

**COMMERCIAL CREDIT AND FINANCE PLC**  
**(Formerly known as Commercial Credit PLC)**

**FINANCIAL STATEMENTS**

**31 MARCH 2012**



**Chartered Accountants**

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF COMMERCIAL CREDIT AND FINANCE PLC  
(FORMERLY KNOWN AS COMMERCIAL CREDIT PLC)**

**Report on the Financial Statements**

We have audited the accompanying financial statements of Commercial Credit and Finance PLC ("Company"), which comprise the balance sheet as at 31 March 2012, 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 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 31 March 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2012 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.

27 June 2012  
Colombo

# Commercial Credit and Finance PLC

## BALANCE SHEET

As at 31 March 2012

| ASSETS   | Note | 2012<br>Rs.           | 2011<br>Rs.          |
|--|------|-----------------------|----------------------|
| Cash and Bank Balances                         |      | 140,960,720           | 203,708,480          |
| Treasury Bills                                 | 3    | 83,558,090            | 66,969,364           |
| Reverse Repurchase agreements                  |      | 163,173,162           | 10,000,000           |
| Placements with Other Banks                    | 4    | 365,372,426           | 110,559,966          |
| Loans and Advances                             | 5    | 4,532,025,385         | 1,944,228,721        |
| Lease Rentals Receivable and Stock out on Hire | 6    | 4,115,595,874         | 2,490,821,145        |
| Real Estate and Vehicle Stock                  | 8    | 383,018,079           | 152,841,458          |
| Other Debtors, Deposits and Prepayments        | 9    | 155,789,945           | 67,103,855           |
| Investment Securities                          | 10   | 201,900               | 5,426,900            |
| Dealing Securities                             | 10.1 | 39,698,127            | 24,939,856           |
| Property, Plant and Equipment                  | 11.3 | 290,504,802           | 238,531,843          |
| Leasehold Property                             | 12   | 8,924,822             | 9,047,039            |
| Investment Property                            | 13   | 200,000,000           | 26,000,000           |
| <b>Total Assets</b>                            |      | <b>10,478,823,332</b> | <b>5,350,178,628</b> |
| <b>LIABILITIES</b>                             |      |                       |                      |
| Deposits from Customers                        | 14   | 6,755,713,528         | 3,840,492,289        |
| Borrowings                                     | 15   | 1,517,720,558         | 594,985,722          |
| Other Liabilities                              | 17   | 679,094,587           | 426,937,260          |
| Tax Payable                                    |      | 186,631,023           | 33,133,613           |
| Employment Benefit Liability                   | 18   | 17,843,334            | 13,489,412           |
| Deferred Tax Liability                         | 27.2 | 131,396,509           | 9,003,099            |
| <b>Total Liabilities</b>                       |      | <b>9,288,399,539</b>  | <b>4,918,041,395</b> |
| <b>SHAREHOLDERS' FUNDS</b>                     |      |                       |                      |
| Stated Capital                                 | 19   | 170,640,315           | 170,640,315          |
| Reserves                                       | 20   | 1,019,783,478         | 261,496,919          |
| <b>Total Equity</b>                            |      | <b>1,190,423,793</b>  | <b>432,137,234</b>   |
| <b>Total Equity and Liabilities</b>            |      | <b>10,478,823,332</b> | <b>5,350,178,628</b> |
| <b>Commitments and Contingencies</b>           |      | <b>11,813,579</b>     | <b>11,955,027</b>    |

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

  
 .....  
 Chief Financial Officer



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

  
 .....  
 Chairman

  
 .....  
 Director/Chief Executive Officer

The Accounting Policies and notes on pages 6 through 30 form an integral part of the Financial Statements.

# Commercial Credit and Finance PLC

## INCOME STATEMENT

Year ended 31 March 2012

|   | Note | 2012<br>Rs.               | 2011<br>Rs.              |
|---|------|---------------------------|--------------------------|
| Income  | 21   | <u>2,765,858,538</u>      | <u>1,254,391,240</u>     |
| Interest Income   | 22   | 2,470,103,551             | 1,112,597,093            |
| Interest Expense  | 23   | <u>699,105,563</u>        | <u>410,109,443</u>       |
| Net Interest Income   |      | 1,770,997,988             | 702,487,651              |
| Net Income from Real Estate   |      | 126,557,260               | 71,883,738               |
| Other Operating Income  | 24   | 169,197,727               | 69,910,410               |
| Change in Fair Value of Investment Property                                       | 13   | 110,428,860               | 4,000,000                |
| <b>Less: Operating Expenses</b>   |      |                           |                          |
| Staff Costs   |      | 486,221,138               | 291,573,186              |
| Provision for Staff Retirement Benefits   |      | 7,543,522                 | 4,439,162                |
| General and Administration Expenses   |      | 387,575,858               | 201,310,791              |
| Provision for Fall in Value of Investments, Bad and Doubtful Loans and Write Offs | 25   | 127,968,110               | 69,048,638               |
| <b>Profit from Operations</b>   | 26   | <u>1,167,873,207</u>      | <u>281,910,022</u>       |
| Value Added Tax on Financial Services   |      | 83,327,031                | 37,543,728               |
| <b>Profit Before Taxation</b>   |      | <u>1,084,546,176</u>      | <u>244,366,294</u>       |
| Income Tax Expense  | 27   | 326,259,616               | 184,271,909              |
| <b>Profit for the year</b>  |      | <u><u>758,286,560</u></u> | <u><u>60,094,385</u></u> |
| <b>Earnings Per Share</b>   | 28   | 3.48                      | 0.28                     |

The Accounting Policies and notes on pages 6 through 30 form an integral part of the Financial Statements.

Commercial Credit and Finance PLC  
 STATEMENT OF CHANGES IN EQUITY  
 Year ended 31 March 2012

|  | Stated<br>Capital<br>Rs.  | Revaluation<br>Reserve<br>Rs. | General<br>Reserve<br>Rs. | Reserve<br>Fund<br>Rs.    | Investment<br>Fund Reserve<br>Rs. | Accumulated<br>Profit/ (Loss)<br>Rs. | Total<br>Rs.                |
|--|---------------------------|-------------------------------|---------------------------|---------------------------|-----------------------------------|--------------------------------------|-----------------------------|
| <b>Balance as at 1 April 2010</b>                          | 73,718,375                | 74,603,594                    | 58,751,125                | 50,294,760                | -                                 | (30,443,115)                         | 226,924,739                 |
| Net Profit for the year                                    | -                         | -                             | -                         | -                         | -                                 | 60,094,385                           | 60,094,385                  |
| Share Issue  | 96,921,940                | -                             | -                         | -                         | -                                 | -                                    | 96,921,940                  |
| Surplus on Revaluation of Property, Plant & Equipment      | -                         | 49,892,181                    | -                         | -                         | -                                 | -                                    | 49,892,181                  |
| Transferred to Reserve Fund - 2008/09                      | -                         | -                             | -                         | 1,500,000                 | -                                 | (1,500,000)                          | -                           |
| - 2009/10  | -                         | -                             | -                         | 9,200,000                 | -                                 | (9,200,000)                          | -                           |
| - 2010/11  | -                         | -                             | -                         | 12,018,877                | -                                 | (12,018,877)                         | -                           |
| Tax effect of item transferred from Deferred Tax Liability | -                         | (1,696,011)                   | -                         | -                         | -                                 | -                                    | (1,696,011)                 |
| Transferred to Investment Fund Reserve                     | -                         | -                             | -                         | -                         | 8,318,520                         | (8,318,520)                          | -                           |
| <b>Balance as at 31 March 2011</b>                         | <u>170,640,315</u>        | <u>122,799,764</u>            | <u>58,751,125</u>         | <u>73,013,637</u>         | <u>8,318,520</u>                  | <u>(1,386,127)</u>                   | <u>432,137,234</u>          |
| Net Profit for the year                                    | -                         | -                             | -                         | -                         | -                                 | 758,286,560                          | 758,286,560                 |
| Transferred to Reserve Fund                                | -                         | -                             | -                         | 152,000,000               | -                                 | (152,000,000)                        | -                           |
| Transferred to Investment Fund Reserve                     | -                         | -                             | -                         | -                         | 55,551,354                        | (55,551,354)                         | -                           |
| <b>Balance as at 31 March 2012</b>                         | <u><u>170,640,315</u></u> | <u><u>122,799,764</u></u>     | <u><u>58,751,125</u></u>  | <u><u>225,013,637</u></u> | <u><u>63,869,874</u></u>          | <u><u>549,349,078</u></u>            | <u><u>1,190,423,793</u></u> |

The Accounting Policies and notes on pages 6 through 30 form an integral part of the Financial Statements.

# Commercial Credit and Finance PLC

## CASH FLOW STATEMENT

Year ended 31 March 2012

|  | Note | 2012<br>Rs.          | 2011<br>Rs.          |
|--|------|----------------------|----------------------|
| <b>Cash Flows From / (Used in) Operating Activities</b>          |      |                      |                      |
| <b>Profit before Tax</b>   |      | 1,084,546,176        | 244,366,295          |
| Adjustments for  |      |                      |                      |
| Depreciation   | 11.2 | 27,116,918           | 12,154,671           |
| Amortization of Lease Hold Property                              | 12   | 122,217              | 160,605              |
| Provision for Doubtful Debts                                     | 25   | 114,105,406          | 66,004,331           |
| Increase in Fair Value of Investment Property                    | 13   | (110,428,860)        | (4,000,000)          |
| Provision for fall in Market Value of Quoted Shares              | 10.1 | 15,549,602           | 1,686,898            |
| Provision for fall in Market Value of Real Estate Stocks         |      | -                    | 5,357,409            |
| Profit from Sale of Property, Plant and Equipment                | 24   | (6,898,076)          | (3,946,176)          |
| Profit from Sale of Dealing Securities                           |      | (2,009,056)          | -                    |
| Provision for Employment Benefit Plans                           | 18.1 | 7,543,522            | 4,439,163            |
| Notional Tax Credit on Interest on Treasury Bills                |      | (1,415,981)          | (1,219,810)          |
| Profit from operation before Working Capital Changes             |      | <u>1,128,231,868</u> | <u>325,003,386</u>   |
| Increase in Real Estate and vehicle Stock                        |      | (230,176,621)        | (113,421,434)        |
| Increase in Lease Rentals Receivable and Stock out on hire       |      | (1,721,440,451)      | (1,241,343,317)      |
| (Increase) / Decrease in Government of Sri Lanka Treasury Bills  |      | (16,588,726)         | 19,276,035           |
| Increase in Loans and Advances                                   |      | (2,605,236,348)      | (1,569,393,126)      |
| Increase in Other Debtors, Deposits, Prepayments                 |      | (87,270,109)         | (30,536,345)         |
| Increase in Placements with Banks                                |      | (254,812,460)        | (100,853,446)        |
| Increase in Deposits from Non Bank Customers                     |      | 2,915,221,239        | 2,107,534,096        |
| Increase in Other Liabilities                                    |      | <u>252,157,327</u>   | <u>205,090,395</u>   |
| Cash Generated from Operations                                   |      | (619,914,281)        | (398,643,757)        |
| Retirement Benefit Liabilities Paid                              | 18   | <u>(3,189,600)</u>   | <u>(839,400)</u>     |
| Net Cash Used in Operating Activities before Income Tax Payments |      | (623,103,881)        | (399,483,157)        |
| Taxes Paid   |      | <u>(50,368,796)</u>  | <u>(13,252,725)</u>  |
| Net Cash used in Operating Activities                            |      | <u>(673,472,677)</u> | <u>(412,735,882)</u> |
| <b>Cash Flows from / (Used in) Investing Activities</b>          |      |                      |                      |
| Acquisition of Property, Plant and Equipment                     | 11.4 | (83,266,727)         | (35,455,993)         |
| Acquisition of Investment Property                               |      | (63,571,140)         | -                    |
| Acquisition of Investments                                       |      | (39,660,094)         | (31,796,670)         |
| Proceeds from Sales of Investment securities                     |      | 16,586,290           | -                    |
| Proceeds from Sales of Property, Plant and Equipment             |      | 11,074,913           | 6,865,753            |
| Net Cash Flows Used in Investing Activities                      |      | <u>(158,836,758)</u> | <u>(60,386,910)</u>  |
| <b>Cash Flows from / (Used in) Financing Activities</b>          |      |                      |                      |
| Proceeds from Loans Obtained                                     |      | 720,500,000          | 395,000,000          |
| Repayments of Bank Loans   |      | (128,224,243)        | (78,392,667)         |
| Payment under Finance Lease Liabilities                          |      | (5,290,687)          | (6,842,371)          |
| Proceeds from Issue of Share                                     |      | -                    | 96,921,940           |
| Net Cash Flows Used in Financing Activities                      |      | <u>586,985,070</u>   | <u>406,686,902</u>   |
| <b>Net Decrease in Cash and Cash Equivalents</b>                 |      | (245,324,364)        | (66,435,890)         |
| <b>Cash and Cash Equivalents at the beginning of the year</b>    |      | 7,274,244            | 73,710,135           |
| <b>Cash and Cash Equivalents at the end of the year</b>          | 16   | <u>(238,050,120)</u> | <u>7,274,245</u>     |

