

CAPITAL ALLIANCE FINANCE LIMITED

Registered Finance Company with the Central Bank of Sri Lanka



INTRODUCTORY DOCUMENT

MANAGERS TO THE INTRODUCTION
Capital Alliance Holdings Limited,
Level 05, "Millennium House",
46/58, Navam Mawatha,
Colombo 02.
Tel : +9411 2317777
Fax: +9411 2317788

CAPITAL ALLIANCE FINANCE LIMITED

Incorporated under the Companies Ordinance (Cap. 145) and governed by the Finance Companies Act No. 78 of 1988.

The Company is registered under the Companies Act No.07 of 2007.

INTRODUCTORY DOCUMENT

For obtaining the listing of 33,920,282 Ordinary Voting Shares
on the Diri Savi Board of the Colombo Stock Exchange.



MANAGERS TO THE INTRODUCTION

Capital Alliance Holdings Limited,
Level 05, "Millennium House",
46/58, Navam Mawatha,
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DECLARATION

This Introductory Document has been prepared by Capital Alliance Holdings Limited from information supplied by Capital Alliance Finance Limited (the “Company”) or which is publicly available. The Directors of the Company, collectively and individually, having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which, would make any statement herein misleading. While Capital Alliance Holdings Limited has taken reasonable care to ensure full and fair disclosure it does not assume any responsibility for any investment decision made by investors based on information contained herein. In making an investment decision, prospective investors must rely on their own examination and assessments of the Company including the risks involved. It should also be noted that Capital Alliance Holdings Limited is the major shareholder of Capital Alliance Finance Limited.

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

The Colombo Stock Exchange (CSE) has taken reasonable care to ensure full and fair disclosure of information in this Introductory Document. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed or reports included in this Introductory Document.

For further inquiries, please contact the Managers to the Introduction.

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

The delivery of this Introductory Document shall not under any circumstance constitute a representation or create any implication or suggestion, that there has been no material change in the affairs of the Company since the date of this Document.

ABBREVIATIONS USED IN THIS INTRODUCTORY DOCUMENT

CALF or the “Company”	-	Capital Alliance Finance Limited
CBSL	-	Central Bank of Sri Lanka
CDS	-	Central Depository Systems (Pvt.) Limited
CSE	-	Colombo Stock Exchange
NPL	-	Non Performing Loans
Ordinary Share(s)	-	Ordinary Voting Share(s) of the Company
SEC	-	Securities & Exchange Commission of Sri Lanka

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Information Relevant to the Introduction

Introduction of Ordinary Voting Shares for Listing

This Introductory Document dated 16th September 2011 is published for the purpose of obtaining a listing on the Colombo Stock Exchange for the Ordinary Voting Shares of Capital Alliance Finance Limited.

The shares are to be listed on the Diri Savi Board of the Colombo Stock Exchange.

Collection Points

Copies of the Introductory Document may be obtained free of charge from the Managers to the Introduction or any member firm and trading member firm of the Colombo Stock Exchange as set out in Annexure I of this Document.

MANAGERS TO THE INTRODUCTION

Capital Alliance Holdings Limited

Level 5, 'Millennium House'
46/58, Navam Mawatha,
Colombo 02.

Tel : +9411 2317777

Fax : +9411 2317788

Inspection of Documents

The Introductory Document and Articles of Association of Capital Alliance Finance Limited will be hosted on the CSE website – www.cse.lk and Capital Alliance website – capitalalliance.lk for a period of not less than fourteen (14) days.

1. CORPORATE INFORMATION

Name of Company	:	Capital Alliance Finance Limited
Legal Form	:	Limited liability company domiciled in Sri Lanka and incorporated on 25th November 1981 under the Companies Ordinance (Cap.145). The Company was re-registered under the Companies Act No. 07 of 2007 on 27th November 2008. Registered as a Finance Company in terms of the Finance Companies Act No. 78 of 1988. Registered as a Leasing Company under the Finance Leasing Establishment Act No. 56 of 2000.
Company Registration No	:	PB 765
Place of Incorporation	:	Colombo, Sri Lanka
Registered Office	:	No. 21, Kumara Veediya, Kandy.
Telephone No	:	+94 81 2224619
Fax No	:	+94 81 2222703
Board of Directors	:	Mr. Chrisantha Perera (Chairman) Mr. Ajith Fernando Ms. Shiromal Cooray Mr. Raju Arasaratnam Mr. Gihan Hemachandra Mr. Sanjeewa Anthony
Secretaries to the Company	:	Corporate Services (Pvt.) Ltd. 216, De Saram Place, Colombo 10
Auditors to the Company	:	Ernst & Young 839/2, Peradeniya Road, Kandy
Bankers of the Company	:	Bank of Ceylon Seylan Bank PLC People's Bank Commercial Bank of Ceylon PLC

2. OVERVIEW OF THE COMPANY

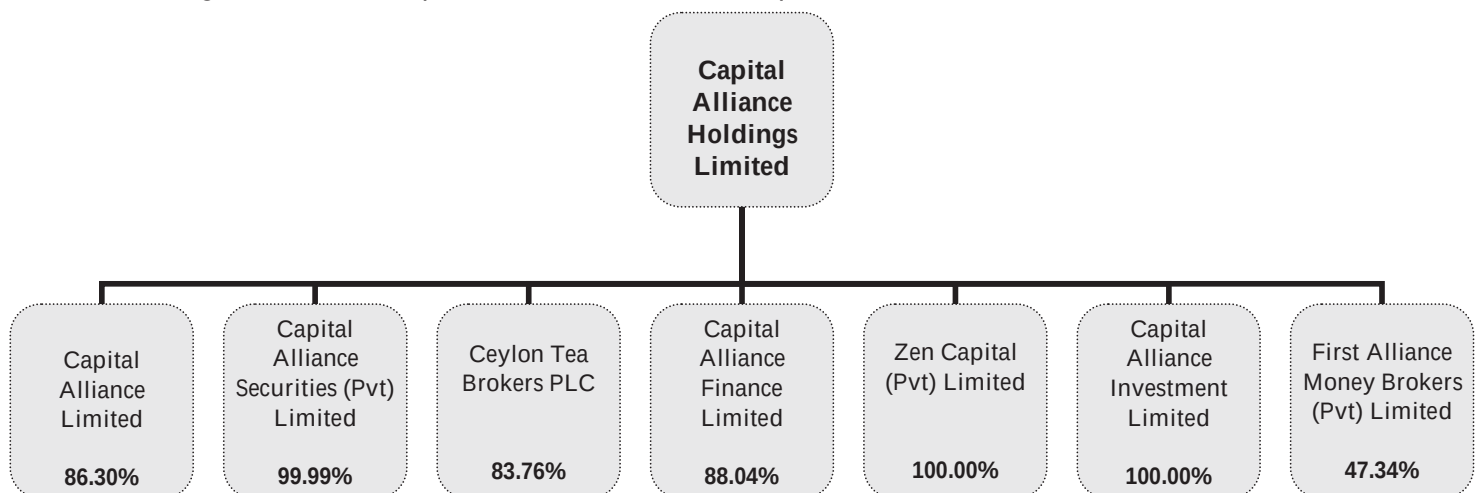
2.1 GROUP STRUCTURE

Capital Alliance Finance Limited (CALF) is a subsidiary of Capital Alliance Holdings Limited which owns 88.04% of the shares of the Company as at 15th September 2011. CALF does not have any subsidiaries of its own.

2.1.1 CAPITAL ALLIANCE HOLDINGS LIMITED

Capital Alliance Holdings Limited (CAHL) is the group holding Company and strategic investment arm of the Capital Alliance group – one of the few financial institutions in the country offering fully-fledged investment banking solutions including corporate advisory, stock broking, bond trading and asset management. Since inception, Capital Alliance has established itself as a leading player in the financial services sector of Sri Lanka specializing in the origination, trading and investment in debt, and equity securities; operating both on the buy side as well as the sell side. Capital Alliance strives to provide clients with unique insights and comprehensive expertise into Sri Lanka's capital markets through their trading and research operations. Their reputation is based on excellence in execution, research and product innovation.

CAHL was incorporated on 20th March 2003, under the Companies Act No. 17 of 1982 and re-registered on 08th September 2010 under the Companies Act No. 07 of 2007.



The Board of Directors of Capital Alliance Holdings Limited, as at the date of this Introductory Document are as follows:

Name	Age	Address
Mr. D A De Zoysa	42	8, Bois Place, Colombo 05
Mr. W A T Fernando	46	24A, Iceland Residencies, Galle Road, Colombo 03
Ms. N T M S Cooray	52	57 / 4, Ward Place, Colombo 07
Mr. R J Arasaratnam	56	57, Ward Place, Colombo 07
Mr. L A J F Morias	55	70, John Keells Housing Scheme, Enderamulla

The shareholding structure of Capital Alliance Holdings Limited as at 15th September 2011 is as follows:

Name of Shareholder	No. of Shares	Shareholding Percentage %
Jetwing Travels (Pvt) Limited	2,249,999	36.73
Ashthi Holdings (Pvt) Limited	2,229,960	36.41
Mr. W A T Fernando	809,407	13.21
Mr. R J Arasaratnam	719,999	11.76
Mrs. H M S Perera	57,822	0.94
Mr. R Corea	57,816	0.94
Total	6,125,003	100.00

2.2 CAPITAL ALLIANCE FINANCE LIMITED

Capital Alliance Finance Limited (CALF) is a finance company with operations limited to its Head Office in Kandy and branch office in Colombo.

CALF, originally Silverreen Finance Company Limited, was incorporated on November 25, 1981, by a well reputed family in Kandy. Silverreen Finance (as it was initially known) was very popular amongst the Kandians who benefited through the flexibility of the Directors towards lending.

On 06th March 2009, a 44% stake of the Company was acquired by People's Merchant Bank PLC along with PMB Credit Card Company. Subsequently, People's Merchant Bank PLC acquired up to 99.9% of the Company, during the quarter ended June 30, 2009. Upon obtaining approval from the Central Bank of Sri Lanka, the name of the entity was changed from Silvereen Finance Company Limited to People's Merchant Finance Company Limited, on 13th September, 2009.

The 99.9% stake owned by People's Merchant Bank, which accounts for 6,167,025 shares of the Company, was acquired by Capital Alliance Holdings Limited on 12th May 2011, at a consideration of Rs. 430 million. Subsequent to the acquisition the name of the entity was changed from People's Merchant Finance Company Limited to Capital Alliance Finance Limited, on 16th September 2011.

The Company is to be listed on the Colombo Stock Exchange in compliance with the regulatory requirements set out by the Monetary Board of the Central Bank of Sri Lanka as communicated by the Department of Supervision of Non-Bank Financial Institutions by the letter dated September 17, 2009. The Company was given an extended deadline for listing on the Colombo Stock Exchange up to 31st August 2011, by the Monetary Board of the Central Bank of Sri Lanka due to the acquisition of the Company by Capital Alliance Holdings Limited. However, due to unavoidable delays in the transition resulting from the acquisition, the Company has surpassed the set deadline. The Monetary Board has been kept informed in this regard.

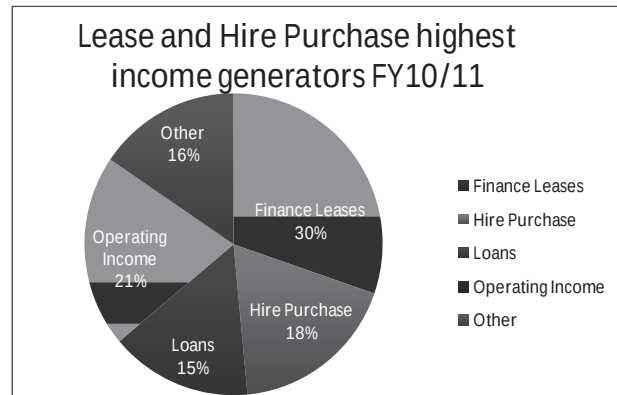
The Company is primarily involved in the business of accepting deposits – both fixed and savings. CALF is also engaged in the provision of finance lease, hire purchase facilities and personal loans to its customers. CALF offers attractive rates to its customers in order to effectively compete with larger and better established players in the market.

Despite the three decade history, the operations of CALF have been limited to accepting deposits and providing loans to known parties. The leasing and hire purchase portfolio of the Company is also very modest, totalling approximately LKR 222 million as at 30th June 2011. The current management of the Company intends to further enhance the operations through aggressive marketing campaigns and initiating new avenues of lending.

The new management hope to revive the Company using the synergies of the group, backed by the strength of the 'Capital Alliance' brand and its established presence in the financial sector.

2.3 PRODUCT PORTFOLIO

CALF is primarily engaged in leasing and hire purchase which accounts for 48% of its total lending portfolio as at 31st March 2011. Other financial services offered by the Company include loans against property mortgage and hire purchase facilities for vehicles.



2.3.1 LEASING

Source: CALF

Leasing is one the primary revenue generators of the Company, accounting for approximately 30% of the total income for the financial year 2010/11. CALF extends its leasing facilities for un-registered (brand new or reconditioned) and registered vehicles. It also provides leasing facilities for brand new equipment/machinery. The Company also benefited from the recent boost to the leasing industry on account of Government policies to reduce import duties on vehicles, which caused an in surge of new vehicle registration in the country during the last year. The Company recorded a 66% growth in the lease portfolio in the financial year 2010/11 in comparison to the previous year.

Under the guidance of the new management, the Company intends to expand its leasing portfolio taking into advantage the accelerating growth in the Sri Lankan economy.

2.3.2 HIRE PURCHASE

Hire purchase, the second largest revenue generator for CALF, accounted for approximately 18% of the total income for the financial year 2010/11. The Company offers hire purchase facilities for financing commercial, private and passenger transport vehicles only.

The Hire Purchase portfolio saw a 97% growth in the financial year 2010/11 from the previous year, on account of the favourable reduction in import duties of vehicles. The Company intends to enhance its hire purchase portfolio through aggressive marketing campaigns targeted to increase awareness amongst target clientele.

2.3.3 LOANS

CALF offers term loans against property mortgages. In addition, the Company offers its clients loans against fixed deposits. The loan portfolio accounted for 11% of the total advances for the year ended 31st March 2011, a 36% decline from the previous year. The declining trend in the loan portfolio can be attributable to the tightened management policies when granting loans.

2.3.4 DEPOSITS

Deposits are the centre of the establishment and the financial strong-arm of the entity. The Company had a deposit base of approximately LKR 137 million as at 31st March 2011, indicating a 115% growth from the previous year. As at 30th June 2011, the deposit base of the Company was recorded at LKR 160 million. The increasing growth in deposit base can be attributed to the aggressive marketing and attractive interest rates offered to depositors. The security and stability associated with the Capital Alliance group is an added benefit to the Company.

2.4 SEGMENTAL ANALYSIS

CALF's exposure by way of loans and advances, leases and hire purchase facilities to various industry sub sectors is illustrated below.

Segmental Analysis of Loans and Advances, Leases, Hire Purchase by Industry as at 31st March 2010-2011

Segment	2011	2010
Transport	246,106	165,617
Personal	21,285	33,633
Distribution of Total Advances	267,391	199,250
Lease and Hire Purchase Receivables	231,929	152,528
Loans and Advances	35,462	46,722
Total Advances	267,391	199,250

2.5 DEPENDENCE ON KEY CUSTOMERS AND SUPPLIERS

The Company is not dependent on any single customer in deriving its income as it has a diversified customer base. Therefore, no single customer would have a material impact on its revenue.

The main source of financing for CALF is the acceptance of public deposits. Given the diversity of its customer base, the Company is not reliant on any single depositor for its financing activity. Furthermore, the Company is not dependent on any of the banks as a single provider of finance.

2.6 HUMAN RESOURCES

As at 15th September 2011, the staff strength of CALF was 22. The Company has not entered into any collective agreements with the employees as the employees of the Company are not members of any trade unions.

2.7 FUTURE PLANS

The following future plans have been identified by the management in order to enhance and sustain growth in the Company.

- Installation of a fully fledged IT system integrating operations to provide customers a better quality service as well as faster processing times when obtaining loans, lease or hire purchase facilities, and investing in deposits. In addition, the system will be used to provide the management with reliable and detailed analysis of lease, hire purchase, loan and deposit portfolios, to maintain records as well as ensure compliance with legal and statutory requirements.
- Recruitment of additional marketing staff to generate more business volumes, by expanding the existing deposit base as well as enhancing the loan book of CALF, through operations in Kandy and Colombo.
- Resume marketing campaigns through print media as well as other promotional activities to reach the targeted funding base of LKR 300 million and lending base of LKR 300 million by March 2012.

- Further to observations made by CBSL on their on-site examination carried out in January 2011, CALF has the capacity to expand the business by ten times based on its operations as at December 2010. The Company intends to expand the existing branch network, by opening two more branches in strategic locations, within the FY 2011/12.
- The new management also intend to start margin trading operations with a view of attracting a different segment of clients into the business. Given the strong performance in the CSE over the last few years, the Company expects this business to achieve significant growth in the future.

2.8 MAJOR ASSUMPTIONS ON FUTURE PLANS

- Overall economic conditions and anticipated economic revival would materialize, giving rise to greater purchasing power and customer spending.
- Overall demand for financial services would increase in line with anticipated economic growth and aided by stable financial markets, leading to enhanced demand for CALF's portfolio of products.
- The taxation framework and financial markets including interest rate scenarios will be favourable to promote the growth of financial products.
- The local equity market to sustain its strong trading performance over the next few years.

2.9 RISKS ASSOCIATED WITH FUTURE PLANS

Together with other finance companies in the industry, CALF faces the following risks, which may have an adverse impact on the profitability of the business.

INTEREST RATE RISK

As a Finance Company, CALF's profitability is significantly linked to the prevailing interest rates and the volatility of these rates. Interest rate risk is incurred due to mismatches in the variables pertaining to assets/liabilities such as re-pricing dates and cash flows, thus generating an impact on the net interest margin of the Company. In order to mitigate the interest rate risk, CALF focuses on a mix of fixed interest and floating rate debts to overcome the impact to profitability from the volatility of interest rates.

CREDIT RISK MANAGEMENT

Financial institutions such as CALF are exposed to credit/default risk, whereby borrowers default on their obligation to settle payments on time. CALF was severely affected during the recent financial crisis, recording higher than industry average NPL ratios, due to customers defaulting particular where demand loans were concerned. As a result the Company engages predominantly in mortgage loans secured by property. Further, tighter credit evaluation processes have been implemented to assess the credit worthiness of clients prior to granting loans.

LIQUIDITY RISK MANAGEMENT

This relates to the inability of financial institutions to discharge existing financial obligations on time, which was one of the main risk factors which affected some of the finance companies during the recent financial crisis. As a liquidity mitigation strategy, the Company ensures that sufficient reserves are maintained in the form of cash, bank credit line facilities and investments in short term securities which can be immediately liquidated if the need arises.

OPERATIONAL RISK MANAGEMENT

This refers to the possible financial losses arising as a result of inadequate or failed internal processes, systems, staff or external events, such as natural disasters, which may disrupt operations of the Company. The Company has appointed an Integrated Risk Management Committee to oversee and execute internal control procedures targeted to mitigate any foreseeable operational risks.

MACRO-ECONOMIC RISKS

CALF, like other financial institutions, is exposed to macro-economic risks such as exchange rate risk and inflation risk, which affect the disposable income of consumers and thereby affecting saving and spending patterns. This has both a direct and indirect impact on the borrowing and lending portfolio of finance companies, in terms of the level of deposits and the tendency for customers to invest in vehicle financing.

The finance industry is also exposed to regulatory risks, inclusive of but not limited to, amendments in legislation and directions issued by the Central Bank of Sri Lanka as well as changes in the tax legislation.

In addition, there is also a risk of downgrade in credit ratings, which may affect the borrowing cost of the Company, due to the availability of debt capital from financial markets and capability of raising deposits from public. There is also reputation risk involved arising from negative public opinion, which was witnessed after the recent financial crisis, which may adversely affect the ability of finance companies to attract and retain customers. As a result, CALF needs to be cognizant of the risks it can be exposed to in an evolving macro environment.

2.10 LITIGATION, DISPUTES AND CONTINGENT LIABILITIES

There are no legal, arbitration or mediation proceedings, which may have or have had a material impact on CALF's profitability and financial position. It should however be noted that CALF has instituted legal proceedings against clients in default, in the usual course of business.

Most of the legal cases against default clients are over 12 months in arrears and therefore, as per the accounting standards, provisions have been made in full, so there is no impact on the future profits by way of a loss. Cases which are less than 12 months in arrears have been provisioned for accordingly and are reviewed on a monthly basis by the CBSL Non-Banking Supervision Division.

Recovery from any of the legal cases against default clients on a lending contract (which have already been provided for) would be recorded as an income in the Income Statement.

There are no contingent liabilities that would affect current or future profits of the Company.

There are no penalties imposed by regulatory or state authorities on the Company.

3. SENIOR MANAGEMENT

The senior management of CALF comprises of the following individuals:

- **Mr. Gihan Hemachandra – Acting Chief Executive Officer**

154/2, Kaduwela Road,
Malabe

Gihan holds a Bachelor's Degree in Business Administration with Honors in Finance from the University of Colombo and is an Associate Member of the Chartered Institute of Management Accountants. He has over 10 years of experience in the debt markets, and joined Capital Alliance in 2005.

The Chief Executive Officer nor any person nominated to become the Chief Executive Officer is or was involved in the following events:

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

- **Mr. Sanjev Perera - Consultant**

Sanjev is an Associate Member of the Institute of Bankers Sri Lanka and obtained a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura. Over 25 years in the Financial Services Industry having served in leading banks both in Sri Lanka and overseas. He has held several senior management positions in key areas such as corporate credit, retail branch operations and overall risk management.

