Senkadagala Finance Company PLC

Annual Report
2010/2011

THE BEST LAID PLANS

THE BEST LAID PLANS

In an era of change and development, our best laid plans have given us the scope and base to succeed. With extensive training for our employees, and establishing a vision for ourselves that looks into the future, we have had a good performance in the year under review. Our strategies and measures in the past have had concrete effects and we are proud to say that our growth and success resonates from our very foundations.

Our 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 providers of funds.

Content

1.023 Bn

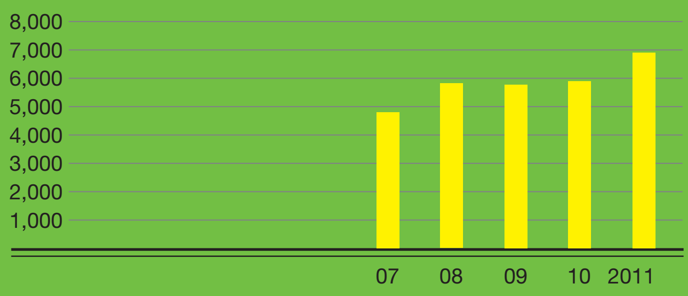
Net income from operations grew 45% during the year to Rs. 1,023,637,002, topping the Rs. 1 billion mark for the first time in the company's history. This was achieved by a combination of a concentrated marketing effort spearheaded by a national advertising campaign and judicious management of funding sources so as to optimize interest expenses during the year.

2.56%

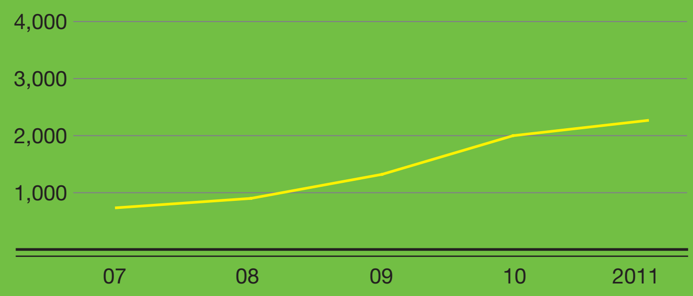
The ratio of gross non-performing advances improved significantly during the year ended 31 March 2011 to 2.56% from 4.32% in the previous year. This is an excellent result, - well below the industry average and is the result of the training programmes conducted by the company for its staff. The result clearly reflects the effectiveness of the stringent credit standards and vigorous credit evaluation processes employed by the company in managing credit risk during the year.

Financial Highlights

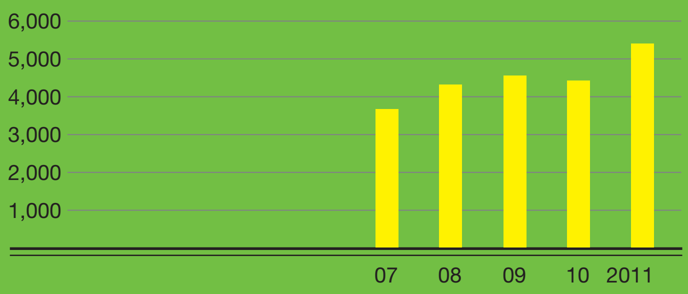
Total Assets
Rs. Mn



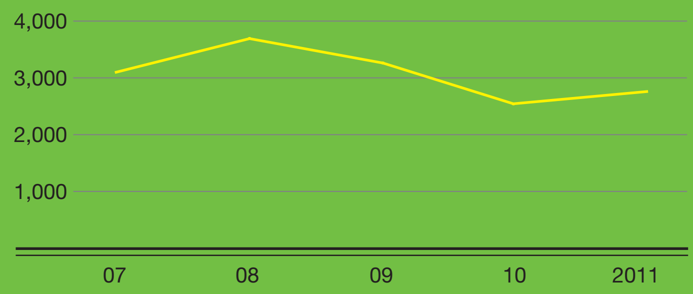
Term Deposits
Rs. Mn



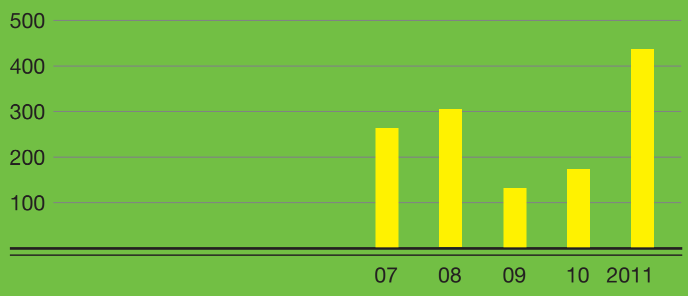
Lending Assets Portfolio
Rs. Mn



Long Term Debt
Rs. Mn

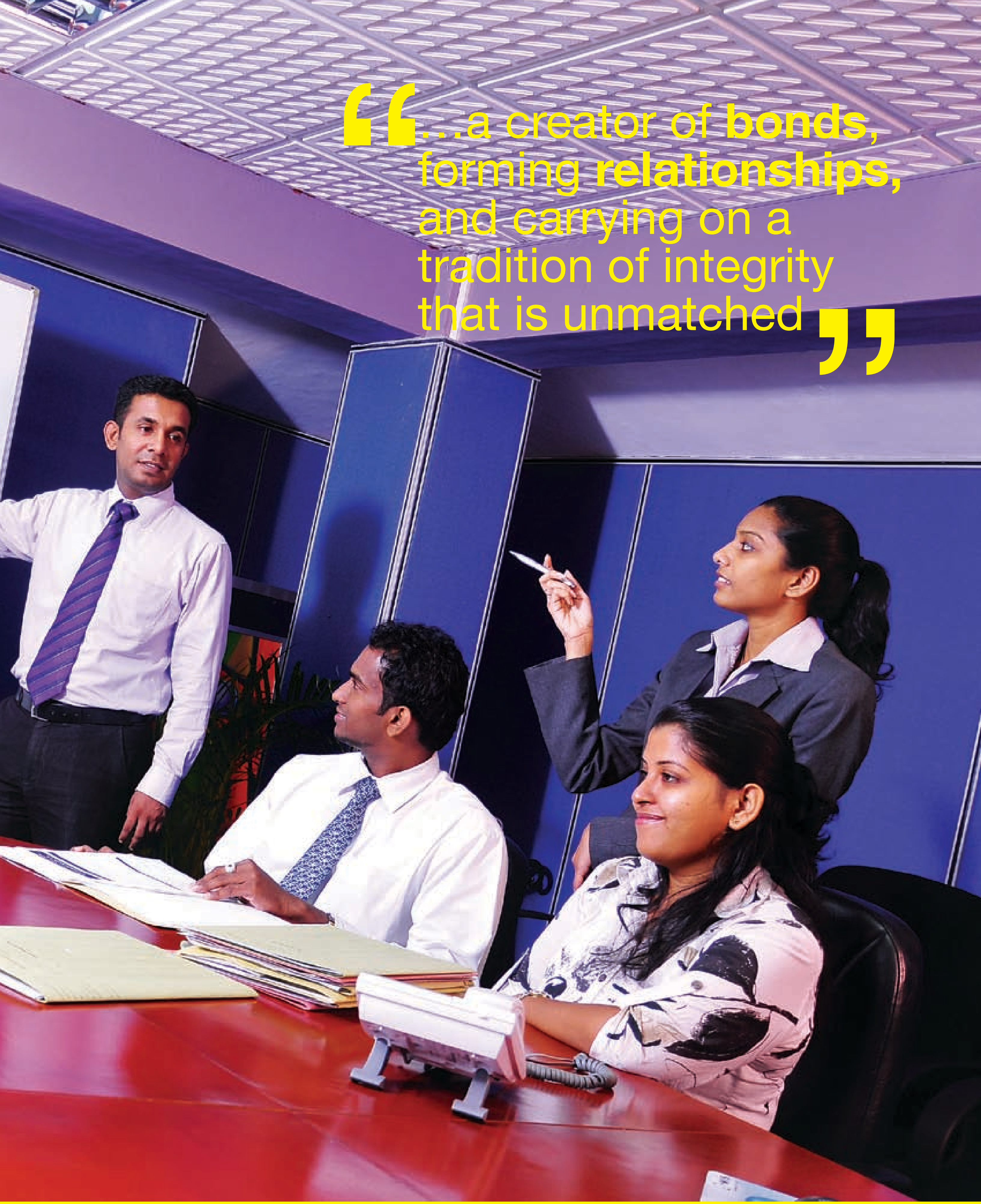


Profit before Taxation
Rs. Mn



in Rs. Million	**2011**	**2010**	**% Change**
Result for the year			
Total advances disbursed	**4,069**	2,361	72%
Total net flow of term deposits, CDs and accounts	**299**	696	(57%)
Net flow of Securitization	**(13)**	(973)	98.67%
Capital expenditure incurred	**103**	104	(1%)
Gross income	**1,703**	1,552	10%
Fund based income	**1,493**	1,452	3%
Fee based income	**210**	101	108%
Gross interest cost	**679**	846	(20%)
Interest on deposits	**267**	273	(2%)
Interest on securitization	**213**	393	(46%)
Interest on Debentures	**188**	151	25%
Other Interest Costs	**10**	28	(64%)
Profit before taxation	**435**	172	152%
Profit after taxation	**253**	55	361%
Gross dividends	**43**	36	19%
Financial Position at year end			
Shareholders' funds (Capital and reserves)	**1,115**	905	23%
Total deposit base (fixed deposits, CDs and Savings)	**2,393**	2,094	14%
Loan Securitization (book value)	**1,415**	1,428	(1%)
Advances portfolio	**5,402**	4,400	23%
Total Assets	**6,889**	5,886	17%
Information per ordinary Shares			
Earnings per Share (Rs.)	**4.75**	1.03	361%
Dividends per Share (Rs.)	**0.81**	0.68	19%
Net assets per Share (Rs.)	**20.89**	16.96	23%
Ratios			
Return on average shareholders' funds (%)	**43.13**	19.29	124%
Return on average gross assets (%)	**6.82**	2.96	130%
Interest Cost to income ratio	**45.50**	58.28	(22%)
Gross interest cover (times)	**1.64**	1.20	38%
Equity as a % of total assets	**16.19**	15.37	5%
Fitch Rating	**BBB+**	BBB+	

“...a creator of **bonds**, forming **relationships,** and carrying on a tradition of integrity that is unmatched”



In addition to the existing sources of income, we are currently working on developing other streams of income which we hope will boost our revenue in future years.

With the resurgence of the sector, the level of public confidence in the sector rose and resource mobilisation improved significantly. Depositors who had invested in alternative sectors during the preceding years returned with restored confidence to the RFC sector spurring the recovery process.

Chairman's Review

S. K. Wickremesinghe

Chairman

Chairman's Review

I have pleasure in presenting to you the Annual Report and Audited Accounts of the company for the financial year ended 31st March 2011.

The paragraphs that follow describe briefly the events of significance which occurred during the financial year ended 31st March 2011 as well as the results of the year and the outlook for the following year.

Significant events

As you are aware, the shares of the company were listed on the *Diri Savi* board of the Colombo Stock Exchange on 22nd March 2011. This was done primarily to comply with the requirement of the Central Bank of Sri Lanka which stipulated that all registered finance companies should list their shares on the stock exchange. The listing is of immense significance to our shareholders as well as to all other stakeholders of the company. The listing of a company's shares on a stock exchange enhances the inherent value of the shares as well as the company itself and gives greater assurance to everyone dealing with the company. The name of the company will shortly change to Senkadagala Finance PLC, when the procedures currently under way at the Department of the Registrar of Companies are completed.

During the year, the company obtained the approval of the Central Bank of Sri Lanka to open five new service centres. After a detailed survey of the socio-economic environment, it was decided that these branches would be set up in Ampara, Kaduruwela, Kalutara, Tangalle and Vavuniya. This extension of our branch network will help increase our business volumes in the future and will also help with fund mobilisation.

The company was also granted a license to operate as an authorised money changer by the Central Bank. This license permits the company to buy and sell foreign currency along with the other services which it currently provides to its customers. This is a new area of business for us and, initially, 6 branches of the company's network will engage in money changing. It is intended that, in time, all branches in our network will provide this service to our customers.

The Financial Services sector

Towards the end of the preceding financial year, the government of Sri Lanka reduced the duties applicable to the import of motor vehicles. This was a much needed move to initiate a recovery of both the motor trade as well as the financial services industry, which are dependent on each other. Importers of motor vehicles in the country sell up to 80% of their vehicles utilising the services of a financial services company and the financing of motor vehicles constitute more than 95% of the business of finance companies. The duty reduction had the desired effect and there was a revival in both industries during the year with considerable increases in business volumes.

The financial services industry generally and the registered finance company (RFC) sector in particular suffered from a general loss of public confidence in the course of the past two years due to the failure of some deposit-taking institutions, authorised and unauthorised. With the resurgence of the sector, the level of public confidence in the sector rose and resource mobilisation improved significantly. Depositors who had invested in alternative sectors during the preceding years returned with restored confidence to the RFC sector spurring the recovery process.

During the year, the Central Bank of Sri Lanka, despite considerable pressure at times, managed both the exchange rates and the interest rates in the market judiciously to ensure there were no sharp or sudden movements, making fund management a great deal easier. In general, interest rates reduced gradually over the year. The downward movement in interest rates created the opportunity for financial institutions which had retained flexibility in their funding to widen their margins in existing portfolios. This helped increase the profitability of the sector to a great extent.

The lower interest rates resulted in a sharp reduction in the cost of borrowing generally and prospective buyers of automobiles were not slow to proceed with their long delayed acquisitions of new vehicles.

The turnaround in the market has been quite remarkable and was very welcome since the financial services industry has had a difficult time in the past two years.

The Company's performance

Along with the rest of the industry, your company achieved high rates of growth in FY 2010/2011. New business executed in FY 2010/2011 grew by 72% in comparison to business transacted in the previous financial year.

Net income from operations was Rs. 1,023,637,002 topping the Rs. 1 billion mark for the first time in the company's history, with a growth of 45% during the year.

Profit before tax was Rs, 435,584,202 increasing by 152% from Rs. 172,613,839 in the previous year. After providing for tax, we are left with a profit for the year amounting to Rs. 253,370,362 which is an improvement of 361% over the previous year's comparable profit of Rs. 54,950,696.

With the resurgence of the sector, the level of public confidence in the sector rose and resource mobilisation improved significantly. Depositors who had invested in alternative sectors during the preceding years returned with restored confidence to the RFC sector spurring the recovery process.

Sri Lanka Economy – Outlook in brief

It is generally expected that the economy will continue to grow at or around the current rate of 8%. Barring some unforeseen shocks from external sources, this is very likely to happen, helped by the government's plans to continue investing in infrastructure and the benefits of the past investment made in infrastructure coming on stream to help boost economic growth. Though there has been some upheaval in the European economies as well as confusion in the US economy and in the Middle East, these issues now appear to be receding with the respective governments taking positive actions.

Registered Finance Company (RFC) sector

Locally, the tourism sector and the transport sector appear to have bright prospects for growth in the next few years and this is likely to create business opportunities for the company in the future.

The demand for motor vehicles has slowed, almost imperceptibly, in recent months. There is, however, a large portion of the market which still generates considerable demand, particularly for high-value vehicles to service the construction trade. The demand for smaller, more economical passenger vehicles continues to grow with many new models coming on the market.

It is unfortunate that the current tax structure makes it unprofitable for the leasing industry to lease plant and machinery. If it did not, many companies would engage in machinery leasing which would help boost growth particularly in the microenterprise sector which does not have access to finance other than through the RFCs. It is hoped that this structure will be changed in step with the other changes which the government will be making to streamline the tax structure in Sri Lanka.

The Year Forward

In the months since the end of the last financial year, the volume of new business has grown at a very high rate. While this rate of growth may not continue for long all indications are that the company will enjoy a year of unprecedented growth next year.

In addition to the existing sources of income, we are currently working on developing other streams of income which we hope will boost our revenue in future years. One of these is the business of money-changing which I have already touched on in this review.

Appreciation

On 1st August, we were pleased to welcome Mr Ajith Fernando, on to the board as a non-executive director. Mr. Fernando is the Group CEO of the Capital Alliance group of companies and is also Deputy Chairman of the Financial Ombudsman's Office.

My fellow directors have been a source of support and guidance to me throughout the year and I would like to take this opportunity to express my thanks to them.

I must also thank the Chief Executive Officer, the management and staff of the company for their hard work which has led to the excellent results achieved this year.

I would also like to place on record my appreciation of the assistance we have received during the year from the Director and the staff of the Department of Supervision of Non-bank Financial Institutions of the Central Bank of Sri Lanka.

S. K. Wickremesinghe
Chairman

Colombo
10th June 2011

The company decided to take advantage of the falling interest rates in the market and, at the same time, place our funding on a very secure footing by securitizing more of our receivables and borrowing against the security for longer terms.

The company also launched a concentrated marketing campaign in the second half of the year spearheaded by a national advertising campaign in the media. As a result of this campaign, there was a significant increase in new business conducted by the branches in the latter months of the year which, in turn, contributed considerably to the excellent results achieved during the year.

CEO's Review

Lakshman Balasuriya

MD/CEO

CEO's Review

The previous year was a good one for the industry and for the company. The current year has been even better so far. If this trend continues and all indications are that it will, we will have far better results by the end of the current year.

The financial year ended 31st March 2011 was a good year for the financial services industry and for the Company.

With the reduction effected by the government in import duties of motor vehicles, the demand for new motor vehicles which had been suppressed in the past three years as a result of the prohibitive rates of import duties, rose sharply and far out-stripped the available supply. Motor vehicle dealers had, up to that time, run down their inventories to very low levels and the available stocks were all snapped up in a very short period. There is usually a three month lag in deliveries from manufacturers and this held the market back until the new stocks arrived but, after that, the market has been growing each successive month.

While the rates of import duty and their impact on selling prices was the principal reason for the lack of demand for new motor vehicles, there were other events which took place that gave the market an additional boost. Chief among them was, of course, the end of the war. Another important factor was that the Central Bank of Sri Lanka managed the interest rates in the market in a manner that created conditions for easier fund management. No sudden spikes in rates were experienced during the year and rates gradually declined through the year. The lower rates of interest reduced borrowing costs and, consequently, the effective demand for new motor vehicles continued to grow. The accumulated demand for new motor vehicles which had been suppressed over the past three years created an unprecedented growth in the market and this growth was maintained throughout the year.

During the first two months of the year, the company launched a programme to re-train our staff in credit appraisal introducing new, unorthodox methods of evaluating credit. The training covered every staff member, from the most senior to the newest recruit and was conducted by a team of experienced resource persons who had played leading roles in other organisations in the field. The programme was well received by the staff. It helped motivate them and inspired new and innovative thinking. It also had a very beneficial effect on our financial results, with a significant reduction in non-performing assets.

Following upon the success of the training programme in credit appraisal, the management organised separate training programmes on specific aspects of the company's operations for the staff and this is now a continuing process in the company. It has helped invigorate the operational staff and has increased staff morale.

The company also launched a concentrated marketing campaign in the second half of the year spearheaded by a national advertising campaign in the media. This was followed up by a series of targeted sales campaigns conducted regionally by groups of branches. As a result of this campaign, there was a significant increase in new business conducted by the branches in the latter months of the year which, in turn, contributed considerably to the excellent results achieved during the year. New business conducted during the year, increased by 72% over the previous year. As the greater part of this new business was conducted in the latter half of the year, its impact on profit will mainly be carried forward to the following year.

The company's portfolio of receivables as at 31st March 2011 was Rs. 7.4 billion, reflecting an increase of 21% from Rs. 6.1 billion at the end of the previous year. In the previous year, our receivables experienced a decline of 7%.