The Accounting Policies and notes on pages 6 through 30 form an integral part of the Financial Statements.

## **1. CORPORATE INFORMATION**

### **1.1 General**

Commercial Credit and Finance PLC is a public limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No 106, Yatinuwara Veediya, Kandy and the principal place of business is situated at the same place.

The Company changed its name from Commercial Credit PLC to Commercial Credit and Finance PLC with effect from 17 May 2012.

### **1.2 Principal Activities and Nature of Operations**

During the year, the principal activities of the Company were Acceptance of Deposits, Granting Lease facilities, Hire Purchase, Personnel Loans, Micro Loans, Pawning and other credit facilities, Real Estate Development and related services.

### **1.3 Parent Enterprise and Ultimate Parent Enterprise**

The Company's parent entity is BG Investment (Private) Limited. In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is BG Capital (Private) Limited, which is incorporated in Sri Lanka.

### **1.4 Date of Authorization for Issue**

The Financial Statements of Commercial Credit and Finance PLC for the year ended 31 March 2012 was authorized for issue in accordance with a resolution of the board of directors on 27 June 2012.

## 2.1. BASIS OF PREPARATION

These financial statements presented in Sri Lankan Rupees have been prepared on a historical cost basis and prepared in Sri Lanka Rupees except when otherwise stated.

### 2.1.1 Statement of compliance

The Financial Statements of Commercial Credit and Finance PLC have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the Companies Act No.7 of 2007 and Finance Business Act No.42 of 2011.

### 2.1.2 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.

### 2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year.

## 2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the process of applying the Company's Accounting Policies, management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognized in the Financial Statements. Further, the management is required to consider, key assumptions concerning the future and other key sources of estimation of uncertainty at the Balance Sheet date that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements. The key items which involve these judgments, estimates and assumptions are discussed below:

### **Impairment Losses on Leases Stock out on Hire and Loans and Advances**

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on Leases Stock out on Hire and 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 and actual results may differ, resulting in future changes to the allowances.

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

The Company reviews the assets' 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, and hence they are subject to uncertainty.

### **Defined Benefit Plans**

The Defined Benefit Obligation and the related charge for the year is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increase, mortality rates etc. Due to the long term nature of such obligation these estimates are subject to significant uncertainty. Further details are given in Note 18 to these financial statements.

### **Real Estate Stocks**

Real Estate Stocks have been accounted at cost as disclosed under accounting policy 2.3.6 the Directors have evaluated the recoverability considering the current market prices of respective stocks.



## **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.3.1 Taxation**

#### **a) Current Taxes**

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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.

#### **b) Deferred Taxation**

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

### **2.3.2 Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **2.3.3 Loans and Advances**

Loans and advances to customers are stated net of provision for bad and doubtful loans and interest not accrued to revenue.

**2.3.4 Lease Rentals Receivable & Stock Out on Hire**

Assets leased to customers under agreements, which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease rentals receivable represents the total minimum lease payments due net of unearned income and allowance for doubtful recoveries.

Assets sold to customers under fixed rate hire agreements, which transfer all the risks and rewards as well as the legal title at the end of such contractual period are classified as stock out on hire. Such assets are accounted for in a similar manner as finance leases.

**2.3.5 Provisions for Bad and Doubtful Debts**

Amounts are set aside with regard to possible losses on loans, advances hire purchase, finance leases and operating leases in line with Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006 issued by the Central Bank of Sri Lanka.

**2.3.6 Real Estate and Vehicle Stock**

Real estate stock comprises all costs of purchase, cost of conversion and other costs incurred in bringing the real estate to its saleable condition.

|                    |   |                               |
|--------------------|---|-------------------------------|
| Purchase Cost      | - | Land cost with legal charges. |
| Cost of conversion | - | Actual Development costs      |

Vehicle Stock is stated at cost

**2.3.7 Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

**2.3.8 Property, Plant and Equipment**

Plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

During the period the Company changed its method of calculating depreciation from reducing balance basis to straight line basis over a revised useful life of the assets with effect from 01 April 2011. This change in estimate was made in order to reflect fairly the pattern in which the assets' economic benefits are consumed by the Company. The effect of this change is more fully described in Note 11.6 to the financial statements.

|                           |             |
|---------------------------|-------------|
| Furniture and Fittings    | 15% p.a.    |
| Equipment                 | 20% p.a.    |
| Motor Vehicles            | 25% p.a.    |
| Computer Hardware         | 20% p.a.    |
| Air Conditioning          | 20% p.a.    |
| Telephone System          | 20% p.a.    |
| Fire Protection Equipment | 20% p.a.    |
| Fixtures & Fittings       | 33.33% p.a. |

**2.3.9 Leasehold Property**

Leasehold property is situated at recorded carrying value. Such carrying amounts are amortized over the remaining lease term or useful life of the leasehold property whichever is shorter. No further revaluation of these leasehold properties is carried out.

**2.3.10 Investment Property**

Investment properties are measured initially at cost, including transaction costs. The carrying amounts includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and exclude the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

**2.3.11 Leases**

**a) Finance Leases – where the Company is the Lessee**

Property, plant and equipment on finance leases, which effectively transfer, to the Company substantially all of the risk and benefits incidental to ownership of the leased item are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in 2.3.8.

The cost of improvements to or on leasehold property is capitalized, disclosed as leasehold improvements, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

**2.3.12 Investments**

**a) Investments in Government Securities**

Current investments include Government of Sri Lanka Treasury Bills which are stated at cost plus a portion of discount or premium.

**b) Investments in Dealing Securities**

Investments in dealing securities are carried at the lower of cost and market value, determined on the basis of aggregate portfolio.

Unrealized losses arising from reduction to market value and reversals of such reduction required to state current investments at lower of cost and market value are included in income statement.

**c) Investment Securities**

Investment securities are stated at cost.

The carrying amount of investment securities is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

**Disposal of Investment**

On disposal of an investment, the difference between the proceeds and the carrying amounts is recognised as income or expense.

### 2.3.13 Employment Benefit Obligations

#### a) Defined Benefit Plan – Gratuity

The Company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit credit Method (PUC) as required by Sri Lanka Accounting Standards No.16, Employee Benefit (Revised 2006). The item stated under Retirement Benefit Liability in the Balance Sheet.

#### Recognition of Actuarial Gains and Losses

Actuarial gains & losses are recognized as income or expenses when the net cumulative unrecognized actuarial gains & losses at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at the date.

The gains/losses are recognized over the expected average remaining working lives of the employees participating in the plan.

#### Funding Arrangement

The Gratuity liability is not externally funded.

#### b) Defined Contribution Plans – Employees’ Provident Fund & Employees’ Trust Fund

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with respective Statutes and Regulations. The Company contributes 15% and 3% of salaries and other entitled allowances of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

### 2.3.14 Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

### 2.3.15 Revenue Recognition

Revenue is recognised 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 leasing activities and hire purchase agreements

Income from Finance leases is recognised on the basis of the financing method. The excess of aggregate rental receivable over the cost of the leased assets constitute the total unearned income at the commencement of the contract. The earned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed, in proportion to the declining receivable balance of the lease.

Income from operating leases is recognised on a straight line basis over the term of the lease.

Income arising from the residual interest in hire purchase agreements is credited to the profit and loss account as it accrues in proportion to the declining receivable balance of the agreement.

However, accrual of income both from leases and hire purchase agreements ceases when the account is overdue for more than six months in compliance with Direction No. 15 of 1991 (Accrued Interest) and thereafter recognised on a cash basis.

**b) Interest Income from Loans and Advances**

Interest income from loans and advances is recognised on an accrual basis. However, income from loans and advances ceases when the account is overdue for more than six months in compliance with Direction No. 15 of 1991 (Accrued Interest) and thereafter recognised on a cash basis.

**c) Interest income from other sources**

Interest income from Government of Sri Lanka Treasury Bills is recognised on a time proportion basis, and discounts on purchase are amortised to income on a straight line basis over periods to maturity.

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

**d) Dividend Income**

Dividend income is recognised on a cash received basis.

**e) Overdue Interests**

Overdue interest income from leasing and other loans have been accounted for on a cash received basis.

**f) Real Estate Sales**

Revenue is recognised when properties are sold and the buyer has taken possession of such properties. However, when there is insufficient assurance as to the receipt of the total consideration, income is accounted for on a cash received basis.

**g) Others**

Other income is recognised on an accrual basis

Net Gains and losses of a revenue nature on the disposal of property, plant and equipment and other non current 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.

**2.3.16 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.

### 2.3.17 Segmental Reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns different from those of other business segments. For the purpose of segment reporting disclosures, the information is presented in respect of the Company's business segment which is based on the Company's management and internal reporting structure. The Company comprises the following major Business segments; lending, leasing, real estates, investments and others.

Inter-segment pricing is determined on an arms length basis.