- **Mr. Mahen Navaratne – Asst. General Manager**

Mahen is an Associate Member of the Institute of Bankers Sri Lanka. He has a Postgraduate Executive Diploma in Bank Management and a Diploma in Treasury, Investment and Risk Management. Mahen has over 26 years of experience in the banking and financing industry, of which 13 years have been held in senior management positions covering the areas of credit, recoveries, administration and operation divisions.

- **Mr. Palitha Ratnayake – Manager - Kandy**

Palitha is a BSc graduate, and is part qualified in Chartered Accountancy. He counts for over 13 years of experience in the finance sector. He has been with CALF for 4 years.

- **Mr. Prasanna Fernando – Manager - Colombo**

Prasanna counts for over 17 years of experience in the banking and finance sector.

- **Ms. Mallika Medagedara - Accountant**

Mallika has a part qualification in Chartered Accountancy, and has over 22 years of experience, of which 20 years has been with CALF.

4. THE BOARD OF DIRECTORS

The Board of Directors of CALF is responsible for providing strategic leadership to ensure that the business is efficiently managed in order to optimize shareholder value.

The Board consists of five (05) Non-Executive Directors, two (02) of whom are Independent and one (01) Executive Director.

Name	Age	Address
Mr. C P R Perera	67	40/10, Lake Garden, Off Lake Drive, Rajagiriya
Mr. W A T Fernando	47	24A, Iceland Residencies, Galle Road, Colombo 03
Ms. N T M S Cooray	53	57/4, Ward Place, Colombo 07
Mr. R J Arasaratnam	56	57, Ward Place, Colombo 07
Mr. E R G C G Hemachandra	35	154/2, Kaduwela Road, Malabe
Mr. C S R S Anthony	42	No. 20, St. Anne's Road, Wattala

4.1 STATEMENT – BOARD OF DIRECTORS

The Chairman nor any Director of the Company has been or is involved in any of the following events:

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

Name	Qualification & Experience	Other Directorships
Mr. C P R Perera <i>Chairperson / Independent Non-Executive Director</i>	Mr. Perera has been associated with the tea industry for 50 years. Retired as Chairman/ CEO of Forbes & Walker Limited in 2005 after serving this Company for 44 years. A former Chairman of the Sri Lanka Tea Board, Sri Lanka Insurance Corporation Ltd., Public Enterprises Reform Commission and Bank of Ceylon. Presently serves on the Boards of two Plantation Companies and their respective holding Companies as well as a number of other public listed and private Companies. He is a Director of the Sri Lankan Business Development Centre.	Agarapatana Plantations Ltd Avondale Factories (Pvt) Ltd Beruwala Resorts Ltd Ceylon Tea Brokers PLC Delmege Insurance Brokers (Pvt) Ltd DFCC Bank Indo Asia Teas (Pvt) Ltd Insite Holdings Co. Ltd Insite Factories (Pvt) Ltd Kotagala Plantations PLC Lankem Tea & Rubber Plantations (Pvt) Ltd Marawila Resorts PLC Sigiriya Village PLC Sri Lanka Business Development Center
Mr. W A T Fernando <i>Non-Executive Director</i>	Mr. Fernando is a fellow member of the Chartered Institute of Management Accountants (UK) and holds a MA in Financial Economics from the University of Colombo. He counts for over 20 years experience in capital markets of Sri Lanka. His main areas of specialisation are fixed income markets including government securities and securitisation.	ADZ Insurance Brokers (Pvt) Ltd Asothi Holdings (Pvt) Ltd Capital Alliance Holdings Ltd Capital Alliance Investments Ltd Capital Alliance Ltd Capital Alliance Securities (Pvt) Ltd

Mr. W A T Fernando (contd.)	In 2000 he founded Capital Alliance and is currently the group CEO of the Capital Alliance Group which includes Capital Alliance Group which includes Capital Alliance Ltd, a Primary Dealer for Government Securities appointed by the Central Bank of Sri Lanka, Capital Alliance Securities (Pvt) Ltd, a trading member of the Colombo Stock Exchange and Peoples Merchant Finance Ltd a finance company registered by the Central Bank of Sri Lanka. He also serves on the boards of several public listed and private companies. He is the Deputy Chairman of the Financial Ombudsman's office and a Director of the Lanka Financial Services Bureau.	Ceylon Tea Brokers PLC Colombo Divers (Pvt) Ltd Financial Ombudsman Sri Lanka (Guarantee) Ltd Lanka Financial Service Bureau Ltd Senkadagala Finance PLC Shift Solutions (Pvt) Ltd The Association of Primary Dealers Trade Finance & Investments Ltd Zen Capital (Pvt) Ltd
Ms. N T M S Cooray <i>Non-Executive Director</i>	Ms. Cooray is the Managing Director of Jetwing Travels (Pvt) Limited - an inbound / outbound travel agent in Sri Lanka and also a Director of Jetwing Hotels (Pvt) Ltd, a hotel management company that owns and manages twelve hotels in Sri Lanka. She is also the past president of the Sri Lanka Association of Inbound Tour Operators (SLAITO) in Sri Lanka. Having completed her higher studies in the United Kingdom she embarked on a career in accountancy and is an associate member of the Chartered Institute of Management Accountants, United Kingdom. She also holds a masters degree in business management from the University of Colombo. Prior to joining the travel and tourism trade, she worked as the Finance Director of J Walter Thompson Ltd for 5 years and held a similar position at Mojo Hong Kong Ltd for 2 years.	Blue Oceanic Beach Hotel (Pvt) Ltd Capital Alliance Holdings Ltd Capital Alliance Ltd Ceylon Tea Brokers PLC Cultural Heritage (Pvt) Ltd Cylan Enterprises (pvt) Ltd Eastern Hotels (Pvt) Ltd Hunas Falls Hotels PLC Jet Enterprises (Pvt) Ltd Jet Travels (Pvt) Ltd Jetwing Air (Pvt) Ltd Jetwing Blue (Pvt) Ltd Jetwing Cargo (Pvt) Ltd

Ms. N T M S Cooray (contd.)	Jetwing City (Pvt) Ltd Jetwing Eco Holidays (Pvt) Ltd Jetwing Hotels Ltd Jetwing Hotels Management Services (Pvt) Ltd Jetwing Real Estate (Pvt) Ltd Jetwing Travels (Pvt) Ltd Lighthouse Hotel PLC Negombo Hotels Ltd N J Cooray (Builders) (Pvt) Ltd Rangala Hotels (Pvt) Ltd Royal Heritage Hotel (Pvt) Ltd Seashells Hotel (Pvt) Ltd Sea Shore Explorers (Pvt) Ltd Sita World travel Lanka (Pvt) Ltd Southern Village Hotel (Pvt) Ltd St. Andrews Hotels (Pvt) Ltd Star Com (Pvt) Ltd The First Resort (Pvt) Ltd The Solutions Group (Pvt) Ltd Trade Finance & Investments Ltd Uppuveli Beach (Pvt) Ltd Yala Properties (Pvt) Ltd Yala Safari Beach Hotel (Pvt) Ltd Yarl Hotels (Pvt) Ltd
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Mr. R J Arasaratnam <i>Non-Executive Director</i>	Mr. Arasaratnam is a Director of Jetwing Travels (Pvt) Limited and counts over 19 years of experience in the field of Travel and Tour operations.	Capital Alliance Holdings Ltd Capital Alliance Ltd Jetwing Air (Pvt) Ltd Jetwing Eco Holidays (Pvt) Ltd Jetwing Travels (Pvt) Ltd
Mr. E R G C G Hemachandra <i>Executive Director</i>	Mr. Hemachandra holds a Bachelor's Degree in Business Administration with Honours in Finance from the University of Colombo and is an Associate Member of the Chartered Institute of Management Accountants. He has over 10 years of experience in the debt markets, and joined Capital Alliance in 2005.	Opulent Fund (Pvt) Ltd Capital Alliance Investments Ltd
Mr. C S R S Anthony <i>Independent Non-Executive Director</i>	Mr. Anthony is an Attorney-at-Law, Notary Public, Commissioner for Oaths and a Registered Company Secretary. He is also a Fellow Member of the Chartered Institute of Management Accountants, UK and a Fellow Member of The Institute of Certified Management Accountants of Sri Lanka. He commenced his career at PricewaterhouseCoopers, prior to joining Jetwing Hotels Limited as the Finance Manager in 1996. He is a Life Member of the Bar Association of Sri Lanka (BASL) and also a Delegate of the Bar Council of the BASL. He holds the position of an Executive Committee Member of the Association of Corporate Lawyers of Sri Lanka.	Jetwing Hotels Limited The Lighthouse Hotel PLC Jetwing Zinc Journeys Lanka Company (Pvt) Ltd Jetwing Relief Fund (Guarantee) Ltd

5. CORPORATE GOVERNANCE

5.1 INDEPENDENT DIRECTORS

The Independent Directors, Non-Executive Directors of CALF comprise of the following Directors:

- Mr. C P R Perera
- Mr. C S R S Anthony

In accordance with best practices, the Board has established two Board Committees that report to the Board

5.2 AUDIT COMMITTEE

The Audit Committee comprises of the following Directors, and is chaired by Mr. C S R S Anthony:

- Mr. C S R S Anthony
- Mr. C P R Perera
- Mr. W A T Fernando

The Chairman of the Audit Committee is a Fellow Member of the Institute of Management Accountants, UK and a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka.

5.3 REMUNERATION COMMITTEE

The Remuneration Committee comprises of the following Directors, and is chaired by Mr. C P R Perera:

- Mr. C P R Perera
- Mr. C S R S Anthony
- Mr. W A T Fernando

The primary responsibility of the Committee is to propose to the Board of Directors a competitive remuneration policy designed to attract, motivate and retain the employees of CALF. The remuneration policy thus determined takes into consideration the corporate

objectives of CALF, the performance of employees and the market rates offered by other finance companies in the industry.

The Directors of CALF have not received any remuneration or bonus for the year ended 31st March 2011, with the exception of a nominal allowance of LKR 5,000/- for each Board meeting attended.

6. CAPITAL STRUCTURE

6.1 STATED CAPITAL

The stated capital of the Company comprised of Six Million One Hundred Sixty Seven Thousand Three Hundred and Twenty Four (6,167,324) issued and fully paid Ordinary Voting Shares, as at 31st March 2011.

The Company subdivided every two(2) existing Ordinary Voting Share into Eleven(11) Ordinary Voting Shares, on 22nd June 2011. This resulted in the increase of the existing 6,167,324 Ordinary Voting Shares to Thirty Three Million Nine Hundred Twenty Thousand Two Hundred and Eighty Two (33,920,282) Ordinary Voting Shares.

The holders of the Ordinary Voting Shares of the Company confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meetings.

As at the date of this Introductory Document, the stated capital of the Company comprises of Thirty Three Million Nine Hundred Twenty Thousand Two Hundred and Eighty Two (33,920,282) issued and fully paid Ordinary Voting Shares.

No other classes of shares have been issued by the Company, during the last two years preceding the date of this Introductory Document.

Further, it should be noted that have been no redemption, repurchase or reduction in the Stated Capital within the last two years preceding the date of this Introductory Document.

6.2 CONVERTIBLE DEBT SECURITIES

CALF does not have any outstanding convertible debt securities as at the date of this Introductory Document.

6.3 SHARES SOLD PRIVATELY IN CONJUNCTION WITH THE LISTING

Securities of the same class or another class have not been subscribed or sold privately in conjunction with the listing of Shares on the Colombo Stock Exchange.

6.4 FREE TRANSFERABILITY OF SECURITIES

There are no statutory restrictions on the free transferability of shares to be listed on the CSE. It should also be noted that there are no restrictions applicable to non-resident shareholders of the Company.

6.5 TRANSFER OF SHARES

The major shareholder, Capital Alliance Holdings Limited, transferred Four Million Fifty Three Thousand Six Hundred (4,053,600) of the Ordinary Voting Shares held, on 01st August, 2011, in order to comply with the CSE Listing Rules. The details pertaining to the shares transferred during the year are tabulated in Annexure II of this Introductory Document.

The public shareholding of the Company is 10.11% as at the date of this Introductory Document, and is held by more than 100 public shareholders holding not less than 100 shares each.

6.6 SHAREHOLDERS OF CALF

The major shareholders of the Company as at 15th September 2011 are as follows:

Name of Shareholder	No. of Shares	Shareholding (%)
Capital Alliance Holdings Limited	29,865,038	88.04
Andrew Deshan Pushparajah	500,000	1.47
Opulant Fund (Private) Limited	330,000	0.97
Chrisantha Priyange Richard Perera	300,000	0.88
Harinlal Gehan Arjuna Aturupane	100,000	0.29
Lester Paul Weinman	100,000	0.29
Dirk Bryant Flamer Caldera	100,000	0.29
Malarkolunthu Sivakumaran	100,000	0.29
Don Padmasiri Kumarage	100,000	0.29
Herath Mudiyanseelage Janaka Rajeeva Bandara Palapathwala	90,000	0.28
Akila Milanka Induruwage	90,000	0.28
Kishan Ganesh Viravanathan	90,000	0.28
Others	2,155,244	6.35
Total	33,920,282	100.00

7. FINANCIAL INFORMATION

7.1 RATIOS AND SHARE INFORMATION

	Year Ended	
	31.03.2010	31.03.2011
Net Interest Margin (%)	11.44	9.91
Non-Interest Income Margin (%)	3.89	7.26
Cost to Income (%)	62.91	34.36
Gross NPL Ratio (%)	10.45	9.58
Gross NPL Coverage (%)	101.45	71.14
Liquid Asset Ratio	92.92	67.26
Capital Adequacy Ratio (%)	90.00	80.28
Book Value per Share (Rs.)	33.65	35.17
Earnings per Share (Rs.)	0.51	1.51
Profit after Tax / Average Equity (%)	1.51	4.40
Return on Average Assets (%)	2.95	6.19
Effective Tax Rate (%)	43.58	24.12

Source: CALF

7.2 RECEIVABLES

7.2.1 POLICY FOR CLASSIFICATION OF NON-PERFORMING RECEIVABLES

For leasing and hire purchase facilities granted without an additional security in the form of a property mortgage, provision for possible loan losses are made on the basis of a continuous review of all advances to customers in accordance with the Finance Company Direction No.3 of 2006 (Provision for bad and doubtful debt) issued by the Central Bank of Sri Lanka and in accordance with Sri Lanka Accounting Standard No. 33, Revenue Recognition and Disclosure in the Financial Statements of Finance Companies. Accordingly, specific provisions have been made as follows:

For all advances in arrears for a period of 6-12 months	50%
For all advances in arrears for over 12 months	100%

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

Additionally, under the Finance Company Direction No.3 of 2006 (Provision for bad and doubtful debt), as mentioned above, where a facility is secured by a property mortgage, specific provisions have been made as follows for facilities in arrears for more than :

06 – 36 months	: 100% of the valuation at the time of granting the facility
36 – 60 months	: 80% of the valuation at the time of granting the facility
60 – 120 months	: 50% of the valuation at the time of granting the facility
Over 120 months	: 0% of the valuation at the time of granting the facility

7.2.2 COMPOSITION OF RECEIVABLES:

	YE 31.03.2010 (%)	YE 31.03.2011 (%)
Performing Loans & Advances		
Less than 3 months	71.32	90.30
3-6 months	28.68	9.70
7-12 months	-	-
13-18 months	-	-
More than 18 months	-	-
Total (%)	100.00	100.00
Total Performing Loans (Rs.)	146,241,473	213,097,215
Non Performing Loans & Advances		
Less than 3 months	-	-
3-6 months	-	-
6-7 months	0.83	3.47
7-12 months	14.00	7.32
13-18 months	35.75	18.98
More than 18 Months	49.42	70.23
Total (%)	100.00	100.00
Total Non-Performing Loans (Rs.)	24,190,077	24,819,895
Total (Rs.)	170,431,550	237,917,110

Source: CALF

8. DECLARATION BY THE DIRECTORS

We, the undersigned, who are named in the Introductory Document as Directors of Capital Alliance Finance Limited, hereby declare and confirm that we have read the provisions of the Companies Act No. 07 of 2007 and the Colombo Stock Exchange Listing Rules and any amendments to it relating to the issue of this Introductory Document and that those provisions have been complied with.

This Introductory Document has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that provisions of the CSE Listing Rules and of the Companies Act No. 7 of 2007 and any amendments to it from time to time have been complied with after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading or inaccurate.

Name of Director	
Chrisantha Priyange Richard Perera	Signed
Widanalage Ajith Terance Fernando	Signed
Nawalage Therese Manouri Shiromal Cooray	Signed
Rajadurai James Arasaratnam	Signed
Elabadagama Ralalage Gihan Chandana Gomie Hemachandra	Signed
Conganige Sextus Roland Sanjeewa Anthony	Signed

UNAUDITED FINANCIAL STATEMENTS AS AT 30TH JUNE 2011

PEOPLE'S MERCHANT FINANCE LIMITED INCOME STATEMENT

Amounts in Rupees '000

	Quarter ended 30th June Unaudited			Year ended 31st March Audited		
	2011	2010	Growth	2011	2010	Growth
Income	15,918	13,780	16%	67,069	59,483	13%
Interest Income	14,428	11,748	23%	42,841	47,973	-11%
Interest Expense	(4,525)	(2,277)	99%	(9,761)	(14,141)	-31%
Net Interest Income	9,903	9,471	5%	33,080	33,832	-2%
Other operating Income	1,490	2,032	-27%	24,228	11,510	110%
	11,393	11,503		57,308	45,342	
less: Operating Expenses						
Personnel Costs	(2,126)	(1,393)	53%	(6,891)	(7,184)	-4%
General and Administration Expenses	(3,613)	(1,927)	87%	(13,362)	(22,830)	-41%
Profit before Loan Loss Provision & Tax	5,654	8,183	-31%	37,055	15,328	142%
Loan Losses and Provisions	(43)	(4,188)	-99%	(14,346)	(4,231)	239%
Profit before Tax & VAT	5,611	3,995	40%	22,709	11,097	105%
Value Added Tax on Financial Services	(457)	(577)	-21%	(2,037)	(2,386)	-15%
Profit after VAT & before Tax	5,154	3,418	51%	20,672	8,711	137%
Taxation	1,095	1,209	0%	(11,305)	(5,593)	102%
Profit for the period	4,059	2,209	84%	9,367	3,118	200%
Earnings Per Share	0.12	0.07		0.28	0.09	

The Interim Financial Statements for the three months ended 30.06.2011 are provisional

The annexed notes form an integral part of these interim financial statements

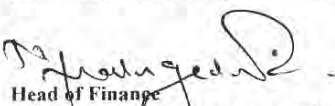
PEOPLE'S MERCHANT FINANCE LIMITED BALANCE SHEET

Amounts in Rupees '000

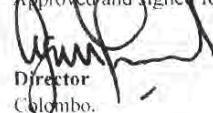
	30th June Unaudited		31st March Audited
	2011	2010	2011
ASSETS			
Cash & Bank Balances	43,611	10,470	76,749
Treasury Bills and Bonds Eligible for Rediscounting	15,230	23,000	15,230
Investment in Dealing Securities	78,333	44,421	13,175
Loans and Advances	99,364	75,601	95,458
Placement with Banks and Other Finance Companies	0	0	
Lease Rental Receivable and Stock Out On Hire	135,339	92,693	119,600
Repossessed Stock	3,842	7,862	4,633
Trade & Other Receivables	15,532	16,062	38,625
Inventories	2,570	2,570	99
Property, Plant & Equipment	15,224	12,795	15,256
Total Assets	409,045	285,474	378,825
LIABILITIES			
Fixed Deposits	159,922	59,166	136,750
Rental Received in Advance	3,701	1,736	3,848
Trade and Other Payables			11,213
Bank Overdraft	0	0	1,526
Borrowings	0	0	
Retirement Benefit Obligation	844	1,459	930
Income Tax Payable	0	0	968
Deferred Taxation	757	0	6,667
Accrued Expenses	4,168	2,246	
Other Payables	5,025	3,738	
Total Liabilities	174,417	68,345	161,902
EQUITY			
Capital and Reserves			
Stated Capital	120,904	120,904	120,904
Statutory Reserve	9,502	9,034	9,502
General Reserve	60,000	60,000	60,000
Retained Earnings	43,700	27,191	26,299
Investment Fund A/C	522	0	218
Shareholders' Equity	234,628	217,129	216,923
Total Shareholders' Equity and Liabilities	409,045	285,474	378,825
Net assets per share	6.92	6.40	6.40

Note : The above figures are subject to Audit

These Financial Statements have been prepared and presented in compliance with the requirements of the Companies Act No.07 of 2007

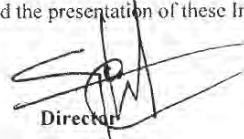

Head of Finance

The Board of Directors is responsible for the preparation and the presentation of these Interim Financial Statements
Approved and signed for and on behalf of the Board ;


Director
Colombo.

