

# FINANCIAL REPORT

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# FINANCIAL CALENDAR

## 2007/08

1st Quarter Results 2007/08 released on	21 August 2007
2nd Quarter Results 2007/08 released on	21 November 2007
Interim Dividend-Rs 2.25 per share- paid on	30 June 2007
3rd Quarter Results 2007/08 released on	19 February 2008
Annual Report for 2007/08 released on	06 June 2008
29th Annual General Meeting on	30 June 2008

## 2006/07

1st Quarter Results 2006/2007 released on	23 July 2006
2nd Quarter Results 2006/2007 released on	27 November 2006
Interim Dividend of 15% paid on	16 January 2007
3rd Quarter Results 2006/07 released on	21 February 2007
Annual Report for 2006/07 released on	06 June 2007
28th Annual General Meeting on	29 June 2007

## AUDIT COMMITTEE REPORT

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The Audit Committee consists of 3 Non-Executive Directors of the Company, one of whom is a Chartered Accountant, who are appointed by the Board, with the Company Secretary functioning as its Secretary. The Chairman, Executive Deputy Chairman and the Managing Director are invited to attend meetings, while the heads of the various departments are invited as and when required.

The Audit Committee which has written Terms of Reference examines matters relating to the financial reporting system of the Company. Its duties include detailed review of the financial statements, accounting policies and compliance with Accounting Standards. It also reviews the adequacy of the Internal Control procedures.

The reports of the internal auditors covering all departments and branches were reviewed by the Committee. The internal auditors who were MSL Management Audit Services (Pvt) Limited resigned during the year to 31st March, 2008, and the internal audit is now conducted by an independent section within the Company, supervised by a qualified and experienced person.

The Company's quarterly and annual financial statements were reviewed by the Committee and approved by the Board prior to their issuance. The Committee met on ten occasions including meetings with the external auditors. The meetings with the external auditors were to review the scope of the audit and the Management Letter of the Company. They also reviewed the action taken by the management in respect of the Management Letter. It recommends the payment and fees to the external auditors and has given consideration to the independence of the external auditors.

The Committee assessed the business and control risks prevalent in the Company and has advised the Board on action to be taken where weaknesses were observed.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be appointed as Auditors for the financial year ending March 31, 2009. The appointment of the Audit Firm and acceptance of its fee will be subject to the approval of the shareholders at the Annual General Meeting to be held on 30th June, 2008.



**Mr. M. T. L. Fernando**  
Chairman  
Audit Committee.

## REMUNERATION COMMITTEE REPORT

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Following the introduction of the new Corporate Governance Rules of the Colombo Stock Exchange, the Remuneration Committee was re-constituted. The Remuneration Committee now comprises three Independent Directors - Mr R A Fernando (Chairman of the Committee) Mr M T L Fernando and Deshamanya M D D Pieris .

The Committee reviewed and re-drafted the remuneration policy, which they then submitted to the Board. Based on the recommendation of the Committee, the Board approved the adopting of the policy.

The policy covers remuneration to Executive and Non Executive Directors, including the Non-Executive Chairperson and the Executive Managing Director/Group CEO. Under the terms of this policy, remuneration will be related to performance and contribution.



**Mr. R. A. Fernando**  
Chairman  
Remuneration Committee.

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

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The Directors take pleasure in presenting their report together with the audited financial statements for the year ended 31st March, 2008.

## Principal activities

The principal activities of the Company are the provision of financial services, including finance and operating leasing, mortgage finance, loans and hire purchase.

Group companies offer Shari'ah compliant financing, factoring, fixed and savings deposits, pawning, margin trading financing, insurance broking and trading in equity and debt securities. With the sharpening of the Group's focus on Micro Finance and alternative energy sources, there have been strategic investments in companies engaging in re-forestation, cultivation and provision of solar power.

## Directorate

The Directors of the Company during the year under review are as follows:

Mrs. R. L. Nanayakkara	- Non Executive Chairperson
Mr. I. C. Nanayakkara	- Executive Deputy Chairman
Deshamanya M. D. D. Pieris	- Independent Director
Mr. M. T. L. Fernando	- Independent Director
Mr. R. A. Fernando	- Independent Director
Mrs. K. U. Amarasinghe	- Executive Director
Mr. T. H. M. Wickremasinghe	- Non-Executive Director
Mr. R. M. Nanayakkara	- Non-Executive Director
Mr. W. D. K. Jayawardena	- Executive Managing Director - Group CEO
Mr. Y. Oshima	- Non-Executive Director
Mr. K. Fushitani (appointed w.e.f. 28.11.07)	- Non-Executive Director
Mr. N. Esaki (resigned w.e.f. 28.11.07)	

### Alternates to Mr Oshima

Mr. Y. Uchida (resigned w.e.f. 28.11.07)  
Mr. E. Matsumoto (appointed w.e.f. 28.11.07)

### Alternate to Mr Fushitani

Mr. M. Sekimoto (appointed w.e.f. 28.11.07)

### Alternates to Mr N Esaki

Mr. M. Shioda (resigned w.e.f. 08.05.07)  
Mr. M. Sekimoto (appointed w.e.f. 08.05.07 and resigned w.e.f. 28.11.07)

The profiles of the Directors are given on pages 14 to 17

Mr. M. T. L. Fernando has served as a Director of the Company for more than nine years. It is the opinion of the Board that this period of service does not affect Mr Fernando's ability to function as an independent Director. Mr Fernando serves on the Boards of several companies, including other listed companies. He has conducted himself in a manner which has established his independence. Further, he meets the other qualifying criteria necessary to be considered an independent Director. The Board is therefore of the view that Mr. M. T. L. Fernando should be considered an Independent Director

## Directors' Meetings

The Directors meet monthly. Board decisions are also obtained by Circular Resolutions. Minutes of Board sub committee Meetings are tabled at Board Meetings, to ensure that all Directors are kept well informed. The Directors based overseas, while not in a position to attend every month's Board meeting, ensure that they are present for Board meetings on a regular basis. Further, they receive monthly Board papers, inclusive of copies of minutes of Meetings of the Board and Board sub committees.

## Re-election of Directors

In terms of Article 84 of the Articles of Association of the Company, Messrs R M Nanayakkara and Y Oshima retire by rotation and seek re-election. The Board of Directors recommends their re-election.

In terms of Article 91 of the Articles of Association of the Company, Mr. K. Fushitani retires by rotation and seeks re-election. The Board of Directors recommends his re-election.

The Company has received notices from shareholders of their intention in terms of Section 210 of the Companies Act No. 7 of 2007 to propose the re-elections of Mrs. R. L. Nanayakkara, Mr. M. T. L. Fernando and Mr. M. D. D. Pieris, all of whom are over 70 years of age. The Board of Directors recommends their re-election.

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

## Directors' interests in shares

The Directors' interests in shares as at 31st March, 2008 were as follows:

	As at 31.03.2008	As at 31.03.2007
Mrs. R. L. Nanayakkara	-	-
Mr. I. C. Nanayakkara	5,989,550	5,989,550
Deshamanya M. D. D. Pieris	-	-
Mr. M. T. L. Fernando	76,844	76,844
Mr. R. A. Fernando	1,500	1,500
Mrs. K. U. Amarasinghe	5,243,200	5,243,200
Mr. T. H. M. Wickremasinghe	-	-
Mr. R. M. Nanayakkara	14,598,122	14,456,724
Mr. W D K Jayawardena	-	-
Mr. Y. Oshima	-	-
Mr. K Fushitani (appointed w.e.f. 28.11.07)	-	-
Mr. N Esaki (resigned w.e.f. 28.11.07)	-	-

## Alternate Directors

Alternate to Mr Y Oshima

Mr. E Matsumoto \*\* - -

Mr. Y Uchida (Resigned w.e.f. 28.11.07) - -

Alternate to Mr K Fushitani

Mr. M. Sekimoto (Appointed w.e.f. 28.11.07) - -

Alternate to Mr N Esaki

Mr. M. Shioda (resigned w.e.f. 08.05.07) - -

Mr. M. Sekimoto (Appointed w.e.f. 08.05.07 and resigned w.e.f. 28.11.07) - -

\*\* Mr Matsumoto, who was appointed Alternate Director to Mr Y Oshima on 28.11.07 resigned with effect from 22.04.08 and Mr. T Mori was appointed Alternate Director to Mr. Y. Oshima with effect from the same date. Mr Mori holds no shares in LOLC .

## Shareholdings

The stated capital of the Company is Rs 475,200,000/- , divided into 47,520,000 shares. The shareholding structure is given on pages 120 to 121, together with the 20 largest shareholders. During the year, the share price ranged from Rs. 81.00 to Rs. 167.50. As at the end of trading on 31st March, 2008, the share price was Rs.150.00.

## Equitable treatment of shareholders

The Directors have made every endeavour to ensure the equitable treatment of all shareholders, and are committed to maximising shareholder wealth.

Notice of shareholders' Meetings are sent out as required by the Companies Act No. 7 of 2007, and by the Company's Articles of Association . Two way proxies enable all shareholders to indicate their consent or dissent on any decision, even if they are unable to be present at the meeting.

## Dividends

An interim Dividend of Rs. 2.25 per share (2007 - 15%) was paid on 20th June, 2007.

## Earnings per share (EPS)

Earnings per share is shown on page 91 along with the Income Statements, and the basis of computation of EPS is shown in Note 13 to the Financial Statements on page 91.

## Property, Plant & Equipment

The details of Property, Plant and Equipment of the Company and the Group are shown in Note 23 to the Financial Statements on page 100.

## Capital Expenditure

The total capital expenditure of the Group incurred on the acquisition of Property, Plant and Equipment during the year which is given in Note 23 to the Financial Statements on page 100 amounts to Rs. 810,380,004.

## Events after the balance sheet date

On 9th May, 2008 the Company purchased 66.15% of the stated capital of Commercial Leasing Co Ltd (CLC) . The activities of CLC closely match those of the Company and its group companies . Synergies can be leveraged and resources optimized. Accordingly, it is expected that client needs can be met with even greater levels of satisfaction, and market penetration enhanced , which in turn will enhance value to all stake holders.

## Notice of Meeting

The notice of Meeting is found on page 126 If you are unable to be present, please complete and return the Form of Proxy.

## Human Resources

The Company promotes a culture of teamwork, integrity and dedication. Employees periodically remind themselves of the Company's code of ethics by signing acceptance .

Remuneration is linked to performance, and bi-annual performance appraisals capture both the qualitative and the quantitative performance of all employees. Employees are encouraged to use the appraisal discussions to reinforce company values, review and

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

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revalidate Group and personal goal alignment and set objectives that help in personal development and the growth of both the employee and the Group.

The appraisals also help with identifying technical or other training needs. Staff are provided with periodic training both internal and external. On the job training is also carried out. Employees identified for promotion to managerial grades are provided with managerial training.

## **Directors' interests in contracts**

The Directors have made the declarations required by the Companies Act No. 7 of 2007. These have been entered into the Interest Register which is maintained by the Company.

Lists of other companies on which these Directors serve are included at the end of this report on pages 72 to 74.

## **Directors' remuneration**

The Directors' remuneration is disclosed on page 111.

## **Board sub committees**

The Board has established sub committees for better monitoring and guidance of different aspects of operations and control. These Committees are the Executive Committee, the Audit Committee and the Remuneration Committee. During the year under review, a Corporate Governance Committee and a Nomination Committee were also established. Details of these committees can be found in the Report on Enterprise Governance found on page 46 to 53.

The Board has delegated authority to the Managing Director / Group CEO to meet with an Assets and Liabilities Committee (ALCO) to regularly review and set borrowing and lending rates for all group companies.

The Chairperson and one Executive Director meet quarterly with the Chief Information Officer, the Chief Financial Officer, the Chief Risk Officer and the Managing Director / Group CEO to discuss group IT issues. This "Group IT Steering Committee" also reviews licensing, IT security, and ensures that resources are optimized across the Group.

## **Review of business**

Following the implementation of the Strategic Plan, the Group structure was revised. To optimize resources and harness synergies, support functions such as finance, treasury, legal, recoveries, human resources, risk management and corporate communications were centralised. Key management personnel now provide their services across the Group, facilitating operations and strengthening controls.

Products offered by Group companies are now placed under Business

Units. These BU's, freed from "back office" functions are tasked with ensuring that market needs are met with innovative, tailor-made solutions.

The BU's are supported by a streamlined, multi trained marketing staff who focus on market penetration and customer development. A desire to cater to all sections of society in all areas of Sri Lanka has led to the growth of the branch network and great variety in the methods used for customer interfacing and communication.

The focus on Micro Finance has seen the Company moving towards strategic acquisitions and alliances with like minded companies.

Re-forestation, solar power and other alternative sources of energy, and generation of electricity are some of the areas into which the Company is moving.

The statements of the Chairperson, Deputy Chairman and Group Managing Director / CEO (found on pages 6,10 and 22 respectively) cover the Company's review of performance and plans for the future. The Business Impact Report and Financial Review found on pages 24 to 36 and pages 59 to 64 contain further details on activities of the Company and its subsidiaries.

## **Directors' responsibility for financial reporting**

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that the Financial Statements (appearing on pages 78 to 112) have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards, the Companies Acts No. 17 of 1982 and No. 7 of 2007 (for the relevant periods of the financial year), the Finance Leasing Act No 56 of 2000 and all relevant directions of the Central Bank of Sri Lanka.

In accordance with the Listing Rules of the Colombo Stock Exchange, interim financial statements are dispatched to all shareholders following each of the first three quarters of the financial year. The Company sends out its annual report (with a review of the entire financial year) within three months of the financial year end, thus making dispatch of last quarter accounts unnecessary.

## **Responsibility statements**

The Chief Executive Officer's and Chief Financial Officer's responsibility statement appears on page 76. The Directors responsibility statement appears on pages

## **Going concern**

The Directors believe that the Company is in a position to continue its operations in the foreseeable future. Accordingly, the Financial

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

Statements are prepared on the basis that the Company is a going concern.

## Financial Statements

The financial statements are given on pages 78 to 112.

## Income

The income of the Company was Rs 4,480,432,084/- (2007 Rs 3,034,110,432/-). The income of the Group was Rs 5,934,772,221/- (2007 - Rs 3,950,751,220/-)

## Profit

Despite difficulties faced due to increasing cost of funds, the Company made a profit of Rs. 999,768,142/- (2007 Rs.986,593,585/-). The profit of the Group was Rs.1,307,535,141/- (2007 - Rs.1,050,181,256/-)

## PROFIT AND APPROPRIATIONS

	2007/08	2006/07
	Rs .	Rs .
Net profit of the Group for the year after providing for all expenses, known liabilities and depreciation of property, plant & equipment	650,107,421	790,064,000
to which income earned on other activities is added	313,375,519	207,674,719
Goodwill on consolidation is added	131,292,503	-
Share of Profit of Associate Companies	88,276,885	-
and income tax and deferred tax on Group Profit has to be added	87,737,153	52,442,537
leaving the Group with a Profit after taxation of	1,270,789,481	1,050,181,256
from which the amount attributable to minority interest is adjusted	(2,616,118)	(8,941,198)
and transfer to Reserve Fund	(71,692,027)	(70,284,593)
and deduct the payment of the final dividend of 15% for 2005/2006 on a share capital of Rs.475,200,000	-	(71,280,000)
and deduct the payment of the interim Dividend of Rs 2.25 per share for 2007/2008 on a Stated Capital of Rs. 475,200,000/-	(106,720,000)	(71,280,000)

(2006/2007 - 15% on a Stated Capital of Rs. 475,200,000/-)

leaving a sum of	1,089,561,336	828,395,465
to be carried forward out of the year's profit which when added to the profit brought forward from previous years of	2,980,546,405	1,961,594,070
and transferring to/from Reserve Fund	-	204,399,402
leaves an unappropriated profit of	4,070,107,741	2,994,388,937
Prior year adjustments to subsidiary retained earnings	-	(13,842,532)
after these appropriations, the total reserves of the Group stand at	4,576,313,598	3,309,657,333

## Significant accounting policies

The significant accounting policies adopted when preparing these financial statements and any changes thereof if applicable are given on pages 78 to 112.

