

# 2015 2016

Annual Report



CENTRAL FINANCE COMPANY PLC

## VISION

Central Finance shall be the first choice for progressive customers in delivering innovative financial solutions.

## MISSION

To be the leader in our industry, conducting business with responsibility, using our expertise in helping customers grow and prosper whilst creating lasting value for our shareholders.

## CORPORATE VALUES

- **Customer Centered** – We aim to build long term relationships with our customers, We believe in providing consistently high standards of service and integrity
- **Unyielding Integrity** – We have a hard earned reputation of integrity and reliability which we shall safeguard at all times. Therefore trust, confidence, prudence and fairness in dealing with our customers, members of the public will be absolute and will form an integral part of our business philosophy
- **Superior Service** – We believe in providing fast, quality service that earn customer satisfaction which results in customer retention
- **Exceptional Performance** – We set ambitious goals, yet we understand accountability to achieve these goals. We are committed to perform exceptionally well on behalf of our stakeholders
- **Our People are our company** – The ability and commitment of our people are central to the success of the company. Therefore, we help them enhance their skills, recognise and reward accomplishment, treat them with fairness and consideration. In return we expect every individual to take responsibility for his/her actions

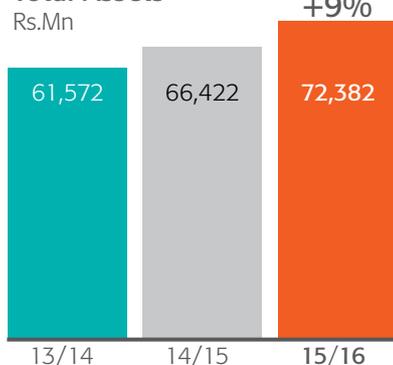
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# Financial Highlights

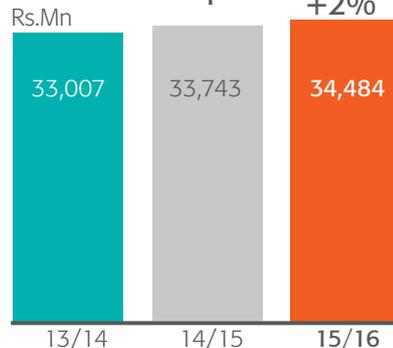
## Total Assets

Rs.Mn



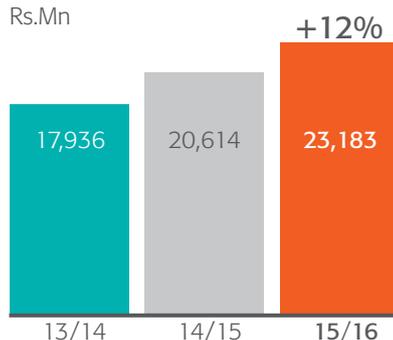
## Total Public Deposits

Rs.Mn



## Shareholders' Funds

Rs.Mn



	Group		Company	
	2015/16	2014/15	2015/16	2014/15
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.

### Financial performance

Income	16,285	15,963	13,702	13,508
Profit before income tax	6,272	5,123	5,089	4,006
Income tax	2,169	1,388	1,755	1,003
Profit after income tax	4,103	3,735	3,334	3,003
Net profit attributable to ordinary shareholders	3,994	3,633	3,334	3,003
Gross dividends	-	-	420	367

### Financial position

Total assets	77,808	71,204	72,382	66,422
Gross loans and advances to customers	60,446	53,464	60,595	53,577
Public deposits	34,299	33,448	34,484	33,743
Shareholders' funds	27,488	24,319	23,183	20,614

### Information per ordinary share

Earnings Rs.	38.08	34.64	31.79	28.63
Dividends Rs.	4.00	3.50	4.00	3.50
Market value Rs.	-	-	210.00	250.10
Net assets Rs.	262.09	231.86	221.04	196.55

### Ratios

Dividend cover (times)	-	-	7.95	8.18
Dividend payout (%)	-	-	12.60	12.22
Liquid assets (%)	-	-	10.88	13.31
Shareholders' funds to deposits	-	-	67.23	61.09
Core capital ratio (Tier 1) %	-	-	29.91	28.80
Total risk weighted capital ratio (Tier 1 & 11) %	-	-	30.21	29.08

## Non-financial highlights

Employees



1,642

14/15: 1,624 13/14: 1,557

Branches



93

14/15: 92 13/14: 86

Customers



134,198

14/15: 123,987 13/14: 102,548

# Chairman's Statement

**“Bolstered by attractive interest rates and import duty concessions in the first half of the year, the industry-wide loans and advances grew by a healthy 31.8% for 2015. Encouragingly, despite the increase in loan book, the sector-wide Non-Performing Loans (NPL) ratio declined to 5.7% from the previous year's NPL ratio of 6.9%, signifying an improvement in the overall asset quality.”**

It is my pleasure to present to you, the Annual Report and the Financial Statements of your company for the year ended 31st March 2016. I would like to touch on some key highlights that shaped the business environment during the year. I'm sure you will find this contextual setting relevant when evaluating your company's performance for the year.

## MACRO-ECONOMIC OVERVIEW

With only the US economy showing signs of a revival, global economic activity remained subdued in 2015, while growth in other advanced economies and most emerging and developing economies showed signs of slowing down once again. Some of the key influences were the gradual slowdown of economic activities in China, lower prices for energy and other commodities, and a gradual tightening in monetary policy in the United States as central banks in several other advanced economies continue to ease monetary policy.

For Sri Lanka, 2015 was marred with a certain degree of uncertainty that accompanies an election year. Furthermore, the overall sluggishness in the global economy too had a negative impact on the country's external sector, and the 4.8% economic growth for 2015, was mainly as a result of heightened domestic consumer spending throughout the year. Private consumption expenditure grew through most of the year, underpinned by the consistently low interest rate environment and the duty concessions allowed for the import of smaller capacity vehicles. This led to a notable spike in the demand for vehicles between April to August 2015. A significant increase in public sector consumption expenditure was also observed, as a result of the increase in salaries and wages of public sector employees that came into effect

following the interim budget in September 2015. However, despite this momentum, inflation remained at mid-single digit levels throughout, ending the year at 4.5%. The Rupee on the other hand which had remained broadly stable for most of the year, depreciated by 9%, in the wake of the CBSL's decision to allow greater flexibility in the determination of the exchange rate with effect from September 2015.

## SECTOR SUMMARY

In 2015, the licensed finance companies (LFCs) and specialised leasing companies (SLCs) recorded mixed results. Characterised by lower market risk exposure and healthy levels of liquidity, the total assets of the sector grew at a faster pace than in the year before, reflecting a strong growth of 22.3% to reach Rs. 996 billion as at 31st December 2015.

Bolstered by attractive interest rates and import duty concessions in the first half of the year, the industry-wide loans and advances grew by a healthy 31.8% for 2015. Encouragingly, despite the increase in loan book, the sector-wide Non-Performing Loans (NPL) ratio declined to 5.7% from the previous year's NPL ratio of 6.9%, signifying an improvement in the overall asset quality.

On the other hand, the investment portfolio declined amidst dull performance of the equity and capital markets.

Total liabilities of the sector increased during the year, denoted by increases in deposits and borrowings. However, the increase in borrowings was much steeper due to aggressive wholesale fund raising activities by LFC's and SLC's, who leveraged on the low interest rates to raise capital from the banking sector and from the public via the issue of debentures.

## Chairman's Statement

### COMPANY PERFORMANCE

With the gradual easing of market uncertainties that prevailed in the last quarter of the previous year, we began the current year with the aim of consolidating core competencies to capitalise on market opportunities. The governance structure was further strengthened with the formation of the Related Party Transactions Review Committee.

From a business perspective, the main focus for the year was to manage credit disbursements and ensure that the company maintains a healthy liquidity position. As such, the funding mix was diversified at the outset, spearheaded by our 3rd listed debenture issue in as many years. Aimed at mobilising Rs. 2.5 billion in public funds, the issue was for three, four and five year tenors. I am pleased to report that the issue, which opened on 27th May 2015, was oversubscribed many times over, helping us achieve our target within a few hours of opening the issue.

Summing up our business performance for the year, it must be recognised that, the environment in the first six months of the year was supportive and our results for the first two quarters of the financial year show a healthy pick up compared to the previous year. However, with a major portion of our activity hinged on the movements in the country's vehicle market, the second half of the year was fraught with difficulties. We believe that the introduction of the Loan-to-value ratio in September 2015, as a selective demand management instrument to curb the volume of vehicle imports; the decision by the CBSL in September 2015, to allow greater flexibility in the determination of the exchange rate and its consequences on vehicle prices; the increase in customs duty on vehicles in October 2015 aimed at curtailing the

import of vehicles and finally the increase in interest rates with effect from January 2016, all had a subduing influence on the lending prospects during the latter half of the year.

Reading through this report, you will find these key themes being mentioned with reference to the performance of all major business lines. Despite these challenges however, thanks to our highly focused strategic initiatives and unit level tactical planning, I am happy to convey, that we have come together to deliver good results for the year under review.

### KEY FINANCIAL HIGHLIGHTS

CF group recorded a profit after tax of Rs. 4.10 billion an increase of 9.85% from the Rs. 3.74 billion reported in the previous year. This was mainly due to improved credit quality and corresponding lower impairment charges in the current year compared to the last year.

Total assets grew by 9.27% to Rs. 77.81 billion, while the loan book stood at Rs. 60.45 billion, an increase of 13.06%. A significant part of this growth was generated from the Small and Medium Enterprises (SME) sector and Business loans & advances portfolio, which stood at Rs. 4.40 billion as at the year end. The low interest rate regime that prevailed for most part of the year did not drive deposits, which grew only by 2.20% as the company opted for more cost effective wholesale funding.

Equity attributable to shareholders surpassed Rs. 27 billion, placing your company as the largest capitalised company in the LFC/SLC sector.

### PERFORMANCE OF GROUP COMPANIES

All group companies tabled good results for the year, with noteworthy contributions being made by Central Industries PLC, where a 38.28% increase in profit after tax was recorded for the year under review.

CF Insurance Brokers (Pvt) Ltd., continues to hold the distinction as the largest insurance premium collector, which led to a buoyant increase in profitability for the financial year ending 31st December 2015.

Associate company, Nations Trust Bank PLC also achieved a profit after tax of Rs. 2.61 billion and its balance sheet stood at Rs. 176.26 billion as at 31st December 2015.

Details regarding the performance of other subsidiaries are covered under the Managing Director's Report captured on pages 6 to 9 of this annual report.

### DIVIDEND

The company paid two interim dividends of Rs. 1/- each per share, with the first being paid in December 2015 and the other in April 2016. The Directors have now proposed a final dividend of Rs. 2/- per share, bringing the total dividend for the year 2015/16 to Rs. 4/- per share. This final dividend will be payable on the issued share capital of the company, prior to the sub division and issue of new shares referred to below.

As already announced, the Directors have recommended a subdivision of shares in the proportion of two for every one held, and the issue of new shares by capitalisation of reserves amounting to Rs. 769 million in the proportion of one share for every thirty held, subject to the approval of the shareholders at a general meeting immediately following the Annual General Meeting.

### FUTURE OUTLOOK

Given the recent movements in the interest rate structure, it is difficult to outline a clear path for future progress. Having said that, our focus for the immediate future would be to further consolidate our strengths and build resilience. In this regard, we will look to leverage on our core competencies to build market share, while at the same time,

studying revenue streams and exploring new and emerging market segments. For the longer term, we will look to invest in more technology-based solutions in order to widen our reach and facilitate greater financial inclusion in Sri Lanka.

## BOARD CHANGES

Mr. Nirmal Fernando, who joined the board on 3rd January 2013, will be stepping down from his position with effect from 30th June 2016 in keeping with board succession plans. Mr. Fernando has always been an active member of the board throughout his time with the company, having chaired both the Audit Committee and the Integrated Risk Management Committee. On behalf of the board, I thank him for his valuable contribution over the past three and a half years, and wish him well in all his future endeavours.

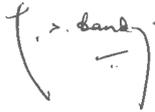
We are also privileged to welcome Mr. Asite Talwatte, who will join the board on the 30th of June 2016. Mr. Talwatte was the Managing Partner of Ernst & Young Sri Lanka, till his retirement from the Firm in March 2016. I am confident that the company will benefit immensely from Mr. Talwatte's considerable experience in the spheres of Accounting, Auditing and Management.

## APPRECIATIONS

My grateful thanks to the officials at the Department of Supervision of Non-bank Financial Institutions of the Central Bank of Sri Lanka, for their valuable support and guidance.

I would also like to express my thanks to my colleagues on the board for their unstinted support extended to me at all times and take this opportunity to thank the Managing Director, the Management and all Employees of Central Finance Company PLC, for their loyalty and dedication towards delivering results year after year.

In closing, I wish to thank the shareholders and all other stakeholders of Central Finance Company PLC, for the trust and confidence placed in the company and I request your invaluable support in the years ahead as well.



**J.D. Bandaranayake**  
*Chairman*

Colombo  
8th June 2016

# Managing Director's Report

**“The low interest rate regime and the healthy demand for credit seen at the outset of the current financial year signaled ideal conditions needed to grow volumes, while duty concessions allowed on the import of hybrid vehicles effective May 2015, led to greater market buoyancy and further heightened the demand for consumer credit. Quick to respond to these market movements, we immediately fine-tuned the product mix and stepped up efforts to grow the loan book, a move that delivered favourable results in the first half of the year.”**

In this our 59th year in operation, I am indeed pleased to report that we have once again been able to deliver a good year of performance as evidenced by our results for the twelve months ending 31st March 2016.

## THE YEAR AT A GLANCE

As the external sector faltered amidst weak demand from traditional export markets, Sri Lanka's economy tabled a GDP growth of 4.8% for 2015. This was driven by heightened domestic consumer spending, which in turn was the result of positive consumer sentiments and relatively low interest rates in the first nine months of the year.

The sharp increase in consumer credit activities observed throughout the year also helped mop up the excess liquidity that prevailed in the past two years.

All indicators in the financial services sector point to an improved performance compared to the previous year. Most sub-sectors too recorded growth for the twelve months ending 31st December 2015. In the bank and LFC/SLC sub-sectors year-on-year growth was seen in assets, as well as profitability together with higher penetration across the branch and ATM networks.

Meanwhile, despite the increased reliance on short term funding, the NBFI sector was able to stay within the liquidity parameters and their collective capital position also continued to be well above the minimum regulatory requirement throughout the year. Moreover, having overcome the temporary spike at the beginning of the year, the sector-wide Non Performing Loans (NPL) ratio remained relatively low for the rest of the year.

## REVIEW OF BUSINESS ACTIVITIES

Our main focus for the year was to strengthen the core elements of the business model and refine their alignment in tandem with the changes in the

operating environment. In doing so, we identified certain opportunities that augured well for our business, while I must admit there were several critical challenges too, that we had overcome during the year under review.

## CREDIT AND LENDING

The low interest rate regime and the healthy demand for credit seen at the outset of the current financial year signaled ideal conditions needed to grow volumes, while duty concessions allowed on the import of hybrid vehicles effective May 2015, led to greater market buoyancy and further heightened the demand for consumer credit. Quick to respond to these market movements, we immediately fine-tuned the product mix and stepped up efforts to grow the loan book, a move that delivered favourable results in the first half of the year.

However, hit by a three-pronged attacks in the form of the Loan-to-Value ratio, the currency depreciation and the upward revision in the import duties, the prospects of the lending business diminished in the third quarter of the financial year, only to be further battered by an increase in interest rates in the fourth quarter.

Cognizant of these conditions, we looked to rationalise our asset portfolio and reduce the dependence on the vehicle-lending model. In doing so, we sought to deepen the penetration into other market segments and began developing the Small and Medium Enterprises (SME) market as a potential driver of our asset base.

## ASSET QUALITY

As always, maintaining asset quality continues to be a key success factor in our line of business. Having witnessed rapid growth in our asset base in the first half, we redoubled our efforts to monitor and review the quality of our asset portfolio. These together with our early warning

systems have helped bring down the NPL ratio to 3.86% as at end March 2016, from 4.53% at the end of the previous year.

### DEPOSIT MOBILISATION

It is encouraging to note that despite the relatively low interest rates, deposit volumes remained strong, which led to an increase in our deposit book in the first half of the year. However, mobilisation eased during the latter part of the year in line with fund requirements. Our priority was to maintain a healthy growth in our funding base in a sustainable manner.

### BRANCH NETWORK

For the past two years, we have been adopting a selective approach for the expansion of the branch network, which we continued this year as well. As such, only one new branch was opened during the year, as we concentrated on consolidating the existing network and improving the efficiency of the current branch model.

### FINANCIAL HIGHLIGHTS

The CF group recorded a profit after tax of Rs. 4.10 billion up 9.85% from the Rs. 3.74 billion reported in the previous year, indeed a commendable performance amid considerable margin pressure in the second half of the financial year. Notably, the profits for the year received a significant boost by way of lower impairment charges, which decreased compared to last year, reflecting benign retail economic conditions.

Total assets grew by 9.27% to Rs. 77.81 billion as at 31st March 2016. The loan book stood at Rs. 60.45 billion, tabling an increase of 13.06% over the last financial year, with a major part of this growth coming from the SME sector. The business loans & advances grew to Rs. 4.40 billion as at year end. The company opted for a more cost effective long term wholesale

funding strategy in the first half of the year. Overall deposit growth was only 2.20% for 2015/16 in line with the requirements for funds.

### CREDIT RATING

Fitch Ratings Lanka Ltd., once again assigned CF with a A+ (lka) national long term rating and reaffirmed the senior and subordinate debts at A+ (lka) and A (lka), respectively.

### DIVIDEND

The first interim dividend of Rs. 1/- per share was paid in December 2015 and another Rs. 1/- per share being the 2nd interim dividend was paid to shareholders in April 2016. The directors have proposed a final dividend of Rs. 2/- per share, subject to approval by the shareholders at the Annual General Meeting to be held on 15th July 2016. An increase in distribution of 14.28% over last year.

The directors have also proposed a sub-division of shares in the proportion of one into two shares, and to capitalise reserves to the value of Rs. 769 million with the issue of further 6,992,222 new shares in the ratio of one new share for thirty held. The above share sub-division and capitalisation of reserves are subject to regulatory and shareholder approvals.

### PERFORMANCE OF SUBSIDIARIES

#### Central Industries PLC

Central Industries PLC recorded an impressive performance during the financial year under review, the best ever to date. Revenue increased to Rs. 2.23 billion, up by 7% from Rs. 2.09 billion in the previous year, while profit before tax increased to Rs. 252.88 million, up by 48% from Rs. 170.75 million for the previous financial year. Profit after tax also grew by the same proportion, from Rs. 130.33 million recorded in 2014/15 to Rs. 180.23 million in the year under review.

Revenue growth was achieved mainly due to a heightened demand from the domestic construction industry, which together with the lower raw material costs had a strong positive impact on profitability for the year. Sales to State-owned institutions and government sponsored infrastructure development projects, especially water supply projects, which contributed significantly towards the previous year's growth, slowed down during the year under review.

The electrical products unit of the company, which markets domestic electrical switches and sockets under the 'Krypton' brand, also recorded a significant growth in revenue and profits.

The board has recommended a first and final dividend of Rs. 5.50 per share, for the year ended 31st March 2016, an increase of 22.22 % compared to Rs. 4.50 per share paid in the previous year.

#### CF Insurance Brokers (Pvt) Ltd. (CFIB)

CFIB delivered an improved performance during the financial year ended 31st December 2015, its best ever to date. The gross premium turnover stood at Rs. 2.23 billion compared to Rs. 2.06 billion reported in the previous year, an increase of 8.37%. Commission income increased by 8.43% from Rs. 219.60 million in 2014 to Rs. 238.11 million in 2015. The pre-tax profit was Rs.181.04 million, an increase of 23.85% over the corresponding year's Rs. 146.2 million.

Profit after tax also grew at a similar pace to Rs.141.86 million in 2015 compared to Rs.112.90 million in the previous year. Direct expenses accounted for Rs. 77.15 million inclusive of staff salaries, decreased by 2.65% compared to the previous year, due to the efficiency improvement measures taken by the management. Employee retirement benefit charges decreased by 21.22% due to the effects of changes in market interest rates.

## Managing Director's Report

At the commencement of 2015 the company activated a Call Center operation utilising existing staff to promote insurance business to non-captive sources. We see potential in growing this business as a new market segment. The company is also planning to cross sell a range of insurance products, in addition to motor insurance, to existing clients in order to improve the product mix and diversify the income sources.

### Mark Marine Services (Pvt) Ltd.

The company's Power Purchase Agreement with Ceylon Electricity Board, which lapsed in June 2014, was extended for a further period of five years, under the scheme approved by the Cabinet Sub-committee. The tariff applicable under the new scheme is approximately 34% lower than the previous tariff.

From an operational perspective the company's power generation output fell by 11% compared to the previous year, amidst the dry weather conditions that prevailed for most of the year. This, along with the drop in the tariff resulted in a 31.89% reduction in revenue. Consequently, the company recorded a profit before tax of Rs. 34.95 million for the year ended 31st March, 2016, which is 55.67% lower than the previous year. The company registered a profit after tax of Rs. 30.25 million for the current financial year, compared to Rs. 68.44 million recorded in the previous year. A dividend of Rs. 6.50 per share was paid during the financial year ended 31st March 2016.

### Dehigama Hotels Company Ltd. (DHCL)

The company owns the Dehigama Building located at No. 84, King's Street, Kandy; which houses the registered office of Central Finance Company PLC and DHCL's

revenue consists entirely of rental income derived from the long term tenancy agreement with Central Finance Company PLC. Rental income increased to Rs. 32.60 million in the current year, from Rs. 29.64 million, a change that came about following the renewal of the tenancy agreement in March 2015, for a further five-year period. Consequent to the increase in rental income, profits before tax improved from Rs. 26.36 million in 2014/15 to Rs. 28.88 million in 2015/16, while profits after tax improved from Rs. 18.96 million to Rs. 20.78 million for the same period.

### Kandy Private Hospitals Ltd.

Turnover for the year under review was Rs. 112.07 million, up by 12% from the Rs. 99.92 million recorded in 2014/15. However, profit before tax declined by 48% from Rs. 16.21 million reported in 2014/15 to Rs. 8.32 million for the year under review. This was mainly due to a 45% decrease in other income and 16% increase in maintenance and establishment expenses. The drop in other income is on account of lower interest income on fixed deposits, which decreased from Rs. 10.03 million in 2014/15 to Rs. 6.56 million in the year under review. In addition, it should be noted that in the previous financial year, capital gains on the disposal of an ambulance amounting to Rs. 3.60 million, was also included under the other income. Meanwhile, refurbishment work at the operating theatre caused the increase in maintenance and administrative expenses. A culmination of these factors saw the profit after tax decrease to Rs. 6 million in the current financial year, compared to Rs. 12.68 million reported for the previous financial year. In the year under review, the company acquired a new ambulance and equipment for the operating theatre at a total cost of Rs. 16.40 million.

## PERFORMANCE OF ASSOCIATES

### Nations Trust Bank PLC (NTB)

The NTB group reported a profit after tax of Rs. 2.61 billion for the year ended 31st December 2015, compared to Rs. 2.54 billion reported during the previous year. Profit before tax improved from Rs. 3.83 billion in the previous year to Rs. 3.90 billion in the year under review. Overall profits were unfavourably impacted by "marked to market" losses on the securities portfolio and a "one-off" impairment charge. Net interest income growth moderated to 1% during the year, reflective of declining yields in several key business lines, amidst rising funding costs and intensified competitive pressure. Credit growth was subdued during the first half of 2015, recovering only towards the latter part of the year.

Operating expenses increased only by 7% during the year under review as a result of ongoing focus on lean initiatives and automated workflow methods together with increase in automation and more reliance on digital channels. Overall, the group's cost to income ratio increased to 54.8% from 52.5% in the previous year. The increase in the ratio is largely due to the slower growth in income.

Total impairment charges for the year under review, declined by 17% to Rs. 985.48 million, due largely to a notable reduction in collective impairment. Non-performing advance ratio improved to 2.8% from 4.1% the previous year, with significant improvements in portfolio quality in several key business lines including leasing, credit cards and SME.

The total assets base of the bank grew by 11% to reach Rs. 176.26 billion at the year end. Of this, the loans and advances portfolio grew by 23% driven

by encouraging growth in the SME and corporate sectors, which facilitated a better balance in the overall portfolio. Revenue growth was marginal due to the rapidly narrowing net interest margins, mirroring industry trends and the unfavourable movement in the securities portfolio.

Deposits continued to be the main source of funding, demonstrating strong growth of 16% during the year, and reaching Rs. 129.16 billion at the year end, which was 80% of the total liabilities in comparison to 77% in 2014. All business lines of the bank witnessed growth in terms of customer numbers, volumes and revenue, bringing stability to future earnings. The bank's return on equity of 17.98% has remained consistently above industry average and is one of the highest in the sector. A first and final dividend of Rs. 2.10 per share was paid for the year ended 31st December 2015.

### Tea Smallholder Factories PLC (TSFL)

The company operates a network of eight factories, located mainly in the Southern Province with an annual processing capacity of 7.6 million Kilogrammes of green leaf, and a smallholder base of 16,583 leaf suppliers. The tea auction averages per kilogram from January to December 2015 amounted to Rs. 402.14 as against Rs. 461.86 recorded for the corresponding period in 2014, denoting a decrease of Rs. 59.72. Of this, low grown teas suffered the most, averaging Rs. 416.32 in 2015, a decline of Rs. 71.77 compared to the previous year. This was as a result of weak demand caused by the socio-economic unrest in the Middle Eastern Region, Russia, Ukraine and Turkey, where bulk of Ceylon teas are

exported, thus impacting prices at the Colombo Auctions. Additionally, lower oil prices continued into 2015/2016, further reducing the purchasing power of many of the largest export destinations for Ceylon tea.

During the year under review, the company was able to produce only 4.5 million kilograms, a decrease from the 5.3 million kilograms recorded in the previous year. The decline in production was mainly due to erratic weather patterns experienced in the third and fourth quarters, where excessive rain recorded in the third quarter was followed by extreme drought conditions with high ambient temperatures in the fourth quarter of 2015/16. The low grown average price in the current financial year therefore decreased by Rs. 56.20 per kilogram compared with the previous year and reached the lowest level in September 2015.

Amidst these unfavourable conditions, the company's revenue for the year declined to Rs. 1.91 billion from Rs. 2.52 billion recorded in the previous year, which led to a Loss after tax of Rs. 8.76 million, in contrast to profit after tax of Rs. 35.99 million recorded in the preceding year.

The company declared a dividend of Rs. 0.50 per share for the year ended 31st March 2016.

### APPRECIATIONS

I wish to express my grateful thanks to the Chairman and Board of Directors for their unstinted support at all times. I take this opportunity to also thank the management and staff of Central Finance Company PLC for their dedication and commitment towards realising corporate goals.

My thanks are due to the Director and Officials at the Department of Supervision of Non-bank Financial Institution of the Central Bank of Sri Lanka for their advice and support and to Ms/SJMS Associates, our External Auditor for their support in finalising the annual audit on time.

In conclusion, I wish to convey my appreciation to the shareholders, depositors, customers, bankers and all other stakeholders of Central Finance Company PLC for the trust and confidence placed in the company. I look forward to your continued patronage in the years ahead as well.



**E. Wijenaikie**  
*Managing Director*

Colombo  
8th June 2016

## Board of Directors

### **Jayampathi Divale Bandaranayake**

*Chairman / Independent Non-executive Director*

Jayampathi Bandaranayake, Graduate in Law, Fellow of the Institute of Personnel Management - Sri Lanka, Fellow of the Institute of Chartered Secretaries of Sri Lanka and Fellow of the Institute of Certified Chartered Professional Managers, was appointed Chairman of Central Finance Company PLC on 1st January 2012. He also serves on the Board of Ceylon Biscuits Ltd. He has held office as Chairman of Ceylon Tobacco Company PLC, the Ceylon Chamber of Commerce and the Employers' Federation of Ceylon and also functioned as the Chairman/Director General of the Board of Investment (BOI) of Sri Lanka.

### **Eranjith Harendra Wijenaik**

*Executive Director*

Eranjith Wijenaik is the Managing Director of Central Finance Company PLC and has been a member of the Board since 1st April 1983. He is a Director of Tea Smallholder Factories PLC, Trans Asia Hotels PLC, Equity One PLC, Central Industries PLC and served as a founder Director of Nations Trust Bank PLC. He holds a Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management.

### **Gerard Shamil Niranjana Peiris**

*Executive Director*

Shamil Peiris is the Director (Finance) of Central Finance Company PLC and has been a member of the Board since 1st April 1983. He serves on the Boards of many companies within and outside the Group. He possesses over 38 years of post-qualification experience. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, Institute of Credit Management & Society of Certified Management Accountants - Sri Lanka, Chartered Institute of Management Accountants - UK, British Institute of Management and Association of Corporate Treasurers - UK. He is also a Chartered Global Management Accountant.

### **Ravindra Erle Rambukwelle**

*Executive Director*

Ravi Rambukwelle is the Director (Marketing and Operations) of Central Finance Company PLC and has been a member of the Board since 20th February 2002. He possesses over 38 years of management experience, both locally and internationally. He holds a Bachelor's Degree in Economics and Political Science from the University of Peradeniya, a Diploma in Marketing from the Chartered Institute of Marketing - UK and a Diploma in Commerce from the Institute of Commerce - UK. He serves as a Director in several group companies including Tea Smallholder Factories PLC and Central Industries PLC.

### **Arjuna Kapila Gunaratne**

*Executive Director*

Arjuna Gunaratne, Director (Group Coordination) of the company, has been a member of the Board since 20th February 2002. He oversees the functions of Strategic Planning and Risk Management of the company. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He is also a Chartered Global Management Accountant. He also serves on the Board of Central Industries PLC.

### **Dharmika Prasanna de Silva**

*Executive Director*

Prasanna de Silva is the Director (Credit) of Central Finance Company PLC and has been a member of the Board since 1st July 2011. He served as the Chairman of the Leasing Association of Sri Lanka from 2007 to 2009. He also serves as a director of Nations Trust Bank PLC. He is a fellow member of the Chartered Institute of Management Accountants - UK and has completed all examinations of Chartered Financial Analyst (CFA) programme.

**Chandima Lalith Kumar Perera  
Jayasuriya**

*Non-executive Director*

Kumar Jayasuriya, Non-Executive Chairman of Finlays Colombo PLC has been a member of the Board of Central Finance Company PLC since 1st July 2011. He is a fellow member of the Chartered Institute of Management Accountants - UK, a Chartered Global Management Accountant, and a fellow member of the Association of Certified Chartered Accountants - UK.

He is a Trustee and a former Chairman of the Employers' Federation of Ceylon and also a director of several other public listed and non-listed companies incorporated in Sri Lanka including Nations Trust Bank PLC, Lanka Aluminium Industries PLC and Acme Printing & Packaging PLC.

**Sunil Chandra Sillapana Wickramasinghe**

*Independent Non -executive Director*

Sunil Wickramasinghe, the immediate past Chairman of Milco (Pvt) Limited has been a member of the Board of Central Finance Company PLC since 1st July 2011. He possesses 31 years of experience at Nestlé, holding various positions in the fields of Technical, Sales, Marketing and General Management in Sri Lanka and abroad. He served as an Executive Director at Nestlé Sri Lanka, prior to leaving for Australia in 2005 to take up an appointment as Sales Director for Nestlé Pacific Islands and later on as General Manager – Nestlé Papua New Guinea. He has wide exposure to sales and marketing especially in emerging markets such as India, Sri Lanka, Maldives and Malaysia.

**Faiz Mohideen**

*Independent Non-executive Director*

Faiz Mohideen was appointed to the Board of Central Finance Company PLC on 1st January 2012. He was a former Deputy Secretary to the Treasury and Director General External Resources Department, Ministry of Finance and Planning. He served on the Boards of Bank of Ceylon and the Securities and Exchange Commission of Sri Lanka. He currently serves on the Boards of Carsons Cumberbatch PLC, Dipped Products PLC and Kelani Valley Plantations PLC. He holds an M.Sc. in Econometrics from the London School of Economics and a B.Sc. in Mathematics from the University of London.

**Anthony Nirmal Fernando**

*Independent Non-executive Director*

Nirmal Fernando was appointed to the Board on 3rd January 2013. He was the Senior Partner of KPMG Sri Lanka from 2008 to 2012 and served as a Council Member of the Employers' Federation of Ceylon. He currently serves on the Board of Watawala Plantations PLC. Nirmal Fernando holds an MBA from IMD Business School,

# Corporate Management Team

1. **U. B. Elangasinha**  
FCA  
*General Manager – Finance*
2. **I. M. J. B. Ilangakoon**  
AICM (SL)  
General Manager – Branches
3. **B. A. C. K. Jayawardena**  
MBA (Open University – Malaysia)  
General Manager - Recoveries
4. **S. Ragunathan**  
MBA (Sikkim Manipal University, India)  
General Manager - Internal Audit
5. **C. K. Hettiarachchi**  
MBA (University of Wales),  
ACMA (UK), CGMA  
General Manager - Marketing and  
Product Development
6. **C. S. Hettiarachchi**  
MBA (University of Sri  
Jayawardenepura),  
L.L.B (University of Colombo),  
Attorney-at-Law  
General Manager – Legal
7. **W. K. B. Senanayake**  
BBA (Newport University - UK),  
MBA (University of Kent - UK)  
General Manager - Human Resources
8. **A. F. Goonetillake**  
Dip. in Marketing (UK), MCIM (UK),  
Dip. in IDPM (UK)  
Senior Assistant General Manager -  
Marketing Services
9. **S. Ekanayake**  
Senior Assistant General Manager -  
Fleet Management
10. **S. Tennekoon**  
Senior Assistant General Manager - Sales
11. **A. P. B. Rajanayake**  
Senior Assistant General Manager - Deposits
12. **G. A. Bandaranayake**  
Senior Assistant General Manager - Credit
13. **K. Kandeepan**  
FCA, ACMA (UK), CGMA  
Senior Assistant General Manager - Finance
14. **M. A. M. Farook**  
BSc (Hons) University of London  
Guildhall (UK), Dip. in Computer  
System Design - NIBM  
Senior Assistant General Manager - IT
15. **C. A. Goonawardene**  
BSc (University of Peradeniya), AICM  
(SL), BMS (Open University of Sri Lanka)  
Senior Regional Manager - Region 1
16. **H. G. Wijeratne**  
Senior Regional Manager - Region 4
17. **D. M. Warnakulasuriya**  
Assistant General Manager - Recoveries
18. **R. E. S. Naranpanawa (Mrs)**  
AICM (SL)  
Senior Regional Manager - Region 2
19. **A. K. Kaluhendiwela**  
MBA – University of Wolverhampton (UK)  
Assistant General Manager - Micro  
Branches
20. **C. M. Mendis**  
Assistant General Manager - Sales

# Management Discussion and Analysis

## INDUSTRY OVERVIEW

There was no material change in the composition of the Licensed Finance Companies / Specialised Leasing Companies (LFC / SLC) sector, which comprised of 46 LFCs and 7 SLCs by end 2015. The performance of the sector remained robust throughout the year, and was strongly underpinned by the potent demand for credit particularly for vehicle leasing and other secured loans.

As the sector began to feed the heightened demand for credit, total assets expanded at a higher pace in 2015, growing by 22.3% YoY, compared to the 19% YoY growth tabled at the end of the previous year.

Meanwhile, the strong demand for finance leases and secured loans led to an increase in the sector-wide loans and advances portfolio, which moved up from Rs. 603.7 billion at the end of 2014 to Rs. 795.8 billion as at 31st December 2015. This 31.8% increase in the loan portfolio also helped the sector table improved NPL's and provision coverage ratios as at 31st December 2015.

To meet the additional funding requirements, many LFC's and SLC's were seen leveraging on the relatively low lending rates to borrow from the banking system, while some others proceeded to raise funds by way of debenture issues. These factors meant the share of borrowings in the sector-wide liabilities, increased to 31.6% in 2015 from 26.7% in 2014, while the share of deposits declined slightly to 48.2% from 50.8% in the previous year.

Nevertheless, a steady inflow of term deposits was observed throughout the year. The pace of growth however was slower than in the previous year, with the sector-wide deposit book growing

only by 16.1% in 2015 compared to the 22.8% growth seen in 2014, as many industry participants opted for longer term debentures capitalising the low interest rate environment.

## MARKETING

As always the marketing strategy for the year was to generate organic growth of the portfolio by promoting the company's core lending products to a wider target market.

The year started off on a high note, buoyed by the "Mega Leasing Masaya" promotional campaign rolled out in the previous financial year. The promotion proved highly popular with CF's mid-segment Small and Medium Enterprises (SME) category, drawing in large volumes from customers looking for vehicle financing facilities for registered vehicles. Although the campaign was discontinued in June 2015, the company was able to leverage on the momentum to benefit from a steady increase in volumes up to December 2015.

The product mix too came under scrutiny once again and a decision was taken to focus more on promoting financing facilities for registered vehicles, with effect from November 2015. The decision came in the wake of a fall in demand for vehicle financing facilities from about September 2015, where the depreciation of the Rupee against the US Dollar caused the prices of imported unregistered vehicles to shoot up instantly.

The 70% Loan-to-Value (LtV) restrictions that came into effect in September 2015 was yet another challenge that had to be overcome during the same period. While the LtV constrained overall demand for vehicle financing across all market segments, the unregistered vehicles segment was most severely hit. Therefore in order to safeguard volume losses, the

company made a deliberate effort to widen the exposure to the mid-segment Small and Medium Enterprises (SME) through a special campaign to promote passenger trucks and other big-ticket vehicles.

Meanwhile, the second phase of the "Mega Leasing Masaya" campaign was also launched in February 2016, to offset the likely drop in volumes.

## CREDIT & LENDING

Following the post-election hype, the year started off on a positive note bolstered by a low interest regime and low vehicle prices. CF leveraged on this market buoyancy to build volumes and grow the lending portfolio in the first two quarters of the financial year supported by effective promotion campaigns.

The second half of the year however brought a number of setbacks, starting with the Government decision to introduce a 70% Loan-to-Value (LtV) ratio. This ratio, which restricted the loan offered to 70% of the value of a vehicle, was applicable not only for unregistered vehicles but also for registered vehicles.

A virtual overnight imposition of the LtV requirement on the industry had clients struggling to complete purchase decisions or cancelling orders altogether. The policy inconsistency of relaxing the LtV restriction in just a month after announcement, and re-imposing it two months later confused the market further. With vehicle financing being a core business line, CF saw an immediate drop in demand for vehicle financing and recorded a sharp decline in lending volumes.

The increase in the customs duties on vehicle imports once in September and again in November 2015 together with the depreciation of the Rupee pushed

## Management Discussion and Analysis

up vehicle prices sharply. This resulted in a further drop in demand for vehicles. The number of new vehicle registration plunged by over 50% from December 2015 onwards.

Meanwhile, the interest rate hike in January 2016 pushed up lending costs, resulting in more negative impact on the demand for vehicle financing.

From a business perspective these consecutive shocks, meant that CF had to concede unplanned volume losses of nearly 25% in the vehicle-financing segment since September 2015.

Amidst this environment, the company took a proactive stance to realign the strategic thrust of its credit business. Increased focus was directed on traditional business loans to Small and Medium Enterprises (SME) segment with special emphasis on broadening the services offered to existing SME clients. This also tied in with CF's goal to promoting greater financial inclusion in the SME segment. Steps taken in this regard saw an aggressive campaign to increase the proportion of direct lending to SMEs. The move was well received by the target market and led to a strong growth in volumes.

### DEPOSITS

Our strategy this year was to grow the deposit base in a sustainable manner. The progressive increase in interest rates brought in expected volumes in the latter part of the year, particularly from existing customers. CF was thus able to maintain the customary over 90% renewal ratio.

The decision to accept new deposits however, was underscored by the need to balance liquidity levels and ensure there would be no mismatch in assets and liabilities at any given time. This meant

continuing with the strategy to encourage more long term deposits. However, the steady increase in interest rates from August 2015 made it more challenging to sustain this goal, as the general trend under these conditions was for depositors to redirect their funds into short term deposits.

Nevertheless, CF registered reasonable growth in term deposits, with only marginal fluctuations seen in short term and savings portfolios. Gross collections for the year grew by 11.79%, while the deposit book registered a YoY growth of 2.20% as at 31st March 2016.

As always, value additions remained a key part of the strategy to create product differentiation by building customer value. Accordingly, a number of value enhancements were brought in during the year. Key among them was the feature that allows depositors to make direct transfers to their savings accounts without having to visit a bank branch through Sri Lanka Inter-bank Payment System.

CF also tied up with VISA international during the year to enhance the existing debit card model. The first phase of this initiative, rolled out during the year now allows customers to use their debit card to withdraw funds, purchase goods & services from their savings account via the VISA enabled global ATM network & merchants. The second phase of the project, due to be rolled out in June 2016, will permit an "Instant Loan against deposits" facility for term depositors. A ground-breaking scheme where term deposit holders can access up to a pre-approved limit of 70% to 90% of their deposit value. What is unique about this function is that depositors will be allowed to access funds via the VISA enabled global ATM network, at any time without having to visit a CF branch.

### VEHICLE HIRE

The vehicle hire business performed well during the year under review, having successfully navigated through the ebbs and flows in the operating environment. A steady growth in volumes was recorded in the first six months of the year, followed by a upsurge in early November as many corporate clients were seen taking advantage of the lower vehicle prices to upgrade their fleets, ahead of the expected duty revision that came into effect following the 2015 budget.

However, following the duty revision, vehicle prices shot up and the incremental cost involved, immediately discouraged corporate entities from renewing or even adding to their existing fleets. Further, the increase in interest rates from early January 2016 drove up cost of funds, once again leaving large corporate entities undecided about their plans to replace their fleets.

While having to contend some loss in volume during this period, CF's vehicle hire unit launched an aggressive campaign to broaden the marketing focus and explore opportunities in diverse market segments. This meant growing the island-wide client base, which prompted the company to tap into the plantation, leisure and construction sectors during the year. These efforts proved highly successful, with a steady increase in volumes coming from these sectors in the January – March 2016 quarter.

### RECOVERIES

Improvements in retail economic activities after the elections helped our recovery efforts and reduced the Non-Performing Loans (NPL) Ratio. Moving swiftly to capitalise on the situation, we intensified our collection efforts and a series of well-planned measures were put into place,

a move that proved to be very effective. Gross NPL ratio declined to 3.86% as at 31st March 2016 from the 4.53% recorded in the corresponding period. The ratio is well below the industry average of 5.7% recorded as at 31 December 2015.

The improvement in credit quality was also reflected in the impairment charges for the year. Both, individually significant and individually not significant loan impairment charges decreased by 275% and 135% respectively, while losses on repossessed vehicles declined by half and the repossessed vehicle stock stood at Rs. 753.37 million as at the balance sheet date.

## INFORMATION TECHNOLOGY

The key responsibilities of CF's IT team include maintaining the company's core IT infrastructure which provides critical business support and designing of new applications to enhance the facilities provided to customers.

We adopted the CBSL's recommendations for all financial institutions and migrated to the Tier-3 data centre model, which focuses on the impact of redundant data, backup power supplies and energy efficiency controls on the core IT infrastructure. Parallel to this, the department initiated the ISO 9001 Quality Management Systems for software development, a process which commenced in December 2015 and is expected to be completed by July 2016.

Meanwhile, service-enhancement projects that began in the previous years were completed and released in the year under review. Key among them was the plan

to facilitate POS usage for Debit Cards, a project that commenced in late 2014, was completed and made available for savings account holders with effect from June 2015. Further, the mobile wallet payments concept was also launched in July 2015, allowing customers the ease of making their lease rental payments anytime, anywhere from their Dialog, Etisalat and Hutch mobile connections, by simply following the USSD menu on the mobile wallet.

Additional efforts to improve alignment with customer needs also saw the IT department being restructured vis-à-vis the introduction of a Service Oriented Architecture model, aimed at encouraging employees to embrace a more service-oriented mind-set. The key expectation here is to develop a more customer-responsive operational platform that will help enhance the back-end support provided to business users.

Following this restructuring process, the IT department began working on a series of new projects aimed at further improving the services offered to customers, key among them being the introduction of deposit kiosks, business intelligence and discovery platform, mobile banking solutions and the branchless banking concept among others. With much of the groundwork already completed by 31st March 2016, these developments are due to be rolled out in the forthcoming year.

# Financial Review

## OVERVIEW OF THE INDUSTRY

The main driver for industry growth in 2015 was the low interest rate regime, which helped the industry to expand both in terms of business volume and branch network. The sector performance was further boosted by policy initiatives, supportive regulatory and supervisory measures. Having enjoyed robust growth in the first eight months of 2015, the industry did face a series of challenges, starting with the increase in duties on vehicles imports in early September 2015, followed by the Loan-to-Value restriction imposed on vehicle financing facilities and the Central Bank of Sri Lanka's decision to allow greater flexibility in the determination of the currency exchange rate, all in quick succession. Coming on the back of these challenges, the rising interest rates from January 2016 threw a further dampener on the industry prospects in the final quarter of 2015/16.

In general, total assets expanded at a much higher pace in 2015, recording a growth of 22.3%, compared to growth of 19% in 2014. This was mainly due to improved retail economic conditions which drove up credit given to customers for the twelve months ending 31st December 2015 to Rs. 795.8 billion, up 31.8% compared to 15.8% in the previous year, with a major part of this growth coming from leases and secured loans to customers. As a result of the increase in the loan portfolio and improved economic climate, especially in the retail sector, the non-performing loans ratio improved to 5.7% as at end of December 2015 from the 6.9% seen as at the end of December 2014. Meanwhile, with most industry participants capitalising on the low interests rate environment to mobilise funds through listed debentures, the industry-wide funding mix shifted towards term funding.

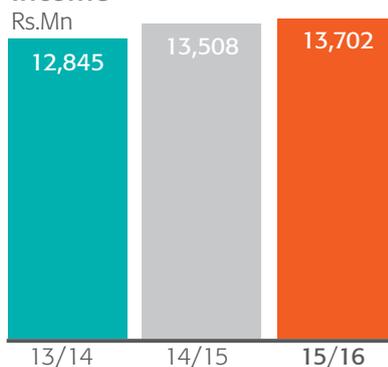
Consequently, deposits, as a percentage of total funding stood at 48.2% as at the end of December 2015 compared to the 50.8% recorded in the previous year.