31st July 2011

Peoples Merchant Finance Ltd


Director

The Interim Financial Statements for the three months ended 30.06.2011 are provisional
The annexed notes form an integral part of these interim financial statements

PEOPLE'S MERCHANT FINANCE LIMITED
STATEMENT OF CHANGES IN EQUITY

For the three monthsh ended 30th June 2011

Amounts in Rupees '000

	Stated Capital Rs.	Statutory Reserve Rs.	Investment Fund Reserves	General Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1st April 2010	120,904	9,034	-	60,000	17,618	207,556
Shares issued during the period	-	-	-	-	-	-
Profit for the period	-	-	-	-	3,417	3,417
Dividend	-	-	-	-	-	-
Transfers	-	-	-	-	6,156	6156
Balance as at 30th June 2010	120,904	9,034	-	60,000	27,191	217,129
Balance as at 1st April 2011	120,904	9,502	218	60,000	26,299	216,923
Shares issued during the period	-	-	-	-	-	-
Profit for the period	-	-	-	-	5,155	5,155
Dividend	-	-	-	-	-	-
Transfers	-	-	304	-	(304)	-
Adjustment as Per Final Audit	-	-	-	-	12,550	12,550
Balance as at 30th June 2011	120,904	9,502	522	60,000	43,700	234,628

The Interim Financial Statements for the three months ended 30.06.2011 are provisional

The annexed notes form an integral part of these interim financial statements

PEOPLES MERCHANT FINANCE LIMITED
CASH FLOW STATEMENT

For the three months ended

30th June
Unaudited

Amounts in Rupees '000

2011 **2010**

Cash Flow From Operating Activities

Net Profit Before Income Tax 4,850,383 3,417,847

Adjustment For

Depreciation 323,446 128,190

Income from Investment (1,970,994) (1,677,607)

Finance Cost 4,524,947 2,276,904

Provision for Gratuity 46,000 44,538

Reversal of (Over)/Under Provision - -

Operating Profit Before Working Capital Changes **7,773,782** **4,189,872**

(Increase)/Decrease in Loans and Advances (4,176,339) (6,678,468)

(Increase)/Decrease in Investment in Leases (15,738,100) (2,656,129)

(Increase)/Decrease in Trade and Other Receivables 26,725,301 914,530

(Increase)/Decrease in Other Assets 789,580 1,431,998

(Increase)/Decrease in Fixed Deposits 23,172,372 4,308,298

(Increase)/Decrease in Other Liabilities (2,166,431) (2,294,722)

Cash Generated from Operations **36,380,165** **(784,621)**

Interest Paid (4,524,947) (2,276,904)

Gratuity Paid (118,800) -

Income Tax Paid - -

Net Cash Flows from Operating Activities **31,736,418** **(3,061,525)**

Cash Flows from Investing Activities

Proceeds from Sale of Investment Securities (65,158,528) (18,891,277)

Acquisition of Property Plant & equipment (159,975) -

Proceeds from Sale of Investment - -

Interest Received from Investment 1,970,994 1,677,607

Net Cash Flows from Investing Activities **(63,347,509)** **(17,213,670)**

Net Increase/(Decrease) in cash and cash Equivalents **(31,611,091)** **(20,275,195)**

Cash and Cash Equivalents at the beginning of the Years **75,222,213** **30,745,251**

Cash Equivalents at the end of Quarter (Note -A) **43,611,122** **10,470,056**

NOTE A

Cash & Cheques in Hand 11,888 991,556

Bank Balances 43,599,234 9,478,500

43,611,122 **10,470,056**

Financial Reporting by Segements as per the Provisions of the Sri Lanka Accounting Standards No. 28

The primary business segment reporting format is determined to be business segment as nature of the products and services provided, with each segment representing a strategic business unit that offers different product and serves in different markets.

The Following table presents financial information regarding business segements : -
Business Segements

For Quarter ended June 30	Finance Lease		Hire Purchase		Loans & Advances		Investments		Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Income From												
External Operations												
Interest	6,257	4,425	3,875	2,333	2,325	3,312	1,971	1,678	1490	2032	15,918	13,780
Administration Fees	-	-	-	-	-	-	-	-	-	-	-	-
Capital gains	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	6,257	4,425	3,875	2,333	2,325	3,312	1,971	1,678	11,207	2,032	15,918	13,780
Profit before tax											5,154	3,418
Taxation											1,095	1,209
Profit after tax											4,059	2,209
Other Information												
As at 30 June												
Segment assets	135,339	92,693	68,432	39,013	30,932	36,588	93,563	67,421	80,779	49,759	409,045	285,474
Segment Liabilities											174,417	68,345
Net assets											<u>234,628</u>	<u>217,129</u>

EXPLANATORY NOTES

The interim financial statements of the Company have been prepared in accordance with the accounting policies and methods of computation followed in preparing the Audited Financial Statements for the year ended 31st March 2011. These Statements are presented in accordance with Sri Lanka Accounting Standard No.35 Interim Financial Reporting.

The inventories were valued at the lower of cost and estimated net realizable value and determined the cost of inventories at actual cost.

There have been no material events occurring after the balance sheet date that require adjustments to or disclosure in the Financial Statements.

There has not been a significant change in the nature of the Contingent Liabilities which were disclosed in the Audited Financial Statements as at 31st March 2011

SELECTED PERFORMANCE INDICATORS

Indicator	As at 30th June 2011	As at 30th June 2010
Asset Quality	Rs'000	Rs'000
Total Accommodation (Net of Interest in Suspense)	176,273	190,204
Net Total Accommodations (Net of Provision for Bad and Doubtful)	161,864	175,031
Non-Performing Accommodations (Net of Interest in Suspense)	23,753	42,242
Liquidity		
Required Minimum Amount of Liquid Assets	15,992	5,916
Available Amount of Liquid Assets	57,266	36,920
Required Minimum Amount of Government Securities	11,995	5,916
Available Amount of Government Securities	15,230	23,000
Capital Adequacy		
Core Capital to Risk Weighted Assets Ratio (Minimum 5%)	68.58%	86.67%
Total Capital to Risk Weighted Assets Ratio (Minimum 10%)	68.58%	86.67%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	146.70%	158.63%
Profitability		
Return on Assets (After Tax)	1.00%	0.77%
Return on Equity	2.19%	1.57%

ADDITIONAL NOTES

MAJOR SHAREHOLDER AS AT 30TH JUNE 2011

1 Capital Alliance Holdings Limited	33,918,638	99.99%
2 Others	1,644	0.01%
	33,920,282	

DIRECTORS DIRECT SHAREHOLDING AS AT 30TH JUNE 2011

1 Mr. C P R Perera	0	0.00%
2 Mr. W A T Fernando	0	0.00%
3 Ms. N T M S Cooray	0	0.00%
4 Mr. R J Arasaratnam	0	0.00%
5 Mr. E R G C G Hemachandra	0	0.00%
6 Mr. C S R S Anthony	0	0.00%

SHARE INFORMATION AS AT 30TH JUNE 2011

a) Capital Alliance Holdings	33,918,638	99.99%
b) Directors' holdings	0	0
c) Shares held by Others	1,644	0.01%
No of Ordinary Share Issued As At 30th June 2011	33,920,282	

AUDITED FINANCIAL STATEMENTS AS AT 31ST MARCH 2011



ERNST & YOUNG

Chartered Accountants

839/2
Peradeniya Road
Kandy
Sri Lanka

Tel : (0) 81 2232056
: (0) 81 4471354
: (0) 81 4471356
Fax : (0) 81 2232056

RND/TK

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE COMPANY LIMITED**

Report on the Financial Statements

We have audited the accompanying financial statements of People's Merchant Finance Company Limited which comprise the Balance Sheet as at March 31, 2011 and the Income Statement, Cash Flow Statement and the Statement of Changes in Equity 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 misstatements.

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 principles 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 purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 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

In our opinion, these financial statements also comply with the requirements of section 151(2) of the Companies Act, No. 07 of 2007.

08 July 2011
Kandy

Partners:

A D B Talwatte FCA FCMA Ms. L C G Nanayakkara FCA FCMA W R H Fernando FCA FCMA M P D Cooray FCA FCMA
H M A Jayasinghe FCA FCMA D K Hulangamuwa FCA FCMA LLB (Lord) A P A Gunasekera FCA FCMA
A Herath FCA Ms. Y A De Silva ACA

Resident Partner:

R N de Saram ACA FCMA

Director:

A G J Dorera

INCOME STATEMENT

Year ended 31 March

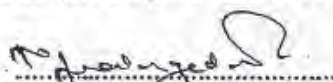
	Note	2011 Rs.	2010 Rs.
Income	3	<u>67,070,528</u>	<u>59,483,788</u>
Interest Income	4	42,841,417	47,973,286
Interest Expenses	5	<u>(9,761,473)</u>	<u>(14,141,301)</u>
Net Interest Income		33,079,944	33,831,985
Other Operating Income	6	<u>13,841,787</u>	<u>8,272,124</u>
Net Income from Operations		46,921,731	42,104,109
Operating Expenses			
Personal Costs		(6,890,870)	(7,184,050)
Payment for Gratuity Fund		(180,815)	(207,171)
Other General Administrative Expenses		(12,621,714)	(21,133,299)
Depreciation		<u>(559,972)</u>	<u>(1,489,283)</u>
Operating Profit before Other Income	7	<u>26,668,360</u>	<u>12,090,306</u>
Other Income	8	10,387,324	3,238,378
Operating Profit before Provisions		<u>37,055,684</u>	<u>15,328,684</u>
Bad and Doubtful Debts	9	<u>(14,345,783)</u>	<u>(4,231,154)</u>
Operating profit on ordinary activities		22,709,901	11,097,530
Value Added Tax on Financial Services		<u>(2,037,191)</u>	<u>(2,386,270)</u>
Operating Profit Before Taxation		20,672,710	8,711,260
Taxation	10	(11,305,869)	(5,593,262)
Profit on ordinary activities after taxation		<u>9,366,841</u>	<u>3,117,998</u>
Earnings per share	11.1	1.52	0.51
Dividends Per Share	11.2	-	-

The accounting policies and notes on pages 7 through 21 form an integral part of the Financial Statements.

BALANCE SHEET

As at 31 March	Note	2011 Rs.	2010 Rs.
Assets			
Cash and Short Term Funds	12	76,749,144	36,398,024
Government of Sri Lanka Treasury Bills and Bonds		15,230,305	22,582,549
Investment Securities	13	13,175,041	23,366,455
Loans and Advances	14	95,458,005	70,435,847
Net Investment in Leases	15	119,599,556	72,061,442
Inventories		99,524	213,847
Repossessed Stock	16	4,632,522	9,293,326
Trade and Other Receivables	17	38,625,217	41,771,977
Property, Plant and Equipment	18	15,255,841	12,813,562
Total Assets		378,825,155	288,937,030
Liabilities			
Fixed Deposits		136,750,096	63,474,863
Income Tax Liabilities		967,752	779,524
Rental Received in Advance		3,847,740	1,752,343
Trade and Other Payables	20	11,212,551	7,768,842
Deferred Tax Liabilities	21	6,667,208	757,213
Defined Benefit Liabilities	22	929,786	1,195,221
Bank Overdraft	19	1,526,931	5,652,774
Total Liabilities		161,902,064	81,380,780
Shareholders' funds			
Stated Capital	23	120,904,255	120,904,256
Reserve Funds	24	9,502,538	9,034,196
Investment Fund Reserve	24	217,540	-
General Reserve	24	60,000,000	60,000,000
Retained Profit		26,298,758	17,617,798
Total Liabilities & Shareholders' Funds		378,825,155	288,937,030

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.


Chief Finance Officer

The board of directors is responsible for the preparation and presentation of these financial statements.
Signed for and on behalf of the board by:


Director


Director

The accounting policies and notes on pages 7 through 21 form an integral part of the Financial Statements.

07 July 2011
Kandy

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March

	Stated Capital	Share Premium	Investment Fund Reserve	Reserve Fund	General Reserve	Retained Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2009	120,904,256	-	-	8,878,296	60,000,000	14,690,105	204,472,656
Net Profit/(Loss) for the Year	-	-	-	-	-	3,117,998	3,117,998
Transfer to Statutory Reserve	-	-	-	155,900		(155,900)	-
Reversal of (Over)/Under Provisions	-	-	-	-	-	(34,404)	(34,404)
Balance as at 31 March 2010	120,904,256	-	-	9,034,196	60,000,000	17,617,798	207,556,250
Net Profit/(Loss) for the Year	-	-	-	-	-	9,366,841	9,366,841
Transfer from Reserve	-	-	217,540	468,342	-	(685,882)	-
Balance as at 31 March 2011	120,904,256	-	217,540	9,502,538	60,000,000	26,298,758	216,923,090

The accounting policies and notes on pages 7 through 21 form an integral part of the Financial Statements.

CASH FLOW STATEMENT

Year ended 31 March

	2011 Rs.	2010 Rs.
Cash Flow From Operating Activities		
Net Profit Before Income Tax	20,672,710	8,711,260
Adjustment For		
Depreciation	559,972	1,489,283
Income from Investments	(4,666,576)	(3,227,389)
Profit/Loss on Disposal of Assets	-	6,298
Finance Cost	9,761,473	14,141,301
Provision for Gratuity	180,815	207,171
Reversal of (Over)/Under Provisions	-	(34,404)
Operating Profit Before Working Capital Changes	26,508,394	21,293,520
(Increase)/ Decrease in Loans and Advances	(25,022,158)	32,622,830
(Increase)/ Decrease in Investment in Leases	(47,538,114)	32,192,378
(Increase) / Decrease in Trade and Other Receivables	3,146,762	(5,497,539)
(Increase) / Decrease in Other Assets	4,775,127	16,519,493
Increase / (Decrease) in Fixed Deposits	73,275,233	(16,020,817)
Increase/ (Decrease) in Other Liabilities	5,539,106	(3,861,563)
Cash Generated from Operations	40,684,349	77,248,302
Interest Paid	(9,761,473)	(14,141,301)
Gratuity Paid	(446,250)	-
Income Tax Paid	(5,207,647)	(3,238,333)
Net Cash Flows from Operating Activities	25,268,979	59,868,667
Cash Flows from Investing Activities		
Proceeds from Sale of Investment Securities	10,191,415	(23,363,955)
Acquisition of Property Plant & Equipment	(3,002,252)	(107,610)
Proceeds from Sale of Investment	7,352,244	(6,247,598)
Interest Received from Investment	4,666,576	3,227,389
Net Cash Flows from Investing Activities	19,207,983	(26,491,774)
Cash Flows from Financing Activities		
Net Cash Flows from Financing Activities	-	-
Net Increase/(Decrease) in Cash and Cash Equivalents	44,476,962	33,376,894
Cash and Cash Equivalents at the beginning of the Year	30,745,251	(2,631,643)
Cash Equivalents at the end of the Year - (Note - A)	75,222,213	30,745,251

The accounting policies and notes on pages 7 through 21 form an integral part of the Financial Statements.

CASH FLOW STATEMENT

Year ended 31 March

2011**2010****Rs.****Rs.****(Note -A)**

Cash & Cheques In Hand	1,005,379	2,830,481
Bank Balances	75,743,760	33,566,879
Others	5	665
Overdraft	(1,526,931)	(5,652,774)
	<u>75,222,213</u>	<u>30,745,251</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

1.0 CORPORATE INFORMATION**1.1 General**

People's Merchant Finance Company Limited, is a limited liability company domiciled in Sri Lanka and incorporated under the Companies Act No. 07 of 2007 and governed by Finance Companies Act No. 78 of 1988 and bears its registered office at No. 145/1, Kotugodella Veediya, Kandy.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were acceptance of Deposits, granting Lease facilities, Hire Purchase, Mortgage Loans and other credit facilities.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent entity is People's Merchant Bank PLC. In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is People's Merchant Bank PLC.

1.4 Date of Authorization for Issue

The financial statements of People's Merchant Finance Company Limited, for the year ended 31 March 2011 were authorized for issue in accordance with a resolution of the Board of Directors on 07 July 2011.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

2.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1.1 Basis of Preparation**

The Financial Statements have been prepared on a historical cost basis. The Financial Statements are presented in Sri Lankan Rupees.

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company, and are consistent with those used in the previous year.

2.1.4 Taxation**a) Current Taxes**

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act, No 10 of 2006 and amendments there to.

b) Social Responsibility Levy

As per the provisions of the Finance Act No. 05 of 2005, as amended by the Finance Act No 11 of 2006 SRL is introduced with effect from 1st January 2005. SRL is payable at the rate of 1.5% on all taxes as specified in the Act.

c) Deferred Taxation

Deferred taxation is provided using the liability method 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 assets and liabilities are recognized for all temporary differences. Deferred tax assets are recognized for all deductible temporary 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 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 tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realized or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

Deferred tax assets and deferred tax liabilities are offset, 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.

a) Value Added Tax for Financial Institution

The company's total value addition from 1st April to 31st March 2009 was subjected to a 20% of Value Added Tax as per 25(a) of the Value Added Tax Act, No.14 of 2002 as amended by the section 8(2) of Value Added Tax Act, No. 8 of 2006.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year.

2.3 Effect of Accounting Standards issued but not yet effective

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)

SLAS 44 and 45 become effective for financial years beginning on or after 1 January 2011. Accordingly, the financial Statements for the year ending 31 March 2012 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Company is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effect of these standards the impact of adoption is not estimable as at the date of publication of these financial statements.

2.4 Valuation of Assets and their Measurement Bases**2.4.1 Property, Plant and Equipment****a) Cost and Valuation**

Property, Plant and Equipment are recorded at cost of purchase together with any incidental expenses thereon. The assets are stated at cost less accumulated depreciation which is provided for, on the basis specified in (c) below.

b) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognized as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

c) Depreciation

The provision for depreciation is calculated by using the reducing balance method on the cost of all property, plant and equipment other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments. The principal annual rates used are,

Building	-	4%	P.A
Air Conditioner	-	25%	P.A
Office Equipment	-	8%	P.A
Office Furniture and Fittings	-	12.5%	P.A
Computer and Accessories-	-	8%	P.A
Computer Software	-	8%	P.A
Motor Vehicles	-	25%	P.A

2.4.2 Loans and Advances

Loans and advances to customers are stated in the balance sheet net of provisions for bad and doubtful loans and interest not accrued to revenue on non performing advances.

2.4.3 Allowance for Bad and Doubtful Debtors

Specific provision is made for bad and doubtful debtor's advances comprising Lease facilities, Hire purchase, Demand loans and Consumer Credit facilities.

Provision on advances are made as follows,

Period Outstanding	Pledge Loans	Lease Facilities
06-12 Months	50%	50%
12 Months Over	100%	100%

2.4.4 Investments

Trading portfolio is stated in the balance sheet at the lower of cost and market value determined as per cost and market value at the balance sheet date.

2.4.5 Trade & Other Receivables

Trade receivables are stated at the amounts they are estimated to realize net of provision for bad and doubtful receivables. Other receivables and dues from Related Parties are recognized at cost less allowances for bad and doubtful receivables.

2.4.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdraft.

2.4.7 Cash Flow Statement

The cash flow statement has been prepared by using the "Indirect Method." cash and cash equivalents consist of cash in hand and deposits in bank net of outstanding bank over draft.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

2.5 Liabilities and Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.5.1 Retirement Benefit of Obligation**a) Defined Benefit Plan - Gratuity**

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Balance sheet date. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. The defined benefit obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by SLAS -16, Employee Benefits. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The gratuity liability was based on the actuarial valuation carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd.

The actuarial gains and losses are charged or credited to income statement in the period in which they arise. The assumptions based on which the results of the actuarial valuation was determined, are included in Note 22 to the financial statements. However, according to the Payment of Gratuity Act No.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund Contribution in line with respective statutes and Regulations. The Company contributes 15% and 3% of gross emoluments of employees to employees' Provident Fund and Employees' Trust Fund respectively.

2.5.2 Commitments and Contingencies

All material capital commitments and contingent liabilities of the company are disclosed in the respective notes to these financial statements.

2.6 Income Statement**2.6.1 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes.

The following specific criteria are used for the purpose of recognition of revenue.

a) Interest Income from Leasing Activities & Hire Purchase

The interest correspondents of the lease / hire rental receivable during the year on assets leased and on hire purchase advance to customers is recognized as income for the year. The un earned Lease / hire income included in the lease / hire rentals receivable is taken in to revenue over the term of the lease/ hire commencing from the months in which the lease/ hire is executed in proportion to the capital outstanding, so as to provide a constant periodic return on the net investment outstanding at the end of each period.

Interest ceases to be taken in to revenue when such contracts are classified as non - performing where the recovery of interest or principal is in arrears for over six months. Thereafter interest on such advance is accounted for on a cash basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

b) Interest Income from Short Term and Long Term Loans

Interest Income is generally recognized on an accrued basis. Interest ceases to be taken to revenue when interest or principal is in arrears for six (6) months or more and thereafter such income is recognized on a cash basis. Further, in instances where interest is suspended, the interest accrued up to six months is also removed from the interest income and transferred to the interest in suspense account.

c) Interest Income from Other Sources

Interest income from the fixed deposit is recognized at the point of maturity.

d) Default & Service Charges

Default charges for leasing, factoring and long term & short term loans have been accounted for on cash basis.

e) Other Income

All other income is recognized on cash basis, except where the income is specifically mentioned in the accounts.