## Statutory Payments

For the year under review, all known statutory payments have been made and all retirement gratuities have been provided for. Further, all management fees and payments to related parties for the year under review have been reflected in the accounts. Details are given in Note No. 12 of page 91.

## Donations

During the year under review, the Company and the Group made donations amounting to Rs.118,000 and 169,800 (2006/07 Company - Rs. 249,499 and Group - Rs.299,699)

## Auditors

The Auditors, M/s KPMG Ford Rhodes Thornton and Company retire at the conclusion of this AGM.

M/s KPMG Ford Rhodes Thornton and Company have been auditors of the Company since its incorporation. The Directors take this opportunity to place on record their gratitude for the services rendered by the Auditors over the past years.

During the year under review, the Auditors were paid Rs 1 Mn as audit fees. They were paid a further amount of Rs 216,758 for provision of non audit services.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company or any of its subsidiaries nor do they

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

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have any interest in contracts with the Company or any of its subsidiaries.

In accordance with best practices, which recommends periodic changes of auditors, the Board recommends that M/s Earnst & Young be appointed auditors for the year 2008/2009, at a fee to be decided upon by the Board.

## Auditors Report

The Auditors report appears on page 77.

## Internal Controls

An ERM Division has been established which regularly reviews the procedures and practices of all operations of the Company and Group. Their reports are tabled at Audit Committee meetings and recommendations are implemented and monitored through the Board and other sub committees. Periodic reports are also submitted on credit risk and corporate compliance. The Risk Management Report on pages 54 to 58 and the Enterprise Governance Report on pages 46 to 53 give further details.

## Compliance with laws and regulations

The Company has not engaged in any activity that contravenes any applicable law or regulation.

## Corporate Governance

The Board delegates authority with responsibility, and puts in place reporting lines and internal controls that ensure that the Company's objectives are met in a manner that is ethical and socially responsible. Details of steps taken in this connection are given in the Enterprise Governance Report found on pages 46 to 53.

## Adoption of applicable regulatory and statutory requirements

Following the implementation of the Companies Act No. 7 of 2007, the Company reviewed its Articles of Association. The appropriate amendments were submitted for the approval of the Central Bank of Sri Lanka. Having obtained their consent these amendment are being submitted for shareholder approval at the Extraordinary General Meeting scheduled to take place immediately following the Annual General Meeting on 30th June, 2008.

The Board also reviewed existing governance, in the light of the new Corporate Governance Rules of the Colombo Stock Exchange. Compositions of Board Sub Committees were revised and new Sub Committees set up. Committee charters and other documents detailing roles, functions and duties were reviewed and updated.

The Company complies with all direction and regulations of the Central Bank of Sri Lanka on management of companies engaged in leasing. The Group complies with any such direction or regulation on leasing and also those applicable to finance companies. Monthly compliance reports are submitted to the Board.

The Company was one of the first to adopt an Anti Money Laundering Policy. The AML Policy, reviewed and updated this year, also contains the procedures and processes to be followed. This policy is also being adopted by all Group Companies. This will strengthen controls:

## Interests in contracts

The Directors are to be regarded as interested in any contracts entered into with the following companies on the Boards of which they serve in the capacities referred to :

### Mrs. R. L. Nanayakkara

Chairperson of:

NDB Venture Investment (Pvt) Ltd.  
Ayojana Fund Management (Pvt) Ltd.  
Brown & Co Ltd  
Browns Group Industries Limited  
Browns Tours Limited  
Badulla Transport & Agency Ltd  
Ceylon Marine & Travel Services (Pvt) Ltd  
C F T Engineering Ltd  
Polycoat Resins Ltd  
Engineering Services Ltd  
Hatton Transport and Agency Ltd  
I.G Browns Rubber Industries Ltd  
Lanka ORIX Finance Co Ltd  
Lanka ORIX Factors Ltd  
Lanka ORIX Insurance Brokers Ltd  
LOIB Financial Services Ltd  
Lanka ORIX Information Technology Ltd  
Lanka ORIX Project Development Ltd  
Lanka ORIX Securities (Pvt) Ltd  
Masons Mixture Ltd,  
Mutugala Estates Ltd  
Pathregalla Estates Ltd  
Sundaya Lanka (Pvt) Ltd  
Standard Finance Ltd  
Taprobane Investment Group of Companies

Director of:

Mireka Capital Land (Pvt) Ltd  
Mireka Homes (Pvt) Ltd  
Overseas Realty Ltd.  
Trans Asia Hotels Ltd

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

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## **Mr. I. C. Nanayakkara**

Chairman of:

Touchwood Investments Ltd

Deputy Chairman of:

Lanka ORIX Finance Company Ltd

Lanka ORIX Factors Ltd

Lanka ORIX Insurance Brokers Ltd

LOIB Financial Services Ltd

Lanka ORIX Information Technology Ltd

Lanka ORIX Securities (Pvt) Ltd

Lank ORIX Project Development Ltd

Director of:

Brown and Co Ltd

Colombo Land Exchange

Taprobane Fund Management (Pvt) Ltd

Muthugala Estates Ltd

Pathregala Estates Ltd

Masons Mixture Ltd

Walker & Greig Ltd

Standard Finance Ltd

The Hatton Transport & Agency Co Ltd

Snowcem Products Lanka (Pvt) Ltd

The Badulla Transport & Agency Co Ltd

Ceylon Marine & Travel Services (Pvt) Ltd

CFT Engineering Ltd

Associated Battery Manufacturers (Cey) Ltd

Engineering Services Ltd

Sundaya Lanka (Pvt) Ltd

PRASAC Micro Finance Institution

Ishara Plantations (Pvt) Ltd

Ishara Property Development (Pvt) Ltd.

## **Deshamanya M. D. D. Pieris**

Deputy Chairman of:

Mercantile Merchant Bank Ltd

Director of :

Financial Systems International (Pvt) Ltd

Mercantile Financial Brokers Ltd

Mercsair Ltd

MMBL Logistics (Pvt) Ltd

MMBL Money Transfer (Pvt) Ltd

Pathfinder Holdings (Pvt) Ltd.,

Pathfinder (Pvt) Ltd.,

Mountain Hawk Express (Pvt) Ltd.

## **Mr. M. T. L. Fernando**

Director:

Lanka ORIX Information Technology Ltd

Asian Hotels & Properties Ltd

Royal Ceramics Lanka Ltd

Brown & Company Ltd

Accounting Consultancy & Solutions (Pvt) Ltd

Business Intelligence Ltd

Chevron Lubricant Lanka Ltd

Commercial Development Co. Ltd

Gal Oya Holdings (Pvt) Ltd

Lanka Lapidus Ltd

Lanka Tours & Trades (Pvt) Ltd

Lexinton Holdings (Pvt) Ltd

Management Systems Ltd

Managers & Secretaries (Pvt) Ltd

Mirishena (Kalutara) Rubber Co.Ltd

Paradise Coconut Products (Pvt) Ltd

Rocell Bathware Ltd

Royal Ceramics Distributors (Pvt) Ltd

Royal Porcelain (Pvt) Ltd

Secretarial Services Ltd

SSL Business Services (Pvt) Ltd

Taprobane Investment (Pvt) Ltd

Taprobane Fund Management (Pvt) Ltd

Taprobane Consultancy (Pvt) Ltd

Taprobane Securities (Pvt) Ltd

Taprobane Holdings Ltd

The Institute for the Development of

Commercial Law & Practice

Uva Ketawela Tea Co. Ltd

Vallibel Power Erathna Ltd

## **Mr. R. A. Fernando**

Director of:

World Vision

Habitat for Humanity

Environmental Foundation of Lanka

Duncan White Sports Foundation

## **Mrs. K. U. Amarasinghe**

Director of:

Lanka ORIX Finance Company Ltd

Lanka ORIX Factors Ltd

Lanka ORIX Insurance Brokers Ltd

LOIB Financial Services Ltd

Lanka ORIX information Technology Ltd

Lanka ORIX Project Development Ltd

Lanka ORIX Securities (Pvt) Ltd

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

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Ishara Traders (Pvt) Ltd  
Ishara Property Development (Pvt) Ltd  
Ishara Plantations (Pvt) Ltd  
Touchwood Investments Ltd

## Mr. T. H. M. Wickremasinghe

Chairman of:

Shakthi Institute (Pvt) Ltd

Managing Director of:

Lanka ORIX Securities (Pvt) Ltd

## Mr. R. M. Nanayakkara

Chairman of:

Ishara Traders (Pvt) Ltd

Ishara Plantations (Pvt) Ltd

Ishara Property Development (Pvt) Ltd

## Mr. W. D. K. Jayawardene

Director of:

Lanka ORIX Finance Co Ltd

Lanka ORIX Factors Ltd

Lanka ORIX Insurance Brokers Ltd

LOIB Financial Services Ltd

Lanka ORIX Information Technology Ltd

Lanka ORIX Securities (Pvt) Ltd

Touchwood Investments Ltd

Sundaya Lanka (Pvt) Ltd

Peoples Merchant Bank Ltd

## Mr. Y. Oshima

Chairman of:

ORIX China Corporation

ORIX Auto Infrastructure Services Limited

ORIX Leasing Pakistan Limited

ORIX Polska S.A

ORIX International Finance Limited

Deputy Chairman of:

ORIX China Railway Corporation

Director of:

ORIX Australia Corporation Limited

Shanghai Jinheyuan Equipment Rental Co., Ltd

China Orient Leasing Co., Ltd.

ORIX Leasing Egypt SAE

Tian An China Investment Company Limited

ORIX Asia Limited

IL&FS Education & Technology Services Limited

Infrastructure Leasing & Financial Services Limited

IL&FS Securities Services Limited

BTA ORIX Leasing JSC

ORIX Leasing Malaysia Berhad

ORIX Investment Bank Pakistan Limited

ORIX METRO Leasing and Finance Corporation

ORIX Car Rentals Pte Ltd

ORIX Investment and Management Private Limited  
ORIX Leasing Singapore Limited  
ORIX Rentec (Singapore) Pte. Ltd.,  
ORIX Hotels International Pvt Ltd  
Saudi ORIX Leasing Company  
ORIX Europe Limited  
ORIX Auto Leasing Taiwan Corporation  
ORIX Taiwan Corporation  
ORIX Enterprise  
ORIX Auto Leasing (Thailand) Co.,Ltd  
Thai ORIX Leasing Co., Ltd  
ORIX Finance Services Hong Kong Limited  
ORIX Advanced Finance Inc,  
ORIX Taiwan Asset Management Company  
ORIX (Caribbean) N. V., Dragon Wealth Development Limited  
ORIX Asset Management (Hong Kong) Co. Ltd

He also serves as Auditor of ORIX Capital Korea Corporation and is the Vice President Commissioner of PT. ORIX Indonesia Finance.

## Mr. K. Fushitani

Deputy Chairman of:

ORIX Polska S.A

Director:

ORIX Auto Infrastructure Services Limited

ORIX Leasing Pakistan Limited

ORIX Capital Korea Corporation

ORIX Auto Leasing Taiwan Corporation

ORIX Enterprise Corporation

ORIX Auto Leasing (Thailand) Co. Ltd

Thai ORIX Leasing Co., Ltd



## Mr. Kapila Jayawardena

Group Managing Director / Chief Executive Officer



## Mrs. Rohini Nanayakkara

Chairperson



## Ms. Chrishanthi Emmanuel

Company Secretary

# DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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The Company's financial statements for the year to 31st March , 2008 have been prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards, the Regulations and Directions of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, the Finance Leasing Act No. 56 of 2000, the Companies Act No, 17 of 1982 (for the applicable period ) and the Companies Act No. 7 of 2007.

The Directors have set in place systems and procedures which facilitate monitoring and control . Internal systems and processes are reviewed regularly by the Enterprise Risk Management Division and their reports are discussed at the Meetings of the Audit Committee. The Audit Committee also meets with the external auditors. The Directors expectations of employees, with regard to integrity and ethics are communicated to all staff .

The Directors believe that they have taken all reasonable steps to safeguard the assets of the Company , to ensure the integrity, accuracy and safeguarding of operational data , and to prevent , deter and detect fraud.

M/s KPMG Ford Rhodes Thornton and Company , the Auditors , have examined the financial records, connected documentation and minutes of Directors' and shareholders' meetings . Their opinion is given on page 77.



**Kapila Jayawardena**  
Group Managing Director / Chief Executive Officer

# CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

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The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007 and any other applicable statutes to the extent applicable to the Company. There are no departures from the prescribed accounting standards in their adoption. The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied.

The Board of Directors and the management of your Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, the Company's external auditors. The Audit Committee of your Company meets periodically with the internal auditors and the external auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

It is also declared and confirmed that the Company has complied with

and ensured compliance by the auditor with the guidelines for the audit of listed companies where mandatory compliance is required. It is further confirmed that all the other guidelines have been complied with.



**Kapila Jayawardena**  
Group Managing Director / Chief Executive Officer



**Sunjeevani Kotakadeniya**  
Chief Financial Officer, LOLC Group

# REPORT OF THE AUDITORS



KPMG Ford, Rhodes, Thornton & Co.  
(Chartered Accountants)  
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## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF LANKA ORIX LEASING COMPANY PLC

#### Report on the Financial Statements

We have audited the accompanying financial statements of Lanka Orix Leasing Company PLC and the consolidated financial statements of the Company and its subsidiaries as at March 31, 2008 which comprise the balance sheet as at March 31, 2008, 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 as set out on pages 78 to 112 of this Annual Report.

#### *Management's Responsibility for the Financial Statements*

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

#### *Scope of Audit and Basis of Opinion*

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

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

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

#### *Opinion*

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2008 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

#### **Report on Other Legal and Regulatory Requirements**

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

#### **KPMG Ford, Rhodes, Thornton & Co**

Chartered Accountants

Colombo

May 30, 2008

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A.N. Fernando FCA  
M.R. Mihular FCA  
P.Y.S. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S. Joseph ACA

S. Sirikananathan FCA  
Ms. M. P. Perera FCA  
C.P. Jayatilake FCA  
W.W.J.C. Perera FCA

# INCOME STATEMENTS

For the year ended 31 March	Note	Group		Company	
		2008 Rs.	Restated 2007 Rs.	2008 Rs.	2007 Rs.
<b>REVENUE</b>	3	<b>6,248,147,740</b>	4,158,425,939	<b>4,921,034,276</b>	3,325,950,111
<b>INCOME</b>	4	<b>5,934,772,221</b>	3,950,751,220	<b>4,480,432,084</b>	3,034,110,432
<b>OPERATING EXPENSES</b>	5				
Direct expenses excluding interest costs	6	(218,144,472)	(142,646,748)	(165,047,682)	(110,713,213)
Provision for bad and doubtful debts		(171,592,067)	(110,110,919)	(108,272,168)	(66,157,272)
Staff costs	7	(521,628,482)	(351,482,091)	(333,659,398)	(212,747,869)
Depreciation		(319,886,314)	(237,697,595)	(296,601,808)	(215,883,709)
Other operating expenses	8	(649,448,291)	(530,998,891)	(423,013,697)	(367,363,149)
<b>OPERATING PROFIT BEFORE NET INTEREST COST</b>		<b>4,054,072,595</b>	2,577,814,976	<b>3,153,837,331</b>	2,061,245,220
Net interest costs	9	(3,403,965,174)	(1,787,750,976)	(2,768,779,783)	(1,442,881,021)
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>650,107,421</b>	790,064,000	<b>385,057,548</b>	618,364,199
Other income/ (expenses)	10	313,375,519	207,674,719	440,602,192	291,839,679
Negative Goodwill	11	131,292,503	-	-	-
Share of profit of associate companies		88,276,885	-	-	-
<b>PROFIT BEFORE TAXATION</b>		<b>1,183,052,328</b>	997,738,719	<b>825,659,740</b>	910,203,878
Taxation	12	87,737,153	52,442,537	152,211,715	76,389,707
<b>PROFIT FOR THE YEAR</b>		<b>1,270,789,481</b>	1,050,181,256	<b>977,871,455</b>	986,593,585
Attributable to:					
Equity holders of the Company		1,268,173,363	1,041,240,058	977,871,455	986,593,585
Minority interest		2,616,118	8,941,198	-	-
<b>PROFIT FOR THE YEAR</b>		<b>1,270,789,481</b>	1,050,181,256	<b>977,871,455</b>	986,593,585
<b>BASIC EARNINGS PER SHARE</b>	13	<b>26.69</b>	21.91	<b>20.58</b>	20.76

Figures in brackets indicate deductions

The above Income Statements should be read in conjunction with the Notes, which form an integral part of these Financial Statements, disclosed on pages 82 to 112.

