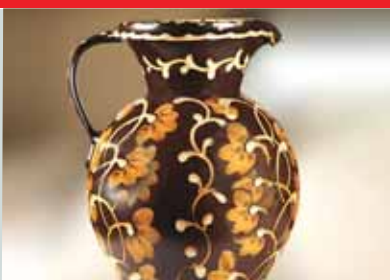


Annual Report 2017/18



**IDEAL
Finance**
YOUR IDEAL FINANCE PARTNER

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Our Vision & Mission

Our Vision

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

Our 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

Corporate Values

Professionalism

We genuinely believe in our profession and take responsibility by saying “no” if saying “yes” would not do right by you. We create solutions that are simple, understandable and workable, and we strive to improve ourselves every day by working together and learning from one another – and from you.

We will work together as a team, supporting each other, respecting every individual and drawing strength from our diversity.

Innovative

We are always stretching our boundaries and striving to achieve more for you. We make it our business to know what’s going on in the market and to respond proactively, and we do everything possible to understand what you really need and to craft innovative solutions. Our optimism about the future drives our ambition to offer you more.

Service

We provide simple and transparent financial services which are most needed for small businesses and always strive for excellence in serving our internal and external customers, through professionalism, innovation and creativity. We are open-minded and embrace change in a globalised world.

We want our clients to succeed and know they can count on IFL for the financial support they need.

Supporting Enterprises and Individuals

We want to work with entrepreneurs who are striving to grow their businesses no matter how small the business may be IFL seeks to help in building vibrant business communities that will drive the Country’s economy forward. We want to inspire our customers as well as help tomorrow’s entrepreneurs to achieve their ambitions.

Respected Corporate Citizen

Good citizenship is about doing business in a responsible way that recognizes our wider influence as a company. This contains information on how we manage our impacts on society, from our tax contributions, the way we govern our environmental, social and ethical risks and our environmental impacts.

We commit to becoming a Financial Institution known for outstanding ethics and high quality governance, management and staff. Being a good corporate citizen also means playing a positive role in society and contributing financial and volunteering support to the communities we operate in.

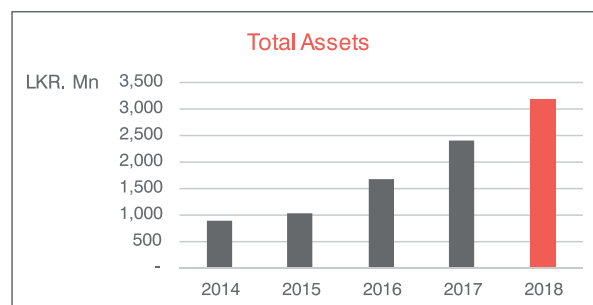
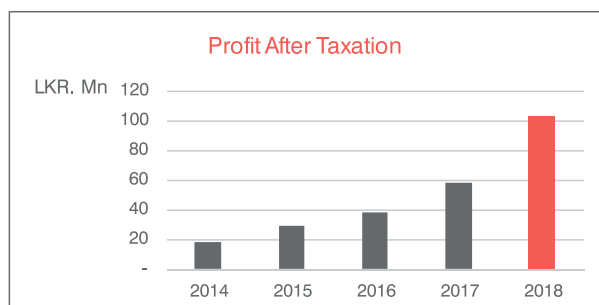
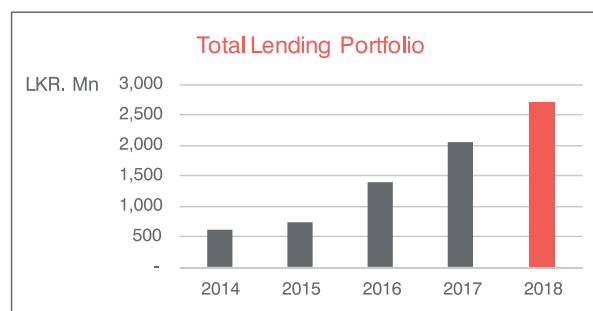
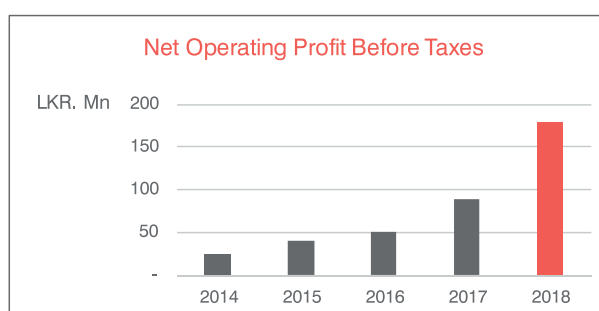
Good Employer

Our people are uniting behind our purpose of serving our customers well. Our job is to make sure every aspect of what it means to work at IFL is geared towards helping them be successful in that. That kind of simplicity and focus is what drives employee engagement and what builds a really good company.

We work to attract and retain the best people, promote flexibility and diversity in the workplace and undertake comprehensive activity to understand and respond to our employee’s feedback.

Financial Highlights

Performance During the Year	2018 Rs.	2017 Rs.	Change %
Total Income	630,995,212	390,805,849	61%
Total Expenses	452,313,692	302,453,531	50%
Net Operating Income Before Taxes	178,681,520	88,352,317	102%
Total Taxes	75,865,228	30,558,283	148%
Profit After Taxation	102,816,292	57,794,034	78%
Financial Position			
Stated Capital	808,247,125	603,247,125	34%
Customer Deposits	367,110,412	301,121,019	22%
Interest Bearing Borrowings	1,529,388,772	1,183,196,053	29%
Total Lease, Hire Purchase and Loans	2,536,520,579	2,042,856,927	24%
Gold Advances	177,748,346	16,119,775	1003%
Total Assets	3,165,687,280	2,389,879,325	32%
Key Ratios			
Return on Equity (After Tax)	9.74%	7.81%	25%
Return on Assets (After Tax)	3.21%	2.41%	33%
Interest Cover (times)	1.64	1.53	7%
Debt to Equity	1.82	2.01	-9%
Statutory Ratios			
Core Capital Ratio (Minimum Requirement - 5%)	36.27%	31.91%	-
Total Risk Weighted Capital Ratio (Minimum Requirement - 10%)	36.27%	31.91%	-
Non Performing Loan Ratio (%)	1.51%	0.94%	-



Chairman's Message



I am pleased to report that your Company has now graduated into the LKR 1 Bn capital category and is poised to accelerate growth under a strategic blue print designed to further expand the capital base and deliver rapid business expansion.

Dear investors,

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Ideal Finance Limited, for the financial year ended 31st March 2018. The year under review will go down in our corporate narrative as an inflection point in the history of Ideal Finance Limited, as it marks the emergence of the Company as a strong and youthful contender in the Sri Lankan non bank financial services arena. I am pleased to report that your Company has now graduated into the LKR 1Bn capital category and is poised to accelerate growth under a strategic blue print designed to further expand the capital base and deliver rapid business expansion.

Global Economic Outlook

The Global economy continued to gain slow momentum in 2017, reaching a growth rate of 3.8% , with a notable rebound in global trade due to most emerging, developing and advanced economies registering a pickup in growth. This global growth was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporting nations. Advanced economies and China benefited from increased expenditure on fixed capital formation and accommodative monetary policy, while an increase in private consumption contributed to faster expansion of most emerging market economies.

The global economic growth rate is expected to improve further in 2018 and 2019 with better prospects for both advanced and emerging economies, supported by strong

momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States.

As forecast by the World Economic Outlook (WEO), global growth is projected to reach 3.9% in 2018 and 2019. In the United States, near-term momentum is strengthening in line with the April WEO forecast, and the US dollar has appreciated by around 5% in recent weeks. Growth projections have been revised down for the Euro area, Japan, and the United Kingdom, reflecting negative surprises to activity in early 2018. Among emerging markets and developing economies, growth prospects are also becoming more uneven, amidst rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals.

Emerging and Developing Asia is expected to maintain its robust performance, growing at 6.5 % in 2018–19. Growth in China is projected to moderate from 6.9 % in 2017 to 6.6 % in 2018 and 6.4 % in 2019, as regulatory tightening of the financial sector takes hold and external demand softens. India's growth rate is expected to rise from 6.7 % in 2017 to 7.3 % in 2018 and 7.5 % in 2019. Growth in the ASEAN-5 group of economies is expected to stabilize at around 5.3 % as domestic demand remains healthy and exports continue to recover.

Sri Lankan Economy

Although the global economy pressed forward in 2017, the Sri Lankan economy did the opposite. Sri Lanka's real GDP

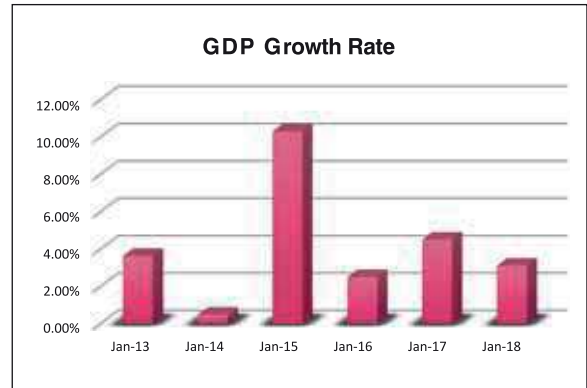
Chairman's Message cont....

growth decelerated from 4.5% in 2016, to 3.1% in 2017. This regression is attributed to the continued decline of the agriculture sector due to adverse weather conditions, which continued from 2016. However, services and industrial sectors also did not do well.

The growth in industry related activities slowed during 2017 with a reduction in construction, and mining and quarrying activities. The construction sector, which supported the overall growth of the economy considerably during the post-war era, slowed down to record a growth of 3.1%, compared to an expansion of 8.3% in 2016. Meanwhile, manufacturing activities, which accounted for 15.7% of real GDP in 2017, grew at a sluggish rate of 3.9% in 2017, having grown at 3.2% in 2016.

The growth rate of services related activities, which accounted for over 56% of real GDP, also moderated during 2017 from 4.7% in 2016, to 3.2%.

On a more positive note, it is encouraging that Sri Lanka has now reached a per capita GDP of US dollars 4,065 by 2017, establishing itself as a middle income economy. The stabilization policy measures taken by the Central Bank and the government in the past two years have also resulted in a number of improvements to economic fundamentals that will support future growth of the national economy.



Source : Department of Census and Statistics

Sector Outlook

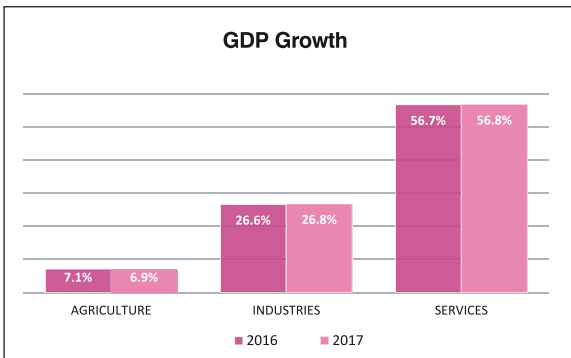
The LFC and SLC sector performance moderated during the year with low credit growth, declining profitability and increase in non-performing loans. The sector posted a profit after tax of LKR 25.8 Bn, an 18.0% decline compared to the profit of LKR 31.5 Bn recorded in 2016, mainly due to increased funding costs and higher loan loss provisions. The sector ROA decreased by 80 basis points during the year, reporting a ratio of 3.2% and ROE declined nearly by 700 basis points, reporting a ratio of 16.1%, which showed signs of stress towards the profitability of the sector. There was some change to the funding mix, as increased assets were mainly funded through deposits, while borrowings of the sector declined compared to the previous year.

However, capital adequacy was maintained at healthy levels along with liquidity buffers well above the regulatory minimum levels.

The Central Bank continued to deploy prudential measures to maintain the stability of the sector with much consideration on reviving the companies with weak financial positions.

Delivering Performance

Within this volatile backdrop, I am proud to announce that our Company has performed extremely well, compared to the previous year. This is clearly evidenced by the performance against the main KPIs set out for the year.



Source : Central Bank of Sri Lanka

Chairman's Message cont....

The Company has recorded an Operating Profit Before Tax of LKR 178.68 Mn (2016 – LKR 88.3 Mn), which is a growth of 102% and a Net Profit increase of 78% compared to 2016, reaching LKR. 102.82Mn (2016-LKR 57.79 Mn). The ROA (After Tax) has improved from 2.41% to 3.21% and ROE (After Tax) has strengthened to 9.74% from 7.81% in the previous year. Overall, shareholder returns have improved with earning per share increasing from LKR 0.72 to LKR 1.29 with shareholder's funds rising to LKR.1.043 Bn, from LKR 738.2 Mn.

In compliance with new regulatory capital adequacy requirements for a minimum core capital of LKR 1.0 Bn by 01 January 2018, during the current financial year, Ideal Finance Limited successfully enhanced its capital base to LKR 1.044 Bn through a Rights Issue of LKR 205 Mn. Adhering to capital adequacy requirements laid down by the CBSL, the Company's core capital ratio (minimum 5%) and total risk weighted capital ratio (minimum 10%) stood at 36.27% and 36.27% as at 31 March 2018 indicating the strong financial stability of the Company, as we prepare to accelerate growth. We are also already in the process of negotiating further capital expansions to ensure compliance with Central Bank capital adequacy directives for the next three years up to 2020, which will ensure financial stability and continued expansion of the business within the medium term.

Future Outlook

The current economic conditions no doubt present a challenging future, particularly given the intense competition and narrowing interest margins of the non-bank financial sector. Nevertheless, the history of our Company demonstrates commitment and determination in overcoming challenges and I am confident we shall continue to surmount any obstacles of the future. I am confident the Company has the requisite management skills and high level of motivation to successfully execute our prudent and well planned growth strategy to enhance returns to our shareholders over the coming years, while also creating sustained value for all stakeholders.

Our growth plans that envision a larger physical footprint and brand presence across the country, through further extension of the branch network, will contribute directly towards business growth. We are now well capitalized to aggressively push business expansion and our continued investments in to skill and competitiveness development will equip us to compete successfully with top performers of the industry. Therefore, I am extremely upbeat regarding the outlook for the Company in the new financial year and I look forward to continued gains for all stakeholders.

Appreciations

As we conclude a year of progress for Ideal Finance Limited, I extend my sincere appreciations to the Board of Directors for their guidance in steering the Company to the current successful conclusion during a particularly challenging year. On this note, I would also like to acknowledge the support given by the officials at the Department of Supervision of Non-Bank Financial Institutions and the Governor of the Central Bank of Sri Lanka towards strengthening our governance and compliance structures. Our success is not possible without the wholehearted commitment of all management and employees and I take this opportunity to express my appreciations for their hard work during the year. Our customers are at the heart of our business and I extend my gratitude for their trust in us, and I would like to say that Ideal Finance Limited is always at their service to fulfill their financial needs. Our aspiration is to become their IDEAL partner. I also thank all other stakeholders for their corporation and assistance during the year.

Sincerely



Nalin J. Welgama
Chairman

18th June 2018

Chief Executive Officer's Message



I take great pleasure in presenting the Performance Review of Ideal Finance Limited for the financial year 2017/18, in which the Company has continued to outperforming expectations. The overall improvements to the Company's financial and operational aspects during the year have cemented the foundation for sustained and robust future growth.

The financial year 2017/18 is noteworthy as the year in which we were able to achieve the Company's best performance for the last six years, which has been accompanied by the milestone event of surpassing the core capital base of LKR 1Bn. These improvements to Company's fundamentals have now positioned Ideal Finance on the cusp of a new era of growth, where we are in a position to expand the delivery of sustainable and quality services to our valued customers.

Performance

As our shareholders are aware, Ideal Finance is a relative new entrant to the Sri Lankan financial services industry with an operating history that is limited to 6 years, compared to the long standing histories of the larger financial institutions that dominate the local financial services landscape. Nevertheless, during our short existence we have recorded an impressive financial performance within the highly competitive and volatile industry we operate in, with its characteristics of extreme price consciousness and high degree of sensitivity to macro economic conditions and regulatory changes. From humble beginnings, the Company has gone from strength to strength through the application of astute growth strategies, professional management practices and by leveraging market experience to deliver genuine value to our customers. Today, we reap the benefits

of our steady and prudent business philosophy with Ideal Finance coming to the forefront as a reliable and trusted financial services provider with a unique ability to identify and cater to the distinct financial needs of diverse customer segments.

During the year under review we have achieved remarkable improvements to our top-line and bottom-line.

We recorded an income of LKR. 631 Mn for the year ended 31st March 2018, which is an increase of 61% over the previous year's income of LKR. 391 Mn. Other operating income increased to LKR.50 Mn from LKR. 43 Mn one year ago. The leasing and hire purchase portfolio is now poised to hit the LKR. 3 Bn mark at LKR. 2.7 Bn as at end of March 2018 against the previous year's LKR. 2.06 Bn. The asset base of the Company has grown to LKR. 3.1 Bn, which is a 29% growth from LKR 2.4 Bn last year.

Our 5-year financial assessment, from 2013 to 2018, demonstrates the sharp upswing in financial performance of the Company. The operating profit has grown from LKR 25.3 Mn as at end March 2014 to LKR 178.68 Mn by end March 2018 and in spite of the dramatic changes within the financial services markets and fluctuations in demand for credit during the past 5 years, our lending portfolio has expanded from LKR 606.55 Mn to LKR 2,714.20 Mn.

This growth in balance sheet has been accomplished through steady and strategic physical expansion that has enabled Ideal Finance Limited to reach out to more diverse communities and steadily expand market share from an extremely small base, to the current position. Our expansion has been carefully coordinated and

Chief Executive Officer's Message cont....

managed, to create a strong foundation of public trust and confidence by building a track record of professional and trustworthy service delivery. Throughout our history we have emphasized customer centricity and customer convenience in our product design and delivery, backed by our strong business ethic to create genuine value for our customers. This steadfast ethos on quality, value and integrity is now bearing fruit in the form of multiple returns for all stakeholders.

In our unrelenting drive to enhance customer value we have taken several initiatives to increase the performance of our branch network with the ultimate objective of increasing business volumes of the pawning business, which is a service in high demand by many customer segments to finance emergency, family and business funding needs fast and conveniently. I am happy to report that our efforts have been extremely successful and our pawning portfolio has recorded the highest growth rate during the period under review, growing from LKR 16.1 Mn as at end March 2017, to LKR 177.7Mn by end March 2018.

Our branch rationalization strategy has also generated strong returns during the year under review, where we relocated some branches in key growth markets such as Jaffna and Monaragala, to more convenient locations within these cities. This move has enhanced branch revenues by increasing customer accessibility to these branches. It has also contributed towards greater branch and brand visibility to enhance competitiveness of branches.

Expert administration of branch operations has been crucial in boosting bottom-line and during the year under review our seven branches have continued to increase their contributions to asset, revenue and profit growth. In the current financial year the Ideal Finance branch network contributed over half (54%) of profits, while our best performing branch in Anuradhapura, accounted for 17% of total profits for the year.

Although our customer segments have expanded over the six years of our operations, we continue to focus mainly on the Small & Medium Enterprises (SME) sector. The SME sector represents the country's economic backbone and

its growth and wellbeing is essential for overall sustainable economic growth of the nation. Hence, we believe it is our duty and responsibility to facilitate growth of this sector by channeling essential financial services to SMEs to assist their business operations and progress. Therefore, our financial services are designed to be flexible, with a high degree of customization and customer convenience, to enable SME's to easily access funds for business activities and expansion plans.

We believe our business expansion should be built upon a solid foundation of good governance and responsible behavior to ensure sustainable long-term wealth creation for all stakeholders of the Company. Hence, we maintain unrelenting emphasis upon all aspects of financial and operational stability and flexibility through strict controls over all key financial fundamentals and through stringent compliance with all directions issued by the Central Bank of Sri Lanka. Our commitment towards compliance is demonstrated by the Fitch Credit Rating of B+(lka)/(Stable), which was maintained in the current financial year despite our rapid lending growth. Coupled with our capital adequacy ratios, the current Fitch Rating reaffirms the financial stability and soundness of Ideal Finance Limited, when it comes to the safety and security of public deposits held within our trusteeship.

Towards the Future

The financial services industry is the underpinning base and driver of Sri Lanka's economy and future national economic growth. Financial industry evolution and growth is essential to fuel economic growth through the process of channeling crucial funds to all economic and household sectors. As Sri Lanka enters a new era as a middle income economy, the domestic financial services sector has a crucial role to play in driving the country towards its middle income growth objectives, which presents numerous opportunities and diverse growth potential for financial services providers. At Ideal Finance Limited, we stand ready to serve our existing and potential customers with innovative financial solutions, tailored to their specific needs.

Our forward path is clear and well-articulated through a strategic blueprint that has already commenced successful

Chief Executive Officer's Message cont....

deployment. Within the short term we will intensify focus on expanding our business-lending portfolio by pushing the leasing, real estate and gold loans. The ground plans have already been drawn up to expand our distribution channel by adding few more branches by end of next year. This physical expansion will significantly boost growth opportunities for our products and services across different markets and customer segments. The expansion process will be accompanied by controls to ensure further improvements to the Company's cost to income ratio, by emphasizing staff productivity and enhanced profitability from new products.

We move forward confident in the knowledge that we have the full backing and support of our team towards achieving our objectives in the coming months of the new financial year.

Appreciations

I would like to extend my sincere gratitude to our Chairman Mr. Nalin Welgama, Deputy Chairman Mr. Aravinda De Silva, Non-Executive Director Mr. Viraj Malawana and Non-Executive Independent Director Dr. P L Suren Peter,

with a special note of appreciation to Mr. Ajith Dias, who concluded his tenure as a Non-Executive Independent Director in March 2018, for their support and guidance in achieving our current success. I am also thankful to the officers of the Department of Supervision, at the Non-Bank Financial Institutions Unit of the Central Bank of Sri Lanka, for advising the Company regarding compliance with regulatory directives and acknowledge the services rendered by our external auditors. As always, I am grateful to all my colleagues at Ideal Finance Limited for their commitment, focus and dedication, which was instrumental in achieving an outstanding performance during the financial year 2017/18 and I look forward to their continued cooperation in the new financial year.

Sincerely



Duminda M. Weerasekare
Chief Executive Officer

18th June 2018

Management Discussion & Analysis

Global Economy

The global economy presented an optimistic picture of slow but steady growth in 2017 with a substantial majority of economies registering a pickup in growth. Two thirds of the world economies, comprising emerging and developing economies as well as advanced economies, registered higher growth rates in 2017, compared to 2016. For the first time since the Global Financial Crisis, there is synchronized growth in the US, UK, EU and Japan. Growth in the advanced economies and China was triggered mainly by the increase in expenditure on fixed capital formation and accommodative monetary policy, while an increase in private consumption contributed to increased growth in most emerging market economies.

