

ANNUAL REPORT

201314

Standing Tall with **Determination**



MULTI[®]
FINANCE



Vision

To be the first choice for
financial solutions

Mission

To enhance shareholder value through financial stability
and growth To satisfy our valued customers by providing
innovative solutions to their financial needs To train,
develop and empower employees to give their best
To achieve highest operational efficiency through
advanced technology To adhere to the highest corporate
ethics and social responsibilities To be recognised for our
expertise and professionalism.

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Financial Highlights

“Only a man who knows what it is like to be defeated can reach down to the bottom of his soul and come up with the extra ounce of power it takes to win when the match is even.”
Muhammad Ali

Results	2013 / 2014 Rs.	2012 / 2013 Rs.	Change %
Operating Results - Income Statements			
Income	269,351,142	281,991,390	(4.48)
Net Interest Income	93,579,392	112,008,135	(16.45)
Net Income from Operations	101,682,821	116,425,645	(12.66)
Loss for the Period	(47,961,048)	(57,607,525)	16.75
Accumulated Profit/(Loss)	(50,705,708)	(3,073,442)	(1,549.80)
Financial Position			
Total Assets	1,378,342,885	1,601,564,312	(13.94)
Interest Earning Assets	1,183,373,416	1,418,994,517	(16.60)
Lending Portfolio	1,136,609,657	1,193,431,520	(4.76)
Shareholders' Funds	317,600,007	365,232,273	(13.04)
Public Deposits	406,402,837	505,147,390	(19.55)
Borrowings	588,752,457	660,420,655	(10.85)
Ratios			
Earnings/(Loss) per Share	(2.14)	(2.56)	16.75
Dividend per Share	-	-	-
Net Assets Value Per Share	14.14	16.26	(13.04)
Return on Average Shareholders' Funds (%)	(14.05)	(14.61)	3.88
Debt Equity Ratio	1.85	1.81	2.52
Statutory Ratios (%) / Requirements		2013/2014	
	Minimum Requirement	Actual	
Core Capital Ratio 5%	5%	29.63%	
Total Risk Weighted Capital Ratio	10%	29.63%	
Liquid Assets		20.65%	
Market Value per Share		Rs.	
Highest value recorded during the Financial Year		31.50	
Lowest value recorded during the Financial Year		12.90	
Closing value at the end of Financial Year		17.00	



**“A champion is someone who
gets up when he can't.”**
Jack Dempsey

Profits and Expenses

Although the income on financial activities has been slightly decreased by 4%, the loss for the year under review decreased to Rs. 47.9 million in compared with the previous year of Rs. 57.6 million. This is mainly due to decrease in operating expenditure by 3% and impairment charge for loan and other advances by 79%.

As a result, company's earnings per share have been increased by 16.75%.

Operating expenditure was reduced due to effective cost control mechanisms adopted throughout the year. Most significant is the fact that the Company's net impairment charged for the year has recorded an outstanding improvement of 79% which is a reduction from Rs. 14.8 Mn to the current figure of Rs. 3.1 Mn at the year ended 31st March 2014.

Assets and Liabilities

The total assets of the company increased in compared to the last quarter in previous year mainly due to new lending and investment in sophisticated computer software whilst the liabilities which amounted to Rs. 1.06 Bn. Recording 14% decrease in compared to previous year due to settlement of securitized loan of Rs. 350 Mn.

Public Deposits

The public deposit balance as of balance sheet date was Rs. 406 million. It shows an increase of 0.7% in compared to the previous month of the year.

Non-Performing Loans

During the year under review, the Company's non-performing loan for leasing, HP and loans portfolio have come down to 4.02% year on year, due to aggressive recovery techniques adopted by the company. Further, it is a remarkable achievement in compared to industry rate of 6.7%.

Chairman's Review

// The proposed consolidation will help Multi Finance to attain greater stability and resilience //



It gives me great pleasure to present this Annual Report portraying many improvements where the Company has gone through numerous strategic changes and is now equipped with a proactive and a dynamic business model.

It is indeed gratifying to note that while Multi Finance PLC has evolved into this dynamic business model, through strategic restructuring and transformation of direction during this year the macro environment too has been offering support for favorable development.

The consolidation of the financial sector, as proposed in the 2014 budget by H.E. President Mahinda Rajapaksa and presented in the Central Bank of Sri Lanka's Roadmap for 2014, is a welcome development for the entire Financial sector.

The proposed Consolidation will help Multi Finance PLC to raise the core capital and help us attain greater stability and resilience, which in turn will bring us closer to achieving our ambition of being a potent force and an A-class financial institution.

Apart from responding to external challenges and opportunities, we have made several changes during the year concerned, which is the appointment of a new CEO to propel the Company to new heights. As a result, the Company was restructured and the business model was strategically

re-aligned targeting the SME sector and the '5 Hub + 1' concept of the Government of Sri Lanka. Our branch network too is set to cover all provinces in the island and will be more than double its current strength increasing our visibility and reach to achieve future goals.

These efforts have borne fruit, as evidenced by the turnaround in the fortunes of Multi Finance PLC, from the 3rd Quarter of 2013/14 and continuing into the first two Quarters of 2014 calendar year.

With increasing complexity and competition in the industry, innovation will hold the key to keeping ahead of the ever-changing external environment and the competition. I am happy to state that we have innovative lending products to be offered, which will help us raise our profile in the industry. The process of innovation will encompass all aspects of our operation in the coming years, which will define our vigor that will help us to strengthen our core competencies.

Core values in our strategy to move forward will be good governance, transparency and adopting best practices. We will directly join hands with the present development process in eradicating poverty and extending a helping hand to the

small and medium term entrepreneurs and individuals, which will contribute to attain the macro level targets set by the Central Bank.

I take this opportunity to thank the Board of Directors, senior management, members of our staff and our valued customers who made this magnificent achievement a reality.

I also wish to thank the Directors and Governor of the Central Bank of Sri Lanka for their valuable guidance and support extended to us in many ways, which have helped us forge ahead in such a challenging environment.

I am confident that we can look forward to the years ahead with courage and optimism.

Thank you.



Mr. Kuvera De Zoyza
Chairman

CEO's Review

// With the re-structure, we turned around the company recording Rs. 25.0 Mn profit during the last two quarters //

It is with great pleasure that I present the Annual Report for the year ended 31st March 2014.

The year under review has been an exceptional one for the Company, as I consider this as a 'Year of Revival' as we have changed the course of the Company. I assumed duties as CEO in August 2013 and was entrusted with the task of reviving the business plan and re-structuring the entire organization. As a result, all processes of the Company were carefully studied and implemented a complete Business

Process Reengineering. We introduced the best practices in the industry, whilst establishing a winning culture and creating a sustainable business model which will serve Multi Finance PLC well in the years ahead.

This was a challenging task, but I am glad to state, was achieved within record time with the support of our Chairman, Board of Directors and of our dedicated and professional staff, to whom I offer my sincere gratitude.

We recorded a profit of Rs. 25.0 Mn during the last two quarters which helped us reduce the accumulated losses to Rs. 47.90 Mn in the year concerned, as against the previous loss of Rs. 57.6 Mn, which is a 16.75% improvement. Most significant is the fact that the Company's net impairment charged for the year has recorded an outstanding improvement of 79% which is a reduction of Rs. 14.8 Mn to the current figure of Rs. 3.1 Mn at the year ended 31st March 2014. Further, NPLs on leasing, HP and loans have come down 4.02% year on year, due to aggressive recovery techniques adopted by the company. Strict credit guidelines were introduced to improve the quality of our interest earning asset base and visible cost control mechanisms were adopted, which helped make a significant difference in the bottom line in the last two quarters.

Introducing a new business culture

We have been able to lay down a firm foundation, win the confidence of our customers and establish good governance, while carrying out an aggressive recovery campaign. We have also institutionalized a new credit culture, in addition to introducing loss mitigating techniques and discrete risk management tools, which will ensure the stature and stability of Multi Finance in the coming years.

Multi Finance PLC has now assumed a customer-centric focus, which pervades all sections and staff members of our organisation. We are also taking our business to the doorstep of potential customers, including those segments which have customarily not been the focus of the formal financial sector.



This has enabled us to penetrate new markets, while also bringing in countless individuals within the fold of the formal financial sector.

The new business culture at Multi Finance is clearly discernible, in terms of greatly improved organisational efficiency and agility, individual productivity as well as the morale of our staff members.

Focusing on the future

Our new strategic focus will involve a shift away from the traditional practice of Finance Companies, which is an excessive reliance on vehicle leasing and hire purchase. Instead, our new direction will encompass innovative lending products and targeting untapped segments of the business community in line with the current economic development of the country.

Our future plans will be in keeping with the country's growth trajectory, as well as the '5 Hub + 1' policy articulated by the Government. Since these sectors are expected to register significant growth, we will focus our efforts on their needs.

Expanding our portfolio

As part of our expansion programme, we will be venturing into new products and sectors, as well as geographical areas, through an expanding branch network encompassing all provinces. Our policy will be always open-minded and follow trends carefully to transform ourselves from the traditional financing model, to a broad spectrum financial services provider. Multi Finance PLC will especially be focused on:

- 1) Building a diversified portfolio, extending financial assistance for productive use among the small and medium sector.
- 2) Maintaining Non-Performing Loans below market norms.
- 3) Focusing on innovation in terms of products, processes and customer service.

Partnering and mentoring

We intend being at the forefront of improving the financial literacy and business acumen of the SME's and the rural sector in general, through regular educational seminars, workshops, capacity building and mentoring programmes.

Micro-finance to the rural sector will be one of our priority areas, where we will focus on micro enterprises and the lower end of the SME sector. We will identify the requirements of individuals from low-income sectors, provide funding, as well as advice on managing their businesses. Our Business Development Officers will provide advice on strategic and operational issues, marketing the products/

services, providing networking opportunities, as well as acting as facilitators and mentors.

CSR Initiatives

Corporate Social Responsibility programmes are a great way to share our good fortune with the less fortunate segments of society, while also improving our presence in certain sectors. Our CSR programmes will focus on empowering individuals, especially those in the SME and rural sectors, through the provision of funding and knowledge in the context of their businesses. Multi Finance PLC will continue to sponsor sports and visual artists, to uplift and develop their standards.

Sectorial Leadership

Most financial institutions have traditionally focused their attention on relatively affluent segments, while ignoring those who can actually benefit. This has also forced such excluded individuals to rely on the informal financial markets, which has prevented them from breaking out of the vicious cycle of poverty and the lack of opportunities for progress. By improving financial literacy and providing financial assistance to such individuals, we can help them escape the poverty trap and uplift their living standards. We have been successful in implementing this model in the rural sector, enhancing service excellence to untapped micro-credit clientele.

In conclusion, I am happy to state that Multi Finance PLC now has the structural and strategic framework, as well as a winning culture and a highly motivated staff, which are necessary for success in the years ahead.

Let me also thank our Chairman, Board of Directors, Senior Management, staff members and customers for your continued support in taking Multi Finance PLC towards a successful future.

Thank you.



Mr. Pushpike Jayasundera
CEO

Board of Directors



1. Mr. Kuvera De Zoysa
2. Mr. B.N.R. Mendis
3. Mr. Manohara S. Tillakawardana
4. Mr. K.P.N.S. Dayaratne



5. Mrs. Romesha Dushyanthi Senerath

6. Mr. Chanuka Ratwatte

7. Mr. Isira D.B. Dassanayake

8. Mr. R.M.M.J. Ratnayake

9. Mrs. C.J. Atapattu

Profiles of the Board of Directors

Mr. Kuvera De Zoysa

Chairman - Independent / Non-Executive Director

Mr. De Zoysa is a President's Counsel of the Supreme Court of Sri Lanka and has been in active practice since 1993 in the fields of Commercial and Civil Law. He holds a Master's Degree (LL.M) in International Trade Law from the University of Wales. He was also awarded the "The Young Outstanding Persons" Award, the HSBC - JCI TOYP 2007, by the Junior Chamber International Sri Lanka for Legal Accomplishment in recognition of his contribution to the Law field. He has served as Chairman / Director of People's Merchant Bank PLC and as a Director of the boards of People's Bank, Export Development Board and Sanasa Development Bank. He has also served as Acting Chairman of People's Bank and as Chairman of the Audit, Legal and Risk Management Committees of People's Bank. He currently serves on the Boards of many listed companies and non listed companies in IT, Power, Healthcare and leisure sector as a Non-Executive Independent director. Mr. De Zoysa is an Independent, Non-Executive Director of the Company.

Mr. R. M. M. J. Ratnayake

Deputy Chairman - Independent / Non-Executive Director

Mr. Ratnayake holds an MBA in Finance and is a Fellow Member of the Institute of Chartered Management Accountants U.K. He is also a Fellow Member of the Society of Certified Management Accountants. He has expertise in the fields of Tea Exports, Tea Plantations, Telecommunications and Motor Industry. Mr. Ratnayake is on the board of several listed companies in Both Executive and Non-Executive capacity. He currently holds the post of Managing Director of Colonial Motors Ceylon Ltd. Mr. Ratnayake is an Independent, Non-Executive Director of the Company.

Mr. Manohara S. Tillakawardana

Non-Executive Director

Mr. Tillakawardana is presently a Director of Selronne (Pvt.) Ltd and ABS Information Systems (Pvt.) Ltd. He is also a Non-Executive Director of Entrust Securities PLC.

An accomplished professional with over twenty two years of mercantile sector exposure, his key areas of expertise are known to be financial management, corporate and strategic planning, diagnostic studies, project feasibility studies and appraisals, auditing, research and market surveys.

Mr. Tillakawardana holds an MBA and MA in Financial Economics from the University of Colombo, a Diploma in Marketing from Chartered Institute of Marketing of UK and a Postgraduate Diploma in Marketing Management from PIM, University of Sri Jayewardenepura. He is a Fellow Member of the Chartered Institute of Management Accountants of UK and a Chartered Global Management Accountant. He is also a Member of the Sri Lanka Institute of Marketing and a Member of the Institute of Internal Auditors (IIA) of USA.

Mrs. C. J. Atapattu

Director - Legal and Recoveries

Mrs. Atapattu is an Attorney-at-Law & Notary Public, and graduated from Sri Lanka Law College in 1991. She has over 19 years' experience as a practicing lawyer and legal officer covering most aspects in the field of law, including litigation, court work, drafting contracts, agreements and advisory services. She also has exposure in secretarial work and in the conveyance field. Presently, she is working as Director-Legal and Recoveries of the company and has been with the company for fourteen (14) years. During her tenure, she had worked as Director / Legal Officer of the company and thereafter, as Director / General Manager. She is presently overlooking the legal work and recoveries of the company, including the head office and the branch network of the Company. She has followed several training programs and seminars conducted by the Central Bank of Sri Lanka and other institutions.

PROFILES OF THE BOARD OF DIRECTORS (CONTD...)

Mr. K. P. N. S. Dayaratne

Non-Executive Director

Mr. Dayaratne graduated from the University of Colombo receiving a 2nd upper Honors Degree in Statistics (special) in 2001, and obtained an MBA (Finance) from the University of Colombo in 2008. He worked at People's Bank after graduation in 2001 and joined Entrust Securities PLC in 2002 as a Dealer and presently he is the General Manager of the Company. He counts over 12 years of experience in the financial industry. He has also followed several training programmes conducted by the Central Bank of Sri Lanka, Euro money and Bloomberg. Mr. Dayaratne is a Non-Executive Director of the Company. Mr. Dayaratne is also a Director of Entrust Limited and Entrust Healthcare Limited.

Mr. B. N. R. Mendis

Non-Executive Director

Mr. Mendis counts for over 16 years of experience in the Fixed Income Securities Market. He received his initial training from Waldock Mackenzie Ltd, a Merchant Bank of the JKH Group. He specializes in Treasury Operations & Payment and Settlement systems in Sri Lanka. He has also gained immense training exposure attending overseas programmes conducted by the Reserve Bank of India, Euromoney Training Institute in Singapore. He has also attended training sponsored by the World Bank on Anti Money Laundering and Terrorisms Financing train the trainer programme for regional participants representing the country and the Primary Dealer Industry. He holds a senior management position at Entrust Securities PLC and also serves as the Managing Agent Appointed CEO of a finance company in re-structuring and assisting in the consolidation process. He also serves as a Non-Executive Director of Multi Finance PLC and also a Director of Entrust Limited and Entrust Healthcare Limited.

Mrs. Romesha Dushyanthi Senerath

Group Executive Director / Group Chief Operating Officer

Mrs. Senerath has a Master of Business Administration from the University of New Buckinghamshire (UK) and is a Member of the Chartered Institute of Marketing (UK). She has also obtained the International Capital Markets Qualifications (ICMQ) conducted by the Securities Institute London (UK) and is a Diploma holder of Business Skills and Development conducted by the National Institute of Business Management (NIBM) as well. She has over sixteen years of experience in Fund Management activities and overall management of corporate affairs. Prior to being seconded to Entrust Limited she joined Entrust Investments Limited, a licensed Investment Manager & Margin Provider by the Securities & Exchange Commission of Sri Lanka (SEC) and was overlooking the overall operations of the company in the capacity of Assistant General Manager. Prior to joining Entrust Group, she has worked at Nations Lanka PLC as Senior Executive-Investments and at Union Assurance PLC as Acting Head of Investments. She is an Executive Director of Entrust Capital Partners (Pvt) Ltd, Entrust Wealth Management (Pvt) Ltd, Entrust Holdings Limited, Entrust Limited, Entrust Investments Limited, Entrust Healthcare Limited, Western Sports Management (Pvt) Ltd, Entrust Securities PLC as well. Apart from attending several local training programmes conducted by institutions such as the Central Bank of Sri Lanka and Colombo Stock Exchange and also a specialized course in Taxation conducted by CIMA - Sri Lanka division, she has attended the SMU - Wharton Executive Programme on Investment Management held in Singapore.

PROFILES OF THE BOARD OF DIRECTORS (CONTD...)

Mr. Isira D. B. Dassanayake

Executive Director

Mr. Isira D. B. Dassanayake is a successful entrepreneur and heads many leading establishments in diverse fields in the mercantile sector and he counts over 20 years of experience in the Private & Public sectors. He holds a Masters' Degree in Public Administration.

Currently he serves the Boards of Entrust Capital Partners (Pvt) Ltd, Entrust Holdings Limited, Entrust Limited, Entrust Wealth Management (Pvt) Ltd, Entrust Investments Limited, Entrust Healthcare Limited, Western Sports Management (Pvt) Limited, Maruthi Estates Limited, Nippon Holdings (Private) Limited, Platinum Capital (Private) Limited, Pacific Trust (Private) Limited in the capacity of Chairman, and he holds the position of an Executive Director in Multi Finance PLC.

