

LANKA ORIX FINANCE COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 2011

HMAJ/BV/AD

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF LANKA ORIX FINANCE COMPANY LIMITED****Report on the Financial Statements**

We have audited the accompanying financial statements of Lanka Orix Finance Company limited ("Company"), which comprise the balance sheet as at 31 March 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

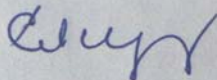
We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

02 June 2011
Colombo.

Lanka ORIX Finance Company Limited

BALANCE SHEET

As at 31 March 2011

	Note	2011	2010
		Rs.	Rs.
ASSETS			
Cash and Bank Balances	29.1	812,035,127	1,209,589,620
Investments in Term Deposits		-	143,294,515
Investment in Government Securities		2,136,000,000	3,149,301,719
Rentals receivable on Leased Assets	3	4,324,700,548	1,249,073,523
Hire Purchases, Loans and Advances	4	16,439,451,634	7,607,262,324
Amount due from related Companies	5	150,867,022	24,156,029
Other Receivables	6	322,054,711	193,430,955
Margin Trading Receivables	7	79,527	8,844,514
Real Estate Stock	8	16,261,676	22,930,299
Investment Property	9	71,500,000	91,989,640
Investments in Shares	10	18,000,000	-
Property, Plant and Equipment	11	-	5,881,503
Total Assets		24,290,950,245	13,705,754,641
LIABILITIES			
Bank Overdraft	29.2	501,514,500	270,443,121
Borrowings	12	610,068,325	1,101,812,000
Deposits from Customers	13	17,393,186,628	10,129,683,226
Trade Payables	14	685,144,389	146,222,857
Accruals and Other Payables	15	667,635,578	414,389,620
Amount due to related Companies	16	734,560,466	321,544,721
Income Tax Liability		72,998,933	11,176,148
Deferred Tax Liability	17.2	108,574,403	39,864,312
Retirement Benefit Obligations	18	2,880,900	2,325,237
Total Liabilities		20,776,564,122	12,437,461,241
SHAREHOLDER'S FUNDS			
Stated Capital	19.2	2,000,000,000	1,000,000,000
Statutory Reserve	20.1	293,023,966	43,805,421
Investment Fund Reserve	20.2	39,539,145	-
Retained Earnings	20.3	1,181,823,012	224,487,978
Total Equity		3,514,386,123	1,268,293,399
Total Liabilities and Equity		24,290,950,245	13,705,754,641

These financial statements are prepared in compliance with the requirements of the Companies Act No 07 of 2007

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Chief Financial Officer-LOLC Group

The board of directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the board

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Director

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Director

The accounting policies and notes on pages 6 through 29 form an integral part of the Financial Statements.

30 May 2011
Rajagiriya (Greater Colombo)

Lanka ORIX Finance Company Limited

INCOME STATEMENT

Year ended 31 March 2011

	Note	2011 Rs.	2010 Rs.
Interest income	21	3,113,150,099	1,661,048,623
Interest expense	22	<u>(1,760,124,183)</u>	<u>(1,291,258,634)</u>
Net interest income		1,353,025,916	369,789,989
Other Operating income	23	1,504,256,702	530,738,162
Direct expenses excluding interest cost	24	(97,480,661)	(34,446,959)
Provision for Doubtful Debts & Write Offs	25	(155,634,339)	(208,476,381)
Personnel expenses		(309,594,126)	(111,075,977)
Depreciation		(2,048,228)	(2,092,679)
General & Administration Expenses		<u>(666,373,791)</u>	<u>(296,039,719)</u>
Profit from Operations	26	1,626,151,473	248,396,435
Value Added Tax on Financial Service		<u>(137,285,440)</u>	<u>(49,581,096)</u>
Profit before Tax		1,488,866,033	198,815,339
Income Tax expense	17	(242,773,309)	(105,077,686)
Profit for the Year		<u>1,246,092,724</u>	<u>93,737,653</u>
Basic earnings per share	28	<u>0.63</u>	<u>0.08</u>

The accounting policies and notes on pages 6 through 29 form an integral part of the Financial Statements.

Lanka ORIX Finance Company Limited
STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2011

	Stated Capital	Statutory Reserve	Investment Fund Reserve	Retained Earnings	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31 March 2009	800,000,000	24,469,671	-	150,086,075	974,555,746
Share issued during the Year	200,000,000	-	-	-	200,000,000
Profit for the Year	-	-	-	93,737,653	93,737,653
Transfer during the year	-	19,335,750	-	(19,335,750)	-
Balance as at 31 March 2010	1,000,000,000	43,805,421	-	224,487,978	1,268,293,399
Share issued during the Year	1,000,000,000	-	-	-	1,000,000,000
Profit for the Year	-	-	-	1,246,092,724	1,246,092,724
Transfer during the Year	-	249,218,545	-	(249,218,545)	-
Transfer during the Year	-	-	39,539,145	(39,539,145)	-
Balance as at 31 March 2011	2,000,000,000	293,023,966	39,539,145	1,181,823,012	3,514,386,123

The accounting policies and notes on pages 6 through 29 form an integral part of the Financial Statements.