Sector-wide profitability grew at a moderate level to Rs. 15.2 billion for the year ended 31st December 2015 in comparison to the Rs. 14.8 billion reported in the previous year. The loan loss provision was lower compared to the previous year and compensated for the lower margins. Industry-wide Return on Assets and Return on Equity were a touch lower at 3% and 12.3% respectively for 2015, compared to the last year's 3.1% and 14%.

## COMPANY PERFORMANCE Income

CF's Income growth was slow at 1.44% recording Rs. 13.70 billion in 2015/16 compared to the Rs.13.51 billion reported during the corresponding period, mainly due to the low interest rate environment and lower than expected credit disbursements during the year. Continuing the same pattern, interest income also showed only a minor growth of 1.07% during the year. In contrast however, interest expenses decreased at a faster pace of 10.53% and led to a year-on-year increase of 6.82% in the net interest income for 2015/16 compared to the figure registered for the previous year.

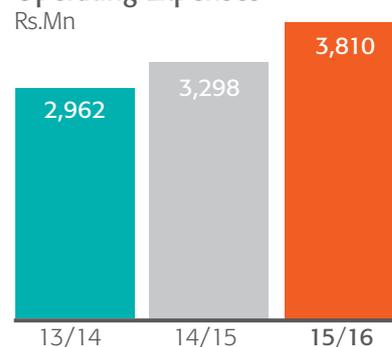
### Income



## Operating Expenses

Operating expenses for the year under review grew by 15.52%, mainly due to a higher salary bill and increased business mobilisation costs incurred in 2015/16.

### Operating Expenses



## Impairment Charges and Asset Quality

The asset quality showed a significant improvement for the year under review with an impairment charge of Rs. 658.35 million when compared to the 1,834.15 million recorded in the previous financial year, a decrease of 64.11%. The Non-Performing Loans (NPL) ratio also improved from 4.53% at the end of the previous year to 3.86% as at 31st March 2016, well below the industry average of 5.7% reported as at 31st December 2015.

## Cost to Income

The 6.82% increase in net interest income together with 15.52% increase in operating expenses, meant the cost to income ratio edged up to 38.09% compared to the 35.57% reported in the previous financial year. Net interest income came under pressure owing to the low interest rate environment and higher expenses on business promotion and other mobilisation costs.

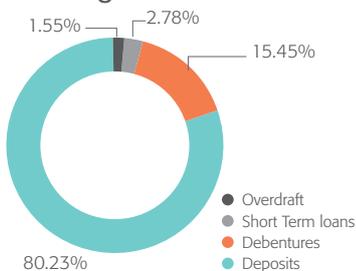
## Leases, Loans and Advances

The appetite for private sector credit growth in the country was fuelled largely by the low interest rate environment prevailed throughout 2015, which helped in growing CF's lending portfolio, in particular the loans and advances to Small and Medium Enterprises (SME). The loan book saw a growth of 13.10%, driven by the new business loan schemes introduced for corporate entities, SMEs as well as for individuals. The leasing and higher purchase portfolio net of impairment provisions increased to Rs. 56.03 billion contributing to 92.47% of the total lending portfolio at the end of 2015/16. Comparatively Rs. 50.13 billion was reported at the end of 2014/15.

## Funding

In order to capitalise on the low interest rate environment the company issued debentures to the value to Rs. 2.5 billion in June 2015. Despite this however, the funding mix saw very little change compared to the previous financial year and public deposits once again took the lead contributing 80.23% to the total funding mix. Meanwhile, CF's deposit base grew to Rs. 34.48 billion as at March 2016, an increase of 2.20% over the corresponding period.

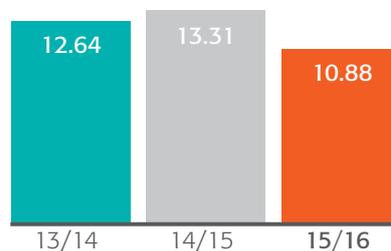
### Funding Mix 2015/16



## Liquidity

Once again the entire financial system witnessed excess liquidity throughout the year and CF was no exception and the liquid assets of Rs. 4.06 billion reported at the end of the financial year surpassed the minimum regulatory requirement set by the Central Bank of Sri Lanka. The ratio of liquid assets as a percentage of total deposits and unsecured borrowings stood at 10.88% as at end March 2016. The company's liquidity position was also well supported by the unutilised bank facilities to the value of Rs. 3.10 billion as at the year end.

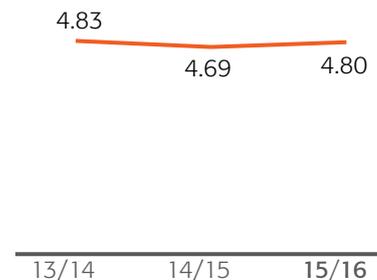
### Liquid Assets (%)



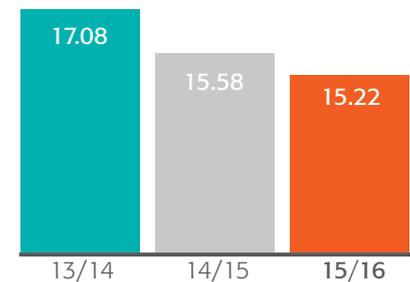
## Return on Assets and Return on Equity

The reduction in interest expense and lower impairment charges boosted the bottom line and improved the Return on Assets to 4.80% in the year under review. On the other hand Return on Equity, which was 15.22% as at end March 2015 dropped marginally, mainly due to the company's high profit retention policy.

### RoA (%)



### RoE (%)



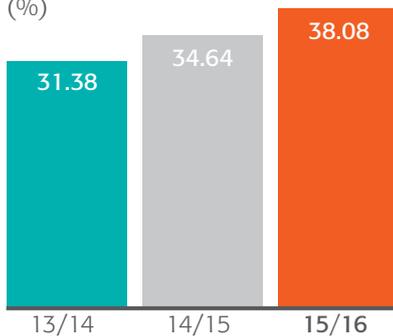
## Shareholder's Funds and Market Capitalisation

CF's shareholder's fund as at 31st March 2016, stood at Rs. 23.18 billion while the group's shareholders' fund surpassed Rs. 27 billion. The all share price index on the Colombo bourse dropped to 6071 points as at end March 2016 from the 7179 points recorded at end April 2015 owing to the bearish market sentiments that prevailed throughout the year, reflecting the policy uncertainties of an election year. The company's share price also declined marginally and stood at Rs. 210/- as at end of March 2016 when compared with

## Financial Review

the previous financial year end. In tandem the market capitalisation of the company also dropped from Rs. 26.23 billion to Rs. 22.02 billion as at the end of the financial year 2015/16.

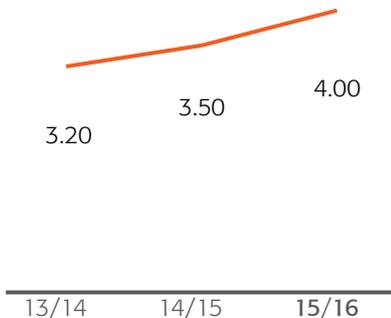
### EPS (%)



### Earnings & Dividend per share

The company's earnings attributable to the ordinary shareholders increased by 11.03% in line with the growth in profit after tax. Meanwhile, in keeping with the company's multiple dividend policy, two interim dividends were paid and a final dividend proposed for the approval of the shareholders grossing up to Rs. 4/- per share for the year under review. The total dividend payout for the year is Rs. 420 million, an increase of 14.17% over the last year's dividend payout.

### DPS (Rs.)



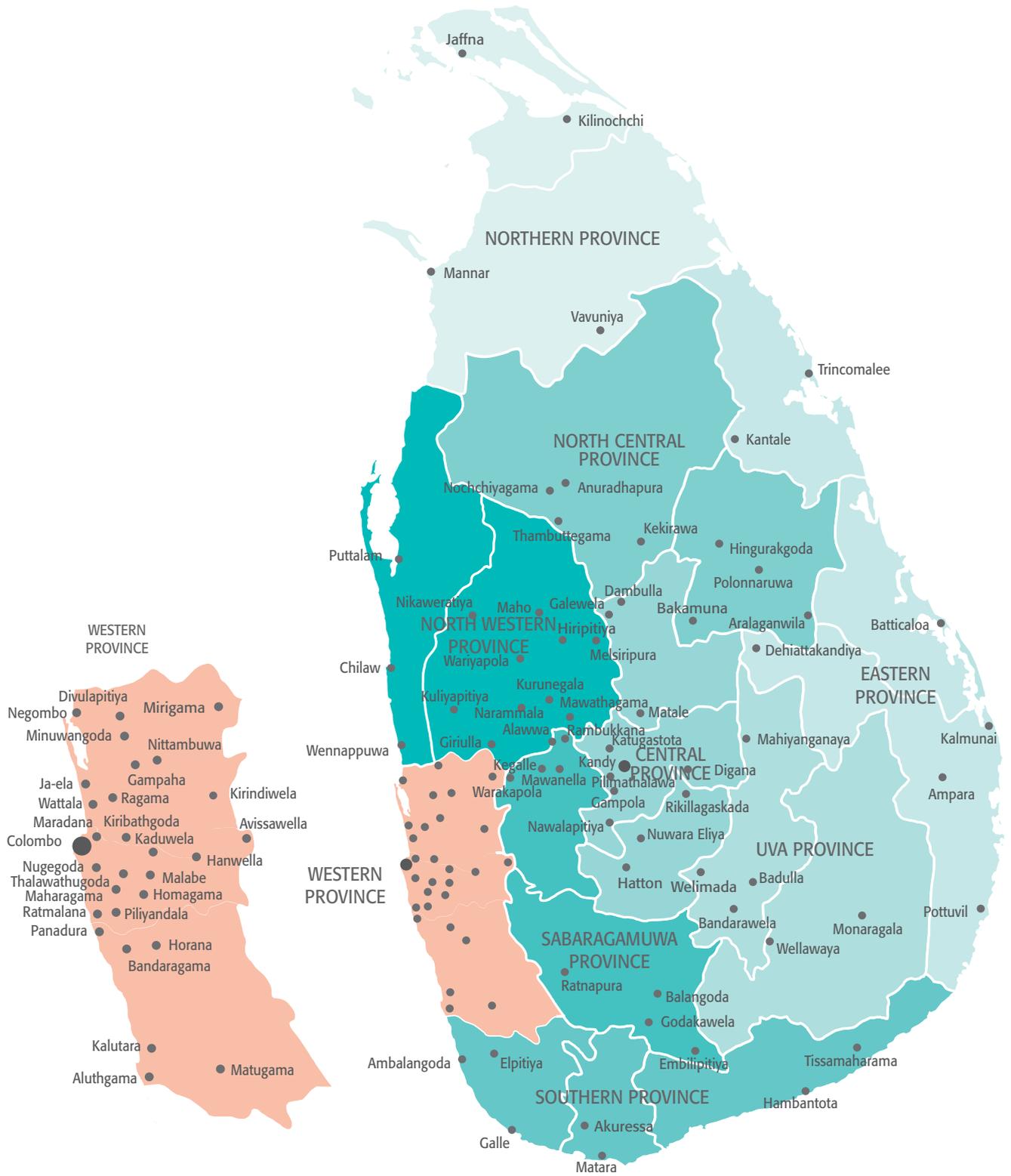
### Capital Adequacy

CF continued to retain its position as the highest capitalised Licenced Finance Company Institution in the country with a Core Capital ratio of 29.91% as at the end of March 2016. The Total Risk Weighted Capital Ratio also further improved to 30.21% from the 29.08% reported in the previous year, testifying the financial strength of the company. Both these ratios have substantially surpassed the regulatory minimum of 5% and 10% and the industry averages of 10.5% and 11.2% as at end December 2015, respectively.

### FUTURE OUTLOOK

Despite the challenging business environment posed by the increased vehicle duties, currency depreciation and the LtV restriction of 70%, the company hopes to take new initiatives and seize potential opportunities wherever possible, together with continuous improvements in credit quality and operational excellence aimed at delivering improved results in 2016/17.

# Branch Network



KANDY - Head Office	COLOMBO - City Office	KATUGASTOTA - Showroom
No. 84, Raja Veediya, Kandy, Sri Lanka. Tel: 94-81-2227000 Fax: 94-81-2232047	No. 270, Vauxhall Street, Colombo 02, Sri Lanka. Tel: 94-11-2300555 Fax: 94-11-2300441, 94-11-2541212	No. 254, Katugastota Road, Kandy. Tel: 94-81-2234309, 94-81-2234234-5 Fax: 94-81-2228468

## Branch Network

### WESTERN PROVINCE - 28

#### ALUTHGAMA

No. 371/1, Galle Road, Aluthgama  
Tel: 034-4941220, 034-4941221

#### AVISSAWELLA

No. 1/79, Ratnapura Road, Avissawella  
Tel: 036-2232750, 036-2233650,  
036-2232950

#### BANDARAGAMA

No. 37/A/6, Horana Road, Bandaragama  
Tel: 038-4933015, 038-4933016

#### DIVULAPITIYA

No. 96, Colombo Road, Divulapitiya,  
Tel: 031-2246180, 033-4944246,  
033-4944247

#### GAMPAHA

No.129, Ja-ela Road, Gampaha  
Tel: 033-2227621, 033-2234132,  
033-2225289, 033-4670442

#### HANWELLA

No.131/1/B, Pahala Hanwella, Hanwella  
Tel: 036-2253945, 036-2253966,  
036-4925821

#### HOMAGAMA

No.138/1, High level Road,  
Homagama  
Tel: 011-2892334, 011-4376101

#### HORANA

No.165, Ratnapura Road, Horana  
Tel: 034-2265065, 034-2265066,  
034-4944128

#### JA - ELA

No.171, Negombo Road, Ja-Ela  
Tel: 011-2229180, 011-2229181,  
011-4335408

#### KADUWELA

No. 180/12/G, Avissawella Road, Hewagama,  
Kaduwela  
Tel: 011-4385334, 011-4385335

#### KALUTARA

No. 46, Sri Sarananda Mawatha, Kalutara South  
Tel: 034-2226041, 034-4940068,  
034-4940067

#### KIRIBATHGODA

No. 541, New Hunupitiya Road,  
Dalugama, Kelaniya  
Tel: 011-4967530, 011-4888301  
011-4821442, 011-4821441

#### KIRINDIWELA

No. 68, Veyangoda Road, Kirindiwela  
Tel: 033-4944327  
033-4944328

#### MAHARAGAMA

No. 132, High Level Road, Maharagama  
Tel: 011-4319961, 011-2845855

#### MALABE

No. 418, Athurugiriya Road, Malabe  
Tel : 011-4413916, 011-2760893

#### MARADANA

No. 215, Maradana Road, Colombo 10  
Tel: 011-2038000, 011-4384020

#### MATUGAMA

No. 1/17, Pasqual Street, Matugama  
Tel: 034-2248790, 034-2248795,  
034-4942101

#### MINUWANGODA

No. 152/A, Galloluwa Junction, Minuwangoda  
Tel: 011-2294525, 011- 4384228

#### MIRIGAMA

No. 122, Werellawatta, Giriulla Road, Mirigama  
Tel: 033-4944198, 033-4944199

#### NEGOMBO

No. 367, Main Street, Negombo  
Tel: 031-2222579, 031-4871200,  
031-2233456, 031-2235111

#### NITTAMBUWA

No. 43, Kandy Road, Nittambuwa  
Tel: 033-2296615, 033-4927106

#### NUGEGODA

No. 312, High Level Road, Colombo 06  
Tel: 011-2815800, 011-2815801,  
011-2815803, 011-2815804

#### PANADURA

No. 292, Galle Road, Panadura  
Tel: 038-4281010, 038-2241533

#### PILIYANDALA

No. 329/4, Colombo Road, Piliyandala  
Tel: 011-2609000, 011-2609001  
011-4888305

#### RAGAMA

No. 63, Mahabage Road, Ragama  
Tel : 011-4387742, 011- 4387743

#### RATMALANA

No. 259/1/1, Galle Road, Ratmalana  
Tel: 011-2715617, 011-4323098

#### THALAWATUGODA

No. 688/A, 688/A/1, Madiwela Road,  
Thalawatugoda  
Tel: 011-4387538, 011-4387539  
011-22774916

#### WATTALA

No. 628, Negombo Road, Mabola, Wattala  
Tel: 011-4345520, 011-2949890,  
011-4345521

### EASTERN PROVINCE - 7

#### AMPARA

No. 09, 5th Avenue, Ampara  
Tel : 063-4890117, 063-4976000  
063-4922678, 063-222238

#### BATTICALOA

No. 52, 56A, 56B, Covington Road, Batticaloa  
Tel : 065-2227823, 065-2227824

#### DEHIATTAKANDIYA

No. 18E, New Town Complex, Dehiattakandiya  
Tel : 027-2250189, 027-4923577  
027-2250067

#### KALMUNAI

No. 263, Batticaloa Road, Kalmunai  
Tel: 067-2226132, 067-2226133

#### KANTALE

No. 57, Trincomalee Road, Kantale  
Tel: 026-2234574, 026-2234447,  
026-4924295

#### POTTUVIL

No. 230, Arugambay Road, Pottuvil  
Tel: 063-2248080, 063-2248084  
063-4922923

#### TRINCOMALEE

No. 272, 4th Mile Post, Kandy Road,  
Trincomalee  
Tel: 026-2242422, 026-4976001  
026-2242423

**NORTHERN PROVINCE - 4****JAFFNA**

No. 364, Main Street, Jaffna  
Tel: 021-2221608, 021-2221942

**KILLINOCHCHI**

No. KN/23/475, A9 Road, Killinochchi  
Tel: 021-2280133, 021-2280134,  
021-4923870

**MANNAR**

No. 45, Thalvupadu Road, Mannar  
Tel: 023-4920727, 023-4920728

**VAVUNIYA**

No. 166, Station Road, Vavuniya  
Tel: 024-2225813, 024- 2225814,  
024-2227192

**SOUTHERN PROVINCE - 7****AKURESSA**

No. 129 A, Deniyaya Road, Akuressa  
Tel: 041-4938107, 041-4938108

**AMBALANGODA**

No. 21B, Wickramasooriya Road, Ambalangoda  
Tel: 091-2255802, 091-2255799  
091-4977333

**ELPITIYA**

No. 109, Ambalangoda Road, Igala, Elpitiya  
Tel: 091-4943533, 091-4943534

**GALLE**

No. 151A, Matara Road, Galle  
Tel: 091-2223315, 091-4385676, 0914381184

**HAMBANTOTA**

No. 1/3, New Tangalle Road, Hambantota  
Tel: 047-2222651, 047-2222652,  
047-4929743

**MATARA**

No. 78, Kumaratunga Mawatha, Matara  
Tel: 041-2227314, 041-4390477,  
041-2222914

**TISSAMAHARAMA**

No. 173, Hambantota Road, Kachcheriyagama,  
Tissamaharama  
Tel: 047-2239145, 047-2239593,  
047-4932444

**NORTH WESTERN PROVINCE - 13****CHILAW**

No. 54, Kurunegala Road, Chilaw  
Tel: 032-2220636, 032-2221660,  
032-4925592

**GIRIULLA**

No. 119, Negombo Road, Giriulla  
Tel: 037-2289512, 037-2289513

**HIRIPITIYA**

No. 51, Wariyapola Road, Hiripitiya,  
Nikadalupotha  
Tel: 037-4945128, 037-4945129

**KULIYAPITIYA**

No. 107, Kurunegala Road, Kuliypitiya  
Tel: 037-2284553, 037-2283725

**KURUNEGALA**

No. 38, Mihindu Mawatha, Kurunegala  
Tel: 037-2232313, 037-2222200,  
037-2228020

**MAHO**

No. 163, Moonamalegama, Maho  
Tel: 037-4944951, 037-4944952

**MAWATHAGAMA**

7th Mile Post, Kandy Road, Mawatagama  
Tel: 037-4947258, 037-4947259

**MELSIRIPURA**

No. 227, Dambulla Road, Melsiripura  
Tel: 037-2250014, 037-4935300,  
037-4935066

**NARAMMALA**

No.40, Kuliypitiya Road, Narammala  
Tel: 037-4947689, 037-4947688

**NIKAWERATIYA**

No. 200, Puttalam Road, Nikaweratiya  
Tel: 037-2260871, 037-2260872,  
037-4935067, 037-4940152

**PUTTALAM**

No. 628, Colombo Road, Puttalam  
Tel: 032-4976004, 032-4976003,  
032-2269328

**WARIYAPOLA**

No. 200 "Awasa Watta", Horombuwa  
Wariyapola  
Tel : 037-4947240, 037-4947241

**WENNAPPUWA**

No. 262/A, Chilaw Road, Dummaladeniya East,  
Wennappuwa  
Tel: 031-2245260, 031-4929846,  
031-4976001, 031-2255261

**NORTH CENTRAL PROVINCE - 8****ANURADHAPURA**

No. 62, Maithreepala Senanayake Mawatha,  
Anuradhapura  
Tel: 025-2223560, 025-4930501,  
025-4928402, 025-4976000

**ARALAGANWILA**

No. 14/36, Kolongas Junction, Aralaganwila  
Tel: 027-4924815, 027-4924816

**BAKAMUNA**

No. 11, Elehera Road, Bakamuna  
Tel: 066-2256000, 066-2256001, 066-4929030

**HINGURAKGODA**

No. 20, Airport Road, Hingurakgoda  
Tel: 027-2247214, 027- 2245224, 027-4923574,  
027- 4976001

**KEKIRAWA**

No. 33, Yakalla Road, Kekirawa  
Tel: 025-4976002, 025-4928868

**NOCHCHIYAGAMA**

No. 25C, Puttalam Road, Nochchiyagama  
Tel: 025-4929053, 025-4929054

**POLONNARUWA**

No. 13, Hospital Junction, Polonnaruwa  
Tel: 027-4599210, 027-2225176,  
027-4976002, 027-4599210

**THAMPUTTEGAMA**

No. 146B, Anuradhapura Road, Tambuttegama  
Tel: 025-2275151, 025-2276978, 025-4976001,  
025-4930460

## Branch Network

### CENTRAL PROVINCE - 10

#### DAMBULLA

No. 21, Kurunegala Road, Dambulla  
Tel: 066-2283021, 066-4925374,  
066-2284093

#### DIGANA

No. 40, Pallekele Bazaar, Kengalla  
Tel: 081-4951144, 081-4951155

#### GALEWELA

No. 334/B, Dambulla Road, Galewela  
Tel: 066-4929890, 066-4929891

#### GAMPOLA

No. 6B, Nidahas Mawatha, Gampola  
Tel: 081-4945114, 081-4945115

#### HATTON

No. 66, Dunbar Road, Hatton  
Tel: 051-2222760, 051- 4924250

#### MATALE

No. 622, Trincomalee Street, Matale  
Tel: 066-2231225, 066-2223005,  
066-4927739

#### NAWALAPITIYA

No. 125, Ambagamuwa Road, Nawalapitiya  
Tel: 054-4922792, 054-4976001

#### NUWARA ELIYA

No. 76, Kandy Road, Nuwaraeliya  
Tel: 052-2235422, 052-2235433,  
052-2235951

#### PILIMATHALAWA

No 202/ B, Colombo Road , Pilimathalawa  
Tel: 081-4951313, 081-4951717

#### RIKILLAGASKADA

No. 21, Rathmetiya Road, Rikillagaskada  
Tel: 081-4945112, 081-4945113

### SABARAGAMUWA PROVINCE - 9

#### ALAWWA

No. 27, Colombo Road, Wariyagoda, Alawwa  
Tel: 037-4940886, 037- 4940887

#### BALANGODA

No. 149 E, Barnes Ratwatta Road, Balangoda  
Tel: 045-4928326, 045-4928327,  
045-2289232

#### EMBILIPITIYA

Rasika Building, Pallegama, Embilipitiya  
Tel: 047-2261923, 047-4379332  
047-4927806

#### GODAKAWELA

No. 65 A, Main Street, Godakawela  
Tel: 045-4935105, 045-4935106

#### KEGALLE

No. 311G, Colombo Road, Ranwala,  
Kegalle  
Tel: 035-2221083, 035-2232956,  
035-4927502

#### MAWANELLA

No. 292, Kandy Road, Mawanella  
Tel: 035-4930047, 035-4930048

#### RAMBUKKANA

No. 73, Kurunegala Road, Rambukkana  
Tel: 035-4935008, 035-4935009

#### RATNAPURA

No. 143, Colombo Road, Moragahayata,  
Ratnapura  
Tel: 045-2231409, 045- 2222028,  
045-4360447

#### WARAKAPOLA

No. 211 E & 211 F, Colombo Road, Warakapola  
Tel: 035-2267010, 035-2268941,  
035-4976001

### UVA PROVINCE - 6

#### BADULLA

No. 04, Udayarajah Mawatha, Badulla  
Tel: 055-2230541, 055- 2229701,  
055-4499643, 055-2224666

#### BANDARAWELA

No. 03, Thanthiriya,  
Badulla Road, Bandarawela  
Tel: 057-2233241, 057- 2233240,  
057-4929004

#### MAHIYANGANAYA

No. 112, Girandurukotte Road, Mahiyanganaya  
Tel: 055-2258335, 055-2258100,  
055-4927631

#### MONERAGALA

No. 150 A, Wellawaya Road, Moneragala  
Tel: 055-2277374, 055-4927689,  
055-2277346

#### WELIMADA

No. 8/1/A & 8/1/B, Wattegedara, Divithotawela,  
Welimada  
Tel: 057-4926923, 057-4926922

#### WELLAWAYA

No. 208, Monaragala Road, Wellawaya  
Tel: 055-4929301, 055-4929302

# Risk Management Report

Effective risk management is fundamental to being able to generate sustainable profits and is thus an important aspect of the financial and operational management of Central Finance. The level of risk across our business and uncertainties we face are key areas of focus for the Board. Financial strength and resilience are at the heart of our strategic intent. We are committed to achieving the highest standards of corporate governance in every aspect of the business, including risk management. In discharging the governance responsibility, the Board of Central Finance is conscious of the need to manage risk within the preset parameters, which ensures that risk oversight is a critical focus for our Board. The overall adequacy and effectiveness of the risk management framework is managed through the Integrated Risk Management Committee (IRMC), the Board Audit Committee (BAC), which comprises solely of Non-executive Directors and the Assets and Liabilities Management Committee (ALCO) which comprises of the Executive Directors and senior level staff members in charge of key related functions. Acting within authority delegated by the Board, these committees review specific risk areas and receive regular reports on internal controls, risk management, portfolio trends, policies, limits and standards.

We focus on setting clear risk parameters and embedding a strong culture of risk management and control designed to ensure the proactive identification of risks which in turn will enable the company to be resilient and respond effectively to any unforeseen shocks. We continue to build on the company's culture of risk management discipline. Our risk management framework is designed for the continuous monitoring of the environment and an integrated evaluation of risks and their impacts to CF. A formal governance structure, with a clear, well designed framework of risk ownership, standards and policies is in place. Our statement of financial position is dominated by credit to customers through our lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as liquidity risk, market risk which includes interest rate risk, operational, strategic and other risks which are inherent in our business strategy, product range and geographical coverage. In 2015/16, we continued to strengthen our approach to risk management amidst a challenging and ever changing external environment. We have responded to changing market conditions by re-deploying risk capacity toward sectors offering better returns on risk.

## Our Risk Governance Structure

Committee	Board Audit Committee	Integrated Risk Management Committee	Assets and Liabilities Committee
Role	The Audit Committee reviews the accounting policies and practices, controls and procedures established by management for compliance with regulatory and financial reporting requirements. It operates under delegated authority from the Board.	The Integrated Risk Management Committee operates primarily as an oversight committee monitoring risk types, concentrating particularly on Credit, Market, Operational, Strategic and Reputational risks and related issues.	The Assets and Liabilities Management Committee is responsible for identifying, managing and controlling risks in executing the business strategy of CF.
Membership	Solely comprised of Non-executive Directors, the majority of them being Independent. Details of the members are given in the Audit Committee Report on pages 77 to 78.	Comprised of Non-executive and Executive Directors and senior level staff, who are in charge of related functions. The committee is chaired by an Independent Non-executive Director. Details of the members are given in the Integrated Risk Management Committee Report on Page 76.	Comprised of Executive Directors and senior level staff who are in charge of Finance, Branch Network Management, Recoveries and Treasury.

## Risk management framework

Roles and responsibilities for risk management are structured under a "triple line of defence" model. Each line of defence describes a specific set of responsibilities for risk management and control. Our risk management framework which is set out in the grid below encompasses structures that are strategically linked with performance management, enabling us to focus on the areas that drive our risk strategy.

## Risk Management Report



### CREDIT RISK

The risk of suffering financial loss should our clients or market counterparties fail to fulfill their contractual obligations. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. A well-defined delegated approval hierarchy supported by high ethical standards and well established policies and procedures provide a robust framework for the organisation and management of credit risk. There is a clear segregation of duties between transaction originators in the business units and approvers in the credit function. All credit exposure limits are approved within a delegated credit approval authority framework. Risk indicators are also set by the credit division and monitored through the ALCO, Board of Management (BoM) and IRMC on a monthly and quarterly basis.

### Credit policies

Company-wide credit policies and procedures are considered and approved by the BoM, with inputs from Credit and Recoveries Departments. The BoM also oversees the delegation of credit approvals and the loan impairment assessment processes through regular reviews. These policies are adequate to reflect the different risk environments and portfolio characteristics of the company. The Board receives on a yearly basis the changes effected to the credit operations and approves such changes as considered necessary.

### Credit approval

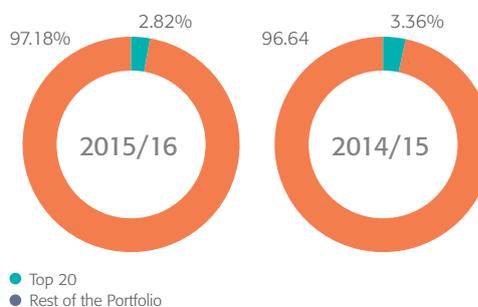
Major credit exposures to individual counterparties, groups of counterparties and product categories are reviewed and approved by the designated officers under the delegated approving limits set by the BoM, with oversight by the Board. The credit approving limits in place are structured based on the need of delegation required to manage the network of branches, without compromising the risk appetite of the company.

### Credit concentration

The risk of loss due to the concentration of credit risk to a specific product, asset class, sector or counterparty. Credit concentration risk is managed within limits set for counterparty or groups of connected counterparties, asset type, industry sectors, etc. Credit concentrations are monitored by IRMC and ALCO in each of the product type categories and such limits as material to the company are reviewed accordingly. Diversification is an important aspect of our management of risk to ensure that we are not overly dependent upon a particular region or asset type. The IRMC also reviews the top 20 lending exposures at its' quarterly meetings. Performance of large lending exposures too is reviewed periodically.

	Amount as at 31.03.2016 (Rs.'000)	%	Amount as at 31.03.2015 (Rs.'000)	%
Top 20	1,711,290	2.82%	1,802,278	3.36%
Balance Portfolio	58,883,268	97.18%	51,774,422	96.64%
Total portfolio	60,594,558	100%	53,576,700	100%

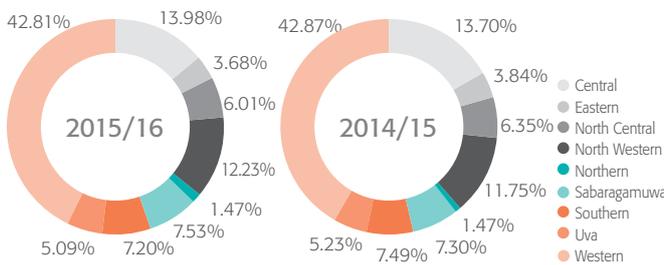
### Top 20 Concentration



### Geographical Analysis of the Portfolio

Province	Amount as at 31.03.2016 (Rs.'000)	%	Amount as at 31.03.2015 (Rs.'000)	%
Central	8,473,692	13.98%	7,337,747	13.70%
Eastern	2,231,815	3.68%	2,058,317	3.84%
North Central	3,639,381	6.01%	3,402,274	6.35%
North Western	7,413,143	12.23%	6,296,583	11.75%
Northern	889,620	1.47%	789,624	1.47%
Sabaragamuwa	4,561,987	7.53%	3,911,625	7.30%
Southern	4,361,417	7.20%	4,012,748	7.49%
Uva	3,084,120	5.09%	2,801,532	5.23%
Western	25,939,383	42.81%	22,966,248	42.87%
<b>Total</b>	<b>60,594,558</b>	<b>100%</b>	<b>53,576,700</b>	<b>100%</b>

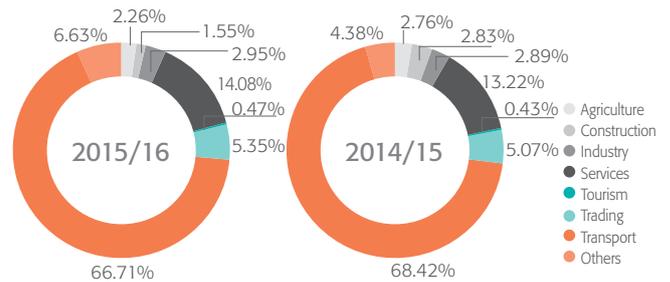
### Province-wise analysis



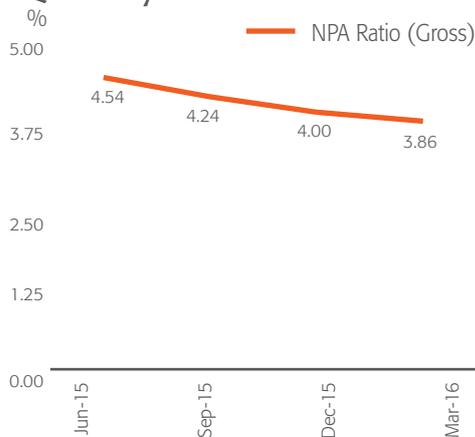
### Sector-wise concentration of advances

Sector	Amount as at 31.03.2016 (Rs.'000)	%	Amount as at 31.03.2015 (Rs.'000)	%
Agriculture	1,368,295	2.26%	1,476,709	2.76%
Construction	941,373	1.55%	1,516,502	2.83%
Industry	1,788,237	2.95%	1,550,629	2.89%
Services	8,531,293	14.08%	7,085,422	13.22%
Tourism	286,221	0.47%	232,180	0.43%
Trading	3,244,613	5.35%	2,717,965	5.07%
Transport	40,422,112	66.71%	36,656,457	68.42%
Others	4,012,414	6.63%	2,340,836	4.38%
<b>Total Portfolio</b>	<b>60,594,558</b>	<b>100%</b>	<b>53,576,700</b>	<b>100%</b>

### Sector-wise concentration of advances



### Quarterly NPA Ratio



### Credit monitoring and measurement

We regularly monitor credit exposures, portfolio performance and external trends which may impact risk management outcomes. Internal management reports are presented to various committees, containing information on key industry and economic trends. Portfolio delinquency and loan impairments as well as portfolio quality are constantly monitored by the Recoveries Department. The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of credit risk to which CF is exposed, from the level of individual facilities up to the total portfolio. Integral to this is the use of a model. The model we use comprises of three core elements;

- Probability of default (PD) – the likelihood of a borrower not being able to honour his obligations.
- Exposure at default (EAD) – the exposure to a borrower who is unable to honour his obligations, at the point of default.
- Loss given default (LGD) – the historical loss associated with a delinquent loan or defaulted borrower.

The methodology adopted was used at each reporting date. A decrease in overall impairment was noted in line with the market conditions. The impairment based on the incurred loss model

## Risk Management Report

computed for individually significant loans and individually not significant loans for identified risk categories is given in note no 18 to the financial statements on page 105. The total interest income on impaired financial assets accrued for the year 2015/16 amounts to Rs. 7,399,260 (2014/15 - Rs.25,939,624). The carrying amount of loans that would otherwise be past due or impaired whose terms have been re-negotiated amounts to Rs. 534,005,175 (2014/15 - Rs. 475,100,427). The company categorised the individually significant loans into two broad categories and the following factors were considered in determining the impairment of those assets;

- loan servicing history of the borrower
- financial standing of the borrower
- borrower's compliance with Legal and Regulatory requirements
- other general economic conditions affecting the borrower's repayment ability

### Collaterals

Most of our lending activities are secured by tangible assets with the majority being motor vehicles and equipment. Hence, the company has a fall back in the event of default.

### Credit portfolio

#### Maximum exposure to credit risk

The table below represents the company's maximum exposure to credit risk for its recognised and contingent financial instruments as at 31st March 2016, before taking into account any collateral held or other credit risk mitigation. For recognised instruments, the maximum exposure to credit risk is the carrying amount reported on the Statement of Financial Position. For contingent instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

Collateral Type	As at 31st March 2016 (Rs. 000)	As at 31st March 2015 (Rs. 000)
Cash Backed	744,252	734,572
Equipment	722,530	971,495
Equity	126,441	184,766
Others	1,611,464	596,721
Properties	331,020	293,815
Vehicles	57,058,850	50,795,331
Clean (Trade & Other receivables)	361,365	288,894
Total on-balance sheet exposure	60,955,923	53,865,594

Contingent & Commitments related exposure - Collateral-wise.

Collateral type	Instrument	As at 31st March 2016 (Rs. 000)	As at 31st March 2015 (Rs. 000)
Lease receivables	Letters of Credit	81,165	49,141
Cash backed	Guarantees	18,200	20,815
Equipment	Commitments	-	51,191
Total Off balance sheet exposure		99,365	132,756

### Credit quality analysis

The table below sets out an analysis of the lease and loan portfolio between those that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired.

Portfolio grading	As at 31st March 2016 (Rs. '000)	As at 31st March 2015 (Rs. '000)
Neither past due nor individually impaired loans and leases	27,434,393	22,700,448
Past due but not individually impaired loans		
- Up to 30 days past due	14,621,852	11,920,128
- 31-60 days past due	9,823,403	8,203,343
- 61-90 days past due	3,826,618	4,616,821
- 91-120 days past due	1,782,927	2,297,301
- Over 120 days	3,587,784	4,389,177
Individually impaired loans	188,022	265,608
Individually significant impairment	(173,506)	(198,849)
Individually not significant impairment	(496,935)	(617,277)
Total loans and advances & leases	60,594,558	53,576,700
Of which held at fair value through profit or loss amounts to;	None	None

### MARKET RISK

The risk arising from fluctuations in interest rates, foreign currency, credit spreads, equity prices, commodity prices and risk related factors such as market volatilities. The objective of our market risk management is to obtain the best balance of risk and return whilst meeting customers' requirements.

### Organisation and structure

The Board approves the appetite for market risks. The Board sets a framework of limits within the context of the approved market risk appetite. The company has a strong control environment facilitated by a well structured organisation which has enabled it to strengthen segregation of duties in respect of critical functions.

The primary categories of market risk for CF are;

- interest rate risk: arising from changes in yield curves and credit spreads.
- equity price risk: arising from changes in the prices of equities and equity indices.

Market risk arising from interest rate volatility is managed with direction from the IRMC and ALCO which continuously monitor the cost of funds of the company and initiate necessary action to ensure that required margins are maintained by the company. The carrying value of all financial assets and liabilities are in Sri Lankan Rupees and the company did not have any foreign currency denominated assets and liabilities as at 31st March 2016 and 2015.

Financial Assets/ (Liabilities) Carried at FvtPL	Amount (Rs. '000)	Likelihood of change in fair value or future cash flows due to change in market interest rate
<b>Financial Assets</b>		
FvtPL financial assets	33,760	None
Equity investments classified as AFS investments	216,438	None
<b>Financial Liabilities</b>		
Derivative financial instruments	61	Yes

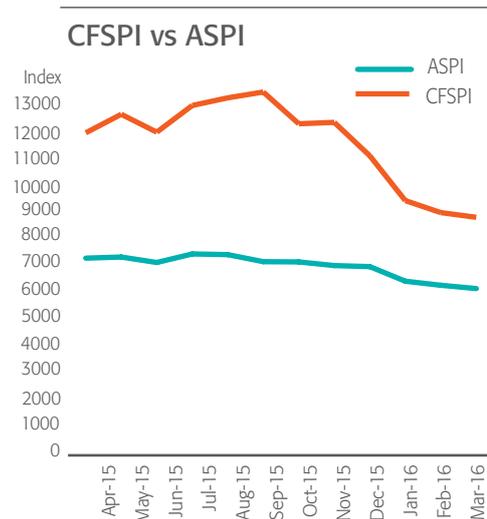
### Interest rate derivatives

An interest rate SWAP is an agreement between two parties to exchange fixed and floating rates of interest by means of periodic payments based upon a notional principal amount at interest rates specified in the contract. Interest rate SWAPs are one of the mechanisms used to manage the interest rate volatility due to maturity mismatches, typically associated with Licensed Finance Companies. SWAPs are valued using valuation techniques with market observable inputs. The applied valuation technique includes estimating forward interest rates. The forward interest rate computation was made based on the observable market rate

of interest. The valuation technique considered was used for the whole instrument. A change in one or more of those assumptions will not materially change the fair value of the Interest rate SWAP.

### Equity price risk

Central Finance is exposed to market movements in equity price fluctuations through the quoted available for sale securities portfolio and FvtPL financial assets. The IRMC and ALCO continually review the relevant exposure limits. A comprehensive evaluation process is also carried out prior to investment decisions. Regular monitoring of price levels is done through the Investment function to mitigate adverse movements in the stock market. The policy related to AFS equity securities is given under accounting policies on page 93.



### Sensitivity analysis

Sensitivity analysis measures the sensitivity of the current portfolio of positions to defined market risk factor movements. The table below gives the sensitivity analysis of the market risks, the company is exposed to.

Interest Rate Assumption	Impact to Profit and Equity (Rs.'000)
Increase/ decrease in Interest margin by 1%	827,848
Increase/ decrease in Interest margin by 2%	1,655,697

Equity price Assumption	Impact to Profit and Equity (Rs.'000)
Increase/ decrease in equity price by 10%	25,020
Increase/ decrease in equity price by 20%	50,040

## Risk Management Report

### Operational risk

The risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. We seek to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. The Board appointed Audit and Integrated Risk Management Committees oversee the management of operational risks across the network and at the centre, with the support of the independent internal audit department which is separate from the business functions. In addition, the BAC also receives and reviews the management letter of the external auditor. This formal structure of governance provides the Board with confidence that operational risks are being proactively identified and effectively managed. All business units are responsible for setting and maintaining standards for operational risk management. Possible losses to the company's assets due to unforeseen events have been covered with comprehensive insurance policies.

### LIQUIDITY RISK

Liquidity risk is the risk that the company does not have enough financial resources to meet its obligation as they fall due, without incurring excessive cost.

### Policy, framework and governance

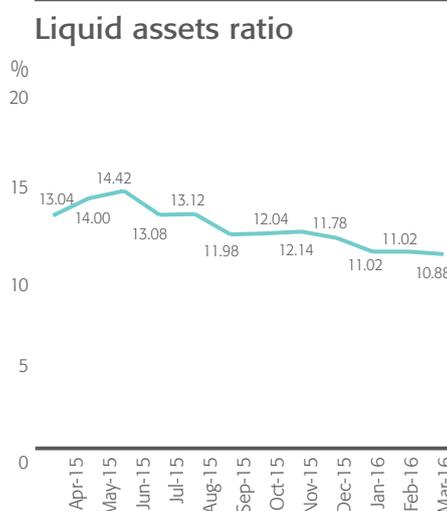
The company has in place a robust and comprehensive set of policies and procedures for assessing, measuring and controlling the liquidity risk. This ensures that the company always maintains sufficient, eligible and appropriate financial resources to meet its future financial commitments as they fall due. Liquidity risk is the risk that the company is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals, as and when they fall due. Our Statement of Financial Position and liquidity have remained strong and we surpass the regulatory liquidity thresholds comfortably. It is our policy to maintain adequate liquidity at all times and be in a position to meet all obligations as they fall due. Diversification of the company's funding base is central to our balance sheet management strategy. Customer deposits provide large pools of stable funding to support majority of our lending. We access a diversified funding base by way of debt issuances on an unsecured and secured basis. These sources of funding are complementary to the company's customer deposit gathering activities. We have a substantial portfolio of liquid assets that can be realised if liquidity stress occurs. We also have a contingency funding plan by way of undrawn approved bank lines. Contractual maturity analysis of the remaining financial liabilities is given in note no 58 to the financial statements on pages 140 and 141.

### Liquidity measurement and monitoring

Liquidity risk is measured and assessed on a daily basis at the centre. The company uses a set of internal and regulatory metrics and analysis to assess liquidity risk. We manage liquidity risk taking both short and medium term requirements into consideration. In the short term, our focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and bank funding where required. In the medium-term, the focus is on ensuring a structurally sound statement of financial position. ALCO is the responsible monitoring body that oversees our liquidity management policies. The Treasury Department receives direction from ALCO and is responsible for managing liquidity limits. Liquidity risk is a standing agenda item at our monthly ALCO meetings. The pricing of deposit maturities are done in a way to curb the maturity mismatches between our lending and borrowing portfolios.

### Liquid asset ratio (LAR)

This is the ratio of liquid assets to total deposits and liable debt instruments. The significant level of holdings of liquidity buffer in the Statement of Financial Position reflects the application of our liquidity policies and practices.



### STRATEGIC RISK

Strategic risk is the potential for opportunity losses from failure to optimise the earning potential of the company.

The company continuously follows developments taking place in the business environment and formulates its strategies to optimise the opportunities available whilst attempting to manage risks associated with such strategies. Business strategies are adopted after evaluating the overall risks associated with such strategies. A comprehensive strategic plan for the next three years is in place with quantitative targets. Risks in achieving such targets have also been mapped and are monitored continuously.

## CAPITAL RISK

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate. We aim to maintain a strong capital base to support the risks inherent in our business. For regulatory purposes, our capital base is divided into two main categories, namely Core (Tier 1) Capital and Total Risk Weighted Capital. The composition of capital under the current regulatory requirement for 31st March 2016 is provided in the table below. The figures reported here may differ from the figures reported in the financial statements as the below are based on the prudential regulatory requirements. It is the regulatory Statement of Financial Position, and not the financial accounting Statement of Financial Position, which forms the basis for the calculation of regulatory capital requirements.

