

# ANNUAL REPORT

## 2012/13



**IDEAL** FINANCE LIMITED

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# VISION & MISSION

## Vision & Mission

### *Vision*

To be the **ideal** financial partner in creating wealth and enriching lives for our customers

### *Mission*

- Being the **Most credible** **Trustworthy** and **Professional finance institution with a heart**,
  - which will **deliver financial favours** to our customers
  - enhancing
    - **professionalism** & **lives** for our employees
    - to be the **most sought** after employer
  - **increasing shareholder wealth**
    - Make them **proud to be a shareholder** of the Company.

# CHAIRMAN'S MESSAGE

## Chairman's Message

It is with pleasure I'm presenting on behalf of the Board of Directors, the Annual Report and Audited Accounts for the year ended 31st March 2013, the first year of operations of Ideal Finance Limited.

### Commencement of Operations

Company started operations on 27<sup>th</sup> March 2012 at its registered office located at 299, Dr. Colvin R De Silva Mawatha, Colombo 02 with a Share Capital of LKR. 400.0 Million and only 10 Staff members, with granting two facilities to finance a small truck and a Three Wheeler which represent the SME Sector & Micro Finance Sector respectively, two sectors which are mainly focused by the Company.

### Infrastructure, Resources & System Development

During the first year of operations Company focused mainly on development of infrastructure, strengthening its quality and forming policies, procedure & systems.

Company successfully implemented an IT System which is one of the best in the industry and created a solid platform for operations which ensures unmatched quality and excellence in service provided to our valued clientele.

Company focused on promoting its Brand Name primarily by accessing its Sister Company, Ideal Motors' branch and dealer network which enabled IFL to reach length and breadth of the country. Marketing and promotional campaigns carried out by the Company abetted to carry the name predominantly to the targeted niche in the market, namely SME & Micro Finance Sectors.

Policies, Procedures, Systems and Internal Controls were developed and implemented which ensures the smooth and apposite running of daily operations and expediting both core business and support services of the Company. A comprehensive Risk Management Framework was introduced and effected to maintain the risk exposure levels within the Risk appetite of the Company.

The total staff strength of IFL stood at 27 employees at the end of the first year of operations, which is comprised of a dynamic group of youngsters. More than 65% of the staff is less than 25 years of age which is a clear indication that IFL is geared with an efficient and highly focused work force.

### Performance

Company commenced business with granting two credit facilities to customers who represent SME & Micro Finance Sectors, two sectors which are mainly catered by the Company.

Within the first year of operations Company had the privilege of serving 113 customers scattered around nine provinces of the country which represent a wide spectrum of sectors in the economy including Agriculture, Manufacturing, Tourism, Transport and Services. Customer base of the Company is comprised of SME & Micro Finance Sector customers, Corporates & high net worth individuals.

Portfolio value of the Company stood at LKR. 285.9 Million which is a noteworthy achievement given the competitiveness of the industry and the adversity which prevailed in the country's economy.

Company was successful in generating an Income of LKR. 60.3 Million which is mainly comprised of Interest Income which accounts for LKR. 59.7 Million. Interest Income from Advances account for over 50% of the total Interest Income.

Deposit Base of the Company stood at LKR. 48.8 Million at the end of the year under review which is a noteworthy achievement given that Company is a startup and was still in the first year of operations.

# CHAIRMAN'S MESSAGE

Company recorded an Operating Profit before Taxes of LKR. 1.65 Million for the year under review.

## Share Issue

Company successfully raised LKR. 246.0 Million through issuance of Rights Shares which was a clear indication of Shareholders having confidence in the Management of the Company which I must appreciate on behalf of the Board, Management and Staff of the Company.

At the end of the Financial Year Share Capital of the Company stood at LKR. 646 Million which is a significant accomplishment for any organisation.

## Strategies for Future

Company had developed strategies which are focused, dedicated and steadfast in achieving the key strategic objectives of the Company.

Marketing Strategy mainly focuses on diversifying the product portfolio by entering into new business ventures which generate higher yields and building and promoting corporate image by improving the brand awareness amongst the mass population of the country.

Operations Strategy is dedicated to spreading the wings to reach length and breadth of the Country by opening Branches and Service Centres in areas which possess potential for growth.

Human Resource Strategy will strengthen the Human Capital of the Company by acquiring experienced and qualified personnel from the industry, developing the existing Staff to achieve their potentials and retaining the employee base.

Future operations of the Company shall mainly be funded by borrowings both local and foreign while the balance being funded by the deposits accepted from the public.

The Company was successful in wrapping up the fiscal year 2012/13 with a conventional infrastructure, company specific policies & procedures and experienced & dynamic Staff and is poised with clear focused strategies for achieving its key objectives for the coming year.

## Acknowledgement

Last but not least I conclude by expressing my heartfelt gratitude and thanks to the Governor of the Central Bank of Sri Lanka and the officials at the Department of Supervision of Non-bank Financial Institutions for their guidance and unaltered support, my colleagues on the Board, the Chief Executive Officer, the Management and Employees at all levels for their dedication, loyalty and commitment. My appreciation goes out to the Shareholders and all our other stake holders for their continued confidence and trust.

**Nalin J. Welgama**  
Chairman

# CHIEF EXECUTIVE OFFICER'S MESSAGE

## Chief Executive Officer's Message

I have great pleasure in presenting this review of activities of Ideal Finance Limited for the financial year ended 31<sup>st</sup> March 2013. The year under review has seen IFL performing well as it is the first year of operations.