Mr. Chanuka Ratwatte

Executive Director

Mr. Ratwatte started his career in 1993 as a Trainee Planter in Kahawatte Plantations PLC and later joined Tata Tea, India as a Management Trainee. With his wide exposure and experience in the tea industry, he joined Watawala Plantations Limited in 1997 as Head of Exports and offered his services for four years. He is also a qualified Planter with certification from India, UK and Germany. Having worked in the plantation sector in India & Sri Lanka, Mr. Ratwatte joined Brave Guard Security & Investigation Services as a Director in 2003. It is a Sri Lankan company established in 1999, which offers a wide range of security and manpower related services tailored exclusively to the requirements of its vast clientele. He obtained his primary and secondary education at Trinity College - Kandy during the period 1978-1992.

Mr. Ratwatte serves on the boards of Entrust Capital Partners (Pvt) Ltd, Entrust Wealth Management (Pvt) Ltd, Entrust Holdings Limited, Entrust Limited, Entrust Investments Limited, Entrust Healthcare Limited, Western Sports Management (Pvt) Ltd, Platinum Capital (Pvt) Ltd, Pacific Trust (Pvt) Ltd and Entrust Securities PLC in the capacity of an Executive Director/ Group Managing Director.

Business Review

Industry Overview

The non-banking financial sector expanded in 2013, with assets of the sector increasing despite the moderate accommodation growth in the sector. As per Central Bank statistics, fluctuations in the market prices of gold and relatively high lending rates offered by this sector led to an increase in non-performing loans. This impacted negatively on the bottom line while increased operational costs further deteriorated profitability.

As per Central Bank, total asset base of the sector grew by 20% during 2013 to LKR 717 Bn viz-a- viz a growth of 22% against the previous year - main contributing factors have been growth of accommodation portfolio and liquid assets. Nevertheless, the growth of accommodations decreased to 17 % 2013 from 21 % in 2012. Finance leases, hire purchases and other secured advances accounted for a large portion of the accommodation portfolio accounting for 46%, 22% and 22%, respectively, of the accommodation portfolio.

Deposits were the major source of funding for the non-banking financial sector. Total deposits of Licensed Finance Companies were recorded as LKR 337 Bn reflecting a growth of 33% of which time deposits accounted for 98% of the total deposits.

The total non-performing accommodations (NPAs) of the sector increased during 2013 to LKR 37 Bn from LKR 23 Bn in 2012. Central Bank reveals the NPA ratio as 6.7% as at end 2013 up from 5% the previous year.

Recovery Drive

Despite the snag in the sector, the company embarked on an aggressive recovery drive subsequent to its restructure and introduction of belligerent recovery policies which helped the company to achieve results above industry norms. This is evident that the impairment recorded was mere LKR 3 Mn from LKR 15 Mn in the previous year.

Product Portfolio

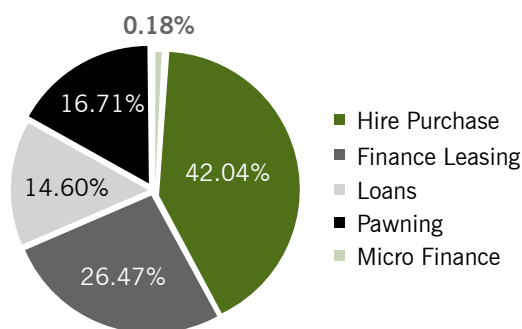
MFPLC product portfolio consists of Finance Leasing, Hire Purchase, Business Loans, Mortgage Loans, Micro Finance and Pawning. Illustrated below is a product composition as at March, 2014.

Leasing, Hire Purchase & Loans

These three products in combination forms major portion of the lending portfolio. Accommodations during the year though lower that of previous year, the management was cautious on the lending policy, where quality outdid quantity. As the year under review, was considered as a year of reconciliation, more emphasis was given to improving the quality of the total lending portfolio rather than increasing the volumes.

At present, we reach most of the major cities in Sri Lanka through our branches and Head Office in Colombo, we

Product wise accommodations



understand the importance of a better reach to cater masses in an industry where competition is very high and the ability of the customer to shift allegiance is also comparatively high.

Accordingly, the said products in consideration generated an interest income of LKR 206.5 Mn accounting to 82% of the total interest income for the year under review.

Pawning

Pawning services are provided at all branches except Matara Branch and our specialized pawning centre at Maradana. Total pawning advances during the year was recorded at LKR 246 Mn as against LKR 217 Mn in the preceding year, recording a growth of 13%. Pawning generated an interest income of LKR 33 Mn for the year accounting 13% of the total interest income.

Micro Finance

Our Micro Credit model focuses on Group Credit, targeting women entrepreneurs from the grass root level. We commenced same as a pilot project in two cities - Kandy & Ratnapura. Micro Finance advances generated an interest income of LKR 0.3 Mn.

Of note is the near perfect collection ratios of this segment of business. Based on this strong platform, we expect to expand the micro finance business in a structured manner to all other areas which covers our branch network in the impending year.

Deposits

Our deposit portfolio consists of Institutional investors and individuals. With the turnaround of the company and the change of strategies we experienced a growth in our deposit base at the fourth quarter of the year which continued to the second quarter of 2014 as well. The restructuring process and the proactive business model implemented covering all branches assisted the company to increase the deposit mobilization in a big way. At present, we are in a very strong position in the market increasing our market share through trust and performance.

Corporate Governance

Corporate Governance is popularly understood as the system by which companies are directed and controlled. The Board of Directors is responsible for the governance of the company. Your Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all of the company's dealings and on 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 all the time that we are accountable to our stakeholders and the general public. This statement describes the application of the Corporate Governance practices within the company during the year under review.

The components of the governance structure are designed in a way that the executive authority is well transferred and delegated through a structure ensuring that the Chairman, CEO, Executive Directors, Senior Management are accountable for the Company's functions.

Board of Directors

The Board is the topmost body of Multi Finance PLC that carries the responsibilities of directing the company and supervision. The responsibilities of the Board include making an accurate assessment of the company's position, making strategic decisions, attending Board meetings and Board sub committees, ensuring good governance and overseeing the risk management of the company.

The Board consists of Directors with a balance of skills and experience which is appropriate for the business carried out by the Company. The Board has determined that the two Non-Executive Directors are 'independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange.

Composition

The Board comprises nine members, five of whom including the Chairman are Non-Executive Directors with a balance of skills and experience which is appropriate for the business carried out by the company.

The names of the Directors who served during the year under review are disclosed in the annual report of the Board of Directors on the affairs of the company on pages 31, 32, 33 and 34.

Tenure, Retirement and Re-election of Directors

At each Annual General Meeting one of the Directors for the time being, shall retire from office.

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 that meeting.

Appointments to the Board

The Remuneration Committee recommends the appointments to the Board as per the Articles of Association of the Company.

Board Meetings

During the year ended 31st March 2014, twelve (12) meetings of the Board were held. The attendance at the meetings was

CORPORATE GOVERNANCE CONTD...

Name of Director	Executive / Non-Executive / Independent Non-Executive	Attendance
Mr. E. K. I. De Zoysa	Independent/ Non-Executive	12/12
Mr. R. M. M. J. Ratnayake	Independent/ Non-Executive	12/12
Mr. R. M. S. Tillakawardana	Non-Executive	12/12
Mrs. C. J. Atapattu	Executive Director	11/12
Mrs. R. D. Senarath	Executive Director	11/12
Mr. K. P. N. S. Dayarathne	Non-Executive	11/12
Mr. B. N. R. Mendis	Non-Executive	10/12
Mr. I. D. B. Dassanayake	Executive Director	10/12
Mr. C. U. Ratwatte	Executive Director	10/12

The Chairman

Mr. Kuvera De Zoysa is a Presidents Counsel of the Supreme Court of Sri Lanka in active practice since 1993 in the fields of Commercial and Civil Law. He holds a Masters Degree (LL.M) in International Trade Law from the University of Wales. He was also awarded the “The Young Outstanding Persons” Award, the HSBC - JCI TOYP 2007, by the Junior Chamber International Sri Lanka for Legal Accomplishment in recognition of his contribution to the Law field.

He has served as Chairman/Director of People's Merchant Bank PLC and as a Director of the boards of People's Bank, Export Development Board and Sanasa Development Bank. He has also served as Acting Chairman of People's Bank and as Chairman of the Audit, Legal and Risk Management Committees of People's Bank. He currently serves on the Boards of many listed Companies and non-listed companies in IT, Power and leisure sector as a Non-Executive Independent director.

The Chief Executive Officer

Mr. Pushpika Jayasundera has been the Chief Executive Officer (CEO) of the Company since 1st August 2013. The CEO is responsible for the effective running of the Company and the implementation of the policies approved by the Board.

Board Sub-Committees

An Audit Committee, a Remuneration Committee, a Nominations Committee and an Integrated Risk Management Committee function as Sub-Committees of the Board.

The Deputy General Manager acts as the Compliance Officer of the Company to ensure compliance with the Regulatory and Statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and

generally, in business activities undertaken by the company. Besides, the company had identified committees in-house for recoveries, credit and asset and liability management to regulate the relevant areas, thereby ensuring that decision-making is on a participatory basis.

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 and opportunities are identified and steps are taken to achieve targets within defined time frames and budgets.

Financial Disclosures and Transparency

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, the Companies Act, the Finance Companies Act and the directions and rules issued there under. The unaudited provisional quarterly statements of accounts are released to the Colombo Stock Exchange (CSE) in compliance with the Listing Rules of the Colombo Stock Exchange.

Messrs. KPMG 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. All the required information is provided for examination to the Auditors.

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, who will drive the

CORPORATE GOVERNANCE CONTD...

company to high levels of achievement in keeping with its mission, vision, goals and values.

Statutory Payments

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for, except for certain assessments against which appeals have been lodged.

Compliance with Central Bank Regulations

As 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 has to carry out and maintain business activities in compliance with the Directions from time to time issued by the Central Bank of Sri Lanka.

Code of Business Conduct and Ethics

Code of ethics is needed to make the right ethical decision on a day to day basis and at Multi Finance PLC it is believed that sustaining an ethical culture in the Company is of critical interest to all the stakeholders.

Employee Participation in Corporate Governance

Active participation in corporate governance by employees will help to serve the interest of shareholders through empowering employees to positively contribute towards good corporate governance. The Company recognizes that the employees as the biggest asset. To assist and facilitate transparency, it is imperative to institutionalize processes across all functions and hierarchies which are accessible to all. Moreover the Company provides a safe, secure and conducive environment for employees. It is always ensured that all relevant human resource standards and regulations are followed very stringently.

Pay for Performance

Performance Indicators and key result areas are cascaded from the Company's vision and strategies to the level of individual employees and employees' goal achievement is measured against set targets and the Company rewards outstanding achievements.

Accountability and Disclosure

In the year ended 31st March 2014, the members of the Board of Directors have reviewed in detail the quarterly financial statements and annual financial statements in order to satisfy themselves that they present a true and fair view of the company's affairs and these practices have been further strengthened as per the code of best practice on corporate governance, listing rules of the Colombo Stock Exchange and Directions issued under the Finance Companies Act.

Investor Rights and Relations

The company is bound to safeguard the rights of all shareholders and secure equal treatment for all shareholders. The company provides its annual financial statements within the mandatory period to all shareholders and the unaudited provisional financial statements are released to the Colombo Stock Exchange (CSE) in accordance with the listing rules of CSE.

All shares carry equal voting rights and the shareholders are informed of the Annual General Meeting before the mandatory period. The Board, senior management and the auditors attend the Annual General Meeting to answer the questions of shareholders.

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CONTINUING LISTING RULES SECTION 7.10 ON CORPORATE GOVERNANCE OF THE COLOMBO STOCK EXCHANGE

The Continuing Listing Rule Section 7.10 of the Colombo Stock Exchange (CSE) mandates companies listed on the Colombo Stock Exchange to publish a table in the annual report, confirming that as at the date of the annual report they comply with the Corporate Governance rules.

Corporate Governance Principles	CSE Rule Reference	Compliant Status	Level of Compliance
Non-Executive Directors	7.10.1 (a)	Compliant	Half the Board Members are Non-Executives, which is more than the requirement of the rule.
	7.10.2 (a)	Compliant	More than one third of the Non-Executive Directors are independent.
	7.10.2 (b)	Compliant	All Non-Executive Directors have submitted their independence declaration as per the requirements.
Disclosures relating to Directors	7.10.3 (a)	Compliant	Declarations of independence by the Directors were assessed by the full Board.
	7.10.3 (b)	Compliant	Circumstances did not arise for the Board to decide a Director as Independent beyond the criteria set by this rule.
	7.10.3 (c)	Compliant	Please refer pages 10, 11 and 12 for the brief biography of each Director.
	7.10.3 (d)	Compliant	Information relating to new appointments to the Board is disclosed to the Colombo Stock Exchange, when appointments are made.
Remuneration Committee	7.10.5 (a) Composition	Compliant	The Remuneration Committee solely comprises of Non-Executive Directors.
	7.10.5 (b) Function	Compliant	Please refer the Remuneration Committee report on page 35 for details of the functions of the committee.
	7.10.5 (c) Disclosure in the annual report	Compliant	The remuneration paid to Directors is given in note no 35 to the financial statements.
Audit Committee	7.10.6 (a) Composition	Compliant	The Audit Committee comprises of three Non-Executive Directors, one of whom is Independent.
	7.10.6 (b) Function	Compliant	Functions of the Audit Committee are given in detail in the Audit Committee Report on pages 37 and 38.
	7.10.6 (c) Disclosure in the annual report	Compliant	The names of the Directors comprising the Audit Committee and the basis of determination of independence of the Auditor is provided in the Annual Report.

CORPORATE GOVERNANCE CONTD...

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA & THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Corporate Governance Principles	ICASL/SEC Code Reference/Adoption status	Extent of Adoption
DIRECTORS		
A.1 The board		
Multi Finance PLC is headed by an effective Board of Directors with local & multinational experience drawn from different backgrounds. Their leadership skills, direction provided & control ensure the achievement of the objectives of the company		
Meetings	A 1.1 Adopted	During the year the Board met 12 times, at approximately monthly intervals.
Board responsibilities	A 1.2 Adopted	The Board of Directors is responsible for providing a sound business strategy, ensuring the execution of strategies, monitoring performance and providing oversight for Multi Finance PLC. The Board takes necessary steps towards safeguarding the depositors, securing integrity of information, prudent management of risks, implementing an effective internal control system, ensuring good governance and compliance with rules and regulations. The Board also ensures succession planning for CEO, Directors & Key Management Personnel. The Board is also responsible to ensure that the interest of all stakeholders is taken into consideration in the corporate decision making process and that the company's values and standards are set with emphasis on adopting appropriate accounting policies & complying with financial regulations. The Non-Executive Directors possess experience from a number of industries and business sectors.
Access to independent professional advice	A 1.3 Adopted	The procedure for Directors to seek independent and collective professional advice, in furtherance of their duties, is in place as and when it is necessary.
Company Secretary	A1.4 Adopted	Access to the Company Secretary's service is available to all Board members as and when required. The Company Secretary is responsible for supporting and advising the Chairman and the Board on all Corporate Governance matters, Board procedures and compliance with applicable laws and regulations.
Independent judgment of Directors	A 1.5 Adopted	Directors bring independent judgment and scrutiny on decisions taken by the Board on issues of strategy, performance, resources and standard of business conduct.
Dedication of adequate time and effort by Directors	A 1.6 Adopted	All Directors dedicate adequate time for the fulfilment of their duties as Directors of the Company. In addition to attending Board meetings, they attend Sub-committee meetings as well. Board papers are made available for the Directors providing sufficient time for review and request additional information & clarification for effective participation
Training for new Directors	A 1.7 Adopted	All new and existing Directors have undergone necessary training, both in the general aspects of directorship and matters specific to the financial services industry.
A .2 Chairman & Chief Executive Officer (CEO)		
To ensure the balance of power and authority, MFPLC has established a clear division of responsibilities between the Chairman & CEO. The Chairman is responsible for leading the Board effectively and CEO is responsible for management of the company's business operation.		
Division of responsibilities of Chairman & CEO	A 2.1 Adopted	The roles of the Chairman and CEO are separated to ensure that no individual has unfettered powers of decision making
A.3. Chairman's Role		
The Chairman is responsible for providing effective leadership to the Board in preserving sound Corporate Governance and facilitating effective discharge of Board functions		

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Role of the Chairman	A 3.1 Adopted	<p>The Non-Executive Chairman ensures the effective conduct of Board proceedings and his role includes but is not limited to;</p> <ul style="list-style-type: none"> - approving the Agenda prepared by the Company Secretary and conducting Board Meetings; - obtaining appropriate information to present to the Board and ensuring that the Directors are informed adequately; - securing effective participation by both Executive & Non-Executive Directors in decision making and maintaining a balance of power between Executive & Non-Executive Directors. - encouraging effective contributions by all Board members and seeking consensus when making decisions; - instituting the process of appraising Board members individually and the Board as a whole; - ensuring regular meetings, the minutes of which are accurately recorded and where appropriate include the individual and collective views of the Directors; - maintaining effective communication with shareholders and convey their views to the Board
A.4 Financial acumen		
The Code requires that the Board should comprise of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. MFPLC's Board includes Directors with sufficient financial acumen and knowledge		
Availability of sufficient financial acumen and knowledge	A 4 Adopted	The Board includes two Fellow Members of the Chartered Institute of Management Accountants of UK. These Members of the Board have the ability to offer guidance on matters of finance to the Board.
A.5 Board balance		
Maintaining a balanced Board between Executive Directors and Non-Executive Directors is required as per Code to ensure that no individual or small group of individuals can dominate the Board's decision making.		
Presence of a strong independent element on the Board	A 5.1 Adopted	The Board includes a strong presence of both Executive and Non-Executive Directors and no individual or small group can dominate its decision making. The roles of the Chairman and CEO are not vested in one person.
Independent Directors	A 5.2 Adopted A 5.3 Adopted	The Board has two Non-Executive Directors who are independent.
Annual declaration of the Non-Executive Directors	A 5.4 Adopted	Non-Executive Directors have made written submissions annually as to their independence or non-independence against the specified criteria.
Determination of independence of the Directors by the Board	A 5.5 Adopted	The Board has determined that the submission of declaration by the Non-Executive Directors, as to their independence is a fair representation and will continue to evaluate this annually.
Requirement of Senior Independent Director	A 5.6, A 5.7 & A 5.8 Not Applicable	The requirement to appoint a Senior Independent Director does not arise as the roles of Chairman and CEO are separate
Meetings with Non-Executive Directors	A 5.9 Not Applicable	The Chairman does not meet with the Non-Executive Directors without the presence of the Executive Directors
Recording of concerns in Board minutes	A 5.10 Not Applicable	Circumstances have not arisen where Directors have had concerns on matters that were not unanimously resolved for such instances to be recorded in the minutes. All matters taken up for discussion were resolved through consensus at Board Meetings.