# BALANCE SHEETS

As at 31 March	Note	Group		Company	
		2008 Rs.	Restated 2007 Rs.	2008 Rs.	2007 Rs.
<b>ASSETS</b>					
Cash and cash equivalents	14	1,072,750,722	464,118,339	538,690,514	204,360,048
Short term investments		863,356,920	404,548,902	178,838,916	34,778,665
Rentals receivable on lease assets/hire purchase/others	15	11,602,159,331	10,257,387,807	9,984,330,771	8,823,469,550
Advances and other loans	16	8,562,905,852	5,751,122,663	6,194,837,965	4,685,043,569
Inventories		20,884,442	-	-	-
Real estate stocks		160,757,548	149,985,117	39,290,372	46,765,717
Advances for margin trading		79,880,328	95,194,684	-	-
Other current assets	17	3,558,466,426	2,344,659,955	1,529,878,268	755,080,099
Investment Securities	18	365,660,795	140,306,014	759,142,979	531,524,373
Investment in term deposits		4,362,623,372	3,013,378,966	4,239,553,926	3,013,378,966
Deferred tax asset	19	490,399,448	248,284,112	488,541,570	248,284,112
Investments in joint venture	20	-	-	100,000,000	-
Investments in equity accounted investees	21	492,585,403	-	278,190,903	-
Investments in subsidiary companies	22	20	20	1,216,000,065	981,159,765
Property, plant and equipment	23	2,151,209,445	1,614,963,370	2,105,744,201	1,564,849,494
<b>Total assets</b>		<b>33,783,640,052</b>	<b>24,483,949,949</b>	<b>27,653,040,450</b>	<b>20,888,694,358</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Bank Overdraft		1,090,023,468	257,894,250	659,445,757	43,700,703
Deposits from customers	24	3,339,664,870	1,746,164,740	-	-
Short-term borrowings	25	7,865,273,046	5,401,358,338	7,161,533,046	4,867,512,742
Finance lease liabilities	26	961,803,300	1,030,606,142	961,151,033	1,030,606,142
Provision for taxation		21,301,187	36,537,601	1,373,597	19,066,673
Long term borrowings-current	27	3,867,594,352	2,708,744,871	3,867,594,352	2,708,744,871
Trade and other payables	28	2,362,903,617	1,842,355,476	1,188,999,831	900,546,104
Long term borrowings-non current	27	9,102,258,984	7,599,610,164	9,102,258,984	7,599,610,164
Deferred taxation	19	15,881,811	928,325	-	-
Retirement benefit obligations	29	51,772,347	34,831,047	40,042,619	24,620,025
<b>Total liabilities</b>		<b>28,678,476,982</b>	<b>20,659,030,954</b>	<b>22,982,399,219</b>	<b>17,194,407,424</b>
<b>Equity</b>					
Stated capital	30	475,200,000	475,200,000	475,200,000	475,200,000
Reserves	31	506,205,797	329,110,928	494,396,232	320,542,388
Retained earnings	32	4,070,107,741	2,980,546,405	3,701,044,999	2,898,544,546
Equity attributable to equity holders of the Company		5,051,513,538	3,784,857,333	4,670,641,231	3,694,286,934
Minority interest	33	53,649,532	40,061,662	-	-
<b>Total equity</b>		<b>5,105,163,070</b>	<b>3,824,918,995</b>	<b>4,670,641,231</b>	<b>3,694,286,934</b>
<b>Total liabilities &amp; equity</b>		<b>33,783,640,052</b>	<b>24,483,949,949</b>	<b>27,653,040,450</b>	<b>20,888,694,358</b>

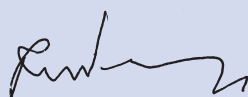
The above Balance Sheets should be read in conjunction with the notes, which form an integral part of these Financial Statements, disclosed on pages 82 to 112.

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



Mrs. S. S. Kotakadeniya  
Chief Financial Officer-LOLC Group

Signed on behalf of the Board



Mrs. R. L. Nanayakkara  
Chairperson



Mr. I. C. Nanayakkara  
Deputy Chairman

30 May 2008

Rajagiriya (Greater Colombo)

# STATEMENTS OF CHANGES IN EQUITY

GROUP	Attributable to Equity Holders of the Company							
	Stated Capital	Subsidiary Share Premium	Revaluation Reserve	Future Taxation Reserve	Statutory Reserve	Retained Earnings	Minority Interest	Total
<i>For the year ended 31 March 2008</i>	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31.03.2006								
as previously reported	475,200,000	536,504	-	205,000,000	257,689,233	1,961,594,070	31,120,464	2,931,140,271
Prior year adjustment to								
subsidary retained earnings (Note 42)						(13,842,532)		(13,842,532)
Balance as at 31.03.2006 (restated)	475,200,000	536,504	-	205,000,000	257,689,233	1,947,751,538	31,120,464	2,917,297,739
Profit for the year as previously reported	-	-	-	-	-	1,045,671,684	-	-
Prior year adjustment to subsidiary profits (Note 42)	-	-	-	-	-	(4,431,626)	-	-
Profit for the year (Restated)	-	-	-	-	-	1,041,240,058	8,941,198	1,050,181,256
Dividends	-	-	-	-	-	(142,560,000)	-	(142,560,000)
Transferred to retained earnings	-	-	-	-	(204,399,402)	204,399,402	-	-
Transfers during the year	-	-	-	-	70,284,593	(70,284,593)	-	-
Balance as at 31.03.2007	475,200,000	536,504	-	205,000,000	123,574,424	2,980,546,405	40,061,662	3,824,918,995
Profit for the year	-	-	-	-	-	1,268,173,363	2,616,118	1,270,789,481
Dividends	-	-	-	-	-	(106,920,000)	-	(106,920,000)
Addition to minority through acquisition of subsidiary	-	-	-	-	-	-	10,971,752	10,971,752
Transfers during the year	-	-	-	-	71,692,027	(71,692,027)	-	-
Revaluation during the year	-	-	105,402,842	-	-	-	-	105,402,842
<b>Balance as at 31.03.2008</b>	<b>475,200,000</b>	<b>536,504</b>	<b>105,402,842</b>	<b>205,000,000</b>	<b>195,266,451</b>	<b>4,070,107,741</b>	<b>53,649,532</b>	<b>5,105,163,070</b>
<b>COMPANY</b>								
	Attributable to Equity Holders of the Company							
	Stated Capital		Revaluation Reserve	Future Taxation Reserve	Statutory Reserve	Retained Earnings	Minority Interest	Total
<i>For the year ended 31 March 2008</i>	Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31.03.2006	475,200,000		-	205,000,000	250,880,239	1,919,173,110	-	2,850,253,349
Profit for the year	-		-	-	-	986,593,585	-	986,593,585
Dividends	-		-	-	-	(142,560,000)	-	(142,560,000)
Transfers during the year	-		-	-	69,061,551	(69,061,551)	-	-
Transferred to retained earnings	-		-	-	(204,399,402)	204,399,402	-	-
Balance as at 31.03.2007	475,200,000		-	205,000,000	115,542,388	2,898,544,546	-	3,694,286,934
Profit for the year	-		-	-	-	977,871,455	-	977,871,455
Dividends	-		-	-	-	(106,920,000)	-	(106,920,000)
Transfers during the year	-		-	-	68,451,002	(68,451,002)	-	-
Revaluation during the year	-		105,402,842	-	-	-	-	105,402,842
<b>Balance as at 31.03.2008</b>	<b>475,200,000</b>		<b>105,402,842</b>	<b>205,000,000</b>	<b>183,993,390</b>	<b>3,701,044,999</b>	<b>-</b>	<b>4,670,641,231</b>

The Statements of Changes in Equity should be read in conjunction with the Notes, which form an integral part of these Financial Statements, disclosed on pages 82 to 112.

# CASH FLOW STATEMENTS

For the year ended 31 March	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net profit before taxation	1,183,052,328	997,738,719	825,659,740	910,203,878
<b>Adjustment for:</b>				
(Profit)/Loss on sale of property, plant and equipment	(6,158,934)	(56,202,698)	(3,176,819)	(56,202,698)
Depreciation	319,886,314	237,697,595	296,601,808	215,883,709
Provision for gratuity	18,448,564	11,927,293	16,140,094	7,576,830
Allowances for doubtful debts	119,014,628	21,631,143	70,941,207	(15,304,831)
Provision for fall/(Increase) in value of investments	(138,353,860)	614,388	(136,427,230)	718,347
Investment income	(1,789,404)	(2,126,480)	(12,812,920)	(2,126,480)
Interest cost	3,633,596,534	1,887,346,920	2,998,411,143	1,542,476,965
Interest income	(229,631,360)	(99,595,944)	(229,631,360)	(99,595,944)
(Profit)/Loss on sale of investments	(47,744,537)	(14,974,287)	(47,744,537)	(14,974,287)
Negative goodwill	(131,235,677)	-	-	-
Share of profit of equity accounted investees	(88,276,885)	-	-	-
	<b>3,447,755,383</b>	<b>1,986,317,930</b>	<b>2,952,301,386</b>	<b>1,578,451,611</b>
<b>Operating profit before working capital change</b>	<b>4,630,807,710</b>	<b>2,984,056,648</b>	<b>3,777,961,125</b>	<b>2,488,655,488</b>
Change in accounts receivables & others	(580,419,322)	(129,316,714)	(774,798,169)	(386,457,552)
Change in inventories	(3,447,493)	-	-	-
Change in accounts payable	(108,579,785)	239,945,616	104,679,872	295,195,317
Change in real estate stocks	(10,772,430)	(79,260,321)	7,475,345	6,792,463
Change in net investment in leases	(1,463,786,152)	(2,845,595,129)	(1,217,757,622)	(2,501,799,042)
Change in factoring account receivable	(615,752,485)	(208,956,180)	-	-
Change in net investment in advances and other loans	(2,811,783,189)	(2,175,749,808)	(1,523,839,200)	(1,391,333,448)
	(963,733,146)	(2,214,875,888)	373,721,351	(1,488,946,774)
Interest paid	(3,022,107,835)	(1,887,346,920)	(2,814,637,288)	(1,542,476,965)
Income tax paid	(156,744,952)	-	(105,738,819)	-
Gratuity paid	(1,507,264)	(3,092,756)	(717,500)	(1,224,750)
<b>Net cash used in operating activities</b>	<b>(3,914,461,837)</b>	<b>(4,105,315,564)</b>	<b>(2,547,372,256)</b>	<b>(3,032,648,489)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment in subsidiary companies	-	-	(234,840,300)	(605,000,000)
Acquisition of subsidiary net of cash acquired (Note 22)	10,404,153	-	-	-
Investment in associate company	(216,359,359)	-	(216,359,359)	-
Investment in joint venture	-	-	(100,000,000)	-
Acquisition of property, plant and equipment	(805,358,312)	(934,498,512)	(792,886,438)	(906,819,000)
Acquisition of short term Investments	(458,808,018)	44,216,396	(144,060,251)	111,338,990
Investment in overseas	-	(61,831,544)	-	(61,831,544)
Net additions to investments	(101,087,928)	(51,355)	(105,278,385)	(8,373,055)
Increase in investment in term deposits	(1,349,244,407)	(1,855,821,365)	(1,226,174,961)	(1,856,221,365)
Proceed from the sale of property, plant and equipment	67,542,412	81,151,468	63,969,586	79,769,582
Interest received	229,631,360	99,595,944	229,631,360	99,595,944
Dividend received	1,789,404	2,039,790	12,812,920	2,039,790
Rent received	-	86,690	-	86,690
<b>Net cash flow from investing activities</b>	<b>(2,851,124,055)</b>	<b>(2,625,112,488)</b>	<b>(2,513,185,828)</b>	<b>(3,145,413,968)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Net proceed from short term borrowings	2,463,914,708	1,449,374,251	2,294,020,304	1,516,528,655
Net increase/(decrease) in Lease Liability	(69,904,082)	742,956,093	(69,455,109)	742,956,093
Net proceeds from customer deposits	1,593,500,130	551,903,683	-	-
Proceeds from long term loans	6,935,999,833	6,576,554,334	6,935,999,833	6,576,554,334
Repayments of long term loans	(4,274,501,532)	(2,382,515,234)	(4,274,501,532)	(2,382,515,234)
Dividends paid	(106,920,000)	(142,560,000)	(106,920,000)	(142,560,000)
<b>Net cash from financing activities</b>	<b>6,542,089,057</b>	<b>6,795,713,127</b>	<b>4,779,143,496</b>	<b>6,310,963,848</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	<b>(223,496,834)</b>	<b>65,285,076</b>	<b>(281,414,588)</b>	<b>132,901,392</b>
Cash & cash equivalents at the beginning of the year	206,224,089	140,939,013	160,659,345	27,757,953
Cash & cash equivalents at the end of the year	(17,272,746)	206,224,089	(120,755,243)	160,659,345
<b>Analysis of Cash &amp; Cash Equivalents at the end of the year</b>				
Cash at bank and in hand	1,072,750,722	464,118,339	538,690,514	204,360,048
Bank overdraft	(1,090,023,468)	(257,894,250)	(659,445,757)	(43,700,703)
	(17,272,746)	206,224,089	(120,755,243)	160,659,345

# NOTES TO THE FINANCIAL STATEMENTS

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## 1. CORPORATE INFORMATION

### 1.1 General

Lanka ORIX Leasing Company PLC. is a public quoted company incorporated on 14 March 1980 and domiciled in Sri Lanka. The Consolidated Financial Statements of the Company for the year ended 31 March 2008 comprise of the Company and its subsidiaries (together referred to as the "Group").

The Financial Statements were authorised for issue by the Directors on 30th May 2008.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Group comprised of leasing, hire purchase, loans, operating leases, factoring, insurance broking, accepting deposits, pawn broking and assembling & distribution of solar light systems.

### 1.3 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements.

## 2. ACCOUNTING POLICIES

### 2.1 Statement of Compliance

The Financial Statements of the Company and those consolidated with such are prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, and therefore present fairly the financial position, financial performance and cash flow of the Company.

The preparation of Financial Statements in conformity with SLASs require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

### 2.2 Basis of Preparation

The Financial Statements are presented in Sri Lankan Rupees where appropriate the significant Accounting Policies disclosed in the succeeding notes. The Financial Statements are prepared on the historical cost basis and no adjustment has been made for inflationary factors affecting the Financial Statements except for revaluation of land and buildings of office premises at 100/1, Sri Jayewardenepura Mawatha, Rajagiriya and adjoining land at 100/2, Sri Jayewardenepura Mawatha, Rajagiriya. Assets and liabilities are grouped by nature and listed in an order that reflect their relative liquidity.

Previous period figures and notes have been restated and reclassified wherever necessary to conform to the current presentation. (Note 42)

The specific policies used are explained below and relate to both the Consolidated Financial Statements and that of the Company, except as stated otherwise.

The Accounting Policies have been consistently applied by the Company and are consistent with those used in the previous year except changes made in Notes 15 and 19.

### 2.3 Basis of Consolidation

#### i) Subsidiaries

The Financial Statements of the Group represent the consolidation of the Financial Statements of Lanka ORIX Leasing Company PLC., and its subsidiaries as disclosed in Note 18. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operation policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Subsidiaries are consolidated from the date the parent company obtains control until such time as control ceases. Acquisition of subsidiaries are accounted for using the purchase method of accounting.

The Group Financial Statements are prepared in accordance with Sri Lanka Accounting Standards No. 26 on Consolidation Financial Statements.

The interest of the outside shareholders of the Group is disclosed separately under the heading "Minority Interest".