Measurement of segment assets, liabilities, segment revenue and results is based on the accounting policies set out above. Segment revenue results, assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis.

### 2.4 Sri Lanka Accounting Standards effective from 01 January 2012

The Company will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 01 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Company has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Company has a 31 December year end, priority has been given to considering the preparation of an opening balance sheet in accordance with the new SLASs as at 01 January 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Company prepares its first new SLAS compliant financial statements for the year ending 31 December 2012. Set out below are the key areas where accounting policies will change and may have an impact on the financial statements of the Company. The Company is in the process of quantifying the impact on the financial statements arising from such changes in accounting policies.

- (a) *SLFRS 1 – First Time Adoption of Sri Lanka Accounting Standards* requires the Company to prepare and present opening new SLFRS financial statements at the date of transition to new SLAS. The Company shall use the same accounting policies in its opening new SLAS financial statements and throughout all comparable periods presented in its first new SLAS financial statements.
- (b) *LKAS 1 – Presentation of Financial Statements* requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. This standard also requires the Company to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
- (c) *LKAS 16 – Property Plant and Equipment* requires a Company to initially measure an item of property plant and equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period, unless such interest is capitalized in accordance with LKAS 23 Borrowing Costs. All site restoration costs including other environmental restoration and similar costs must be estimated and capitalized at initial recognition, in order that such costs can be depreciated over the useful life of the asset. This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.
- (d) *LKAS 32 – Financial Instruments: Presentation, LKAS 39 – Financial Instruments: Recognition and Measurement and SLFRS 7 – Disclosures* will result in changes to the current method of recognizing financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with

the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortized cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') coupled with a reliable estimate of the loss event (or events) impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortized cost. At present, the Company does not identify, categorize and measure financial assets and liabilities as per the requirements of the standard and also does not recognize certain derivative instruments on the balance sheet

- (e) *SLFRS 3 – Business combinations* will require the Company to apply this standard to transactions and other events that meet the new definition of a business i.e. an integrated set of assets(inputs) and activities(processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition. Under the new acquisition method of accounting, in addition to recognizing and measuring in its financial statements the identifiable assets acquired and liabilities assumed the standard also requires recognition and measurement of any non-controlling interest in the acquire and re-measuring to fair value any previously held interests which could have an impact on the recognition of goodwill. Subsequent to the acquisition of control any acquisitions or disposals of non-controlling interest without loss of control will be accounted for as equity transactions and cannot be recognized as profit/loss on disposal of investments in the statement of financial performance.
- (f) *LKAS 23 – Borrowing Cost*, the Company must capitalize borrowing costs in relation to a qualifying asset. [if applicable] Since the current policy is to expense all borrowing costs, this will result in a change in accounting policy.
- (g) *LKAS 12 – Income Tax* requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.
- (h) *LKAS 18 – Revenue* requires the Company to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Company needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to Sri Lanka Accounting Standard 10, whereby the provision contained in paragraphs 30 and 31 of SLAS 10 – Accounting Policies, Changes in Accounting Estimates and Errors would not be applicable for financial statements prepared in respect of financial periods commencing before 1 January 2012 and hence the impact of this transition is not required to be disclosed in these financial statements.

| <b>3. INVESTMENT IN GOVERNMENT SECURITIES</b>       | <b>2012</b>          | <b>2011</b>          |
|---|----------------------|----------------------|
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Government of Sri Lanka Treasury Bills - Face Value | 87,453,380           | 68,224,951           |
| Less : Income allocated for future periods          | <u>(3,895,290)</u>   | <u>(1,255,587)</u>   |
|   | <u>83,558,090</u>    | <u>66,969,364</u>    |
| <br>  |                      |                      |
| <b>4. PLACEMENTS WITH OTHER BANKS</b>               | <b>2012</b>          | <b>2011</b>          |
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Fixed Deposits                                      | <u>365,372,426</u>   | <u>110,559,966</u>   |
|   | <u>365,372,426</u>   | <u>110,559,966</u>   |
| <br>  |                      |                      |
| <b>5. LOANS AND ADVANCES</b>                        | <b>2012</b>          | <b>2011</b>          |
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Real Estate Loans                                   | 269,817,061          | 185,746,683          |
| Short Term Loans                                    | 175,735,115          | 62,803,628           |
| Long Term Loans                                     | 11,172,880           | 19,098,477           |
| Personal Loans                                      | 1,678,826            | 21,874,471           |
| Cash Loans  | 1,020,684,754        | 578,665,954          |
| Consumer Credit Loans                               | 22,478,129           | 17,416,943           |
| Micro Finance Loans                                 | 2,768,280,850        | 1,072,356,936        |
| Staff Loans   | 1,195,759            | 10,727,374           |
| Rescheduled Loans                                   | 109,799,295          | 5,241,553            |
| Education Loans                                     | 16,434,135           | -                    |
| Business Loans                                      | 30,806,235           | -                    |
| Pawning Advances                                    | <u>142,842,228</u>   | <u>178,949</u>       |
|   | <u>4,570,925,267</u> | <u>1,974,110,967</u> |
| Less : Provision for credit losses                  | <u>(21,568,947)</u>  | <u>(20,616,227)</u>  |
|   | <u>4,549,356,320</u> | <u>1,953,494,740</u> |
| Income in suspense                                  | <u>(17,330,935)</u>  | <u>(9,266,019)</u>   |
|   | <u>4,532,025,385</u> | <u>1,944,228,721</u> |



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| <b>6. RENTALS RECEIVABLE ON LEASE AND HIRE-PURCHASE</b>             | <b>2012</b>          | <b>2011</b>          |
|---|----------------------|----------------------|
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Lease (Note 6.a)  | 1,968,508,041        | 870,976,802          |
| Hire-Purchases (Note 6.b)   | 2,147,087,833        | 1,619,844,343        |
|   | <u>4,115,595,874</u> | <u>2,490,821,145</u> |
| <br>  |                      |                      |
| <b>6.a Lease</b>  |                      |                      |
| Gross rentals receivable  | 3,039,856,713        | 1,365,248,147        |
| Less: Unearned income   | (970,835,214)        | (370,383,573)        |
| Pre-paid rentals  | (32,165,260)         | (28,459,280)         |
| Income in suspense  | (8,110,651)          | (4,067,764)          |
| Provision for credit losses   | (60,237,547)         | (91,360,728)         |
|   | <u>1,968,508,041</u> | <u>870,976,802</u>   |
| <br>  |                      |                      |
| <b>6.b Hire-Purchases</b>   |                      |                      |
| Gross rentals receivable  | 3,102,088,634        | 2,452,562,542        |
| Less: Unearned income   | (908,988,575)        | (809,734,888)        |
| Pre-paid rentals  | (1,943,058)          | (1,121,085)          |
| Income in suspense  | (5,374,076)          | (1,148,819)          |
| Provision for credit losses   | (38,695,092)         | (20,713,408)         |
|   | <u>2,147,087,833</u> | <u>1,619,844,343</u> |
| <br>  |                      |                      |
| <b>6.1 Receivable not later than one year</b>                       |                      |                      |
| Gross rentals receivable  | 2,203,083,254        | 1,549,883,249        |
| Less: Unearned income   | (674,588,896)        | (621,885,004)        |
| Pre-paid rentals  | (11,240,026)         | (7,223,390)          |
| Income in suspense  | (4,839,096)          | (5,216,583)          |
| Provision for credit losses   | (35,502,721)         | (54,383,849)         |
|   | <u>1,476,912,515</u> | <u>861,174,423</u>   |
| <br>  |                      |                      |
| <b>Receivable later than one year and not later than five years</b> |                      |                      |
| Gross rentals receivable  | 3,938,862,093        | 2,267,927,431        |
| Less: Unearned income   | (1,205,234,893)      | (558,233,629)        |
| Pre-paid rentals  | (22,868,292)         | (22,356,975)         |
| Income in suspense  | (8,645,631)          | -                    |
| Provision for credit losses   | (63,429,918)         | (57,690,104)         |
|   | <u>2,638,683,359</u> | <u>1,629,646,723</u> |

**7. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE**

| 7.1 Non-Performing Advances     | Lease and Hire Purchase<br>(Rs.) |                   | Loans and Advances<br>(Rs.) |                   | Total<br>(Rs.)     |                    |
|---------------------------------|----------------------------------|-------------------|-----------------------------|-------------------|--------------------|--------------------|
|                                 | 2012                             | 2011              | 2012                        | 2011              | 2012               | 2011               |
| Amount Receivable               | 212,699,376                      | 194,425,146       | 93,190,422                  | 67,151,844        | 305,889,798        | 261,576,990        |
| Less: Finance Charges Suspended | (13,484,727)                     | (5,216,583)       | (17,330,935)                | (9,266,019)       | (30,815,662)       | (14,482,601)       |
| Provision for Bad Debts         | (98,932,639)                     | (112,074,136)     | (21,568,947)                | (20,616,227)      | (120,501,586)      | (132,690,362)      |
| Net non-performing advances     | <u>100,282,010</u>               | <u>77,134,428</u> | <u>54,290,540</u>           | <u>37,269,598</u> | <u>154,572,550</u> | <u>114,404,027</u> |

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

|                                   | 2012<br>Rs.           | 2011<br>Rs.          |
|-----------------------------------|-----------------------|----------------------|
| Agriculture                       | 663,459,445           | 462,498,095          |
| Services                          | 1,152,147,636         | 668,814,278          |
| Trading                           | 68,935,750            | 83,566,042           |
| Transport                         | 5,534,179,238         | 3,196,109,571        |
| Others                            | 3,294,148,545         | 1,380,933,670        |
| Distribution of Total Advances    | <u>10,712,870,614</u> | <u>5,791,921,656</u> |
| Lease & Hire Purchase Receivables | 6,141,945,347         | 3,817,810,689        |
| Loans & Advances                  | 4,570,925,267         | 1,974,110,967        |
| Total Advances                    | <u>10,712,870,614</u> | <u>5,791,921,656</u> |

**7.3 PROVISION FOR LOSSES****7.3.1 Movement in provision for Bad and Doubtful Debts**

|                                      | 2012<br>Rs.        | 2011<br>Rs.        |
|--------------------------------------|--------------------|--------------------|
| Balance at the beginning of the year | 132,690,363        | 76,110,134         |
| Charge during the year               | 114,105,406        | 66,004,331         |
| Written Off during the year          | (126,294,183)      | (9,424,102)        |
|                                      | <u>120,501,586</u> | <u>132,690,363</u> |

**7.3.2 Provision for Bad and Doubtful Debts consist of provisioning against ;**

|                          | 2012<br>Rs.        | 2011<br>Rs.        |
|--------------------------|--------------------|--------------------|
| Leases and Hire Purchase | 98,932,639         | 112,074,136        |
| Loans and Advances       | 21,568,947         | 20,616,227         |
|                          | <u>120,501,586</u> | <u>132,690,362</u> |