Lanka ORIX Finance Company Limited

CASH FLOW STATEMENT

Year ended 31 March 2011

	Note	2011 Rs.	2010 Rs.
Cash Flows From / (Used in) Operating Activities			
Net Profit before Income Tax Expense		1,488,866,033	198,815,339
Adjustments for:			
Depreciation	11.2	2,048,228	2,092,679
(Profit)/Loss on Sales of Property, Plant & Equipment	26	137,162	(1,415,191)
Profit on disposal of Investments		(52,356,963)	-
Profit on Sale of Pawning Portfolio		(610,000,000)	-
Allowance for Doubtful Debts		155,634,339	51,733,795
Change in Fair Value of Investment Property	9	20,489,640	-
Provision for Defined Benefit Plans	18	652,351	658,072
Investment income		(740,893,523)	(486,361,792)
Finance Costs		1,760,124,183	1,291,258,634
Operating Profit/(Loss) before Working Capital Changes		2,024,701,450	1,056,781,536
(Increase)/Decrease in Other Receivables	6	(228,134,871)	52,714,970
Decrease in Real estate Stocks	8	6,668,623	6,066,092
Decrease in Margin Trading Receivables	7	8,764,987	42,225,648
Increase/(Decrease) in Trade and Other Payables	14/15	600,809,009	123,742,889
Increase/(Decrease) in Amounts due to/ due from related Parties	5/16	299,887,273	129,665,371
(Increase)/Decrease in Lease Receivables	3	(3,069,201,649)	(386,624,682)
Net proceeds from Deposits from Customers	13	5,444,305,540	4,085,623,587
Net proceeds from Savings Deposits	13	1,819,197,862	740,138,665
(Increase)/Decrease in Hire Purchase, Loans and Advances	4	(10,174,890,271)	(4,827,793,759)
Cash Generated from Operations		(3,267,892,047)	1,022,540,317
Finance Cost Paid		(1,368,241,865)	(1,051,133,828)
Gratuity Paid	18	(96,688)	-
Income Tax Paid		(112,240,433)	(67,676,953)
Net Cash From/(Used in) Operating Activities		(4,748,471,033)	(96,270,464)
Cash Flows from / (Used in) Investing Activities			
Proceeds from Sale of Property, Plant & Equipment		(137,162)	9,022,108
Acquisition of Property, Plant & Equipment	11.1	(3,264,080)	(913,290)
Net proceeds from Investments in Term Deposits		143,294,515	1,376,474,060
Net proceeds from Investments in Treasury Bonds		1,013,301,719	(2,344,583,430)
Net proceeds from investments		34,356,963	-
Interest Received		840,404,638	474,859,836
Proceeds from Sale of Pawning Portfolio		1,784,156,081	-
Net Cash Flows from/(Used in) Investing Activities		3,812,112,673	(485,140,716)
Cash Flows from (Used in) Financing Activities			
Proceeds from issuance of new shares	19.2.1	1,000,000,000	200,000,000
Net Proceeds from Interest Bearing Loans & Borrowings	12	(491,743,675)	1,101,812,000
Finance Cost Paid-Over draft		(200,523,837)	(32,623,138)
Net Cash Flows from/(Used in) Financing Activities		307,732,488	1,269,188,862
Net Increase/(Decrease) in Cash and Cash Equivalents		(628,625,872)	687,777,682
Cash and Cash Equivalents at the beginning of the Year	29	939,146,499	251,368,817
Cash and Cash Equivalents at the end of the Year	29	310,520,627	939,146,499
Analysis of Cash and Cash equivalents at the end of the Year			
Cash and Bank Balances		812,035,127	1,209,589,620
Bank Overdraft		(501,514,500)	(270,443,121)
		310,520,627	939,146,499

The accounting policies and notes on pages 6 through 29 form an integral part of the Financial Statements.

1. Corporate Information

General

Lanka ORIX Finance Company Limited is an unquoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Companies Act, No. 78 of 1988.

The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

The Financial Statements were authorized for issue by the Directors on 30th May 2011.

Holding Company

The immediate and ultimate holding company is Lanka ORIX Leasing Company PLC, which is incorporated in Sri Lanka

Principal Activities and Nature of Operations

During the year, the principal activities of the Company comprised of leasing, hire purchase, margin trading, pawn broking, loans, property development, mobilization of public deposits and Islamic financing.

Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

Address of the Registered Office of the Company

No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

2. Accounting Policies

2.1 Basis of Preparation

The Financial Statements are presented in Sri Lankan Rupees where appropriate the significant Accounting Policies disclosed in the succeeding notes. The Financial Statements are prepared on the historical cost basis except investment property that has been measured at fair value. Assets and liabilities are grouped by nature and listed in an order that reflect their relative liquidity. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

These Financial Statements are prepared in Sri Lankan Rupees, which is the Company's functional currency, unless otherwise stated. The preparation and presentation of these Financial Statements is in compliance with the Companies Act. No. 07 of 2007.

Statement of Compliance

The Financial Statements of the Company are prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

2.2 Significant Accounting Judgments, Estimates and Assumptions

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

Estimate and underlying assumptions are reviewed on an ongoing basis and the management is required to consider, key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes

- **Impairment Losses on Loans and Advances**

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on Loans and Advances by the Central Bank of Sri Lanka, the Company reviews its Loans and Advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the Income Statement. The judgments by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

- **Defined Benefit Plans**

The cost of defined benefit plans- gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

- **Reviews of Impairment Losses on Other Assets**

The Company determines whether assets have been impaired by performing an impairment review. This requires the estimation of the 'value in use' of the cash generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

- **Useful lives of Property, Plant & Equipment**

The Company reviews the asset's residual values, useful lives and methods of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods.

Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

Comparative information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year. Comparative information is reclassified wherever necessary to comply with the current presentation which is more fully described in Note 30 to these financial statements.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the original carrying amount in the functional currency and the carrying amount in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss

2.3 Assets and Bases of their Valuation

i) Cash and Cash Equivalents

Cash and Cash Equivalents comprise of cash in hand and cash at banks. Bank overdrafts that are repayable on demand, form an integral part of the Company's cash management, are included as a component of Cash and Cash Equivalents for the purpose of cash flows.

ii) Finance Leases and Hire purchase

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under "Rentals receivable on Leased Assets". Leasing balances are stated in the Balance Sheet after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery

iii) Advances and Other Loans to Customers

Advances and other loans to customers comprised of revolving loans, loans with fixed installment and Pawning Advances.

Revolving loans to customers are reflected in the Balance Sheet at amounts disbursed less repayments and provision for doubtful debts. Loans to customers with fixed installments are stated in the Balance Sheet net of possible loan losses and net of interest, which is not accrued to revenue.

iv) Provision for Doubtful Debts

The specific provisions for doubtful debts are arrived at using the following bases:

The Company computes its provisioning for bad and doubtful debts in accordance with Direction No. 03 of 2006 of the Finance Companies Act No. 78 of 1988 as follows

- Fifty percent (50%) of all lease, hire purchases and loan receivables (net of unearned income) which are in arrears for a period of 06 to 12 months.
- One hundred percent (100%) of all lease, hire purchases and loan receivables (net of unearned income) which are in arrears for a period of 12 months and more

Additional specific provisions are made upon management review on the performance of the lease, hire purchase and loan portfolios.

