Income



Interest Income from loans and advances	87%
Interest Income from government securities	1%
Income from other Investments	2%
Commission Income	2%
Other Income	8%

## Utilisation of Income



Suppliers of funds as interest	39%
Employees	9%
Other suppliers	19%
Government as taxes	9%
Shareholders as dividends	4%
Invested in the business	20%

	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000	2003 Rs.'000
<b>OPERATING RESULTS</b>										
Interest Income	1,870,542	1,493,088	1,451,560	1,560,124	1,259,893	1,058,870	645,333	307,686	238,807	149,393
Interest Expense	805,544	679,358	845,696	931,904	668,737	499,471	268,693	126,496	104,678	55,447
Net Interest Income	1,064,999	813,730	605,864	628,220	591,156	559,399	376,640	181,190	134,129	93,946
Profit Before Taxation & VAT	701,347	435,584	166,645	130,900	302,455	260,671	210,918	93,628	63,169	42,766
Profit After Taxation	506,284	222,400	48,982	59,457	272,770	277,547	205,595	95,685	63,050	41,318
<b>BALANCE SHEET</b>										
<b>Assets</b>										
Cash and Near Cash Items	1,277,793	617,647	659,489	379,798	511,373	387,240	453,039	96,566	141,027	90,167
Investment Securities	14,166	14,166	14,166	14,166	14,166	14,166	14,166	14,166	14,166	20,166
Dealing Securities	51,147	48,345	17,694	16,232	16,232	12,293	2,153	2,153	2,004	4,130
Advances Portfolio	8,901,512	5,364,521	4,399,519	4,529,585	4,305,258	3,654,387	3,168,384	1,700,933	1,205,200	802,361
Property & Equipment	557,758	429,969	422,658	401,969	359,627	206,853	139,763	105,590	72,710	69,326
Other Assets	448,798	376,967	364,426	425,515*	613,038	509,271	405,380	188,712	64,332	28,154
Total Assets	11,251,174	6,851,615	5,877,951	5,767,265	5,819,694	4,784,210	4,182,885	2,108,120	1,499,439	1,014,304
<b>Liabilities</b>										
<b>Borrowings and Loan</b>										
Securitization	4,691,063	1,414,765	1,428,382	2,401,083	2,921,211	2,566,478	2,497,594	1,063,165	577,627	236,360
Debentures	1,670,000	1,330,000	1,090,000	840,000	750,000	509,000	250,000	-	-	-
Deposits from customers	2,736,430	2,392,742	2,094,478	1,398,151	937,315	764,349	686,740	522,985	482,787	441,615
Deferred Taxation	150,000	103,560	70,968	65,240	40,394	34,099	67,793	10,065	12,121	13,776
Dividends Payable	2,427	1,684	1,340	1,016	1,125	-	189	11,744	5,409	4,048
Other Liabilities	491,484	524,793	295,761	169,114*	312,753	256,459	221,890	133,876	142,889	92,276
Total Liabilities	9,741,404	5,767,544	4,980,928	4,874,604	4,962,798	4,130,385	3,724,206	1,741,835	1,220,833	788,075
Net Assets	1,509,770	1,084,071	897,024	892,661	856,896	653,825	458,679	366,285	278,606	226,229
<b>Net Assets Position</b>										
Stated Capital	533,680	533,680	213,472	213,472	213,472	213,472	213,472	53,368	53,368	32,021
Reserves Inclusive of										
Statutory Reserves	976,090	550,391	683,552	679,189*	643,424	440,353	245,207	312,917	225,238	194,208
Total Shareholders' Funds	1,509,770	1,084,071	897,024	892,661	856,896	653,825	458,679	366,285	278,606	226,229