#### ii) Associates and jointly controlled entities

Associates are those entities in which the Group has

## NOTES TO THE FINANCIAL STATEMENTS

significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Jointly controlled entities are accounted for using proportionate consolidation method, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

### iii) Business Combinations

All business combinations have been accounted for by applying the purchase method in accordance with the Sri Lanka Accounting Standards No. 25 (Revised 2004) - Business Combinations. Applying this method involves the entity that obtains control of the other entity to recognise the fair value of assets acquired and liabilities and contingent liabilities assumed, including those not previously recognised.

### iv) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

### v) Goodwill

Goodwill represents the excess of the cost of any acquisition of a subsidiary or an associate over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is initially recognized at cost. The company will test the goodwill for impairment annually and assess for any indication of impairment to ensure that its carrying amount does not exceed the recoverable amount. If an impairment loss is identified, it is recognized immediately to the income statement.

Carrying amount of the goodwill arising on acquisition of subsidiaries and joint ventures is presented as an intangible and the goodwill on an acquisition of and equity accounted investment is included in the carrying value of the investment.

In the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition of the entity, the Group will reassess the measurement of the acquiree's identifiable assets and liabilities and the measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost and recognize the difference immediately to the consolidated income statement.

## 2.4 Assets and Bases of their Valuation

### i) Cash and Cash Equivalents

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

### ii) Rentals Receivable on Leased Assets, Mortgage Loans, Hire Purchases

Rentals receivable on leased assets are accounted for as finance leases and reflected in the Balance Sheet at balance cost recoverable after eliminating unearned income and deducting pre-paid rentals, rental collections and provision for doubtful debts.

## NOTES TO THE FINANCIAL STATEMENTS

### Advances and Other Loans to Customers

Advances and other loans to customers comprised of revolving loans and loans with fixed instalments.

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

### iii) Provision for Doubtful Debts

The Company computes its provisioning for bad and doubtful debts according to the Central Bank direction No. 2 of 2006.

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

#### Lease, hire purchase and loan receivables of Lanka ORIX Leasing Company PLC

- Twenty percent (20%) of all lease, hire purchase and loan receivables (net of unearned income) which are in arrears for a period of 6 to 12 months.
- Fifty percent (50%) of all lease, hire purchases and loan receivables (net of unearned income) which are in arrears for a period of 12 to 18 months.
- One hundred percent (100%) of all lease, hire purchases and loan receivables (net of unearned income) which are in arrears for a period of 18 months and more.

with additional specific provisions on a case by case basis.

#### Micro Finance debts of Lanka ORIX Leasing Company PLC and lease, hire purchase and loan receivables of Lanka ORIX Finance Company Limited.

Computation is based on the Direction No. 1 of 1991 of Section 2 of the Finance Companies Act no 78 of 1988.

- Fifty percent (50%) on all receivables (net of unearned income) which are in arrears for a period of 6 to 12 months.
- One hundred percent (100%) on all receivables (net of unearned income) which are in arrears for a period of 12 months and more with additional specific provisions.
- Additional specific provisions are made upon

management review on the performance of the lease, hire purchase and loan portfolios. Facilities that are overdue for 18 months or more and fully provided have been written off against the provisions made.

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

- with regard to vehicles that have been repossessed by the Company, eighty percent (80%) of the valuation obtained during the preceding six months from a professional valuer.
- with regard to land and buildings, the full value, in case of a primary mortgage, such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation

### iv) Factoring Debtors - (Subsidiary)

Factoring receivables of Lanka ORIX Factors Ltd., a subsidiary Company, have been stated net of specific provisions based on Management review. Any amount uncollectable is written off against profits.

### v) Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories has been valued based on the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

### vi) Real Estate Stocks

Real Estate Stocks of the Company represent the purchase value of properties acquired for resale with buy-back agreements, less repayments. Real Estate Stocks of Lanka ORIX Finance Company represent the purchase value of properties acquired and any subsequent expenditure incurred on such for development.

### vii) Short Term Investments

Short term investment comprises of call deposits, interest earning demand deposits with banks and securities purchased under repurchase agreements (repos). Call deposits and deposits with banks are stated at the amounts to be realized and repos are stated at purchase value plus interest accrued on a time proportionate basis.

### viii) Investments in Term Deposits

Term deposits are stated at principal amount plus interest accrued on a time proportionate basis.

## NOTES TO THE FINANCIAL STATEMENTS

### ix) Investments in Subsidiary Companies

In the Parent Company's Financial Statements, the investments in the Subsidiary Companies are reflected at cost of acquisition, net of any provision for diminution in value other than temporary. Provision made for fall in value of such investments is charged against profits.

### x) Investment Securities

Investments in quoted shares are stated at their respective market values on an aggregate portfolio basis. Provision for fall in market value is also made on an aggregate portfolio basis for each class of investment.

Investment in treasury bills and commercial papers are shown at initial cost plus accumulated interest.

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

### xi) Receivable from Clients on Share Purchases

Amounts receivable from clients for shares purchased on behalf of them are stated at net of specific provisioning.

### xii) Other Receivables

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

### xiii) Property, Plant and Equipment (Other than Operating Lease Assets and Leasehold Vehicles and Machinery)

#### (i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

#### (ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### (iii) Depreciation

Property plant and equipment are stated in the Balance Sheet, at cost/revaluation less accumulated depreciation together with any incidental expenses thereon. The cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs incurred in bringing the asset to the working condition.

Depreciation is provided from the date the asset is available for use up to the date it derecognises. The company and its subsidiaries provide depreciation for the following assets on the straight line method over the estimated useful life stated below. Land is not depreciated.

Building	40 years
Motor Vehicles	4 years
Furniture & Fittings	5 years
Office Equipment	5 years

Lanka ORIX Factors Ltd., a subsidiary company, depreciates computers categorized under office equipment over 3 years.

Lanka ORIX Securities (Pvt) Ltd., a subsidiary company, depreciates computers categorized under office equipment over 3 year and furniture and fittings over 4 years.

Gal Oya Holdings (Pvt) Ltd., a Joint Venture company, depreciates computers over 4 years and office equipment over 8 years.

## NOTES TO THE FINANCIAL STATEMENTS

Sundaya Lanka (Pvt) Ltd., a subsidiary company, depreciates motor vehicles over 5 years. Equipments & tools, furniture & fittings and computers are depreciated over 4 years.

### xiv) Operating Lease Assets

Operating Lease Assets are motor vehicles and equipments shown under property, plant and equipment in the Balance Sheet at cost less accumulated depreciation.

Motor vehicles are depreciated net of cost and the estimated residual value over the effective useful life. Effective useful life for leasedhold motor vehicles is estimated as five years for the purpose of depreciation. Cost of equipments are fully depreciated over the lease period. Residual value is the estimated net amount the Company would currently obtain from disposal of the assets at the end of useful life.

### xv) Leasehold Vehicles

Leasehold vehicles are assets obtained on finance leases facilities by the company for the business of hiring and shown under the property, plant and equipment in the Balance Sheet at cost less accumulated depreciation.

These assets are depreciated net of cost and the estimated residual value over five years.

### xvi) Leasehold machinery

Leasehold machinery are machinery and equipments shown under property, plant and equipment in the Balance Sheet at cost less accumulated depreciation. Depreciation on leasehold machinery is computed over the lease period.

### xvii) Capital Work-in-Progress

Capital work -in- progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of building.

## 2.5 Foreign Currency Transactions

Transactions denominated in foreign currencies are converted into Rupees at the monthly average exchange rate applicable for the transactions. Assets and liabilities denominated in foreign currencies are converted into Rupees at the rate of exchange prevailing at the date of the Balance Sheet. Profit or loss arising on conversion is credited or debited to the Income Statement.

## 2.6 Liabilities and Provisions

Liabilities are recognized in the Balance Sheet when there

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

### i) Finance Leases

Property, Plant and Equipment on finance leases, which effectively transfer to the Group substantially all of the risk and benefits incidental to ownership of the leased items, are capitalized and disclosed as finance leases at their cash price and depreciated over the period the Group is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability. 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 outstanding balance of the liability. The interest payable over the period of the lease is transferred to an interest in suspense account. The interest element of the rental obligations pertaining to each financial year is charged to the Income Statement over the period of lease.

### ii) Income Tax

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for the taxation purposes in accordance with provision of the Inland Revenue Act No.10 of 2006 and amendments thereto. The rates used are specified in Note No.11 to financial statements.

### iii) Deferred Taxation

Deferred taxation is provided on the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities.

A deferred tax asset is recognized for carried forward unused tax losses to the extent that it is probable that future taxable profit will be available against which the asset can be utilized.

## NOTES TO THE FINANCIAL STATEMENTS

The carrying amount of deferred tax asset is reviewed at each Balance Sheet date and reduce to the extent that is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset in relation to deductible differences, unused tax credits and unused tax losses carried forward are reassessed at each Balance Sheet date and recognized to the extent that has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the applicable tax rate prevailing in the year. Deferred tax asset and the liabilities in the same entity are set off in line with provision of prevailing tax laws

### iv) Retirement Benefits

#### Defined Benefit Plan- Gratuity

Provision has been made in the Financial Statements for retiring gratuities payable under the Payment of Gratuity Act No. 12 of 1983 to all employees including those who have less than 5 years of continued service with the Company. However, this provision is not funded externally nor actuarily valued.

The gratuity liability would be actuarily valued from the year 2008/09 onwards, as required by the revised Sri Lanka Accounting Standards No 16.

#### Defined Contribution Plan - EPF & ETF

All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively and charged against the profits.

## 2.7 Income Statement

- i) Gross income represents the gross income receivable for the year on all performing contracts, rentals on operating leases, income on factoring of client debtors, commission earned on insurance premiums, brokerage on share transactions and fees for IT services provided. It includes all income related to operations such as interest on overdue rentals, profit/loss on leases and loans terminated and collections on contracts written-off.

### ii) Revenue Recognition

#### a) Earned Income on Leases

The Group follows the financing method of accounting for lease income.

The excess of aggregated contract receivable over the cost of the leased assets constitutes the total unearned income at the commencement of a contract.

The unearned income is recognized as income over the term of the lease commencing with the month that the lease is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the Lessor's net investment outstanding on the lease.

Non-performing leases are those leases where the rentals are overdue for 6 months and over. Lease income accrued is suspended from the date a lease is classified as non-performing and credited to the "Earned Income in Suspense". Thereafter such income is recognized on cash basis.

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

### b) Factoring (Subsidiary)

Revenue is derived from two sources, Funding and providing Sales Ledger related services.

Funding - Discount income relating to factoring transactions is recognized at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the Client's Current Account.

Sales Ledger related services - A service charge is levied as stipulated in the Factoring Agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored, except where the account is classified as non-performing.

### c) Securitisation of Lease Receivables (Subsidiary)

LOLC Funding One Limited was established to securitise lease receivables of LOLC and to provide a cost-effective method of long term finance to LOLC. Currently LOLC Funding One Limited is dormant.

### d) Insurance Broking

Lanka ORIX Insurance Brokers Ltd., and LOIB Financial Services Ltd., derive their income from commission on insurance premiums. Income is accounted for on premium collection basis.

## NOTES TO THE FINANCIAL STATEMENTS

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### e) Brokerage on Share Transaction

Lanka ORIX Securities (Pvt) Ltd., earns brokerage income on the value of share transactions carried out on behalf of its clients. This income is accounted for on an accrual basis.

### f) IT Service Fee

Lanka ORIX Information Technology Ltd., earns fee for IT services provided for Group Companies and is accounted for on an accrual basis.

### g) Turnover from sale of solar systems

Sundaya Lanka (Pvt) Ltd., earns revenue from sale of solar systems and its accounted on an accrual basis.

### h) Royalty Income

Royalty Income is charged from the Group Companies for the usage of "LOLC" logo and ORIX brand, usage of infrastructure support and is accounted for on accrual basis.

### i) Treasury Management Fees & Management Fees

Treasury Management Fee and Management Fee collected from Subsidiaries is accounted for on accrual basis.

### j) Other Income

Rent income, non operational interest income and foreign exchange gains are accounted for on accrual basis.

Dividend income is recognized when the right to receive payment is established.

Profit on sales of property, plant and equipment are accounted for on accrual basis

### iii) The Group Profits are stated after:

- a) Providing for all bad and doubtful debts and depreciation of property, plant and equipment.
- b) Charging all expenses incurred in the day-to-day operations of the business and in maintaining the property, plant and equipment in a state of efficiency.

### iv) Borrowing Costs

Borrowing costs are recognized as expenditure in the period in which they are incurred. However, borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for its intended use or sale, are capitalized as part of the assets. During the year no borrowing cost has been capitalized.

### 2.8 Movement of Reserves

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

### 2.9. Cash Flow Statements

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

### 2.10. Related Party Transactions

Transactions with related parties are conducted on normal business terms. The relevant disclosures are given in Note 43 to the Financial Statements.

### 2.11. Segmental Reporting

Segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with Sri Lanka Accounting Standards No 28 on Segment Reporting, segmental information is presented in respect of the Group. The segment comprises of Leasing, hire purchase and other advances Factoring, Insurance Broking, IT services are described in Note 36.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2008	2007	2008	2007
	Rs.	Rs.	Rs.	Rs.
<b>3 Revenue</b>				
Net Rentals and income from subsidiaries	10,549,173,222	7,656,086,369	8,817,394,598	6,693,128,165
Income	5,934,772,221	3,950,751,220	4,480,432,084	3,034,110,432
Other income	313,375,519	207,674,719	440,602,192	291,839,679
Revenue	6,248,147,740	4,158,425,939	4,921,034,276	3,325,950,111
<b>4 Income</b>				
Leasing interest income	1,586,383,566	1,232,118,297	1,381,745,650	1,055,344,574
Hire purchases interest income	948,165,721	581,926,923	809,056,422	511,735,122
Advances & other loans interest income	1,731,224,560	950,287,974	1,260,276,794	804,739,920
Interest income from micro financing	144,466,940	78,545,102	113,681,463	56,114,099
Operating lease and hire rental income	531,295,664	365,792,101	531,295,664	365,792,101
Overdue interest income	226,819,876	124,145,456	182,231,425	110,180,754
Other operational incomes	248,814,658	153,315,169	202,144,666	130,203,862
Debt factoring	252,649,562	200,797,501	-	-
Insurance broking	110,961,106	99,632,661	-	-
Securities Trading/others	162,450,757	173,488,671	-	-
IT Consultancy Fee	73,500,000	49,500,000	-	-
	6,016,732,410	4,009,549,855	4,480,432,084	3,034,110,432
Inter-company income	(81,960,189)	(58,798,635)	-	-
	5,934,772,221	3,950,751,220	4,480,432,084	3,034,110,432
<b>5 Expenses</b>				
Expenses are stated after including the following:				
Auditors remuneration and expenses:				
Audit related	1,730,000	1,338,000	1,000,000	800,000
Non-Audit related	236,758	362,648	216,758	362,648
Legal expenses	8,982,510	11,035,461	6,573,780	8,079,728
Donations	164,800	299,699	118,000	249,499
<b>6 Direct Expenses excluding interest costs</b>				
VAT on leases/general expenses /VAT on financial services	162,423,892	102,619,956	123,128,206	79,984,553
Others	55,720,580	40,026,792	41,919,476	30,728,660
	218,144,472	142,646,748	165,047,682	110,713,213
<b>7 Staff Costs</b>				
Salaries and other benefits	464,664,568	310,344,068	292,738,127	188,195,638
Defined contribution to EPF	30,812,280	23,368,584	19,824,942	13,580,317
Defined contribution to ETF	7,703,070	5,842,146	4,956,235	3,395,079
Provision for retiring gratuity	18,448,564	11,927,293	16,140,094	7,576,835
	521,628,482	351,482,091	333,659,398	212,747,869