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A.6 Supply of Information		
MFPLC has provided appropriate timely information to the Board for decision making to enable them to discharge their duties effectively		
Information to the Board by the Management	A 6.1 Adopted	The Management provides timely and appropriate information to the Board by way of Board Papers and Proposals. The Board seeks additional information as and when necessary. The Chairman ensures that all Directors are briefed on issues arising at Board Meetings.
Adequate time for Board Meetings	A 6.2 Adopted	The Board Papers are sent to the Directors at least seven days before the respective Board Meetings, giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at Board Meetings.
A.7 Appointment to the Board		
Formal and transparent procedure is in place for the appointment of new Directors to the Board as required by this code		
Nomination Committee	A 7.1 Adopted	The Company has a duly adopted Nominations Committee.
Assessment of Board composition & succession planning	A 7.2 Adopted	The Nominations Committee carries out continuous reviews of the Board composition, to ascertain whether the combined knowledge and experience of the Board matches the strategic demands faced by the company.
Disclosure of details of new Directors to shareholders	A 7.3 Adopted	Appointment of new Directors are disclosed to the Shareholders, with a brief resume of each such Director including nature of expertise and names of companies in which the Director holds directorships, to the shareholders by way of public announcements as well as in the Annual Report. Notice on appointment of new Directors is given to the CBSL and Colombo Stock Exchange.
A.8 Re-election		
Code requires all Directors to submit themselves for re-election at regular intervals of at least once in three years		
Appointment of Non-Executive Directors	A 8.1 Adopted	The company's Articles of Association provides that at every Annual General Meeting of the company, one Non-Executive Director shall retire from office. Period of service of Non-Executive Directors shall not exceed nine years. Directors retire from the Board prior to reaching the age of 70 years.
Election of Directors by the shareholders	A 8.2 Adopted	Re-appointment of all Directors is subject to election by shareholders.
A.9 Appraisal of Board Performance		
Board should appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.		
Appraisal of Board Performance and annual self-evaluation of the Board and its committees	A 9.1 & A 9.2 Adopted	The performance of the Board is evaluated by the Chairman. The Sub-committees carry out an assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement.
Method of Board and Sub-committee performance appraisal	A 9.3 Adopted	The Board and Sub Committee appraisal is evaluated by the Chairman
A.10 Disclosure of Information in respect of Directors		
Details of all Directors should be disclosed in the Annual Report for Shareholder's information.		
Details in respect of Directors	A 10.1 Adopted	Details of the Directors are given on pages 10, 11 and 12.
A.11 Appraisal of the CEO		
The Code requires the Board to assess the performance of the CEO at least annually to ascertain the achievement of pre-set financial & non-financial targets		
Financial & non-financial targets for CEO	A 11.1 Adopted	At the commencement of the financial year, reasonable financial and non-financial targets for the CEO are set by the Board in consultation with the CEO in line with the short, medium and long term objectives of the company.

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Evaluation of the performance of the CEO	A 11.2 Adopted	There is an ongoing process to evaluate the performance of the CEO to assess whether the financial and non-financial targets set by the Board have been achieved.
B. DIRECTORS' REMUNERATION		
B.1 Remuneration Procedure		
The Code requires that the company has a well-established, formal and transparent procedure for developing an effective policy on Executive remuneration & remuneration packages for individual Directors where no Director is involved in deciding his/her own remuneration.		
Remuneration Committee	B 1.1 Adopted	The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Directors and other senior level staff members. It also reviews strategic HR issues that can impact the business and recommend appropriate measures. The committee determines and agrees with the Board, the broad policy framework for the remuneration of the Executive Directors. The Executive Directors participate at meetings by invitation in deciding the remuneration of the senior level staff members in order to recruit, retain and motivate staff.
Composition of the Remuneration Committee	B 1.2 & B 1.3 Adopted	All members of the Remuneration Committee are Non-Executive Directors and the Chairman of the committee is the Chairman of the Company who is an Independent/ Non-Executive director.
Remuneration of the Non-Executive Directors	B 1.4 Adopted	The Non-Executive Directors receive a fee for serving on the Board.
Consultation of the Chairman or CEO and access to professional advice	B 1.5 Adopted	Chairman of the Board is also the Chairman of the Remuneration Committee. The GED/GCOO's input is obtained in determining the remuneration of other Directors and senior level staff members
B.2 Level and makeup of the Remuneration		
The Code requires the Board to establish the levels of remunerations for both Executive & Non-Executive Directors which should be sufficient to attract & retain the Directors needed to run the company successfully. A proportion of the Executive Directors remuneration should be structured to link rewards to corporate & individual performance.		
Level and makeup of the remuneration of Executive Directors	B 2.1 Adopted	The remuneration framework of the Executive Directors is designed to create and enhance value for all stakeholders and to ensure that there is strong alignment between the long term successes of the company.
Comparison of remuneration with other companies	B 2.2 Adopted	The Remuneration Committee in deciding the remuneration of the Directors takes into consideration the level of remuneration paid by other comparable companies.
Comparison of Remuneration with other companies in the group	B 2.3 Adopted	The size and scale of MFPLC is comparable with subsidiary companies.
Performance related payment to Executive Directors	B 2.4 Adopted	The Remuneration Committee decides the basis of payment.
Executive share options	B 2.5 Not Applicable	There are no share option plans for Executives.
Designing the Executive Directors remuneration	B 2.6 Adopted	The Remuneration Committee decides the basis of payment.
Early termination of Directors	B 2.7 Not Adopted	N/A
Early termination not included in the initial contract	B 2.8 Not Adopted	N/A
Remuneration of the Non-Executive Directors	B 2.9 Adopted	The Non-Executive Directors receive a fee for serving on the Board.
B.3 Disclosure of Remuneration		
The company should disclose the remuneration policy and the details of remuneration of the Board as a whole in the Annual Report.		
Disclosure of remuneration	B 3.1 Adopted	The Remuneration Committee's Report setting out the policy of the Committee is given on page 35.

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C. RELATIONS WITH SHAREHOLDERS		
C.1 Constructive use of the Annual General Meeting and Conduct of General Meetings.		
The Code requires the Board to use the Annual General Meeting to communicate with Shareholders and encourage their active participation.		
Use of proxy votes	C 1.1 Adopted	The Company has an effective mechanism to record all proxy votes and proxy votes lodged on each resolution.
Separate resolution for all separate issues	C 1.2 Adopted	The Company proposes a separate resolution for all substantially separate issues to provide shareholders with the opportunity to vote on each issue separately.
Availability of all Board Sub-committee Chairmen at the AGM	C 1.3 Adopted	The Chairman of the Board ensures that Chairmen of all Sub-committees namely, Audit Committee, Remuneration Committee and Integrated Risk Management Committee are present at the AGM to answer any questions of Shareholders.
Adequate notice of the AGM	C 1.4 Adopted	Notice of the meeting is given as per the requirements of the Companies Act No. 7 of 2007.
Procedure of voting at General Meetings	C 1.5 Adopted	Notice of the Annual General Meetings and business to be transacted at General Meetings are circulated to the shareholders along with the Annual Report.
C.2 Communication with Shareholders		
The Code requires the Board to establish effective communication with shareholders		
Channel to reach all shareholders of the Company	C 2.1 Adopted	The primary modes of communication are the Annual Report and AGM. Information provided to the shareholders prior to the AGM for any issues to be raised relating to the Company. MFPLC also publishes Annual Reports, interim reports, Stock Exchange announcements, etc. in the MFPLC web site to enable effective communication with the Company.
Policy and Methodology for communication with Shareholders	C 2.2 Adopted	The company focuses on open communication and fair disclosure, with emphasis on the integrity, timeliness and relevance of information provided.
Implementation of the Policy and Methodology for communication with Shareholders	C 2.3 Adopted	CD's are sent along with the notice of the AGM. Shareholders may at any time elect to receive the Annual Report from the Company in printed form without a charge.
Contact person in relation to Shareholders matters	C 2.4 Adopted & C 2.6 Adopted	Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or senior management of the Company. Such questions, requests & comments shall be addressed to the Company Secretary.
Process to make all Directors aware of major issues and concerns of Shareholders	C 2.5 Adopted	The Company Secretary maintains all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual Director/s as applicable.
The process for responding to shareholder matters	C 2.7 Adopted	The Board or individual Director/s, as applicable, will provide an appropriate response to all validly received shareholder correspondence and will direct the Company Secretary to send immediate responses to the particular Shareholder.
C.3 Major and Material Transactions		
Directors should disclose to Shareholders all proposed material transactions which would materially alter/ vary the net assets position of the company/group, if entered into.		
Major transactions	C 3.1 Adopted	During 2013/14, MFPLC had not engaged in or committed to any "Major transactions" which materially affected the MFPLC's net assets as defined in this Code and Companies Act No. 7 of 2007.
D. ACCOUNTABILITY AND AUDIT		
D.1 Financial Reporting		
The Code requires the Board to present a balanced and understandable assessment of the company's financial position, performance and prospects.		

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Statutory and regulatory reporting	D 1.1 Adopted	In the preparation of quarterly and annual financial statements, MFPLC has strictly complied with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011, and are prepared and presented in conformity with Sri Lanka Accounting Standards and comply with the reporting requirements prescribed by the Regulatory Authorities such as the Central Bank of Sri Lanka and Colombo Stock Exchange.
Directors' report in the Annual Report	D 1.2 Adopted	The Directors have made all declarations in the "Annual Report of the Board of Directors" as given on page 31 to 34.
Statement of Directors' and Auditors responsibility for financial statements and report on Internal Controls	D 1.3 Adopted	The Statement of "Directors' Responsibility for Financial Statements" is given on page 36 of the Annual Report.
Management Discussions and Analysis	D 1.4 Adopted	The Management Discussion and Analysis is given on page 13.
Declaration by the Board that the business is a going concern	D 1.5 Adopted	The Board declaration that the business is a Going Concern is given in the "Annual Report of the Board of Directors" on page 31 to 34.
Summoning an EGM to notify serious loss of capital	D 1.6 Not Applicable	Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.
Disclosure of related party transactions	D 1.7 Adopted	The Board has established an effective and comprehensive system of Internal Controls for identifying, recording and disclosure of Related Party Transactions. Steps have been taken by the Board to avoid any conflict of interests that may arise, in transacting with related parties. The Board ensures that any financial transaction or benefit is on terms that are reasonable if the company and the related party were dealing at arm's length, or on terms that are less favorable to the related party than terms offered to any other party in the ordinary course of business.
D.2 Internal Control		
The Code requires the Board to have a process of risk management and a sound system of internal control to safeguard shareholder's investments and company's assets.		
Annual evaluation of risks and the effectiveness of the internal control system	D 2.1 Adopted	The Board is responsible for establishing a sound framework of risk management & internal controls and monitoring its effectiveness on a continuous basis.
Need for internal audit function	D 2.2 Adopted	The Internal Audit function was carried out by the M/s Ernst & Young, Chartered Accountants.
Review of process and effectiveness of internal controls	D 2.3 Adopted	The Audit Committee monitors, reviews and evaluates the internal control system of the company.
Responsibilities of Directors in maintaining a sound internal control system	D 2.4 Adopted	The Directors responsibilities for maintaining a sound system of internal control is given in the "Directors Statement on Internal Controls".
D.3 Audit Committee		
The Code requires the Board to have a formal and transparent arrangement in selecting and applying accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the company's auditor.		
Composition of the Audit Committee	D 3.1 Adopted	The Audit Committee comprises of three Non-Executive Directors one of whom is Independent.
Review of objectivity of the External Auditor	D 3.2 Adopted	The Audit Committee monitors and reviews the External Auditor's scope and results of the audits and independence, objectivity and effectiveness of the audit process considering relevant professional and regulatory requirements.
Terms of reference of the Audit Committee	D 3.3 Adopted	The Audit Committee is guided by the Committee Charter which sets out authority and responsibility of the Audit Committee.
Disclosures of the Audit Committee	D 3.4 Adopted	The names of the members of the Audit Committee are given in the Audit Committee Report on pages 37 and 38.

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D.4 Code of business conduct & ethics		
The Code requires the company to adopt a Code of Business Conduct and Ethics to be adhered to by all Directors and Key Management Personnel.		
Code of business conduct and ethics	D 4.1 Adopted	MFPLC has developed a Code of Business Conduct for all Staff Members, which addresses conflict of interests, receiving gifts or any other benefit, accurate accounting and record keeping, corporate opportunities, confidentiality of information, fair dealing, protection and proper use of the company's assets and compliance with applicable laws and regulations including insider trading laws and, encouraging the reporting of any illegal or unethical behavior.
Affirmation of the code of conduct & ethics	D 4.2 Adopted	The Chairman, by this section, confirms that he is not aware of any material violations of the Code of Conduct.
D.5 Corporate Governance disclosures		
The company should disclose the extent of adoption of best practices in good Corporate Governance.		
Corporate Governance Report	D 5.1 Adopted	This report satisfies the requirement.
E. INSTITUTIONAL INVESTORS		
E.1 Shareholder voting		
The Code requires the institutional shareholders to make considered use of their votes and encouraged to ensure that their voting intentions are translated into practice.		
Communication with Institutional Shareholders	E 1.1 Adopted	The Annual General Meeting is used for effective dialogue with the shareholders on matters which are relevant and of concern to the general membership. The Chairman communicates the views and queries of the shareholders to the Board and Senior Management.
E.2 Evaluation of governance disclosures		
The Code requires the company to encourage institutional investors to give due weightage to all relevant factors drawn to their attention when evaluating the Governance arrangements of the company.		
Evaluation of the Corporate Governance initiatives	E 2 Adopted	When evaluating the company's Corporate Governance arrangements, institutional investors are encouraged to give due weightage to all relevant factors particularly in the Board structure and composition.
F. OTHER INVESTORS		
F.1 Investing/divesting decisions		
The Code requires individual shareholders to carry out adequate analysis or obtain independent advice in investing and divesting decisions		
Other Investors	F 1 Adopted	Individual Shareholders are encouraged to carry out adequate analysis or seek independent advice on investing or divesting decisions.
F.2 Shareholder voting		
Individual shareholders should be encouraged to participate and exercise their voting rights in General Meetings.		
Individual Shareholders voting	F 2 Adopted	Individual Shareholders are encouraged to participate at General Meetings and exercise their voting rights. The company adequately communicates with all Shareholders by ensuring that they are informed by dispatching necessary notices.

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FINANCE COMPANIES DIRECTION NO 03 OF 2008 (AND SUBSEQUENT AMENDMENTS THERETO ON CORPORATE GOVERNANCE FOR LICENCED FINANCE COMPANIES IN SRI LANKA

Corporate Governance Principles	CBSL Rule /Compliance status	Level of Compliance
2. The responsibilities of the Board of Directors		
Strengthening the safety and soundness of the Finance Company	2 (1) Compliant	<p>The Board is responsible for formulating strategy, ensuring the adequacy of the risk management processes, review of the internal control system and defining the responsibilities of Corporate Management.</p> <p>The Board sets and oversees the vision, mission, strategic objectives and corporate values of the company and these are regularly communicated to all levels of the company.</p> <p>A strategic plan covering the overall risk parameters has been set up with regular reviews in place through Assets and Liabilities Committee (ALCO) and Integrated Risk Management Committee (IRMC).</p> <p>The Board is responsible for ensuring effective communication with all stakeholders, including depositors, creditors, shareholders and borrowers. The Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership.</p> <p>Identification and designation of Key Management Personnel are in place and periodically reviewed by the Board.</p> <p>The Board comprises of 4 Executive Directors who have specific areas of responsibility. In addition, Non-executive Directors have specific areas of responsibility through the various Sub-committees of the Board. Similarly, Key Management Personnel have specific areas of responsibility assigned to them through their employment contracts and exigencies of evolving business needs.</p> <p>The Board ensures that the effectiveness of Governance practices is periodically assessed. A transparent procedure is in place for selection, nomination and election of Directors and Key Management Personnel. Conflicts of interests are rigidly managed through a balanced Board of Directors. Wherever improvements are necessary, they are made.</p> <p>A documented Succession Plan is in place for all Key Management positions and is being continuously reviewed and formulated to ensure that there is adequate succession capacity at all levels.</p> <p>Regular updating/ trainings are facilitated through various seminars and programmes for the Directors and other Key Management Personnel.</p>
Chairman & CEO	2 (2) Compliant	The Board has appointed the Chairman and CEO and the roles of the Chairman and the CEO are separate.