**8. REAL ESTATE STOCKS AND VEHICLE STOCK**

|  | 2012<br>Rs.        | 2011<br>Rs.        |
|--|--------------------|--------------------|
| Real Estate Stocks                       | 407,558,481        | 177,127,507        |
| Less: Fall in Value of Real Estate Stock | (41,391,832)       | (41,391,832)       |
|  | <u>366,166,649</u> | <u>135,735,675</u> |
| Vehicle Stock                            | 16,851,430         | 17,105,784         |
|  | <u>383,018,079</u> | <u>152,841,459</u> |

**9. OTHER DEBTORS, DEPOSITS & PREPAYMENTS**

|                          | 2012<br>Rs.        | 2011<br>Rs.       |
|--------------------------|--------------------|-------------------|
| Sundry Debtors           | 67,060,763         | 15,265,209        |
| Deposits and Prepayments | 88,729,182         | 51,838,646        |
|                          | <u>155,789,945</u> | <u>67,103,855</u> |

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| 10. INVESTMENT SECURITIES | 2012<br>Rs.    | 2011<br>Rs.      |
|---------------------------|----------------|------------------|
| Unquoted Shares 9 (a)     | 201,900        | 5,426,900        |
|                           | <u>201,900</u> | <u>5,426,900</u> |

**10 (a) INVESTMENTS IN UNQUOTED SHARES**

|  | Number of<br>Shares<br>2012 | Cost<br>as at<br>2012<br>Rs. | Directors<br>Valuation as at<br>2012<br>Rs. | Number of<br>Shares<br>2011 | Cost<br>as at<br>2011<br>Rs. | Directors<br>Valuation as at<br>2011<br>Rs. |
|--|-----------------------------|------------------------------|---|-----------------------------|------------------------------|---|
| Credit Information Bureau                | 19                          | 1,900                        | 1,900                                       | 19                          | 1,900                        | 1,900                                       |
| Valible One Limited                      | -                           | -                            | -   | 209,000                     | 5,225,000                    | 5,225,000                                   |
| Finance House Consortium (Pvt) Ltd       | 20,000                      | 200,000                      | 200,000                                     | 20,000                      | 200,000                      | 200,000                                     |
| Less: Fall in Value of Investment        |                             | -                            | -   |                             | -                            | -   |
| <b>Net Investment in Unquoted shares</b> | <u>20,019</u>               | <u>201,900</u>               | <u>201,900</u>                              | <u>229,019</u>              | <u>5,426,900</u>             | <u>5,426,900</u>                            |

**10.1 DEALING SECURITIES**

|  | Number of<br>Shares<br>2012 | Cost<br>as at<br>2012<br>Rs. | Market Value<br>as at<br>2012<br>Rs. | Number of<br>Shares<br>2011 | Cost<br>as at<br>2011<br>Rs. | Market Value<br>as at<br>2011<br>Rs. |
|--|-----------------------------|------------------------------|--------------------------------------|-----------------------------|------------------------------|--------------------------------------|
| <b>Bank Finance and Insurance</b>          |                             |                              |                                      |                             |                              |                                      |
| Commercial Bank Of Ceylon PLC- Voting      | 30,192                      | 4,155,830                    | 3,019,200                            | 15,000                      | 4,155,830                    | 3,987,000                            |
| DFCC Bank                                  | 7,400                       | 1,044,266                    | 833,240                              | -                           | -                            | -                                    |
| Environmental Resources Investments PLC-Nc | 100                         | 2,400                        | 1,680                                | -                           | -                            | -                                    |
| Hatton National Bank PLC-Non Voting        | 20,321                      | 4,640,902                    | 3,109,114                            | 214                         | 6,786                        | 45,646                               |
| Hatton National Bank PLC-Voting            | 11,155                      | 1,278,157                    | 1,054,148                            | 770                         | 25,145                       | 292,600                              |
| Janashakthi Insurance PLC                  | 73,400                      | 1,258,277                    | 851,440                              | -                           | -                            | -                                    |
| National Development Bank PLC              | 19,600                      | 2,984,456                    | 2,406,880                            | -                           | -                            | -                                    |
| Nations Trust Bank PLC                     | 11,900                      | 761,585                      | 677,110                              | -                           | -                            | -                                    |
| People's Merchant PLC                      | 20,100                      | 498,016                      | 259,290                              | 100                         | 625                          | 2,500                                |
| Sampath Bank PLC                           | 10,932                      | 3,189,168                    | 1,965,574                            | 10,341                      | 2,996,460                    | 3,080,774                            |
| Seylan Developments PLC                    | 10,000                      | 192,128                      | 79,000                               | -                           | -                            | -                                    |
| Touchwood Investment PLC                   | 1,200                       | 28,516                       | 18,600                               | -                           | -                            | -                                    |
| Vallibel One PLC                           | 216,100                     | 5,402,500                    | 4,105,900                            | -                           | -                            | -                                    |
| LB Finance PLC                             | 10,000                      | 1,406,680                    | 1,349,000                            | -                           | -                            | -                                    |
| The Finance Company PLC - Voting           | 648                         | 9,000                        | 19,505                               | 648                         | 9,000                        | 23,976                               |
| People's Leasing Company PLC               | 13,100                      | 160,983                      | 151,960                              | -                           | -                            | -                                    |
| Seylan Bank PLC                            | 10,000                      | 324,595                      | 290,000                              | -                           | -                            | -                                    |
| Vanik Incorporation PLC                    | -                           | -                            | -                                    | 218                         | 108                          | -                                    |
| First Capital Holding PLC                  | -                           | -                            | -                                    | 20,000                      | 445,726                      | 442,000                              |
|  | <u>466,148</u>              | <u>27,337,459</u>            | <u>20,191,640</u>                    | <u>47,291</u>               | <u>7,639,680</u>             | <u>7,874,496</u>                     |
| <b>Diversified Holdings</b>                |                             |                              |                                      |                             |                              |                                      |
| Hayleys PLC                                | 10,000                      | 3,690,880                    | 3,600,000                            | 10,000                      | 3,690,880                    | 3,821,000                            |
| Hemas Holdings PLC                         | 10,000                      | 415,603                      | 263,000                              | -                           | -                            | -                                    |
| Richard Pieris And Company PLC             | 40,000                      | 485,376                      | 300,000                              | -                           | -                            | -                                    |
| Brown & Company PLC                        | 1,000                       | 322,431                      | 155,100                              | -                           | -                            | -                                    |
|  | <u>61,000</u>               | <u>4,914,290</u>             | <u>4,318,100</u>                     | <u>10,000</u>               | <u>3,690,880</u>             | <u>3,821,000</u>                     |
| <b>Investment and Trust</b>                |                             |                              |                                      |                             |                              |                                      |
| Shaw Wallace & Hedges PLC                  | 3,200                       | 843,846                      | 656,000                              | -                           | -                            | -                                    |
|  | <u>3,200</u>                | <u>843,846</u>               | <u>656,000</u>                       | <u>-</u>                    | <u>-</u>                     | <u>-</u>                             |

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| 10.1 DEALING SECURITIES (Contd.)                  | Number of<br>Shares<br>2012 | Cost<br>as at<br>2012<br>Rs. | Market Value<br>as at<br>2012<br>Rs. | Number of<br>Shares<br>2011 | Cost<br>as at<br>2011<br>Rs. | Market Value<br>as at<br>2011<br>Rs. |
|---|-----------------------------|------------------------------|--------------------------------------|-----------------------------|------------------------------|--------------------------------------|
| <b>Construction and Engineering</b>               |                             |                              |                                      |                             |                              |                                      |
| Colombo Dockyard PLC                              | 1,300                       | 326,668                      | 299,000                              | 1,300                       | 2,578,560                    | 1,950,000                            |
| Diesel & Motor Engineering PLC                    | 3,460                       | 6,016,640                    | 3,398,412                            | 3,060                       | 5,612,160                    | 4,454,220                            |
| Mtd Walkers PLC                                   | 34,400                      | 2,690,803                    | 791,200                              | 30,000                      | 1,600,000                    | 1,632,640                            |
|   | <u>39,160</u>               | <u>9,034,111</u>             | <u>4,488,612</u>                     | <u>34,360</u>               | <u>9,790,720</u>             | <u>8,036,860</u>                     |
| <b>Plantations</b>                                |                             |                              |                                      |                             |                              |                                      |
| Kegalle Plantations PLC                           | 5,000                       | 1,077,737                    | 515,000                              | -                           | -                            | -                                    |
|   | <u>5,000</u>                | <u>1,077,737</u>             | <u>515,000</u>                       | <u>-</u>                    | <u>-</u>                     | <u>-</u>                             |
| <b>Beverage Food and Tobacco</b>                  |                             |                              |                                      |                             |                              |                                      |
| Lanka Milk Foods (CWE) PLC                        | 10,000                      | 1,210,679                    | 978,000                              | -                           | -                            | -                                    |
| The Lion Brewery Ceylon PLC                       | 2,700                       | 524,206                      | 538,650                              | 2,700                       | 524,206                      | 540,000                              |
| Distilleries Company of Sri Lanka PLC             | 10,000                      | 1,719,040                    | 1,450,000                            | 10,000                      | 1,719,040                    | 1,800,000                            |
| Ceylon Cold Stores PLC                            | 100                         | 9,505                        | 9,000                                | -                           | -                            | -                                    |
|   | <u>22,800</u>               | <u>3,463,430</u>             | <u>2,975,650</u>                     | <u>12,700</u>               | <u>2,243,246</u>             | <u>2,340,000</u>                     |
| <b>Hotels and Travels</b>                         |                             |                              |                                      |                             |                              |                                      |
| Serendib Hotels PLC-Non Voting                    | 50,000                      | 682,560                      | 785,000                              | -                           | -                            | -                                    |
| John Keells Hotels PLC                            | 50,000                      | 970,752                      | 630,000                              | 50,000                      | 970,758                      | 860,000                              |
| Marawila Resorts PLC                              | 10,000                      | 142,579                      | 70,000                               | -                           | -                            | -                                    |
| Hotel Services (Ceylon) PLC                       | 5,000                       | 93,536                       | 87,000                               | -                           | -                            | -                                    |
| Kalpitiya Beach Resort PLC                        | 40,700                      | 467,255                      | 366,300                              | -                           | -                            | -                                    |
| Waskaduwa Beach Resort PLC                        | 3,000                       | 30,943                       | 28,500                               | -                           | -                            | -                                    |
| Dolphin Hotels PLC                                | 12,100                      | 382,436                      | 363,000                              | -                           | -                            | -                                    |
| Hotel Sigiriya PLC                                | 10,000                      | 712,812                      | 716,000                              | -                           | -                            | -                                    |
| Renuka City Hotel PLC                             | 1,000                       | 201,229                      | 218,900                              | -                           | -                            | -                                    |
| Sigiriya Villiage Hotels PLC                      | 4,000                       | 303,006                      | 296,000                              | -                           | -                            | -                                    |
|   | <u>185,800</u>              | <u>3,987,108</u>             | <u>3,560,700</u>                     | <u>50,000</u>               | <u>970,758</u>               | <u>860,000</u>                       |
| <b>Chemicals and Phamaceuticals</b>               |                             |                              |                                      |                             |                              |                                      |
| Lankem Ceylon PLC                                 | -                           | -                            | -                                    | 5,000                       | 2,291,470                    | 2,007,500                            |
|   | <u>-</u>                    | <u>-</u>                     | <u>-</u>                             | <u>5,000</u>                | <u>2,291,470</u>             | <u>2,007,500</u>                     |
| <b>Land and Property</b>                          |                             |                              |                                      |                             |                              |                                      |
| Overseas Realty (Ceylon) PLC                      | 89,600                      | 1,352,986                    | 1,200,640                            | -                           | -                            | -                                    |
| Kelsey Homes PLC                                  | 800                         | 11,811                       | 11,360                               | -                           | -                            | -                                    |
|   | <u>90,400</u>               | <u>1,364,797</u>             | <u>1,212,000</u>                     | <u>-</u>                    | <u>-</u>                     | <u>-</u>                             |
| <b>Manufacturing</b>                              |                             |                              |                                      |                             |                              |                                      |
| Royal Ceramics Lanka PLC                          | 5,000                       | 798,848                      | 575,000                              | -                           | -                            | -                                    |
| Textured Jersey Lanka PLC                         | 130,100                     | 1,951,500                    | 936,720                              | -                           | -                            | -                                    |
| Piramal Glass Ceylon PLC                          | 10,000                      | 60,672                       | 61,000                               | -                           | -                            | -                                    |
| Haleys MGT Knitting Mills PLC                     | 500                         | 6,421                        | 5,950                                | -                           | -                            | -                                    |
|   | <u>145,600</u>              | <u>2,817,441</u>             | <u>1,578,670</u>                     | <u>-</u>                    | <u>-</u>                     | <u>-</u>                             |
| <b>Power and Energy</b>                           |                             |                              |                                      |                             |                              |                                      |
| Panasian Power PLC                                | 77,600                      | 407,514                      | 201,760                              | -                           | -                            | -                                    |
|   | <u>77,600</u>               | <u>407,514</u>               | <u>201,760</u>                       | <u>-</u>                    | <u>-</u>                     | <u>-</u>                             |
| <b>Net Investment Securities in quoted shares</b> |                             | <u>55,247,733</u>            | <u>39,698,132</u>                    | <u>159,351</u>              | <u>26,626,754</u>            | <u>24,939,856</u>                    |
| Less : Fall in value of investment                |                             | (15,549,602)                 |                                      |                             | (1,686,898)                  |                                      |
| <b>Net Investment in Quoted shares</b>            |                             | <u>39,698,129</u>            |                                      |                             | <u>24,939,856</u>            |                                      |