The US economy continued to show signs of a strengthening labor market and rising economic activity, despite brief episodes of volatilities resulting from natural disasters. Economic activity of the UK, however, was negatively impacted by its decision to leave the EU and due to the effect of the referendum-related depreciation in the sterling pound. Japan and several euro area economies, including Germany, experienced a strong momentum in domestic demand as well as external demand during the year. Although China continued to progress on the 'Supply Side Structural Reform' program, the lack of resolution regarding

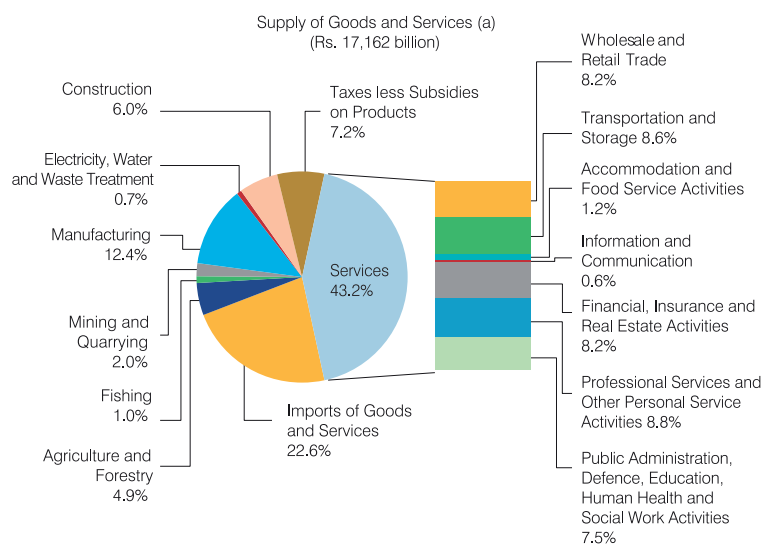
several structural problems are expected to cause some moderation of growth.

The global growth momentum is expected to improve further in 2018 and 2019 with better prospects for both advanced and emerging economies in terms of investment, production and trade, although this will possibly be accompanied by tightening financial market conditions and disruptions arising from trade wars between key global economies.

Sri Lankan Economy

The Sri Lankan economic growth did not keep pace with global economic trends with the GDP rate falling back to 3.1% in 2017, from 4.5% recorded in 2016, amidst the challenges arising from both domestic and external fronts. Reflecting the impact of adverse weather conditions, the agriculture, forestry and fishing activities contracted by 0.8% in value added terms in 2017, compared to the 3.8% contraction observed in 2016. The growth of Industry activities fell to 3.9% in 2017, compared to 5.8% in 2016 and services also contracted to 3.2% growth in 2017 compared to 4.7% in 2016. The growth in services activities was largely due to the expansion in financial services, together with the developments in wholesale and retail trade activities.

The Economy in 2017 (at Current Market Prices)



Source: Central Bank of Sri Lanka

In a wide reaching developing a new Inland Revenue Bill was enacted by the Parliament in September 2017 with a view to simplify and rationalize the existing income tax structure, broaden the direct tax collection by removing exemptions and strengthening tax administration.

Meanwhile, Fitch Rating Lanka affirmed Sri Lanka’s long-term foreign and local currency issuer Default Ratings (IDR) at “B+”, and revised the outlook to “stable” from “negative,” highlighting improving fiscal finances, improved policy coherence and credibility, and stable growth.

Prices

A moderation in inflation was observed during the second quarter of 2017, underpinned by improvements in supply conditions and the government’s initiatives to import essential food items. However, this trend reversed since August 2017 mainly due to a sharp acceleration in volatile food inflation given continued adverse weather conditions.

Although tariffs on electricity and water, and prices of diesel and petrol remained unchanged during the year, the price of a domestic liquid petroleum gas cylinder was revised upwards in September 2017, contributing to the increase in household expenditure in this category. The inflation of housing, water, electricity, gas and other fuels based on the NCPI increased slightly to 0.9% in 2017, from 0.1% in 2016, reflecting the marginal price pressure remained in this category. The private consumption expenditure (PCE) on housing, water, electricity, gas and other fuels at current market prices, grew by 5.7%, yet at a slower rate in 2017, compared to 13.7% growth in 2016.

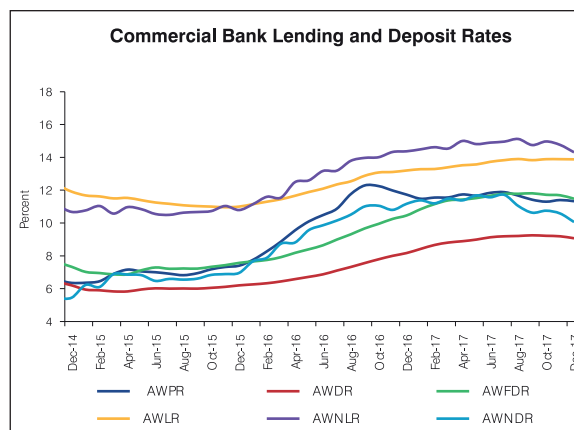
The CCPI moved up from 116.1 index points in January 2017, to 122.9 index points in December 2017. Headline inflation, as measured by the year-on-year change in the NCPI, exhibited an overall increasing trend with mixed movements during 2017. The NCPI based headline inflation increased during the first quarter of 2017 from 6.5 % in January, to 8.6% in March 2017 and gradually declined during the second quarter of 2017. However, it picked up again during the third quarter of 2017 and peaked at 8.8% in October 2017, before declining to 7.3 % in December 2017.

Exchange rate

The Sri Lankan rupee depreciated against the US dollar by 2.0% during the year, while the real effective exchange rate indices also depreciated. This depreciation of the rupee, while making exports more competitive, also contributed to the rising cost of living due to the country’s high import dependence.

Interest rates

Reflecting tight monetary conditions, the lending rates of commercial banks continued to increase in 2017, reflecting tight monetary conditions, and stabilized at elevated levels towards the end of the year. The average weighted lending rate (AWLR), which is based on interest rates of all outstanding rupee denominated loans and advances extended by Licensed Commercial Banks (LCBs) to the private sector, increased by 68 basis points to 13.88% by end 2017 from 13.20% as at end 2016. Bank wise, the AWLR also increased to a range of 10.22 - 16.23 % by end 2017 compared to the range of 10.12 - 15.66 % that prevailed at end 2016.



Source: Central Bank Annual Report, Chapter 7

Non-Bank Financial Sector

The LFC and SLC sector performance moderated during the year with low credit growth, declining profitability and increase in non-performing loans. The sector remained strong, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. By the end of 2017, the sector comprised of 45 LFCs and 6 SLCs and 1,362 branches, out of which 920 branches were located outside the Western province.

Asset growth

The total asset base of the sector grew moderately by Rs.143 billion during the year reaching Rs. 1,355 Bn by end 2017, at a growth rate of 11.8%, compared to the 21.7 % growth reported in 2016. Credit growth of the sector decelerated to 9.8 % (Rs. 94 Bn) amounting to Rs. 1,057 Bn, compared to 21% experienced during 2016. Around 62% of this growth was through finance leases, while 36% was through secured loans and advances. The hire purchase portfolio contracted during the year by Rs. 15 Bn (35.6 %). However, the growth of finance lease portfolio for the year 2017 was 13 %, compared to the growth of 17% recorded in the year 2016.

Liabilities

Customer deposits became the major portion of liabilities in 2017 and accounted for 50.7% of the total liabilities of the sector. Sector borrowings and capital accounted for 29.2% and 12.5%, respectively. The sector exhibited a shift in the funding mix as the expansion was largely funded through the customer deposit mobilization. The deposits grew by 29.4% to Rs. 686.7 Bn in 2017, compared to the growth of 10.4% in 2016. Time deposits grew by 29.2 % compared to the growth of 11.1% in the year 2016 and savings deposits grew by 35.3% compared to the negative growth of 1.7% recorded in the previous year. Nevertheless, time deposits accounted for a major share of total deposits, representing 95.5%. The sector borrowings indicated a negative growth of 9.7% to Rs. 396Bn in 2017, compared with the high growth of borrowings of 39.6% experienced during 2016. The increasing reliance on deposits were mainly attributed to the declining trend of deposit interest rates.

Operational Review of Ideal Finance Limited

Company Overview

The financial year 2017/18 marks a turning point in the history of Ideal Finance with the Company graduating into the over LKR 1 Bn capital category. During the year we increased our core capital base up to LKR 1 Bn through a successful rights issue that saw share capital increase from LKR 603 Mn to LKR 808 Mn. Ideal Finance Limited is now fully compliant with Central Bank capital adequacy

requirements and we are in the process of enhancing our capital base further to LKR 1.5 Bn by end 2018. Within the short term we are negotiating capital expansion plans to strengthen our capital levels to LKR 2.0 Bn by end 2019 and to LKR 2.5 Bn by 2020, in line with Central Bank capital adequacy directives.

As at end March 2018, the business scope and presence of Ideal Finance Limited extended across most of the country through the Company's physical branch network that facilitated Company presence and service delivery within most of the provinces.

The Ideal Finance branches are the primary contact points for sales and marketing, and customer care and customer relationship building, and hence function as the principal business channel and core stakeholder engagement channel of the Company. The Company's branch expansion strategy has ensured a wide geographic coverage through strategic location of branches in key cities across the island for maximum customer accessibility and brand visibility, thus leveraging optimum competitive advantages despite limited island wide presence compared to our larger, older competitors.

Strategic progress

The key strategic priority for Ideal Finance during the financial year 2017/18, was to ensure compliance with regulatory requirements and to strengthen the Company's balance sheet.

Within this broader context, the Company focused on the two dimensions of effective management of resources, and maintaining asset quality, while expanding the asset base. Continuous internal improvements targeting resources management have contributed towards enhanced efficiency and productivity, which has translated into cost and efficiency gains that are reflected in the bottom line. Meanwhile, our stringent credit management procedures and internal control systems have made it possible to contain nonperforming loans, while rapidly expanding our lending portfolios, which has contributed towards financial growth, coupled with the critical factor of financial stability. The current year's exceptional performance demonstrates

the effectiveness of our business management strategy during the year in terms of strengthening our financial and operational fundamentals and also achieving our strategic priorities of enhancing our capital base.

Performance of the branch network

Currently, the Company's branch network comprises seven branches which are located in the primary cities of Anuradhapura, Kurunegala, Bandarawela, Elpitiya, Embilipitiya, Jaffna and Monaragala, to provide easy and convenient access to different customer groups scattered across a large geographic area, active in diverse industries and markets. As at end March 2018, all branches were equipped with trained staff and support facilities to provide a range of credit services, which include leasing, pawning, real estate credit and loan facilities. We continued to operate six pawning centers at Bandarawela, Anuradhapura, Monaragala, Kurunegala, Jaffna and Elpitiya branches, to provide fast and convenient credit facilities at extremely reasonable rates for local communities in these areas. The Ideal Finance head office also provides the products and services, with the exception of pawning services.

Despite the intense competition faced by our branches, the total customer base of the Ideal Finance branch network grew from 4691 customers in 2016/17 to 9,796 customers in 2017/18 fueled by sustained marketing and promotional activities and supported by our friendly and warm service culture which is aimed at not only attracting new customers but also retaining existing customers through the provision of tailor made financial solutions.

During the year, total lending by the branch network increased by 39% year-on-year, to LKR 2.2Bn from LKR 1.6 Bn and the share of lending portfolio of the branch network increased from 77% to 81%.

Our branches are also the Company's main channel of mobilizing public deposits in the form of highly competitively priced fixed deposits, which continues to be one of the primary source of funding for the Company.

We are pleased to report that all seven branches maintained growth in revenues and profitability during the year under review. Total branch revenue increased by 58% year-on-year, from LKR 279 Mn to LKR 441 Mn, which represented 70% of total company revenue compared to 71% one year ago. The branch network also accounted for 54% of total company profits in 2017/18, which is a growth from LKR 33 Mn in 2016/17 to LKR 55 Mn.

Lending

The current economic conditions, have enhanced the demand for diverse and specialised financial solutions. Cognizant of the changing financial needs of our customers, we at Ideal Finance Limited have developed a wide range of services to cater to specific requirements of different customer segments. As a much smaller company operating within a highly price competitive and crowded environment, our primary competitive advantage lies in our customer service. At all times we strive to understand the financial needs and capabilities of our customers to offer them a high degree of flexibility and customization in our financial solutions and we attempt at all times to create a more customer friendly environment to retain our customers and build long term relationships. The current year's dramatic growth of our lending portfolio indicates the effectiveness of our business growth strategy and the growing public trust in Ideal Finance.

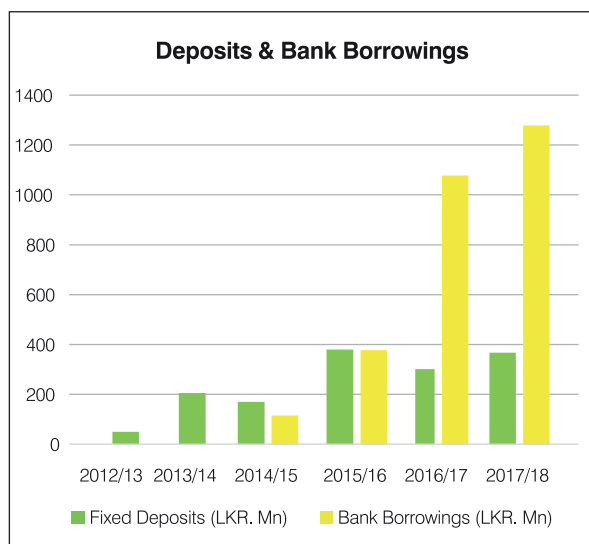
The lending portfolio of Ideal Finance expanded by 32% from LKR 2.06 Bn in 2016/17 to LKR 2.71 Bn as at end March 2018. Finance leases are the primary lending product accounting for 75% of total portfolio value at LKR 2.04 Bn as at end March 2018. However, the Company's pawning business is also growing rapidly and recorded a growth rate of 1003% year on year to reach LKR 177.7 Mn as at end of the current financial year. The loans category meanwhile, achieved a growth rate of 66% year on year to record LKR 0.49 Bn.

Deposits and Bank Borrowings

The Company's primary funding sources in 2017/18 remained public deposits and bank borrowings. It is noteworthy that in spite of the intense competition for public

deposits that prevailed during the year, the volume and value of public deposits of Ideal Finance has continued to maintain a commendable growth across the country in all geographic locations in which the company has established its presence. This increase in our deposit base amply demonstrates the rising brand visibility and credibility of Ideal Finance as an emerging financial services provider. During the year our fixed deposit portfolio increased by LKR 66 Mn, which is a growth of 22%, from LKR 301 Mn recorded at the end of the last financial year.

In order to cater to the growing demand for the Company's lending products, we continued to obtain bank borrowing, particularly to respond to the increased demand for finance leasing products and pawning services. Consequently, the total bank borrowings of the Company increase by LKR 200 Mn, which is a growth of 19%. That total borrowing has increased in 2017/18 compared to the previous year.



Building the best team

We believe our people are the most valuable resource of the Company as they contribute directly towards competitive advantages and brand differentiation through quality of skills and services. Hence, we believe our team is responsible for our success since inception and will continue to define the success of the Company going forward. Thus, as

a company, we invest in building our human resource base through the acquisition of correct skills and talent, continuous knowledge development mechanisms, and rewards and motivation systems. We strive to build a performance oriented culture, where growth opportunities are made available to all grades of staff and all staff are rewarded based on performance and achievements.

Employee profile

Our growth drive for the year was supported by relevant changes to the Company's employee profile to ensure correct and adequate staffing at head office and branch levels for maximum productivity, operational efficiency and high levels of service delivery.

During the year our total workforce expanded by 24 new recruits, to 115 employees. The average age of our workforce is 30 years with a majority of employees falling within the 26 to 30 age bracket.

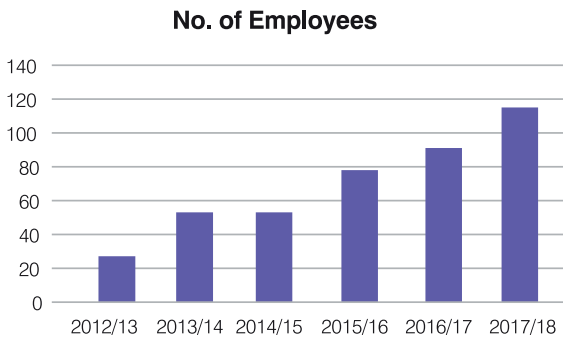
All new recruitments were made according to formal, transparent recruitment procedures based on merit to fill-up approved skill gaps and vacancies. A majority of new recruitments were in the category of sales and marketing and we have attempted at all times to provide employment opportunities for local youth, thereby generating formal employment within the regional economies in which we operate.

Training and development

Our training and development calendar is a key component of staff motivation and Company growth and during the year under review, various training programs were made available to all staff in relation to their areas of work, to enhance their technical knowledge and provide industry updates.

Relevant staff were sent for training programs conducted by the Central Bank of Sri Lanka to educate them regarding regulatory and policy changes coming into effect. Our staff also attended training and knowledge sharing sessions conducted by key national and industry bodies such as the Chartered Institute of Sri Lanka, the Inland Revenue Department, ect., to enhance awareness regarding

regulatory changes and potential impacts on business operations.



Marketing and branding

Marketing and branding are essential components of our business to differentiate the Ideal Finance brand and brand image in the customer mind as financial markets become more crowded and more competitive with ever growing numbers of new products, services and benefits offered by larger competitors. Within this scenario, Ideal Finance has continued to expand its market share and customer mind share during the year by clearly distinguishing the Ideal Finance brand and its product offerings, from the competition.

We concentrated on the leasing market during the year, to consolidate and establish our name in this segment with great success as demonstrated by the growth in our leasing portfolio. Many marketing campaigns were conducted in different parts of the country to promote vehicle leasing through Ideal Finance.

In addition to the leasing category, we also aggressively promoted our pawning and real estate products during the year through continuous campaigns in strategic locations across the country.

Our promotional campaigns were designed to distinguish the Ideal Finance brand and enhance public awareness of the brand. To augment customer benefits, we offered the best rates in the industry and leveraged synergies through the Ideal Group, by offering the best prices for Ideal automobiles.

Going forward, we will continue to strengthen our marketing team to continue to penetrate markets across the country through direct, one-on-one, customer engagements for better understanding of customer needs and aspirations which would enable the formulation of targeted and customized financial solutions for diverse financial needs of households and communities in different geographic locations. We will also continue to focus on improving our customer services to be the best in the industry.



New Branch Opening - Embilipitiya



Leasing Promotion

Board of Directors



Mr. Nalin J. Welgama

Chairman

Nalin Jayaraj Welgama is a senior Accountant having managed a leading firm of Chartered Accounts in the United Kingdom for several years prior to embarking upon an entrepreneurial function as founder Chairman of Ideal Group. He conceptualized and founded Ideal Plant and Vehicles Ltd UK in 1986, a company engaged in the worldwide export of luxury motor vehicles, contractor's plant and machinery from the UK.

In 1996, with the formation of Ideal Automotive Parts (PVT) Ltd, the seeds were sewn for the establishment of the group which at present comprises of 14 companies, each of which are playing a leading role in their respective business segments. The Group has diversified in to Passenger cars, commercial vehicles, heavy machinery, motor cycles, import and distribution of Tyres, financial services, automotive parts and renewable energy, and constitutes a combined turnover in excess of LKR 20 Bn annually and employs over 700 people.

Nalin J. Welgama is the youngest son of the renowned philanthropist entrepreneur Mr.S.A.Welgama whose name is synonymous with road haulage (transport) in Sri Lanka, a company whose origins date back to 1931.



Mr. Aravinda De Silva

Deputy Chairman

Aravinda is a cricketing star and an all-time great in his own right. He retired from the sport at the pinnacle of his career in 2003. Aravinda holds the distinction of being the only cricketer in the world to have scored a century and taken 3 wickets in a world cup final (1996). He is currently an advisor to Sri Lanka Cricket.

After retiring from competitive cricket Aravinda brought his passion for premium automobiles and keen acumen perfected by his cricketing exploits to the automotive industry by co-partnering in 2005 to establish the IDEAL Group of Companies.

The success thereon has been phenomenal with IDEAL venturing into automotive franchise business for Cars, Busses, Trucks, Three Wheelers and Motorcycles, franchise business for Tires, Green Energy solutions and Finance & Real Estate. Ideal Group is the partner for key global brands in automotive sector representing Mahindra & Mahindra the largest vehicle distributor in India which is a \$20 billion conglomerate, Apollo Tyres, Cooper & Chery.

cont....

Board of Directors



cont....

Recognizing his business acumen and foresight Aravinda was appointed Chairman, Thomas Cook Lanka (Private) Limited in September 2017, which is a fully owned subsidiary of Thomas Cook (India) Ltd., another investment by Canada based Global Fund, Fairbridge Capital. Fairbridge Capital is also a key strategic investor in Fair first Insurance and Nations Trust Bank in Sri Lanka.

Aravinda is also a business strategist in mergers and acquisitions (M&A) and a venture capital investor in technology based start-ups.

Pursuing further his Venture Capital interest, he is a Director of Nano Tag Technology (Pvt) Ltd., a Sydney based innovation driven company leading the anti-counterfeit and product protection industry with over 35 patent based solutions under their product portfolio.

Mr. Duminda Weerasekare

Director/CEO

With an expansive knowledge, skill and 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 entities. His work experience ranges from negotiating and sourcing funding from international funding organisations and agencies, to introducing pioneering funding sources into the country and 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.

Board of Directors



Mr. Viraj Malawana
Non-Executive Director

Possessing first-hand experience garnered on the trading floors at both the Colombo and Brunei Stock Exchanges, Mr. Malawana has a long spanning career in the financial services industry. He went on to hold senior positions at HSBC Premier and Standard Chartered Bank and is credited for structuring and creating novel investment instruments tailored specifically for foreign investors into Sri Lanka. He later founded and served as Chief Executive Officer of New World Securities Pvt. Ltd, a trading member of the Colombo Stock Exchange.

Mr. Malawana is currently the Managing Director of Strategic Business Innovator Pvt. Ltd. He continues to serve as a Director to the NWS Holdings Group of Companies whilst also sitting on the Board of Directors of Ideal Finance Limited, Wealthtrust Securities Ltd, Bansei Royal Resorts Hikkaduwa PLC, Veritas Holdings Pvt. Ltd, Sushi Bar Samurai Pvt. Ltd and SB Pvt. Ltd, a partner company of Jetwing Hotels Ltd. He was also the former Chairman of Bansei Securities Capital Pvt. Ltd.

His most recent appointments are that of Advisor to the Ministry of Tourism serving on their Advisory Committee and specializing in the Japanese tourist segment as well as serving as a Consultant to Bansei Securities Capital Pvt. Ltd, a licensed Margin Provider.