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
<b>8 Other operating expenses</b>				
Administration cost	393,761,363	337,606,960	197,938,899	181,348,310
Operating & marketing cost	235,890,976	184,916,694	221,300,426	183,686,218
Specific provisions	(92,902,939)	(78,906,209)	(37,330,961)	(81,462,102)
Specific bad debts written off	112,698,891	87,381,446	41,105,333	83,790,723
	<b>649,448,291</b>	<b>530,998,891</b>	<b>423,013,697</b>	<b>367,363,149</b>
<b>9 Net Interest Costs</b>				
Overdraft and other short term borrowings	1,206,071,606	668,762,502	1,028,398,997	525,146,719
Long term borrowings:	1,833,148,638	950,226,675	1,812,573,093	938,741,410
Finance lease interest	157,606,052	67,627,789	157,439,053	67,627,789
Interest on customer deposits	436,770,238	189,768,907	-	-
	<b>3,633,596,534</b>	<b>1,876,385,873</b>	<b>2,998,411,143</b>	<b>1,531,515,918</b>
Less: Interest income on USD and EURO deposits	(229,631,360)	(88,634,897)	(229,631,360)	(88,634,897)
	<b>3,403,965,174</b>	<b>1,787,750,976</b>	<b>2,768,779,783</b>	<b>1,442,881,021</b>
<b>10 Other Income / (Expenses)</b>				
<b>10.1 Other Income</b>				
Rent income	-	86,690	-	86,690
Profit on sale of property, plant and equipment	6,158,934	56,202,698	3,176,819	56,202,698
Sales proceeds received in excess on refinances	2,745,826	5,652,424	2,745,826	5,652,424
Profit on sale of vehicles	963,249	17,723,629	963,249	17,723,629
Dividends received	1,789,404	2,039,790	12,812,920	2,039,790
Interest received from USD current accounts, treasury bills, call deposits	78,547,232	53,477,071	6,521,875	19,263,314
Debenture interest income	-	-	89,138,411	63,791,123
Royalty Income	-	-	67,932,478	52,199,458
Foreign exchange gain	434,538	35,886,114	-	32,378,502
Treasury management fee	-	-	46,004,437	16,204,901
Reversal of provision for fall in value of investments and others	19,588,857	31,756,453	17,578,002	31,652,494
Appreciation in market value - People's Merchant Bank shares	136,929,540	-	136,929,540	-
Profit on sale of quoted and non quoted shares	47,744,537	14,974,287	47,744,537	14,974,287
Profit on sale of investment of property	-	-	-	-
Sundry income	17,145,237	14,343,994	6,705,731	4,138,800
Supplier payments unclaimed	(193,203)	7,902,410	(193,203)	7,902,410
Due diligence fee	25,652,174	-	25,652,174	-
	<b>337,506,325</b>	<b>240,045,560</b>	<b>463,712,796</b>	<b>324,210,520</b>
<b>10.2 Other expenses</b>				
Loss on sale of property, plant and equipment	-	-	-	-
Loss on sale of quoted and non quoted shares	58,745	-	-	-
Provision for fall in value for investment	18,164,536	32,370,841	18,080,311	32,370,841
Foreign exchange loss	5,907,525	-	5,030,293	-
	<b>24,130,806</b>	<b>32,370,841</b>	<b>23,110,604</b>	<b>32,370,841</b>
	<b>313,375,519</b>	<b>207,674,719</b>	<b>440,602,192</b>	<b>291,839,679</b>

The foreign exchange gain was mainly derived from profits earned on foreign currency denominated leases and foreign currency deposits converted in to the reporting currency.

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
<b>11 Negative Goodwill</b>				
Touchwood Investment Ltd.	126,117,616	-	-	-
Sundaya Lanka (Pvt) Ltd.	5,174,887	-	-	-
	<b>131,292,503</b>	-	-	-

### 12 Taxation

The following companies are liable for taxation on its taxable income

Company	2007/08	2006/07
Lanka ORIX Leasing Company PLC.	35%	35%
Lanka ORIX Factors Ltd.	35%	35%
LOIB Financial Services Ltd.	35%	35%
Lanka ORIX Finance Company Ltd.	35%	35%
Lanka ORIX Insurance Brokers Ltd.	35%	35%
Lanka ORIX Securities (Pvt) Ltd.	35%	35%
Lanka ORIX Project Development Ltd.	35%	35%
Sundaya Lanka (Pvt) Ltd.	35%	35%
Galoya Holdings (Pvt) Ltd.	35%	35%

The provisions made for the year are as follows

	Group				Company			
	2008 %	2008 Rs.	2007 %	2007 Rs.	2008 %	2008 Rs.	2007 %	2007 Rs.
Profit for the period		1,270,789,481		1,050,181,256		977,871,455		986,593,585
Total income tax		87,737,153		52,442,537		152,211,715		76,389,707
Profit excluding income tax expense		<b>1,183,052,328</b>		997,738,719		<b>825,659,740</b>		910,203,878
Income tax using the corporate income tax rate	35.00	414,068,315	35.00	349,208,552	35.00	288,980,909	35.00	318,571,357
Disallowable expenses	149.56	1,769,314,633	140.53	1,402,124,213	182.25	1,504,755,430	143.00	1,301,577,412
Allowable expenses	-173.39	(2,051,263,077)	-155.90	(1,555,491,190)	-206.84	(1,707,784,065)	-159.11	(1,448,254,364)
Under provision of income tax expense	0.46	5,446,950	0.00	-	0.25	2,093,469	0.00	-
	11.63	<b>137,566,819</b>	19.63	195,841,575	10.66	<b>88,045,743</b>	18.89	171,894,405
Recognition of previously unrecognized tax losses		(295,706,562)		(342,177,291)		(295,706,562)		(342,177,291)
Change in temporary difference		70,402,590		93,893,179		55,449,104		93,893,179
		<b>(87,737,153)</b>		(52,442,537)		<b>(152,211,715)</b>		(76,389,707)

### 13 Earnings per Share

The calculation of Basic Earnings Per Share at 31 March 2008 is based on the profits attributable to ordinary shareholders of 1687 (2007-1570) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2008 of 47,520,000 (2007:47,520,000), calculated as follows:

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
Profit for the year (Rs.)	1,268,173,363	1,041,240,058	977,871,455	986,593,585
Weighted average number of ordinary shares	47,520,000	47,520,000	47,520,000	47,520,000
Earnings per share (Rs.)	26.69	21.91	20.58	20.76

## NOTES TO THE FINANCIAL STATEMENTS

### 14 Cash and cash equivalents

	Group		Company	
	31.03.2008 Rs.	31.03.2007 Rs.	31.03.2008 Rs.	31.03.2007 Rs.
Cash in hand	2,438,531	5,729,868	881,635	415,000
Balances at banks	1,070,312,191	458,388,471	537,808,879	203,945,048
	<b>1,072,750,722</b>	<b>464,118,339</b>	<b>538,690,514</b>	<b>204,360,048</b>

### 15 Rentals receivable on leased assets, hire purchase and others

	Group		Company	
	31.03.2008 Rs.	31.03.2007 Rs.	31.03.2008 Rs.	31.03.2007 Rs.

#### 15.1 Rentals receivable on leased assets

##### Receivable after five years

Rentals receivable	-	20,026,000	-	20,026,000
Unearned income	-	(8,113,089)	-	(8,113,089)
	-	11,912,911	-	11,912,911

##### Receivable from one to five years

Rentals receivable	6,265,563,761	6,385,807,548	5,478,902,085	5,511,241,886
Unearned income	(1,416,557,269)	(1,374,267,449)	(1,251,672,758)	(1,205,806,430)
Provision for doubtful debts	-	(9,657,238)	-	(3,008,733)
Deposits received from lessees	(165,216,186)	(146,254,637)	(152,546,101)	(143,063,321)
	<b>4,683,790,306</b>	<b>4,855,628,224</b>	<b>4,074,683,226</b>	<b>4,159,363,402</b>

##### Receivables within one year

Rentals receivable	3,759,838,736	3,564,505,224	3,215,973,267	3,015,108,495
Unearned income	(1,314,765,873)	(1,253,758,651)	(1,139,085,697)	(1,077,863,287)
Provision for doubtful debts	(1,089,880)	(26,389,388)	(1,089,880)	(6,424,891)
	<b>2,443,982,983</b>	<b>2,284,357,185</b>	<b>2,075,797,690</b>	<b>1,930,820,317</b>

##### Overdue rental receivable

Rentals receivable	159,605,717	137,816,556	109,262,268	66,851,855
Earned income in suspense	(15,450,985)	(20,672,946)	(7,162,486)	(5,856,091)
Provision for doubtful debts	(94,249,732)	(41,718,558)	(54,300,127)	(10,363,055)
	<b>49,905,000</b>	<b>75,425,052</b>	<b>47,799,655</b>	<b>50,632,709</b>

##### Total

Rentals receivable	10,185,008,214	10,108,155,328	8,804,137,620	8,613,228,236
Unearned income	(2,731,323,142)	(2,636,139,189)	(2,390,758,455)	(2,291,782,806)
Earned income in suspense	(15,450,985)	(20,672,946)	(7,162,486)	(5,856,091)
Provision for doubtful debts	(95,339,612)	(77,765,184)	(55,390,007)	(19,796,679)
Deposits received from lessees	(165,216,186)	(146,254,637)	(152,546,101)	(143,063,321)
Balance as at 31 March	<b>7,177,678,289</b>	<b>7,227,323,372</b>	<b>6,198,280,571</b>	<b>6,152,729,339</b>

Rentals receivable on leased assets to the value of Rs. 10,709,542,366/- (31 March 2007 - Rs. 7,577,033,180/-) have been assigned against bank loans.

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
<b>15.2 Rentals receivable on hire-purchase</b>				
<b>Receivable from one to five years</b>				
Rentals receivable	3,940,389,407	2,296,959,643	3,358,629,276	2,296,959,643
Unearned income	(967,475,056)	(509,193,661)	(827,529,548)	(509,193,661)
Provision for doubtful debts	-	(2,332,147)	-	(2,332,147)
	<b>2,972,914,351</b>	<b>1,785,433,835</b>	<b>2,531,099,728</b>	<b>1,785,433,835</b>
<b>Receivables within one year</b>				
Rentals receivable	2,383,509,492	1,871,208,464	2,048,832,494	1,379,859,703
Unearned income	(978,273,849)	(660,359,122)	(835,532,426)	(524,482,356)
Provision for doubtful debts	(6,680,873)	(1,109,263)	(6,680,873)	(1,109,263)
	<b>1,398,554,770</b>	<b>1,209,740,079</b>	<b>1,206,619,195</b>	<b>854,268,084</b>
<b>Overdue rental receivable</b>				
Rentals receivable	79,376,985	32,545,206	68,756,902	27,634,097
Earned income in suspense	(8,347,557)	(2,944,508)	(7,455,814)	(2,589,038)
Provision for doubtful debts	(24,814,515)	(2,766,415)	(19,766,819)	(2,063,005)
	<b>46,214,913</b>	<b>26,834,283</b>	<b>41,534,269</b>	<b>22,982,054</b>
<b>Total</b>				
Rentals receivable	6,403,275,884	4,200,713,313	5,476,218,672	3,704,453,443
Unearned income	(1,945,748,905)	(1,169,552,783)	(1,663,061,974)	(1,033,676,017)
Earned income in suspense	(8,347,557)	(2,944,508)	(7,455,814)	(2,589,038)
Provision for doubtful debts	(31,495,388)	(6,207,825)	(26,447,692)	(5,504,415)
Balance as at 31 March	<b>4,417,684,034</b>	<b>3,022,008,197</b>	<b>3,779,253,192</b>	<b>2,662,683,973</b>
<b>15.3 Rentals receivable on operating leases and hire</b>				
<b>Total</b>				
Rentals receivable	2,123,959,323	1,673,077,178	2,123,959,323	1,673,077,178
Rental received in advance	(9,339,973)	-	(9,339,973)	-
Unearned income	(2,106,204,221)	(1,664,507,810)	(2,106,204,221)	(1,664,507,810)
Earned income in suspense	(745,195)	-	(745,195)	-
Provision for doubtful debts	(872,926)	(513,130)	(872,926)	(513,130)
Balance as at 31 March	<b>6,797,008</b>	<b>8,056,238</b>	<b>6,797,008</b>	<b>8,056,238</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
<b>15.4 Total receivable on leased assets, hire purchase &amp; others</b>				
Rentals receivable	18,702,903,448	15,981,945,819	16,394,975,642	13,990,758,857
Unearned income	(6,783,276,268)	(5,470,199,782)	(6,160,024,650)	(4,989,966,633)
Earned income in suspense	(24,543,737)	(23,617,454)	(15,363,495)	(8,445,129)
Provision for doubtful debts (Note 15.5)	(127,707,926)	(84,486,139)	(82,710,625)	(25,814,224)
Deposits received from lessees	(165,216,186)	(146,254,637)	(152,546,101)	(143,063,321)
<b>Balance as at 31 March (Notes 15.1, 15.2 &amp; 15.3)</b>	<b>11,602,159,331</b>	<b>10,257,387,807</b>	<b>9,984,330,771</b>	<b>8,823,469,550</b>
<b>15.5 Provision for doubtful debts</b>				
Balance as at 01 April	84,486,139	70,782,593	25,814,224	42,529,214
Provisions made during the year				
- Charged against profits	119,014,628	81,848,970	78,790,852	51,430,434
- Written off during the year	(75,792,841)	(68,145,424)	(21,894,451)	(68,145,424)
<b>Balance as at 31 March</b>	<b>127,707,926</b>	<b>84,486,139</b>	<b>82,710,625</b>	<b>25,814,224</b>
<b>16 Advances and other loans</b>				
Rentals receivable on loans to customers	8,715,324,134	5,850,913,294	6,271,404,208	4,783,703,145
Capital outstanding of revolving loans	1,584,410,829	1,120,616,752	1,584,410,829	1,120,616,752
Receivables under Textilebt Recovery Fund scheme	7,202,445	7,202,445	7,202,445	7,202,445
Overdue loan instalments	271,735,744	96,033,427	251,425,436	89,144,546
Earned income in suspense	(48,624,999)	(5,992,701)	(31,936,976)	(5,992,701)
Unearned loan income	(1,920,884,425)	(1,291,638,291)	(1,854,162,977)	(1,290,170,422)
Provision for doubtful debts	(46,257,876)	(26,012,263)	(33,505,000)	(19,460,196)
	<b>8,562,905,852</b>	<b>5,751,122,663</b>	<b>6,194,837,965</b>	<b>4,685,043,569</b>
Less:				
<b>Provision for doubtful debts</b>				
Balance as at 01 April	26,012,263	18,084,666	19,460,196	18,050,035
Provisions made during the year				
- Charged against profits	37,355,711	21,244,272	29,481,314	14,726,836
- Written off during the year	(17,110,098)	(13,316,675)	(15,436,510)	(13,316,675)
<b>Balance as at 31 March</b>	<b>46,257,876</b>	<b>26,012,263</b>	<b>33,505,000</b>	<b>19,460,196</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
<b>17 Other Current assets</b>				
Factoring accounts receivable	1,971,223,296	1,355,433,071	-	-
Insurance commission receivable	63,838,659	61,532,133	-	-
Securities clients/ brokers receivable	392,569,640	349,571,230	-	-
Amount due from subsidiaries	-	-	975,245,377	361,884,296
Finance charges suspended	56,804,225	23,301,904	56,804,225	23,301,904
Other accounts receivable	1,030,540,582	490,798,134	497,828,666	367,480,442
VAT refunds due from IRD	43,336,272	64,023,483	-	2,413,457
ACT recoverable	-	-	-	-
ESC recoverable	153,752	-	-	-
	<b>3,558,466,426</b>	<b>2,344,659,955</b>	<b>1,529,878,268</b>	<b>755,080,099</b>

Above receivable are shown after deducting provisions for doubtful debts.

Finance charges suspended include expenses incidental to obtaining long-term loans such as guarantee fees, structuring fees, placement fees and front end fees. These charges are written off over the period of corresponding loans as the Directors are of the opinion that these are part of the financing cost of the long term borrowings.

