

COMPREHENSIVE INCOME STATEMENT

	2019 Rs.	2018 Rs.
For the Year Ended 31st March		
Income	297,381,813	235,416,652
Interest income	271,332,009	204,173,082
Interest expenses	(100,065,423)	(64,892,696)
Net interest income	171,266,586	139,280,386
Fee and commission income	15,185,357	13,643,421
Other income	10,864,447	17,600,149
Net income from operations	197,316,390	170,523,956
Operating expenses		
Personnel cost	(115,395,597)	(84,625,786)
Net impairment of Fair Value Through Other comprehensive income/Available-for-sale financial assets	(32,386)	(165,794)
Depreciation and amortization charge	(8,814,853)	(3,984,668)
Other operating expenses	(100,476,734)	(63,847,517)
Total operating expenses	(224,719,570)	(152,623,764)
Profit/(Loss) before impairment and taxation	(27,403,180)	17,900,192
Impairment (charge)/reversal for loan and other advances		
Individual Impairment	(13,337,576)	(45,477,566)
Collective Impairment	(17,929,536)	(480,489)
Others	(11,507,007)	-
Profit/(Loss) before taxation and VAT on Financial Services	(70,177,299)	(28,057,863)
Value Added Tax on financial services	(8,442,123)	(5,880,379)
Profit/(Loss) before taxation	(78,619,422)	(33,938,242)
Income Tax (Expenses)/Reversal	15,510,831	16,987,657
Profit/(Loss) for the period	(63,108,592)	(16,950,585)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement of retirement benefit obligation	2,414,010	97,172
Tax on actuarial gain	(675,923)	(27,208)
	1,738,087	69,964
Items that are or may be reclassified subsequently to profit or loss		
Reclassification of Fair Value Through Other comprehensive income/Available for sale reserve to profit / loss	-	(1,807,499)
Net change in fair value of Fair Value Through Other comprehensive income/Available-for-sale financial assets	(48,887)	73,501
	(48,887)	(1,733,998)
Other comprehensive income for the period, net of tax	1,689,200	(1,664,034)
Total comprehensive income / (expense) for the period	(61,419,391)	(18,614,619)
Earnings/(Loss) per share (Rs.) (Annualized)	(0.99)	(0.27)

STATEMENT OF FINANCIAL POSITION

	2019 Rs.	2018 Rs.
As at 31st March		
ASSETS		
Cash and cash equivalents	41,943,205	94,163,856
Placements with Banks and other financial institutions	61,460,074	233,069,642
Rental receivable on lease	398,694,138	333,913,312
Rental receivable on hire purchase	4,445,918	12,643,028
Advance and other loans	777,395,971	850,737,233
Other receivables	64,071,151	50,523,101
Reposessed Stock	15,443,999	668,000
Income tax receivables	4,992,927	4,452,003
Financial Assets Measured at Fair Value Through Other comprehensive income / Financial Investments - Available For Sale	8,103,623	8,071,749
Investment Property	16,142,750	-
Property, plant & equipment	31,827,815	12,426,351
Intangible assets	2,606,397	1,417,849
Deferred Tax Asset	57,442,409	31,748,786
TOTAL ASSETS	1,484,570,377	1,633,834,910
LIABILITIES		
Due to banks and financial institutions	48,509,429	75,126,583
Deposits due to customers	660,625,887	649,996,600
Other payables	52,058,157	97,768,754
Retirement benefit obligation	4,891,980	5,137,175
TOTAL LIABILITIES	766,085,453	828,029,112
EQUITY		
Stated capital	898,375,289	898,375,289
Statutory Reserve Fund	5,389,222	5,389,222
General Reserve	11,266,050	11,266,050
Fair Value Reserve/Available For Sale Reserve	232,052	280,939
Retained earnings / (Accumulated Losses)	(196,777,689)	(109,505,702)
TOTAL EQUITY	718,484,924	805,805,798
TOTAL LIABILITIES AND EQUITY	1,484,570,377	1,633,834,910
Net Assets Per Share (Rs.)	11.30	12.67

Figures in brackets indicate deductions.

SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

Item	As at 31/03/ 2019	As at 31/03/ 2018
Regulatory capital adequacy		
Core capital (Tire 1 capital), Rs.	718,252,871	805,524,859
Total Capital Base, Rs.	718,252,871	805,524,859
Core capital adequacy ratio, as % of risk weighted assets (minimum requirement, 6%) (up to 30/06/2018, 5%)	62.78	66.37
Total capital adequacy ratio, as % of risk weighted assets (minimum requirement, 10%)	62.78	66.37
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	108.72	123.93
Assets quality (quality of loan portfolio)		
Gross non-performing accommodations, Rs.	196,927,853	125,941,332
Gross non-performing accommodations ratio, %	14.36%	9.92%
Net non-performing accommodations ratio, %	5.79%	5.56%
Profitability (%)		
Net Interest margin	11.68%	12.65%
Return on assets (before tax)	-5.04%	-2.08%
Return on equity (after tax)	-8.55%	-2.31%
Ragulatory liquidity (Rs.)		
Required minimum amount of liquid assets	66,388,955	65,238,735
Available amount of liquid assets	15,710,418	98,454,636
Required minimum amount of Government Securities	35,169,313	31,841,438
Available amount of Government Securities	-	65,500,000
Memorandum information		
Number of employees	100	107
Number of branches	7	7
Number of service centers	-	-
Number of pawning centres	1	1
Contingent liabilities and commitments, Rs.	28,753,311	5,010,927

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

We the undersigned, being the Chairman, Non Executive Director, Chief Executive Officer and Senior Finance Manager of Multi Finance PLC certify jointly that;

- a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka
- b) the information contained in these statements have been extracted from the audited financial statements of the Licensed Finance Company.