2.7 Expenditure Recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

a) Interest Expenses

Interest expenses are accounted for on accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

		2011 Rs.	2010 Rs.
3 INCOME			
Interest Income	(Note - 4)	42,841,417	47,973,286
Other Operating Income	(Note - 6)	13,841,787	8,272,124
Other Income	(Note - 8)	10,387,324	3,238,378
		<u>67,070,528</u>	<u>59,483,788</u>
4 INTEREST INCOME			
Interest from Finance Leases		20,329,906	21,622,317
Interest from Hire Purchase		12,184,234	10,534,138
Interest from Mortgage Loans		5,495,331	6,280,546
Interest from Demand Loans		4,489,964	8,816,132
Interest from Fixed Deposit Loans		219,920	515,798
Interest from Consumer Credit Loans		122,062	204,355
		<u>42,841,417</u>	<u>47,973,286</u>
5 INTEREST EXPENSES			
Interest Expenses on Fixed Deposits		9,709,000	13,949,309
Interest Expenses on Short Term Borrowings		52,473	191,992
		<u>9,761,473</u>	<u>14,141,301</u>
6 OTHER OPERATING INCOME			
Finance Charges		874,078	538,853
Default Charges		3,489,843	1,578,362
Documentation Charges		128,684	127,007
Other Charges		210,036	193,342
Commission Income		496,972	183,147
Bad Debts Recoveries		272,100	749,641
Reversal of Provision		8,158,815	1,527,862
Reversal of Over Provision for Expenses		211,259	-
Reversal of Legal Contract (Written off)		-	3,373,910
		<u>13,841,787</u>	<u>8,272,124</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

	2011 Rs.	2010 Rs.
7 PROFIT ON OPERATING ACTIVITIES		
Stated after charging all expenses including the following		
Directors' Remuneration	241,000	1,583,811
Auditors' Remuneration	280,000	355,805
Depreciation	559,972	1,489,283
Staff Costs Includes		
- Defined Contribution Plan Costs - EPF & ETF	965,836	859,375
Advertisement	2,289,183	264,663
Donations	210,050	22,140
8 OTHER INCOME		
Interest from Treasury Bills & Bonds	1,669,704	2,089,013
Interest from Savings Accounts	854,156	734,783
Interest from Staff Loans	10,728	30,551
Interest on Commercial Paper	2,131,988	373,042
Profit on Sale of Re-possessed Vehicle	127,702	-
Sundry Income	96,399	10,989
Profit on Trading of Shares	5,496,647	-
	10,387,324	3,238,378
9 PROVISION FOR BAD AND DOUBTFUL DEBTS		
Specific Provision for,		
Finance Leases & Hire Purchase	11,195,394	2,981,154
Contract Under Legal	718,666	1,250,000
	11,914,060	4,231,154
10 TAXATION		
Current Income Tax		
Current Tax Expenses on Ordinary Activities For the Year (10.1)	5,395,874	4,764,580
Social Responsibility Levy	80,938	71,469
Deferred Income Tax		
Deferred Taxation Charge/(Reversal) (10.2)	5,909,995	757,213
	11,386,807	5,593,262
10.1 RECONCILIATION OF EFFECTIVE TAX RATE		
Tax change is based on taxable profit which differs from profit for financial reporting purpose. These difference are explained in the following reconciliation statement.		
Accounting Profit	22,709,901	11,097,530
Aggregate Disallowed Items	17,391,835	20,457,331
Aggregate Allowable Expenses	(24,684,953)	(17,941,774)
Taxable Profit	15,416,783	13,613,087
Tax Losses Brought Forward and Utilized	-	-
	15,416,783	13,613,087
Statutory Tax Rate	35%	35%
Current Income Tax Expenses	5,395,874	4,764,580

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

2011
Rs.2010
Rs.**10.2 DEFERRED TAX EXPENSE**

Deferred Tax Expense/ (Income) Arising Due to
- Origination and Reversal of Timing Differences

5,909,995	757,213
<u>5,909,995</u>	<u>757,213</u>

Deferred Tax Liabilities have been computed at rate of 28% on it's Taxable profits, for the year.

11 EARNINGS PER SHARE

- 11.1** Basic Earnings/(Loss) Per Share is calculated by dividing the net profit / (loss) for the year attributable to Ordinary Share holders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basis Earning /(Loss) Per Share computation.

	2011 Rs.	2010 Rs.
Amounts used as the Numerator :		
Net profit/(Loss) applicable to ordinary shareholders for basic earnings per share	<u>9,366,841</u>	<u>3,117,998</u>
Amounts used as the Denominator :		
Weighted average number of ordinary shares in issue applicable to basic earnings per share	<u>6,167,324</u>	<u>6,167,324</u>
Earnings/(Loss) Per Share	<u>1.52</u>	<u>0.51</u>

11.2 DIVIDENDS PER SHARE**Proposed for Approval at AGM**

5% for	-	-
Dividends Per Share	<u>-</u>	<u>-</u>

Dividends Per Share is based on the dividends proposed for the period covered by the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

	2011 Rs.	2010 Rs.
12 CASH & SHORT TERM FUNDS		
Bank Balances	75,743,760	33,566,879
Cash In Hand	1,005,379	2,830,481
Other	5	665
	<u>76,749,144</u>	<u>36,398,024</u>
13 INVESTMENT SECURITIES		
Credit Information Bureau of Sri Lanka	2,500	2,500
Investment in Shares	5,842,305	3,193,360
First Capital Treasury (Commercial Paper)	7,330,236	20,170,595
	<u>13,175,041</u>	<u>23,366,455</u>
14 LOAN AND ADVANCES		
Mortgage Loans	17,874,119	20,953,978
Demand Loans	3,511,135	12,421,702
Fixed Deposits Loans	3,094,015	815,394
Hire Purchases	70,976,744	35,985,904
Consumer Credits	1,992	258,869
	<u>95,458,005</u>	<u>70,435,847</u>
15 NET INVESTMENT IN LEASES		
Gross Investment in Leases	159,316,678	98,326,398
Less: Unearned Lease Income	(39,717,122)	(26,264,956)
	<u>119,599,556</u>	<u>72,061,442</u>
16 REPOSSESSED STOCK		
Gross Re-possessed Stock	7,147,925	11,338,196
Less: Decrease in Fair Value	(2,515,403)	(2,044,870)
	<u>4,632,522</u>	<u>9,293,326</u>
17 TRADE AND OTHER RECEIVABLES		
Trade Receivables (Note 17.1)	27,242,925	30,761,988
Deposit, Advance & Pre- Payment	1,427,732	1,021,607
VAT on Financial Service Over Payment	231,764	1,541,644
Sundry Debtors & Other Receivables (Note 17.2)	9,722,796	8,446,738
	<u>38,625,217</u>	<u>41,771,977</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

	2011 Rs.	2010 Rs.
17.1 TRADE RECEIVABLES		
Amount Due from Leases	19,053,444	20,315,463
Amount Due from Hirers	4,185,592	5,755,422
Receivable from Mortgage Loans	8,903,833	6,679,104
Receivable from Demand Loans	7,332,676	6,850,045
Receivable from Consumer Credits	3,957	-
Contract Under Legal	8,221,671	7,859,302
	<u>47,701,173</u>	<u>47,459,336</u>
Provision for Bad and Doubtful Debts (Note 17.1.1)	(11,914,060)	(10,100,238)
Interest In Suspense (Note 17.1.2)	(8,544,188)	(6,597,110)
	<u><u>27,242,925</u></u>	<u><u>30,761,988</u></u>
17.1.1 MOVEMENT IN PROVISION FOR BAD AND DOUBTFUL DEBTS		
Provision at the beginning of the Year	10,100,238	5,869,084
Provision made during the Year	11,485,931	4,231,154
	<u>21,586,169</u>	<u>10,100,238</u>
Written off during the Year	(3,902,613)	-
Reversal of provision during the Year	(5,769,496)	-
Provision at the end of the Year	<u><u>11,914,060</u></u>	<u><u>10,100,238</u></u>
17.1.2 MOVEMENT IN INTEREST IN SUSPENSE		
Interest in Suspense	8,544,188	6,597,110
	<u><u>8,544,188</u></u>	<u><u>6,597,110</u></u>
17.2 SUNDRY DEBTORS AND OTHER RECEIVABLES		
Sundry Debtors & Other Receivables	9,722,796	8,446,738
	<u><u>9,722,796</u></u>	<u><u>8,446,738</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

18 PROPERTY, PLANT & EQUIPMENT**18.1 Gross Carrying Amounts**

At Cost	Balance As at 01.04.2010 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2011 Rs.
Freehold Land	8,312,500	-	-	8,312,500
Buildings on Freehold Land	3,661,595	-	-	3,661,595
Plant & Machinery	3,370,282	705,285	-	4,075,567
Motor Vehicles	1,112,755	315,965	-	1,428,720
Furniture and Fittings	728,450	786,123	-	1,514,573
Office Equipment	1,015,207	1,194,876	-	2,210,083
Total Value of Depreciable Assets	18,200,789	3,002,249	-	21,203,038

At Cost	Balance As At 01.04.2010 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2011 Rs.
Buildings	1,040,298	104,852	-	1,145,150
Plant & Machinery	2,613,040	208,102	-	2,821,142
Motor Vehicles	733,791	143,218	-	877,009
Furniture and Fittings	453,044	38,664	-	491,708
Office Equipment	547,053	65,134	-	612,187
Total Depreciation	5,387,226	559,970	-	5,947,196

18.3 Net Book Values	2011 Rs.	2010 Rs.
At Cost		
Freehold Land	8,312,500	8,312,500
Buildings on Freehold Land	2,516,444	2,621,297
Plant & Machinery	1,254,425	757,242
Motor Vehicles	551,711	378,964
Furniture & Fittings	1,022,865	275,406
Office Equipment	1,597,896	468,154
	15,255,841	12,813,562

During the financial year, the company acquired Property, Plant and Equipment for cash to the aggregate value of Rs.3,002,249/-.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

19 INTEREST BEARING LOANS & BORROWINGS

	2011 Amount Repayable With in 1 Year Rs.	2011 Amount Repayable After 1 Year Rs.	2011 Total Rs.	2010 Amount Repayable With in 1 Year Rs.	2010 Amount Repayable After 1 Year Rs.	2010 Total Rs.
Bank Overdraft	1,526,931	-	1,526,931	5,652,774	-	5,652,774
	<u>1,526,931</u>	<u>-</u>	<u>1,526,931</u>	<u>5,652,774</u>	<u>-</u>	<u>5,652,774</u>

2011
Rs.

2010
Rs.

20 TRADE AND OTHER PAYABLES

Sundry Creditors Including Accrued Expenses	7,135,768	7,183,842
Other Payables	4,076,783	585,000
	<u>11,212,551</u>	<u>7,768,842</u>

21 DEFERRED TAX

Balance as at beginning of the Year	757,213	-
Provision/(Reversal) made during the Year	5,909,995	757,213
Balance as at the end of the Year	<u>6,667,208</u>	<u>757,213</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

	2011 Rs.	2010 Rs.
22 DEFINED BENEFIT LIABILITIES		
As at the beginning of the year	1,195,221	988,050
Current Service Cost	98,609	207,171
Interest cost	131,474	-
Benefits paid or payable	(446,250)	-
Actuarial (Gains)/Losses	(49,268)	-
As at the end of the year	929,786	1,195,221

Messrs. Actuarial & Management Consultants (Private) Limited., Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2011. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2011	2010
Discount rate assumed (%)	11 %	11 %
Further salary increase (%)	10 %	10 %

In addition to the above, demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation. "A 67/70 mortality table" issued by the Institute of Actuaries, London was used to estimate the gratuity liability of the Company.

23 STATED CAPITAL

	2011 (No:)	Value Rs.	2010 (No:)	Value Rs.
Fully Paid - Ordinary Shares	6,167,324	120,904,255	6,167,324	120,904,256
	6,167,324	120,904,255	6,167,324	120,904,256

24 RESERVES

	2011 Rs.	2010 Rs.
Summary		
(a) Revenue Reserve (24.1)	9,502,538	9,034,196
	9,502,538	9,034,196
(b) General Reserve (24.2)	60,000,000	60,000,000
	60,000,000	60,000,000

24.1 Revenue Reserve

As at the beginning of the Year	9,034,196	8,878,296
Capitalized during the Year	468,342	155,900
As at the end of the Year	9,502,538	9,034,196

24.2 General Reserve

As at the beginning of the Year	60,000,000	60,000,000
Capitalized during the Year	-	-
As at the end of the Year	60,000,000	60,000,000

24.3 Investment Fund Reserve

As at the beginning of the Year	-	-
Capitalized during the Year	217,540	-
As at the end of the Year	217,540	-

The investment fund reserve is accounted in accordance with the Central Bank guidelines issued to create and investment fund reserve 8% of value addition calculated for VAT on financial services.

25 COMMITMENTS AND CONTINGENCIES

The company does not have significant capital commitments as at the balance sheet date.

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

26.1 On 12th May 2011 the company was acquired by Capital Alliance Holdings Limited for consideration of Rs. 430Mn. with the change of ownership that current parent company became Capital Alliance Holdings Limited. No adjustment was required in the financial statements for the year ended 31st March 2011.

26.2 The composition of the Company's Board of Directors changed on 12 May 2011 .The new Board appointed on 12 May 2011 comprised of the following persons,

Mr.W.A.T.Fernando	Director
Mrs.N.T.M.S. Cooray	Director
Mr.C.P.R. Perera	Director
Mr. E.R.G.C.G Hemachandra	Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

27 RELATED PARTY DISCLOSURES**27.1 Transactions with the Related Entities**

There were no transactions with related entities during the year ended 31 March 2011.

27.2 Compensation to Key Management Personnel (*)

	2011	2010
	Rs.	Rs.
Short Term Employee Benefit	241,000	1,105,000
Post Employment Benefits	-	-
Termination Benefits	-	-
Other Long Term Benefits	-	-
Share Based Payments	-	-
	=====	=====

Key management personnel include the Board of Directors of the Company.

27.3 Transactions, arrangements and agreements involving companies controlled by the shareholder with significant influence

	-	-
	=====	=====

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 March

	Statement	2011 Rs.	2010 Rs.
Interest Income	I	42,841,417	47,973,286
Interest Expenses		(9,761,473)	(14,141,301)
Net Interest Income		<u>33,079,944</u>	<u>33,831,985</u>
Other Operating Income	II	5,471,713	3,370,352
Other Income	III	18,757,398	8,140,150
Operating Income		<u>57,309,055</u>	<u>45,342,487</u>
Operating Expenses			
Administration & Establishment Expenses	IV	(16,951,304)	(14,947,378)
Marketing Expenses	V	(17,647,850)	(19,297,579)
Operating Profit		<u><u>22,709,901</u></u>	<u><u>11,097,530</u></u>

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 March

	2011 Rs.	2010 Rs.
STATEMENT I		
INTEREST INCOME		
Interest from Finance Leases	20,329,906	21,622,317
Interest from Hire Purchase	12,184,234	10,534,138
Interest from Mortgage Loans	5,495,331	6,280,546
Interest from Demand Loans	4,489,964	8,816,132
Interest from Fixed Deposit Loans	219,920	515,798
Interest from Consumer Credit Loans	122,062	204,355
	<u>42,841,417</u>	<u>47,973,286</u>
STATEMENT II		
OTHER OPERATING INCOME		
From Lease Business		
Finance Charges	606,639	280,583
Default Charges	1,936,869	842,184
Documentation Charges	95,172	36,893
Other Charges	17,567	448
Commission Income	237,163	13,600
Bad Debts Recoveries	110,700	526,555
	<u>3,004,110</u>	<u>1,700,263</u>
From Businesses Other Than Leasing		
Finance Charges	267,439	258,270
Default Charges	1,552,974	736,178
Documentation Charges	33,512	90,114
Other Charges	192,469	192,894
Commission Income	259,809	169,547
Bad Debts Recoveries	161,400	223,086
	<u>2,467,603</u>	<u>1,670,089</u>
STATEMENT III		
OTHER INCOME		
Interest from Treasury Bills & Bonds	1,669,704	2,089,013
Interest from Savings Accounts	854,156	734,783
Interest from Staff Loans	10,728	30,551
Interest on Commercial Paper	2,131,988	373,042
Profit on Sale of Repossessed Vehicle	127,702	-
Sundry Income	96,399	10,989
Profit on Sale of Shares	5,496,647	-
Reversal of Provision	8,158,815	1,527,862
Reversal of Legal Contract Write off	-	3,373,910
Reversal of Over Provision for Payables	211,259	-
	<u>18,757,398</u>	<u>8,140,150</u>

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 March

	2011 Rs.	2010 Rs.
STATEMENT IV		
ADMINISTRATION EXPENSES		
Staff Salaries & Allowances	5,021,940	4,587,603
Directors Remuneration	241,000	1,583,811
Staff Welfare	123,998	99,908
Overtime	102,199	41,353
Employees Provident Fund	804,863	716,146
Employees Trust Fund	160,973	143,229
Staff Bonus	435,897	12,000
Gratuity	180,815	207,171
Printing & Stationary	431,483	372,985
Postage & Stamps	224,631	225,777
Telephone	473,556	443,313
Electricity	375,927	437,244
Water Bills	48,585	63,159
Trade Licenses (KMC)	6,000	12,112
Consultants Allowances	-	32,000
Insurance	187,510	141,578
Vehicle Parking Charges	8,434	240
Newspaper & Periodicals	9,620	7,920
Audit Fees	280,000	355,805
Central Bank Registration Fees	87,400	17,600
Sundry Expenses	6,400	2,849
Repair & Maintenance	1,535,223	220,376
Deprecation	559,972	1,489,283
Secretarial Fees	54,663	60,000
Leave Pay	123,190	111,200
Vehicle Maintenance	840,496	622,218
Building Rent	638,250	-
Company Registration Fees	2,875	-
Service Charges	183,964	84,000
Valuation Fees	44,000	133,550
Debit Tax	150,993	176,939
Surcharges	605	-
Rate & Taxes	35,168	25,384
Security Charges	274,728	319,135
Donations	210,050	22,140
Entertainment	17,255	21,357
Subscription (Finance House Association)	63,049	46,458
Directors Traveling Allowance	-	20,000
Staff Medical Insurance	213,813	333
Professional Fees	205,870	88,516
Rating Charges	241,607	252,000
Stamp Duty	9,275	37,175
Seminar Expenses	30,941	47,538
Internal audit fees	120,000	120,000
Legal Expense	437,388	115,353
Membership fees	-	34,440
Vehicle Yard Rent	600,000	916,000
Vehicle Yard Expenses	13,922	69,963
Deemed Dividend Tax	195,221	-
Other Expenses	123,150	52,633
RMV Charges	76,863	317,943
Loss on Trading of Shares	-	39,642
VAT on Financial Services Over Payment (Written off)	737,542	-
	<u>16,951,304</u>	<u>14,947,378</u>

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED**DETAILED PROFIT AND LOSS ACCOUNT**

Year ended 31 March

	2011	2010
	Rs.	Rs.
STATEMENT V		
MARKETING EXPENSES		
Advertisement	2,289,183	264,663
Travelling & Transport	711,208	485,810
Provision for Bad & Doubtful Debts	14,345,783	4,231,154
Investigation Expenses	2,400	1,700
Commission	299,276	-
Loss on Sale of Repossessed Vehicle	-	14,307,954
Loss of Discarded Name Board	-	6,298
	<u>17,647,850</u>	<u>19,297,579</u>

ADDITIONAL INFORMATION RELATING TO AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

Assets Pledged as Securities

The Company does not have any assets pledged as security for liabilities as at the date of the financial statement which requires disclosure.

Concentration of Loans and Advances, Leases, Hire Purchase by Industry Segment

Segment	2011	2010
Transport	246,106	165,617
Personal	21,285	33,633
Distribution of Total Advances	267,391	199,250
Lease and Hire Purchase Receivables	231,929	152,528
Loans and Advances	35,462	46,722
Total Advances	267,391	199,250

Impairment – Financial Assets

The Company assesses at each Balance Sheet date if there are events or changes in circumstances which indicate that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Balance Sheet date ("a loss event"), and that loss event or events have had an impact on the estimated realizable value of the asset. The Company first assesses whether objective evidence of impairment exists for financial assets that are significant (except for loans and advance).

For loans and advances, impairment loss is measured individually and collectively, in the manner set out in the audited financial statements, when a loan is uncollectible, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are included under "Other Income" in the Income Statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was

recognized, the previously recognized impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognized in the Income Statement.

Impairment – Non-Financial Assets

The carrying values of property, plant and equipment are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less cost to sell or its value in use.

Any decrease in the carrying value is recognized as an expense in the Income Statement in the reporting period in which the impairment loss occurs. For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgment is applied to establish cash generating units. Each of these cash generating units is represented by an individual, primary reporting segment, or a subdivision of a primary segment. An impairment loss in respect of goodwill is not reversed. In respect of other assets impairment losses recognised in prior periods, are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NON PERFORMING ACCOMMODATIONS (NPA)

	2011	2010
HIRE PURCHASE	961,927.00	946,310.00
LEASING	12,925,875.00	9,894,189.00
MORTGAGE LOANS	6,429,806.00	5,319,571.00
DEMAND LOANS	5,411,906.00	4,660,015.00
	<u>25,729,514.00</u>	<u>20,820,085.00</u>
INTEREST IN SUSPENSE		
HIRE PURCHASE	483,725.00	360,787.00
LEASING	3,603,746.00	3,187,521.00
MORTGAGE LOANS	2,695,255.00	1,679,632.00
DEMAND LOANS	1,761,462.00	1,369,171.00
	<u>8,544,188.00</u>	<u>6,597,111.00</u>
NET NPA AS AT 31ST MARCH	17,185,326.00	14,222,974.00

Financial Reporting by Segments as per the Provisions of the Sri Lanka Accounting Standards No. 28

The primary business segment reporting format is determined to be, business segment as nature of the products and services provided, with each segment representing a strategic business unit that offers different product and serves in different markets.

