LOOKING AHEAD

DUNAMIS CAPITAL PLC

Igniting value

Annual Report 2011/12

DUNAMIS CAPITAL PLC

Igniting value

LOOKING AHEAD

This year we are looking ahead with confidence at the many possibilities that lie before us as we focus on creating unmatched value for our stakeholders.

Contents

Group Financial Highlights

Year ended 31 March	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Operating performance			
Gross income	1,097,219	2,558,495	3,696,121
Profit / (loss) before taxation	(316,881)	816,805	849,674
Profit / (loss) after taxation	(332,966)	1,184,405	352,855
Profit / (loss) attributable to equity holders of the parent	(263,124)	780,325	129,716
Balance sheet highlights			
Total shareholders' funds	1,531,462	1,935,259	707,637
Total liabilities	6,468,207	10,119,269	10,756,961
Total assets	7,999,669	12,054,528	11,464,598

Investor information	2012 Rs.	2011 Rs.	2010 Rs.
Earnings / (loss) per share	(2.14)	7.92	1.32
Net assets per share	8.77	10.63	2.09
Market value at the year end	10.00	12.90	10.25
Number of shares in issue	122,997,050	122,997,050	98,397,640

Managing Director's Review

I welcome you to the 27th Annual General Meeting of Dunamis Capital PLC and present to you the Annual Report and the Audited Financial Statements for the year ended 31st March 2012.

Economic Overview

The year 2011 saw the economy grow by 8.3%, highest in the history of Sri Lanka sustaining 8% for a second consecutive year. The services sector grew by 8.6% and the industry sector by 10.3% driving this growth momentum. Growth was underpinned by strong domestic demand, improved investor confidence, supportive fiscal policies and the continued expansion of infrastructure facilities.

Inflation remained at single digit level for a third consecutive year. Annual average inflation was 6.7% while year-on-year inflation was 4.9% in December 2011. Although the fiscal deficit remained at 6.9% of GDP, marginally above the budgeted 6.8%, the deficit in the current account grew to US$ 1.1 Bn by end 2011.

Group Performance

The Group's results for the year were disappointing with losses after tax of Rs. 333 Mn compared to profits of Rs. 1.2 Bn in the previous year. Loss attributable to equity holders of the parent company was Rs. 263 Mn compared to profits of Rs. 780 Mn in the previous year. These results fell considerably short of expectations and were primarily due to losses being realised in the Company's main subsidiary First Capital.

The Group recorded revenue of Rs. 1.1 Bn for the year against Rs. 2.5 Bn in the previous year. This expected reduction was primarily due to a moderation of activity in the market for treasury bills and bonds following on from exceptionally high trading volumes and capital gains opportunities in 2009 and to a lesser extent in 2010.

At company level loss for the year was Rs. 172 Mn compared to profits of Rs. 192 Mn in the previous year in which exceptional gains had been realised on the sale of a subsidiary. A significant portion of company costs comprises finance costs of Rs. 54 Mn which although significantly down from Rs. 127 Mn in the previous year still remains high. A long outstanding receivable of Rs. 47 Mn due from a subsidiary Kelsey Holdings Ltd was fully provided for on the direction of the auditors. The Company's gearing levels remain high and the challenge in the forthcoming year is to reduce this to manageable levels thereby reducing the financing burden.

Despite several attempts we were unsuccessful in disposing of the Company's property at Kynsey Road which has remained on the books as an asset held for sale for over 2 years. Valued at Rs. 335 Mn at the beginning of the year the property has been reclassified as an investment property and written down to Rs. 300 Mn at the end of the year as a more conservative estimate of potential realisable value.

During the year the Company did not receive substantial dividends from its subsidiaries to offset its expenses.

Group equity attributable to equity shareholders although reflecting a reduction due to losses, has been maintained above Rs. 1 Bn.

Financial Services

The Group's financial services arm represented by First Capital Holdings PLC reported consolidated losses after tax of Rs. 173.9 Mn compared to profits of Rs. 983.4 Mn for the previous financial year. The operating environment remained challenging during the year under review with interest rate volatility continuing to impact financial performance. The non-conducive interest rate regime resulted in fewer opportunities in the bond market and as interest rates continued to rise the Company disposed of a substantial portion of its low-yielding bond portfolio as a risk mitigation measure. Although this resulted in significant losses of Rs. 113 Mn being realised in the year this has now placed First Capital in a better position to take advantage of future bond trading opportunities.

Reported losses were compounded by the discovery of a substantial fraud by a senior employee of a subsidiary company and the total impact on profits for the year was Rs. 186 Mn.

Despite these set-backs to performance the Company has remained focused on improving its competitiveness and has intensified its efforts to maximise its earning potential in the forthcoming year. The Company is committed to developing First Capital into a fully fledged investment bank and we expect to see the results of strategic initiatives which commenced during the review period in the forthcoming years.

During the year the environment in the corporate debt market improved significantly and the Group was able to successfully structure and place a range of debt products with its corporate clients. The Asset Management and Unit Trust businesses although profitable did not perform as well as expected and there will be greater focus on building these businesses and improving performance in the forthcoming year. The Margin Trading business at First Capital Markets Limited got off to a good start but performance slowed down at the end of the year with the drastic reduction in the number of shares being transacted on the Colombo Stock Exchange. The margin trading book which was Rs. 835 Mn at the beginning of the year stood at Rs. 410 Mn as at 31 March 2012. As this business is very dependent on the stock market we do not expect to see a revival of this business in the short-term. The Group's bond trading arm First Capital Treasuries Limited performed satisfactorily in the first half of the year but results were adversely affected by capital losses from the sale of low-yielding bonds.

During the year, First Capital Holdings PLC commenced the process of identifying a competent Chief Executive Officer to lead the Company. An eminent career banker Mr. Jehaan Ismail joined the Company following the end of the financial year. His extensive knowledge and experience in commercial and investment banking will be immensely valuable to First Capital as it looks for new opportunities and avenues for growth.

Following the discovery of the fraud, First Capital took several measures to identify weaknesses in its internal control systems and strengthen them including the appointment of PricewaterhouseCoopers as internal auditors from the financial year 2012/13 onwards. The Company is also currently in the process of appointing a full-time Risk Officer who together with the Chief Executive Officer will be responsible for setting a framework for the review, monitoring and effective control of credit, market and operational risk. These measures should provide some reassurance to our stakeholders that adequate steps have been taken to safeguard and protect the Company in future years.

Property Development

Operational performance at Kelsey Developments PLC showed some improvement in comparison to the previous year but was not as substantial as had been expected. Sales revenue for the year was Rs. 164.6 Mn compared to Rs. 165.8 Mn in the previous year whilst net reported loss for the year was Rs. 18.2 Mn compared to Rs. 11.6 Mn in the previous year. A significant portion of costs related to finance costs of Rs. 26.2 Mn resulting from the purchase of a property in Nuwara Eliya at a cost in excess of Rs. 250 Mn. It is expected that this property will be disposed at a profit in 2012/13.

During the year the Company completed sales on several of its outstanding projects including "Ayu" apartments in Borella, "Makamba" in Kottawa and "Grove" in Piliyandala. Two new projects where launched during the year - "Urban Gateway" in Kottawa and "Auburn Park" in Wattala. These projects were almost completely sold out during the year.

Export Manufacturing

The Group's export manufacturing interests are focused on the production of montessori material for sale worldwide. This niche market has been under constant threat from competition primarily from China and margins were under pressure both from demands for competitive pricing as well as higher input raw materials. The Company was unable to expand in the Asian markets including India as quickly as had been hoped. As a result performance of this business fell well below expectations with a reduction of revenue to Rs. 45.8 Mn from Rs. 51.7 Mn in the previous year and reported

Managing Director's Review Contd.

losses of Rs. 18.8 Mn compared to losses of Rs. 2.2 Mn in the previous year. As this business does not offer significant profit potential, the Board of Directors of the Company are currently contemplating it's future.

The Future

Following the end of the year First Capital has strengthened its management team with selective recruitments, improved its risk management framework and identified focus areas for 2012/13. In the short-term, the bond trading business will continue to be the Company's main income generator. With astute trading and more rigorous risk management this business will show sustainable performance in the next financial year. Over the next few years as First Capital expands its areas of operation and offers a wider range of investment banking services greater attention will be paid to building sustainable parallel income streams. In the second half of 2012/13 the Company will commence offering financial and corporate advisory services including advice on mergers and acquisitions, management buyouts and both equity and debt issue management. Assistance will be provided to companies on meeting their financial goals and implementing their short and long-term financial plans. It is expected that this new business segment will generate a significant portion of the Company's fee income in future years.

In 2012/13, the Asset Management and Unit Trust businesses will also be a focus area with added emphasis on growing these businesses within a rigorous risk management framework.

Over the course of the next year, we expect First Capital to show strong sustainable performance in several key business areas that will provide a solid foundation for the Company in the years ahead.

Kelsey is confident that the coming year will bring improved results in the property development business. The Company has since the end of the year purchased two properties which will be launched in the second quarter of 2012/13. Plans are to launch a further six land and housing projects during the year. Following the end of the year Kelsey has launched a new venture 'Kelsey BuildPlus' to build homes on clients' land which will generate an additional revenue stream. This scheme provides professional advice and assistance to clients with Kelsey undertaking all the tedious aspects associated with house-building.

Dunamis Capital PLC which initially aspired to be a conglomerate has in the short-term confined its operations to financial services, property development and export manufacturing. Financial services has remained the largest segment of the Group's business and has been the main driver of the Group's revenue and profitability.

Strenuous efforts will be made to dispose of our Kynsey Road property for about Rs. 300 Mn during the ensuing financial year. In addition we expect to be able to recognise a dividend in excess of Rs. 400 Mn from our subsidiary PVIC Management Company Ltd, the holding company of First Capital Holdings PLC.

The Company is also seeking to establish itself as a private equity player in the Sri Lankan market by sourcing investment opportunities, adding value and realising this value either through operational cash-flows or partial or complete exits. Dunamis plans to build an investment fund and attract other investors whilst maintaining board and management control. Over the course of the next year the Company will develop processes for each element of its private equity model, agree a framework for filtering opportunities and identify sectors to be targeted through an understanding of emerging trends and opportunities. All of this will be done within a rigorous governance structure that will ensure that adequate consideration has been given to the management of risk.

Acknowledgements

I would like to express my sincere appreciation to my fellow Board Members for their valuable support during the year. I am pleased to welcome to the Board two new directors who joined us in May 2012. Mr. Eardley Perera a well known marketing personality and a specialist in the areas of strategic marketing and business strategy currently serves on the boards of a number of leading corporate

institutions. Mr. Chandana L. de Silva is a Chartered Accountant and management consultant whose corporate career encompassed key positions such as Head of Financial Planning at British Telecom and Director Strategic Planning at the MAS Group. They will also serve on the Board of the Company's subsidiary Kelsey Developments PLC. The depth of knowledge and experience that Mr. Perera and Mr. de Silva bring to the Group will be invaluable in the next stage of the Company's growth.

I am grateful to our staff for their hard work and dedication in what has been a difficult year. We thank our shareholders for their continuing confidence and trust in us. We will strive to ensure that our performance in 2012/13 and the years ahead meets your expectations.

(Sgd.)
Manjula Mathews (Ms.)
Managing Director

21 August 2012

Profile of the Board of Directors

Ms. Manjula Mathews

FCMA, MBA

Managing Director

Ms. Mathews brings to the Board over 20 years experience in General Management and Finance, both in Sri Lanka and overseas. She currently serves as Managing Director of Dunamis Capital PLC and as a Director of other Dunamis subsidiaries.

Ms. Mathews was formerly the Finance Director at Janashakthi Insurance PLC, one of the leading insurers in the country where she continues to hold a Non-Executive position. She is a Fellow Member of the Chartered Institute of Management Accountants of UK and holds a Masters Degree in Business Administration from the University of Cambridge (UK).

Mr. Dinesh Schaffter

ACMA, LLB (UK)

Director

Mr. Dinesh Schaffter counts over 20 years experience in the Financial Services and Manufacturing sectors. He currently serves as the Managing Director of Kelsey Developments PLC, a subsidiary of Dunamis Capital PLC and as a Director of other Dunamis subsidiaries. Mr. Schaffter is an Associate Member of the Chartered Institute of Management Accountants (UK) and holds a Bachelor of Law - Honours Degree (LLB) from the United Kingdom.

Mr. Nihara E. Rodrigo

President's Counsel

Director

Mr. Rodrigo's professional career span of over 30 years is enriched with diversified expertise and experience in various fields including different aspects of law and e-commerce. Mr. Rodrigo has served in the Attorney General's Department for over 15 years. He has represented Sri Lanka at United Nations forums in Geneva and Vienna. He serves as the Chairman of the Grants Board of the Information and Communication Technology Agency of Sri Lanka - Capacity Building Program. He was appointed as a President's Counsel in May 2010.

Mr. Rodrigo also serves as a Director of Kelsey Developments PLC and First Capital Holdings PLC.

Mr. Eardley Perera

Chartered Marketer

Director

(Appointed to the board with effect from 1 May, 2012)

Mr. Perera is a Chartered Marketer and a Graduate of the Chartered Institute of Marketing, UK. He has undergone management training in Sweden, UK, South Korea, the Philippines and Singapore.

Currently, he is the Non-Executive Chairman of M&E (Private) Limited and a Director of Keells Food Products PLC, Janashakthi Insurance PLC, ODEL PLC, Sting Consultants (Private) Limited, Brand Finance Lanka (Private) Limited and MAS Tropical Foods (Private) Limited.