Constituents of Capital	Amount Rs.'000
<b>Tier I : Core Capital</b>	19,427,247
Issued and Paid-up Ordinary Shares / Common Stock	568,400
Share Premium	20
Statutory Reserve Fund	1,396,000
Published Retained Profits / (Accumulated Losses)	8,174
General and Other Reserves	17,454,653
Tier 2 : Supplementary Capital	939,141
Eligible Revaluation Reserves	939,141
<b>Eligible Tier 2 Capital</b>	939,141
<b>Total Capital</b>	20,366,388
Deductions	745,235
Investments in capital of other banks / financial associates	745,235
<b>Capital Base</b>	19,621,153
Core Capital Ratio (Minimum 5%)	29.91%
Total Risk Weighted Capital Ratio (Minimum 10%)	30.21%

## REPUTATIONAL RISK

Reputational risk is the potential damage to the company, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the company or its actions. Reputational risk could arise from the failure of the company to effectively mitigate the risks in its businesses including credit, liquidity, market, regulatory, legal or other operational risks. Damage to the company's reputation could cause existing clients to reduce or cease to do business with the company and prospective clients to be reluctant to do business with the company. All employees are responsible for day-to-day identification and management of reputational risk. Reputational risk may also arise from a failure to comply with environmental and social standards. Our primary social impacts arise through our relationship with our clients and customers and the financing decisions we take. We have mechanisms in our origination and credit processes to identify and assess social risks. We have also consciously left out certain business lines to avoid social risks. A comprehensive list of legal and regulatory compliance is tabled at monthly board meetings. Compliance to rules and regulations by the subsidiary companies are obtained on a quarterly basis and tabled at IRMC meetings to manage reputational risk, which could arise from the activities of other group companies.

## Corporate Governance

“ Corporate governance is the framework of rules, regulations and practices by which the board of directors ensures prudent management, accountability, corporate fairness and transparency in the Company’s relationship with its shareholders and other stakeholders and encompasses continuous development of systems and procedures and adoption of best practices for proper supervision, control and information flows to serve as a system of checks and balances for the long term success of the Company. ”

The Corporate Governance framework of Central Finance (CF) is specifically structured to facilitate effective and prudent management in enhancing and achieving sustainable shareholder value and the success of the Company. We have developed and installed an exemplary Corporate Governance model to enable the Company to establish procedures, policies and a control environment to mitigate identified or anticipated operational, business, strategic and reputational risks. A well-structured Corporate Governance framework is presently in place to align business practices in the best interest of all our stakeholders ensuring transparency in business dealings, disclosure of information and proper financial reporting in compliance with voluntary and mandatory practices and applicable regulatory requirements. The Corporate Governance model adopted by CF is continuously reviewed and evaluated by the management to achieve dynamic business performance and unfettered integrity.

The Corporate Governance framework guides the Company in formulating, communicating and achieving its corporate strategies and objectives. The Board of Directors is responsible for the governance of the company and developing and establishing an effective governance framework in reviewing and streamlining systems and controls to provide transparency and accountability and, in ensuring adoption of best practices focusing on its stakeholders and in creating shareholder value.

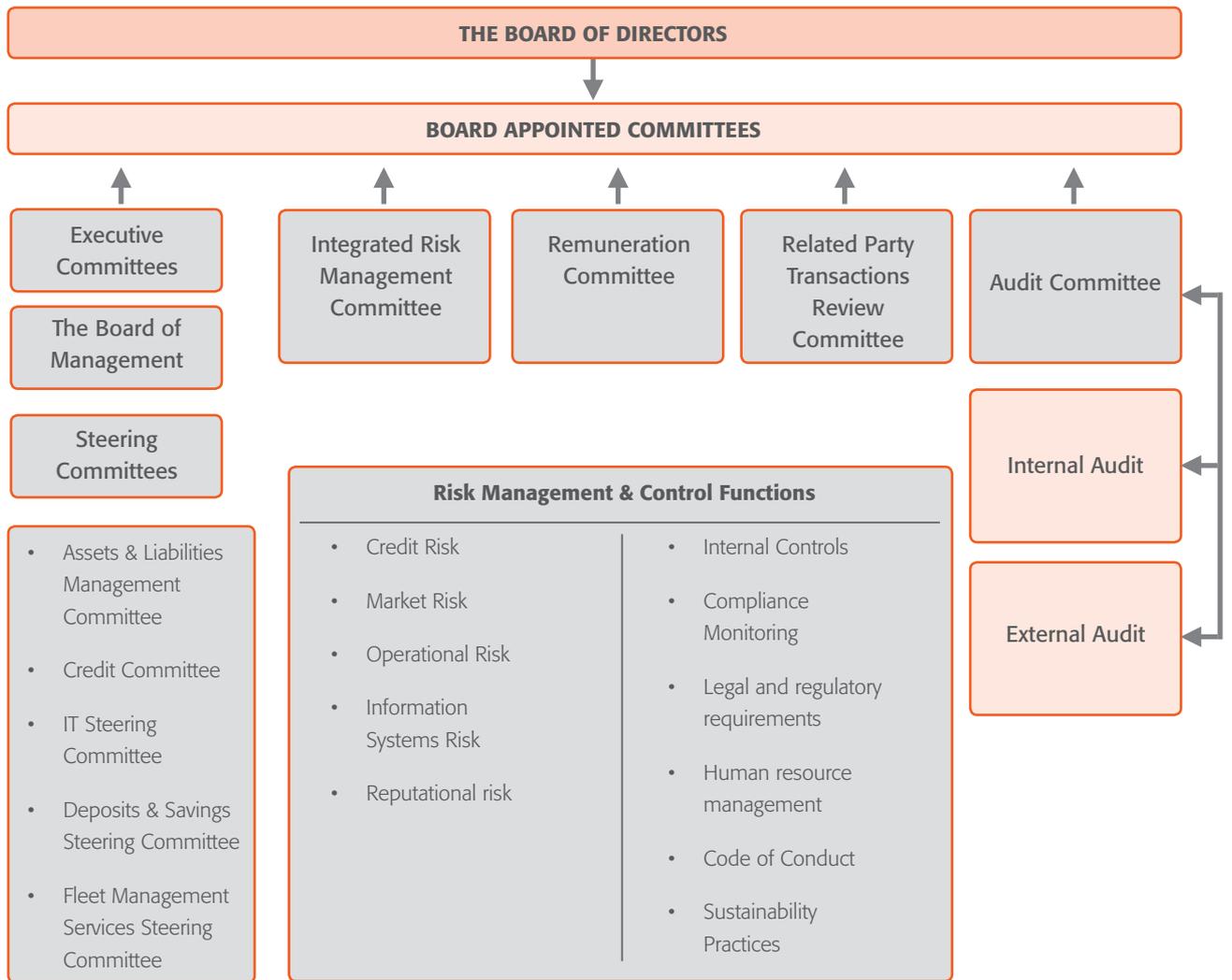
In our endeavour to strengthen governance at CF, we have embraced and adopted all selective aspects of voluntary and regulatory requirements outlined in the Code of Best Practice on Corporate Governance 2013, issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The Company has also complied with the mandatory requirements of Direction No. 03 of 2008 of the Finance Business Act No. 42 of 2011 and amendments thereto on Corporate Governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka and the Listing Rules of Colombo Stock Exchange.

We recognise that our strategy to be a consistent, stable and a strong financial service provider relies entirely on a foundation of good Corporate Governance as we endeavour to be at the forefront of the non-bank financial service sector.

In this year’s report, we outline the ways in which our Corporate Governance framework operates, including the role and responsibilities of the Board and four of its Committees. The level of adoption and conformity with the rules and best practices embraced by your Company are disclosed in this report.

**CORPORATE GOVERNANCE FRAMEWORK**

The Central Finance Company operates within an integrated governance framework formulated after taking into consideration the corporate governance regulations issued by Central Bank of Sri Lanka and Corporate Governance best practices issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Securities and Exchange Commission of Sri Lanka (SEC). The diagram below illustrates our approach to Corporate Governance and depicts the interactive nature of the elements we view as being fundamental in embracing the spirit of best practice Corporate Governance principles.



## Corporate Governance

As in the previous years, this year too we report our Governance practices and initiatives in three sections.

**SECTION ONE** covers the level of adoption of the Code of Best Practice on Corporate Governance - 2013, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

**SECTION TWO** covers the level of compliance with Direction No. 03 of 2008 of the Finance Business Act No. 42 of 2011 and subsequent amendments thereto on Corporate Governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka.

**SECTION THREE** covers the level of conformity with the Continuing Listing Rules - Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange.

### SECTION ONE

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA & THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA.

#### Statement of Compliance

The disclosures below reflect the level of adoption of the above voluntary Code which comprises of seven fundamental principles. These are namely;

- A. Directors
- B. Directors' Remuneration
- C. Relations with Shareholders
- D. Accountability and Audit
- E. Institutional Investors
- F. Other Investors
- G. Sustainability Reporting

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>A. DIRECTORS</b>		
The Company is led, directed and controlled by a Board of Directors. The Directors possess the skills, experience and knowledge complemented with a high sense of integrity and independent judgment. The Board is equipped with members having sufficient financial acumen and knowledge. CF has established a clear division of responsibilities between the Chairman & CEO/MD to ensure balance of power and authority, in such a way that no individual has unfettered powers of decision.		
<b>A. 1 The Board</b>		
Central Finance is headed by a Board of Directors with local & multinational experience drawn from different backgrounds inter alia banking, accounting, management, marketing, econometrics & human resources. All Directors possess the skills, experience and knowledge complemented with a high sense of integrity and independent judgment. They provide leadership in setting strategic direction and a sound control framework to achieve the objectives of CF set out in the corporate plan and the annual budget to satisfy the expectations of stakeholders.		

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
Board Meetings	A 1.1 Adopted	<p>The Board meets at monthly intervals, but meets more frequently whenever it is necessary.</p> <p>During the year the Board met 13 times, at approximately monthly intervals. Circulation of Board papers to obtain Board's consent was minimised and confirmations ratified at the subsequent Board meeting.</p> <p>Details of the meetings and individual attendance are given on page 59.</p>
Board responsibilities	A 1.2 Adopted	<p>The Board of Directors is responsible to the stakeholders for providing sound business strategy, ensuring the execution of strategies, monitoring performance and providing oversight for Central Finance.</p> <p>The Board has put in place a Corporate Management team led by the MD/CEO with the required skills, experience and knowledge to implement the business strategy of the company. The Non-Executive Directors possess experience from a number of industries and business sectors, including the leadership of large multinational enterprises.</p> <p>The Board takes necessary steps towards safeguarding the depositors, securing integrity of information, prudent management of risks, implementing an effective internal control system, ensuring good governance and compliance with rules and regulations. The Board also ensures succession planning for the MD/CEO, Executive Directors &amp; Key Management Personnel.</p> <p>The Board is also responsible to ensure that the interest of all stakeholders is taken into consideration in the corporate decision making process and that the Company's values and standards are set with emphasis on adopting appropriate accounting policies &amp; complying with laws, regulations and ethical standards.</p>
Compliance with laws of the country and access to independent professional advice	A 1.3 Adopted	<p>The Board of Directors ensures that procedures and processes are in place to ensure compliance with all applicable laws and regulations of the country. A procedure is in place for Directors to seek independent and collective professional advice, in furtherance of their duties, at the Company's expense, as and when it is necessary.</p>
Company Secretary	A 1.4 Adopted	<p>Access to the Company Secretary's service is available for all Board Members, including Non-Executive Directors as and when required.</p> <p>The Company Secretary provides support and advice to the Chairman and the Board on all Corporate Governance matters, duties &amp; responsibilities, Board procedures and in particular compliance with company law and other applicable laws and regulations apart from regulations of CBSL, CSE &amp; SEC. Removal of the Company Secretary, if it arises, would be a matter that would be considered by the Board as a whole.</p>

## Corporate Governance

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
Independent judgment of Directors	A 1.5 Adopted	Directors including Non-Executive Directors bring to bear independent judgment and scrutiny on decisions taken by the Board on issues of strategy, performance, resources, risk management, internal controls and standards of business conduct.
Dedication of adequate time and effort by Directors	A 1.6 Adopted	All Directors dedicate adequate time for the fulfillment of their duties as Directors of the Company, to execute and discharge their duties & responsibilities satisfactorily. In addition to attending Board Meetings, they attend Sub-Committee Meetings and contribute effectively to decisions made. Board papers are made available to the Directors providing sufficient time for review and to request additional information & clarification for effective participation. Any approvals obtained through circulation of resolutions are ratified at the subsequent Board Meeting. Any issues arising consequent to a meeting are also followed up.
Training for Directors	A 1.7 Adopted	Directors have recognised the need for continuous training and expansion of knowledge for professional development which would assist them in the discharge of their duties. All Directors have undergone necessary training, both in the general aspects of directorship and matters specific to the financial services industry, including the CBSL Symposium for Directors of Licensed Finance Companies.
<b>A. 2 Chairman &amp; Chief Executive Officer (CEO/MD)</b> CF has established a clear division of responsibilities between the Chairman & CEO/MD to ensure the balance of power and authority, in such a way that no individual has unfettered powers of decision. The Chairman is responsible for leading the Board effectively to discharge all responsibilities and CEO/MD is responsible for management of the Company's business operation with the assistance of Corporate Management.		
Division of responsibilities of Chairman & MD/CEO	A 2.1 Adopted	The roles of the Chairman and MD/CEO are separated to ensure that no individual is vested with unfettered powers of decision making.

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<p><b>A. 3. Chairman's Role</b></p> <p>The Chairman is responsible for providing effective leadership to the Board in preserving sound Corporate Governance and facilitating effective discharge of Board functions.</p>		
<p>Role of the Chairman</p>	<p>A 3.1 Adopted</p>	<p>The Chairman ensures the effective conduct of Board proceedings and his role includes but is not limited to;</p> <ul style="list-style-type: none"> <li>• Preserving sound corporate governance;</li> <li>• Approving the Agenda prepared by the Company Secretary and conducting Board Meetings;</li> <li>• Ensuring that Board Members receive accurate, timely and clear information, in particular about the company's performance to enable the Board to take sound decisions for the success of the company;</li> <li>• Securing effective participation by both Executive &amp; Non-Executive Directors in decision making and maintaining a balance of power between Executive &amp; Non-Executive Directors.</li> <li>• Encouraging effective contributions by all Board Members and seeking consensus when making decisions;</li> <li>• Instituting the process of appraising Board Members individually and the board as a whole;</li> <li>• Ensuring regular meetings, the minutes of which are accurately recorded and where appropriate include the individual and collective views of the Directors;</li> <li>• Maintaining effective communication with shareholders and conveying their views to the Board;</li> <li>• Representing the views of the Board to the Stakeholders. Ensuring that shareholders are given adequate opportunity to take up matters requiring clarifications at the AGM.</li> </ul>
<p><b>A. 4 Financial Acumen</b></p> <p>Board should ensure the availability of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. CF's Board is equipped with members having sufficient financial acumen and knowledge.</p>		
<p>Availability of sufficient financial acumen and knowledge</p>	<p>A 4 Adopted</p>	<p>The Board comprises of members with academic &amp; professional qualifications in Accounting, Business Finance &amp; Management with experience gained in different enterprises.</p> <p>The Board includes three Fellow Members of the Institute of Chartered Accountants of Sri Lanka and two of them are also Fellow Members of the Chartered Institute of Management Accountants of UK. In addition, the Board also includes two Members who are Fellow Members of the Chartered Institute of Management Accountants of UK and one of them is also a Fellow Member of the Association of Chartered Certified Accountants of UK. These Members of the Board have the ability to offer guidance on matters of finance to the Board. The details of their qualifications and experience have been set out in pages 10 to 11.</p>

## Corporate Governance

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>A. 5 Board Balance</b> Maintaining a balanced Board between Executive Directors and Non-Executive Directors is required as per the Code to ensure that no individual or small group of individuals can dominate the Board's decision making. Half the CF Board members are Non-Executive Directors and each of them bring wide experience to the Board and ability to exercise independent judgment when taking informed decisions.		
Presence of a strong independent element on the Board	A 5.1 Adopted	The Board includes a strong presence of both Executive and Non-Executive Directors and no individual or small group can dominate its decision making. Half the Board Members are Non-Executive Directors and majority of them are independent. The roles of the Chairman and CEO (MD) are not vested in one person. There were no changes in the Board from the date of the previous Annual General Meeting.
Independent Directors	A 5.2 Adopted	More than half of the Non-Executive Directors are Independent which is above the minimum requirement prescribed by this Code. The requirement has been complied with throughout the financial year.
Evaluation of independence of Non-Executive Directors	A 5.3 Adopted	The Board considers Non-Executive Directors' independence on the basis that an independent Director is independent of management and hence free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgment which could impair their independence. The Board has reviewed the independence of each Non-Executive Director.
Annual declaration of the Non-Executive Directors	A 5.4 Adopted	Non-executive Directors have made written submissions annually as to their Independence or non-independence against the specified criteria in line with requirements specified in schedule J of the code.
Determination of Independence of the Directors by the Board	A 5.5 Adopted	The Board has reviewed the independence of each Non-Executive Director in 2015/16 and has determined that the submission of declarations by the Non-Executive Directors, as to their independence is a fair representation and will continue to evaluate this annually. All criteria set out in the code in determining independence, were met. The names of the Independent Non-executive Directors are given on page 59.
Alternate Director	A 5.6 Adopted	The requirement of this code has been complied with, in appointing Alternate Directors during 2015/16. In the case of appointing Alternate Independent Directors the criteria of independence and the minimum requirement of Independent Directors has been satisfied.
Requirement of Senior Independent Director & availability for confidential discussions	A 5.7 & A 5.8 Not Applicable	The requirement to appoint a Senior Independent Director does not arise under this code as the roles of Chairman and CEO (MD) are separated.

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
Meetings with Non-executive Directors	A 5.9 Adopted	The Chairman meets with the Non-executive Directors without the presence of the Executive Directors as and when it is necessary but at least once a year.
Recording of concerns in Board minutes	A 5.10 Not Applicable	Circumstances have not arisen where Directors have had concerns on matters that were not unanimously resolved for such instances to be recorded in the minutes. All matters taken up for discussion were resolved through consensus at Board Meetings.
<b>A. 6 Supply of Information</b>		
The Board should be provided appropriate and timely information in a form and of a quality appropriate to enable them to discharge their duties effectively. Financial and non-financial information are analysed and presented to the Board for accurate and effective decisions.		
Information to the Board by the Management	A 6.1 Adopted	The Management provides timely and appropriate information to the Board by way of Board Papers and Proposals. The Directors are free to raise inquiries for additional information as and when necessary. Presentations have been made to the Directors on important matters relating to strategy, risk management, recoveries, IT infrastructure developments and new legal developments. The Chairman ensures that all Directors are briefed on issues arising at Board Meetings.
Adequate time for Board Meetings	A 6.2 Adopted	The Board Papers are sent to the Directors well in advance to the respective Board Meetings, giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at Board Meetings.
<b>A. 7 Appointment to the Board</b>		
A Formal and transparent procedure is in place for the appointment of new Directors to the Board as required by this code.		
Nomination Committee	A 7.1 Not adopted	The Board as a whole decides on the selection of new Directors. The Board believes that this process is more meaningful and transparent for this purpose.
Assessment of Board composition	A 7.2 Adopted	The Board carries out continuous reviews of the structure, size and composition of the Board, to ascertain whether the combined knowledge and experience of the Board matches the strategic demands and key risks faced by the Company. Findings of the assessment of the Board are considered for new appointments & re-election of Directors.
Disclosure of details of new Directors to shareholders	A 7.3 Adopted	Appointment of new Directors are disclosed to the Shareholders, with a brief resume of each such Director including nature of expertise and names of companies in which the Director holds directorships, by way of public announcements as well as in the Annual Report. Approval for appointment of new Directors is obtained from the CBSL and Notice on new appointments is given to CSE. All new appointments and continuing directorships are reviewed by the Board as a whole. Any changes in the details provided by Directors are disseminated to the CBSL & CSE without delay.

## Corporate Governance

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>A. 8 Re-election</b>		
Code requires all Directors to submit themselves for re-election at regular intervals of at least once in three years.		
Appointment of Non-Executive Directors	A 8.1 Adopted	The Company's Articles of Association provides that at every Annual General Meeting of the Company, one-third of the Non-Executive Directors shall retire from office. These Directors are eligible to stand for re-election by the shareholders at the Annual General Meeting. Period of service of Non-Executive Directors shall not exceed nine years. Directors retire from the Board prior to reaching the age of 70 years.
Election of Directors by the shareholders	A 8.2 Adopted	Re-appointment of all Directors including the Chairman of the Board is subject to election by shareholders at the Annual General Meeting. Re-election of Directors is at three year intervals and details as per code A 7.3 are submitted for shareholders to make informed decisions on their election. Proposed re-election is subject to prior review by the Board.
<b>A. 9 Appraisal of Board Performance</b>		
Board should appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged. The Board has periodically reviewed its performance against the pre-set criteria ensuring adherence to the code.		
Appraisal of Board Performance and annual self evaluation of the Board and its Committees	A 9.1 & A 9.2 Adopted	The performance of the Board is evaluated by the Chairman. Formal evaluation of the individual performance of each Director is undertaken annually by the Chairman using the findings of the self-evaluation process undertaken by the Board Members as individuals and effectiveness of the Board as a team for the year 2015/16. The Sub-committees carry out an assessment process annually, in accordance with the pre-set criteria, to ensure that the committees function effectively and efficiently with the objective of facilitating continuous improvement individually and collectively in the performance of the Board.
Method of Board and Sub-committee performance appraisal	A 9.3 Adopted	Refer comments given for Section A 9.1 & A 9.2 above.
<b>A. 10 Disclosure of Information in Respect of Directors</b>		
Details of all Directors should be disclosed in the Annual Report for Shareholders' information.		
Details in respect of Directors	A 10.1 Adopted	The following details pertaining to each Director is disclosed as follows; Brief profile with expertise and experience - pages 10 to 11 Status of independence - page 59 Other business interests - page 138 Attendance at Board Meetings and Sub-committee Meetings - page 59

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>A. 11 Appraisal of the CEO (MD)</b>		
The Code requires the Board to assess the performance of MD at least annually to ascertain the achievement of pre-set Financial & Non-Financial targets.		
Financial & non-financial targets for MD (CEO)	A 11.1 Adopted	At the commencement of the financial year, reasonable financial and non-financial targets for MD (CEO) are set by the Board in consultation with MD in line with the short, medium & long term objectives of the Company.
Evaluation of the Performance of the MD (CEO)	A 11.2 Adopted	There is an ongoing process to evaluate the performance of MD (CEO) to assess whether the financial and non-financial targets set by the Board have been achieved during the fiscal year.
<b>B. DIRECTORS' REMUNERATION</b>		
CF has a well-established, formal and transparent procedure for executive remuneration and fixing the remuneration packages of individual Directors. The level of remuneration of both Executive and Non-Executive Directors is sufficient to attract and retain the Directors needed to manage the company successfully.		
<b>B. 1 Remuneration Procedure</b>		
The code requires that the company should establish a formal & transparent procedure for developing an effective policy on executive remuneration & remuneration packages for individual Directors where no Director is involved in deciding his/her own remuneration.		
Remuneration Committee	B 1.1 Adopted	The Remuneration Committee is responsible for; <ul style="list-style-type: none"> <li>A. Assisting the Board with regard to the remuneration policy for the Executive Directors and other senior level staff members.</li> <li>B. Reviewing strategic HR issues &amp; policies that can impact the business and recommending appropriate measures.</li> <li>C. Determining and agreeing with the Board, the broad policy framework for the remuneration of the Executive Directors.</li> <li>D. Deciding remuneration of the senior level staff members in order to recruit, retain and motivate staff. The Executive Directors also participate at meetings by invitation.</li> <li>E. Reviewing &amp; monitoring KMPs succession plan.</li> </ul>
Composition of the Remuneration Committee	B 1.2 & B 1.3 Adopted	All members of the Remuneration Committee are Independent Non-Executive Directors. The Chairman of the Committee is appointed by the Board. Please refer the Remuneration Committee Report given on page 75 for details.
Remuneration of the Non-Executive Directors	B 1.4 Adopted	The Board as a whole decides on the remuneration of the Non-Executive Directors. The Non-executive Directors receive a fee for serving on the Board and its Sub-Committees.
Consultation of the Chairman or CEO(MD) and access to professional advice	B 1.5 Adopted	Chairman of the Board is also the Chairman of the Remuneration Committee. External professional advice is obtained where necessary in determining the remuneration of the Executive Directors and senior level staff members. MD's (CEO) input is obtained in determining the remuneration of other Executive Directors and senior level staff members.

## Corporate Governance

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>B. 2 Level and make-up of the Remuneration</b> The Code requires the Board to establish the levels of remunerations for both Executive & Non-Executive Directors which should be sufficient to attract & retain the Directors needed to manage the company successfully. A proportion of the Executive Directors remuneration should be structured to link rewards to corporate & individual performance.		
Level and make-up of the remuneration of Executive Directors	B 2.1 Adopted	The Board is mindful of the fact that remuneration of Executive Directors should reflect the market expectations and is sufficient to attract & retain the eminence of Directors needed to achieve the company's objectives. The remuneration framework of the Executive Directors is designed by the Remuneration Committee to create and enhance value for all stakeholders and to ensure that there is strong alignment between them for the long term success of the company.
Comparison of remuneration with other companies	B 2.2 Adopted	The Remuneration Committee in deciding the remuneration of the Directors and senior level staff takes into consideration the level of remuneration paid by other comparable companies and is also mindful of the performance and risk factors entailed.
Comparison of Remuneration with other companies in the Group	B 2.3 Not Adopted	The size and scale of Central Finance is not comparable with other Companies in the Group.
Performance related payment to Executive Directors	B 2.4 Adopted	Please refer code B 2.1 above.
Executive share options	B 2.5 Not Applicable	There are no share option plans available for executives.
Designing the Executive Directors' remuneration	B 2.6 Adopted	The Remuneration Committee considered Schedule E to this code in deciding performance-related remuneration schemes of the Executive Directors.
Early termination of Directors	B 2.7 Adopted	Executive Directors are employees of the Company and their terms of reference are governed by the contract of employment. The Remuneration Committee has considered the compensation commitments given in the contracts of employment of Executive Directors, if any. Such instances did not arise during the year.
Early termination not included in the initial contract	B 2.8 Adopted	Refer comments above.
Remuneration of the Non-Executive Directors	B 2.9 Adopted	Non-Executive Directors receive fees in line with market practices taking into consideration the time commitment & responsibilities of their roles. No share option plans were offered as remuneration of Non-Executive Directors for their service to the company.

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<p><b>B. 3 Disclosure of Remuneration</b> The Company should disclose the remuneration policy and the details of remuneration of the Board as a whole in the Annual Report.</p>		
Disclosure of remuneration	B 3.1 Adopted	The Remuneration Committee's Report setting out the policy and composition of the Committee is given on page 75. The remuneration paid to the Board of Directors is disclosed in aggregate in note no 16 to the financial statements on page 104.
<p><b>C. RELATIONS WITH SHAREHOLDERS</b> Central Finance uses the Annual General Meeting to communicate with its shareholders and the company focuses on open communication and fair disclosure, with emphasis on the integrity, timeliness and relevance of the information provided. Further during 2015/16, the company had not engaged in or committed to any major and material transactions which affected CF's net asset base.</p>		
<p><b>C. 1 Constructive use of the Annual General Meeting and Conduct of General Meetings.</b> The Code requires the Board to use the Annual General Meeting (AGM) to communicate with Shareholders and encourage their active participation.</p>		
Use of proxy votes	C 1.1 Adopted	The Company has in place an effective mechanism to record all proxy votes and proxy votes lodged on each resolution.
Separate resolution for all separate issues	C 1.2 Adopted	The Company proposes a separate resolution for all substantially separate issues to provide shareholders with the opportunity to vote on each issue separately. This mechanism assures transparency in all activities of the company. Adoption of annual report and financial statements is considered as a separate resolution.
Availability of all Board Sub-Committee Chairmen at the AGM	C 1.3 Adopted	The Chairman of the Board ensures that Chairmen of all Sub-Committees namely, Audit Committee, Remuneration Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee are present at the Annual General Meeting to respond to any questions of shareholders
Adequate notice of the AGM & procedures of voting at General Meeting	C 1.4 & C 1.5 Adopted	All shareholders irrespective of their voting status are encouraged to attend the AGM. Notice of the meeting is given as per the requirements of the Companies Act No. 7 of 2007. The Annual Report including financial statements and the Notice of the Meeting detailing the summary of procedures governing the voting at the AGM and business to be transacted at General Meetings are sent to shareholders at least 15 working days prior to the date of the AGM for effective participation.

## Corporate Governance

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>C. 2 Communication with Shareholders</b>		
The Code requires the Board to establish effective communication with shareholders.		
Channel to reach all shareholders of the company for timely dissemination of information	C 2.1 Adopted	The primary modes of communication are the Annual Report and AGM. Information is provided to the shareholders well in advance of the AGM to give them an opportunity to raise any issues relating to the business of the Company. CF also publishes Annual Reports, interim reports, stock exchange announcements, general meetings & other notices to the holders of its securities, advertisements, press releases, etc. in the CF web-site to enable effective communication with the stakeholders.
Policy and Methodology for communication with Shareholders	C 2.2 Adopted	The Company focuses on open communication and fair disclosure, with emphasis on the integrity, timeliness and relevance of information provided.
Implementation of the Policy and Methodology for communication with Shareholders	C 2.3 Adopted	A Board approved communication policy is in place to communicate with all stakeholders including shareholders, borrowers, depositors and creditors. The company adopts open communication with shareholders. Chairman, CEO/ MD and the Secretary are contactable with short notice.
Contact person in relation to Shareholders matters	C 2.4 & C 2.6 Adopted	Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or senior management of the company. Such questions, requests & comments shall be addressed to the Company Secretary. Authorised spokespersons of CF are identified in the company communication policy.
Process to make all Directors aware of major issues and concerns of shareholders	C 2.5 Adopted	The Company Secretary maintains all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual Director/s as applicable.
The process for responding to shareholder matters.	C 2.7 Adopted	Appropriate response will be provided to all validly received shareholder correspondence by the Board or individual Directors, as applicable, and Company Secretary will be directed to send immediate responses to the particular shareholder. Disclosure process of responding to shareholders is specified in the company communication policy.
<b>C. 3 Major and Material Transactions</b>		
Directors should disclose to shareholders all proposed material transactions which would materially alter/ vary the net assets position of the Company/Group, if entered into.		
Major transactions	C 3.1 Adopted	There were no major transactions during the year.

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>D. ACCOUNTABILITY AND AUDIT</b>		
The CF Board has presented a balanced and understandable assessment of the Company's financial position, performance and prospects during 2015/16. The Board has established a sound framework of risk management and internal control. The company has developed a Policy on Code of Conduct & Ethics applicable to all employees, and has also addressed conflicts of interest, financial irregularities, IT system password control, entertainment and gifts and confidentiality.		
<b>D. 1 Financial Reporting</b>		
The Code requires the Board to present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
Statutory and Regulatory reporting	D 1.1 Adopted	The Board is well aware of its responsibility to present balanced & understandable financial statements in compliance with statutory & regulatory requirements.  In the preparation of quarterly and annual financial statements, Central Finance has complied with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011, and presented in conformity with Sri Lanka Financial Reporting Standards and comply with the reporting requirements prescribed by the Regulatory Authorities such as the Central Bank of Sri Lanka and Colombo Stock Exchange.
Directors' report in the Annual Report	D 1.2 Adopted	The Directors have made all declarations in the Annual Report of the Board of Directors as given on pages 66 to 72.
Statement of Directors', and Auditors responsibility for financial statements and report on Internal Controls	D 1.3 Adopted	The Statement of Directors' Responsibility for Financial Statements is given on page 74 of the Annual Report. Auditor's reporting responsibility is given in their report on the financial statements on page 81. The Directors' Statement on Internal Controls is given on page 79 and Auditor's report on The Directors' Statement on Internal Controls is given on page 80.
Management Discussions and Analysis	D 1.4 Adopted	The Management Discussion and Analysis is given on pages 13 to 15.
Declaration by the Board that the business is a going concern	D 1.5 Adopted	The Board declaration that the business is a Going Concern is given in the Annual Report of the Board of Directors on pages 66 to 72.
Summoning an EGM to notify serious loss of capital	D 1.6 Not Applicable	Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.

## Corporate Governance

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
Disclosure of Related Party Transactions	D 1.7 Adopted	The Board has established an effective and comprehensive system of Internal Controls for identifying, recording and disclosure of Related Party Transactions. Steps have been taken by the Board to avoid any conflicts of interest that may arise, in transacting with related parties. The Board ensures that any financial transaction is on terms that are reasonable if the Company and the related party were dealing at arm's length in the ordinary course of business. As an effort to strengthen the monitoring mechanism of related party transactions, Board has established a Related Party Transactions Review Sub-Committee (RPTRC) in 2014/15. All related party transactions are documented and disclosed to the Committee by the Secretary to the RPTRC. All Related Party Transactions as defined in Sri Lanka Accounting Standard – 24 are disclosed in Note 57 to the Financial Statements on Pages 137 to 139.
<b>D. 2 Internal Control</b>		
The Board should have a process of risk management and a sound system of internal controls to safeguard shareholders' investments and Company's assets.		
Annual evaluation of risks and the effectiveness of the internal control system	D 2.1 Adopted	The Board is responsible for establishing a sound framework of risk management & internal controls and monitoring its' effectiveness on a continuous basis. Through such an effective framework, CF manages business risks & ensures that the Company's assets are safeguarded. Potential risks to the company and effectiveness of the system of internal controls are reviewed annually. The Directors Statement on internal controls is given on page 79. The Auditor's report on same is given on page 80.
Internal audit function	D 2.2 Adopted	The Internal Audit function is carried out by the Internal Audit Department of the Company.
Review of process and effectiveness of internal controls	D 2.3 Adopted	CF Internal Audit Division carries out regular reviews on the internal control system including internal control over financial reporting. The Audit Committee monitors & reviews the Internal Control issues and risk management measures identified by the Internal Audit Division and evaluates the adequacy and effectiveness of risk management and internal control system of the Company. The Board was satisfied with the effectiveness of the internal control system as referred to in the Directors Statement on Internal Control on page 79. The External Auditor has independently reviewed the report as indicated on page 80 of the Annual Report.
Responsibilities of Directors in maintaining a sound internal control system	D 2.4 Adopted	The Directors responsibilities for maintaining a sound system of internal control is given in the Directors Statement on Internal Controls on page 79.

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<p><b>D. 3 Audit Committee</b></p> <p>The Code requires the Board to have a formal and transparent arrangement in selecting and applying Accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditor.</p>		
Composition of the Audit Committee	D 3.1 Adopted	<p>The Audit Committee comprises of three Non-Executive Directors, two of whom are Independent. The Committee met 8 times during the year 2015/16. The General Manager - Internal Audit functions as the Secretary to the Audit Committee. Chairman, Managing Director, Director (Finance), Director (Group Co-ordination), GM - Finance and the External Auditor attend meetings by invitation. The Chairman of the Audit Committee is an Independent Non-Executive Director.</p>
Review of objectivity of the External Auditor	D 3.2 Adopted	<p>Audit Committee monitors and reviews the External Auditor's scope and results of the audit and independence, objectivity and effectiveness of the audit process considering relevant professional and regulatory requirements. The Committee has set out the policy for the engagement of the External Auditor for non-audit services taking into account:</p> <ol style="list-style-type: none"> <li>1. Regulatory requirements and guidelines issued by Central Bank of Sri Lanka with regard to the engagement of the External Auditor for non-audit services.</li> <li>2. The nature and extent of non-audit services and ensuring balanced objectivity, independence and value for money.</li> </ol> <p>The Audit Committee reviewed and approved the policy for engagement of the external Auditor to provide non-audit services during 2015/16.</p>
Terms of reference of the Audit Committee	D 3.3 Adopted	<p>The Audit Committee is guided by the Committee Charter which sets out authority and responsibility of the Audit Committee. The Charter was reviewed in 2015/16 in line with the Code of Best Practices on Audit Committees of CA Sri Lanka.</p> <p>The Duties and Responsibilities of the Committee include inter alia;</p> <ul style="list-style-type: none"> <li>• Making recommendations to the Board on the appointment, re-appointment or removal of the External Auditor.</li> <li>• Assisting the Board to ensure preparation and presentation of Financial Statements in conformity with Sri Lanka Accounting Standards.</li> <li>• Assess the compliance of regulatory requirements and Company's ability to continue as a going concern</li> <li>• Monitoring and reviewing the effectiveness of the Internal Audit function.</li> <li>• Ensuring that a sound internal control system is in place.</li> <li>• Discussion of External audit plan, key audit issues and management responses with management and the Auditor.</li> <li>• Reporting regularly to the Board of Directors.</li> </ul>

## Corporate Governance

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
Disclosures of the Audit Committee	D 3.4 Adopted	The names of the Members of the Audit Committee are given in the Audit Committee Report on pages 77 to 78. The Audit Committee has satisfied itself with the independence of the External Auditor as disclosed in the Audit Committee report on page 78.
<b>D. 4 Code of business conduct &amp; ethics</b>		
The Company should develop a Code of Business Conduct and Ethics to be adhered to by all Directors and Key Management Personnel.		
Code of business conduct and ethics	D 4.1 Adopted	Central Finance has developed a Code of Business Conduct for all Staff Members, which addresses conflict of interest, receiving gifts or any other benefit, accurate accounting and record keeping, corporate opportunities, confidentiality of information, fair dealing, protection and proper use of the Company's assets and compliance with applicable laws and regulations including insider trading laws and, encouraging the reporting of any illegal or unethical behavior. The code of business conduct and ethics has been adhered to in all respects by the Directors and key Management Personnel.
Affirmation of the code of conduct & ethics	D 4.2 Adopted	The Chairman confirms that he is not aware of any material violations of the Code of Conduct.
<b>D. 5 Corporate Governance Disclosures</b>		
The Company should disclose the extent of adoption of best practices in Corporate Governance.		
Corporate Governance Report	D 5.1 Adopted	This report satisfies the requirement of this code.
<b>E. INSTITUTIONAL INVESTORS</b>		
The Board has encouraged the institutional shareholders to make considered use of their votes, ensure that their voting intentions are translated into practice and to give due weightage to all relevant factors drawn to their attention when evaluating the Governance arrangements of the Company.		
<b>E. 1 Shareholder voting</b>		
The Code requires the institutional shareholders to make considered use of their votes and encouraged to ensure that their voting intentions are translated into practice.		
Communication with Institutional shareholders	E 1.1 Adopted	The Annual General Meeting is used for effective dialogue with the shareholders on matters which are relevant and of concern to the general membership. The Chairman communicates the views and queries of the shareholders to the Board and Senior Management, in order to ensure that the views are properly communicated and acted upon.
<b>E. 2 Evaluation of Governance Disclosures</b>		
The Company should encourage institutional investors to give due weightage to all relevant factors drawn to their attention when evaluating the Governance arrangements of the Company.		
Evaluation of the Corporate Governance initiatives	E 2 Adopted	When evaluating the Company's Corporate Governance arrangements, institutional investors are encouraged to give due weightage to all relevant factors particularly in the Board structure and composition.

Corporate Governance Principles	CASL/SEC Code Reference/ Adoption status	Extent of Adoption by CF
<b>F. OTHER INVESTORS</b>		
The Company has encouraged individual shareholders to carry out adequate analysis or obtain independent advice in investing and divesting decisions and to participate and exercise their voting rights at the General Meeting.		
<b>F. 1 Investing/Divesting Decisions</b>		
The Code requires individual shareholders to carry out adequate analysis or obtain independent advice in investing and divesting decisions.		
Other Investors	F 1 Adopted	Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on investing or divesting decisions.
<b>F. 2 Shareholder Voting</b>		
Individual shareholders should be encouraged to participate and exercise their voting rights in General Meetings.		
Individual shareholders voting	F 2 Adopted	Individual shareholders are encouraged to participate at General Meetings and exercise their voting rights. The Company adequately communicates with all shareholders by ensuring that they are duly informed by dispatching necessary Notices.
<b>G. SUSTAINABILITY REPORTING</b>		
The Company has created long term stakeholder value by embracing opportunities, managing risks and impact on business activities from economic, environmental and social developments through sustainability reporting.		
<b>G. 1 Principles of Sustainability Reporting</b>		
Sustainability is a business approach that creates long-term stakeholder value by embracing opportunities, managing risks derived from economic, environmental and social developments and their potential implications and impacts on the business activities of the entity. Sustainability reporting is the practice of recognising, measuring, disclosing and being accountable to all stakeholders for organisational performance towards the goals of sustainable development in the context of the overall business activities and strategy of the entity. Hence, the Code requires to maintain Policies and Procedures to develop a sustainable business environment and make adequate disclosures on sustainability.		
Economic Sustainability	G 1.1 Adopted	Please refer the Sustainability Report on pages 60 to 64 for details.
The Environment	G 1.2 Adopted	
Labour Practice	G 1.3 Adopted	
Society	G 1.4 Adopted	
Product Responsibility	G 1.5 Adopted	
Shareholder identification, engagement & effective communication	G 1.6 Adopted	
Sustainability reporting and disclosures	G 1.7 Adopted	

## Corporate Governance

### SECTION TWO

FINANCE COMPANIES DIRECTION NO 03 OF 2008 (AND SUBSEQUENT AMENDMENTS THERETO) ON CORPORATE GOVERNANCE FOR LICENCED FINANCE COMPANIES IN SRI LANKA

The Central Bank of Sri Lanka issued the Direction on Corporate Governance (Finance Companies Direction No 03 of 2008 and subsequent amendments thereto), in order to improve and sustain the Corporate Governance processes and practices of the Licensed Finance Companies in Sri Lanka.

The above Direction comprises of ten fundamental principles, namely:

1. The responsibilities of the Board of Directors
2. Meetings of the Board
3. Composition of the Board
4. Criteria to assess the fitness and propriety of Directors
5. Delegation of functions
6. The Chairman and the Chief Executive Officer
7. Board appointed Committees
8. Related party transactions
9. Disclosures
10. Transitional Provisions

The structures in place and the conformity with the requirements are tabulated below under the said ten fundamental principles.

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
<b>2. The responsibilities of the Board of Directors</b>		
<b>2 (1) Strengthening the safety and soundness of the Company</b>		
Approving & overseeing the strategic objectives & corporate values / communication	2.1(a)	<b>Complied with</b> Strategic objectives, corporate values, overall business strategy and policies of the Company set by the Board are regularly overseen by the Board and are communicated to all levels of the Company. The Company has developed a policy on Code of Conduct and Ethics for all employees, in line with strategic objectives & corporate values of the company. Subsequent Strategic plans address action plans and goals that support these objectives while reinforcing the core values.
Approving overall business strategy including risk policy & risk management procedures	2.1 (b)	<b>Complied with</b> Overall risk parameters have been set up with regular reviews in place through Board of Management (BoM), Assets and Liabilities Committee (ALCO) and Integrated Risk management Committee (IRMC). The Board has provided direction in the development of short, medium and long term strategy of the Company with the objective of promoting sustainability and profitable growth of the Company. The Company developed a Strategic Plan for three years covering the periods 2015/16 to 2017/18 and was approved by the Board in November 2015. Further, the risk management procedures and mechanism are monitored by Board Integrated Risk Management Committee.

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
Identifying risks and risk management procedures	2.1 (c)	<b>Complied with</b> Assets and Liabilities Management Committee (ALCO), Board of Management (BoM) and Integrated Risk Management Committee (IRMC) review risks and systems that have been developed to manage and mitigate risks. ALCO and BoM review performance monthly. The IRMC meets every quarter or earlier if required. Minutes of all three committees are tabled at monthly Board Meetings for their review and further actions, if required.
Policy on communication with stakeholders	2.1 (d)	<b>Complied with</b> The Board is responsible for ensuring effective communication with all stakeholders including depositors, creditors, shareholders and borrowers. A Board approved communication policy is in place and reviewed, as and when required. The Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership.
Reviewing Company's internal control system and management information systems	2.1 (e)	<b>Complied with</b> Continuous and ongoing reviews are effected on the adequacy and integrity of the Internal Control and Management Information Systems. Periodic External Reviews are also commissioned on specific areas by Specialists. Company's internal control systems over financial reporting and management information systems are reviewed periodically by Audit Committee. The Audit Committee reports are submitted to the Board for further action. All information systems and databases were reviewed by an Audit firm during the year to ascertain the adequacy and integrity of the overall internal control framework of the company.
Identifying & designating Key Management Personnel	2.1 (f)	<b>Complied with</b> Identification and designation of Key Management Personnel (KMP) is in place and periodically reviewed and updated by the Board and BoM.
Defining the areas of authority and key responsibilities of Board and Key Management Personnel	2.1 (g)	<b>Complied with</b> The Board has defined the areas of authority and key responsibilities of the Board Members. In addition, Non-Executive Directors have specific areas of responsibility through the various Sub Committees of the Board. Similarly, Key Management Personnel have specific areas of responsibility assigned to them through their employment contracts and exigencies of evolving business needs. The delegated authority limits for KMPs have been reviewed and approved by the Board during 2015/16.
Ensuring appropriate oversight of the affairs by Key Management Personnel	2.1 (h)	<b>Complied with</b> The Board of Management (BoM) at its detailed monthly review ensures that there is appropriate oversight of the Company's affairs by Key Management Personnel and consistent with its strategic objectives and corporate values.