Dr. Suren Peter
Senior Independent Non-Executive Director

Conferred a doctorate from the Maastricht School of Management in the Netherlands, he is a Fulbright scholar, holding a Master of Science in Management from Georgia Institute of Technology USA and a Master of Philosophy. His first degree was in Industrial Management in which he graduated with first class honours from the University of Kelaniya, Sri Lanka.

As a university academic, he has over 20 years of teaching, research and consulting experience and has served as the Head of the Department of Industrial Management at the University of Kelaniya. He has been the National Consultant on a number of projects for UNIDO and UNDP and been involved in consulting for numerous international development organizations and state and private sector entities.

Board of Directors



Mr. Ajith Dias

Independent Non-Executive Director

(Ceased directorship with effect from 21st March 2018)

A Chartered Textile Technologist and a Fellow of the Textile Institute UK, he chairs Jewelex Trading (Pvt) Limited and Sri Lanka's national carrier, SriLankan Airlines. Regarded with eminence in the apparel industry, he has been a past Chairman of the Joint Apparel Associations Forum (JAAF) the apex body of all textile and apparel associations in Sri Lanka and the Free Trade Zone Manufacturers Association. He is also a Member of the Textile Quota Board.

He sits on the Board of Brandix Lanka Limited and was instrumental in the establishment of Jewelknit Limited, a merger between Phoenix and Jewelknit which resulted in the formation of Brandix Lanka Limited. Championing the Garments without Guilt global campaign to spur ethical apparel manufacturing and sourcing in Sri Lanka which has gained immense credence among global apparel industry stakeholders, his investments now extend to world renowned coffee house franchise Barista which saw the establishment of Barista Lanka (Pvt) Limited, while also maintaining significant involvement in tourism, leisure, retail, trading and agriculture.

Corporate Management

The Corporate Management of the Company is comprised of industry experts who combinedly count over 50 years of experience in both Finance & Banking sectors leads Ideal Finance Limited, whose profiles are given below.

Mr. Duminda Weerasekare

Chief Executive Officer

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.

Mr. Rohitha Bandusena

Chief Operating Officer

Mr. Bandusena who counts over 15 years of experience in Finance, Operations, Treasury, Credit and Risk Management, holds a BSc (Hons) (Business Administration) special degree from the University of Sri Jayawardenapura.

Among the positions he has held are Senior Manager - Finance at Nations Leasing (Nations Trust Bank PLC), Assistant General Manager - Treasury and Operations at LB Finance PLC.

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.

Mr. Gaman Kithsiri

Chief Information Officer

Prior to taking up the Head of ICT position at IFL, Mr. Kithsiri held the position of Head of ICT in the capacity of Assistant General Manager grade at New World Securities (Pvt) Limited. He has rendered his service and expertise to NWS Financial Services (Pvt) Ltd & NWS Management (Pvt) Ltd.

Counting over 18 years of experience in the field of IT and over 6 years of ICT Management, Mr. Kithsiri was attached to Ceylinco Stock Brokers as Senior Manager IT, Assistant Manager IT, Senior Data Processing Executive where his contribution was rewarded as the best Y2K Project Co-ordinate from Ceylinco Stock Brokers.

He possesses the Chartered Information Technology Professional - MBCS-CITP (UK) from The Chartered Institute for IT, London, ACS from Australian Computer Society, High Diploma in Computer Software Engineering (HDCSE) from Londontec international, Sri Lanka and Network Design & maintenance from University of Colombo.

Mr. Prdeep De Silva

Assistant General Manager (Pawning)

Mr. De Silva counting over 31 years of experience in Finance, commenced his carrier with L B Finance PLC in 1987 and when gold loan operation was started in 1998 was placed in charge of Gold Loan operations and promoted to Senior Manager.

Joining Alliance Finance as an Assistant General Manager Gold Loan in 2008 continued in the same position at Orient Finance Ltd from 2016 for one year to join Ideal Finance as Assistant General Manager Gold loan.

Mr. Rohan Thennakoon

Compliance Officer

Mr. Thennakoon has completed the Advanced Diploma of the Chartered Institute of Management Accountants of UK and is at present reading for the Strategic level (Final). He is also a member of the Association of Accounting Technicians of Sri Lanka (AAT). He has completed the Awareness Level of Chartered Tax Advisor and has qualified for the CTA Advisory Level. He is a final year student of Bachelor of Information Technology (UOM) and is following the Bachelor of Business Administration Degree (UOP).

He counts over 10 years of experience in the finance field which includes Finance Operations, Reporting, MI, and Transfer Pricing and is a core member of the process of System Implementation including ERP systems.

Immediately prior to this, he was employed at AIA Insurance Lanka PLC where he had a comprehensive exposure to International Accounting Standards and Accounting systems.

Ms. Madumali Munasingha

Accountant

Ms. Munasingha is an Associate Member of the Institute of Chartered Accountants of Sri Lanka with over 5 years of experience in the fields of Auditing and Finance including financial reporting and corporate taxation.

She started her career at Ernst and Young as an Audit Trainee and reached the level of Supervisor- Assurance. Ms. Munasingha completed her Bsc. Accounting (Special) Degree from the University of Sri Jayawardenepura.

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.

Board of Directors

The Board is the apex 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 of five (05) members, four (04) 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, Dr. P.L Suren Peter is 'Independent'.

Chairman and Chief Executive Officer

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 Weerasekare 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 resigns 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 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 2018, 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	10/12
Mr. D M Weerasekare	Executive	12/12
Mr. P A De Silva	Non-Executive	11/12
Mr. J V W Malawana	Non-Executive	11/12
Mr. Ajith N. Dias	Independent Non-Executive	11/12
Dr. L. Suren Peter	Independent Non-Executive	12/12

Board Sub-Committees

An Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Nomination Committee and an IT Steering 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 currently comprised of Mr. J.V.W. Malawana & Dr. Suren Peter and 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 Audit, 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 Dr. P.L. Peter, an Independent Non-Executive Director and Mr. Aravinda De Silva & Mr. Viraj Malawana are members of the IRMC which also consists of key management personnel supervising broad risk categories.

Remuneration Committee

The Remuneration Committee is currently comprised of Mr. Aravinda De Silva & Mr. Ajith Dias and is chaired by Mr. Nalin Welgama.

Nomination Committee

Nomination Committee was formed in March 2014 and is comprised of Mr. Ajith Dias & Dr. P.L. Suren Peter while Mr. P.A. De Silva chairs the committee.

IT Steering Committee

IT Steering Committee was formed in March 2014 and is chaired by Dr. Suren Peter. Mr. Viraj Malawana and Mr. Aravinda De Silva are members of the 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 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.

Corporate Governance cont...

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.

Outlook

Corporate governance plays a vital role in business and future emphasis is to further satisfy the Company's stakeholders whilst sustaining the growth of the Company. Therefore we believe in implementing a broad operating structure, monitoring internal control review, benchmark, feedback effective and transparent communication



Nalin J Welgama

Chairman

18th June 2018

Corporate Governance cont....

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 below.

Section	Agreed Upon Procedure	Status	Result of Procedure
2(1)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the Finance company.		
a)	Approving and overseeing the Company's objectives and corporate values and ensure that these are communicated throughout the Company.	Complied	<p>Vision, mission and corporate values of the company are included in the procedure manual which is approved by the board on 26th March 2012.</p> <p>Board approved business plan for the next three years is in place for the period 2018-2021 along with the budget. Annually reviewed Strategic objectives and corporate values are communicated throughout the company at Management & Staff meetings in order to enhance their understanding regarding the future goals and objectives of the company.</p>
b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals , for at least the next three years	Complied	<p>The Board has an approved Business Plan for the three years 2018 -2021 includes the overall business strategy of the company.</p> <p>Company has a Board approved Risk Manual which includes different types of risks faced by the company, responsible staff, Risk mitigation strategies and Risk Reporting formats to be used by the staff .</p> <p>Board approved Treasury and Liquidity Risk Management Policy is in place, defining identifying, measuring and monitoring the said risks.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
			<p>The Integrated Risk Management (IRM) report defines the risk management strategies along with the key risk factors, related risk and risk mitigation action.</p> <p>Company's overall business strategy for the three years commencing from 2018-2021 is included with the measurable goals of the company.</p>
c)	Identify the risk and ensuring implementation of appropriate system to manage the risk prudently.	Complied	<p>Board has formed an Integrated Risk Management Committee (IRMC) and delegated the function to manage the risks identified to the Committee.</p> <p>Findings of the IRMC are reported to the Board at the subsequent Board meeting.</p>
d)	Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied	Company has two board approved communication policies for shareholders and other internal and external stakeholders.
e)	Reviewing the adequacy and the integrity of the finance Company's internal control system and management information system; entail	Complied	<p>Board reviews the adequacy and the integrity of the Company's internal control system by way of internal audit reports submitted to the board through the Board Audit Committee.</p> <p>A Board approved procedure manual is in place defining the decision flow and responsibility of each functional area of the company.</p> <p>Procedures for ICT controls are included in the procedure manual.</p> <p>Company has a Board approved Information Technology Policies and Procedures and an IT Steering Committee established by Board.</p>
		Complied	Company evaluated the adequacy and integrity of the company's Management Information System and has carried out an IS Audit for 2017/18.

Section	Agreed Upon Procedure	Status	Result of Procedure
f)	Identifying the designating key management personnel, who are in a position to (i) significantly influence policy (ii) Direct activities and (iii) exercise control over business activities, operations and risk management;	Complied	Key Management Personnel (KMP) have been defined as "Board of Directors (BOD), Chief Executive Officer (CEO), Chief Operating officer (COO), AGM-ICT, Management Accountant, Financial Accountant, Compliance Officer, Asst. Manager- Real Estate, Asst. Manager- Operations, Branch Manager.
g)	Defining the areas of authority and key responsibilities for the board and the key management personnel;	Complied	<p>Corporate Governance policy approved by the Board of Directors includes an area specifying the responsibilities of the board of directors.</p> <p>Company has a Board approved schedule of matters specifically reserved to the Board of Directors.</p> <p>Further, Articles of Association briefly describes on the powers and duties of the Board of Directors.</p> <p>Key responsibilities of other Key Management Personnel have been defined briefly in Feasibility Report which is approved by the Board.</p>
		Complied	Company has completed the key responsibilities (job descriptions) of KMPs.
h)	Ensuring that there is appropriate oversight of affairs of the finance Company by key management personnel , that is consistent with the finance Company's policy;	Complied	Key management personnel were invited to the Board meetings to make presentations on overall performance, collections and progress of the Company.
i)	Periodically assessing the effectiveness of its governance practice including	Complied	As per Articles of Association, Board has the power to make decisions on selection, nomination and election of directors.
	(i) selection, nomination and election of directors and key management personnel;	Complied	Further Articles of Association addresses the provisions on management of conflicts of interest of Directors.
	(ii) management of conflicts of interests; and	Complied	A self-evaluation process of the board members is in place to ensure the own performance, better governance and determination of weaknesses.

Section	Agreed Upon Procedure	Status	Result of Procedure
	(iii) The determination of weaknesses and implementation of changes where necessary.	Complied	Self-performance evaluation of the Board of Directors for the year 2017/18 has been done.
	j) Ensuring the finance Company has an appropriate succession plan for key management personal.	Complied	Board approved Succession Plan Policy guideline is in place. A succession Plan is implemented.
	k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	CEO is represented at the Board, IRMC and IT Steering Committees. CEO attends the Audit Committee upon invitation. Key Management Personnel are invited as and when the need arises by the Board or the Committee to explain matters relating to their areas of functions.
	l) Understand the regulatory environment.	Complied	All new CBSL directions issued by the Central Bank have been submitted to the Board by the Compliance Officer and approved thereof. A summary of returns are presented to the board by the Compliance Officer at each board meeting.
	m) Exercising due diligence in the hiring and oversight of external auditors.	Complied	Company's Articles of Association reveals that there is a process for hiring of external auditors at their AGM. Oversight of external auditors is carried out by the Board Audit Committee. The process on engaging with external auditors is included in the Audit Committee Charter under Authority & Responsibility.
2(2)	The board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer.	Complied	Board has appointed a Chairman and a CEO. Functions and responsibilities of the Chairman have been defined in the Corporate Governance Policy. Company has completed defining the functions and responsibilities of the CEO.

Section	Agreed Upon Procedure	Status	Result of Procedure
2(3)	There shall be a procedure determined by the Board to enable directors, upon reasonable request to seek independent professional advice in appropriate circumstances at the finance Company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance Company.	Complied	Procedure manual of the company contains with a section providing the procedures on seeking independent professional advice by directors at company expense.
2(4)	Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relatives or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	Articles of the Association give evidences on the procedure for "Restrictions on Voting" by Board of Directors when they have a substantial interest on any matter and not to count for the quorum. No such transaction has taken place during the year.
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Company is firmly under its authority.	Complied	Company has a Board approved schedule of matters specifically reserved to the board for decision making.
2(6)	The Board shall, if it considers that the finance Company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Non-Bank Supervision of Non-Bank Financial Institution of the situation of the Company prior to taking any decision or action.	Complied	Such a situation has not been arisen during the year 2017/18.
2(7)	The Board shall publish in the Company's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Complied	This has been disclosed in the Annual Report on page 26 to 48.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied	Company has a process of evaluating the self-performance of the Board of Directors.
(3) Meetings of the Board			
3(1)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible	Complied	Board has met 12 times during the year 2017/18.

Section	Agreed Upon Procedure	Status	Result of Procedure
			There were instances where the Board's consent has been obtained through the circulation of written resolutions/papers during the year 2017/18.
3(2)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance Company.	Complied	<p>Agenda is drafted by the compliance officer & then circulated by the company secretary, among the board members by electronic mail prior to the meeting, which enables directors to communicate any matters which they wish to be discussed at the meeting to be included in the agenda</p> <p>Procedure manual of the company includes the procedure on enabling all directors to include matters and proposals in the agenda.</p>
3(3)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Complied	<p>The date of the next meeting is decided at the end of the current meeting of the Board.</p> <p>Agenda letters and previous month board minutes are sent to the board members by the company secretary via e-mail.</p> <p>Further, as a practice, Directors are given a notice of at least 7 days for regular Board Meetings. Previous month board meeting minutes are sent to the board members by the company secretary via e-mail.</p>
3(4)	A Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Complied	Such a situation has not been arisen during the year in concern.
3(5)	Board shall appoint a Company Secretary, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	SSP Corporate Services (Private) Limited was appointed by the Board as their company secretary.
3(6)	If the chairman has delegated to the Company secretary the function of preparing the agenda for a Board meeting, the Company secretary shall be responsible for carrying out such function.	Complied	Agenda is prepared by the compliance officer & given for company secretary for clearance to circulate among the board members.

Section	Agreed Upon Procedure	Status	Result of Procedure
3(7)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions rules and regulations are followed.	Complied	All directors have access to advice and services of the Company Secretary. Company has drafted a procedure in this regard.
3(8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	Company Secretary maintains the minutes of Board Meetings. Procedure Manual of the company includes a chapter; "Maintaining Minutes of the Board Meetings" in this regard.
3(9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: <ul style="list-style-type: none"> a) a summary of data and information used by the Board in its deliberations; b) the matters considered by the Board; c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence, including the name of the directors. d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; e) the Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted; and f) the decisions and Board resolutions. 	Complied	Detailed minutes are kept covering the given criteria. Board minutes contain the required details as specified.
(4)	Composition of the Board		
4(1)	The number of Directors on the Board shall not be less than 5 and not more than 13. A transitional provision will apply if the number of Directors on the Board of the finance Company is either less than 5 or exceed 13 such Companies may continue for a maximum of three years commencing 01.01.2009.	Complied	Board comprised of 6 members during the current year.

Section	Agreed Upon Procedure	Status	Result of Procedure
4(2)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer or executive director shall not exceed nine years, and such period in office of a non-executive director shall be inclusive of the total period of service served by such Director up to January 1, 2009.	Complied	None of the Directors have exceeded 9 years of service since the company was incorporated in January 2012.
4(3)	An employee of a finance Company may be appointed, elected or nominated as a Director of the finance Company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive of the Company.	Complied	There are 6 members in the Board out of which one is an Executive Director thus complies with the requirement.
4(4)	From 1st January, 2012, the total number of independent non-executive Directors, of the board shall be at least one fourth of the total number of directors. A Non-Executive Director shall not be considered independent if he/she: <ul style="list-style-type: none"> a) Holds shares exceeding 2% of the paid up capital of the finance company or more than 10% of paid up capital of any other finance company; b) has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding at a particular time exceeding 10 per cent of the capital funds of the finance company as shown in its last audited B/S. c) has been employed by the finance company during the two year period immediately preceding the appointment as director. d) has a relative; who is a director, CEO, key management personnel, or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5 % of the paid up capital of the another finance company. e) represents a shareholder, debtor, or such other similar stakeholder of the finance company f) is an employee or a director or has a share holding of 10% or more of the paid up capital in a company or business organization: 	Complied	The Board comprised of 6 members which consists of an Independent Non-Executive Directors.

Section	Agreed Upon Procedure	Status	Result of Procedure
	<p>(i) which has a transaction with the finance company as defined in paragraph 9 , aggregate value outstanding of which at any particular time exceeds 10% of the capital funds (regulatory capital)as shown in its last audited B/s of the finance company, or</p> <p>(ii) in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10% of the capital funds (material share holding) as shown in its last audited B/s of the finance company, or</p> <p>(iii) in which any of the other directors of the finance company have a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds (regulatory capital)as shown in its last audited B/s of the finance company.</p>		
4(5)	In the event an alternate Director is appointed to represent an Independent non – executive Director, the person so appointed shall also meet the criteria that apply to the Independent non-executive Director.	Complied	Such an incident has not taken place during the year 2017/18.
4(6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied	Articles of Association address the appointment and removal of Directors. Company has drafted a procedure on appointing NEDs.
4(7)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one-half of the number of Directors present at such meeting are Non-Executive.	Complied	<p>During the financial year 2017/18 more than 50% of the directors participated for board meetings are non-executive.</p> <p>Company shall initiate action to make the quorum to read as more than 50% of the existing members and out of them more than 50% to be Non- Executive Directors.</p>
4(8)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Finance Company. The Finance Company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non- Executive Directors in the Annual Corporate Governance Report.	Complied	Company has disclosed the composition of the Board as required in the direction on page 53 of the Annual Report.

Section	Agreed Upon Procedure	Status	Result of Procedure
4(9)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	Company's Articles of Association addresses a general procedure for appointment of new Directors. Company has drafted a procedure on appointing new members to the Board. Company has a policy of appointing a member to the board, where the responsibility has been given to the nomination committee.
4(10)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	No directors have been appointed during the year 2017/18.
4(11)	If a Director resigns or is removed from office, the board shall announce to the Shareholders and notify the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Company, if any	Complied	No directors have resigned from office during the year.
(5) Criteria to assess the fitness and propriety of directors			
5(1)	The age of a person who serves as Director shall not exceed 70 years.	Complied	Mr. Ajith Dias reached the age of 70 on 14th March 2018, & vacated office on the said date.
5(2)	A person shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate including Subsidiaries or Associate Companies of the Finance Companies Provided that such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied	Except for Chairman, Mr. Nalin Welgama & deputy chairman, Mr. Aravinda De Silva none of the other directors hold directorships in more than 20 companies.
(6) Management functions delegated by the board			
6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	The Board is empowered by the Articles of Association to delegate its powers to a committee of directors or to a director or employee upon such terms and conditions and with such restrictions as the Board may think fit.
6(2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	Complied	The delegated powers are reviewed by the Board to ensure that they remain relevant to the needs of the company.

Section	Agreed Upon Procedure	Status	Result of Procedure
(7) The Chairman and CEO			
7(1)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual	Complied	Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
7(2)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Non – Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Finance Company Annual Report.	Complied	Chairman is a non- executive director of the Company. Company has designated an Independent Non-Executive Director as the Senior Director of the Company. (This is disclosed in the Annual Report page 19.)
7(3)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	Company has a process to identify the relationship between Chairman, CEO and the Board members and the nature of any relationship amongst the members of the Board. The Board is aware that there are no material relationships whatsoever, including financial, business, family and any other material relationship between the Chairman and the CEO and the other members of the Board as per the annual declarations made by the Directors and disclose in their annual corporate governance report any relationship between the Chairman and the CEO and the board members and the nature of any relationships among members of the board. This is disclosed in the Annual Report page 23.
7(4)	The Chairman shall: <ul style="list-style-type: none"> (i) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner. 	Complied	Company has a Board Approved Corporate Governance Policy which defines the Functions and Responsibilities of Chairman. The Company expanded the format of annual assessment by including an area to measure the effective discharge of Board functions." All key and appropriate issues are discussed by the Board on a timely basis.

Section	Agreed Upon Procedure	Status	Result of Procedure
7(5)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied	Agenda is drafted by the compliance officer & sent to company secretary for clearance & then circulated to the board members under the instructions of the Chairman.
7(6)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied	<p>The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and board papers with sufficient time prior to the meetings.</p> <p>Agenda and the minutes of the previous board meeting are sent to the directors at least 7 days prior to the next meeting for their review.</p> <p>Further, minutes of previous month's board meeting are distributed to the Board members and tabled at the next board meeting for review and approval.</p>
7(7)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Finance Company.	Complied	The Chairman has ensured the contribution of fullest participation of all members' and their fullest contribution.
7(8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	Complied	The Chairman facilitates the contribution of all directors including non-executive directors.
7(9)	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	<p>Chairman is a non-executive director.</p> <p>The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.</p>
7(10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	AGM of the company is the main forum where the Board maintains effective communication with shareholders. Further a Board approved Communication Policy for shareholders, is in place.
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-today-management of the Finance Company's operations and business.	Complied	As per the functions and responsibilities of the CEO, he is the apex executive-in charge of the day-to-day management of the company's operations and business as mentioned in the Corporate Governance Policy.

Section	Agreed Upon Procedure	Status	Result of Procedure
(8) Board appointed committees			
8(1)	Every Finance Company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The board shall present a report on the performance, duties and functions of each committee, at an annual general meeting of the Company.	Complied	At present company has established 05 board committees including Audit Committee (AC) and Integrated Risk Management Committee (IRMC) as set out in paragraphs 8(2) and 8(3) of the direction. Both committees submit their reports to the main board for their review and approved thereon. A report on each committee on its performance, duties and functions has been disclosed in the Annual Report on pages 49 to 51.
8(2)	Audit Committee:		
a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy) and/or audit.	Complied	Chairman of the Audit Committee is a non-executive director and possesses qualifications and related experience.
b)	Check that all members of the committee are non-executive directors.	Complied	All other members of the committee are non-executive directors.
c)	The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> i. The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii. The implementation of the Central Bank guidelines issued to Auditors from time to time; iii. The application of the relevant accounting standards; and 	Complied	Committee has discussed the issues in Corporate Governance Factual Finding Report issued by the External Auditors. Audit partner completed five years of service for FY 2017/18.
d)	The service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.		Board approved the re-appointment of Auditors and the audit fee with regard to the current financial year.