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Independent advice	2 (3) Compliant	Please refer section A 1.3 of the CA Sri Lanka & SEC Code.
Conflict of interests	2 (4) Compliant	Procedures are in place to ensure that conflicts and potential conflict of interests are properly disclosed to the Board.
Formal schedule of matters to the Board	2 (5) Compliant	The Board has a formal schedule of matters specifically reserved for it.
Situation of Insolvency	2 (6) Compliant	This situation has not arisen during the year.
Corporate Governance Report	2 (7) Compliant	This report addresses the requirement.
Self-assessment by Directors	2 (8) Compliant	Each Director performs an annual self-assessment based on the predefined criteria set by the Board.
3. Meetings of the Board		
Board Meetings	3 (1) Compliant	Please refer section A 1.1 of the CA Sri Lanka & SEC code.
Inclusion of proposals by all Directors in the agenda	3 (2) Compliant	Proposals from all Directors on promotion of business and management of risk are included in the agenda for regular meetings as and when they arise.
Notice of meetings	3 (3) Compliant	Directors are given adequate time and at least 7 days of notice for Board Meetings and a reasonable time period for other meetings to study the relevant papers and proposals for meaningful discussions.
Non-attendance of Directors	3 (4) Compliant	All Directors have attended at least two-thirds of the meetings held during the year. No Director has been absent from three consecutive regular meetings held in 2013/14.
Board Secretary	3 (5) Compliant	The Board has appointed a Board Secretary to handle the secretarial services to the Board and to carry out other functions required by Statutes.
Agenda for Board Meetings	3 (6) Compliant	The Board Secretary prepares the Agenda, which has been delegated by the CEO.
Access to the Board Secretary	3 (7) Compliant	Service of the Board Secretary is available for all Directors in discharging their duties to the company.
Minutes of the Meetings	3 (8) Compliant	The Company Secretary records the minutes of the Board Meetings and Directors have full access to the Minutes of the Board Meetings which are circulated to all Board Directors.
Details of Minutes	3 (9) Compliant	Minutes of the Board Meetings are maintained in sufficient detail by the Board Secretary.
4. Composition of the Board		
Number of Directors	4 (1) Compliant	The Board comprised of nine Directors during the year.
Period of service of Non-Executive Directors	4 (2) Compliant	Non-Executive Directors serving on the Board have not served on the Board for more than nine years.
Appointment of an employee as a Director	4 (3) Compliant	This situation has not arisen during the year.
Independent Non-Executive Directors	4 (4) Compliant	The Board reviews the independence of Non-Executive Directors on a regular basis.
Alternate Director	4 (5) Compliant	This situation has not arisen during the year.
Credibility, skills & experience of Non-Executive Directors	4 (6) Compliant	Biographic details of the Directors are given on pages 10, 11 and 12.
Board Meetings without half the quorum of Non-Executive Directors	4 (7) Compliant	This situation has not arisen during the year.
Details of Directors	4 (8) Compliant	Please refer pages 10, 11 and 12 for the biographic details of the Directors

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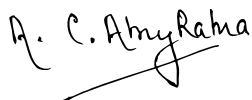
Appointment of new Directors	4 (9) Compliant	The Board has a formal and transparent procedure in place when appointing Directors to the Board. Nominated individuals are screened in accordance with CBSL and CSE's requirement and send for the approval of the Director - SNBFI of CBSL.
Appointment to fill a casual vacancy	4 (10) Compliant	This situation has not arisen during the year.
Resignation/ removal of a Director	4 (11) Compliant	Notifications of resignations of Directors of the company are given to the Shareholders by way of the Annual Report and to the Director - DSNBFI of the CBSL, and CSE.
5. Criteria to assess the Fitness and Propriety of Directors		
Directors over 70 Years of age	5 (1) Compliant	Directors serving on the Board have not reached the age of 70.
Holding of office in more than 20 entities	5 (2) compliant	As at 31.03.2014 none of the Directors hold Directorships in more than 20 entities.
6. Management function delegated by the Board		
Delegation of work to the management	6 (1) Compliant	The Board annually evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions.
Evaluation of the delegated process	6 (2) Compliant	Please refer comments above.
7. The Chairman and the Chief Executive Officer		
Division of responsibilities of the Chairman & CEO	7 (1) Compliant	The roles of the Chairman and the Chief Executive Officer are separate.
Chairman preferably be an Independent Director and if not appoint a Senior Director	7 (2) Compliant	The Board has appointed Mr. Kuvera De Zoysa as the Chairman and he is an Independent Non-Executive Director.
Relationship between Chairman and CEO & other Directors	7 (3) Compliant	There are no material relationships between the Chairman and CEO and other Members of the Board which will impair their respective roles.
Role of the Chairman	7 (4) to 7 (10) Compliant	Detailed information of the role of the Non-Executive Chairman is given on the CA Sri Lanka & SEC Code.
Role of the CEO	7 (11) Compliant	The CEO performs as apex Executive-in-Charge of the day-to-day management of company's operations and business.
8. Board appointed committees		
Board appointed Sub-committees	8 (1) Compliant	There are four Board appointed Sub-committees namely Audit Committee, Nominations Committee, Remuneration Committee and Integrated Risk Management Committee. Minutes of the Sub-committee Meetings and matters arising from the minutes as well as reports that require Board's attention and/ or decisions were circulated to the Board.
Audit Committee	8 (2) Compliant	Given in Annual Report on pages 37 and 38.
Integrated Risk Management Committee	8 (3) Compliant	The discussions and conclusions reached at such meetings are circulated to the Board of Directors at the very next monthly Board Meeting.
9. Related Party Transactions		
Avoiding conflict of interests in related party transactions and favourable treatment	9 (2) to 9 (4) Compliant	The Board has taken necessary steps to avoid any conflict of interests that may arise, in transacting with related parties as per the definition of this Direction and Sri Lanka Accounting Standard 24 (LKAS 24) on "Related Party Transactions". The Board also ensures that no related party benefits from favourable treatment.

CORPORATE GOVERNANCE CONTD...

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10. Disclosures		
Financial reporting, statutory and regulatory reporting	10 (1) Compliant	The financial statements for the year ended 31st March 2014 and the bi-annual financial statements are in conformity with all rules and regulatory requirements and applicable accounting standards.
Minimum disclosure in the Annual Report	10 (2) Compliant	All necessary disclosures have been included in the Annual Report 2013/14.
11. Transitional Provisions		
Transitional Provisions for the Directors	11 (1) to (6) Compliant	MFPLC has complied with the transitional and other general provisions in the Direction.

By Order of the Board
Multi Finance PLC



Chayanika Abeyratna
Company Secretary

4th July 2014

Corporate Social Responsibility

Corporate Social Responsibility is very much a part of our company's culture. As social responsibility, we believe in uplifting the standard of the community that we interact with. Funding the development of the community, improving financial literacy, extending financial assistance and uplifting the livelihood of the people is one of our prime objectives.

We at Multi Finance look beyond the traditional thinking and conducted many programmes to support various sectors of the community. To be in line with this objective, we have been engaged in providing micro financing facilities to the rural sector and conducted various programmes to educate their entrepreneurial skills.

The company was in the forefront in assisting sportsmen in the country by being the main sponsor of Ragama Cricket Club, which helped the younger generation to improve their skills in cricket. Thereby, we were involved in developing the Ragama CC players and the cricket academy by sponsoring them and providing with required facilities.

At the same time, the company identified that one of its prime responsibility is to give a helping hand to the artists of this country. Multi Finance became the main sponsor at the state award ceremony and presented the talented artists with valuable gifts and Multi Finance Savings accounts as an appreciation for the service rendered by these artists to the country.

**Multi Finance PLC
sponsored
Ragama Cricket Club
for the 03rd consecutive year**



**Multi Finance PLC
sponsored
"Rupavahini State Award
Ceremony 2013"**



Integrated Risk Management Committee Report

The Board appointed Integrated Risk Management Committee (IRMC) as at the end of the year comprised of the following members:

- Mr. Sanjeewa Dayarathne - Non-Executive Director
- Mrs. Romesha Senerath - Group Executive Director/ GCOO
- Mr. Pushpika Jayasundera - Chief Executive Officer
- Mr. Waruna Ranatunga - DGM
- Mr. Asanka Milroy Galbadaarachchi - Accountant

The IRMC was established by the Board of Directors, in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 Section 8(2) issued by the Monetary Board of the Central Bank of Sri Lanka.

The IRMC updates the Board on decisions made by the Committee in general and specifically of any risks which have or are likely to exceed prudential limits stipulated by the Board.

The Committee continued to work very closely with key management personnel and the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for risk management.

The primary responsibility of the committee is to assist the Board of Directors in understanding and exercising regular oversight on risk management measures adopted by the management in operating the banking business. The duties of the IRMC include determining the adequacy and effectiveness of such measures and to ensure that the actual overall risk profile of the company conforms to the desirable risk profile of the company, as defined by the Board. In order to discharge the above duties and responsibilities the committee undertakes to carry out the following -

- Monitoring the actions initiated by senior management to test the effectiveness of the measures taken by the respective committees referred to above.
- Reviewing the annual work plan, related strategies, policies and framework of the above committees to ensure that the committees have a good understanding of their mandate and adequate mechanism to identify measure, avoid, mitigate, transfer or manage the risks within the qualitative parameters set by the IRMC.
- Maintain a continuous dialogue with the management committees directly or indirectly dealing with specific risks so that the IRMC is immediately informed of any hindrance, obstacle, discouragement or constraint on the performance of their functions and/or the implementation of their decisions.
- Reviewing the terms of reference of all management committees dealing with specific risks or some aspect of risk, such as executive Integrated Risk Management Committee.



Mr. K. P. N. S. Dayarathne

Chairman

Integrated Risk Management Committee

4th July 2014

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

The Directors of Multi Finance PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2014.

General

Multi Finance PLC a Public Limited Liability is a Company domiciled in Sri Lanka, incorporated under the Companies Ordinance No.51 of 1938 on 14th October 1974. The Company was re-registered under the Companies Act No. 7 of 2007 on 26th February 2009 and changed its name from Multi Finance Company Limited to Multi Finance PLC with PB 891 PQ as the new number on 13th July 2011.

Multi Finance PLC was registered as a Finance Company by the Monetary Board of Sri Lanka under the Finance Companies Act No.78 of 1988 and registered under the Finance Leasing Act No.56 of 2000. It is also an approved Credit Agency under the Mortgage Act No.06 of 1949 and the Trust Receipt Ordinance No.12 of 1947.

Principal activities of the Company and review of performance during the year

The Company's principal activities during the year were acceptance of deposits, maintenance of savings accounts, granting lease and hire purchase facilities, micro finance facilities, gold loans, pawning, vehicle loans, mortgage loans, business loans and other value added services.

A review of the business of the Company and its performance during the year with comments on financial results, future strategies and prospects are contained in the Chief Executive Officers' Report on pages 6 and 7, which form an integral part of this Report.

This Report together with the Financial Statements, reflect the state of affairs of the Company.

Financial Statements

The complete financial statements of the Company prepared in accordance with revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and in compliance

with the requirements of the Companies Act No. 07 of 2007 inclusive of specific disclosures, duly signed by two Directors on behalf of the Board and the auditors are given on pages 39 to 75.

Auditors' Report

The Report of the Auditors on the Financial Statements of the Company is given on page 39.

Directors

The names of the Directors who held office during the accounting period are given below and their brief profiles appear on pages 10 to 12.

Executive Directors

Mrs. C. J. Atapattu	- Executive Director
Mrs. R. D. Senarath	- Executive Director
Mr. I. D. B. Dassanayake	- Executive Director
Mr. C. U. Ratwatte	- Executive Director

Independent/Non-Executive Directors

*Mr. Kuvera De Zoysa	- Independent/ Non-Executive Director
*Mr. R. M. M. J. Ratnayake	- Independent/ Non-Executive Director

Non-Executive Directors

Mr. K. P. N. S. Dayarathne	- Non-Executive Director
Mr. B. N. R. Mendis	- Non-Executive Director
Mr. Manohara S Tillakawardana	- Non-Executive Director

*Independent Non-Executive Directors as per the Listing Rules of the Colombo Stock Exchange

Mr. K. P. N. S. Dayarathne retires by rotation at the Annual General Meeting in terms of Article 87 of the Articles of Association and being eligible is recommended by the Directors for re-election.

Interests Register

The Company maintains an Interests Register in terms of the Companies Act, No. 7 of 2007, which is deemed to

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD...

form part and parcel of this Annual Report and available for inspection upon request.

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the Interests Register in due compliance with the applicable rules and regulations of the relevant Regulatory Authorities.

The relevant interests of Directors in the shares of the Company as at 31st March 2014 as recorded in the Interests Register are given in this Report under Directors' shareholding.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. A further statement in this regard is included on page 36.

Auditors

Messrs KPMG, Chartered Accountants served as the Auditors during the year under review. They do not have any interest in the Company other than that of Auditor.

A total amount of Rs. 495,000/- is payable by the Company to the Auditors for the year under review.

The Auditors have expressed their willingness to continue in office.

Stated Capital

The Stated Capital of the Company is Rs. 346,990,186/-.

Directors' Shareholding

The relevant interests of Directors in the shares of the Company are as follows.

Name of Director	Shareholding as 31/03/2014	Shareholding as 31/03/2013
Mr. Kuvera De Zoysa	-	-
Mr. R. M. M. J. Ratnayake	-	-
Mrs. C. J. Atapattu	20,575	20,575
Mr. K. P. N. S. Dayarathne	1,000	1,000
Mr. B. N. R. Mendis	1,000	1,000
Mr. Manohara S. Tillakawardana	-	-
Mrs. R. D. Senarath	-	-
Mr. I. D. B. Dassanayake	-	-
Mr. C. U. Ratwatte	-	-

Shareholders

There were 838 shareholders registered as at 31st March 2014.

Major Shareholders, Distribution Schedule and other information

Information on the distribution of shareholding, analysis of shareholders, market values per share, earnings, dividends, net assets per share, twenty largest shareholders of the Company, percentage of shares held by the public as per the Listing Rules of the Colombo Stock Exchange are given on page 76 to 77 under Share Information.

Employment Policy

The Company's employment policy is totally non-discriminatory which respects individuals and provides career opportunities irrespective of the gender, race or religion.

Compliance

The Company has established a permanent and effective compliance function. A dedicated Compliance Officer appointed by the Board independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Board and the Integrated Risk Management Committee. Monthly and quarterly

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD...

compliance reports are submitted confirming compliance with laws and regulations as applicable to the Company.

The Compliance Officer also ensures that compliance reports are submitted to the Central Bank of Sri Lanka confirming Company's compliance with the directions, rules, determinations, notices and guidelines issued under the Finance Companies Act No. 78 of 1988.

Risk Management

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company.

Environmental Protection

The Company has not engaged in any activity that is harmful or hazardous to the environment.

Statutory Payments

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of, and in respect of employees of the Company and all other known statutory dues as were due and payable by the Company as at the Balance Sheet date have been paid or, where relevant provided for, except for certain assessments where appeals have been lodged.

Going Concern

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

Corporate Governance

The Board of Directors is responsible for the governance of the Company. The Board has placed considerable emphasis on developing rules structures and processes to ensure integrity and transparency in all the dealings of the Company and its best effort in achieving performance and quality profits, adopting good governance in managing the affairs of the Company. The Board in the discharge of its responsibilities aforesaid had been guided by the Code of Best Practice on Corporate Governance issued jointly by

the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Listing Rules of the Colombo Stock Exchange and Finance Companies (Corporate Governance) Direction No. 03 of 2008.

The Board of Directors confirms that the Company is in compliance with section 7.10 of the Listing Rules of the CSE and the said Direction No. 03 of 2008.

An Audit Committee, Remuneration Committee, and an Integrated Risk Management Committee, function as Board sub committees, with Directors who possess the requisite qualifications and experience. The composition of the said committees is as follows.

Audit Committee

Mr. Mohan Ratnayake
Mr. Niloshan Mendis
Mr. Manohara Tillakawardana

Remuneration Committee

Mr. Kuvera De Zoysa
Mr. Mohan Ratnayake

Integrated Risk Management Committee

Mr. Sanjeewa Dayarathne
Mrs. Romesha Senerath
Mr. Pushpike Jayasundera
Mr. Waruna Ranatunga
Mr. Asanka Milroy Galbadaarachchi

The Corporate Governance of the Company is reflected in its strong belief in protecting and enhancing stakeholder value in a sustainable manner, supported by a sound system of policies and practices. Prudent internal controls ensure professionalism, integrity and commitment of the Board of Directors, Management and employees.

The Corporate Governance Statement on pages 14 to 28 explains the measures adopted by the Company during the year.

Compliance with Laws and Regulations

The Company has established a permanent and effective compliance function. A compliance officer appointed by the

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD...

Board independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Board and the Integrated Risk Management Committee. Monthly and quarterly compliance reports are submitted confirming compliance with laws and regulations as applicable to the Company.


Acknowledgement of the Content of the Report

As required by section 168(1)(k) of the Companies Act, this report is signed on behalf of the Board of the Company by two Directors and the Secretary of the Company.

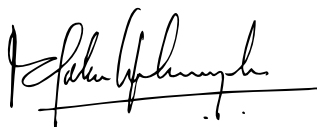
Annual General Meeting

The Notice of the Annual General Meeting appears on page 78.

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



Mr. Kuvera De Zoysa
Chairman



Mr. Mohan Ratnayake
Deputy Chairman



Mrs. Chayanika Abeyratna
Company Secretary

4th July 2014

Remuneration Committee Report

The Remuneration Committee is a Sub Committee of the Board. The Remuneration Committee comprises of two Non-Executive Directors, who are Independent. The Directors who serve on the Committee are:

1. Mr. Kuvera De Zoysa - Chairman (Independent/Non-Executive)
2. Mr. Mohan Ratnayake - Deputy Chairman (Independent/Non-Executive)

The Committee was established for the purpose of recommending the remuneration of the Board of Directors including Chairman, Chief Executive Officer (CEO) and Executive Directors. The Committee has acted within the parameters set by its Terms of Reference. No Director is involved in determining his own remuneration. All Non-Executive Directors receive a fee for serving on the Board.

A primary objective of the remuneration policy of the company is to attract and retain a highly qualified and experienced workforce and reward their performance commensurate with each employee's level of experience and contribution, bearing in mind the business performance and long term shareholder return.

Meetings

The committee meets as often as necessary and makes recommendations on compensation structures bonuses increments and incentives to ensure that staff at all levels is adequately rewarded for their performance and commitment. The Chief Executive Officer and the Executive Directors who are responsible for the overall management of the company provides information to the committee and participate in

its deliberations by invitation, except when the Executive Directors' own remuneration packages and other matters relating to them are discussed.

Functions

The functions of the committee include determination of the compensation and benefits of the Chief Executive Officer, Executive Directors, while ensuring that no Director is involved in setting his or her own remuneration. The committee determines the compensation and benefits of the key management personnel to establish performance parameters in setting their individual goals, targets and to review information related to executive pay to ensure same is par with the industry rate as per the strategy of the company.



Mr. Kuvera De Zoysa

Chairman, Remuneration Committee

4th July 2014

Statement of Directors' Responsibilities

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.

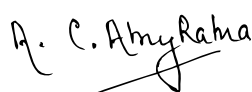
The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and in compliance with the Sri Lanka Accounting Standards, Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Finance Companies Act, No. 78 of 1988 and the Directions issued thereunder.

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 2013/2014, including cash flows and borrowing facilities, consider that the company has adequate resources to continue in operation.

By Order of the Board
Multi Finance PLC



Chayanika Abeyratna
Company Secretary

4th July 2014

Audit Committee Report

The Audit Committee is formally constituted as a sub-committee of the main Board to which it is accountable and consists of 3 Non-Executive Directors, of whom one (01) is “Independent”. The Audit Committee has written Terms of Reference dealing clearly with its authority and duties and is established for the purpose of assisting the Board in fulfilling their oversight responsibilities regarding the integrity of the financial statements, risk management, internal control and compliance with legal and regulatory requirements, review of external auditors’ performance and independence and internal audit function.

Composition

The Audit Committee comprises of three Non-Executive Directors, one of whom is Independent and the composition of the committee during the year was as follows.

Mr. Mohan Ratnayake	- Chairman - Independent/ Non-Executive Director
Mr. Manohara Tillakawardana	- Non-Executive Director
Mr. Niloshan Mendis	- Non-Executive Director

Meetings

The Committee met on three (03) occasions during the year under review and the attendance of the members at such meetings was

Name of Director	Executive / Non-Executive Independent/ Non-Independent	Attendance
Mr. Mohan Ratnayake	Independent/ Non-Executive Director	03/03
Mr. Manohara Tillakawardana	Non-Executive Director	03/03
Mr. Niloshan Mendis	Non- Executive Director	03/03

Functions

The functions of the Audit Committee are to assist the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process and audit of the financial statements by monitoring the integrity and reliability of the financial statements. The committee oversees the effectiveness of the system of internal controls and risk

management, independence and performance of the external auditors while checking on the compliance with relevant laws, and regulations with a view to safeguarding the interests of all stakeholders of the company.