He is a member on the Board of Study of the Postgraduate Institute of Management, University of Sri Jayewardenepura (PIM) and actively engaged in management education and consultancy.

Mr. Chandana L. De Silva

FCA (England & Wales), FCA (Sri Lanka)

Director

(Appointed to the board with effect from 1 May, 2012)

Mr. Chandana L. de Silva has held several senior management positions including that of Chief Financial Officer for Level (3) Communications in Europe a NASDAQ quoted company and Head of Financial Planning for British Telecommunications PLC.

Since moving back to Sri Lanka in 2002 he has worked for MAS Holdings in a variety of roles and established the Supply Chain Management function, set up the MAS training centre and until December 2011 was the Chief Executive Officer of the MAS Investment Division.

He continues to be a consultant to the MAS Group and is on the board of MAS Investments (Private) Limited, Hemas Transportation (Private) Limited, Eureka Technologies (Private) Limited and Sea-Change Partners Lanka (Private) Limited.

Mr. de Silva is a Fellow of the Institute of Chartered Accountants in England and Wales and in Sri Lanka and holds a degree in Mathematics and Management from the University of London.

Human Resource Development

It is the collective dynamism and enterprise of our employees that has enabled the Company to overcome challenges and to readily embrace new opportunities. A commitment towards maintaining the highest standards of professional excellence has manifested in the achieving of overall customer satisfaction.

The dynamic recruitment process currently in place, effectively meets the evolving needs of the progressive group. A comfortable and rewarding working environment has resulted in a high level of staff retention. Training and staff development are areas of focus and high priority within the Group. A substantial percentage of staff members at all levels attend specific and/or general training programs. Performance appraisals are carried out and employee feedback is received on a regular basis with the objective of ensuring high levels of employee motivation, performance and accountability.

All employees and their immediate families enjoy medical insurance and the former receives a comprehensive annual health check-up paid for entirely by the Company. The Group has an active staff sport and welfare club which organises bi-annual events with the objective of promoting team spirit and closer interaction. These events have proven to be hugely popular among all segments of our staff.

Group - Corporate /Senior Management and above - Qualifications

Discipline/Field	DPQ	DQ	PQ	AL	Total
Accounting, Finance, and Business	8	1	7	2	18
Law	-	-	3	-	3
Total	**8**	**1**	**10**	**2**	**21**

DPQ - Degree and Professional Qualifications , DQ - Degree Qualifications, PQ - Professional Qualifications, AL - GCE Advanced Level

Service Analysis of the Group Staff including Directors as at 31 March 2012

Service (Years)	Senior and Corporate Management	Operations Management	Executives	Other	Total
20 and Above	1	1	2	1	5
16 to 20	-	-	3	1	4
11 to 15	1	4	-	1	6
6 to 10	3	4	6	9	22
5 and below	13	7	20	45	85
	18	**16**	**31**	**57**	**122**

Average service of the employees as at 31 March 2012 was 5.4 years.

Group - Training Analysis

	2011/12
Personal skills	3
IT knowledge and skills	2
Job related technical skills and professionalism	43
Total	**48**

Staff Age Analysis as at 31 March 2012

Age group	Nos.
19 to 30	44
31 to 40	43
41 to 50	21
51 and above	8
Total	**116**

Group Structure

DUNAMIS CAPITAL PLC

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FINANCIAL SERVICES

PVIC Management Company Limited	99.9%
First Capital Holdings PLC *	63.07%
First Capital Limited	99.9%
• First Capital Treasuries Limited	94.4%
• First Capital Asset Management Limited	98.7%
• First Capital Markets Limited	100%

PROPERTY DEVELOPMENT

Kelsey Holdings Limited	100%
Kelsey Developments PLC	69.5%
• Kelsey Property Developers (Pvt) Limited	100%
• Kelsey Aluminium (Pvt) Limited	100%
• Kelsey Homes Limited	100%

EXPORT MANUFACTURING

The Montessori Workshop (Pvt) Limited	100%

* Dunamis Capital PLC holds a direct stake of 5.07% as at 31 March 2012 (2.17% as at 31 March 2011).

Financial Reports

Financial Calendar 2011/12

Interim Financial Reports in terms of Rule 8.3 of the Colombo Stock Exchange (CSE).

1st Quarter 2011/2012 Interim Financial Report (Unaudited)	11 August 2011
2nd Quarter 2011/2012 Interim Financial Report (Unaudited)	14 November 2011
3rd Quarter 2011/2012 Interim Financial Report (Unaudited)	14 February 2012
4th Quarter 2011/2012 Interim Financial Report (Unaudited)	23 May 2012

Annual Report of the Board of Directors

The Directors of Dunamis Capital PLC have pleasure in presenting their Annual Report together with the audited financial statements for the year ended 31 March 2012 which was approved by the Directors on 21 August 2012.

Review of operations

The Group had a challenging year of operations and reported a loss of Rs. 333 Mn after tax. A more comprehensive review of the operations of the Company during the financial year and the results of those operations are contained in the Managing Director's review on pages 4 to 7 of the Annual Report. This report forms an integral part of the Directors' report.

Principal activities

The Company manages a portfolio of investments consisting of diverse business operations, which together constitute the Dunamis group. The corporate office provides function based services to its subsidiaries and associate companies.

Legal status

Dunamis Capital PLC was incorporated in 1985 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007 on 15 August 2007. In 1986 the Company was listed on the Colombo Stock Exchange.

Financial results

The Group's net loss after tax was Rs. 333 Mn compared with net profit after tax of Rs. 1,184 Mn for the year 2010/11.

A summary of the financial results for the year is set out below.

	2011/12 Rs.'000	2010/11 Rs.'000
Revenue	1,097,219	2,558,495
Profit/(loss) before tax	(316,881)	816,805
Income taxes	(16,085)	367,600
Profit/(loss) after tax	(332,966)	1,184,405
Profit/(loss) from discontinued operations	-	876
Profit/(loss) for the period	(332,966)	1,185,281
Attributable to equity holders of the parent	(263,124)	780,325
Minority interest	(69,842)	404,956
Total	(332,966)	1,185,281

The financial statements are set out in pages 19 to 48 of the Annual Report.

Directors' responsibility for financial reporting

The Directors' responsibility in relation to the financial statements is detailed under the statement of Directors' responsibility on page 16 of the Annual Report.

Directorate

Directors of the Company as at 31 March 2012.

1. Ms. Manjula Mathews
2. Mr. Dinesh Schaffter
3. Mr. Nihara E. Rodrigo

The following directors were appointed to the Board on 1 May 2012.

1. Mr. A. D. E. I. Perera
2. Mr. Chandana L. de Silva

The profiles of the Directors are given on pages 8 to 9 of the Annual Report.

Directors and their shareholdings as at 31 March 2012 were as follows:

	No. of Shares 31.03.2012	No. of Shares 31.03.2011
Ms. Manjula Mathews	19,003,365	19,003,365
Mr. Dinesh Schaffter	20,274,918	20,274,918
Mr. Nihara E. Rodrigo	13,000	13,000

Retirement and re-election of Directors

Mr. Nihara E. Rodrigo retires by rotation in terms of Article 90 and being eligible offers himself for re-election. The continuing Directors recommended his re-election.

The Directors appointed during the year Mr. A.D.E.I. Perera and Mr. Chandana L. de Silva retire in terms of Article 97 and being eligible, offer themselves for re-election.

Related party transactions

Related party transactions have been declared at meetings of the Directors and are detailed in Note 29 to the financial statements.

Directors' interests

As required by the Companies Act No. 7 of 2007, an interests register was maintained by the Company during the period under review. Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The interests register is available for inspection as required under the Companies Act.

Annual Report of the Board of Directors Contd.

The Company carries out transactions in the ordinary course of business with entities in which a Director of the Company is a Director. The transactions with entities where a Director of the Company either has control or exercises significant influence have been classified as related party transactions and disclosed in Note 29 to the financial statements.

Remuneration and fees

Details of Directors' remuneration and fees are set out in Note 7 to the financial statements. All fees and remuneration have been duly approved by the Board of Directors of the Company.

Risk and internal control

The Board of Directors has satisfied itself that there exists an effective and comprehensive system of internal controls to monitor, control and manage the risks to which the Company is exposed, to carry on its business in an orderly manner, to safeguard its assets and to secure as far as possible the reliability and accuracy of records.

Corporate governance

The Directors acknowledge their responsibility for the Group's corporate governance and the system of internal control. The Directors are responsible to the shareholders for providing strategic direction to the Company and safeguarding the assets of the Company. The Board is satisfied with the effectiveness of the system of internal control for the period up to the date of signing the financial statements. The compliance with recommended corporate governance practices are disclosed in pages 17 to 18 of the Annual Report.

The performance of the Company is monitored by way of regular review meetings. These meetings provide an opportunity to ensure that progress is in line with agreed targets. Regular Board meetings are held to further strengthen the review process and ensure compliance with all statutory and regulatory obligations.

Dividends

The Directors did not declare a dividend for the year ended 31 March 2012.

Significant accounting policies

The accounting policies adopted in the preparation of the financial statements are given on pages 25 to 32. There were no changes in the accounting policies adopted by the Company during the year under review.

Going concern

The Board of Directors has reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

Capital expenditure

Details of property, plant and equipment and their movements during the year are given in Note 10 to the financial statements.

Fixed assets

Details of movements in fixed assets of the Group during the year are set out in Note 10 to the financial statements.

Reserves

There were no other material transfers to or from reserves during the financial year other than as disclosed in page 22 to the financial statements.

Income tax expenses

Income tax expenses have been computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2010 and subsequent amendments thereto as disclosed in Note 8 to the financial statements.

Stated capital

The stated capital of the Company as at 31 March 2012 was Rs. 445.9 Mn consisting of 122,997,050 ordinary shares.

The movements in profits and reserves are given in the statement of changes in equity on page 22 to the financial statements.

Share information and substantial shareholders

As at 31 March 2012, there were 3,237 registered shareholders. Share information and the twenty largest shareholders as at 31 March 2012 are listed in pages 50 to 51 of the Annual Report.

Information relating to market value of a share and information on share trading is stated under Shareholder and investor information in page 50 on the Annual Report.

Corporate donations

During the year under review the Group made charitable donations of Rs.1 Mn.

Statutory payments and compliance with laws and regulations

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the government and in relation to employees have been paid, and that neither the Company nor its subsidiaries has engaged in any activities contravening laws and regulations.

Equal opportunities

The Group is committed to providing equal opportunities to all employees irrespective of their gender, marital status, age, religion, race or disability. It is the Group's policy to give full and fair consideration to persons, with respect to applications for employment, continued employment, training, career development and promotion, having regard for each individual's particular aptitudes and abilities.

Events after the balance sheet date

No material events have taken place after the balance sheet date which requires an adjustment to or a disclosure in the financial statements, other than as disclosed in Note 34 to the financial statements.

Independent auditors

The Company's auditors during the period under review were Messrs KPMG, Chartered Accountants. The fees paid to auditors are disclosed in Note 7 to the financial statements.

Based on the declaration from Messrs KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest in the Company or its subsidiaries, other than as disclosed in the above paragraph.

Messrs KPMG, Chartered Accountants, have expressed their willingness to continue in office as auditors of the Company for the ensuing year.

In accordance with the Companies Act No. 7 of 2007, a resolution proposing the re-appointment of Messrs KPMG, Chartered Accountants, as auditors to the Company will be submitted at the Annual General Meeting.

Independent auditors' report

The independent auditors' report on the financial statements is given on page 19 of the annual report.

Auditors' right to information

Each person who is a Director of the Company at the date of approval of this report confirms that:

- As far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware.

- Each Director has taken all the steps that he or she ought to have taken as a Director to make him or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual general meeting

The 27th Annual General Meeting of the Company will be held on 21 September 2012. The notice convening the meeting and the agenda are given on page 54.

This Annual Report is signed for and on behalf of the Board;

(Sgd)
Manjula Mathews (Ms)
Managing Director

(Sgd)
Dinesh Schaffter
Director

21 August 2012
Colombo

Statement of Directors' Responsibility

Set out below are the responsibilities of the Directors in relation to the financial statements of the Company. The Directors of the Company are responsible for ensuring that the Company and its subsidiaries keep proper books of accounts of all the transactions, and prepare financial statements that give a true and fair view of the state of affairs of the Company at balance sheet date and of the profit or loss for the year ending on that balance sheet date in accordance with the Companies Act No. 07 of 2007. The Directors are required to prepare these accounts on a going concern basis unless it is not appropriate.

The financial statements of the Company and the Group have been certified by the Chief Financial Officer of the Company who is responsible for the preparation of financial statements as required by the Act. The financial statements have been signed by two Directors on 21 August 2012 in accordance with Section 150 (1) (c) and 152 (1) (c) of the Companies Act.

Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Company's transactions and also determine the Company's financial position with reasonable accuracy at any time are maintained by the Company enabling the preparation of financial statements and further enabling the financial statements to be readily and properly audited, in accordance with the Section 148 (1) of the Act. The Directors have therefore caused the Company and its subsidiaries to maintain proper books of accounts and regularly review financial reports at their meetings. The Board also reviews and approves all Interim financial statements prior to their release.

The Board of Directors accepts the responsibility for the integrity and objectivity of the financial statements presented. The Directors confirm that the financial statements have been prepared using appropriate accounting policies in a consistent basis and appropriate estimates and judgments made to reflect the true substance and form of transactions.