### **Commencement of Operations**

IFL started operations in early April 2012 with a Capital base of LKR. 400 Million and 10 employees at its registered office in Colombo 02. During the first year of operations Company focused mainly on development of infrastructure, strengthening and forming policies, procedure & systems.

### **Outlook for the Year Ahead**

#### **Marketing & Operational Strategy**

At present IFL's product portfolio is mainly comprised of Finance Leases, Hire Purchases & Micro Leases with the view of expanding it by adding Gold Loans & Real Estate thus diversifying the portfolio which would result in risk mitigation and maximizing Shareholder wealth. Lease & Hire Purchase can be broadly categorized to sub sectors based on the type of vehicle financed.

#### **Gold Loans**

Apart from lending, IFL has the view of diversifying its product portfolio to granting of Gold Loan facilities considering the higher profitability of the product. It is also a vastly popular borrowing method used specially by the SME sector, to meet their short term financial needs.

#### **Real Estate**

It's been observed that there has been a significant growth in Real Estate Market since the eradication of the civil conflict in 2009. This was fuelled by the massive infrastructure development projects undertaken by the government, increased interest of foreign investors, which has led to an improved living standard of the population. As per the latest research data, the Real Estate sector has recorded a stable growth rate of around 4.5% and the industry experts expect the same to increase further up to around 7.5% given the favorable interest rates and the increased foreign remittance to the country. IFL aims to enter this market with the view of buying lands in selected areas, developing them and selling.

#### **Branch Network Expansion Strategy**

IFL aims reach its customer base spread across the length & breadth of the country by expanding its branch & service center network. IFL will be enjoying the benefits of the strategic alliance IFL has built up with IML in expanding Company's branch network by accessing the IML's well-established branch & dealer network which comprised of 37 branch & dealer outlets .Expansion is further improved by

# CHIEF EXECUTIVE OFFICER'S MESSAGE

opening up IFL branches which meet the selection criteria; regions with potential for growth. By the end of the F/Y 2013/14 IFL is aiming to open up branches in Anuradhapura, Jaffna, Kurunegala, Elpitiya, Bandarawela and Embilipitiya.

## **Human Resource Strategy**

Shortage of talent and the intensive competition in the industry have put the people's issues at the top of my agenda since any competitive edge gained by the introduction of new processes or technology is temporary as all of this can be easily replicated. However to implement and drive it through, people must have the strong commitment & honesty towards the Company; finding people who possess those qualities is a challenging task and the ones who are available are relatively more expensive. IFL is a people oriented organization with strong perspective that people have good enough talent & competence to make the company a financial giant in the Sri Lankan financial industry.

## **Funding Strategy**

IFL thrive to work toward the optimum funding mix which ensures required volume of funding to assist the lending strategy. To objective of maintaining the margin at a level of 6%, company has concentrated to raise the funds to meet the lending requirement through three main sources this comprise foreign borrowing, local borrowing and public deposits. In the current year IFL funding source solely comprised with the equity funding. This strong financial position and creditworthiness will assist IFL to diversify the funding mix through the above sources.

## **Acknowledgment**

Our success is due to hard working, dedication and commitment of the senior management and all our employees and able guidance of the Board. I am also grateful to our customers, depositors and shareholders who continue to place their faith in us.

**Duminda Weerasekara**

**CEO**

# BOARD OF DIRECTORS

## Board of Directors

### Nalin J. Welgama – Chairman



A Member of the Association of Chartered Certified Accountants UK, the Chairman functions as a Senior Consultant to Baker Tilly Merali's, while also chairing Ideal Motors (Pvt) Limited, S A Welgam & Sons (Haulage) and S A Welgama Estates and Agencies. A well respected industry captain in Sri Lanka, he possesses over thirty years' experience in the international automotive industry given his leadership in the import and distribution of continental cars and commercial vehicles. He hails from a family business, S A Welgama & Sons Limited that pioneered and continues to be in the forefront of road haulage and transportation founded in 1931, which also has diversified businesses in large scale rubber cultivation and substantial free hold real estate.

### Kiyoshi Matsui – Deputy Chairman

An entrepreneur possessing expansive experience in management, his knowledge extends to spearheading an investment company in Japan, property investment, mergers and acquisitions and functioning as a senior director of a trading company involved in development projects in Asia. A Japanese national with a Bachelor's Degree from Nara Prefectural College of Commerce, he currently chairs Nishiya Holdings (Pvt.) Ltd., the largest shareholder of Ideal Finance (Pvt.) Ltd and is Executive Director of Nishiya Mokko Co. Ltd., the parent company of Nishiya Holdings.





# BOARD OF DIRECTORS

## Duminda Weerasekare – Director/CEO



With an expansive knowledge and skill experience garnered over three decades, he holds the distinction of being a Fellow of both the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of UK. He has functioned in directorial, CEO and COO positions in a number of leading corporate institutions. His work experience ranges from negotiating and sourcing funding from international funding organisations and agencies to introducing pioneering funding sources into the country to being commissioned by international agencies to develop strategic plans for development in various financial strata and sectors. A recipient of a Fellowship by the Netherlands Development Bank, he is a visiting resource person for the Industrial & Business Management Post-Graduate Programme

conducted by the University of Kelaniya.