Balance receivables on any terminated contracts are provided fully. i.e. One hundred percent (100%) of balance receivables.

Facilities that are fully provided have been written off against the provisions made.

The values of the following items held as collateral for a particular advance have been deducted in arriving at the above provisions.

- With regard to vehicles that have been repossessed by the Company, eighty per cent (80%) of the valuation obtained during the preceding six months from a valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka
- With regard to land and buildings, the full value, in case of a primary mortgage, such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

v) Real Estate Stocks

Real estate stocks represent the purchase value of properties acquired and any subsequent expenditure incurred on such for development.

vi) Investments in Treasury Bills and Bonds of Government of Sri Lanka

Investment in Treasury Bills and Treasury Bonds are carried at the total of purchase price, accrued interest and amortization/ (accretion) of premium/ (discount).

Gains/losses on disposal are measured at the difference between the sales proceeds and the carrying amount and are recognized in profit or loss.

Securities Purchased under Re-sale Agreements

Securities purchased under re-sale agreements are recorded separately in the Financial Statements at cost. The difference between the purchase and sale price represents interest income and is recognized in the Income Statement over the period of the resale agreement

vii) Other Receivables

Other receivable balances are stated at estimated amounts receivable after providing for doubtful receivables.

viii) Property, Plant and Equipment
Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within other operating income in profit or loss.

Subsequent costs

The 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 the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred

Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of an item of property, plant and equipment

The estimated useful lives for the current and comparative years are as follows:

Office Equipment	5 Years
Motor Vehicles	4 Years
Furniture & Fittings	5 Years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

ix) Intangible Assets

Measurement

Intangible assets that are acquired by the company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expense is recognized in profit or loss as incurred

Amortization

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows

Computer software 5 years

x) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Determining Fair value

An external, independent valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio every 3 year. In financial periods within that period the fair value is determined by the directors.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably

xi) Investment in Non-Quoted Shares

Investment in non-quoted shares are stated at cost of acquisition and adjusted for any fall in value, which are other than temporary

xii) Impairment of Other Assets

The carrying amounts of the company's non-financial assets, investment property, and inventories 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.

An impairment loss is recognised if the carrying amount of an asset or its related 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. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods in respect of non financial assets 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 amortisation, if no impairment loss had been recognised.

2.4 Liabilities and Provisions

Liabilities are recognized in the Balance Sheet when there is a present obligation as a result of a past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor or within one year of the Balance Sheet date are treated as current liabilities in the Balance Sheet. Liabilities payable after one year from the Balance Sheet date are treated as non-current liabilities in the Balance Sheet.

i) Deposits from Customers

Deposits include savings deposits and term deposits. They are brought to account at the gross value of the outstanding balance.

Interest for the period is charged to the profit or loss.

ii) Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates items recognised directly in equity

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

iii) Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

iv) Securities Sold under Repurchase Agreements

These are borrowings collateralized by sale of Treasury Bills and Treasury Bonds held by the company to the counterparty from whom the company borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the company and the liability is recorded in respect of the consideration received. The difference between the sale and the purchase price represents interest expense, which is recognized in the Income Statement evenly over the period of the repurchased agreement.

v) Swap Instruments

Company in its ordinary course of business enters into transactions such as currency swaps and foreign exchange contracts and uses derivative instruments to manage exposure to currency risk.

Currency Swaps are recognised as off balance sheet assets or liabilities. The Company's commitment for the contracted period is converted to Sri Lankan Rupees based on the exchange rate, agreed.

vi) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

(ii) Defined benefit plans

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 pension plans is calculated 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 unrecognised past service costs are deducted.

The calculation is performed every three years by a qualified actuary using the projected unit credit method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised 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 recognised immediately in profit or loss.

The Company recognises all actuarial gains and losses arising from the defined benefit plan and all expenses related to defined benefit plans in personnel expenses in profit or loss.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.5 Income Statement

Company income represents the gross income receivable for the year on all performing contracts. It includes all income related to operations such as interest on overdue rentals, profit/loss on contracts terminated and collections on contracts written-off.

i) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

a) Income from Leases, Hire purchases & Loans & Advances

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognized as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

Non-performing loans are those facilities where the rentals are overdue for 6 months and over. Income accrued is suspended from the date a facility is classified as non-performing and credited to the "Earned Income in Suspense" in compliance with Direction no.15 of 1991 of the Finance Companies Act No.78 of 1988. Thereafter such income is recognized on cash basis.

b) Fee and other service Income

Fees and other service related income are recognized as the services are performed.

Profit or loss on contracts terminated, collections on contracts written off, interest on overdue rentals, interest on revolving loans, interest earned on property sale and buy back agreements are accounted for on cash basis.

c) Income from Other Sources

Discount/premium on Treasury Bills/bonds is amortized over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognized on an accrual basis.

Income from all other interest bearing investments is recognized as revenue on an accrual basis.

ii) Others

Other income is recognized on an accrual basis.

Net Gains and losses of a revenue nature on the disposal of property, plant & equipment and other noncurrent assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

2.6 Expenditure Recognition

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

Value Added Tax (VAT) 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.

The VAT on Financial service is recognized as expense in the period it becomes due.

2.7 Movement of Reserves

Movement of Reserves is disclosed in the Statement of Changes in Equity.

2.8 Cash Flow Statements

The Cash Flow Statements are prepared using the indirect method as stipulated in SLAS 9 – Cash Flow Statements, Cash and Cash Equivalents for Cash Flow Statements comprise mainly of cash in hand, balances at banks and bank overdraft.

2.9 Related Party Transactions

Transactions with related parties are conducted on normal business terms. The relevant disclosures are given in Notes 31 to the Financial Statements.

2.10 Earnings per share

The Company presents basic per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

2.11 Effect of accounting standards issued but not yet effective

- a) The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.
- Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)
 - Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)
 - Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These three standards have been amended and forms a part of the new set of financial reporting standards mentioned under note (b) below. In order to comply with the requirements of the two Financial Instruments Standards, the Company is in the process of assessing the effect of adoption of these two standards. Due to the complex nature of the effects of these two standards the impact of adoption cannot be estimated as at the date of publication of these Financial Statements.