**11. PROPERTY, PLANT AND EQUIPMENT****11.1 Gross Carrying Amounts**

| <b>Cost</b>                              | <b>Balance<br/>as at<br/>01.04.2011<br/>Rs.</b> | <b>Additions/<br/>Transfers<br/>Rs.</b> | <b>Disposals/<br/>Transfers<br/>Rs.</b> | <b>Balance<br/>as at<br/>31.03.2012<br/>Rs.</b> |
|--|---|---|---|---|
| <b>Freehold Assets</b>                   |   |   |   |   |
| Land                                     | -   | 3,751,000                               | -                                       | 3,751,000                                       |
| Building                                 | -   | 928,000                                 | -                                       | 928,000   |
| Furniture and Fittings                   | 47,758,939                                      | 24,039,174                              | 19,500                                  | 71,778,613                                      |
| Equipment                                | 6,218,595                                       | 15,112,281                              | -                                       | 21,330,876                                      |
| Motor Vehicles and Accessories           | 65,012  | 3,385,385                               | -                                       | 3,450,397                                       |
| Computer Hardware                        | 30,006,250                                      | 38,284,211                              | -                                       | 68,290,461                                      |
| Air Conditioning                         | 7,791,753                                       | 4,785,152                               | -                                       | 12,576,905                                      |
| Generators                               | 1,734,926                                       | -                                       | -                                       | 1,734,926                                       |
|  | <u>93,575,475</u>                               | <u>90,285,203</u>                       | <u>19,500</u>                           | <u>183,841,178</u>                              |
| <b>At Valuation</b>                      |   |   |   |   |
| Land                                     | 115,000,000                                     | -                                       | -                                       | 115,000,000                                     |
| Building                                 | 40,500,000                                      | -                                       | -                                       | 40,500,000                                      |
|  | <u>155,500,000</u>                              | <u>-</u>                                | <u>-</u>                                | <u>155,500,000</u>                              |
| <b>Assets on Finance Lease</b>           |   |   |   |   |
| Equipment                                | 3,560,989                                       | -                                       | -                                       | 3,560,989                                       |
| Motor Vehicle                            | 16,336,913                                      | -                                       | 16,336,913                              | -   |
| Computer Hardware                        | 13,584,559                                      | -                                       | 3,633,099                               | 9,951,460                                       |
|  | <u>33,482,461</u>                               | <u>-</u>                                | <u>19,970,012</u>                       | <u>13,512,449</u>                               |
| <b>Total Value of Depreciable Assets</b> | <u>282,557,936</u>                              | <u>90,285,203</u>                       | <u>19,989,512</u>                       | <u>352,853,627</u>                              |

| <b>11.2 Depreciation</b>       | <b>Balance<br/>as at<br/>01.04.2011<br/>Rs.</b> | <b>Charge<br/>for the<br/>Period<br/>Rs.</b> | <b>Transfers<br/>Rs.</b> | <b>Disposals<br/>Rs.</b> | <b>Balance<br/>as at<br/>31.03.2012<br/>Rs.</b> |
|--------------------------------|---|--|--------------------------|--------------------------|---|
| <b>Freehold Assets</b>         |   |  |                          |                          |   |
| Building                       | -   | 10,933                                       | -                        | -                        | 10,933  |
| Furniture and Fittings         | 6,804,146                                       | 7,527,107                                    | -                        | 11,543                   | 14,319,710                                      |
| Equipment                      | 1,839,450                                       | 2,133,999                                    | -                        | -                        | 3,973,449                                       |
| Motor Vehicles and Accessories | 44,434  | 20,553                                       | 3,385,398                | -                        | 3,450,385                                       |
| Computer Hardware              | 15,944,250                                      | 9,071,418                                    | -                        | -                        | 25,015,668                                      |
| Air Conditioning               | 2,695,652                                       | 1,949,456                                    | -                        | -                        | 4,645,108                                       |
| Generators                     | 1,048,854                                       | 530,479                                      | -                        | -                        | 1,579,333                                       |
|                                | <u>28,376,786</u>                               | <u>21,243,945</u>                            | <u>3,385,398</u>         | <u>11,543</u>            | <u>52,994,586</u>                               |
| <b>At Valuation</b>            |   |  |                          |                          |   |
| Building                       | -   | 861,702                                      | -                        | -                        | 861,702   |
|                                | <u>-</u>  | <u>861,702</u>                               | <u>-</u>                 | <u>-</u>                 | <u>861,702</u>                                  |
| <b>Assets on Finance Lease</b> |   |  |                          |                          |   |
| Equipment                      | 441,625   | 449,674                                      | -                        | -                        | 891,299   |
| Motor Vehicle                  | 11,096,880                                      | 1,071,161                                    | 3,385,398                | 8,782,643                | -   |
| Computer Hardware              | 4,110,802                                       | 3,490,436                                    | -                        | -                        | 7,601,238                                       |
|                                | <u>15,649,307</u>                               | <u>5,011,271</u>                             | <u>3,385,398</u>         | <u>8,782,643</u>         | <u>8,492,537</u>                                |
|                                | <u>44,026,093</u>                               | <u>27,116,918</u>                            | <u>6,770,796</u>         | <u>8,794,186</u>         | <u>62,348,825</u>                               |

**11. PROPERTY, PLANT & EQUIPMENT (Contd..)**

| <b>11.3 Net Book Value</b>     | <b>2012</b>               | <b>2011</b>               |
|--------------------------------|---------------------------|---------------------------|
|                                | <b>Rs.</b>                | <b>Rs.</b>                |
| <b>At Cost</b>                 |                           |                           |
| Land                           | 3,751,000                 | -                         |
| Building                       | 917,067                   | -                         |
| Furniture and Fittings         | 57,458,903                | 40,954,793                |
| Equipment                      | 17,357,427                | 4,379,145                 |
| Motor Vehicles and Accessories | 12                        | 20,578                    |
| Computer Hardware              | 43,274,793                | 14,062,000                |
| Air Conditioning               | 7,931,797                 | 5,096,101                 |
| Generators                     | 155,593                   | 686,072                   |
|                                | <u>130,846,592</u>        | <u>65,198,689</u>         |
| <b>At Valuation</b>            |                           |                           |
| Land                           | 115,000,000               | 115,000,000               |
| Building                       | 39,638,298                | 40,500,000                |
|                                | <u>154,638,298</u>        | <u>155,500,000</u>        |
| <b>On Finance Leases</b>       |                           |                           |
| Equipment                      | 2,669,690                 | 3,119,364                 |
| Computer Hardware              | 2,350,222                 | 9,473,757                 |
| Motor Vehicle                  | -                         | 5,240,033                 |
|                                | <u>5,019,912</u>          | <u>17,833,154</u>         |
| <b>Total Net Book Value</b>    | <u><u>290,504,802</u></u> | <u><u>238,531,843</u></u> |

**11.4** During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs.83,266,727/- (2011 - Rs.42,913,517/-) . Cash payments amounting to Rs. 83,266,727/- ( 2011 - Rs.35,143,813/-) was paid during the year for purchases of Property , Plant and Equipment .