## Aravinda De Silva - Director



A cricketing legend who has left an indelible presence in the annals of sporting history, the Deputy Chairman, a former Sri Lankan skipper, continues to be one of Sri Lanka's most revered sporting ambassadors and the architect behind many national cricketing triumphs. Hailed internationally as one of the most stylish batsmen in the world, some of his record breaking feats remain unbroken, while his inherent enthusiasm in motor vehicles and motor sports coupled with his sporting prowess infuses immense expertise and knowledge into business strategy.

# BOARD OF DIRECTORS

## Igarashi Takashi – Director

A Japanese national, he is an enterprising businessmen whose specialty lies in restructuring companies that are not viable, vehicle and heavy machinery export and IT system development, with the latter further evidenced by his being responsible for the software development which facilitates networking between the CSE trading system and brokers. Possessing a Bachelor's degree gained from Tokyo Gakugei University, he has over 25 years of senior management experience in international business. While currently chairing New World Securities (Pvt) Limited, he also sits on the Board of Directors of NWS Holdings and NWS Management Services. He was the Founding Chairman of ANZUK Legal Services, Auckland New Zealand, while is now the Founder Chairman and Director of Stockline Lanka Pvt Ltd in Sri Lanka. He has also held office as Managing Director and Director of Kokusai Jitsugyo Company Limited, Japan.



## Viraj Malawana – Director



Possessing firsthand experience garnered on the trading floors at both the Colombo and Brunei Stock Exchanges, his hands on know-how and participation in the Bourses' activities include that of Manager Investor Service Centre in Matara, which was the first branch of the CSE, as Assistant Manager at the Central Depository System (CDS) of the Colombo Stock Exchange and Manager Trade Processing of the Brunei Stock Exchange. He also expanded his knowledge areas while at HNB Stockbrokers, HSBC Premier and as Senior Manager Business Development at Standard Chartered Bank Premium Banking, collating many accolades for his outstanding contribution and service. While functioning as the CEO of New

World Securities (Pvt) Limited, he also sits on the Board of Directors of NWS Holdings, NWS Financial Services and NWS Management Services.

# BOARD OF DIRECTORS

## Hiran De Alwis – Director

An Attorney-at-Law specializing in Civil and Commercial Law and Commercial Arbitration, his experience spans over two decades in the legal sphere. Qualifying in law from the University of Colombo, his post-graduate qualification is from the University of London in International Dispute Resolution. He is a Chartered Arbitrator and a Member of the Chartered Institute of Arbitrators, London (MCI Arb). A Director of the Colombo Stock Exchange, he functions also as a Member of the Board of Governors of the Sri Lanka National Arbitration Centre and is its Honorary Chief Legal Advisor.



# CORPORATE MANAGEMENT

## Corporate Management

### **Duminda Weersekare - Chief Executive Officer**

A well-known professional in the Finance field, Mr. Weerasekare has also gained over 25 years of experience in Finance industry. With an expansive knowledge and skills & experience garnered over three decades, he holds the distinction of being a Fellow of both the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of UK.

### **Rohitha Bandusena - Deputy General Manager - Credit & Risk Management**

Mr. Bandusena who counts over 15 years of experience in Finance, Credit, Operations, Funding and Treasury Management, holds a BSc (Hons) (Business Administration) special degree from the University of Sri Jayawardenapura. Among the positions he has held are Finance Manager - LOLC, Senior Manager - Finance at Nations Leasing (Nations Trust Bank), AGM Treasury and Operations at LB Finance. Prior to joining Ideal Finance Limited at the inception in April 2012 he served in the position of Head of Credit and Risk Management at Sampath Leasing and Factoring Limited.

### **Amanda Lokugamage - Compliance Officer**

Ms. Lokugamage, a passed finalist of Chartered Institute of Management Accountants (CIMA) holds over four years of experience in the fields of Finance and Treasury Management, in the finance industry, specializing in securitizations, financial analysis and corporate planning. Prior to taking up her role as Compliance Officer at Ideal Finance Limited, she was attached to the Treasury department of LB Finance, responsible for borrowing and creditor management, and corporate planning. Started her career as KPMG, Ford Rhodes, Thornton & Co, Amanda also holds 2 years of experience in Management Assurance Services, covering a wide spectrum of organizations including Financial, Manufacturing and Non-Government institutions.

### **Harshaka Thotagamuwage - Accountant**

Mr. Thotagamuwage, a qualified Chartered Accountant joined IFL in November 2012 as the Accountant counts over 4 years of experience in the field of Finance, Auditing & Taxation. He holds a BSc (Hons) (Business Administration) special degree from the University of Sri Jayawardenapura. He started his career at Jayasinghe & Co. in April 2009 prior to joining IFL in November 2012 where he has gained more than three years of experience in the roles of Audit Manager & Audit Supervisor. He has hands on experience in Financial Reporting, Corporate taxation and internal audit in variety of sectors both in Service sector and Manufacturing. He was a Prize winner for Financial Accounting, Commercial Law & Tax in Chartered Accountancy examinations.

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Report

### Corporate Governance

Corporate Governance is defined as the system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers.

The Board of Directors is responsible for the governance of the Company and has placed significant prominence on developing rules, structures, policies and processes to ensure integrity and transparency in all of the Company's dealings and making the best effort in achieving performance and quality profits. We have continuously refined our structure and systems to ensure governance on the lines as defined, aware at all times that we are accountable to our stakeholders and the general public.