The financial statements of the Company for the year ended 31 March 2012 are in conformity with the requirements of Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (CA, Sri Lanka). Directors have taken reasonable measures to safeguard the assets of the Company and its subsidiaries and to prevent and detect frauds and other irregularities. In this regard, the Directors have laid down effective and comprehensive internal control systems.

The Auditors of the Company, Messrs KPMG who were reappointed in accordance with a resolution passed at the last Annual General Meeting were provided with all necessary information required by them in order to carry out their audit and to express an opinion which is contained on page 19 of this Annual Report.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company and its subsidiaries as at the Balance Sheet date have been paid or where relevant provided for.

Directors further confirm that after considering the financial position, operating conditions and regulatory and other factors, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future and that the going concern basis is the most appropriate in the preparation of these financial statements.

(Sgd.)
K H L Corporate Services Limited
Secretaries

21 August 2012
Colombo

Corporate Governance

The Directors acknowledge their responsibility for the Company's corporate governance and the need to ensure the highest standards of accountability to all stakeholders. Dunamis Capital PLC is fully committed to the principles of good governance and recognises that good corporate governance is the corner-stone of a successful organisation.

The Company is committed to acting with integrity, transparency and fairness in all of its dealings and considerable emphasis is placed by the Board on the development of systems, processes and procedures to ensure the maintenance of high standards throughout the organisation.

At present, the Board comprises of three Non-Executive Independent Directors and two Executive Directors all of whom possess a broad range of skills and experience across a range of industries and functional areas. Detailed profiles of each member of the Board are provided in a separate section of this Annual Report.

The Board meets frequently in order to ensure the effective discharge of its duties. Formal board meetings were held four times during the year and performance review meetings were held monthly.

The Board reviews strategic and operational issues, approves interim and annual financial statements and annual budgets, assesses performance and ensures compliance with all statutory and regulatory obligations. Members of the Board are expected to attend the Annual General Meeting of shareholders and board and review meetings. Material is provided to members of the board well in advance of scheduled meetings to allow adequate time for review and familiarisation and to facilitate decision making at meetings.

Necessary advice and guidance are provided to the senior management team at monthly performance review meetings which provide an opportunity to evaluate progress and ensure accountability of the senior management team. A strong focus on training and career development has created a committed and empowered workforce who continues to generate value and drive the Company towards high standards of achievement.

The directors are responsible for the formulation of the Company's business strategy and in ensuring the existence of an adequate risk management framework. The Non-Executive Directors bring independent judgment to bear on issues of strategy and performance. The Board is satisfied with the effectiveness of the system of internal control in the Company for the period up to the date of signing the financial statements. The Board holds responsibility for ensuring that the senior management team possesses the relevant skills and expertise required in the management of the Company and that a suitable succession planning strategy is in place. Directors also ensure adherence to laws and regulations pertaining to the functioning of the organisation. The Chief Financial Officer functions as the Compliance Officer to ensure compliance with all regulatory and statutory requirements and proper reporting of all compliance matters to the Board.

Dunamis Capital PLC regularised the composition of the Board of Directors to comply with the requirements of the CSE Listing Rules subsequent to the balance sheet date with new appointments on 1 May 2012, The Board consists of three Non Executive Directors, which is in compliance with CSE Listing Rule No. 7.10.1(a) and 7.10.2(b).

Independent Non-Executive Directors on the Board, Mr. Nihara Rodrigo, Mr. Eardley Perera and Mr. Chandana L. de Silva have submitted declarations of their independence. They do not qualify as independent against the criteria set out in the listing rules as they are directors of other companies in which a majority of the other directors of the Company are employed or are directors. However the Board is of the opinion that this does not affect their independence as they do not have a business relationship or a significant shareholding in either Dunamis Capital PLC or other subsidiary companies of which they are directors.

The Company did not meet the requirements of the listing rules with respect to an audit committee as at 31 March 2012. In the absence of an audit committee the Board performed this function by reviewing all reports issued by the Company's internal auditors and the management letter issued by the External auditors. Adequate follow-up action is initiated on audit recommendations to ensure

Corporate Governance Contd.

that there is a continuous strengthening of internal processes and controls. Subsequent to the balance sheet date, an Audit Committee was formed with two Non-Executive Directors namely Mr. Chandana L. de Silva as the Chairman and Mr. Nihara Rodrigo as a member.

As at 31 March 2012 the Remuneration Committee did not comply with the criteria of listing rule 7.10.5(a) which requires the committee to comprise of a majority of Independent Non-Executive Directors. Subsequent to the balance sheet date the remuneration committee was re-constituted with the appointment of two Non-Executive Directors namely, Mr. Eardley Perera as the Chairman and Mr. Nihara Rodrigo as a member. The committee is dedicated to ensuring accountability, transparency and fairness in reward structures that recognise the relationship between performance and reward. The committee operates under delegated authority from the Board and is responsible for setting the Company's remuneration policy and for ensuring its continued ability to attract and retain high calibre candidates.

The Company bases remuneration on both individual and company performance whilst paying due regard to staff retention. The committee recommends increment levels and determines the remuneration payable to the Managing Director.

KHL Corporate Services Limited serve as the Company Secretaries for Dunamis Capital PLC. The Company secretary ensures compliance with Board procedures, The Companies Act, and Securities and Exchange Commission and Colombo Stock Exchange regulations. The Company secretary keeps the Board informed of relevant new regulations and requirements.

(Sgd.)	(Sgd.)
Mangala Jayashantha	**Manjula Mathews (Ms)**
Chief Financial Officer	*Managing Director*

Independent Auditors' Report

KPMG
(Chartered Accountants)
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TO THE SHAREHOLDERS OF DUNAMIS CAPITAL PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Dunamis Capital PLC (the "Company"), the consolidated financial statements of the Company and its subsidiaries as at 31 March 2012 which comprise the balance sheet as at 31 March 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 20 to 48 of this annual report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion - Company

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

Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 March 2012 and the loss and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Without qualifying our opinion we draw attention to Note 32 to the financial statements regarding the matters that may cast significant doubt that the respective Group Entities will be able to continue as a going concern.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

(Sgd.)
Chartered Accountants
Colombo

21 August 2012

Income Statement

For the year ended 31 March	Note	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
Revenue	4	1,097,219	2,558,495	-	-
Cost of sales		(972,352)	(1,832,288)	-	-
Gross profit		124,867	726,207	-	-
Other income	5	51,037	563,999	57,840	368,275
		175,904	1,290,206	57,840	368,275
Distribution expenses		4,536	102,537	-	-
Administrative expenses		181,342	205,473	24,993	34,276
Provision for fall in value of investment in subsidiary		-	-	67,382	-
Provision for bad debts		156,701	-	-	-
Other expenses		142,352	111,500	82,032	15,000
Finance expenses	6	7,854	53,891	54,054	126,902
Profit / (loss) before taxation	7	(316,881)	816,805	(170,621)	192,097
Taxation	8	(16,085)	367,600	(1,555)	(291)
Profit / (loss) for the year from continuing operations		(332,966)	1,184,405	(172,176)	191,806
Profit/(loss) from discontinued operations		-	876	-	-
Profit/(loss) for the year		(332,966)	1,185,281	(172,176)	191,806
Attributable to:					
Equityholders of the parent		(263,124)	780,325	(172,176)	191,806
Minority interest		(69,842)	404,956	-	-
		(332,966)	1,185,281	(172,176)	191,806
Earnings/(loss) per share	9	(2.14)	7.92	(1.40)	1.95

The notes disclosed on pages 25 to 48 form an integral part of these financial statements.

Balance Sheet

As at 31 March	Note	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
ASSETS					
Non current assets					
Property, plant and equipment	10	23,085	28,694	14,472	15,194
Investment in subsidiaries	11	-	-	616,319	639,902
Investment property	12	396,042	-	396,042	-
Investment securities	13	91,465	1,000	-	-
Group balance receivables	14	-	-	130,000	130,000
Venture capital investments	15	8,000	8,000	-	-
Deferred tax assets	16	49,485	49,625	-	-
Intangible assets	17	303,453	336,843	-	-
Total non current assets		871,530	424,162	1,156,833	785,096
Current assets					
Inventories	18	393,103	115,537	-	-
Trade and other receivables	19	454,775	948,844	3,566	3,678
Group balance receivables	20	2,820	1,132	5,350	48,163
Short term investments	21	6,177,984	10,127,665	-	101,125
Cash and cash equivalents		19,239	21,970	3,380	559
Total current assets		7,047,921	11,215,148	12,296	153,525
Non-current assets held for sale	22	80,218	415,218	-	335,000
TOTAL ASSETS		7,999,669	12,054,528	1,169,129	1,273,621
EQUITY AND LIABILITIES					
Stated capital	23	445,994	445,994	445,994	445,994
Capital reserves		292,865	292,865	-	-
Retained earnings/(losses)		339,777	569,772	(182,943)	(10,767)
Total equity attributable to equity holders of the parent		1,078,636	1,308,631	263,051	435,227
Minority interest		452,826	626,628	-	-
Total equity		1,531,462	1,935,259	263,051	435,227
Non current liabilities					
Deferred tax liabilities	24	1,373	1,373	1,373	1,373
Retirement benefit obligations	25	12,081	13,043	1,215	1,204
Total non current liabilities		13,454	14,416	2,588	2,577
Current liabilities					
Trade and other payables	26	230,546	256,382	22,974	11,831
Interest bearing borrowings	27	1,338,305	1,016,176	-	-
Group balance payables	28	32,303	124,804	879,099	814,614
Securities sold under re-purchase agreements		4,846,739	8,688,590	-	-
Bank overdrafts		6,860	18,901	1,417	9,372
Total current liabilities		6,454,753	10,104,853	903,490	835,817
TOTAL EQUITY AND LIABILITIES		7,999,669	12,054,528	1,169,129	1,273,621
Net asset value per share (Rs.)		8.77	10.63	2.14	3.54

The notes disclosed on pages 25 to 48 form an integral part of these financial statements.
I certify that these financial statements have been prepared and presented in compliance with the requirements of the Companies Act No.7 of 2007.

(Sgd.)
Mangala Jayashantha
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.
Approved and signed for and on behalf of the Board,

(Sgd.)
Manjula Mathews (Ms)
Managing Director

(Sgd.)
Dinesh Schaffter
Director

21 August 2012
Colombo

Statement of Changes in Equity

For the year ended 31 March 2012 Group	Stated Capital Rs. '000	Risk Reserve Rs. '000	Foreign Currency Reserve Rs. '000	Retained Earnings/ (loss) Rs. '000	Total Rs. '000	Minority Interest Rs. '000	Total Equity Rs. '000
	Attributable to Equity Holders of parent						
Balance as at 1 April 2010	200,000	160,816	7,901	(163,316)	205,401	502,236	707,637
Rights issue	245,994	-	-	-	245,994	-	245,994
Profit for the year	-	-	-	780,325	780,325	404,956	1,185,281
Transfer to risk reserve	-	132,049	-	(132,049)	-	-	-
Dividend paid	-	-	-	-	-	(24,244)	(24,244)
Adjustment due to acquisition	-	-	-	31,303	31,303	(31,303)	-
Adjustment due to disposal	-	-	(7,901)	53,509	45,608	(185,117)	(139,509)
Repurchase of shares	-	-	-	-	-	(39,900)	(39,900)
Balance as at 31 March 2011	445,994	292,865	-	569,772	1,308,631	626,628	1,935,259
Balance as at 1 April 2011	445,994	292,865	-	569,772	1,308,631	626,628	1,935,259
Loss for the year	-	-	-	(263,124)	(263,124)	(69,842)	(332,966)
Adjustment due to acquisition	-	-	-	33,129	33,129	(33,129)	-
Repurchase of shares	-	-	-	-	-	(439)	(439)
Dividend paid	-	-	-	-	-	(70,392)	(70,392)
Balance as at 31 March 2012	445,994	292,865	-	339,777	1,078,636	452,826	1,531,462

For the year ended 31 March 2012 Company	Stated Capital Rs. '000	Retained Losses Rs. '000	Total Equity Rs. '000
Balance as at 1 April 2010	200,000	(202,573)	(2,573)
Rights issue	245,994	-	245,994
Profit for the year	-	191,806	191,806
Balance as at 31 March 2011	445,994	(10,767)	435,227
Balance as at 1 April 2011	445,994	(10,767)	435,227
Loss for the year	-	(172,176)	(172,176)
Balance as at 31 March 2012	445,994	(182,943)	263,051

The notes disclosed on pages 25 to 48 form an integral part of these financial statements.

