

# Empowering for Growth

## **Deputy Chairman's Review**

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The year 2009/10 has been an excellent one for LOLC. New investments and key strategic shifts serve to reflect the exciting new opportunities that the year and indeed the future, holds for the Group.

However, to lend perspective to our performance it is pertinent to reflect briefly on the road LOLC and the country have travelled over the past two decades.

In the economic history of Sri Lanka, one of the most momentous events took place in 1977, when the Government of the day opted for an open economy. By 1980, as was illustrated by the experiences of several other developing countries, realisation dawned that it was an imperative to position the SME Sector as a key driver of a free market economy. With the World Bank in agreement with this position, in 1980, the first step to introduce leasing to the country took shape through the incorporation of Lanka ORIX Leasing Company (LOLC). LOLC came into being with the co-operation and partnership of a consortium led by the International Finance Corporation and the ORIX Corporation of Japan. This was the beginning of the road for LOLC, the beginning of a legend of success that sees the LOLC Group, now diversified and strategically positioned to claim the title of one of Sri Lanka's premier total financial solutions providers and the largest non-bank financial institution in the country.

Sri Lanka is once again poised at 'important' crossroads - new found peace and the resultant opening up of the North and East with their social fabric and economies badly requiring rehabilitation and steady development open new vistas of opportunity. In many ways, I see similarities between the era of 1977 onwards with the opening of the economy - there too, a period of immense opportunity transpired especially to the then grass root level entrepreneurs.

As the pioneering leasing entity in the country, LOLC has contributed to empower the SME sector since its inception in 1980. From the agriculture to the manufacturing to the services sector, we have strived to offer the SME Sector the financial means to the SME Sector that has allowed them to enjoy the benefits of the open economy. Today, with more than 80% of its clientele representing the SME Sector, the LOLC Group is well-positioned as a major proponent of microfinancing, which is a largely untapped field; we envisage, yet again a ground breaking role for the Group similar to the one we played in 1980 with leasing.

Towards fulfilling this role, in late 2008, we floated Lanka ORIX Micro Credit Ltd. (LOMC), the only regulated financial institution dedicated to microfinance with foreign equity participation. In just over a year, LOMC exceeded all its targets aided by a strong presence in strategic locations, low cost operational mechanisms and channels together with a dynamic marketing staff recruited locally but trained in-house with the assistance of our external funding partners to excel in renowned microfinancing models around the world.

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Another success story for LOLC has been the turnaround of Commercial Leasing Company (CLC). Post acquisition, CLC has reached new heights not only in its asset base, business volumes and client base, but also in its product mix, reach and brand power. With a substantial portfolio held by them in their own right, CLCs contribution to the Group and to the industry in the fields of leasing and factoring has been very significant. The ability of swiftly transforming our investments to new heights is something we excel at and are proud of, and consider to be one of our competitive advantages.

Through CLC, we acquired a stake in Brown & Company, one of the largest conglomerates in the country. Brown & Company has a diversified trading portfolio that includes agricultural and automotive equipment, office automation, consumer electronics, hardware, power generation and pharmaceuticals. Direct synergy derives from the fact that Brown and Company is Sri Lanka's premier retailer of agriculture equipment, whilst LOLC is Sri Lanka's largest financier of agricultural equipment.

In line with our business model that concentrates on value addition through related diversification, LOLC ventured into the Insurance Sector. Despite the presence of more than 19 players in this field, Sri Lanka still has an underinsured market which provides LOLC with a great market opportunity. With the incorporation of LOLC Insurance Company, we strive to offer a unique and much desired product portfolio in both Life and General categories to all sectors and the SME and Micro clientele in particular.

During the year under review, LOLC together with Browns also acquired a 20% stake in Seylan Bank, which brought the landscape of commercial banking within our portfolio. This is another strategic move to progress towards our goal of becoming a total financial solutions provider.

Another area of great potential is the leisure sector in Sri Lanka. The end of the war and eulogies from the international media have turned the spotlight back on Sri Lanka - a direct result is expected in substantially increasing numbers of visitors to the country. After careful evaluation of our strategy in this sector, LOLC invested in the Confifi Group the biggest hotel chain in the highly-acclaimed golden mile with Eden Resort & Spa, Hotel Club Palm Garden and Hotel Riverina under their wing. Whilst developing these properties, we have set our sights much further afield and are already exploring opportunities for expansion as well as for strategic partners of repute who can join us in developing this area.