**11.5** Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs.31,442,773/- ( 2011- Rs.31,750,035/ ) .

**11.6** The useful life/ depreciation method of depreciable assets were reviewed and changed by the Company. Due to these changes in estimation, the following additional charges have resulted in the current period financial statements as indicated

|                               | <b>Increase<br/>in depreciation<br/>Charge based<br/>on revised<br/>estimate<br/>Year ended<br/>31.03.2012<br/>Rs.</b> | <b>Depreciation<br/>Charge based<br/>on previous<br/>estimate<br/>Year ended<br/>31.03.2012<br/>Rs.</b> |
|-------------------------------|--|---|
| Property, Plant and Equipment | <u><u>22,308,138</u></u>   | <u><u>12,736,077</u></u>  |

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| <b>12. LEASEHOLD PROPERTY</b>        | <b>2012</b>      | <b>2011</b>      |
|--------------------------------------|------------------|------------------|
|                                      | <b>Rs.</b>       | <b>Rs.</b>       |
| Balance at the beginning of the year | 9,047,039        | 9,207,644        |
| Amortisation for the year            | (122,217)        | (160,605)        |
| Balance at the end of the year       | <u>8,924,822</u> | <u>9,047,039</u> |

| <b>13. INVESTMENT PROPERTY</b>      | <b>2012</b>        | <b>2011</b>       |
|-------------------------------------|--------------------|-------------------|
|                                     | <b>Rs.</b>         | <b>Rs.</b>        |
| At the beginning of the year        | 26,000,000         | 22,000,000        |
| Purchase of Investment Property     | 63,571,140         | -                 |
| Net gain from fair value adjustment | 110,428,860        | 4,000,000         |
| At the end of the year              | <u>200,000,000</u> | <u>26,000,000</u> |

**Valuation Details of Investment Property**

The Investment property at Rassandeniya, Mathara was revalued as at 31st March 2012 by Messrs. Sunil Fernando & Associates (Pvt) Ltd- Chartered Valuation Surveyors, An Independent valuer with recent experience in valuing properties of similar location and category. The Investment Property was valued at their open market/fair value, and the surplus arising from the revaluation was transferred to the Income Statement.

| <b>14. DEPOSITS FROM CUSTOMERS</b> | <b>2012</b>          | <b>2011</b>          |
|------------------------------------|----------------------|----------------------|
|                                    | <b>Rs.</b>           | <b>Rs.</b>           |
| Fixed Deposits-Monthly             | 2,027,398,422        | 1,303,272,819        |
| Fixed Deposits-Maturity            | 4,213,157,265        | 2,359,001,688        |
| Savers Deposits                    | 515,157,841          | 178,217,782          |
|                                    | <u>6,755,713,528</u> | <u>3,840,492,289</u> |

| 15. BORROWINGS                          |                            |                          |                    |                            |                      |   | 2012                 | 2011               |
|---|----------------------------|--------------------------|--------------------|----------------------------|----------------------|---|----------------------|--------------------|
|   |                            |                          |                    |                            |                      |   | Rs.                  | Rs.                |
| Bank Loans (15.1)                       |                            |                          |                    |                            |                      |   | 968,697,640          | 376,421,883        |
| Bank Overdrafts                         |                            |                          |                    |                            |                      |   | 542,184,002          | 206,434,236        |
| Finance Lease (15.3)                    |                            |                          |                    |                            |                      |   | 6,838,916            | 12,129,603         |
|   |                            |                          |                    |                            |                      |   | <u>1,517,720,558</u> | <u>594,985,722</u> |
| 15.1 Bank Loans                         | As at<br>01.04.2011<br>Rs. | Loans<br>Obtained<br>Rs. | Repayments<br>Rs.  | As at<br>31.03.2012<br>Rs. | Terms of<br>the Loan | Security<br>Offered   |                      |                    |
| HNB Securitization Loan - 02            | 79,336,000                 | -                        | 16,992,000         | 62,344,000                 | 60 Months            | Securitisation of Lease receivable with a retained margin of 40%  |                      |                    |
| HNB Securitization Loan - 03            | 150,000,000                | -                        | 30,000,000         | 120,000,000                | 60 Months            | Mortgage over lease receivables of lease contracts with a total receivable value of Rs.250 M together with the underlying assets and a special power of attorney in favor of the Bank.  |                      |                    |
| Capital Loan - HNB                      | 1,603,550                  | -                        | 1,603,550          | -                          | 48 Months            | Mortgage bond No.3666 for Rs.1.0 Mn and leeway available on existing territory floating mortgage bond no. 4573 for Rs.5.0 Mn  |                      |                    |
| Commercial Bank Revolving Loan          | 48,100,550                 | 45,500,000               | 18,777,300         | 74,823,250                 | 48 Months            | Primary Mortgage Bond 17.5 Mn, Secondary Mortgage Bond Rs.3.75Mn, Tertiary Mortgage Bond Rs.8.25Mn and Quaternary Mortgage Bond over property situated at 106, Yatinuwara Veediya, Kandy & Registered Mortgage Bond-2006/01 dated 05/10/2006 over lease/ hire purchase contracts for Rs.25 M.   |                      |                    |
| Term Loan Commercial Bank - HG          | 3,404,000                  | -                        | 928,800            | 2,475,200                  | 45 Months            | Primary Registered Mortgaged Bond for Rs.6.5 Mn. over the property situated in Main street Hingurakgoda.  |                      |                    |
| Ceyleases Financial Services Loan       | 20,540,283                 | -                        | 14,865,572         | 5,674,711                  | 24 Months            | Lease Rentals receivables   |                      |                    |
| Sampath Bank Securitisation Loan - 0    | 73,437,500                 | -                        | 18,750,000         | 54,687,500                 | 24 Months            | Lease & HP receivables for Rs.125 Mn  |                      |                    |
| DFCC Term Loan                          | -                          | 40,000,000               | 3,333,336          | 36,666,664                 | 36 Months            | Primary Mortgage over divided and defined allotment of the land market lots situated at Pinnaduwa and Ankokkawlal in Akmeemana.   |                      |                    |
| Project Loan Merchant Bank of Sri Lanka | -                          | 100,000,000              | 1,484,701          | 98,515,299                 | 48 Months            | Primary mortgage over the property called Nugagahahenewatta situated at Rassandeniya in Matara with the total extend of 10Acre, 01 Rood ,8.7 perches and the property called Peligalahena situated at Akurutgoda in Matara with the extend of 3Acre , 5.63 Perches and the property called Ketapolamukalana situated at Kahatapitiya in Batapola with the extend of 05 Acre, 2 Rood & 27.7 Perches. |                      |                    |
| Peoples Leasing Company Loan 2          | -                          | 50,000,000               | 4,023,424          | 45,976,576                 | 36 Months            | Lease & HP receivables for Rs.88.5 Mn   |                      |                    |
| Peoples Leasing Company                 | -                          | 100,000,000              | 15,694,760         | 84,305,240                 | 36 Months            | Lease & HP receivables for Rs.173.4 Mn  |                      |                    |
| Pan Asia Bank-Term Loan                 | -                          | 40,000,000               | -                  | 40,000,000                 | 24 Months            | All that allotment of Land marked Lot 1 Depicted in Pan No.11325 dated 03.08.2011 made by H.M.A.R.B. Herath (Lc) of the Land called Siyamalagahawatta situated at Dematapitiya in Puttlam District in extent of A4-R0-P00,A4-R2-P20A4-R2-P00.   |                      |                    |
| HNB Securitization Loan - 04            | -                          | 85,000,000               | 1,770,800          | 83,229,200                 | 36 Months            | Mortgage over the hire purchase contracts with a safety margin of 40%   |                      |                    |
| HNB Securitization Loan - 05            | -                          | 215,000,000              | -                  | 215,000,000                | 48 Months            | Mortgage over the lease receivables with a safety margin of 40% and special power of attorney in favor of the Bank.   |                      |                    |
| Union Bank Securitization Loan - 01     | -                          | 45,000,000               | -                  | 45,000,000                 | 48 Months            | Primary Floating Mortgage Bond for LKR 45 Mn over current Lease/ Hire Purchase receivables having a minimum total value of Rs 60 Mn.  |                      |                    |
|   | <u>376,421,883</u>         | <u>720,500,000</u>       | <u>128,224,243</u> | <u>968,697,640</u>         |                      |   |                      |                    |



# Commercial Credit and Finance PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 15. BORROWINGS (Contd.)

| 15.3 Finance Leases                          | As at<br>01.04.2011<br>Rs. | New Leases<br>Obtained<br>Rs. | Repayments<br>Rs. | As at<br>31.03.2012<br>Rs. |
|--|----------------------------|-------------------------------|-------------------|----------------------------|
| Finance Leases                               | 12,129,603                 | -                             | 5,290,687         | 6,838,916                  |
|  | <u>12,129,603</u>          | <u>-</u>                      | <u>5,290,687</u>  | <u>6,838,916</u>           |
| Gross Liability                              | 14,687,530                 |                               |                   | 7,864,574                  |
| Finance Charges allocated for future periods | (2,557,927)                |                               |                   | (1,025,658)                |
| Net Liability                                | <u>12,129,603</u>          |                               |                   | <u>6,838,916</u>           |

15.4 Refer note 28.1 for the Gross Liability and Finance charges allocated for the future period on maturity basis.

### 16. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

|  | 2012<br>Rs.          | 2011<br>Rs.        |
|--|----------------------|--------------------|
| Cash and Bank Balances   | 140,960,720          | 203,708,480        |
| Reverse Repurchase Agreements ( less than 3 months)                    | 163,173,162          | 10,000,000         |
|  | <u>304,133,882</u>   | <u>213,708,480</u> |
| Bank Overdrafts  | (542,184,002)        | (206,434,236)      |
| Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement | <u>(238,050,120)</u> | <u>7,274,244</u>   |

### 17. OTHER LIABILITIES

|  | 2012<br>Rs.        | 2011<br>Rs.        |
|--|--------------------|--------------------|
| Accrued Interest                             | 171,304,567        | 120,167,581        |
| Accrued Expenses and Other Payables          | 456,021,542        | 269,130,259        |
| Advances received against Real Estate Stocks | 51,768,478         | 37,639,420         |
|  | <u>679,094,587</u> | <u>426,937,260</u> |

### 18. EMPLOYMENT BENEFIT LIABILITY

|  | 2012<br>Rs.       | 2011<br>Rs.       |
|--|-------------------|-------------------|
| <b>Employment Benefit Obligations - Gratuity</b> |                   |                   |
| Balance at the beginning of the year             | 13,489,412        | 9,889,650         |
| Amount Charged for the year (18.1)               | 7,543,522         | 4,439,162         |
| Payments made during the year                    | (3,189,600)       | (839,400)         |
| Balance at the end of the year                   | <u>17,843,334</u> | <u>13,489,412</u> |

An actuarial valuation of the gratuity was carried out as at 31 March 2012 by Piyal S Goonetilleke and Associates, a firm of professional actuaries. The valuation method used by the actuary is "Projected Unit Credit Method", recommended by SLAS No.16. The present value of defined benefit obligation as at 31 March 2012 is Rs.20,673,324 /-.