Cash Flow Statement

	Group		Company	
For the year ended 31 March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Cash flows from operating activities				
Profit/(loss) before income tax	(316,881)	816,805	(170,621)	192,097
Adjustments for :				
Depreciation	11,846	14,648	5,467	6,256
Amortisation/impairment of intangible assets	43,284	562	-	-
Interest paid	7,854	129,864	54,054	126,902
Profit on sale of subsidiary	-	(535,040)	-	(290,711)
Dividend income	-	-	(21,887)	(73,491)
Discontinued operations	-	876	-	-
Profit on disposal of property plant & equipment	(3,426)	(1,881)	(3,426)	(1,881)
Profit on sale of investment	(35,665)	-	(21,217)	-
Provision for gratuity	1,604	3,937	11	237
Provision for fall in value of investment in subsidiary	-	-	67,382	-
Provision for impairment of assets held for sale	-	15,000	-	15,000
Provision for impairment of investment property	35,000	-	35,000	-
Provision for slow moving inventory	412	-	-	-
Provision for bad debts	156,701	-	-	-
Provision for group balance receivables	-	-	47,032	-
Operating profit / (loss) before working capital changes	(99,271)	444,771	(8,205)	(25,591)
Change in inventories	(277,566)	22,499	-	-
Change in trade and other receivables	329,802	(633,549)	112	1,436
Change in group balance receivables	41,971	(1,132)	(4,218)	(30,621)
Change in short term investments	3,831,091	(1,184,923)	-	127,921
Change in long term investments	-	378,258	-	-
Change in trade and other payables	(25,836)	485,944	9,588	7,285
Change in interest bearing borrowings	322,129	-	-	-
Change in borrowings against re-purchase agreements	(3,841,851)	(601,574)	-	-
Change in group balance payables	(92,501)	(305,474)	64,484	(399,440)
Cash generated from / (used in) operations	187,968	(1,395,180)	61,761	(319,010)
Interest paid	(7,854)	(129,864)	(54,054)	(126,902)
Income tax paid	(29,290)	(53,138)	-	-
Gratuity paid	(2,566)	(1,577)	-	(234)
Net cash generated from / (used in) operations	148,258	(1,579,759)	7,707	(446,146)

Cash Flow Statement Contd.

	Group		Company	
For the year ended 31 March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Cash flows from investing activities				
Investment in subsidiary	(43,799)	(247,418)	(43,799)	(247,418)
Disposal of subsidiary	-	968,300	-	394,845
Purchase of property, plant and equipment	(10,952)	(5,314)	(8,785)	-
Purchase of investment securities (Note 13)	(90,465)	-	-	-
Acquisition of intangible assets	9,894	(1,869)	-	-
Acquisition of investment property (Note 12)	(96,042)	-	(96,042)	-
Proceed from sale of property, plant and equipment	7,473	2,712	7,467	2,708
Proceed from sale of investment	154,253	-	122,342	-
Dividend receipts from subsidiaries	-	-	21,886	73,491
Staff loan recovered	1,521	904	-	-
Net cash generated from/(used in) investing activities	(68,117)	717,315	3,069	223,626
Cash flows from financing activities				
Right issue of shares	-	245,994	-	245,994
Repayment of interest bearing loans and borrowings	-	621,534	-	-
Subsidiary dividend paid to minority shareholders	(70,392)	(24,244)	-	-
Share repurchase proceeds to minority	(439)	(39,900)	-	-
Lease installments paid	-	(4,616)	-	(693)
Net cash generated from/(used in) financing activities	(70,831)	798,768	-	245,301
Net change in cash and cash equivalents	9,310	(63,676)	10,776	22,781
Cash and cash equivalents at the beginning of the year	3,069	66,745	(8,813)	(31,594)
Cash and cash equivalents at the end of the year (Note A)	12,379	3,069	1,963	(8,813)
Note A				
Cash and cash equivalent				
Cash at bank	19,239	21,970	3,380	559
Total cash and cash equivalent	19,239	21,970	3,380	559
Bank overdraft	(6,860)	(18,901)	(1,417)	(9,372)
Cash and cash equivalents as at 31 March	12,379	3,069	1,963	(8,813)

The notes disclosed on pages 25 to 48 form an integral part of these financial statements.

Notes to the Financial Statements

1. Reporting entity - Corporate information

1.1 Domicile and legal form

Dunamis Capital PLC ("Company") is a limited liability company incorporated and domiciled in Sri Lanka on 18 December 1985. The registered office and place of business of the Company is at No.75, Arnold Ratnayake Mawatha, Colombo 10.

In the Annual Report of the Board of Directors "the Company'' refers to Dunamis Capital PLC, as the holding company and "the Group'' refers to the consolidated results of Dunamis Capital PLC and its subsidiary companies.

1.2 Principal activities and nature of operations

The principal activity of the Company is to engage in the administration of subsidiaries.

1.3 Number of employees

The number of employees of the Group as at 31 March 2012 is 116 (31 March 2011 - 111).

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (SLASs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 of 2007.

2.2 Approval of financial statements by directors

The financial statements were authorised for issue by the Board of Directors on 21 August 2012.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements.

The Group financial statements comprise a consolidation of the financial statements of the Company and its subsidiaries in accordance with Sri Lanka Accounting Standard (SLAS) 26 "Consolidated and separate financial statements".

2.4 Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements are prepared to a common financial year ending 31 March. All subsidiaries in the Group have a common financial year ending 31 March. Details of investments in subsidiaries are set out in Note 11 to the financial statements. The minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Minority interest in the profit or loss of the Group is disclosed separately in the consolidated income statement.

2.5 Associates

Associates are those enterprises in which the Group has significant influence, but not control over the financial and operating policies. The consolidated financial statements include the Group share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

2.6 Goodwill and negative goodwill arise on the acquisition of subsidiaries

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired. When the excess is negative (negative goodwill), it is recognised immediately in the consolidated income statement. Goodwill is stated at cost less accumulated impairment losses. Goodwill is tested for impairment as described in SLAS 25 (Revised) - "Business Combinations".

Goodwill on the acquisition of subsidiaries is presented as intangible assets.

2.7 Transactions eliminated on consolidation

Intra-group balances and transactions, income, expenses and any unrealised gains arising from intra-group transactions and transactions with Joint Venture are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with Associates are eliminated to the extent of the Group's interest in the Associates against the investment in the Associate. Unrealised losses are eliminated in the same way as

Notes to the Financial Statements Contd.

unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Where subsidiaries have been sold or acquired during the year, their operating results have been included to the date of disposal or from the date of acquisition.

2.8 Functional and presentation currency

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

2.9 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

2.10 Comparative information

Where necessary, amounts shown for the previous year have been reclassified to correspond to the current year to facilitate comparison.

2.11 Going concern

The Board of Directors certifies that the Company has adequate resources to continue its operations in the foreseeable future. Therefore the going concern basis has been adopted in preparing the financial statements.

3 Significant accounting policies

The accounting policies are applied consistently with due regard to prudence, materiality and substance -over form criteria as explained in Sri Lanka Accounting Standard No. 3 "Presentation of Financial Statements", on accrual basis. Where appropriate, the accounting policies are disclosed in the succeeding notes.

3.1 Changes in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies of the Company have been consistently applied by Group entities where applicable and deviations if any have been disclosed accordingly.

New Accounting Standards issued but not effective as at balance sheet date

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which has become applicable for financial periods beginning on or after 1 January 2012. Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the year ended 31 March 2012.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The said new / revised standards have become applicable to the Company from 1 April 2012 and accordingly the reporting framework for the year ending 31 March 2013 will be LKAS / SLFRS. Given the complexities and technical expertise required in the process of convergence, the Group carried out an initial impact analysis with the assistance of an external consultant based on the 2010/11 balances. The same methodology was used to extend the impact analysis to 2011/12 to approximately assess the potential impact on the financial statements had these said standards been applied for the year ended 31 March 2012. As this is only a preliminary assessment of the potential effects of these Standards, it is based on a few assumptions and approximations.

The table below sets out the key impact areas for the Company in 2012/13 with the adoption of LKAS/SLFRS.

Accounting Standard	Key requirements	Preliminary assessment of potential impact for the Company
LKAS 32 - "Financial Instruments Presentation", LKAS 39 - "Financial Instruments: Recognition and Measurement" SLFRS 7 - "Financial Instruments: Disclosures"	For the purpose of measuring a financial asset LKAS 39 requires the financial assets to be classified into the following four categories ; • fair value through profit and loss - measured at fair value with changes in fair value taken to income statement. • available-for-sale investments - measured at fair value with changes in fair value taken to Statement of changes in equity. • held to maturity investments measured at amortised cost; and • originated loans and receivables measured at amortised cost using effective interest method.	The categorisation of investments in the Company will determine whether and where the re-measurement will be recognised in the Company's financial statements. Based on our initial assessment of potential impact: • Current accounting practice applied for investment in corporate debt securities is in line with the new standards. • Current accounting practice applied for investment in government securities (i.e. dealing securities) is also in line with the new standards (fair value of those securities are lower than the cost). • Investment securities (ordinary shares – listed / unlisted) which are not held for trading purpose will be classified as available for sale financial assets and carried at fair value.
	Staff loans need to be measured at fair value using the market interest rate.	The impact on staff loans is immaterial to the financial statements.
	According to LKAS 39, financial liabilities (Securities sold under re purchase agreements) are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate (EIR) method.	Currently financial liabilities are initially recognised at fair value. However simple interest rate method is used for subsequent measurement of securities sold under re purchase agreements. Even though LKAS 39 requires using the effective interest rate (EIR) method due to the short term nature of the instrument (less than 3 months) the impact of applying effective interest rate (EIR) method is assessed as insignificant to the financial statements.
	Fair value of derivatives should be determined based on present value .The fair value of assets and liabilities are required to be presented gross on the balance sheet.	The impact on interest rate swaps is assessed as insignificant to the financial statements (based on the prevailing interest rate regime).

Notes to the Financial Statements Contd.

Accounting Standard	Key requirements	Preliminary assessment of potential impact for the Company
SLFRS 1 – "First time adoption of Sri Lanka Accounting Standards (SLFRSs)"	This SLFRS applies when the entity adopts SLFRS for the first time. The opening SLFRS statements of financial position at the date of transition to SLFRSs need to be prepared and presented. The same accounting policies should be used in its opening SLFRS statements of financial position and throughout all periods presented in its first SLFRs financial statements.	The Company is in the process of preparing the financial statements under SLFRS and will provide an explanation on how the transition from SLAS to SLFRSs affected its reported financial position, financial performance and cashflows in the next financial year.

In addition to the above, there may be some impact with the adoption of other new / revised accounting standards which have become effective from 1 April 2012 and the Company does not expect any material impact.

The Company will also experience changes in presentation and disclosure requirements under the new / revised accounting standards from the year ending 31 March 2013 onwards.

3.2 Transactions of foreign exchange

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are converted to Sri Lankan Rupees at the exchange rate at the date of the transaction. Exchange differences arising on transactions are recognised in the income statement.

ASSETS AND THE BASES OF THEIR VALUATION

3.3 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balance with banks. They are brought to account at the face value or the gross value where appropriate.

3.4 Investments

Dealing (Trading) securities

Dealing (Trading) securities are those investments that are acquired or incurred principally for the purpose of selling or holding as part of a portfolio that is managed for short term profit.

These investments are the equivalent of current investments as defined in Sri Lanka Accounting Standard No. 22– "Accounting for Investments", and are accounted for at the lower of cost or market value as at the balance sheet date on an aggregate portfolio basis. Dealing securities currently comprise treasury bills, bonds and commercial papers.

Receivables under resale agreements

These are lendings collateralised by the purchase of government securities or corporate securities from the counter party to whom lending is made. The sale by the counter party is subject to a commitment by the Company to sell back the underlying debt securities to the borrower at a pre-determined price. The lendings are stated at cost plus interest as at the balance sheet date.

Investment securities

These are securities which are acquired and held for yield or capital growth in the medium/ long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost.

3.5 Non-current assets held for sale

Non - current assets, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the asset is measured in accordance with the Group accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gain or losses on remeasurement are recognised in profit and loss. Gains are not recognised in excess of any cumulative impairment loss.

3.6 Investment property

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. The Group applies fair value model for investment properties in accordance with Sri Lanka Accounting Standard 40 (Revised 2005) "Investment Property".

3.7 Intangible assets

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

3.7.1 Basis of recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

3.7.1 (a) Goodwill

Goodwill arising on the acquisition represents the excess of the cost of acquisition over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Upon transition to revised Sri Lanka Accounting Standard No. 25 - "Business Combinations", goodwill is no longer amortised. Instead, goodwill is tested for impairment annually and assessed for any indication of impairment at each reporting date to ensure that its carrying amount does not exceed its recoverable amount.

If an impairment loss is identified, it will be recognised immediately in the income statement. The negative goodwill is recognised immediately in the Income Statement.

3.7.1 (b) Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the balance sheet under the category intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.7.2 Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

3.7.3 Amortisation

Intangible assets, except for goodwill, are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. The estimated useful life of software is three years. Expenditure on an intangible item that was initially recognised as an expense by the Company in previous Annual Financial Statements or Interim Financial Reports are not recognised as part of the cost of an intangible asset at a later date.

3.7.4 Retirement and disposal

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

3.8 Property, plant and equipment

Property, plant and equipment are stated on the balance sheet at cost less accumulated depreciation, and any impairment losses. Leased assets are capitalised at their cash cost, and depreciated thereon.

Depreciation is calculated on the cost of property, plant and equipment in order to write off such amounts over the estimated useful lives of such assets. Depreciation is provided from the time the asset is available for use, up to the date of disposal.

Depreciation is provided on a straight-line basis over the following useful life times:

Asset Type	Useful life time
Office equipment	3 to 6 years
Computer hardware	3 to 5 years
Motor vehicles	3 to 5 years
Plant and machinery	2 to 15 years
Furniture, fixtures and fittings	3 to 8 years

3.9 Other assets

All other assets are valued net of specific provisions, where necessary, so as to reduce the carrying value of such assets to their estimated realisable values.

Notes to the Financial Statements Contd.

3.10 Assessment of impairment

The Company assesses at each balance sheet date whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell.

LIABILITIES AND PROVISIONS

3.11 Liabilities

All material liabilities as at the balance sheet date have been included in the accounts and adequate provision has been made for liabilities which are known to exist but the amounts of which cannot be determined accurately.