Helped by the declining rates of interest in the market and the fact that a large proportion of our fund base was not tied down in long term debt, we were able to re-negotiate existing lines of credit as well as to negotiate new funding sources at lower costs. In doing so, however, a large proportion of the new funds obtained were tied to long term sources. As a result of these operations, our funding costs declined to 40% of our income, from 54% in the previous year. This was, by far, the most significant contributory factor to our increased profitability during the year.

Net income from operations rose 45% during the year to Rs. 1,023 million from Rs. 706 million in the previous year.

Personnel costs incurred during the year amounted to Rs. 135 million compared to Rs. 115 million in the previous year.

Personnel costs were equivalent to 2% of the portfolio of receivables in both years. This is significantly lower than accepted levels in the industry and demonstrates both high productivity and commitment among our staff. Selling expenses incurred during the year amounted to Rs. 108 million, increased from Rs. 89 million in the previous year. As in the previous year, however, selling expenses remained at 6% of total income, in spite of the marketing campaign launched during the latter half of the year, clearly demonstrating that the increased selling cost paid for itself by generating proportionately increased revenues. Total operating expenses incurred during the year was Rs. 523 million compared to Rs. 444 million in the previous year, growing marginally from 29% of total income to 31%.

After deduction of all expenses, we had a profit before providing for possible loan losses and taxes amounting to Rs. 500 million. This is an increase of 91% over the profit before loan losses and taxes in the previous year, which was Rs. 261 million.

As I mentioned earlier in this review, the re-training of staff in credit evaluation has had very significant positive impacts on our results this year. One of these is that the need to make provision for loan losses has dropped considerably. We provided a sum of Rs. 64 million (i.e., a drop of 27% compared to Rs. 89 million in FY 2009/2010) for possible loan losses arriving at a profit before tax of Rs. 435 million. The profit before tax in the previous year was Rs. 172 million and the current year's profit is an increase of 152% on this figure.

Out of the current year's profit, we have a charge of Rs. 85 million in respect of Value Added Tax on Financial Services. This tax is only applicable to hire-purchase transactions. The new business we executed during the year had a higher than anticipated component of hire-purchase transactions in our sales mix resulting in a large increase in VAT on Financial Services payable during the year, - equivalent to 152% of the charge in the previous year. Since hire purchase transactions do not qualify for depreciation, we also had less depreciation allowances this year to offset taxes. Consequently, we made an increased provision for tax on our profit, amounting to Rs. 96 million leaving us with a net profit for the year of Rs. 253 million, which still compares favorably to Rs. 54 million earned in the year ended 31st March 2010. It reflects an increase of 361%.

Having paid out interim dividends amounting in total to Rs. 43 million, the directors transferred Rs. 13.5 million to the statutory reserve, Rs. 16.75 million to the investment reserve and Rs. 145 million to the general reserve making the total transfer to reserves equal to Rs. 175 million and retained Rs. 34 million out of the profit for the year, which when set off against the negative balance at the commencement of the year, leaves a balance of Rs. 1.7 million at the end of the financial year.

During the year, your directors utilised the sum of Rs. 320 million out of the general reserve to make a bonus issue of three shares for every two held by the shareholders. Consequently, the stated capital of the company now stands at Rs. 533 million while the general reserve is Rs. 462 million. Together with the statutory reserve and the retained profit, the company's equity stood at a total of Rs. 1,115 million on 31st March 2011 which is a growth of 23% during the year.

The total assets of the company stood at Rs. 6.8 billion on 31st March 2011, up by 17% from Rs. 5.8 billion on 31st March of the previous year.

During the year, we had a steady inflow of funds from new depositors resulting in a 14% increase of public deposits during the year which stood at Rs. 2.3 billion on 31st March 2011, compared to Rs. 2.0 billion as at 31st March of the previous year.

As I mentioned previously in this review, the company decided to take advantage of the falling interest rates in the market and, at the same time, place our funding on a very secure footing by securitizing more of our receivables and borrowing against the security for longer terms. We have always placed a greater reliance on long term rather than on short term debt though this does result in a slightly higher cost of operational funds. We commenced the year with a short to long term borrowing mix of 46:54 and, despite the increase in public deposits during the course of the year, ended the year with a mix of 47:53 by converting our borrowing to longer terms.

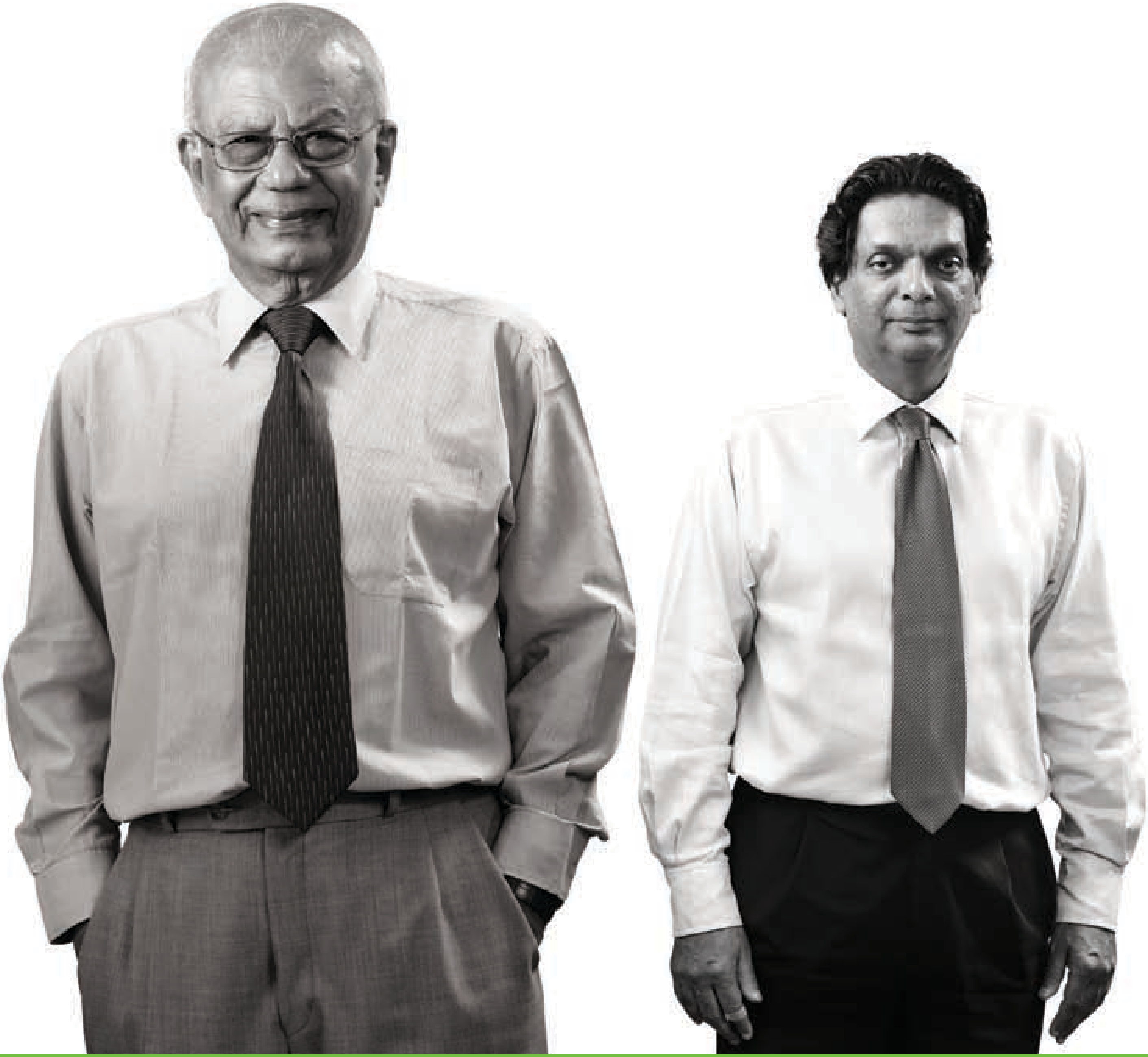
While, as I said at the commencement, the previous year was a good one for the industry and for the company, the current year has been even better so far. If this trend continues and all indications are that it will, we will have far better results by the end of the current year. In order that we could be better positioned to grasp the opportunities available in the market, we are increasing our outreach by setting up more service centres for our customers. At least five more will be set up during this year.

We are also looking into diversifying our income streams so as to reduce our reliance on existing sources. The groundwork for these developments is already in place and we expect they will come on stream before the end of the year.

Lakshman Balasuriya
Managing Director/Chief Executive Officer

Colombo
10th June 2011

Board of Directors



Left to Right:
S. K. Wickremesinghe - *Chairman,*
L. Balasuriya - *Managing Director/Chief Executive Officer*
Dr. A. Balasuriya - *Director*
Dr. M. Balasuriya - *Director*
Ajith Fernando - *Director*

Not in photograph
Mrs. L. Fernando - *Director*
G. D. C. L. S. Herath - *Director*
R. Balasuriya - *Director*
Dr. (Mrs.) G. M. Mohan - *Director*

Board of Directors Contd.

S. K. Wickremesinghe
Chairman
B.Sc. (Cey.)
(Appointed w.e.f. 1st April 2008)
Mr. Wickremesinghe is a well-known business leader, who has in the past chaired the boards of several blue-chip companies including National Development Bank, Commercial Bank of Ceylon, Ceylon Tobacco Company, Chemical Industries (Colombo), and SriLankan Airlines. He was also Sri Lanka's High Commissioner to the UK from 1995 to 1999.

L. Balasuriya
Managing Director/Chief Executive Officer
B.Sc. (Lond.), M.Sc. (Lancaster)
Mr. Balasuriya is a director of Senkadagala Hotels Ltd, E.W. Balasuriya & Co. (Pvt) Ltd. and Thompsons Beach Hotels Ltd. He has over 27 years of experience in finance, hotels and other commercial fields.

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

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

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

Ajith Fernando

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 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.

G. D. C. L. S. Herath

Director

B.A. (Cey.)

Mr. Herath is a distinguished public servant having served for many years as the Inspector General of Police of Sri Lanka. He was later appointed the Secretary of Defence. From 1994 to 2004, Mr. Herath served as Chairman of the National Savings Bank of Sri Lanka.

R. Balasuriya

Director

B.Sc. (E. Ang.), M.Sc. (E. Ang.)

Mr. Balasuriya is a director of Senkadagala Hotels Ltd, E. W. Balasuriya & Co. (Pvt) Ltd and Thompsons Beach Hotels Ltd. He has over 25 years' experience in finance and other related fields.

Dr. (Mrs.) G. M. Mohan

Director

M.B.B.S.

Dr. Madan Mohan is an experienced medical consultant practising in the U.S.A. She is also a director of Senkadagala Hotels Ltd, E. W. Balasuriya & Co. (Pvt) Ltd and Thompsons Beach Hotels Ltd.

Corporate Team

Left to Right Standing:
Keerthi Aturupana *(Assistant General Manager - Accounts)*, Jagath Jayatilake *(Assistant General Manager - Operations)*

Left to Right Seated:
Lalith J. de Alwis *(Deputy Chief Executive Officer)*, Timothy De Silva *(Assistant General Manager - Information Technology)*, Pradeep Ikiriwatte *(General Manager)*.

Management Team

Left to Right Standing:
Mahesha Thrimanne *(Manager - Compliance & Legal)*, Vajira Bandara *(Manager - Recoveries)*, Denzil Hettiarachchi *(Chief Manager - Credit)*

Left to Right Seated:
Shankar Supramaniam *(Manager - Treasury)*, Raj Fernando *(Manager - Personnel & Administration),* M. M. Ariyaratne *(Manager - Recoveries),* O. Sethupathi *(Manager - Deposits)*

Not in photograph
Isha Dias *(Manager - Deposits)*, Nandalal Rasingolla *(Manager - Information Technology)*

Left to Right Standing:
Roshan Jayasinghe *(Regional Manager)*, Ravindra Dasanayake *(Regional Manager)*, Shamila Mendis *(Regional Manager)*, Sisira Herath *(Manager - Legal)*

Left to Right Seated:
Krishnaveni Kumarakurubaran *(Senior Secretary)*, Nihal Karunaratne *(Chief Manager - Recoveries)*, Kumudu Rajapaksa *(Chief Financial Officer),* Thushara Ranathunga *(Internal Auditor)*


"...sustainable, resilient and adaptable; ready to take on challenges in an ever changing world"

Management Discussion and Analysis

Global Economic Conditions

Global economic activity in the latter part of 2010 turned out to be stronger than expected. The year 2010 witnessed a growth rebound for the world economy to 5% from a negative 0.8% in 2009. However, the uneven pace of growth across regions and uncertainty about the durability of recovery in the advanced economies persist. The positive sentiments arising from the growth momentum in major advanced economies was neutralised by the persistence of high unemployment and downside risks seen across various markets. The combination of these developments resulted in additional policy stimulus. While unprecedented monetary and fiscal stimulus helped to push growth in the US to its pre-crisis levels in the year 2010, other advanced economies faced a difficult choice between delaying fiscal exit to support growth and early exit to contain sovereign debt concerns. The risk of sovereign debt crisis spreading from the Euro-zone periphery has resurfaced in recent months.

On the other hand, in the Middle-East and North Africa, the political turmoil in the region has had a notable impact on activity.

The global financial crisis is no longer the major force dictating the pace of economic activity in Emerging Market Economies. Most Emerging Market Economies have regained near full-capacity activity levels. Inflation and overheating risks have, however, prompted monetary tightening at varied pace. Commodity prices also firmed up, largely reflecting easy liquidity conditions in advanced economies, as well as growing demand pressures in Emerging Market Economies.

Overall, global growths for 2011 is projected to be lower than 2010, before picking up in each of 2012 and 2013. The slowdown for high-income countries mainly reflects weak growth in Japan due to the after-effects of the earthquake and tsunami.

For developing countries also growth is projected to decline between 2010 and 2012 before firming somewhat in 2013, reflecting an end to bounce-back factors that served to boost growth in 2010 and the tightening of monetary and fiscal policies as capacity constraints become increasingly binding.

Sri Lankan Economic Conditions

The year has begun with much economic optimism, with a substantial recovery in private sector credit growth and investor confidence after the end of the civil war. In 2010, the Sri Lankan economy grew by an impressive 8% and the projection of growth for 2011 is 8.5% to 9%. If this were to be realised and sustained, then the economy is on track to achieve its short-term and medium-term targets.

Growth momentum was propelled by broad-based growth across Industry subsectors. Growth in Services, both government and private services, remained strong and a strong growth in tourist arrivals and sustained activity in tourism-related segments have helped the economy to record its highest growth rates in the recent past.

Inflation, as measured by the Colombo Consumer Price Index (CCPI) was broadly stable in the last year. Inflationary pressures have been subdued due to moderate increases in imported commodity prices and benign demand pressures in the domestic economy. Inflation is expected to remain within single digit level in the next year. The unemployment rate was also at historically low levels.

The overall budget deficit continues to decline and is expected to decline further to around 5 per-cent of GDP in the medium term.

After the end of the war, CSE indexes increased rapidly creating new records. Market capitalisation at the Colombo Stock Exchange reached record highs showing investor confidence in the country's future prospects. CSE was one of the best performing stock exchanges in the world in 2010.

Finance sector developments and outlook

Both bank and non-bank financial institutions displayed impressive performance in 2010, reflecting the increase in financial transactions to facilitate the growing economy.

After seeing liquidity problems in year 2009, registered finance companies (RFC) recovered in 2010. At the end of 2010, the total number of registered finance companies increased to 37, while their branch network increased significantly from 98 branches to 376 branches. The asset base of RFCs increased by 26% in 2010 and the total pre-tax profit of all RFCs increased to LKR 2.2 billion from a loss of LKR 1.2 billion in the year earlier mainly due to the decline in interest rates and increased economic activity.

The RFCs' finance leasing and hire-purchase business consists mainly of financing of purchases of new motor vehicles. There is, therefore, a close correlation between the automobile market in Sri Lanka and the market for the financial services of RFCs in Sri Lanka.

In the latter part of the previous financial year, the government reduced the import duty on new motor vehicles. However, the effect of this reduction was felt only after 3 months which is the time frame necessary to effect new deliveries to the market. The suppressed effective demand for new motor vehicles burst upon the market causing a huge surge in demand for new vehicles which automobile dealers were able to cater to with the greatest difficulty.

This surge in demand was also seen in the demand for financial services of the RFCs in FY 2010/2011. Demand was high throughout the year and continued to grow month-on-month. This trend has extended in to the first half of FY 2011/2012.

A further boost to the market has been the effective management of interest rates by the Central Bank of Sri Lanka which has brought about a gradual reduction of interest rates. RFCs passed this benefit on to the consumer by reducing the rates at which new business was executed. This added a further impetus to the market and demand continued to remain high fuelled by the lower cost of borrowing to purchase new motor vehicles.

Business Review

The Company continued to gain public confidence and strengthened its position in the market through implementing strategic initiatives set in the beginning of the year. With a clear focus on leasing and hire purchase business the company was able to withstand intensified competition from its peers.

During the last year, the company took its achievements to even greater heights by successfully completing its listing on the Colombo Stock Exchange by listing 53.3 million ordinary voting shares on the *Diri Savi* board. In the move towards going public, the company officially changed its name from Senkadagala Finance Company Limited to Senkadagala Finance Company PLC.

With the huge surge in demand, the company felt it was an appropriate time to introduce more stringent standards of credit in its operations and, more importantly, more effective and practical measures of credit evaluation. Accordingly, the company embarked on a crash program to re-train its entire staff in credit evaluation. The programme was conducted in-house by outside resources. It was very well received by the staff and a great deal of interest and enthusiasm was evident throughout the execution of the programme. The exchange of ideas and practical experiences were very useful in helping to restructure and to refine our working processes.

The beneficial effect of the strategy is clearly evident in the improved performance of the company's portfolio and the sharp reduction in our NPA ratio at the end of the year.

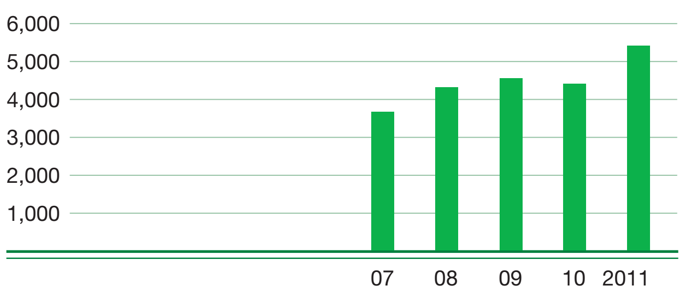
The training has in itself acted to boost the morale of our staff as it was continued through the year. Staff at all levels received continuous training through the year and skill levels were upgraded resulting in improved service quality while the market continued to provide us with the opportunity to expand our business. It is intended that this continuous training process will be a permanent fixture in future years as well.

The company maintained its focus strategy in hire purchase and leasing business without overly diversifying in to other areas and during the year the company aggressively undertook a marketing campaign to increase its hire purchase and lease portfolio to make use of the reduction of import duty on vehicles.

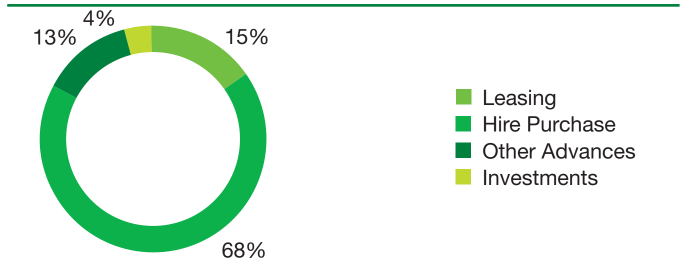
During the year, the company's loans and advances grew by an impressive 23% reflecting the favorable macro and the micro conditions that prevailed during the period.

Management Discussion and Analysis Contd.