This statement describes the application of the Corporate Governance practices carried out within the Company during the year under review. Prompt

### Board of Directors

The Board is the highest body of Ideal Finance Limited that carries the responsibilities of directing the Company. The responsibilities of the Board includes making an accurate assessment of the Company's position, taking strategic decisions, holding regular meetings of the Board and Board Sub Committees, ensuring good governance and overseeing the risk management of the Company.

### Composition and Independence

The Board comprises seven (07) members, six (06) of whom, including the Chairman, are Non-

Executive Directors with the balance of skills and experience appropriate for the business carried out by the Company.

The Board has determined that one (01) Non-Executive Director, namely, Mr. Hiran De Alwis is 'Independent' as per the criteria set out in the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

### Chairman and Managing Director

The functions of the Chairman and the Chief Executive Officer are separated, with a clear distinction drawn between responsibilities, which ensure a balance of power and authority.

Mr. Nalin J Welgama is the Chairman of the Board of Directors and Mr. Duminda M Weeraseskare serves as the Chief Executive Officer of the Company.

### Tenure, Retirement and Re-election of Directors

There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board.

If a director is resigned or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka with the reasons for such removal or resignation.

The provisions of the Company's Articles of Association also require Directors appointed by the Board to hold office until the next Annual General

# CORPORATE GOVERNANCE REPORT

Meeting and seek appointment by the shareholders at such a meeting.

## Board Meetings

The results of the Company are regularly considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with any other matter which requires the attention of the Board.

The Board meets once a month and wherever necessary, Special Meetings of the Board are held.

During the year ended 31st March 2013, twelve (12) meetings of the Board were held. The attendance at the meetings was:

Name of Director	Executive/ Non-Executive/ Independent Non- Executive	Attendance
Mr. N J Welgama	Non-Executive	11/12
Mr. Kiyoshi Matsui	Non-Executive	10/12
Mr. D M Weerasekare	Executive	12/12
Mr. P A De Silva	Non-Executive	11/12
Mr. Igarashi Takashi	Non-Executive	8/12
Mr. J V W Malawana	Non-Executive	11/12
Mr. H M C De Alwis	Independent Non-Executive	12/12

## Board Sub-Committees

An Audit Committee, Integrated Risk Management Committee and a Remuneration Committee

function as Sub-Committees of the Board. The names of the Directors who serve on the said Committees are mentioned below.

## Audit Committee

The Audit Committee is comprised of Mr. Kiyoshi Matsui & Mr. Igarashi Takashi & is chaired by Mr. Nalin Welgama.

In compliance with the Finance Companies (Corporate Governance) Direction No.3 of 2008 and in the absence of a Head of Internal Audits, Company Secretary acts as the Secretary to the Audit Committee.

## Integrated Risk Management Committee (IRMC)

In compliance with the Finance Companies (Corporate Governance) Direction No.3 of 2008 an Integrated Risk Management Committee was set up in May 2012.

The Committee is chaired by Mr. Hiran De Alwis, a Non-Executive Director and Mr. Aravinda De Silva & Mr. Hiran De Alwis are members of the IRMC which also consists of key management personnel supervising broad risk categories.

## Remuneration Committee

Mr. Nalin Welgama & Mr. Aravinda De Silva represent the Remuneration Committee.

## Compliance Officer

Company has appointed a Compliance Officer at the inception to ensure compliance with the Regulatory and Statutory requirements and the laws and regulations governing Finance

# CORPORATE GOVERNANCE REPORT

Companies, Public Listed Companies and business activities undertaken by the Company in general.

## **The Management**

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management headed by the Chief Executive Officer. They ensure that risks, uncertainties and opportunities are identified and necessary actions are taken to mitigate the risk exposure thus ensuring the achievement of targets within defined time frames and budgets.

## **Financial Disclosures and Transparency**

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, International Financial Reporting Standards, the Companies Act, the Finance Companies Act and the directions and rules issued there under.

Messrs Ernst & Young, Chartered Accountants acts as External Auditors of the Company. The Auditors are allowed to act independently and without intervention from the Management or the Board of the Company to express an opinion on the financial statements of the Company. The Auditors are provided with all required information for examinations.

## **Ethical Standards**

The Company requires that all its employees maintain the highest standards of integrity in the

performance of their duties and dealings on behalf of the Company.

The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees.

## **Statutory Payments**

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for.

Retirement gratuities have been provided for in accordance with Sri Lanka Accounting Standards No.16, Employee Benefits (Revised 2006).

## **Compliance with Central Bank Regulations**

As both a Registered Finance Company and a Registered Finance Leasing establishment, the Company is governed by the Non-Bank Financial Institutions Directions & Rules issued by the Monetary Board of the Central Bank of Sri Lanka.

Accordingly the Company is required to carry out and maintain business activities in compliance with the Directions from time to time issued by the Central Bank of Sri Lanka.

## **Accountability and Disclosure**

The members of the Board of Directors have reviewed in detail the Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs.

# CORPORATE GOVERNANCE REPORT

As the prudential regulator, the CBSL has issued a set of Directions on Corporate Governance - The Finance Companies (Corporate Governance) Direction, No. 3 of 2008 to promote prudent business behavior and risk management on the part of Regulated Financial Institutions such as banks and finance companies and insurance companies, so that these institutions are poised to meet their financial promises.

The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) covers the key aspects such as Directors, Directors' remuneration, Relations with Shareholders, Accountability and Audit and Shareholders.