\*Restated

## Key Ratios &amp; Indicators

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Capital Adequacy</b>										
Equity as a % of Total assets	13.42	15.82	15.26	15.48	14.72	13.67	10.97	17.37	18.58	22.30
Equity as a % of Total deposits										
plus borrowings	16.60	21.10	19.45	19.24	18.59	17.03	13.36	23.09	26.27	33.37
Core Capital - Tier 1 ratio (%)	15.24	17.68	17.52	16.73	16.14	15.85	14.34	18.16	21.46	26.00
Core Capital - Tier 2 ratio (%)	15.24	17.68	17.52	16.73	16.14	15.85	14.34	18.16	21.46	26.00
<b>Earnings</b>										
Return on Average Total Assets (%)	7.75	6.84	2.86	2.26	5.70	5.81	6.71	5.19	5.03	5.18
Return on Average										
Shareholders' Funds (%)	54.08	43.97	18.62	14.96	40.04	46.86	51.13	29.04	25.03	20.44
Earnings per Share (Rs.)	9.49	4.17	2.29	2.79	12.78	13.00	9.63	17.93	11.81	12.90
Dividend per Share (Rs.)	1.51	0.81	1.51	1.50	3.27	3.86	1.78	1.50	2.00	2.50
Interest Cover (Times)	1.87	1.64	1.20	1.14	1.45	1.52	1.78	1.74	1.60	1.77
Dividend Cover (Times)	6.28	5.14	1.52	1.86	3.91	3.37	5.43	11.95	5.91	5.16
<b>Liquidity</b>										
Liquid assets as a % of Total Assets	11.36	9.01	11.22	6.59	8.79	8.09	10.83	4.58	9.41	8.89
Liquid assets as a % of Total Deposits	46.70	25.81	31.49	27.16	54.56	50.66	65.97	18.46	29.21	20.42