Growth in Loans and Advances
Rs. Mn



Interest Income Distribution
%



Hire Purchase

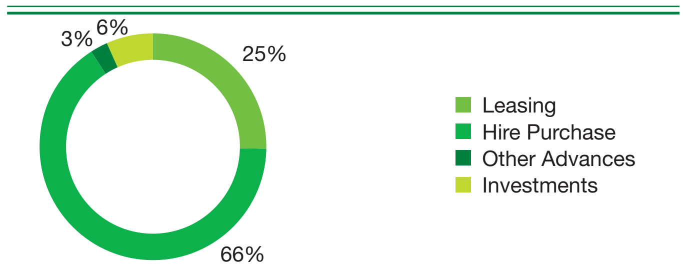
Hire purchase business remained the main contributor to the company's revenue and the portfolio grew by an impressive 18% to Rs. 3.8 billion from Rs. 3.2 billion. The interest income from the hire purchase portfolio grew by 15% in the year 2010/2011.

Leasing

The leasing portfolio saw a phenomenal growth of more than 60% to Rs. 1.46 billion reflecting the effects of reduced taxes on importing brand new and reconditioned vehicles and the effectiveness of the marketing campaign undertaken by the company.

While leasing and hire purchase portfolios contributed to 83% of the total revenue of the company, the hire purchase portfolio generates relatively higher interest income as a percentage of the total portfolio.

Interest Earning Asset Distribution
%



Recovery and NPA Management

The company continued its journey in improving its performance in the area of NPA management in the year 2010-11 as well. Reduction of NPAs is given utmost priority at the company and this function has steadily grown in importance.

Each branch was given its own NPA target for the year concerned and they were aggressively monitored. This combined with the effective training program conducted during the year contributed significantly to reduce the company's NPA ratio level well below the industry average.

The following table shows the management of NPAs during the last 5 years:

	2007	2008	2009	2010	2011
NPL Ratios	6.35%	6.25%	3.53%	4.32%	2.56%

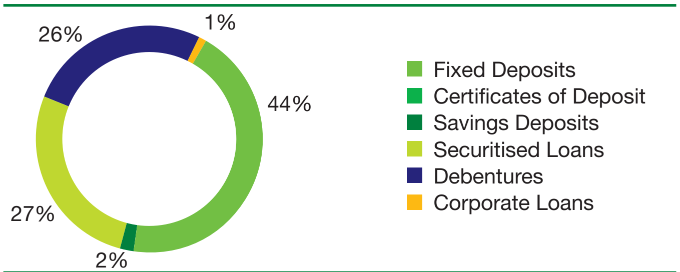
Funding

The company's main sources of funds are fixed deposits, securitised loans and debentures, apart from shareholders' equity.

Fixed deposits accounted for 45% of non-equity funding and securitised loans and debentures together formed 53% of non-equity funding.

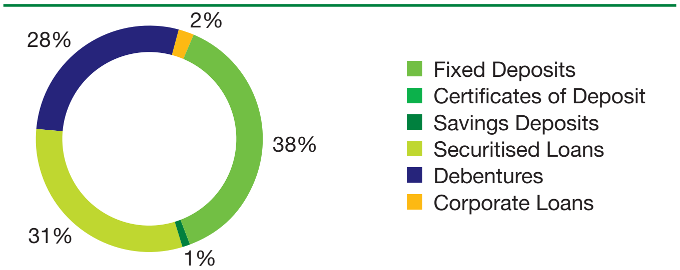
Total equity of the company stood at 17.8% of the total funding as at 31st March 2011.

Interest Bearing Liabilities Distribution
%



The distribution of the interest expense from various sources is depicted below.

Interest Expense Distribution
%



The company has funded its loan growth primarily through securitisations, and thereby limited the asset liability mismatch and in turn contained liquidity risk.

Capital Adequacy

The company has always maintained an adequate capital base. For the financial year 2010-11, the company recorded a core capital ratio of 17.7%, more than three times the minimum statutory requirement of 5%.

The company's Total Risk Weighted Capital Ratio of 17.7% was also well above the minimum statutory requirement of 10%.

Branch Network and Expansion

The company has a geographically well-spread branch network in the country. The company had 30 branches throughout the island at the end of March 2011. Even though no new branches were added to the network in the year 2010-11, five new service centers were added to the company's network increasing its reach to its target market further.

Risk Management and Control

The recognition and management of risk is at the core of the business of the company. Risk management, to the company, does not mean minimising its risk; rather, the goal of risk management is to optimise the risk-reward trade – off for the company. With this perspective, the company has developed a robust and integrated risk management framework to ensure that the company accepts only those risks that can be tailored to fall within the company's defined range and can be adequately compensated in terms of return .

The process of risk management consisting of various stages i.e. identification, measurement, monitoring and control, is covered in its organisational policies.

The company is also preparing for migration to more sophisticated approaches for enhancing the effectiveness and robustness of risk management systems.

Information Systems

The company has been operating with a fully computerized IT system which encompasses all the functional modules. This includes leasing, recoveries, funding and insurance activities along with an online general ledger. Apart from the core business, human-resource management functions and the payroll process are also fully computerized.

The effective use of IT has been the driving force behind the company's cost and operational efficiencies. The company's proprietary IT system enables prompt collection of receivables and cost management, which have been translating into better financial performance. The system was developed in-house and is being continuously fine-tuned.

Financial Review

Financial Highlights

The company recorded an operating profit of Rs. 500 million, (growth of 91% over previous year). Net Profit stood at Rs. 253 million, recording a phenomenal growth of 361%.

Net interest income grew by 34.3% on the backdrop of rise in loans and advances by 22.8% (from Rs. 4,400 million to Rs. 5,401 million). Other operating income increased by 108.5% and covered 40.1% of operating expenses as against 22.6% in the previous year.

The key financial performance of Senkadagala Finance Company PLC for the year 2010-11 is summarised below:

	2010-11	2009-10	Change
Interest Income (Rs. millions)	1,493	1,452	2.9%
Interest expenses (Rs. millions)	679	846	-19.7%
Net interest income (Rs. millions)	814	606	34.3%
Profit for the year (Rs. millions)	253	55	361.1%
Loans and advances (Rs. millions)	5,402	4,400	22.8%
Total assets (Rs. millions)	6,889	5,886	17.0%
Return on average shareholders' funds (%)	43.13	19.29	123.6%
Return on average gross assets (%)	6.82	2.96	130.4%
Net Interest income ratio (%)	54.50	41.74	30.6%
Net Interest margin (%)	15.52	12.75	21.7%

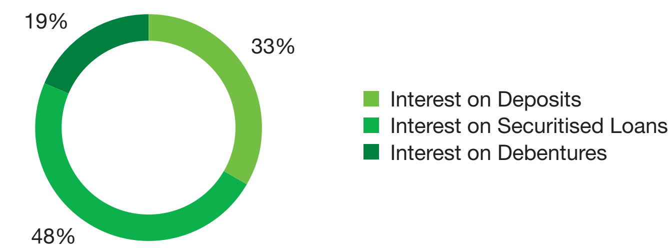
Interest Income

Even though loans and advances grew by 22.8% during the year, interest income only increased by 2.9% reflecting the effect of lower market interest rates which prevailed in the period under review. This reflects a reduction in the average yield from the company's interest earning assets compared to the previous year.

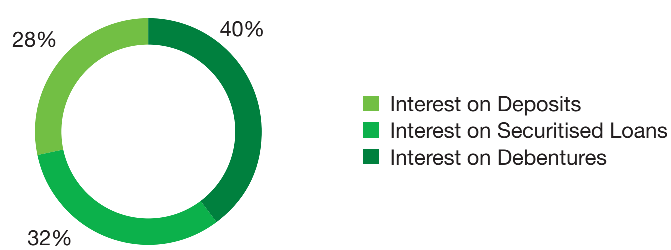
Interest Expense

Senkadagala Finance Company PLC was able to grow its deposit base by 14% to Rs. 2,393 million and this in turn helped the company in reducing its interest expenses by 19.7%. This in turn resulted in a 34.3% increase in the net interest income for the period. Despite the impressive growth in the deposit base, the interest paid on the deposits reduced by 2%. The securitised loan balance was stable when compared to the previous year's figure. However, the total interest cost paid for securitised loans reduced significantly by 46%. The outstanding balance of debentures increased by 22% while interest paid on debentures increased by 25%.

2009-10
%

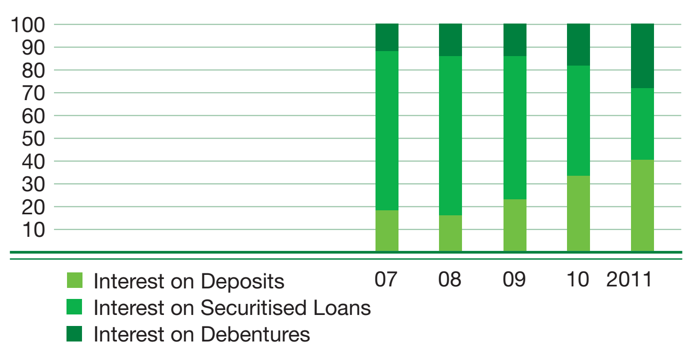


2010-11
%



When a five year time horizon is considered, a clear shift in the interest expense mix can be observed. Over time, interest on deposits and debentures has increased while interest paid on securitised loans has decreased.

Interest Expense
%

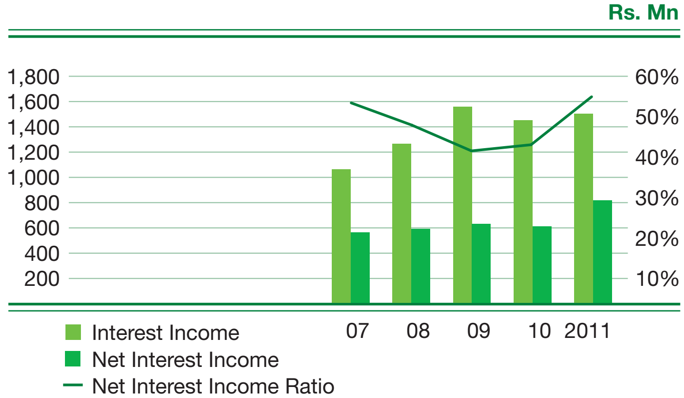


Net Interest Income Ratio

Net interest income ratio as measured by net interest income as a percentage of total interest income improved significantly from 41.74% to 54.50%, reflecting the improved efficiency of the company's operations and effectiveness of the training programs that were conducted.

As can be seen from the graph below, there was a marked improvement in the net interest income ratio in the current year when compared with the last two years.

Interest Expense
Rs. Mn



Other Operating Income

There was a significant improvement of the other operating income in the year 2010-11. Other operating income grew by an impressive 108.5% from Rs. 101 Million to Rs. 210 Million. This was mainly due to gains from bad debt recovery and capital gains on equity investments.

Operating Expenses

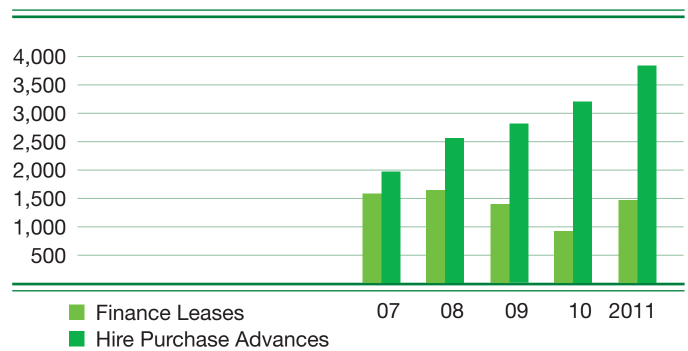
	2010-11	2009-10
Personnel costs (Rs. million)	135.24	115.92
Depreciation of property, plant and equipment (Rs. million)	73.79	72.55
Amortization of intangible assets (Rs. million)	6.86	5.94
Directors' emoluments (Rs. million)	6.82	3.21
Other operating expenses (Rs. million)	300.52	247.00
Operating expenses	**523.24**	**444.63**
Operating expenses/Interest income	**35.04%**	**30.63%**

Operating expenses increased slightly from Rs. 444.63 million from a year earlier to Rs. 523.24 million in the year 2010-11. Profits from operations increased by 91.1% while the profit after tax increased by a phenomenal 361.1%.

Loans and Advances

Of the Rs.1.1 billion growth in loans and advances (22.8% increase from the previous year), Rs. 551 million came from the leasing portfolio while Rs. 582 million came from the hire purchase portfolio.

Loans and Advances
Rs. Mn

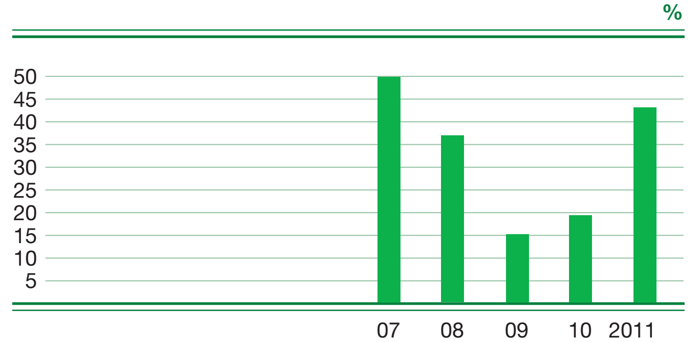


It is evident from the above graph that there has been a steady growth in the hire purchase portfolio during the last five years and the leasing portfolio has also performed well except for the year 2010.

Profitability

During the year 2010-11, there was a remarkable improvement in the return on average shareholder funds. The ratio for 2010-11 stood at 43.13% well above the previous year's 19.29% and the industry average.

Profitability
%



Financial Review Contd.

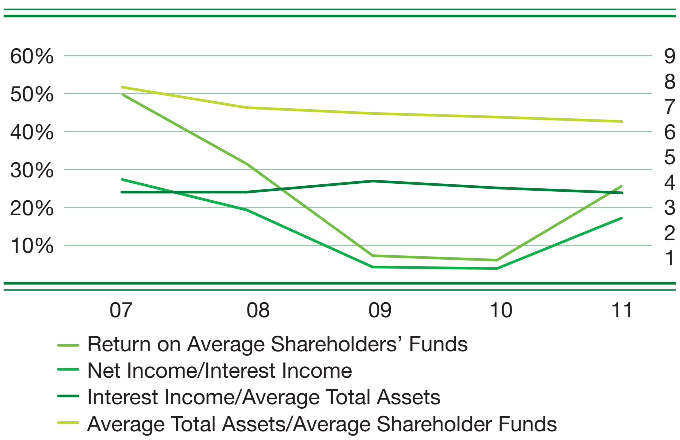
Return on Equity can be decomposed in to multiplication of three ratios to better understand the drivers of the movement of return on average shareholder funds.

Return on average shareholder funds is equal to the multiplication of the following three ratios.

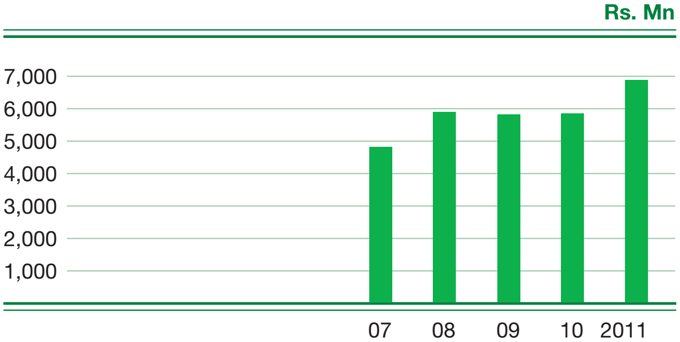
1. Net Income/Interest Income
2. Interest Income/Average Total Assets
3. Average Total Assets/Average Shareholder Funds

As can be seen from the graph below, the return on equity has been mainly driven by the improvement in the net income ratio (Net income/Interest income).

Interest Expense
Rs. Mn

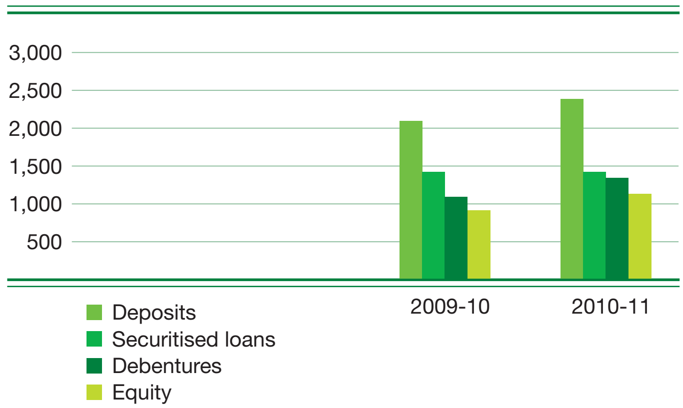


Total Assets
Rs. Mn



Average total assets of the company have been increasing gradually in the last five years.

Funding
Rs. Mn



The growth of the asset base was mainly funded by the increase in the deposit base while debentures and equity also contributed. Securitised loan balances were stable from the previous year.

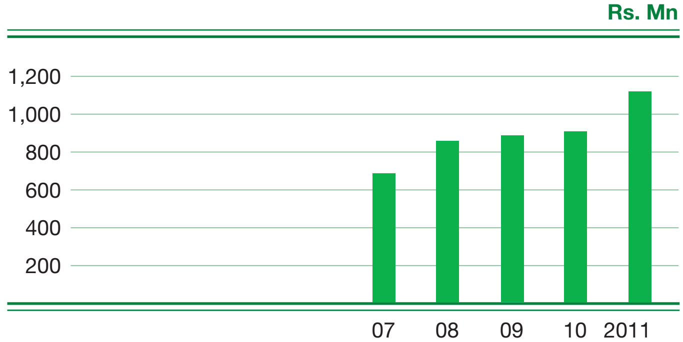
Dividend

A dividend at the rate of Rs. 0.81 per share for the year has been declared. This is a 19% increase from the previous year's Rs. 0.68 per share.

Capital Adequacy

The net worth of the company in FY 2010-11 has increased to Rs. 1,115 million from Rs. 905 million. In November 2010, in a bonus issue, company issued three shares for every two shares held. This increased the company's ordinary shares by 32,020,800 to 53,368,000.

Capital Adequacy
Rs. Mn



As can be seen from the graph above, the net worth of the company has been increasing at an impressive rate over the last five years.

Capital adequacy ratios indicate the adequacy of the company's aggregate capital in relation to the risks, which arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. The Central Bank of Sri Lanka has prescribed the minimum statutory limit for the capital adequacy in an attempt to ensure that a minimum capital, commensurate with risks assumed by the company, is maintained as a buffer to absorb foreseeable future credit, market and operational losses. In accordance with regulatory guidelines, the company's Capital Adequacy Ratio was at 17.66%, which was significantly higher than the regulatory requirement of 5%. This was also a marginal improvement from the previous year.

Details of Capital Adequacy are shown below:

	2010-11	2009-10
Core Capital (Tier 1) Rs. mn.	1,098.29	904.9
Total Capital Base (Tier 2) Rs. mn.	1,098.29	904.9
Core Capital Ratio.	17.66%	17.49%
Total Risk Weighted Capital Ratio	17.66%	17.49%
Capital Funds to Total Deposit Ratio	45.9%	43.2%

Capital funds to total deposits ratio was also more than 8 times the minimum regulatory requirement.

Asset Quality

	2010-11	2009-10
Total Advances Rs. Mn	5,678.18	4,686.00
Gross Non-Performing Advances Rs. Mn	145.10	202.23
Net Non-Performing Advances Rs. Mn	63.41	135.78
Gross Non-Performing Advances Ratio Rs. Mn	2.56%	4.32%
Net Non-Performing Advances Ratio Rs. Mn	1.12%	2.90%

The past year saw a marginal reduction in the net non-performing advances ratio from 2.9% to 1.12%. The gross non-performing advances ratio improved significantly from 4.32% to 2.56%. These statistics are well below the industry average and reflects the effectiveness of policies and procedures employed by Senkadagala Finance Company PLC in managing credit risk.