Section	Agreed Upon Procedure	Status	Result of Procedure
e)	The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	External Auditor is independent since they directly report to the Board Audit Committee and their Report on the financial statements of the company for the year 2017/18 indicates that the audit is carried out in accordance with SLAuS.
f)	The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non- audit services, the Committee shall consider: <ul style="list-style-type: none"> (i) Whether the skills and experience of the audit firm make it a suitable provider of the non-audit services (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor 	Complied	Board approved the policy on engagement of an external auditor to provide non-audit services.
g)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: <ul style="list-style-type: none"> (i) An assessment of the Finance Company's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; 	Complied	Committee has developed a mechanism to meet the auditors before commencing the audit to inquire about the nature and scope of the audit, with the external auditors in accordance with SLAuS.

Section	Agreed Upon Procedure	Status	Result of Procedure
	(ii) The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and	Complied	BAC has discussed the preparation of financial statements in accordance with relevant accounting principles.
	(iii) The co-ordination between firms where more than one audit firm is involved.	N/A	
h)	The Committee shall review the financial information of the Finance Company, in order to Complied with monitor the integrity of the financial statements of the Finance Company, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments	Complied	Committee has a process to review the financial information of the company. Company is in the process of further strengthening the Financial Statements and said areas.
	(i) Major judgemental areas; (ii) Any changes in accounting policies and practices; (iii) Significant adjustments arising from the audit; (iv) The going concern assumption; and (v) The compliance with relevant accounting standards and other legal requirements.		
i)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied	Committee has met the external auditors during the year at committee meeting in the absence of the executive management.
j)	The Committee shall review the External Auditor's management letter and the management's response thereto.	Complied	Committee has reviewed the external auditor's management letter for the year end 31 March 2018 and the management's response thereto. Management letter for the year ended 31 March 2018 will be reviewed upon receipt of the same.
k)	Committee shall take the following steps with regard to the internal audit function of the Finance Company		
	(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.	Complied	Internal audit function of the company has been outsourced to a firm of Chartered Accountants and their scope of the audit has been included in their audit reports. Internal Audit Reports have been submitted to the Audit Committee for their review.
	(ii) Reviewed the resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work;		

Section	Agreed Upon Procedure	Status	Result of Procedure
	(iii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department.	Complied	Audit Committee has reviewed the internal audit program and the audit reports were reviewed and discussed thereon.
	(iv) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.
	(v) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.
	(vi) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants
	(vii) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	Internal audit function is independent since Internal audit function is outsourced and report directly to the Board Audit Committee and also performed with impartiality, proficiency and due professional care.
	(viii) Ensure that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care.	Complied	Documented process in the Internal audit charter approved by the Board.
	l) The Committee shall consider the major findings of internal investigations and management's responses thereto;	Complied	No such major findings have been reported to the committee during the year.
	m) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied	Audit Committee has met the external auditors without the executive directors being present.

Section	Agreed Upon Procedure	Status	Result of Procedure
n)	The Committee shall have; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	An Audit Committee Charter is in place included with terms of reference of the committee which is approved by the board.
o)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	During the year the committee has met 6 times and has maintained the minutes appropriately.
p)	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the duties and functions of the committee (ii) details of the activities of the audit committee (iii) the number of audit committee meetings held during the year; and (iv) details of attendance of each individual director at such meetings	Complied	Company has disclosed the required details in the Annual Report on pages 49 to 50.
q)	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied	Company Secretary has been appointed as the secretary to the Audit Committee.
r)	Company shall have a "whistle blower" policy which covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters. (ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and (iii) Appropriate follow-up action. (iv) Protection of the whistle blower	Complied	Company has developed a whistle blower policy to deal with matters mentioned.
8(3)	Integrated Risk Management Committee (IRMC):		
a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	Committee consists of the following NEDs. Dr. P. L. Suren Peter (Chairman) Mr. Viraj Malawana (Non-executive director) Mr. Aravinda De Silva (Non-executive director) CEO, COO, Compliance Officer and other executive management personnel participate to the committee meetings whenever necessary.

Section	Agreed Upon Procedure	Status	Result of Procedure
b)	<p>The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Finance Company on a monthly basis through appropriate risk indicators and management information.</p> <p>In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on the finance Company basis and group basis.</p>	Complied	<p>IRMC assesses the risks such as credit/default risk, interest rate risk, currency risk, collateral risk, strategic risk, regulatory risk, operational risk and reputational risk on a quarterly basis through risk indicators and management information.</p> <p>Company has identified more risk indicators and risk limits and the procedure manual has been updated.</p> <p>There are no subsidiaries or associates under this Company.</p>
c)	<p>The Committee shall review the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.</p>	Complied	<p>Company has established the Credit Committee and Credit Committee approves the facilities within the given authority limits of the committee.</p> <p>It is being reviewed and the procedure manual has been updated.</p>
d)	<p>The Committee shall take prompt corrective action to mitigate the effects of Complied with specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Finance Company's policies and regulatory and supervisory requirements.</p>	Complied	<p>Committee has reviewed and considered all risk indicators. Company has strengthened risk indicators by introducing more quantitative and qualitative risk limits and the procedure manual has been updated.</p>
e)	<p>The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p>	Complied	<p>IRMC has met 04 times during the financial year.</p>
f)	<p>The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</p>	Complied	<p>At the company specific risks and the limits are identified by the Risk Management Committee and decisions are taken collectively. Further Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka has issued any directions to the company in this regard during the current financial year.</p>
g)	<p>The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.</p>	Complied	<p>IRMC findings are submitted to the subsequent board meeting for their review, in order to identify the potential Risks of the Company and the impact caused by them.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
	<p>h) The Committee shall establish a compliance function to assess the Finance Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.</p>	Complied	<p>A dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.</p> <p>The appointment of the Compliance officer has been approved by the Board at the meeting and CBSL approval on this regard has been obtained.</p>
9. Related party transactions			
9(1)	<p>The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No.1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No.2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.</p>		
9(2)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Finance Company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>a) A subsidiary of the finance company;</p> <p>b) Any associate company of the finance company;</p> <p>c) A director of the finance company;</p> <p>d) A key management personnel of the finance company;</p> <p>e) A relative of a director or a key management personnel of the finance company;</p> <p>f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;</p> <p>g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.</p>	Complied	<p>Corporate Governance Policy of the company includes a section regarding the related parties.</p> <p>Company is in the process of strengthening the RPT Policy.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
9(3)	<p>The transactions with a related party that are covered in this Direction shall be the following: Type of transactions are as follows:</p> <p>a) The grant of any type of accommodation</p> <p>b) The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.</p> <p>c) The providing financial or non-financial services to the finance company or received the same from the finance company</p> <p>d) The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	Complied	In the Corporate Governance Policy, the company has identified the types of related party transactions as mentioned in the direction. Through the procedure manual the responsibility on identification of related party transactions have been delegated to the Accountant/ COO.
9(4)	<p>The Board shall ensure that the finance Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance Company. For the purpose of this paragraph, "more favourable treatment" shall mean:</p>	Complied	<p>Company has defined the related party transactions and more favourable treatment in its' Corporate Governance Policy.</p> <p>Company will strengthen the existing system to input the RPT data to the system and extract a report with required data/ details of such transactions with the said related parties and to monitor such reports to ensure that no such "More favorable treatment" is offered to related parties than that accorded to other constituents of the finance company carrying on the same business.</p>
a)	<p>Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Finance Company's regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Finance Company's share capital and debt instruments with a maturity of 5 years or more.</p>	N/A	Such a situation has not arisen.

Section	Agreed Upon Procedure	Status	Result of Procedure
	b) Charging of a lower rate of interest than the Finance Company's best lending rate or paying more than the Finance Company's deposit rate for a comparable transaction with an unrelated comparable counter party.		
	c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;		
	d) Providing services to or receiving services from a related-party without a proper evaluation procedure;		
	e) Maintaining reporting lines and information flows between the finance company and any related party that may lead to sharing potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.		
10	Disclosures		
10(1)	The Board shall ensure that:		
	a) Annual audited financial statements and periodical financial statements (6 months ended end Sept.) are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.(RFC guideline No. 2 of 2006)	Complied	Annual and periodic Financial statements are prepared and published in accordance with the defined standards. Company has published its' Interim financial statements in the Newspapers in all three languages.
	Disclosures		
10(2)	The Board shall ensure that at least the following disclosures are made in the Annual Report :		
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	Company has disclosed the relevant statement in the Annual Report on page 59, Statement of Directors' Responsibilities for Financial Reporting.

Section	Agreed Upon Procedure	Status	Result of Procedure
b)	The report by the board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied	A report by the board on the company's internal control mechanism is disclosed in the Annual Report on page 60, Directors' Statement on Internal Control over Financial Reporting.
c)	Details of directors, including names, transactions with the finance company.	Complied	Details of directors disclosed on page 17 to 20 and the transactions with the Company disclosed on page 101 under notes (Note 39) to the Financial Statements.
d)	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied	The required information has been disclosed in the Annual Report on page 83.
e)	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Finance Company's capital funds.	Complied	During the Financial Year there were no accommodation granted to the related parties except for the Related Party Transaction
f)	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	The aggregate amount of remuneration paid to the Key Management Personnel of the company and the aggregate value of transactions done with KPMs have been disclosed in the annual reports on page 101, Transactions with Key Management Personnel.
g)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance	Complied	The required information regarding the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance has been disclosed in the Annual Report on page 27.

Section	Agreed Upon Procedure	Status	Result of Procedure
h)	A statement of the regulatory and supervisory concerns on lapses in the Finance Company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Complied	Such a situation has not arisen.
i)	Check that the board has obtained the external auditor's certification of the compliance with the Corporate Governance directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011	Complied	External auditors have issued the Corporate Governance Factual Finding report in this regard.
11	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred in 10(2) (b) above.	Complied	Board has obtained the external auditor's report on the effectiveness of the internal control mechanism and disclosed in Directors' responsibility statement on internal control over financial reporting.

Report of the Audit Committee

Composition

The composition of the Audit Committee during the year was as follows

- Mr. Nalin J. Welgama - Chairman - Non-Executive Director
- Dr. Suren Peter - Independent Non-Executive Director
- Mr. J.V.W. Malawana - Non-Executive Director

The Chairman Mr. Nalin J. Welgama, is a senior chartered accountant educated both in Sri Lanka & in England, Mr. Welgama ran a leading firm of Chartered Accountants servicing high net worth individuals in the UK for several years before returning to Sri Lanka and founding the Ideal Group.

Meetings

The Committee met six times during the year under review.

The Chief Executive Officer and the Senior Management attended the meetings by invitation. Internal audit consultants and the external auditors were invited to participate at the meetings as and when required.

The Company Secretaries, S S P Corporate Services (Private) Limited, acted as Secretaries to the Audit Committee.

The attendance of the members of the Committee are as follows.

Name	Description	Attendance
Mr. Nalin Welgama	Chairman – Audit Committee	4/6
Dr. Suren Peter	Member	6/6
Mr. Viraj Malawana	Member	6/6

The proceedings of the Audit Committee were reported to the Board of Directors on a regular basis.

Role of the Committee

The main objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process, the system of internal controls and risk management, the independence and audit process of the external auditors, and the process for monitoring compliance with laws and regulations.

Summary of activities

The Committee carried out the following activities during the year.

Reviewed the consistency and appropriateness of the accounting policies adopted by the Company to ensure compliance with the Sri Lanka Accounting Standards.

Reviewed the effectiveness of the internal financial controls to ensure reasonable assurance that the financial reporting system adopted by the Company can be relied upon in the preparation and presentation of the quarterly and annual financial statements

Considered the internal and external audit reports and identified the control weaknesses and accounting issues highlighted and directed management to take appropriate and relevant follow up actions.

Held two special meetings with the external auditors without the presence of management to discuss the matters relating to management co-operation, quality, timeliness and accuracy of the accounting and management information provided.

Internal Audit

The Internal Audit function is outsourced to T & D Associates Chartered Accountants.

The scope of work covers the head office functions and all branches. The scope of work of the internal audit consultants includes the review of the efficacy of the internal controls and the actions taken to mitigate operational and business risks. In addition they monitor and report on compliance with statutory requirements and the Company's accounting

Report of the Audit Committee Cont...

and operational policies. Internal audit representatives are present at all Audit Committee meetings during discussion of the respective internal audit reports.

External Audit

The Committee ensured that the Auditors have not carried out any non-audit services that would have impaired their independence.

The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as Auditors for the financial year ending 31st March 2018 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also made its recommendations in regard to the remuneration of the Auditors.

Risk Management

In terms of the Central Bank's Direction No 3 of 2008 under the Finance Companies Act, the Company has appointed an Integrated Risk Management Committee during the year. The Committee's decree is to identify the business and

operational risks the Company is exposed to and develop appropriate strategies to manage and monitor these risks and thereby eliminate /mitigate its adverse impacts.

Conclusion

The Audit Committee is satisfied that the internal controls and the procedure in place for assessing and managing risk are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safe guarded, and that the financial statements are reliable.



Nalin J. Welgama

Chairman

Audit Committee

18th June, 2018

Report of the Integrated Risk Management Committee

Composition

The Integrated Risk Management Committee for the financial year ended 31st March 2018 comprised the following members.

Dr. P.L. Suren Peter (Director/Chairman-IRMC)

Mr. Aravinda De Silva (Director)

Mr. Viraj Malawana (Director)

The following members participate for the Integrated Risk Management Committee

Mr. Duminda Weerasekare - (CEO/Director)

Mr. Rohitha Bandusena – (Chief Operating Officer)

Mr. Pradeep De silva – (AGM-Pawning)

Mr. Shakya Hingurangala - (Accountant-Treasury & Operations)

Mr. Gaman Kithsiri - (Chief Information Officer)

Mr. Rohan Thennakoon - (Compliance Officer)

Ms. Madumali Munasinghe - (Accountant)

Mr. T.M.M.B. Tennakoon - (Manager – Real Estate)

Meetings

The Committee met on a quarterly basis of which attendance of the members of the board are as follows.

Name	Description	Attendance
Dr. P. L. S. Peter	Director/ Chairman – IRMC	4/4
Mr. Viraj Malawana	Director	4/4
Mr. Aravinda De Silva	Director	4/4

Role of the Committee

Assessing all risks, i.e., credit, market, liquidity, operational, interest rate, foreign currency, strategic and reputational risks to the finance company on a quarterly basis through appropriate risk indicators and management information.

Reviewing the adequacy and effectiveness of all management level committees such as credit committee and the asset-liability committee decisions to address

specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.

Taking prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.

Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.

Conclusion

The Integrated Risk Management Committee is satisfied about comprehensive risk management strategies and procedures that are in place in order to mitigate IFL risk exposure.



Dr. P.L. Suren Peter

Chairman

Integrated Risk Management Committee

18th June, 2018

Report of the Remuneration Committee

The Remuneration Committee, appointed by the Board of Directors comprised of three Non-Executive Directors

Composition

Mr. N. J. Welgama (Chairman)/(Non-Executive Director)

Mr. P. A. De Silva (Non-Executive Director)

Mr. A. N. Dias (Non- Executive Director)

Meetings

The Committee met three times during the period under review to make recommendations on salaries, bonuses and increments, and also on matters relating to recruitment of key management personnel to ensure that the management and staff at all levels are adequately rewarded for their performance and commitment. The Chief Executive Officer shall attend meetings of the Committee by invitation and provide relevant information and his view to the Committee for its considerations except when his own remuneration package and other matters relating to him are discussed.

Functions

The primary objective of the committee is to attract, motivate and retain talent with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company.

The Company remuneration framework for the Executive Directors and Corporate Management Team is designed to ensure alignment between short and long term interests of the Company and thereby create and enhance value for all stakeholders of the Company.

Directors' remuneration

The total of Directors' remuneration paid during the year under review is set out in note 9 to the Financial Statements.



N. J. Welgama

Chairman

Remuneration Committee

18th June, 2018

Report of the Directors on the State of Affairs of the Company

The Board of Directors is pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31st March 2018. The details set out herein provide pertinent information required by the Companies Act, No.7 of 2007 and are guided by recommended best accounting practices.

1. Principal Activities

The principal activity of the Company is to carry on finance business in conformity with the provisions of the Finance Business Act, No. 42 of 2011 as amended or superseded from time to time and in conformity with provisions of all written laws for the time being in force and all regulations, directions, determinations, rules, orders or requires the manufacture and sale of aluminium extrusions.

2. Financial Statements

The financial statements of the Company are given on pages 63 to 111.

3. Auditor's Report

The Auditor's report on the financial statements is given on page 61 to 62.

4. Accounting Policies

The accounting policies adopted in preparation of Financial Statements and the other explanatory notes are given on pages 67 to 111. There were no material changes in the Accounting Policies adopted.

5. Interest Register

The Company maintains an Interest Register and the particulars of those Directors who were directly or indirectly interested in a contract of the Company are stated therein.

6. Directors' Interest

None of the directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in Note 39, related party transactions to the financial statements.

7. Directors Remuneration and Other Benefits

Directors' remuneration in respect of the Company for the year ended 31st March 2018 is given in Note 9 to the financial statements.

8. Corporate Donations

Company has donated Rs.332,900 for the year ended 31st March 2018.

9. Directors

The Directors of the Company as at 31st March 2018.

Mr. N.J. Welgama	- Non Executive Chairman
Mr. D.M. Weerasekare	- Executive Director/CEO
Mr. P.A. De Silva	- Non Executive Director
Mr. J.V.W. Malawana	- Non Executive Director
Dr. P.L.S. Peter	- Non Executive Independent Director

In terms of Article 24(6) of the Articles of Association of the Company Dr. P. L. Suren Peter and Mr. D.M. Weerasekare retire by rotation at the Annual General Meeting and being eligible offer themselves for re-election.

Mr. A. N. Dias Non Executive Independent Directors having reached 70 years of age ceased to be a Director of the Company with effect from 21st March 2018.

The Board wishes to place on record the Company's sincerer appreciation to Mr. A. N. Dias for his valuable contribution extended to the Company during his tenure on Board.

10. Board Sub-Committees

The following Board Sub-Committees are functional.

• Audit Committee

Mr. N.J. Welgama	- Chairman/Non Executive Director
Dr. P.L. Suren Peter	- Member/Non Executive Independent Director
Mr. J.V.W. Malawana	- Member/Non Executive Director

- **Integrated Risk Management Committee**

Dr. P.L. Suren Peter

- Chairman/Non Executive Independent Director

Mr. P.A. De Silva

- Member/Non Executive Director

Mr. J.V.W. Malawana

- Member/Non Executive Director

- **Remuneration Committee**

Mr. N.J. Welgama

- Chairman/Non Executive Director

Mr. P.A. De Silva

- Member/Non Executive Director

- **Nomination Committee**

Dr. P.L. Suren Peter

- Member/Non Executive Independent Director

Mr. P.A. De Silva

- Member/Non Executive Director

- **IT Steering Committee**

Dr. P.L. Suren Peter

- Chairman/Non Executive Independent Director

Mr. J.V.W. Malawana

- Member/Non Executive Director

Mr. P.A. De Silva

- Member/Non Executive Director

11. Directors Shareholding

The shareholding of the Directors of the Company as at 31st March 2018.

Mr. N.J. Welgama	- Nil
Mr. P.A. De Silva	- Nil
Mr. D.M. Weerasekare	- 1,600,000
Mr. J.V.W. Malawana	- 10,400,000
Dr. P.L. Suren Peter	- Nil
Mr. A.N. Dias	- Nil

12. Auditors

The financial statements for the year ended 31st March 2018 have been audited by Messrs Ernst & Young, Chartered Accountants, who express their

willingness to continue in office. In accordance with the Companies Act No.07 of 2007, a resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The fees paid to the Auditors are disclosed in Note 9

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interest in the Company.

13. Dividends

The directors do not recommend a dividend for the year ended 31st March 2018.

14. Investments

Details of investments held by the Company are disclosed in Note 14 and 15 to the financial statements.

15. Intangible Assets

There were no intangible assets, other than Computer System Software, which is disclosed in Note 24 to the financial statements.

16. Property, Plant and Equipment

An analysis of the property, plant and equipment of the Company, additions and disposals made during the year and depreciation charged during the year are set out in Note 23 to the financial statements.

17. Capital Commitments

There were no capital commitments outstanding as at the Balance Sheet date.

18. Stated Capital

The Stated Capital of the Company is Rs. 808,247,125/-

19. Taxation

The tax position of the Company is given in Note 11 and 30 to the Financial Statements.

20. Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the government and the employees have been made on time.

21. Corporate Social Responsibility

Our Company specializes in maintaining high standards of Corporate Social Responsibilities such as carrying out management practices and decisions which have no negative impact on the environment and on the community around which we operate.

Our products go a long way towards minimizing the felling of trees and are completely recyclable without any negative impact on the environment. Schemes are in place to collect off-cuts and waste which are recycled in-house for special applications.

22. Contingent Liabilities

There were no material contingent liabilities outstandings as at 31st March 2018.

23. Post Balance Sheet Events

Subsequent to the date of the Balance Sheet no circumstances have arisen which would require adjustments to the accounts. There are also no significant post balance sheet events which in the opinion of the Directors require disclosure.

For and on behalf of the Board of Directors of
IDEAL FINANCE LIMITED



Director



Director

S S P CORPORATE
SERVICES (PRIVATE) LIMITED

Secretaries

S S P Corporate Services (Private)Limited,
Secretaries

18th June, 2018

Risk Management Report

Introduction

As a financial service provider Ideal Finance Limited (IFL) currently offers various ranges of financial products such as leases, loans, hire purchases, fixed deposits, real estate, pawning and mortgage loans. The Company also planning to expand its operations by opening new branches in potential areas.

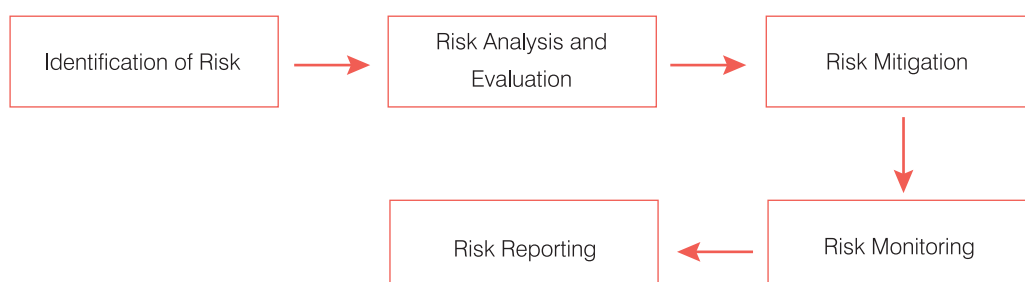
The Board of directors of the company is very keen on active risk management practices. Therefore all possible risk mitigation strategies are introduced and implemented in order to make sure that company operates at its best while minimising it's financial and business risks.