- b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01 January 2012. These new Accounting Standards are prefixed both SLFRS and LKAS, which correspond to the relevant IFRS and IAS. The effect of application of these new financial reporting standards is substantially different to the prevailing standards.

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

3. RENTALS RECEIVABLE ON LEASED ASSETS	2011	2010
	Rs.	Rs.
<u>Receivable from one to five years</u>		
Rentals receivable	3,995,228,983	1,054,471,597
Unearned income	(856,925,193)	(254,149,852)
Allowance for doubtful debts	(18,245,966)	(2,947,348)
Deposits received from lessees	(5,841,496)	(6,981,937)
	<u>3,114,216,328</u>	<u>790,392,460</u>
<u>Receivable within one year</u>		
Rentals receivable	1,884,047,016	703,992,069
Unearned income	(678,357,221)	(238,098,866)
Allowance for doubtful debts	(6,884,754)	(4,225,356)
	<u>1,198,805,040</u>	<u>461,667,847</u>
<u>Overdue</u>		
Rentals receivable	23,713,352	35,891,411
Allowance for doubtful debts	(11,508,018)	(35,891,411)
Earned income in suspense	(526,154)	(2,986,784)
	<u>11,679,180</u>	<u>(2,986,784)</u>
<u>Total</u>		
Rentals receivable	5,902,989,351	1,794,355,077
Unearned income	(1,535,282,414)	(492,248,717)
Allowance for doubtful debts	(36,638,739)	(43,064,115)
Deposits received from lessees	(5,841,496)	(6,981,937)
Earned income in suspense	(526,154)	(2,986,784)
	<u>4,324,700,548</u>	<u>1,249,073,523</u>
Balance as at 31 March	<u>4,324,700,548</u>	<u>1,249,073,523</u>
3.1 Provision for Lease Rentals receivables		
Balance as at 1st of April	43,064,115	40,016,762
Provision/(Reversal) for the Year	(6,425,376)	3,047,353
Balance as at 31st March	<u>36,638,739</u>	<u>43,064,115</u>

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

4. HIRE PURCHASES, LOANS AND ADVANCES	2011	2010
4.1 Hire Purchases	Rs.	Rs.
<u>Receivable from one to five years</u>		
Rentals receivable	3,277,105,616	2,701,744,491
Unearned income	(621,831,685)	(691,997,075)
Allowance for doubtful debts	(46,375,457)	(1,409,626)
Deposits received from lessees	(2,516,804)	(2,753,909)
	<u>2,606,381,671</u>	<u>2,005,583,881</u>
<u>Receivable within one year</u>		
Rentals receivable	1,488,605,808	785,423,319
Unearned income	(543,848,649)	(336,265,342)
Allowance for doubtful debts	(16,200,329)	(179,096)
	<u>928,556,829</u>	<u>448,978,880</u>
<u>Overdue</u>		
Rentals receivable	23,688,150	27,410,108
Allowance for doubtful debts	(7,604,488)	(8,031,709)
Earned income in suspense	(3,408,109)	(774,963)
	<u>12,675,553</u>	<u>18,603,436</u>
<u>Total</u>		
Rentals receivable	4,789,399,573	3,514,577,917
Unearned income	(1,165,680,334)	(1,028,262,417)
Allowance for doubtful debts	(70,180,274)	(9,620,431)
Deposits received from lessees	(2,516,804)	(2,753,909)
Earned income in suspense	(3,408,109)	(774,963)
Balance as at 31st March	<u>3,547,614,052</u>	<u>2,473,166,197</u>
4.2 Provision for Hire Purchases Receivables		
Balance as at 1st of April	9,620,431	13,907,243
Provision/(Reversal) for the Year	60,559,843	(4,286,812)
Balance as at 31st March	<u>70,180,274</u>	<u>9,620,431</u>
4.3 Mortgage Loans		
<u>Receivable from one to five years</u>		
Installments receivable	210,199,386	162,069,998
Unearned income	(43,379,734)	(37,812,187)
Allowance for doubtful debts	-	-
	<u>166,819,653</u>	<u>124,257,811</u>
<u>Receivable within one year</u>		
Installments receivable	151,758,305	82,646,432
Unearned income	(39,901,803)	(33,818,197)
Allowance for doubtful debts	-	-
	<u>111,856,502</u>	<u>48,828,235</u>
<u>Overdue</u>		
Installments receivable	92,702,548	64,646,967
Allowance for doubtful debts	-	(205,618)
Earned income in suspense	(39,036,614)	(28,857,778)
	<u>53,665,934</u>	<u>35,583,571</u>
<u>Total</u>		
Total receivable	454,660,239	309,363,398
Unearned income	(83,281,537)	(71,630,385)
Allowance for doubtful debts	-	(205,618)
Earned income in suspense	(39,036,614)	(28,857,778)
	<u>332,342,088</u>	<u>208,669,616</u>
4.3.1 Provision for Mortgage Loans		
Balance as at 1st of April	205,618	1,644,077
Provision/(Reversal) for the Year	(205,618)	(1,438,458)
Balance as at 31st March	<u>-</u>	<u>205,618</u>

Lanka ORIX Finance Company Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

	2011 Rs.	2010 Rs.
4.4 Sundry Loans		
<u>Receivable from one to five years</u>		
Installments receivable	9,211,642,346	4,666,454,623
Unearned income	(1,597,565,280)	(637,453,375)
Allowance for doubtful debts	(47,978,305)	(8,256,412)
Deposits received from customers	499,500	(6,500)
	<u>7,566,598,262</u>	<u>4,020,738,337</u>
<u>Receivable within one year</u>		
Installments receivable	6,410,766,250	1,142,163,880
Unearned income	(1,530,315,633)	(722,199,506)
Allowance for doubtful debts	(29,370,261)	(6,014,334)
	<u>4,851,080,356</u>	<u>413,950,040</u>
<u>Overdue</u>		
Installments receivable	228,831,465	152,385,456
Allowance for doubtful debts	(31,118,953)	(96,759,837)
Earned income in suspense	(55,895,637)	(45,287,706)
	<u>141,816,875</u>	<u>10,337,913</u>
<u>Total</u>		
Total receivable	15,851,240,062	5,961,003,959
Unearned income	(3,127,880,912)	(1,359,652,881)
Allowance for Doubtful Debts	(108,467,519)	(111,030,583)
Deposits received from customers	499,500	(6,500)
Earned income in suspense	(55,895,637)	(45,287,706)
	<u>12,559,495,493</u>	<u>4,445,026,289</u>
4.4.1 Provision for Sundry Loans		
Balance as at 1st of April	111,030,583	57,598,640
Provision/(Reversal) for the Year	(2,563,064)	54,411,713
Balance as at 31st March	<u>108,467,519</u>	<u>111,030,583</u>
4.5 Pawning Advances		
Pawning Advances	-	454,383,470
Interest Receivable On Pawning Advances	-	26,016,751
	<u>-</u>	<u>480,400,220</u>
Total (Note 4.1+Note 4.3+Note 4.4+Note 4.5)	<u>16,439,451,634</u>	<u>7,607,262,324</u>