For year ended March 31	Finance Lease		Hire Purchase		Loans & Advances		Investments		Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Income From												
External Operations												
Interest	20,330	21,622	12,184	10,534	10,327	15,817	10,152	3,197	14,077	8,314	67,070	59,484
Administration Fees	-	-	-	-	-	-	-	-	-	-	-	-
Capital gains	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	20,330	21,622	12,184	10,534	10,327	15,817	10,152	3,197	14,077	8,314	67,070	59,484
Profit before tax	-	-	-	-	-	-	-	-	-	-	20,673	8,711
Taxation	-	-	-	-	-	-	-	-	-	-	(11,306)	(5,593)
Profit after tax											9,367	3,118
Other Information												
<i>As at 31st March</i>												
Segment assets	128,983	83,419	73,725	40,304	34,420	41,677	28,405	45,949	113,292	77,588	378,825	288,937
Segment Liabilities	-	-	-	-	-	-	-	-	161,902	81,381	161,902	81,381
Net assets	-	-	-	-	-	-	-	-	216,923	207,556	216,923	207,556
											378,825	288,937

Analysis of Assets and Liabilities into Relevant Maturity Period

ASSETS	MATURITY PERIOD					Total
	Less than 3 months	3-12 months	12-36 months	36-60 months	More than 60 months	
Interest in earning assets						
Investments in Government Securities	11,096,493	4,133,812	-	-	-	15,230,305
Fixed Deposits and Savings Deposits with Banks and Finance Companies	72,045,253	-	-	-	-	72,045,253
Loans and Advances Net of Provisions						
Leasing	108,840,290	14,753,188	5,945,217	4,007,089	2,324,970	135,870,754
Hire Purchase	68,224,601	3,881,496	1,892,079	516,069	-	74,514,245
Other Loans	19,229,111	4,334,927	1,025,680	5,960,706	1,365,063	31,915,487
Non-Interest Earning Assets						
Cash and Bank Balances	3,698,505	-	-	-	-	3,698,505
Investments in						
Dealing Securities	5,842,305	-	-	-	-	5,842,305
Debentures / Commercial paper	7,330,236	-	-	-	-	7,330,236
Fixed Assets	-	-	-	-	15,255,841	15,255,841
Other Assets	6,756,961	5,821,384	1,974,373	2,569,506	-	17,122,224
TOTAL ASSETS	303,063,755	32,924,807	10,837,349	13,053,370	18,945,874	378,825,155
LIABILITIES						
Interest Bearing Liabilities						
Bank Overdrafts	1,526,931	-	-	-	-	1,526,931
Other Borrowings	35,208,100	90,559,578	9,871,500	1,110,917	-	136,750,095
Non-Interest Bearing Liabilities						
Other Liabilities	2,010,150	19,996,399	229,287	1,389,203	-	23,625,039
Shareholders funds	-	-	-	-	216,923,090	216,923,090
TOTAL LIABILITIES	38,745,181	110,555,977	10,100,787	2,500,120	216,923,090	378,825,155

AUDITED FINANCIAL STATEMENTS AS AT 31ST MARCH 2010



ERNST & YOUNG

Chartered Accountants

839/2
Peradeniya Road,
Kandy,
Sri Lanka

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: (0) 81 4471354
: (0) 81 4471356
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RND/AF

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE COMPANY LIMITED**

Report on the Financial Statements

We have audited the accompanying financial statements of People's Merchant Finance Company Limited which comprise the Balance Sheet as at March 31, 2010 and the Income Statement, Cash Flow Statement and the Statement of Changes in Equity 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 misstatements.

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 principles 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 purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2010, and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2010 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

In our opinion, these financial statements also comply with the requirements of section 151(2) of the Companies Act, No. 07 of 2007.

25 August 2010
Kandy

Partners: A D B Talavalle FCA FCMA, Ms. L C G Nanayakkara FCA FCMA, W R H Fernando FCA FCMA, M P D Cooray FCA FCMA,
H M A Jayasinghe FCA FCMA, D K Hulangamuwa FCA FCMA LLB (Lond), A P A Gunasekera FCA FCMA,
A S M Ismail FCA FCMA, A Herath FCA, Ms. Y A De Silva ACA
Resident Partner: R N de Saram ACA
Director: A G J Perera

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

Page 02

INCOME STATEMENT

Year ended 31 March

	Note	2010 Rs.	2009 Rs.
Income	3	59,483,788	83,697,929
Interest Income	4	47,973,286	52,462,999
Interest Expenses	5	(14,141,301)	(23,435,815)
Net Interest Income		33,831,985	29,027,183
Other Operating Income	6	8,272,124	21,242,315
Net Income from Operations		42,104,109	50,269,498
Operating Expenses			
Personal Costs		(7,184,050)	(10,381,285)
Payment For Gratuity Fund		(207,171)	(316,475)
Other General Administrative Expenses		(21,133,299)	(24,433,758)
Depreciation		(1,489,283)	(519,135)
Operating Profit before Other Income	7	12,090,306	14,618,846
Other Income	8	3,238,378	9,992,615
Operating Profit before Provisions		15,328,684	24,611,461
Bad and Doubtful Debts	9	(4,231,154)	(15,102,778)
Operating profit on ordinary activities		11,097,530	9,508,683
Value Added Tax on Financial Services		(2,386,270)	(994,333)
Operating Profit Before Taxation		8,711,260	8,514,349
Taxation	10	(5,593,262)	(1,709,118)
Profit on ordinary activities after taxation		3,117,998	6,805,231
Earnings per share	11.1	0.51	1.26
Dividends Per Share	11.2	-	0.57

Figures in brackets indicate deductions.

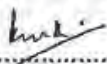
The accounting policies and notes on pages 7 through 21 form an integral part of the financial statements.

BALANCE SHEET

As at 31 March

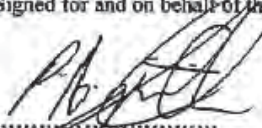
	Note	2010 Rs.	2009 Rs.
Assets			
Cash and Short Term Funds	12	36,398,024	2,125,583
Government of Sri Lanka Treasury Bills and Bonds		22,582,549	16,334,951
Investment Securities	13	23,366,455	2,500
Loans and Advances	14	70,435,847	103,058,676
Net Investment in Leases	15	72,061,442	104,253,820
Inventories		213,847	317,045
Repossessed Stock	16	9,293,326	25,709,621
Trade and Other Receivables	17	41,771,977	36,274,438
Property, Plant and Equipment	18	12,813,562	14,201,534
Total Assets		288,937,030	302,278,168
Liabilities			
Fixed Deposits		63,474,863	79,495,680
Income Tax Liabilities		779,524	(818,192)
Rental Received in Advance		1,752,343	2,607,912
Trade and Other Payables	20	7,768,842	10,774,836
Deferred Tax Liabilities	21	757,213	-
Defined Benefit Liabilities	22	1,195,221	988,050
Bank Overdraft	19	5,652,774	4,757,226
Total Liabilities		81,380,780	97,805,512
Shareholders' funds			
Stated Capital	23	120,904,256	120,904,256
Revenue Funds	24	9,034,196	8,878,296
General Reserve	24	60,000,000	60,000,000
Retained Profit		17,617,798	14,690,105
Total Liabilities & Shareholders' Funds		288,937,030	302,278,168

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

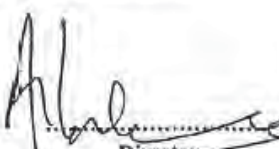

Chief Finance Officer

The board of directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the board by.


Director




Director

The accounting policies and notes on pages 7 through 31 form an integral part of the financial statements.

20 August 2010

Kandy

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2010

	Stated Capital	Share Premium	Revenue Reserve	General Reserve	Retained Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31 March 2007	32,809,330	60,000	4,844,137	60,000,000	2,371,827	100,085,294
Net Profit for the Year	-	-	-	-	12,630,867	12,630,867
Transfer to Statutory Reserve	-	-	631,543	-	(631,543)	-
Balance as at 31 March 2008	32,809,330	60,000	5,475,680	60,000,000	14,371,151	112,716,161
Net Profit/(loss) for the Year	-	-	-	-	6,805,231	6,805,231
Issue of Shares During the Year	88,034,926	-	-	-	-	88,034,926
Dividend Declared 2008/2009	-	-	-	-	(3,083,662)	(3,083,662)
Transfer to General Reserve	-	-	-	-	-	-
Transfer to Statutory Reserve	-	-	3,402,616	-	(3,402,616)	-
Transfer to Stated Capital	60,000	(60,000)	-	-	-	-
Balance as at 31 March 2009	120,904,256	-	8,878,296	60,000,000	14,690,105	204,472,656
Dividend Declared 2009/2010	-	-	-	-	-	-
Net Profit/(loss) for the Year	-	-	-	-	3,117,998	3,117,998
Transfer to Statutory Reserve	-	-	155,900	-	(155,900)	-
Reversal of (Over)/Under Provisions	-	-	-	-	(34,404)	(34,404)
Balance as at 31 March 2010	<u>120,904,256</u>	<u>-</u>	<u>9,034,196</u>	<u>60,000,000</u>	<u>17,617,798</u>	<u>207,556,250</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 7 through 21 form an integral part of the financial statements.

CASH FLOW STATEMENT

Year ended 31 March

	2010 Rs.	2009 Rs.
Cash Flow From Operating Activities		
Net Profit Before Income Tax	8,711,260	8,514,349
Adjustment For		
Depreciation	1,489,283	519,135
Income From Investments	(3,227,389)	(9,667,276)
Profit on Disposal of Assets	6,298	(37,856)
Dividend Declared	-	(3,083,662)
Finance Cost	14,141,301	23,435,815
Provision for Gratuity	207,171	316,475
Reversal of (Over)/Under Provisions	(34,404)	-
Operating Profit Before Working Capital Changes	21,293,520	19,996,981
(Increase)/ Decrease in Loans and Advances	32,622,830	(46,957,297)
(Increase)/ Decrease in Investment in Leases	32,192,378	(859,323)
(Increase) / Decrease in Trade and Other Receivables	(5,497,539)	180,683
(Increase) / Decrease in Other Assets	16,519,493	(10,198,960)
Increase / (Decrease) in Fixed Deposits	(16,020,817)	(34,520,365)
Increase/ (Decrease) in Other Liabilities	(3,861,563)	(4,739,154)
Cash Generated from Operations	77,248,302	(77,097,436)
Gratuity Paid	-	(202,800)
Interest Paid	(14,141,301)	(23,435,815)
Income Tax Paid	(3,238,333)	(3,183,137)
Net Cash Flows from Operating Activities	59,868,667	(103,919,188)
Cash Flows from Investing Activities		
Acquisition of Investment Securities	(23,363,955)	-
Acquisition of Property Plant & Equipment	(107,610)	(733,147)
Disposal of Property Plant & Equipment	-	75,000
Proceeds from Sale of Investment	(6,247,598)	10,264,505
Proceeds from Issue of Shares	-	88,034,926
Interest Received from Investment	3,227,389	9,667,276
Net Cash Flows from Investing Activities	(26,491,774)	107,308,559
Cash Flows from Financing Activities		
Re Payment for Interest Bearing Loans and Borrowings	-	(10,436,802)
Net Cash Flows from Financing Activities	-	(10,436,802)
Net Increase/(Decrease) in Cash and Cash Equivalents	33,376,894	(7,047,431)
Cash and Cash Equivalents at the Beginning of the Year	(2,631,643)	4,415,788
Cash Equivalents at the End of the Year - (Note - A)	30,745,251	(2,631,643)

The accounting policies and notes on page 07 through 21 form an integral part of these financial statements.

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

Page 06

CASH FLOW STATEMENT

Year ended 31 March

	2010 Rs.	2009 Rs.
(Note -A)		
Cash & Cheques In Hand	2,830,481	1,773,069
Bank Balances	33,566,879	350,093
Others	665	2,421
Overdraft	(5,652,774)	(4,757,226)
	<u>30,745,251</u>	<u>(2,631,643)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

1.0 CORPORATE INFORMATION**1.1 General**

People's Merchant Finance Company Limited, is a limited liability company domiciled in Sri Lanka and incorporated under the Companies Act No. 07 of 2007 and governed by Finance Companies Act No. 78 of 1988 and bears its registered office at No. 21, Kumara Veediya, Kandy.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were acceptance of Deposits, granting Lease facilities, Hire Purchase, Mortgage Loans and other credit facilities.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent entity is People's Merchant Bank PLC. In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is People's Merchant Bank PLC.

1.4 Date of Authorization for Issue

The financial statements of People's Merchant Finance Company Limited, for the year ended 31 March 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 20 August 2010.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

2.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1.1 Basis of Preparation**

The Financial Statements have been prepared on a historical cost basis. The Financial Statements are presented in Sri Lankan Rupees.

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company, and are consistent with those used in the previous year.

2.1.4 Taxation**a) Current Taxes**

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act, No 10 of 2006 and amendments there to.

b) Social Responsibility Levy

As per the provisions of the Finance Act No. 05 of 2005, as amended by the Finance Act No 11 of 2006 SRL was introduced with effect from 1st January 2005. SRL is payable at the rate of 1.5% on all taxes as specified in the Act.

c) Deferred Taxation

Deferred taxation is provided using the liability method 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 assets and liabilities are recognized for all temporary differences. Deferred tax assets are recognized for all deductible temporary 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 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 tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realized or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

Deferred tax assets and deferred tax liabilities are offset, 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.

d) Value Added Tax for Financial Institution

The company's total value addition from 1st April to 31st March 2009 was subjected to a 20% of Value Added Tax as per 25(a) of the Value Added Tax Act, No.14 of 2002 as amended by the section 8(2) of Value Added Tax Act, No. 8 of 2006.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year.

2.3 Effect of Accounting Standards issued but not yet effective

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

- a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)

SLAS 44 and 45 become effective for financial years beginning on or after 1 January 2011. Accordingly, the financial Statements for the year ending 31 March 2012 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Company is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effect of these standards the impact of adoption is not estimable as at the date of publication of these financial statements.

2.4 Valuation of Assets and their Measurement Bases

2.4.1 Property, Plant and Equipment

a) Cost and Valuation

Property, Plant and Equipment are recorded at cost of purchase together with any incidental expenses thereon. The assets are stated at cost less accumulated depreciation which is provided for, on the basis specified in (c) below.

b) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognized as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

c) Depreciation

The provision for depreciation is calculated by using the reducing balance method on the cost of all property, plant and equipment other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments. The principal annual rates used are,

Building	-	4%	P.A
Air Conditioner	-	25%	P.A
Office Equipment	-	8%	P.A
Office Furniture and Fittings	-	12.5%	P.A
Computer and Accessories -	-	8%	P.A
Computer Software	-	8%	P.A
Motor Vehicles	-	25%	P.A

2.4.2 Loans and Advances

Loans and advances to customers are stated in the balance sheet net of provisions for bad and doubtful loans and interest not accrued to revenue on non performing advances.

2.4.3 Allowance for Bad and Doubtful Debtors

Specific provision is made for bad and doubtful debtor's advances comprising Lease facilities, Hire purchase, Demand loans and Consumer Credit facilities.

Provision on advances are made as follows,

Period Outstanding	Pledge Loans	Lease Facilities
06-12 Months	50%	50%
12 Months Over	100%	100%

2.4.4 Investments

Trading portfolio is stated in the balance sheet at the lower of cost and market value determined as per cost and market value at the balance sheet date.

2.4.5 Trade & Other Receivables

Trade receivables are stated at the amounts they are estimated to realize net of provision for bad and doubtful receivables. Other receivables and dues from Related Parties are recognized at cost less allowances for bad and doubtful receivables.

2.4.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdraft.

2.4.7 Cash Flow Statement

The cash flow statement has been prepared by using the "Indirect Method." cash and cash equivalents consist of cash in hand and deposits in bank net of outstanding bank over draft.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

2.5 Liabilities and Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.5.1 Retirement Benefit of Obligation**a) Defined Benefit Plan - Gratuity**

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Balance sheet date. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. The defined benefit obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by SLAS -16, Employee Benefits. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The gratuity liability was based on the actuarial valuation carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd.

The actuarial gains and losses are charged or credited to income statement in the period in which they arise. The assumptions based on which the results of the actuarial valuation was determined, are included in Note 22 to the financial statements. However, according to the Payment of Gratuity Act No.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund Contribution in line with respective statutes and Regulations. The Company contributes 15% and 3% of gross emoluments of employees to employees' Provident Fund and Employees' Trust Fund respectively.

2.5.2 Commitments and Contingencies

All material capital commitments and contingent liabilities of the company are disclosed in the respective notes to these financial statements.

2.6 Income Statement**2.6.1 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes.

The following specific criteria are used for the purpose of recognition of revenue.

a) Interest Income from Leasing Activities & Hire Purchase

The interest correspondents of the lease / hire rental receivable during the year on assets leased and on hire purchase advance to customers is recognized as income for the year. The un earned Lease / hire income included in the lease / hire rentals receivable is taken in to revenue over the term of the lease/ hire commencing from the months in which the lease/ hire is executed in proportion to the capital outstanding, so as to provide a constant periodic return on the net investment outstanding at the end of each period.

Interest ceases to be taken in to revenue when such contracts are classified as non - performing where the recovery of interest or principal is in arrears for over six months. Thereafter interest on such advance is accounted for on a cash basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

b) Interest Income from Short Term and Long Term Loans

Interest Income is generally recognized on an accrued basis. Interest ceases to be taken to revenue when interest or principal is in arrears for six (6) months or more and thereafter such income is recognized on a cash basis. Further, in instances where interest is suspended, the interest accrued up to six months is also removed from the Interest Income and transferred to the interest in suspense account.

c) Interest Income from Other Sources

Interest income from the fixed deposit is recognized at the point of maturity.

d) Default & Service Charges

Default charges for leasing, factoring and long term & short term loans have been accounted for on cash basis.

e) Other Income

All other income is recognized on cash basis, except where the income is specifically mentioned in the accounts.

2.7 Expenditure Recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

a) Interest Expenses

Interest expenses are accounted for on accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

		2010 Rs.	2009 Rs.
3 INCOME			
Interest Income	(Note - 4)	47,973,286	52,462,999
Other Operating Income	(Note - 6)	8,272,124	21,242,315
Other Income	(Note - 8)	3,238,378	9,992,615
		<u>59,483,788</u>	<u>83,697,929</u>
4 INTEREST INCOME			
Interest from Finance Leases		21,622,317	27,185,122
Interest from Hire Purchase		10,534,138	10,477,182
Interest from Mortgage Loans		6,280,546	4,282,456
Interest from Demand Loans		8,816,132	9,539,252
Interest from Fixed Deposit Loans		515,798	962,138
Interest from Consumer Credit Loans		204,355	16,848
		<u>47,973,286</u>	<u>52,462,999</u>
5 INTEREST EXPENSES			
Interest Expenses on Fixed Deposits		13,949,309	20,293,559
Interest Expenses on Long Term Borrowings		-	2,713,513
Interest Expenses on Short Term Borrowings		191,992	428,744
		<u>14,141,301</u>	<u>23,435,815</u>
6 OTHER OPERATING INCOME			
Finance Charges		538,853	1,946,135
Default Charges		1,578,362	1,488,551
Documentation Charges		127,007	720,104
Other Charges		193,342	333,391
Commission Income		183,147	49,192
Bad Debts Recoveries		749,641	7,182,374
Reversal Of Provision		1,527,862	9,522,569
Reversal of Legal Contract Write off - (2008/09)		3,373,910	-
		<u>8,272,124</u>	<u>21,242,315</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

	2010 Rs.	2009 Rs.
7 PROFIT ON OPERATING ACTIVITIES		
Stated after charging all expenses including the following		
Directors' Remuneration	1,583,811	2,658,500
Auditors' Remuneration	355,805	340,000
Depreciation	1,489,283	519,135
Staff Costs Includes		
- Defined Contribution Plan Costs - EPF & ETF	859,375	808,272
Bad Debt Written Off	-	12,876,270
Advertisement	264,663	361,480
Donations	22,140	49,985
	<u>3,238,378</u>	<u>9,992,615</u>
8 OTHER INCOME		
Interest from Fixed Deposits	-	-
Interest from Treasury Bills & Bonds	2,089,013	8,111,077
Interest from Savings Accounts	734,783	84,003
Interest from Staff Loans	30,551	58,252
Interest on Commercial Paper	373,042	1,413,945
Profit on Disposal of Fixed Assets	-	37,856
Profit on Sale of Repossessed Vehicle	-	222,859
Sundry Income	10,989	64,125
Investigation Charges	-	500
	<u>3,238,378</u>	<u>9,992,615</u>
9 PROVISION FOR BAD AND DOUBTFUL DEBTS		
Specific Provision for,		
Finance Leases & Hire Purchase	2,981,154	6,261,977
Contract Under Legal	1,250,000	8,840,801
	<u>4,231,154</u>	<u>15,102,778</u>
10 TAXATION		
Current Income Tax		
Current Tax Expenses on Ordinary Activities For the Year (10.1)	4,764,580	3,050,828
Social Responsibility Levy	71,469	45,762
Deferred Income Tax		
Deferred Taxation Charge/(Reversal) (10.2)	757,213	(1,387,473)
	<u>5,593,262</u>	<u>1,709,118</u>

10.1 RECONCILIATION OF EFFECTIVE TAX RATE

Tax charge is based on taxable profit which differs from profit for financial reporting purpose. These difference are explained in the following reconciliation statement.

Accounting Profit	11,097,530	8,514,349
Aggregate Disallowed Items	20,457,331	21,653,745
Aggregate Allowable Expenses	(17,941,774)	(18,861,894)
Taxable Profit	13,613,087	11,306,201
Tax Losses Brought Forward and Utilized	-	(2,589,548)
	<u>13,613,087</u>	<u>8,716,653</u>
Statutory Tax Rate	35%	35%
Current Income Tax Expenses	<u>4,764,580</u>	<u>3,050,828</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

2010

2009

Rs.

Rs.

10.2 DEFERRED TAX EXPENSE

Deferred Tax Expense/ (Income) Arising Due to
- Origination and Reversal of Timing Differences

757,213	(1,387,473)
<u>757,213</u>	<u>(1,387,473)</u>

Deferred Tax Liabilities have been computed at rate of 35% on it's Taxable profits, for the year.

11 EARNINGS PER SHARE

- 11.1** Basic Earnings /(Loss) Per Share is calculated by dividing the net profit / (loss) for the year attributable to Ordinary Share holders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basis Earning /(Loss) Per Share computation.