These rules are indispensable in ensuring the creation and maintenance the confidence of the General Public of the country.

The Company's compliance with relevant directions, rules, notices, guidelines and codes are shown in the annexure I

Principle	Description	Reference to The Finance Companies (Corporate Governance) Direction No. 03 of 2008	Level of Compliance
Board Meetings	Frequency of Board meetings	3(1)	Complied
Board Responsibilities	Effective succession planning for the CEO and Senior Management	2(1) (j)	
	Effective Systems to secure Integrity of Information, Internal Controls and Risk Management	(2)(1) (c) & (e)	Complied
	Consideration of all Stakeholders' Interest in Corporate Decisions	2(1)(d) & 7(10)	Not - Complied
	Adoption of Appropriate Accounting Policies and fostering Compliance with Financial Regulations	10 (1) (a)	Complied
	Act in accordance with the laws and regulations relevant to the organization and place procedures to obtain independent advice	2 (3)	Procedure to be drafted
	Access to Company Secretary	3(5), (6), (7) & (8)	Complied Procedure to be drafted
	Independent Judgment	4 (6)	Procedure to be drafted
	Dedication of adequate time and effort to matters of the Board and the Company	3 (3)	Complied
	Training for Directors		Complied
	Division of responsibilities between the Chairman and CEO	7 (1)	



# CORPORATE GOVERNANCE REPORT

	Chairman's Role	7 (4), (6),(7), (8) & (9)	Company is in the process of drafting a Self-Evaluation process
<b>Financial Acumen</b>	Availability of sufficient financial acumen and knowledge	4 (6)	Procedure to be drafted
<b>Board Balance</b>	Composition of the Board	4(1) &(3)	Company shall appoint another Independent NED
	Independence of the Directors	4(4) & (8)	
	Requirement to appoint a Senior Independent Director	7(2)	Complied
<b>Supply of Information</b>	Chairman to ensure that all the Directors are properly briefed on issues arising at Board meetings	7(6)	Complied
	The minutes, agenda and papers required for a Board meeting	3(3)	Complied
<b>Appointments to the Board</b>	Assessment of Board Composition	4(9)	Complied
	Period of Service	4(2)	Complied
<b>Disclosure of Information in respect of Directors</b>	Information in relation to each Director	7(3), 9 & 10.2 (d)	Complied
	Disclosure of Remuneration	10(2) (e)	Complied
<b>Internal Control</b>	Review of the effectiveness of the group's system of internal control	2(1) (e)	Complied
<b>Board Committees</b>	Board Committees	8(1)	Complied
	Composition of the Audit Committee	8(2) (a) & (b)	Complied
	Committee with written Terms		
	Inclusion of Audit Committee Report in the Annual Report	8(2) (o)	Complied
	Independence and objectivity of the Auditors	8(2) (d)	Complied
	Integrated Risk Management Committee	8(3)	Complied
<b>Corporate Governance</b>	Practice of good Corporate Governance	2 (7)	Complied
	Inclusion of a Corporate Governance Report in the Annual Report		Complied

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Annual Report of the Board of Directors on the Affairs of  
the Company

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

# DIRECTORS' REPORT ON THE COMPANY'S INTERNAL CONTROL SYSTEM

## Directors' Report on the Company's Internal Control System

# DIRECTORS' REPORT ON THE COMPANY'S INTERNAL CONTROL SYSTEM

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## Statement of Directors' Responsibilities



# INDEPENDENT AUDITOR'S REPORT

## Independent Auditor's Report

# INCOME STATEMENT

## Income Statement

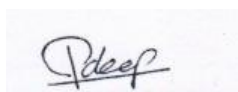
Period from 24 January 2012 to 31 March 2013		
	Notes	2013 Rs.
<b>Income</b>	3	<b>60,289,699</b>
Interest Income	4.1	59,702,806
Interest Expenses	4.2	(2,305,056)
<b>Net Interest Income</b>		<b>57,397,750</b>
Fees and Commission Income	5	2,341,251
<b>Net Fee and Commission Income</b>		<b>2,341,251</b>
Other Operating Income	6	(1,754,358)
<b>Total Operating Income</b>		<b>57,984,644</b>
Impairment Charges for loans and other losses	7	(1,415,507)
<b>Net Operating Income</b>		<b>56,569,137</b>
<b>Operating Expenses</b>		
Personnel Expenses	8	(26,774,164)
Depreciation of Property Plant & Equipment		(5,394,874)
Amortization of Intangible Assets		(3,344,664)
Other Operating Expenses	9	(20,821,191)
<b>Operating Profit before Value Added Tax on Financial Services</b>		<b>234,244</b>
Value Added Tax on Financial Services		(1,194,405)
<b>Loss before Taxation</b>		<b>(960,161)</b>
Income Tax Expenses	10	(882,052)
<b>Loss for the period</b>		<b>(1,842,214)</b>
<b>Other Comprehensive Income</b>		<b>-</b>
<b>Total Comprehensive Income for the period, Net of Tax</b>		<b>(1,842,214)</b>
Basic Earnings Per Share (Rs)	11	(0.04)
The Accounting Policies and Notes on pages 30 through 56 form an integral part of the Financial Statements.		