### 18 Investment Securities

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
Debenture	-	-	400,000,000	400,000,000
Quoted ordinary shares (Note 18.1)	357,120,657	61,884,332	356,942,832	61,342,682
Non quoted ordinary shares (Note 18.2)	-	-	-	-
Acquired properties	8,540,138	16,590,138	2,200,147	8,350,147
PRASAC Micro Finance Institution	-	61,831,544	-	61,831,544
<b>Total</b>	<b>365,660,795</b>	<b>140,306,014</b>	<b>759,142,979</b>	<b>531,524,373</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 18.1 Quoted Ordinary Shares-Company

	No. of Shares	31.03.2008 Cost Rs.	31.03.2008 Mkt. Value Rs.	No. of Shares	31.03.2007 Cost Rs.	31.03.2007 Mkt. Value Rs.
Brown & Company Ltd.	36,700	34,363,357	33,947,500	-	-	-
Central Finance Co.Ltd.	3,900	937,471	780,000	4,000	961,509	940,000
Ceylinco Seylan and Development	-	-	-	1,052,312	11,678,471	8,155,416
Chemical Industries (Col.) Ltd.	137,440	5,767,985	4,638,600	72	2,781	4,320
Chemical Industries (Col.) Ltd.	27,500	715,792	653,122	10,300	1,177,264	927,000
Dialog Telecom Ltd.	831,600	21,432,993	13,929,300	738,200	19,953,219	18,824,100
Dry Docks Ceylon Ltd.	-	-	-	5	148	220
Hatton National Bank Ltd.	-	-	-	47,300	7,175,378	4,730,000
Hatton National Bank Ltd.(non voting)	-	-	-	30,600	3,386,381	1,461,150
HDFC Bank (par value Rs.100)	47,200	7,749,236	7,749,236	47,200	7,749,236	7,749,236
Hotel Developers (Lanka) Ltd.	-	-	-	3,000	316,448	159,000
Housing Development Finance Co.	34,400	1,909,885	4,196,800	26,000	567,977	4,212,000
John Keells Holdings Ltd	-	-	-	28	5,318	4,340
Lanka IOC Ltd.	-	-	-	50,000	1,644,906	1,512,500
Lanka Milk Food	-	-	-	47,600	2,503,132	1,904,000
NDB Bank Ltd.	-	-	-	4,400	922,812	924,000
Peoples' Merchant Bank	4,987,953	152,081,734	289,011,274	-	-	-
Property Development Ltd.	67,900	2,823,104	2,037,000	60,500	2,574,954	1,815,000
Sampath Bank	-	-	-	5,100	621,305	545,700
Sri Lanka Telecom	-	-	-	150,000	4,884,106	5,587,500
Touchwood Investments Ltd.	-	-	-	33,700	2,483,292	1,887,200
Veyangoda Textiles Mills Ltd.	10,300	262,060	-	10,300	262,060	-
<b>Total cost of quoted ordinary shares</b>		<b>228,043,617</b>	<b>356,942,832</b>		<b>68,870,697</b>	<b>61,342,682</b>
Less:						
Provision for fall in market value						
Balance as at 01 April		7,528,015	-		6,809,668	-
Provision/(Reversal) made during the year		(136,427,230)	-		718,347	-
Balance as at 31 March		(128,899,215)	-		7,528,015	-
		<b>356,942,832</b>	<b>356,942,832</b>		<b>61,342,682</b>	<b>61,342,682</b>
<b>Quoted Ordinary Shares -Subsidiaries</b>						
Ahot Properties Ltd.	300	9,150	12,000	300	9,150	13,650
Dialog Telecom Ltd.	9,000	274,491	165,825	9,000	252,000	229,500
NDB Bank Ltd.	-	-	-	1,500	162,891	298,500
<b>Total cost of quoted ordinary shares</b>		<b>283,641</b>	<b>177,825</b>		<b>424,041</b>	<b>541,650</b>
Less:						
<b>Provision for fall in Market Value</b>						
Balance as at 01 April		-	-		-	-
Provision/(Reversal) made during the year		-	-		-	-
Balance as at 31 March		-	-		-	-
Add:						
Adjustment for changes in market value						
Balance as at 01 April		117,609	-		98,650	-
Provision/(Reversal) made during the year		-	-		-	-
Net appreciation of value during the year		(223,425)	-		18,959	-
Balance as at 31 March		(105,816)	-		117,609	-
		<b>177,825</b>	<b>177,825</b>		<b>541,650</b>	<b>541,650</b>
<b>Quoted Ordinary Shares - Group</b>		<b>357,120,657</b>	<b>357,120,657</b>		<b>61,884,332</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### 18.2 Non-quoted Ordinary Shares-Group and Company

	No. of Shares	31.03.2008 Cost Rs.	No. of Shares	31.03.2007 Cost Rs.
Indo Lanka Steel Ltd.	200,000	6,000,000	200,000	6,000,000
Lanka Glass Manufacturing Ltd.	3,000,000	3,000,000	3,000,000	3,000,000
Magpek Exports Ltd.	25,000	1,000,000	25,000	1,000,000
<b>Total cost of non-quoted ordinary shares</b>		<b>10,000,000</b>		<b>10,000,000</b>
Less: Provision for fall in value				
Balance as at 01 April		10,000,000		10,000,000
Provision/(Reversal) made during the year		-		-
<b>Balance as at 31 March</b>		<b>10,000,000</b>		<b>10,000,000</b>

### 19 Deferred tax assets and liabilities

In 2006/07 Rs. 342mn of previously unrecognised tax losses were recognised as management considered it is probable that future taxable profits will be available against which they can be utilised. An additional amount of Rs.298mn of previously unrecognised tax losses were recognised in 2007/08. The Company is of the opinion that 'its more likely than not' tax losses carried forward at the year end will be recovered in full during the next three to five years. An independent confirmation has been obtained from the tax consultants of the Company.

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Group Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Property, plant and equipment	1,090,282		(13,174,842)	(542,310)	(12,084,560)	(542,310)
Operating lease assets			(35,927,725)	(24,263,704)	(35,927,725)	(24,263,704)
Lease rentals receivable			(114,430,367)	(77,704,174)	(114,430,367)	(77,704,174)
Retirement benefit obligations	14,958,247	8,617,009			14,958,247	8,617,009
Tax loss carry forward	637,883,853	342,177,291			637,883,853	342,177,291
<b>Net tax (assets)/liabilities</b>	<b>653,932,382</b>	<b>350,794,300</b>	<b>(163,532,934)</b>	<b>(102,510,188)</b>	<b>490,399,448</b>	<b>248,284,112</b>
<b>Deferred tax liability of subsidiaries presented separately</b>						
Property, plant and equipment	-	-	(413,066)	(1,705,658)	(413,066)	(1,705,658)
Lease rentals receivable	-	-	(16,123,968)	-	(16,123,968)	-
Retirement benefit obligations	655,223	777,333	-	-	655,223	777,333
<b>Net deferred tax (assets)/liabilities</b>	<b>655,223</b>	<b>777,333</b>	<b>(16,537,034)</b>	<b>(1,705,658)</b>	<b>(15,881,811)</b>	<b>(928,325)</b>
<b>Company</b>						
	2008	2007	2008	2007	2008	2007
Property, plant and equipment			(12,999,108)	(542,310)	(12,999,108)	(542,310)
Operating lease assets			(35,927,725)	(24,263,704)	(35,927,725)	(24,263,704)
Leased assets			(114,430,367)	(77,704,174)	(114,430,367)	(77,704,174)
Retirement benefit obligations	14,014,917	8,617,009			14,014,917	8,617,009
Tax loss carry forward	637,883,853	342,177,291			637,883,853	342,177,291
<b>Net deferred tax (assets)/liabilities</b>	<b>651,898,770</b>	<b>350,794,300</b>	<b>(163,357,200)</b>	<b>(102,510,188)</b>	<b>488,541,570</b>	<b>248,284,112</b>

Movement in temporary differences during the year

	Balance as at 01 April 2007	Group		Balance as at 31 Mar 07	Recognised in Income Statement	Balance as at 31 Mar 08
		Recognised in Income Statement	Recognised in Income Statement			
Property, plant and equipment	-	(542,310)	(542,310)	(11,542,250)	(12,084,561)	
Operating lease assets	-	(24,263,704)	(24,263,704)	(11,664,021)	(35,927,725)	
Leased assets	-	(77,704,174)	(77,704,174)	(36,726,193)	(114,430,367)	
Retirement benefit obligations	-	8,617,009	8,617,009	6,341,238	14,958,247	
Tax loss carry forward	-	342,177,291	342,177,291	295,706,562	637,883,853	
		248,284,112	248,284,112	242,115,336	490,399,448	

## NOTES TO THE FINANCIAL STATEMENTS

	Company		Company		Balance as at 31 Mar 08
	Balance as at 01 April 07	Recognised in Income Statement	Balance as at 31 Mar 07	Recognised in Income Statement	
	Rs.	Rs.	Rs.	Rs.	Rs.
Property, plant and equipment	-	(542,310)	(542,310)	(12,456,798)	(12,999,108)
Operating lease assets	-	(24,263,704)	(24,263,704)	(11,664,021)	(35,927,725)
Leased assets	-	(77,704,174)	(77,704,174)	(36,726,193)	(114,430,367)
Retirement benefit obligations	-	8,617,009	8,617,009	5,397,908	14,014,917
Tax loss carry forward	-	342,177,291	342,177,291	295,706,562	637,883,853
	-	248,284,112	248,284,112	240,257,458	488,541,570

### 20 Investment in joint venture

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
Galoya Holdings (Pvt) Ltd. (GHL)				
Cost of Investment as at 31st March 08			100,000,000	
Percentage of Ownership			50%	
Principal activity			Plantation Management	
The investment in the GHL has been recognised in the financial statements on the basis of proportionate consolidation.				
As at 31st March 08				
Current Assets	102,669,333			
Long Term Assets	116,463			
Current Liabilities	7,810,594			
Long Term Liabilities	-			
Income	984,774			
Expenses	(5,953,246)			

### 21 Investments in equity accounted investees

	Carrying Amount Rs.	Holding %	Cost Rs.
Touchwood Investment Ltd	400,306,821	29.2	216,359,359
PRASAC Micro Finance Company in Cambodia	92,278,583	19	61,831,544
	492,585,403		278,190,903
Cost of Investment		Touchwood Investments Ltd.	PRASAC Micro Finance Institution
Principal Activity		Forestry Management	Micro-Finance Services
Acquisition Date		12th October 2007	27th February 2007
Percentage holding as at 31/03/2008		29.2%	19.0%
No of Shares		2,601,000	51,736
Market Value (Rs.)		90.25	
Goodwill/Excess recognised in the P&L		126,117,616	-
Profit share recognized		57,829,846	30,447,039
Negative Goodwill Note			
Last published financial statements		31st March 08	31st Dec 2007
Assets		2,614,206,423	4,073,791,797
Liabilities		1,215,554,924	3,716,220,480
Revenue		593,844,694	805,135,622
Profit / ( Loss )		284,009,411	205,586,386

Goodwill arising on acquisition, representing the excess of the fair value of the net assets acquired over the cost of acquisition have been recognised in the Income Statement. The investment in PRASAC Micro Finance Institution in the previous financial year, has been accounted for as an associate in the current financial year, upon LOLC being appointed to the Board as one of the two influential shareholders.

The reporting date of the financial statements of PRASAC MFI is 31st December & the profit share recognised is only for 9 months ended 31st December 2007.

## NOTES TO THE FINANCIAL STATEMENTS

### 22 Investments in subsidiaries

	Principal Activity	No. of	Holding	Cost	No. of	Holding	Cost
		Ordinary Shares	%	31.03.2008	Ordinary Shares	%	31.03.2007
		Rs.		Rs.			Rs.
<b>Group</b>							
Lanka Orient Investment Ltd.		2	100	20	2	100	20
<b>Company</b>							
Lanka ORIX Factors Ltd	Debt factoring	27,312,040	100	310,999,345	6,828,010	100	106,159,045
LOLC Funding One Ltd (Par value Rs.100/-)	Securitisation of lease receivables	7	100	700	7	100	700
Lanka ORIX Insurance Brokers Ltd	Insurance broking	1,000,000	100	10,000,000	200,000	100	2,000,000
Lanka Orient Investment (Pvt) Ltd		2	100	20	2	100	20
LOIB Financial Services (Pvt) Ltd.	Investment advice and	100	100	-	100	100	-
Lanka ORIX Finance Company (Pvt) Ltd	Finance business and pawn broking	80,000,000	100	800,000,000	80,000,000	100	800,000,000
Lanka ORIX Information Technology Ltd.	Software design, development and distribution	2,000,000	100	20,000,000	2,000,000	100	20,000,000
Lanka ORIX Securities (Pvt) Ltd.	Stock broking	270,000	30	23,000,000	270,000	30	23,000,000
Lanka ORIX Project Development Ltd.	Property and infrastructure development	5,200,000	100	52,000,000	3,000,000	100	30,000,000
Sundaya Lanka (Pvt) Ltd.	Assembling and distribution of solar systems	624,490	51	-	-	-	-
				1,216,000,065			981,159,765

#### Acquisition of subsidiary

On 25th May 2007 the Group acquired 51% of the shares in Sundaya Lanka (Pvt) Limited for Rs. 6,244,900/- in cash.

The company is in the business of assembling and distribution of solar systems. During the period the subsidiary contributed a profit of Rs.224,361/-.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date

	Pre acquisition carrying amount	Fair value adjustment	Recognized values on acquisition
	Rs.	Rs.	Rs.
Property, Plant and Equipment	3,376,356	-	3,376,356
Inventories	17,436,949	-	17,436,949
Pre-payments	76,611	-	76,611
Trade and other receivables	5,677,077	-	5,677,077
Bank guarantee	665,000	-	665,000
Cash and cash equivalents	15,984,053	-	15,984,053
Lease Liabilities	(1,101,240)	-	(1,101,240)
Tax payable	(2,083,841)	-	(2,083,841)
Trade creditors	(12,765,426)	-	(12,765,426)
Amount due to related parties	(812,648)	-	(812,648)
Accrued expenses	(631,975)	-	(631,975)
Other payables	(3,429,178)	-	(3,429,178)
Net identifiable assets and liabilities	22,391,738	-	22,391,738
Percentage acquired			51%
Net assets applicable to Group			11,419,787
Negative goodwill on acquisition			(5,174,887)
Consideration paid, satisfied in cash			6,244,900
Cash acquired			16,649,053
Net cash inflow/(outflow)			10,404,153

Pre-acquisition carrying amounts were determined based on applicable SLASs immediately before the acquisition