Financial Reporting System

The Audit Committee considered the quarterly and annual financial statements and reviewed the Annual Report including the financial statements prior to publication.

The Committee reviewed the financial reporting system adopted by the Company with particular reference to the following

- The preparation, presentation and adequacy of the disclosures in the company’s annual and interim financial statements in accordance with Sri Lanka Accounting Standards.
- The rationale and basis for the significant estimates and judgments underlying the financial statements.
- The systems and procedures in place to ensure that all transactions are accurately recorded in books of accounts.
- The effectiveness in the financial reporting systems, including the management accounts to ensure the reliability of information provided to the Board and other stakeholders of the company.

Risk Management

The Audit Committee meets the internal auditors and reviews their findings in order to identify the effectiveness of internal controls and risks attached to different areas of operations.

Internal Audit

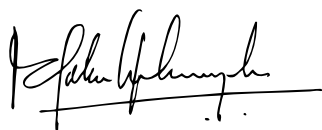
The Internal Audit function was outsourced to Messrs. Ernst & Young - Chartered Accountants. The internal auditors are responsible to review and report on the efficacy of the internal control system and compliance with statutory and other regulations and the Company’s accounting and operational policies. Control weaknesses highlighted in the internal audit reports are critically examined by the Committee and follow up action taken by the management on the audit recommendations are also reviewed. Internal Audit representatives are present at Audit Committee meetings during the discussion of their respective reports.

AUDIT COMMITTEE REPORT CONTD...

External Audit

During the year the Committee met with the Messrs. KPMG, External Auditors to discuss the Auditor's management letter pertaining to the previous year's audit and the Management's response thereto. Follow up action was taken to ensure that the recommendations contained in the management letter were implemented by the management.

The Audit Committee has recommended to the Board of Directors Messrs. KPMG be reappointed as Auditors for the financial year ending 31st March 2015, subject to the approval of the shareholders at the Annual General Meeting.



Mr. Mohan Ratnayake
Chairman, Audit Committee
4th July 2014



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MULTI FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Multi Finance PLC (the 'Company'), which comprise the Statement of Financial Position as at 31st March 2014, and the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 40 to 75 of the financial statements.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st March 2014 and the financial statements give a true and fair view of the financial position of the Company as at 31st March 2014 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 41 to the financial statements which indicates that the Company has incurred a net loss of Rs. 47,961,048/- during the year ended 31st March 2014 and, as of that date, the Company's Accumulated Loss is Rs. 50,705,708/-. These conditions, along with other matters more fully described in Note 41, indicate the required action and measures that are adopted by the Directors, for the Company to continue its business activities.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS

4th July 2014
Colombo.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31ST MARCH

	Note	2014 Rs.	2013 Rs.
Income	4	269,351,142	281,175,416
Interest Income	5	250,602,989	270,556,066
Interest Expenses	6	(157,023,597)	(158,547,931)
Net Interest Income		93,579,392	112,008,135
Other Operating Income	7	8,103,429	4,417,510
Net Income from Operations		101,682,821	116,425,645
Operating Expenses			
Personal Cost		(53,460,704)	(54,437,834)
Net Impairment of AFS Investment		(887,797)	(2,345,088)
Provision for Retiring Gratuity		(1,224,952)	(793,209)
Depreciation of Property, Plant and Equipment		(11,911,341)	(12,586,544)
Other Operating Expenses		(90,720,568)	(92,911,350)
		(158,205,362)	(163,074,025)
Loss Before Other Income		(56,522,541)	(46,648,380)
Other Income	8	10,644,724	6,201,841
Loss Before Impairment and Taxation		(45,877,817)	(40,446,539)
Impairment charge for loan and other advances		(3,147,853)	(14,839,405)
Loss Before Taxation & Value Added Tax	9	(49,025,670)	(55,285,944)
Value Added Tax on Financial services		(41,928)	-
Loss Before Taxation		(49,067,598)	(55,285,944)
Taxation	10	1,106,550	(2,321,581)
Loss for the year		(47,961,048)	(57,607,525)
Other Comprehensive Income / (Expense)			
Recognition of actuarial gain/(loss), net of Tax		328,782	(313,625)
Other Comprehensive Income / (Expense) for the period, net of Tax		328,782	(313,625)
Total Comprehensive Income / (Expense) for the period		(47,632,266)	(57,921,150)
Loss per Share (Rs.)	11	(2.14)	(2.56)

The Accounting Policies and Notes on pages 44 to 75 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Financial Position

AS AT 31ST MARCH

	Note	2014 Rs.	2013 Rs.
ASSETS			
Cash and Cash Equivalents	12	87,015,666	277,314,934
Financial Assets held for trading	13	1,565,210	1,713,921
Rental receivables on Lease	14	301,364,733	403,497,493
Rental receivables on Hire purchase	15	478,442,346	624,629,847
Advance and Other loans	16	356,802,578	165,304,181
Trade and Other Receivables	17	53,717,191	63,404,969
Inventories	18	59,200,506	19,797,236
Amount Due from Related Companies	19	32,525	1,420,557
Receivable from Inland Revenue		1,299,025	602,057
Investment in Long term Government Securities	20	5,989,734	5,893,318
Financial Assets available for sale	21	7,281,923	8,169,720
Intangible Assets	22	5,909,478	539,695
Property, Plant & Equipment	23	19,721,970	29,276,384
TOTAL ASSETS		1,378,342,885	1,601,564,312
LIABILITIES AND EQUITY			
Bank Overdraft	12	13,900,650	7,491,829
Deposits	24	406,402,837	505,147,390
Other Borrowings	25	171,714,586	400,000,000
Trade & Other Payable	26	46,592,395	57,234,746
Amount Due to Related Companies	27	417,037,871	260,420,655
Retirement Benefit Obligation	28	2,962,488	2,798,818
Deferred Tax	29	2,132,051	3,238,601
TOTAL LIABILITIES		1,060,742,878	1,236,332,039
EQUITY			
Stated Capital	30	346,990,186	346,990,186
Statutory Reserve Fund	31.1	4,761,902	4,761,902
General Reserve	31.2	11,266,050	11,266,050
Investment Fund Reserve	31.3	5,287,577	5,287,577
Accumulated Losses		(50,705,708)	(3,073,442)
TOTAL EQUITY		317,600,007	365,232,273
TOTAL LIABILITIES & EQUITY		1,378,342,885	1,601,564,312

The Accounting Policies and Notes on pages 44 to 75 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

It is certified that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No.7 of 2007.



Mr. A. M. Galbadaarachchi
Accountant



Mr. P. Jayasundara
Chief Executive Officer

The Board of Directors are responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board of Directors of Multi Finance PLC



Mrs. R. D. Senerath
Director / Group Chief Operating Officer



Mr. C. U. Ratwatte
Director

4th July 2014
Colombo

Statement of Changes in Equity

FOR THE YEAR ENDED 31ST MARCH 2014

	Stated Capital Rs.	Statutory Reserve Fund Rs.	General Reserve Rs.	Investment Fund Reserve Rs.	Retained Earnings/ Accumulated Losses Rs.	Total Rs.
Balance as at 1st April 2012	346,990,186	4,761,902	11,266,050	4,461,394	55,673,891	423,153,423
Transfer to Investment Fund Reserve	-	-	-	826,183	(826,183)	-
Loss for the year	-	-	-	-	(57,607,525)	(57,607,525)
Other comprehensive income/(expense) net of tax for the year	-	-	-	-	(313,625)	(313,625)
Balance as at 31st March 2013	346,990,186	4,761,902	11,266,050	5,287,577	(3,073,442)	365,232,273
Loss for the year	-	-	-	-	(47,961,048)	(47,961,048)
Other comprehensive income/(expense) net of tax for the year	-	-	-	-	328,782	328,782
Balance as at 31st March 2014	346,990,186	4,761,902	11,266,050	5,287,577	(50,705,708)	317,600,007

The Accounting Policies and Notes on pages 44 to 75 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Cash Flow

FOR THE YEAR ENDED 31ST MARCH

	Note	2014 Rs.	2013 Rs.
Profit /(Loss) Before Taxation		(49,067,598)	(55,285,944)
Adjustments for :			
Provision for Retirement Benefit Plans		1,294,952	793,209
Depreciation on Property, Plant and Equipment		11,911,341	12,586,544
Interest Expenses		157,023,597	158,547,932
Amortisation of Intangible Assets		3,130,217	732,914
Profit on disposal of Property, Plant & Equipment		(307,923)	(105,233)
Impairment Charge for Loan & Other Losses		3,147,853	14,839,405
Profit from Sale of Dealing Securities		(80,291)	21,588
Provision for diminution in share value		148,712	297,698
Impairment of AFS Investment		887,797	2,345,088
Provision for Other Receivables		1,673,482	-
Interest Income on Government Securities		(10,801,234)	(19,185,191)
		118,960,905	115,588,008
Changes in :			
(Increase)/Decrease in Investment in Hire Purchase, Lease and Other Loans		51,313,301	(265,059,748)
(Increase)/Decrease in Trade & Other Receivables		(3,465,734)	(10,426,230)
(Increase)/Decrease in Pre Payments		8,487,639	(11,432,756)
(Increase)/Decrease in Amounts Due from Related Party		1,388,032	(1,134,266)
Increase/(Decrease) in Deposits from Customers		(98,744,553)	139,372,894
Increase/(Decrease) in Other Borrowings		(228,285,414)	374,000,000
Increase/(Decrease) in Amounts Due to Related Party		156,617,216	83,192,241
(Increase)/Decrease in Inventories		(37,588,436)	(11,374,601)
Increase/(Decrease) in Other Payables		(10,642,351)	(26,999,332)
Cash generated from Operating Activities		(41,959,395)	385,726,211
Gratuity Paid		(732,500)	(307,000)
Interest Paid		(157,023,597)	(145,611,080)
Income Tax paid		-	(2,218,384)
VAT on Financial Services paid		-	(1,073,160)
Net cash used in Operating Activities		(199,715,492)	236,516,586
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(2,428,173)	(26,634,778)
Proceeds from sale of Property, Plant & Equipment		379,167	2,716,102
Proceeds from sale of dealing securities		80,291	421,525
Purchase of Intangible Assets		(8,500,000)	(191,261)
Interest Receipt on Government Securities		13,476,118	16,459,279
Investment in Long term Government Securities		-	(1,537,447)
Net cash generated from Investing Activities		3,007,403	(8,766,580)
Net Increase/(Decrease) in Cash and Cash Equivalents		(196,708,089)	227,750,006
Cash & Cash Equivalents at the Beginning of the period		269,823,105	42,073,099
Cash & Cash Equivalents at the end of the period	12	73,115,016	269,823,105

The Accounting Policies and Notes on pages 44 to 75 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH 2014

1. REPORTING ENTITY

Multi Finance PLC is a company incorporated and domiciled in Sri Lanka and listed on the DiriSavi Board of the Colombo Stock Exchange. The company is regulated under the Finance Business Act No. 42 of 2011. Its registered office is located at Level 23, East Tower, World Trade Center, Echelon Square, Colombo 01.

The principal lines of business of the Company include acceptance of public deposits in the form of term deposits and savings deposits and providing of financial accommodations in the form of lease finance, hire purchase, trade loans, pledge loans and pawning.

Entrust Limited is the parent company of Multi Finance PLC, which is incorporated and domiciled in Sri Lanka.

The Board of Directors takes responsibility for the preparation and presentation of the Financial Statements. The financial statements for the year ended 31st March 2014 were authorized for issue by the Board of Directors in accordance with the resolution passed on 04th July 2014.

2. BASIS OF PREPARATION

2.1 Responsibility for Financial Statements

The board of directors is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act No 07 of 2007.

The Board of Directors acknowledges this responsibility and those includes the following components:

- Information on the financial performance of the company for the year under review.
- Information on the financial position of the company as at the year end.
- Showing all changes in shareholders' equity during the year under review of the Company.
- Information to the users on the movement of the cash and cash equivalents of the Company.
- Notes to the financial statements, including the Accounting Policies and other explanatory notes.

2.2 Statement of compliance

The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No. 7 of 2007 and Finance Business Act and amendments thereto and provide appropriate disclosures as required by the Central Bank of Sri Lanka.

2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently subject to the impact in Note 2.1, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Assets and liabilities held for trading are measured at fair value;
- Financial instruments designated at fair value through profit or loss are measured at Fair value;
- Derivative financial instruments are measured at fair value;
- Available for sale financial assets are measured at fair value;
- Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation.

2.4 Functional and Presentation Currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the company operates. Financial Statements are presented in Sri Lankan Rupees, which is the company's functional currency. There was no change in the Company's presentation and functional currency during the year under review.

2.5 Presentation of Financial Statements

The assets and liabilities of the Company presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

the Reporting date and more than 12 months after the Reporting date is presented in Note 39.

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 Comprehensive Income unless required or permitted by an Accounting standard or interpretation and as specifically disclosed in the Accounting policies of the company.

2.6 Use of Estimate and Judgment

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amount may defer from these estimates.

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

2.7 Materiality and Aggregation

Each material class of similar items are presented separately in the financial statements. Items which dissimilar in nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 'Presentation of Financial Statements'.

2.8 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on a going concern basis. (Refer Note 41)

2.9 Comparative Figures

The Company has consistently applied the accounting policies with those used in the previous year. Previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

2.10 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

3.1 Assets and Liabilities and Basis of Measurement

3.1.1 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and balance with banks. They are brought into account at the face value or the gross value where appropriate. Bank overdraft that are repayable on demand & form an integral part of the Company's cash resources are included as a component of cash equivalents for the purpose of the cash flow statements.

3.1.2 Financial Assets and Financial Liabilities

3.1.2.1 Recognition and initial measurement

The Company initially recognizes all financial assets and liabilities on the settlement date. However for financial assets/liabilities held at fair value through profit and loss any changes in fair value from the trade date to settlement date is accounted in the Statement of Comprehensive Income while for available for sale financial assets any changes in fair value from the trade date to settlement date is accounted in the Statement of Other Comprehensive Income.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

3.1.2.2 Subsequent Measurement

(a) Financial assets

At inception a financial asset is classified in one of the following categories:

- at fair value through profit or loss (either as held for trading or designated at fair value through profit or loss)
- Loans and Receivables
- Held to maturity financial assets
- Available for sale financial assets

(b) Financial liabilities

The Company initially recognizes all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortized cost or fair value through profit or loss.

3.1.2.3 Financial assets and financial liabilities at fair value through profit or loss

A financial asset or a financial liability is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated as fair value through profit or loss when;

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis.
- The assets or liabilities include embedded derivatives and such derivatives are required to be recognized separately.

Upon initial recognition of attributable transaction costs are recognized in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

3.1.2.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans and receivables

are subsequently carried at amortized cost using the effective interest rate method.

Loans and advances, commercial papers and lease receivables are classified as loans and receivables.

3.1.2.5 Held to maturity financial assets (HTM)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sale or reclassification that is so close to maturity that changes in the market rate of interest would not have a significant effect on that financial assets fair value.
- Sale or reclassification after the group has collected all the assets original principal.
- Sale or reclassification attributable to non recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

3.1.2.6 Available for sale financial assets (AFS)

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost.

All other available-for-sale investments are carried at fair value. Interest income on AFS financial assets is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Company becomes entitled to the dividend. Foreign exchange gains or losses on available-for sale debt security investments are recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

Financial Liabilities

3.1.2.7 Financial liabilities measured at amortized cost

Financial liabilities not classified as fair value through profit or loss are classified as amortized cost instruments. Deposit liabilities including non interest bearing deposits, savings deposits, term deposits, deposits redeemable at call and certificates of deposit and borrowings are classified as financial liabilities measured at amortized cost.

3.1.2.8 Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

3.1.2.9 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques

reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out. Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation.

Technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counter party where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Company believes a third-party market participant would take them into account in pricing a transaction.

3.1.2.10. Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition. Held for trading non-derivative financial assets are

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

transferred out of the held at fair value through profit or loss category in the following circumstances:

- To the available for sale category where in rare circumstances, there are no longer held for the purpose of selling or repurchasing in the near future.
- To the loans and receivable category where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Company has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Company has the intent and ability to hold the assets for the foreseeable future or until maturity. Held-to-maturity assets are reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognized in shareholders' equity prior to the date of reclassification is amortized to the income statement over the remaining life of the financial asset, using the effective interest method.

3.1.2.11 Derecognition

The Company derecognizes financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Company is recognized as a separate asset or liability in the Statement of Financial Position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

3.1.2.12 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.1.2.13 Identification, measurement and assessment of impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Company considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

impairment that has been incurred but not yet identified.

Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Company uses of historical trends of the probability of default, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available for- sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income. The Company writes off certain loans and advances and investment securities when they are determined to be uncollectible.

3.1.2.14 Rescheduled Loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered rescheduled loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

3.1.2.15 Inventories

Inventories include new vehicles purchased for the purpose of lease out under finance leases. Those inventories are valued at cost or net realizable value whichever is lower. The cost of an inventory is the purchase price. Net realizable value is the estimated realizable value less estimated cost necessary to make the sale.

(a) Repossessed Stock

Repossessed stock includes assets of facilities which were in default and are now repossessed. Repossessed stocks are valued at outstanding facility balance at the time of closing the facility and net realizable value of the asset whichever is lower. Net realizable value is the estimated selling price less the estimated cost necessary to make the sale.

(b) Vehicle Stock

Vehicle stock represents vehicles purchased for the purpose of granting loan facilities. These are valued at cost or net realizable value whichever is lower.

3.1.2.16 Intangible Assets

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

(a) Basis of Recognition

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

(i) Software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortization and any accumulated impairment losses.

(b) Subsequent Expenditure

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

(c) Amortization

Intangible assets are amortized on a straight line basis in the Statement of Comprehensive Income from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. The estimated useful life of software is 3 years. Expenditure on an intangible item that was initially recognized as an expense by the Company in previous Annual Financial Statements are not recognized as part of the cost of an intangible asset at a later date. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) Retirement and Disposal

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

3.1.2.17 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

(a) Basis of Recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

(b) Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of computer equipment.

(c) Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the Statement of Comprehensive Income as incurred. Costs incurred in using or redeploying an item are not included under carrying amount of an item.

(d) Derecognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in Statement of Comprehensive Income when the item is derecognized. When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

(e) Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

expected to be consumed by the Company of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognized. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Motor vehicles	20%
Computer Hardware	25%
Office equipment	25%
Furniture and fittings	25%
Computer Software	33.33%

3.1.2.18 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalized as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 23 (LKAS 23) "Borrowing Costs". Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

3.1.2.19 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Liabilities and provisions

3.1.2.20. Employee Retirement Benefits

(a) Defined Benefit Plans - Retiring Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any un-recognized past service costs and the fair value of any plan assets are deducted.