# BALANCE SHEET

## Balance Sheet

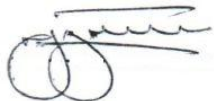
	Notes	2013
<b>ASSETS</b>		<b>Rs.</b>
Cash and Bank Balances	12	1,896,206
Placements with Banks and Other Financial Institutions	13	300,126,428
Lease Rentals Receivable and Stock out on Hire	14	285,962,259
Other Financial Assets	15	4,051,455
Other Non Financial Assets	16	31,783,074
Financial Investments-Available for Sale	17	457,700
Property, Plant and Equipment	18	29,357,732
Intangible Assets	19	36,690,000
<b>TOTAL ASSETS</b>		<b>690,324,855</b>
<b>LIABILITIES</b>		
Due to Bank	20	18,172,838
Due to the Customers	21	48,829,594
Other Financial Liabilities	22	20,153,285
Other Non Financial Liabilities	23	384,256
Retirement Benefit Liability	24	497,918
Deferred Tax Liabilities	25	882,052
<b>TOTAL LIABILITIES</b>		<b>88,919,943</b>
<b>EQUITY</b>		
Stated Capital	26	603,247,125
Retained Earnings		(2,638,484)
Reserves	27	796,270
<b>TOTAL EQUITY</b>		<b>601,404,911</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>690,324,855</b>

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



Accountant

The Board of Directors are responsible for the preparation and presentation of these Financial Statements.  
Signed for and on behalf of the Board of by;



Chairman



Chief Executive Officer

The Accounting Policies and Notes on pages 30 through 56 form an integral part of the Financial Statements.  
10 July 2013,  
Colombo

# STATEMENT OF CHANGES IN EQUITY

## Statement of Changes in Equity

	Notes	Stated Capital Rs.	Retained Earnings Rs.	Investment Fund Rs.	Total Rs.
Share Issue	26	358,477,125	-	-	358,477,125
Right Issue	26	244,770,000	-	-	244,770,000
Net Loss for the Period		-	(1,842,214)	-	(1,842,214)
Transfer to Investment Fund	27	-	(796,270)	796,270	-
<b>Balance As at 31 March 2013</b>		<b>603,247,125</b>	<b>(2,638,484)</b>	<b>796,270</b>	<b>601,404,911</b>
The Accounting Policies and Notes on pages 30 through 56 form an integral part of the Financial Statements.					

# CASH FLOW STATEMENT

## Cash Flow Statement

			<b>2013</b>
		<b>Note</b>	<b>Rs.</b>
<b>Cash Flows From / (Used in) Operating Activities</b>			
Profit before Income Tax Expense			(960,161)
Adjustment for Other Non Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment		18.2	5,394,874
Amortization of Intangible Assets		19	3,344,664
Interest expenses			230,682
Loss on Property Plant & Equipment			2,256,315
Gratuity		24	497,918
Operating Profit before Working Capital Changes			10,764,291
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire			
			(285,962,259)
(Increase)/Decrease in Other Financial Assets			
			(4,051,455)
(Increase)/Decrease in Other Non Financial Assets			
			(31,783,074)
Increase/(Decrease) in Amounts Due to Customers			
			48,829,594
Increase/(Decrease) in Other Financial Liabilities			
			20,153,285
Increase/(Decrease) in Other Non Financial Liabilities			
			384,256
Cash Generated from Operations			(241,665,362)
Retirement Benefit Liabilities Paid			
			-
Income Tax Paid			
			-
Net Cash Flows from/(Used in) Operating Activities			(241,665,362)
<b>Cash Flows from / (Used in) Investing Activities</b>			
Purchase of Property, Plant and Equipment			(37,635,894)
Purchase of Intangible Assets		19	(40,034,664)
Proceeds from the sale of Property, Plant and Equipment			3,571,430
Purchase of Financial Investments-Available for Sale		17	(457,700)
Net Cash Flows from/(Used in) Investment Activities			(74,556,828)
<b>Cash Flows from / (Used in) Financing Activities</b>			
Net Proceeds from the Issue of Ordinary Shares			603,247,125
Repayment of Other Borrowed Fund			(469,330)
Net Cash Flows from/(Used in) Financing Activities			602,777,795
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>			
			286,555,604
<b>Cash and Cash Equivalents at the Beginning of the Period</b>			
			-
<b>Cash and Cash Equivalents at the End of the Year</b>			
		28	286,555,604
The Accounting Policies and Notes on pages 30 through 56 form an integral part of the Financial Statements.			

# NOTES TO THE FINANCIAL STATEMENT

## Notes to the Financial Statement

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# VALUE ADDED STATEMENT

## Value Added Statement

	2012/13 Rs.
<b>Value Added</b>	
Income from Interest Related Activities	59,702,806
Income from Other Activities	586,893
	<b>60,289,699</b>
Depositors & Lenders	2,305,056
Cost of Sales & Services	20,821,191
Provision for Bad & Doubtful Debts	1,415,507
	<b>24,541,754</b>
Total Value Added	<b>35,747,945</b>
<u>Distribution of Value Added</u>	
To Employees as Remuneration	26,774,164
To Government as Taxation	2,076,457
To Expansion & Growth	
Depreciation	8,739,538
Retained Profits	(1,842,214)
Total Distribution of Value Added	<b>35,747,945</b>