## NOTES TO THE FINANCIAL STATEMENTS

### 23 Property, Plant & Equipment

	Land & Building Rs.	Motor Vehicles Rs.	Leasehold Motor Vehicles Rs.	Furniture & fittings Rs.	Office Equipment Rs.	Computers & Software Rs.	Leasehold Machinery Rs.	For Operating Lease Assets Rs.	Capital Work-in-Progress Rs.	Total Rs.
<b>Group</b>										
<b>Cost/Valuation</b>										
Balance as at 01 April '07	322,282,930	88,840,432	834,264,712	115,347,443	123,373,383	150,783,690	123,343,978	506,623,220	54,352,178	2,319,211,965
Additions	33,379,331	72,413,527	169,711,030	58,728,257	38,449,276	34,248,276	-	341,625,737	61,824,570	810,380,004
Disposals	-	(9,249,040)	-	(36,070,357)	(195,703)	-	-	(147,374,247)	-	(192,889,348)
Adjustments / Transfers	132,081,006	27,367,194	4,255,167	18,779,582	7,694,041	1,775,221	-	(29,128,081)	(55,032,133)	107,791,997
<b>Balance as at 31 March '08</b>	<b>487,743,267</b>	<b>179,372,113</b>	<b>1,008,230,909</b>	<b>156,784,924</b>	<b>169,320,997</b>	<b>186,807,187</b>	<b>123,343,978</b>	<b>671,746,629</b>	<b>61,144,615</b>	<b>3,044,494,619</b>
<b>Accumulated Depreciation</b>										
Balance as at 01 April '07	8,621,953	47,593,453	116,076,546	83,880,331	86,580,797	91,040,054	84,798,984	185,656,483	-	704,248,605
Charge for the year	2,158,618	27,463,303	128,120,059	12,794,524	19,871,356	20,171,094	23,126,997	86,180,363	-	319,886,314
Depreciation on disposals	-	(8,721,986)	-	(33,802,743)	(1,069,977)	-	-	(87,913,163)	-	(131,507,869)
Adjustments / Transfers	-	11,737,787	-	80,383	(176,850)	442,252	-	(11,425,445)	-	658,127
<b>Balance as at 31 March '08</b>	<b>10,780,571</b>	<b>78,072,557</b>	<b>244,196,605</b>	<b>62,952,496</b>	<b>105,205,326</b>	<b>111,653,400</b>	<b>107,925,981</b>	<b>172,498,238</b>	<b>-</b>	<b>893,285,174</b>
<b>Written Down Value</b>										
as at 31 March '08	476,962,696	101,299,555	764,034,304	93,832,428	64,115,671	75,153,787	15,417,997	499,248,391	61,144,615	2,151,209,445
as at 31 March '07	313,660,978	41,246,979	718,188,166	31,467,110	36,792,586	59,743,638	38,544,995	320,966,737	54,352,178	1,614,963,370
<b>Company</b>										
<b>Cost/Valuation</b>										
Balance as at 01 April '07	322,282,930	75,972,608	834,264,712	86,994,293	81,602,765	71,800,288	123,343,978	506,623,220	54,352,179	2,157,236,973
Additions	33,379,331	70,823,527	169,711,030	57,479,605	33,271,064	26,244,519	-	341,625,737	61,824,570	794,359,383
Disposals	-	(4,491,667)	-	(36,070,357)	(187,403)	-	-	(147,374,247)	-	(188,123,674)
Adjustments / Transfers	132,081,006	25,898,914	3,229,167	18,371,382	7,534,001	975,641	-	(29,128,081)	(55,032,133)	103,929,897
<b>Balance as at 31 March '08</b>	<b>487,743,267</b>	<b>168,203,382</b>	<b>1,007,204,909</b>	<b>126,774,923</b>	<b>122,220,427</b>	<b>99,020,448</b>	<b>123,343,978</b>	<b>671,746,629</b>	<b>61,144,616</b>	<b>2,867,402,579</b>
<b>Accumulated Depreciation</b>										
Balance as at 01 April '07	8,621,953	38,449,110	116,076,546	68,519,864	61,897,983	28,366,556	84,798,984	185,656,483	-	592,387,479
Charge for the year	2,158,618	25,467,598	128,120,060	7,375,695	11,750,806	12,421,671	23,126,997	86,180,363	-	296,601,808
Depreciation on disposals	-	(4,546,544)	-	(33,802,743)	(1,068,457)	-	-	(87,913,163)	-	(127,330,907)
Adjustments / Transfers	-	11,425,445	-	-	-	-	-	(11,425,445)	-	-
<b>Balance as at 31 March '08</b>	<b>10,780,571</b>	<b>70,795,609</b>	<b>244,196,606</b>	<b>42,092,816</b>	<b>72,580,332</b>	<b>40,788,227</b>	<b>107,925,981</b>	<b>172,498,238</b>	<b>-</b>	<b>761,658,378</b>
<b>Written Down Value</b>										
as at 31 March '08	476,962,696	97,407,773	763,008,304	84,682,107	49,640,095	58,232,221	15,417,997	499,248,391	61,144,616	2,105,744,201
as at 31 March '07	313,660,977	37,523,498	718,188,166	18,474,429	19,704,782	43,433,732	38,544,994	320,966,737	54,352,179	1,564,849,494

## NOTES TO THE FINANCIAL STATEMENTS

	2007/08
	Rs.
• Land	365,780,000
Buildings	<u>121,963,267</u>
	<u>487,743,267</u>

- Lands of LOLC were revalued during the current year by Mr. G. J. Sumanasena and Mr. S. N. Wijepala independent professional valuers. The total market value of Lands as per the revaluation on the basis of existing use is Rs. 365,780,000/=. If the Lands were stated on the historical cost basis, the cost of the land would be Rs. 260,377,158/=

Land will be revalued every 3-5 years

- LOLC has not pledged any of its property plant & equipment against any liability.
- During the financial year 2005/2006 the company started constructing a new office building adjoining to the head office at Sri Jayawardanapura Mawatha. During the year Rs. 55 Mn worth of work has been considered as completed and capitalised as at 31 March 2008. Capital expenditure contracted for which no provision is made in the financial statements as at 31 March 2008 is Rs. 48 Mn.
- Property plant and equipment of the group includes assets acquired with the business combinations during the financial year. The net book value of such assets is made up as follows.

		Cost	Accumulated Depreciation	Net Book Value
Sundaya Lanka (Pvt) Limited	Subsidiary	4,284,302	1,569,275	2,715,027
Galoya Holdings (Private) Limited	Joint Venture	121,405	4,942	116,463
	<b>Group</b>			
	<b>31.03.2008</b>	31.03.2007	<b>31.03.2008</b>	31.03.2007
	Rs.	Rs.	Rs.	Rs.
<b>24 Deposits from customers</b>				
Deposits maturing within one year	2,826,801,429	929,376,516	-	-
Deposits maturing after one year	512,863,441	816,788,224	-	-
	<u>3,339,664,870</u>	1,746,164,740	-	-
<b>25 Short Term Borrowings</b>				
Commercial papers	973,547,200	1,348,293,254	973,547,200	1,348,293,254
Short term loans and others	6,891,725,846	4,053,065,084	6,187,985,846	3,519,219,488
	<u>7,865,273,046</u>	5,401,358,338	7,161,533,046	4,867,512,742
<b>26 Finance lease liabilities</b>				
Gross lease rentals payable as at 01 April	1,327,381,025	353,924,143	1,325,943,757	353,924,143
Leases obtained during the year	301,274,916	1,157,831,927	301,273,916	1,157,831,927
Lease rentals paid during the year	(427,820,879)	(185,812,313)	(427,204,907)	(185,812,313)
Gross lease rentals payable as at 31 March	1,200,834,062	1,325,943,757	1,200,012,766	1,325,943,757
Less: Interest in suspense	(239,030,762)	(295,337,615)	(238,861,733)	(295,337,615)
Net lease liability	<u>961,803,300</u>	1,030,606,142	961,151,033	1,030,606,142
<b>Repayable within one year</b>				
Gross lease rentals payable	465,208,750	333,208,517	464,592,778	333,208,517
Less: Interest in suspense	(127,097,449)	(131,310,631)	(126,942,252)	(131,310,631)
Net lease liability	<u>338,111,301</u>	201,897,886	337,650,526	201,897,886
<b>Repayable after one year</b>				
Gross lease rentals payable	735,625,312	992,735,240	735,419,988	992,735,240
Less: Interest in suspense	(111,933,313)	(164,026,984)	(111,919,481)	(164,026,984)
Net lease liability	<u>623,691,999</u>	828,708,256	623,500,507	828,708,256

## NOTES TO THE FINANCIAL STATEMENTS

### 27 Long Term Borrowings

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April	10,308,355,035	6,114,315,935	10,308,355,035	6,114,315,935
Received during the year	6,935,999,833	6,576,554,334	6,935,999,833	6,576,554,334
Repaid during the year	(4,274,501,532)	(2,382,515,234)	(4,274,501,532)	(2,382,515,234)
Balance as at 31 March	12,969,853,336	10,308,355,035	12,969,853,336	10,308,355,035
Less:				
Long term borrowings - current	3,867,594,352	2,708,744,871	3,867,594,352	2,708,744,871
Long term borrowings -non current	9,102,258,984	7,599,610,164	9,102,258,984	7,599,610,164
Analysis of non-current portion of long term borrowings	12,969,853,336	10,308,355,035	12,969,853,336	10,308,355,035
Repayable within 3 years	6,865,527,023	4,871,917,916	6,865,527,023	4,871,917,916
Repayable after 3 years	2,236,731,961	2,727,692,248	2,236,731,961	2,727,692,248
	9,102,258,984	7,599,610,164	9,102,258,984	7,599,610,164

The above loans were obtained for the purpose of financing the lease/loan portfolio and secured on the relevant lease/loan contracts. The repayment of the long term balance extends from the period of year 2008 to 2021.

### 28 Trade And Other Payables

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
Accounts payable	973,843,976	628,323,384	782,027,189	529,258,473
Creditors for leased equipment	440,582,529	362,215,131	405,098,488	341,308,219
Amount due to subsidiaries	-	7,285	-	28,155,864
Factoring accounts payable	862,088,111	676,084,711	-	-
Clients Payable	64,301,807	76,169,918	-	-
Insurance Premium Payable	20,213,040	97,731,499	-	-
Unclaimed dividends	1,874,154	1,823,548	1,874,154	1,823,548
	2,362,903,617	1,842,355,476	1,188,999,831	900,546,104

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Rs.	Rs.	Rs.	Rs.
<b>29 Retirement Benefit Obligation</b>				
Balances as at beginning of the year	34,831,047	25,996,510	24,620,025	18,267,945
Provision during the year	18,448,564	11,927,293	16,140,094	7,576,830
Payment made during the year	(1,507,264)	(3,092,756)	(717,500)	(1,224,750)
Balance as at end of the year	51,772,347	34,831,047	40,042,619	24,620,025
The total number of employees of the Company as at 31 March, 2008 was 521 and the number of qualifying employees in respect of the above was 373. (as at 31 March 2007 - 414 and 106 respectively)				
<b>30 Stated Capital</b>				
Issued and fully paid				
At the beginning of the year 47,520,000 of Rs.10/- each	-	-	475,200,000	475,200,000
Issued and fully paid	-	-	-	-
At the end of the year 47,520,000 shares	475,200,000	475,200,000	475,200,000	475,200,000
<b>31 Reserves</b>				
Share Premium of subsidiary	536,504	536,504	-	-
Future Taxation Reserve	205,000,000	205,000,000	205,000,000	205,000,000
Statutory Reserve	195,266,451	123,574,424	183,993,390	115,542,388
Revaluation reserve	105,402,842	-	105,402,842	-
Total Reserves as at 31 st March	506,205,797	329,110,928	494,396,232	320,542,388

### Subsidiary Share Premium

The premium of Rs.536,504 has arisen on the date on which shares were issued to the parent over the par value by subsidiaries. The use of this reserve is restricted to write off preliminary expenses, to charge discounts when debentures are issued at less than par value or to redeem any debentures or preference shares

### Future Taxation Reserve

The reserve has been created over the years since year 1987 to year 2000 for any future tax liabilities

### Reserve Fund

The Company's reserve fund was created according to the Direction No.5 of 2006 issued by the Central Bank under section 34 of the Finance Leasing Act of No. 56 of 2000.

## NOTES TO THE FINANCIAL STATEMENTS

### 32 Retained Earnings

	Group		Company	
	31.03.2008 Rs.	31.03.2007 Rs.	31.03.2008 Rs.	31.03.2007 Rs.
Balance brought forward	2,980,546,405	1,961,594,070	2,898,544,546	1,919,173,110
Prior year adjustment to subsidiary retained earnings	-	(13,842,532)	-	-
Transferred back to retained earnings	-	204,399,402	-	204,399,402
Transfers to statutory reserves	(71,692,027)	(70,284,593)	(68,451,002)	(69,061,551)
Net profit for the year	1,268,173,363	1,041,240,058	977,871,455	986,593,585
Dividends	(106,920,000)	(142,560,000)	(106,920,000)	(142,560,000)
Balance carried forward	4,070,107,741	2,980,546,405	3,701,044,999	2,898,544,546

#### 32.1 Dividends

Final 15% for 2005/2006 paid on 30 June 2006	-	-	-	71,280,000
Interim of Rs.2.25 per share (on a stated capital of Rs.475,200,000) paid on 30 June 2007 for 2007/2008	-	-	106,920,000	71,280,000
	-	-	106,920,000	142,560,000
Dividend per share	-	-	2.25	1.50

In terms of the Inland Revenue (Amendment) Act No.10 of 2006 a Withholding Tax of 10% has been imposed on dividends.

### 33 Minority Interest

The Minority Interest relates to the Net Assets of Lanka ORIX Securities (Pvt) Ltd. and Sundaya Lanka (Pvt) Ltd. which is not represented by the Parent Company's investment.

### 34 Business combinations that were effected during the period

Name of Entity	Touchwood Investments Ltd. [TIL]	Galoya Holdings (Private) Ltd. [GHL]	Sundaya Lanka (Private) Ltd.	PRASAC Microfinance Institution
Principal Activity	Forestry Management	Plantation Management	Assembly of Solar Systems	Micro- Finance Services
Acquisition Date	12 Oct 2007	11 Oct 2007	25 May 2007	27 Feb 2007
Percentage holding as at 31st March 08	29.2%	50.0%	51.0%	19.0%
No of Shares	2,601,000	*	624,490	51,376
Cost (Rs.)	216,359,359	100,000,000	6,244,900	61,831,544
Excess recognised in the Income Statement (Rs.)	126,117,616	-	5,174,887	-
Profit Share recognised (Rs.)	57,829,849	(4,968,472)	233,016	30,447,039
Assets as per last published statements (Rs.)	2,614,206,423	102,785,796	38,989,175	4,073,791,797
Liabilities as per last published statements (Rs.)	1,215,554,924	7,810,594	16,140,543	3,716,220,480

\* Galoya Holdings Ltd. 1,000,000 shares issued on 28th April 08

#### Business combinations that were effected after the period

	Commercial Leasing Company Ltd
Principal Activity	Financial Services
Acquisition Date	9th May 2008
Percentage holding as at 26th May 2008	66.54%
No of Shares as at 26th May 2008	11,741,907
Cost (Rs.)	1,101,486,231
Assets as per last published statements (Rs.)	7,975,669,491
Liabilities as per last published statements (Rs.)	6,680,510,717

## NOTES TO THE FINANCIAL STATEMENTS

### 35 Maturity analysis-Company

Assets/Liabilities	0-12 Months Rs.	12-36 Months Rs.	36-60 Months Rs.	More than 60 months Rs.	Total Rs.
<b>Assets</b>					
<b>(a) Interest earning assets</b>					
Investments in Govt securities	-	-	-	-	-
Fixed deposits and savings deposits with banks/finance companies	787,348,998	2,362,046,993	545,705,008	544,452,929	4,239,553,927
<b>(b) Loans &amp; Advances net of provisions</b>					
Leasing -Finance and operating leases	2,445,589,975	3,646,348,791	113,138,813	-	6,205,077,579
Hire Purchase	1,283,337,161	2,426,693,912	69,222,119	-	3,779,253,192
Advances and other loans	3,520,192,825	2,564,170,230	110,474,910	-	6,194,837,965
Loans to real estate/housing	39,290,372	-	-	-	39,290,372
<b>(c) Non-interest earning assets</b>					
Cash and bank balances	538,690,514	-	-	-	538,690,514
<b>(d) Investments in</b>					
Subsidiary Companies	-	-	-	1,216,000,065	1,216,000,065
Associate Companies	-	-	-	278,190,903	278,190,903
Joint ventures	-	-	-	100,000,000	100,000,000
Dealing securities	359,142,979	-	-	-	359,142,979
Debentures/Commercial papers	400,000,000	-	-	-	400,000,000
Stocks (vehicles/real estates/machineries etc)	92,699,405	-	-	-	92,699,405
Short term investments	178,838,916	-	-	-	178,838,916
<b>(e) Fixed Assets</b>					
	-	-	-	2,105,744,201	2,105,744,201
<b>(f) Other current assets</b>					
Other current assets	462,208,485	-	-	-	462,208,485
Amount due from subsidiaries	974,970,377	-	-	-	974,970,377
Deferred tax asset	-	488,541,570	-	-	488,541,570
<b>Total assets</b>	<b>11,082,310,007</b>	<b>11,487,801,496</b>	<b>838,540,850</b>	<b>4,244,388,098</b>	<b>27,653,040,450</b>
<b>Liabilities</b>					
<b>(a) Interest bearing liabilities</b>					
Bank overdrafts	659,445,757	-	-	-	659,445,757
Bank loans-short term loans	6,187,985,846	-	-	-	6,187,985,846
Commercial papers	973,547,200	-	-	-	973,547,200
Redeemable preference shares	-	-	-	-	-
Debentures	-	-	-	-	-
Long term borrowings	3,867,594,352	6,865,527,023	1,898,389,135	338,342,825	12,969,853,336
Finance lease liabilities	333,282,147	627,868,886	-	-	961,151,033
<b>(b) Non-interest bearing liabilities</b>					
Amount due to subsidiaries/associates	-	-	-	-	-
<b>Other liabilities</b>					
Leased equipment creditors	406,097,848	-	-	-	406,097,848
Taxation	1,373,597	-	-	-	1,373,597
Trade and other payables	782,901,983	-	-	-	782,901,983
Retirement benefit obligation	-	-	-	40,042,619	40,042,619
<b>(c) Shareholders funds</b>					
(excluding redeemable preference shares)	-	-	-	4,670,641,231	4,670,641,231
<b>Total liabilities</b>	<b>13,212,228,730</b>	<b>7,493,395,909</b>	<b>1,898,389,135</b>	<b>5,049,026,675</b>	<b>27,653,040,450</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 36 Segmental Information