The Integrated Risk Management Committee (IRMC) is a board appointed committee which meets quarterly to discuss and evaluate the present risk management procedures, the risk levels that the company is currently facing and the risks that company will have to face in the future. Integrated Risk Management report will be presented to the committee and the directors will analyse the report to evaluate whether the risk mitigation strategies are adequate for the business.

An effective risk management strategy will ensure that all applicable risks to the company will be identified and evaluated at an early stage and necessary measures will be taken in order to avoid and reduce the impact of the risk.

Risk Management Process

Managing the risk within the company takes place in different stages. This involves



Under Risk Identification, all risk categories and the sub categories that the business is exposed are identified. If the business environment is changing or new products are going to be introduced, all risks involved have to be identified. Whenever IFL is planning to introduce a new product to the market, the inherent risks shall be identified in order to avoid facing unexpected and adverse outcomes.

Once the risk is identified it will be analysed and measured by using both quantitative and qualitative techniques. Thereafter necessary actions shall be taken in order to manage the risks and reduce the impact of risk occurrence. These will then be monitored to avoid the accumulation of risks. Subsequently all findings shall be reported to the Board.

Key Risks Faced by the Company

The Company is exposed to the following risks due to the nature of the business we are into and as a result of the macro economic conditions of which majority are inherent.

- Credit risk / Default risk
- Liquidity risk
- Interest rate risk
- Currency risk
- Collateral risk
- Strategic risk
- Operational risk
- Regulatory risk
- Reputational risk

Credit Risk

Credit risk is the largest risk that the company is exposed which can be mainly categorised in to two parts namely default risk and concentration risk.

Default risk

Default risk is the risk that arises due to customers being unable to meet their debt obligation. The company has a well-defined credit procedure in place to mitigate the credit risk that arises when doing day to day business activities. This includes credit appraisal, credit operations, credit approval and monitoring and recovering debt. IFL obtains sufficient collateral as security in case of a default of payment by borrower as all non performing facilities are analysed periodically to make sure that the company maintains a very low non-performing loan ratio (NPL ratio).

The Company had a NPL ratio of 1.51% where average industry NPL ratio is approximately 5.93%.

Concentration Risk

Concentration risk occurs when the facilities are given to a single counterparty, Industry or geographical area. The company has set prudential limits on maximum exposure which is being reviewed periodically as well as single borrower limits defined by the Finance Companies Direction No 4 of 2006 issued by Central Bank of Sri Lanka.

Liquidity Risk

Liquidity risk is the risk that arises when the company does not have enough funds to meet its obligations which arises due to unmatched maturities of assets and liabilities. Company has a liquidity management policy where the primary objective is to ensure adequate funding for its day to day business activities. Furthermore, the company maintains the statutory liquid assets ratio at its required level as a method of measure and control of liquidity risk.

Company takes following precautionary measures in order to maintain a healthy liquidity position.

- Prepares an annual budget and identifies the average amount of money needed to finance facilities.

- Identify the cumulative gap of current year assets and liabilities.
- Identify the amount of unpredicted cash requirements that arose during the past 6 months.
- Identify the cash flow arising from interest earning assets.

Interest Rate Risk

Interest rate risk arises due to adverse and unanticipated movements in future interest rate which arises due to granting of credit facilities and accepting deposits. Out of the several factors that gives rise to interest rate risk the main two types of risks that IFL is exposed to includes,

- Term structure risk - which arises due to mismatches in the maturities of assets and liabilities
- Basis risk which arises due to differences in the bases of interest rates.

Company perform periodic reviews of the interest rates by

- Analysing the past fluctuation of interest rate patterns and forecasting the Interest rate movements based on past trends.
- Monitoring other market factors. E.g, liquidity of the market, T Bill rate, etc.
- Identifying the gap analysis of Interest earning assets & Interest Paying Liabilities.
- Identifying the effect on Net Interest Income.

Currency risk

Currency risk is a form of financial risk that arises from the potential change in the exchange rate of one currency against another. IFL is exposed to Currency Risk provided the Exchange Rate Risk is not transferred at the time of transacting. Company monitors the fluctuation of USD/LKR exchange rates and forecast Exchange rate trends based on the past behaviour of the currencies.

Collateral risk

Collateral risk is the risk of the value of security held, being not sufficient to meet the capital outstanding of a facility in the event of a default of payment by the customer. When IFL grants credit facility to its customers, company ensures that the value of the collateral held as security is sufficient to

meet the facility amount in case of a default of payment by borrower. In order to mitigate the collateral risk the company takes the following measures.

- Physically verify the asset before granting facilities.
- Checks the absolute ownership of the asset.
- Obtain a valuation report from a CBSL approved valuer.
- Obtain a full Insurance policy for the asset.

Strategic risk

Strategic risk can be seen as the impact on the company's earnings or equity due to the business decisions taken by the Company, improper implementation of business strategies or lack of responsiveness to industry changes. All strategic decisions are taken at board level where the Board obtains professional expertise advice as and when required. IFL has appropriately addressed the Strategic Risk exposure of the Company throughout the period thus minimizing the level of risk exposure.

Operational risk

Operational risk is the risk of financial losses due to the failure or inadequacy of internal processes or systems, human error or external events. The sources of Operational Risk includes People, Internal Processes, Systems and External events. Operational risk can be mainly analysed under fraud risk and technological risk. IFL manages operational risks by maintaining a comprehensive system of internal controls and using technology to automate processes and reduce manual errors. The company has in place a process of continuous internal audit utilizing the services of T & D Chartered Accountants.

Regulatory risk

Regulatory risk is the financial loss and damage to the reputation of the company that arises from failing to comply with the laws and regulations applicable. As the financial industry is highly regulated and is continuously monitored for compliance by the regulatory bodies. Company has set internal deadlines and monitor whether CBSL reports are submitted on time. Also company make sure all statutory payments are paid before the due date.

Reputational risk

Reputation risk exposure of IFL is minimal given the implementation of comprehensive risk management strategies and procedure. Reputation risk cannot be managed in isolation from other forms of Risks, since all risks can have an impact on reputation, which in turn can impact the IFL brand, earnings and capital. Credit, liquidity, interest rate, operational, and regulatory risks of IFL are managed effectively in order to safeguard the company's reputation as IFL has identified company's reputation is a valuable business asset in its own right, essential to optimize shareholder value.

Statement of Directors' Responsibilities for Financial Reporting

The Directors are required by the Companies Act, No. 7 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statement of affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of financial statements and any other requirements which apply to the Company's financial statements under any other law.

The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards, Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and Finance Business Act No. 42 of 2011 and the relevant Directions issued in respect of Registered Finance Companies.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2017/18, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation. By Order of the Board

IDEAL FINANCE LIMITED



D. M. Weerasekare
Chief Executive Officer

18th June, 2018



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Colombo 02, Sri Lanka.
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DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

In line with the section 10(2)(b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Ideal Finance Ltd. ("Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. The management is continuously enhancing the documentation of the system of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Auditors of the Company for suitability of design and effectiveness on an ongoing basis.

The Company adopts the improvements in Sri Lanka Accounting Standards and continuously improves the Financial Statement closure process, investments and borrowing procedures, disclosures with regard to financial risk management and related party transactions, fair value and management information.

CONFIRMATION

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

Nalin Welgama

Chairman

15th June 2018



D.M. Weerasekare

Chief Executive Officer



Ernst & Young
Chartered Accountants
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APAG/FSI/AD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IDEAL FINANCE LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of IDEAL Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance

with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

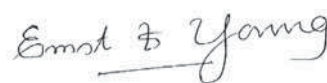
As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.



15 June 2018
Colombo

Statement of Comprehensive Income

Year ended 31 March 2018

	Notes	2018 Rs.	2017 Rs.
Income	3	630,995,212	390,805,849
Interest Income	4.1	572,537,068	342,965,230
Interest Expenses	4.2	(228,114,523)	(133,806,481)
Net Interest Income		344,422,545	209,158,749
Fees and Commission Income	5	8,099,316	4,524,547
Net Fee and Commission Income		8,099,316	4,524,547
Other Operating Income	6	50,358,828	43,316,072
Total Operating Income		402,880,689	256,999,368
Impairment Charges for Loans and other Losses	7	(18,602,824)	(11,895,328)
Net Operating Income		384,277,865	245,104,040
Operating Expenses			
Personnel Expenses	8	(109,148,019)	(88,766,837)
Depreciation of Property Plant & Equipment	23.2	(18,340,347)	(16,521,791)
Amortization of Intangible Assets	24	(4,757,292)	(4,537,811)
Other Operating Expenses	9	(73,350,687)	(46,925,283)
Operating Profit before Value Added Tax on Financial Services		178,681,520	88,352,317
Value Added Tax & NBT on Financial Services	10	(32,387,274)	(16,986,682)
Profit before Taxation		146,294,246	71,365,635
Income Tax Expenses	11	(43,477,954)	(13,571,601)
Profit/ (Loss) for the period		102,816,292	57,794,034
Basic and Diluted Earnings Per Share (Rs)	12	1.29	0.72
Profit/ (Loss) for the period		102,816,292	57,794,034
Other Comprehensive Income			
Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods			
Actuarial Gain/ (Loss) on Defined Benefit Obligations		(1,592,699)	(218,379)
Deferred Tax (Charge)/Reversal on Other Comprehensive Income		445,956	61,146
Other Comprehensive Income for the period, Net of Tax		(1,146,743)	(157,233)
Total Comprehensive Income for the period, Net of Tax		101,669,549	57,636,801

The Accounting Policies and Notes on pages 67 through 111 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 March 2018

	Notes	2018 Rs.	2017 Rs.
ASSETS			
Cash and Bank Balances	13	51,593,413	37,998,795
Investment in Government Securities	14	26,566,794	24,255,603
Placements with Banks and Other Financial Institutions	15	39,934,643	17,579,371
Gold Advances	16	177,748,346	16,119,775
Lease Rentals Receivable and Stock out on Hire	17	2,040,010,374	1,743,026,107
Loans and Advances	18	496,510,205	299,830,820
Other Financial Assets	19	46,820,823	52,743,936
Other Non Financial Assets	20	16,665,058	23,368,088
Financial Investments-Available for Sale	21	457,700	457,700
Inventories	22	150,280,432	78,646,176
Property, Plant and Equipment	23	94,701,119	70,399,883
Intangible Assets	24	24,398,373	25,453,071
TOTAL ASSETS		3,165,687,280	2,389,879,325
LIABILITIES			
Interest Bearing Borrowings	25	1,529,388,772	1,183,196,053
Due to the Customers	26	367,110,412	301,121,019
Other Financial Liabilities	27	145,886,468	108,118,171
Other Non Financial Liabilities	28	15,978,566	27,966,629
Retirement Benefit Liability	29	8,433,608	5,162,362
Current Tax Liabilities		9,730,702	7,058,485
Deferred Tax Liabilities	30	45,328,996	19,027,700
TOTAL LIABILITIES		2,121,857,524	1,651,650,419
EQUITY			
Stated Capital	31	808,247,125	603,247,125
Retained Earnings		223,351,702	127,834,330
Reserves	32	12,230,929	7,147,451
TOTAL EQUITY		1,043,829,756	738,228,906
TOTAL LIABILITIES AND EQUITY		3,165,687,280	2,389,879,325

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 these Financial Statements. Signed for and on behalf of the Board of by;



Chairman



Chief Executive Officer

The Accounting Policies and Notes on pages 67 through 111 form an integral part of the Financial Statements.

15 June 2018
Colombo

Statement of Changes in Equity

Year ended 31 March 2018

	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserve Fund Rs.	Total Rs.
Balance As at 1 April 2016	603,247,125	75,924,400	4,265,611	683,437,136
Total Income / (Loss) for the Period	-	57,794,034	-	57,794,034
Dividend Paid during the Period	-	(2,845,030)	-	(2,845,030)
Other Comprehensive Income (Net of Tax)	-	(157,233)	-	(157,233)
Transfer to Statutory Reserve Fund	-	(2,881,840)	2,881,840	-
Balance As at 31 March 2017	603,247,125	127,834,330	7,147,451	738,228,906
Balance As at 1 April 2017	603,247,125	127,834,330	7,147,451	738,228,906
Total Income / (Loss) for the Period	-	102,816,292	-	102,816,292
Share Issue	205,000,000	-	-	205,000,000
Dividend Paid during the Period	-	(1,068,699)	-	(1,068,699)
Other Comprehensive Income (Net of Tax)	-	(1,146,743)	-	(1,146,743)
Transfer to Statutory Reserve Fund	-	(5,083,478)	5,083,478	-
Balance As at 31 March 2018	808,247,125	223,351,702	12,230,929	1,043,829,756

The Accounting Policies and Notes on pages 67 through 111 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 March 2018

Cash Flows From / (Used in) Operating Activities	Notes	2018 Rs.	2017 Rs.
Profit before Income Tax Expense		146,294,246	71,365,635
Adjustment for Other Non Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment	23.2	18,340,347	16,521,791
Amortization of Intangible Assets	24	4,757,292	4,537,811
Provision for Impairment		18,602,824	11,895,328
Interest expenses on Bank Borrowings		173,873,276	100,056,909
Defined Benefit Obligation	8	2,091,047	1,466,420
Notional Tax on Government Securities		-	(218,118)
Gain on Sale of Shares		(1,094,853)	-
Disposal Gain on Fixed Assets		-	(3,017,189)
Operating Profit before Working Capital Changes		362,864,179	202,608,587
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(305,573,120)	(474,116,468)
(Increase)/Decrease in Loan Stock		(203,597,521)	(203,251,135)
(Increase)/Decrease in Gold Advance		(161,628,571)	(9,294,392)
(Increase)/Decrease in Other Financial Assets		19,017,966	(18,535,863)
(Increase)/Decrease in Other Non Financial Assets		3,656,392	(25,324,654)
(Increase)/Decrease in Inventories		(71,634,256)	47,135,283
Increase/(Decrease) in Amounts Due to Customers		65,989,393	(79,669,846)
Increase/(Decrease) in Other Financial Liabilities		37,768,297	33,207,628
Increase/(Decrease) in Other Non Financial Liabilities		(12,949,892)	1,977,544
Cash Generated from Operations		(266,087,134)	(525,263,316)
Retirement Benefit Liabilities Paid	29.2	(412,500)	-
Income Tax Paid		(14,058,484)	(2,699,474)
Net Cash Flows from/(Used in) Operating Activities		(280,558,118)	(527,962,790)
Cash Flows from / (Used in) Investing Activities			
Purchase of Property, Plant and Equipment	23.1	(42,690,779)	(10,917,176)
Purchase of Intangible Assets	24	(3,702,594)	(848,000)
Disposal of Property, Plant and Equipment		-	4,503,498
Investing in Shares		(12,000,000)	-
Net Cash Flows from/(Used in) Investment Activities		(58,393,373)	(7,261,678)
Cash Flows from / (Used in) Financing Activities			
Net Proceeds from Bank Borrowings		1,300,000,000	950,000,000
Repayment of Bank Borrowings		(1,084,541,829)	(346,860,111)
Repayment of Other Borrowed Funds		(7,037,688)	(24,062,472)
Net Proceeds from Share Issue		205,000,000	-
Dividend Paid		(106,870)	(5,725,109)
Net Cash Flows from/(Used in) Financing Activities		413,313,613	573,352,308
Net Increase/(Decrease) in Cash & Cash Equivalents		74,362,122	38,127,839
Cash and Cash Equivalents at the Beginning of the Period		(4,271,914)	(42,399,754)
Cash and Cash Equivalents at the End of the Year	33	70,090,208	(4,271,914)

The Accounting Policies and Notes on pages 67 through 111 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

IDEAL Investment Limited is a limited liability company, incorporated on 24 January 2012 under companies Act No.7 of 2007 and then changed the name as IDEAL Finance Limited on 12 March 2012 and domiciled in Sri Lanka. The registered office of the company is situated at No.299, Dr. Colvin R De. Silva Mawatha (Union Place), Colombo 02.

IDEAL Finance Limited is licensed by Monetary Board of The Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, and also registered under the Finance Leasing Act No.56 of 2000.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were Acceptance of Deposits, Granting Lease, Hire Purchase, Micro Credit Facilities and Gold Advances.

1.3 Parent Entity and Ultimate Parent Entity

IDEAL Holding (Private) Limited is the parent of IDEAL Finance Limited. Further the company does not have any investments in the form of subsidiary, joint venture or associate.

1.4 Date of Authorization for Issue

The financial statements of IDEAL Finance Limited for the period ended 31 March 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 15 June 2018.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

2.1.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes, ('Financial

Statements'), as at 31 March 2018 and for the period then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereafter referred as "SLFRS"), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto.

2.1.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of Financial Statements of the Company as per Sri Lanka Accounting Standards (SLFRSs and LKASs) and the provisions of the Companies Act No 7 of 2007

2.1.3 Basis of measurement

The financial statements have been prepared on a historical cost basis except retirement benefits obligation, which was ascertained by an actuarial valuation.

2.1.4 Presentation of Financial Statements

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

The company presents its Statements of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 36.

2.1.5 Functional and presentation currency

The financial statements are presented in Sri Lanka Rupees, except when otherwise is indicated. No adjustments have been made for inflationary factors.

2.1.6 Materiality, Aggregation Offsetting and Rounding Off

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial

Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

The amounts in the financial statements have been rounded off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard (LKAS 1) – 'Presentation of Financial Statements

2.1.7 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous financial year. Further comparative information is reclassified whenever necessary to comply with the current presentation in note no 44 to the Financial Statements.

2.1.8 Events After the Reporting Date

Events after the Reporting Date are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in note no 38 to the Financial Statements.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the 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.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

i. Going Concern

The board has made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the board is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the company. Therefore, the financial statements continue to be prepared on the going concern basis.

ii. Useful life-time of the Property and equipment and Intangible assets

The company reviews the residual values, useful lives and methods of depreciation of assets and amortisation as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

iii. Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent it is possible that future taxable profits will be available against which such tax losses can be set off. Judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

iv. Defined Benefit Plan

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 29.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company in preparation of its Financial Statements are included in below.

2.3.1 Financial Instruments

2.3.1.1 Initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. The Company's financial assets include cash and bank balances, placement with banks and other financial institutions, lease rentals receivable and stock out on hire, loan stock and other financial assets.

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include, due to bank, due to the other customers and other financial liabilities

a) Date of Recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the company becomes a party to the contractual provisions of the instrument. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

b) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

c) Subsequent measurement of financial instruments

i. The subsequent measurement of financial assets depends on their classification as described below:

Available-for-sale financial investments

Available-for-sale investments include unquoted equity. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The company has not designated any loans or receivables as available-for-sale.

Notes to the Financial Statements cont....

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity (Other comprehensive income) in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income in (Net Gain/ (Loss) From Financial Investments'. Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognized in the statement of comprehensive income as (Net Gain/ (Loss) from Financial Investments when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the Available-for-sale reserve.

Available - for - sale financial instrument which fair value is not reliably measurable are stated at cost.

Financial Assets Classified as Lease Rental Receivables, Stock out on Hire, Placement with Banks & Other Financial Institutions and Other Financial Assets

This includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the company intends to sell immediately or in the near term and those that the company, upon initial recognition, designates as at fair value through profit or loss
- Those that the company, upon initial recognition, designates as available-for-sale
- Those for which the company may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, Financial Assets Classified as Lease Rental Receivables, Stock out on Hire, Placement with Banks & Other Financial Institutions and Other Financial Assets are subsequently measured at amortized cost using the Effective Interest Rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortization is included in Interest and similar income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'Impairment for Loans and Other Losses' and Detailed under Note 17 and 18.

II. The subsequent measurement of financial liabilities depends on their classification as described below:

Loans and borrowings:

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

2.3.1.2 Derecognition of Financial Assets and Liabilities

(i) Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:

Notes to the Financial Statements cont....

- The company has transferred substantially all the risks and rewards of the asset

Or

- The company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the company's continuing involvement in the asset. In that case, the company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.3.1.3 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on

their quoted market price or dealer price quotations without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, pricing models and other relevant valuation models.

2.3.1.4 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(i) Financial assets carried at amortised cost- Lease rental receivables, Hire Purchase receivables, Gold Advance and Loans and Advances

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the company's internal credit grading system, that

considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the

rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income. If, in a subsequent period, the fair value of an equity instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in the fair value after impairment are recognised in other comprehensive income.

2.3.2 Lease

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.3.2.1 Operating Lease

Company as a lessee

Leases that do not transfer to the company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised

as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

2.3.2.2 Finance Lease

Company as a lessor

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Lease'. Amount receivables under finance lease are included under 'Lease Rentals Receivable and Stock Out on Hire' in the Statement of Financial Position after deduction of unearned lease income and accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognized as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognized as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.3.3 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, and amounts due from banks on demand or with an original maturity of three months or less.

2.3.4 Property, Plant and equipment

Property, plant and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives

Notes to the Financial Statements cont....

are as follows:

Category	Years
Furniture & Fittings	05
Office Equipment	05
Motor Vehicles	05
Computer Equipment	05

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

Property plant & Equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and carrying amount of the assets) is recognized in 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss) in the year the asset is recognized.

2.3.5 Intangible assets

The company's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the statement of comprehensive income.

Computer System software is amortised over : 10 years

2.3.6 Other Assets

All other assets are stated at cost less accumulated impairment losses.

2.3.7 Inventories

Inventories include stationeries, Trading stock and Land stock and these are valued at the lower of cost and net realizable value.

Land Stock

Land stock comprises all costs of purchase, cost of conversion and other costs incurred in bringing to its saleable condition.

Purchase Cost - Land Cost with Legal Charges.
Cost of Conversion - Actual Development Costs.

Land stocks are valued at the lower of cost and net realisable value, after making due allowances for slow moving items. Net realisable value is the price at which the real estate stocks can be sold in the ordinary course of business less estimated cost necessary to make the sale.

2.3.8 Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating

Notes to the Financial Statements cont....

unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.3.9 Employee Retirement Benefits

Defined Contribution Plan Costs

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognized as a Personnel Expenses in the Statement of comprehensive income in the periods during which services are rendered by employees. Employees are eligible

for employees' Provident Fund and Employees Trust Fund Contributions in line with the respective Statutes and regulations. Accordingly, the company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employee Trust Fund respectively and is recognized as an expense under "Personnel Expenses".

Defined Benefit Plan Costs

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the Statement of Financial Position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rate that are denominated in the currency in which the benefit will be paid, and that have terms of maturity approximating to the terms of the liability.

Provision has been made in the Financial Statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19-"Employee Benefits".

However, according to the payment of Gratuity Act No.12of 1983, the liability for payment to an employee arises only after the completion of 5 years continued services. The liability is not externally funded.

2.3.10 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

2.3.11 Other Liabilities

Other liabilities are recorded at the cash value to be realized when settled.

2.3.12 Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'Other operating income' in the income statement.