The calculation is performed annually by a qualified actuary using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - "Employee Benefits". When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any un-recognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The assumptions based on which the results of actuarial valuation was determined, are included in Note 28 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefit expense in profit or loss.

The Company recognizes gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognized.

(b) Funding Arrangement

The gratuity liabilities are not externally funded.

Gratuity payments are being made by the company according to the Gratuity Act No 12 of 1983.

Accordingly the company is liable to pay gratuity to permanent employees who have completed a minimum of five years service in the company at the rate of 50% of the last drawn salary for each completed year of service.

(c) Defined Contribution Plan

(i) Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Employee Provident Fund.

(ii) Employees' Trust Fund

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

3.1.2.21 Dividend Payable

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted

3.1.2.22 Other Liabilities

Other Liabilities include interest, fees and expenses and amounts payable suppliers and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

Income & Expense Recognition

3.1.2.23 Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of Comprehensive Income include Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.1.2.24 Dividend

Dividend income is recognized in the Statement of Comprehensive Income on an accrual basis when the Company's right to receive the dividend is established.

3.1.2.25 Fee and Commission Income

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognized as the related services are performed.

3.1.2.26 Profit/(Loss) from Sale of Lease Assets

Profit / loss from sale of Lease Assets is recognized in the period in which the sale occurs and is classified as other income /expense.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

3.1.2.27 Expense Recognition

All the expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to the income in arriving at the profit for the year.

3.1.2.28 Fee and Commission Expenses

Fee and commission expenses are recognized on an accrual basis.

3.1.2.29 Income Tax Expense

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(i) Current Tax

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

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto at the schedule specified in Note 10.

(ii) Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted as at the reporting date. Deferred tax liabilities are not recognized for the temporary differences.

The initial recognition of assets and liabilities in a transaction that is not business combination and that affects neither accounting nor taxable profit nor differences relating to investments in Subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax assets, including those related to temporary tax effects of income

tax losses and credits available to be carried forward, are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

(iii) Value Added Tax on Financial Services

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

(iv) Withholding Tax on Dividends, distributed by the Company

Withholding tax that arises from the distribution of dividends by the Company is recognized at the time the liability to pay the related dividend is recognized.

(v) Economic Service Charge

As per the provisions of the Finance Act No.11 of 2004 and amendments thereto, the ESC was introduced with effect from 01 April 2004. ESC is payable at 0.25% on "Liable Turnover" and deductible from the Income Tax payments. Unclaimed ESC, if any can be carried forward and set off against the income tax payable in five subsequent years. ESC is liable if and only if the Company makes taxable loss in previous year and turnover exceeds 50 Mn per quarter.

3.1.2.30 Maturity Analysis

The Company has disclosed an analysis of assets and liabilities into relevant maturity baskets based on the remaining period as at the reporting date to the contractual maturity date.

3.1.2.31 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Indirect Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standards (LKAS) 7 "Cash Flow Statements". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

risk of changes in value. The cash and cash equivalent include cash in hand and balance in banks.

3.1.2.32 Events after the reporting period

All material events after the Statement of Financial Position date have been considered and where appropriate adjustments to / or disclosures have been made in the respective notes to the Financial Statement.

3.1.2.33 Commitment and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's share of any contingencies and capital commitments are also included with appropriate disclosures.

3.1.2.34 Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by accounting standards.

3.1.2.35 Investment Fund Account

As proposed in the budget proposals of 2011 every person or partnership who is in the business of Companying or financial services is required to establish and operate an Investment Fund Account. As and when taxes are paid after 1st January 2011 Licensed Commercial Companies' are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the Company.

- 8% of the calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT.
- 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax.

Licensed Commercial Companies shall utilize the funds in the Investment Fund Account in the following manner.

- Invest in long term government securities and/or bonds with maturities not less than seven years

- Lend on maturities not less than five years at interest rates not exceeding 5 year treasury bond rates plus 2%
- Lend only for the following purposes:

- Long term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries
- Factory/mills modernization/establishment/expansion
- Small and medium enterprises Loans up to Rs. 200 Mn to enterprises with annual turnover less than Rs. 600 Mn
- Information technology related activities and business process outsourcing
- Infrastructure development
- Education - vocational training and tertiary education
- Housing up to Rs. 2 Mn per customer for construction of a house for residential purposes
- Construction of hotels and for related purposes
- Restructuring of loans extended for the above purposes

3.1.2.36 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous periods for all the amounts reported in the Financial Statements to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability.

3.1.2.37 New standards and interpretations not yet adopted

Standard issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards issued, which the Company reasonably expects to be applicable at a future date. The company intends to adopt those standards when they become effective.

a) SLFRS 9 - Financial Instruments

SLFRS 9 as issued reflects the replacement of LKAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in LKAS 39. This standard becomes effective for annual periods beginning on or after January 01, 2015. The adoption of SLFRS 9 will have an impact on classification and measurement of Group's financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

b) SLFRS 10 - Consolidated Financial Statements

SLFRS 10 replaces the portion of LKAS 27 Consolidated and Separate Financial Statements that address the accounting for Consolidated Financial Statements. SLFRS 10 establishes a single control model that applies to all entities including special purposes entities. The changes introduced by SLFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by the parent. This standard becomes effective for annual periods beginning on or after January 01, 2014.

policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

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

c) SLFRS 11 - Joint Agreements

SLFRS 11 replaces LKAS 31 Interest in Joint Ventures and removes the option to account jointly control entities using proportionate consolidation. Under the new standards joint ventures must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 01, 2014.

Information about assumptions and estimates uncertainties that have a significant risk of resulting in a material adjustment in the financial statements are included in the table below:

d) SLFRS 12 - Disclosure of interest in other entities

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in LKAS 31 and LKAS 28. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 01, 2014.

e) SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not state when an entity is required use fair value, but provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 01, 2014.

Critical accounting estimate/judgment	Note Reference
Income Tax Expense	10
Rental Receivable on Lease	14
Rental Receivable on Hire Purchase	15
Advance and Other Loans	16
Trade and Other Receivable	17
Inventories	18
Intangible Assets	22
Property, Plant and Equipment	23
Retirement Benefit Obligation	28

3.1.2.38 Critical accounting estimates and judgments

The preparation of financial statements in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH

	2014 Rs.	2013 Rs.
4. INCOME		
Interest Income (Note 5)	250,602,989	270,556,066
Other Operating Income (Note 7)	8,103,429	4,417,509
Other Income (Note 8)	10,644,724	6,201,841
	269,351,142	281,175,416
5. INTEREST INCOME		
Lease Finance	73,885,447	91,403,874
Hire Purchase	118,101,703	143,143,913
Loans	12,956,659	4,445,128
Fixed Deposit Loans	1,541,420	444,851
Pawning	33,041,915	11,309,577
Ran Savings	-	24,527
Micro Finance	274,611	80,289
Repurchase agreement	10,099,730	17,005,232
Treasury Bonds	701,504	2,698,675
	250,602,989	270,556,066

5.1 Notional Credit for Withholding Tax on Government Securities on Secondary Market Transactions

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a Company which derives interest income from the secondary market transactions in Government securities be entitled to a notional tax credit (being one ninth of the net interest income), provided such interest income forms part of the statutory income of the Company for that year of assessment.

	2014 Rs.	2013 Rs.
6. INTEREST EXPENSES		
Interest on ; Fixed Deposits / Savings Deposits	67,499,237	79,937,160
Loan From Entrust Limited	42,808,794	20,166,156
Reverse Repo interest	1,341,423	1,754,314
Bank Loans	39,366,998	52,790,753
Bank OD interest	-	38,636
Short term Loans / Commercial Papers	6,007,145	3,860,912
	157,023,597	158,547,931
7. OTHER OPERATING INCOME		
Profit /(Loss) on Repossessed Stock	(26,621,094)	(21,602,361)
Default Charges	22,643,086	12,342,101
Finance Charges	530,855	2,173,132
Service / Documentation Charges	2,567,247	95,549
Termination Income on Lease and Hire Purchase	8,791,412	8,447,564
Other Charges	191,923	2,961,525
	8,103,429	4,417,510

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH

	2014 Rs.	2013 Rs.
8. OTHER INCOME		
Insurance Commission	1,355,873	2,498,359
Profit on Disposal of Fixed Assets	307,923	105,233
Dividend Income	161,907	159,472
Profit/(loss) from Sale of Dealing Securities	80,291	(21,588)
Provision for diminution in share value	(148,712)	(297,698)
Money market/ savings interest	953,625	1,867,111
Written back of unidentified deposits	4,172,461	-
Gain on market value changes	-	274,313
Sundry Income	3,761,357	1,616,639
	<u>10,644,724</u>	<u>6,201,841</u>
9. LOSS BEFORE TAXATION AND VALUE ADDED TAXATION (VAT)		
is stated after charging all the expenses including the following:		
Auditor's Remuneration	495,000	455,000
Amortization of Intangible Assets	3,130,217	732,914
Provision for Other Receivables	1,673,482	-
Personnel Costs include,		
Defined Contribution Plan - EPF	4,835,238	4,869,225
ETF	1,208,542	1,218,694
Other Staff Costs	44,488,844	43,719,914
10. INCOME TAX EXPENSES		
10.1 Current Taxes		
TAXATION		
Current Tax Expense	-	-
Deferred Taxation (Note 30)	(1,106,550)	2,321,581
	<u>(1,106,550)</u>	<u>2,321,581</u>
10.2 Reconciliation between Accounting Loss and Taxable Loss		
Accounting Loss before Income Tax expenses	(49,067,598)	(55,285,944)
Exempt income	(1,916,781)	(7,539,826)
Aggregate Disallowed Items	110,719,634	132,955,170
Aggregate Allowable Expenses	(118,273,257)	(122,169,659)
Taxable Profit from the entire business	(58,538,002)	(52,040,259)
Taxable loss from Leasing business	22,488,431	20,969,187
Total Statutory Income	(36,049,571)	(31,071,072)
Assessable Income/ Taxable Income	<u>(36,049,571)</u>	<u>(31,071,072)</u>
Current Income tax @ 10%	-	(3,107,107)
Current Income Tax Expense	<u>-</u>	<u>(3,107,107)</u>

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No.10 of 2006 and subsequent amendments thereto. In terms of the section 59B of the Inland Revenue Act No. 10 of 2006 newly introduced by the Inland Revenue (Amendment) Act No. 22 of 2011, the Company is liable for income tax at 10% on its taxable income for any year of assessment commencing on or after April 1, 2011 on the basis that its annual turnover does not exceed Rs. 300 Mn.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH

	2014 Rs.	2013 Rs.
10.3 Reconciliation of Tax Loss from Leasing Business		
Loss B/F	24,675,665	3,706,478
Loss during the year	22,488,431	20,969,187
Loss C/F	47,164,096	24,675,665
10.4 Reconciliation of Tax Loss from Leasing Business		
Loss B/F	31,071,072	-
Loss during the year	36,049,571	31,071,072
Loss C/F	67,120,643	31,071,072

11. LOSS PER SHARE

The basic loss per share has been calculated based on the loss after tax attributable to the equity shareholders of the Company for the year divided by the weighted average number of ordinary shares outstanding during the year.

	2014	2013
Loss attributable to ordinary share holders (Rs.)	(47,961,048)	(57,607,525)
Weighted average number of Ordinary Shares outstanding during the year	22,462,039	22,462,039
Loss per Share (Rs.)	(2.14)	(2.56)

AS AT 31ST MARCH

12. CASH AND CASH EQUIVALENTS

Favourable balance

Investment in Repurchase Agreement	40,774,025	219,669,678
Cash at Bank	21,685,043	54,586,343
Cash in Hand	24,556,598	3,058,913
	87,015,666	277,314,934

Unfavourable balance

Overdraft	(13,900,650)	(7,491,829)
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Cash and Cash Equivalent for the Purpose of Cash Flow Statement

	73,115,016	269,823,105
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13. FINANCIAL ASSETS HELD FOR TRADING

Quoted Investments (Note 13.1)

	1,565,210	1,713,921
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13.1 Quoted Investments	2014			2013		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
		Rs.	Rs.		Rs.	Rs.
ACME Print & Packaging PLC	36	962	310	36	962	421
Ceylon Leather Products PLC	10,000	1,036,876	573,000	10,000	1,036,876	623,000
MTD Walkers PLC	10,000	716,106	301,000	10,000	716,106	245,000
Maskeliya Plantation PLC	10,000	320,041	100,000	10,000	320,041	121,000
Arpico Finance PLC	6,000	932,529	428,400	6,000	932,529	537,000
York Arcade PLC	12,500	510,047	162,500	12,500	510,047	187,500
	63,236	3,516,561	1,565,210	48,536	3,516,561	1,713,921

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

	2014 Rs.	2013 Rs.
14. RENTAL RECEIVABLES ON LEASED ASSETS		
Receivables from over five years		
Rental Receivables	-	887,207
Less: Unearned Income	-	(49,950)
	-	837,257
Receivables from one to five years		
Rental Receivables	212,332,720	358,825,546
Less: Unearned Income	(45,289,344)	(85,933,156)
Rentals Received in Advance	(3,509,343)	(1,041,811)
	163,534,033	271,850,579
Receivables within one year		
Rental Receivables	167,435,966	188,677,874
Less: Unearned Income	(54,786,964)	(77,199,365)
	112,649,002	111,478,509
Overdue rental receivables		
Rental Receivables	41,536,498	32,541,776
Unearned Income	-	-
Less: Provision for impairment of leases	(16,354,800)	(13,210,628)
	25,181,698	19,331,148
Total		
Rental Receivables	421,305,184	580,932,403
Less: Unearned Income	(100,076,308)	(163,182,471)
Provision for impairment of finance leases (Note 14.1)	(16,354,800)	(13,210,628)
Rentals Received in Advance	(3,509,343)	(1,041,811)
	301,364,733	403,497,493
14.1 Movement in Impairment charge for Lease receivables		
Balance at the beginning of the year	13,210,628	10,915,482
Provision for the year	3,144,172	2,295,146
Balance at the end of the year	16,354,800	13,210,628

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

	2014 Rs.	2013 Rs.
15. RENTAL RECEIVABLES ON HIRE PURCHASE		
Receivables from one to five years		
Rental Receivables	374,383,668	525,308,426
Less: Unearned Income	(85,136,117)	(125,773,368)
Rentals Received in Advance	(93,390)	(398,635)
	<u>289,154,161</u>	<u>399,136,423</u>
Receivables within one year		
Rental Receivables	258,594,439	313,781,979
Less: Unearned Income	(94,266,524)	(120,047,146)
	<u>164,327,915</u>	<u>193,734,833</u>
Overdue rental receivables		
Rental Receivables	44,548,009	51,342,648
Less: Provision for impairment of Hire Purchases	(27,792,399)	(19,584,057)
	<u>16,755,610</u>	<u>31,758,591</u>
Total		
Rental Receivables	677,526,116	890,433,053
Less: Unearned Income	(179,402,641)	(245,820,514)
Provision for impairment of hire purchase (Note 15.1)	(19,587,738)	(19,584,057)
Rentals Received in Advance	(93,390)	(398,635)
	<u>478,442,346</u>	<u>624,629,847</u>
15.1 Movement in Impairment charge for Hire Purchase receivables		
Balance at the beginning of the year	19,584,057	7,039,798
Provision for the year	3,681	12,544,259
Balance at the end of the year	<u>19,587,738</u>	<u>19,584,057</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

	2014 Rs.	2013 Rs.
16. ADVANCE AND OTHER LOANS		
Net Investment in Loans (Note 16.1)	135,702,148	35,058,682
Net Investment in Loans against Fixed Deposits (Note 16.2)	30,691,010	1,251,214
Net Investment in Pawning Advances (Note 16.3)	190,409,419	128,994,284
	<u>356,802,578</u>	<u>165,304,181</u>
16.1 Net Investment in Loans		
Loan Rental Receivables	163,752,154	45,909,099
Rentals in arrears	5,955,071	1,955,133
Less: Unearned Income	(34,005,076)	(12,805,549)
	<u>135,702,148</u>	<u>35,058,682</u>
16.2 Net Investment in Loans against Fixed Deposits		
Fixed Deposit Loan Rental Receivable	30,539,170	1,456,369
Rentals in Arrears	251,912	52,645
Less: Unearned Income	(100,071)	(257,800)
	<u>30,691,010</u>	<u>1,251,214</u>
16.3 Net Investment in Pawning Advances		
Pawning Advance	155,591,047	117,746,135
Interest Receivable on Pawning Loans	34,818,372	11,248,149
	<u>190,409,419</u>	<u>128,994,284</u>
17. TRADE AND OTHER RECEIVABLES		
Interest Receivable on Repurchase agreement	533,744	2,829,130
Other Receivables (Note 17.1)	22,699,005	21,693,760
Deposits and Prepayments (Note 17.2)	30,484,442	38,882,078
	<u>53,717,191</u>	<u>63,404,969</u>
17.1 OTHER RECEIVABLE		
Withholding Tax Receivables	3,424,182	2,252,599
Value Added Tax Receivables	12,281,288	18,638,908
ESC Receivable	497,269	697,005
Others	8,169,748	105,000
Less: Provision for other receivables	(1,673,482)	-
	<u>22,699,005</u>	<u>21,693,760</u>
17.2 DEPOSITS AND PREPAYMENTS		
Deposits	399,074	309,074
Rent Advance	19,664,003	19,664,000
Prepayments	10,421,365	18,909,004
	<u>30,484,442</u>	<u>38,882,078</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

	2014 Rs.	2013 Rs.
18. INVENTORIES		
Repossessed Stock	73,874,872	32,656,769
Less: Provision for decrease in value	(14,674,366)	(12,859,533)
	59,200,506	19,797,236
19. AMOUNT DUE FROM RELATED PARTY		
Entrust Healthcare Limited	-	1,420,557
Entrust Securities Limited	32,525	-
	32,525	1,420,557
20. INVESTMENT IN LONG TERM GOVERNMENT SECURITIES		
Treasury Bond	5,989,734	5,893,318
21. FINANCIAL ASSETS AVAILABLE FOR SALE		
Quoted Share Investment (Note 21.1)	7,279,423	8,167,220
Non Quoted Shares Investment (Note 21.2)	2,500	2,500
	7,281,923	8,169,720