## Corporate Governance

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
Periodically assess the effectiveness of Board's governance practices	2.1 (i)	<p><b>Complied with</b></p> <p>The Board ensures that effectiveness of governance practices are periodically assessed. A Board approved transparent procedure is in place for selection, nomination and election of Directors and Key Management Personnel. Directors make declarations on areas of interest at the time of applying to the Company's Board and subsequently as and when it is needed. Implementation of changes required are discussed and determined by the Board at year end through submission of annual self-evaluations. Conflicts of interest are managed through a balanced Board of Directors and a Board approved Related Party Transaction Policy.</p>
Ensuring an appropriate succession plan for Key Management Personnel	2.1 (j)	<p><b>Complied with</b></p> <p>A documented Succession Plan is in place for all Key Management positions and training programmes are being continuously reviewed and formulated to ensure that there is adequate succession capacity at all levels.</p>
Regular meeting with the Key Management Personnel	2.1 (k)	<p><b>Complied with</b></p> <p>The Board meets with Key Management Personnel in reviewing policies, monitoring progress towards corporate objectives and ensuring lines of communication. In addition, KMPs make presentations to the Board as a whole or to individual Directors on matters of interest. The Board of Management (BoM), a committee comprising Executive Directors and Key Management Personnel, review policies, and monitor progress towards corporate objectives at their monthly meetings. Further, KMPs attend the sub-committee meetings on invitation for effective decision making.</p>
Understanding the regulatory environment	2.1 (l)	<p><b>Complied with</b></p> <p>Compliance Officer and Company Secretary update the Board Members on changes to the regulatory environment. Regular discussions, training and seminars are arranged for Directors and Key Management Personnel to facilitate understanding the regulatory environment.</p>
Exercising Due diligence in hiring and oversight of External Auditors	2.1 (m)	<p><b>Complied with</b></p> <p>The Board appointed Audit Committee reviews and makes recommendations to the Board on the appointment, re-appointment or removal of the External Auditor in line with professional standards and regulatory requirements. The Audit Committee sets out the policy for the engagement of the External Auditor to provide non-audit services. The Audit Committee reviewed and approved the policy during 2015/16.</p>
Appointing Chairman & Chief Executive Officer (MD)	2 (2)	<p><b>Complied with</b></p> <p>The Board has appointed the Chairman and Chief Executive Officer (MD). The roles of Chairman and Chief Executive Officer (MD) are separated and has defined and approved the functions and responsibilities of the Chairman and the CEO (MD) in line with rule 7 of the CBSL direction. Please refer Section A.2 and A.3 of CASL/ SEC Code table on pages 34 to 35 and rule 7 of CBSL direction on pages 54 to 55 for details.</p>

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
Seeking independent advice	2 (3)	<b>Complied with</b> The Company has a procedure for Directors to seek independent professional advice, in furtherance of their duties, at the Company's expense. This procedure will be coordinated through the company secretary. Please refer section A 1.3 of the CASL/ SEC Code table on page 33 for details.
Avoiding conflicts of interest	2 (4)	<b>Complied with</b> The Board is mindful of its obligation to ensure that Directors avoid conflicts of interest. The Directors make declarations on areas of interest at the time of applying to the Board and subsequently as and when needed. Appropriate procedure is in place to ensure that conflicts and potential conflicts of interests are properly disclosed to the Board. Procedure is in place for Directors to abstain from voting on any Board Resolution when the Director or any of his relatives or a concern, in which he has substantial interest, is interested. Director shall not participate in any discussion on a Related Party Transaction for which he or any of his or her immediate family members are associated with and is required to provide all material information concerning the Related Party Transactions to the Board.
Formal Schedule of Matters to ensure proper direction & control	2 (5)	<b>Complied with</b> The Board has a formal schedule of matters specifically reserved for it. Pre-set agenda of meetings ensures that the direction & control of the company is firmly under Boards control and authority.
Informing Director NBF Supervision in possible situations of Insolvency	2 (6)	This situation has not arisen during the year.
Publishing a Corporate Governance Report	2 (7)	<b>Complied with</b> This report addresses the requirement of this rule.
Adopting a Self-assessment by Directors	2 (8)	Complied with Each Director performs an annual self-assessment of his own effectiveness as well as the effectiveness of the Board based on the predefined criteria set by the Board and maintains records of such assessments.  Please refer Section A 9.1 of CASL/ SEC Code table on page 38 for details
<b>3. Meetings of the Board</b>		
Board Meetings	3 (1)	<b>Complied with</b> The Board usually meets at monthly intervals, but meets more frequently whenever it is necessary. Circulation of written or electronic resolutions / Board papers to obtain Board's consent was minimised and approvals obtained through the circulation of resolutions/ Board papers are subsequently ratified at the next Board Meeting. Please refer section A 1.1 of the CASL/ SEC code table on page 33 for details.
Inclusion of proposals by all Directors in the agenda	3 (2)	<b>Complied with</b> Proposals from all Directors on promotion of business and management of risk and other areas relevant to the progress of the Company are included in the agenda for regular meetings as and when they arise.

## Corporate Governance

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
Adequate notice of Board meetings	3 (3)	<b>Complied with</b> Directors are given adequate time and at least 7 days of notice for Board Meetings and a reasonable time period for other meetings to study the relevant papers and proposals for meaningful discussions.
Action taken for not attending Board Meetings	3 (4)	<b>Complied with</b> All Directors have attended at least two-thirds of the meetings held during the year. No Director has been absent from three consecutive regular meetings held in 2015/16. Alternate Directors were also appointed where necessary.
Appointing and setting responsibilities for Board Secretary	3 (5)	<b>Complied with</b> The Board has appointed M/s. Corporate Services (Pvt) Ltd., to handle the secretarial services to the Board to ensure that proper Board proceedings and other functions are followed in line with rules & regulations enforced by Statutes. Please refer section A 1.4 of the CASL/ SEC code table on page 33 for details.
Agenda for Board Meetings	3 (6)	<b>Complied with</b> The Board Secretary prepares the Agenda, which has been delegated by the Chairman.
Access to the Board Secretary	3 (7)	<b>Complied with</b> Service of the Board Secretary is available for all Directors in discharging their duties to the Company. The Board Secretary has provided the Board with support and advise relating to corporate governance matters, Board procedures and applicable rules and regulations during the year. Please refer section A 1.4 of the CASL/ SEC code table on page 33 for details.
Maintaining minutes of the Board Meetings and accessible to the Directors	3 (8)	<b>Complied with</b> The Company Secretary maintains the minutes of the Board Meetings and Directors have full access to inspect the Minutes of the Board Meetings.
Details of Minutes	3 (9)	<b>Complied with</b> Minutes of the Board Meetings are maintained in sufficient detail by the Board Secretary.
<b>4. Composition of the Board</b>		
Number of Directors	4(1)	<b>Complied with</b> The Board comprised of ten Directors during the year.
Period of service of Non-Executive Directors	4 (2)	<b>Complied with</b> Non-executive Directors serving on the Board have not served on the Board for more than nine years.
Appointment of an employee as a Director	4 (3)	<b>Complied with</b> This situation has not arisen during the year. The Executive Directors of the Company have not exceeded one-half of the number of Directors of the Board.

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
Independent Non-Executive Directors	4 (4)	<b>Complied with</b> The Board includes four Independent Non-executive Directors as per the definition of this direction as at 31.03.2016, which is in excess of one fourth of the total number of Directors. The Board reviews the independence of Non-Executive Directors on an annual basis and as and when circumstances change, based on the self-declaration and as a part of each Director's assessment.
Alternate Director	4 (5)	<b>Complied with</b> When Independent Directors appoint alternate Directors they ensure that the alternate Directors appointed are also independent Directors.
Credibility, skills & experience of Non-Executive Directors	4 (6)	<b>Complied with</b> The Non-Executive Directors possess skills & experience from a number of industries and business sectors, including the leadership of large multinational enterprises Biographic details of the Directors are given on pages 10 to 11.
Meetings of the Board with at least one half of Non-Executive Directors in the quorum	4 (7)	<b>Complied with</b> As per the Articles of Association of the Company, the quorum to constitute a Meeting of the Board is two Directors of which one Director should be a Non-Executive Director. As per the attendance of the Board Meetings during the year ended 31.03.2016, the required quorum has been maintained at all Board Meetings. Details of the meetings and individual attendance are given on page 59.
Details of Directors	4 (8)	<b>Complied with</b> Please refer pages 10 to 11 for the biographic details of the Directors and the categories.
Appointment of new Directors	4 (9)	<b>Complied with</b> The Board has a formal and transparent procedure in place when appointing Directors to the Board. Further, the Board approved succession plan is in place for the Members of the Board and KMPs. However, appointment of new directors has not arisen during the year. Please refer section A 7.3 of the CASL/ SEC code table on page 37 for details.
Appointment to fill a casual vacancy	4 (10)	<b>Complied with</b> As per the Articles of Association of the Company, a Director who was appointed during the year to fill a casual vacancy will stand for re-election by shareholders at the very next Annual General Meeting.
Procedure to be followed for resignation / removal of a Director	4 (11)	<b>Complied with</b> Notifications of resignation of Directors of the Company are given to the shareholders by way of the Annual Report, Quarterly Financial Statements and Newspaper announcements and to the Director - DSNBFI of the CBSL.

## Corporate Governance

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
<b>5. Criteria to assess the Fitness and Propriety of Directors</b>		
Directors over 70 Years of age	5 (1)	<b>Complied with</b> Directors serving on the Board have not reached the age of seventy years during 2015/16.
Holding of office in more than 20 entities	5 (2)	<b>Complied with</b> As at 31.03.2016, none of the Directors on the Board hold Directorships in more than twenty companies including the subsidiary and associate companies of Central Finance Company PLC.
<b>6. Delegation of Functions</b>		
Delegation of work to the management	6 (1)	<b>Complied with</b> Article 127 of the Articles of Association of the Company empowers the Board to delegate its powers, and the Board has established a formal procedure for delegation of powers, retaining the ability to discharge its functions as required. The Board of Central Finance periodically evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions.
Evaluation of the delegated process	6 (2)	<b>Complied with</b> Please refer comments above.
<b>7. The Chairman and the Chief Executive Officer</b>		
Division of Responsibilities of the Chairman & the CEO (MD)	7 (1)	<b>Complied with</b> The roles of the Chairman and the Chief Executive Officer / Managing Director are separate.
Chairman Preferably be an Independent Director and if not appoint a Senior Director	7 (2)	<b>Complied with</b> The Chairman is considered as independent, from 16.02.2016 as per the definition set out in the Direction on Corporate Governance.
Relationship between Chairman and CEO (MD) & other Directors	7 (3)	<b>Complied with</b> As declared by the Directors, there are no material relationships between the Chairman and CEO (MD) and other Members of the Board which will impair their respective roles.
Role of the Chairman	7(4) to 7(8)	<b>Complied with</b> The Chairman is responsible to lead, direct and manage the Board to ensure that it operates effectively and fully discharges its legal & regulatory requirements. Detailed information of the role of the Non-executive Chairman is given in the SEC & CASL Code table section A 2 & A 3 on pages 34 to 35.
Supervision of KMP's by Chairman	7 (9)	<b>Complied with</b> The Chairman does not directly get involved in the supervision of Key Management Personnel or other executive duties.

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
Communication with Shareholders	7 (10)	<b>Complied with</b> The chairman ensures that adequate opportunity is given to shareholders to take up matters for clarification at the Annual General Meeting. Clarification would be by the Chairman, CEO/ MD and other members of the Board. Valid shareholder views are communicated to the Board.
Role of the CEO (MD)	7 (11)	<b>Complied with</b> The CEO (MD) performs as apex Executive-in-Charge of the day-to-day management of Central Finance operations and business.
<b>8. Board appointed committees</b>		
Board appointed Sub-Committees	8 (1)	<b>Complied with</b> There are four Board appointed Sub-committees namely Audit Committee, Remuneration Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee. Minutes of the Sub Committee Meetings and matters arising from the minutes as well as reports that require Board's attention and/ or decisions were circulated to the Board by respective Secretaries of the Committees.
Audit Committee	8 (2) (a) to 8 (2) (q)	<b>Complied with</b> The Audit Committee comprises of three Non-executive Directors, two of whom are Independent and the Chairman of the committee is an Independent Non-Executive Director. Please refer the Audit Committee Report given on pages 77 to 78 and section D 3 of the CA Sri Lanka & SEC code table on page 45 in respect of composition, role and responsibilities of the Board appointed Audit Committee covering; A. The Chairman of the Committee, B. Composition of the Audit Committee, C. Recommendation to the Board on appointment, re-appointment and removal of External Auditors, D. Monitoring & review of the External Auditor's independence, objectivity and effectiveness, E. Policy of engagement of External Auditor in non-audit services. Deciding on nature and scope of the External Auditor, F. Reviewing Financial information of the company, G. Meeting External Auditor with & without the presence of Executive Directors/ KMPs, H. Review of External Auditor's Management Letter, I. Steps taken to review the Internal Audit functions and review major findings of internal audit & management responses thereto, J. Secretary to the Audit committee and recording of minutes.

## Corporate Governance

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance
Integrated Risk Management Committee	8 (3) (a) to 8 (3) (h)	<p><b>Complied with</b></p> <p>The Integrated Risk Management Committee (IRMC) comprises four Non-Executive Directors and management representatives including CEO/MD, Executive Directors and Management Representatives.</p> <p>The IRMC met quarterly. Discussions and conclusions reached at such meetings and risk assessment report are circulated to the Board of Directors at the very next monthly Board Meeting. The Board is kept informed of any specific issue considered high priority and of magnitude within seven days from the date of the IRMC meetings.</p> <p>General Manager (Finance) acts as the Compliance Officer for CBSL Directions, Rules and Regulations issued under the Finance Business Act. A Compliance Statement covering Directions, Rules and Regulations issued under the Finance Business Act, Rules and Regulations of the Securities and Exchange Commission of Sri Lanka and Colombo Stock Exchange, Provisions contained in the Companies Act No. 07 of 2007, Inland Revenue Act No. 10 of 2006 and other various statutory requirements is submitted to the Board monthly.</p> <p>Please refer the Integrated Risk Management Committee Report given on page 76 for details.</p>
<b>9. Related Party Transactions</b>		
Avoiding conflicts of interest in related party transactions and favourable treatment	9 (2) to 9 (4)	<p><b>Complied with</b></p> <p>The Board members are required to make declarations in respect of related parties at the time of appointment and bi-annually.</p> <p>The Directors refrain from participating at relevant sessions in which lending to related entities are discussed. Each Director and KMP will notify the Board of Directors and the Company Secretary of any interests that such person or an Immediate Family Member of such person has or may have in a Related Party Transaction and shall include a description of the transaction and the amount.</p> <p>To further strengthen the monitoring mechanism of related party transactions, a Board approved Related Party Transactions Policy and a Related Party Transactions Review Committee are in place. The objectives of which are to:</p> <ul style="list-style-type: none"> <li>A. Encourage transparency with a view to facilitating informed decisions</li> <li>B. Conform to disclosure requirements and exercise good governance on related party transactions, and</li> <li>C. Ensure that any financial transaction / benefit is on terms that are reasonable in the circumstances if the entity and the related party were dealing at arm's length.</li> </ul> <p>Please refer section D 1.7 of the CASL/SEC code table on page 44 for details.</p>
<b>10. Disclosures</b>		
Financial reporting, Statutory and Regulatory reporting	10 (1)	<p><b>Complied with</b></p> <p>The financial statements for the year ended 31st March 2016 and the bi-annual financial statements are in conformity with all rules and regulatory requirements and applicable accounting standards and have been published in all three languages in the newspapers.</p>

Corporate Governance Principles	CBSL Rule	Compliance status / Level of Compliance												
Minimum disclosure in the Annual Report	10 (2)	<p><b>Complied with</b></p> <p>A. A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements has been given in the Directors Responsibility Statement for Financial Reporting on page 74.</p> <p>B. Directors Report on effectiveness of the internal control system over financial reporting is given under the Directors' Statement on Internal Control on page 79.</p> <p>C. Independent Assurance Report is issued by the External Auditor on effectiveness of Internal Controls over Financial Reporting based on SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Controls issued by CA Sri Lanka. Please refer External Auditor's Assurance Report on the Directors' Statement on Internal Control on page 80.</p> <p>D. Details of the Directors are given on pages 10 to 11. Directors' remuneration is disclosed on page 104. Deposits made by the Directors is given in note no. 44 of the financial statements on page 131.</p> <p>E. Fees and Remuneration paid to the Directors in total is given in note no. 16 of the financial statements on page 104.</p> <p>F. The net accommodation outstanding from the related parties is given below as a percentage of capital funds.</p> <table border="1"> <thead> <tr> <th>Related Party Category</th> <th>Amount (Rs. Mn.)</th> <th>As a % of Capital Funds</th> </tr> </thead> <tbody> <tr> <td>Subsidiaries</td> <td>186.91</td> <td>0.81%</td> </tr> <tr> <td>Associates</td> <td>946.87</td> <td>4.10%</td> </tr> <tr> <td>Key Management Personnel</td> <td>2.53</td> <td>0.01%</td> </tr> </tbody> </table> <p>G. Transactions with Key Management Personnel such as remuneration paid, accommodation granted, deposits made are given in note no. 57 of the financial statements on pages 137 to 139. Investment made by the KMPs in the Company amounts to 25,133,223 ordinary shares.</p> <p>H. There were no instances of non-compliance to prudential requirements, regulations and laws. There was no material non-compliance with internal controls.</p> <p>I. There were no supervisory concerns on lapses in risk management, non-compliance with the Act and rules and directions that have been pointed out by the Director SNBFI and requested by the Monetary Board to be disclosed to the public.</p> <p>J. The External Auditor has issued an Assurance Report with their certification on Compliance with Corporate Governance Directions in the annual Corporate Governance Report.</p>	Related Party Category	Amount (Rs. Mn.)	As a % of Capital Funds	Subsidiaries	186.91	0.81%	Associates	946.87	4.10%	Key Management Personnel	2.53	0.01%
Related Party Category	Amount (Rs. Mn.)	As a % of Capital Funds												
Subsidiaries	186.91	0.81%												
Associates	946.87	4.10%												
Key Management Personnel	2.53	0.01%												
<b>11. Transitional Provisions</b>														
Transitional Provisions for the Directors	11 (1) to (6)	<p><b>Complied with</b></p> <p>Central Finance has complied with the transitional and other general provisions in the Direction.</p>												

## Corporate Governance

### SECTION THREE

#### CONTINUING LISTING RULES SECTION 7.10 ON CORPORATE GOVERNANCE OF THE COLOMBO STOCK EXCHANGE

The Continuing Listing Rule Section 7.10 of the Colombo Stock Exchange (CSE) mandates companies listed on the Colombo Stock Exchange to publish a table in the Annual Report, confirming that as at the date of the Annual Report they comply with the Corporate Governance rules. The rule addresses the following areas;

- A. Non-Executive Directors,
- B. Independent Directors,
- C. Disclosures relating to Directors,
- D. Remuneration Committee,
- E. Audit Committee.

Corporate Governance Principles	CSE Rule Reference	Compliant status	Level of Compliance
Non-Executive Directors	7.10.1 (a)	Compliant	Half the Board Members are Non-Executives, which is more than the requirement of the rule.
	7.10.2 (a)	Compliant	Half the Board Members are Non-Executives and more than one third of them are independent.
	7.10.2 (b)	Compliant	All Non-Executive Directors have submitted their independence declaration as per the requirements.
Disclosures relating to Directors	7.10.3 (a)	Compliant	Declarations of Independence by the Directors were assessed by the full Board. The Directors who are independent are disclosed on page 59.
	7.10.3 (b)	Compliant	Circumstances did not arise for the Board to decide a Director as Independent beyond the criteria set by this rule.
	7.10.3 (c)	Compliant	Please refer pages 10 to 11 for the brief biography of each Director.
	7.10.3 (d)	Compliant	Information relating to new appointments to the Board is disclosed to the Colombo Stock Exchange, when appointments are made.
Remuneration Committee	7.10.5 (a) Composition	Compliant	The Remuneration Committee solely comprises of Non-executive Independent Directors.
	7.10.5 (b) Function	Compliant	Please refer to the Remuneration Committee report on page 75 for details of the functions of the Committee.
	7.10.5 (c) Disclosure in the annual report	Compliant	The report of the Remuneration Committee is given on page 75 and the remuneration paid to Directors is given in note no. 16 to the financial statements on page 104.
Audit Committee	7.10.6 (a) Composition	Compliant	The Audit Committee comprises of three Non-Executive Directors, two of whom are independent.
	7.10.6 (b) Function	Compliant	Functions of the Audit Committee are given in detail in the Audit Committee Report on pages 77 to 78.
	7.10.6 (c) Disclosures in the annual report	Compliant	The names of the Directors comprising the Audit Committee and the basis of determination of independence of the Auditor are given in the Audit Committee report on pages 77 to 78.

## MEETINGS

In 2015/16, twelve Board Meetings were scheduled and individual attendance by Directors at these meetings is shown in the following table.

Names	Directorship Status	Board	Audit Committee	Integrated Risk Management Committee	Remuneration Committee	Related Party Transactions Review Committee
Number of meetings held		13	8 <sup>a</sup>	4	2	4
J. D. Bandaranayake	Independent Non-Executive Chairman	13	-	3	2 <sup>b</sup>	2
E. H. Wijenaik	Managing Director	13	-	4	2 <sup>c</sup>	3
G. S. N. Peiris	Director (Finance)	12	-	3	1 <sup>c</sup>	-
R. E. Rambukwelle	Director (Marketing and Operations)	13	-	4	1 <sup>c</sup>	-
A. K. Gunaratne	Director (Group Co-ordination)	12	-	4	1 <sup>c</sup>	4
D. P. de Silva	Director (Credit)	13	-	4	1 <sup>c</sup>	-
C. L. K. P. Jayasuriya	Non-Executive Director	12	8	3	1 <sup>c</sup>	-
S. C. S. Wickramasinghe	Independent Non-Executive Director	11	-	-	2	-
F. Mohideen	Independent Non-Executive Director	12	8	4	1 <sup>c</sup>	4 <sup>b</sup>
A. N. Fernando	Independent Non-Executive Director	11	8 <sup>b</sup>	4 <sup>b</sup>	2	4

<sup>a</sup> Three meetings were held to review the distribution of profits to shareholders

<sup>b</sup> Chairman of the committee

<sup>c</sup> Attended by invitation

# Corporate Social Responsibility

As a leading financial services institution in the country, Corporate Social Responsibility (CSR) has always been a key priority for Central Finance Company PLC (CF).

The company takes a broader view of CSR and focuses on empowering human capital, reducing the company's environmental footprint and addressing the long term development needs of the people of Sri Lanka. As part of this effort, CF also makes charitable donations from time to time, mainly in the form of disaster relief for communities affected by unforeseen calamities.

## HUMAN CAPITAL DEVELOPMENT

CF's Human capital development (HCD) agenda seeks to create a high-performance workplace, which will motivate employees to grow both professionally and personally. Accordingly, the company's HCD model takes a strategic approach to developing and managing employees.



## Training and Development

The commitment to create a learning culture is achieved through a comprehensive training and development policy covering employees at all levels.

Training assessments are regarded as an important element of the year-end employee evaluation mechanism, where training needs are identified following careful observation and discussion with employees. A training timetable is then formulated for the year ahead, to determine both individual and collective training requirements with special emphasis on technical and self-development initiatives. Throughout the year, the training plan is continuously assessed and re-oriented in line with technical changes that may become relevant to the financial services industry. In addition to the training calendar, CF encourages employees to participate in seminars and workshops pertaining to

regulatory and technological changes in the industry. This ensures that the company is geared to adapt to changes with least delay.

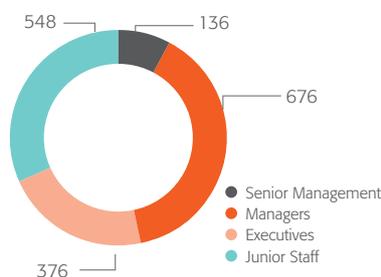
During the year, the company conducted 135 training programmes for staff of all levels spanning a total of 1,736 hours.

## Key Initiatives for the Year

- **Training Programme for Managers (Conducted by The Postgraduate Institute of Management)**

CF continued to provide strategic management training to its managers in collaboration with the Postgraduate Institute of Management. This Training module is designed to equip the managers with necessary knowledge and skills on managing time, leadership qualities and project management. During the year under review, 21 branch managers participated in this training programme, which included classroom training sessions, group activities, individual and group assignments and presentations.

## Staff Training 2015 -16, Number of Hours



- **Developing language skills**

As a measure of improving the communication skills of employees, CF organised an Intermediate level training programme to enhance the language skills of junior staff within the branch network. The programme, which was conducted in partnership with The Rainbow Institute of Communication & English (RICE) and the City & Guilds (UK), was carried out by renowned professional English language Trainers in the country. For the first phase of this programme, 55 staff members were selected following a strict selection criteria, with due consideration given to the recommendations made by the respective supervisor of the employee. The programme was an immense success with over 80% attendance recorded at all times. All participants were tested at the conclusion of the programme and an awards ceremony to recognise high-performers which provided the opportunity for the trainees to display their new found skills, through a fun-filled concert performance which included speeches, songs and skits in English.

- **Enhancing Negotiation skills**

CF launched a special training programme to improve the persuasion and negotiation skills of the Recovery Field Force. The first phase of this programme, provided training for 215 front office staff members representing various branches at different venues. The feedback on this programme proved to be an immense success.

### Additional Benefit Schemes

- **Scholarships and grants for family members**

CF has introduced several employee benefit initiatives for children of staff members. This includes reimbursement of costs involved for the grade 1 admission process, grants for top achievers at the year-five scholarship examination and G.C.E. Ordinary Level Examination and scholarship and grants for those who have gained entrance to universities through the G.C.E Advanced Level Examination.



- **Education Loans**

To encourage continuous professional development of its own staff members, the company introduced an education grant, which is made available on demand for employees who wish to pursue higher education, receive membership from a recognised professional body or to obtain masters qualification from both local and overseas institutions.

- **The Chairman's Relief Fund**

All CF staff members are provided with a comprehensive insurance cover for illnesses leading to hospitalisation, while the Chairman's Relief fund extends a helping hand to compensate for any expenses that goes beyond the limits of the Insurance cover. The Chairman's relief fund offers financial help for employees who seek financial assistance for critical illnesses, including bypass surgeries.

Over the years, the fund has assisted many CF employees and their family members to counter their illnesses with minimum impact on their personal finances.

### Other Welfare activities

- **CF Sports carnival**

CF conducted yet another successful sports carnival on 01st August 2015 with the participation of employees from all branches and service centres together with the members of board of directors. The main aim of the sports carnival is to foster team spirit and build leadership qualities in an informal atmosphere. This year's event, which consisted of a wide range of sports and games, including Cricket, Volleyball, Rugby, Athletics and other fun events which created a lot of enthusiasm among staff members.



- **Recognising Achievements**

A ceremony was held to felicitate CF's cricket team, who emerged runners up in Division-D of the Mercantile Cricket Tournament 2016. Team CF consisted of a group of talented young cricketers who performed exceptionally well throughout the tournament, to book a place in the final.

## Corporate Social Responsibility



### • Long Service Awards

Long Service Awards are aimed at recognising those employees with 25 years of dedicated service to the company. This colourful annual awards ceremony which coincides with the anniversary of CF's establishment on 5th December, 1957 is an important event on CF's calendar. 151 employees have so far been recognised under this scheme.



### Environment Friendly Practices

CF has continued with efforts to promote sustainable environment friendly initiatives, with the focus for the current year being on following areas;

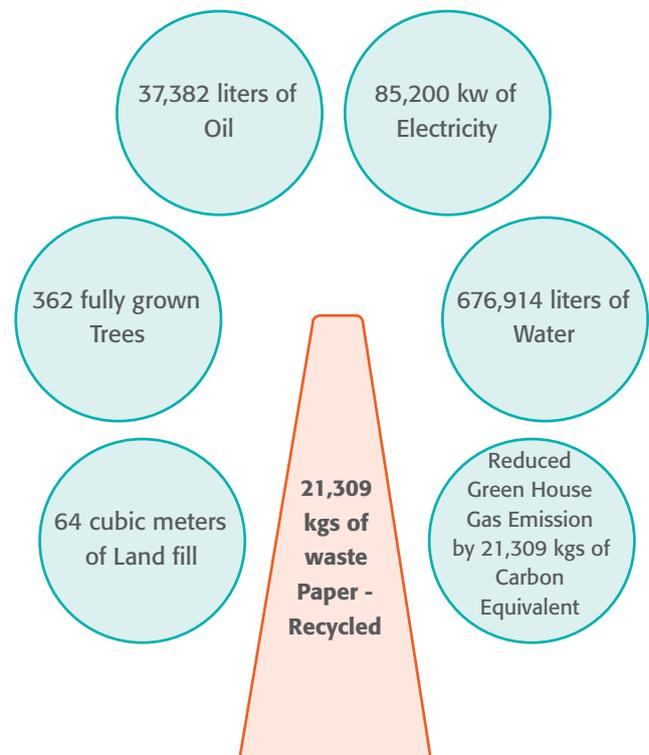
### • Product Responsibility

As a measure of promoting environment friendly products, CF focused on increasing its financing/lending towards environmentally friendly motor vehicles such as hybrid cars and electric cars.

### • Lean Resource Management

CF's business practices are designed to improve resource efficiency and minimise waste. Accordingly, as part of the ongoing efforts to cut electricity consumption, the company invested Rs. 4.375 million to install a Solar net metering system at the City Office in Colombo.

Recycling paper waste is another initiative that the company has been pursuing for last several years. In the current financial year, CF set up ten new paper waste collection centers in Galle, Negombo, Ratmalana, Nugegoda, Puttalam, Wattala, Dematagoda, Malabe, Mabola and Ja-Ela. These new centers together with the existing collection centres at the Head Office and City Office bring the total number of collection centres to twelve, where a total of 21,309 kgs of waste paper was collected and recycled during the year ended 31st March 2016.





We also recycled 388 CFL and 194 FTL bulbs through Orange Electric Ltd. In recognition of this environment friendly practice, Asia Recycling issued a certificate of appreciation.

### Socio-economic Development of Communities

“Sisu Athwela” - Envisioning a greater tomorrow for flourishing young minds



CF's 'Sisu Athwela Scholarship Programme' is an endeavour to provide the educational foundation to children from economically disadvantaged backgrounds to realise their potential. A large number of children from these backgrounds drop-out of school due to financial reasons. “Sisu Athwela” extends financial support and basic school necessities to such children helping them to continue their studies up to tertiary level.



CF's CSR committee is tasked with selecting candidates eligible for the scheme. In this regard, the results achieved at the Grade five scholarship examination are used as a benchmark to identify young achievers, while exceptionally gifted students who are recommended by their respective class teacher and principal, are also taken into consideration. In addition to the performance of the student, the socio-economic background is another key criterion that determines the eligibility. As a policy, all selected candidates are strictly from rural underprivileged schools and the selection process seeks to offer equal opportunities to young students from either gender.



Each selected candidate receives a starter pack at the beginning of each year, while continuous financial support is extended throughout the year, in the form of two monthly stipends, one given to the parent or guardian and the other being deposited directly to the Minor's savings account maintained at CF.

The “Sisu Athwela” programme is a long term undertaking by CF, which entails forging a strong relationship with the child and his/her family. This allows the CSR team to monitor the progress made by the student and offer guidance when needed, to ensure the student remains on track.

## Corporate Social Responsibility

Following its launch in December 2015, 24 candidates were initially awarded with the scholarships in the first phase of the “Sisu Athwela” programme. The company expects to further widen the programme by increasing the numbers every year to support a larger number of students.

- **Emergency Aid**

In response to a request made by A-PAD Sri Lanka, CF stepped in to provide much needed assistance to low-income families who were electrocuted by a flagpole falling on to high power cables in the Orugodawatte area in June 2015.





# Annual Report of the Board of Directors

The directors have pleasure in presenting to the members their report together with the audited financial statements of Central Finance Company PLC, and the audited consolidated financial statements of the group for the year ended 31st March 2016.

Central Finance Company PLC is a public limited liability company incorporated in Sri Lanka on 05th December 1957, quoted on the Colombo Stock Exchange in 1969, registered as a finance company under the Finance Business Act No. 42 of 2011, registered under the Finance Leasing Act No. 56 of 2000 and the Companies Act No. 07 of 2007.

The ordinary shares of the company and the debentures are listed on the Colombo Stock Exchange.

The Board of Directors approved these financial statements on 08th June 2016.

## PRINCIPAL BUSINESS ACTIVITIES AND REVIEW OF OPERATIONS COMPANY

The principal business activities of the company during the year continued to be leasing, hire purchase financing, vehicle hire, deposit mobilisation, vehicle trading and provision of other financial services.

## SUBSIDIARIES

Name of the company	Principal business activities
Central Industries PLC	Manufacture and distribution of PVC pipes and fittings
Central Mineral Industries (Pvt) Ltd.	Manufacture of mineral products
Central Construction and Development (Pvt) Ltd.	Investment company
Expanded Plastic Products Ltd.	Investment company
Central Homes (Pvt) Ltd.	Property development and sale of real estate
Mark Marine Services (Pvt) Ltd.	Hydro power generation
Central Developments Ltd.	Investment company
CF Insurance Brokers (Pvt) Ltd.	Insurance broking
Central Transport and Travels Ltd.	Hiring of vehicles
Hedges Court Residencies (Pvt) Ltd.	Construction and sale of apartments
Dehigama Hotels Company Ltd.	Renting of commercial property
CF Growth Fund Ltd.	Investment company
Kandy Private Hospitals Ltd.	Provision of healthcare services
Isuru Leasing Company Ltd.	Leasing, hire purchase financing, granting of term loans and real estate development

## ASSOCIATES

Name of company	Principal business activities
Nations Trust Bank PLC	Licensed commercial bank
Tea Smallholder Factories PLC	Manufacture and sale of black tea
Capital Suisse Asia Ltd.	Investment company

There were no significant changes in the nature of the principal business activities of the company and the group during the financial year under review.

## REVIEW OF BUSINESS

A review of the company and group operations during the year, with comments on the financial results and future developments is contained in the managing director's report on pages 6 to 9 and the management discussion and analysis on pages 13 to 15 of the annual report, which form an integral part of the directors' report.

## FINANCIAL STATEMENTS

The financial statements of the group and the company are given on pages 82 to 143 of the annual report.

## 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 these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Inland Revenue Act No.10 of 2006 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

The detailed report is given on page 74 of the annual report.

## AUDITOR'S REPORT

The auditor's report on the financial statements is given on page 81 of the annual report.

A detailed description of the results and appropriations are given below:

	2015/16 Rs.'000	2014/15 Rs.'000
Group profit for the year before income tax after payment of all expenses, provision for depreciation, VAT on financial services, NBT and impairment on loans and other credit losses	6,271,919	5,122,735
Provision for taxation	(2,169,126)	(1,387,715)
Group profit after taxation	4,102,793	3,735,020
<b>Other comprehensive income net of income tax</b>		
Net gains and losses on re-measurement of available for sale financial assets	(32,212)	59,872
Actuarial gains / (losses) on defined benefit plans	79,178	(53,161)
Share of other comprehensive income / (losses) of associates	(64,107)	29,490
<b>Total comprehensive income for the year</b>	<b>4,085,652</b>	<b>3,771,221</b>
Non-controlling interest	(110,240)	(100,717)
Attributable to equity holders of the company	3,975,412	3,670,504
<b>Other comprehensive income net of tax relating to :</b>		
Available for sale reserve	102,408	(75,834)
Capital reserves	(4,876)	(15,018)
	4,072,944	3,579,652
Un-appropriated profit brought forward from previous year	3,092,803	2,468,783

## SIGNIFICANT ACCOUNTING POLICIES

The group and the company prepare the financial statements in accordance with Sri Lanka Accounting Standards (LKAS / SLFRS). Significant accounting policies adopted in the preparation of the financial statements are given on pages 88 to 102 of the annual report.

## GOING CONCERN

The board of directors is satisfied that the company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared based on the going concern concept.

## INCOME

Income of the group excluding associates during the year was Rs.16, 284.92 million (2014/15 - Rs.15, 963.25 million), an analysis of which is given in Note 11 to the financial statements.

## RESULTS AND APPROPRIATIONS

Total comprehensive income of the company was Rs.3, 369.76 million (2014/15 - Rs. 3,014.11 million) whilst the group comprehensive income attributable to equity holders of the parent was Rs. 3,975.41 million (2014/15 - Rs. 3,670.50 million).

## Annual Report of the Board of Directors

	2015/16 Rs.'000	2014/15 Rs.'000
Transfer from revaluation reserve	4,552	5,233
Unclaimed dividends written back	428	-
Balance available for appropriation	7,170,727	6,053,668
<b>Appropriations</b>		
Super gain tax	(423,126)	-
Transfer to reserve fund	(167,000)	(151,000)
Transfer to general reserve	(2,437,000)	(3,205,000)
Transfer to / (from) investment fund account	-	732,716
Transfer from other capital reserves	17,899	-
Dividends distributed during the year	(382,824)	(335,626)
Transfer of non-controlling interest of acquired subsidiary with the 100% acquisition	-	(1,955)
<b>Un-appropriated profit to be carried forward</b>	<b>3,778,676</b>	<b>3,092,803</b>

### RESERVES

The total Group reserves as at 31st March 2016 amounted to Rs. 26,920.07 million (31st March 2015 - Rs. 23,750.17 million) details of which are given in notes 48 to 51 to the financial statements.

### CORPORATE DONATIONS

During the year, the company made donations amounting to Rs. 0.79 million (2014/15 Rs. 1.41 million) in terms of the resolution passed at the last annual general meeting. This includes donations of Rs. 0.07 million (2014/15 Rs. 0.34 million) made to Government approved charities. Total donations of the group during the year amounted to Rs. 0.86 million (2014/15 - Rs. 1.49 million) of which Rs. 0.07 million (2014/15 - Rs. 0.34 million) were made to Government approved charities.

### STATUTORY PAYMENTS

The directors are satisfied that statutory payments due to the Government and in relation to the employees have been made in full and on time to the best of their knowledge and belief.

### DIVIDENDS

The directors recommend the payment of a final dividend of Rs. 2.00 per share for the year ended 31st March 2016 (2014/15 - Rs. 1.80 per share) subject to approval by the shareholders at the forthcoming annual general meeting. This dividend, together with the two interim dividends of Rs. 1.00 each per share paid on 18th December 2015 and 12th April 2016 respectively, amount to a total dividend pay out of Rs. 419.53 million for the year (2014/15 - Rs. 367.09 million). The first interim dividend represented a redistribution of dividends received by the company and therefore

was not subject to the 10% withholding tax. A major portion of the second interim dividend was paid out of profits of the company and the balance out of dividends received. Component of dividends paid out of profits was subject to 10% withholding tax.

The final dividend proposed will be paid entirely out of taxable profits and therefore will be subject to the 10% withholding tax. The directors have confirmed that the company satisfies the solvency test requirement under Section 56 of the Companies Act No.07 of 2007 for both interim dividends paid in December 2015 and April 2016 and the final dividend proposed. Solvency certificates were obtained from the auditor in respect of interim dividends paid and the proposed final dividend of Rs. 2.00 per share.

Licensed Finance Companies are required to obtain prior approval of the Central Bank of Sri Lanka for the payment of dividends. The directors confirm that they have obtained prior approval of the Central Bank of Sri Lanka prior to recommending the interim dividends and the final dividend of Rs. 2.00 per share for the year.

### PROPERTY, PLANT AND EQUIPMENT

The total capital expenditure in regard to property, plant and equipment, intangible assets and capital work-in progress of the company and the group amounted to Rs. 577.97 million and Rs. 653.70 million respectively. (2014/15 - company Rs. 758.03 million and group Rs. 827.59 million) details of which are given in Notes 39 and 40 to the financial statements. Value of capital expenditure approved and contracted for as at year end is disclosed in note 54 to the financial statements.

### MARKET VALUE OF FREEHOLD PROPERTIES

The value of freehold properties owned by the group as at 31st March 2016 is included in the accounts at Rs. 3,653.01 million (31st March 2015 - Rs. 3,752.62 million) based on valuations

undertaken by Chartered Valuers / Licensed Surveyors in March 2014. The directors are of the opinion that this value is not in excess of the current market value. Details are provided in note 39 to the financial statements.

#### EVENTS AFTER THE REPORTING DATE

No events of a material nature have occurred subsequent to the date of the statement of financial position requiring adjustments to the financial statements, other than those disclosed in note 56 to the financial statements.

#### STATED CAPITAL AND DEBENTURES

The stated capital of the company as at 31st March 2016, consisting of 104,883,333 ordinary shares, amounts to Rs. 568.42 million. No ordinary shares were issued during the year under review.

Company issued Rs.100/- par valued 25,000,000 rated, secured, redeemable debentures to the value of Rs.2.5 billion in June 2015 which are listed on the Colombo Stock Exchange.

The company had issued Rs.1,000/- par valued 2,000,000 rated, unsecured, redeemable debentures to the value of Rs. 2 billion (31st March 2015- Rs. 2 billion) and Rs. 100/- par valued 20,000,000 rated, secured, redeemable debentures to the value of Rs. 2 billion as at 31st March 2016. (31st March 2015 - Rs. 2 billion). Both these debentures are listed on the Colombo Stock Exchange. Details of the debentures are given in the note 45 to the financial statements.

#### SHAREHOLDINGS

As at 31st March 2016, there were 2,668 registered shareholders and the distribution of shareholding is given on page 150.

#### INFORMATION ON SHARES AND DEBENTURES

Information relating to earnings, dividends, net assets and market value per share is given under financial highlights on page 2. Information pertaining to trading in the company's shares and debentures is given on pages 150 to 153 of the annual report.

#### MAJOR SHAREHOLDERS

The twenty largest shareholders of the company as at 31st March 2016 together with an analysis of the shareholdings are given on page 151.

#### THE BOARD OF DIRECTORS

##### List of Directors

The board of Central Finance Company PLC consists of ten directors with wide financial and commercial knowledge and experience. The qualifications and experience of the directors are given on pages 10 and 11 of the annual report.

The following were the directors of the company as at the end of the financial year:

J. D. Bandaranayake (Independent Non-executive Director/ Chairman)  
 E. H. Wijenaik (Managing Director)  
 G. S. N. Peiris (Executive Director)  
 R. E. Rambukwelle (Executive Director)  
 A. K. Gunaratne (Executive Director)  
 D. P. de Silva (Executive Director)  
 C. L. K. P. Jayasuriya (Non-executive Director)  
 S. C. S. Wickramasinghe (Independent Non-executive Director)  
 F. Mohideen (Independent Non-executive Director)  
 A. N. Fernando (Independent Non-executive Director)

#### RETIREMENTS / NEW APPOINTMENTS DURING THE FINANCIAL YEAR

There was no change in the composition of the board during the year under review.

#### RETIREMENTS / NEW APPOINTMENTS SUBSEQUENT TO THE FINANCIAL YEAR END

A.N. Fernando who will be reaching the age of 70 years on 10th July 2016, will retire from the board of directors with effect from 30.06.2016 keeping in line with the provisions contained in Section 5 (1) of the Corporate Governance Directions No. 3 of 2008 of the Central Bank of Sri Lanka for Directors of Finance Companies.

A.D.B.Talwatte will be appointed to the board as an independent non-executive director with effect from 30.06.2016.

#### RECOMMENDATIONS FOR RE-ELECTION

J.D. Bandaranayake retires by rotation in terms of article 105 of the articles of association and being eligible has offered himself for re-election at the forthcoming annual general meeting.

A.D.B.Talwatte retires in terms of article 111 of the articles of association and being eligible has offered himself for re-election at the forthcoming annual general meeting.

The company has obtained the approval of the Central Bank of Sri Lanka for the above mentioned directors nominated for re-appointment in terms of the provisions of the Finance Business Act No. 42 of 2011.

#### LIST OF DIRECTORATES OF SUBSIDIARIES AND ASSOCIATES

Details of the directors of the subsidiaries and associates of the company are given on the pages 145 to 147 of the annual report.

#### BOARD SUB-COMMITTEES

The board of directors of the company has formed the following sub committees;

## Annual Report of the Board of Directors

### AUDIT COMMITTEE

A. N. Fernando (Chairman) - Independent Non-executive Director  
C. L. K. P. Jayasuriya - Non-executive Director  
F. Mohideen - Independent Non-executive Director

The report of the audit committee is given on pages 77 to 78 of the annual report.

### REMUNERATION COMMITTEE

J. D. Bandaranayake (Chairman) - Independent Non-executive Director  
A. N. Fernando - Independent Non-executive Director  
S. C. S. Wickramasinghe - Independent Non-executive Director

The report of the remuneration committee is given on page 75 of the annual report.

### INTEGRATED RISK MANAGEMENT COMMITTEE

A. N. Fernando (Chairman) - Independent Non-executive Director  
J. D. Bandaranayake - Independent Non-executive Director  
C. L. K. P. Jayasuriya - Non-executive Director  
F. Mohideen - Independent Non-executive Director  
E. H. Wijenaikē - Managing Director  
G. S. N. Peiris - Executive Director  
A. K. Gunaratne - Executive Director  
R. E. Rambukwelle - Executive Director  
D. P. de Silva - Executive Director

The report of the integrated risk management committee is given on page 76 of the annual report.

### RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

F. Mohideen (Chairman) - Independent Non-executive Director

A. N. Fernando - Independent Non-executive Director  
J. D. Bandaranayake - Independent Non-executive Director  
E. H. Wijenaikē - Managing Director  
A. K. Gunaratne - Executive Director

The report of the related party transactions review committee is given on page 73 of the annual report.

### INTERESTS REGISTER

The interests register is maintained by the company, as required under the Companies Act No. 07 of 2007. All directors have made declarations as provided for in Section 192 (2) of the Companies Act No. 07 of 2007. The related entries were made in the interests register during the year under review.

### DIRECTORS' INTERESTS IN SHARES

Directors of the company and its subsidiaries who have relevant interest in the shares of the respective companies have

disclosed their shareholdings and any acquisitions/disposals to their respective boards in compliance with Section 200 of the Companies Act. The shareholdings of the directors and their spouses who own shares of the company at the beginning and at the end of the year were as follows:

	31st March 2016	31st March 2015
E. H. Wijenaikē	16,164,123	16,164,123
G. S. N. Peiris	1,828,168	1,828,168
R. E. Rambukwelle	984,906	984,906
A. K. Gunaratne	835,274	835,274
D. P. de Silva	103,850	103,850

### Spouses

A. J. Wijenaikē	3,271,357	3,271,357
I. R. Peiris	445,330	445,330

Given below are the directors' shareholdings in group companies as at 31st March 2016.