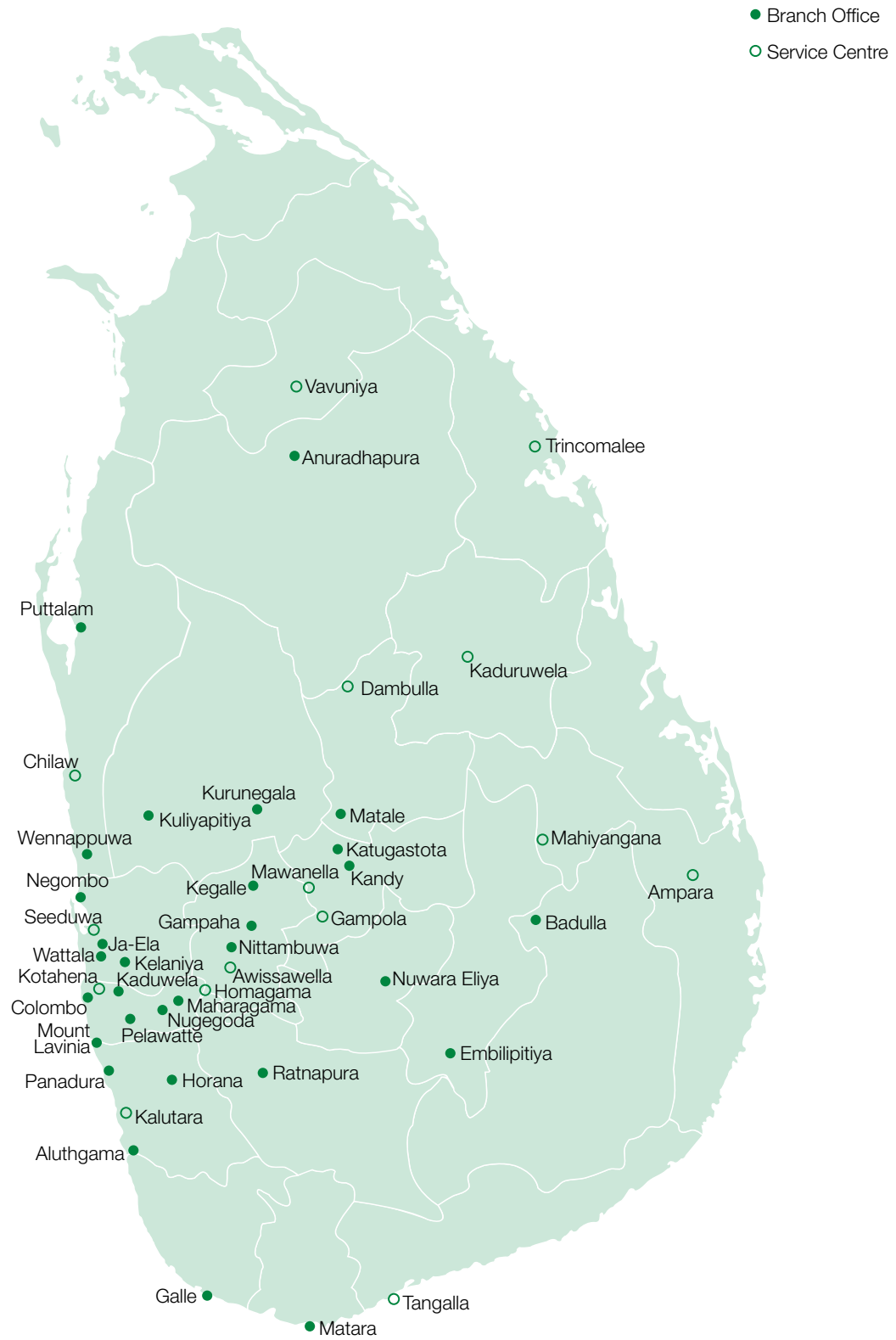
Branch	Address	Tel. Number	Fax Number	Manager/Officer In charge	E-mail
Aluthgama	No. 154, 1st Floor, Galle Road, Aluthgama.	034-2270573	034-2270578	Chanaka Welikala	chanaka@senfin.com
Anuradhapura	No. 561/30, Priman Mawatha, Anuradhapura.	025-2237969	025-2237989	Chaminda K. Chandrasiri	chandrasiric@senfin.com
Badulla	No. 2, Riverside Road, Badulla.	055-2224401	055-2224407	J.Udaya Fernando	udaya@senfin.com
Colombo	2nd Floor, No. 267, Galle Road, Colombo 3.	011-2301301	011-2301937	Salinda Deergawansa	salindad@senfin.com
Embilipitiya	No. 325C, Ratnapura Road, Pallegama, Embilipitiya.	047-2261991	047-2261996	Malinda Weerakoon	weerakoon@senfin.com
Galle	No. 70 A 1/1, Colombo Road, Kaluwella, Galle.	091-2248111	091-2248116	Taxila De Zoysa	taxilad@senfin.com
Gampaha	No. 560 A, Colombo Road, Gampaha.	033-2233555	033-2233560	Rajeewa Warna Kumara	rajeewa@senfin.com
Horana	No. 246, Panadura Road, Horana.	034-2262770	034-2262776	Ravi Karunaratne	ravi@senfin.com
Ja-Ela	No. 165/3, Colombo Road, Ja-Ela.	011-2247861	011-2247866	Chandana V. Kumara	vkchandana@senfin.com
Kaduwell	Kumara Building, 502/10, Colombo Road, Kaduwella.	011-2538180	011-2538186	Samantha Welivita	samanthaw@senfin.com
Kandy	No. 12, Kotugodella Veediya, Kandy.	081-2201201	081-2201207	Naradha Senanayake	naradha@senfin.com
Katugastota	437B, Katugastota Road, Kandy.	081-2213860	081-2213867	K. Ravindrakumar	ravindrak@senfin.com
Kegalle	No. 263, Colombo Road, Kegalle.	035-2221277	035-2221281	Kapila Wanniarachchi	kapila@senfin.com
Kelaniya	No. 457, Kandy Road, Dalugama, Kelaniya.	011-2914714	011-2914887	Rienzie Muttupulle	rienzie@senfin.com
Kuliyapitiya	No. 74 1/1, Hettipola Road, Kuliyapitiya.	037-2284630	037-2284635	Senaka Atapattu	senaka@senfin.com
Kurunegala	No. 34, Kandy Road, Kurunegala.	037-2220402	037-2220405	Mangala Munasinghe	mangala@senfin.com
Maharagama	No. 161/1/A, High Level Road, Maharagama.	011-2896888	011-2896052	Vishwanath Fernando	vishwanathf@senfin.com
Matale	No. 97, 97A, Kings Street, Matale.	066-2222954	066-2222960	Malinda Bandaranayake	malinda@senfin.com
Matara	No. 306, New Tangalle Road, Matara.	041-2233891	041-2233896	Tasith Samarasekara	tasiths@senfin.com
Mount Lavinia	No. 246 1/1, Galle Road, Ratmalana South, Mount Lavinia.	011-2715001	011-2715002	Jagath Jayawardena	jagathjaya@senfin.com
Negombo	No. 149, 1st Floor, Rajapaksha Broadway, Negombo.	031-2223456	031-2223462	Maheel Senanayake	maheels@senfin.com
Nittambuwa	No. 550/1/12, Colombo Road, Nittambuwa.	033-2297030	033-2297035	Lasantha Perera	lasantha@senfin.com
Nugegoda	No. 86, Nawala Road, Nugegoda.	011-2856600	011-2856650	Dharshana Kodikara	dharshana@senfin.com