2.3.13 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and interest expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original

Effective Interest Rate and the change in carrying amount is recorded as 'Interest Income' for financial assets and Interest Expense for financial liabilities. However, for a reclassified financial asset for which the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

The company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time.
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and service charges.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognised when the company's right to receive the payment is established.

(iv) Expenditure Recognition

Expenses are recognized in profit or loss in the

Notes to the Financial Statements cont....

statement of comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the statement of Comprehensive Income (Profit or loss). For the purpose of presentation of the statement of comprehensive Income, the "function of expenses" method has been adopted, on the basis that it presents fairly the element of the company's performance.

2.3.14 Taxes

a. Current Tax

The provision for the income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No.10 of 2006 as amended subsequently.

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

b. Deferred Tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted at the reporting date.

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

c. Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at the rate of 15% in accordance with the provisions of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

d. Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

e. Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

2.3.15 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the liability to control or exercise significant influence over the financial and operating policies/ decisions of the other, irrespective of whether a price is being charged.

2.3.16 Segment Reporting

The Company's segmental reporting is based on the following operating segments identified based on products and services;

- Finance Lease
- Hire Purchase
- Term Loans
- Others

A segment is a distinguishable component of a Company that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Company.

2.4 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single lessee accounting model for lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new standard requires a lessee to:

Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS -16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

SLFRS 16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

2.5 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2018

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are effective from 01st January 2018. The Company intends to adopt these standards, if applicable, when they become effective.

SLFRS 15 -Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue Standards and interpretations.

The Company carried out an initial impact analysis with the assistance of an external consultant during the year ended 31st March 2018. According to the above analysis, the Company does not have any material impact from the adoption of SLFRS 15 in the Financial Year 2017/2018.

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SLFRS 9 –Financial Instruments

Sri Lanka Accounting Standard - SLFRS 9 “Financial Instruments” will replace Sri Lanka Accounting Standard - LKAS 39 “Financial Instruments - Recognition and Measurement” for annual periods beginning on or after 1st January 2018 with early adoption permitted.

The initial assessment and analysis stage was completed for impairment in 2017, and the classification and measurement phase is being finalized.

The Company performed the diagnostic phase (Preliminary Impact Assessment exercise) and implementation phase (solution development) on SLFRS 9 Financial Instruments.

The Company has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

Business Model Assessment

Company determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Company’s business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity’s key management personnel
- The risks that affects the performance of the business model (and the financial asset held within that business model) and, in particular, the way those risks are managed

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)
- The expected frequency, value and timing of sales are also important aspect of Company’s assessment

The business model assessment is based on reasonably expected scenarios without taking ‘Worst case’ or ‘Stress Case’ scenarios in to account. If cash flows after initial recognition are realized in a way that is different from the Company’s original expectation, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash flow Characteristic Test

As the second test of the classification process, the Company assesses the contractual terms of the financial assets to identify whether they meet Solely the Payment of Principle & Interest (SPPI).

‘Principle’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle or amortization of the premium/ discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Company applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than demonisms exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL.

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Company's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date.

Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12mECL. Stage 1 loans also includes the facilities where the credit risk has improved and the loans have been reclassified from Stage 2. Assessment of Stage 1 will be performed collectively.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 2. Assessment of stage 2 will be performed.

Stage 3: Loan considered to be credit Impaired/ contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individually/Collectively.

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assess whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have a significant increase in credit risk when either the facility exceeds 30 days past due or at the point of reschedulement.

Individually Significant Assessment and Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Individual assessment will be performed for all the customers with Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

While establishing significant credit deterioration Company will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet it's obligation
- An Actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, Increase in operating risk, working capital deficiency, Decrease in Asset quality, Increase in gearing, liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower

Notes to the Financial Statements cont....

- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation

Grouping financial assets measured on a collective basis

As explained above, the Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an Individual basis includes All Individually significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

Company groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

The Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR.

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio
- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.

- LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products Company considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

In its ECL model Company relies on broad range qualitative/ quantitative forward looking information as economic input such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

Transition process of the Company

The Company is in the process of finalising the quantification of impairment performed as of 31st March 2017 based on the requirements of SLFRS 09.

Notes to the Financial Statements

Year ended 31 March 2018

3. INCOME	2018 Rs.	2017 Rs.
Interest Income (4.1)	572,537,068	342,965,230
Fee and Commission Income (5)	8,099,316	4,524,547
Other Operating Income (6)	50,358,828	43,316,072
Total Income	630,995,212	390,805,849
<hr/>		
4. NET INTEREST INCOME	2018 Rs.	2017 Rs.
4.1 Interest Income		
From Placements with Banks and Other Financial Institutions	2,331,486	1,884,964
From Government Securities	2,568,319	2,181,180
From Lease Rental Receivable & Stock Out on Hire	441,888,221	301,288,892
From Loans and Advances	114,000,952	34,397,720
From Gold Advances	11,407,566	2,788,145
From Refundable Deposits	340,524	424,329
Total Interest Income	572,537,068	342,965,230
<hr/>		
4.2 Interest Expense		
Due to Banks	173,873,276	100,056,909
Due to Customers	54,241,247	33,749,572
Total Interest Expenses	228,114,523	133,806,481
Net Interest Income	344,422,545	209,158,749
<hr/>		
5. FEE AND COMMISSION INCOME	2018 Rs.	2017 Rs.
Commission Income	8,099,316	4,524,547
Fee and Commission Income	8,099,316	4,524,547
<hr/>		
6. OTHER OPERATING INCOME	2018 Rs.	2017 Rs.
Dealership Commission	769,500	1,879,000
Dividend Income	58,500	58,500
Net Income from Real Estate Operations	33,790,918	30,245,536
Vehicle Hiring Income	6,020,432	4,788,014
Other Operating Income	9,719,478	6,345,022
Total Other Operating Income	50,358,828	43,316,072

* Other Operating Income includes Rs.4,375,478 from settled facilities, Rs. 1,028,502 from Pawning Auctions and Rs. 1,094,853 from Sale of Shares.

Notes to the Financial Statements cont....

Year ended 31 March 2018

7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES	2018 Rs.	2017 Rs.
Lease Rental Receivable and Stock Out on Hire	8,588,853	7,395,310
Loans and Receivables	6,918,136	4,500,017
Other Receivables	3,095,835	-
	18,602,824	11,895,328
8. PERSONNEL EXPENSES	2018 Rs.	2017 Rs.
Salaries	71,299,967	52,892,318
Employers' Contribution to Employee's Provident Fund	8,552,588	6,338,822
Employers' Contribution to Employee's Trust Fund	2,138,147	1,584,706
Gratuity Charge for the year	2,091,047	1,466,420
Other Staff Related Expenses	25,066,270	26,484,572
	109,148,019	88,766,837
9. OTHER OPERATING EXPENSES	2018 Rs.	2017 Rs.
Directors' Emoluments	2,815,000	2,236,250
Auditors' Remuneration	1,900,000	1,372,787
Professional and Legal Expenses	2,349,538	2,598,524
Office Administration and Establishment Expenses	33,999,831	26,533,743
Advertising and Promotional Expenses	5,638,962	4,557,610
Disallowable Input VAT and VAT on Other Income Sources	9,266,186	4,258,338
Licence and Renewal Fees	2,484,438	1,841,067
Other Expenses	14,896,732	3,526,965
Other Expenses	73,350,687	46,925,283
10. VALUE ADDED TAX AND NBT ON FINANCIAL SERVICES	2018 Rs.	2017 Rs.
VAT on Financial Services	28,562,454	14,803,108
NBT on Financial Services	3,824,820	2,183,574
	32,387,274	16,986,682

Notes to the Financial Statements cont....

Year ended 31 March 2018

11. INCOME TAX EXPENSES	2018 Rs.	2017 Rs.
11.1 The major component of income tax for the year ended 31 March 2018 as follows;		
Income Statement		
Current Income Tax		
Income Tax for the year	16,730,702	7,958,485
Deferred Tax		
Deferred Tax Charge (Note 30)	26,747,252	5,613,116
Income Tax Expenses reported in the Income Statement	43,477,954	13,571,601
Statement of Other Comprehensive Income		
Deffered Tax related to items recognized in OCI during the year		
Net Gain/(Loss) on Acturial Gains/Losses during the year	(445,956)	(61,146)
Income Tax Expenses reported in the Other Comprehensive Income	(445,956)	(61,146)
Total Income Tax Expense for the year	43,031,998	13,510,455

11.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Income tax rate for the year ended 31 March 2018 as follows.

Accounting Profit / (Loss) Before Income Taxation	178,681,520	88,352,317
Aggregate allowable expenditure	(161,118,811)	(100,819,569)
Aggregate disallowable expenditure	42,189,799	40,890,412
	59,752,508	28,423,160
Tax at applicable rate of 28%	16,730,702	7,958,485
	16,730,702	7,958,485
Deferred taxation charged	26,747,252	5,613,116
	26,747,252	5,613,116

12. BASIC AND DILUTED EARNING PER ORDINARY SHARES

12.1 Basic and diluted earning per share is calculated by dividing net profit for the period attributable to ordinary share holders by weighted average number of ordinary shares outstanding during the period, as per LKAS-33-Earning Per Share.

Notes to the Financial Statements cont....

Year ended 31 March 2018

12.2 The following reflect the income and share details used in Basic and Diluted Earning Per Share computation;

	2018	2017
Amount Used as Numerators		
Profit attributable to Ordinary Share Holders (Rs.)	102,816,292	57,794,034
Number of Ordinary shares used as Denominator		
Weighted Average Number of Ordinary Shares	80,000,000	80,000,000
Basic and Diluted Earning Per Ordinary Shares	1.29	0.72

Company's ordinary shares were increased in 31 March 2018 with the right issue of 10,000,000 shares at Rs. 20.50 each. As a result the number of shares increased to 90,000,000.

13. CASH AND BANK BALANCES	2018 Rs.	2017 Rs.
Cash in Hand	15,575,591	13,505,989
Bank Balances	36,017,822	24,492,806
	51,593,413	37,998,795

14. INVESTMENT IN GOVERNMENT SECURITIES	2018 Rs.	2017 Rs.
Treasury Bills - at amortized cost (Held to Maturity)	26,566,794	24,255,603
	26,566,794	24,255,603

15. PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS	2018 Rs.	2017 Rs.
Placement With Banks (Fixed Deposit)	39,934,643	17,579,371
	39,934,643	17,579,371

16. GOLD ADVANCES	2018 Rs.	2017 Rs.
Gold Advances	177,748,346	16,119,775
	177,748,346	16,119,775

Notes to the Financial Statements cont....

Year ended 31 March 2018

17. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE	2018 Rs.	2017 Rs.
Rental Receivable on Lease	2,755,200,052	2,319,208,018
Rental Receivable on Hire Purchase	11,708,387	45,750,656
Gross Rental Receivable	2,766,908,439	2,364,958,674
Less: Unearned Income	(681,504,938)	(581,169,212)
	2,085,403,501	1,783,789,462
Less : Rental Received in Advance	(21,609,212)	(25,568,293)
Net Rentals Receivables before charging Allowance for Impairment Losses	2,063,794,289	1,758,221,169
Less : Allowance for Impairment Losses (Note 17.1)	(23,783,915)	(15,195,062)
Total Net Rentals Receivable	2,040,010,374	1,743,026,107

17.1 Allowance for Impairment Losses	2018 Rs.	2017 Rs.
As at 01 April	15,195,062	7,799,752
Charge for the period	8,588,853	7,395,310
As at 31 March	23,783,915	15,195,062

17.2 Rental Receivable on Lease	Within One Year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Rental Receivable	1,070,419,056	1,683,859,296	921,700	2,755,200,052
Less: Unearned Income	(210,646,391)	(469,624,225)	(371,700)	(680,642,316)
	859,772,665	1,214,235,071	550,000	2,074,557,736
Less : Rental Received in Advance				(21,073,322)
Net Rentals Receivable before charging Allowance for Impairment Losses				2,053,484,414

17.3 Rental Receivable on Hire Purchase	Within One Year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Rental Receivable	9,982,501	1,725,887	-	11,708,388
Less: Unearned Income	(670,965)	(191,658)	-	(862,623)
	9,311,536	1,534,229	-	10,845,765
Less : Rentals Received in Advance				(535,890)
Net Rentals Receivable before charging Allowance for Impairment Losses				10,309,875

Total Net Rentals Receivables before charging Allowance for Impairment Losses **2,063,794,289**

Notes to the Financial Statements cont..

Year ended 31 March 2018

18	LOANS AND ADVANCES				2018	2017
					Rs.	Rs.
	Loan Rental Receivable				731,710,550	410,142,942
	Less : Unearned Interest Income				(216,493,844)	(103,556,640)
	Net Receivable				515,216,706	306,586,302
	Less : Rental Received In Advance				(6,703,262)	(1,670,379)
	Net Rental Receivable before charging Allowance for Impairment Losses				508,513,444	304,915,923
	Less : Allowance for Impairment Losses (Note 18.1)				(12,003,239)	(5,085,103)
	Total Net Rentals Receivable				496,510,205	299,830,820
18.1	Allowance for Impairment Losses				2018	2017
					Rs.	Rs.
	As at 01 April				5,085,103	585,086
	Charge for the Period				6,918,136	4,500,017
	As at 31 March				12,003,239	5,085,103
18.2	Rental Receivable on Loan Stock	Within One	1 to 5	Over 5		Total
		Year	Years	Years		Rs.
		Rs.	Rs.	Rs.		
	Gross Rental Receivable	292,222,088	417,035,414	22,453,047		731,710,549
	Less: Unearned Income	(59,678,140)	(145,232,041)	(11,583,662)		(216,493,843)
		232,543,948	271,803,373	10,869,385		515,216,706
	Less : Rentals Received in Advance					(6,703,262)
	Net Rentals Receivable before charging Allowance for Impairment Losses					508,513,444
19.	OTHER FINANCIAL ASSETS				2018	2017
					Rs.	Rs.
	Refundable Deposit				5,442,338	2,643,704
	Sundry Debtors				5,035,453	23,685,475
	Other Receivable (Note 19.1)				36,343,032	26,414,757
					46,820,823	52,743,936
19.1	Other Receivable					
	Other Charges Recoverable				7,685,707	268,560
	Insurance Recoverable				16,325,450	24,386,761
	Other Receivable				15,427,710	1,759,436
	Less : Allowance for Impairment Losses				(3,095,835)	-
					36,343,032	26,414,757

Notes to the Financial Statements cont...

Year ended 31 March 2018

20. OTHER FINANCIAL ASSETS	2018 Rs.	2017 Rs.
With Holding Tax	489,976	373,020
Advances and Prepayment	16,175,082	22,995,068
	16,665,058	23,368,088

21. FINANCIAL INVESTMENT-AVAILABLE FOR SALE	2018 Rs.	No. of Shares	2017 Rs.	No. of Shares
Equities-Unquoted				
Credit Information Bureau of Sri Lanka	457,700	100	457,700	100
	457,700	100	457,700	100

All unquoted available for sales equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and company intend to hold these for long term.

22. INVENTORIES	2018 Rs.	2017 Rs.
Stationeries	730,619	183,087
Trading Stock	3,800,000	-
Land stock (Note 22.1)	145,749,813	78,463,089
	150,280,432	78,646,176

22.1 LAND STOCK	2018 Rs.	2017 Rs.
Cost	170,104,066	83,326,670
Less : Development cost to completion	(24,354,253)	(4,863,581)
	145,749,813	78,463,089

23. PROPERTY, PLANT & EQUIPMENT				
23.1 Gross Carrying Amounts	Balance As at 01.04.2017	Additions	Disposals	Balance As at 31.03.2018
At Cost	Rs.	Rs.	Rs.	Rs.
Freehold Assets				
Furniture & Fittings	31,899,523	27,827,836	8,553,571	51,173,788
Office Equipment	15,884,474	10,469,778	1,329,955	25,024,297
Computer Equipment	21,059,876	4,393,166	-	25,453,042
Motor Vehicles	7,144,190	-	-	7,144,190
	75,988,063	42,690,780	9,883,526	108,795,317
Assets on Finance Leases				
Motor Vehicles	46,220,330	-	-	46,220,330
Total Value of Depreciable Assets	122,208,393	42,690,780	9,883,526	155,015,647

Notes to the Financial Statements cont..

Year ended 31 March 2018

23.2 Depreciation At Cost	Balance As at 01.04.2017 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Freehold Assets				
Furniture & Fittings	21,967,871	8,105,934	8,504,375	21,569,430
Office Equipment	9,284,694	4,076,785	1,329,955	12,031,524
Computer Equipment	17,566,406	2,223,265	-	19,789,671
Motor Vehicles	459,615	699,322	-	1,158,937
	49,278,586	15,105,306	9,834,330	54,549,562
Assets On Finance Leases				
Motor Vehicles	2,529,925	3,235,041	-	5,764,966
Total Depreciation	51,808,511	18,340,347	9,834,330	60,314,528

23.3 Fully Depreciated Property, Plant and Equipment

The initial cost of fully-depreciated property, plant and equipment as at 31 March 2018, which are still in use as at the reporting date is as follows;

	2018 Rs.	2017 Rs.
Furniture & Fittings	2,165,024	1,125,779
Office Equipment	2,121,770	107,560
Computer Equipment	16,218,910	320,000
Motor Vehicles	424,540	-
	20,930,244	1,553,339

23.4 Net Book Values

At Cost	2018 Rs.	2017 Rs.
Furniture & Fittings	29,604,358	9,931,652
Office Equipment	12,992,773	6,599,780
Computer Equipment	5,663,371	3,493,471
Motor Vehicles	5,985,253	6,684,575
	54,245,755	26,709,478
Assets on Finance Leases		
Motor Vehicles	40,455,364	43,690,405
Total Carrying Amount of Property, Plant & Equipment	94,701,119	70,399,883

Notes to the Financial Statements cont...

Year ended 31 March 2018

24. INTANGIBLE ASSETS	2018 Rs.	2017 Rs.
Computer System Software		
Cost:		
Balance as at 1 April	45,861,486	45,013,486
Addition	3,702,594	848,000
Disposal	-	-
Balance as at 31 March	49,564,080	45,861,486
Less: Amortization		
Balance as at 1 April	20,408,415	15,866,155
Amortization Charge for the Period	4,757,292	4,537,811
Balance as at 31 March	25,165,707	20,408,415
Net Book Value as at 31 March	24,398,373	25,453,071
25. INTEREST BEARING BORROWINGS	2018 Rs.	2017 Rs.
Finance Lease (25.1)	15,066,086	20,151,021
Bank Over Draft	48,004,642	84,105,685
Bank Borrowings (25.2)	1,278,825,674	1,078,939,347
Intercompany Borrowings	187,492,370	-
	1,529,388,772	1,183,196,053
25.1 Finance Lease	2018 Rs.	2017 Rs.
Gross liability	17,893,605	24,931,293
Less: Finance Charge Allocated to Future Period	(2,827,519)	(4,780,272)
Net Liability	15,066,086	20,151,021
Repayable Within one year		
Gross Liability	5,937,523	7,049,138
Less: Finance Charge Allocated to Future Period	(1,474,534)	(1,974,345)
Net Liability	4,462,989	5,074,793
Repayable After one year (1-5 Year)		
Gross Liability	11,956,082	17,893,634
Less: Finance Charge Allocated to Future Period	(1,352,985)	(2,817,406)
Net Liability	10,603,097	15,076,228
Total Net Liability	15,066,086	20,151,021

Notes to the Financial Statements cont....

Year ended 31 March 2018

25.2 Bank Borrowings	2018 Rs.	2017 Rs.
Gross liability	1,514,113,117	1,298,636,245
Less: Finance Charge Allocated to Future Period	(235,287,443)	(219,696,898)
Net Liability	1,278,825,674	1,078,939,347
Repayable Within one year		
Gross Liability	639,165,548	492,238,010
Less: Finance Charge Allocated to Future Period	(127,298,251)	(109,658,781)
Net Liability	511,867,297	382,579,230
Repayable After one year (1 to 5 Year)		
Gross Liability	874,947,569	806,398,235
Less: Finance Charge Allocated to Future Period	(107,989,192)	(110,038,118)
Net Liability	766,958,377	696,360,117
Total Net Liability	1,278,825,674	1,078,939,347

Notes to the Financial Statements cont...

Year ended 31 March 2018

25.2.1	Bank Loan Facilities	As at 31.03.2018	As at 01.04.2017	Interest Rate	Period (Months)	Security
	BOC Loan 1	7,318,117	19,867,570	13.25%	48	Mortgage over Lease and Loan receivables
	BOC Loan 2	15,790,198	32,837,740	13.31%	48	Mortgage over Lease and Loan receivables
	BOC Loan 3	-	2,097,440	-	-	Mortgage over Lease and Loan receivables
	BOC Loan 4	1,587,013	5,396,423	13.29%	36	Mortgage over Lease and Loan receivables
	BOC Loan 6	2,796,700	8,050,944	13.11%	24	Mortgage over Lease and Loan receivables
	BOC Loan 7	4,398,412	11,001,992	13.11%	36	Mortgage over Lease and Loan receivables
	BOC Loan 8	-	4,476,316	-	-	Mortgage over Lease and Loan receivables
	BOC Loan 9	-	1,073,115	-	-	Mortgage over Lease and Loan receivables
	BOC Loan 10	348,093	2,437,842	13.25%	24	Mortgage over Lease and Loan receivables
	BOC Loan 11	596,371	4,176,646	13.25%	24	Mortgage over Lease and Loan receivables
	BOC Loan 12	3,812,506	7,082,353	13.25%	36	Mortgage over Lease and Loan receivables
	BOC Loan 13	39,594,993	57,881,021	13.25%	48	Mortgage over Lease and Loan receivables
	BOC Loan 14	-	5,249,860	-	-	Mortgage over Lease and Loan receivables
	BOC Loan 15	1,768,935	8,851,260	13.16%	24	Mortgage over Lease and Loan receivables
	BOC Loan 16	13,393,366	24,118,340	13.16%	36	Mortgage over Lease and Loan receivables
	BOC Loan 17	75,906,244	109,675,724	13.16%	48	Mortgage over Lease and Loan receivables
	BOC Loan 18	89,990,241	124,860,195	13.12%	48	Mortgage over Lease and Loan receivables
	BOC Loan 19	17,479,176	28,529,130	13.12%	36	Mortgage over Lease and Loan receivables
	BOC Loan 20	6,537,860	17,755,641	13.12%	24	Mortgage over Lease and Loan receivables
	BOC Loan 21	-	4,128,900	-	-	Mortgage over Lease and Loan receivables
	BOC Loan 22	59,091,042	78,814,739	13.05%	48	Mortgage over Lease and Loan receivables
	BOC Loan 23	10,705,289	16,040,669	13.22%	36	Mortgage over Lease and Loan receivables
	BOC Loan 24	2,965,700	5,950,669	13.22%	24	Mortgage over Lease and Loan receivables
	BOC Loan 25	1,803,271	-	13.26%	12	Mortgage over Lease and Loan receivables
	BOC Loan 26	6,662,083	-	13.26%	24	Mortgage over Lease and Loan receivables
	BOC Loan 27	4,051,797	-	13.26%	36	Mortgage over Lease and Loan receivables
	BOC Loan 28	57,262,188	-	13.26%	48	Mortgage over Lease and Loan receivables
	BOC Loan 29	63,454,451	-	13.24%	48	Mortgage over Lease and Loan receivables
	BOC Loan 30	13,235,337	-	13.24%	36	Mortgage over Lease and Loan receivables
	BOC Loan 31	4,283,915	-	13.24%	24	Mortgage over Lease and Loan receivables
	BOC Loan 32	1,679,961	-	13.24%	12	Mortgage over Lease and Loan receivables
	BOC Loan 33	116,457,522	-	13.19%	48	Mortgage over Lease and Loan receivables
	BOC Loan 34	23,876,501	-	13.22%	36	Mortgage over Lease and Loan receivables
	PABC Loan	40,204,905	65,566,594	14.50%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 1	20,858,984	33,385,742	10.22%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 2	21,906,509	34,435,604	11.27%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 3	22,952,059	35,482,112	11.70%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 4	32,356,462	44,892,312	13.28%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 5	67,197,714	92,430,641	13.22%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 6	34,481,689	47,034,405	13.18%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 7	35,681,541	48,297,108	13.23%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 8	36,821,966	47,916,000	13.16%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 9	36,585,777	49,144,301	13.19%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 10	144,170,616	-	13.35%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 11	49,118,676	-	13.31%	48	Mortgage over Lease and Loan receivables
	Seylan Bank Loan 12	50,474,055	-	13.31%	48	Mortgage over Lease and Loan receivables
	NSB Loan	39,167,440	-	13.76%	36	Mortgage over Lease and Loan receivables
		1,278,825,674	1,078,939,347			

Notes to the Financial Statements cont....