3.12 Securities sold under re- purchase agreement

Securities sold under re- purchase agreements to repurchase are recorded separately in the financial statements. These are borrowings collateralised by sale of government securities & corporate securities held by the Company to the counter party from whom the Company borrowed, subject to a commitment to repurchase them at a predetermined price.

3.13 Employee benefits

Defined benefits plan – gratuity

As required by (SLAS)-16 (Revised 2006) "Employee Benefits", which the Company has provided for gratuity liability based on the gratuity formula method, for the current financial year.

However under the payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The liability is not externally funded.

Defined contribution plan - Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contribution to a separate entity and will have no legal or constructive obligation to pay further amounts.

All employees who are eligible for Employees' Provident Fund and Employees' Trust Fund are covered by relevant contributions to the defined contribution plans and are recognised as an expense in the financial statements when incurred.

(a) Employees' Provident Fund

The Company and employee contribute 12%- 15% and 8%- 10% respectively on the salary of each employee to the Employees' Provident Fund.

(b) Employees' Trust Fund

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

3.14 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a realisable estimate of the amount of such obligation can be made.

Contingent assets if they exist, are disclosed, when inflow of economic benefit is probable.

All contingent liabilities are disclosed, as notes to the financial statements unless the outflow of resources is remote.

3.15 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's share of any contingencies and capital commitments of a Subsidiary, Associate or Joint Venture for which the Company is also liable severally or otherwise are also included with appropriate disclosures. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless they are remote.

3.16 Events after balance sheet date

All material post balance sheet events have been considered and where appropriate, adjustments to, or disclosures have been made in the financial statements.

INCOME STATEMENT

3.17 Revenue recognition

Capital gains / (losses) on securities are accounted on the date of sale by deducting the carrying value of the securities from the sales proceeds.

Interest income is accounted for on an accrual basis.

Dividend income is recognised, when the right to receive the dividend is established.

Profits earned on the sale of other investments have been accounted for in the income statement on the basis of realised net profits.

Placement fee income is recognised on the completion of the respective deal.

Fee income on managing unit trust is recognised on an accrual basis.

Construction revenue is recognised by reference to the stage of completion. Stage of completion is measured by reference to the work certified by a qualified engineer.

Revenue from fabrication and installation of aluminum joinery, curtain walls and cladding is recognised by reference to the stage of completion. The stage of completion is determined by way of surveys of work performed.

Revenue from sale of goods is recognised when the significant risk and reward of ownership of the goods have passed to the buyer.

Other income is recognised on an accrual basis.

3.18 Expenses

(a) Expenditure recognition

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

For the purpose of presentation of the income statement, the Directors are of the opinion that the function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

(b) Interest expense

Interest expense is recognised on an accrual basis.

(c) Operating expense

All other expenditure incurred in the functioning of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Company profit for the period.

(d) Taxation

Taxation comprises of current and deferred tax.

Current taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of previous years.

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

The Company and its subsidiaries are liable for income tax at the rate of 28% except for First capital Holdings PLC which is liable to income tax at the rate of 12%, on Venture Capital income in accordance with the provision of inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

Deferred taxation

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date. Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.19 Value Added Tax on financial services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

Notes to the Financial Statements Contd.

3.20 Earnings Per Share (EPS)

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.21 Related party transactions

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability directly or indirectly, to control the party or exercise significant influence over the party or vice versa. The relevant disclosure notes are provided in the financial statements.

3.22 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns different from those of other business segments in accordance with the Sri Lanka Accounting Standard No. 28 - “Segment Reporting”. The Group’s primary format for segmentation has been determined based on the sectors in which it operates.

3.23 Cash flow statement

The cash flow statement has been prepared using the “Indirect Method” of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 9 -“Cash Flow Statements”. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For the year ended 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
4. Revenue				
Export manufacturing	45,828	51,720	-	-
Property development	164,657	169,367	-	-
Financial services	935,443	1,532,848	-	-
Food and beverages	-	878,084	-	-
	1,145,928	2,632,019	-	-
Less: Inter company revenue	(48,709)	(73,524)	-	-
	1,097,219	2,558,495	-	-
5. Other income				
Rent income	11,309	-	11,309	-
Dividend income	-	-	21,888	73,491
Interest income	59	12,270	-	924
Profit on sale of property, plant and equipment	3,426	1,881	3,426	1,881
Profit on sale of investments	21,217	-	21,217	-
Profit on sale of subsidiary	-	535,040	-	290,711
Miscellaneous income	15,026	14,808	-	1,268
	51,037	563,999	57,840	368,275
6. Finance expenses				
Overdraft interest	333	487	277	458
Interest on borrowings	6,880	52,994	53,777	126,416
Interest on finance leases	641	410	-	28
	7,854	53,891	54,054	126,902
7. Profit / (loss) before taxation				
Profit /(loss) before taxation is stated after charging all expenses including the following:				
Directors' emoluments	22,831	36,753	14,150	20,100
Auditors' remuneration	1,478	1,223	375	352
Depreciation	11,846	14,648	5,467	6,256
Staff cost	58,337	58,657	8,088	7,804
Employers' contribution to EPF and ETF	10,617	7,810	1,445	1,392
Retirement benefit cost	1,604	3,937	11	237
Amortisation of intangible assets	1,268	562	-	-
Provision for impairment of investments in subsidiaries	-	-	67,382	-
Provision for impairment of goodwill	42,016	-	-	-
Provision for impairment of investment property	35,000	-	35,000	-
Provision for impairment of non-current asset held for sale	-	15,000	-	15,000
Provision for group balance receivables	-	-	47,032	-
Legal fees	2,146	633	886	-
VAT on financial services	2,169	11,819	-	-
Provision for bad debts (Note 7.1)	156,701	-	-	-

Notes to the Financial Statements Contd.

7.1 First Capital Limited (a sub-subsidiary company) detected a fraud during the year 2011/12 which was committed on its loan investments by a senior employee. The resulting loss to the Company is Rs.186 Mn of which Rs. 29 Mn has been accounted for as loss of interest income in the current financial year and the balance Rs.157 Mn has been charged to the income statement. The balance consists of cash defrauded and income recognised in the previous financial years.

	Group		Company	
For the year ended 31 March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000

8. Taxation

The Company and its subsidiaries are liable to taxation at the rate of 28% except for First Capital Holdings PLC (on Venture Capital Operations) and The Montessori Workshop (Pvt) Limited which are liable to taxation at the rate of 12% in accordance with the provision of Inland Revenue Act No.10 of 2006 and subsequent amendments thereto.

Income tax expense	Group 2012	Group 2011	Company 2012	Company 2011
Current tax expense	10,748	28,834	1,555	291
Under/(over) provision	231	(412,631)	-	-
Deferred tax expense (Note 16)	140	7,206	-	-
Taxes on dividends	4,966	8,991	-	-
	16,085	(367,600)	1,555	291

Reconciliation of accounting profit to income tax	Group 2012	Group 2011	Company 2012	Company 2011
Profit/(loss) before taxation	(316,881)	816,805	(170,621)	192,097
Inter group adjustments	311,058	161,676	-	-
	(5,823)	978,481	(170,621)	192,097
Expenses disallowed for tax	52,388	38,300	89,350	41,940
Deductible expenses for tax	(21,438)	(2,783)	(3,915)	(4,390)
Other income (net)	8,787	12,406	8,545	820
Tax exempt income	(156,467)	(1,098,483)	(49,295)	(293,860)
	(122,553)	(72,079)	(125,936)	(63,393)
Increase in carried forward loss	160,938	153,309	131,491	64,214
	38,385	81,230	5,555	821
Income tax using the corporation tax rate	10,748	28,430	1,555	287
SRL charges	-	404	-	4
Tax on taxable profits	10,748	28,834	1,555	291
(Over)/under provision during prior years	231	(412,631)	-	-
Income tax charge / (reversal) for the period	10,979	(383,797)	1,555	291
Withholding tax on inter-company dividend	4,966	8,991	-	-
Income tax expenses	15,945	(374,806)	1,555	291
Reversal of deferred tax asset	140	7,206	-	-
	16,085	(367,600)	1,555	291

First Capital Treasuries Limited (a sub-subsidiary company) is a primary dealer licensed by the Central Bank of Sri Lanka whose interest income derived in primary market transactions does not form as a part of receipt on trade or business for the purpose of computing statutory income of the Company in accordance with the section 32 of Inland Revenue Act No. 10 of 2006.

Subsequently, a decision made by the Board of Review of the Department of Inland Revenue in respect of income tax for the year 2003/04 acknowledged the above position in July 2010. The Board of Directors of First Capital Treasuries Limited based on advice received from their tax consultants, reversed tax provisions for year 2003/04 - 2009/10 amounting to Rs 412.8 Mn in the financial statements for the year ended 31 March 2011. No tax provisions have been made thereafter. However this judgement does not preclude the Inland Revenue from issuing assessments in the future. Further, details relating to current assessments have been disclosed in Note 30.2.2 to the financial statements (Contingent Liabilities).

9. Earnings/(loss) per share

Earnings/(loss) per share has been calculated by dividing the net profit/(loss) attributable to equity holders of the parent for the year by weighted average number of ordinary shares in issue during the year.

	Group		Company	
For the year ended 31 March	2012	2011	2012	2011
Profit/(loss) attributable to equity holders of the parent (Rs. '000)	(263,124)	780,325	(172,176)	191,806
Weighted average number of ordinary shares in issue	122,997,050	98,465,036	122,997,050	98,465,036
Earnings / (loss) per share (Rs.)	(2.14)	7.92	(1.40)	1.95

Diluted earnings/(loss) per share

There were no potential dilutive ordinary shares outstanding at any time during the year ended 31 March 2012. Therefore diluted earnings/(loss) per share is same as basic earnings/(loss) per share reported above.

10. Property, plant and equipment

Group	Freehold motor vehicles Rs. '000	Leasehold motor vehicles Rs. '000	Computer hardware Rs. '000	Furniture, fixtures & fittings Rs. '000	Office equipment Rs. '000	Plant & machinery Rs. '000	Total Rs. '000
Cost							
As at 1 April 2011	27,647	4,866	10,820	28,803	32,980	9,398	114,514
Additions	9,300	-	85	669	859	39	10,952
Disposals/ transfers	(14,600)	(4,866)	-	(625)	(6)	-	(20,097)
As at 31 March 2012	22,347	-	10,905	28,847	33,833	9,437	105,369
Accumulated Depreciation							
As at 1 April 2011	19,497	4,193	9,896	18,835	27,730	5,669	85,820
Charge for the year	4,164	-	623	3,482	2,795	782	11,846
Disposals/ transfers	(10,865)	(4,193)	-	(324)	-	-	(15,382)
As at 31 March 2012	12,796	-	10,519	21,993	30,525	6,451	82,284
Net book value							
As at 31 March 2012	9,551	-	386	6,854	3,308	2,986	23,085
As at 31 March 2011	8,150	673	924	9,968	5,249	3,729	28,694

Company	Freehold motor vehicles Rs. '000	Computer hardware Rs. '000	Furniture & fittings Rs. '000	Office equipment Rs. '000	Total Rs. '000
Cost					
As at 1 April 2011	21,050	1,569	11,320	1,156	35,095
Additions	8,700	29	56	-	8,785
Disposals	(14,600)	-	(625)	-	(15,225)
As at 31 March 2012	15,150	1,598	10,751	1,156	28,655
Accumulated Depreciation					
As at 1 April 2011	13,483	1,160	4,561	696	19,900
Charge for the year	3,565	310	1,395	197	5,467
Disposals	(10,865)	-	(319)	-	(11,185)
As at 31 March 2012	6,183	1,470	5,637	893	14,183
Net book value					
As at 31 March 2012	**8,967**	**128**	**5,116**	**263**	**14,472**
As at 31 March 2011	7,567	409	6,758	460	15,194

Notes to the Financial Statements Contd.

10.1 Based on the assessment of potential impairment carried out internally for property plant and equipment by the Board of Directors as at 31 March 2012, no provision was required to be made in the financial statements.

As at 31 March	Number of shares 2012	Number of shares 2011	Company holding % 2012	Company holding % 2011	Group holding % 2012	Group holding % 2011	Company 2012 Rs. '000	Company 2011 Rs. '000
11. Investment in subsidiaries								
Kelsey Holdings Limited	340,835	340,835	100	100	100	100	186,500	186,500
Sithro Apparel Holdings Limited	6,875,011	6,875,011	100	100	100	100	18,963	18,963
The Montessori Workshop (Pvt) Limited	6,999	6,999	100	100	100	100	96,484	96,484
PVIC Management Company Limited	24,993,098	24,993,098	99.97	99.97	99.97	99.97	373,004	373,004
Magna Supermarkets Limited	6,000,000	6,000,000	100	100	100	100	-	-
First Capital Holdings PLC - Direct	5,132,218	2,196,100	5.07	2.17	5.07	2.17	91,213	47,414
- Indirect	63,857,985	63,857,985	-	-	63.07	63.07	-	-
							766,164	722,365
Less: Provision - Kelsey Holdings Limited							(63,500)	(63,500)
Sithro Apparel Holdings Limited							(18,963)	(18,963)
The Montessori Workshop (Pvt) Limited							(67,382)	-
Investment in subsidiaries as at 31 March							616,319	639,902

During the year the Board of Directors decided to provide Rs. 67 Mn as impairment of investment in The Montessori Workshop (Pvt) Limited.