### Central Industries PLC

J. D. Bandaranayake	75,500	(31.03.2015 - 75,500)
E. H. Wijenaikē	18,006	(31.03.2015 - 18,006)
G. S. N. Peiris	03	(31.03.2015 - 03)
R.E. Rambukwelle	507	(31.03.2015 - Nil)

### Nations Trust Bank PLC

J. D. Bandaranayake	254,625	(31.03.2015 - 254,625)
E. H. Wijenaikē	10,598	(31.03.2015 - 10,598)
A. K. Gunaratne	19,432	(31.03.2015 - 19,432)
A. N. Fernando	21,100	(31.03.2015 - 21,100)

### Tea Smallholder Factories PLC

E. H. Wijenaikē	10,000	(31.03.2015 - 10,000)
R. E. Rambukwelle	Nil	(31.03.2015 - 4,600)

### Kandy Private Hospitals Ltd.

E. H. Wijenaikē	7,000	(31.03.2015 - 7,000)
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### RELATED PARTY TRANSACTIONS

The directors have disclosed such transactions in terms of Sri Lanka Accounting Standard 24 - Related Party Disclosures, and details of the transactions are given in note 57 to the financial statements forming part of the annual report of the board of directors. The board of directors confirms that there were no related party transactions exceeding 10% of the equity or 5% of the total assets of the company as per audited financial statements, whichever is lower.

### TRANSFER PRICING REGULATIONS

It is certified that the company has complied with the transfer pricing regulations issued under Section 104 of the Inland Revenue Act No. 10 of 2006. The information pursuant to these regulations is given under certificate produced under Section 107 (2) (a) of the said Act. We believe that the transactions entered into with related parties during the period 01.04.2015 to 31.03.2016 are at arm's length and not prejudicial to the interests of the company. The transactions are entered into on the basis of a transfer pricing policy adopted by the company. All transactions have been submitted to the independent auditor for audit and no adverse remarks have been made in their report on the audit of such transactions.

### DIRECTORS' REMUNERATION

Directors' remuneration in respect of the group and the company for the financial year ended 31st March 2016 is given in note 16 to the financial statements.

### APPRAISAL OF BOARD PERFORMANCE

The company has established an annual self-assessment scheme for the appraisal of the board of directors. Responses to the self-assessment questionnaire are evaluated by the chairman and recommendations or concerns are discussed with the board and actions taken where deemed appropriate accordingly.

### DIRECTORS' INTERESTS IN TRANSACTIONS

Directors of the company have made the general disclosures provided for in Section 192 (2) of the Companies Act No. 07 of 2007. Particulars of those transactions are set out on page 144 of the annual report.

### INSURANCE AND INDEMNITY

The company has a directors' and officers' liability insurance policy from Union Assurance General Limited up to a limit of Rs. 350 million.

### CORPORATE GOVERNANCE

The directors place great emphasis on instituting and maintaining effective corporate governance practices and principles in respect of the management and operations of the company. Accordingly, systems and structures have been introduced and improved from time to time to enhance risk management measures and to improve accountability and transparency. The corporate governance report is given on pages 30 to 59 of the annual report.

### INTERNAL CONTROLS

The board has instituted an effective and comprehensive system of internal controls covering financial operations, compliance, control and risk management required to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records.

### DIRECTORS STATEMENT ON INTERNAL CONTROL

The board of directors has issued a report on the internal control mechanism of the company as per Section 10 of the Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka on Corporate Governance. The board has confirmed that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.

The above report is given on page 79 of the annual report. The board has also obtained an assurance report from the external auditor on directors' statement of internal control which is given on page 80 of the annual report.

### ENVIRONMENT

The company has not engaged in any activities detrimental to the environment. The company has used its best efforts to comply with the environmental laws and regulations.

### HUMAN RESOURCES

Employment policies of the company are based on recruiting the best available people, training them to enhance their skills and offering equal career opportunities regardless of gender, race or religion. There were no material issues pertaining to employees and industrial relations pertaining to the company that occurred during the year under review which needs to be disclosed.

### COMPLIANCE WITH LAWS AND REGULATIONS

The company has not engaged in any activities contravening laws and regulations. All officers responsible for ensuring compliance with the provisions of various laws and regulations confirm their compliance to the board on a monthly basis.

### AUDITOR

The audit committee of the company has recommended the re-appointment of Ms/ SJMS Associates, Chartered Accountants as auditor of the company and a resolution relating to their re-appointment and authorising the directors to fix their remuneration as recommended by the audit committee will be proposed at the annual general meeting.

The audit committee reviews the appointment of the auditor, their effectiveness, independence and relationship with the group.

The auditor, Ms/SJMS Associates, was paid Rs. 2.34 million (2014/15 Rs. 2.16 million) as audit fees. In addition, they were paid Rs. 0.38 million (2014/15- Rs. 0.28 million) for permitted non-audit related services.

## Annual Report of the Board of Directors

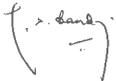
Audits of the group companies are handled by Ms/ SJMS Associates, Ernst & Young and KPMG Ford, Rhodes Thornton & Co. Total fees paid to them during the year for audit and permitted non-audit related services amount to Rs. 1.67 million (2014/15 – Rs. 1.69 million) and Rs. 0.31 million (2014/15 - Rs. 0.25 million) respectively.

The auditors have confirmed that they do not have any relationships with or interests in the company or subsidiaries other than with regard to audit and permitted non-audit services.

### ANNUAL GENERAL MEETING

The fifty eighth annual general meeting of the company will be held at The Grand Kandyan Hotel, No. 89/10, Lady Gordon's Drive, Kandy on 15th July 2016. The relevant notice of meeting is given on page 163.

For and on behalf of the board



**J. D. Bandaranayake**

*Chairman*



**G. S. N. Peiris**

*Director*



**Corporate Services (Pvt) Ltd.**

*Company Secretary*

8th June 2016

# Related Party Transactions Review Committee Report

Related Party Transactions Review Committee (RPTRC) is a board appointed sub-committee. The committee has been established in compliance with the "Code of Best Practices on Related Party Transactions" issued by the Securities and Exchange Commission of Sri Lanka. The objective of the committee is to review all related party transactions other than those transactions explicitly exempted by the Code.

## COMPOSITION OF THE COMMITTEE

The members of the RPTRC are as follows:

F. Mohideen (Chairman) / (Independent Non-executive Director)  
 J.D. Bandaranayake (Independent Non-executive Director)  
 A. N. Fernando (Independent Non-executive Director)  
 E.H. Wijenaikie (Managing Director)  
 A.K. Gunaratne (Executive Director)

## COMMITTEE MEETINGS

The committee met four times in the financial year to review related party transactions for the period. Details of individual member attendance is given on page 59.

## POLICIES AND PROCEDURES ADOPTED BY THE COMMITTEE

- The committee reviews in advance, all related party transactions of the company except those explicitly exempted in the Code.

- The committee ensures that written policies and procedures of the company are in conformity with rules and regulations governing related party transaction. The committee also reviews these policies and procedures on an annual basis or more frequently when need arises.
- The committee ensures that any director or key management personnel who is a related party, does not participate in any discussion of a proposed related party transactions unless such person is requested to do so by the committee for the purpose of providing information concerning the related party transaction.
- The committee also ensures that immediate market disclosure of any related party transaction is made in accordance with the Code to the Colombo Stock Exchange.



**F. Mohideen**

*Chairman*

Related Party Transactions Review Committee  
 Colombo

8th June 2016

## Directors' Responsibility for Financial Reporting

The directors of the company are responsible for the preparation and presentation of the financial statements to the shareholders in accordance with the relevant provisions of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and other statutes which are applicable in the preparation of financial statements. The financial statements comprise of the statement of financial position as at 31.03.2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended together with notes thereto.

The directors confirm that the financial statements of the company and the group give a true and fair view of:

- the state of affairs of the company as at 31st March 2016 and
- the profit or loss of the company and its subsidiaries for the financial year then ended.

The financial statements of the company and its Subsidiaries for the year ended 31st March 2016 incorporated in this report have been prepared in accordance with the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Sri Lanka Accounting Standards (SLFRS / LKAS) and the Listing Rules of the Colombo Stock Exchange and certified by the chief financial officer of the company and signed by two directors as required by the Companies Act No. 07 of 2007.

The directors consider that, in preparing the financial statements exhibited on pages 82 to 143 they have adopted appropriate accounting policies on a consistent basis, supported by reasonable and prudent judgments and estimates.

The directors are responsible for ensuring that the company keeps sufficient accounting records, which disclose the financial position of the company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the company and to prevent and detect frauds and other irregularities. In this regard, the directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the company's business in an orderly manner and to safeguard its assets and ensure as far as practicable the accuracy and reliability of the records.

The directors are of the view that the company and its subsidiaries have adequate resources to continue operations in the foreseeable future and have applied the going concern basis in the preparation of these financial statements.

To the best of the knowledge and belief of the directors, the company's auditor Ms/SJMS Associates has carried out reviews and sample checks on the effectiveness of the system of internal

controls, as they consider appropriate and necessary in providing their opinion on the financial statements. Ms/SJMS Associates has examined the financial statements made available together with all other financial records, minutes of shareholders' and directors' meetings and related information, and have expressed their opinion which appears on page 81 of the annual report.

The board of directors also wishes to confirm that as required by Section 29 of the Finance Business Act No. 42 of 2011, financial statements have been transmitted to the Director, Department of Supervision of Non-bank Financial Institutions of the Central Bank of Sri Lanka, within three months from the closure of the financial year and audited statement of income, audited statement of financial position together with the report of the auditor have also been published in all three languages within three months from the closure of the financial year.

The directors have provided the auditor with every opportunity to carry out any reviews and tests that they consider appropriate and necessary for the discharge of their responsibilities.

Further, as per the provisions of the Guideline No. 01 of 2013 issued by the Central Bank of Sri Lanka, the company has obtained the approval of the Director, Department of Supervision of Non-bank Financial Institutions prior to distribution of dividends to the shareholders during the year. The board of directors confirms that they have authorised distribution of dividends upon being satisfied that the company satisfies the solvency test immediately after such distributions are made in accordance with Section 57 of the Companies Act No. 07 of 2007, and as required by Section 56(2) of the said Companies Act, have obtained solvency certificates from the auditor, prior to authorising interim dividends and recommending a final dividend of Rs. 2.00 per share for this year which is to be approved by the shareholders at the annual general meeting to be held on 15th July 2016.

The directors confirm that, to the best of their knowledge all taxes, levies and financial obligations of the group have been either paid or adequately provided for in the financial statements.

The directors are of the view that they have discharged their responsibilities as set out in this statement.



By order of the board  
**Corporate Services (Pvt) Limited**  
 Company Secretary  
 Colombo.

8th June 2016

# Remuneration Committee Report

The Committee is responsible for setting the company's policy on compensation and benefits and overseeing its implementation. It is also mandated to review significant Human Resources policies that influence company performance. The Committee specifically reviews performance and makes recommendations to the Board in respect of the remuneration of the Chief Executive Officer, Executive Directors and Senior Members of the management as it is designated to consider. The Remuneration Committee, appointed by the board of directors comprises of three Independent Non-executive directors.

## COMMITTEE MEETINGS

The committee met twice in the financial year at which progress on decisions on succession planning made previously as well as proposed approach to salary changes to be effective from April 2016, were reviewed. The decisions of the committee based on the policy and scope outlined were ratified by the Board of directors. Individual committee member attendance at the meetings is given on page 59.

## COMPOSITION

J.D. Bandaranayake (Chairman) / (Independent Non-executive director)

S.C.S. Wickramasinghe (Independent Non-executive director)

A. N. Fernando (Independent Non-executive director)

## POLICY

The policies on compensation and benefits are formulated to ensure that members of the executive management of the company are provided with appropriate compensation to encourage superior performance. The policy is designed to recognise and reward individual contributions based on its impact on the performance of the company and to ensure that the whole basis of rewards is fair and equitable. The policy aims to attract, motivate and retain talent with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the company over the foreseeable future. The company remuneration framework for the Executive Directors and the senior management team is designed to ensure alignment of the long term interests of the company and thereby create and enhance value for all stakeholders of the company.

## SCOPE

The Committee reviews all significant strategic policies and initiatives relating to human resources. The Committee deliberates and recommends to the Board of Directors annual increments, bonuses and incentives of Executive Directors and the senior management team based on individual and corporate performance. The Committee also reviews salary structures and terms and conditions of service to ensure compatibility with the market. The Managing Director (Chief Executive Officer) who is responsible for the overall management of the company attends meetings by invitation and participates in the deliberations except when his own interest, performance and compensation are discussed. This year too, the Committee commissioned a market survey to obtain up-to-date information on remuneration benefits in comparable companies to help fulfill its obligations to determine salary levels of Directors and other senior management staff.

## FEES

All Non-executive directors receive a fee for attendance at Board meetings and serving on Sub-committees. During the year Non-executive fee structure was revised.



**J.D. Bandaranayake**

*Chairman*

Remuneration Committee

Colombo

8th June 2016

# Integrated Risk Management Committee Report

The Integrated Risk Management Committee is a sub-committee of the board of directors established to oversee the risk management aspects of the company. The committee as at the end of the financial year comprised of the following members:

A. N. Fernando – Chairman/Independent Non-executive director  
 J. D. Bandaranayake - Independent Non-executive director  
 F. Mohideen - Independent Non-executive director  
 C. L. K. P. Jayasuriya - Non-executive director

Management representatives:

E. H. Wijenaikē - Managing Director  
 G. S. N. Peiris - Director (Finance)  
 R. E. Rambukwelle - Director (Marketing and Operations)  
 A. K. Gunaratne - Director (Group Co-ordination)  
 D. P. de Silva - Director (Credit)  
 U. B. Elangasinha - General Manager (Finance)  
 I. M. J. B. Illangakoon - General Manager (Branches)  
 S. Ragunathan - General Manager (Internal Audit)  
 B. A. C. K. Jayawardena - General Manager (Recoveries)  
 C. S. Hettiarachchi - General Manager (Legal) (Appointed w.e.f 16th March 2016)  
 K. Kandeepan - Senior Assistant General Manager (Finance)

Brief profiles of the directors representing the committee are given on pages 10 to 11 of the Annual Report.

## TERMS OF REFERENCE

The Terms of Reference set out by the board of directors, include the following;

- the primary responsibility of the committee is to assist the board of directors in understanding and exercising regular oversight on risk identification and management adopted by the management in operating the company's business
- to ensure that the company has a comprehensive risk management framework, appropriate compliance policies and systems in place
- to assess all risk types, including but not limited to credit, market, liquidity, operational and strategic risks of the company through appropriate risk indicators and management information
- to ensure decisions are taken in accordance with established delegated authorities and corrective action is taken to mitigate risks taken beyond the tolerance levels set by the committee, on the basis of company's policies and regulatory and supervisory requirements
- to monitor and assess the effectiveness of the company's risk management system and the robustness of the risk management function
- to periodically assess performance against internally defined risk appetite

The committee determines the adequacy and effectiveness of measures taken by the management in order to ensure that the overall risk of the company conforms to parameters approved by the board.

## EXTERNAL PROFESSIONAL ADVICE

The committee engages an economic research firm to advice on the risks arising from changes in the macroeconomic environment.

## MEETINGS

The committee meets on an approximate quarterly basis and the attendance of the directors at the meetings is given on page 59 of the Annual Report. Only the Non-executive directors carry voting rights. The discussions and conclusions reached at the meetings are recorded in minutes and circulated to the board of directors for information and advice.



**A. N. Fernando**  
 Chairman  
 Integrated Risk Management Committee  
 Colombo

8th June 2016

# Audit Committee Report

## COMMITTEE COMPOSITION

The Audit Committee is comprised of three Non Executive Directors of whom two are Independent Directors. The Committee is chaired by A.N. Fernando, a Fellow Member of the Institute of Chartered Accountants of Sri Lanka with considerable experience in the field of Auditing and Finance.

The members of the Board appointed Audit Committee are:

A. N. Fernando Chairman (IND/NED)

C.L.K.P. Jayasuriya (NED)

F. Mohideen (IND/NED)

(IND-Independent Director, NED-Non-Executive Director)

Brief Profiles of the members are given on pages 10 to 11 of the Annual Report.

The General Manager-Internal Audit functions as Secretary to the Audit Committee.

## COMMITTEE MEETINGS

The Audit Committee met 8 times during the year out of which 3 meetings were held to review the distribution of profits to shareholders. The attendance of the members at Audit Committee Meetings was as follows:

### Formal Audit Committee Meetings

Member	Status	No. of Meetings
A.N. Fernando	IND/NED	5
C.L.K.P. Jayasuriya	NED	5
F. Mohideen	IND/NED	5

Audit Committee Meetings to review the distribution of profits to shareholders

Member	Status	No. of Meetings
A.N. Fernando	IND/NED	3
C.L.K.P. Jayasuriya	NED	3
F. Mohideen	IND/NED	3

The Chairman, Managing Director, Director (Finance), Director (Group Co-ordination), GM (Finance) and other senior management team members also attended these meetings by invitation. On the invitation of the Audit Committee, Company's External Auditor, M/s. SJMS Associates attended 3 Committee meetings during the year. Proceedings of the Audit Committee meetings are reported regularly to the Board of Directors.

## AUDIT COMMITTEE CHARTER

The terms of reference of the Audit Committee are clearly defined in the Audit Committee Charter which is reviewed and revised annually. This process ensures that new developments and concerns are adequately addressed. The functions of the Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal controls, internal audits & external audits.

The Audit Committee Charter was last reviewed in February 2016 with the concurrence of the Board of Directors.

## ROLE OF THE AUDIT COMMITTEE:

The Audit Committee assists the Board of Directors in fulfilling effectively its responsibilities relating to financial and other related affairs of the Company. The Committee has been empowered to:

- Examine internally any matter relating to the financial and other related affairs of the Company
- Make recommendations on matters connected with engagement, re-engagement and removal of external auditors and service period & audit fees. The Committee periodically reviews the independence, objectivity and effectiveness of the audit process in conformity with applicable standards and best practices.
- Monitor and follow-up the Internal and External Audit programmes and plans, review the Internal Audit and External Audit reports and follow up on findings and recommendations.
- Analyse and review risk management measures and examine the adequacy, efficiency and effectiveness of the Internal Control System and procedures in place to avoid or mitigate risks.
- Ensure that efficient and sound financial reporting systems are in place to provide accurate, appropriate and timely information to the Board and other stakeholders.
- Review the quality and appropriateness of Accounting Policies, emerging accounting issues and disclosures according to Sri Lanka Accounting Standards (LKAS) / Sri Lanka Financial Reporting Standards (SLFRS).
- Review the compliance of financial reporting obligations under Colombo Stock Exchange (CSE) listing rules, rules and regulations of Securities Exchange Commission (SEC), Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and other reporting requirements under Central Bank of Sri Lanka (CBSL) regulations.
- Review and recommend Interim and Annual Financial Statements prepared for approval of the Board and submission to shareholders.
- Review the policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.

## Audit Committee Report

### FINANCIAL REPORTING

The Committee assists the Board of Directors to discharge their responsibility for the preparation of the quarterly and annual Financial Statements that portray a true and fair view of the affairs of the Company in accordance with the Company's accounting records and in conformity with the Sri Lanka Accounting Standards, the Sri Lanka Financial Reporting Standards, the Companies Act No. 07 of 2007, Finance Business Act no 42 of 2011, rules and regulations of CSE, SEC and CBSL Directions.

The Committee reviewed the Company's interim and annual financial statements prior to submission to the Board and recommended their issue to shareholders.

The Audit Committee reviewed and certified the profit reconciliation based on SLAS/CBSL directions and LKAS/SLFRS and impact to the prudential ratios with regard to dividend declarations, in compliance with relevant regulations.

The Audit Committee reviewed the internal controls on financial reporting system to ensure the reliability and integrity of information provided. The review included the extent of compliance with LKAS/SLFRS and applicable laws & regulations, review of critical accounting policies and practices and any changes thereto, alternative accounting treatments, going concern assumptions, major judgmental areas and material audit judgments.

### EXTERNAL AUDIT

The Audit Committee is empowered to recommend the appointment of the External Auditor in compliance with the relevant statutes, the service period, Audit fee and any resignation or dismissal of the auditor. The Committee is satisfied that there is no conflict of interests between the Company and the Auditor, other than for the payment of the Auditor's fees. The Committee is thus satisfied that there is no cause to compromise on the independence and objectivity of the Auditor. The Committee reviewed the effectiveness of the audit processes in accordance with applicable standards and best practices. The Audit Committee will ensure that the engagement of an audit partner shall not exceed five years and that the audit partner is not re-engaged for the audit before the expiry of 3 years from the date of the completion of the previous term as per section 8 (2) (c) of Direction No. 3 of 2008 issued under the Finance Business Act no 42 of 2011.

The annual financial statements 2015/16 was reviewed and recommended for the approval of the Board. The External Auditor's Engagement and Management Letters and Management's responses thereto were also reviewed. The Committee also met with the External Auditor at 2 meetings without the presence of MD and other Executive Directors to discuss whether there have been any improprieties, constraints, reservations or any other unsatisfactory matters arising from the audit which the auditor wished to discuss with the Audit Committee.

The Committee assists the Board of Directors in engaging the External Auditor for non-audit services in compliance with the statutes and ensures that engagement in non-audit services does not impair the external auditor's independence and objectivity. Policy on

engagement of the external auditor to provide non audit services had been reviewed and approved in Feb 2016.

### RISKS AND INTERNAL CONTROLS

Audit Committee reviewed the Company operations and monitored the effectiveness of internal controls and procedures and is of the view that adequate controls and procedures are in place to provide reasonable assurance to the Board that the assets of the Company are safeguarded and the financial position is monitored according to information made available.

Additionally, the Committee assessed the effectiveness of the Company's internal controls over financial reporting as at 31/03/2016, as required by Finance Companies (Corporate Governance) Direction 03 of 2008, based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Controls" issued by CA Sri Lanka. The result of the assessment is given on page 80, "Directors' Statement on Internal Control" in the Annual Report.

The External Auditor has issued an Independent Assurance Report on the Director's Statement on Internal Control on page 80.

### INTERNAL AUDIT

The Committee ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. During the year, the Audit Committee reviewed the adequacy of the scope, functions and resources of the internal audit division, the results of the internal audit process and their evaluation of the Company's internal control system. The Audit Committee also reviewed and approved the adequacy of coverage of the internal audit programme.

The Audit Committee, with the concurrence of the Board enlisted the services of a leading firm of Chartered Accountants to supplement the internal audit division in carrying out branch audits.

### REGULATORY COMPLIANCE

The Audit Committee closely scrutinises the compliance of mandatory statutory requirements and systems and procedures in place to ensure the compliance of such requirements.

Audit Committee reviewed the information requirement of Companies Act No 07 of 2007, Finance Business Act No. 42 of 2011 and other reporting requirements under SEC, CSE and CBSL regulations

### COMMITTEE EVALUATION

An annual evaluation of the Committee is carried out by the Board with contributions from individual Committee Members.



**A.N. Fernando**  
Chairman  
Audit Committee  
Colombo

8th June 2016

# Directors' Statement on Internal Control

## RESPONSIBILITY

The board of directors presents this Statement of Internal Control in compliance with paragraph 10 (2) (b) of Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011. The board of directors ("board") is responsible for the adequacy and effectiveness of Central Finance Company PLC's ("the company") System of Internal Controls. Such a system is designed to manage the company's key areas of risk within an acceptable risk profile in achieving the policies and business objectives of the company, rather than eliminating the risk of failure. Accordingly, the System of Internal Controls can only provide reasonable, but not absolute, assurance against material misstatement of management and financial information and records or against financial losses or fraud. The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company and this process includes enhancing the System of Internal Controls as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board. The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the company and in the design, operation and monitoring of suitable Internal Controls to mitigate and control these risks. The board is of the view that the System of Internal Controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

## KEY FEATURES OF THE PROCESS ADOPTED IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

The key processes that have been established in reviewing the adequacy and integrity of the System of Internal Controls in regard to financial reporting include the following:

- sub-committees are established to assist the board in ensuring the effectiveness of the company's daily operations in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved by the board.
- the Internal Audit Division of the company checks for compliance with policies and procedures and the effectiveness of the Internal Control System on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the Internal Audit Division are submitted to the Audit Committee for review at their periodic meetings.
- the Audit Committee of the company reviews Internal Control issues identified by the Internal Audit Division, Regulatory Authorities and Management, and evaluates the adequacy and effectiveness of the Internal Control System. They also review the Internal Audit function with particular emphasis on the quality of audits performed. The minutes of the Audit Committee Meetings are tabled for the information of the board on a periodic basis.
- in assessing the Internal Control System, identified officers of the company collated all procedures and controls that are connected with significant accounts and disclosures in the financial statements. The Internal Audit division checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their audit process.

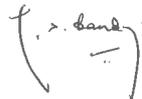
## CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR

The External Auditor has reviewed the above Directors' Statement on Internal Control included in the Annual Report of the company for the year ended 31st March 2016 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control System of the company.

For and on behalf of the board



**J.D. Bandaranayake**  
Chairman



**A.N. Fernando**  
Chairman - Audit Committee



**E. H. Wijenaik**  
Managing Director / Chief Executive Officer  
Colombo

8th June 2016

# Independent Assurance Report

# .SJMS.

A S S O C I A T E S  
Independent Correspondent Firm to  
Deloitte Touche Tohmatsu

SJMS Associates  
Chartered Accountants

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## TO THE BOARD OF DIRECTORS OF CENTRAL FINANCE COMPANY PLC

### INTRODUCTION

We were engaged by the Board of Directors of Central Finance Company PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31st March 2016.

### MANAGEMENT'S RESPONSIBILITY

Management is responsible for the sufficiency and reliability of internal controls in place at the company as specified in the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto ("direction"), and to prepare and present the Statement as required by section 10 (2) (b) in accordance with the direction.

### OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

### SUMMARY OF WORK PERFORMED

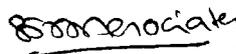
We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

### OUR CONCLUSION

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.



SJMS ASSOCIATES

Chartered Accountants

Colombo

8th June 2016

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, Ms. S. L. Jayasuriya, D. S. W. Andradi,  
G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, R. H. M. Minfaz, Ms. S. Y. Kodagoda

# Independent Auditor's Report

# .SJMS.

**A S S O C I A T E S**  
Independent Correspondent Firm to  
**Deloitte Touche Tohmatsu**

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E-mail: sjmsa@sjmsassociates.com  
Website: www.sjmsassociates.lk

## TO THE SHAREHOLDERS OF CENTRAL FINANCE COMPANY PLC

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Central Finance Company PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31st March 2016, and the statements of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by Board, as well as evaluating the overall presentation of the financial statements.

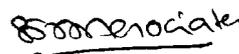
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the group as at 31st March 2016 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other legal and regulatory requirements  
As required by section 163(2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
  - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
  - The financial statements of the Company give a true and fair view of its financial position as at 31st March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act.



**SJMS ASSOCIATES**  
Chartered Accountants  
Colombo

8th June 2016

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, Ms. S. L. Jayasuriya, D. S. W. Andradi,  
G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, R. H. M. Minfaz, Ms. S. Y. Kodagoda

# Consolidated Income Statement

For the year ended 31st March	Notes	Group		Company	
		2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Income	11	16,284,923	15,963,249	13,702,272	13,507,931
Interest income	12	12,624,010	12,463,439	12,608,146	12,474,631
Less: Interest expenses	13	3,682,076	4,104,146	3,700,497	4,135,882
Net interest income		8,941,934	8,359,293	8,907,649	8,338,749
Other revenue	14	2,660,584	2,524,826	-	-
Less: cost of sales		1,792,067	1,761,781	-	-
Gross profit		868,517	763,045	-	-
Other operating income		364,207	334,506	364,345	334,506
Other income	15	636,122	640,478	729,781	698,794
		10,810,780	10,097,322	10,001,775	9,372,049
Less: Operating expenses	16				
Personnel expenses		1,612,796	1,400,778	1,384,429	1,205,644
Premises, equipment and establishment expenses		1,571,905	1,465,794	1,490,756	1,384,068
Employee retirement benefit expenses	17	163,888	149,630	143,488	130,277
Impairment of goodwill		15,925	-	-	-
Other expenses		886,834	678,047	791,410	578,305
		4,251,348	3,694,249	3,810,083	3,298,294
Profit before impairment on loans and other credit losses		6,559,432	6,403,073	6,191,692	6,073,755
Less : Impairment on loans and other credit losses	18	658,347	1,834,150	657,919	1,826,731
		5,901,085	4,568,923	5,533,773	4,247,024
Share of profit of associates	19	815,812	794,608	-	-
Profit before VAT on financial services, NBT and income tax		6,716,897	5,363,531	5,533,773	4,247,024
Less: VAT on financial services and NBT		444,978	240,796	444,287	240,796
<b>Profit before income tax</b>	20	6,271,919	5,122,735	5,089,486	4,006,228
Less: Income tax expense	21	2,169,126	1,387,715	1,755,287	1,003,314
<b>Profit after income tax</b>		4,102,793	3,735,020	3,334,199	3,002,914
Attributable to equity holders of the parent		3,993,671	3,633,279	3,334,199	3,002,914
Attributable to non-controlling interest		109,122	101,741	-	-
<b>Net profit for the year</b>		4,102,793	3,735,020	3,334,199	3,002,914
Basic and diluted earnings per share - Rs.	22	38.08	34.64		
Dividend per share - Rs.	23				
Paid		2.00	3.50		
Proposed		2.00			

The accounting policies and notes from pages 88 to 143 form an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31st March	Group		Company	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
<b>Profit for the year</b>	<b>4,102,793</b>	<b>3,735,020</b>	<b>3,334,199</b>	<b>3,002,914</b>
<b>Other comprehensive income to be reclassified to income statement</b>				
Fair value changes in AFS financial assets				
Equity securities - quoted	(32,212)	59,872	(32,212)	59,872
	(32,212)	59,872	(32,212)	59,872
Add / (less): share of other comprehensive income / (losses) of associates	(97,495)	22,169	-	-
Income tax effect	27,299	(6,207)	-	-
	(70,196)	15,962	-	-
<b>Total other comprehensive income to be reclassified to income statement</b>	<b>(102,408)</b>	<b>75,834</b>	<b>(32,212)</b>	<b>59,872</b>
<b>Other comprehensive income not to be reclassified to income statement</b>				
Actuarial gains / (losses) on defined benefit plans	110,050	(73,815)	94,128	(67,610)
Deferred tax effect on actuarial gains / (losses) on defined benefit plans	(30,872)	20,654	(26,356)	18,931
	79,178	(53,161)	67,772	(48,679)
Add / (less) : share of other comprehensive income / (losses) of associates	8,108	18,271	-	-
Income tax effect	(2,019)	(4,743)	-	-
	6,089	13,528	-	-
<b>Total other comprehensive income not to be reclassified to income statement</b>	<b>85,267</b>	<b>(39,633)</b>	<b>67,772</b>	<b>(48,679)</b>
<b>Other comprehensive income for the year (net of tax)</b>	<b>(17,141)</b>	<b>36,201</b>	<b>35,560</b>	<b>11,193</b>
<b>Total comprehensive income for the year</b>	<b>4,085,652</b>	<b>3,771,221</b>	<b>3,369,759</b>	<b>3,014,107</b>
Attributable to equity holders of the parent	3,975,412	3,670,504	3,369,759	3,014,107
Attributable to non-controlling interest	110,240	100,717	-	-
<b>Total comprehensive income for the year</b>	<b>4,085,652</b>	<b>3,771,221</b>	<b>3,369,759</b>	<b>3,014,107</b>

The accounting policies and notes from pages 88 to 143 form an integral part of these financial statements.

# Consolidated Statement of Financial Position

As at	Notes	Group		Company	
		31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>ASSETS</b>					
Cash in hand and at banks	24	520,603	443,174	463,385	410,005
Fair value through profit or loss financial assets	25	39,992	218,080	33,760	49,600
Tax receivables		1,774	637	-	-
Trade and other receivables	26	1,111,206	1,141,357	361,365	288,894
Equity investments classified as AFS investments	27	234,820	267,024	228,326	260,530
Inventories and other stocks	28	1,191,974	1,611,520	706,605	1,248,495
Securities bought under repurchase agreements	29	2,787,948	2,772,798	2,787,948	2,772,798
Loans and receivables from banks	30	844,425	1,703,947	839,263	1,699,040
Loans and receivables from others		968,679	331,097	465,932	331,097
Loans and receivables from customers	31	4,400,698	3,289,460	4,562,610	3,444,563
Net investment in leases and hire purchase	32	56,045,775	50,174,875	56,031,948	50,132,137
Investments in real estate	34	37,549	41,084	30,874	34,397
Investment property	35	41,250	41,250	-	-
Investments in associates	36	3,537,114	3,167,824	523,458	523,458
Investments in subsidiaries	37	-	-	620,964	640,964
Deferred tax asset	38	11,789	12,869	-	-
Property, plant and equipment	39	5,925,833	5,801,116	4,620,447	4,417,404
Intangible assets	40	106,099	169,678	105,392	168,215
Goodwill		-	15,925	-	-
<b>Total assets</b>		<b>77,807,528</b>	<b>71,203,715</b>	<b>72,382,277</b>	<b>66,421,597</b>
<b>LIABILITIES</b>					
Bank overdrafts		670,937	334,848	666,082	318,320
Tax payables		902,102	338,344	817,715	286,315
Trade and other payables	41	1,553,875	2,404,069	1,195,719	2,091,272
Amounts due to subsidiaries		-	-	172,922	146,280
Derivative financial instruments	42	61	6,927	61	6,927
Short term borrowings	43	1,194,407	668,422	1,194,407	500,322
Public deposits	44	34,299,143	33,448,265	34,483,812	33,742,583
Long term borrowings		-	452,809	-	452,809
Debentures	45	6,638,981	4,859,219	6,638,981	4,859,219
Employee benefit obligations	46	927,335	917,363	818,566	812,875
Deferred tax liability	38	3,276,382	2,658,874	3,210,747	2,590,299
<b>Total liabilities</b>		<b>49,463,223</b>	<b>46,089,140</b>	<b>49,199,012</b>	<b>45,807,221</b>
<b>SHAREHOLDERS' FUNDS</b>					
Stated capital	47	568,420	568,420	568,420	568,420
Capital reserves	48	2,509,879	2,527,454	1,930,651	1,934,604
Reserve fund	49	1,396,000	1,229,000	1,396,000	1,229,000
Available for sale reserve	50	91	102,499	54,325	86,537
Revenue reserves	51	23,014,096	19,891,223	19,233,869	16,795,815
Funds attributable to equity holders of the parent		27,488,486	24,318,596	23,183,265	20,614,376
Non-controlling interest		855,819	795,979	-	-
		28,344,305	25,114,575	23,183,265	20,614,376
<b>Total liabilities, shareholders' funds and non-controlling interest</b>		<b>77,807,528</b>	<b>71,203,715</b>	<b>72,382,277</b>	<b>66,421,597</b>
<b>Net asset value per share - Rs.</b>		<b>262.09</b>	<b>231.86</b>	<b>221.04</b>	<b>196.55</b>

I certify that the financial statements comply with the requirements of the Companies Act No. 07 of 2007.



**U. B. Elangasinha**  
Chief Financial Officer

The board of directors is responsible for the preparation and presentation of these financial statements.  
Approved and signed for and on behalf of the board.



**E.H. Wijenaik**  
Managing Director



**G.S.N. Peiris**  
Director (Finance)

8th June 2016

The accounting policies and notes from pages 88 to 143 form an integral part of these financial statements.

# Statement of Changes in Equity

Group equity statement for the year ended 31st March 2016	Attributable to Equity Holders of the company										Total
	Stated Capital	Capital Revaluation Reserve	Capital Reserves	Reserve Fund	Available for sale Reserve	Investment Fund	General Reserves	Retained Earnings	Non-controlling interest	Total	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Balance as at 1st April 2014	568,420	2,499,770	17,899	1,078,000	26,665	732,716	13,593,420	2,468,783	731,711	21,717,384	
Net profit for the year ended 31st March 2015	-	-	-	-	-	-	-	3,653,279	101,741	3,755,020	
Other comprehensive income	-	15,018	-	-	75,834	-	-	(53,627)	(1,024)	36,201	
<b>Total comprehensive income for the year ended 31st March 2015</b>	-	<b>15,018</b>	-	-	<b>75,834</b>	-	-	<b>3,579,652</b>	<b>100,717</b>	<b>3,771,221</b>	
Depreciation on revaluation surplus	-	(5,233)	-	-	-	-	-	5,233	-	-	
Transfers during the year	-	-	-	151,000	-	(732,716)	3,205,000	(2,623,284)	-	-	
Reserves attributable to non-controlling interest	-	-	-	-	-	-	-	-	31,345	31,345	
Consideration paid for acquisition of non-controlling interest	-	-	-	-	-	-	-	-	(33,092)	(33,092)	
Transactions with the acquired subsidiary	-	-	-	-	-	-	-	(1,955)	1,955	-	
Dividends for the year ended 31st March 2014	-	-	-	-	-	-	-	(246,475)	(36,657)	(283,132)	
Dividends for the year ended 31st March 2015	-	-	-	-	-	-	-	(89,151)	-	(89,151)	
<b>Balance as at 31st March 2015</b>	<b>568,420</b>	<b>2,509,555</b>	<b>17,899</b>	<b>1,229,000</b>	<b>102,499</b>	<b>-</b>	<b>16,798,420</b>	<b>3,092,803</b>	<b>795,979</b>	<b>25,114,575</b>	
Balance as at 1st April 2015	568,420	2,509,555	17,899	1,229,000	102,499	-	16,798,420	3,092,803	795,979	25,114,575	
Super gain tax (note 52)	-	-	-	-	-	-	-	(423,126)	(1,295)	(424,421)	
Net profit for the year ended 31st March 2016	-	-	-	-	-	-	-	3,993,671	109,122	4,102,793	
Other comprehensive income	-	4,876	-	-	(102,408)	-	-	79,273	1,118	(17,141)	
<b>Total comprehensive income for the year ended 31st March 2016</b>	-	<b>4,876</b>	-	-	<b>(102,408)</b>	-	-	<b>4,072,944</b>	<b>110,240</b>	<b>4,085,652</b>	
Transfers during the year	-	-	(17,899)	167,000	-	-	2,437,000	(2,586,101)	-	-	
Depreciation on revaluation surplus	-	(4,552)	-	-	-	-	-	4,552	-	-	
Unclaimed dividends written back	-	-	-	-	-	-	-	428	394	822	
Dividends for the year ended 31st March 2015	-	-	-	-	-	-	-	(277,941)	(49,499)	(327,440)	
Dividends for the year ended 31st March 2016	-	-	-	-	-	-	-	(104,883)	-	(104,883)	
<b>Balance as at 31st March 2016</b>	<b>568,420</b>	<b>2,509,879</b>	-	<b>1,396,000</b>	<b>91</b>	-	<b>19,235,420</b>	<b>3,778,676</b>	<b>855,819</b>	<b>28,344,305</b>	

## Statement of Changes in Equity

Company equity statement for the year ended 31st March 2016		Stated Capital	Revaluation Reserve	Reserve Fund	Available for Sale Reserve	Investment Fund	General Reserve	Retained Earnings	Total
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1st April 2014		568,420	1,938,557	1,078,000	26,665	732,716	13,582,239	9,298	17,935,895
Net profit for the year ended 31st March 2015		-	-	-	-	-	-	3,002,914	3,002,914
Other comprehensive income		-	-	-	59,872	-	-	(48,679)	11,193
<b>Total comprehensive income for the year ended 31st March 2015</b>		-	-	-	59,872	-	-	2,954,235	3,014,107
Depreciation on revaluation surplus		-	(3,953)	-	-	-	-	3,953	-
Transfers during the year		-	-	151,000	-	(732,716)	3,205,000	(2,623,284)	-
Dividends for the year ended 31st March 2014		-	-	-	-	-	-	(246,475)	(246,475)
Dividends for the year ended 31st March 2015		-	-	-	-	-	-	(89,151)	(89,151)
<b>Balance as at 31st March 2015</b>		<b>568,420</b>	<b>1,934,604</b>	<b>1,229,000</b>	<b>86,537</b>	<b>-</b>	<b>16,787,239</b>	<b>8,576</b>	<b>20,614,376</b>
Balance as at 1st April 2015		568,420	1,934,604	1,229,000	86,537	-	16,787,239	8,576	20,614,376
Super gain tax (note 52)		-	-	-	-	-	-	(418,046)	(418,046)
Net profit for the year ended 31st March 2016		-	-	-	-	-	-	3,334,199	3,334,199
Other comprehensive income		-	-	-	(32,212)	-	-	67,772	35,560
<b>Total comprehensive income for the year ended 31st March 2016</b>		-	-	-	(32,212)	-	-	3,401,971	3,369,759
Depreciation on revaluation surplus		-	(3,953)	-	-	-	-	3,953	-
Transfers during the year		-	-	167,000	-	-	2,437,000	(2,604,000)	-
Dividends for the year ended 31st March 2015		-	-	-	-	-	-	(277,941)	(277,941)
Dividends for the year ended 31st March 2016		-	-	-	-	-	-	(104,883)	(104,883)
<b>Balance as at 31st March 2016</b>		<b>568,420</b>	<b>1,930,651</b>	<b>1,396,000</b>	<b>54,325</b>	<b>-</b>	<b>19,224,239</b>	<b>9,630</b>	<b>23,183,265</b>

Figures in brackets indicate deductions.

The accounting policies and notes from pages 88 to 143 form an integral part of these financial statements.

# Cash Flow Statement

For the year ended 31st March	Group		Company	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
<b>Cash flows from operating activities</b>				
Interest receipts	11,713,968	11,105,248	11,706,918	11,118,259
Interest payments	(2,327,047)	(2,393,168)	(2,335,508)	(2,413,916)
Recoveries on bad debts previously written off	158,216	74,947	158,102	74,944
Receipts from other operating activities	5,403,502	5,006,958	454,064	451,475
Cash payments to employees and suppliers	(7,527,151)	(7,076,508)	(3,098,240)	(2,715,383)
<b>Operating profit before changes in operating assets</b>	<b>7,421,488</b>	<b>6,717,477</b>	<b>6,885,336</b>	<b>6,515,379</b>
<b>(Increase) / decrease in operating assets:</b>				
(Investments) /divestments in government securities and receivables from banks maturing after 90 days				
	550,000	630,000	550,000	630,000
Loans to customers	(34,094,076)	(26,405,784)	(34,224,076)	(26,438,784)
Recoveries from customers	27,458,847	23,264,303	27,562,859	23,275,469
Others	(1,773,697)	(1,055,232)	(1,764,492)	(1,050,135)
<b>Increase / (decrease) in operating liabilities:</b>				
Net cash effect on deposits	(24,513)	(309,768)	(126,657)	(341,834)
Net cash from operating activities before income tax	(461,951)	2,840,996	(1,117,030)	2,590,095
Income tax paid	(709,869)	(456,295)	(598,194)	(387,253)
Super gain tax paid	(424,421)	-	(418,046)	-
<b>Net cash inflow / (outflow) from operating activities</b>	<b>(1,596,241)</b>	<b>2,384,701</b>	<b>(2,133,270)</b>	<b>2,202,842</b>
<b>Cash flows from investing activities</b>				
Dividends received from subsidiaries and associates	105,825	106,997	96,121	85,506
Dividends received from other companies	27,087	20,406	20,739	16,457
Acquisition of a subsidiary (net of cash acquired)	-	(331,136)	-	(334,507)
Investments in fixed deposits	(103,500)	-	-	-
Investments in unit trusts	(162,352)	(176,600)	-	-
Investments in debentures	(333,000)	-	-	-
Proceeds on divestment of unit trusts	277,232	17,345	-	-
Purchase of property, plant and equipment	(429,852)	(446,772)	(369,723)	(395,726)
Proceeds from disposal of property, plant and equipment	108,514	123,270	27,239	122,484
<b>Net cash outflow from investing activities</b>	<b>(510,046)</b>	<b>(686,490)</b>	<b>(225,624)</b>	<b>(505,786)</b>
<b>Cash flows from financing activities</b>				
Borrowings	11,760,050	1,445,242	10,980,000	500,000
Repayment of borrowings	(9,754,750)	(1,653,009)	(8,806,600)	(738,000)
Unclaimed dividends written back	714	-	-	-
Dividends paid to equity holders of the parent	(378,889)	(333,829)	(378,889)	(333,829)
Dividends paid to non-controlling interest	(49,499)	(36,657)	-	-
<b>Net cash inflow / (outflow) from financing activities</b>	<b>1,577,626</b>	<b>(578,253)</b>	<b>1,794,511</b>	<b>(571,829)</b>
Net increase / (decrease) in cash and cash equivalents	(528,661)	1,119,958	(564,383)	1,125,227
Cash and cash equivalents at the beginning of the period	3,994,638	2,874,680	3,977,997	2,852,770
<b>Cash and cash equivalents at the end of the period</b>	<b>3,465,977</b>	<b>3,994,638</b>	<b>3,413,614</b>	<b>3,977,997</b>
<b>Analysis of cash and cash equivalents</b>				
Cash in hand and at banks	520,603	443,174	463,385	410,005
Investments in government securities maturing within 90 days	2,787,948	2,772,798	2,787,948	2,772,798
Receivables from banks	844,425	1,703,947	839,263	1,699,040
Effect of amortised interest cost	(12,062)	(36,433)	(10,900)	(35,526)
Receivables from banks maturing after 90 days	(4,000)	(554,000)	-	(550,000)
Bank overdrafts	(670,937)	(334,848)	(666,082)	(318,320)
<b>Cash and cash equivalents at the end of the period</b>	<b>3,465,977</b>	<b>3,994,638</b>	<b>3,413,614</b>	<b>3,977,997</b>

Figures in brackets indicate outflows.

The accounting policies and notes from pages 88 to 143 form an integral part of these financial statements.

# Accounting Policies

## 1. GENERAL INFORMATION

### 1.1 Reporting entity

Central Finance Company PLC is a public limited liability company incorporated on 5th December 1957 and domiciled in Sri Lanka. Its registered office and principal place of business is at 84, Raja Veediya, Kandy. The ordinary shares of the company and the debentures are listed on the Colombo Stock Exchange.

The staff strength of the company as at 31st March 2016 was 1,642 (1,624 as at 31st March 2015).