Year ended 31 March 2018

26. DUE TO CUSTOMERS	2018 Rs.	2017 Rs.
Fixed Deposit	367,110,412	301,121,019
	367,110,412	301,121,019
<hr/>		
27. OTHER FINANCIAL LIABILITIES	2018 Rs.	2017 Rs.
Trade Payable	41,666,649	87,769,559
Accrued Expense	9,966,429	7,092,136
Sundry Creditors	94,253,390	13,256,476
	145,886,468	108,118,171
<hr/>		
28. OTHER NON FINANCIAL LIABILITIES	2018 Rs.	2017 Rs.
WHT Payable	486,191	210,532
Stamp Duty Payable	2,282,621	1,103,739
VAT Payable	1,215,785	3,095,789
Dividend Payable	961,829	-
Other Liabilities*	11,032,140	23,556,569
	15,978,566	27,966,629
<hr/>		
*Other Liabilities include Rs. 7,168,955 of unidentified direct deposits received from customers.		
<hr/>		
29. RETIREMENT BENEFIT LIABILITY	2018 Rs.	2017 Rs.
29.1 Defined Benefit Liability		
Defined Benefit Liability (29.2)	8,433,608	5,162,362
	8,433,608	5,162,362
<hr/>		
29.2 Changes in the Defined benefit obligation are as follows		
Opening Liability	5,162,362	3,477,563
Net Benefit expense (29.3)	3,683,746	1,684,799
Benefit paid	(412,500)	-
Defined Benefit Liability as of 31 March	8,433,608	5,162,362
<hr/>		
29.3 Net Benefit expense		
Interest Cost	650,457	417,307
Current Service Cost	1,440,590	1,049,113
Actuarial Loss on obligations	1,592,699	218,379
	3,683,746	1,684,799

Notes to the Financial Statements cont...

Year ended 31 March 2018

29.4 The principal financial assumptions used are as follows

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2018. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

Discount Rate	10.33%	12.60%
Future Salary Increment Rate	9.00%	9.00%
Retirement age	55 Years	55 Years
Mortality - GA 1983 Mortality Table issued by the Institute of Actuaries London		

29.5 Sensitivity Analysis

+/- 1% change on Discount Rate and Salary Increase- present value of defined benefit obligation as at 31 March 2018.

	Present Value of Defined Benefit Obligation		
	31-Mar-18	31-Mar-18	31-Mar-18
Discount Rate	9.33%	10.33%	11.33%
Basic Salary Scale	9.0%	9.0%	9.0%
Census at	31-Mar-18	31-Mar-18	31-Mar-18
Total PVDBO	8,847,905	8,433,608	8,078,152

	Present Value of Defined Benefit Obligation		
	31-Mar-18	31-Mar-18	31-Mar-18
Discount Rate	10.33%	10.33%	10.33%
Basic Salary Scale	8.0%	9.0%	10.0%
Census at	31-Mar-18	31-Mar-18	31-Mar-18
Total PVDBO	8,077,710	8,433,608	8,841,035

Sensitivity Analysis

+/- 1% change on Discount Rate and Salary Increase - present value of defined benefit obligation as at 31 March 2017.

	Present Value of Defined Benefit Obligation		
	31-Mar-17	31-Mar-17	31-Mar-17
Discount Rate	11.6%	12.6%	13.6%
Basic Salary Scale	9.0%	9.0%	9.0%
Census at	31-Mar-17	31-Mar-17	31-Mar-17
Total PVDBO	5,396,285	5,162,362	4,955,599

	Present Value of Defined Benefit Obligation		
	31-Mar-17	31-Mar-17	31-Mar-17
Discount Rate	12.6%	12.6%	12.6%
Basic Salary Scale	8.0%	9.0%	10.0%
Census at	31-Mar-17	31-Mar-17	31-Mar-17
Total PVDBO	4,950,939	5,162,362	5,397,822

Notes to the Financial Statements cont....

Year ended 31 March 2018

30. DEFERRED TAX LIABILITY	Statement of Financial Position		Statement of Comprehensive Income		Statement of Other Comprehensive Income	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Deferred Tax Liability						
Property Plant & Equipment	3,737,501	2,878,882	858,620	(741,528)	-	-
Intangible Assets	5,840,586	6,759,393	(918,807)	(1,083,483)	-	-
Lease Rental	85,731,911	74,295,156	11,436,756	26,056,893	-	-
Lease Creditor	5,916,851	4,975,322	941,529	4,975,322	-	-
	101,226,850	88,908,753	12,318,097	29,207,204	-	-
Deferred Tax Assets						
Lease Creditor	-	-	-	291,285	-	-
Defined Benefit Plan Obligation	2,361,410	1,445,461	(469,993)	(242,760)	(445,956)	(61,146)
Impairment of Loans and Receivables	10,887,237	5,678,446	(5,208,790)	(3,330,692)	-	-
Brought Forward Tax Loss	42,649,207	62,757,145	20,107,938	(20,311,921)	-	-
	55,897,854	69,881,053	14,429,155	(23,594,088)	(445,956)	(61,146)
Deferred Income Tax Income/(Expense)			26,747,252	5,613,116	(445,956)	(61,146)
Net Deferred Tax (Asset)/Liabilities	45,328,996	19,027,700				

31. STATED CAPITAL

Issued and Fully Paid-Ordinary Shares	No of Shares	Rs.
Balance as of 1 April 2016	80,000,000	603,247,125
Issued during the Period		
Share Issue	-	-
Balance as of 31 March 2017	80,000,000	603,247,125
Balance as of 1 April 2017	80,000,000	603,247,125
Issued during the Period	10,000,000	205,000,000
Balance as of 31 March 2018	90,000,000	808,247,125

Transaction cost on share issued is deducted from the equity.

32. RESERVES

	2018 Rs.	2017 Rs.
Statutory Reserve Fund	12,230,929	7,147,451
Closing Balance	12,230,929	7,147,451

The company's reserve fund is maintained in accordance with Direction No. 1 of 2003 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

Notes to the Financial Statements cont....

Year ended 31 March 2018

33. CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF CASH FLOW STATEMENT	2018 Rs.	2017 Rs.
Components of Cash and Cash Equivalents		
Favorable Cash & Cash Equivalents Balance		
Cash and Bank Balance (Note 13)	51,593,413	37,998,795
Investment in government securities	26,566,794	24,255,603
Investment in FD with short Term Maturities (Note 15)	39,934,643	17,579,371
	118,094,850	79,833,769
Un-Favorable Cash & Cash Equivalents Balance		
Bank Over Draft (Note 25)	48,004,642	84,105,685
	48,004,642	84,105,685
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	70,090,208	(4,271,914)

34. ANALYSIS OF FINANCIAL ASSETS & LIABILITIES BY MEASUREMENT BASIS

As at 31 March 2018	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortized Cost Rs.	Total Rs.
Financial Assets			
Cash & Bank Balances	-	51,593,413	51,593,413
Investment in government Securities	-	26,566,794	26,566,794
Placements with Other Banks & Financial Institutions	-	39,934,643	39,934,643
Lease Rentals Receivable and Stock out on Hire	-	2,040,010,374	2,040,010,374
Loans and Advances	-	496,510,205	496,510,205
Gold Advances	-	177,748,346	177,748,346
Financial Investments-Available for Sale	457,700	-	457,700
Other Financial Assets	-	46,820,823	46,820,823
Total Financial Assets	457,700	2,879,184,598	2,879,642,298
Financial Liabilities			
Interest Bearing Borrowings	-	1,529,388,772	1,529,388,772
Due to the Customers	-	367,110,412	367,110,412
Other Financial Liabilities	-	145,886,468	145,886,468
Total Financial Liabilities	-	2,042,385,652	2,042,385,652

Notes to the Financial Statements cont....

Year ended 31 March 2018

As at 31 March 2017	Available for Sale Financial Assets at Fair Value	Financial Assets and Liabilities at Amortized Cost	Total
	Rs.	Rs.	Rs.
Financial Assets			
Cash & Bank Balances	-	37,998,795	37,998,795
Investment in government Securities	-	24,255,603	24,255,603
Placements with Other Banks & Financial Institutions	-	17,579,371	17,579,371
Lease Rentals Receivable and Stock out on Hire	-	1,743,026,107	1,743,026,107
Loans and Advances	-	299,830,820	299,830,820
Gold Advances	-	16,119,775	16,119,775
Financial Investments-Available for Sale	457,700	-	457,700
Other Financial Assets	-	26,329,179	26,329,179
Total Financial Assets	457,700	2,165,139,649	2,165,597,349
Financial Liabilities			
Interest Bearing Borrowings	-	1,183,196,053	1,183,196,053
Due to the Customers	-	301,121,019	301,121,019
Other Financial Liabilities	-	108,118,171	108,118,171
Total Financial Liabilities	-	1,592,435,243	1,592,435,243

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

35.1 Determination of Fair Value and Fair Value Hierarchy

The company use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1 : Quoted prices in active markets for identical assets and liabilities.

Level 2 : Other technique for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2018	Level 1	Level 2	Level 3	Total
Financial Investments - Available for Sale				
Unquoted Equity	-	-	457,700	457,700
	-	-	457,700	457,700

There were no financial liabilities recorded at the fair value as at 31 March 2017.

As at 31 March 2017	Level 1	Level 2	Level 3	Total
Financial Investments - Available for Sale				
Unquoted Equity	-	-	457,700	457,700
	-	-	457,700	457,700

There were no financial liabilities recorded at the fair value as at 31 March 2017.

Year ended 31 March 2018**35.2 Fair Value of the Financial Instrument Carried at Amortized Cost**

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial Statements. This table does not include the fair values of non financial assets and liabilities.

As at 31 March 2018	Level	Carrying Amount Rs.	Fair Value Rs.
Financial Assets			
Lease Rentals Receivable and Stock out on Hire	Level 02	2,040,010,374	2,054,430,989
Loans and Advances	Level 02	496,510,205	507,009,211
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,264,620,846	1,219,502,983
Finance Lease	Level 02	17,893,605	14,978,039
As at 31 March 2017			
Financial Assets			
Lease Rentals Receivable and Stock out on Hire	Level 02	1,743,026,107	1,735,386,393
Loans and Advances	Level 02	299,830,820	291,651,059
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,071,468,846	872,684,958
Finance Lease	Level 02	24,931,293	19,355,478
For the following list of Financial Instrument whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently.			
Assets			
Cash and Bank Balances			
Investment in government Securities			
Placements with Banks and Other Financial Institutions			
Gold Advances			
Other Financial Assets			
Financial Liabilities			
Bank Overdraft			
Due to the Customers			
Other Financial Liabilities			

Notes to the Financial Statements cont....

Year ended 31 March 2018

36. CURRENT AND NON CURRENT ANALYSIS OF ASSETS & LIABILITIES

Table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31 March 2018	2018 - within 12 Months Rs.	2018 - after 12 Months Rs.	Total as at 31.03.2018 Rs.
ASSETS			
Cash and Bank Balances	51,593,413	-	51,593,413
Investment in Government Securities	26,566,794	-	26,566,794
Placements with Banks and Other Financial Institutions	39,934,643	-	39,934,643
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,037,528,521	1,498,992,058	2,536,520,579
Gold Advances	177,748,346	-	177,748,346
Other Financial Assets	5,876,382	4,601,408	10,477,790
Other Non Financial Assets	50,736,240	2,271,850	53,008,090
Financial Investments-Available for Sale	-	457,700	457,700
Inventories	150,280,432	-	150,280,432
Property, Plant and Equipment	-	94,701,119	94,701,119
Intangible Assets	-	24,398,373	24,398,373
Total Assets	1,540,264,771	1,625,422,508	3,165,687,279
LIABILITIES			
Interest Bearing Borrowings	751,827,298	777,561,474	1,529,388,772
Due to the Customers	246,103,688	121,006,724	367,110,412
Other Financial Liabilities	145,886,468	-	145,886,468
Other Non Financial Liabilities	15,978,566	-	15,978,566
Current Tax Liabilities	9,730,702	-	9,730,702
Retirement Benefit Liability	-	8,433,608	8,433,608
Deferred Tax Liabilities	-	45,328,996	45,328,996
Total Liabilities	1,169,526,722	952,330,802	2,121,857,524
Net Assets	370,738,049	673,091,706	1,043,829,755

Notes to the Financial Statements cont....

Year ended 31 March 2018

As at 31 March 2017	2017 - within 12 Months Rs.	2017 - after 12 Months Rs.	Total as at 31.03.2017 Rs.
ASSETS			
Cash and Bank Balances	37,998,795	-	37,998,795
Investment in Government Securities	24,255,603	-	24,255,603
Placements with Banks and Other Financial Institutions	17,579,371	-	17,579,371
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	840,907,563	1,201,949,363	2,042,856,926
Gold Advances	16,119,775	-	16,119,775
Other Financial Assets	24,126,505	2,202,674	26,329,179
Other Non Financial Assets	48,607,326	1,175,521	49,782,847
Financial Investments-Available for Sale	-	457,700	457,700
Inventories	78,646,176	-	78,646,176
Property, Plant and Equipment	-	70,399,883	70,399,883
Intangible Assets	-	25,453,071	25,453,071
Total Assets	1,088,241,113	1,301,638,212	2,389,879,325
LIABILITIES			
Interest Bearing Borrowings	471,759,708	711,436,345	1,183,196,053
Due to the Customers	194,414,294	106,706,725	301,121,019
Other Financial Liabilities	108,118,171	-	108,118,171
Other Non Financial Liabilities	27,966,629	-	27,966,629
Current Tax Liabilities	7,058,485	-	7,058,485
Retirement Benefit Liability	-	5,162,362	5,162,362
Deferred Tax Liabilities	-	19,027,700	19,027,700
Total Liabilities	809,317,286	842,333,132	1,651,650,418
Net Assets	278,923,826	459,305,081	738,228,907

37. COMMITMENT AND CONTINGENCIES

There were no significant capital commitment and contingencies as of the reporting date.

37.1 Litigation Against Company

The company does not have contingent liabilities in respect of legal claims arising in the ordinary course of business.

37.2 Assets Pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2018 Rs.	2017 Rs.	
Lease Rentals Receivable and Stock out on Hire *	Bank Loans and Overdrafts	2,766,908,439	2,364,958,674	Lease Rentals Receivable and Stock out on Hire
		2,766,908,439	2,364,958,674	

* The receivables and cash flows that have been included in securitization transactions are only available for payment of the debt and other obligations issued or arising in the securitization transactions. However, the Company hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of the securitization transactions.

Notes to the Financial Statements cont....

Year ended 31 March 2018

38. EVENT OCCURRING AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustment or disclosure in financial statement.

39. RELATED PARTY TRANSACTIONS

The company carries out transactions in the ordinary course of business with the parties who are defined as "Related Parties" in LKAS-24-Related Party Disclosures.

Details of related party transactions which the company had during the year are as follows:

39.1 Transactions with Key Managerial Personnel (KMPs)

The company has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the company as "Key Management Personnel" in accordance with LKAS 24-"Related Party Disclosures". Accordingly, Board of Directors, Chief Executive Officer and Members of Corporate Management team have been identified as "Key Management Personnel".

	2018 Rs.	2017 Rs.
Short Term Employment Benefits	20,665,000	17,974,500

In addition to the above, the Company has also paid non cash benefits such as vehicles and fuel to key management personnel in line with the approved employment benefits of the Company.

39.2 Transaction, arrangements and agreements involving with Entities which are controlled, and/or jointly controlled by the KMP's and their CFMs or shareholders.

	Nature of Relationship	Amount of the Transactions had During the year	Outstanding Receivable/ (Payable) Balance as at 31-3-2018	Outstanding Receivable/ (Payable) Balance as at 31-3-2017
Ideal Holdings Private Limited	Parent Company			
Fixed Deposits		-	-	-
Withdrawal of Fixed Deposits		-	-	-
Interest Expense - Fixed Deposits		-	-	-
Ideal Motors (Pvt) Ltd.	Affiliate Company			
Fixed Deposits		136,292,200	(10,000,000)	(100,030,822)
Withdrawal of Fixed Deposits		(226,323,022)	-	-
Receivables from Dealership Commission		769,500	267,667	357,000
Finance Lease Equipment Purchase		480,826,200	(30,444,800)	(9,770,000)
Interest Expenses - Fixed Deposits		15,786,977	(335,702)	(627,811)
Intercompany Borrowing		350,000,000	(181,900,000)	-
Interest Expense - Intercompany Borrowing		5,942,551	(5,592,370)	-
Sale of Shares		-	13,094,853	-

Year ended 31 March 2018**39.2 Transaction, arrangements and agreements involving with Entities which are controlled, and/or jointly controlled by the KMP's and their CFMs or shareholders. Contd..**

Ideal Automobile (Pvt) Ltd	Affiliate Company		
Finance Lease Equipment Purchase	9,700,000	-	-
Fixed Deposits	75,000,000	(115,000,000)	(40,157,500)
Withdrawal of Fixed Deposits	(157,500)	-	-
Interest Expenses - Fixed Deposits	12,866,167	(3,218,672)	(412,195)
Ideal 2Wheels (Pvt) Ltd	Affiliate Company		
Finance Lease Equipment Purchase	1,482,065	-	(174,965)
Ideal Chery Automobiles (Pvt) Ltd	Affiliate Company		
Finance Lease Equipment Purchase	-	-	-
Ideal Investment Lanka (Pvt) Ltd	Affiliate Company		
Rent Expenses	6,589,852	(658,903)	605,280
Rent Deposit	-	450,000	450,000
Ideal Choice (Pvt) Ltd	Affiliate Company		
Fixed Deposits	-	-	-
Withdrawal of Fixed Deposits	-	-	-
Interest Expense - Fixed Deposits	-	-	-

40. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

40.1 Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

41. RISK MANAGEMENT**41.1 INTRODUCTION**

Risk is inherent in the company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the company's continuing profitability and each individual within the company is accountable for the risk exposures relating to his or her responsibilities.

Notes to the Financial Statements cont....

Year ended 31 March 2018

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by an Independent Non-Executive Director and is comprised of Executive and Non-Executive Directors and Officers performing Executive functions. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

RISK MANAGEMENT AND REPORTING

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

41.2 CREDIT RISK

Credit risk is risk arise due to the uncertainty in counter party's ability to meet its obligations. The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

41.2.1 Credit quality by class of financial assets

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amount presented are gross of impairment allowances.

As at 31 March 2018	Note	Neither Past Due Not Impaired Rs.	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
ASSETS					
Cash and Bank Balances	13	51,593,413	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	14,15	66,501,437	-	-	66,501,437
Gold Advances	16	177,748,346	-	-	177,748,346
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	17,18	2,455,234,966	117,072,767	-	2,572,307,733
Other Financial Assets	19	46,820,823	-	-	46,820,823
Financial Investments-Available for Sale	21	457,700	-	-	457,700
		2,798,356,685	117,072,767	-	2,915,429,452

Notes to the Financial Statements cont....

Year ended 31 March 2018

As at 31 March 2017	Note	Neither Past Due Not Impaired Rs.	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
ASSETS					
Cash and Bank Balances	13	37,998,795	-	-	37,998,795
Investment in Government Securities and Placements with Banks and Other Financial Institutions	14,15	41,834,974	-	-	41,834,974
Gold Advances	16	16,119,775	-	-	16,119,775
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	17,18	1,994,380,923	68,756,169	-	2,063,137,092
Other Financial Assets	19	26,329,179	-	-	26,329,179
Financial Investments-Available for Sale	21	457,700	-	-	457,700
		2,117,121,346	68,756,169	-	2,185,877,515

Past Due But Not Impaired

Past due but not impaired financial assets are those with contractual interest or principal payments are past due but the company believes that impairment is not appropriate on the basis of the stage of collection amounts owed, level of security / collateral available and significance of the financial assets.

Individually Impaired

All individual significant financial assets which the company determines that there are objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as impaired financial assets.

41.2.1.1 Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

As at 31 March 2018	Past Due Not Impaired				Total Rs.
	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	22,847,356	47,920,379	10,724,637	35,580,395	117,072,767
	22,847,356	47,920,379	10,724,637	35,580,395	117,072,767

As at 31 March 2017	Past Due Not Impaired				Total Rs.
	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	13,877,965	30,415,099	5,986,316	18,476,788	68,756,169
	13,877,965	30,415,099	5,986,316	18,476,788	68,756,169

Notes to the Financial Statements cont....

Year ended 31 March 2018

41.2.2 Analysis of Risk Concentration

41.2.2.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Sector wise Break Down as at 31st March 2018	Cash & Bank Balances	Placement with Bank & Other Financial Institutions	Lease Rental Receivable & Stock out on Hire & Loan	Financial Assets- Available for Sale	Gold Advances	Other Financial Assets	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	749,297,992	-	-	-	749,297,992
Manufacturing	-	-	48,902,706	-	-	-	48,902,706
Construction	-	-	65,667,321	-	-	-	65,667,321
Financial Services	51,593,413	39,934,643	53,449,297	-	-	-	144,977,353
Trading	-	-	204,635,656	-	-	-	204,635,656
Hotels	-	-	10,868,151	-	-	-	10,868,151
Services	-	-	9,947,059	457,700	-	-	10,404,759
Transport	-	-	1,094,705,930	-	-	-	1,094,705,930
Consumer	-	-	334,833,621	-	177,748,346	46,820,823	559,402,790
Total	51,593,413	39,934,643	2,572,307,733	457,700	177,748,346	46,820,823	2,888,862,658

Provincial break down for lease rental receivables and stock out on hire within Sri Lanka as follows.