21.1 Quoted Share Investment

	2014			2013		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
Environmental Resources PLC	90,000	6,999,464	393,000	90,000	6,999,464	546,000
Three Acre Farms PLC	14,200	2,666,433	560,900	14,200	2,666,433	602,080
Central Finance PLC	2,583	758,400	467,523	2,583	758,400	464,940
Galadari Hotels (Lanka) PLC	70,000	2,408,226	735,000	70,000	2,408,226	847,000
HVA Foods PLC	100,000	7,303,489	940,000	100,000	7,303,489	1,120,000
Laugfs Gas PLC	21,600	873,545	702,000	21,600	873,545	529,200
Panasian Power PLC	650,000	4,312,785	1,430,000	650,000	4,312,785	1,755,000
Vallibel Finance PLC	10,000	442,983	297,000	10,000	442,983	283,000
Entrust Securities PLC	100,000	5,157,120	1,730,000	100,000	5,157,120	1,780,000
PC House PLC	80,000	1,692,061	24,000	80,000	1,692,061	240,000
	1,138,383	32,614,506	7,279,423	1,138,383	32,614,506	8,167,220
Less : Provision for diminution in value		(25,335,083)			(24,447,286)	
		7,279,423			8,167,220	

21.2 Non Quoted Shares Investment

	2014 Rs.	2013 Rs.
Credit Information Bureau of Sri Lanka	2,500	2,500
	2,500	2,500
Less : Provision for diminution in value	-	-
	2,500	2,500

22. INTANGIBLE ASSETS**Cost**

Balance at the beginning of the year	6,905,195	6,713,934
Additions during the period	8,500,000	191,261
Balance at the end of the year	15,405,195	6,905,195

Amortisation

Balance at the beginning of the year	6,365,500	5,632,586
Charge for the year	3,130,217	732,914
Balance at the end of the year	9,495,717	6,365,500

Carrying Value at the end of the year	5,909,478	539,695
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NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

23. PROPERTY, PLANT AND EQUIPMENT

	Computers	Furniture & Fittings	Office Equipment	Motor Vehicles	Total 2014	Total 2013
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost						
Balance at the beginning of the year	12,677,313	21,088,771	10,468,387	9,159,856	53,394,327	30,319,906
Additions during the year	300,480	835,391	1,292,302	-	2,428,173	26,634,778
Disposals during the year	(85,000)	(12,301)	(41,000)	(377,072)	(515,373)	(3,560,357)
Balance at the end of the year	12,892,793	21,911,861	11,719,689	8,782,784	55,307,126	53,394,327
Accumulated Depreciation						
Balance at the beginning of the year	6,485,467	9,741,979	4,447,699	3,442,798	24,117,943	12,480,888
Charge for the year	2,508,929	4,987,424	2,535,035	1,879,953	11,911,341	12,586,544
Disposal/Transfers during the year	(52,747)	(3,185)	(29,964)	(358,234)	(444,129)	(949,488)
Balance at the end of the year	8,941,650	14,726,218	6,952,770	4,964,518	35,585,156	24,117,943
Carrying Value as at 31st March 2014	3,951,143	7,185,643	4,766,919	3,818,266	19,721,970	
Carrying Value as at 31st March 2013	6,191,846	11,346,791	6,020,689	5,717,057		<u>29,276,384</u>

Fully depreciated assets are as follows

Description	Amount
Furniture & Fittings	1,531,861
Office Equipment	219,402
Computer Hardware	667,560
Name Board	53,852

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

	2014 Rs.	2013 Rs.
24. DEPOSITS FROM CUSTOMERS		
Fixed Deposits	406,197,837	520,301,886
Muthuhara Saving Deposits	205,000	180,000
	406,402,837	505,147,390
25. OTHER BORROWINGS		
Bank loan	153,846,154	350,000,000
Short Term Loan	17,868,432	50,000,000
	171,714,586	400,000,000

25.1 Terms and conditions of the securitization loan is as follows,

Type	Lender	Balance outstanding	Repayment	Security
Trust Certificate	Saylan Bank	Rs.153.85 million	Rs.15.38mn each in ten installments from January 2014 onwards	Selected lease and hire purchase receivables
Commercial Paper	Individual	Rs.17.86 million	Rs. 12.50mn on 10th June 2014 Rs. 5.36mn on 8th April 2014	-

	2014 Rs.	2013 Rs.
26. TRADE & OTHER PAYABLE		
Advance paid for New Contracts	325,720	250,720
Direct Deposit made by the Existing Customers	-	8,956,158
Payable to Suppliers	17,857,529	7,849,570
Statutory Payables (Note 26.1)	1,326,349	15,901
Accrued Expenses	21,409,045	13,016,646
Other Payable	5,673,752	11,811,255
	46,592,395	57,234,746
26.1 STATUTORY PAYABLES		
VAT on Financial Service	(898,304)	(898,304)
WHT	529,403	518,709
SRL Payable	(102,270)	(102,270)
PAYE	2,000	2,000
Stamps Duty	1,712,743	392,234
Semi Luxury Tax	82,776	67,776
E.P.F. Payable	-	34,202
E.T.F. Payable	-	1,304
	1,326,349	15,901

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

	2014 Rs.	2013 Rs.
27. AMOUNT DUE TO RELATED PARTY		
Entrust Limited (Note 27.1)	417,037,871	259,958,060
Entrust Securities PLC	-	462,595
	417,037,871	260,420,655

27.1 The above amount includes related party loans obtained at the interest rates of 18% p.a. and AWPLR+ 3% p.a. The interest charged for the year is Rs. 42,808,794/- (2012/13 - Rs. 20,166,156/-)

	2014 Rs.	2013 Rs.
28. RETIREMENT BENEFIT OBLIGATION		
Balance at the beginning of the year	2,798,818	1,998,984
Provision for the year	896,170	1,106,834
	3,694,988	3,105,818
Payments for the year	(732,500)	(307,000)
Balance at the end of the year	2,962,488	2,798,818
Present value of unfunded obligation	2,962,488	2,798,818
Present value of funded obligation	-	-
Total present value of obligation	2,962,488	2,798,818
Fair value of plan assets	-	-
Recognized liability for defined benefit obligations	2,962,488	2,798,818
Provision for the year		
Current Service Cost	917,083	573,321
Interest on obligation	307,869	219,888
Expenses recognized in Statement of Comprehensive Income	1,224,952	793,209
Actuarial (gain)/loss	(328,772)	313,625
	896,180	1,106,834

An Independent Actuarial Valuation of the retirement benefit obligation was carried out as at 31st March 2014 by Mr. P. S. Goonetilleke, Piyal S. Goonetilleke and Associates firm of professional actuaries.

The Valuation method used by the actuaries to value the Retirement benefit obligation is the 'Projected Unit Credit Method', the method recommended by the Sri Lanka Accounting Standard No. 19, 'Employee Benefits'.

The key assumptions used by the actuary include the following,

	2014	2013
i) Rate of Interest (per annum):	10.5%	11%
ii) Rate of Salary Increase (per annum):	10%	10%
iii) Retirement Age 55 years		
iv) The company will continue as a going concern.		

The liability is not externally funded.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH

29. DEFERRED TAXATION

At the beginning of the year
Charge/(Reversal) for the year
At the end of the year

2014 Rs.	2013 Rs.
3,238,601	917,020
(1,106,550)	2,321,581
2,132,051	3,238,601

Provision has been made for Deferred Taxation under the liability method in respect of temporary differences arising from difference between accounting and tax base. Deferred Tax has been computed at the rate of 28%.

Deferred Tax provision as at the year end is made up as follows

Deferred Tax provision from:

Temporary difference of Property, Plant and Equipment and Intangible Assets
Temporary difference of Retirement Benefit Obligation
Temporary difference of loan loss impairment
Carried forward Tax losses

2014		2013	
Temporary Difference Rs.	Tax Impact Rs.	Temporary Difference Rs.	Tax Impact Rs.
77,703,593	21,757,006	73,751,907	20,650,534
(2,968,488)	(831,176)	(2,798,818)	(783,668)
-	-	(3,639,928)	(1,019,179)
(67,120,643)	(18,793,780)	(55,746,737)	(15,609,086)
7,614,462	2,132,050	11,566,424	3,238,601

30. STATED CAPITAL

Issued and Fully Paid:

Balance at the beginning of the year
(Ordinary Shares 22,462,039)

2014 Rs.	2013 Rs.
346,990,186	346,990,186
346,990,186	346,990,186

Balance at the end of the year
(Ordinary Shares 22,462,039)

31. RESERVES

31.1 Statutory Reserve

Balance at the beginning of the year
Transfer during the year
Balance at the end of the year

2014 Rs.	2013 Rs.
4,761,902	4,761,902
-	-
4,761,902	4,761,902

The reserve fund is maintained in compliance with Direction No 1 of 2003 Central Bank of Sri Lanka (Capital Funds) issued to Finance Companies.

As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such reserve fund out of the net profits of each year after due provisions has been made for taxation and bad and doubtful debts on following basis.

- So long as the capital funds are not less than twenty five (25) per cent of total deposit liabilities, a sum equal to not less than five (5) per cent of the net profits;
- so long as the capital funds are less than twenty five (25) per cent of total deposit liabilities, but not less than ten (10) per cent thereof, a sum equal to not less than twenty (20) per cent of the net profits; and
- so long as the capital funds are less than ten (10) per cent of the total deposit liabilities, a sum equal to not less than fifty (50) per cent of the net profits.

31.2 General Reserve

Balance at the end of the year

2014 Rs.	2013 Rs.
11,266,050	11,266,050

This is a reserve set aside from profits for the use of general purposes

31.3 Investment Fund Reserve

Balance at the beginning of the year
Transfer from Retained Earnings
Balance at the end of the year

5,287,577	4,461,394
-	826,183
5,287,577	5,287,577

Investment Fund Reserve has been created as per the Central Bank guidelines issued. Accordingly, 8% of the profit liable for VAT on Financial Services is transferred to the reserve monthly when the payment of VAT on Financial Services for such month's income due.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

AS AT 31ST MARCH 2014

32. FINANCIAL INSTRUMENTS

32.1 Financial Instruments - Statement of Financial Position

Financial Assets

31st March 2014

	Assets at fair value		Assets at amortized cost		Total Rs.
	Fair Value Through Profit & loss	Available for sale	Loans & receivables	Held to maturity	
	Rs.	Rs.	Rs.	Rs.	
Investment in Repurchase Agreement	-	-	-	40,774,025	40,774,025
Financial Assets held for trading	1,565,210	-	-	-	1,565,210
Rental Receivables on Lease	-	-	301,364,733	-	301,364,733
Rental Receivables on Hire purchase	-	-	478,442,346	-	478,442,346
Advance and Other loans	-	-	356,802,578	-	356,802,578
Trade and Other Receivables	-	-	53,717,191	-	53,717,191
Amount Due from Related Companies	-	-	32,525	-	32,525
Receivables from Inland Revenue	-	-	1,299,026	-	1,299,026
Investment in Long term Government Securities	-	-	-	5,989,734	5,989,734
Financial Assets available for sale	-	7,281,923	-	-	7,281,923
Total Financial Assets	1,565,210	7,281,923	1,191,658,399	46,763,758	1,247,269,290
Cash at Bank & in Hand	-	-	-	-	46,241,641
Other Non Financial Assets	-	-	-	-	84,831,954
Total Assets	1,565,210	7,281,923	1,191,658,399	46,763,758	1,378,342,885

31st March 2013

Investment in Repurchase Agreement	-	-	-	219,669,678	219,669,678
Financial Assets held for trading	1,713,921	-	-	-	1,713,921
Rental Receivables on Lease	-	-	403,497,493	-	403,497,493
Rental Receivables on Hire purchase	-	-	624,629,847	-	624,629,847
Advance and Other loans	-	-	165,304,181	-	165,304,181
Trade and Other Receivables	-	-	63,404,969	-	63,404,969
Amount Due from Related Companies	-	-	1,420,556	-	1,420,557
Receivables from Inland Revenue	-	-	602,057	-	602,057
Investment in Long Term Government Securities	-	-	-	5,893,318	5,893,318
Financial Assets available for sale	-	8,169,720	-	-	8,169,720
Total Financial Assets	1,713,921	8,169,720	1,258,859,102	225,562,997	1,494,305,742
Cash at Bank & in Hand	-	-	-	-	57,645,256
Other Non Financial Assets	-	-	-	-	49,613,314
Total Assets	1,713,921	8,169,720	1,258,859,102	225,562,997	1,601,564,312

Financial Liabilities

31st March 2014

	Fair value through profit or loss	At amortized cost	Total
	Rs.	Rs.	Rs.
Deposits	-	406,402,837	406,402,837
Trade and Other Payable	-	46,592,395	46,592,395
Amount Due to Related Parties	-	417,037,871	417,037,871
Total Financial Liabilities	-	870,033,103	870,033,103
Bank Overdraft	-	-	13,900,650
Other Non-Financial Liabilities	-	-	176,809,125
Total Liabilities	-	870,033,103	1,060,742,878

31st March 2013

Deposits	-	505,147,390	505,147,390
Trade and Other Payable	-	57,234,746	57,234,746
Amount Due to Related Parties	-	260,420,655	260,420,655
Total financial Liabilities	-	822,802,791	822,802,791
Bank Overdraft	-	-	7,491,829
Other Non-Financial Liabilities	-	-	406,037,419
Total Liabilities	-	822,802,791	1,236,332,039

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

32. FINANCIAL INSTRUMENTS contd...

32.2 Financial Instruments - Statement of Comprehensive Income

	31.03.2014		31.03.2013	
	Gains / Income	Losses / Expenses	Gains / Income	Losses / Expenses
Held-to maturity Investments	10,801,234	-	19,703,907	-
Loans and Receivables	239,801,754	-	250,852,159	-
Other financial liabilities	-	157,023,597	-	158,547,931
Total	250,602,989	157,023,597	270,556,066	158,547,931

32.3 Valuation of financial instruments

Financial instruments recorded at fair values are determined for financial instruments that are recorded at fair value using several valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Assets - Fair value through profit & loss

Multi Finance PLC has classified the investment in Dealing securities under fair value through profit and loss financial assets.

These investment is held by Multi Finance PLC acquired for the trading purpose. Accordingly this investment was classified under the category of Financial assets fair value through profit & loss.

Financial Assets - available for sale

Multi Finance PLC has classified the investment in Investment securities under available for sale financial assets.

These investment is held by Multi Finance PLC as a strategic investment and this was not acquired for the trading purpose. Accordingly, this investment was classified under the category of Available for Sale Investment.

Determination of fair value and fair value hierarchy

Multi Finance PLC uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 : other techniques 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.

31st March 2014

	Level 1	Level 2	Level 3	Total
Financial Assets held for trading	1,565,210	-	-	1,565,210
Financial Assets available for sale	7,279,423	-	2,500	7,281,923
	8,844,633	-	2,500	8,847,133

31st March 2013

	Level 1	Level 2	Level 3	Total
Financial Assets held for trading	1,713,921	-	-	1,713,921
Financial Assets available for sale	8,167,220	-	2,500	8,169,720
	9,881,141	-	2,500	9,883,641

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

33. FINANCIAL RISK MANAGEMENT

New business opportunities deregulation & globalization, new financial products and stiff competition in the industry illustrates the importance of having an effective risk management as a farsighted measure.

Company deployed Risk Mapping process in order to identify core risks that the company is exposed to.

Core risks exposed by the company with regard to financial instruments are,

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

33.1 Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

	Note	31st March 2014	31st March 2013
Rental receivables on Lease	14	301,364,733	403,497,493
Rental receivables on Hire purchase	15	478,442,346	624,629,847
Advance and Other loans	16	356,802,578	165,304,181
Trade & Other Receivables	17	53,717,191	63,404,969
Amount Due from Related Companies	19	32,525	1,420,557
Cash & Cash Equivalents	12	87,015,666	277,314,934
		<u>1,277,375,039</u>	<u>1,535,571,980</u>

The approach towards managing credit risk is to accept any credit risks which are within the boundary approved by the board of directors. The company credit policy provides direction for deal with credit risks. Apart from the company credit policy, company conducts periodic credit risk stress testing analysis, portfolio monitoring, identifying problem facilities and maintaining exposure limits to manage the credit risk. Credit Risk Management approach adopted by Multi Finance PLC is described as follows

- Credit appraisal
- Credit approval
- Credit administration
- Monitoring credit portfolio
- Managing problem facilities

Fair value based accounting (LKAS 32 and 39) required the percentage wise classification to be replaced with a cash flow based approach. The approach adopted was to classify loans in to individually significant exposures and other loans in to homogenous portfolios by segment / product for necessary computations as appropriate.

RENTAL RECEIVABLES ON HIRE PURCHASE

AS AT 31ST MARCH

	2014		2013	
	Carrying amount at amortized cost	Impairment	Carrying amount at amortized cost	Impairment
	Rs.	Rs.	Rs.	Rs.
- Individually significant - impaired	24,343,612	3,569,529	-	-
- Individually significant unimpaired and individually not significant loans	473,686,473	16,018,209	644,213,904	19,584,057
	<u>498,030,085</u>	<u>19,587,738</u>	<u>644,213,904</u>	<u>19,584,057</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

33. FINANCIAL RISK MANAGEMENT contd... Rental Receivables on Leased Assets

	2014		2013	
	Carrying amount at amortized cost	Impairment	Carrying amount at amortized cost	Impairment
	Rs.	Rs.	Rs.	Rs.
- Individually significant - impaired	36,157,449	13,715,617	-	-
- Individually significant unimpaired and individually not significant loans	281,562,084	2,639,183	416,708,121	13,210,628
	317,719,533	16,354,800	416,708,121	13,210,628

ADVANCE AND OTHER LOANS

AS AT 31ST MARCH

Carrying amount at amortized cost

- Individually significant - impaired
- Individually significant unimpaired and individually not significant loans

2014 Rs.	2013 Rs.
-	-
356,802,578	165,304,181
356,802,578	165,304,181

Allowance for impairment

The Company established an allowance for impairment losses on assets carried at amortised cost/available for sale that represents its estimate of incurred losses in its loan and investment debt/equity security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and for assets measured at amortised cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

33.2 Liquidity Risk

Liquidity risk arises due to mismatch between assets and liabilities of the company; and as a result, inability to honor the liabilities when fallen due.

Managing the liquidity risk is utmost important to company like Multi Finance PLC since the breach of liquidity requirements will exposed to other risks such as reputation and compliance.

Hence, breach of liquidity requirements will directly affect on company's going concern and credibility among stakeholders.

The objective of liquidity risk management is to bridge the gap between asset-liability maturity mismatch and ultimately it's important for company to identify the correct combination of liquidity and profitability.

Exposure to Liquidity Risk

	2014	2013
Net loans/Total assets (%)	82.46%	74.36%
Gross Loans/Customer deposits	2.89	2.40

Contractual maturities of the assets and liabilities of the Company is given on the Maturity Analysis on note 39.