	2010 Rs.	2009 Rs.
Amounts used as the Numerator :		
Net profit/(Loss) applicable to ordinary shareholders for basic earnings per share	<u>3,117,998</u>	<u>6,805,231</u>
Amounts used as the Denominator :		
Weighted average number of ordinary shares in issue applicable to basic earnings per share	<u>6,167,324</u>	<u>5,410,724</u>
Earnings/ (Loss) Per Share	<u>0.51</u>	<u>1.26</u>

11.2 DIVIDENDS PER SHARE

Proposed for Approval at AGM

5% for
Dividends Per Share



-	3,083,662
<u>-</u>	<u>0.57</u>

Dividends Per Share is based on the dividends proposed for the period covered by the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

	2010 Rs.	2009 Rs.
12 CASH & SHORT TERM FUNDS		
Bank Balances	33,566,879	350,093
Cash In Hand	2,830,481	1,773,069
Other	665	2,421
	<u>36,398,024</u>	<u>2,125,583</u>
13 INVESTMENT SECURITIES		
Credit Information Bureau of Sri Lanka	2,500	2,500
Investment in Shares	3,193,360	-
First Capital Treasury -Commercial Paper	20,170,595	-
	<u>23,366,455</u>	<u>2,500</u>
14 LOAN AND ADVANCES		
Mortgage Loans	20,953,978	27,293,457
Demand Loans	12,421,702	31,482,775
Fixed Deposits Loans	815,394	2,430,500
Hire Purchases	35,985,904	41,058,819
Consumer Credits	258,869	793,125
	<u>70,435,847</u>	<u>103,058,676</u>
15 NET INVESTMENT IN LEASES		
Gross Investment in Leases	98,326,398	154,528,794
Less: Unearned Lease Income	(26,264,956)	(50,274,974)
	<u>72,061,442</u>	<u>104,253,820</u>
16 REPOSSESSED STOCK		
Gross Repossessed Stock	11,338,196	29,282,353
Less: Decrease in Fair Value	(2,044,870)	(3,572,732)
	<u>9,293,326</u>	<u>25,709,621</u>
17 TRADE AND OTHER RECEIVABLES		
Trade Receivables (Note 17.1)	30,761,988	26,691,865
Deposit, Advance & Pre- Payment	1,021,607	1,147,128
VAT on Financial Service Over Payment	1,541,644	1,541,644
Sundry Debtors & Other Receivables (Note 17.2)	8,446,738	6,893,802
	<u>41,771,977</u>	<u>36,274,438</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March

	2010 Rs.	2009 Rs.
17.1 TRADE RECEIVABLES		
Amount due from Leases	20,315,463	21,866,691
Amount due from Hirers	5,755,422	5,561,726
Receivable from Mortgage Loans	6,679,104	5,251,681
Receivable from Demand Loans	6,850,045	5,918,781
Receivable from Consumer Credits	-	8,061
Contract Under Legal	7,859,302	-
	<u>47,459,336</u>	<u>38,606,939</u>
Provision for Bad and Doubtful Debts (Note 17.1.1)	(10,100,238)	(5,869,084)
Interest In Suspense (Note 17.1.2)	(6,597,110)	(6,045,989)
	<u>30,761,988</u>	<u>26,691,865</u>
17.1.1 MOVEMENT IN PROVISION FOR BAD AND DOUBTFUL DEBTS		
Provision at the Beginning of the Year	5,869,084	4,365,788
Provision Made During the Year	4,231,154	15,102,778
	<u>10,100,238</u>	<u>19,468,566</u>
Recoveries During the Year	-	(4,076,913)
Reversal of Provision During The Year	-	(9,522,569)
Provision at the End of the Year	<u>10,100,238</u>	<u>5,869,084</u>
17.1.2 MOVEMENT IN INTEREST IN SUSPENSE		
Interest in Suspense	6,597,110	6,045,989
	<u>6,597,110</u>	<u>6,045,989</u>
17.2 SUNDRY DEBTORS AND OTHER RECEIVABLES		
Sundry Debtors & Other Receivables	8,446,738	6,893,802
	<u>8,446,738</u>	<u>6,893,802</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

18 PROPERTY, PLANT & EQUIPMENT

18.1 Gross Carrying Amounts

	Balance As at 01.04.2009 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2010 Rs.
At Cost				
Freehold Land	8,312,500	-	-	8,312,500
Buildings on Freehold Land	3,661,595	-	-	3,661,595
Plant & Machinery	3,352,972	17,310	-	3,370,282
Motor Vehicles	1,112,755	-	-	1,112,755
Furniture and Fittings	717,950	10,500	-	728,450
Office Equipment	975,907	79,800	40,500	1,015,207
Total Value of Depreciable Assets	18,133,679	107,610	40,500	18,200,789

	Balance As At 01.04.2009 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2010 Rs.
18.2 At Cost				
Buildings	-	1,040,298	-	1,040,298
Plant & Machinery	2,382,682	230,358	-	2,613,040
Motor Vehicles	607,470	126,321	-	733,791
Furniture and Fittings	415,058	37,986	-	453,044
Office Equipment	526,935	54,320	34,202	547,053
Total Depreciation	3,932,145	1,489,283	34,202	5,387,226

18.3 Net Book Values

At Cost

	2010 Rs.	2009 Rs.
Freehold Land	8,312,500	8,312,500
Buildings on Freehold Land	2,621,297	3,661,595
Plant & Machinery	757,242	970,290
Motor Vehicles	378,964	505,285
Furniture and Fittings	275,406	302,892
Office Equipment	468,154	448,972
	12,813,562	14,201,534



During the financial year, the company acquired Property, Plant and Equipment for cash to the aggregate value of Rs. 107,610/-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

19 INTEREST BEARING LOANS & BORROWINGS

	2010 Amount Repayable With in 1 Year Rs.	2010 Amount Repayable After 1 Year Rs.	2010 Total Rs.	2009 Amount Repayable With in 1 Year Rs.	2009 Amount Repayable After 1 Year Rs.	2009 Total Rs.
Bank Overdraft	5,652,774	-	5,652,774	4,757,226	-	4,757,226
	<u>5,652,774</u>	<u>-</u>	<u>5,652,774</u>	<u>4,757,226</u>	<u>-</u>	<u>4,757,226</u>

20 TRADE AND OTHER PAYABLES

	2010 Rs.	2009 Rs.
Sundry Creditors Including Accrued Expenses	7,183,842	10,774,836
Other Payables	585,000	-
	<u>7,768,842</u>	<u>10,774,836</u>

21 DEFERRED TAX

Balance as at Beginning of the Year	-	1,387,473
Provision/ (Reversal) made During the Year	757,213	(1,387,473)
Balance as at the End of the Year	<u>757,213</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

22 DEFINED BENEFIT LIABILITIES

	Balance 01.04.2009	Charge for the Year	Payment During the Year	Balance 31.03.2010
	Rs.	Rs.	Rs.	Rs.
Retirement Benefits Obligation - Gratuity	988,050	207,171	-	1,195,221
	<u>988,050</u>	<u>207,171</u>	<u>-</u>	<u>1,195,221</u>

Messrs. Actuarial & Management Consultants (Private) Limited., Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2010. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2010
Discount rate assumed (%)	11 %
Further salary increase (%)	10 %

In addition to the above, demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation. "A 67/70 mortality table" issued by the Institute of Actuaries, London was used to estimate the gratuity liability of the Company.

23 STATED CAPITAL

	2010	2009
	(No.)	(No.)
Fully Paid - Ordinary Shares	6,167,324	6,167,324
	<u>6,167,324</u>	<u>6,167,324</u>

24 RESERVES

Summary	2010 Rs.	2009 Rs.
(a) Revenue Reserve (24.1)	9,034,196	8,878,296
	<u>9,034,196</u>	<u>8,878,296</u>
(b) General Reserve (24.2)	60,000,000	60,000,000
	<u>60,000,000</u>	<u>60,000,000</u>

24.1 Revenue Reserve

As at the Beginning of the Year
Capitalized During the Year
As at the end of the Year

8,878,296	5,475,680
155,900	3,402,616
<u>9,034,196</u>	<u>8,878,296</u>

24.2 General Reserve

As at the Beginning of the Year
Capitalized During the Year
As at the end of the Year

60,000,000	60,000,000
-	-
<u>60,000,000</u>	<u>60,000,000</u>



25 COMMITMENTS AND CONTINGENCIES

The company does not have significant capital commitments as at the balance sheet date.

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The composition of the Company's board of directors changed on 01 April 2010 and 01 June 2010. The new board appointed on 01 April 2010 comprised of the following persons.

Mr. K. L. Hewage	Chairman
Mr. Anura R. Wikramasinghe	Managing Director / CFO
Mr. P. V. Pathirana	Director
Mr. Ahmed Sabry Ibrahim	Director
Mr. K. Jayawardena	Director
Mr. M. P. Haradasa	Director

The composition of the board changed again on 01 June 2010 and Mr. P.A. Ajith Panditharatna replaced Mr. K.A. Hewage as the Chairman.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2010

27 RELATED PARTY DISCLOSURES**27.1 Transactions with the Related Entities**

There were no transactions with related entities during the year ended 31 March 2010.

27.2 Compensation to Key Management Personnel (*)

	2010 Rs.	2009 Rs.
Short Term Employee Benefit	1,105,000	2,658,500
Post Employment Benefits	-	-
Termination Benefits	-	-
Other Long Term Benefits	-	-
Share Based Payments	-	-
	<u>1,105,000</u>	<u>2,658,500</u>

Key management personnel include the Board of Directors of the Company.

27.3 Transactions, arrangements and agreements involving companies controlled by the shareholder with significant influence

	-	-
	<u>-</u>	<u>-</u>

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED
DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 March

2010
Rs.

2009
Rs.

STATEMENT I

INTEREST INCOME

Interest from Finance Leases	21,622,317	27,185,122
Interest from Hire Purchase	10,534,138	10,477,182
Interest from Mortgage Loans	6,280,546	4,282,456
Interest from Demand Loans	8,816,132	9,539,252
Interest from Fixed Deposit Loans	515,798	962,138
Interest from Consumer Credit Loans	204,355	16,848
	<u>47,973,286</u>	<u>52,462,999</u>

STATEMENT II

OTHER OPERATING INCOME

From Lease Business

Finance Charges	280,583	778,949
Default Charges	842,184	961,913
Documentation Charges	36,893	123,204
Other Charges	448	1,402
Commission Income	13,600	45,273
Bad Debts Recoveries	526,555	4,999,535
	<u>1,700,263</u>	<u>6,910,275</u>

From Businesses Other Than Leasing

Finance Charges	258,270	1,167,186
Default Charges	736,178	526,638
Documentation Charges	90,114	596,900
Other Charges	192,894	331,989
Commission Income	169,547	3,919
Bad Debts Recoveries	223,086	2,182,839
	<u>1,670,089</u>	<u>4,809,471</u>

STATEMENT III

OTHER INCOME

Interest from Treasury Bills & Bonds	2,089,013	8,111,077
Interest from Savings Accounts	734,783	84,003
Interest from Staff Loans	30,551	58,252
Interest on Commercial Paper	373,042	1,413,945
Profit on Disposal of Asset	-	37,856
Profit on Sale of Repossessed Vehicle	-	222,859
Sundry Income	10,989	64,125
Investigation charges	-	500
Reversal of Provision	1,527,862	9,522,569
Reversal of Legal Contract Write off - (2008/09)	3,373,910	-
	<u>8,140,150</u>	<u>19,515,184</u>



PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 March

	Statement	2010 Rs.	2009 Rs.
Interest Income	I	47,973,286	52,462,999
Interest Expenses		(14,141,301)	(23,435,815)
Net Interest Income		<u>33,831,985</u>	<u>29,027,183</u>
Other Operating Income	II	3,370,352	11,719,747
Other Income	III	8,140,150	19,515,184
Operating Income		<u>45,342,487</u>	<u>60,262,114</u>
Operating Expenses			
Administration and Establishment Expenses	IV	(14,947,378)	(17,696,816)
Marketing Expenses	V	(19,297,579)	(33,056,615)
Operating Profit		<u><u>11,097,530</u></u>	<u><u>9,508,683</u></u>

PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 March

	2010 Rs.	2009 Rs.
STATEMENT IV		
ADMINISTRATION EXPENSES		
Staff Salaries & Allowances	4,587,603	5,129,525
Directors Remuneration	1,583,811	2,658,500
Staff Welfare	99,908	133,819
Overtime	41,353	49,427
Employees Provident Fund	716,146	673,560
Employees Trust Fund	143,229	134,712
Bonus	12,000	1,601,741
Gratuity	207,171	316,475
Printing & Stationary	372,985	407,822
Postage & Stamps	225,777	214,599
Telephone	443,313	499,926
Electricity	437,244	477,772
Water Bills	63,159	41,429
K.M.C. Business Licenses	12,112	5,800
Consultants Allowances	32,000	195,000
Insurance	141,578	73,519
Parking Charges	240	340
Newspaper & Periodicals	7,920	7,270
Audit Fees	355,805	340,000
Central Bank Registration Fees	17,600	88,000
Sundry Expenses	2,849	35,700
Repair & Maintenance	220,376	160,199
Depreciation	1,489,283	519,135
Secretarial Fees	60,000	87,860
Leave Pay	111,200	157,151
Vehicle Maintenance	622,218	547,974
Company Registration Fees	-	7,875
Service Charges	84,000	125,760
Rent-Car	-	-
Valuation Fees	133,550	109,775
Debit Tax	176,939	234,125
Surcharges	-	-
Rate & Taxes	25,384	44,243
Security Charges	319,135	320,425
Donations	22,140	49,985
Entertainment	21,357	29,817
Subscription- Finance House Association	46,458	106,087
Directors Traveling Allowance	20,000	120,000
Staff Medical Insurance	333	47,534
Professional Fees	88,516	28,000
Rating Charges	252,000	273,750
Stamp Duty	37,175	567,290
Seminar Expenses	47,538	8,450
Internal audit fees	120,000	102,000
Legal Expense	115,353	-
Membership fees	34,440	5,000
Vehicle Yard Rent	916,000	222,000
Vehicle Yard Expenses	69,963	-
Deemed Dividend Tax	-	532,688
Over Provision of Receivable	-	155,282
Other Expenses	52,633	49,473
R.M.V. Charges	317,943	-
Loss on sales of shares	39,642	-
	<u>14,947,378</u>	<u>17,696,816</u>



PEOPLE'S MERCHANT FINANCE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 March

STATEMENT V

MARKETING EXPENSES

	2010	2009
	Rs.	Rs.
Advertisement	264,663	361,480
Travelling & Transport	485,810	764,123
Provision for Bad & Doubtful Debts	4,231,154	15,102,778
Bad Debt Written Off	-	12,876,270
Investigation Expenses	1,700	114,135
Commission	-	65,318
Loss on Sale of Repossessed Vehicle	14,307,954	-
Loss on Decrease in Fair Value of Repossessed Stock	-	3,772,512
Loss of Discarded Name Board	6,298	-
	19,297,579	33,056,615

AUDITED FINANCIAL STATEMENTS AS AT 31ST MARCH 2009



Chartered Accountants
839/2
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Sri Lanka
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 : (0) 81 4471356
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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SILVEREEN FINANCE COMPANY LIMITED
Report on the Financial Statements

We have audited the accompanying Financial Statements of Silverreen Finance Company Limited, which comprise the Balance Sheet as of March 31, 2009 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 misstatements.

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 principles 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 purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion
We draw attention to the following paragraphs,
Retirement Benefits – Gratuity

1. The company has provided for gratuity based on formulae describe on page 11 accounting policy number 2.4.1.
Sri Lanka Accounting Standard 16 on retirement benefit costs recommends that the present value of gratuity liability be calculated using an actuarial valuation after assessing the assumptions used there in to compute the said gratuity liability at the balance sheet date.
The company has not complied with the provisions of the said accounting standard and no adjustment has been made to these accounts to reflect the gratuity liability as required by the Sri Lanka Accounting Standard 16.

Contd /.....

Partners: A D B Talawala FCA FCMA, [REDACTED] Me. L C G Nemasakara FCA FCMA, W R R Fernando FCA FCMA
M P D Gooray FCA FCMA, H M A Jayasinghe FCA FCMA, D K Hulangenuwa FCA FCMA LLB (Lond), A P A Gunasekera FCA FCMA
A S M Ismail FCA FCMA, A Herath FCA, Ms. Y A De Silva ACA
Resident Partner: R N De Saram ACA FCMA
Director: A G J Perera

Dividend Declared

2. We were unable to satisfy ourselves as to the company's compliance with the provisions of the Section No. 57 of the Company's Act No. 07 of 2007 in assessing the solvency of the company before declaring dividends amounting to Rs. 3,083,662 for the year ended 31st March 2009.

Depreciation on Buildings

3. Buildings have not been depreciated as the cost of the buildings cannot be segregated from the cost of land. This creates practical difficulties in providing for depreciation as the aggregate value of land and buildings is carried in the ledger accounts, and value for land and buildings cannot be separately distinguished.

In our opinion, except for the effects on the financial statements of the matters reflected in the preceding paragraphs, so far as appears from our examination, the company maintained proper accounting records for the year ended 31st March 2009 and the Financial statements give a true and fair view of the company's statement of affairs as at 31st March 2009 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.

In our opinion, except as stated above these financial statements also comply with the requirements of section 151(2) of the Companies Act, No. 07 of 2007.

Kandy
28th September 2009



INCOME STATEMENT

Year ended 31st March 2009

	Note	2009 Rs.	2008 Rs.
Income	3	83,697,929	62,744,843
Interest Income	4	52,462,999	34,930,929
Interest Expenses	5	(23,435,815)	(22,253,985)
Net Interest Income		29,027,183	12,676,944
Other Operating Income	6	21,242,315	10,921,069
Net Income from Operations		50,269,498	23,598,013
Operating Expenses			
Personal Costs		(10,381,285)	(7,378,872)
Payment For Gratuity Fund		(316,475)	(213,103)
Other General Administrative Expenses		(24,433,758)	(12,968,886)
Depreciation		(519,135)	(432,927)
Operating Profit before Other Income	7	14,618,846	2,604,226
Other Income	8	9,992,615	16,892,845
Operating Profit before Provisions		24,611,461	19,497,070
Bad and Doubtful Debts	9	(15,102,778)	(6,279,430)
Operating profit on ordinary activities		9,508,683	13,217,641
Value Added Tax on Financial Services		(994,333)	(622,138)
Operating Profit Before Taxation		8,514,349	12,595,503
Taxation	10	(1,709,118)	35,364
Profit on ordinary activities after taxation		6,805,231	12,630,867
Earnings per share	11.1	1.26	3.85
Dividends Per Share	11.2	0.57	0.00

Figures in brackets indicate deductions.

The accounting policies and notes on pages 7 through 20 form an integral part of the financial statements.

28th September 2009

Kandy

SILVEREEN FINANCE COMPANY LIMITED

Page 14

STATEMENT OF CHANGES IN EQUITY

Year ended 31st March 2009

	Stated Capital	Share Premium	Revenue Reserve	General Reserve	Retained Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st March 2006	25,237,950	60,000	4,488,867	-	63,178,045	92,964,862
Issue of Share Capital for Cash	7,571,380	-	-	-	-	7,571,380
Prior Year Adjustment	-	-	-	-	(225,000)	(225,000)
Effect of Adopting New/Revised SLAS	-	-	-	-	(5,690,881)	(5,690,881)
Net Profit for the Year	-	-	-	-	7,105,399	7,105,399
Dividend Paid 2006/2007	-	-	-	-	(1,640,466)	(1,640,466)
Transfer to General Reserve	-	-	-	60,000,000	(60,000,000)	-
Transfer to Statutory Reserve	-	-	355,270	-	(355,270)	-
Balance as at 31st March 2007	32,809,330	60,000	4,844,137	60,000,000	2,371,827	100,085,294
Net Profit for the Year	-	-	-	-	12,630,867	12,630,867
Transfer to Statutory Reserve	-	-	631,543	-	(631,543)	-
Balance as at 31st March 2008	32,809,330	60,000	5,475,680	60,000,000	14,371,151	112,716,161
Net Profit/(loss) for the Year	-	-	-	-	6,805,231	6,805,231
Issue of Shares During the Year	88,034,926	-	-	-	-	88,034,926
Dividend Declared 2008/2009	-	-	-	-	(3,083,662)	(3,083,662)
Transfer to Statutory Reserve	-	-	3,402,616	-	(3,402,616)	-
Transfer to Stated Capital	60,000	(60,000)	-	-	-	-
Balance as at 31st March 2009	120,904,256	-	8,878,296	60,000,000	14,690,105	204,472,656

Figures in brackets indicate deductions.

CASH FLOW STATEMENT

Year ended 31st March 2009

	2009 Rs.	2008 Rs.
Cash Flow From Operating Activities		
Net Profit Before Income Tax	8,514,349	12,595,503
Adjustment For		
Depreciation	519,135	432,927
Income From Investments	(9,667,276)	(5,096,678)
Profit on Disposal of Assets	(37,856)	(11,521,000)
Dividend Declared	(3,083,662)	-
Finance Cost	23,435,815	22,253,985
Provision for Gratuity	316,475	213,103
Operating Profit Before Working Capital Changes	19,996,981	18,877,840
(Increase)/ Decrease in Loans and Advances	(46,957,297)	290,108
(Increase)/ Decrease in Investment in Leases	(859,323)	(4,597,841)
(Increase) / Decrease in Trade and Other Receivables	180,683	692,896
(Increase) / Decrease in Other Assets	(10,198,960)	(11,403,208)
Increase / (Decrease) in Fixed Deposits	(34,520,365)	1,874,371
Increase/ (Decrease) in Other Liabilities	(4,739,154)	492,578
Cash Generated from Operations	(77,097,436)	6,226,744
Gratuity Paid	(202,800)	(382,501)
Interest Paid	(23,435,815)	(22,253,985)
Income Tax Paid	(3,183,137)	(2,099,501)
Net Cash Flows from Operating Activities	(103,919,188)	(18,509,243)
Cash Flows from Investing Activities		
Proceeds from Disposal of Investment Securities	-	5,036,410
Acquisition of Property Plant & Equipment	(733,147)	(351,010)
Disposal of Property Plant & Equipment	75,000	24,000,000
Proceeds from Sale of Investment	10,264,505	(14,121,888)
Proceeds from Issue of Shares	88,034,926	-
Interest Received from Investment	9,667,276	5,096,678
Net Cash Flows from Investing Activities	107,308,559	19,660,190
Cash Flows from Financing Activities		
Proceeds from Interest Bearing Loans and Borrowings	-	3,000,000
Re Payment for Interest Bearing Loans and Borrowings	(10,436,802)	(6,279,102)
Net Cash Flows from Financing Activities	(10,436,802)	(3,279,102)
Net Increase/(Decrease) in Cash and Cash Equivalents	(7,047,431)	(2,128,155)
Cash and Cash Equivalents at the Beginning of the Year	4,415,788	6,543,943
Cash Equivalents at the End of the Year - (Note - A)	(2,631,643)	4,415,788

The accounting policies and notes on page 07 through 20 form an integral part of these financial statements.