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

4.6 Non Performing Advances included in the Lease Rentals Receivables, Hire Purchase and Loans & Advances are as follows

	Lease		Hire Purchase		Loans	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Net Investment	38,804,558	44,595,493	78,735,547	10,341,697	349,621,581	380,078,257
Allowance for doubtful debts	(36,638,739)	(43,064,115)	(70,180,274)	(9,620,431)	(108,467,519)	(112,215,971)
Net Non Performing Advances	2,165,819	1,531,378	8,555,273	721,265	241,154,062	267,862,286

4.7 Segmental Analysis of Loans and Advances, Leases, Hire Purchase by Industry

	2011 Rs.	2010 Rs.
Agriculture	2,013,374,059	899,599,959
Manufacturing	2,957,193,755	1,438,784,248
Economics And Social	149,486,140	148,161,756
Trade	7,749,359,483	3,116,767,078
Tourism	390,282,396	102,436,704
Services	4,666,639,987	1,887,158,571
Transportation	1,839,993,093	592,694,794
Construction	1,102,608,460	383,462,946
Mining and Quarrying	201,014,668	68,396,119
Others	16,211,987	502,578,611
	21,086,164,028	9,140,040,786
Lease Receivables	4,367,706,937	1,302,106,359
Hire Purchase Receivables	3,623,719,239	2,518,450,116
Loans & Advance	13,094,737,852	4,839,084,091
Pawning Advance	-	480,400,220
	21,086,164,028	9,140,040,786

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

5. AMOUNTS DUE FROM RELATED COMPANIES	2011 Rs.	2010 Rs.
Receivable from Lanka Orix Insurance Brokers Limited	-	3,041,881
Receivable from Commercial Leasing Company Limited	65,186,915	21,114,148
Receivable from Lanka Orix Micro Credit Limited	85,680,107	-
	<u>150,867,022</u>	<u>24,156,029</u>
6. OTHER RECEIVABLE		
Interest Receivable on Government Securities & Deposits	-	99,511,115
VAT Receivable	212,119,980	51,781,481
Staff debtors	19,659,567	12,850,110
WHT recoverable	120,658	120,658
Others	86,762,955	25,478,748
Deposit Advance & Prepayments	3,391,551	3,688,843
	<u>322,054,711</u>	<u>193,430,955</u>
7. MARGIN TRADING RECEIVABLES		
Balance as at 1st April	8,844,514	51,070,162
Advances granted during the Year	-	54,651,688
Interest charged for the Year	1,700,637	9,319,949
Less: Settlements during the Year	(6,117,703)	(105,217,516)
Allowance for doubtful debts	-	(979,770)
Written off advances	(4,347,920)	-
Balance as at 31st March	<u>79,527</u>	<u>8,844,514</u>
8. REAL ESTATE STOCK		
Real State Stock	16,261,676	22,930,299
	<u>16,261,676</u>	<u>22,930,299</u>
9. INVESTMENT PROPERTY		
Balance as at 1st April	91,989,640	91,989,640
Net gain/(loss) from fair value adjustment	(20,489,640)	-
	<u>71,500,000</u>	<u>91,989,640</u>
10. INVESTMENT IN SHARES		
Expo Lanka Holdings Ltd	18,000,000	-
	<u>18,000,000</u>	<u>-</u>

Lanka ORIX Finance Company Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

11. PROPERTY, PLANT AND EQUIPMENT

11.1 Gross Carrying Amounts	Balance as at 31.03. 2010 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03. 2011 Rs.
Cost				
Freehold Assets				
Office Equipment	8,539,675	3,036,230	(11,575,905)	-
Motor Vehicle	1,817,000	-	(1,817,000)	-
Computer Hardware	1,065,629	227,850	(1,293,479)	-
Computer Software	1,202,500	-	(1,202,500)	-
Total vale of depreciable Assets	12,624,804	3,264,080	(15,888,884)	-
11.2 Depreciation	Balance as at 31.03. 2010 Rs.	Charge for the Period Rs.	Disposals Rs.	Balance as at 31.03. 2011 Rs.
Freehold Assets				
Office Equipment	3,666,769	1,669,863	(5,336,632)	-
Motor Vehicle	1,817,000	-	(1,817,000)	-
Computer Hardware	651,738	138,524	(790,262)	-
Computer Software	607,793	239,841	(847,634)	-
Total Depreciation	6,743,301	2,048,228	(8,791,528)	-
Net Book Value	5,881,503			-

12. BORROWINGS

	2011 Rs.	2010 Rs.
<u>Amounts falling due within 1 Year</u>		
Securities Sold under Repurchase Agreements	-	915,000,000
Bank Loans	223,497,591	186,812,000
	223,497,591	1,101,812,000
<u>Amounts falling due after 1 Year</u>		
Bank Loans	386,570,734	-
	386,570,734	-
Total	610,068,325	1,101,812,000

13. DEPOSITS FROM CUSTOMERS

Fixed Deposits	14,564,209,025	9,119,903,485
Savings Deposits	2,109,572,241	440,198,204
Savings Deposits-FCY	719,405,362	569,581,537
	17,393,186,628	10,129,683,226

14. TRADE PAYABLES

Creditors for Lease equipment	685,144,389	146,222,858
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15. ACCRUALS AND OTHER PAYABLES

Miscellaneous Creditors	61,676,006	12,774,529
Stamp duty Payable	30,836,550	17,850,550
Accrued Interest on Deposits	444,674,285	324,349,027
IBU income Distribution Payable	77,332,411	49,256,478
IBU Charity Fund	53,116,326	10,159,037
	667,635,578	414,389,620