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
12. Investment property				
Land and building (Note 12.1)	350,000	-	350,000	-
Land (Note 12.2)	96,042		96,042	
	446,042	-	446,042	-
Less: Provision for diminution in value	(50,000)	-	(50,000)	-
	396,042	-	396,042	-

Note 12.1
During the year, Land and building situated at No. 165, Kynsey Road, Colombo 8 (land extent of 66 perches) classified as "Assets Held for Sale" has been re-classified as "Investment Property" by the Board of Directors as a sale did not materialise within the time frame expected. The Directors' valuation is Rs. 300 Mn.

Note 12.2
Land classified as "Investment Property" consists of land in Nuwara Eliya to an extent of 473.50 perches, which was purchased during the year.

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
13. Investment securities				
Investment in Bartleet Transcapital Limited	1,000	1,000	-	-
Investment in Orient Financial Services Corporation Limited (Note 13.1)	90,465	-	-	-
	91,465	1,000	-	-

13.1 First Capital Holdings PLC acquired 19.9% stake in Orient Financial Services Corporation Limited at a cost of Rs. 90.465 Mn during the year 2011/12. The Company was listed on the Colombo Stock Exchange subsequent to the balance sheet date has been renamed as Orient Finance PLC. The Market value of investment as at 30 June, 2012 was Rs. 476.375 Mn.

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
14. Group balance receivables				
Kelsey Holdings Limited (subsidiary)	-	-	177,032	177,032
Less: Current receivable	-	-	(47,032)	(47,032)
	-	-	130,000	130,000

The above receivables have been secured by 12,120,286 ordinary shares of Kelsey Developments PLC which was held by Kelsey Holdings Limited.

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000
15 Venture capital investments		
Jayasevana Housing (Pvt) Limited	12,550	12,550
MFB Cards (Pvt) Limited	100	100
	12,650	12,650
Provision for fall in value (Note 15.1)	(4,650)	(4,650)
	8,000	8,000
15.1 Provision for fall in value		
Jayasevana Housing (Pvt) Limited	4,550	4,550
MFB Cards (Pvt) Limited	100	100
	4,650	4,650

The financial statements of above venture capital investments held under First Capital Holdings PLC have not been consolidated as at the balance sheet date in accordance with Section 153 (6a) of the Companies Act No. 07 of 2007 since they are not in operation and of no real value to the shareholders of the Company due to the insignificant amount involved. Further First Capital Holdings PLC has fully provided for the investment in MFB Cards (Pvt) Limited and for irrecoverable amounts of Jayasevana Housing (Pvt) Limited of which the Company holds 100% a stake in all above investments.

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
16. Deferred tax assets				
Balance at the beginning of the year	49,625	56,831	-	-
Reversal during the year (Note 8)	(140)	(7,206)	-	-
Balance at the end of the year	49,485	49,625	-	-

Deferred tax asset is recognised by capitalising the brought forward tax losses if there is an assurance beyond reasonable doubt that future taxable income will be available sufficiently to allow the benefit of the loss to be realised.

The deferred tax asset has been computed on the basis of 28% (Corporate tax rate which is applicable for year 2011/12).

Notes to the Financial Statements Contd.

	Software Rs. '000	Goodwill Rs. '000	Total Rs. '000
17. Intangible assets- Group			
Gross value			
Balance as at 1 April 2011	15,527	425,012	440,539
Additions	369	9,525	9,894
Disposals	-	-	-
As at 31 March 2012	15,896	434,537	450,433
Amortisation / impairment			
Balance as at 1 April 2011	13,341	90,355	103,696
Amortisation / impairment	1,268	42,016	43,284
Disposal	-	-	-
Balance as at 31 March 2012	14,609	132,371	146,980
Net book value 31 March 2012	1,287	302,166	303,453
Net book value 31 March 2011	2,186	334,657	336,843

As required by SLAS 41 "Impairment of assets", goodwill is tested for impairment annually and assessed for any indications of impairment at each reporting date to ensure that the carrying amount does not exceed the recoverable amount. Accordingly, the management of the Company conducted an assessment on impairment and made a provision of Rs. 42 Mn with respect to goodwill on The Montessori Workshop (Pvt) Limited.

Subsidiary	Gross goodwill	Impairment provision	Carrying Value as at 31 March 2012	Carrying Value as at 31 March 2011
17.1 Impairment of goodwill				
Kelsey Holdings Limited	82,761	63,500	19,261	19,261
Sithro Apparel Holdings Limited	26,855	26,855	-	-
The Montessori Workshop (Pvt) Limited	42,016	42,016	-	42,016
PVIC Management Company Limited	120,279	-	120,279	120,279
First Capital Holdings PLC	162,626	-	162,626	153,101
	434,537	132,371	302,166	334,657

	Group		Company	
As at 31 March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
18. Inventories				
Raw materials and components	24,665	12,598	-	-
Work in progress	112,063	86,963	-	-
Consumables	110	268	-	-
Finished goods	258,475	17,506	-	-
	395,313	117,335	-	-
Provision for slow moving inventories	(2,210)	(1,798)	-	-
	393,103	115,537	-	-

As at 31 March		Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
19. Trade and other receivables					
Trade receivables		453,541	885,554	-	-
Other receivables		17,206	62,105	207	-
Deposits, advances and pre payments		1,899	28,809	227	813
Tax recoverables		21,684	10,973	3,132	2,865
Staff debtors		2,105	4,186	-	-
		496,435	991,627	3,566	3,678
Less: Provision for doubtful debts		(41,660)	(42,783)	-	-
		454,775	948,844	3,566	3,678
20. Group balance receivables	Relationship				
Kelsey Holdings Limited	Subsidiary	-	-	47,032	47,032
The Montessori Workshop (Pvt) Limited	Subsidiary	-	-	2,530	-
KHL Corporate Services Limited	Affiliate	2,820	1,132	2,820	1,131
		2,820	1,132	52,382	48,163
Less: Provision for group balances receivable (Note 20.1)		-	-	(47,032)	-
		2,820	1,132	5,350	48,163

20.1 Provision for group balances receivable

During the year, the Company made a provision of Rs. 47 Mn for the balance receivable from Kelsey Holdings Limited.

21. Short term investments	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
Quoted investments (Note 21.1)	38,528	17,464	-	-
Quoted debentures	24,920	25,089	-	-
Investments under resale agreements (Note 21.2)	830,788	1,091,327	-	-
Dealing securities (Note 21.3)	4,997,717	8,892,660	-	-
Other investments	286,031	101,125	-	101,125
	6,177,984	10,127,665	-	101,125

As at 31 March	No. of Shares 2012	No. of Shares 2011	Market Value 2012 Rs. '000	Market Value 2011 Rs. '000	Cost 2012 Rs. '000	Cost 2011 Rs. '000
21.1 Quoted investments - Group						
Laugfs Gas PLC	-	907,700	-	35,127	-	17,464
ACL Cables PLC	2,000	-	125	-	132	-
Brown & Company PLC	161,600	-	25,064	-	26,987	-
Primal Glass Ceylon PLC	134,600	-	821	-	915	-
DFCC Bank PLC	720	-	81	-	73	-
John Keells Holdings PLC	1,914	-	394	-	309	-
Tea Smallholder Factories PLC	800	-	39	-	36	-
Environment Resources Investments PLC	10,000	-	168	-	230	-
Royal Ceramics Lanka PLC	47,000	-	5,405	-	5,875	-
Seylan Bank PLC	9,000	-	261	-	465	-
Sierra Cabels PLC	80,000	-	264	-	57	-
Commercial Bank of Ceylon PLC	556	-	56	-	56	-
Colombo Land and Development Company PLC	150,000	-	5,850	-	6,450	-
			38,528	35,127	41,585	17,464
Less: Provision for fall in value of shares			-	-	(3,057)	-
			38,528	35,127	38,528	17,464

Notes to the Financial Statements Contd.

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
21.2 Investment under re-sale agreements				
Government securities	808,985	665,221	-	-
Corporate debt securities	21,803	426,106	-	-
	830,788	1,091,327	-	-
21.3 Dealing Securities				
Government securities (Note 21.3.1)	3,682,451	8,176,778	-	-
Fixed deposits (Note 21.3.2)	207	207	-	-
Corporate Debt Securities	1,315,059	715,675	-	-
	4,997,717	8,892,660	-	-

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000
21.3.1 Government securities		
Treasury bills	2,199,751	672,320
Treasury bonds	1,496,596	7,504,458
	3,696,347	8,176,778
Less: provision for fall in value	(13,896)	-
	3,682,451	8,176,778

21.3.2 Securities pledged as collateral

Of the government securities classified as dealing securities, the following amounts have been pledged as collateral for re-purchase agreements entered into by the Group.

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000
Treasury bills (Face value)	1,508,367	713,061
Treasury bonds (Face value)	1,798,955	6,906,714
	3,307,322	7,619,775
21.3.3 Fixed deposits		
Investment in fixed deposits	5,207	5,207
Less: Provision for fall in value	(5,000)	(5,000)
	207	207

As at 31 March	Group 2012 Rs. '000	Group 2011 Rs. '000	Company 2012 Rs. '000	Company 2011 Rs. '000
22. Non - current assets held for sale				
Land and building (Note 12.1)	-	350,000	-	350,000
Investments in the process of liquidation (Note 22.1)	101,360	101,360	-	-
	101,360	451,360	-	350,000
Less: Provision for diminution in value	(21,142)	(36,142)	-	(15,000)
	80,218	415,218	-	335,000

		2012		2011	
As at 31 March	No of shares	Directors valuation Rs. '000	Carrying value Rs. '000	Directors' valuation Rs. '000	Carrying value Rs. '000
22.1 Investments in the process of liquidation					
Ceyspence (Pvt) Limited	2,861,856	70,370	71,432	70,370	71,432
Ceycapital Shipping (Pvt) Limited	2,835,000	-	-	-	-
Ceyaki Shipping (Pvt) Limited	3,116,600	9,848	29,928	9,848	29,928
		80,218	101,360	80,218	101,360
Provision for diminution in value		-	(21,142)	-	(21,142)
		80,218	80,218	80,218	80,218

The above assets held for sale represent equity investments in shipping business made by subsidiary companies. All these investments are in the process of liquidation now and stated at their realisable values as at the balance sheet date. The details relating to tax assessments of the Assets held for sale have been disclosed in Note 30.2.3(a) to the financial statements (Contingent Liabilities).

	No of shares		Group		Company	
As at 31 March	2012	2011	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
23. Stated capital						
At the beginning of the year	122,997,050	98,397,640	445,994	200,000	445,994	200,000
Right issue	-	24,599,410	-	245,994	-	245,994
	122,997,050	122,997,050	445,994	445,994	445,994	445,994
24. Deferred tax liabilities						
As at beginning of the year			1,373	6,203	1,373	1,373
Adjustment due to disposal of subsidiaries			-	(4,830)	-	-
As at the end of the year			1,373	1,373	1,373	1,373

	Group		Company	
As at 31 March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
25. Retirement benefit obligations				
Balance at the beginning of the year	13,043	21,208	1,204	1,201
Adjustment due to acquisition/disposal of subsidiary	-	(10,525)	-	-
Provision made during the year	2,222	3,848	285	297
Interest charge during the year	1,396	808	161	94
Deficit / (surplus) charge for the year	(2,014)	(719)	(435)	(154)
Payments during the year	(2,566)	(1,577)	-	(234)
Balance at the end of the year	12,081	13,043	1,215	1,204

Notes to the Financial Statements Contd.

As required by Sri Lanka Accounting Standard 16 (revised 2006) - "Employee Benefits", the following subsidiaries provided for gratuity liability based on the Gratuity Formula Method.

- First Capital Limited
- First Capital Treasuries Limited
- First Capital Asset Management Limited
- First Capital Markets Limited
- Kelsey Developments PLC
- Kelsey Homes (Pvt) Limited
- Kelsey Property Developers (Pvt) Limited
- Kelsey Aluminium (Pvt) Limited

The principal assumptions used are as follows:

Expected annual average salary increment	12%
Discount rate/ Interest rate	13%
Staff turnover factor (as a %)	5%
Retirement age of employees	55 Year

The Montessori Workshop (Pvt) Limited assessed the retirement benefit obligations based on the payment of Gratuity Act No.12 of 1983.

The total amount charged to the Income Statement in respect of retirement benefits is made up as follows;

	Group		Company	
As at 31 March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Gratuity charge for the year	2,222	3,848	285	297
Interest charge for the year	1,396	808	161	94
Deficit/(surplus) charge for the year	(2,014)	(719)	(435)	(154)
	1,604	3,937	11	237

26. Trade and other payables

Trade creditors	3,189	1,002	-	-
Advances from customers	16,230	10,019	13,571	-
Retention payables	1,186	3,595	-	-
Accrued expenses	27,271	48,482	7,547	-
Other creditors	93,398	93,877	-	11,526
Tax payables	9,054	19,189	1,856	305
Advance against assets held for sale	80,218	80,218	-	-
	230,546	256,382	22,974	11,831

27. Interest bearing borrowings

Borrowings on corporate debt securities	1,338,305	1,016,176	-	-
	1,338,305	1,016,176	-	-

28. Group balance payables

		Group		Company	
As at 31 March	Relationship	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
First Capital Limited	Subsidiary	-	-	384,176	334,542
Nextventures Limited	Affiliate	32,303	124,804	32,303	124,804
PVIC Management Co. Limited	Subsidiary	-	-	462,620	355,268
		32,303	124,804	879,099	814,614

29. RELATED PARTY DISCLOSURES

29.1 Directorships in other Companies

The directors of Dunamis Capital PLC are also Directors of the following companies with which the Company and its subsidiaries had transactions during the year.