28th September 2009

Kandy

CASH FLOW STATEMENT

Year ended 31st March 2009

	2009 Rs.	2008 Rs.
(Note -A)		
Cash & Cheques In Hand	1,773,069	2,238,349
Bank Balances	350,093	2,175,909
Others	2,421	1,530
Overdraft	(4,757,226)	-
	<u>(2,631,643)</u>	<u>4,415,788</u>

ACCOUNTING POLICIESYear ended 31st March 2009**1.0 CORPORATE INFORMATION****1.1 General**

Silvereen Finance Company Ltd., is a company domiciled in Sri Lanka and incorporated under the Companies Act and governed by Finance Companies Act No. 78 of 1988 and bears its registered office at No. 21, Kumara Veediya, Kandy.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were acceptance of Deposits, granting Lease facilities, Hire Purchase, Mortgage Loans and other credit facilities.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company does not have an identifiable parent of its own.

1.4 Date of Authorization for Issue

The financial statements of Silvereen Finance Company Limited, for the year ended 31st March 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 28th September 2009.

1.5 Number of Employees

The number of employees at the year end was 18 (2007/2008-13).

ACCOUNTING POLICIESYear ended 31st March 2009**2.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.1.1 Basis of Preparation**

The Financial Statements have been prepared on a historical cost basis. The Financial Statements are presented in Sri Lankan Rupees.

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the company.

2.1.4 Taxation**a) Current Taxes**

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act, No 10 of 2006 and amendments there to.

b) Social Responsibility Levy

As per the provisions of the Finance Act No. 05 of 2005, as amended by the Finance Act No 11 of 2006 SRL was introduced with effect from 1st January 2005. SRL is payable at the rate of 1.5% on all taxes as specified in the Act.

c) Deferred Taxation

Deferred income tax is provided, using the liability method, 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 income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets 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 assets and unused tax losses can be utilized except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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 asset to be utilized.

ACCOUNTING POLICIESYear ended 31st March 2009

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

d) Value Added Tax for Financial Institution

The company's total value addition from 1st April to 31st March 2009 was subjected to a 20% of Value Added Tax as per 25(a) of the Value Added Tax Act, No.14 of 2002 as amended by the section 8(2) of Value Added Tax Act, No. 8 of 2006.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year

2.3 Valuation of Assets and their Measurement Bases**2.3.1 Property, Plant and Equipment****a) Cost and Valuation**

Property, Plant and Equipment are recorded at cost of purchase together with any incidental expenses thereon. The assets are stated at cost less accumulated depreciation which is provided for, on the basis specified in (c) below.

b) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognized as an expense when incurred.

c) Depreciation

The provision for depreciation is calculated by using the reducing balance method on the cost of all property, plant and equipment other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments. The principal annual rates used are,

Air Conditioner	-	25%	P.A
Office Equipment	-	8%	P.A
Office Furniture and Fittings	-	12.5%	P.A
Computer and Accessories-	-	8%	P.A
Computer Software	-	8%	P.A
Motor Vehicles	-	25%	P.A

The company has not depreciated buildings as it is not possible to segregate the initial cost of buildings from land. Further, the company has obtained a valuation for land and buildings after the balance sheet date. Such valuation, performed by independent valuer Mr.Ananda Sarath A.I.V Sri Lanka, Panel Valuers, banks and state institutions, places the current value of land and buildings at Rs. 17,000,000. However the results of such re-valuation have not been booked in the company's books of account as such valuation does not conform to the central bank guidelines on inclusion of eligible revaluation reserves in capital funds/tier 2 supplementary capitals.

ACCOUNTING POLICIESYear ended 31st March 2009**2.3.2 Loans and Advances**

Loans and advances to customers are stated in the balance sheet net of provisions for bad and doubtful loans and interest not accrued to revenue on non performing advances.

2.3.3 Allowance for Bad and Doubtful Debtors

Specific provision is made for bad and doubtful debtor's advances comprising Lease facilities, Hire purchase, Demand loans and Consumer Credit facilities.

Provision on advances are made as follows,

Period Outstanding	Pledge Loans	Lease Facilities
06-12 Months	50%	50%
12 Months Over	100%	100%

2.3.4 Investments

Trading portfolio is stated in the balance sheet at the lower of cost and market value determined as per cost and market value at the balance sheet date.

2.3.5 Trade & Other Receivables

Trade receivables are stated at the amounts they are estimated to realize net of provision for bad and doubtful receivables. Other receivables and dues from Related Parties are recognized at cost less allowances for bad and doubtful receivables.

2.3.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdraft.

2.3.7 Cash Flow Statement

The cash flow statement has been prepared by using the "Indirect Method." cash and cash equivalents consist of cash in hand and deposits in bank net of outstanding bank over draft.

ACCOUNTING POLICIESYear ended 31st March 2009**2.4 Liabilities and Provisions**

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.4.1 Retirement Benefit of Obligation**a) Defined Benefit Plan - Gratuity**

Gratuity is a defined benefit plan. The company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half months salary of the last month of the financial year of all employees for each completed year of service commencing from the first year of service.

b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident fund contributions and Employees' Trust Fund Contribution in line with respective statutes and Regulations. The Company contributes 15% and 3% of gross emoluments of employees to employees' Provident fund and Employees' Trust Fund respectively.

2.4.2 Commitments and Contingencies

All material capital commitments and contingent liabilities of the company are disclosed in the respective notes to these financial statements.

2.5 Income Statement**2.5.1 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes.

The following specific criteria are used for the purpose of recognition of revenue.

a) Interest Income from Leasing Activities & Hire Purchase

The interest correspondents of the lease / hire rental receivable during the year on assets leased and on hire purchase advance to customers is recognized as income for the year. The un earned Lease / hire income included in the lease / hire rentals receivable is taken in to revenue over the term of the lease/ hire commencing from the months in which the lease/ hire is executed in proportion to the capital outstanding, so as to provide a constant periodic return on the net investment outstanding at the end of each period.

Interest ceases to be taken in to revenue when such contracts are classified as non - performing where the recovery of interest or principal is in arrears for over six months. Thereafter interest on such advance is accounted for on a cash basis.

b) Interest Income from Short Term and Long Term Loans

Interest Income is generally recognized on an accrued basis. Interest ceases to be taken to revenue when interest or principal is in arrears for six (6) months or more and thereafter such income is recognized on a cash basis. Further, in instances where interest is suspended, the interest accrued up to six months is also removed from the interest income and transferred to the interest in suspense account.

ACCOUNTING POLICIESYear ended 31st March 2009**c) Interest Income from Other Sources**

Interest income from the fixed deposit is recognized at the point of maturity.

d) Default & Service Charges

Default charges for leasing, factoring and long term & short term loans have been accounted for on cash basis.

e) Other Income

All other income is recognized on cash basis, except where the income is specifically mentioned in the accounts.

2.6 Expenditure Recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

a) Interest Expenses

Interest expenses are accounted for on accrual basis.

NOTES TO THE ACCOUNTS

Year ended 31st March 2009

3 INCOME

		2009 Rs.	2008 Rs.
Interest Income	(Note - 4)	52,462,999	34,930,929
Other Operating Income	(Note - 6)	21,242,315	10,921,069
Other Income	(Note - 8)	9,992,615	16,892,845
		<u>83,697,929</u>	<u>62,744,843</u>

4 INTEREST INCOME

Interest from Finance Leases	27,185,122	21,117,390
Interest from Hire Purchase	10,477,182	7,520,988
Interest from Mortgage Loans	4,282,456	1,170,787
Interest from Demand Loans	9,539,252	4,235,705
Interest from Fixed Deposit Loans	962,138	886,059
Interest from Consumer Credit Loans	16,848	-
	<u>52,462,999</u>	<u>34,930,929</u>

5 INTEREST EXPENSES

Interest Expenses on Fixed Deposits	20,293,559	19,310,566
Interest Expenses on Long Term Borrowings	2,713,513	2,384,355
Interest Expenses on Short Term Borrowings	428,744	559,064
	<u>23,435,815</u>	<u>22,253,985</u>

6 OTHER OPERATING INCOME

Finance Charges	1,946,135	941,482
Default Charges	1,488,551	2,605,307
Documentation Charges	720,104	442,994
Other Charges	333,391	206,897
Commission Income	49,192	435,013
Bad Debts Recoveries	7,182,374	6,289,376
Reversal Of Provision	9,522,569	-
	<u>21,242,315</u>	<u>10,921,069</u>

NOTES TO THE ACCOUNTS

Year ended 31st March 2009

	2009 Rs.	2008 Rs.
7 PROFIT ON OPERATING ACTIVITIES		
Stated after charging all expenses including the following		
Directors' Remuneration	2,658,500	3,832,000
Auditors' Remuneration	340,000	229,498
Depreciation	519,135	432,927
Staff Costs Includes - EPF & ETF	808,272	528,176
Bad Debt Written Off	12,876,270	4,065,847
Advertisement	361,480	241,533
Donations	49,985	23,200
8 OTHER INCOME		
Interest from Fixed Deposits	-	202,664
Interest from Treasury Bills & Bonds	8,111,077	4,690,679
Interest from Savings Accounts	84,003	158,690
Interest from Staff Loans	58,252	44,645
Interest on Commercial Paper	1,413,945	-
Profit on Disposal of Fixed Assets	37,856	11,521,000
Profit on Sale of Repossessed Vehicle	222,859	275,072
Sundry Income	64,125	95
Investigation Charges	500	-
	<u>9,992,615</u>	<u>16,892,845</u>
9 PROVISION FOR BAD AND DOUBTFUL DEBTS		
Specific Provision for, Finance Leases & Hire Purchase Contract Under Legal	6,261,977 8,840,801 <u>15,102,778</u>	5,303,110 976,320 <u>6,279,430</u>
10 TAXATION		
Current Income Tax		
Current Tax Expenses on Ordinary Activities For the Year (10.1)	3,050,828	1,797,442
Social Responsibility Levy	45,762	-
Deferred Income Tax		
Deferred Taxation Charge/(Reversal) (10.2)	(1,387,473)	(1,832,806)
	<u>1,709,118</u>	<u>(35,364)</u>
10.1 RECONCILIATION OF EFFECTIVE TAX RATE		
Tax charge is based on taxable profit which differs from profit for financial reporting purpose. These difference are explained in the following reconciliation statement.		
Accounting Profit	8,514,349	12,595,503
Aggregate Disallowed Items	21,653,745	42,041,442
Aggregate Allowable Expenses	(18,861,894)	(45,239,658)
Taxable Profit	11,306,201	9,397,287
Tax Losses Brought Forward and Utilized	(2,589,548)	(3,289,050)
	<u>8,716,653</u>	<u>6,108,237</u>
Statutory Tax Rate	35%	35%
Current Income Tax Expenses	<u>3,050,828</u>	<u>1,797,442</u>



NOTES TO THE ACCOUNTS

Year ended 31st March 2009

10.2 DEFERRED TAX EXPENSE	2009 Rs.	2008 Rs.
Deferred Tax Expense/ (Income) Arising Due to - Origination and Reversal of Timing Differences	(1,387,473)	(1,832,806)
	<u>(1,387,473)</u>	<u>(1,832,806)</u>

Deferred Tax Liabilities have been computed at rate of 35% on it's Taxable profits, for the year.

11 EARNINGS PER SHARE

- 11.1 Basic Earnings/(Loss) Per Share is calculated by dividing the net profit / (loss) for the year attributable to Ordinary Share holders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basis Earning/(Loss) Per Share computation.

	2009 Rs.	2008 Rs.
Amounts used as the Numerator :		
Net profit/(Loss) applicable to ordinary shareholders for basic earnings per share	6,805,231	12,630,867
Amounts used as the Denominator :		
Weighted average number of ordinary shares in issue applicable to basic earnings per share	5,410,724	3,280,933
Earnings/ (Loss) Per Share	<u>1.26</u>	<u>3.85</u>

11.2 DIVIDENDS PER SHARE

Proposed for Approval at AGM

5% for	3,083,662	-
Dividends Per Share	<u>0.57</u>	<u>-</u>

Dividends Per Share is based on the dividends proposed for the period covered by the financial statements.

	2009 Rs.	2008 Rs.
12 CASH & SHORT TERM FUNDS		
Bank Balances	350,093	2,175,909
Cash In Hand	1,773,069	2,238,349
Other	2,421	1,530
	<u>2,125,583</u>	<u>4,415,788</u>
13 INVESTMENT SECURITIES		
Credit Information Bureau of Sri Lanka	2,500	2,500
Fixed deposits	2,500	2,500
	<u>2,500</u>	<u>2,500</u>
14 LOAN AND ADVANCES		
Mortgage Loans	27,293,457	6,482,583
Demand Loans	31,482,775	11,856,331
Fixed Deposits Loans	2,430,500	3,987,826
Hire Purchases	41,058,819	33,774,633
Consumer Credits	793,125	-
	<u>103,058,676</u>	<u>56,101,380</u>



NOTES TO THE ACCOUNTS

Year ended 31st March 2009

	2009 Rs.	2008 Rs.
15 NET INVESTMENT IN LEASES		
Gross Investment in Leases	154,528,794	151,304,014
Less: Unearned Lease Income	(50,274,974)	(47,909,517)
	<u>104,253,820</u>	<u>103,394,496</u>
16 REPOSSESSED STOCK		
Gross Repossessed Stock	29,282,353	18,335,179
Less: Decrease in Fair Value	(3,572,732)	(2,803,725)
	<u>25,709,621</u>	<u>15,531,454</u>
17 TRADE AND OTHER RECEIVABLES		
Trade Receivables (Note 17.1)	26,691,865	26,918,379
Deposit, Advance & Pre- Payment	1,147,128	552,936
VAT on Financial Service Over Payment	1,541,644	33,698
Sundry Debtors & Other Receivables (Note 17.2)	6,893,802	8,950,109
	<u>36,274,438</u>	<u>36,455,121</u>
17.1 TRADE RECEIVABLES		
Amount due from Leases	21,866,691	19,467,178
Amount due from Hirers	5,561,726	3,931,169
Receivable from Mortgage Loans	5,251,681	3,638,508
Receivable from Demand Loans	5,918,781	5,323,745
Receivable from Consumer Credits	8,061	-
Contract Under Legal	-	4,071,608
	<u>38,606,939</u>	<u>36,432,208</u>
Provision for Bad and Doubtful Debts (Note 17.1.1)	(5,869,084)	(4,365,788)
Interest In Suspense (Note 17.1.2)	(6,045,989)	(5,148,041)
	<u>26,691,865</u>	<u>26,918,379</u>
17.1.1 MOVEMENT IN PROVISION FOR BAD AND DOUBTFUL DEBTS		
Provision at the Beginning of the Year	4,365,788	3,823,193
Provision Made During the Year	15,102,778	10,345,277
	<u>19,468,566</u>	<u>14,168,470</u>
Recoveries During the Year	(4,076,913)	(5,736,835)
Reversal of Provision During The Year	*(9,522,569)	(4,065,847)
Provision at the End of the Year	<u>5,869,084</u>	<u>4,365,788</u>
17.1.2 MOVEMENT IN INTEREST IN SUSPENSE		
Interest in Suspense	6,045,989 *	5,148,041
	<u>6,045,989</u>	<u>5,148,041</u>
17.2 SUNDRY DEBTORS AND OTHER RECEIVABLES		
Sundry Debtors & Other Receivables	6,893,802	8,950,109
Specific Bad Debts Written Off	-	-
	<u>6,893,802</u>	<u>8,950,109</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st March 2009

18 PROPERTY, PLANT & EQUIPMENT**18.1 Gross Carrying Amounts**

	Balance As at 01.04.2008 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2009 Rs.
At Cost				
Freehold Land	7,327,000	-	-	7,327,000
Buildings on Freehold Land	4,647,095	-	-	4,647,095
Plant & Machinery	2,957,675	395,297		3,352,972
Motor Vehicles	915,885	305,900	(109,030)	1,112,755
Furniture and Fittings	690,250	27,700	-	717,950
Office Equipment	971,657	4,250	-	975,907
Total Value of Depreciable Assets	17,509,562	733,147	(109,030)	18,133,679

	Balance As At 01.04.2008 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2009 Rs.
18.2 At Cost				
Plant & Machinery	2,120,848	261,834	-	2,382,682
Motor Vehicles	519,396	159,960	(71,886)	607,470
Furniture and Fittings	373,666	41,392	-	415,058
Office Equipment	470,986	55,949	-	526,935
Total Depreciation	3,484,896	519,135	(71,886)	3,932,145

		2009 Rs.	2008 Rs.
18.3 Net Book Values			
At Cost			
Freehold Land		7,327,000	7,327,000
Buildings on Freehold Land		4,647,095	4,647,095
Plant & Machinery		970,290	836,827
Motor Vehicles		505,285	396,489
Furniture and Fittings		302,892	316,584
Office Equipment		448,972	500,671
		14,201,534	14,024,666

During the financial year, the company acquired Property, Plant and Equipment for cash to the aggregate value of Rs. 733,147/-

Buildings have not been depreciated as the cost of the buildings cannot be segregated from the cost of land. The company obtained an independent valuation of its land and buildings after the balance sheet date. Such valuation shows a revaluation of land to Rs. 10,654,000/- and a devaluation of buildings to Rs. 3,829,500 using the cost approach to valuation. However the effects of the valuation have not been incorporated into the company's accounts as it does not confirm to the requirements of Central Bank guidelines on the inclusion of eligible revaluation reserves in capital funds/ tier 2 supplementary capital. In carrying out such a valuation the company has complied with the requirements of SLAS 41, Impairment.

NOTES TO THE ACCOUNTS

Year ended 31st March 2009

19 INTEREST BEARING LOANS & BORROWINGS

	2009 Amount Repayable With in 1 Year Rs.	2009 Amount Repayable After 1 Year Rs.	2009 Total Rs.	2008 Amount Repayable With in 1 Year Rs.	2008 Amount Repayable After 1 Year Rs.	2008 Total Rs.
Bank Loan (19.1)	-	-	-	4,012,938	6,423,864	10,436,802
Bank Overdraft	4,757,226	-	4,757,226	-	-	-
	<u>4,757,226</u>	<u>-</u>	<u>4,757,226</u>	<u>4,012,938</u>	<u>6,423,864</u>	<u>10,436,802</u>

19.1 Bank Loans

	As at 01.04.2008 Rs.	Loans Obtained Rs.	Repayment Rs.	As at 31.03.2009 Rs.
Seylan Bank - Rs. 15 Million	10,436,802	-	10,436,802	-
	<u>10,436,802</u>	<u>-</u>	<u>10,436,802</u>	<u>-</u>

20 TRADE AND OTHER PAYABLES

	2009 Rs.	2008 Rs.
Sundry Creditors Including Accrued Expenses	10,774,836	14,556,591
Other Payables	-	202,150
	<u>10,774,836</u>	<u>14,758,741</u>

21 DEFERRED TAX

Balance as at Beginning of the Year	1,387,473	3,220,279
Provision/ (Reversal) made During the Year	(1,387,473)	(1,832,806)
Balance as at the End of the Year	<u>-</u>	<u>1,387,473</u>

In accordance with SLAS 14 Income Tax (Revised 2005), such losses are recognized as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the deferred asset can be utilised. The deferred tax assets in the financial statements is due to the remote temporary timing differences arising from Provision for doubtful debts as at the balance sheet date. The effect of this change amounted to Rs. 364,415 of deferred tax assets unrecognized as at 31st December 2008.

NOTES TO THE ACCOUNTS

Year ended 31st March 2009

22	DEFINED BENEFIT LIABILITIES	Balance 01.04.2008	Charge for the Year	Payment During the Year	Balance 31.03.2009
		Rs.	Rs.	Rs.	Rs.
	Retirement Benefits Obligation - Gratuity	874,374	316,476	(202,800)	988,050
		<u>874,374</u>	<u>316,476</u>	<u>(202,800)</u>	<u>988,050</u>

23 STATED CAPITAL

		2009 (No:)	Value Rs.	2008 (No:)	Value Rs.
Fully Paid -	Ordinary Shares	6,167,324	120,904,256	3,280,933	32,869,330
		<u>6,167,324</u>	<u>120,904,256</u>	<u>3,280,933</u>	<u>32,869,330</u>

24 RESERVES
Summary

		2009 Rs.	2008 Rs.
(a)	Revenue Reserve (24.1)	8,878,296	5,475,680
		<u>8,878,296</u>	<u>5,475,680</u>
(b)	General Reserve (24.2)	60,000,000	60,000,000
		<u>60,000,000</u>	<u>60,000,000</u>

24.1 Revenue Reserve

As at the Beginning of the Year	5,475,680	4,844,137
Capitalized During the Year	3,402,616	631,543
As at the end of the Year	<u>8,878,296</u>	<u>5,475,680</u>

24.2 General Reserve

As at the Beginning of the Year	60,000,000	60,000,000
Capitalized During the Year	-	-
As at the end of the Year	<u>60,000,000</u>	<u>60,000,000</u>

25 COMMITMENTS AND CONTINGENCIES

The company does not have significant capital commitments as at the balance sheet date.