### 1.2 Consolidated financial statements

The consolidated financial statements of Central Finance Company PLC as at and for the year ended 31st March 2016 comprise of the company (parent company), its subsidiaries (together referred to as the "group") and the group's interests in associates. The consolidated financial statements of all companies in the group other than CF Insurance Brokers (Pvt) Ltd, Nations Trust Bank PLC, and Capital Suisse Asia Ltd., have been prepared for a common financial year, which ends on 31st March. The three companies referred to above have a common financial year ending 31st December.

### 1.3 Parent enterprise

Central Finance Company PLC does not have a parent of its own.

### 1.4 Principal business activities and nature of operations

#### 1.5 Company

The principal business activities of the company are leasing, hire purchase financing, vehicle hire, deposit mobilisation, vehicle trading, and provision of other financial services.

#### 1.5.1 Subsidiaries

Name of the company	Principal business activities
Central Industries PLC	Manufacture and distribution of PVC pipes and fittings
Central Mineral Industries (Pvt) Ltd.	Manufacture of mineral products
Central Construction and Development (Pvt) Ltd.	Investment company
Expanded Plastic Products Ltd.	Investment company
Central Homes (Pvt) Ltd.	Property development and sale of real estate
Mark Marine Services (Pvt) Ltd.	Hydro power generation
Central Developments Ltd.	Investment company
CF Insurance Brokers (Pvt) Ltd.	Insurance broking

Name of the company	Principal business activities
Central Transport and Travels Ltd.	Hiring of vehicles
Hedges Court Residencies (Pvt) Ltd.	Construction and sale of apartments
Dehigama Hotels Company Ltd.	Renting of commercial property
CF Growth Fund Ltd.	Investment company
Kandy Private Hospitals Ltd.	Provision of healthcare services
Isuru Leasing Company Ltd.	Leasing, hire purchase financing, granting of term loans and real estate development

#### 1.5.2 Associates

Name of the company	Principal Business activities
Nations Trust Bank PLC	Licensed commercial bank
Tea Smallholder Factories PLC	Manufacture and sale of black tea
Capital Suisse Asia Ltd.	Investment company

There were no significant changes in the nature of the principal business activities of the company and the group during the financial year under review.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

The consolidated financial statement of the group and the separate financial statements of the company which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement together with Accounting Policies and notes have been prepared and presented in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto and the Finance Business Act No. 42 of 2011 and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

### 2.2 Approval of the consolidated financial statements by the board of directors

The consolidated financial statements as at and for the year ended 31st March 2016 were authorised for issue by the board of directors on 8th June 2016.

### 2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost convention except in respect of the following, which are treated as shown below:

- Land and buildings are measured at cost at the time of acquisition and subsequently measured at revalued amounts
- Investment properties are measured at their fair value
- Quoted investments classified as available for sale securities and held for trading are measured at their fair value
- Derivative financial instruments (fair value hedges) are measured at their fair value
- Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the fair value of the plan assets

### 2.4 Functional and presentation currency

The consolidated financial statements are presented in Sri Lankan Rupees (Rs), which is the currency of the primary economic environment in which group operates (Group's functional currency). All financial information presented in Sri Lankan Rupees has been given to the nearest thousand, unless otherwise stated, as permitted by LKAS 01 – Presentation of Financial Statements.

The information presented in US Dollars on pages 156 and 157 does not form part of the financial statements and is solely for the information of stakeholders.

### 2.5 Presentation of financial statements

The assets and liabilities of the group and the company presented in the statement of financial position are grouped by their nature and listed in an order that reflects their relative liquidity and maturity pattern.

### 2.6 Comparative information

The accounting policies have been consistently applied by the company and the group with those of the previous financial year in accordance with LKAS 01 – Presentation of Financial Statements and the comparative information is reclassified wherever necessary to conform with the current year's presentation.

### 2.7 Materiality and aggregation

In accordance with LKAS 01 - Presentation of Financial Statements, each material class of similar items is presented separately in the financial statements. Items of dissimilar nature of functions are presented separately, where material.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income

and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with Sri Lanka Accounting Standards (SLFRS) requires management to make judgments, estimates, and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances and assumptions based on such knowledge and expectation of future events. Hence, actual experience and results may differ from these judgments and estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods as well, if the revision affects both current and future periods. Information about significant areas of estimates and uncertainty that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

### 3.1 Going concern

In preparing the consolidated financial statements, the directors have made an assessment of the ability of the constituents of the group to continue as going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of trading, taking into account all available information about the future. Therefore, the financial statements continue to be prepared on the going concern basis.

### 3.2 Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax credits to the extent it is probable that taxable profits will be available against which these credits/losses can be utilised. Significant management judgments are required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

### 3.3 Impairment charge on leases, hire purchase, loans and advances

The group assesses at each reporting date or more frequently, to determine whether there is any objective evidence of an impairment charge that should be recorded in the income statement. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. Management judgment is required in the estimation of impairment losses and its timing. These estimation methodologies are based on assumptions concerning a number of factors though actual results may differ, resulting in future changes to the impairment charges so made.

## Accounting Policies

Loans and advances that have been assessed individually as significant and found to be not impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether an impairment provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes into account of data from the loan portfolio, and judgments on the effect of concentrations of risks.

### 3.4 Impairment charges on available for sale financial investments

The company and the group record impairment charges on available for sale equity investments when there is a significant or prolonged decline in fair value below their cost. The company evaluates historical share price movements, duration, and extent to which the fair value of an investment has fallen against its cost in determining the impairment to be charged.

### 3.5 Fair value of property, plant and equipment and investment properties

The fair value of land and buildings are determined based on the valuations carried out by independent valuers. When current market prices of assets of similar nature are available, such evidence is taken into account in determining the fair values of such assets.

### 3.6 Useful lives of property, plant and equipment, investment properties and intangible assets.

The useful lives, residual values and methods of depreciation/amortisation of property, plant and equipment, investment properties and intangible assets are reviewed at each reporting date. Judgment of the management is exercised in the estimation of these values, rates and methods and therefore they are subject to uncertainty.

### 3.7 Impairment losses on property, plant and equipment and intangible assets

The group assesses at each reporting date whether there is an indication of objective evidence of impairment of assets. If any such indication exists, the group makes an estimate of the asset's recoverable amount. This requires the estimation of the value in use of such individual assets. Estimating the value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit, which requires management judgment on expected future cash flows, and discount rates to be used in determining the value in use.

### 3.8 Classification of investment properties

Management judgment is required in determining whether a property qualifies as an investment property. Properties that are held to earn rentals or for capital appreciation or both are accounted for as investment properties. Similarly, a property that is used for operations or for administrative purposes is accounted for as property, plant and equipment. The group carries out annual assessment to determine the accounting classification of its properties taking into account the current use of such properties.

### 3.9 Defined benefit plans

The cost of defined benefit plans and other post-employment benefit plans are determined using actuarial valuations. Actuarial valuation involves making various assumptions, determining discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and their long-term nature, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the management considers the interest rates of Sri Lanka Government Bonds. The mortality rate is based on publicly available mortality tables. Future salary increases is based on expected future inflation rates and expected future salary increase rate of the company.

### 3.10 Derivative financial instruments

Where the fair value of the interest rate SWAP arrangements recorded on the statement of financial position cannot be derived from active markets, they are determined using a valuation technique that includes the use of a mathematical model. Inputs to this model are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish the fair values. The interest rate SWAP reported in the statement of financial position is valued using a mathematical model using average prime lending rate.

### 3.11 Impairment of goodwill

The group estimates the value in use of the cash generating units to which goodwill has been allocated in determining whether goodwill has been impaired. The calculation of value in use requires the entity to estimate the future cash flows expected from the cash generating units and a suitable discount rate.

### 3.12 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position, but are disclosed.

#### 4 BASIS OF CONSOLIDATION

The group financial statements comprises consolidation of the financial statements of the company, its subsidiaries in terms of the Sri Lanka Accounting Standard (SLFRS 10) - Consolidated financial statements and its interests in associates accounted for in terms of the Sri Lanka Accounting Standard (LKAS 28) - Investments in Associates and Joint Ventures.

##### 4.1 Business combinations and goodwill

Acquisitions of businesses are accounted for using the acquisition method as per the requirements of the Sri Lanka Accounting Standard (SLFRS 3) - Business Combinations. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition related costs are expensed as incurred and recognised in the income statement. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or circumstances indicate that the carrying value may be impaired.

##### 4.2 Subsidiaries

Subsidiaries included in the consolidated financial statements are those companies controlled by the group. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if, and only if, the group has:

- Power over the investee
- Exposure or rights to variable returns from its involvement with the investee

- The ability to use its power over the investee to affect its returns

The group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control indicated above. Generally, there is a presumption that a majority of voting rights results in control. When the group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. When the group has less than a majority of the voting rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangements with the other vote holders of the investee and the rights arising from other contractual arrangements.

Central Industries PLC, a quoted public company listed on the Colombo Stock Exchange, is consolidated as a subsidiary company with a group equity investment of 49.98% taking into account the fact that the group possesses power over the investee and is able to decide the variable return of the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the control commences until the control ceases. The profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the parent, directly or indirectly, are disclosed separately as "Non- controlling Interest". Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit.

The consolidated financial statements are prepared to a common financial year ending 31st March. All subsidiaries in the group other than CF Insurance Brokers (Pvt) Ltd., have a common financial year ending 31st March. The financial year end for CF Insurance Brokers (Pvt) Ltd., is 31st December; and hence, adjustments are made based on financial statements drawn up to 31st March.

There are no significant restrictions on the ability of the subsidiaries to transfer funds to the other entities within the group in the form of cash dividends or repayment of loans and advances. All subsidiaries of the group as at the reporting date have been incorporated in Sri Lanka. A list of subsidiaries is given in note 37 to the financial statements and the details of non-controlling interests are given in note 37.2 to the financial statements.

## Accounting Policies

### 4.3 Associates

Associates are those enterprises in which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but no control or joint control over those policies. Investments in associates are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the group's share of gains and losses accounted under the equity method from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its investment in an equity accounted investee, the carrying amount of that interest is derecognised 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. The audited consolidated financial statements of Nations Trust Bank PLC and Capital Suisse Asia Ltd. are drawn up to 31st December; and hence, adjustments are made based on financial statements drawn up to 31st March.

All associate companies of the group are incorporated in Sri Lanka and there are no significant restrictions on the ability of the associates to transfer funds to the group in the form of cash dividends or repayment of loans and advances. A list of associates is given in note 36 to the financial statements.

### 4.4 Transactions eliminated on consolidation

Intra-group transactions and balances, income, expenses and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the group's interest in the associates against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are eliminated only to the extent that there is no evidence of impairment.

## 5 ASSETS AND LIABILITIES, AND BASES OF THEIR VALUATION

### 5.1 Financial instruments - Initial recognition and measurement

#### 5.1.1 Recognition

All financial assets and liabilities are initially recognised on the trade date, the date that the company becomes a party to the contractual provisions of the instrument.

#### 5.1.2 Initial measurement of financial instruments

All financial instruments are initially measured at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the statement of comprehensive income.

### 5.1.3 Classification and subsequent measurement of financial assets

On initial recognition, financial assets are classified into held to maturity investments, financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets.

#### 5.1.3.1 Held to maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the company has the positive intention and ability to hold such investments to maturity. Held to maturity instruments are initially measured at fair value plus directly related transaction costs and subsequently measured at amortised cost using effective interest method less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement. If more than an insignificant amount of held to maturity investments is sold or reclassified before maturity (other than in certain specific circumstances), the entire category of such instruments is reclassified as available-for-sale. Furthermore, any financial asset of such nature will not be classified as held to maturity during the subsequent two-year period from the reclassification date.

#### 5.1.3.2 Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss at the initial recognition.

##### 5.1.3.2.1 Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in other income in the income statement. Dividend income is recorded in other income according to the terms of the contract, or when the right to receive the payment has been established.

Quoted shares and investments in quoted and unquoted unit trusts that have been acquired principally for the purpose of selling in the near term are classified under held for trading investments.

##### 5.1.3.2.2 Financial Assets Designated at Fair Value through Profit or Loss

The group has not designated any financial assets upon initial recognition at fair value through profit or loss as at the reporting date.

### 5.1.3.3 Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value plus directly related transaction costs, and subsequently measured at amortised cost using the effective interest rate method (EIR) less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

### 5.1.3.4 Available for sale financial assets

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. According to this classification, equity investments in quoted and unquoted shares that are not subsidiaries, equity accounted investees (associates) or that have been acquired principally for the purpose of selling in the near term are classified under available for sale financial investments.

#### 5.1.3.4.1 Quoted equities

Quoted shares designated as available for sale financial assets are measured at fair value and any gain or loss on account of subsequent measurement is recognised directly in equity statement through other comprehensive income (OCI) in the available for sale reserve. When the asset is disposed of, gains previously recognised in equity (through OCI) are taken back to the income statement.

#### 5.1.3.4.2 Unquoted securities

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are accounted for at cost less any impairment losses.

## 5.2 Classification and subsequent measurement of financial liabilities

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss (held for trading or designated at fair value through profit or loss) and other financial liabilities at amortised cost.

All financial liabilities are recognised initially on the trade date at fair value, and in the case of loans and borrowings, plus directly attributable transaction costs.

The subsequent measurement of financial liabilities at fair value through profit or loss is based on fair value and other financial liabilities at amortised cost.

### 5.2.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include liabilities classified as held for trading and derivative liabilities and financial liabilities designated upon initial recognition as fair value through profit or loss.

Gains and losses due to changes in fair value are recognised in the income statement.

The group has no financial liabilities recognised at fair value through profit or loss as at the reporting date.

### 5.2.2 Financial liabilities at amortised cost

Financial liabilities not classified as fair value through profit or loss, are classified as amortised cost instruments. These financial liabilities include short term and long term borrowings, public deposits and debentures.

## 5.3 Derivative financial instruments

The company uses interest rate swap arrangements to mitigate its interest rate risks. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried in the statement of financial position as assets or liabilities depending on the fair value of the instrument at the reporting date. Changes in the fair value of the derivative assets/liabilities are recorded in the income statement.

## 5.4 Reclassification of financial instruments

As per Sri Lanka Accounting Standard (LKAS 39 - Financial Instruments: Recognition and Measurement), the group is permitted to reclassify financial instruments out of held for trading category into the available for sale, loans and advances or held to maturity categories.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the available for sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset, that does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reversed to the income statement.

## Accounting Policies

The company may reclassify a non-derivative trading asset out of the held for trading category into the loans and receivables category if it meets the definition of loans and receivables and if the company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis. The company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further the company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as fair value through profit or loss.

### 5.5 De-recognition of financial assets and financial liabilities

#### 5.5.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset has expired.
- the company has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the company has transferred substantially all the risks and rewards of the asset, or
- the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

When the company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

#### 5.5.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the income statement.

#### 5.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 5.7 Impairment of financial assets

The company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets classified as held to maturity, available for sale or loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that co-relate with defaults.

#### 5.7.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, that will be included in a group of financial assets with

similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced with an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued and recorded in interest income on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for measuring the impairment loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a debt written-off is subsequently recovered, the proceeds are shown under recovery of bad debts.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### 5.7.2 Available for sale financial investments

The company assesses at each reporting date whether there is objective evidence that an investment in available for sale securities is impaired. The amount of impairment on unquoted

securities is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows from the investment. Fair value of quoted securities is determined by reference to quoted market prices.

Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income and is recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

### 5.7.3 Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances, treasury bills, and deposits placed with banks, maturing within three months. Bank overdrafts that are repayable on demand are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### 5.7.4 Lease and hire purchase receivables

#### 5.7.4.1 Leases

Assets leased to customers where all the risks and rewards incidental to the ownership other than the legal title are transferred substantially are accounted for as finance leases in accordance with Sri Lanka Accounting Standard (LKAS 17) - Leases, and are reflected in the statement of financial position after deduction of initial rentals received, unearned interest income, and allowances for impairment charges.

#### 5.7.4.2 Hire purchase

Assets hired to customers under hire purchase agreements, which transfer all the risks and rewards incidental to ownership as well as the legal title at the end of such contractual period, are classified as hire purchase receivables. Such assets are accounted for in a manner similar to finance leases.

#### 5.7.4.3 Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at cost less accumulated impairment losses in the financial statements of the company. In the consolidated financial statements, investments in associate companies are accounted under equity method reduced by accumulated impairment losses, if any, and the carrying amount is adjusted for post-acquisition changes in the group's share of net assets of the associates.

Provision for impairment is made, where the decline in value is other than temporary, and such impairment is made for investments individually.

## Accounting Policies

### 5.8 Inventories and other stocks

Inventories are valued at the lower of cost and net realisable value. The cost of raw materials is determined at purchase price including all expenses incurred in sourcing. The cost of work-in-progress is the value of raw material transferred to production. The cost of finished goods includes raw material cost and all direct and indirect expenses incurred in production. Vehicles, spare parts and other stocks are valued at cost or net realisable value whichever is lower. Net realisable value is the estimated selling price less estimated cost of completion and the estimated cost necessary to make the sale. Inventories are regularly assessed for impairment and provisions are made accordingly.

### 5.9 Investments in real estate

Investments in real estate are valued at cost and net realisable value whichever is lower. Net realisable value is the estimated selling price less estimated cost of completion and the estimated cost necessary to make the sale.

### 5.10 Intangible assets

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably in accordance with Sri Lanka Accounting Standard 38 - Intangible Assets. Accordingly, these assets are stated in the statement of financial position at cost less accumulated amortisation and impairment losses, if any. Subsequent expenditure on acquisition and improvement of intangible assets is capitalised only when it increases the standard of performance of these assets, and where future economic benefits embodied in these assets will flow to the company. Intangible assets with finite lives are amortised over their useful lives, and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of the financial year. Computer software, which do not form an integral part of hardware are recognised as intangible assets and are stated at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is charged over a period of five years on a straight-line basis.

### 5.11 Property, plant and equipment

#### 5.11.1 Basis of recognition

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the company and cost of the asset can be reliably measured.

#### 5.11.2 Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure directly attributable to acquisition of the asset and subsequent costs excluding the costs of day-to-day servicing. The cost of self-constructed assets includes the cost of materials, 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 and capitalised borrowing costs.

#### 5.11.3 Cost model

The group applies the cost model to all property, plant and equipment except freehold land and freehold buildings and records them at cost of purchase together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment charges.

#### 5.11.4 Revaluation model

The group applies the revaluation model for the entire class of freehold land and freehold buildings for measurement after initial recognition. Such properties are carried at revalued amounts, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of revaluation.

When an asset is revalued, any increase in the carrying value is recognised in other comprehensive income and accumulated in equity under revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement to the extent of the decrease previously expensed. A decrease in the carrying value arising on the revaluation is recognised in the income statement and any decrease that offsets a previous surplus on the same asset is recognised in other comprehensive income to the extent of any credit balance available in the revaluation surplus in respect of that asset and any excess is recognised as an expense in the income statement. The difference in depreciation based on the revalued carrying amount and cost is transferred from revaluation reserve to retained earnings through equity statement. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

When group companies occupy a significant portion of the investment property of a subsidiary, such investment properties are treated as property, plant and equipment in the consolidated financial statements and accounted for as per Sri Lanka Accounting Standard (LKAS 16 - Property, Plant and Equipment).

### 5.11.5 Subsequent cost

Subsequent expenditure incurred for the purpose of acquiring, extending, or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure and such expenses are recognised in the carrying amount of an asset. The costs associated with day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### 5.11.6 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is recognised in the income statement in the year in which the asset is derecognised.

### 5.11.7 Depreciation

Provision for depreciation is calculated using straight-line method on the cost or other amount substituted for cost of all property, plant and equipment other than freehold land in order to allocate depreciable amounts over the estimated useful lives of such assets. The estimated useful lives of assets are as follows:

Assets category	Years
Freehold buildings	12-40
Furniture & office equipment	10
Motor vehicles and lifts	05
Plant, machinery & other equipment	08
Air conditioners & computer servers	08
Generators	15
Computers	05
Other assets	10

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

### 5.11.8 Operating lease assets

Operating lease assets are classified under property, plant and equipment at cost less accumulated depreciation and impairment losses, if any. Cost of the asset net of residual value is depreciated over the estimated useful life. Residual value is the estimated net amount that the company would expect from disposal of the asset at the end of its estimated useful life and calculated based on the current market prices of the similar classes of vehicles and are subject to annual review.

### 5.11.9 Determination of fair value

Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

All assets and liabilities which are measured or disclosed at fair value in the financial statements are categorised within the fair value hierarchy given below based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.

- Level 01 - quoted market prices in active markets for identical assets or liabilities
- Level 02 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 03 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

#### Level 01

When available, the group measures the fair value of an instrument using quoted market prices in an active market for that instrument. A market is considered as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. Quoted equities and unit trust investments are valued under level 1.

#### Level 02

If a market for a financial instrument is not active, the group establishes fair value using valuation techniques. These include discounted cash flow analysis, effective interest rate calculations, forecasted future cash flow calculations using recent arm's length transactions between knowledgeable and willing parties. These valuation techniques makes maximum use of market inputs, incorporates all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Interest rate SWAPS is valued under this method.

## Accounting Policies

### *Level 03*

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Fair value of such instruments are determined using a valuation model that has been tested against prices or inputs to actual market transactions and best estimates of the most appropriate model assumptions.

There have been no transfers between these levels.

### **5.11.10 Impairment of non- financial assets**

The group assesses at each reporting date whether there is an indication of objective evidence of impairment of assets. If any such indication exists, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is reduced to its recoverable amount. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued, where the revaluation was taken to equity. In this case, the impairment is recognised against the revaluation reserve to the extent that it reverses a previous revaluation surplus. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Previously recognised impairment losses, other than in respect of goodwill, are reversed only if there has been an increase in the recoverable amount of such asset. Such increased carrying amount of an asset attributable to reversal of an impairment loss is recognised only up to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Impairment losses relating to goodwill are not reversed in subsequent periods.

## **5.12 Liabilities and provisions**

### **5.12.1 Public deposits**

Deposits include term deposits accepted under various tenors ranging from one month to five years and savings deposits. These deposits initially recognised at transaction value and subsequently measured at amortised cost using the effective interest rate method.

### **5.12.2 Income tax**

Income tax for the year comprises current tax and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items directly recognised in equity or other comprehensive income.

The liability for current taxation has been computed on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No.10 of 2006 and amendments thereto.

### **5.12.3 Deferred tax**

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply for the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted as at the reporting date. A deferred tax asset is recognised for all deductible temporary differences, carry forward unused tax credits and unused tax losses, only to the extent that it is probable that future taxable profits will be available against which the /asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax arising on items recognised in other comprehensive income and equity is dealt with through other comprehensive income and equity statement respectively.

### **5.12.4 Employee Benefits**

#### ***5.12.4.1 Defined benefit plans***

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The estimation of this liability, determined by an independent, qualified actuary necessarily involves long-term assumptions, which have been disclosed in note 46. The defined benefit obligation is calculated annually using the projected unit credit method. The services of a qualified actuary is obtained once in every 3 years to determine the valuation of the defined benefit obligation for the company as well as those subsidiary companies within the group that adopted the actuarial valuation method in computing the provision required in accordance with Sri Lanka Accounting Standard (LKAS 19) – Employee Benefits. This standard also provides actuarial techniques, which approximates the actuarial valuation, which

has been adopted by the other companies within the group that have not adopted the actuarial valuation method. The projected unit credit method projects the current data using the actuarial assumptions and calculates projected benefits at the participants' assumed retirement date. The key assumptions used in determining the defined benefit obligations are given in note 46.

The defined benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets. Actuarial gains and losses are recognised as income or expenses in the statement of comprehensive income during the financial year in which they arise. The gratuity liability of the parent company is externally funded in part by a gratuity fund established in 1987, with the investments of the fund being mainly in fixed deposits, treasury bills and debentures with approved banks. Gratuity liabilities of the other companies in the group are not externally funded. Provision is made for defined benefit plan liability for all employees from the first year of service in conformity with LKAS 19- Employee Benefits.

The liability of the parent company is computed on the following basis for employees who have joined the company on or before 01.04.2013 while the rest of the employees are entitled for half a month's salary for each completed year of service as per the provisions of the Gratuity Act No.12 of 1983.

Length of service (years)	No of months' salary for each completed year
Up to 15	1/2
15 up to 30	1
30 up to 35	1 1/2
35 up to 40	2
Over 40	2 1/2

However, under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service. Liabilities for the other companies in the group are computed on the basis of half a month's salary for each year of completed service.

#### 5.12.4.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to the Employees' Provident Fund and Employees' Trust Fund covering all employees are recognised as expenses in the income statement as incurred.

#### 5.13 Provisions

In accordance with Sri Lanka Accounting Standard (LKAS 37) - Provisions, Contingent Liabilities and Contingent Assets, recognition of a provision in the statement of financial position is made when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 5.14 Commitments and contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed.

Capital commitments and contingent liabilities as at the date of the statement of financial position are disclosed in the respective notes to the consolidated financial statements. Contingent assets are disclosed where an inflow of economic benefit is probable.

#### 5.15 Earnings per share

The group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### 5.16 Segmental reporting

A segment is a distinguishable component of the group that is engaged in providing an individual product or service (business segment) or in providing 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 Standard (SLFRS 8) - Operating Segments, segmental information is presented for identifiable operative units of the group, classified into seven segments according to the nature of products or services rendered. These business segments comprise of leasing, hire purchase and advances, medical services, power generation, manufacturing, insurance broking, investments and real estate. Performance and operating results of the above business segments are regularly reviewed by the management to make decisions on resource allocation. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## Accounting Policies

### 5.17 Events after the reporting period

All material events after the statement of financial position date have been considered and where appropriate adjustments to or disclosures are made in the consolidated financial statements.

## 6 RECOGNITION OF INCOME AND EXPENSES

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

### 6.1 Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale, and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Interest expenses of the group other than the parent company and subsidiary company Isuru Leasing Company Limited are recognised under other expenses.

The carrying amount of the financial asset or financial liability is adjusted if the group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest and similar income for financial assets and 'interest and similar expense' for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 6.2 Fees and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income are recognised as the related services are performed.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

## 6.3 Income from leases

### 6.3.1 Finance leases

In accordance with Sri Lanka Accounting Standard (LKAS 17) - Leases, income on finance leases is recognised based on a pattern reflecting a constant periodic rate of return on capital outstanding. The excess of aggregate lease rentals receivable over the cost of the leased asset constitutes the total unearned interest income at the commencement of the contract. The unearned interest income is taken into revenue on an accrual basis over the term of the lease commencing from the month in which the first rental is due, in proportion to the reducing capital outstanding balance. Lease receivables are regularly reviewed for impairment and, if impaired, income allocation is revised and the reduction in respect of amounts accrued is recognised immediately.

### 6.3.2 Operating leases

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

### 6.4 Hire purchase

Recognition of interest income from hire purchase facilities is similar to that of leases; where interest income is recognised based on a pattern reflecting a constant periodic rate of return on the capital outstanding. Interest income is taken into revenue on an accrual basis over the term of the contract commencing from the month in which the first rental is due, in proportion to the capital outstanding. Hire purchase receivables are regularly reviewed for impairment and, if impaired, income allocation is revised and the reduction in respect of amounts accrued is recognised immediately.

### 6.5 Interest income on loans and advances

Interest on loans and advances is determined using the effective interest rate method and recognised on accrual basis. Loans and advances are regularly reviewed for impairment and, if impaired, income allocation is revised and the reduction in respect of amounts accrued is recognised immediately.

### 6.6 Overdue interest

Overdue interest on leases, hire purchase, loans, and other advances is recognised on a cash basis.

### 6.7 Interest income on investments in government securities

Interest is computed using effective interest rate method and taken to the income statement on an accrual basis, based on a pattern reflecting a constant periodic rate of return. Interest on

government securities is grossed up with the notional tax credit available under the Inland Revenue Act No. 10 of 2006 and amendments thereto as disclosed in note. 12.2.

#### 6.8 Interest income on deposits with banks

Interest is computed using effective interest rate method and taken to the income statement on an accrual basis.

#### 6.9 Dividend income

Dividend income is recognised in the income statement on the date the group's right to receive payment is established.

#### 6.10 Income on housing projects and real estate income

Income on housing projects and real estate income is recognised on an accrual basis.

#### 6.11 Interest income on rent-purchase facilities for real estate

Rental income on rent-purchase facilities provided on sale of real estate is recognised on an accrual basis.

#### 6.12 Profit or loss on sale of securities

Profit or loss arising from the sale of marketable securities classified into fair value through profit or loss (FVtPL) and available for sale (AFS) categories are accounted for in the income statement on the date of the transaction.

#### 6.13 Profit/loss from sale of property, plant, and equipment

Profit/loss from sale of property, plant, and equipment is recognised in the period in which the sale occurs.

#### 6.14 Expenditure recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earnings of specific items of income. All expenses incurred in the running of the business and in maintaining property, plant and equipment in a state of efficiency are charged to the income statement while interest and other expenses payable are recognised on an accrual basis in accordance with Sri Lanka Accounting Standard (LKAS 23) - Borrowing Costs.

#### 6.15 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction, or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset, in accordance with Sri Lanka Accounting Standard (LKAS 23) - Borrowing Costs.

## 7 SIGNIFICANT ACCOUNTING POLICIES SPECIFIC TO THE BUSINESS OF THE SUBSIDIARIES

### 7.1 Rendering of services

Revenue from energy supplied is recognised upon delivery of energy to Ceylon Electricity Board and delivery of electrical energy is completed when electrical energy meeting the specifications as set out in the Power Purchase Agreement is received at the metering point.

### 7.2 Insurance broking

The commission income of the company is recognised on an accrual basis and matched with related costs and expenses.

### 7.3 Recovery of bad debts

Bad debts recovered are recognised as and when the debts are recovered.

### 7.4 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment properties are initially measured at cost and the fair value model is used for subsequent measurement in accordance with Sri Lanka Accounting Standard (LKAS 40) - Investment Properties. The cost of the investment property comprises of its purchase price and any directly attributable expenditure.

## 8 STATEMENT OF CASH FLOW

The statement of cash flow has been prepared using the direct method in accordance with Sri Lanka Accounting Standard (LKAS 7) - Statement of Cash Flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks, placements with banks maturing within 90 days, and investments in government securities maturing within 90 days.

## 9 NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Accounting Standards that have an effective date in the future and have not yet been applied in preparing the financial statements for the year ended 31st March 2016.

### Sri Lanka Accounting Standard (SLFRS 9) – Financial Instruments: Classification and Measurement

This standard applies to classification and measurement of financial assets and liabilities as defined in LKAS 39. This standard was issued in 2012 and is effective for financial periods beginning from 01st January 2018.

## Accounting Policies

### **Sri Lanka Accounting Standard (SLFRS14) – Regulatory Deferral Accounts**

The scope of this standard is limited to first time adopters of SLFRS that already recognise regulatory deferral account balances in their financial statements. This standard is effective for the annual periods beginning on or after 01st January 2016.

### **Sri Lanka Accounting Standard (SLFRS 15) – Revenue from Contracts with Customers**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard (LKAS 18) - Revenue, Sri Lanka Accounting Standard (LKAS 11) - Construction Contracts and IFRIC 13- Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01st January 2017.

Financial impact of the above standards has not yet been assessed.

## **10 FINANCIAL RISK MANAGEMENT**

The company manages its exposure to the risks integral to its activities through a process of risk identification, analysis, measurement and continuous monitoring. The company is exposed to credit, liquidity, market and operational risks arising out of its activities.

The company's exposure to each of above risk categories and policies, processes and measures taken to manage such risks are given in the Integrated Risk Management Report given on pages 23 to 29.

# Notes to the Financial Statements

	Group		Company	
	2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
<b>11 INCOME</b>				
Interest income (note 12)	12,624,010	12,463,439	12,608,146	12,474,631
Other revenue (note 14)	2,660,584	2,524,826	-	-
Other operating income	364,207	334,506	364,345	334,506
Other income (note 15)	636,122	640,478	729,781	698,794
	<b>16,284,923</b>	<b>15,963,249</b>	<b>13,702,272</b>	<b>13,507,931</b>

## 12 INTEREST INCOME

Leases	8,924,784	7,483,392	8,920,484	7,478,978
Hire purchase	1,853,883	3,170,175	1,850,833	3,166,652
Loans and others	1,489,958	1,370,991	1,488,883	1,391,857
Securities bought under repurchase agreements and receivables from banks	285,748	335,964	285,471	335,610
Held to maturity investments in commercial papers and deposits	37,371	40,240	30,209	38,857
Interest on facilities granted under Investment Fund Account (IFA)	32,266	62,677	32,266	62,677
	<b>12,624,010</b>	<b>12,463,439</b>	<b>12,608,146</b>	<b>12,474,631</b>

12.1 Total interest income is derived only from financial instruments held at amortised cost.

### 12.2 Notional credit for withholding tax on government securities on secondary market transactions

The Inland Revenue Act No 10 of 2006 (as amended), provides that a company which derives interest income from secondary market transactions in government securities would be entitled to a notional tax credit (being one ninth of the interest income), provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, interest income from secondary market transactions in government securities for the year has been grossed up in the financial statements with the value of such notional credit amounting to Rs. 31.05 million (2014/15 - Rs.27.61 million) for the company and the group.

	Group		Company	
	2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
<b>13 INTEREST EXPENSES</b>				
Deposits	2,744,446	3,345,777	2,762,867	3,377,595
Loans and overdrafts	128,106	90,615	128,106	90,612
Fair value changes in SWAPs	-	11,525	-	11,525
Interest on other debt securities	809,524	656,229	809,524	656,150
	<b>3,682,076</b>	<b>4,104,146</b>	<b>3,700,497</b>	<b>4,135,882</b>

Interest expenses of the group other than the parent and subsidiary company, Isuru Leasing Company Ltd. are categorised under other expenses.

## 14 OTHER REVENUE

Manufacturing and trading income	2,247,876	2,114,959	-	-
Insurance broking	242,139	224,072	-	-
Medical services	112,073	99,917	-	-
Power generation	58,496	85,878	-	-
	<b>2,660,584</b>	<b>2,524,826</b>	<b>-</b>	<b>-</b>



**17.2 Amounts recognised in the other comprehensive income**

	Group		Company	
	2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
Gains due to changes in assumptions	133,428	-	119,135	-
Actuarial losses recognised during the year	(23,378)	(73,815)	(25,007)	(67,610)
	110,050	(73,815)	94,128	(67,610)

**18 IMPAIRMENT CHARGES ON LOANS AND OTHER CREDIT LOSSES**

Charge / (reversal) to the income statement on individually significant loans (note 33)	(44,287)	30,353	(41,832)	23,937
Charge / (reversal) to the income statement on individually not significant loans (note 33)	(104,353)	295,742	(103,921)	297,658
	(148,640)	326,095	(145,753)	321,595
Other credit losses	68	46,700	68	46,700
Bad debts written off	38,595	45,200	37,516	44,152
Charge / (reversal) on trade and other receivables	(13,373)	(1,956)	(14,074)	(2,904)
Losses on repossessed vehicles	781,697	1,418,111	780,162	1,417,188
Total impairment charges and other credit losses	658,347	1,834,150	657,919	1,826,731

**Group**

2015/16 Rs.'000	2014/15 Rs.'000
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**19 SHARE OF PROFIT / (LOSS) OF ASSOCIATES**

Nations Trust Bank PLC	809,997	753,992
Tea Smallholder Factories PLC	(6,008)	8,617
Capital Suisse Asia Ltd.	11,823	31,999
	815,812	794,608

**20 GROUP PROFIT (LOSS) BEFORE INCOME TAX**

Central Finance Company PLC	5,089,486	4,006,228
Central Industries PLC	252,880	170,746
Central Developments Ltd.	12,005	9,549
Dehigama Hotels Company Ltd.	28,879	26,353
Central Transport & Travels Ltd.	5,955	15,695
Central Construction & Development (Pvt) Ltd.	(30)	81
Central Homes (Pvt) Ltd.	1,937	2,727
CF Growth Fund Ltd.	24,483	14,765
Expanded Plastic Products (Pvt) Ltd.	1,051	1,282
Central Mineral Industries (Pvt) Ltd.	(1,005)	2,369
Kandy Private Hospitals Ltd.	8,208	16,213
Mark Marine Services (Pvt) Ltd.	34,948	78,845
Hedges Court Residencies (Pvt) Ltd.	(1,808)	(271)
CF Insurance Brokers (Pvt) Ltd.	183,276	159,717
Isuru Leasing Company Ltd.	(3,418)	(13,102)
	5,636,847	4,491,197
Inter-group adjustments	(180,740)	(163,070)
Share of profit of associates	815,812	794,608
	6,271,919	5,122,735

## Notes to the Financial Statements

### 21 INCOME TAX EXPENSE

The provision for the year is made up as follows:

	Group		Company	
	2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
Current tax charge	1,227,280	671,684	1,093,139	572,928
Under-provision of current tax relating to previous years	68,359	1,841	68,056	-
Over-provision of current tax relating to previous years	(382)	(258)	-	-
Dividend tax	2,615	-	-	-
10% Withholding tax on inter-company dividends	16,831	16,090	-	-
Increase in deferred tax liabilities (note 38)	590,223	432,368	594,092	430,386
(Increase) / decrease in deferred tax assets (note 38)	(2,507)	4,509	-	-
Current /deferred tax share of associates	266,707	261,481	-	-
	<b>2,169,126</b>	<b>1,387,715</b>	<b>1,755,287</b>	<b>1,003,314</b>

**21.1** Income tax on profit of the company has been computed at the rate of 28% (2014/15 - 28%) on the taxable income. Group companies other than Kandy Private Hospitals Ltd. and Mark Marine Services (Pvt) Ltd. have computed tax at 28% for the financial year 2015/16 as per the provisions of Inland Revenue Act No.22 of 2011 (2014/15 - 28%). Operating income of Kandy Private Hospitals Ltd. and Mark Marine Services (Pvt) Ltd., are taxed at 12% during 2015/16 while other income was liable at 28%. (2014/15-operating income at 12% and other income at 28%.)

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

	Group		Company	
	2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
Profit (loss) before tax	6,271,919	5,122,735	5,089,486	4,006,228
Losses before tax	6,261	13,373	-	-
Share of results of associates	(815,812)	(794,608)	-	-
Other consolidation adjustments	180,740	163,070	-	-
Accounting profit chargeable for income tax	<b>5,643,108</b>	<b>4,504,570</b>	<b>5,089,486</b>	<b>4,006,228</b>
Tax effect on chargeable profits at 28% and 12% (2014/15-28% & 12%)	1,574,929	1,249,741	1,425,056	1,121,744
Tax effect on allowable credits	(1,129,521)	(1,256,964)	(1,094,899)	(1,217,587)
Tax effect on exempt profits	(72,405)	(93,906)	(47,958)	(71,988)
Tax effect on non- deductible expenses	344,277	263,042	302,788	231,199
Tax effect on gains / (losses) on disposals	512,583	509,560	508,152	509,560
Tax effect on adjustments	795	340	-	-
Tax effect on losses claimed	(3,378)	(129)	-	-
Charged to income statement	<b>1,227,280</b>	<b>671,684</b>	<b>1,093,139</b>	<b>572,928</b>
Under provision for previous years	68,359	1,841	68,056	-
Over provision for previous years	(382)	(258)	-	-
Dividend tax	2,615	-	-	-
Increase / (decrease) in deferred tax liabilities (note 38)	590,223	432,368	594,092	430,386
(Increase) / (decrease) in deferred tax assets (note 38)	(2,507)	4,509	-	-
10% WHT on inter-company dividends	16,831	16,090	-	-
Current/deferred tax share of associates	266,707	261,481	-	-
	<b>2,169,126</b>	<b>1,387,715</b>	<b>1,755,287</b>	<b>1,003,314</b>
Effective tax rate (Excluding deferred taxation)	21.75	14.91	21.48	14.30

**22 EARNINGS PER SHARE**

The calculation of basic and diluted earnings per share is based on the net profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	Group	
	2015/16	2014/15
Profit attributable to equity holders of the parent (Rs.'000)	3,993,671	3,633,279
Number of shares used as denominator ('000)	104,883	104,883
Basic and diluted earnings per share (Rs.)	38.08	34.64

**23 DIVIDENDS**

	Company	
	2015/16	2014/15
<b>Paid:</b>		
First interim Rs.1.00 (2014/15: Rs. 0.85)	104,883	89,151
Second interim Rs.1.00 (2014/15: Rs. 0.85)	104,883	89,151
Final Rs.1.80	-	188,790
<b>Proposed:</b>		
Final Rs.2.00	209,767	-
	419,533	367,092
Dividend per share (Rs.) - Paid and proposed	4.00	3.50

**24 CASH IN HAND AND AT BANKS**

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Cash in hand	352,375	292,971	350,840	290,732
Cash at bank	168,228	150,203	112,545	119,273
	520,603	443,174	463,385	410,005

**25 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS**

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Quoted securities 25.1	34,062	49,876	33,760	49,600
Units 25.2	5,930	168,204	-	-
	39,992	218,080	33,760	49,600

## Notes to the Financial Statements

## 25.1 Investments in quoted securities

	No. of Shares	Cost 31.03.2016 Rs.'000	Market Value 31.03.2016 Rs.'000	Group		
				No. of Shares	Cost 31.03.2015 Rs.'000	Market Value 31.03.2015 Rs.'000
<b>Banks, Finance &amp; Insurance</b>						
National Development Bank PLC	200,000	26,000	33,760	200,000	26,000	49,600
<b>Diversified holdings</b>						
Hemas Holdings PLC	3,750	30	302	3,750	30	276
		26,030	34,062		26,030	49,876

## 25.2 Investments in units

	No. of Units	Cost 31.03.2016 Rs.'000	Market Value 31.03.2016 Rs.'000	Group		
				No. of Units	Cost 31.03.2015 Rs.'000	Market Value 31.03.2015 Rs.'000
<b>Unit Trust</b>						
NDB Wealth Money Plus Fund.	410,587.57	5,526	5,930	12,477,365.31	166,163	168,204

## 26 TRADE &amp; OTHER RECEIVABLES

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Trade & other receivables	1,159,375	1,202,899	372,427	314,030
Provision for impairment	(48,169)	(61,542)	(11,062)	(25,136)
	1,111,206	1,141,357	361,365	288,894

## 27 EQUITY INVESTMENTS CLASSIFIED AS AFS INVESTMENTS

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Quoted equities (27.1)	216,438	248,642	216,438	248,642
Unquoted equities (27.2)	18,382	18,382	11,888	11,888
	234,820	267,024	228,326	260,530

No. of Shares	Company		No. of Shares	Cost 31.03.2015 Rs.'000	Market Value 31.03.2015 Rs.'000
	Cost 31.03.2016 Rs.'000	Market Value 31.03.2016 Rs.'000			
200,000	26,000	33,760	200,000	26,000	49,600
-	-	-	-	-	-
	26,000	33,760		26,000	49,600

## Notes to the Financial Statements

	No. of Shares	Group & Company				
		Cost	Market Value	No. of Shares	Cost	Market Value
		31.03.2016 Rs.'000	31.03.2016 Rs.'000		31.03.2015 Rs.'000	31.03.2015 Rs.'000
<b>27.1 Quoted equities</b>						
<b>Banks, Finance &amp; Insurance</b>						
Commercial Bank of Ceylon PLC	4,268	30	536	4,226	22	699
Sinhaputhra Finance PLC (Preference shares)	200,000	500	1,800	20,000	500	902
		530	2,336		522	1,601
<b>Closed End Funds</b>						
Namal Acuity Value Fund	2,744,900	161,583	214,102	2,744,900	161,583	247,041
		162,113	216,438		162,105	248,642

	No. of Shares	Group				
		Cost	Directors' Valuation	No. of Shares	Cost	Directors' Valuation
		31.03.2016 Rs.'000	31.03.2016 Rs.'000		31.03.2015 Rs.'000	31.03.2015 Rs.'000
<b>27.2 Unquoted equities</b>						
Credit Information Bureau of Sri Lanka. (Rs.100/-)	4,727	637	637	4,727	637	637
Fitch Ratings Lanka Ltd.	62,500	625	625	62,500	625	625
Finance Houses Consortium (Pvt) Ltd.	20,000	200	200	20,000	200	200
Rajawella Holdings (Pvt) Ltd.	54,600	546	-	54,600	546	-
Telshan Network (Pvt) Ltd.	972,000	9,720	-	972,000	9,720	-
Zyrex Power Co Ltd.	1,796,323	16,920	16,920	1,796,323	16,920	16,920
		28,648	18,382		28,648	18,382

Fair value of the above unquoted investments can not be reliably measured as these investments are not being traded in a stock market. Hence, these investments are measured at cost less impairment.

## 28 INVENTORIES AND OTHER STOCKS

	Group		Company	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Vehicles	754,840	1,304,437	753,370	1,295,340
Raw materials	241,781	209,379	-	-
Work - in - progress	14,519	10,390	-	-
Finished goods	168,984	117,201	-	-
Machinery & vehicle spare parts	27,651	28,692	7,235	10,024
Others	20,753	13,917	7,550	5,891
Goods-in-transit	35,710	3,098	-	-
	1,264,238	1,687,114	768,155	1,311,255
Specific provision for stock obsolescence	(72,264)	(75,594)	(61,550)	(62,760)
Net carrying amount	1,191,974	1,611,520	706,605	1,248,495

No. of Shares	Company		No. of Shares	Company	
	Cost 31.03.2016 Rs.'000	Directors' Valuation 31.03.2016 Rs.'000		Cost 31.03.2015 Rs.'000	Directors' Valuation 31.03.2015 Rs.'000
4,727	473	473	4,727	473	473
62,500	625	625	62,500	625	625
20,000	200	200	20,000	200	200
-	-	-	-	-	-
972,000	9,720	-	972,000	9,720	-
1,058,992	10,590	10,590	1,058,992	10,590	10,590
	21,608	11,888		21,608	11,888

## Notes to the Financial Statements

### 28 INVENTORIES AND OTHER STOCKS CONTD.

Inventories recognised as an expense during the year amounted to Rs.103.32 million for the company and Rs. 1,499.46 million for the group (Rs.111.64 million for company and Rs.1,440.05 million for the group in 2014/15).

There were no write down of inventories recognised as an expenses during the financial years 2015/16 and 2014/15 for the company and the group.

No Inventories have been pledged as security for banking facilities during 2015/16 financial year (Rs. 0.69 million in 2014/15 financial year).