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

16 AMOUNTS DUE TO RELATED COMPANIES

	2011	2010
	Rs.	Rs.
Payable to Lanka Orix Leasing Company PLC	500,689,118	138,506,317
Refinance Loans Payable to Lanka Orix Leasing Company PLC	143,871,348	162,925,130
Payable to LOLC Micro Credit Limited	-	1,713,274
Payable to Lanka Orix Information Technology Limited	90,000,000	18,400,000
	<u>734,560,466</u>	<u>321,544,721</u>

17 INCOME TAX EXPENSES

The major component of income tax expense for the Year ended 31 March are as follows:

Current Income Tax

Current Income Tax Charge	170,135,820	80,124,374
Under/(Over) Provision of current taxes in respect of prior years	3,927,398	(2,140,588)

Deferred Income Tax

Deferred Taxation Charge/(Reversal) (17.2)	68,710,091	27,093,900
Income Tax expense reported in the income statement	<u>242,773,309</u>	<u>105,077,686</u>

17.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

Accounting Profit before Income Tax	<u>1,488,866,033</u>	<u>198,815,339</u>
Tax effect @ the Statutory Income Tax Rate of 35% (2010-35%)	521,103,112	69,585,369
Tax effect of Other Allowable Credits	(356,373,836)	(270,688,305)
Tax effect of Non deductible expenses	83,502,573	304,996,517
Tax effect of Rate Change	(7,972,862)	-
Social Responsibility Levy @ 1.5%	2,514,322	1,184,105
At the effective Income Tax Rate of 16% (2010 : 53%)	<u>242,773,309</u>	<u>105,077,686</u>

17.2 Deferred Tax Assets, Liabilities and income Tax relates to the followings

	Balance Sheet		Income Statement	
	2011	2010	2011	2010
	Rs.	Rs.	Rs.	Rs.
Deferred Tax Liability				
Capital Allowances for Tax purposes on Property, Plant & Equipment	-	(443,731)	443,731	(537,369)
Capital Allowances for Tax purposes on Lease Receivables	109,381,055	41,121,876	76,394,808	27,861,594
Effect of Change in Tax Rate	-	-	(8,135,629)	-
	<u>109,381,055</u>	<u>40,678,145</u>	<u>68,702,910</u>	<u>27,324,224</u>
Deferred Tax Assets				
Defined Benefit Plans	806,652	813,833	(155,586)	230,325
Effect of Change in Tax Rate	-	-	162,767	-
	<u>806,652</u>	<u>813,833</u>	<u>7,181</u>	<u>230,325</u>
Deferred income Tax income/(expense)			<u>(68,710,091)</u>	<u>(27,093,900)</u>
Net Deferred Tax Liability	<u>108,574,403</u>	<u>39,864,312</u>		

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

18. RETIREMENT BENEFIT OBLIGATIONS	2011	2010
	Rs.	Rs.
Current Service Cost	400,146	400,334
Interest Cost	317,127	257,738
Actuarial (Gain)/ Loss	(64,922)	-
Net Benefit expense	<u>652,351</u>	<u>658,072</u>

Changes in the Present Value of the Defined Benefit Obligation are as follows:

Defined benefit obligation as of 01 April	2,325,237	1,667,165
Benefits paid by the plan	(96,688)	-
Interest Cost	317,127	257,738
Current Service Cost	400,146	400,334
Actuarial (gain)/ loss	(64,922)	-
Defined benefit liability as of 31 March	<u>2,880,900</u>	<u>2,325,237</u>

18.1 Key assumptions used in the above valuation are as follows:

Discount Rate	9.30%	12.35%
Salary Increment Rate	8.00%	10.75%
Retirement Age	55	55
Staff Turnover	15.38%	15.38%

The Defined benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service.

The plan is not externally funded.

19. STATED CAPITAL	2011	2010
	Number	Number
19.1 Fully Paid Ordinary Shares (Number)	<u>200,000,000</u>	<u>100,000,000</u>
	2011	2010
	Rs.	Rs.
19.2 Fully Paid Ordinary Shares (Value) (19.2.1)	<u>2,000,000,000</u>	<u>1,000,000,000</u>
19.2.1 Fully Paid Ordinary Shares		
Balance at the beginning of the Year	1,000,000,000	800,000,000
Issue of Shares for Cash	1,000,000,000	200,000,000
Balance at the end of the Year	<u>2,000,000,000</u>	<u>1,000,000,000</u>
19.3 Rights, Preference and Restrictions of Classes of Capital		

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

20. RESERVES	2011	2010
	Rs.	Rs.
20.1 Statutory Reserve		
Balance at the beginning of the Year	43,805,421	24,469,671
Transferred during the Year	249,218,545	19,335,750
Balance at the end of the Year	<u>293,023,966</u>	<u>43,805,421</u>
<p>The reserve was created according to Direction No.1 of 2003 issued under the Finance Companies Act No.78 of 1988. The company transfers 20% of its annual net profit after tax to this reserve in compliance with this direction.</p>		
20.2 Investment Fund Reserve		
Balance at the beginning of the Year	-	-
Transferred during the Year	39,539,145	-
Balance at the end of the Year	<u>39,539,145</u>	<u>-</u>
<p>The reserve is created in accordance with the Central Bank guidelines issued to create an Investment Fund Reserve. 8% of the profits liable for VAT on Financial Services is transferred to this reserve monthly when the payment of VAT on Financial Services for such month becomes due .</p> <p>In accordance with the guidelines issued, the company maintains government securities equivalent to the value of the reserve. These government securities are included in the government security value presented on the balance sheet .</p>		
20.3 Retained earnings		
Balance at the beginning of the Year	224,487,978	150,086,075
Profit for the year net of transfers	957,335,034	74,401,903
Balance at the end of the Year	<u>1,181,823,012</u>	<u>224,487,978</u>
21. INTEREST INCOME		
Interest on Leases	470,203,022	243,991,515
Interest on Hire Purchase	724,659,390	364,774,860
Interest on Loans	1,537,445,177	852,975,603
Interest on Margin Trading	1,700,637	9,319,949
Interest on Pawn Broking	137,641,600	71,414,573
Others	241,500,273	118,572,124
	<u>3,113,150,099</u>	<u>1,661,048,623</u>
22. INTEREST EXPENSE		
Interest on Fixed Deposits	1,224,873,411	1,097,680,782
Interest on Savings Deposits	78,571,799	29,758,915
Interest on Re-Red Refinancing	10,968,028	21,119,951
IBU Income Distribution	227,986,839	110,075,848
Interest on Short Term Loan & Bank Overdraft	217,724,106	32,623,138
	<u>1,760,124,183</u>	<u>1,291,258,634</u>
23. OTHER OPERATING INCOME		
Sundry income	114,278,498	47,521,097
Profit/(loss) on disposal of Property, Plant & Equipment	(137,162)	1,415,191
Amortisation of Premium/Discount and Capital gain on Treasury Bond/Reverse Repo	734,919,074	412,179,861
Interest income on Term Deposits	5,974,449	74,181,931
Exchange Gain/(Loss)	(13,936,284)	(5,222,669)
Profit/(Loss) on disposal of investments	52,356,963	-
Profit on Sale of Pawning Portfolio	610,000,000	-
Interest income from Staff Loan	801,164	662,750
	<u>1,504,256,702</u>	<u>530,738,162</u>