Branch	Address	Tel. Number	Fax Number	Manager/Officer In charge	E-mail
Nuwara Eliya	No. 26, Upper Lake Road, Nuwara Eliya.	052-2224123	052-2224128	Sujan Karunaratne	sujank@senfin.com
Panadura	No. 229, Galle Road, Panadura.	038-2243990	038-2243995	Vipul Chandrasiri	vipulc@senfin.com
Pelawatte	No. 1067 , Pannipitiya Road , Battaramulla.	011-2774140	011-2774145	Rukshan Kanagasunderam	rukshank@senfin.com
Puttalam	Nos. 1,2,3,4 (upstair), Kurunegala Road, Puttalam.	032-2266783	032-2266789	Diroshan Thamel	diroshan@senfin.com
Ratnapura	No. 19, Kudugalwatte, Ratnapura.	045-2226890	045-2226895	Dushmantha Gunawardane	dushmanthag@senfin.com
Wattala	No. 264, Negombo Road, Wattala.	011-2949611	011-2949616	Dhanushka Madugalle	dhanushka@senfin.com
Wennappuwa	No. 272, Chilaw Road, Wennappuwa.	031-2245266	031-2245271	Dammika Yapa	dammika@senfin.com

### Service Centers

Service Center	Address	Tel. Number	Fax Number	Officer In charge	E-mail
Ampara	778 A, D S Senanayaka Mawatha, Ampara.	063-2224057	063-2224093	Chinthaka Gamanayake	gamanayake@senfin.com
Avissawella	No.19, Kudagama Road, Avissawella.	036-2222800	036-2222805	Hiran Dasanayake	hirand@senfin.com
Gampola	No. 240, (First Floor) Kandy Road, Gampola.	081-2350100	081-2351850	Sampath Hettiarachchi	sampath@senfin.com
Homagama	No. 94/1 (First Floor) High Level Road, Homagama.	011-2857878	011-2857880	Mithila Kasthuriarachchi	mithila@senfin.com
Kaduruwela	292, Saw Mill Junction, Kaduruwela.	027-2224739	027-2224743	Chathuranga Perera	chathuranga@senfin.com
Kalutara	443/1, Galle Road, Kalutara.	034-2227101	034-2227106	Samantha Samarakoon	samantha@senfin.com
Kotahena	No. 178 (Third Floor) George R De Silva Mawatha, Colombo 13.	011-2441261	011-2441267	Murugesu Satkuneswaran	murugesu@senfin.com
Mahiyangana	No. 205/5, Padiyathalawa Road, Mahiyangana.	055-2258280	055-2258285	Susantha Kumara	susanthak@senfin.com
Mawanella	No. 10 (First Floor) Rankothdiwela, Mawanella.	035-2247626	035-2247655	Jayampathy Rajamanthry	rajamanthry@senfin.com
Seeduwa	No. 394, Negombo Road, Seeduwa.	011-2251863	011-2251869	Devapriya De Silva	devapriya@senfin.com
Tangalla	35, Sea Road, Tangalla.	047-2241902	047-2241907	Dilantha Sumathipala	dilantha@senfin.com
Trincomalee	No. 346, (Ground Floor) Main Street, Trincomalee.	026-2225115	026-2225119	Ronney Adrian	ronney@senfin.com
Vavuniya	8, 1st Cross Street, Vavuniya.	024-2226340	024-2226345	Mangala Jayaweera	jayaweera@senfin.com
Chilaw	No. F 12,1st Floor, New Shopping Complex, Urban Council, Chilaw.	032-2224043	032-2224048	Pradeep Thushara	thusharap@senfin.com
Dambulla	No. 358 (First & Second) Matale Road, Dambulla.	066-2285530	066-2285535	Dineth Premarathne	dineth@senfin.com





## Notice of Meeting

NOTICE IS HEREBY GIVEN that the 43rd Annual General Meeting of Senkadagala Finance PLC., will be held at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 3 on 15th August, 2012 at 11.00 a.m. for the following purpose:

1. To receive and consider the annual report of the board of directors and the statements of account for the year ended 31st March 2012 and the report of the auditors thereon.
2. To declare a final dividend of Rs. 29,352,400 (Rs. 0.55 per share) to the shareholders of the company as recommended by the board of directors.
3. To elect Mr. C. L. de Alwis, who retires in terms of Finance Companies (Corporate Governance) Direction, No. 3 of 2008 issued by the Central Bank of Sri Lanka, as a director of the company.
4. To re-appoint the retiring auditors, M/s. KPMG for the ensuing year and to authorise the directors to determine their remuneration.