Name of the companies	Relationship	Ms.Manjula Mathews	Mr. Dinesh Schaffter	Mr.Nihara E. Rodrigo
Kelsey Holdings Limited	Subsidiary	✓	✓	-
Kelsey Developments PLC	Subsidiary	✓	✓	✓
Kelsey Property Developers (Pvt) Limited	Subsidiary	✓	✓	-
Kelsey Homes Limited	Subsidiary	✓	✓	-
Kelsey Aluminium (Pvt) Limited	Subsidiary	✓	✓	-
PVIC Management Company Limited	Subsidiary	✓	✓	-
First Capital Holdings PLC	Subsidiary	✓	✓	✓
First Capital Limited	Subsidiary	✓	✓	-
First Capital Asset Management Limited	Subsidiary	✓	✓	-
First Capital Treasuries Limited	Subsidiary	✓	✓	-
First Capital Markets Limited	Subsidiary	✓	✓	-
Jaya Sevana Housing (Private) Limited	Subsidiary	✓	✓	-
Sithro Apprel Holdings Limited	Subsidiary	✓	✓	-
Washworks Limited	Subsidiary	✓	✓	-
The Montessori Workshop (Pvt) Limited	Subsidiary	✓	✓	-
Magna Supermarkets Limited	Subsidiary	✓	✓	-
Janashakthi Insurance PLC	Affiliate	✓	-	-
Janashakthi Limited	Affiliate	-	✓	-
KHL Corporate Services Limited	Affiliate	✓	✓	-
Nextventures Limited	Affiliate	✓	✓	-

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 30 “Related Party Disclosures (Revised 2005)”,the details of which are reported below.

	Group		Company	
As at 31 March	2012 Rs. ‘000	2011 Rs. ‘000	2012 Rs. ‘000	2011 Rs. ‘000
29.2 Transactions with subsidiary companies				
Interest income	-	-	-	670
Interest expense	-	-	50,329	73,659
Dividend income	-	-	21,887	-
Reimbursement of administrative expenses	-	-	21,600	20,716
Short term lendings	-	-	179,562	177,572
Short term borrowings	-	-	846,726	743,548
29.3 Transactions with affiliated companies				
Interest income	38,601	19,039	-	-
Interest expense	12,582	11,734	3,266	52,506
Reimbursement made on administrative expenses	17,400	34,600	3,600	9,000
Payments made on services received	857	425	432	747
Short term lendings	473,837	278,246	2,820	-
Short term borrowings	108,979	36,006	32,303	124,805

Notes to the Financial Statements Contd.

29.4 Disclosures in relation to related party transactions in accordance with the Continuing Listing Requirements of the Colombo Stock Exchange

Date of transaction	Name of the related party	Relationship between the entity and related party	Amount Rs. '000	Rationale for entering into transaction
Company				
31 May 2011	Nextventures Limited	Affliated company	127,223	The Company settled borrowing facility obtained from Nextventures Limited.
31 May 2011	First Capital Limited	Subsidiary company	127,223	The Company obtained a short-term borrowing facility from First Capital Limited.
14 June 2011	First Capital Limited	Subsidiary company	90,000	The Company obtained a short-term borrowing facility from First Capital Limited.
29 July 2011	First Capital Limited	Subsidiary company	49,743	Settlement of borrowings.
15 August 2011	PVIC Management Company Limited	Subsidiary company	127,716	PVIC Management Company Limited settled First Capital Limited on behalf of the parent.
03 October 2011	First Capital Limited	Subsidiary company	50,422	Borrowings of funds from First Capital Limited.
Group				
14 June 2011	First Capital Limited and Kelsey Property Developers (Pvt) Limited	Subsidiary company	225,000	First Capital Limited granted a short term lending facility amounting to Rs. 225 Mn to its fellow subsidiary Kelsey Property Developers (Pvt) Limited.
30 June 2011	First Capital Limited and First Capital Holdings PLC	Subsidiary company	379,500	First Capital Limited repurchased 3.3 Mn of its own shares in accordance with the provisions of section 64 of the Companies Act No. 07 of 2007.
30 June 2011	First Capital Limited and First Capital Holdings PLC	Subsidiary company	163,530	First Capital Holdings PLC settled borrowings obtained from First Capital Limited.
26 July 2011	First Capital Holdings PLC	Subsidiary company	202,500	Declared an interim dividend of Rs. 2/- per share (net of tax) for the financial year 2011/12.

29.5 Transactions with key management personnel

According to Sri Lanka Accounting Standard 30 (Revised 2005) "Related Party Disclosures," Key Management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors of the Company and their immediate family members have been classified as key management personnel of the entity. Compensations paid to key management personnel are disclosed in Note7 to the financial statements. Other transactions with key management personnel are as follows.

	Income / expenses & other		Balance as at 31 March	
Nature of transaction	2011/12 Rs. '000	2010/11 Rs. '000	2012 Rs. '000	2011 Rs. '000
Interest paid on account of repurchase agreements	14,144	10,317	-	-
Interest received on account of resale agreements	16	855	-	-
Repurchase agreements	-	-	156,683	103,704

30. Contingent Liabilities

30.1 Company

There were no material contingent liabilities which require disclosures in the financial statements as at the balance sheet date.

30.2 Group

30.2.1 First Capital Holdings PLC

(a) The Department of Inland Revenue has raised assessments relating to turnover tax amounting to Rs. 5,549,196 for the year, together with a 50% penalty of Rs. 2,774,627, amounting to a total liability of Rs. 8,323,823. The Company has made an appeal against the balance tax assessed on the grounds that such tax has been levied on income outside the scope of chargeability to Turnover Tax. No provision has been made in the accounts in relation to the above.

(b) The Company has pledged fixed deposits as guarantee to Hatton National Bank PLC amounting to Rs.5 Mn. against the credit facilities given by the bank to SECO International Marketing Limited in the year. The Company has made a provision for the full amount of the fixed deposit against the guarantee given since the said company is not in operation. This provision is disclosed in Note 21.3.3 to the Financial Statements.

(c) First Capital Holdings PLC has provided a corporate guarantee on behalf of a subsidiary First Capital Limited amounting to Rs.300Mn for its banking facilities.

30.2.2 First Capital Treasuries Limited

The Department of Inland Revenue raised an assessment on income tax for the year of assessment 2008/09 relating to First Capital Treasuries Limited on 29 March 2011. The assessed tax liability is Rs.101.346Mn. The Company submitted an appeal against the said assessment within the stipulated time frame in accordance with the Inland Revenue Act. Management of the Company is of the view that no liability would arise since the said assessment is outside the scope of chargeability of income tax.

30.2.3 First Capital Limited

(a) The Department of Inland Revenue raised an assessment on income tax assessing the net income arising on the disposal of capital assets of Ceyspence (Private) Limited. The assessed tax liability is Rs. 116.76Mn. The Company submitted an appeal against the said assessment within the stipulated time frame in accordance with the Inland Revenue Act. Management of the Company is of the view that no liability would arise since the assessment is outside the scope of chargeability of income tax.

(b) First Capital Limited has entered into an Interest Rate Swap Agreement (IRS) for a notional value of Rs. 500 Mn.

30.2.2 Kelsey Developments PLC

Kelsey Developments PLC is one of the Defendants (on behalf of its clients) in a partition case to establish title in respect of the property situated at Nawala and to obtain a declaration of title.

The management believes that based on legal advice, the outcome of the contingencies will be favorable and that a loss is not probable. Accordingly provision has not been made in the financial statements.

There are no other contingent liabilities or litigations of a material nature.

31. Capital commitments

There were no material capital commitments in the Company/Group as at the balance sheet date which require disclosure in the financial statements.

32. Going concern of subsidiaries

32.1 Kelsey Property Developers (Private) Limited

The financial statements of Kelsey Property Developers (Private) Limited are prepared on the assumption that the Company is a going concern (i.e. as continuing in operation for the foreseeable future).

Notes to the Financial Statements Contd.

However, the Company has incurred a net loss of Rs. 32,155,808/- (2011 - Rs.12,878,521/-) for the year ended 31 March 2012 and as of that date, the Company's current liabilities exceeded its current assets by Rs.141,100,455/- (2011-108,303,221/-) and the Company has a negative net assets position of Rs.140,232,970/- (2011-108,077,162/-).

The Company purchased land stocks of Rs 258 Mn in June 2011 and disposed of inventories valued at Rs 36.5 Mn relating to the "Ayu" and "Makamba" projects.

As the land stocks were purchased using borrowed funds and significant interest cost of Rs 22 Mn was incurred during the year.

Although the Company expected substantial sales growth for financial year 2011/12 resulting from the sale of the Nuwara Eliya property, this was deferred to 2012/13 and a sale is expected to materialise in the near future.

Taking these circumstances into consideration, the Directors have made an assessment and are confident of the Company's ability to continue as a going concern. The significance of the losses has been further mitigated by the following actions.

- During the Financial year 2012/13 the Company proposes to launch a minimum of four real estate projects on which it expects to realise positive income streams.

- The Company has set up 3 cellular units with complete responsibility for an entire project from acquisition to sale. Subsequent to the balance sheet date, two project managers and three project officers were recruited for this purpose.

- Finalisation of the sale of the Nuwara Eliya property is in progress and profits in excess of Rs. 120 Mn are expected to be realised on this project.

- All costs are strictly controlled to minimise overheads.

In view of all of the above, the Directors of the Company are of the opinion that the Company can be sustained as a going concern.

32.2 Kelsey Aluminium (Private) Limited

In relation to Kelsey Aluminium (Private) Limited, following the cessation of operations, the Board of Directors have decided to prepare the Company's financial statements on a basis other than going concern.

Accordingly, the financial statements have been prepared on a basis more fully explained in this note reflecting that the going concern assumption has not been adopted in preparing these financial statements. Consequently, adjustments have been made to provide for the diminution in value of all fixed assets so as to reduce their carrying value to their estimated realisable amount, and to reclassify fixed assets and long-term liabilities as current assets and liabilities respectively.

The financial statements are prepared using the following basis.

- Fixed assets, trade and other receivables and inventories are stated at the lower of cost and recoverable amount. Potential unrealised gains on disposal are not taken into account.

- Provisions have been made for further liabilities that may arise.

- Prepayments are expensed unless they represent a future cash refund, in which case it is reclassified as receivables.

- The financial statements include only any actual tax liability that may arise.

32.3 Sithro Apparel Holdings Limited

The Company, exited its involvement in the garment washing sector with the disposal of its 55% stake in Sithro Garment Finishing Company Limited. Operations at Wash Works Limited and Sithro Apparels (Bangalore) Private Limited had been discontinued previously. Sithro Apparels (Bangalore) Private Limited was liquidated on March 16,2011. The Group's current liabilities exceeded its current assets by Rs. 40,488,901 and its total liabilities exceeded its total assets by the same.

Accordingly, there is a significant uncertainty that the Group will be able to continue as going concern and therefore, may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Group is unable to continue as going concern.

32.4 Magna Supermarkets Limited

The Company has ceased its commercial operations since 30 September 2008. Consequently, assets belonging to the Company have been sold during the financial year 2008/09. The Board of directors has decided to prepare the Company's financial statements on a basis other than going concern. Hence, adjustments have been made to the recorded assets and classifications of liabilities for the year ended 31 March 2012.

33. Assets Pledged

Assets pledged as collateral other than disclosed in Note 21.3.2. includes the following;

Company

Properties of the company situated at Colombo 8 and Nuwara Eliya have been pledged against short term borrowing facilities obtained from First Capital Limited for Rs. 318.25Mn and Rs. 93.6Mn respectively.

Group

Kelsey Property Developers (Pvt) Limited, a subsidiary of Dunamis Capital PLC has pledged Lands, carrying value amounting to Rs. 224.6 Mn against a borrowing facility obtained from First Capital Limited.

34. Events after the balance sheet date

There were no material events after the balance sheet date which require adjustments to or disclosure in the financial statements.

Notes to the Financial Statements Contd.

35. Directors' Responsibility

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements. Please refer page 16 for the statement of the Directors' Responsibility on financial reporting.