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

24. DIRECT EXPENSES EXCLUDING INTEREST COST	2011	2010
	Rs.	Rs.
VAT on General expenses	86,248,498	17,287,100
Portfolio handling fee	9,261,003	16,302,377
Others	1,971,160	857,482
	97,480,661	34,446,959
25. PROVISION/(REVERSAL) AND WRITE OFFS		
Provision/(Reversal) for Lease Rentals Receivable	(6,425,376)	3,047,353
Provision/(Reversal) for Receivables from Hire Purchases	60,559,843	(4,286,812)
Provision/(Reversal) for Receivables from Sundry Loans	(2,563,064)	54,411,713
Provision/(Reversal) for Mortgage Loan	(205,618)	(1,438,458)
Provision/(Reversal) for Margin Trading Loan	(979,770)	-
Written off during the Year	105,248,324	156,742,586
	155,634,339	208,476,381
26. PROFIT FROM OPERATIONS	2011	2010
is stated after Charging /(Crediting)	Rs.	Rs.
Depreciation & Amortization	2,048,228	2,092,679
Auditor's remuneration	950,000	460,000
Employees Benefits including the following		
- Defined Benefit Plan Costs - Gratuity (included in Employee Benefits)	652,351	658,072
- Defined Contribution Plan Costs - EPF&ETF (included in Employee 'Bene	5,523,487	3,535,258
Exchange Gain/(Loss)	(13,936,284)	(5,222,669)
Profit/(Loss) on Disposal of Property, Plant and Equipment	(137,162)	1,415,191

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

27. MATURITY OF ASSETS AND LIABILITIES

27.1 An analysis of the total assets of the Company as at the year end based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.11	Total as at 31.03.10
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Bank Balances	812,035,127					812,035,127	1,209,589,620
Investment Securities	2,136,000,000	18,000,000				2,154,000,000	3,149,301,719
Investments in Term Deposits	-					-	143,294,515
Rentals receivable on Leased Assets	406,716,539	803,767,680	2,048,300,763	1,065,915,565		4,324,700,548	1,249,073,523
Hire Purchases, Loans and Advances	1,668,047,315	4,431,604,735	7,656,452,633	2,683,346,952		16,439,451,634	7,607,262,324
Amount due from related Companies	150,867,022		-	-	-	150,867,022	24,156,029
Other Receivables	322,054,711					322,054,711	193,430,956
Real Estate Stock	-		16,261,676	-	-	16,261,676	22,930,299
Investment Property			71,500,000			71,500,000	91,989,640
Margin Trading Receivables	79,527					79,527	8,844,514
Property, Plant and Equipment	-	-	-	-	-	-	5,881,503
Total Assets as at 31.03.2011	5,495,800,241	5,253,372,415	9,792,515,071	3,749,262,514	-	24,290,950,245	
Total Assets as at 31.03.2010	2,392,794,359	2,305,703,229	7,143,770,718	1,731,403,893	143,102,909		13,705,754,641

27.2 An analysis of the total liabilities of the Company as at the year end based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.11	Total as at 31.03.10
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank Overdraft	501,514,500	-	-	-	-	501,514,500	270,443,121
Borrowings	109,557,636	113,939,955	268,824,623	117,746,110	-	610,068,325	1,101,812,000
Deposits from Customers	7,147,655,081	6,452,679,313	1,476,676,666	2,316,175,568	-	17,393,186,628	10,129,683,226
Trade Payables	685,144,389	-	-	-	-	685,144,389	146,222,857
Accruals and Other Payables	300,162,210	262,271,638	65,035,658	40,166,073	-	667,635,578	414,389,620
Income Tax Liability	72,998,933	-	-	-	-	72,998,933	11,176,148
Deferred Tax Liability	-	-	108,574,403	-	-	108,574,403	39,864,312
Amount due to related Companies	734,560,466	-	-	-	-	734,560,466	321,544,721
Retirement Benefit Obligations	-	-	-	-	2,880,900	2,880,900	2,325,237
Stated Capital	-	-	-	-	2,000,000,000	2,000,000,000	1,000,000,000
Statutory Reserve	-	-	-	-	293,023,966	293,023,966	43,805,421
Retained Earnings	-	-	-	-	1,181,823,012	1,181,823,012	224,487,978
Investment Fund Reserve					39,539,146	39,539,146	
Total Liabilities & Equity as at 31.03.2011	9,551,593,215	6,828,890,906	1,919,111,350	2,474,087,751	3,517,267,024	24,290,950,245	
Total Liabilities & Equity as at 31.03.2010	6,120,528,980	4,401,660,369	1,342,212,468	514,667,836	1,337,705,455		13,705,754,641