# CAPITAL ADEQUACY

## Capital Adequacy

### TOTAL RISK WEIGHTED ASSET COMPUTATION AS AT 31 MARCH 2013

Assets	Amount	Risk Weight %	Risk weighted Assets Amount
<b>Cash &amp; Current Accounts with Banks</b>	<b>1,896,206</b>	<b>0%</b>	<b>0</b>
Deposits with Banks	73,467,913	20%	14,693,583
Deposit with Finance Companies	226,658,515	20%	45,331,703
<b>Loans and Advances :</b>	<b>285,962,259</b>		<b>285,962,259</b>
<b>Fixed Assets</b>	<b>66,047,732</b>	<b>100%</b>	66,047,732
<b>Other Assets</b>	<b>36,292,229</b>	<b>100%</b>	36,292,229
<b>TOTAL RISK WEIGHTED ASSETS</b>	<b>690,324,854</b>		<b>448,327,506</b>

Constituents of Capital	Amount
Issued and Paid-up Ordinary Shares/Common Stock (Cash)	603,247,125
Statutory Reserve Fund	796,270
Published Retained Profits/(Accumulated Losses)	263,848
<b>Tier I : Core Capital</b>	<b>606,681,879</b>
<b>Tier 2 : Supplementary Capital</b>	<b>0</b>
<b>Total Capital</b>	<b>606,681,879</b>
<b>CAPITAL BASE</b>	<b>606,681,879</b>

CAPITAL ADEQUACY RATIO	Amount
<b>Core Capital Ratio (Minimum 5%)</b>	<b>135%</b>
<b>Total Risk Weighted Capital Ratio (Minimum 10%)</b>	<b>135%</b>

# INFORMATION ON ORDINARY SHARES

## Information on Ordinary Shares

### Information on Ordinary Shares

#### DISTRIBUTION OF SHAREHOLDING AS AT 31ST MARCH 2013

SHARES	`31 March 2013			
	No of Shareholders	% Shareholders	No of Shares	% Shareholders
Up to 2,000,000	1	14.29%	1,600,000	2.00%
2,000,001 - 6,000,000	2	28.57%	10,400,000	13.00%
6,000,001 - 14,000,000	2	28.57%	26,800,000	33.50%
Over 14,000,000	2	28.57%	41,200,000	51.50%
	<u>7</u>	<u>100.00%</u>	<u>80,000,000</u>	<u>100.00%</u>

#### CATEGORIES OF SHAREHOLDERS

TYPE OF INVESTOR	`31 March 2013			
	No of Holders	% Shareholders	No of Shares	% Shareholders
Local Individuals	4	57.14%	24,800,000	31.00%
Local Institutions	2	28.57%	28,400,000	35.50%
Foreign Institutions	1	14.29%	26,800,000	33.50%
	<u>7</u>	<u>100.00%</u>	<u>80,000,000</u>	<u>100.00%</u>

# GLOSSARY OF FINANCIAL TERMS

## Glossary of Financial Terms

### Earning Assets

Income earning assets held by the Company. Typically include interest bearing balances, Investment securities and loans.

### Interest Bearing Liabilities

Liabilities on which the Company is paying interest.

### Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to Maturity.

### Net Interest Margin

Ratio of net interest income to earning assets.

### Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on funds.

### Non-Performing loan (NPL) Ratio

The net Non-Performing Loans as a percentage of the total loan portfolio.

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills.

### Provision for Bad Debts

Amounts set aside against possible losses on financial leases, hire purchases, advances and other credit facilities according to the Finance Companies Direction 3 of 2006.

### Materiality

The relative significance of a transaction or an event the omission or misstatement of which

could influence the economic decisions of users of financial statements.

### Net Assets Value per Ordinary Share

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

### Risk Weighted Assets

On Balance Sheet Assets and the credit equivalent of off Balance Sheet Assets multiplied by the relevant risk weighting factors.

### Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### Return on Average Equity (ROE)

Net income, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### Revenue Reserve

Reserves set aside for future distribution and investment.

### Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

### Net Interest Income

The difference between income earned from interest earning assets and cost incurred on interest bearing liabilities.

# GLOSSARY OF FINANCIAL TERMS

## Non-Performing Loans

Loan advances and hire purchase/lease finance of which interest or capital is in arrears six months or more.

## Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## Return on Average Assets (RoA)

Profit After Tax divided by the average assets.

## Substance over Form

The consideration that the accounting treatment and the presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

## Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

## Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

## Value Added

Value of wealth created by providing financial and other related services less the cost of providing such services.

## Debt to Equity Ratio

Long term Borrowings of the Company including Debentures divided by shareholders funds.

## Interest Cover

Earnings before interest and taxes divided by interest cost.

## Liquid Assets Ratio

Liquid Assets divided by public Deposits.

## Capital Adequacy Ratios

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying international best practices on maintenance of capital for financial institutions, to suit the local requirements.

## Interest in suspense

Interest suspended on non-performing contracts without recognizing to the Income.

## Earnings per Share

Net profit after tax divided by the number of ordinary shares in issue.

## Deferred Tax

Sum set aside in the financial statements for taxation that may become payable / receivable in a financial year other than the current financial year.

## Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

# NOTICE OF ANNUAL GENERAL MEETING

## Notice of Annual General Meeting

IDEAL FINANCE LIMITED

Notice is hereby given that the First Annual General Meeting of Ideal Finance Limited will be held at the Board Room of Ideal Motors (Private) Limited, at No.9, Rosmead Place, Colombo 7 on Tuesday, 23rd July, 2013 at 2.30 p.m. and the business to be brought before the meeting will be:

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1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Statement of Accounts for the period 24th January 2012 to 31st March 2013 with the Report of the Auditors thereon.
2. To re-elect as a Director Mr.P.A. De Silva who retires by rotation in terms of Article No.6 of the Articles of Association of the Company.
3. To re-elect as a Director Mr. N.J. Welgama, who retires by rotation in terms of Article 6 of the Articles of Association of the Company.
4. To authorize Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act No.07 of 2007.