### 18.1 Expenses on Employment Benefit Plan

|   | 2012<br>Rs.      | 2011<br>Rs.      |
|---|------------------|------------------|
| Current Service Cost for the year         | 4,899,686        | 2,517,784        |
| Interest cost for the year                | 2,216,874        | 1,792,539        |
| Actuarial Loss Recognised during the Year | 426,962          | 128,839          |
|   | <u>7,543,522</u> | <u>4,439,162</u> |

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| 18.2 Actuarial assumptions | 2012   | 2011 |
|----------------------------|--|------|
| Discount Rate              | 12%  | 12%  |
| Salary scale               | 11%  | 11%  |
| Staff Turnover             |  |      |
| 20 years                   | 10%  | 10%  |
| 25 years                   | 10%  | 10%  |
| 30 years                   | 10%  | 10%  |
| 35 years                   | 7.5%   | 10%  |
| 40 years                   | 5%   | 5%   |
| 45 years                   | 2.5%   | 3%   |
| 50 years                   | 1%   | 1%   |
| Mortality                  | - GA 1983 Mortality Table  |      |
| Retirement age             | - Normal retirement Age , or Age on valuation date , if greater. |      |

| 19. STATED CAPITAL              | 2012        |             | 2011        |             |
|---------------------------------|-------------|-------------|-------------|-------------|
|                                 | Number      | Rs.         | Number      | Rs.         |
| 19.1 Fully paid ordinary shares | 218,074,365 | 170,640,315 | 218,074,365 | 170,640,315 |

| 20. RESERVES                        | General Reserve<br>Rs. | Revaluation Reserve<br>Rs. | Reserve Fund<br>Rs. | Investment Fund Reserve<br>Rs. | Retained Profits<br>Rs. | Total<br>Rs.         |
|-------------------------------------|------------------------|----------------------------|---------------------|--------------------------------|-------------------------|----------------------|
| At the beginning of the year        | 58,751,125             | 122,799,764                | 73,013,637          | 8,318,520                      | (1,386,127)             | 261,496,919          |
| Profit for the year                 | -                      | -                          | -                   | -                              | 758,286,560             | 758,286,560          |
|                                     | <u>58,751,125</u>      | <u>122,799,764</u>         | <u>73,013,637</u>   | <u>8,318,520</u>               | <u>756,900,432</u>      | <u>1,019,783,478</u> |
| Transfers to/(from) during the year | -                      | -                          | 152,000,000         | 55,551,354                     | (207,551,354)           | -                    |
| At the end of the year              | <u>58,751,125</u>      | <u>122,799,764</u>         | <u>225,013,637</u>  | <u>63,869,874</u>              | <u>549,349,078</u>      | <u>1,019,783,478</u> |

20.1 General Reserve represents the amounts set aside by the Directors for general application.

20.2 Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No. 1 of 2003.

20.3 The Investment Fund 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.

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 treasury bills value presented on balance sheet.

| 21. INCOME                              | 2012<br>Rs.          | 2011<br>Rs.          |
|---|----------------------|----------------------|
| 21.1 Summary                            |                      |                      |
| Gross Income (21.2)                     | 2,765,858,538        | 1,254,391,240        |
|   | <u>2,765,858,538</u> | <u>1,254,391,240</u> |
| 21.2 Segmental Analysis of Gross Income |                      |                      |
| Interest                                | 2,470,103,551        | 1,112,597,093        |
| Real Estate                             | 126,557,260          | 71,883,738           |
| Fees & Commission Income                | 112,763,479          | 55,141,424           |
| Others                                  | 56,434,248           | 14,768,985           |
|   | <u>2,765,858,538</u> | <u>1,254,391,240</u> |

| <b>22. INCOME FROM INTEREST BEARING ACTIVITIES</b>                            | <b>2012</b>          | <b>2011</b>          |
|---|----------------------|----------------------|
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Interest on Leases  | 396,044,739          | 271,723,707          |
| Interest on Loans   | 1,415,418,300        | 451,117,891          |
| Interest on Hire Purchase   | 578,286,092          | 354,996,315          |
| Interest on Land Finance  | 43,865,778           | 20,425,013           |
| Interest on Treasury Bills  | 14,159,810           | 12,198,093           |
| Interest on Bank Deposits   | 22,328,832           | 2,136,074            |
|   | <u>2,470,103,551</u> | <u>1,112,597,093</u> |
| <br>  |                      |                      |
| <b>23. INTEREST EXPENSES</b>  | <b>2012</b>          | <b>2011</b>          |
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Interest on Fixed Deposits- Maturity  | 379,979,115          | 255,477,932          |
| Interest on Fixed Deposits- Term  | 199,142,328          | 124,667,398          |
| Interest on Savers Deposits   | 20,327,088           | 4,185,163            |
| Interest on Loans   | 67,763,304           | 14,835,017           |
| Interest on Bank Overdrafts   | 30,364,799           | 7,979,776            |
| Interest on Finance Leases  | 1,528,929            | 2,964,157            |
|   | <u>699,105,563</u>   | <u>410,109,443</u>   |
| <br>  |                      |                      |
| <b>24. OTHER OPERATING INCOME</b>   | <b>2012</b>          | <b>2011</b>          |
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Profit on Sale of Dealing Securities  | 2,009,056            | 345,877              |
| Profit on Sale of Fixed Assets  | 6,898,076            | 3,946,176            |
| Real Estate Income ( net of cost )  | 34,960,481           | 6,363,556            |
| Service Charges   | 48,907,325           | 31,288,702           |
| Documentation Charges   | 52,584,440           | 18,200,975           |
| Commission Income   | 11,271,714           | 5,651,747            |
| Recoveries of Bad Debts on write offs   | 4,946,464            | 2,646,667            |
| Sundry Income   | 4,833,391            | 611,055              |
| Profit on Repossessed Items   | 2,786,780            | 855,655              |
|   | <u>169,197,727</u>   | <u>69,910,410</u>    |
| <br>  |                      |                      |
| <b>25. PROVISION FOR FALL IN VALUE OF INVESTMENTS, BAD AND DOUBTFUL LOANS</b> | <b>2012</b>          | <b>2011</b>          |
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Fall in value of Investment   | 13,862,704           | 3,044,307            |
| Bad and Doubtful Loans  | 114,105,406          | 66,004,331           |
|   | <u>127,968,110</u>   | <u>69,048,638</u>    |
| <br>  |                      |                      |
| <b>26. PROFIT FROM OPERATION STATED AFTER CHARGING THE FOLLOWING EXPENSES</b> | <b>2012</b>          | <b>2011</b>          |
|   | <b>Rs.</b>           | <b>Rs.</b>           |
| Depreciation  | 27,116,931           | 11,499,812           |
| Employee benefits including following:  |                      |                      |
| Defined benefit plan cost - Gratuity  | 7,543,522            | 4,439,162            |
| Defined contribution plan cost - EPF & ETF                                    | 35,936,126           | 20,345,701           |

**27. INCOME TAX EXPENSE**

The major components of income tax expense for the years ended 31 March are as follows :

| <b>Income Statement</b>                                    | <b>2012</b>        | <b>2011</b>        |
|--|--------------------|--------------------|
|  | <b>Rs.</b>         | <b>Rs.</b>         |
| <b>Current Income Tax</b>                                  |                    |                    |
| Current Income Tax charge                                  | 203,866,206        | 55,519,585         |
| <b>Deferred Income Tax</b>                                 |                    |                    |
| Deferred Taxation Charge (27.2)                            | 122,393,410        | 128,752,323        |
| <b>Income tax expense reported in the Income Statement</b> | <u>326,259,616</u> | <u>184,271,908</u> |

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

|  | <b>2012</b>          | <b>2011</b>        |
|--|----------------------|--------------------|
|  | <b>Rs.</b>           | <b>Rs.</b>         |
| <b>Accounting Profit before Income Tax</b>                             | <u>1,084,546,176</u> | <u>244,366,294</u> |
| <b>Income Tax Expense at the statutory income tax rate of 28%</b>      |                      |                    |
| Non deductible expenses  | 250,847,570          | 330,400,200        |
| Tax Effect of Other Allowable Credits                                  | (544,087,159)        | (372,134,047)      |
|  | 791,306,587          | 202,632,447        |
| Profit on Leasing Business   | 769,333              | 37,803,150         |
| Claim of Tax Loss  | (63,982,328)         | (84,152,459)       |
|  | 728,093,592          | 156,283,138        |
| Income Tax @ 28%   | 203,866,206          | 54,699,098         |
| Social Security Levy at 1.5% of Tax                                    | -                    | 820,486            |
| <b>Income Tax Expense at the effective income tax rate of 28%</b>      | <u>203,866,206</u>   | <u>55,519,585</u>  |
| The Company's operations were taxed at the rate of 28% during the year | 28%                  | 36%                |

**27.2 Deferred Tax Assets , Liabilities and Income Tax relates to the followings**

|                                     | <b>Balance sheet</b> |                   | <b>Income Statement</b> |                    |
|-------------------------------------|----------------------|-------------------|-------------------------|--------------------|
|                                     | <b>2012</b>          | <b>2011</b>       | <b>2012</b>             | <b>2011</b>        |
|                                     | <b>Rs.</b>           | <b>Rs.</b>        | <b>Rs.</b>              | <b>Rs.</b>         |
| <b>Deferred Tax Liability</b>       |                      |                   |                         |                    |
| Capital allowances for tax purposes | 152,611,683          | 25,334,623        | 127,277,060             | 84,402,658         |
| Revaluation of Buildings            | 1,696,011            | 1,696,011         | -                       | -                  |
| Effect of rate change               | -                    | -                 | -                       | (8,453,669)        |
|                                     | <u>154,307,694</u>   | <u>27,030,634</u> | <u>127,277,060</u>      | <u>75,948,989</u>  |
| <b>Deferred Tax Assets</b>          |                      |                   |                         |                    |
| Defined Benefit Plans               | 4,996,134            | 3,777,035         | (1,219,099)             | 1,259,917          |
| Tax Loss                            | 17,915,051           | 14,250,500        | (3,664,551)             | 49,556,365         |
| Effect of rate change               | -                    | -                 | -                       | 1,987,052          |
|                                     | <u>22,911,185</u>    | <u>18,027,535</u> | <u>(4,883,650)</u>      | <u>52,803,334</u>  |
| Deferred tax Expense                |                      |                   | <u>122,393,410</u>      | <u>128,752,323</u> |
| Net Deferred Tax Liability          | <u>131,396,509</u>   | <u>9,003,099</u>  |                         |                    |

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**28. EARNING PER SHARE**

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

**28.2** The following reflects the Income & Share data used in the Basic Earnings Per Share computation .

| <b>Amounts Used as the Numerators:</b>  | <b>2012<br/>Rs.</b>    | <b>2011<br/>Rs.</b>    |
|---|------------------------|------------------------|
| Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share | 758,286,560            | 60,094,385             |
|   | <b>2012<br/>Number</b> | <b>2011<br/>Number</b> |
| Weighted Average number of Ordinary Shares in issue                           | 218,074,365            | 218,074,365            |
| Applicable to Basic Earnings Per Share  | 3.48                   | 0.28                   |

**29. MATURITY ANALYSIS**

An analysis of the total assets employed and total liabilities at the year end , based on the remaining at the balance sheet date to the respective contractual maturity dates are given below.