36. Segmental reporting

	Export manufacturing		Property development		Financial services		Food and beverage		Other		Inter-segment adjustments		Group total	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Revenue	45,828	51,720	164,657	169,367	935,443	1,532,848	-	878,084	-	-	(48,709)	(73,524)	1,097,219	2,558,495
Profit / (loss) from operations	(18,100)	(952)	7,409	(5,429)	(151,304)	1,051,959	-	40,677	(148)	(513)	(146,883)	(209,346)	(309,027)	870,696
Finance cost	(641)	(1,192)	(26,180)	(2,962)	(56,334)	(126,515)	-	(3,420)	-	(12)	75,301	80,210	(7,854)	(53,891)
Profit / (loss) before tax	(18,741)	(2,144)	(18,771)	(8,391)	(207,638)	925,444	-	37,257	(148)	(525)	(71,582)	(134,836)	(316,881)	816,805
Taxation	(78)	(134)	498	(3,631)	(16,505)	375,640	-	(3,986)	-	-	-	(289)	(16,085)	367,600
Discontinued operation	-	-	-	-	-	-	-	-	-	876	-	-	-	876
Net profit/(loss)	(18,819)	(2,278)	(18,274)	(12,022)	(224,143)	1,301,084	-	33,271	(148)	351	(71,582)	(135,125)	(332,966)	1,185,281
Attributable to :														
Equity holders of the parent													(263,124)	780,325
Minority interest													(69,842)	404,956
													(332,966)	1,185,281
Balance sheet														
Non current assets	3,124	3,927	1,141	1,434	1,232,561	1,007,790	-	-	-	11	(664,145)	(589,000)	871,530	424,162
Current assets	37,463	40,091	385,434	168,148	7,909,854	11,931,906	-	-	341	319	(1,285,171)	(925,316)	7,047,921	11,215,148
Assets held for sale	-	-	-	-	-	415,218	-	-	-	-	-	-	80,218	415,218
Total assets	40,587	44,018	386,575	169,582	9,142,415	13,354,914	-	-	341	330	(1,949,316)	(1,514,316)	7,999,669	12,054,528
Non current liabilities	1,396	1,483	2,415	21,587	1,787,962	9,823	-	-	-	-	(1,778,319)	(18,477)	13,454	14,416
Current liabilities	18,897	3,421	272,279	194,065	5,908,475	10,807,608	-	-	42,723	40,662	212,379	(940,903)	6,454,753	10,104,853
Total liabilities	20,293	4,904	274,694	215,651	7,696,437	10,817,432	-	-	42,723	40,662	(1,565,940)	(959,380)	6,468,207	10,119,269

Decade at a Glance

Year ended 31 March Group	2012 Rs.000	2011 Rs.000	2010 Rs.000	2009 Rs.000	2008 Rs.000 (Restated)	2007 Rs.000	2006 Rs.000	2005 Rs.000	2004 Rs.000	2003 Rs.000
Trading results										
Revenue	1,097,219	2,558,495	3,696,121	2,751,202	2,800,245	49,875	69,299	92,009	183,960	38,742
Gross profit	124,867	726,207	1,432,073	424,788	223,131	30,124	12,786	8,928	13,547	6,895
Profit/(loss) before taxation	(316,881)	816,805	849,674	(187,090)	(266,136)	(44,958)	11,524	8,473	15,057	8,403
Taxation	(16,085)	367,600	(496,819)	(166,447)	(47,333)	(3,922)	(850)	(611)	(1,076)	(601)
Profit/(loss) after taxation	(332,966)	1,184,405	352,855	(353,538)	(313,469)	(48,880)	10,674	7,862	13,981	7,802
Financial position										
Stated capital	445,994	445,994	200,000	983,976	983,976	345,994	49,199	49,199	49,199	49,199
Capital reserves	339,777	292,865	168,717	77,022	30,986	-	-	-	-	-
Revenue reserves	292,865	569,772	(163,316)	(934,847)	(451,286)	(19,155)	28,584	25,290	23,577	14,516
Minority interest	452,826	626,628	502,236	417,793	358,430	297,192	-	-	-	-
Total shareholders' fund	1,531,462	1,935,259	707,637	543,943	922,106	524,031	77,783	74,489	72,776	63,715
Current / long term assets	7,999,669	12,054,528	11,464,598	12,391,253	13,206,800	9,009,533	78,675	75,424	73,804	64,906
Current liabilities	6,454,753	10,104,853	10,692,716	(11,763,218)	(12,146,094)	(8,423,779)	(892)	(935)	(1,028)	(1,191)
Non current liabilities	13,454	14,416	64,245	(84,362)	(139,600)	61,723	-	-	-	-
Key indicators										
Earning / (loss) per share	(2.14)	7.92	1.32	(3.59)	(4.21)	(1.81)	2.17	1.60	2.84	1.58
Net assets per share (Rs.)	8.77	10.63	2.09	1.28	5.73	9.22	15.81	15.14	14.79	12.95
Market price per share (Rs.)	10.00	12.90	10.25	3.60	8.00	8.00	31.25	31.00	14.00	11.50
Price earning ratio (Times)	-	1.63	7.76	-	-	-	14.40	19.38	4.93	7.29

Investors' Information

1 Stock exchange listing

The issued ordinary shares of Dunamis Capital PLC are listed on the Colombo Stock Exchange.

2 Distribution of shareholding

	31 March 2012				31 March 2011			
	Shareholders		Holding		Shareholders		Holding	
No.of shares held	Number	%	Number	%	Number	%	Number	%
1 - 1000	2,138	66.05	682,307	0.55	1860	58.79	607,309	0.49
1,001 - 5,000	712	22.00	1,761,693	1.43	829	26.20	1,899,673	1.54
5,001 - 10,000	173	5.34	1,376,471	1.12	174	5.50	1,319,279	1.07
10,001 - 50,000	167	5.16	3,661,387	2.98	222	7.02	4,813,580	3.91
50,001 - 100,000	25	0.77	1,728,926	1.41	37	1.17	2,482,696	2.02
100,001 - 500,000	12	0.37	3,023,080	2.46	29	0.91	5,711,718	4.64
500,001 - 1,000,000	-	-	-	-	3	0.09	1,830,923	1.49
Over 1,000,000	10	0.31	110,763,186	90.05	10	0.32	104,331,872	84.82
Total	3,237	100.00	122,997,050	100.00	**3,164**	**100.00**	**122,997,050**	**100.00**

3 Analysis of shareholders

Category of	31 March 2012				31 March 2011			
Shareholders	Shareholders		Holding		Shareholders		Holding	
	Number	%	Number	%	Number	%	Number	%
Individuals	3,117	96.29	33,448,362	27.19	3,029	95.73	38,270,379	31.11
Institutions	120	3.71	89,548,688	72.81	135	4.27	84,726,671	68.89
Total	3,237	100.00	122,997,050	100.00	**3,164**	**100.00**	**122,997,050**	**100.00**
Resident	3,215	99.32	122,792,142	99.83	3,142	99.30	112,994,287	91.87
Non - Resident	22	0.68	204,908	0.17	22	0.70	10,002,763	8.13
Total	3,237	100.00	122,997,050	100.00	**3,164**	**100.00**	**122,997,050**	**100.00**

4 Public holding

Percentage held by the public - 45.74 % (2011 - 45.37%)

5 Share price movements for the year

	2011/12 Rs.	2010/11 Rs.
Highest	16.80	18.00
Lowest	9.60	10.00
Year - end	10.00	12.90

6 Information on share trading and market capitalisation

	2011/12	2010/11
Number of transactions	27,220	29,492
Number of shares traded	74,412,216	177,779,300
Value of shares traded (Rs.)	1,539,593,285	2,411,819,060
Market capitalisation (Rs.)	1,229,970,500	1,586,661,945

Top Twenty Shareholders

Name of the shareholder	As at 31 March 2012 No of shares	As at 31 March 2012 Holding %	As at 31 March 2011 No of shares	As at 31 March 2011 Holding %
First Capital Markets Limited/ Nextventures Limited	26,244,562	21.34%	26,248,263	21.34
Mr. D. Schaffter	20,274,918	16.48%	20,274,918	16.85
Pan Asia Banking Corporation PLC / Ms. M. Mathews	19,003,365	15.45%	19,003,365	15.45
HSBC International Nominees Limited - SSBT-Deustche Bank	11,487,018	9.34%	9,621,718	7.82
Commercial Bank of Ceylon PLC / Janashakthi Limited	9,400,000	7.64%	9,400,000	7.64
Seylan Bank PLC / Janashakthi Limited	8,899,000	7.24%	8,899,000	7.24
Janashakthi Limited	7,924,473	6.44%	6,137,723	4.99
HSBC International Nominees Limited - UBS AG Singapore Branch	3,300,100	2.68%	-	-
Mrs. R.S.L De Mel	2,000,000	1.63%	2,000,000	1.62
Nextventures Limited	1,213,500	0.99%	1,213,500	0.98
Mr. A Sithampalam	466,328	0.38%	729,128	0.59
Mr. R.E Rambukwelle	308,850	0.25%	328,650	0.26
Dr. R.M.S Fernando	304,800	0.25%	287,500	0.23
Mr. D.A. Edussuriya	281,500	0.23%	281,500	0.22
Mr D.S.D. De Lanerolle	250,000	0.20%	252,500	0.20
Mr.Abeysiri Hemapala Munasinghe	243,727	0.20%	-	-
Mrs.W.A.D.S. Wijesooriya	221,600	0.18%	-	-
Pan Asia Banking Corporation PLC / Aruna Enterprises	200,000	0.16%	-	-
Mrs. Julia Anne De Mel	200,000	0.16%	-	-
Mr. Abdul Azeez Mohomed Razik	193,650	0.16%	-	-

Directors' shareholding

Name of the Director	As at 31 March 2012 No of shares	As at 31 March 2012 Holding %	As at 31 March 2011 No of shares	As at 31 March 2011 Holding %
Ms. M. Mathews	19,003,365	15.45	19,003,365	15.45
Mr. D. Schaffter	20,274,918	16.48	20,274,918	16.48
Mr. N.E. Rodrigo	13,000	0.01	13,000	0.01

Notes

Notice of Meeting

Notice is hereby given that the 27th Annual General Meeting of Dunamis Capital PLC will be held on 21 September 2012 at the Auditorium of The Institute of Chartered Accountants of Sri Lanka, No. 30A, Malalasekara Mawatha, Colombo 7 at 10.30 am to transact the following business.

1. To receive the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 March 2012 together with the Report of the Auditors thereon.

2. To re-elect Mr. Nihara E. Rodrigo who retires by rotation in terms of Article 90 of the Articles of Association of the Company and offers himself for re-election.

3. To re-elect the Director appointed during the year Mr. A. D. E. I. Perera who retires in terms of Article 97 of the Articles of Association of the Company and offers himself for re-election.

4. To re-elect the Director appointed during the year Mr. Chandana L. de Silva who retires in terms of Article 97 of the Articles of Association of the Company and offers himself for re-election.

5. To re-appoint Messrs KPMG, Chartered Accountants, as Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.

8. To authorise the Directors to determine and make donations.

By Order of the Board

(Sgd.)
K H L Corporate Services Limited
Secretaries

At Colombo
27 August 2012

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.

2. A proxy need not be a member of the Company.

3. A Form of Proxy is enclosed for this purpose.

4. The Completed Form of Proxy must be deposited at the Registered Office of the Company, No. 75 Arnold Ratnayake Mawatha, Colombo 10, not less than 48 hours before the time fixed for the meeting.

Form of Proxy

I / We ....

of ....

being a member/s of Dunamis Capital PLC, hereby appoint

Mr/Mrs/Miss ....

(holder of N.I.C. No. ....) of ....

.... whom failing

1. Ms. Manjula Mathews whom failing
2. Mr. Dinesh Schaffter whom failing
3. Mr. Nihara E. Rodrigo whom failing
4. Mr. A. D. E. I. Perera whom failing
5. Mr. Chandana L. de Silva

as my/our Proxy to represent me/us and vote on my/our behalf at the 27th Annual General Meeting of the Company to be held on 21 September 2012 at the Auditorium of The Institute of Chartered Accountants of Sri Lanka, No. 30A, Malalasekara Mawatha, Colombo 7 at 10.30 am to transact the following business.

Please indicate your preference by placing a "X" in the box of your choice against each Resolution

		For	Against
1.	Receiving of the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 March 2012 together with the Report of the Auditors thereon.		
2.	Re-election of Mr. Nihara E. Rodrigo, who retires by rotation in terms of Article 90.		
3.	Re-election of the Director appointed during the year Mr. A. D. E. I. Perera who retires in terms of Article 97 of the Articles of Association of the Company and offers himself for re-election.		
4.	Re-election of the Director appointed during the year Mr. Chandana L. de Silva who retires in terms of Article 97 of the Articles of Association of the Company and offers himself for re-election.		
5.	Re-appointment of Messrs KPMG, as Auditors of the Company for the ensuing year and authorising the Directors to determine their remuneration.		
6.	Authorising the Directors to determine and make donations.		

Signed on this .... day of 2012

....

Signature

....

Shareholder's N.I.C./P.P./Co.Reg. No.

Form of Proxy Contd.

INSTRUCTIONS FOR THE COMPLETION OF THE FORM OF PROXY

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address, by signing in the space provided and fill in the date of signature and your National Identity Card Number.

2. The completed Form of Proxy should be deposited at the office of the Secretaries, K H L Corporate Services Limited of No. 75, Arnold Ratnayake Mawatha, Colombo 10, 48 hours before the time appointed for the holding of the meeting.

3. If any Attorney has signed the Form of Proxy, the relative Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

4. If the shareholder is a company or a corporate body, the Proxy should be excluded under its Common Seal in accordance with its Articles of Association or Constitution.

5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

CORPORATE INFORMATION

Name of the company
Dunamis Capital PLC

Legal form
Incorporated as a Public Company on 18 December 1985 under the provisions of the Companies Act No. 17 of 1982 and listed on the Colombo Stock Exchange in the year 1986, re-registered under the Companies Act No. 7 of 2007 on 15 August 2007.

Registered office
75, Arnold Ratnayake Mawatha, Colombo 10.

Company registration number
PQ 69

Board of directors
Ms. Manjula Mathews
Mr. Dinesh Schaffter
Mr. Nihara E. Rodrigo
Mr. Eardley Perera
Mr. Chandana L. de Silva

Secretaries and registrars
K H L Corporate Services Limited
75, Arnold Ratnayake Mawatha
Colombo 10
Tel: 011-2639807, 011-2639898 Fax : 011-2639868

Auditors
M/s. KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha
P.O. Box 186, Colombo 03

Principal bankers
DFCC Vardhana Bank Limited
HongKong and Shanghai Banking Corporation Limited

www.dunamis.lk

Dunamis Capital PLC
75, Arnold Ratnayake Mawatha,
Colombo 10, Sri Lanka.