Inventories carried at net realisable value as at 31st March 2016 amounted to Rs. 4.31 million for the group and the company (as at 31.03.2015 Rs.3.97 million for the group and the company).

### 29 SECURITIES BOUGHT UNDER REPURCHASE AGREEMENTS

	Group		Company	
	31.03.2016 Rs.' 000	31.03.2015 Rs.' 000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
At amortised cost	2,787,948	2,772,798	2,787,948	2,772,798
	2,787,948	2,772,798	2,787,948	2,772,798

Above investments have maturities within one year.

### 30 LOANS AND RECEIVABLES FROM BANKS

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Deposits with banks at amortised cost	828,114	1,677,635	822,952	1,672,728
Savings deposits	16,311	26,312	16,311	26,312
	844,425	1,703,947	839,263	1,699,040

Above investments have maturities within one year.

### 31 LOANS AND RECEIVABLES FROM CUSTOMERS

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Term loans	3,700,540	2,542,334	3,865,492	2,699,678
Loans against fixed deposits	676,001	734,572	676,001	734,572
Housing and land receivables	19,507	18,527	19,507	18,527
Loans to employees	77,853	66,440	68,251	56,968
	4,473,901	3,361,873	4,629,251	3,509,745
Impairment for individually significant loans	(49,901)	(50,108)	(43,520)	(42,887)
Impairment for individually not significant loans	(6,813)	(5,884)	(6,632)	(5,874)
Other credit losses	(16,489)	(16,421)	(16,489)	(16,421)
	4,400,698	3,289,460	4,562,610	3,444,563
Receivable within one year	2,011,025	1,666,679	2,044,945	1,668,745
Receivable after one year	2,462,876	1,695,194	2,584,306	1,841,000
	4,473,901	3,361,873	4,629,251	3,509,745

**32 NET INVESTMENT IN LEASES & HIRE PURCHASE**

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Lease receivables (note 32.1)	50,364,183	38,437,407	50,350,167	38,406,843
Hire purchase receivables (note 32.2)	6,292,900	12,498,137	6,285,582	12,476,239
	56,657,083	50,935,544	56,635,749	50,883,082
Impairment for individually significant loans	(120,840)	(164,920)	(113,498)	(155,963)
Impairment for individually not significant loans	(490,468)	(595,749)	(490,303)	(594,982)
	56,045,775	50,174,875	56,031,948	50,132,137

**32.1 Lease receivables**

Gross rental receivables	69,331,723	54,122,174	69,316,059	54,085,547
Unearned interest income	(17,543,784)	(13,868,700)	(17,542,365)	(13,862,597)
	51,787,939	40,253,474	51,773,694	40,222,950
Debtors	2,956,926	2,700,012	2,956,926	2,698,099
Pre-paid rentals	(4,380,682)	(4,516,079)	(4,380,453)	(4,514,206)
	50,364,183	38,437,407	50,350,167	38,406,843

**32.2 Hire purchase receivables**

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Gross rental receivable	7,210,656	15,715,596	7,202,087	15,689,919
Unearned interest income	(1,298,524)	(3,544,183)	(1,297,536)	(3,539,699)
	5,912,132	12,171,413	5,904,551	12,150,220
Debtors	941,209	1,186,697	941,209	1,185,639
Pre-paid rentals	(560,441)	(859,973)	(560,178)	(859,620)
	6,292,900	12,498,137	6,285,582	12,476,239

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>Rentals receivable on lease and hire purchase assets</b>				
<b>Not later than one year</b>				
Gross rental receivables	30,413,260	28,670,306	30,398,621	28,635,016
Unearned interest income	(8,954,636)	(8,525,010)	(8,953,539)	(8,517,004)
Pre-paid rentals	(588,252)	(604,151)	(587,927)	(602,960)
	20,870,372	19,541,145	20,857,155	19,515,052
<b>Later than one year and not later than five years</b>				
Gross rentals receivable	49,489,468	44,456,073	49,479,874	44,426,087
Unearned interest income	(9,861,671)	(8,860,918)	(9,860,361)	(8,858,337)
Pre-paid rentals	(4,032,511)	(4,415,118)	(4,032,344)	(4,414,083)
	35,595,286	31,180,037	35,587,169	31,153,667
<b>Later than five years</b>				
Gross rentals receivable	537,786	598,100	537,786	598,101
Unearned interest income	(26,001)	(26,955)	(26,001)	(26,955)
Pre-paid rentals	(320,360)	(356,783)	(320,360)	(356,783)
	191,425	214,362	191,425	214,363
<b>Total receivables on leases and hire purchase</b>	56,657,083	50,935,544	56,635,749	50,883,082

## Notes to the Financial Statements

## 33 MOVEMENT IN IMPAIRMENT FOR LOANS AND OTHER CREDIT LOSSES

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>Movement in provision for individually significant loans</b>				
Balance at the beginning of the year	215,028	174,913	198,850	174,913
Impairment assumed on acquisition of a subsidiary	-	9,762	-	-
Charge / (reversal) to the income statement	(44,287)	30,353	(41,832)	23,937
Balance at the end of the year	170,741	215,028	157,018	198,850
<b>Movement in provision for individually not significant loans</b>				
Balance at the beginning of the year	601,634	303,198	600,856	303,198
Impairment assumed on acquisition of a subsidiary	-	2,694	-	-
Charge/ (reversal) to the income statement	(104,353)	295,742	(103,921)	297,658
Balance at the end of the year	497,281	601,634	496,935	600,856
	668,022	816,662	653,953	799,706
Trade debtors	48,169	61,542	11,062	25,136
Real estate	49,015	49,015	49,015	49,015
Others	16,489	16,421	16,489	16,421
<b>Total impairment</b>	<b>781,695</b>	<b>943,640</b>	<b>730,519</b>	<b>890,278</b>

## 34 INVESTMENTS IN REAL ESTATE

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>(a) Investments in land</b>				
Balance at the beginning of the year	83,083	61,071	76,396	61,071
Additions / transfers during the year	49	15,877	49	15,877
Assets acquired on acquisition of a subsidiary	-	6,697	-	-
Disposals / transfers during the year	(3,584)	(562)	(3,572)	(552)
	79,548	83,083	72,873	76,396
Provision for impairment	(47,770)	(47,770)	(47,770)	(47,770)
Balance at the end of the year	31,778	35,313	25,103	28,626
<b>(b) Investment in housing projects</b>				
Balance at the beginning of the year	7,016	7,016	7,016	7,016
	7,016	7,016	7,016	7,016
Provision for impairment	(1,245)	(1,245)	(1,245)	(1,245)
Balance at the end of the year	5,771	5,771	5,771	5,771
	37,549	41,084	30,874	34,397

No borrowing costs were capitalised during the reported financial years.

## 35 INVESTMENT PROPERTY

	Group	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Balance at the beginning of the year	41,250	-
Asset acquired on acquisition of a subsidiary	-	45,000
Provision for impairment	-	(3,750)
Balance at the end of the year	41,250	41,250

Investment properties are carried at fair value in the statement of financial position. This investment property, situated at Harischandra Mawatha , Anuradhapura, containing 138.97 perches in extent with no buildings, was acquired through the acquisition of subsidiary, Isuru Leasing Company Ltd., and was valued at Rs.45 million as per the valuation carried out at the time of acquisition.

This property was revalued at Rs. 41.25 million as at 31st March 2015 on comparison method by Mr. W. M. H. G. Heenbanda, Incorporated Valuer, who carried out the initial valuation at the time of acquisition of the subsidiary. This revised valuation indicated a decline of Rs. 3.75 million in market value of the property which was duly provided for in the financial statements for the year ended 31st March 2015.

The property was revalued again as at 31st March 2016 on comparison method by the same valuer who has confirmed the prevailing value of Rs. 41.25 million. Accordingly, the board of directors concluded that there was no impairment in investment property during the year ended 31.03.2016.

There were no maintenance costs incurred in respect of investment property.

## Notes to the Financial Statements

## 36 COMPANY'S/GROUP'S INVESTMENTS IN ASSOCIATES

Investor	Investee	% Holding	
		31.03.2016	31.03.2015
	<b>Quoted investments</b>		
Central Finance Company PLC	Tea Smallholder Factories PLC	22.85%	22.85%
	Nations Trust Bank PLC	8.98%	8.98%
	<b>Unquoted investments</b>		
	Capital Suisse Asia Ltd.	16.29%	16.29%
Company investment in associates			
	<b>Quoted investments</b>		
CF Growth Fund Ltd.	Tea Smallholder Factories PLC	6.45%	6.45%
	Nations Trust Bank PLC	6.42%	6.42%
	<b>Unquoted investments</b>		
	Capital Suisse Asia Ltd.	8.29%	8.29%
	<b>Quoted investments</b>		
CF Insurance Brokers (Pvt) Ltd.	Nations Trust Bank PLC	4.60%	4.60%
Group's investment in associates			
<b>Group share of associate companies' retained assets</b>			
Tea Smallholder Factories PLC			
Nations Trust Bank PLC			
Capital Suisse Asia Ltd.			
Group's investment in associates (equity basis)			
		<b>Nations Trust Bank PLC</b>	
		31.03.2016	31.03.2015
		Rs.'000	Rs.'000
Group's investment in associates (at cost)		1,011,053	1,011,053
Group share of associate companies' retained earnings at beginning of the year		1,763,126	1,349,660
<b>For the year ended</b>			
share of profit (loss) of associates (net of tax)		542,699	495,927
Share of other comprehensive income (net of tax)		(68,931)	14,394
Dividends received		(96,855)	(96,855)
		<b>3,151,092</b>	<b>2,774,179</b>

No. of shares		Cost		Market Value/Directors' Valuation	
31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
6,854,814	6,854,814	99,337	99,337	133,669	270,765
20,715,400	20,715,400	394,631	394,631	1,537,083	2,073,612
2,949,003	2,949,000	29,490	29,490	29,490	29,490
		523,458	523,458	1,700,242	2,373,867
1,933,678	1,933,678	30,361	30,361	37,707	76,380
14,813,273	14,813,273	347,615	347,615	1,099,145	1,482,809
1,500,000	1,500,000	15,000	15,000	15,000	15,000
10,592,857	10,592,857	268,807	268,807	785,990	1,060,345
		1,185,241	1,185,241	3,638,084	5,008,401
		166,003	168,133		
		2,140,039	1,763,126		
		45,831	51,324		
		3,537,114	3,167,824		
Tea Smallholder Factories PLC		Capital Suisse Asia Ltd.		Total	
31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
129,698	129,698	44,490	44,490	1,185,241	1,185,241
168,133	151,194	51,324	32,987	1,982,583	1,533,841
(2,567)	10,547	8,973	26,652	549,105	533,126
4,831	15,180	(7)	(84)	(64,107)	29,490
(4,394)	(8,788)	(14,459)	(8,231)	(115,708)	(113,874)
295,701	297,831	90,321	95,814	3,537,114	3,167,824

## Notes to the Financial Statements

## 36.1 Summarised financial information of associates

As at	Nations Trust Bank PLC	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Assets	181,712,744	152,961,412
Liabilities	166,777,810	139,090,530
Non-controlling interest	-	-
Equity	14,934,934	13,870,882
<b>For the year ended</b>		
Revenue	20,910,495	20,590,020
Profit after tax	2,713,495	2,479,633
Other comprehensive income	(344,656)	71,969
Total comprehensive income	2,368,839	2,551,602
Total comprehensive income attributable to equity holders of the company	2,368,839	2,551,602
Total comprehensive income attributable to non-controlling interest	-	-

## 37 GROUP'S/COMPANY'S INVESTMENTS IN SUBSIDIARIES

	Principal business activities	Principal place of business	% Holding Group	
			31.03.2016	31.03.2015
<b>Quoted investments</b>				
Central Industries PLC	Manufacture and distribution of PVC pipes and fittings	Sri Lanka	49.98%	49.98%
<b>Unquoted investments</b>				
Central Developments Ltd.	Investment company	Sri Lanka	99.99%	99.99%
Dehigama Hotels Company Ltd.	Renting of commercial property	Sri Lanka	79.69%	79.69%
Expanded Plastic Products (Pvt) Ltd.	Investment company	Sri Lanka	99.99%	99.99%
Central Mineral Industries (Pvt) Ltd.	Manufacture of mineral products	Sri Lanka	99.99%	99.99%
Central Transport & Travels Ltd.	Hiring of vehicles	Sri Lanka	99.99%	99.99%
Central Construction & Development (Pvt) Ltd.	Investment company	Sri Lanka	99.90%	99.90%
CF Growth Fund Ltd.	Investment company	Sri Lanka	99.99%	99.99%
Kandy Private Hospitals Ltd.	Provision of healthcare services	Sri Lanka	66.58%	66.58%
CF Insurance Brokers (Pvt) Ltd.	Insurance broking	Sri Lanka	99.99%	99.99%
Central Homes (Pvt) Ltd.	Property development and sale of real estate	Sri Lanka	99.99%	99.99%
Mark Marine Services (Pvt) Ltd.	Hydro power generation	Sri Lanka	58.12%	58.12%
Hedges Court Residencies (Pvt) Ltd.	Construction and sale of apartments	Sri Lanka	100.00%	100.00%
Isuru Leasing Company Ltd.	Hire purchase financing, granting of term loans and real estate development	Sri Lanka	100.00%	100.00%
Provision for impairment in investments in subsidiaries				
Net investment in subsidiary companies				

Tea Smallholder Factories PLC		Capital Suisse Asia Ltd.		Total			
31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015		
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000		
1,235,345	1,251,203	551,428	604,929	183,499,517	154,817,544		
324,532	333,117	31,711	29,053	167,134,053	139,452,700		
-	-	152,251	189,022	152,251	189,022		
910,813	918,086	367,466	386,854	16,213,213	15,175,822		
1,912,841	2,517,818	147,692	290,191	22,971,028	23,398,029		
(8,762)	35,999	70,723	197,087	2,775,456	2,712,719		
16,489	51,808	(53)	(623)	(328,220)	123,154		
7,727	87,807	70,670	196,464	2,447,236	2,835,873		
7,727	87,807	36,484	108,090	2,413,050	2,747,499		
-	-	34,186	88,374	34,186	88,374		
% Holding Company		No. of Shares Company		Cost Company		Market Value/ Directors' Valuation	
31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
				Rs.'000	Rs.'000	Rs.'000	Rs.'000
44.06%	44.06%	4,354,500	4,354,500	42,905	42,905	373,616	369,697
39.79%	39.79%	5,289,972	5,289,972	52,900	52,900	52,900	52,900
79.69%	79.69%	659,854	659,854	7,443	7,443	7,443	7,443
40.00%	40.00%	2,559,967	2,559,967	25,600	25,600	24,823	24,389
39.99%	39.99%	139,979	139,979	1,400	1,400	1,400	1,400
39.64%	39.64%	1,169,000	1,169,000	11,690	11,690	11,690	11,690
0.10%	0.10%	5	5	-	-	-	-
39.87%	39.87%	6,500,000	6,500,000	65,000	65,000	65,000	65,000
37.00%	37.00%	203,700	203,700	2,363	2,363	2,363	2,363
40.00%	40.00%	4,949,997	4,949,997	49,500	49,500	49,500	49,500
38.48%	38.48%	1,315,000	1,315,000	13,151	13,151	12,075	11,528
40.00%	40.00%	3,424,477	3,424,477	55,158	55,158	51,752	62,034
40.00%	40.00%	2,000,000	2,000,000	20,000	20,000	-	-
100.00%	100.00%	25,870,676	25,870,676	334,508	334,508	297,531	302,153
				681,618	681,618	950,093	960,097
				(60,654)	(40,654)		
				620,964	640,964		

## Notes to the Financial Statements

## 37.1 Summarised financial information of subsidiaries

	Assets		Liabilities	
	As at		As at	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
Central Industries PLC	1,538,742	1,531,997	286,667	418,887
Central Developments Ltd.	217,494	207,326	359	216
Dehigama Hotels Company Ltd.	339,389	342,707	18,260	17,149
Expanded Plastic Products (Pvt) Ltd.	62,086	61,008	27	34
Central Mineral Industries (Pvt) Ltd.	77,311	88,543	2,345	12,799
Central Transport & Travels Ltd.	75,747	72,734	595	1,924
Central Construction & Development (Pvt) Ltd.	-	-	65	36
CF Growth Fund Ltd.	1,208,127	1,629,865	146,469	168,739
Kandy Private Hospitals Ltd.	366,130	353,334	36,597	29,767
CF Insurance Brokers (Pvt) Ltd.	1,525,872	1,583,254	303,091	226,872
Central Homes (Pvt) Ltd.	31,494	30,194	113	234
Mark Marine Services (Pvt) Ltd.	137,100	165,266	7,721	10,182
Hedges Court Residencies (Pvt) Ltd.	28,526	30,355	184,293	184,263
Isuru Leasing Company Ltd.	303,783	326,051	6,252	23,896

## 37.2 Non-controlling interest (NCI) in subsidiaries

Subsidiary	% of ownership held by NCI as at		% of voting rights held by NCI as at		Share of income of NCI for the year ended		Share of other comprehensive income of NCI for the year ended	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Central Industries PLC	50.02	50.02	50.02	50.02	90,153	65,192	1,248	(992)
Mark Marine Services (Pvt) Ltd.	41.88	41.88	41.88	41.88	12,670	28,664	(130)	(32)
Dehigama Hotels Company Ltd.	20.31	20.31	20.31	20.31	4,221	3,852	-	-
Kandy Private Hospitals Ltd.	33.42	33.42	33.42	33.42	2,078	4,241	-	-
					109,122	101,949	1,118	(1,024)

## 38 DEFERRED TAX ASSETS AND LIABILITIES

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>Deferred tax liability</b>				
At the beginning of the year	2,658,874	2,243,506	2,590,299	2,178,844
Liability assumed on acquisition of a subsidiary	-	2,713	-	-
Transfer from income statement	590,223	432,368	594,092	430,386
Transfer from / (to) statement of other comprehensive income	27,285	(19,713)	26,356	(18,931)
At the end of the year	3,276,382	2,658,874	3,210,747	2,590,299
<b>Deferred tax assets</b>				
At the beginning of the year	12,869	16,437	-	-
Transfer to / (from) income statement	2,507	(4,509)	-	-
Transfer to / (from) statement of other comprehensive income	(3,587)	941	-	-
At the end of the year	11,789	12,869	-	-

Equity As at		Revenue For the year ended		Profit after tax For the year ended		Total comprehensive income For the year ended	
31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
1,252,075	1,113,110	2,234,159	2,086,241	180,233	130,331	182,729	128,347
217,135	207,110	12,201	9,638	10,954	8,323	10,954	8,323
321,129	325,558	32,603	29,638	20,784	18,964	20,784	18,964
62,059	60,974	1,196	1,333	1,083	1,134	1,086	1,224
74,966	75,744	13,717	28,718	(778)	1,663	(778)	1,663
75,152	70,810	1,581	2,376	5,521	11,655	5,521	11,655
(65)	(36)	-	-	(30)	66	(30)	66
1,061,658	1,461,126	41,240	37,574	24,483	14,685	(397,838)	545,316
329,533	323,567	112,073	99,917	6,217	12,689	6,217	12,689
1,222,781	1,356,382	242,139	224,072	143,399	123,254	(121,226)	512,896
31,381	29,960	900	900	1,421	1,937	1,421	1,937
129,379	155,084	58,496	85,878	30,254	68,444	29,942	68,367
(155,767)	(153,908)	-	-	(1,859)	(326)	(1,859)	(326)
297,531	302,155	20,140	11,528	(4,622)	(14,680)	(4,622)	(14,680)

Share of total comprehensive income of NCI for the year ended		Adjustment though equity statement for the year ended		Non-controlling interest (NCI) as at		Dividends paid to NCI for the year ended	
31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
91,401	64,200	357	-	626,287	556,776	22,247	14,832
12,540	28,632	-	-	54,183	64,948	23,305	17,927
4,221	3,852	(1,295)	-	65,219	66,120	3,827	3,784
2,078	4,241	37	-	110,130	108,135	120	114
110,240	100,925	(901)	-	855,819	795,979	49,499	36,657

## Notes to the Financial Statements

## 38.1 Group

	Statement of financial position		Income Statement		Other comprehensive income	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
<b>Deferred tax assets, liabilities and income tax relate to the following:</b>						
<b>Deferred tax liability</b>						
Capital allowances for tax purposes	3,520,550	2,726,055	(794,495)	(459,335)	-	-
Effect due to liability assumed on acquisition of a subsidiary	-	(2,713)	(2,713)	-	-	-
	<b>3,520,550</b>	<b>2,723,342</b>	<b>(797,208)</b>	<b>(459,335)</b>	<b>-</b>	<b>-</b>
Effect due to change in basis of impairment provisions with the adoption of SLFRS / LKAS	-	176,873	176,873	-	-	-
	<b>3,520,550</b>	<b>2,900,215</b>	<b>(620,335)</b>	<b>(459,335)</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets</b>						
Defined benefit plans	(243,724)	(241,341)	29,668	26,967	(27,285)	19,713
Tax losses	(444)	-	444	-	-	-
	<b>(244,168)</b>	<b>(241,341)</b>	<b>30,112</b>	<b>26,967</b>	<b>-</b>	<b>-</b>
Deferred tax income / (expense)			<b>(590,223)</b>	<b>(432,368)</b>	<b>(27,285)</b>	<b>19,713</b>
<b>Net deferred tax liability</b>	<b>3,276,382</b>	<b>2,658,874</b>			<b>-</b>	
	Statement of financial position		Income Statement		Other comprehensive income	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
<b>Deferred tax assets</b>						
Defined benefit plans	11,748	12,869	2,466	(4,486)	(3,587)	941
Carried forward tax losses	41	-	41	(23)	-	-
	<b>11,789</b>	<b>12,869</b>	<b>2,507</b>	<b>(4,509)</b>	<b>(3,587)</b>	<b>941</b>
Deferred tax income / (expense)			<b>2,507</b>	<b>(4,509)</b>	<b>(3,587)</b>	<b>941</b>
<b>Total charged to income statement / statement of other comprehensive income</b>			<b>(587,716)</b>	<b>(436,877)</b>	<b>(30,872)</b>	<b>20,654</b>

## 38.2 Company

	Statement of financial position		Income Statement		Other comprehensive income	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	2015/16 Rs. '000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
<b>Deferred tax assets, liabilities and income tax relate to the following:</b>						
<b>Deferred tax liability</b>						
Capital allowances for tax purposes	3,439,945	2,641,031	(798,914)	(455,662)	-	-
Effect due to change in basis of impairment provisions with the adoption of SLFRS / LKAS	-	176,873	176,873	-	-	-
	<b>3,439,945</b>	<b>2,817,904</b>	<b>(622,041)</b>	<b>(455,662)</b>		
<b>Deferred tax assets</b>						
Defined benefit plans	(229,198)	(227,605)	27,949	25,276	(26,356)	18,931
Deferred tax income / (expense)			(594,092)	(430,386)	(26,356)	18,931
<b>Net deferred tax liability</b>	<b>3,210,747</b>	<b>2,590,299</b>				

## 39 PROPERTY, PLANT AND EQUIPMENT

Group	Land and Buildings	Furniture and office equipment	Motor vehicles & lifts	Plant, machinery and other equipment	Total 31.03.2016	Total 31.03.2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cost/valuation</b>						
At the beginning of the year	3,776,123	280,464	2,134,833	1,434,268	7,625,688	7,147,225
Assets acquired on acquisition of a subsidiary	-	-	-	-	-	218,232
Additions / transfers	12,520	20,745	481,920	186,424	701,609	622,784
Impairment / write off	(4,382)	(978)	-	(20,747)	(26,107)	-
Disposals / transfers	(86,718)	(13,187)	(185,795)	(26,939)	(312,639)	(362,552)
At the end of the year	<b>3,697,543</b>	<b>287,044</b>	<b>2,430,958</b>	<b>1,573,006</b>	<b>7,988,551</b>	<b>7,625,689</b>
<b>Accumulated depreciation</b>						
At the beginning of the year	23,502	160,242	839,068	922,813	1,945,625	1,771,087
Accumulated depreciation assumed on acquisition of a subsidiary	-	-	-	-	-	13,574
Charge / transfers during the year	21,438	24,382	315,577	120,885	482,282	386,628
On Impairment / write off	-	(978)	(6,110)	(11,146)	(18,234)	-
On disposals / transfers	(412)	(10,651)	(124,063)	(23,222)	(158,348)	(225,663)
At end of the year	<b>44,528</b>	<b>172,995</b>	<b>1,024,472</b>	<b>1,009,330</b>	<b>2,251,325</b>	<b>1,945,626</b>
<b>Net book value</b>	<b>3,653,015</b>	<b>114,049</b>	<b>1,406,486</b>	<b>563,676</b>	<b>5,737,226</b>	<b>5,680,063</b>
Capital work-in-progress					188,607	121,053
<b>Carrying amount at the end of the year</b>					<b>5,925,833</b>	<b>5,801,116</b>

## Notes to the Financial Statements

Company	Land and Buildings	Furniture and office equipment	Motor vehicles & lifts	Plant, machinery and other equipment	Total 31.03.2016	Total 31.03.2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cost / valuation</b>						
At the beginning of the year	2,617,882	236,888	2,085,025	719,770	5,659,565	5,434,360
Additions / transfers	506	20,024	478,985	144,906	644,421	557,411
Disposals / transfers	(7,282)	(6,458)	(179,445)	(15,502)	(208,687)	(332,206)
At the end of the year	2,611,106	250,454	2,384,565	849,174	6,095,299	5,659,565
<b>Accumulated depreciation</b>						
At the beginning of the year	13,730	135,346	808,691	399,980	1,357,747	1,224,768
Charge / transfers during the year	10,825	22,473	304,975	87,215	425,488	330,071
On disposals / transfers	(1)	(5,372)	(117,825)	(14,755)	(137,953)	(197,092)
At the end of the year	24,554	152,447	995,841	472,440	1,645,282	1,357,747
<b>Net book value</b>	<b>2,586,552</b>	<b>98,007</b>	<b>1,388,724</b>	<b>376,734</b>	<b>4,450,017</b>	<b>4,301,818</b>
Capital work-in-progress					170,430	115,586
<b>Carrying amount at the end of the year</b>					<b>4,620,447</b>	<b>4,417,404</b>

## Information on the freehold land and buildings of the company and the group as at 31.03.2016

Location/Address	Extent (Perches)	Cost / revaluation of land Rs.'000	Cost / revaluation of buildings Rs.'000	Total value Rs.'000	Accumulated depreciation Rs.'000	Net book value Rs.'000
<b>Central Finance Company PLC</b>						
<b>City Office</b>						
No.270, Vauxhall Street, Colombo 02.	117.32	320,500	105,500	426,000	5,275	420,725
No.244, Vauxhall Street, Colombo 02.	13.21	40,000	32,000	72,000	1,600	70,400
<b>Branches</b>						
No.62, Maithripala Senanayake Mawatha, Anuradhapura.	40.20	50,250	39,037	89,287	2,928	86,359
No.367, Main Street, Negombo.	29.00	43,500	6,500	50,000	372	49,628
No.38, Mihindu Mawatha, Kurunegala.	54.63	97,350	2,650	100,000	152	99,848
No.04, Udaya Raja Mawatha, Badulla.	26.90	36,800	4,200	41,000	240	40,760
No.78, Kumarathunga Mawatha, Matara.	125.25	145,200	6,800	152,000	389	151,611
No.23, Kurunegala Road, Dambulla.	21.00	20,000	5,000	25,000	250	24,750
No.143, Colombo Road, Moragahayata, Ratnapura.	46.00	81,300	6,383	87,683	360	87,323
No.312, Highlevel Road, Nugegoda.	15.70	47,000	25,000	72,000	1,250	70,750
No.215, Maradana Road, Colombo 10.	39.37	135,946	26,176	162,122	3,257	158,865
<b>Showroom</b>						
No.254, 254/1, Katugastota Road, Kandy.	85.93	92,350	35,150	127,500	1,756	125,744
<b>Vehicle Yards</b>						
No.249, Katugastota Road, Kandy.	165.38	221,500	5,500	227,000	315	226,685
No.313, Koholwila Road, Kelaniya.	348.50	36,500	11,500	48,000	1,279	46,721
Batalahenawatte Road, Gonawala, Kelaniya.	189.05	23,750	933	24,683	66	24,617
No.258/3, Katugastota Road, Kandy.	45.93	52,000	-	52,000	-	52,000
No.210, Siri Dhamma Mawatha, Colombo 10.	121.45	173,575	22,350	195,925	1,788	194,137
No.313, Madawala Road, Katugastota.	167.43	120,000	1,000	121,000	167	120,833
Kirindiwela Road, Pugoda.	1,600.00	21,200	3,506	24,706	503	24,203
<b>Other properties</b>						
No.268, Vauxhall Street, Colombo 02.	21.67	65,000	-	65,000	-	65,000
Sarasavigama Road, Hindagala.	1,283.83	10,450	-	10,450	-	10,450
Hekiththa Road, Wattala.	375.00	55,000	-	55,000	-	55,000
<b>Bungalows</b>						
No.8, Sukhastan Gardens, Ward Place, Colombo 7.	38.14	76,000	14,000	90,000	700	89,300
No.25, Sri Rahula Road, Nuwaraeliya.	194.00	106,600	13,400	120,000	670	119,330
Indibedda, Moratuwa.	251.10	75,250	24,750	100,000	1,237	98,763
<b>Car Parks</b>						
Yatinuwara Veediya, Kandy.	14.00	42,000	-	42,000	-	42,000
No.267 & 269, Vauxhall Street, Colombo 02.	10.26	30,750	-	30,750	-	30,750
<b>Total for the company</b>		<b>2,219,771</b>	<b>391,335</b>	<b>2,611,106</b>	<b>24,554</b>	<b>2,586,552</b>

## Notes to the Financial Statements

Group companies Location/Address	Extent (Perches)	Cost / revaluation of land Rs.'000	Cost / revaluation of buildings Rs.'000	Total value Rs.'000	Accumulated depreciation Rs.'000	Net book value Rs.'000
<b>Dehigama Hotels Company Ltd.</b>						
No.84, Raja Veediya, Kandy.	85.00	244,000	86,000	330,000	4,951	325,049
<b>Kandy Private Hospitals Ltd.</b>						
No.35, Dr. C.D.L.Fernando Mawatha, Mahaiyawa, Kandy.	127.25	112,900	44,100	157,000	2,520	154,480
No. 35/178 & 35/178/1/1, Dr. CD.L.Fernando Mawatha, Mahaiyawa, Kandy.	38.10	35,600	24,414	60,014	1,158	58,856
Kirillagodawatta.	10.00	10,000	-	10,000	-	10,000
<b>Central Mineral Industries (Pvt) Ltd.</b>						
Diganatenna Estate, Gonawala, Rajawella, Digana.	1,916.25	63,100	2,900	66,000	387	65,613
<b>Central Industries PLC</b>						
<b>Factory</b>						
No.195/4, Kerawalapitiya Road, Hendala, Wattala.	522.10	130,525	70,839	201,364	6,222	195,142
Udathuthripitiya, Yakkala	1,440.00	36,862	28,655	65,517	1,466	64,051
<b>Head office</b>						
No.312, Nawala Road, Rajagiriya.	18.00	40,000	45,360	85,360	2,720	82,640
<b>Isuru Leasing Company Limited</b>						
218, Colombo Street, Kandy.	1.94	22,400	11,600	34,000	359	33,641
326, D.S.Senanayaka Veediya, Kandy.	10.90	65,400	4,600	70,000	191	69,809
Hantana, Bowalawatta.	52.30	7,182	-	7,182	-	7,182
<b>Total for the group</b>		<b>2,987,740</b>	<b>709,803</b>	<b>3,697,543</b>	<b>44,528</b>	<b>3,653,015</b>

	Group		Company	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
No. of buildings owned by the group and company	46	47	22	22

### Revaluations

Freehold land and buildings of the group are revalued regularly to ensure that the carrying amounts do not differ materially from the fair values of such properties. The freehold land and buildings of the company and the subsidiaries, Kandy Private Hospitals Ltd., Dehigama Hotels Company Ltd., Central Mineral Industries (Pvt) Ltd. were revalued in March 2014 by Mr. W. Panditharathna, an Independent, Qualified Valuer / Licensed Surveyor resulting in the carrying amounts being written up by Rs. 988.29 million and Rs. 1,280.49 million respectively. Valuation for subsidiary, Central Industries PLC was carried out by Mr. L. D. S. Rangedara, an independent Valuer / Valuer of Real Estate. The valuations were carried out under the "Comparison" and "Contractor's" methods on the basis that the land and buildings are of freehold ownership and are free from any restrictions in regard to title.

The details of the above revaluations are given below:

Location/Address		Valuation method	Net book value before revaluation Rs.'000	Revalued amount Rs.'000	Revaluation surplus Rs.'000
<b>Central Finance Company PLC</b>					
<b>Office</b>					
No.270, Vauxhall Street, Colombo 02.	Land	Comparison	204,613	320,500	115,887
	Building	Contractor's	91,608	105,500	13,892
No.244,Vauxhall Street, Colombo 02.	Land	Comparison	20,760	40,000	19,240
	Building	Contractor's	16,932	32,000	15,068
<b>Branches</b>					
No.62, Maithripala Senanayake Mawatha, Anuradhapura.	Land	Comparison	24,306	50,250	25,944
No.367, Main Street, Negombo.	Land	Comparison	24,239	43,500	19,261
	Building	Contractor's	3,884	6,500	2,616
No.38, Mihindu Mawatha, Kurunegala.	Land	Comparison	34,700	97,350	62,650
	Building	Contractor's	2,439	2,650	211
No.04, Udaya Raja Mawatha, Badulla.	Land	Comparison	16,692	36,800	20,108
	Building	Contractor's	2,625	4,200	1,575
No.78, Kumarathunga Mawatha, Matara.	Land	Comparison	83,769	145,200	61,431
	Building	Contractor's	3,573	6,800	3,227
No.143, Colombo Road Moragahayata, Ratnapura.	Land	Comparison	18,281	81,300	63,019
	Building	Contractor's	5,347	6,200	853
No.312, Highlevel Road, Nugegoda.	Land	Comparison	27,075	47,000	19,925
	Building	Contractor's	15,806	25,000	9,194
No.21, Kurunegala Road, Dambulla.	Land	Comparison	1,777	20,000	18,223
	Building	Contractor's	4,084	5,000	916
<b>Showrooms</b>					
No.254, Katugastota Road, Kandy.	Land	Comparison	69,000	92,350	23,350
	Building	Contractor's	30,079	35,150	5,071
<b>Vehicle Yards</b>					
No.249, Katugastota Road, Kandy.	Land	Comparison	114,239	221,500	107,261
	Building	Contractor's	2,123	5,500	3,377
No.313, Koholwila Road, Kelaniya.	Land	Comparison	17,636	36,500	18,864
	Building	Contractor's	4,992	11,500	6,508
Batalahenawatte Road, Gonawala, Kelaniya.	Land	Comparison	7,946	23,750	15,804
	Building	Contractor's	179	250	71
No.210, Siri Dhamma Mawatha, Colombo 10.	Land	Comparison	158,120	173,575	15,455
	Building	Contractor's	16,235	22,350	6,115
No.313, Madawala Road, Katugastota.	Land	Comparison	30,100	120,000	89,900
	Building	Contractor's	742	1,000	258
No.258/3, Katugastota Road, Kandy.	Land	Comparison	22,750	52,000	29,250
Kirindiwela Road, Pugoda.	Land	Comparison	17,622	21,200	3,578
	Building	Contractor's	1,998	3,000	1,002
<b>Other properties</b>					
No.268, Vauxhall Street, Colombo 02.	Land	Comparison	31,770	65,000	33,230
Pahathgama Cross Road, Hanwellla.	Land	Comparison	4,106	7,200	3,094
Sarasavigama Road, Hindagala.	Land	Comparison	9,958	10,450	492
Hekiththa Road, Wattala.	Land	Comparison	36,135	55,000	18,865

## Notes to the Financial Statements

Location/Address		Valuation method	Net book value before revaluation Rs.'000	Revalued amount Rs.'000	Revaluation surplus Rs.'000
<b>Bungalows</b>					
No.8, Sukhastan Gardens, Ward Place, Colombo 7.	Land	Comparison	66,642	76,000	9,358
	Building	Contractor's	11,059	14,000	2,941
No.25, Sri Rahula Road, Nuwaraeliya.	Land	Comparison	67,908	106,600	38,692
	Building	Contractor's	9,949	13,400	3,451
Indibedda, Moratuwa.	Land	Comparison	37,562	75,250	37,688
	Building	Contractor's	26,775	24,750	(2,025)
<b>Car Parks</b>					
Yatinuwara Veediya, Kandy.	Land	Comparison	14,000	42,000	28,000
No.267 &269, Vauxhall Street, Colombo 02.	Land	Comparison	15,350	30,750	15,400
<b>Sub total</b>	Land		1,177,056	2,091,025	913,969
	Building		250,429	324,750	74,321
<b>Total for the company</b>			1,427,485	2,415,775	988,290
<b>Kandy Private Hospitals Ltd.</b>					
No.35, Dr. C.D.L.Fernando Mawatha, Mahaiyawa, Kandy.	Land	Comparison	71,500	112,900	41,400
	Building	Contractor's	30,027	44,100	14,073
No.35/178 & 35/178/1/1, Dr. C.D.L.Fernando Mawatha, Mahaiyawa, Kandy.	Land	Comparison	17,500	35,600	18,100
	Building	Contractor's	5,146	12,400	7,254
Kirillagodawatta.	Land	Comparison	-	10,000	10,000
<b>Central Mineral Industries (Pvt) Ltd.</b>					
Diganatenna Estate, Gonawala, Rajawella, Digana.	Land	Comparison	30,774	63,100	32,326
	Building	Contractor's	2,359	2,900	541
<b>Central Industries PLC</b>					
<b>Factory</b>					
Kerawalapitiya.	Land	Comparison	130,525	130,525	-
	Building	Contractor's	54,593	70,836	16,243
Udathuthiripitiya, Yakkala.	Land	Comparison	31,074	36,862	5,788
	Building	Contractor's	27,543	28,655	1,112
<b>Head office</b>					
No. 312 Nawala Road Rajagiriya.	Land	Comparison	36,000	40,000	4,000
	Building	Contractor's	39,550	44,950	5,400
<b>Dehigama Hotels Company Ltd.</b>					
No.84, Raja Veediya, Kandy.	Land	Comparison	125,000	244,000	119,000
	Building	Contractor's	69,032	86,000	16,968
<b>Total for the group</b>	Land		1,619,429	2,764,012	1,144,583
	Building		478,679	614,591	135,912
			2,098,108	3,378,603	1,280,495

Where properties have fallen in value, the decreases have been charged against revaluation reserve to the extent that it was credited previously and any decrease beyond such value was charged to the income statement during the year of such revaluations.

The carrying value of freehold land and buildings of the group, if carried at cost less accumulated depreciation and impairment, would amount to Rs. 999.43 million as at 31st March 2016 (31st March 2015 Rs. 1,053.23 million).

The cost of fully depreciated assets of the group and company amounted to Rs 1,006.65 million and Rs. 872.70 million respectively as at 31.03.2016 (group Rs. 669.47 million and company Rs. 516.73 million as at 31st March 2015).

The carrying value of land and buildings pledged as security for banking facilities obtained amounts to Rs. 750.72 million and Rs. 420.72 million for the group and company as at 31.03.2016 respectively (group - Rs. 753.58 million and company Rs. 423.36 million as at 31.03.2015).

There were no temporary idle property, plant and equipment as at 31.03.2016.

There were no property, plant and equipment retired from active use as at 31.03.2016.

There were no capitalised borrowing costs related to acquisition of property, plant and equipment during the financial year 2015/16 (2014/15 - Nil).

There were no restrictions on the title of property, plant and equipment of the group as at the year end.

No compensation was received or due from third parties for items of property, plant and equipment that were impaired, lost or given up.

#### Movement of capital work-in-progress

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Balance at the beginning of the year	121,053	91,166	115,586	91,047
Additions during the year	73,167	39,419	54,844	32,124
Transfer to property, plant and equipment	(5,613)	(9,532)	-	(7,585)
<b>Balance at the end of the year</b>	<b>188,607</b>	<b>121,053</b>	<b>170,430</b>	<b>115,586</b>

#### 40 INTANGIBLE ASSETS

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>Computer software at cost</b>				
At the beginning of the year	309,742	139,907	304,908	136,300
Additions	52,547	168,803	52,516	168,608
Assets acquired on acquisition of a subsidiary	-	1,032	-	-
Transfers	(98,820)		(98,820)	
At the end of the year	<b>263,469</b>	<b>309,742</b>	<b>258,604</b>	<b>304,908</b>
<b>Amortisation</b>				
At the beginning of the year	(140,064)	(112,000)	(136,693)	(109,705)
Charge for the year	(23,894)	(28,064)	(23,107)	(26,988)
On transfers	6,588	-	6,588	
At the end of the year	<b>(157,370)</b>	<b>(140,064)</b>	<b>(153,212)</b>	<b>(136,693)</b>
<b>Carrying amount</b>				
At the beginning of the year	169,678	27,907	168,215	26,595
At the end of the year	<b>106,099</b>	<b>169,678</b>	<b>105,392</b>	<b>168,215</b>

The cost of fully depreciated intangible assets of the group and company currently in use as at 31.03.2016 amounted to Rs.115.77 million and Rs.114.53 million respectively (group - Rs. 99.30 million and company Rs. 97.72 million as at 31.03.2015).

## Notes to the Financial Statements

## 41 TRADE AND OTHER PAYABLES

	Group		Company	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Accrued interest on deposits	37,218	41,696	37,218	41,696
Creditors	935,483	1,719,524	737,705	1,539,618
Advances on real estate projects	860	2,119	860	1,005
Accrued expenses	121,524	110,485	33,316	33,378
Others	458,790	530,245	386,620	475,575
	<b>1,553,875</b>	<b>2,404,069</b>	<b>1,195,719</b>	<b>2,091,272</b>

## 42 DERIVATIVE FINANCIAL INSTRUMENTS

The table below provides the notional principal amounts and the positive and negative fair values of the company's and group's derivative financial instruments. Notional principal amounts are the amounts of principal underlying the contract at the reporting dates.

	Group & Company			Group & Company		
	31.03.2016			31.03.2015		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest rate derivative contracts:						
SWAPS	200,000	-	61	200,000	-	6,927

## 43 SHORT TERM BORROWINGS

Borrower	Lending Institution	Nature of Facility	Security	31.03.2016	31.03.2015
				Rs.'000	Rs.'000
Central Finance Company PLC	National Development Bank PLC	Revolving short term loan	Mortgage over lease receivables	400,353	500,322
	Hatton National Bank PLC	Revolving short term loan	Mortgage over lease receivables	200,984	-
	Standard Chartered Bank	Revolving short term loan	Mortgage over lease receivables	391,976	-
	Nations Trust Bank PLC	Revolving short term loan	Mortgage over lease receivables	201,094	-
<b>Total for the company</b>				<b>1,194,407</b>	<b>500,322</b>
Central Industries PLC	Hatton National Bank PLC	Short term loan	Unsecured	-	33,000
	Nations Trust Bank PLC	Short term loan	Unsecured	-	135,100
					168,100
<b>Total for the group</b>				<b>1,194,407</b>	<b>668,422</b>

## 44 DEPOSITS

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Term deposits	33,074,398	32,234,812	33,241,378	32,458,131
Savings	1,224,745	1,213,453	1,242,434	1,284,452
	<b>34,299,143</b>	<b>33,448,265</b>	<b>34,483,812</b>	<b>33,742,583</b>
Payable within one year	27,557,753	27,966,563	27,739,195	28,260,881
Payable after one year	6,741,390	5,481,702	6,744,617	5,481,702
	<b>34,299,143</b>	<b>33,448,265</b>	<b>34,483,812</b>	<b>33,742,583</b>

The above includes a sum of Rs. 320,179,010 /- (Rs.285,494,269/- as at 31.03.2015) deposited with the company by the directors and their close family members.

## 45 DEBENTURES

	Group & Company			
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
At the beginning of the year	4,859,219	4,840,383	4,859,219	4,840,383
Issued during the year	2,500,000	-	2,500,000	-
Redeemed during the year	(770,000)	-	(770,000)	-
Amortised interest at end of the year	49,762	18,836	49,762	18,836
At the end of the year	<b>6,638,981</b>	<b>4,859,219</b>	<b>6,638,981</b>	<b>4,859,219</b>

## Notes to the Financial Statements

Date of issue	Colombo Stock Exchange Listing	Interest payment frequency	No. of Debentures issued	Face value	Rate of interest (%)	Tenor	Date of maturity	Group & Company	
								31.03.2016 Rs.'000	31.03.2015 Rs.'000
03 - Mar - 11	Unlisted	Annually	5	250,000	11.03	5 years	3 - Mar - 16	-	251,977
24 - May - 12	Unlisted	Semi annually	500,000	500,000	Gross 06 months TB+2.5	3 years	24 - May - 15	-	497,311
30 - May -12	Unlisted	Semi annually	20,000	20,000	Gross 06 months TB+2.5	3 years	30 - May - 15	-	19,888
17 - Jun -13	Listed	Quarterly	300,000	300,000	14.25	3 years	17 - Jun - 16	<b>310,087</b>	307,915
17 - Jun -13	Listed	Quarterly	300,000	300,000	14.50	4 years	17 - Jun - 17	<b>308,919</b>	307,514
17 - Jun -13	Listed	Quarterly	1,400,000	1,400,000	14.75	5 years	17 - Jun - 18	<b>1,438,746</b>	1,433,809
12 - Dec -13	Listed	Semi annually	2,000,000	200,000	13.00	3 years	12 - Dec - 16	<b>206,183</b>	204,669
12 - Dec -13	Listed	Semi annually	2,000,000	200,000	13.25	4 years	12 - Dec - 17	<b>204,906</b>	204,037
12 - Dec - 13	Listed	Semi annually	6,000,000	600,000	13.50	5 years	12 - Dec - 18	<b>613,863</b>	611,970
12 - Dec - 13	Listed	Annually	10,000,000	1,000,000	13.95	5 years	12 - Dec - 18	<b>1,023,359</b>	1,020,129
1 - Jun - 15	Listed	Semi annually	2,500,000	250,000	8.35	3 years	31 - May - 18	<b>253,146</b>	-
1 - Jun - 15	Listed	Semi annually	5,000,000	500,000	9.00	4 years	31 - May - 19	<b>506,811</b>	-
1 - Jun - 15	Listed	Annually	17,500,000	1,750,000	9.52	5 years	31 - May - 20	<b>1,772,961</b>	-
								<b>6,638,981</b>	<b>4,859,219</b>

There were no breaches or defaults in the contractual obligation pertaining to loans/debentures and deposits.