Sgd.
A. M. Galbadaarachchi
Senior Finance Manager

Sgd.
P. Jayasundara
Director / Chief Executive Officer

01st July 2019
Colombo

Sgd.
Kuvera De Zoysa
Chairman / Independent Non Executive Director

ICRA Lanka Limited rating: [SL] B (Stable)



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Multi Finance PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Multi Finance PLC ("the Company"), which comprise the statement of financial position as at March 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information set out on pages 6 to 66.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at March 31, 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Emphasis of Matter

Non-Compliance with Central Bank regulations

We draw attention to Note 39 of the financial statements which indicates that the Company has not complied with the Minimum Core Capital Direction No 03 of 2018 and Finance Companies (Liquid Assets) Direction No 4 of 2013. The Company has incurred continuous losses over the years accumulated as at 31 March 2019 to Rs. 196,777,689. The Company also has negative operating cash flows over the past 3 years. In order to apply the going concern basis of accounting the Company has to satisfy the regulatory requirements with the concurrence of the Central Bank of Sri Lanka. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of lease, hire purchases, advances and other loans and transition impact with the adoption of SLFRS 9 – “Financial Instruments”

As described in Note 3.8 (Accounting policies) and Notes 14, 15 16 and 17, Company has estimated impairment provision for lease, hire purchase, advance and other loans of Rs. 140,324,943 as at 31st March 2019.

Risk Description

A high degree of complexity and judgment is involved for the Company in estimating credit losses arising from the lending portfolios.

Given the complexity of SLFRS 9 and its expected pervasive impact on the financial sector we focused on the Company's disclosure of the expected impact of measuring credit losses on its lending portfolios and the significant judgment exercised by the Company. The Company's model to calculate Expected Credit Loss (ECL) are inherently complex and judgment is applied in determining the correct construct of the model. There are also a number of key assumptions made by the Company in applying the requirements of SLFRS 9 to the models including forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgments over the use of data inputs required.

As permitted by the transitional provision of SLFRS 9, the impact of adopting SLFRS 9 is considered as an adjustment to equity as at 1st April 2018 (Day One), without restating the comparative information. The Note 4 to these financial statements provides the impact on transition to SLFRS 9 – “Financial Instruments” on retained earnings as at 1st April 2018.

We have identified the impairment of leases, hire purchases, advances and other loans as a key audit matter because of its significance to the financial statements and application new accounting policies, including transition option elections with the application of new significant judgments and estimates which are subject to estimation uncertainty and management bias.

Our Response:

Our audit procedures to assess impairment of loans and advance to customers and transition included:

- Assessment of the methodology inherent within the process for provisioning for credit losses against the requirements of SLFRS 9;

Challenging the key assumptions in the determination of credit losses and evaluating the reasonableness of Management's key judgments and estimates including the transition adjustments

Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and ECL models and assessment of economic information used within, and Weightings applied to forward looking scenarios including the transition adjustments;

Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD;

Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development;

Evaluating management's process for identifying contracts to be assessed based on the selected transition approach and any practical expedients applied;

Assessing the adequacy of the disclosures in the financial statements in relation to impairment of loans and advance to customers and transitional disclosures with relevant to applicable accounting standards.

2. Accounting for deferred tax assets

As described in Note 3.23(ii) (Accounting policies) and Notes 27 (Deferred Tax asset) Company has estimated Rs. 57,442,409 as deferred tax assets as at 31st March 2019.

Risk Description

The Company had recognized significant Deferred Tax Assets in respect of deductible temporary difference and accumulated tax losses, which management considered would probably be utilized or recovered in the future through the generation of future taxable profits or set off against deferred tax liabilities.

We identified the recognition of Deferred Tax assets as a key audit matter because of significant management judgement and estimation required in forecasting future taxable profit which could be subject to error or potential management bias.

Our Response:

Our audit Procedures included;

- Assessing and challenging the Company's approach for evaluating the likelihood of the recoverability of Deferred Tax Assets. This included challenging the key assumption in future taxable profit forecasts prepared by the Management.

Assessing the adequacy of the disclosures in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Therefore, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists,

we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company. However, the Company does not fulfill the requirements of the Minimum Core Capital Direction No 03 of 2018 and Finance Companies (Liquid Assets) Direction No 4 of 2013 as at 31 March 2019 issued by the Central Bank of Sri Lanka.

The engagement partner on the audit resulting in this independent auditor's report's Membership number is 1798.

KPMG

Chartered Accountants
Colombo, Sri Lanka
01 July 2019

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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