By order of the board of  
**SENKADAGALA FINANCE PLC**

(Sgn)  
**Managers and Secretaries (Private) Limited**  
Secretaries

Colombo  
30th June 2012

**Note:**

- (a) A member entitled to attend and vote at the meeting is entitled to appoint a proxy who need not be a member, to attend instead of him/her. A proxy may vote on a poll or on a show of hands and speak at the meeting.
- (b) A form of proxy is enclosed in this Report.
- (c) The completed form of proxy should be deposited at the Registered Office of the company at 2nd Floor, No. 267, Galle Road, Colombo 3 not less than 48 hours before the time for holding the meeting.

This image shows a full page of blank handwriting practice paper. It features approximately 28 evenly spaced horizontal green lines across the entire page, providing a guide for letter height and placement. The background is plain white, and there are no margins, text, or other markings present.

This image shows a single sheet of white paper with horizontal green ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

# Form of Proxy

I/we.....

of .....

being a member/members\* of Senkadagala Finance PLC hereby appoint:

Mr. Chandra Lal de Alwis of Colombo or failing him,

Mr. Lakshman Balasuriya of Colombo or failing him,

Dr. Asoka Balasuriya of Kandy or failing him,

Dr. Mahendra Balasuriya of Colombo or failing him,

Mrs. Lakshmi Fernando of Colombo or failing her,

Mr. Widanalage Ajith Terence Fernando of Colombo or failing him,

Mr./Mrs./Dr.\* .....

of .....

as my/our\* proxy to attend and vote at the 43rd Annual General Meeting of the company to be held at the Registered Office of the company, 2nd Floor, No. 267, Galle Road, Colombo 3 on the 15th day of August, 2012 at 11.00 a.m. and at any adjournment thereof.

	FOR	AGAINST
1. To adopt the financial statements of the company for the year ended 31st March 2012.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a final dividend of Rs. 0.55 per share for the financial year ended 31st March 2012.	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect Mr. Chandra Lal de Alwis, who retires in terms of Finance Companies (Corporate Governance) Direction, No. 3 of 2008 issued by the Central Bank of Sri Lanka, as a director of the company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint the retiring auditors M/s KPMG, and to authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this .....day of ..... 2012.

.....  
Signature

## Note

1. \*Please delete the inappropriate words.
2. Instructions on completing the form of proxy are set out on the reverse.

### INSTRUCTIONS ON COMPLETING THE FORM OF PROXY

1. Kindly perfect the Form of Proxy after legibly filing in your name in full and address and by signing in the space provided. Please fill in the date of signature.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy, who need not be a member, to attend and/or vote instead of him/her.
3. In the case of a corporate member, the form of proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association or constitution.
4. If the form of proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed form of proxy.
5. The completed form of proxy should be deposited at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 3 not less than Forty Eight (48) hours before the appointed time for the meeting.

# Corporate Information

## Legal Status

- Listed Public Limited Liability Company incorporated on 29th December 1968. The Company re-registered under the Companies Act, No. 7 of 2007.
- Approved and registered under the Finance Business Act, No. 42 of 2011
- Approved and registered under the Finance Leasing Act, No. 56 of 2000.
- An Approved Credit Agency under the Mortgage Act, No. 6 of 1949 and the Trust Receipt Ordinance, No. 12 of 1947

## Date of Incorporation

29th December 1968

## Board of Directors

Mr. C. L. de Alwis B.B.M.

Dr. Asoka Balasuriya B.Sc.(Lond.), Ph.D. (Lond.)

Mr. Lakshman Balasuriya B.Sc.(Lond), M.Sc. (Lancaster)

Dr. Mahendra Balasuriya B.V.Sc.

Mrs. Lakshmi Fernando B.Sc. (Hons.)

Mr. Ajith Fernando FCMA (UK), MA (Colombo)

## Company Registration Number

PB 238 PQ

## Taxpayer Identification Number (TIN)

104028349

## Registered Office

2nd Floor, 267 Galle Road

Colombo 3

Tel: 011-2301301

Fax: 011-2301937

Email: [senk@senfin.com](mailto:senk@senfin.com)

## Web Site

[www.senfin.com](http://www.senfin.com)

## Secretaries

Managers and Secretaries (Pvt) Limited

8 Tickell Road

Colombo 8

## Auditors

KPMG

Chartered Accountants

32A Sir Mohamed Macan Markar Mawatha

Colombo 3

## Legal Consultants

FJ & G de Saram

Attorneys-at-Law

216 de Saram Place

Colombo 10

## Internal Auditors

Ernst & Young Advisory Services (Pvt) Ltd

839/2, Peradeniya Road, Kandy

## Bankers

Commercial Bank of Ceylon PLC

Hatton National Bank PLC

Sampath Bank PLC