	Leasing, Hire Purchase & Other Products Rs.	Factoring Rs.	Insurance Broking Rs.	IT Services Rs.	Stock Broking & Other Rs.	Total Rs.
<b>2007/2008</b>						
Operating profit before interest	3,667,255,859	407,323,677	15,851,081	(40,765,389)	4,407,367	4,054,072,595
Net Interest cost	(3,196,091,132)	(203,277,186)	(110,089)	(1,913)	(4,484,854)	(3,403,965,174)
Other income/(expenses)	294,609,398	2,863,335	10,751,566	-	5,151,220	313,375,519
Goodwill on consolidation	-	-	-	-	-	131,292,503
Share of profit of associate companies	-	-	-	-	-	88,276,885
Profit before taxation	765,774,125	206,909,826	26,492,558	(40,767,302)	5,073,733	1,183,052,328
<b>2006/2007</b>						
Operating profit before interest	2,297,786,375	267,954,615	18,973,928	(27,237,237)	20,337,295	2,577,814,976
Net Interest cost	(1,648,849,570)	(135,139,772)	(26,822)	(2,251)	(3,732,561)	(1,787,750,976)
Other income/(expenses)	187,927,298	12,396,382	3,654,506	-	3,696,533	207,674,719
Profit before taxation	836,864,103	145,211,225	22,601,612	(27,239,488)	20,301,267	997,738,719
<b>2007/2008</b>						
Capital expenditure	799,532,391	1,128,034	1,256,746	3,119,446	5,343,387	810,380,004
Depreciation of property, plant & equipment	302,802,841	1,535,235	4,325,865	2,042,842	9,179,531	319,886,314
Provision/(reversal) for doubtful debts and bad debts written off	163,494,922	8,697,932	16,036,054	-	3,159,111	191,388,019
Provision/(reversal) for fall in value of investments	(502,310)	-	1,926,630	-	-	1,424,320
Provision for gratuity	16,999,159	-	454,460	698,795	296,150	18,448,564
<b>2006/2007</b>						
Capital expenditure	917,759,818	1,132,171	5,523,489	1,272,719	11,810,315	937,498,512
Depreciation of property, plant & equipment	221,207,676	2,257,968	4,680,020	1,559,518	7,992,413	237,697,595
Provision/(reversal) for doubtful debts and bad debts written off	107,324,836	144,147	-	-	6,658,313	114,127,296
Provision/(reversal) for fall in value of investments	718,347	-	(103,959)	-	-	614,388
Provision for gratuity	7,990,385	1,592,350	854,923	410,159	1,079,476	11,927,293
<b>As at 31 Mar 2008</b>						
Total assets	29,985,334,889	2,837,286,999	139,964,835	63,142,078	757,911,252	33,783,640,052
Total liabilities	26,740,518,638	1,423,650,364	60,490,675	3,741,767	450,075,538	28,678,476,982
<b>As at 31 Mar 2007</b>						
Total assets	22,162,799,210	1,636,166,588	201,049,575	24,058,416	459,876,160	24,483,949,949
Total liabilities	19,279,989,198	908,760,046	123,271,518	6,102,139	340,908,053	20,659,030,954

## NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
<b>37 Loans to Employees (Rs.20,0000/- and above)</b>				
Balance as at 01 April	83,670,011	74,226,729	63,546,664	55,529,487
Loans granted during the year	44,391,050	52,749,377	35,603,400	40,490,542
Recoveries during the year	(35,808,318)	(43,306,095)	(29,297,609)	(32,473,365)
Balance as at 31 March	92,252,743	83,670,011	69,852,455	63,546,664

The above year end balances are included under "Other accounts receivable" given in Note No. 16 Other Current Assets

### 38 Capital Commitments

The Company as at 31 March 2008 has a capital commitment of approximately Rs. 48 Mn for the refurbishment of Rajagiriya LOLC building and for the construction of service centres.

### 39 Contingent Liabilities

Contingent Liabilities exist as at 31 March 2008 on guarantees given by the Company to Hatton National Bank, in relation to the banking facilities obtained by the Company's subsidiary Lanka ORIX Insurance Brokers Ltd. (LOIB). The balances outstanding on these facilities as at 31 March 2008 amounted to Rs. 2,050,000/-

Contingent Liabilities exist as at 31 March 2008 on guarantees given by the Company to banks on Letter of Credit opened by the Company for import of equipment and vehicles for execution of leases and refurbishment. The value of LC's at the year end was Rs.73,683,284. The Company does not anticipate any material liability to arise out of any contingent event.

### 40 Consolidation of Accounts with those of the Subsidiary Company

The results of the Company's subsidiary, Lanka Orient Investments (Pvt) Ltd., incorporated on 27 February, 1986 have not been consolidated with that of the Company in accordance with Section 153 (6) (a) of the Companies Act No. 07 of 2007.

### 41 Events after the Balance Sheet Date

There have been no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the Financial statements, other than the following:

- 1 The Company has purchased 11,741,907 shares (67%) of Commercial Leasing Company Ltd. for a consideration of Rs. 1,101,486,231 on 9th May 2008
- 2 The Company has advanced Rs. 15 Mn to Galoya Holdings (Pvt) Ltd.

## NOTES TO THE FINANCIAL STATEMENTS

### 42 Comparative information in the financial statements have been restated as follows:

Income statement for year ended 31st March 2007	Net Profit before tax Rs.	Net Profit after tax Rs.
As per last year financial statements	1,001,544,296	1,054,612,882
Restated in 2007/08 financial statements	997,738,719	1,050,181,256
	(3,805,577)	(4,431,626)

Balance Sheet as at 31st March 2007	Assets	Liabilities	Equity
As per last year financial statements	24,405,605,970	20,562,412,817	3,843,193,153
Restated in 2007/08 financial statements	24,483,949,949	20,659,030,954	3,824,918,996
	(78,343,979)	(96,618,137)	18,274,158

Net profit before tax has been restated due to adjustments carried out subsequent to consolidation, in the following subsidiary financials

LOIB provision made for commissions receivable to the value of Rs. 4,458,860/-

LOFAC exchange loss of Rs. 1,061,786/-

LOFIN Interest Income adjustment of Rs.1,715,069/-

Other adjustments Rs. 626,049/-

The subsidiary balance sheets have been changed in view of the above, as well as, a re-classification of Factoring Accounts Receivable & Payables in LOFAC financials & a write-off against retained profits of Rs. 13,842,532/-

The above were adjusted as follows:

Retained earnings as at 31st March 2006	13,842,532
Retained earnings as at 31st March 2007	<u>4,431,626</u>
	<u>18,274,158</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43 Related Party Transactions

43.1 The Directors of the Company are also Directors of the following Companies in the Group through which they have control.

	LOFAC	LOIB	LFSL	LOFIN	LOSEC	LOIT	LOPD	LFOL	Sundaya
Mrs R L Nanayakkara	√	√	√	√	√	√	√	√	√
Mr I C Nanayakkara	√	√	√	√	√	√	√	√	√
Mr M D D Pieris	√	√	√	√	-	√	-	-	-
Mrs K U Amarasinghe	√	√	√	√	√	√	√	√	-
Mr M T L Fernando	√	√	-	-	-	√	-	√	-
Mr T H M Wickramasinghe	-	-	-	-	√	-	-	-	-
Mr W D K Jayawardena	√	√	√	√	-	√	-	-	√
Mr R M Nanayakkara	-	-	-	-	√	-	-	-	-
Mr J M Swaminathan	-	-	-	√	-	-	-	-	-

As at 31 Mar 2008

As at 31 Mar 2007

Rs.

Rs.

#### Amounts due from Subsidiary Companies to Parent

LOIB	41,638,773	59,305,587
LOFIN	225,637,470	220,340,903
LOPD	6,448,654	3,332,312
LOFAC	689,969,077	22,672,424
LOSEC	4,854,190	56,233,070
LOIT	1,866,056	-
Sundaya	4,831,157	-
	<b>975,245,377</b>	<b>361,884,296</b>

#### Amount due to Subsidiary Companies from Parent

LOIT	-	28,155,864
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#### Inter-Company Transactions

1 The Company has received following income from subsidiaries:

	LOFAC Rs.	LOSEC Rs.	LOIB Rs.	LOIT Rs.	LOPD Rs.
<b>2007/2008</b>					
Royalty	47,069,505	10,000,000	10,862,973	-	-
Management fees	1,200,000	-	-	-	-
Treasury management fee	44,804,437	-	-	-	-
Operating lease rental income	799,608	6,234,133	-	-	665,604
Debenture interest income	89,138,411	-	-	-	-
	<b>183,011,961</b>	<b>16,234,133</b>	<b>10,862,973</b>	<b>-</b>	<b>665,604</b>

## NOTES TO THE FINANCIAL STATEMENTS

	LOFAC Rs.	LOSEC Rs.	LOIB Rs.	LOIT Rs.	LOPD Rs.
2006/2007					
Royalty	32,278,203	10,000,000	9,921,255	-	-
Management fees	1,200,000	-	-	-	-
Treasury management fee	15,004,901	-	-	-	665,604
Operating lease rental income	799,608	4,594,206	-	-	-
Debenture interest income	63,791,123	-	-	-	-
	<b>113,073,835</b>	<b>14,594,206</b>	<b>9,921,255</b>	<b>-</b>	<b>665,604</b>

2 The Company has paid IT service fee of Rs.36,000,000/- to LOIT (2006/07 - Rs.36,000,000/-)

3 The subsidiary companies have the following transactions with other subsidiaries and the parent.

3.1 LOIB has earned Rs.1,560,452/- (2006/07- Rs.3,904,819/-) as insurance commission from premium paid by the following:

	2007/2008 Rs.	2006/2007 Rs.
LOLC	<b>1,362,664</b>	3,494,717
LOFAC	<b>21,774</b>	160,058
LOSEC	-	119,382
LOFIN	<b>176,014</b>	130,662
	<b>1,560,452</b>	3,904,819

3.2 LOIT has received IT service fee as follows:

LOFAC	<b>9,000,000</b>	9,000,000
LOIB	<b>4,500,000</b>	4,500,000
LOLC	<b>36,000,000</b>	36,000,000
LOFIN	<b>24,000,000</b>	-
	<b>73,500,000</b>	49,500,000

3.3 Rs. 1,727,789/- is due to LOIB from LFSL for sharing of services (2006/07 - Rs.2,010,385/-).

3.4 LOFIN has purchased the loan portfolio of LOFAC for the consideration of Rs.669,290,148/- (2006/07 - Rs.605,340,040/-).

3.5 Rs.16,000,000/- is due to LOIT from LOFIN (2006/07 - Nil).

3.6 Rs.6,121,588/- is due to LOFAC from LOFIN (2006/07 - Nil).

3.7 Rs.6,115,431/- is due to LOFIN from LOIB (2006/07 - Nil).

3.8 Rs.239,755/- is due to LOSEC from LOIB (2006/07 - Nil).

## NOTES TO THE FINANCIAL STATEMENTS

### 43.2 Transactions with Key Management Personnel

Key Management personnel include all the members of the Board of Directors of the Group having authority and responsibility for planning, directing and controlling the activities of the Company as well as the subsidiaries, directly or indirectly.

- Group has paid fees amounting to Rs.12,468,103/- for the year 2007/08. (2006/07- Rs.1,453,044/-)
- Emoluments paid to key management personnel during the year 2007/08 amounted to Rs. 32,203,919/-. (2006/07 - Rs. 21,126,788/-).
- In addition to the above company has provided the following benefits and facilities:

	2007/08			2006/07		Total Rs.
	Short-term benefits Rs.	Long-term benefits Rs.	Total Rs.	Short-term benefits Rs.	Long-term benefits Rs.	
	Total benefits and facilities	11,586,928	7,055,833	18,642,760	10,536,085	

- Group has not incurred any amount as Termination benefits or Post Employment benefits on account of the key managerial personnel during the year.
- Group has not provided leases, loans, advances or other credit facilities in the names of key managerial persons as at 31.03.2008.

### 43.3 Other Related Parties

The Company carries out transactions in the ordinary course of its business on arm's length basis with related parties.

Name of Directors, their relationship, accommodations granted and balance outstanding as at March 31, 2008 are listed below:

Name of Related Party	Name of Director	Relationship
Ishara Traders	Mr R M Nanayakkara	Proprietor
	Mr I C Nanayakkara	Director
	Mrs K U Amarasinghe	Director
Brown & Co .Ltd.	Mrs R L Nanayakkara	Chairperson
	Mr M T L Fernando	Director
	Mr I C Nanayakkara	Director
Taprobane Fund Management (Pvt) Ltd.	Mr R M Nanayakkara	Director
	Mrs R L Nanayakkara	Director
	Mr M T L Fernando	Director
The Colombo Land Exchange Ltd.	Mr I C Nanayakkara	Director
	Mr I C Nanayakkara	Director

## NOTES TO THE FINANCIAL STATEMENTS

- The Group and Company paid Rs.36,772,500/- and Rs 25,817,500/- (2006/07 - Rs. 351,077,004/- and Rs. 337,707,004/-) respectively for the supply of lease vehicles to Ishara Traders (Pvt) Ltd.
- The Company has obtained Rs. 700 Mn loan from Ishara Traders during the year and Rs. 14,738,356/- (2006/07 - Rs.21,379,815/-) paid as interest. The loan was fully settled on 24.12.2007.
- The Company received Rs.1,700,000/- (2006/2007-Rs. 39,100,000/-) from Ishara Traders as sales proceeds of vehicles.
- The Company purchased 4,359,786 shares of Hatton National Bank Ltd. from Taprobane Fund Management (Pvt) Ltd. for Rs. 407,183,303/-.
- The Company paid Rs. 411,130,700/- for the supply of lease vehicles to Brown & Company Ltd. (2006/2007-Rs.191,318,323/-)
- LOFAC has advanced Rs. 213,007,500/- to Standard Finance Ltd. and earned Rs. 11,978,417/- as interest income and earned Rs. 254,155/- as discount charge income during the year from Mason's Mixtures Ltd.
- Amount due from related party transactions are as follows:

Name of the Company	Nature of transactions	Balance outstanding	
		As at 31 Mar 2008	As at 31 Mar 2007
		Rs.	Rs.
The Colombo Land Exchange Ltd.	Loan granted	-	90,000,000
Brown & Company	Finance Lease	1,362,736	-
Galoya Holdings (Pvt) Ltd.	Loan granted	10,164,210	-
Galoya Holdings (Pvt) Ltd.	Finance Lease	2,443,170	-
Touchwood Investments Ltd.	Loan granted	25,074,574	-
Touchwood Investments Ltd.	Finance Lease	5,506,372	-

- Interest Income earned from loan granted to related party transactions as follows:

Name of the Company	2007/08		2006/07	
	Rs.		Rs.	
The Colombo Land Exchange Ltd.	-		32,048,609	
Brown & Company	13,930,168		12,828,769	
Galoya Holdings (Pvt) Ltd.	2,188,951		-	
Galoya Holdings (Pvt) Ltd.	1,607,910		-	
Touchwood Investments Ltd.	2,606,339		-	

#### 44 Foreign Exchange Risk

The Company obtains long-term facilities from foreign multilateral and bilateral agencies for on lending purposes. The Company adopts a conservative strategy on obtaining rupee facilities from local Commercial Banks with the deposit of these foreign currency money received. Thereby, Company minimises the foreign exchange risk.