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

28. EARNINGS PER SHARE

28.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

28.2 The following reflects the income and share data used in the Basic Earnings Per Share computations.

Amounts Used as the Numerators:	2011 Rs.	2010 Rs.
Profit Attributable to Ordinary Shareholders for basic Earnings Per Share	1,246,092,724	93,737,653
Number of Ordinary Shares used as the denominator:		
	2011 Number	2010 Number
Ordinary shares in issue at the beginning of the year	1,400,000,000	1,120,000,000
Effects of New Share issue during the period	583,333,333	23,333,333
Weighted average number of ordinary shares in issue applicable to basic earnings per share	1,983,333,333	1,143,333,333
Basic earnings per share	0.63	0.08

Subsequent to the balance sheet date in April 2011 the Company subdivided its existing 200mn shares into 2.8bn shares. The Earnings per Share for the current year and the comparative year has been adjusted to reflect the subdivision

29. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT	2011 Rs.	2010 Rs.
Components of Cash and Cash Equivalents		
29.1 Favourable Cash & Cash Equivalents balance		
Cash & Bank Balances	812,035,127	1,209,589,620
29.2 Unfavourable Cash & Cash Equivalent Balances		
Bank Overdraft	(501,514,500)	(270,443,121)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	310,520,627	939,146,499

30. COMPARATIVE INFORMATION

30.1 The presentation and classification of the following items in these Financial Statements were amended to ensure comparability with the current year.

	2010 Rs. Current Presentation	2010 Rs. As Reported Previously	2010 Rs. Change
(a) Hire Purchases, Loans and Advances	7,607,262,324	7,639,396,938	32,134,615
(b) Amount due from related Companies	24,156,029	3,041,881	21,114,148
(c) Amount due to related Companies	321,544,721	332,565,187	11,020,466
	<u>7,309,873,632</u>	<u>7,309,873,632</u>	

30.2 Reasons for changes in the presentations and classifications

An amount of Rs.32,134,615 receivable from Commercial Leasing Company Ltd previously classified under Hire purchase, Loans and Advances was reclassified as receivable from related companies

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

31. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

31.1 Transactions with Related Parties

Other related parties include entities that are related to the entity; including Lanka Orix Leasing Company PLC, Ishara Traders (Pvt) Ltd, Lanka Orix Information Technology Limited, & LOLC Micro Credit Ltd

31.1.1 The following table provides the significant amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at 31 March 2011 and 2010, refer to Notes no.5 and 16 accordingly)

Company	Relationship	Nature of Transactions	2011 Rs.	2010 Rs.		
Lanka ORIX Leasing Company PLC	Parent Company	Inter Company Fund Utilised	280,809,587	212,135,445		
		Shared Expenses	524,955,500	220,780,167		
		Interest on Re-Red Refinancing	10,968,028	21,119,951		
		Portfolio handling fee	9,261,003	16,302,377		
		Deposit Held with the Company	35,000,000	35,000,000		
		Interest Paid/Charge	3,980,930	924,408		
		Interest Payable	312,186	188,540		
				<u>1,863,841,246</u>	<u>19,777</u>	
LOLC Micro Credit Limited	Fellow Subsidiary	Sale of Pawning Portfolio	1,863,841,246	-		
		Deposit Held with the Company	20,997	19,777		
			<u>120,000,000</u>	<u>30,000,000</u>		
Lanka ORIX Information Technology Ltd	Fellow Subsidiary	IT Service Fee	120,000,000	30,000,000		
					<u>62,150,531</u>	<u>53,645,117</u>
Commercial Leasing Company Ltd	Fellow Subsidiary	Purchase of Loan Portfolio	-	1,000,000,000		
		Portfolio Handling fee	62,150,531	53,645,117		
			<u>126,815,801</u>	<u>51,620,001</u>		
Ishara Traders (Pvt) Ltd	Other Related Company	Supply of Leased Vehicles	126,815,801	51,620,001		
Other Related Organizations	Other Related Organization	Deposit Held with the Company	12,114,745	7,518,031		
Other Related Companies	Fellow Subsidiaries/Affiliates	Deposit Held with the Company	1,790,653,526	17,786,896		
		Interest Paid/Charge	4,325,566	-		
		Interest Payable	4,025,603	-		
					<u>10,900,000</u>	<u>5,545,000</u>
		Loan/ Lease Granted	10,900,000	5,545,000		
		Rental Collections	2,540,640	844,942		
		Interest Income	1,557,814	467,817		
		Capital Outstanding	15,019,227	5,242,232		
				<u>15,019,227</u>	<u>5,242,232</u>	

Lanka ORIX Finance Company Limited
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

31.2 Transactions with Key Management Personnel of the Company

Key Management Personnel (KMPs) are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel of the Company are the Board of Directors of the Company and its parent and personnel holding Designation Deputy General Manager and above. Transactions with Key Management Personnel and transactions with the Close Family Members(CFMs) of the KMPs, if any, also have been taken into consideration in the following disclosure.

31.2.1 Key Management Personnel Compensation

	2011	2010
	Rs.	Rs.
Short term employee benefits	<u>8,144,705</u>	<u>6,623,267</u>

31.2.2 Other Transactions

Deposits held with the Company	516,251,281	134,181,917
Interest Paid/Charge	35,749,864	11,860,237
Interest Payable	<u>13,483,774</u>	<u>4,251,543</u>

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the financial statements other than those disclosed below

- a) The Company subdivided its existing 200,000,000 shares in to 2,800,000,000 shares without any change in the stated capital.
- b) The Company is in the process of listing on the Dirisavi Board by way of Introduction on or before 30 June 2011

33. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount	Carrying Amount
		Pledged	Pledged
		2011	2010
		Rs.	Rs.
Government Treasury Bonds	Secured against the Repo instrument borrowings	-	1,190,000,000
Term Deposits	Short Term Borrowing	-	136,800,000
Leased Assets	Short Term Borrowing	<u>700,000,000</u>	<u>50,000,000</u>

34. COMMITMENTS AND CONTINGENCIES

34.1 Contingent Liabilities

	2011	2010
	Rs.	Rs.
Guarantees issued to Banks and Other institutions	<u>38,987,284</u>	<u>25,522,221</u>

34.2 Commitments

Forward exchange Contracts	1,091,456,300	519,301,400
Unutilised Loan Facilities	<u>336,669,833</u>	<u>222,405,923</u>

On this commitment company will receive USD 4,350,000 , EUR 1,445,000 , GBP 1,300,000 and AUD 1,460,000 on the conversion.