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Peoples Merchant Bank PLC obtained a 99% shareholding of Silverreen Finance Company Ltd, on 05th June 2009.

NOTES TO THE ACCOUNTS

Year ended 31st March 2009

27 RELATED PARTY DISCLOSURES**27.1 Transactions with the Related Entities**

There were no transactions with related entities during the year ended 31st March 2009.

27.2 Compensation to Key Management Personnel (*)

	2009 Rs.	2008 Rs.
Short Term Employee Benefit	2,658,500	3,832,000
Post Employment Benefits	-	-
Termination Benefits	-	-
Other Long Term Benefits	-	-
Share Based Payments	-	-

Key management personnel include the Board of Directors of the Company.

27.3 Transactions, arrangements and agreements involving companies controlled by the shareholder with significant influence

-	-
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- 27.4** There are no related party transactions other than those disclosed in Notes 27 to the Financial Statements. We have not received confirmation of directors' interest in transactions with the company from the following directors.
1. T. M. J. S. I. Dissanayake
 2. O. J. Perira
- The management informed us that they are no longer in directorship as at the 31st March 2009 and as such confirmations cannot be obtained.

28 ASSETS PLEDGED

The following Assets has been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Assets Under	2009 Rs.	2008 Rs.	Included Under
Land And Buildings	Primary Mortgage for Term Loan Seylan Bank	Silverveen Finance Company Limited	-	11,974,095	Property Plant and Equipment

SILVEREEN FINANCE COMPANY LIMITED**DETAILED PROFIT AND LOSS ACCOUNT**

Year ended 31st March 2009

	Statement	2009 Rs.	2008 Rs.
Interest Income	I	52,462,999	34,930,929
Interest Expenses		(23,435,815)	(22,253,985)
Net Interest Income		<u>29,027,183</u>	<u>12,676,944</u>
Other Operating Income	II	11,719,747	10,921,069
Other Income	III	19,515,184	16,892,845
Operating Income		<u>60,262,114</u>	<u>40,490,858</u>
Operating Expenses			
Administration and Establishment Expenses	IV	(17,696,816)	(11,761,265)
Marketing Expenses	V	(33,056,615)	(15,511,952)
Operating Profit		<u><u>9,508,683</u></u>	<u><u>13,217,641</u></u>

SILVEREEN FINANCE COMPANY LIMITED**DETAILED PROFIT AND LOSS ACCOUNT**

Year ended 31st March 2009

	2009 Rs.	2008 Rs.
STATEMENT I		
INTEREST INCOME		
Interest from Finance Leases	27,185,122	21,117,390
Interest from Hire Purchase	10,477,182	7,520,988
Interest from Mortgage Loans	4,282,456	1,170,787
Interest from Demand Loans	9,539,252	4,235,705
Interest from Fixed Deposit Loans	962,138	886,059
Interest from Consumer Credit Loans	16,848	-
	<u>52,462,999</u>	<u>34,930,929</u>
STATEMENT II		
OTHER OPERATING INCOME		
From Lease Business		
Finance Charges	778,949	505,575
Default Charges	961,913	1,322,939
Documentation Charges	123,204	198,141
Other Charges	1,402	5,172
Commission Income	45,273	-
Bad Debts Recoveries	4,999,535	381,974
	<u>6,910,275</u>	<u>1,908,226</u>
From Businesses Other Than Leasing		
Finance Charges	1,167,186	941,482
Default Charges	526,638	2,605,307
Documentation Charges	596,900	442,994
Other Charges	331,989	206,897
Commission Income	3,919	435,013
Bad Debts Recoveries	2,182,839	6,289,376
	<u>4,809,471</u>	<u>10,921,069</u>
STATEMENT III		
OTHER INCOME		
Interest from Fixed Deposit	-	202,664
Interest from Treasury Bills & Bonds	8,111,077	4,690,679
Interest from Savings Accounts	84,003	158,690
Interest from Staff Loans	58,252	44,645
Interest on Commercial Paper	1,413,945	-
Profit on Disposal of Asset	37,856	11,521,000
Profit on Sale of Repossessed Vehicle	222,859	275,072
Sundry Income	64,125	95
Investigation charges	500	-
Reversal of Provision	9,522,569	-
	<u>19,515,184</u>	<u>16,892,845</u>

SILVEREEN FINANCE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31st March 2009

	2009 Rs.	2008 Rs.
STATEMENT IV		
ADMINISTRATION EXPENSES		
Staff Salaries & Allowances	5,129,525	2,476,050
Directors Remuneration	2,658,500	3,832,000
Staff Welfare	133,819	76,027
Overtime	49,427	29,576
Employees Provident Fund	673,560	440,150
Employees Trust Fund	134,712	88,026
Bonus	1,601,741	437,042
Gratuity	316,475	213,103
Printing & Stationary	407,822	276,345
Postage & Stamps	214,599	285,577
Telephone	499,926	314,756
Electricity	477,772	288,031
Water Bills	41,429	39,530
K.M.C. Business Licenses	5,800	5,300
Consultants Allowances	195,000	180,000
Insurance	73,519	213,162
Parking Charges	340	607
Newspaper & Periodicals	7,270	10,774
Audit Fees	340,000	229,498
Central Bank Registration Fees	88,000	58,250
Sundry Expenses	35,700	14,150
Repair & Maintenance	160,199	203,714
Deprecation	519,133	432,927
Secretarial Fees	87,860	72,885
Leave Pay	157,151	-
Vehicle Maintenance	547,974	173,873
Company Registration Fees	7,875	7,875
Service Charges	125,760	107,833
Valuation Fees	109,775	34,287
Debit Tax	234,125	204,371
Surcharges	-	1,017
Rate & Taxes	44,243	34,394
Security Charges	320,425	251,534
Donations	49,985	23,200
Entertainment	29,817	24,959
Subscription- Finance House Association	106,087	20,000
Directors Traveling Allowance	120,000	160,000
Staff Medical Insurance	47,534	79,779
Professional Fees	28,000	52,500
Rating Charges	273,750	241,713
Stamp Duty	567,290	126,449
Seminar Expenses	8,450	-
Internal audit fees	102,000	-
Membership fees	5,000	-
Vehicle Yard Rent	222,000	-
Deemed Dividend Tax	532,688	-
Over Provision of Receivable	155,282	-
Other Expenses	49,473	-
	17,696,816	11,761,265



SILVEREEN FINANCE COMPANY LIMITED**DETAILED PROFIT AND LOSS ACCOUNT**

Year ended 31st March 2009

	2009 Rs.	2008 Rs.
MARKETING EXPENSES		
Advertisement	361,480	241,533
Travelling & Transport	764,123	196,269
Provision for Bad & Doubtful Debts	15,102,778	6,279,430
Bad Debt Written Off	12,876,270	4,065,847
Investigation Expenses	114,135	39,846
Commission	65,318	84,490
Loss on Sale of Repossessed Stock	-	1,800,813
Loss on Decrease in Fair Value of Repossessed Stock	3,772,512	2,803,725
	<u>33,056,615</u>	<u>15,511,952</u>

ANNEXURE I

Members and Trading Members of the CSE

Members of the CSE

Acuity Stockbrokers (Pvt) Limited

Level 6, Acuity House,
53, Dharmapala Mawatha,
Colombo 03
Telephone: +9411 2206206
Fax: +9411 2206298/9
E-mail: sales@acuitystockbrokers.com

Asia Securities (Pvt) Limited

Level 21, West Tower,
World Trade Center,
Echelon Square, Colombo 01
Telephone: +9411 2423905/5320000
Fax: +9411 2336018
E-mail: enquiry@asiacapital.lk

Bartleet Religare Securities (Pvt) Ltd.

Level "G", Bartleet House,
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Nation Lanka Equities (Pvt) Limited

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D N H Financial (Pvt) Limited

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Asha Phillip Securities Limited

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Assetline Securities (Pvt) Limited

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Capital Trust Securities (Pvt) Limited

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CT Smith Stockbrokers (Pvt) Limited

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J B Securities (Pvt) Limited

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SC Securities (Pvt) Limited

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Somerville Stockbrokers (Pvt) Limited

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Members and Trading Members of the CSE

Trading Members of the CSE**Arrenga Capital (Pvt) Limited**

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Capital Alliance Securities (Pvt) Limited

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Heraymila Securities Limited

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LOLC Securities Ltd

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Richard Pieris Securities (Pvt) Limited

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SMB Securities (Pvt) Limited

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TKS Securities (Pvt) Limited

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IIFL Securities Ceylon (Pvt) Limited

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SKM Lanka Holdings (Pvt) Limited

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ANNEXURE II

No	Transferor	Transferee	No of shares	Consideration per Share
1	Capital Alliance Holdings Limited	Andrew Deshan Pushparajah	500,000	15.00
2	Capital Alliance Holdings Limited	Opulant Fund (Private) Limited	330,000	15.00
3	Capital Alliance Holdings Limited	Chrisantha Priyange Richard Perera	300,000	15.00
4	Capital Alliance Holdings Limited	Harinlal Gehan Arjuna Aturupane	100,000	15.00
5	Capital Alliance Holdings Limited	Lester Paul Weinman	100,000	15.00
6	Capital Alliance Holdings Limited	Dirk Bryant Flamer Caldera	100,000	15.00
7	Capital Alliance Holdings Limited	Malarkolunthu Sivakumaran	100,000	15.00
8	Capital Alliance Holdings Limited	Mr.Don Padmasiri Kumaraage	100,000	15.00
9	Capital Alliance Holdings Limited	Herath Mudiyanseelage Janaka Rajeeva Bandara Palapathwala	90,000	15.00
10	Capital Alliance Holdings Limited	Akila Milanka Induruwage	90,000	15.00
11	Capital Alliance Holdings Limited	Kishan Ganesh Viravanathan	90,000	15.00
12	Capital Alliance Holdings Limited	Chanaka Sanoj Lokuthotahewage	50,000	15.00
13	Capital Alliance Holdings Limited	Harold Avanca Herat	50,000	15.00
14	Capital Alliance Holdings Limited	Widanalage Amali Mihiri Fernando	50,000	15.00
15	Capital Alliance Holdings Limited	Don Janaka Nishan Hettiarachchi	50,000	15.00
16	Capital Alliance Holdings Limited	Mushtaq Mohamed Fuad	50,000	15.00
17	Capital Alliance Holdings Limited	Okanda Gamage Dayawathi Abeytunge	50,000	15.00
18	Capital Alliance Holdings Limited	Ashantha Lakdasa Francis De Mel	50,000	15.00
19	Capital Alliance Holdings Limited	Yen Anne Shih	50,000	15.00
20	Capital Alliance Holdings Limited	Gamini Alexius Ranjit Cooray	50,000	15.00

No	Transferor	Transferee	No of shares	Consideration per Share
21	Capital Alliance Holdings Limited	Wellawatte Arachige Dumindu Chathuranga Silva	50,000	15.00
22	Capital Alliance Holdings Limited	Kalugamage Roshendri Perera	50,000	15.00
23	Capital Alliance Holdings Limited	Habaragamuralage Mary Sharmali Perera	50,000	15.00
24	Capital Alliance Holdings Limited	Wengappuli Arachchige Susantha	50,000	15.00
25	Capital Alliance Holdings Limited	Malin Condrad Mario Perera	50,000	15.00
26	Capital Alliance Holdings Limited	Kanishke Piyanga Mannakara	50,000	15.00
27	Capital Alliance Holdings Limited	Kithsen Sanjeewa Bandaranayake	50,000	15.00
28	Capital Alliance Holdings Limited	Widanalage Pradeep Anthony Fernando	50,000	15.00
29	Capital Alliance Holdings Limited	Hettiarachchige Sepali Nilmini Hettiarachchi	40,000	15.00
30	Capital Alliance Holdings Limited	Ranwalage Lucian Gerard Fernando	40,000	15.00
31	Capital Alliance Holdings Limited	Llewellyn Alphonssus Joseph Fiedlis Morais	40,000	15.00
32	Capital Alliance Holdings Limited	Naomi Thomson	35,000	15.00
33	Capital Alliance Holdings Limited	Kekulandala Liyanage Don Nuwan Nirmala Maheshan Liyanage	35,000	15.00
34	Capital Alliance Holdings Limited	Niwanka Dinesh Seneviratne	35,000	15.00
35	Capital Alliance Holdings Limited	Yoshitha Rajapaksa Kanishka	33,000	15.00
36	Capital Alliance Holdings Limited	Naveen Jeevaka Wickramasinghe Gunawardane	30,000	15.00
37	Capital Alliance Holdings Limited	Herath Mudiyanseelage Kanishka Chathuranga Herath	25,000	15.00
38	Capital Alliance Holdings Limited	Balakrishnan Mugunthan	25,000	15.00
39	Capital Alliance Holdings Limited	Mohamed Ifadh Imtiyaz Marikar	25,000	15.00
40	Capital Alliance Holdings Limited	Panambarage Minon Nethali Fernando	25,000	15.00
41	Capital Alliance Holdings Limited	Sathkularathna Nanayakkara Hendawitharana Chanaka Dilhan	25,000	15.00
42	Capital Alliance Holdings Limited	Beminahennadige Sugathadasa Fernando	25,000	15.00

No	Transferor	Transferee	No of shares	Consideration per Share
43	Capital Alliance Holdings Limited	Menaka Rodney Roshan Wijekoon	25,000	15.00
44	Capital Alliance Holdings Limited	Jayasenthu Hewage Pushpa Rajani	25,000	15.00
45	Capital Alliance Holdings Limited	Muditha Manujith Hettigama	25,000	15.00
46	Capital Alliance Holdings Limited	Nath Asanka Bandara Amarakoon	25,000	15.00
47	Capital Alliance Holdings Limited	Kulatunga Mudiyanseelage Manjula Wickrama Kulatunga	25,000	15.00
48	Capital Alliance Holdings Limited	Polgahage Don Dineth Prabodha Gunathilake	25,000	15.00
49	Capital Alliance Holdings Limited	Don Akila Chrishan Liyanage	25,000	15.00
50	Capital Alliance Holdings Limited	Shehan Anthony Wijeyawickrema	25,000	15.00
51	Capital Alliance Holdings Limited	Kodituwakku Arachchige Nihal Mangala Perera	25,000	15.00
52	Capital Alliance Holdings Limited	Udeeshan Rajith Jonas	25,000	15.00
53	Capital Alliance Holdings Limited	Caluadewa Chamara Dimantha Mathew	25,000	15.00
54	Capital Alliance Holdings Limited	Udesh Indika Heenatigala	25,000	15.00
55	Capital Alliance Holdings Limited	Hetti Arachchige Tharindu Migara	25,000	15.00
56	Capital Alliance Holdings Limited	Mahamarakkalage Lawrnce Suren Asitha Perera	25,000	15.00
57	Capital Alliance Holdings Limited	Fathima Rizna Shaul Hameed	25,000	15.00
58	Capital Alliance Holdings Limited	Rathnayake Mudiyanseelage Gangasri Kaushalya Sumanabandara	25,000	15.00
59	Capital Alliance Holdings Limited	Chang Lasheer	23,700	15.00
60	Capital Alliance Holdings Limited	Athukoralage Isuru Uthpala Jayawardana	20,000	15.00
61	Capital Alliance Holdings Limited	Mahi Eranga Liyanage	20,000	15.00
62	Capital Alliance Holdings Limited	Atapattu Hewa Boruppage Tharindu Dananjaya	20,000	15.00
63	Capital Alliance Holdings Limited	Wathudurage Thilina Sameera Shashimal	20,000	15.00
64	Capital Alliance Holdings Limited	Ajith Rohitha Ruwan Pathirana Pallihakkara	20,000	15.00

No	Transferor	Transferee	No of shares	Consideration per Share
65	Capital Alliance Holdings Limited	Herath Mudiyansele Thilalarathne Banda	20,000	15.00
66	Capital Alliance Holdings Limited	Kumbalatara Arachchige Samindra Shyamal Perera	20,000	15.00
67	Capital Alliance Holdings Limited	Rajapaksa Pathiranage Udesa Priyadarshana Gunawardena	20,000	15.00
68	Capital Alliance Holdings Limited	Conganiye Sextus Roland Sanjeeva Anthony	20,000	15.00
69	Capital Alliance Holdings Limited	Nalin Dharshaka Samarawickrema	20,000	15.00
70	Capital Alliance Holdings Limited	Elkaduwe Herath Mudiyansele Tharanga Deepal Danushka Bandara Elkaduwa	15,000	15.00
71	Capital Alliance Holdings Limited	Ravi Dhanushka Badara Munasingha	12,500	15.00
72	Capital Alliance Holdings Limited	Neerajah Kandasamy	12,500	15.00
73	Capital Alliance Holdings Limited	Udara Ruchika Pathumi Abeysekara	12,500	15.00
74	Capital Alliance Holdings Limited	Yapa Mudiyansele Thamara Kumari Yapa	12,500	15.00
75	Capital Alliance Holdings Limited	Rangali Dantanarayana	10,000	15.00
76	Capital Alliance Holdings Limited	Kariyawasam Peru Kandage Lakshman	10,000	15.00
77	Capital Alliance Holdings Limited	Narangoda Mudiyansele Buddhena Varuni Narangoda	10,000	15.00
78	Capital Alliance Holdings Limited	Welgamage Frank Aleric Nihal Fernando	10,000	15.00
79	Capital Alliance Holdings Limited	Chiranjeeva Nuwan Abeynayake	10,000	15.00
80	Capital Alliance Holdings Limited	Malliyawadu Thusitha Duminda	10,000	15.00
81	Capital Alliance Holdings Limited	Devemullage Percy Perera	10,000	15.00
82	Capital Alliance Holdings Limited	Yohan Stanmore Arne Weerasinghe	10,000	15.00
83	Capital Alliance Holdings Limited	Heendani Vidanaralage Sudath Mahendregupthe Navaratne	10,000	15.00
84	Capital Alliance Holdings Limited	Sampath Abeywardena Kulatunga	10,000	15.00
85	Capital Alliance Holdings Limited	Sillapana Wickramasinghe Mudiyansele Muthu Banda Wickramasinghe	7,000	15.00
86	Capital Alliance Holdings Limited	Abeyrathana Jayasundara Mudiyansele Nilani Roshani Nadeeka Kumari	6,000	15.00

No	Transferor	Transferee	No of shares	Consideration per Share
87	Capital Alliance Holdings Limited	Senadeera Polwattage Sachini Nishara	5,500	15.00
88	Capital Alliance Holdings Limited	Lahiru Sadaruwan Samaradiwakara	5,000	15.00
89	Capital Alliance Holdings Limited	Sriraveendran Prasanna	5,000	15.00
90	Capital Alliance Holdings Limited	Lakshan Algama Perera	5,000	15.00
91	Capital Alliance Holdings Limited	Duleep Charles Vincent Fernando	5,000	15.00
92	Capital Alliance Holdings Limited	Suriya Arachchige Nilukshika Subashini Wijethunga	5,000	15.00
93	Capital Alliance Holdings Limited	Andiperuma Arachchige Prasad Sanjeeewa Fernando	5,000	15.00
94	Capital Alliance Holdings Limited	Chamila Sampatha Shirosani Kaluthanthrige	5,000	15.00
95	Capital Alliance Holdings Limited	Wawage Don Suresh Manjula	5,000	15.00
96	Capital Alliance Holdings Limited	Shihara Mohaemd	3,000	15.00
97	Capital Alliance Holdings Limited	Langana Hadunge Lal Samantha	3,000	15.00
98	Capital Alliance Holdings Limited	Upeka Madhusanka Perera Samarasinghe	2,500	15.00
99	Capital Alliance Holdings Limited	Kanda Dewage Janaka Prasanna Kumara	1,500	15.00
100	Capital Alliance Holdings Limited	Thavayogarajah Suganthan	1,000	15.00
101	Capital Alliance Holdings Limited	Kandasamy lynkaranesan	1,000	15.00
102	Capital Alliance Holdings Limited	Dompeyalage Prasanna Lalith Fernando	1,000	15.00
103	Capital Alliance Holdings Limited	Ganegoda Liyanage Chandana	1,000	15.00
104	Capital Alliance Holdings Limited	Ambalagan Ashan Kumara	1,000	15.00
105	Capital Alliance Holdings Limited	Mohamed Fahad Zawahir	1,000	15.00
106	Capital Alliance Holdings Limited	Udugama Medagedara Wasala Mudiyanselege Mallika Medagedara	600	15.00
107	Capital Alliance Holdings Limited	Rathnayake Mudiyanselege Susantha Palith Rathnayake	500	15.00
108	Capital Alliance Holdings Limited	Christina Pereira	300	15.00

No	Transferor	Transferee	No of shares	Consideration per Share
109	Capital Alliance Holdings Limited	Welikumbura Herath Mudiyanseelage Anusha Kumari Welikumbura	100	15.00
110	Capital Alliance Holdings Limited	Konara Mudiyanseelage Subashini Thilanka	100	15.00
111	Capital Alliance Holdings Limited	Kandage Priyantha Athulanayake	100	15.00
112	Capital Alliance Holdings Limited	Kapukotuwa Walawwe Chiran Sanjaya Bandara Kapukotuwa	100	15.00
113	Capital Alliance Holdings Limited	Sikurajapathila Gedara Sisira Kumara Chandrasekera	100	15.00
114	Capital Alliance Holdings Limited	Dissanayaka Mudiyanseelage Udaya Kumara Dissanayake	100	15.00
115	Capital Alliance Holdings Limited	Rekha Sankaradas	100	15.00
116	Capital Alliance Holdings Limited	Malagammana Gedara Krishanthi Chandramala Giragama	100	15.00
117	Capital Alliance Holdings Limited	Pinnaduwa Hewa Sadith Udayanga De Silva	100	15.00
118	Capital Alliance Holdings Limited	Marambe Kodippili Arachchige Gayan Marambe	100	15.00