Corporate
Social Responsibility

Our Responsibility

We define corporate social responsibility strategically. Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm.

The term “corporate social responsibility” is often used interchangeably with corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, triple-bottom line, corporate ethics, and in some cases corporate governance. Though these terms are different, they all point in the same direction. There has been a sharp escalation in the social roles which corporations are expected to play. Companies are facing new demands to engage in public-private partnerships and are under growing pressure to be accountable not only to shareholders, but also to stakeholders such as employees, consumers and local communities.

Our Staff

Here at Senkadagala Finance Company PLC, one of our greatest assets is our team and we are on a constant mission to ensure that they are performing at their peak, satisfied and recognized for their input and success. It is with this in mind that we have many programmes that involve recognition and succession planning and following through with HR practices which is high priority within the company. We also believe in staff career development, staff improvement, evaluation of achievements, rewards and most importantly, health and safety which is covered by the Suwa Sampatha health insurance scheme.

Our Projects

Started by the Sisters of the Good Shepherd Convent Kotahena more than 30 years ago, the ‘Kusum Sevana’ Day care/ Pre School on Bloemendhal Road in Colombo 15 was created in order to cater to children who did not have access to proper food or education. Mostly from broken or negligent families, the children would call the street their home. This institution was a means of caring for and protecting those

Corporate Social Responsibility Contd.

that do not have the means to look after themselves. The school survives mainly on donations received from charitable organisations and companies and individuals. The school currently has 130 students, for whom we have provided for and continue to be a source of assistance.

The Meemure Kanishta Vidyalaya is located in the Knuckles Mountain Range, in the Hunnasgiriya area. Situated in an impoverished village of about 300 individuals for whom farming and agriculture is the main source of livelihood, the area is practically cut off from civilization which has forced the village to be self sufficient. Adding to the burden is the lack of proper roadways resulting in villagers having to trek through the thick jungle in order to access different areas. The school in itself has only 23 students and is unable to provide education for these students beyond the 5th Grade. Due to the isolated nature of this area, villagers often migrate to other parts of the country in search of jobs and a better life. Senkadagala Finance Company PLC has provided school uniforms, clothes, stationery and shoes to the students in order to enhance their education. We also built a reliable piping facility in order to provide clean water for the students.

Human
Resource Management

Human Resource Management (HRM) is the function within an organisation that focuses on recruitment of, management of, and providing direction for the people who work in the organisation. Human Resource Management can also be performed by line managers.

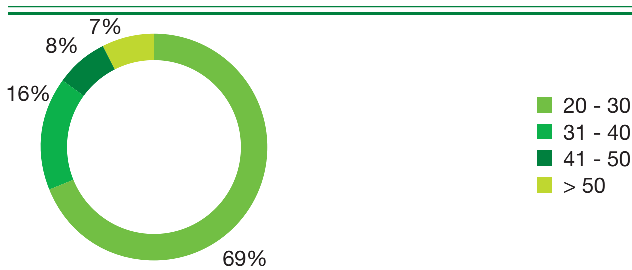
Human Resource Management is the organisational function that deals with issues related to people such as compensation, hiring, performance management, organisational development, safety, wellness, benefits, employee motivation, communication, administration and training.

Human Resource Management is also a strategic and comprehensive approach to managing people and the workplace culture and environment. At Senkadagala Finance Company PLC, we believe that effective HRM enables employees to contribute effectively and productively to the overall company direction and the accomplishment of the organisation's goals and objectives.

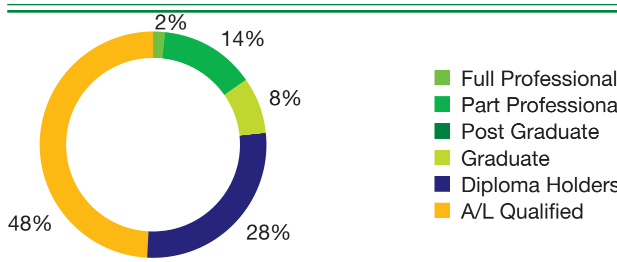
As times change, we have realised that Human Resource Management is moving away from traditional means. HRM is now expected to add value to the strategic utilisation of employees and that employee programs impact the business in measurable ways. The new role of HRM involves strategic direction and HRM metrics and measurements to demonstrate value.

Staff Gender
%

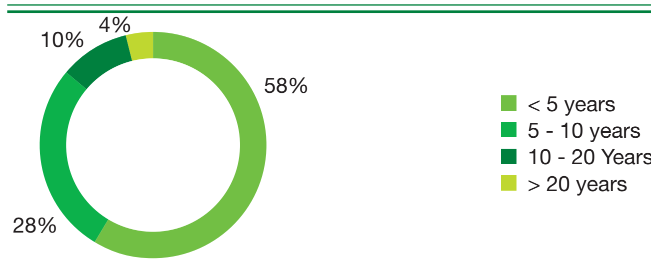
Staff Age Analysis
%



Analysis by Qualification
%



Analysis by Years in Service
%



HRM at SFCL

Training and Development

Training and development is an ongoing process at Senkadagala Finance Company PLC. Our state-of-the-art training centre in Wattala has the ability to accommodate 30 individuals at any given time. By ensuring that our staff has the access to the most comprehensive and latest methods, we are creating a team that is better prepared to take on the challenges that come with working for a leading financial institution.

Training and development occurs based on the following premises and a schedule is created every year by the staff.

- to train and impart knowledge on a specific topic e.g. credit evaluation and recovery processes
- as part of our continuing professional development
- when a performance appraisal dictates that performance improvement is required in particular aspect
- for the operation of a new performance management system
- as part of succession planning to help an employee be eligible for a planned role change in the organisation.

Human Resource Management Contd.

Selection and Recruitment

In today's rapidly changing business environment, a well defined recruitment policy is necessary for organisations to respond to its human resource requirements in time. Therefore, it is important to have a clear and concise recruitment policy in place, which can be executed effectively to recruit the best talent pool for the selection of the right candidate at the right place quickly. Creating a suitable recruitment policy is the first step in the efficient hiring process. A clear and concise recruitment policy helps ensure a sound recruitment process.

The recruitment policy of our Company

- Focuses on recruiting the best potential people
- Ensures that every applicant and employee is treated equally with dignity and respect
- Has an unbiased policy.
- To aid and encourage employees in realising their full potential.
- Is based on transparent, task-oriented and merit-based selection.
- Considers during selection, the factors that suit organisational needs.
- Optimises manpower at the time of selection.
- Defines the competent authority to approve each selection.
- Abides by relevant public policy and legislation on hiring and employment relationship.
- Integrates employee needs with the organisational needs.

Staff welfare and Employee Relations

As people are our most valuable asset, the health and well being of our employees is one of the most important aspects of our HR programme. Healthy employees in turn are happy workers and at Senkadagala Finance Company PLC, we ensure that our team is looked after and this is one of our greatest investments. Thereby, we have pledged to create a safe and secure workplace in which employees are able to reach their full potential.

TRAINING PROGRAMME SCHEDULE from 01st April 2010 to 31st March 2011

17.05.2010 – 20.05.2010	Credit Evaluation, Laws of Contract, Marketing & Customer Service	Branch Managers, Executives
31.05.2010 – 03.06.2010	Credit Evaluation, Laws of Contract, Marketing & Customer Service	Branch Managers, Executives
07.06.2010 – 10.06.2010	Credit Evaluation, Laws of Contract, Marketing & Customer Service	Branch Managers, Executives
14.06.2010 – 17.06.2010	Credit Evaluation, Laws of Contract, Marketing & Customer Service	Branch Managers, Executives
*31.07.2010	**Leasing & Hire Purchase (FHA Seminar)**	Regional Managers, Manager Recoveries Manager Legal,
*07.09.2010	**Anti Money Laundering/ combating Financing Awareness Programme Kurunegala District**	Senior Executives Secretaries
*25.09.2010	**Workshop on Leasing, Negombo**	Executives
*02.10.2010	**Workshop on Leasing, Galle**	Executives
*13.09.2010 – 17.09.2010 04.10.2010 – 08.10.2010	**Comprehensive Seminar on IFRS**	SFO, Accounts Assistant
04.11.2010 – 05.11.2011	Legal Awareness Programme	Branch Managers, Executives
11.11.2010 – 12.11.2011	Legal Awareness Programme	Branch Managers, Executives
19.11.2010	Effective Secretarial Duties & Customer Service	Secretaries
*22.01.2011	**Credit Evaluation Techniques**	Executive
*15.02.2011	**Training on the correct interpretation of Credit Report**	Executives, Secretaries
*21.02.2011	**Training on the correct interpretation of Credit Report**	Executives, Secretaries
*28.02.2011	**Training on the correct interpretation of Credit Report**	Executives, Secretaries
*07.09.2010	**Anti Money Laundering/ combating Financing Awareness Programme Galle District**	Managers, Executives

* Outdoor training Programmes & Workshops

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 organization.

At Senkadagala Finance Company 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 staff is regularly trained in evaluating creditworthiness of prospective clients. Senkadagala Finance Company 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.

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.

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 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 Company PLC has maintained healthy liquid assets portfolio constantly and for the year 2010-11, the liquid asset ratio was 26.75 percent, well above the minimum statutory requirement of 10 percent. Government Securities to Average Deposits Ratio was recorded at 8.85 percent which is more than the minimum statutory ratio of 7.5 percent.

Management of Risk Contd.

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 Company 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 analyzing risk, events and trends, employing experienced staff, monitoring business activities by compliance and audit professionals, requiring education and training of employees, and emphasizing the importance of management oversight.

Regulatory Risk

Regulatory risk is the risk of non-compliance with applicable legislation, regulation and regulatory directives. Senkadagala Finance Company 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. 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 optimizing 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.

Corporate Governance

The Company has recognised the importance of establishing principles of corporate governance in running the affairs of the company and has adopted the majority of good governance practices stipulated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and other regulatory authorities including the Central Bank of Sri Lanka. The company's policy of employing principles and practice of good governance ensures that its affairs are conducted in an efficient and transparent manner and is well communicated to all branches and departments within the organisation.

The board of directors ensures that the operations of the Company are carried out in keeping with the highest ethical standards and in the best interest of all stakeholders.

The board of directors is responsible for directing the Company at a strategic level, assuring long-term value creation.

Each division of the company is headed by a member of the Corporate Management team. Targets are set for major profit and cost centers in the budget and they are reviewed at regular intervals and variances are rectified.

Composition of the Board of Directors

The Board consists of 8 non-executive directors which includes a non-executive Chairman. The Managing Director is the only executive director and is also the Chief Executive Officer of the company. The directors bring a range of talents, skills and expertise needed to guide the company in the interest of all stakeholders. A brief description of the directors is given in pages 20to 21 of this Annual Report.

Responsibilities

The board is responsible for:

- ensuring satisfactory management of the resources of the company, as trustees of the shareholders.
- driving the business of the company to ensure long-term growth and creation of value to stakeholders.
- formulation of policies and strategies and monitoring their successful implementation.
- appointment of the Chief Executive Officer, approving the organisational structure and succession planning in the company.
- implementation of an effective internal control system.
- ensuring compliance with legal requirements and ethical standards.
- ensuring a proper risk management system is in operation.
- deciding on major capital investments, acquisition and disposal of property and premises.
- approval of the Budget and the Corporate Plan.
- approval of credit facilities beyond the limit delegated to the Chief Executive Officer and the Credit Committee.
- approval of annual and interim financial statements for publication

Independent Advice

The Board obtains independent professional advice in various matters from external sources, as and when the necessity arises.

Company Secretary

A professional firm engaged in secretarial work ensures that all proper board procedures and legally applicable rules and regulations are adhered to. The proceedings at board meetings are minuted under the supervision of the Chairman.

Chairman and CEO

There is a clear division of responsibilities between conducting the affairs of the board and executive responsibility in running the company. The duties of the Chairman and of the CEO are separate, thereby preventing unrestricted freedom of decision making in one person. Keeping in line with this principle of corporate governance, the Chairman is a non- executive director, while the CEO is an executive director.

Corporate Governance Contd.

Non-executive directors on the Board

The Chairman and all directors, except the MD/CEO, are non-executive members of the board.

Major Transactions

The major transactions of the company are disclosed wherever applicable.

Audit Committee

The Audit Committee of the board of directors comprises of 3 non-executive directors of the company. The Managing Director/CEO, the Deputy CEO and Assistant General Manager – Accounts attend the meeting by invitation. Other members of the management team attend when the need arises.

Board Meeting Attendance of Directors

Name	Meetings	Held	Attendance	Excused
Mr. S. K. Wickremesinghe	(NED)	11	11	-
Mr. Cyril Herath	(NED)	11	08	03
Dr. Asoka Balasuriya	(NED)	11	09	02
Mr. Lakshman Balasuriya	(ED)	11	11	-
Mr. Rohan Balasuriya	(NED)	11	09	02
Dr. Mahendra Balasuriya	(NED)	11	10	01
Mrs. Lakshmi Fernando	(NED)	11	09	02
Dr. Mrs. Gayathri Madan Mohan	(NED)	11	11	-
Mr. Ajith Fernando	(NED)	11	07	-

ED – Executive Director
NED – Non Executive Director

Dr. Mrs. Gayathri Madan Mohan and Mr. Rohan Balasuriya were represented by their alternates.
Mr. Ajith Fernando joined the Board on 1st August 2010.

Committee Meetings-Attendance of Directors

Audit Committee

Name	Meetings	Held	Attendance	Excused
Mr. S. K. Wickremesinghe	(NED)	05	05	-
Mr. Cyril Herath	(NED)	05	02	03
Mrs. Lakshmi Fernando	(NED)	05	03	02
Mr. Ajith Fernando	(NED)	05	03	-
By Invitation				
Mr. Lakshman Balasuriya	(ED)	05	05	-

Integrated Risk Management Committee

Name	Meetings	Held	Attendance	Excused
Mr. Cyril Herath	(NED)	03	01	02
Mrs. Lakshmi Fernando	(NED)	03	02	01
Mr. Ajith Fernando	(NED)	03	02	-
By Invitation				
Mr. S. K. Wickremesinghe	(NED)	03	03	-
Mr. Lakshman Balasuriya	(ED)	03	03	-

Remuneration Committee

Name	Meetings	Held	Attendance	Excused
Mr. S. K. Wickremesinghe	(NED)	02	02	-
Mr. Cyril Herath	(NED)	02	02	-
Dr. Mahendra Balasuriya	(NED)	02	02	-
Mr. Ajith Fernando	(NED)	02	02	-
By Invitation				
Mr. Lakshman Balasuriya	(ED)	02	02	-

ED – Executive Director
NED – Non Executive Director

Mr. Ajith Fernando joined the Board on 1st August 2010.

Financial Reports

"... **pragmatic**, **yet optimistic**, able to manage and excel in everything we do"

Financial Contents

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

The directors have pleasure in submitting their report and the audited accounts of Senkadagala Finance Company PLC for the year ended 31st March 2011, which was approved by the Board of Directors on 10th June 2011.

Status of the Company

The Company was listed in the *Diri Savi* board of the Colombo Stock Exchange by an Introduction on 22nd March 2011. Thus the company is now a public quoted company bearing Registration No. PB 238 PQ.

Management and financial review

The chairman's message and the management review and analysis 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 hire purchase, finance leases and commercial loans. Additional lines of business include real estate finance, bill discounting, investment in money market instruments and the acceptance of term deposits and certificates of deposit. No significant changes occurred in the principal activities of the company during the year under review.

Branch expansion and future developments

Senkadagala Finance Company PLC is engaged in a branch expansion program. Currently Senkadagala Finance Company PLC has 30 branches and 5 service centers. The company offers a fully automated state-of-the-art Savings Account system with ATM card facility. Senkadagala Finance Company 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 54 to 85 inclusive give a true and fair view of the affairs of the company as at 31 March 2011 and the profit for 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 possible the accuracy and reliability of the records.

Income

The income of the company during the year was Rs. 1,702,995,200/- (2009/2010 – Rs. 1,552,231,484), an analysis of which is given in Note 3 of the Financial Statements on page 66 of this report.

Profits and Appropriations for the year ended 31st March 2011

	2010/2011 Rs.	2009/2010 Rs.
Profit before Income Tax	349,625,532	138,484,932
Income Tax on Profit	96,255,170	83,534,236
Profit after Income Tax	253,370,362	54,950,696
Retained Profit brought forward	(33,126,827)	(48,787,283)
Profit available for appropriation	220,243,535	4,256,622

Appropriated as follows

	2010/2011 Rs.	2009/2010 Rs.
Transfer to Reserve Fund	13,500,000	3,000,000
Transfer to General Reserve	145,000,000	-
Transfer to Investment Fund Reserve	16,751,605	-
Total Gross Dividend	43,228,080	36,290,240
Retained profit carried forward	1,763,850	(33,126,827)

Capital Expenditure

The total expended on capital expenditure amounted to Rs.102.30 million (2009/2010 – Rs. 84.32 million). Details of property, plant and equipment are available on page 75 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 2011 amounted to Rs. 581.35 million. The aggregate reserves as at 31st March 2010 was Rs. 691.42 million. Movement in reserves during the year is given in the Statement of Changes in Equity on page 56.

The components of the aggregate reserves are set out below:

As at 31st March	2011 Rs.	2010 Rs.
Central Bank Reserve Fund	100,036,033	86,536,033
General Reserve	462,810,392	638,018,392
Investment Fund Reserve	16,751,605	-
Profit and Loss Account	1,763,850	(33,126,827)
Total Reserves	581,361,880	691,427,598

Taxation

The Company accounts for deferred taxation under the liability method on all timing differences. Details are disclosed in Note 2.1.6 (b) on page 61 and note 33.1 on page 80 of this report.

Dividends

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

Dividend	Date of Payment
1st Interim	26th November 2010
2nd Interim	17th March 2011

Stated Capital and Debentures

The stated capital as at 31st March 2011 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 81 of this report.

A capitalisation of reserves (bonus issue) in the proportion of 3 new shares for every 2 existing ordinary shares held, was effected by capitalising a sum of Rs. 320,208,000 standing to the credit of the General Reserve account during the period.

Debentures

The Company also raised Rs. 280 million through a private placement of 5-year redeemable debentures of Rs. 100 each during the year 2010/2011.

Details of the debentures in issue as at 31st March 2011 are given in Note 32 of the financial statement on page 80.

Compliance with Laws and Regulations

The directors are of the belief that the Company has not engaged in any activities contravening the laws 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 235 employees as at 31st March 2011 (2010 - 213).

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.

Risk Management
Specific steps taken by the Company in managing risks are detailed on pages 41 to 42 of this report.

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

Shareholdings
There were 19 registered shareholders holding ordinary shares of the Company as at 31st March 2011. The distribution of shareholdings is given on page 90 of this report.

Equitable Treatment to Shareholders
The Company has taken all possible steps to ensure equitable treatment to all shareholders.

Directors
The board of directors of Senkadagala Finance Company PLC consists of directors with financial and commercial experience. The qualifications and experience of the directors are stated on pages 20 to 21 of this report.

The following were directors during the year.
- Mr. S. K. Wickremesinghe
- Mr. Lakshman Balasuriya
- Dr. Asoka Balasuriya
- Mr. Rohan Balasuriya
- Dr. Mahendra Balasuriya
- Mrs. Lakshmi Fernando
- Dr. (Mrs.) Gayathri Madan Mohan
- Mr. L. G. D. C. L. S. Herath
- 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 Section 211 of the Companies Act, No. 7 of 2007, Mr. S. K. Wickremasinghe who is 83 years of age retires, and being eligible offers himself for re-election.
- In accordance with Section 211 of the Companies Act, No. 7 of 2007, Mr. L. G. D. C. L. S. Herath who is 77 years of age retires, and being eligible offers himself for re-election.