Province	Lease Rental Receivable & Stock Out On Hire Purchase	Loan Stock	Gold Advances
North Central	519,700,349	66,304,942	18,963,964
North Western	474,702,723	95,087,072	3,140,667
Northern	207,942,810	17,016,301	85,447,045
Sabaragamuwa	109,118,853	19,058,918	-
Southern	115,706,947	33,217,423	7,955,928
Uva	327,903,634	55,163,279	62,240,743
Western	308,718,973	222,665,509	-
Total	2,063,794,289	508,513,444	177,748,346

Notes to the Financial Statements cont...

Year ended 31 March 2018

Sector wise Break Down as at 31st March 2017	Cash & Bank Balances	Placement with Bank & Other Financial Institutions	Lease Rental Receivable, Stock out on Hire purchase and Loans and Advances	Financial Assets- Available for Sale	Gold Advances	Other Financial Assets	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	80,235,025	-	-	-	80,235,025
Manufacturing	-	-	30,848,153	-	-	-	30,848,153
Construction	-	-	45,869,200	-	-	-	45,869,200
Financial Services	37,998,795	17,579,371	23,434,762	-	-	-	79,012,928
Trading	-	-	106,179,199	-	-	-	106,179,199
Hotels	-	-	4,802,154	-	-	-	4,802,154
Services	-	-	276,912,035	457,700	-	-	277,369,735
Transport	-	-	1,143,936,254	-	-	-	1,143,936,254
Consumer	-	-	350,920,310	-	16,119,775	26,329,179	393,369,264
Total	37,998,795	17,579,371	2,063,137,091	457,700	16,119,775	26,329,179	2,161,621,912

Provincial break down for lease rental receivables and stock out on hire within Sri Lanka as follows.

Province	Lease Rental Receivable & Stock Out On Hire purchase	Loan Stock	Gold Advances
North Central	550,571,488	35,254,049	2,039,433
North Western	306,239,843	40,757,853	-
Northern	208,307,753	14,508,330	-
Sabaragamuwa	87,357,220	11,030,789	-
Southern	75,831,547	13,052,765	701,052
Uva	244,039,157	10,312,297	13,379,290
Western	285,874,161	179,999,840	-
Total	1,758,221,169	304,915,923	16,119,775

41.2.2.2 Analysis of Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk by class of financial assets. It further shows the total fair value of collateral and exposure to credit risk.

Maximum Exposure to Credit	2018		2017	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
Cash and Bank Balances	51,593,413	-	37,998,795	-
Investment in Government Securities and Placements with Banks and Other Financial Institutions	66,501,437	66,501,437	41,834,974	41,834,974
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	2,572,307,733	350,612,427	2,063,137,092	247,734,411
Gold Advances	177,748,346	-	16,119,775	-
Other Financial Assets	46,820,823	46,820,823	26,329,179	26,329,179
Financial Investments-Available for Sale	457,700	457,700	457,700	457,700
Total Financial Assets	2,915,429,452	464,392,387	2,185,877,515	316,356,264

Notes to the Financial Statements cont....

Year ended 31 March 2018

41.3 LIQUIDITY RISK & FUNDING MANAGEMENT

Liquidity risk refers to the possibility of Company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of Company's assets and liabilities. Adequate liquidity is critical to meet the Company's financial commitment and to accommodate additional funding needs of the growing business volumes.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control the liquidity risk.

41.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities..

As at 31 March 2018	On Demand Rs.	Less Than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	51,593,413	-	-	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	62,486,280	4,945,942	-	-	67,432,222
Gold Advances	-	173,299,452	4,448,894	-	-	177,748,346
Lease Rentals Receivable and Stock out on Hire purchase	87,977,031	245,161,349	725,645,811	1,685,585,183	930,054	2,745,299,428
Loans and Advances	29,095,736	82,976,622	173,446,470	417,035,414	22,453,047	725,007,289
Financial Investments-Available for Sale	-	-	-	-	457,700	457,700
Other Financial Assets	455,000	3,515,388	1,905,995	4,601,408	-	10,477,791
Total Financial Assets	169,121,180	567,439,091	910,393,112	2,107,222,005	23,840,801	3,778,016,189
Financial Liabilities						
Interest Bearing Borrowings	48,004,642	120,331,111	728,991,081	886,903,651	-	1,784,230,485
Due to the Customers	-	105,538,283	136,858,068	121,006,724	-	363,403,076
Other Financial Liabilities	-	144,288,078	1,598,391	-	-	145,886,468
Total Financial Liabilities	48,004,642	370,157,472	867,447,540	1,007,910,375	-	2,293,520,029
Total Net Financial Assets/ (Liabilities)	121,116,538	197,281,619	42,945,572	1,099,311,630	23,840,801	1,484,496,160

Notes to the Financial Statements cont....

Year ended 31 March 2018

As at 31 March 2017	On Demand Rs.	Less Than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	37,998,795	-	-	-	-	37,998,795
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	41,980,992	262,692	-	-	42,243,684
Gold Advances	-	15,997,274	122,500	-	-	16,119,774
Lease Rentals Receivable and Stock out on Hire	51,299,358	198,488,954	618,474,815	1,471,126,317	-	2,339,389,444
Loans and Advances	18,115,689	64,568,295	132,559,221	178,145,215	15,080,663	408,469,083
Financial Investments-Available for Sale	-	-	-	-	457,700	457,700
Other Financial Assets	-	441,030	23,685,475	2,202,674	-	26,329,179
Total Financial Assets	107,413,842	321,476,545	775,104,703	1,651,474,206	15,538,363	2,871,007,659
Financial Liabilities						
Interest Bearing Borrowings	84,105,685	137,184,681	362,090,993	824,291,869	-	1,407,673,228
Due to the Customers	-	167,759,646	26,618,431	106,706,724	-	301,084,801
Other Financial Liabilities	-	20,348,612	87,769,559	-	-	108,118,171
Total Financial Liabilities	84,105,685	325,292,939	476,478,984	930,998,593	-	1,816,876,200
Total Net Financial Assets/(Liabilities)	23,308,157	(3,816,395)	298,625,719	720,475,613	15,538,363	1,054,131,459

41.4 INTEREST RATE RISK

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

Interest Rate Risk Exposure on Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

Notes to the Financial Statements cont....

Year ended 31 March 2018

As at 31 March 2018	Total As at 31-03-2018 Rs.	Interest Bearing				Non Interest Bearing Rs.
		Less Than 3 Months Rs.	3 to 12 Month Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	
Financial Assets						
Cash and Bank Balances	51,593,413	-	-	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	66,501,437	61,762,705	4,738,732	-	-	-
Gold Advances	177,748,346	173,299,452	4,448,894	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,063,794,289	287,350,819	560,124,170	1,215,769,300	550,000	-
Loans and Advances	508,513,444	98,693,086	127,147,600	271,803,373	10,869,385	-
Financial Investments-Available for Sale	457,700	-	-	-	-	457,700
Other Financial Assets	46,820,823	-	-	-	-	46,820,823
Total Financial Assets	2,915,429,452	621,106,062	696,459,396	1,487,572,673	11,419,385	98,871,936
Financial Liabilities						
Interest Bearing Borrowings	1,529,388,772	154,797,610	597,029,689	777,561,473	-	-
Due to the Customers	367,110,412	110,282,050	135,821,638	121,006,724	-	-
Other Financial Liabilities	145,886,468	-	-	-	-	145,886,468
Total Financial Liabilities	2,042,385,652	265,079,660	732,851,327	898,568,197	-	145,886,468
Interest Sensitivity Gap	873,043,800	356,026,402	(36,391,931)	589,004,476	11,419,385	(47,014,532)
As at 31 March 2017						
As at 31 March 2017	Total As at 31-03-2017 Rs.	Interest Bearing				Non Interest Bearing Rs.
		Less Than 3 Months Rs.	3 to 12 Month Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	
Financial Assets						
Cash and Bank Balances	37,998,795	-	-	-	-	37,998,795
Investment in Government Securities and Placements with Banks and Other Financial Institutions	41,834,974	41,582,716	252,258	-	-	-
Gold Advances	16,119,775	15,997,275	122,500	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	1,758,221,169	202,388,980	479,732,596	1,076,099,593	-	-
Loans and Advances	304,915,923	72,552,291	106,513,862	118,348,878	7,500,893	-
Financial Investments-Available for Sale	457,700	-	-	-	-	457,700
Other Financial Assets	26,329,179	-	-	-	-	26,329,179
Total Financial Assets	2,185,877,515	332,521,262	586,621,216	1,194,448,471	7,500,893	64,785,674

Notes to the Financial Statements cont....

Year ended 31 March 2018

As at 31 March 2017	Total As at 31-03-2017 Rs.	Interest Bearing				Non Interest Bearing Rs.
		Less Than 3 Months Rs.	3 to 12 Month Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	
Financial Liabilities						
Interest Bearing Borrowings	1,183,196,053	194,110,743	277,648,965	711,436,345	-	-
Due to the Customers	301,121,018	168,397,641	26,016,653	106,706,724	-	-
Other Financial Liabilities	108,118,171	-	-	-	-	108,118,171
Total Financial Liabilities	1,592,435,242	362,508,385	303,665,618	818,143,069	-	108,118,171
Interest Sensitivity Gap	593,442,274	(29,987,123)	282,955,598	376,305,402	7,500,893	(43,332,497)

42. OPERATING SEGMENTS

42.1 Entity-Wide Disclosures: Analysis of Gross Income on Product Basis

As at 31 March 2018	Finance Lease Rs.	Hire Purchase Rs.	Loans and Advances Rs.	Other Rs.	Total Rs.
Interest Income	437,122,660	4,765,561	114,000,952	16,647,895	572,537,068
Commission Income	-	-	-	8,099,316	8,099,316
Other Income	-	-	-	50,358,828	50,358,828
	437,122,660	4,765,561	114,000,952	75,106,039	630,995,212

As at 31 March 2017	Finance Lease Rs.	Hire Purchase Rs.	Loans and Advances Rs.	Other Rs.	Total Rs.
Interest Income	288,318,232	12,970,660	37,185,865	4,490,473	342,965,230
Commission Income	-	-	-	4,524,547	4,524,547
Other Income	-	-	-	43,316,072	43,316,072
	288,318,232	12,970,660	37,185,865	52,331,092	390,805,849

Year ended 31 March 2018

42.2 Entity-Wide Disclosures: Analysis of Gross Income and Non Current Assets on Geographical Areas

Gross Income	Domestic 2018 Rs.	Overseas 2018 Rs.	Domestic 2017 Rs.	Overseas 2017 Rs.
Interest Income	572,537,068	-	342,965,230	-
Commission Income	8,099,316	-	4,524,547	-
Other Income	50,358,828	-	43,316,072	-
	630,995,212	-	390,805,849	-

Non-Current Assets	Domestic 2018 Rs.	Overseas 2018 Rs.	Domestic 2017 Rs.	Overseas 2017 Rs.
Property, Plant and Equipment	94,701,119	-	70,399,883	-
Intangible Assets	24,398,373	-	25,453,071	-
	119,099,492	-	95,852,954	-

The above Non- Current Asset analysis does not included the Financial Instruments and Deferred Tax Liabilities.

Notes to the Financial Statements cont....

Year ended 31 March 2018

43. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standards LKAS 7 (Statement of Cash Flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2018 are disclosed below.

	Bank Borrowing	Finance Lease Liabilities	Inter company Borrowing
	Rs.	Rs.	Rs.
Balance as at 1 April 2017	1,078,939,347	20,151,021	-
Net cash flows from financing activities	191,273,869	(5,084,935)	181,900,000
Non cash changes			
Foreign exchange movements	-	-	-
Accrual for interest expense	8,612,458	-	5,592,370
Balance as at 31 March 2018	1,278,825,674	15,066,086	187,492,370

44. COMPARATIVE INFORMATION

The following comparative figures have been reclassified in the 2018 Statement of Financial Position to maintain comparability of financial statements in order to provide a better presentation.

		As disclosed in 2017	Adjustment	Reclassified
Assets				
Other Financial Assets	A	26,329,179	26,414,757	52,743,936
Other Non Financial Assets	A	49,782,845	(26,414,757)	23,368,088
Liabilities				
Other Non Financial Liabilities	B	35,025,114	(7,058,485)	27,966,629
Current Tax Liabilities	B	-	7,058,485	7,058,485
A	Reclassification from other non financial assets or other financial assets			
B	Separated current tax liabilities from other non financial liabilities			

Value Added Statement

Value Added	2018	2017
	Rs.	Rs.
Income from Interest Related Activities	572,537,068	342,965,230
Income from Other Activities	58,458,144	47,840,619
	630,995,212	390,805,849
Depositors & Lenders	228,114,523	133,806,481
Cost of Sales & Services	73,350,687	46,925,283
Provision for Bad & Doubtful Debts	18,602,824	11,895,328
	320,068,034	192,627,092
Total Value Added	310,927,178	198,178,757
Distribution of Value Added		
To Employees as Remuneration	109,148,019	88,766,837
To Government as Taxation	75,865,228	30,558,283
Depreciation	23,097,639	21,059,602
Retained Profits	102,816,292	57,794,034
	310,927,178	198,178,756

Information of Ordinary Shares

DISTRIBUTION OF SHAREHOLDING AS AT 31ST MARCH 2018

Shares	31 March 2018			
	No of Shareholders	% Shareholders	No of Shares	% No of Shares
Up to 2,000,000	1	20.00%	1,600,000	1.78%
2,000,001 - 6,000,000	1	20.00%	4,000,000	4.44%
6,000,001 - 14,000,000	1	20.00%	10,400,000	11.56%
Over 14,000,000	2	40.00%	74,000,000	82.22%
	5	100.00%	90,000,000	100.00%

CATEGORIES OF SHAREHOLDERS

Type of Investor	31 March 2017			
	No of Shareholders	% Shareholders	No of Shares	% No of Shares
Local Individuals	2	40.00%	12,000,000	13.33%
Local Institutions	3	60.00%	78,000,000	86.67%
	5	100.00%	90,000,000	100.00%

Capital Adequacy

TOTAL RISK WEIGHTED ASSET COMPUTATION

As at 31 March 2017

Assets	Amount	Risk Weight %	Risk weighted Assets Amount
Cash & Current Accounts with Banks	51,593,413	0%	-
Sri Lanka Govt/ Central Bank Securities	26,566,794	0%	-
Deposits with Banks	39,934,643	20%	7,986,929
Gold Advances	177,748,346	-	-
Loans & Advances	2,536,520,579	100%	2,536,520,579
Fixed Assets	119,099,492	100%	119,099,492
Other Assets	214,224,013	100%	214,224,013
Total Risk Weighted Assets	3,165,687,280		2,877,831,013

Constituents of Capital	Amount
Issued and paid up Ordinary Shares/ Common Stock (Cash)	808,247,125
Statutory Reserve Fund	12,230,929
Published Retained Profits/ (Accumulated Losses)	223,351,702
Tier 1 : Core Capital	1,043,829,756
Tier 2: Supplementary Capital	-
Total Capital	1,043,829,756
Capital Base	1,043,829,756

Capital Adequacy Ratio	Amount
Core Capital Ratio (Minimum %)	34%
Total Risk Weighted Capital Ratio (Minimum %)	34%

Glossary of Financial Statements

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.

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.

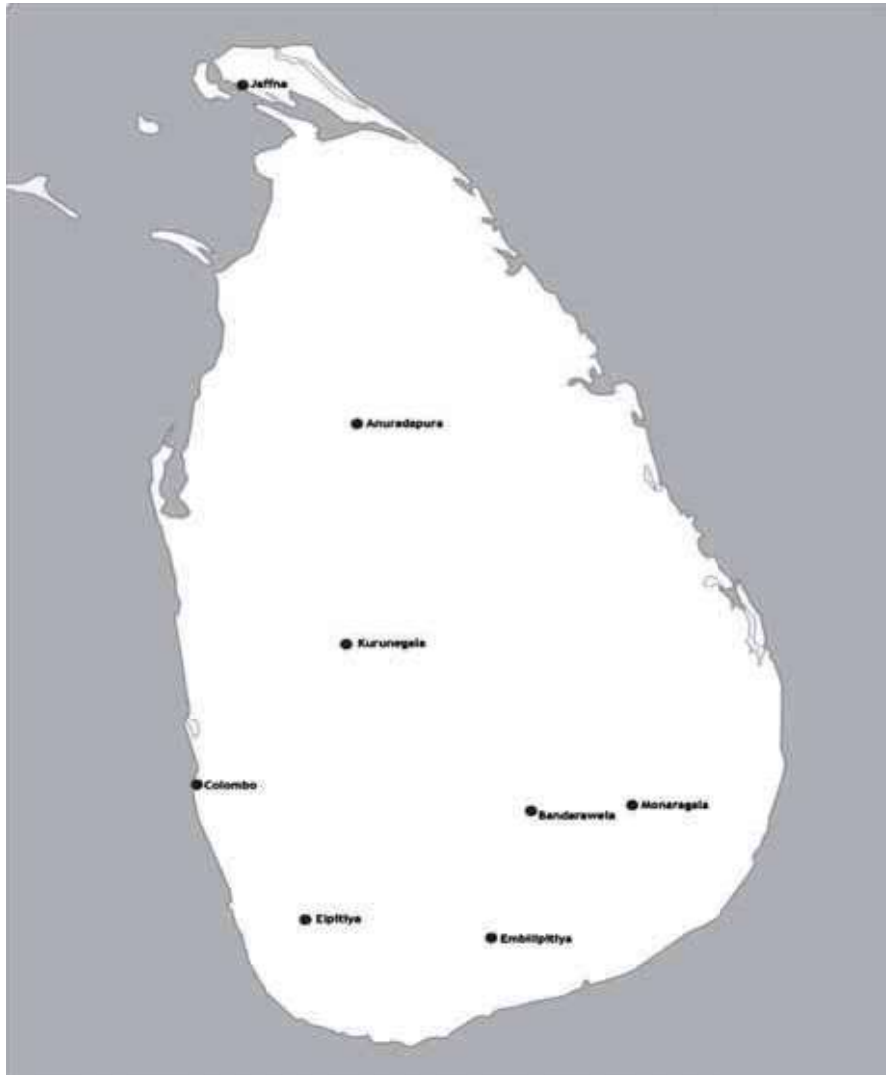
Deferred Tax

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.

Distribution Channels



S/N	BRANCH NAME	ADDRESS	TELEPHONE NUMBER	FAX NUMBER
01	Bandarawela	187, Main Rd, Bandarawela	0572230022 0572221025	0572230030
02	Jaffna	408, Hospital Rd, Jaffna	0212219990	0212219991
03	Kurunegala	262/A, Puttalam Rd, Kurunegala	0372232110	0372232010
04	Elpitiya	10/B, Pituwala Rd, Elpitiya	0912291427	0912291428
05	Anuradhapura	9C, Main Street, Anuradhapura	0252237925	0252237905
06	Embilipitiya	28, Pallegama, Embilipitiya.	0472261467 0473620040	0472261468
07	Monaragala	100, New Bus Stand, Monaragala	0552055858	0552055588

Notice of Annual General Meeting

IDEAL FINANCE LIMITED

Notice is hereby given that the Sixth Annual General Meeting of Ideal Finance Limited will be held at the Board Room of Ideal Motors (Pvt) Limited, No.299, Union Place, Colombo 02 on Friday, 14th September 2018 at 3.30 p.m. and the business to be brought before the meeting will be:

AGENDA

1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st March 2018 with the Report of the Auditors thereon.
2. To re-elect as a Director Dr. P. L. Suren Peter who retires by rotation in terms of Article No.24(6) of the Articles of Association of the Company.
3. To re-elect as a Director Mr. D. M. Weerasekare who retires by rotation in terms of Article 24(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
08th August 2018

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.

IDEAL FINANCE LIMITED

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 Aravinda De Silva	of Colombo or failing him
Mr. John Viraj Winston Malawana	of Colombo or failing him
Mr. Duminda Mahali Weerasekare	of Colombo or failing him
Dr. Paul Leslie Suren Peter	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 14th September 2018 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 Audited Accounts for the year ended 31st March 2018 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect as a Director Dr. P. L. Suren Peter who retires by rotation in terms of Article No.24(6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director Mr. D. M. Weerasekare who retires by rotation in terms Article No.24(6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorise Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who to are deemed have been re-appointed as Auditors.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day ofTwo Thousand and Eighteen.

.....
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:

If the shareholder is a Company or body corporate, Section 138 of the Companies Act No.7 of 2007 applies to corporate shareholders of Ideal Finance Limited. Section 138 provides for representation of Companies at meetings of other Companies. A Corporation, whether a Company within the meaning of this Act or not, may, where it is a member of another Corporation, being a Company within the meaning of this Act, by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company. A person authorised as aforesaid shall be entitled to exercise the same power on behalf of the Corporation which it represents as that Corporation could exercise if it were an individual shareholder of that other Company.

Corporate Information

Name of the Company	:	IDEAL FINANCE LIMITED
Date of incorporation	:	24th January, 2012
Head Office	:	No 299, Dr. Colvin R De Silva Mawatha, (Union Place) Colombo 02 Telephone: +94112396060 Fax: +94112396757 E-mail : info@idealfinance.lk Website: www.idealfinance.lk
Legal Form	:	Private Limited Liability Company incorporated in Sri Lanka under The Companies Act No.7 of 2007. A Finance Company registered under the Finance Companies Act No. 42 of 2011. A registered Finance Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.
Secretaries	:	SSP Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 03
Bankers		Bank of Ceylon Seylan Bank PLC Commercial Bank of Ceylon PLC Pan Asia Banking Corporation PLC
Company Registration	:	PB 4963
VAT Registration	:	134049634 7000
Auditors	:	Ernst & Young Chartered Accountants 201, De Saram Place, Colombo 10.
Directors	:	Mr. Nalin Welgama (Chairman) Mr. Duminda Weerasekare (Chief Executive Officer) Mr. Aravinda De Silva (Non-Executive Director) Mr. Viraj Malawana (Non-Executive Director) Dr. Suren Peter (Independent Non-Executive Director)
Share Holding	:	Ideal Holdings (Pvt) Ltd. - 56.89% Ideal Motors (Pvt) Ltd - 25.33% Mr. Viraj Malawana - 11.56% Veritas Holdings (Pvt) Ltd - 04.44% Mr. Duminda Weerasekare - 01.78%



IDEAL Finance Limited

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Colombo 02, Sri Lanka

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