By Order of the Board  
S S P CORPORATE SERVICES (PRIVATE) LIMITED  
SECRETARIES

Colombo  
.....2013

The member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him/her. Such proxy need not be a member of the Company.

A Form of Proxy is enclosed.

Note:-

The completed Form of Proxy should be deposited at the Registered Office of the Company, at No.299, Union Place, Colombo 2, not later than 48 hours before the time appointed for the holding of the meeting.

# NOTES

## Notes

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# FORM OF PROXY

## Form of Proxy

I .....(NIC NO.....) OF  
.....being a member of the above Company,  
hereby appoint:

- |                                   |                           |
|-----------------------------------|---------------------------|
| Mr. Nalin Jayaraj Welgama         | of Colombo or failing him |
| Mr. Pinnaduwege Aravind De Silva  | of Colombo or failing him |
| Mr. Kiyoshi Matsui                | of Japan or failing him   |
| Mr. Igarashi Takashi              | of Japan or failing him   |
| Mr. John Viraj Winston Malawana   | of Colombo or failing him |
| Mr. Duminda Mahari Weerasekare    | of Colombo or failing him |
| Mr. Hiran Manil Camillus De Alwis | of Colombo or failing him |

Mr./Mrs./Miss .....(NIC  
No.....)  
of .....  
..... as my proxy to represent me and vote on my behalf at the Annual General  
Meeting of the Company to be held on 23rd July 2013 and at any adjournment thereof and at every  
poll which may be taken in consequence of the aforesaid meeting and to VOTE as indicated below:  
FOR                      AGAINST

1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Statement of Accounts for the period 24th January 2012 to 31st March 2013 with the Report of the Auditors thereon.
1. To re-elect as a Director Mr. P.A. De Silva who retires by rotation in terms of Article No.6 of the Articles of Association of the Company.
2. To re-elect as a Director Mr. N.J. Welgama who retires by rotation in terms Article No.6 of the Articles of Association of the Company.
4. To authorise Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors.

Signed this ..... day of .....Two Thousand and Thirteen.



# FORM OF PROXY

Signature: .....

Note :

1. Please delete the inappropriate words.
2. Instructions for completion of form of proxy are noted on the reverse
3. A proxy need not be a member of the Company

## INSTRUCTIONS FOR COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, and your instructions as to voting, by signing in the space provided and filling in the date of signature.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given or if there is any doubt as to how the Proxy should vote by reason of the manner in which the instructions are carried out, the proxy in his/her discretion may vote as he/she thinks fit.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company at No.299, Union Place, Colombo - 02, not less than 48 hours before the time appointed for holding the meeting.
4. If the Form of Proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration, if such power of attorney has not already been registered with the Company.

- Note:
1. Instructions as to completion appear on the reverse
  2. A Proxy need not be a shareholder of the Company

# FORM OF PROXY

## Instructions for completion

- a. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and signing in the space provided and filling in the date of signature.
- b. The completed Form of Proxy should be deposited at the Registered Office of the Company No. 299, Dr. Colvin R. De Silva Mawatha (Union Place, Colombo 02, Sri Lanka, forty seven (47) hours prior to the time appointed for the Meeting.
- c. If you wish to appoint a person other than the Chairman or a Director of the Company as your Proxy, please insert the relevant details in the space provided (above the names of the Board of Directors) on the Proxy Form.
- d. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney must be deposited at the Secretaries' Office (i.e. SSP Corporate Services (Private) Limited, 101, Inner Flower Road, Colombo 07) for registration.
- e. If the appointor is a Company / Incorporated body this Form must be executed in accordance with the Articles of Association / Statute.

# CORPORATE INFORMATION

## Corporate Information

<b>Name of the Company :</b>	<b>IDEAL FINANCE LIMITED</b>
<b>Date of incorporation :</b>	<b>24th January, 2012</b>
<b>Registered Office :</b>	<b>299, Dr. Colvin R De Silva Mawatha, (Union Place) Colombo 02</b>
<b>Statutory Status :</b>	<b>Private Limited Liability Company incorporated in Sri Lanka under The Companies Act No.7 of 2007.</b>
<b>Company Registration :</b>	<b>PB 4963</b>
<b>VAT Registration :</b>	<b>134049634 7000</b>
<b>Board of Directors :</b>	<b>Mr. Nalin J. Welgama (Chairman) Mr. Kiyoshi Matsui (Deputy Chairman) Mr. Duminda M. Weerasekare (Chief Executive Officer) Mr. P. Aravinda De Silva (Non-Executive Director) Mr. Igarashi Takashi (Non-Executive Director) Mr. J. Viraj W. Malawana (Non-Executive Director) Mr. Hiran M. C. De Alwis (Independent Non-Executive Director)</b>
<b>Secretaries :</b>	<b>SSP Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 07</b>
<b>Auditors :</b>	<b>Ernst &amp; Young 201, De Saram Place, Colombo 10.</b>
<b>Bankers :</b>	<b>Bank of Ceylon Commercial Bank of Ceylon PLC Pan Asia Banking Corporation PLC Seylan Bank PLC</b>