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

	31/03/20111	31/03/2010
Mr. L. Balasuriya	3,065,832	1,400,000
Dr. A. Balasuriya	3,065,832	1,400,000
Mr. R. Balasuriya	3,065,832	1,400,000
Dr. M. Balasuriya	3,065,832	1,400,000
Dr. (Mrs.) G. Madan Mohan	3,065,832	1,400,000
Mrs. L. Fernando	2,570,002	1,166,664
Mr. S. K. Wickremesinghe	-	-
Mr. G. D. C. L. S. Herath	-	-
Mr. W. A. T. Fernando	-	-

The ten largest shareholders as at 31st March 2011

Name	31/03/2011 No. of shares	31/03/2010 No. of shares
1. E.W. Balasuriya & Co. (Pvt) Ltd	30,088,050	12,572,980
2. Mr. L. Balasuriya	3,065,832	1,400,000
3. Dr. A. Balasuriya	3,065,832	1,400,000
4. Mr. R. Balasuriya	3,065,832	1,400,000
5. Dr. M. Balasuriya	3,065,832	1,400,000
6. Dr. (Mrs.) G. Madan Mohan	3,065,832	1,400,000
7. Mrs. L. Fernando	2,570,002	1,166,664
8. Mr. P. P. K. Ikiriwatte	2,052,502	-
9. Mr. J. K. Jayatilake	2,052,492	-
10. Mr. D.K.C.R. Fernando	495,830	233,332

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.

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

Directors' Interests in Contracts

The directors' interests in contracts are disclosed in Note 38 of the financial statements on pages 82 and 83 of this report.

Donations

A sum of Rs.353,275 (2009/2010 – Rs. 585,820) 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 Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka. Further, provisions are made where necessary 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 in the 10 Year Summary on page 92 of this report.

Appointment of Auditors

The financial statements of the year under review have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Company, 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 authorizing the directors to fix their remuneration.

By order of the Board of
SENKADAGALA FINANCE COMPANY PLC

Sgd.
Managers and Secretaries (Private) Limited
Secretaries

Colombo

10th June 2011

Independent Auditors' Report

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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Colombo 00300,
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TO THE SHAREHOLDERS OF SENKADAGALA FINANCE COMPANY PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Senkadagala Finance Company PLC, which comprise the balance sheet as at March 31, 2011, 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.

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 out 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, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2011 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.07 of 2007 and present the information required by the Finance Companies Act No.78 of 1988.

Chartered Accountants

Colombo, 10th June, 2011
ANF/DMGBD/rn.

Income Statement

For the year ended 31st March	Note	2011 Rs.	Restated 2010 Rs.
Income	3	1,702,995,200	1,552,231,484
Interest income	4	1,493,088,201	1,451,559,985
Interest expense	5	(679,358,198)	(845,696,048)
Net interest income		813,730,003	605,863,937
Other operating income	6	209,906,999	100,671,499
Net income from operations		1,023,637,002	706,535,436
Operating expenses	7		
Personnel costs	8	(135,236,711)	(115,924,086)
Depreciation of property, plant and equipment		(73,794,971)	(72,549,625)
Amortization of intangible assets		(6,857,753)	(5,938,221)
Directors' emoluments		(6,821,500)	(3,209,000)
Other operating expenses	9	(300,524,959)	(247,004,869)
		(523,235,894)	(444,625,801)
Profit from operation before taxation and possible losses		500,401,108	261,909,635
Loan losses and provisions	10	(64,816,906)	(89,295,796)
Profit from operation before VAT on Financial Services and income tax		435,584,202	172,613,839
Value Added Tax on Financial Services		(85,958,670)	(34,128,907)
Profit before income tax		349,625,532	138,484,932
Income tax expense	11	(96,255,170)	(83,534,236)
Profit for the year		253,370,362	54,950,696
Basic earnings per share	12	4.75	1.03
Dividend per share	13	0.81	0.68

Figures in brackets indicate deductions.

The Notes to the Financial Statements form an integral part of these Financial Statements

Balance sheet

As at 31 st March	Note	2011 Rs.	Restated 2010 Rs.
Assets			
Cash and short term funds	14	419,137,459	496,297,284
Government of Sri Lanka Treasury bills		198,509,828	163,192,153
Dealing securities	15	48,344,770	23,576,282
Investment securities	16	14,165,755	14,165,755
Loans and advances	17	5,401,847,203	4,399,518,621
Trade and other receivables	18	323,843,955	305,471,993
Advances and receivables	19	48,662,155	53,555,133
Deferred expenses	20	4,133,281	7,392,573
Property, plant and equipment	21	396,504,943	383,099,687
Intangible assets	22	33,463,630	39,557,902
Total assets		6,888,612,979	5,885,827,383
Liabilities			
Deposits from customers	23	2,392,741,865	2,094,477,659
Bank overdrafts	24	28,982,674	8,310,198
Securitised loans	25	1,414,764,929	1,428,381,600
Accrued expenses	26	124,724,577	81,080,641
Accounts payable	27	21,422,509	15,723,760
Trade payables	28	247,722,022	122,085,066
Current tax liabilities	29	80,733,542	31,569,230
Rentals received in advance	30	37,325,772	20,699,799
Retirement benefit obligation	31	22,564,095	17,631,637
Debentures	32	1,330,000,000	1,090,000,000
Deferred tax liability	33	72,589,114	70,968,196
Total liabilities		5,773,571,099	4,980,927,785
Equity			
Stated capital	34	533,680,000	213,472,000
Statutory reserve fund	35	100,036,033	86,536,033
General reserve	36	462,810,392	638,018,392
Investment fund reserve account	37	16,751,605	-
Retained earnings		1,763,850	(33,126,827)
Total equity		1,115,041,880	904,899,598
Total liabilities and equity		6,888,612,979	5,885,827,383

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.

Lalith J. de Alwis
Deputy 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.

S. K. Wickremesinghe
Chairman

Dr. A. Balasuriya
Director

Colombo, Sri Lanka
10th June 2011

Statement of Changes in Equity

For the year ended 31st March 2011	Stated capital Rs.	Statutory reserve fund Rs.	General reserve Rs.	Investment fund reserve account Rs.	Restated retained earnings Rs.	Total Rs.
Balance as at 1st April 2009 as previously reported	213,472,000	83,536,033	638,018,392	-	(50,694,074)	884,332,351
Recognition of capital gain on Orion Fund 2008/09 (Note A)	-	-	-	-	1,906,791	1,906,791
Balance as at 1st April 2009 as restated	213,472,000	83,536,033	638,018,392	-	(48,787,283)	886,239,142
Profit for the period (Restated) (Note A)	-	-	-	-	54,950,696	54,950,696
Transfers to reserves	-	3,000,000	-	-	(3,000,000)	-
Dividend paid	-	-	-	-	(36,290,240)	(36,290,240)
Balance as at 31st March 2010	213,472,000	86,536,033	638,018,392	-	(33,126,827)	904,899,598
Balance as at 1st April 2010 (As restated)	213,472,000	86,536,033	638,018,392	-	(33,126,827)	904,899,598
Profit for the period	-	-	-	-	253,370,362	253,370,362
Bonus Share Issue	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)
Balance as at 31st March 2011	533,680,000	100,036,033	462,810,392	16,751,605	1,763,850	1,115,041,880

Note A

The investment portfolio held with Orion Fund Management was originally recognised at the initial cost of investments transferred to the portfolio. The management of the company decided to account for the effect of the movement of share transactions from the financial year 2010/2011 onwards. This has been accounted for retrospectively, in accordance with Sri Lanka Accounting Standards 10 - Accounting Policies, Changes in accounting estimates and errors (Revised 2005).

The capital gain generated from share transactions in prior periods has been recognized as a restatement of retained earnings. A capital gain of Rs. 1,906,791 generated in the financial year 2008/2009 has been adjusted to the opening retained earnings as at 1st April 2009.

The capital gain of Rs. 5,969,134 relating to the year ended 31st March 2010 has been adjusted to the profit for that year and the restated profit for the year ended 31st March 2010 is as follows.

	Rs.
Profit for the year ended 31st March 2010 as reported previously	48,981,562
Capital gain generated from share transactions on Orion Fund	5,969,134
Profit for the year ended 31st March 2010 as restated	54,950,696

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		2011 Rs.	Restated 2010 Rs.
Cash flows from operating activities			
Interest and commission receipts		1,493,088,201	1,451,559,985
Interest payments		(679,358,198)	(845,696,048)
Recoveries of bad debts		47,424,009	9,460,879
Other operating income		142,568,570	88,457,272
Operating expenditure		(160,923,224)	(75,748,318)
Cash payments to employees and suppliers		(383,921,071)	(320,377,850)
Operating profit before changes in operating assets and liabilities	(Note A)	458,878,287	307,655,920
(Increase) / decrease in operating assets			
Investments in government securities		(35,317,675)	(19,842,105)
Funds advanced to customers		(1,040,162,702)	55,646,577
Advances and receivables		4,892,978	(9,635,089)
Deferred expenses		-	(5,264,139)
Trade and other receivables		(18,371,962)	74,182,856
		(1,088,959,362)	95,088,100
Increase / (decrease) in operating liabilities			
Deposits from customers		298,264,206	696,327,072
Gratuity paid		(337,500)	(2,606,693)
Rentals received in advance		16,625,973	(6,397,941)
Other liabilities		174,538,513	56,480,496
		489,091,192	743,802,934
Net cash (used in)/generated from operating activities before income tax		(140,989,883)	1,146,546,954
Income tax paid		(47,621,019)	(32,556,218)
Net cash (used in)/generated from operating activities		(188,610,902)	1,113,990,736
Cash flows from investing activities			
Dividend receipts		821,418	1,032,788
Purchase of dealing securities		(24,768,488)	(5,437,289)
Purchase of property, plant and equipment		(102,302,021)	(84,319,229)
Purchase of intangible assets		(763,481)	(19,362,958)
Proceeds from sale of property, plant and equipment		34,194,796	6,226,500
Net cash (used in)/generated from investing activities		(92,817,776)	(101,860,188)
Cash flows from financing activities			
Securitised loans obtained		1,020,910,000	1,005,723,000
Unlisted debentures issued		240,000,000	350,000,000
Repayment of securitised loans		(1,034,526,671)	(1,978,424,145)
Redemption of listed debenture		-	(100,000,000)
Dividends paid		(42,786,951)	(35,966,275)
Net cash generated from /(used in) financing activities		183,596,378	(758,667,420)

Cash Flow Statement Contd.

For the year ended 31st March	2011 Rs.	Restated 2010 Rs.
Net (decrease) / increase in cash and cash equivalents	(97,832,300)	253,463,124
Cash and cash equivalents at the beginning of the year	487,987,086	234,523,962
Cash and cash equivalents at the end of the year	390,154,785	487,987,086
Reconciliation of cash and cash equivalents		
Cash and short term funds	419,137,459	496,297,284
Bank overdraft	(28,982,674)	(8,310,198)
	390,154,785	487,987,086
(Note A)		
Reconciliation of operating profit		
Profit before income tax	349,625,532	138,484,932
Dividends	(821,418)	(1,032,788)
Specific provision for bad and doubtful debts on loans and advances	52,593,249	41,201,817
General provision for debtors recoverable on repossessed stock	1,056,287	7,600,000
Write-off of loan receivables	-	2,266,787
Write-off of receivables on insurance premium and search fees	2,151,080	9,051,212
Specific provision for debtors recoverable on repossessed stock	5,595,276	27,738,932
Reversal of specific provision on repossessed stock	(21,410,692)	(4,387,465)
Depreciation	80,652,724	78,487,846
Provision for retiring gratuity	5,269,958	4,027,548
Profit on disposal of motor vehicles	(19,093,002)	(1,720,560)
Amortization of structural fees	3,259,293	5,937,659
	458,878,287	307,655,920

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 Company PLC is a limited liability 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. Its registered office is situated at No. 267, Galle Road, Colombo 3. The company re – registered under the Companies Act, No. 7 of 2007.

As a registered 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, and commercial loans. The fee-based services are insurance brokering, vehicle valuation, etc.

1.3 Number of employees

The number of employees of the Company at the end of the period was 235 (2010 – 213).

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 Company PLC for the period ended 31st March 2011 were authorised for issue by a resolution of the board of directors on 10th June 2011.

These financial statements include the following components:

- an Income Statement providing the 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 the 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 Company PLC as at 31st March 2011 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 Companies Act, No 78 of 1988 and Finance Leasing Act, No. 56 of 2000 and the amendments to these acts.

The company did not adopt any inappropriate accounting treatments which do not comply with the requirements of Sri Lanka Accounting Standards and other laws and regulations governing the preparation and presentation of financial statements.

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 statement 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 constituents 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. However, the following two new Accounting Standards have been issued by the Institute of Chartered Accountant of Sri Lanka and are effective for the financial periods beginning on or after January 1, 2012.

- Sri Lanka Accounting Standard No. 44 'Financial Instruments : Presentation'
- Sri Lanka Accounting Standard No. 45 'Financial Instruments: Recognition and Measurement'
- Sri Lanka Accounting Standard No. 46 'Financial Instruments: Disclosures'
- Sri Lanka Accounting Standard No. 39 'Share - based Payment'

Following the convergence of Sri Lanka Accounting Standards with International Financial Reporting Standards, all existing Sri Lanka Accounting Standards will be prefixed as SLFRS or LKAS which refer to Sri Lanka Accounting Standards corresponding to IFRS or IAS, respectively. The Council of the Institute of Chartered Accountants of Sri Lanka has mandated all specified business enterprises to adopt these new accounting standards effective for financial periods beginning on or after January 1, 2012.

In order to comply with the requirement of these Accounting Standards, the company has duly planned the standards implementation programme, especially considering the complex nature of the effect of these accounting standards.

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 statement is amended, comparative amounts are also re-classified to confirm with the current period presentation.

2.1.5 Post-Balance Sheet Events

All material post Balance Sheet events have been considered and appropriate adjustments/ disclosures have been made in the accounts, wherever necessary.

2.1.6 Taxation

Tax expense comprises current tax and deferred tax.

(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 33 1/3% (2010 – 35%).

(b) Deferred Taxation

Deferred tax is provided on temporary differences 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 utilized.

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 utilized.

Deferred tax assets and liabilities are measured at the tax rates 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 tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and liabilities are set off if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 Treasury Bills

Investments in Government Treasury Bills are acquired or incurred principally for the purpose of adherence to Central Bank regulation and sold or held as part of a portfolio that is managed for short term profit, Treasury Bill Repurchase Agreements are stated at cost and any interest accrued up to the balance sheet date is recognised in the income statement.

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.

(b) Fall in value of Investments

Unrealised losses on revaluation of dealing securities at the lower of cost and market value are taken to the Income Statement in accordance with Sri Lanka Accounting Standard No. 22, Accounting for Investments.

(c) Investments in Associates

Investments in associates are not accounted under the equity method in the company's financial statements in accordance with the exemptions prescribed by Sri Lanka Accounting Standard No. 27, Investments in Associates.

(d) Investment Securities

Investment securities are stated at cost in the company's financial statements in accordance with Sri Lanka Accounting Standard No. 22, Accounting for Investments.

2.2.4 Loans and Advances to Customers (Lease, Hire Purchase, Loans and advances and trade and other receivables)

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 a similar manner as those of finance leases.

2.2.4(c) Loans and advances and 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 and interest in suspense.

2.2.4(d) Non-Performing Loans and Advances

Loans and advances which are in arrears of capital and/or interest due are classified as non-performing in accordance with Direction No 3 of 2006.

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 follow:

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

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

2.2.6 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 or revalued amounts 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 or valuation 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 installments. 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)

2.2.7 Intangible Assets

2.2.7.1 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.

2.2.7.2 Amortization

The amortization expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible assets.

2.2.7.3 Computer Software

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

2.2.8 Impairment of Non Financial Assets

The company assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required the company makes an estimate of the asset's recoverable amount. When the carrying value of an asset (or cash generating unit) exceeds its recoverable value, the asset (or cash generating unit) is considered impaired and is written down to its recoverable value.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such condition exists, the recoverable value is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable value since the last impairment loss was recognised. If that is the case, the carrying value of the asset is increased to its recoverable value.

2.3 Liabilities and provisions

2.3.1 Commitments and contingencies

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

2.3.2 Deposits from Customers

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

2.3.3 Borrowings

Borrowings include revolving facilities and facilities secured by securitised assets. Balances payable are stated in the balance sheet under securitised loans. Interest paid and payable on these borrowings is charged to the income statement.

2.3.4 Debentures

These represent the funds borrowed by the company for its funding requirements. These are recorded in the balance sheet at the cash value to be paid at settlement. Interest paid and payable on these borrowings is charged to the income statement.

2.3.5 Retirement benefit obligations

Retirement benefit obligations have been provided for using the actuarial valuation method in accordance with SLAS 16 (Revised 2006) Employee Benefits.

Estimated provisions have been adjusted in the interim accounts and for the annual financial statements.

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 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 and losses are recognised in the income statement in the period in which they arise.

Up to 31st March 2008, provision had been made for retirement gratuities based on the number of years of service multiplied by half of the last month's salary of those employees who were eligible to receive retirement benefits as at the balance sheet date.

2.3.5.1 The principal actuarial assumptions used in determining the cost are;

(i) Retirement age - normal retirement age, or age on valuation date, if greater
(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. It is also assumed that all participants who are eligible for a commuted pension will choose it in lieu of statutory gratuity payments.
(iii) Salary scale - annual increase of 10%
(iv) Rate of interest - 11%

2.3.5.2 The liability is not externally funded.

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 receivable. 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 on a cash basis.

(b) Hire Purchase

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

(c) Loans & 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) 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 on government securities is grossed up with the notional tax credit available under the Inland Revenue Act, No. 10 of 2006.

(e) Interest Income on deposits with banks

Interest receivable is taken to the income statement on an accrual basis.

(f) Dividend Income

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

(g) Recovery of bad debts

The recovery of bad debts is recognised as and when the debts are recovered.

(h) Commission Income

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

(i) 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 period in which the sale occurs.

(j) Profit on sales of seized vehicles stock

Profits earned and losses incurred on the sales of repossessed vehicle stock are accounted in the income statement based on net realisable value.

2.5 Expenditure Recognition

In terms of Sri Lanka Accounting Standard 33 – Revenue Recognition and Disclosure in the Financial Statements of Finance Companies, interest and other expenses payable are recognised on an accrual basis. All the expenditure incurred in the running of the company's business and maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

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 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. The segments comprise of financing and investing.

Inter-segment transactions are based on fair market prices.

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.

For the year ended 31st March	Note	2011 Rs.	Restated 2010 Rs.
3. Income			
Interest income	4	1,493,088,201	1,451,559,985
Other operating income	6	209,906,999	100,671,499
		1,702,995,200	1,552,231,484
4. Interest income			
Finance leases		228,853,969	281,201,213
Hire purchases		1,008,660,032	875,595,729
Loans and advances		21,437,441	18,986,608
Commercial Loans		19,479,833	33,553,422
Fixed deposit loans		2,786,726	4,027,350
Money market investments		44,296,288	45,201,087
Treasury bills	4.1	17,019,638	22,046,784
Default charges		150,554,274	170,947,792
		1,493,088,201	1,451,559,985

4.1 Notional tax credit for withholding tax on government securities on 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) for the period has been grossed up in the financial statements, and the resulting notional tax credit amounts to Rs. 1,701,964. (2010 - Rs.2,204,678) for the Company.

For the year ended 31st March	Note	2011 Rs.	Restated 2010 Rs.
5. Interest expenses			
Fixed deposits		262,604,846	267,088,896
Certificates of deposit		180,084	581,528
Savings deposits		4,981,739	4,978,224
Securitised loans		212,697,143	393,462,948
Debentures		188,521,002	151,254,067
Corporate loans		10,373,384	28,330,385
		679,358,198	845,696,048

For the year ended 31st March	Note	2011 Rs.	Restated 2010 Rs.