In line with the Government's initiative to declare a year dedicated to IT & English education, our fully-owned IT subsidiary, Lanka ORIX Information Technology Services Ltd. (LOITS), ventured into Business IT & English education through Orient Academy, a company that is primarily focused on enabling the rural community. In

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certain programmes conducted by the academy, successful finalists are given industry placements with the assistance of the Ministry of Youth Affairs. This initiative is strongly linked to LOLCs operations in the North and East, providing curricula to equip recruits from these regions with the language and IT skills they need to build their careers with us.

Sustainable investment by 'going green' is at the very core of our business model and is reflected in every strategic move of the Group, as explained below.

In 2007, LOLC joined the Government in a public-private partnership to revitalise the long abandoned Higurana Sugar Industries. LOLC together with Browns took up the challenge of making 'Gal Oya Plantations' operational. We are now in the process of re-establishing the factory, and rejuvenating the plantation that has once been the prime source of income for many farmer families in the area. Operations are due to commence in the coming months, with the assistance of independent consultants to maximise capacity and output. New revenue streams have also been identified through raw sugar refining and co-generation of renewable energy using bio waste, thus better optimising available resources. Above all, this project will create many direct employment opportunities that will contribute to uplift the livelihoods of more than 4,400 farmer families in the area.

The state-of-the-art eco-friendly motor garage and vehicle service centre, LOLC Motors, is our newest addition to core business. With a micro biological media system on waste water and rain water recycling, eco-friendly paint booths, air-condition recovery machines as adjuncts to our air-conditioning to prevent release of refrigerant to the atmosphere, the unique design elements employed to utilise maximum natural light plus plans to install solar panels in the near future, this project reflects our passion for value addition to our core business through sustainable investments. This facility can handle 100 vehicles per day and is an invaluable complement to our fleet management activities.

Our constant quest for green investments together with our exposure in the agriculture sector has led us to explore the potential in the plantation sector as well. Thus, we invested in Maturata Plantations, which is predominately in tea and Pussellawa Plantations, predominately in rubber, through Browns Investment Ltd. Between the two plantations, there is an extensive amount of unused land mass which can be put to productive use. With a view to maintaining a 360 degree holistic approach, we are growing commercially valuable timber such as teak and mahogany in addition to the tea/rubber cultivation. We have also embarked upon 14 mini-hydropower projects expected to generate 27MW in total at an initial investment of approximately US\$ 30 Mn. Presently, two mini-hydro projects have already been commissioned producing a total of 3.2MW at Pussellawa Plantations. All these projects are registered for carbon credit and the two projects commissioned are perhaps the only mini-hydro projects to be earning carbon credits in the country.

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Extending our green efforts in the renewable energy sector, LOLC invested in a Company that is involved in generating renewable energy from biomass. United Dendro Energy is thus far the only company that will produce 4MW electricity to be supplied to the national grid using glyricidia as the bio fuel. A project of this magnitude faces risk in sourcing adequate raw material, which we are mitigating by having our own plantation of glyricidia. Land has been identified for this purpose and the project is in its design stage with the expectation of commissioning by end of 2011.

I'm proud to note that we recently installed 2,000 solar panels at our Head Office premises in Rajagiriya, with the assistance of our subsidiary Sundaya Lanka, who possess valuable expertise in the field of Solar Technology. Now we enjoy a 48KW grid-connected solar system with net metering, which generates 15% of our power requirement at Head Office. This, thus far, is the largest installation in a commercial building in Sri Lanka. This project solely stems from our passion for sustainable investments through eco-friendly business solutions.

LOLC is greatly honoured by the continuing support and encouragement we receive from our funding partners. We have been fortunate indeed not only to establish and maintain an excellent track record with a most illustrious portfolio of funding agencies over so many years, but also to be their preferred conduit to attain their developmental and commercial funding goals in Sri Lanka. Their valued contribution beyond funding has enabled us to attain operational excellence, fine-tune processes and procedures and improve compliance and governance over the years.

Let me take this opportunity to express our sincere gratitude to our long standing funding partners for their continued trust and confidence in the LOLC Group and in every opportunity we explore.

I am inspired by the road ahead... the opportunities that await us. There is no doubt in my mind, that our diligence, pro activeness and innovation will lead us to greater heights in the year ahead.



Ishara Nanayakkara  
*Deputy Chairman*

20 July 2010