|   | <b>Less than 3<br/>months<br/>Rs.</b> | <b>3-12<br/>months<br/>Rs.</b> | <b>1-3<br/>years<br/>Rs.</b> | <b>over 3<br/>years<br/>Rs.</b> | <b>Total<br/>2012<br/>Rs.</b> | <b>Total<br/>2011</b> |
|---|---------------------------------------|--------------------------------|------------------------------|---------------------------------|-------------------------------|-----------------------|
| <b>Assets</b>                                 |                                       |                                |                              |                                 |                               |                       |
| Cash in hand and at Banks                     | 140,960,720                           | -                              | -                            | -                               | 140,960,720                   | 203,708,480           |
| Treasury Bills                                | 46,792,530                            | 36,765,560                     | -                            | -                               | 83,558,090                    | 66,969,364            |
| Reverse Repurchase Agreements                 | 163,173,162                           | -                              | -                            | -                               | 163,173,162                   | 10,000,000            |
| Deposits with Banks                           | 204,608,559                           | 160,763,867                    | -                            | -                               | 365,372,426                   | 110,559,966           |
| Loans and Advances                            | 1,088,307,690                         | 1,677,512,241                  | 1,405,483,229                | 360,722,225                     | 4,532,025,385                 | 1,944,228,721         |
| Lease Rental Receivable and stock out on hire | 1,103,176,685                         | 1,466,572,500                  | 1,228,749,932                | 317,096,757                     | 4,115,595,874                 | 2,490,821,145         |
| Real State & Vehicle stock                    | -                                     | -                              | -                            | 383,018,079                     | 383,018,079                   | 152,841,459           |
| Other Debtors, Deposits & Prepayment          | 145,887,387                           | 9,902,558                      | -                            | -                               | 155,789,945                   | 67,103,854            |
| Investment Portfolio                          | -                                     | -                              | -                            | 201,900                         | 201,900                       | 5,426,900             |
| Dealing Securities                            | 39,698,127                            | -                              | -                            | -                               | 39,698,127                    | 24,939,856            |
| Property, Plant & Equipment                   | -                                     | -                              | -                            | 290,504,802                     | 290,504,802                   | 238,531,845           |
| Leasehold Property                            | -                                     | -                              | -                            | 8,924,822                       | 8,924,822                     | 9,047,039             |
| Investment Property                           | -                                     | -                              | -                            | 200,000,000                     | 200,000,000                   | 26,000,000            |
| <b>As at 31.03.2012</b>                       | <b>2,932,604,860</b>                  | <b>3,351,516,726</b>           | <b>2,634,233,161</b>         | <b>1,560,468,585</b>            | <b>10,478,823,332</b>         | <b>5,350,178,629</b>  |
| <b>Liabilities</b>                            |                                       |                                |                              |                                 |                               |                       |
| Deposits from Customers - FD/FSD              | 2,935,816,954                         | 3,378,582,213                  | 339,605,523                  | 101,708,838                     | 6,755,713,528                 | 3,840,492,289         |
| Borrowings                                    | 618,005,787                           | 218,182,655                    | 518,484,202                  | 156,208,999                     | 1,510,881,643                 | 582,856,119           |
| Finance Leases (Note: 29.1)                   | 905,433                               | 2,627,000                      | 3,306,483                    | -                               | 6,838,916                     | 12,129,603            |
| Other Liabilities                             | 585,219,310                           | 83,034,866                     | 8,346,430                    | 2,493,981                       | 679,094,587                   | 426,937,260           |
| Tax Payable                                   | 186,631,022                           | -                              | -                            | -                               | 186,631,022                   | 33,133,610            |
| Provision for Gratuity                        | -                                     | -                              | -                            | 17,843,334                      | 17,843,334                    | 13,489,412            |
| Deferred tax Liability                        | -                                     | -                              | -                            | 131,396,509                     | 131,396,509                   | 9,003,099             |
| <b>As at 31.03.2012</b>                       | <b>4,326,578,506</b>                  | <b>3,682,426,734</b>           | <b>869,742,638</b>           | <b>409,651,661</b>              | <b>9,288,399,539</b>          | <b>4,918,041,392</b>  |

**29.1 Finance Leases**

|  | <b>Less than 3<br/>months<br/>Rs.</b> | <b>3-12<br/>months<br/>Rs.</b> | <b>1-3<br/>years<br/>Rs.</b> | <b>over 3<br/>years<br/>Rs.</b> | <b>Total<br/>2012<br/>Rs.</b> |
|--|---------------------------------------|--------------------------------|------------------------------|---------------------------------|-------------------------------|
| Financial Leases - Gross Liability                 | 1,148,940                             | 3,159,153                      | 3,556,481                    | -                               | 7,864,574                     |
| Less: Finance Charges allocated for Future Periods | (243,507)                             | (532,153)                      | (249,998)                    | -                               | (1,025,658)                   |
|  | 905,433                               | 2,627,000                      | 3,306,483                    | -                               | 6,838,916                     |

**30. COMMITMENTS AND CONTINGENCIES**

**30.1 Contingent Liabilities**

There are no contingent liabilities as at the balance sheet date.

**30.2 Commitments**

The Company has purchase commitments for acquisition of Property, Plant and Equipment & Vehicle Stocks incidental to the ordinary course of business are ,

|                                 | 2012<br>Rs.       | 2011<br>Rs.       |
|---------------------------------|-------------------|-------------------|
| Contracted but not provided for | 11,813,579        | 11,955,027        |
|                                 | <u>11,813,579</u> | <u>11,955,027</u> |

**31. ASSETS PLEDGED**

The following assets have been pledged as security for liabilities.

| Nature of assets                      | Nature of Liability | Carrying Amount Pledged |                    | Included Under   |
|---------------------------------------|---------------------|-------------------------|--------------------|--|
|                                       |                     | 2012<br>Rs.             | 2011<br>Rs.        |  |
| Lease Receivables & Stock out on hire | Loans               | 1,038,816,365           | 502,940,022        | Lease Rentals Receivables & Stock out on hire                              |
| Freehold Land & Building              | Loans & Overdrafts  | 336,958,866             | 111,258,866        | Property, Plant and Equipment, Investment Properties and Real Estate Stock |
|                                       |                     | <u>1,375,775,231</u>    | <u>614,198,888</u> |  |

**32. FINANCIAL REPORTING BY SEGMENT**

|                               | Finance Lease |             | Hire Purchase |               | Term Loan     |               | Real Estate |             | Short Term Investment |             | Unallocated |             | Total                |                      |
|-------------------------------|---------------|-------------|---------------|---------------|---------------|---------------|-------------|-------------|-----------------------|-------------|-------------|-------------|----------------------|----------------------|
|                               | 2012<br>Rs.   | 2011<br>Rs. | 2012<br>Rs.   | 2011<br>Rs.   | 2012<br>Rs.   | 2011<br>Rs.   | 2012<br>Rs. | 2011<br>Rs. | 2012<br>Rs.           | 2011<br>Rs. | 2012<br>Rs. | 2011<br>Rs. | 2012<br>Rs.          | 2011<br>Rs.          |
| Interest                      | 396,044,739   | 271,723,707 | 578,286,092   | 354,996,315   | 1,415,418,300 | 451,117,891   | 170,423,038 | 92,308,752  | 36,488,642            | 14,334,167  |             |             | 2,596,660,811        | 1,184,480,832        |
| Fee Based Income & others     | 17,217,748    | 13,467,641  | 25,531,199    | 9,139,314     | 62,490,394    | 31,639,542    | 7,524,138   | 8,740,027   | -                     | 714,907     |             |             | 112,763,479          | 63,701,431           |
| Unallocated Revenue           |               |             |               |               |               |               |             |             |                       |             | 56,434,248  | 10,208,978  | 56,434,248           | 10,208,978           |
| Total Revenue                 | 413,262,487   | 285,191,348 | 730,925,897   | 364,135,629   | 1,354,636,474 | 482,757,433   | 201,714,919 | 101,048,779 | 41,452,657            | 15,049,074  | 140,769,421 | 10,208,978  | 2,765,858,538        | 1,258,391,241        |
| Segmental Result              | 174,498,507   | 14,998,877  | 254,959,545   | 83,281,770    | 624,041,303   | 151,447,375   | 75,137,516  | 22,824,561  | 15,407,190            | 2,510,209   | 23,829,146  | 6,847,231   | 1,167,873,207        | 281,910,023          |
| VAT on Financial Institutions |               |             |               |               |               |               |             |             |                       |             |             |             | (83,327,031)         | (37,543,728)         |
| Profits from Operations       |               |             |               |               |               |               |             |             |                       |             |             |             | 1,084,546,176        | 244,366,295          |
| Income Tax Expenses           |               |             |               |               |               |               |             |             |                       |             |             |             | (326,259,616)        | (184,271,908)        |
| Net profit for the period     |               |             |               |               |               |               |             |             |                       |             |             |             | <u>758,286,560</u>   | <u>60,094,387</u>    |
| Segment Asset                 | 1,968,508,041 | 870,976,802 | 2,147,087,833 | 1,619,844,343 | 4,262,208,324 | 1,758,482,039 | 652,835,140 | 321,482,357 | 448,930,516           | 217,896,087 | 999,253,478 | 561,497,000 | 10,478,823,332       | 5,350,178,628        |
| Segment Liabilities           | 1,744,879,993 | 800,627,468 | 1,903,172,618 | 1,489,008,514 | 3,778,009,474 | 1,616,448,358 | 578,671,233 | 295,516,029 | 397,930,747           | 200,296,485 | 885,735,473 | 516,144,538 | 10,478,823,332       | 5,350,178,628        |
| Total Liabilities             |               |             |               |               |               |               |             |             |                       |             |             |             | <u>9,288,399,538</u> | <u>4,918,041,392</u> |

**33. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

There have been no material events occurring after the balance sheet date that require adjustments to or disclose in the Financial Statement.

**34. RELATED PARTY DISCLOSURES**

**34.1 Transactions with Key Managerial persons**

The Key Managerial personnel of the Company are the members of its Board of Directors and Corporate Management. Following transactions are entered between the company and its Key Management Personnel and their close family members.

| <b>34.1.1 Compensation to Key Managerial Personnel</b>         | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
|  | <b>Rs.</b>  | <b>Rs.</b>  |
| Short Term Employment Benefits Paid                            | 37,796,340  | 23,945,677  |
| Post employment Benefits                                       | 3,899,759   | 3,720,850   |
|  | <b>2012</b> | <b>2011</b> |
|  | <b>Rs.</b>  | <b>Rs.</b>  |
| <b>34.1.2 Other transactions with Key Managerial Personnel</b> |             |             |
| Fixed Deposits Accepted during the year                        | 10,650,000  | 8,632,000   |
| Fixed Deposits held at the end of the year                     | 10,410,871  | 9,156,848   |
| Interest paid on Fixed Deposits                                | 247,110     | 1,432,453   |
| Loans granted during the year                                  | 7,300,000   | -           |
| Interest received on loans granted                             | 144,435     | -           |

**35. COMPARATIVE INFORMATION**

The presentation and classification of the following items in the financial statements are amended to ensure the comparability with the current year.

|                               | <b>2012</b>         | <b>2011</b>        |
|-------------------------------|---------------------|--------------------|
|                               | <b>Current</b>      | <b>As reported</b> |
|                               | <b>Presentation</b> | <b>Previously</b>  |
|                               | <b>Rs.</b>          | <b>Rs.</b>         |
| Treasury Bills                | 66,969,364          | 76,969,364         |
| Reverse Repurchase Agreements | 10,000,000          | -                  |
|                               | <u>76,969,364</u>   | <u>76,969,364</u>  |

**Reason for changes in the presentation and classification:**

Reverse repurchase agreements were recorded under the treasury bills in previous year accounts, was reclassified as Reverse repurchase agreements for a better presentation of these Financial Statements.