6. Other operating income

Finance charges		23,979,783	16,696,746
Commission income		30,326,551	30,912,105
Bad debts recovered		47,424,009	9,460,879
Dividend income		821,418	1,032,788
Interest on insurance		25,086,716	19,441,045
Sundry income		3,670,732	2,033,311
Legal fees recovered		18,975,764	10,905,458
Rent income		2,080,000	1,760,000
Inspection fees		1,762,187	689,473
Profit on disposal of motor vehicles		19,093,002	1,720,560
Capital gain on shares		36,686,837	5,969,134
Discounting cheques		-	50,000
		209,906,999	100,671,499

7. Operating expenses

Operating expenses include the following :

Internal Auditors' remuneration		5,400,000	4,614,790
External Auditors' remuneration - Audit related		550,000	450,000
- Non audit related		551,127	437,400
Amortization of securitised loan structuring fee		3,259,293	5,937,659
Legal expenses		4,419,874	5,783,218

8. Personnel costs

Salaries and wages		109,105,141	95,127,177
Contribution to Employees' Provident Fund		13,164,557	11,307,300
Contribution to Employees' Trust Fund		3,291,139	2,823,844
Retirement benefit obligations	8.1	5,269,958	4,027,548
Other personnel costs		4,405,916	2,638,217
		135,236,711	115,924,086

8.1 Retirement benefit obligations

Amount recognised in the income statement

Current service cost		2,555,783	1,815,415
Interest cost		2,714,175	2,212,131
		5,269,958	4,027,548

Notes to the Financial Statements Contd.

For the year ended 31st March	Note	2011 Rs.	Restated 2010 Rs.
9. Other operating expenses			
Administrative expenses		64,287,050	40,043,338
Establishment expenses		128,058,908	117,139,904
Selling expenses		108,179,001	89,821,627
		300,524,959	247,004,869
10. Loan losses and provisions			
Irrecoverable debts written-off		-	2,266,787
Specific provision for bad and doubtful debts on loans and advances		52,593,249	41,201,817
General provision for debtors recoverable on repossessed stock		1,056,287	7,600,000
Specific provision for debtors recoverable on repossessed stock		5,595,276	27,738,932
Reversal of specific provision on repossessed stock		(21,410,692)	(4,387,465)
Loss on sale of repossessed stock		26,982,786	14,875,725
		64,816,906	89,295,796
11. Income tax expense			
Current tax expense	11.1	94,634,251	77,806,441
Deferred tax charge for the period	11.2	1,620,919	5,727,795
		96,255,170	83,534,236
11.1 Reconciliation of effective tax rate			
Net profit before tax		349,625,532	138,484,932
Add - Disallowable expenses		191,262,928	227,029,929
Less - Allowable expenses		35,685,886	(142,108,421)
Add / (Less) - Adjustments		(296,867,198)	29,323,000
Business loss claimed during the year		-	(33,710,605)
Taxable income		279,707,148	219,018,835
Income Tax at 33 1/3 % (35% in 2009/2010)		93,235,716	76,656,592
Social Responsibility Levy @ 1.5% of Income Tax		1,398,536	1,149,849
Income Tax on profit for the year		94,634,251	77,806,441
Effective tax rate		27%	56%

For the year ended 31st March	Note	2011 Rs.	Restated 2010 Rs.

11.2 Deferred tax charge / (reversal) for the period

Adjustment to opening balance

Adjustment to opening deferred tax asset / liability resulting from change in tax rate.

Reversal to deferred tax liability		(15,427,854)	-
Charge to deferred tax asset		1,234,215	-

Deferred tax liability/ asset recognised / (reversed) during the year

Charge to deferred tax liability		17,195,646	6,225,093
Reversal to deferred tax asset		(1,381,088)	(497,299)
Deferred tax charge for the period		1,620,919	5,727,795

12. Basic earnings per share

Basic earnings per share have 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		253,370,362	54,950,696
Weighted average number of ordinary shares		53,368,000	53,368,000
Basic earnings per share		4.75	1.03

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.

1st interim - (2010/11 - Rs.0.46)		24,549,280	-
1st interim - (2009/10 - Rs.0.90)		-	19,212,480
Final - (2010/11 - Rs.0.35)		18,678,800	-
Final - (2009/10 - Rs.0.80)		-	17,077,760
		43,228,080	36,290,240
Dividend per share (inclusive of proposed dividends)		0.81	0.68

Notes to the Financial Statements Contd.

As at 31 st March	Note	2011 Rs.	Restated 2010 Rs.

14. Cash and short term funds

Cash and bank balances	14.1	247,801,416	343,263,464
Commercial Bank - Money market		96,196,901	103,033,820
Repo investment with banks		75,139,142	50,000,000
		419,137,459	496,297,284

14.1 Cash and bank balances

Commercial Bank Savings A/c	43,857	43,857
Commercial Bank - Kandy # 2	12,777,408	6,951,624
Commercial Bank - Kandy # 3	-	730,328
Commercial Bank - Kandy # 4	177,901	129,967
Commercial Bank # 6	13,234	3,946,180
Commercial Bank, Corporate Branch	-	974,674
HSBC	18,095	954,554
Hatton National Bank - Kandy	212,507,739	1,587,374
Hatton National Bank - Colombo	25,720	30,551
Sampath Bank PLC	1,215,966	10,453,027
Standard Chartered Bank	14,776	15,276
Nations Trust Bank PLC	37,425	-
Bank of Ceylon	-	58,406
Bank of Ceylon	20,850	31,100
Pan Asia Bank	41,639	42,821
Union Bank	15,039	94,202
ICICI Bank	3,529,629	8,402,459
Cash value stamps	-	30,449
Encashment floats	3,585,142	3,551,610
Cash in hand	16,290,148	14,351,398
Savings ATM withdrawals	(2,513,152)	(9,856,119)
Short term deposits	-	300,739,726
	247,801,416	343,263,464

15. Dealing securities

Quoted shares	15.1	43,344,770	18,576,282
Debentures - Commercial Bank - 13% (5,000 Debentures Rs.1,000/- each)		5,000,000	5,000,000
		48,344,770	23,576,282

As at 31 st March	31.03.2011 No. of Shares	31.03.2011 Cost Rs.	31.03.2011 Market Value Rs.	*Restated* 31.03.2010 No.of Shares	*Restated* 31.03.2010 Cost Rs.	*Restated* 31.03.2010 Market Value Rs.
15.1 Quoted shares						
Bank, Finance and Insurance						
Central Finance Company PLC	4,333	243,207	5,518,942	4,333	243,207	1,689,870
National Development Bank PLC	384	500	122,880	384	500	80,640
Commercial Bank of Ceylon PLC	208	72,450	55,286	208	72,450	41,964
Beverage, Food and Tobacco						
Ceylon Tobacco PLC	3,100	142,017	1,109,800	3,100	142,017	775,000
Hotels and Travels						
Aitken Spence PLC	33	3,355	3,234	33	3,355	45,334
Investment Trust						
National Equity Fund	131,400	600,925	2,986,759	131,400	600,925	2,986,759
Namal Acuity Value Fund	25,000	1,250,000	2,130,000	25,000	1,250,000	1,325,000
Manufacturing						
Royal Ceramics Lanka PLC	10	273	1,570	10	273	1,130
Hayleys PLC	250	7,175	95,500	250	7,175	21,938
Diversified Holdings						
John Keells Holdings PLC	1,937	13,800	553,207	1,937	13,800	356,408
Orion Fund (Portfolio Investments)	1,070,969	40,862,568	50,623,873	765,401	16,094,080	28,254,166
Trading						
Lanka Indian Oil Corporation PLC	5,500	148,500	96,800	5,500	148,500	100,375
Total cost and market value		43,344,770	63,297,851		18,576,282	35,678,584

As at 31 st March	Note	2011 Rs.	2010 Rs.

16. Investment securities (Unquoted)

Senkadagala Hotels Limited	16.1	13,957,555	13,957,555
Credit Information Bureau of Sri Lanka		8,200	8,200
Finance Houses Consortium (Pvt) Ltd.		200,000	200,000
		14,165,755	14,165,755

16.1 The Company holds 32.27% approximately of the issued share capital of Senkadagala Hotels Limited. The Company has not accounted for this under the equity method in accordance with Sri Lanka Accounting Standards 27 - Investments in associates. However, consolidated financial statements could be obtained from the ultimate parent of Senkadagala Hotels Limited, E.W. Balasuriya and Company (Private) Limited, incorporated and domiciled in Sri Lanka under the Companies Act, No.7 of 2007. Its registered office and principal place of business is located at No 267,Galle Road, Colombo 3.

As at 31 st March	2011 Rs.	2010 Rs.
17. Loans and advances		
Net investment in lease rental receivable		
Lease rental receivable within one year from balance sheet date	754,875,359	454,328,459
Unearned income	(175,295,667)	(106,499,171)
	579,579,692	347,829,288
Lease rental receivable between one year and five years from balance sheet date	1,201,817,189	769,522,608
Unearned income	(333,374,087)	(216,741,455)
	868,443,102	552,781,153
Lease rental receivable in respect of non-performing leases	21,943,126	16,588,507
Unearned income in respect of non-performing leases	(6,612,935)	(5,317,545)
	15,330,191	11,270,961
Net investment in hire purchase		
Hire purchase installments receivable within one year from balance sheet date	2,062,771,795	1,621,345,772
Unearned income	(473,926,506)	(410,679,351)
	1,588,845,288	1,210,666,421
Hire purchase installments receivable between one year and five years from balance sheet date	3,001,494,830	2,842,393,528
Unearned income	(839,151,716)	(867,343,312)
	2,162,343,115	1,975,050,215
Hire purchase installments receivable in respect of non-performing HP advances	40,526,211	17,538,674
Unearned income in respect of non-performing HP advances	(11,380,664)	(5,365,092)
	29,145,547	12,173,583
Net investment in Commercial loans		
Installments receivable within one year from balance sheet date	32,198,907	51,385,314
Unearned income	(6,993,721)	(11,519,886)
	25,205,186	39,865,428

As at 31 st March	Note	2011 Rs.	2010 Rs.

17. Loans and advances Contd.

Installments receivable between one year and five years from balance sheet date		36,244,944	76,803,639
Unearned income		(10,527,277)	(23,705,223)
		25,717,667	53,098,416
Installments receivable in respect of non-performing commercial loans		21,994,294	21,828,546
Unearned income in respect of non-performing commercial loans		(6,317,460)	(6,159,357)
		15,676,834	15,669,189
Net investment in personal loans			
Loan installments receivable within one year from balance sheet date		35,977,587	31,149,923
Unearned income		(11,490,806)	(10,220,428)
		24,486,781	20,929,495
Loan installments receivable between one year and five years from balance sheet date		72,612,975	74,865,647
Unearned income		(29,099,558)	(29,663,835)
		43,513,417	45,201,812
Loans against fixed deposits		18,935,109	15,643,319
Debtors recoverable on repossessed stock		73,781,712	165,789,373
Specific provision for bad and doubtful debts on loans and advances	17.1	(48,576,634)	(31,111,099)
General provision for debtors recoverable on repossessed stock		(8,656,287)	(7,600,000)
Specific provision for debtors recoverable on repossessed stock	17.2	(11,923,517)	(27,738,933)
Total loans and advances		5,401,847,203	4,399,518,621

17.1 Movement in specific provision for bad and doubtful debts on loans and advances

Balance at the beginning of the year	31,111,099	75,084,647
Provision for the year	52,593,249	41,201,817
Bad debts written-off	-	(85,175,365)
Balance at the end of the year	83,704,348	31,111,099
Provision for bad and doubtful debts on loans and advances	48,576,635	31,111,099
Provision for bad and doubtful debts on trade & other receivables	35,127,713	-
	83,704,348	31,111,099

17.2 Movement in specific provision for debtors recoverable on repossessed stock

Balance at the beginning of the year	27,738,933	12,540,095
Provision made during the year	5,595,276	27,738,932
Reversal of specific provision on repossessed stock	(21,410,692)	(4,387,465)
Loss incurred during the year	-	(8,152,629)
Balance at the end of the year	11,923,517	27,738,933

Notes to the Financial Statements Contd.

As at 31 st March	Note	2011 Rs.	2010 Rs.
18. Trade and other receivables			
Rental in arrears		199,286,474	212,756,704
Provision for bad and doubtful debts on trade & other receivables	17.1	(35,127,713)	-
		164,158,761	212,756,704
Staff debtors		7,885,283	7,275,423
Discounting of cheques		490,000	490,000
Insurance		83,885,331	64,042,377
Advances allowed to car sales		21,773,426	7,768,649
Search fees and seizing charges receivable		1,649,810	1,924,251
Western Union MMBL		704,600	1,022,093
Goods and Services Tax recoverable		11,020,826	11,020,826
Value Added Tax recoverable		19,046,975	(6,489,168)
Advance payments		11,202,677	2,026,235
Sundry debtors		2,026,266	3,634,603
		323,843,955	305,471,993

19. Advances and receivables

Deposits	2,122,284	2,122,284
Pre - paid rent	19,755,699	17,318,520
Advance Company Tax recoverable	6,125,619	6,125,619
Advance paid for fixed assets	884,701	6,788,447
Cash cover on securitised loans	5,861,393	19,206,154
Cash float with Orion Fund	13,912,459	1,994,109
	48,662,155	53,555,133

20. Deferred expenses

Balance at the beginning of the year	7,392,573	8,066,093
Paid during the year	-	5,264,139
Charged during the year	(3,259,292)	(5,937,659)
Balance at the end of the year	4,133,281	7,392,573

Loan structuring fees paid for arranging loans has been treated as a deferred expense and has been charged to the income statement over the period of repayment of the loans.

	As at 01.04.2010 Rs.	Additions Rs.	Disposals Rs.	As at 31.03.2011 Rs.

21. Property, plant and equipment

Cost				
Land	92,741,855	-	-	92,741,855
Buildings	18,803,291	8,222,998	-	27,026,289
Furniture and fittings	76,629,875	420,123	-	77,049,998
Office equipment	68,237,385	3,699,164	-	71,936,549
Air conditioners	24,818,856	571,000	-	25,389,856
Computers and accessories	96,169,113	8,039,779	128,185	104,080,707
Facsimile machines	893,483	21,500	28,333	886,650
Generators	32,420,500	-	-	32,420,500
Motor vehicles	163,136,760	77,897,889	37,165,268	203,869,381
Photostat machines	5,478,676	140,000	-	5,618,676
Fixtures and fittings	77,799,874	2,806,608	-	80,606,482
Printers	15,305,233	482,960	-	15,788,193
	672,434,901	102,302,021	37,321,786	737,415,136

	As at 01.04.2010 Rs.	Charge for the Period Rs.	Charge on Disposals Rs.	As at 31.03.2011 Rs.
Accumulated depreciation				
Buildings	8,876,650	790,165	-	9,666,815
Furniture and fittings	32,867,970	7,508,282	-	40,376,252
Office equipment	20,741,620	6,615,973	-	27,357,593
Air conditioners	15,180,600	3,526,111	-	18,706,711
Computers and accessories	72,358,219	9,302,921	128,185	81,532,955
Facsimile machines	414,994	76,462	25,264	466,192
Generators	13,587,654	3,884,557	-	17,472,211
Motor vehicles	63,599,828	27,889,723	22,066,543	69,423,007
Photostat machines	4,248,212	581,205	-	4,829,417
Fixtures and fittings	45,116,701	12,096,128	-	57,212,829
Printers	12,342,767	1,523,444	-	13,866,211
	289,335,214	73,794,971	22,219,992	340,910,193
Net book value	**383,099,687**			**396,504,943**

Notes to the Financial Statements Contd.

21.1 Fully Depreciated Property, Plant & Equipment

The cost of fully-depreciated Property, Plant & Equipment of the company which are still in use as at the Balance Sheet date is as follows:

As at 31 st March	2011 Rs.	2010 Rs.
Buildings	3,000,000	-
Air Conditioners	10,716,379	7,249,940
Computers and accessories	40,437,606	32,035,620
Generators	1,344,048	-
Photostat machines	3,138,675	1,367,625
Printers	3,483,060	2,612,245
Furniture and Fittings	35,081,695	17,319,234

21.2 Property, Plant & Equipment retired from active use

The following Property, Plant & Equipment of the company were 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 Conditioners	1,456,713	1,456,713
Computers and accessories	20,321,821	20,321,821
Facsimile machines	100,000	100,000
Photostat machines	302,050	302,050
Printers	473,320	473,320

22. Intangible assets

Software

Cost		
Balance at the beginning of the year	121,529,586	102,166,628
Additions during the year	763,481	19,362,958
Balance at the end of the year	122,293,067	121,529,586
Amortisation		
Balance at the beginning of the year	81,971,684	76,033,463
Additions during the year	6,857,753	5,938,221
Balance at the end of the year	88,829,437	81,971,684
Net book value	33,463,630	39,557,902

23. Deposits from customers

Savings deposits		83,986,416	66,944,059
Certificates of deposit	23.1	2,897,349	68,966
Fixed deposits	23.2	2,305,858,100	2,027,464,634
		2,392,741,865	2,094,477,659

As at 31 st March	Note	2011 Rs.	2010 Rs.

23.1 Certificates of deposit

Face value		3,100,000	100,000
Interest in suspense		(202,651)	(31,034)
		2,897,349	68,966

23.2 Fixed deposits

Fixed deposits		2,223,920,112	1,951,821,251
Accrued interest		81,937,988	75,643,383
		2,305,858,100	2,027,464,634

24. Bank overdraft

Commercial Bank - Kandy # 1		8,121,729	6,837,325
Commercial Bank - Colombo # 5		20,860,945	1,430,932
Nations Trust Bank PLC		-	41,941
		28,982,674	8,310,198

25. Securitised loans

Commercial Bank of Ceylon PLC (1)		-	12,974,900
Hatton National Bank PLC		297,500,000	122,500,000
Commercial Bank of Ceylon PLC (2)		383,790,421	198,072,581
Sampath Bank PLC		64,300,001	125,734,001
Capital Alliance		-	7,426,715
National Development Bank PLC		45,800,000	249,700,000
Nations Trust Bank PLC		60,129,508	154,959,404
Waldock Mackenzie		-	6,250,000
HSBC		-	30,000,000
ICICI Bank		27,499,999	89,729,999
Berkley		535,745,000	431,034,000
		1,414,764,929	1,428,381,600

Securities pledged

Lease and hire purchase aggregate portfolio amounting to Rs.1,627,857,572.85 have been pledged as security for the above loans.

As at 31 st March	Note	2011 Rs.	2010 Rs.

26. Accrued expenses

Audit fees		550,000	450,000
Staff bonus payable		26,032,936	8,364,193
PAYE payable		2,808,891	-
Interest on debentures		83,819,516	67,998,514
Securitised loan repayment		978,129	1,039,899
Directors' fees		-	(37,500)
VAT on Financial Services		7,164,228	3,132,764
Nation Building Tax		93,832	132,771
Commission payable		3,000,000	-
Deposit insurance premium payable		277,045	-
		124,724,577	81,080,641

27. Accounts payable

Debit Tax		25,822	83,610
Saving charges		(327,815)	-
Dividend payable		1,780,707	1,339,578
Registrar of Motor Vehicles charges		4,336,841	2,512,842
Refundable deposit		422,000	372,000
Mortgage fees		308,657	197,425
Direct deposits		3,787,206	3,535,638
Stamp Duty payable		11,089,091	7,682,667
		21,422,509	15,723,760

28. Trade payables

Amounts payable to car sales		732,203	932,203
Commercial Loan - payable		(1,821,325)	(1,784,650)
Personal Loan excess payment		96,928	51,170
Withholding Tax on dividends		(96,676)	(52,516)
Withholding Tax on loans and debentures		2,413,709	2,225,641
Stock payable		216,785,364	102,659,178
Sundry creditors		29,602,907	18,045,128
Goods and Services Tax refund for buses		8,912	8,912
		247,722,022	122,085,066

As at 31 st March	Note	2011 Rs.	2010 Rs.