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

33. FINANCIAL INSTRUMENTS, contd...

33.3 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, Interest rates etc; will affect the Company's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the returns.

33.3.1 Currency Risk

The Company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the functional currency which is Sri Lankan Rupees.

However, the company does not have material long term floating rate borrowings or deposits as at the reporting date which results a material interest rate risk.

33.3.2 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market interest rates. The exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt obligation and Investments with floating Interest rates.

However, the company does not have material long term floating rate borrowings or deposits as at the reporting date which results a material interest rate risk.

The Company utilizes various financial instruments to manage exposures to interest rate risks arising due to Financial instruments.

33.4 Operational Risk

Operational risk arises due to internal process failures, human capital losses, inadequate internal process, technological breakdowns and adverse impact from external events. Operational risk act as a bottleneck for many companies, due to an inadequate awareness on companies no operational risk indicators or insufficient internal controls.

Purpose of managing operational risk is to minimize the normal losses incurred due to internal activities, restoring any disruption without impacting the core business of the company and mitigating replication of such events in the future.

Managing operational risk is the prime responsibility of all employees and the Company has executed a well defined operational risk policy framework. Internal controls and strict system audit functions are kept in order to enhance the operational risk mitigating process.

The Company has adopted following approaches in order to mitigate operational risk within its business context.

- Stringent operational policies and practices
- Effective HR policies and practices
- Promoting ethical business standards
- Training and development
- Contingent and backup plans
- Stringent internal controls

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

35. RELATED PARTY TRANSACTIONS

35.1 Transactions with related Companies

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard LKAS 24 'Related Party Disclosure', the details of which are reported below.

Name of the Company	Name of Director	Nature of transactions	Amount (Paid)/ Received 2014 Rs.	Amount (Paid)/ Received 2013 Rs.
Entrust Limited	Mr I D B Dassanayake	Loan	318,000,000	267,329,532
	Mr C U Ratwatte	Loan Repayment	(209,000,000)	(186,804,360)
	Mr K P N S Dayaratne	Reimbursement of Expenses	977,336	302,356
	Mr B N R Mendis	Rent	(1,244,992)	(1,652,044)
	Mr T Kanagasabai	Security Charges	-	(27,535)
	Mrs R D Senerath	IT & HR Services	6,850,273	5,470,155
		Repayment IT & HR Services	(1,033,131)	(2,142,682)
		Welfare & Other Charges	-	108,400
		Repayment Welfare & Other Charges	(108,100)	-
		Telephone Charges	(374,584)	(70,558)
		Electricity & Water	-	(488,049)
		Tea & Others	64,023	-
Entrust Securities PLC	Mr I D B Dassanayake	Assest Transfer	86,778	-
	Mr C U Ratwatte	Others	40,198	-
	Mr G A K Nanayakkara	Repayment Expenses	(544,928)	-
	Mrs R D Senerath	Complimentary	-	458,150
	Mr R M S Tilakawardana	Common Expenses	-	260,941
	Dr N N P Jayasuriya	Computer Hardware	-	4,445
		Welfare	-	-
		Reimbursement of Expenses	97,574	213,197
		Telephone Charges	-	(80,991)
		Electricity & Water	-	(14,271)
		Security Charges	-	(7,410)
		Rent	(130,099)	-
		Promotion & Other Expenses	(44,643)	(281,691)
Entrust Healthcare Limited	Mr I D B Dassanayake	Assest Transfer	650,877	-
	Mr C U Ratwatte	Repayment Expenses	(650,877)	-
	Mr T Kanagasabai	Rent	-	(1,077,780)
	Mrs R D Senerath	Electricity	-	(199,954)
	Mr K P N S Dayaratne	Security Charges	-	(99,940)
	Mr B N R Mendis	Welfare & Other Charges	-	(42,883)
		Reimbursement of Expenses	1,420,557	-

35.2 Transactions with Key Management Personnel

Transactions with key management persons according to LKAS 24 'Related Party Disclosures', key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including Executive and Non-Executive) have been classified as key management personnel of the Company.

	2014 Rs.	2013 Rs.
Compensation paid to Directors		
Remuneration	3,600,000	4,630,000
Other Employee Benefits	-	-
	3,600,000	4,630,000

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

35. COMPARATIVE INFORMATION

To facilitate the comparison, the following balances pertaining to the previous year have been reclassified to confirm to the current year classification and presentation.

36. CAPITAL COMMITMENTS

The Company had no material capital commitments outstanding as at the Balance Sheet date.

37. CONTINGENCIES

There were no material contingent liabilities as at the balance sheet date, which require adjustments to or disclosure in the Financial Statements.

38. EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

39. MATURITY ANALYSIS

An analysis of the total assets employed and total liabilities as at the year end, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below.

Assets/Liabilities	Maturity Period					Total
	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash & Cash Equivalents	87,015,666	-	-	-	-	87,015,666
Investments in Dealing Securities	1,565,210	-	-	-	-	1,565,210
Rental Receivables on Lease	49,614,819	87,026,916	147,014,851	17,708,147	-	301,364,733
Rental Receivables on Hire Purchase	67,272,925	121,921,870	241,957,058	47,290,494	-	478,442,346
Advances & Other Loans	189,071,526	117,297,693	42,301,905	6,940,448	1,191,006	356,802,578
Trade & Other Receivables	7,429,084	10,421,365	23,585,454	12,281,288	1,299,026	55,016,217
Inventories	59,200,506	-	-	-	-	59,200,506
Amount Due from Related Parties	32,525	-	-	-	-	32,525
Investment in Long term Government securities	5,989,734	-	-	-	-	5,989,734
Investment Securities	7,281,923	-	-	-	-	7,281,923
Intangible Assets	5,909,478	-	-	-	-	5,909,478
Property, Plant & Equipment	-	-	-	-	19,721,970	19,721,970
Total Assets	480,383,395	336,667,844	454,859,268	84,220,377	22,212,002	1,378,342,885

Cash & Cash Equivalents	13,900,650	-	-	-	-	13,900,650
Deposits	234,474,147	139,901,483	24,296,148	7,731,059	-	406,402,837
Other Borrowings	66,535,363	105,179,223	-	-	-	171,714,586
Trade & Other Payables	46,592,395	-	-	-	-	46,592,395
Amount Due to Related Parties	417,037,871	-	-	-	-	417,037,871
Retirement Benefit Obligation	-	-	-	-	2,962,488	2,962,488
Provision for Deferred Tax	-	-	-	-	2,132,051	2,132,051
Total Liabilities	778,540,424	245,080,707	24,296,148	7,731,059	5,094,539	1,060,742,885

Assets/Liabilities	Maturity Period					Total
	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rental Receivables on Lease						
Rental Receivables	65,152,879	126,275,820	189,635,199	20,377,143	-	401,441,041
Unearned Income	(15,538,060)	(39,248,904)	(42,620,348)	(2,668,996)	-	(100,076,308)
	49,614,819	87,026,916	147,014,851	17,708,147	-	301,364,733

Rental Receivables on Hire Purchase						
Rental Receivables	94,559,660	188,901,660	320,539,594	53,844,074	-	657,844,988
Unearned Income	(27,286,735)	(66,979,790)	(78,582,536)	(6,553,580)	-	(179,402,641)
	67,272,925	121,921,870	241,957,058	47,290,494	-	478,442,346

NOTES TO THE FINANCIAL STATEMENTS (CONTD...)

FOR THE YEAR ENDED 31ST MARCH 2014

40. SEGMENTAL ANALYSIS

	Finance		Investing		Total	
	2014/13 Rs.	2013/12 Rs.	2014/13 Rs.	2013/12 Rs.	2014/13 Rs.	2013/12 Rs.
Revenue						
Interest	239,801,754	250,852,159	10,801,234	19,703,907	250,602,989	270,556,066
Other income	9,459,302	7,190,182	9,288,851	3,429,169	18,748,153	10,619,351
Total Gross Income	249,261,057	258,042,341	20,090,085	23,133,076	269,351,141	281,175,416
Interest expenses					(157,023,597)	(158,547,932)
Unallocated expenses					(160,288,592)	(180,235,010)
Net profit for the period					(47,961,048)	(57,607,526)
Average interest earning assets	1,165,020,589	1,068,321,348	145,528,765	125,925,398	1,310,549,353	1,194,246,747

41. EXPLANATION FOR TURN AROUND

The Company has incurred a post-tax net loss of Rs. 47.96 Mn (2012/13 Rs. 57.6 Mn) for the financial year ended 2013/14 and the accumulated loss for the year was Rs. 50.7 Mn (2012/13 Rs. 3 Mn) as at the balance sheet date. During the midyear 2013/14, the Board of directors of Multi Finance PLC introduced a new Chief Executive Officer in view of restructuring the Company whilst introducing best practices in the industry and make the Company a profitable entity.

The recorded losses were incurred mainly due to provisioning of bad and doubtful debts, high costs incurred on overheads, etc., which were restructured to make the Company a profitable entity.

Further, the management is confident that the Company will continue to make significant profits month on month during the coming financial year and erase the accumulated total loss of Rs. 50.7 Mn with the CBSL's plan for consolidation with non-bank financial sector, the Company will be further strengthened with a strong capital base and a Business Plan to venture into different product lines in the forthcoming years.

Based on the above, the Board of Directors are on the view that the Company will be able to continue as going concern.

Share Information

20 MAJOR SHAREHOLDERS AS AT 31/03/2014

#	TITLE	INITIAL	NAME	NO. OF SHARES	%
1			ENTRUST LIMITED	19,223,186	
2	MR.	W.A.S.P.	DE SARAM	516,806	
3			PREMIUM CAPITAL (PVT) LIMITED	500,000	
4			LAUGFS GAS LIMITED	184,900	
5	MR.	V.D.	RANAPURA	116,194	
6	MR.	M.M.	DISSANAYAKE	97,800	
7	MR.	P.A.	RAJANIKANTH	43,800	
8	MR.	S.N.C.W.M.B.C.	KANDEGEDARA	43,400	
9	MR.	P.G.W.	SIRISENA	38,000	
10	MR.	K.M.	DISSANAYAKE	37,600	
11			ALMAR INTERNATIONAL (PVT) LTD	30,000	
12	DR.	N.T.	ATUKORALA	27,947	
13	MR.	S.C.	HEWAWITHARANA	26,800	
14	DR.	M.A.M.S.	COORAY	26,096	
15	MR.	R.P.P.	SENARATNE	25,100	
16	MR.	T.J.	CHANDANA	25,000	
17	MR.	M.D.S.S.	GUNARATHNE	25,000	
18	DR.	A.R.	KARUNARATNA	23,522	
19	MR.	C.P.	LIYANA GUNAWARDANE	21,500	
20	MR.	S.S.M.	EKANAYAKE	21,200	
				22,339,560	
				Share Certificate holders	122,479
				TOTAL	22,462,039 100

Public shareholding - 14.32%

20 MAJOR SHAREHOLDERS AS AT 31/03/2013

#	ID NO	TITLE	INITIAL	NAME	NO OF SHARES	%
1	4753			ENTRUST LIMITED	19,223,186	85.581
2	7091			PREMIUM CAPITAL (PVT) LIMITED	500,000	2.226
3	660650580	MR.	W.A.S.P.	DE SARAM	213,828	0.952
4	5991			LAUGFS GAS LIMITED	184,900	0.823
5	913264550	MR.	V.D.	RANAPURA	155,194	0.691
6	573490541	MR.	M.M.	DISSANAYAKE	97,800	0.435
7	871641447	MR.	Y.K.	RAJAPAKSA	53,301	0.237
8	805215070	MRS.	S.	HEWAVIDHANA	48,357	0.215
9	772941447	MR.	P.A.	RAJANIKANTH	43,800	0.195
10	661730510	MR.	A.H.M.	RIYAZ	40,000	0.178
11	603001427	MR.	P.G.W.	SIRISENA	38,000	0.169
12	561060517	MR.	N.A.	KARUNARATNA	36,324	0.162
13	1091			ALMAR INTERNATIONAL (PVT) LTD	35,000	0.156
14	632300824	MR.	N.M.	PRAKASH	33,389	0.149
15	541851038	MR.	K.M.	DISSANAYAKE	32,600	0.145
16	752563705	MR.	J.M.J.	MALLIKARATHNA	31,533	0.140
17	612790094	MR.	R.P.P.	SENARATNE	28,783	0.128
18	7326	MR.	A.M.	VANDORT	28,600	0.127
19	1551343	MR.	W.A.	JAYANTHA SISIRA KUMARA	27,012	0.120
20	660590110	MR.	S.C.	HEWAWITHARANA	26,800	0.119
					20,878,407	92.950
					Share Certificate Holders	1,583,632 7.050
					TOTAL	22,462,039 100

SHARE INFORMATION (CONTD...)

DISTRIBUTION OF SHAREHOLDING

From - To	No. of Shareholders	No. of Shares	%
1 - 1,000	571	184,069	0.82%
1,001 - 10,000	216	753,621	3.36%
10,001 - 100,000	48	1,013,263	4.51%
100,001 - 1,000,000	4	1,317,900	5.87%
Over 1,000,000	1	19,223,186	85.58%
TOTAL		22,462,039	100%

ANALYSIS OF SHAREHOLDERS AS AT 31ST MARCH 2014

Category	No. of Shareholders	No. of Shares	%
Local Individuals	829	2,517,004	11.21
Local Institutions	9	19,945,035	88.79%
Foreign Individuals	None	None	None
Foreign Institutions	None	None	None
Total	838	22,462,039	100%

SHARE PRICES FOR THE YEAR

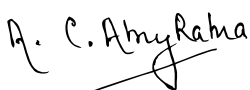
	31.03.2014	31.03.2013
Highest during the period	31.5	40.4
Lowest during the period	12.9	13
As at end of the period	17	22
No. of transactions	5,123	3,869
No. of shares traded (Mn)	76,111,855.50	97,609,300.90

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Multi Finance PLC will be held at Grand Oriental Hotel, "Kashyapa" Hall, No. 02 York Street, Colombo 01. on Friday 26th September 2014 for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st March 2014 and the Report of the Auditors thereon.
2. To re-elect Mr. K. P. N. S. Dayarathne who retires by rotation in terms of Article 87 of the Articles of Association, as a Director of the Company
3. To re-appoint KPMG, Chartered Accountants, the retiring Auditors and to authorise the Directors to determine their remuneration.
4. To authorise the Directors to determine donations for the year ending 31st March 2015 and up to the date of the next Annual General Meeting.

By Order of the Board
Multi Finance PLC



Chayanika Abeyratna
Company Secretary
At Colombo

5th August 2014

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.
2. A proxy need not be a member of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Registered Office of the Company, Level 23, East Tower, World Trade Center, Echelon Square, Colombo 01 by 2.30 p.m. on 24th September 2014.

Form of Proxy

I/We*
 of
 shareholder/s of MULTI FINANCE PLC hereby appoint
 (holder of NIC No.....) of
 or failing him*

Mr. Edinadura Kuvera Isuru De Zoysa	of Colombo or failing him*
Mr. Ratnayake Mudiyanseelage Mohan Joseph Ratnayake	of Colombo or failing him*
Mr. Ravindra Manohara Sri Tillakawardana	of Colombo or failing him*
Mrs. Champika Jayanthi Atapattu	of Colombo or failing her *
Mr. Kangara Panthirannehelage Nandika Sanjeewa Dayarathne	of Colombo or failing him*
Mr. Balapuwaduge Niloshan Romelo Mendis	of Colombo or failing him*
Mrs. Romesha Dushyanthi Senarath	of Colombo or failing her*
Mr. Isira Dharmapriya Bandara Dassanayake	of Colombo or failing him*
Mr. Chanuka Upendra Ratwatte	of Colombo

as my/our* proxy to represent me/us* and to vote as indicated hereunder for me/us* and on my/our* behalf at the Annual General Meeting of the Company to be held on Friday 26th September 2014 at 2.30 p.m. at Grand Oriental Hotel, "Kashyapa" Hall, No. 02 York Street, Colombo 01 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof. aforesaid meeting and at any adjournment thereof.

		For	Against
1	To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2014 with the Report of the Auditors thereon.		
2	To re-elect Mr. K. P. N. S. Dayarathne who retires by rotation in terms of Article 87 of the Articles of Association, as a Director of the Company.		
3	To re-appoint KPMG, Chartered Accountants the retiring Auditors and to authorise the Directors to determine their remuneration.		
4	To authorise the Directors to determine donations for the year ending 31st March 2015 up to the date of the next Annual General Meeting.		

In witness my/our* hand this day of Two Thousand and Fourteen.

.....
 Signature of Shareholder

**Please delete what is inapplicable.*

Instructions for completion

1. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his/her Attorney duly authorised in writing or if such appointer is a company/corporation, either under its Common Seal, or under the hand of an Officer/s or Attorney duly authorised in terms of the Articles of Association /Statute.
2. In the case of a proxy signed by an Attorney, the original Power of Attorney must be deposited at the Company Secretary's Office (i.e. Level 23, East Tower, World Trade Center, Echelon Square, Colombo 01) for registration.
3. In perfecting the Form of Proxy, please ensure that all details are legible.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details in the space provided.
5. Please indicate with an X in the space provided how your Proxy is to vote on the resolution. If no indication is given, the Proxy in the discretion will vote as he thinks fit.
6. To be valid, this Form of Proxy must be deposited at the Secretaries Office, Level 23, East Tower, World Trade Center, Echelon Square, Colombo 01, by 2.30 p.m. on 24th September 2014.

Notes

Corporate Information

Name of the company	Multi Finance PLC
Registered Office	Level 23, East Tower, World Trade Center, Colombo 01
Legal Form	Public Limited Liability Company in Sri Lanka registered under the Companies Act No.17 of 1982 and re-registered in terms of Companies Act No. 07 of 2007 The Company is governed under the Finance Business Act No. 42 of 2011 and domiciled in Sri Lanka and quoted in the Colombo Stock Exchange in May 2011
Contact Details	Hotline : 0114645555 Fax : 0114645564 Email : info@multifinance.lk Website : www.multifinance.lk
Date of incorporation	14th October 1974
Company Registration Number	PB 891 PQ
VAT Registration Number	104041167-7000
Company Secretary	Chayanika Abeyratna
External Auditors	KPMG (Chartered Accountants)
Internal Auditors	Ernst & Young (Chartered Accountants)
Lawyer	Chithral Sirisena Assistant Manager - Legal
Bankers	Commercial Bank of Ceylon PLC Seylan Bank PLC Sampath Bank PLC People's Bank Pan Asia Banking Corporation PLC



Multi Finance PLC

Level 23, East Tower, World Trade Center, Echelon Square, Colombo 01. Tel: 0115 500600

Main office: No. 17, Charles Drive, Colombo 03. Tel: 0114 645 555

E-mail: info@multifinance.lk **Website:** www.multifinance.lk