29. Current tax liabilities

Income tax payable		132,676,702	77,806,441
Income tax payment		(20,817,496)	-
Economic Service Charge		(17,295,531)	(34,869,526)
Withholding Tax on Treasury Bill interest		(6,486,526)	(4,020,534)
Withholding Tax on commission		260,204	631,698
Withholding Tax on fixed deposit interest		(7,603,811)	(7,978,849)
		80,733,542	31,569,230

30. Rentals received in advance

Initial payment of lease		13,209,219	1,632,450
Prepaid rentals		24,116,553	19,067,349
		37,325,772	20,699,799

31. Retirement benefit obligation

Present value of defined benefit obligation		22,220,771	22,118,542
Unrecognised actuarial gain / (loss)		343,324	(4,486,905)
Net retirement benefit obligation		22,564,095	17,631,637

31.1 Retirement benefit obligation

Balance at the beginning of the year		17,631,637	16,210,783
Retirement benefit expense for the year		5,269,958	4,027,547
Benefits paid during the year		(337,500)	(2,606,693)
Balance at the end of the year		22,564,095	17,631,637

31.2 Unrecognised actuarial loss

Present value of defined benefit obligations at the beginning of the year		17,631,636	16,210,784
Current service cost		2,555,783	1,815,415
Interest cost		2,714,176	2,212,131
Benefits paid during the year		(337,500)	(2,606,693)
Expected total present value of defined benefit obligations at the end of the year		22,564,095	17,631,637
Actual present value of defined benefit obligations at the end of the year		22,220,771	22,118,542
Actuarial loss at the end of the year		343,324	(4,486,905)

32. Debentures

Type	Purpose of debenture	Interest rate (p.a)	Due/settlement date	2011 Rs.	2010 Rs.
Unsecured, unlisted, redeemable debentures					
2006/2011	Working capital	16% (Fixed)	5 years from the	219,000,000	259,000,000
2007/2012	requirement	16% (Fixed)	date of allotment	241,000,000	241,000,000
2008/2013		16% (Fixed)		240,000,000	240,000,000
2009/2014		16% (Fixed)		270,000,000	290,000,000
2009/2014		14.5% (Fixed)		80,000,000	60,000,000
2010/2015		14.5% (Fixed)		120,000,000	-
2010/2015		14.0% (Fixed)		100,000,000	-
2010/2015		12.0% (Fixed)		60,000,000	-
				1,330,000,000	1,090,000,000

33. Deferred tax liability

Deferred tax liabilities [Note 33.1]	78,907,061	77,139,268
Deferred tax assets [Note 33.2]	(6,317,946)	(6,171,073)
	72,589,114	70,968,196

33.1 Deferred tax liabilities

	2011		2010	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
Balance as at 1st April	220,397,910	77,139,268	202,611,929	70,914,175
Impact on rate change reversed to Income Statement	-	(15,427,854)	-	-
Originating during the year	61,413,022	17,195,647	17,785,981	6,225,093
	281,810,932	78,907,061	220,397,910	77,139,268

33.2 Deferred tax assets

Balance as at 1st April	17,631,637	6,171,073	16,210,783	5,673,774
Impact on rate change reversed to Income Statement	-	(1,234,215)	-	-
Tax Effect on retirement benefit obligation	4,932,458	1,381,088	1,420,854	497,299
	22,564,095	6,317,946	17,631,637	6,171,073

Impact due to corporate income tax rate change

The corporate income tax rate has been reduced to 28% commencing from year of assessment 2011/12 Accordingly, deferred tax asset and liability have been computed based on 28%.

As at 31st March	2011 Rs.	2010 Rs.

34. Stated capital

Ordinary shares		
53,368,000 ordinary shares	533,680,000	213,472,000

Allotted and fully paid		
Balance as at 1.4.2010 - 21,347,200 ordinary shares	213,472,000	213,472,000
Bonus shares issued in November 2010		
3 for every 2 held - 32,020,800 ordinary shares	320,208,000	-
Balance as at 31.3.2011 - 53,368,000 ordinary shares	533,680,000	213,472,000

35. Statutory reserve fund

Balance at the beginning of the year	86,536,033	83,536,033
Transfers during the year	13,500,000	3,000,000
Balance at the end of the year	100,036,033	86,536,033

The company's statutory reserve fund was created according to the Finance Companies Direction No. 1 of 2003 issued by the Central Bank of Sri Lanka

36. General reserve

Balance at the beginning of the year	638,018,392	638,018,392
Issue of Bonus shares	(320,208,000)	-
Transfers during the year	145,000,000	-
Balance at the end of the year	462,810,392	638,018,392

The general reserve represents amounts set aside by the directors for future expansion and to meet any contingencies.

37. Investment fund reserve

Investment fund reserve	16,751,605	-
	16,751,605	-

The investment Fund Reserve Account is credited in accordance with the Central Bank of Sri Lanka guidelines issued to create an Investment Fund Reserve which comprises 8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT.

The company decided to make investments in goverment Treasury Bills out of the funds in the Investment Fund, details of which are set out below.

Cost	: Rs. 20,000,000
Period	: from 28-03-2011 to 06-01-2012
Rate	: 7.20% p.a.
Face value	: Rs. 21,123,518

38. Related party transactions

38.1 Transactions with related entities

38.1.1 E.W. Balasuriya & Company (Pvt) Ltd

The Company being a subsidiary company of E.W. Balasuriya & Company (Pvt) Ltd., Mr. L. Balasuriya, Mr. R. Balasuriya, Dr. M. Balasuriya, Dr. A. Balasuriya, Mrs. L. Fernando and Dr. Mrs. Gayathri Madan Mohan, directors of company are also directors of E. W. Balasuriya & Company (Pvt) Ltd., with which the Company had the following transactions.

a) The Company operates its following branch offices in the premises of E.W. Balasuriya & Company (Pvt) Ltd., and has paid rent expenses for the respective branches as follows.

	2011 Rs.	2010 Rs.
Colombo	1,607,148	1,482,000
Aluthgama	803,568	775,000
Negombo	803,568	775,000
Wattala Yard	267,852	175,000
	3,482,136	3,207,000

b) The Company paid dividend of Rs.24,371,321 during the period ended 31st March 2011 (2010 -Rs.21,430,082) to E.W. Balasuriya & Company (Pvt) Ltd.

38.1.2 Senkadagala Hotels Ltd

Mr. L. Balasuriya, Mr. R. Balasuriya, Dr. M. Balasuriya, Dr. A. Balasuriya and Mrs. L. Fernando, directors of the Company are also directors of Senkadagala Hotels Limited.

The Company holds 32.27% approximately of issued share capital of Senkadagala Hotels Limited

The Company operates its Kandy branch office in the premises of Senkadagala Hotels Limited, and has paid Rs.852,800 to Senkadagala Hotels Limited, as rent for the year ended 31st March 2011. (2009/10 - Rs.590,850)

38.2 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 members of the board of directors of the Company (including the executive and non-executive directors, the Deputy CEO, the General Manager and the Assistant General Managers) and of the Ultimate Parent Company have been classified as key management personnel of the Company.

38.2.1 Compensation of key management personnel

		2011 Rs.	2010 Rs.
Short term employee benefits	Board of Directors	6,821,500	3,209,000
	Other KMP	12,251,108	7,548,085

38.2.2 Post Employment benefits to key management personnel

The key management personnel are entitled to gratuity provisions in accordance with the provisions of the Gratuity Act, No. 12 of 1983.

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 approximately amounted to the following:

	2011 Rs.	2010 Rs.
Approved and contracted for	15,020,914	50,000,000
	15,020,914	50,000,000

39.2 Contingent liabilities

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

40. Events after the balance sheet date

In accordance with the resolution passed at the meeting of the board of directors held on 29th September 2010, Senkadagala Finance Company Limited listed its ordinary shares in the Colombo Stock Exchange and accordingly the name of the Company is Senkadagala Finance Company PLC with effect from 8th June 2011.

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 2011, 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 31.03.2011 Rs
Interest Earning Assets					
Bank and cash balances	247,801,416	-	-	-	247,801,416
Deposits with banks & other institutions	171,336,043	-	-	-	171,336,043
Government Treasury Bills	-	198,509,828	-	-	198,509,828
Stock out on hire	640,171,082	1,829,702,217	1,406,379,917	1,697,638,030	5,573,891,247
Debtors	125,389,050	50,759,008	9,909,472	18,537,817	204,595,347
Total Interest Earning Assets	1,184,697,591	2,078,971,053	1,416,289,389	1,716,175,847	6,396,133,881
Non Interest Earning Assets					
Dealing securities	-	48,344,770	-	-	48,344,770
Investment securities	-	-	-	14,165,755	14,165,755
Property, plant and equipment	-	-	-	429,968,573	429,968,573
Total Assets	1,184,697,591	2,127,315,823	1,416,289,389	2,160,310,176	6,888,612,979
Percentage (%) 31.03.2011	17.20	30.88	20.56	31.36	100.00
Interest bearing liabilities					
Deposits	192,641,351	1,254,408,061	348,681,450	428,189,249	2,223,920,112
Certificates of deposit	-	2,897,349	-	-	2,897,349
Savings deposits	-	83,986,416	-	-	83,986,416
Bank overdraft	28,982,674	-	-	-	28,982,674
Asset securitised funds	215,718,971	488,972,628	582,573,329	127,500,000	1,414,764,929
Debentures	59,000,000	160,000,000	591,000,000	520,000,000	1,330,000,000
Total interest bearing liabilities	496,342,997	1,990,264,454	1,522,254,780	1,075,689,249	5,084,551,480
Non interest bearing liabilities	171,880,176	299,592,839	47,324,257	170,222,346	689,019,619
Total liabilities	668,223,173	2,289,857,293	1,569,579,037	1,245,911,596	5,773,571,099
Percentage (%) 31.03.2011	11.57	39.66	27.19	21.58	100.00
Shareholders' Funds	-	-	-	1,115,041,880	1,115,041,880
Total Shareholders' Funds and Liabilities	668,223,173	2,289,857,293	1,569,579,037	2,360,953,475	6,888,612,979

42. Segment reporting

	Leasing		Hire Purchases		Other Advances		Investments / Property		Insurance		Unallocated		Total	*Restated*
As at 31st March	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue														
Interest	228,853,969	281,201,213	1,008,660,032	875,595,729	43,704,000	56,567,380	61,315,926	67,297,871	-	-	-	-	1,342,533,927	1,280,662,193
Commissions	-	-	-	-	-	-	-	-	55,413,267	50,353,150	-	-	55,413,267	50,353,150
Rent	-	-	-	-	-	-	2,080,000	1,760,000	-	-	-	-	2,080,000	1,760,000
Dividends	-	-	-	-	-	-	821,418	1,032,788	-	-	-	-	821,418	1,032,788
Other income							55,779,839	-	7,689,694	246,366,749	-	210,733,659	302,146,588	218,423,353
Total revenue	228,853,969	281,201,213	1,008,660,032	875,595,729	43,704,000	56,567,380	119,997,183	77,780,353	55,413,267	50,353,150	246,366,749	210,733,659	1,702,995,200	1,552,231,484
Profit before tax													349,625,532	138,484,932
Taxation													(96,255,170)	(83,534,236)
Profit after tax													253,370,362	54,950,696
Segment Assets	1,463,352,985	911,881,402	3,780,333,950	3,197,890,219	158,160,268	289,747,000	1,112,639,537	1,129,675,892	-	-	374,126,239	356,632,870	6,888,612,979	5,885,827,383
Segment Liabilities	801,965,981	932,594,142	3,534,616,575	2,903,883,091	153,150,594	187,603,768	420,502,467	257,955,862	-	-	863,335,482	698,890,925	5,773,571,099	4,980,927,788

Depositor Information

a) Value of Deposit Base as at 31st March

	2007	2008	2009	2010	2011
Value of Term Deposits (Rs. '000s)	699,648	894,903	1,343,060	2,027,464	2,305,858
Value of Certificates of Deposit (Rs. '000s)	24,687	12,468	13,913	69	2,897
Value of Savings Accounts (Rs. '000s)	-	19,318	41,778	66,944	83,986

b) Rate of Interest Basis as at March 2011

	No.of Deposits	Value (Rs.000)	% of Total
Less than 12%	2536	1,034,350	46.51%
More than or equal to 12% and less than 14%	1169	1,066,345	47.95%
More than or equal to 14% and less than 16%	45	28,740	1.29%
More than or equal to 16% and less than 18%	65	23,294	1.05%
More than 18%	352	71,211	3.20%
Total Deposits	4167	2,223,940	100%

c) Deposit Interest Paid/Interest Cover / Liquid Asset Cover

	2007	2008	2009	2010	2011
Fixed Deposit, Savings Deposit & Certificate of Deposit Interest paid (Rs.'000s)	84,963	101,079	197,225	272,649	267,767
Depositor Interest Cover (Times)*	4.03	4.00	1.69	1.63	2.63
Liquid Assets as a % of deposit base**	50.66	54.53	28.59	31.49	25.81

* Deposit Interest Cover is obtained by dividing the Pre-Tax Profit before payments 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

a) Risk Weighted Assets

	2010/2011 (Rs.000)	2009/2010 (Rs.000)	Risk Weight %	2010/2011 (Rs.000)	2009/2010 (Rs.000)
On-Balance Sheet-Total Assets	6,888,613	5,885,827		6,218,298	5,175,170
Cash & current accounts with banks	247,801	343,263	0%	-	-
Deposits with banks	171,336	153,034	20%	34,267	30,607
Deposits with finance companies	-	-	20%	-	-
Due from Central Bank of Sri Lanka	-	-	0%	-	-
Sri Lanka Government Treasury Bills	198,510	163,192	0%	-	-
Sri Lanka Govt/Central Bank securities	-	0%	-	-	
Other Securities guaranteed by Sri Lanka Govt	-	0%	-	-	
Loans & Advances	5,471,004	4,465,969		5,384,068	4,384,194
Against deposits with the company	86,935	81,775	0%	-	-
Against SL Govt guarantee/securities	-	-	0%	-	-
Against dues/securities/guarantees of CBSL	-	-	0%	-	-
Other loans & advances	5,384,068	4,384,194	100%	5,384,068	4,384,194
Fixed assets	429,969	422,658	100%	429,969	422,658
Other assets	369,993	337,712	100%	369,993	337,712

b) Capital Base

	2010/2011 (Rs.000)	2009/2010 (Rs.000)
Tier I : Core Capital	1,098,290	904,900
Issued and paid up ordinary shares	533,680	213,472
Statutory Reserve Fund	100,036	86,536
Published retained profits/(accumulated losses)	1,764	(33,127)
General & other reserves	462,810	638,018
Tier 2 : Supplementary Capital	-	-
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	-	-
Total Capital Base	1,098,290	904,900

c) Capital Adequacy Ratio

		2010/2011	2009/2010
Core Capital Ratio	$= \frac{\text{Core Capital x 100}}{\text{Risk Weighted Assets}}$	17.66%	17.49%
Total Risk Weighted Capital Ratio	$= \frac{\text{Capital Base x 100}}{\text{Risk Weighted Assets}}$	17.66%	17.49%

Relevant Central Bank Directions Applicable to Registered Finance Companies (RFC)

Capital Adequacy

Every RFC has to maintain a minimum total risk weighted capital adequacy ratio of 10% in relation to its risk weighted assets. The constituents of the capital are divided into:

(i) Tier I – Core Capital

This represents permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses, including share premiums, retained profits and other reserves. The core capital ratio should constitute not less than 5%, i.e. this has to be at least half of the total risk weighted capital adequacy ratio.

(ii) Tier II – Supplementary Capital

Represents revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as hybrid capital instruments and unsecured subordinated term debts.
Supplementary capital should not exceed 100% of the core capital.

The Central Bank also issues guidelines from time to time, to be used in computing total risk weighted assets.

Capital Adequacy Defined

Capital adequacy is measured by the ratio of the company's capital to its risk-weighted assets. This ratio is calculated in accordance with the methodologies issued by the Central Bank of Sri Lanka.

The company's capital adequacy ratios improved in comparison to the previous year, mainly due to ploughing back of profits as reserves. The capital adequacy ratios achieved for the current year are well above the mandatory requirement stipulated, which is 5% for core capital ratio – Tier 1 and 10% for total Risk Weighted Capital Ratio.

The capital base comprises two capital structures namely, Tier 1 Capital and Tier 2 Capital.

Tier 1 Capital comprises paid up ordinary share capital, statutory reserve fund, retained earnings and other reserves excluding revaluation reserve.

Tier 2 Capital includes revaluation reserve, general provision, hybrid capital and subordinated term debt. The aggregate of Tier 2 Capital should not exceed 100% of Tier 1 Capital for purposes of calculating the risk weighted capital ratio.

In determining the capital adequacy ratios, assets are weighted based on the degree of credit risk exposure. Four risk weightings have been defined based on the risk interest in each category. The weights range from 0%, 25% and 100%.

In general a finance company having a high capital adequacy ratio is considered at lesser risk than a finance company with a low capital adequacy ratio.

Liquid Assets

Every RFC should have a minimum holding of liquid assets at any given time. Liquid assets mean:

(a) Cash in hand
(b) Balances in a current or deposit account in a commercial bank, free from any banker's charge or lien
(c) Sri Lanka Government Treasury Bills free from any charge or lien

(d) Sri Lanka Government securities maturing within one year and free from any charge or lien.
(e) Central Bank of Sri Lanka securities maturing within 1 year and free from any charge or lien.
(f) Cash balance, if any, maintained with the Central Bank of Sri Lanka.

The minimum limit applicable is:
1) For time deposits – 10% of outstanding deposits
2) For certificates of deposit – 10% of the face value of the certificates
3) For savings deposits – 15% of the outstanding deposits

The companies should maintain the liquid assets in the form of (c), (d) and (e) above equivalent to 10% of its average month-end deposit liabilities of the preceding financial year.

Direction No. 3 of 2006
Bad and doubtful debts provided for under this direction are subject to a minimum of:
(a) 50% of all advances in arrear for a period of 6 to 12 months
(b) 100% of all advances in arrear for 12 months or more

A company may deduct the value of land and buildings held as collateral for a particular advance, in arriving at the provision figure under both (a) and (b) above, subject to the following conditions:

1) The value so deducted should not exceed the value decided by a professional valuer at the time of granting the advance.
2) In case of residential properties occupied by the borrower or a tenant, there should be an agreement to grant vacant possession in the event of the sale of such property.

Finance Companies (Minimum Core Capital)

Direction No. 1 of 2006

Every RFC is required to maintain, at all times, an unimpaired core capital of not less than Rs. 200 mn with effect from 1st February 2006. The direction provides for granting the RFCs that did not meet the minimum core capital requirement of Rs. 200 mn on 1st February 2006, a period of 30 months to fulfill the requirement subject to certain requirements.

Single Borrower Limit

Direction No. 4 of 2006

In the case of an individual borrower, the maximum single advance or the aggregate advances granted and the aggregate outstanding at any point of time on advances granted should not exceed 10% of the capital funds of the finance company.

This limit is 15% for any group of corporate or unincorporated borrowers with common directors or common partners or common proprietors.

Capital funds generally mean paid-up capital and permanent free reserves, and may include unsecured debentures and other loan stocks if approved by the Monetary Board.

Distribution of Shareholding

Shareholders as at 31st March 2011 and 2010

	NAME	31st March 2011 NO. OF SHARES	%	31st March 2010 NO. OF SHARES	%
1.	E. W. Balasuriya & Company (Pvt) Ltd	30,088,050	56.38	12,635,220	59.19
2.	Mr. L. Balasuriya	3,065,832	5.74	1,400,000	6.56
3.	Dr. A. Balasuriya	3,065,832	5.74	1,400,000	6.56
4.	Mr. R. Balasuriya	3,065,832	5.74	1,400,000	6.56
5.	Dr. M. Balasuriya	3,065,832	5.74	1,400,000	6.56
6.	Dr. (Mrs) G. Madan Mohan	3,065,832	5.74	1,400,000	6.56
7.	Mrs. L. Fernando	2,570,002	4.82	1,166,664	5.47
8.	Mr. P. P. K. Ikiriwatte	2,052,502	3.85	-	-
9.	Mr. J. K. Jayatileke	2,052,492	3.85	-	-
10.	Mr. D. K. C. R. Fernando	495,830	0.93	233,332	1.09
11.	Mrs. S. Thaha	389,000	0.73	155,600	0.73
12.	Mrs. C. Fernando	155,600	0.29	62,240	0.29
13.	Estate of Late Mr. D.G.K. Hewamallika	155,600	0.29	62,240	0.29
14.	(Late) Mr. E. W. Balasuriya	41,660	0.08	16,664	0.08
15.	Mr. M. M. Ariyaratne	22,400	0.04	8,960	0.04
16.	Mrs. R. Dullewe	6,100	0.01	2,440	0.01
17.	Mr. C. Y. Ching	4,800	0.01	1,920	0.01
18.	Mrs. S. I. A. Ching	4,800	0.01	1,920	0.01
19.	Mr. Lakshman Balasuriya - The Trustee of the Capitalization issue -2010	4	0.00	-	-
		53,368,000	100		

Sources and Distribution of Funds

a) Sources and Distribution of Funds (Rs. millions)

	2010	2011
Depositors' funds	2,094	2,393
Bank & other institutional borrowings	2,518	2,745
Internally generated funds	692	581
Stated capital	213	534
Other sources	369	636
	5,886	6,889

b) Use of Funds

	2010	2011
Interest bearing assets excluding money market Instruments	4,400	5,402
Cash & near cash items	659	617
Fixed assets	423	430
Other assets	404	440
	5,886	6,889

Ten Year Summary

Figures in Rs. '000s

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING RESULTS										
Interest Income	107,296	149,393	238,807	307,686	645,333	1,058,870	1,259,893	1,560,124	1,451,560	1,493,088
Interest Expense	37,234	55,447	104,678	126,496	268,693	499,471	668,737	931,904	845,696	679,358
Net Interest Income	70,062	93,946	134,129	181,190	376,640	559,399	591,156	628,220	605,864	813,730
Profit Before Taxation	33,009	42,766	63,169	93,628	199,075	246,431	287,810	111,677	138,485	349,626
Profit After Taxation	30,013	41,318	63,050	95,685	205,595	277,547	272,770	59,457	54,951	253,370
BALANCE SHEET										
Assets										
Cash and Near Cash Items	113,213	90,167	141,027	96,566	453,039	387,240	511,373	379,798	659,489	617,647
Investment Securities	41,500	20,166	14,166	14,166	14,166	14,166	14,166	14,166	14,166	14,166
Dealing Securities	3,616	4,130	2,004	2,153	2,153	12,293	16,232	16,232	23,576	48,345
Advances Portfolio	389,096	802,361	1,205,200	1,700,933	3,168,384	3,654,387	4,305,258	4,529,585	4,399,519	5,401,847
Property & Equipment	61,340	69,326	72,710	105,590	139,763	206,853	359,627	401,969	422,658	429,969
Other Assets	28,019	28,154	64,332	188,712	405,380	509,271	613,038	431,641	366,420	376,639
Total Assets	636,784	1,014,304	1,499,439	2,108,120	4,182,885	4,784,210	5,819,694	5,773,391	5,885,827	6,888,613
Liabilities										
Borrowing including securitised loans	-	236,360	577,627	1,063,165	2,497,594	2,566,478	2,921,212	2,401,083	1,428,382	1,414,765
Debentures	-	-	-	-	250,000	509,000	750,000	840,000	1,090,000	1,330,000
Term Deposits	331,537	403,428	448,005	496,832	669,409	739,662	905,528	1,343,060	2,027,465	2,305,858
Certificates of Deposit	35,068	38,187	34,782	26,153	17,331	24,687	12,469	13,913	69	2,897
Savings Deposits	-	-	-	-	-	-	19,318	41,178	66,944	83,986
Deferred Taxation	15,151	13,776	12,121	10,065	67,793	34,099	40,394	65,240	70,968	72,589
Dividends Payable	4,024	4,048	5,409	11,744	189	-	1,125	1,016	1,340	1,781
Other Liabilities	58,089	92,276	142,889	133,876	221,890	256,459	312,753	183,569	295,761	561,695
Total Liabilities	443,869	788,075	1,220,833	1,741,835	3,724,206	4,130,385	4,962,799	4,889,059	4,980,928	5,773,571
Net Assets	192,915	226,229	278,606	366,285	458,679	653,825	856,895	884,332	904,900	1,115,042
Financed by										
Stated Capital	32,021	32,021	53,368	53,368	213,472	213,472	213,472	213,472	213,472	533,680
Reserves including Statutory Reserves	160,174	194,208	225,238	312,917	245,207	440,353	643,424	670,860	691,427	581,362
Total Shareholder's Funds	192,195	226,229	278,606	366,285	458,679	653,825	856,896	884,332	904,899	1,115,042

Key Ratios & Indicators

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capital Adequacy										
Equity as a % of Total Assets	30.18	22.3	18.58	17.37	11.38	14.28	14.61	15.32	15.37	16.19
Equity as a % of Total Deposits plus borrowings	57.97	35.36	27.16	23.48	13.99	17.94	18.72	19.29	19.62	21.7
Core Capital - Tier 1 ratio	36.85	26	21.46	18.16	14.34	15.85	16.84	16.55	17.36	17.7
Core Capital - Tier 2 ratio	36.85	26	21.46	18.16	14.34	15.85	16.84	16.55	17.36	17.7
Earnings										
Return on Average Total Assets (%)	5.55	5.23	5.29	5.63	6.95	5.8	5.31	2.25	2.96	6.82
Return on Average Equity (%)	18.18	20.62	26.35	31.47	50.62	49.69	36.73	15.04	19.29	43.13
Earnings per Share (Rs.)	9.37	7.74	11.81	17.93	10.02	13.53	11.29	2.79	1.03	4.75
Dividends per Share (Rs.)	2.5	2.5	2	3.7	4	3.86	3.27	1.5	0.68	0.81
Interest Cover (Times)	1.89	1.78	1.64	1.8	1.82	1.52	1.42	1.14	1.2	1.66
Dividend Cover (Times)	3.75	3.1	5.91	4.85	2.5	3.5	3.46	1.86	1.35	5.86
Liquidity										
Liquid Assets as a % of Total Assets (%)	17.78	8.89	9.41	4.58	10.79	8.08	8.72	6.58	11.20	8.97
Liquid Assets as a % of Total Deposits (%)	30.06	20.42	27.69	18.46	53.43	53.43	54.56	27.16	31.47	25.83

Glossary of Financial Terms, Terminology and Accounting Standards

Accounting Convention
Accounting Convention is the basis used to prepare financial statements. Generally this would require that an organisation conforms to a set of principles and conventions, applied consistently, with due regard to prudence, materiality and substance. The financial statements are prepared with regard to a set of Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

Capital Adequacy Ratio
The percentage of risk adjusted assets that is met by capital funds. The Central Bank has defined the types of Capital and Reserves that could be considered as capital funds.

Capital Adequacy ratios are a measure of long-term solvency.

Cash and Short-Term Funds
This comprises of cash in hand and money at call and short notice that are easily converted to cash.

Cash Flow Statement
A statement setting out the cash generated from operating, investing and financing activities. Operating activities are income generating activities of the Company's primary lines of business. Investing activities are the acquisition and disposal of long-term assets and investments. Financing activities are the changes in borrowing and equity funds.

Collection Index
The aggregate sum of monies collected as a percentage of amount due in respect of all advances, for the period under review.

Cost to Income Ratio
Total costs excluding provisions as a percentage of net interest income.

Current Ratio
The current assets divided by the current liabilities.

Deferred Taxation
A sum set aside in the accounts for tax that would become payable in an accounting period other than the period under review.

Depositor Interest Cover
Profits before interest and taxes divided by interest paid and payable on deposits.

Dividend per Share
This is the value of a dividend paid out divided by the number of ordinary shares in issue.

Dividend Cover
Earnings per share divided by the dividend per share.

Dividend Rate
The rate paid by way of dividend on the ordinary share capital.

Earnings per Share
This is the net income after taxation divided by the number of ordinary shares in issue.

Economic Value Added (EVA)
EVA is a measurement of actual creation of wealth to shareholders. The method of computation is based on the difference between economic profit less the cost of average capital of the firm.

Finance Lease
A lease that conveys to the lessee the right to use the asset for an agreed period at a stated rental.

The lessor retains ownership of the leased asset, and title may or may not be eventually transferred to the lessee at the end of the lease period. All risks and rewards incidental to ownership are with the lessee.

Interest Earning Assets
Interest earning assets are the sum of the advances portfolio and the value of the investments in treasury bills, call money and fixed deposits.

Interest Income
Interest income is income derived from the company's Advances portfolio (lease, hire purchase and trade loans), and other investments in Money Market instruments.

Interest Cost
Interest cost is the sum of money accrued and payable to the sources of borrowed capital. In general it comprises interest payments to depositors and banks.

Internal Capital Generation Rate
The value of profits retained within the business as a percentage of profit available for appropriation.

Lending Spread
The difference between the rate of return on average interest bearing assets and the rate of interest on interest bearing liabilities.

Liquidity Ratios

The percentage of Total Assets, and the percentage of Deposit Liabilities that are in the form of Cash and Near Cash items. The liquid assets ratio made mandatory by the Central Bank is a function of all Deposit Liabilities and Net Total Assets. The Central Bank has given a broad definition as to the types of assets that could be considered as Liquid Assets. They include Cash at Bank and in hand free of any charge or lien, plus balances in Deposit accounts with a Licensed Commercial Bank free of any charge or lien, plus monies placed in the form of Sri Lanka Government Treasury bills of maturity less than 12 months, free of any charge or lien. Liquidity ratios are a measure of Short-Term risk.

Net Assets per Share

Net Assets per share is the total value of shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Margin is the difference between interest income and interest cost divided by average interest earning assets

Net Interest Margin

Interest income less interest cost, expressed as a percentage of average lending assets.

Non-Performing Portfolio

The aggregate value of the advances portfolio that has been delinquent for a period in excess of 6 months.

Net Profit per Employee

Net profit after taxation divided by the number of employees in service at the end of a financial year.

Operational Profit

Operational profit is the profit derived from earning assets. The operational profit is the difference between the net interest income and other direct costs.

Performing Portfolio

The aggregate value of the advances portfolio that is non-delinquent. Usually the test used is the period of delinquency. If such period is less than 6 months, it is considered as performing.

Post Balance Sheet Events

These are events that occur after the Balance Sheet date. Such events are:

a) Those that provide further evidence of conditions that existed at the Balance Sheet date and,
b) Those that are indicative of conditions that arose subsequent to the Balance Sheet date.

Return on Average Equity

Profits before taxation divided by the average equity.

Return on Average Total Assets

Profits before taxation divided by the average total assets.

ROAE (Return on Average Equity)

Profits before taxation divided by the average value of equity funds.

Sources and Distribution of Funds

A statement setting out in absolute and percentage terms the sources of total funds, and how such funds have been invested.

Sri Lanka Accounting Standard 33 (SLAS 33)

Revenue recognition and disclosure in financial statements of finance companies.

This accounting standard is applicable to licensed finance companies, and is published by the Institute of Chartered Accountants of Sri Lanka. The standard contemplates the basis and convention for recognizing income, and in general includes the following:

a) Interest income recognition
b) Classification of Performing and Non-Performing Assets
c) Recognition of income derived from service charges and default interest
d) Accounting for lump sum payments
e) Balance sheet contingencies, commitments and off balance sheet events
f) Maturity of assets and liabilities
g) Losses on loans and advances
h) General finance company risk
i) Assets pledged as security
j) Disclosure of related party assets

Stock Out on Hire

The value of the principal sum not yet fallen due in respect of the advances portfolio (leasing, hire purchase and trade loans) at the end of the accounting period.

Value Added Statement

Value of wealth created in any particular period by utilizing specific financial services and how such wealth is distributed amongst competing stakeholder groups.

Branch Network

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	Prabhath Weerasinghe	prabhathw@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	Muditha Withanage	mudithaw@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
Kaduwela	Kumara Building, 502/10, Colombo Road, Kaduwela.	011-2538180	011-2538186	Samantha Welivita	samanthaw@senfin.com
Kandy	No. 12, Kotugodella Veediya, Kandy.	081-2201201	081-2201207	Sampath Hettiarachchi	sampath@senfin.com
Katugastota	No. 437B, 1st & 2nd Floor, 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

Branch	Address	Tel. Number	Fax Number	Manager / Officer In Charge	E-mail
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	Jayantha Kumara	jayanthak@senfin.com
Nugegoda	No. 86, Nawala Road, Nugegoda.	011-2856600	011-2856650	Dharshana Kodikara	dharshana@senfin.com
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
Pelawatta	No. 1067 ,Pannipitiya Road , Battaramulla.	011-2774140	011-2774145	Rukshan Kanagasundaram	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 Gunawardana	dushmanthag@senfin.com
Wattala	No. 264, Negombo Road, Wattala.	011-2949611	011-2949616	Janaka Gonaduwage	gonaduwage@senfin.com
Wennappuwa	No. 272, Chilaw Road, Wennappuwa.	031-2245266	031-2245271	J.Udaya Fernando	udaya@senfin.com

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 42nd Annual General Meeting of Senkadagala Finance Company PLC., will be held at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 3 on 21st September, 2011 at 11 a.m. for the following purpose:

I. To receive and consider the Annual Report of the Board of Directors and the Statements of Account for the year ended 31st March 2011 and Report of the Auditors thereon.

II. To declare a Final Dividend of Rs. 20,279,840 (0.38 per share) to the shareholders of the company as recommended by the board of directors.

III. To appoint Mr. S.K. Wickremesinghe, who is 83 years of age, a director in terms of Section 211 of the Companies Act, No. 7 of 2007. Accordingly, the following resolution is to be passed for this purpose, if thought fit.

IT IS HEREBY RESOLVED:
"To re elect Mr. S.K. Wickremesinghe, who is 83 years of age, a director in terms of Section 211 of the Companies Act, No. 7 of 2007 and it is specially declared that the age limit of 70 years referred to in Section 210 of the Companies Act, No. 7 of 2007 shall not apply to the said Mr. S.K. Wickremesinghe

IV. To appoint Mr. L.G.D.C.L.S. Herath, who is 77 years of age, a director in terms of Section 211 of the Companies Act, No. 7 of 2007. Accordingly, the following resolution is to be passed for this purpose, if thought fit.

IT IS HEREBY RESOLVED:
" To re elect Mr. L.G.D.C.L.S. Herath, who is 77 years of age, a director in terms of Section 211 of the Companies Act, No. 7 of 2007 and it is specially declared that the age limit of 70 years referred to in Section 210 of the Companies Act, No. 7 of 2007 shall not apply to the said Mr. L.G.D.C.L.S. Herath.

V. To re appoint the retiring Auditors, M/s. KPMG Ford, Rhodes, Thornton & Company – Colombo for the ensuing year and to authorise the directors to determine their remuneration.

By order of the Board of
SENKADAGALA FINANCE CO. PLC

Sgd.
Managers and Secretaries (Private) Limited
Secretaries

Colombo
10th June 2011

Note:

i. 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.

ii. A form of proxy is enclosed in this Report.

iii. 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 that 48 hours before the time for holding the Meeting

Form of Proxy

I/we………

of………
Being a *member/members of Senkadagala Finance Company PLC hereby appoint:

Mr. Sarath Kusum Wickremesinghe	of Colombo or failing him
Mr. Lakshman Balasuriya	of Colombo or failing him
Dr. Asoka Balasuriya	of Kandy or failing him
Mr, Rohan Balasuriya	of Colombo or failing him
Dr. Mahendra Balasuriya	of Colombo or failing him
Dr. (Mrs) Gayathri Madan Mohan	of Colombo or failing her
Mrs. Lakshmi Fernando	of Colombo or failing her
Mr. L.G.D.C. Lionel Sirimanne Herath	of Nugegoda or failing him
Mr. W. A. T. Fernando	of Colombo or failing him

Mr/Mrs…… of

………
as *my/our proxy to vote for *me/us on *my/our behalf at the 42nd 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 21st day of September, 2011 at 11 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

		FOR	AGAINST
i	To adopt the financial statements of the company for the year ended 31st March, 2011		
ii	To declare a final dividend of Rs. 0.38 per share for the financial year ended 31st Match 2011		
iii	To re-elect Mr. S.K. Wickremesinghe as a director in terms of Section 211 of the Companies Act No. 7 of 2007.		
iv	To re-elect Mr. L.G.D.C.Lionel Sirimanne Herath as a director in terms of Section 211 of the Companies Act No. 7 of 2007.		
v	To re-appoint the retiring auditors M/s KPMG Ford, Rhodes, Thornton & Co. and to authorize the directors to fix their remuneration		

Signed this ……………………………day of ……………………………Two thousand and eleven.

……………………………………………………
Signature

Note

1. * Please delete the inappropriate words
2. Instructions as to completion are set out on the reverse hereof

Form of Proxy Contd.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy after filing in legibly 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.

4. If the form of proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed form of proxy, in the manner prescribed by the Articles of Association.

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

- Quoted Public Limited Liability Company incorporated on 29th December 1968. The Company re-gistered under the Companies Act, No. 7 of 2007.
- Approved and registered under the Finance Companies Act, No. 78 of 1988
- Approved and registered under the Finance Leasing Act No. 56 of 2000.
- An Approved Credit Agency under 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. S. K. Wickremesinghe *B.Sc.(Cey)*
Dr. Asoka Balasuriya *B.Sc.(Lond.), Ph.D. (Lond.)*
Mr. Lakshman Balasuriya *B.Sc.(Lond), M.Sc. (Lancaster)*
Mr. Rohan Balasuriya *B. Sc.(E.Ang.), M.Sc. .(E.Ang.)*
Dr. Mahendra Balasuriya *B.V.Sc.*
Mrs. Lakshmi Fernando *B.Sc. (Hons.)*
Dr. (Mrs.) Gayathri Madan Mohan *M.B.B.S.*
Mr. Cyril Lionel Srimanne Herath *B.A. (Cey)*
Mr. Ajith Fernando *FCMA (UK), MA (Colombo)*

Company Registration Number

PB 238 PQ

Taxpayer Identification Number (TIN)

104028349

Registered Office

2nd Floor,
No.267, Galle Road, Colombo 3.
Tel: 011-2301301
Fax: 011-2301937
Email: senk@senfin.com

Web Site

www.senfin.com

Secretaries

Managers and Secretaries (Pvt) Limited
No. 8, Tickell Road
Colombo 8.

Auditors

KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants
Sir Mohamed Macan Markar Mawatha
Colombo 3.

Legal Consultants

Mr. Parakrama Keppetipola (Attorney- at-Law)
Mr. M.S. Sultan (Attorney-at-Law)

Internal Auditors

Ernst & Young Advisory Services (Pvt) Ltd.
No. 839/2, Peradeniya Road,
Kandy.

Bankers

Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Sampath Bank PLC
Honkong & Shanghai Banking Corporation Limited

Produced by Copyline (Pvt) Ltd   Printed by Gunaratne Offset Ltd

Senkadagala Finance Company PLC
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