## 46 EMPLOYEE BENEFIT OBLIGATIONS

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Present value of defined benefit obligation	1,145,018	1,101,200	1,036,249	996,712
Fair value of plan assets	(217,683)	(183,837)	(217,683)	(183,837)
Unfunded status	927,335	917,363	818,566	812,875
Net retirement benefit obligation	927,335	917,363	818,566	812,875
<b>Movement of the retirement benefit obligation</b>				
Present value of defined benefit obligation at the beginning of the year	1,101,200	969,238	996,712	859,855
Liability assumed on acquisition of a subsidiary	-	1,775	-	-
Interest cost	108,693	100,795	99,671	90,285
Current service cost	72,416	66,029	61,038	57,186
Payments made during the year	(21,653)	(107,532)	(21,456)	(75,304)
Actuarial (gain) / loss	(115,638)	70,895	(99,716)	64,690
Present value of defined benefit obligation at the end of the year	1,145,018	1,101,200	1,036,249	996,712
<b>Movement of the plan assets</b>				
Fair value of the plan assets at the beginning of the year	183,837	204,859	183,837	204,859
Contributions paid into the plan	43,669	40,007	43,669	40,007
Benefits paid by the plan	(21,456)	(75,303)	(21,456)	(75,303)
Expected return on plan assets	17,221	17,194	17,221	17,194
Actuarial loss	(5,588)	(2,920)	(5,588)	(2,920)
Fair value of the plan assets at the end of the year	217,683	183,837	217,683	183,837
<b>Plan assets consist of the following:</b>				
Investments in treasury bills	110,082	26,940	110,082	26,940
Investments in debentures	15,014	-	15,014	-
Investments in treasury bonds	-	50,582	-	50,582
Investments in fixed deposits with banks	92,587	106,315	92,587	106,315
	217,683	183,837	217,683	183,837

Retirement benefit liability of Central Finance Company PLC is partly funded externally through a gratuity fund established in 1987.

Retirement benefit obligations of Central Finance Company PLC, Central Industries PLC and CF Insurance Brokers (Pvt) Ltd have been determined based on actuarial valuations carried out by Mr. Piyal S. Goonetilleke, Fellow of the Society of Actuaries (USA), Member of the American Academy of Actuaries. Employee benefit liabilities of Central Mineral Industries (Pvt) Ltd., Kandy Private Hospitals Ltd., Isuru Leasing Company Limited and Mark Marine Services (Pvt) Ltd., are computed based on a formula which approximates actuarial valuation.

Details of actuarial assumptions of the parent company are as follows:

	31.03.2016	31.03.2015
<b>Actuarial assumptions</b>		
Discount rate	12.50%	10.00%
Expected return on plan assets	7.00%	7.00%
Future salary increases	10.00%	10.00%

## Notes to the Financial Statements

Mortality	GA 1983 Mortality Table								
	Age:	20	25	30	35	40	45	50	
	Turnover:	10%	10%	10%	8%	5%	2.5%	1%	
Disability	Age:	20	25	30	35	40	45	50	55
	Disability	0.08%	0.09%	0.10%	0.12%	0.18%	0.29%	0.54%	0.00%

(Long term disability 1987 Soc.Sec.Table: Rates of disability at selected ages)

Retirement Age-Normal retirement age or age at valuation date, if greater.

### 47 STATED CAPITAL

	Company & Group			
	31.03.2016		31.03.2015	
	No. of shares In'000	Stated Capital Rs.'000	No. of shares In'000	Stated Capital Rs.'000
<b>Issued and fully paid - ordinary shares</b>				
At the beginning of the year	104,883	568,420	104,883	568,420
At the end of the year	104,883	568,420	104,883	568,420

### 48 CAPITAL RESERVES

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>Revaluation reserve</b>				
Balance at the beginning of the year	2,509,555	2,499,770	1,934,604	1,938,557
Depreciation on revaluation surplus	(4,552)	(5,233)	(3,953)	(3,953)
Share of revaluation surplus - associate company	4,876	15,018	-	-
Balance at the end of the year	2,509,879	2,509,555	1,930,651	1,934,604
<b>Capital redemption reserve</b>				
Balance at the beginning of the year	17,899	17,899	-	-
Transfer to revenue reserve	(17,899)	-	-	-
Balance at end of the year	-	17,899	-	-
<b>Total</b>	2,509,879	2,527,454	1,930,651	1,934,604

Revaluation reserve consists of the net surplus on the revaluation of land and buildings.

Capital redemption reserve comprised of reserve funds arising from the redemption of preference shares of a subsidiary which was transferred back to revenue reserves during the current financial year.

### 49 RESERVE FUND

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Balance at the beginning of the year	1,229,000	1,078,000	1,229,000	1,078,000
Transfers during the year	167,000	151,000	167,000	151,000
Balance at the end of the year	1,396,000	1,229,000	1,396,000	1,229,000

The company's reserve fund is maintained in accordance with Direction No. 9 of 1991 as amended by Direction No. 1 of 2003 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

**50 AVAILABLE FOR SALE RESERVE**

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Balance at the beginning of the year	102,499	26,665	86,537	26,665
Transfers during the year	(32,212)	59,872	(32,212)	59,872
Share of net gain / (loss) on re-measuring AFS instruments - associate company	(70,196)	15,962	-	-
Balance at the end of the year	91	102,499	54,325	86,537

Available for sale reserve represents gain / loss arriving from available for sale financial instruments.

**51 REVENUE RESERVES**

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>General Reserve:</b>				
Balance at the beginning of the year	16,798,420	13,593,420	16,787,239	13,582,239
Transfers during the year	2,437,000	3,205,000	2,437,000	3,205,000
	19,235,420	16,798,420	19,224,239	16,787,239
<b>Retained earnings</b>	3,778,676	3,092,803	9,630	8,576
Balance at the end of the year	23,014,096	19,891,223	19,233,869	16,795,815

General reserve represents amounts set aside by the directors for future expansions, and to meet any contingencies.

**52 SUPER GAIN TAX**

As per the provisions of part 111 of the Finance Business Act No.10 of 2015, which was certified on 30th October 2015, the group is liable for Super Gain Tax of Rs. 424.42 million, which has been duly settled. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 01st April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka dated 24th November 2015.

**53 SECURED LIABILITIES**

Short term, long term borrowings and some of the debentures of the company have been secured on the mortgage of specific land and buildings, pledge of specific quoted company shares and assignment of specific lease receivables and hypothecation of hire purchase and lease contracts. The carrying value of the assets mortgaged / assigned as security amounted to Rs. 12,546 million as at 31st March 2016 (31st March 2015 - Rs. 9,799 million).

**54 CAPITAL EXPENDITURE**

Capital expenditure approved by the board of directors for which provision has not been made in the financial statements amounts to approximately Rs. 150.37 million for the company and Rs. 169.61 million for the group (2014/15 - Rs. 83.25 million for the company and Rs. 91.45 million for the group).

## Notes to the Financial Statements

### 55 CONTINGENT LIABILITIES

Contingent liabilities as at	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Fully secured guarantees issued on behalf of depositors	81,165	83,615	81,165	83,615
Performance bonds and warranties in respect of letter of credit facilities	18,200	49,141	18,200	49,141
	<b>99,365</b>	<b>132,756</b>	<b>99,365</b>	<b>132,756</b>

#### Tax assessments against the company

The following tax assessments are outstanding which have been duly appealed against.

- 1 Value Added Tax (VAT) for year of assessment 2009/10, amounting to Rs. 177.3 million, on Assessment Nos. 6961125, 6961126, 6961127, 6961128, 6961129, 6961130, 6961131, 6961132, 6961133, 6961134, 6961135 and 7015292. Matter pending at the Tax Appeals Commission.
- 2 Income Tax for year of assessment 2009/ 2010, amounting to Rs. 248.5 million, on Assessment No. ITA 12301100091. Matter pending at the Tax Appeals Commission.
- 3 Income Tax for year of assessment 2010/11, amounting to Rs. 35.7 million, on Assessment No. ITA 13291100250. Matter pending at the Tax Appeals Commission.

#### Group companies

##### CF Insurance Brokers (Pvt) Ltd.

The following tax assessments are outstanding which have been duly appealed against.

Nation Building Tax (NBT) for years of assessment 2011/12 ,2012/13 and 2013/14, amounting to Rs. 3.53 million Rs. 6.10 million and Rs. 2.17 million, respectively, on Assessment Nos. 7123212, 7123214, 7123215, 7300338, 7300339, 7300340, 7300341, 7254951 and 7199781.

##### Hedges Court Residencies(Pvt)Ltd.

The following tax assessments are outstanding which have been duly appealed against.

Nation Building Tax (NBT) for years of assessment 2009/10, 2010/11 and 2011/12, amounting to Rs. 12.37 million, Rs. 12.75 million and Rs. 14.93 million respectively, on Assessment Nos. 7186237, 7186238, 7186239, 7186240, 7186241, 7186242, 7186243, 7186244, 7186245, 7186246, 7186247, 7186248.

The respective companies are of the view that the outcome of the above assessments will not have any material impact.

## 56 EVENTS AFTER THE REPORTING PERIOD

### 56.1 Second interim dividend and proposed final dividend

The directors have recommended the payment of a final dividend of Rs. 2.00 per share for the year ended 31st March 2016. (2014/15 – Rs 1.80 per share) which requires the approval of shareholders at the annual general meeting to be held on 15th July 2016. In accordance with LKAS 10 “Events after the reporting period”, this proposed final dividend and the second interim dividend of Rs 1.00 per share paid after the year-end have not been recognised as liabilities at the year-end.

As required by section 56 (2) of the Companies Act No. 7 of the 2007, the board of directors have confirmed that the company satisfies the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained solvency certificates from the auditor and the necessary approvals from the Central Bank of Sri Lanka prior to declaring the said dividends.

### 56.2 Subdivision of shares

Directors have proposed to increase the share capital of the company by subdividing each existing share into two shares, followed by a scrip issue in the proportion of 01 share for every 30 subdivided shares: subject to approval by the shareholders.

No other circumstances have arisen since the reporting date, which would require adjustments to / or disclosure in the financial statements.

## 57 RELATED PARTY DISCLOSURES

### 57.1 Parent and ultimate parent

The company does not have a parent of its own.

### 57.2 Subsidiaries and associates

Relationship with subsidiaries and associates are explained in the pages 145 to 147 of the annual report.

The directors of the company are also directors of the following subsidiary and associate companies of the group.

The company carried out transactions in the ordinary course of business at commercial rates with these related entities.

	J.D.Bandaranayake	E.H. Wijenaike	G.S.N. Peiris	R.E. Rambukwella	A.K. Gunaratne	C.L.K.P. Jayasuriya	D.P.de Silva	F.Mohideen	S.C.S. Wickramasinghe	A.N. Fernando
Central Industries PLC	-	X	X	X	X	-	-	-	-	-
Central Developments Ltd.	-	-	X	X	-	-	-	-	-	-
Dehigama Hotels Company Ltd.	-	X	X	-	-	-	-	-	-	-
Expanded Plastic Products Ltd.	-	-	X	X	-	-	-	-	-	-
Central Mineral Industries (Pvt) Ltd.	-	-	X	X	-	-	-	-	-	-
Central Transport & Travels Ltd.	-	-	X	X	-	-	-	-	-	-
Central Construction & Development (Pvt) Ltd.	-	-	X	X	-	-	-	-	-	-
CF Growth Fund Ltd.	-	-	X	X	-	-	X	-	-	-
Kandy Private Hospitals Ltd.	-	X	X	-	-	-	-	-	-	-
CF Insurance Brokers (Pvt) Ltd.	-	-	X	X	X	-	X	-	-	-
Central Homes (Pvt) Ltd.	-	-	X	x	-	-	-	-	-	-
Mark Marine Services (Pvt) Ltd.	-	-	-	X	X	-	X	-	-	-
Hedges Court Residencies (Pvt) Ltd.	-	-	X	X	-	-	X	-	-	-
Isuru Leasing Company Limited.	-	-	X	-	-	-	-	-	-	-
Capital Suisse Asia Ltd.	-	X	-	-	X	-	-	-	-	-
Nations Trust Bank PLC	-	-	-	-	-	X	X	-	-	-
Tea Smallholder Factories PLC	-	X	-	X	-	-	-	-	-	-

## Notes to the Financial Statements

## 57.3 Amounts due from related parties

	Group		Company	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>(a) Subsidiaries</b>				
Loans and advances	-	-	186,425	184,918
Trade and other receivables	-	-	480	480
	-	-	186,905	185,398
<b>(b) Associates</b>				
Securities bought under repurchase agreements	871,659	1,296,627	871,659	1,296,627
Lease and hire purchase receivables	75,215	64,847	75,215	64,847
	946,874	1,361,474	946,874	1,361,474
<b>(c) Key management personnel (KMP) and their close family members</b>				
Loans and advances	12,255	2,334	12,255	2,334
	959,129	1,363,808	1,146,034	1,549,206

## 57.4 Amounts due to related parties

<b>(a) Subsidiaries</b>				
Public deposits	-	-	184,669	294,318
Amounts due to subsidiaries	-	-	172,922	146,280
<b>(b) Associates</b>				
Public deposits	171,597	84,353	171,597	84,353
Short term loans	201,094	-	201,094	-
<b>(c) Key management personnel (KMP) and their close family members</b>				
Public deposits	379,067	338,899	379,067	338,899
	751,758	423,252	1,109,349	863,850

Year ended	Group		Company	
	31.01.2016 Rs.'000	31.03.2015 Rs.'000	31.01.2016 Rs.'000	31.03.2015 Rs.'000
<b>57.5 Transactions with related parties</b>				
<b>(a) Subsidiaries</b>				
Collection of insurance premium	-	-	1,523,642	1,476,491
Rendering of services	-	-	75,710	79,785
Loan instalment recoveries	-	-	128,270	35,913
Purchase of office equipment	-	-	-	107
Rent paid	-	-	32,603	29,638
Vehicle hire rentals paid	-	-	1,581	2,376
Management fees received	-	-	900	900
Accounting and administration charges received	-	-	175	-
Accounting and administration charges paid	-	-	2,509	-
Public deposits placed	-	-	91,626	46,993
Withdrawal of public deposits	-	-	193,770	79,059
Vehicle hire rentals received	-	-	138	100
Loans given	-	-	130,000	33,000
Dividends received	-	-	57,702	44,900
Interest received	-	-	17,192	23,042
Interest paid	-	-	18,421	31,818
Rent received	-	-	9,125	8,940
<b>(b) Associates</b>				
Interest paid	34,883	6,445	34,883	6,445
Lease/vehicle hire facilities given	55,475	32,154	55,475	32,154
Dividends received	-	-	51,989	50,741
Loans obtained	600,000	-	600,000	-
Loans settled	400,000	-	400,000	-
Investments in REPOs	12,234,000	37,355,000	12,234,000	37,355,000
Divestments of REPOs	12,654,000	38,625,000	12,654,000	38,625,000
Public deposits placed	12,500	95,000	12,500	95,000
Withdrawal of public deposits	13,231	19,346	13,231	19,346
Vehicle hire rentals received	9,834	7,211	9,834	7,211
Lease and hire purchase rentals received	36,309	31,450	36,309	31,450
<b>(c) Key management personnel (KMP) and their close family members</b>				
Interest paid on Public deposits	46,891	27,496	46,891	27,496
Loans given	12,138	1,031	12,138	1,031
Interest received	925	207	925	207
Recovery of loans	6,548	2,532	6,548	2,532
<b>Post- employment benefits for key management personnel</b>				
Contributions to provident fund	25,682	22,669	22,942	20,910
Contributions to gratuity Fund	6,621	5,942	6,479	5,867
<b>Compensation of key management personnel</b>				
Short Term Employee Benefits	185,735	164,650	160,183	147,837

Related parties include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company. Such KMPs comprise members of the board of directors of the company and key employees of the company who are responsible for planning, directing and controlling the operations of the company.

## Notes to the Financial Statements

## 58 MATURITY ANALYSIS

An analysis of the total assets employed and the total liabilities of the company, based on the remaining period from the balance sheet date to the respective contractual maturity dates is given below:

	Up to 3 months		3 to 12 months		1 to 3 years	
	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
<b>Interest earning assets:</b>						
Securities bought under repurchase agreements	2,787,948	2,772,798	-	-	-	-
Loans and receivables from banks	839,263	1,130,433	-	568,607	-	-
Loans and receivables from others	402,019	241,846	2,253	27,590	24,160	-
Net investment in leases & hire purchases	8,213,366	7,832,484	12,643,789	11,689,118	25,289,578	23,177,675
Term loan, sub loan & micro finance	616,488	654,490	862,713	394,763	1,907,817	868,048
Loans against fixed deposits	212,291	211,251	303,037	367,554	132,239	137,738
Housing and land	18,307	17,979	179	63	580	298
Staff loans	8,319	7,111	23,611	15,534	19,944	13,836
<b>Total interest earning assets</b>	<b>13,098,001</b>	<b>12,868,392</b>	<b>13,835,582</b>	<b>13,063,229</b>	<b>27,374,318</b>	<b>24,197,595</b>
<b>Non-interest earning assets:</b>						
Cash in hand and at banks	463,385	410,005	-	-	-	-
FVtPL financial assets	33,760	49,600	-	-	-	-
Equity investments classified as AFS investments	-	-	-	-	-	-
Trade and other receivables	361,365	288,894	-	-	-	-
Investments in real estate	-	-	30,874	34,397	-	-
Inventories and other stocks	706,605	1,248,495	-	-	-	-
Investments in associates	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-
<b>Total non-interest earning assets</b>	<b>1,565,115</b>	<b>1,996,994</b>	<b>30,874</b>	<b>34,397</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>14,663,116</b>	<b>14,865,386</b>	<b>13,866,456</b>	<b>13,097,626</b>	<b>27,374,318</b>	<b>24,197,595</b>
Percentage	20.26%	22.38%	19.16%	19.72%	37.82%	36.43%
<b>Interest bearing liabilities:</b>						
Bank overdrafts	666,082	318,320	-	-	-	-
Short term borrowings	1,194,407	500,322	-	-	-	-
Public deposits	10,611,463	10,364,160	17,127,732	17,896,721	5,741,156	4,723,254
Long term borrowings	-	121,754	-	331,055	-	-
Derivative financial instruments	61	6,927	-	-	-	-
Debentures	372,064	589,035	309,856	324,691	3,707,061	987,685
<b>Total interest bearing liabilities</b>	<b>12,844,077</b>	<b>11,900,518</b>	<b>17,437,588</b>	<b>18,552,467</b>	<b>9,448,217</b>	<b>5,710,939</b>
<b>Non-interest bearing liabilities:</b>						
Trade and other payables	1,164,367	2,059,920	21,795	21,795	6,285	6,285
Employee benefit obligations	-	-	111,813	16,257	167,731	24,388
Amounts due to subsidiaries	172,922	146,280	-	-	-	-
Tax payables	817,715	286,315	-	-	-	-
Deferred tax liability	-	-	-	-	-	-
<b>Total non-interest bearing liabilities</b>	<b>2,155,004</b>	<b>2,492,515</b>	<b>133,608</b>	<b>38,052</b>	<b>174,016</b>	<b>30,673</b>
<b>Total liabilities</b>	<b>14,999,081</b>	<b>14,393,033</b>	<b>17,571,196</b>	<b>18,590,519</b>	<b>9,622,233</b>	<b>5,741,612</b>
Percentage	30.49%	31.42%	35.71%	40.58%	19.56%	12.53%

3 to 5 years		More than 5 years		Impairment provision		Total	
31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
-	-	-	-	-	-	2,787,948	2,772,798
						839,263	1,699,040
25,000	36,661	12,500	25,000	-	-	465,932	331,097
10,297,591	7,969,446	191,425	214,358	(603,801)	(750,944)	56,031,948	50,132,137
452,459	741,075	26,015	41,303	(50,152)	(48,761)	3,815,340	2,650,918
28,433	18,028	-	-	-	-	676,000	734,571
442	187	-	-	(16,489)	(16,421)	3,019	2,106
12,936	12,058	3,441	8,429	-	-	68,251	56,968
10,816,861	8,777,455	233,381	289,090	(670,442)	(816,126)	64,687,701	58,379,635
		-	-	-	-	463,385	410,005
		-	-	-	-	33,760	49,600
		228,326	260,530	-	-	228,326	260,530
-	-	-	-	-	-	361,365	288,894
		-	-	-	-	30,874	34,397
		-	-	-	-	706,605	1,248,495
		523,458	523,458	-	-	523,458	523,458
		620,964	640,964	-	-	620,964	640,964
		105,392	168,215	-	-	105,392	168,215
		4,620,447	4,417,404	-	-	4,620,447	4,417,404
-	-	6,098,587	6,010,571	-	-	7,694,576	8,041,962
10,816,861	8,777,455	6,331,968	6,299,661	(670,442)	(816,126)	72,382,277	66,421,597
14.94%	13.21%	8.75%	9.48%	(0.93%)	(1.22%)	100%	100%
-	-	-	-	-	-	666,082	318,320
-	-	-	-	-	-	1,194,407	500,322
1,003,461	758,448	-	-	-	-	34,483,812	33,742,583
-	-	-	-	-	-	-	452,809
-	-	-	-	-	-	61	6,927
2,250,000	2,957,808	-	-	-	-	6,638,981	4,859,219
3,253,461	3,716,256	-	-	-	-	42,983,343	39,880,180
3,272	3,272	-	-	-	-	1,195,719	2,091,272
279,546	40,645	259,476	731,585	-	-	818,566	812,875
-	-	-	-	-	-	172,922	146,280
-	-	-	-	-	-	817,715	286,315
-	-	3,210,747	2,590,299	-	-	3,210,747	2,590,299
282,818	43,917	3,470,223	3,321,884	-	-	6,215,669	5,927,041
3,536,279	3,760,173	3,470,223	3,321,884	-	-	49,199,012	45,807,221
7.19%	8.21%	7.05%	7.25%	0.00%	0.00%	100%	100%

## Notes to the Financial Statements

## 59 BUSINESS SEGMENT INFORMATION

For the year ended 31st March	Leasing, hire purchase and other advances		Medical services		Power generation		Manufacturing	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>All figures in Rs.000</b>								
<b>Revenue</b>								
Interest income	12,292,058	12,086,833	944	1,030	-	-	1,021	353
Other revenue	-	-	112,073	99,917	58,496	85,878	2,247,876	2,114,959
Other operating income	364,207	334,506	-	-	-	-	-	-
Other income	591,401	503,952	955	4,364	-	12,631	8,442	9,106
Income from external customers	13,247,666	12,925,291	113,972	105,311	58,496	98,509	2,257,339	2,124,418
Inter - segment income	31,434	40,321	6,537	10,038	2,693	5,454	293	925
<b>Total income</b>	<b>13,279,100</b>	<b>12,965,612</b>	<b>120,509</b>	<b>115,349</b>	<b>61,189</b>	<b>103,963</b>	<b>2,257,632</b>	<b>2,125,343</b>
<b>Expenses</b>								
Interest expenses	3,398,949	3,787,719	-	-	-	-	-	-
Depreciation & amortisation	368,672	360,853	9,000	6,890	3,865	3,865	38,877	35,253
Cost of sales	-	-	44,008	38,112	21,523	20,400	1,726,536	1,703,269
Impairment of goodwill	15,925	-	-	-	-	-	-	-
Impairment on loans and other credit losses	657,488	1,786,502	(25)	-	-	-	884	948
Other operating and administrative expenses	3,403,214	2,916,750	59,318	54,134	853	853	239,252	212,290
	<b>7,844,248</b>	<b>8,851,824</b>	<b>112,301</b>	<b>99,136</b>	<b>26,241</b>	<b>25,118</b>	<b>2,005,549</b>	<b>1,951,760</b>
Inter - segment expenses	56,511	65,523	-	-	-	-	239	387
<b>Total expenses</b>	<b>7,900,759</b>	<b>8,917,347</b>	<b>112,301</b>	<b>99,136</b>	<b>26,241</b>	<b>25,118</b>	<b>2,005,788</b>	<b>1,952,147</b>
<b>Segment results</b>	<b>5,378,341</b>	<b>4,048,265</b>	<b>8,208</b>	<b>16,213</b>	<b>34,948</b>	<b>78,845</b>	<b>251,844</b>	<b>173,196</b>
Share of profit of associates								
Profit before VAT on financial services,NBT and income tax								
Less: VAT on financial services and NBT								
Profit before income tax								
Less: Income tax expense								
Profit after income tax								
Non-controlling interest								
Profit attributable to equity holders of the parent								
Segment assets	63,594,968	56,551,813	366,130	353,334	137,100	165,266	1,616,053	1,620,541
Investments in associates								
Unallocated assets								
<b>Total assets</b>								
Segment liabilities	41,377,856	38,921,544	36,597	29,767	7,721	10,182	289,077	431,722
Unallocated liabilities								
<b>Total liabilities</b>								

Insurance broking		Investments		Real estate		Intra segmental adjustments		Total	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
13,454	-	315,712	374,468	821	755	-	-	12,624,010	12,463,439
242,139	224,072	-	-	-	-	-	-	2,660,584	2,524,826
-	-	-	-	-	-	-	-	364,207	334,506
23,301	26,394	114,447	180,153	3,533	7,212	(105,957)	(103,334)	636,122	640,478
278,894	250,466	430,159	554,621	4,354	7,967	(105,957)	(103,334)	16,284,923	15,963,249
13,654	10,342	70,596	56,210	36,396	33,921	(161,603)	(157,211)	-	-
292,548	260,808	500,755	610,831	40,750	41,888	(267,560)	(260,545)	16,284,923	15,963,249
-	-	277,618	310,270	5,509	6,157	-	-	3,682,076	4,104,146
1,458	1,811	645	688	2,482	2,527	-	-	424,999	411,887
-	-	-	-	-	-	-	-	1,792,067	1,761,781
-	-	-	-	-	-	-	-	15,925	-
-	-	-	-	-	46,700	-	-	658,347	1,834,150
98,492	90,340	500	525	8,795	7,470	-	-	3,810,424	3,282,362
99,950	92,151	278,763	311,483	16,786	62,854	-	-	10,383,838	11,394,326
9,322	8,940	16,598	22,424	75	-	(82,745)	(97,274)	-	-
109,272	101,091	295,361	333,907	16,861	62,854	(82,745)	(97,274)	10,383,838	11,394,326
183,276	159,717	205,394	276,924	23,889	(20,966)	(184,815)	(163,271)	5,901,085	4,568,923
								815,812	794,608
								6,716,897	5,363,531
								444,978	240,796
								6,271,919	5,122,735
								2,169,126	1,387,715
								4,102,793	3,735,020
								109,122	101,741
								3,993,671	3,633,279
1,525,872	1,583,254	6,521,426	7,588,352	430,283	437,653	(4,023,664)	(4,284,883)	70,168,168	64,015,330
								3,537,114	3,167,824
								4,102,246	4,020,561
								77,807,528	71,203,715
303,091	226,872	3,080,492	3,327,819	250,004	264,823	(728,643)	(813,078)	44,616,195	42,399,651
								4,847,028	3,689,489
								49,463,223	46,089,140

## Directors' Interest in Contracts with the Company

Related party transactions are detailed in note 57 to the financial statements as required by LKAS 24 "Related Party Disclosures". In addition, the company carried out transactions in the ordinary course of business on an arm's length basis with entities where a director of the company is also a director of such entities as detailed below:

Company	Name of Director	Relationship	Nature of transaction	Facilities granted during the year		Rentals received		Balance outstanding	
				2015/16 Rs.'000	2014/15 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000	31.03.2016 Rs.'000	31.03.2015 Rs.'000
Watawala Plantations PLC	A.N.Fernando	Director	Lease finance facility	-	86,664	22,059	12,534	65,780	78,623
Ceylon Biscuits Ltd.	J.D. Bandaranayake	Director	Hire of vehicles	-	-	23,218	23,218	-	-
Lanka Aluminium Industries PLC	C.L.K.P. Jayasuriya	Director	Lease finance facility	-	-	3,528	3,496	1,113	4,110

## Group Companies

### Subsidiaries

	Central Industries PLC	Central Developments Ltd	Central Transport and Travels Ltd	Central Construction and Development (Pvt) Ltd	Central Mineral Industries (Pvt) Ltd
Year of Incorporation	1984	1974	1990	1983	1990
Stated Capital	Rs. 121,320,460 (9,884,214 Shares)	Rs. 132,940,000 (13,294,000 Shares)	Rs. 29,490,070 (2,949,007 Shares)	Rs. 50,000 (5,000 Shares)	Rs. 3,500,000 (350,000 Shares)
Group Holding	49.98%	99.99%	99.99%	99.90%	99.99%
Status of the Company	Quoted	Unquoted	Unquoted	Unquoted	Unquoted
Principal Business Activities	Manufacture and distribution of PVC pipes and fittings	Investment company	Hiring of vehicles	Investment company	Manufacture of mineral products
Registered Office	No 312, Nawala Road, Rajagiriya	No 270, Vauxhall Street, Colombo 02	No 84, Raja Veediya, Kandy	No 84, Raja Veediya, Kandy	Diganatenna Estate, Gonawala, Digana
	G.S.N. Peiris(Chairman)	G.S.N. Peiris	G.S.N. Peiris	G.S.N. Peiris	G.S.N. Peiris
	A.N.P. Wickramasuriya (Chief Executive Officer/ Member of the Board)	R.E. Rambukwelle	R.E. Rambukwelle	R.E. Rambukwelle	U.B. Elangasinha
	E.H.Wijenaik	U.B. Elangasinha	U.B. Elangasinha	U.B. Elangasinha	R.E. Rambukwelle
	C.S.W. De Costa				
	R.E. Rambukwelle				
	A.K. Gunaratne				
	N.J. Abeysekera				
	I.S. Jayasinghe				
	L.R. De Lanerolle				
Company Secretary	Corporate Services (Pvt) Ltd. 216, De Saram Place, Colombo 10	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy

COMPANY PROFILE

BOARD OF DIRECTORS

## Group Companies

	Subsidiaries					
	Central Homes (Pvt) Ltd	CF Growth Fund Ltd	CF Insurance Brokers (Pvt) Ltd	Dehigama Hotels Company Ltd	Expanded Plastic Products Ltd	Hedges Court Residencies (Pvt) Ltd
Year of Incorporation	1987	1992	1995	1973	1978	2005
Stated Capital	Rs. 34,175,020 (3,417,502 Shares)	Rs. 163,036,780 (16,303,678 Shares)	Rs. 123,750,000 (12,375,000 Shares)	Rs. 8,280,700 (828,070 Shares)	Rs. 64,000,000 (6,400,000 Shares)	Rs. 50,000,000 (5,000,000 Shares)
Group Holding	99.99%	99.99%	99.99%	79.69%	99.99%	99.99%
Status of the Company	Unquoted	Unquoted	Unquoted	Unquoted	Unquoted	Unquoted
Principal Business Activities	Property development and sale of real estate	Investment company	Insurance broking	Renting of commercial property	Investment company	Construction and sale of apartments
Registered Office	No 270, Vauxhall Street, Colombo 02	No 270, Vauxhall Street, Colombo 02	No 270, Vauxhall Street, Colombo 02	No 84, Raja Veediya, Kandy	No 270, Vauxhall Street, Colombo 02	No 270, Vauxhall Street, Colombo 02
	G.S.N. Peiris R.E. Rambukwelle	G.S.N. Peiris R.E. Rambukwelle	G.S.N. Peiris (Chairman) R.E. Rambukwelle	E.H. Wijenaikie G.S.N. Peiris	G.S.N. Peiris R.E. Rambukwelle	G.S.N. Peiris R.E. Rambukwelle
	U.B. Elangasinha	D.P. de Silva U.B. Elangasinha	D.P. de Silva A.K. Gunaratne	B.A.C. KJayawardena W.A.L. Galagoda	U.B. Elangasinha	D.P. de Silva
			C.S. Hettiarachchi K. Kandeepan	L. Sirimanne A.Jayasinghe		
			C.K. Hettiarachchi	H.C.D. Divitotawela (Alternate to L. Sirimanne)		
Company Secretary	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy	Corporate Services (Pvt) Ltd. 216, De Saram Place, Colombo 10	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy	Kandy Business Consultants (Pvt) Ltd. 80, Kings Street, Kandy

COMPANY PROFILE

BOARD OF DIRECTORS

Subsidiaries			Associates		
Kandy Private Hospitals Ltd	Mark Marine Services (Pvt) Ltd	Isuru Leasing Company Ltd.	Capital Suisse Asia Ltd.	Nations Trust Bank PLC	Tea Smallholder Factories PLC
1967	1997	1998	1995	1999	1991
Rs. 6,084,750 (550,500 Shares)	Rs. 85,611,980 (8,561,198 Shares)	Rs. 181,674,688 (25,870,676 shares)	Rs. 181,000,070 (18,100,007 Shares)	Rs. 5,101,369,000 (230,607,283 Shares)	Rs. 150,000,000 (30,000,000 Shares)
66.58%	58.12%	100.00%	24.58%	20.00%	29.30%
Unquoted	Unquoted	Unquoted	Unquoted	Quoted	Quoted
Provision of healthcare services	Hydro power generation	Leasing, hire purchase and real estate development	Investment company	Licensed commercial bank	Manufacture and sale of black tea
No 255/8, Katugastota Road, Kandy	No. 4, Circular Lane, Sapumal Place, Rajagiriya	No. 552, Peradeniya Road, Kandy	No. 244, Vauxhall Street, Colombo 02	No. 242, Union Place, Colombo 02.	No. 4, Layden Bastian Road, Colombo 01.
E.H. Wijenaikie	A.A.A. Makalanda	G.S.N. Peiris (Chairman)	A.K. Gunaratne	K. Balendra (Chairman)	S.C. Ratnayake (Chairman)
G.S.N. Peiris	G.C.J. Makalanda	L. Wijesuriya (Managing Director)	E.H. Wijenaikie	R.N.K. Fernando	A.D. Gunawardena
S. Ranasinghe	A.K. Gunaratne	U.B. Elangasinha	S.T. Amarasuriya	M. Jafferjee	J.R.F. Peiris
S. Kapuwatte	R.E. Rambukwelle	C.S. Hettiarachchi	P. Bottinelli	K. De Soysa	E.H. Wijenaikie
A.P.R. Aluwihare	U.B. Elangasinha	G.A. Bandaranayake	G.N. Fernando	N.S. Panditaratne	R.E. Rambukwelle
N.H.B. Mavilmada	D.P. de Silva		N. Amarasuriya	D.P. de Silva	A.S. Jayathilleke
A.B. Abeyasinghe	S.P.P. Makalanda (Alternate to A.A.A. Makalanda)			G. Cooray	J.S. Ratwatte
S.Kiriwattuduwa	A.F. Goonetillake (Alternate to U.B. Elangasinha)			V.S.M.S. Wijesinghe	R. Seevaratnam
				H. Raghavan	R.S. Fernando
				C.L.K.P. Jayasuriya	
				C.A. D'Souza	
				D. Rajapaksa	
				N.I.R. De Mel	
Kandy Business Consultants (Pvt) Ltd.	Management Applications (Pvt) Ltd.	Corporate Services (Pvt) Ltd.	B.P. De Silva (Ceylon) Ltd.	Theja Silva	Keells Consultants Limited.
80, Kings Street, Kandy	12, Rotunda Gardens, Colombo 03	216, De Saram Place, Colombo 10	234/4, Old Awissawella Road, Orugodawatta		130, Glennie Street, Colombo 02

# Group Value Added Statement

For the year ended 31st March	2016		2015	
	Rs.'000	%	Rs.'000	%
<b>Value Added</b>				
Operating income earned by providing financial services	13,856,734		13,560,990	
Cost of services	(5,715,816)		(5,836,100)	
Value added by financial services	8,140,918		7,724,890	
Other Income	636,122		640,478	
Impairment on loans, goodwill and other credit losses	(674,272)		(1,834,150)	
Share of associate companies' profits before tax	815,812		794,608	
	<b>8,918,580</b>		<b>7,325,826</b>	

## Value Allocated

### To Employees

Remuneration & other benefits	1,776,684	19.92	1,550,408	21.16
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### To providers of capital

Dividends to shareholders	419,533	4.70	367,092	5.01
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Non-controlling interest	109,122	1.22	101,741	1.39
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### To government Revenue

Income tax	2,169,126	24.32	1,387,715	18.94
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VAT on financial services	444,978	4.99	240,796	3.29
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### To Expansion and growth

Retained income	3,574,138	40.08	3,266,187	44.58
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Depreciation & amortisation	424,999	4.77	411,887	5.62
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	<b>8,918,580</b>	<b>100.00</b>	<b>7,325,826</b>	<b>100.00</b>
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## Consolidated sources & utilisation of income

For the year ended 31st March

	2016		2015	
	Rs.'000		Rs.'000	
<b>Sources of income</b>				
Interest and operating income	13,856,734	90.52	13,560,990	90.43
Other income	636,122	4.16	640,478	4.27
Share of associate companies' profits before tax	815,812	5.32	794,608	5.30
	<b>15,308,668</b>	<b>100.00</b>	<b>14,996,076</b>	<b>100.00</b>

## Utilisation of income

Interest expenses	3,682,076	24.05	4,104,146	27.37
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Remuneration & other benefits to employees	1,776,684	11.60	1,550,408	10.34
--------------------------------------------	-----------	-------	-----------	-------

Other operating expenses including impairment on loans & other credit losses, goodwill and depreciation & amortisation	3,133,011	20.47	3,977,991	26.53
------------------------------------------------------------------------------------------------------------------------	-----------	-------	-----------	-------

Taxation	2,614,104	17.08	1,628,511	10.86
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Dividends to shareholders	419,533	2.74	367,092	2.45
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Retained income	3,574,138	23.35	3,266,187	21.78
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Non-controlling interest	109,122	0.71	101,741	0.68
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	<b>15,308,668</b>	<b>100.00</b>	<b>14,996,076</b>	<b>100.00</b>
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## Quarterly Statistics - Company

As at	31.03.2016	31.12.2015	30.09.2015	30.06.2015
<b>Statement of financial position</b>				
<b>(Rs.'000)</b>				
Total assets	72,382,277	72,132,261	71,179,674	68,437,927
Advances to customers	60,594,558	60,266,526	58,865,753	55,587,822
Average assets	72,257,269	71,655,968	69,808,801	67,429,762
Bank and other borrowings	8,499,531	9,805,803	9,032,679	7,566,172
Public deposits	34,483,812	33,805,302	33,268,737	33,552,963
Shareholders' funds	23,183,265	22,507,529	22,147,715	21,387,411
<b>For the three months ended</b>				
<b>31.03.2016</b>				
<b>31.12.2015</b>				
<b>30.09.2015</b>				
<b>30.06.2015</b>				
<b>Income statement data</b>				
<b>(Rs.'000)</b>				
Interest income	3,245,592	3,200,145	3,100,635	3,061,774
Interest expenses	(949,682)	(928,744)	(908,900)	(913,171)
Net interest income	2,295,910	2,271,401	2,191,735	2,148,603
Other operating income	98,962	87,903	88,433	89,047
Other income	189,540	162,465	197,281	180,495
Total operating income	2,584,412	2,521,769	2,477,449	2,418,145
Operating expenses	(1,002,382)	(956,847)	(937,233)	(913,621)
Impairment on loans and other credit losses	(96,279)	(152,976)	(173,082)	(235,582)
VAT on financial services and NBT	(122,469)	(118,399)	(111,747)	(91,672)
Income tax expense	(711,975)	(362,168)	(351,508)	(329,636)
Profit for the quarter	651,307	931,379	903,879	847,634
Other comprehensive income for the quarter	24,429	(48,636)	45,215	14,552
Total comprehensive income for the quarter	675,736	882,743	949,094	862,186
<b>Ordinary share information</b>				
<b>Market price per share (Rs)</b>				
Highest	255.00	265.00	280.00	270.00
Lowest	201.00	235.00	250.00	249.00
Last traded	210.00	253.00	250.00	259.00
Net asset per share	221.04	214.60	211.17	203.92
<b>Financial measures</b>				
<b>Profitability</b>				
Return on capital employed (annualised) (%)	13.99	13.62	13.64	13.60
Return on average shareholders' equity (annualised) (%)	11.40	16.69	16.61	16.14
Return on assets (annualised) (%)	3.61	5.20	5.18	5.03
<b>Productivity</b>				
Non interest expenses to total revenue (%)	28.36	27.73	27.68	27.43
Cost to income (%)	38.79	37.94	37.83	37.78
<b>Asset quality</b>				
Gross NPA ratio (%)	3.86	4.00	4.24	4.54

# Information on Shares and Debentures

## Share Information

### 1. STOCK EXCHANGE

The ordinary shares of the company and the debentures are listed on the Colombo Stock Exchange.

The audited income statement for the year ended 31st March 2016 and the audited statement of financial position as at 31st March 2016 of the company and of the group are submitted to the shareholders and Colombo Stock Exchange within three months from the close of the financial year.

### 2. NUMBER OF ORDINARY SHAREHOLDERS AS AT 31ST MARCH 2016 - 2,668

(Stated capital of the company consists solely of voting ordinary shares)

(Number of shareholders as at 31.03.2015 - 2,615)

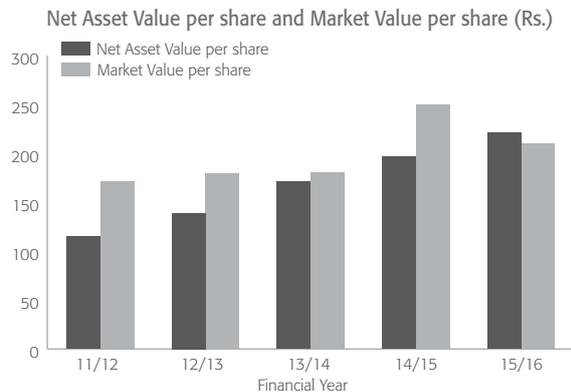
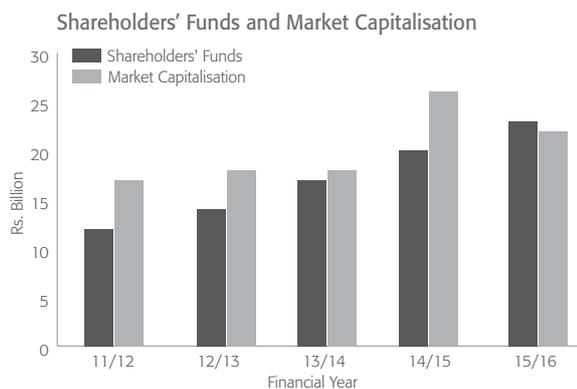
Following tables show the pattern of distribution of shareholders

No. of shares held	Residents			Non-residents			Total		
	No. of share holders	No. of shares	%	No. of share holders	No. of shares	%	No. of share holders	No. of shares	%
1 -1,000	1,360	328,887	0.31	16	5,539	0.01	1,376	334,426	0.32
1,001 -10,000	846	3,306,358	3.15	24	104,617	0.10	870	3,410,975	3.25
10,001-100,000	320	9,612,466	9.16	19	734,908	0.70	339	10,347,374	9.86
100,001-1,000,000	62	16,905,300	16.12	5	2,432,249	2.32	67	19,337,549	18.44
Over 1,000,000	13	62,292,062	59.40	3	9,160,947	8.73	16	71,453,009	68.13
Total	2,601	92,445,073	88.14	67	12,438,260	11.86	2,668	104,883,333	100.00

There were 2,552 resident and 63 non-resident shareholders as at 31st March 2015.

	31st March 2016			31st March 2015		
	No. of Share holders	No. of shares	%	No. of Share holders	No. of shares	%
Individuals	2,441	52,726,112	50.27	2,401	53,037,901	50.57
Institutions	227	52,157,221	49.73	214	51,845,432	49.43
	<b>2,668</b>	<b>104,883,333</b>	<b>100.00</b>	<b>2,615</b>	<b>104,883,333</b>	<b>100.00</b>

The percentage of public shareholding as at 31st March 2016 was 59.93 % (31st March 2015 - 60.05 %).



### 3. TWENTY LARGEST SHAREHOLDERS AS AT 31ST MARCH 2016

		31st March 2016		*31st March 2015	
		No. of shares	%	No. of shares	%
1	Corporate Services (Pvt) Ltd.	16,895,461	16.11	16,895,461	16.11
2	E. H. Wijenaikē	16,164,123	15.41	16,164,123	15.41
3	Employees' Provident Fund	11,200,944	10.68	10,950,992	10.44
4	Thurston Investments Limited	6,107,701	5.82	6,107,701	5.82
5	A. J. Wijenaikē	3,271,357	3.12	3,271,357	3.12
6	Waldock Mackenzie Limited / Perpetual Equities (Pvt) Ltd**	2,489,066	2.37	1,720,000	1.64
7	Perpetual Equities (Private) Limited**	2,308,333	2.20	2,308,333	2.20
8	N. W. Wijegoonawardene	2,162,353	2.06	2,162,353	2.06
9	G. S. N. Peiris	1,828,168	1.74	1,828,168	1.74
10	B P De Silva Holdings Pte Ltd	1,752,900	1.67	1,752,900	1.67
11	C. R. Dunuwille	1,348,582	1.29	1,348,582	1.29
12	J. B. Cocoshell (Pvt) Ltd.	1,341,868	1.28	1,332,038	1.27
13	N. M. Gunawardana	1,300,346	1.24	1,300,346	1.24
14	P. R. Munasinha	1,226,980	1.17	1,226,980	1.17
15	The Ceylon Investment PLC A/c # 02	1,166,195	1.11	1,347,795	1.29
16	P. M. Wijenaikē	1,016,180	0.97	1,016,180	0.97
17	Deutsche Bank AG-National Equity Fund	991,632	0.95	881,632	0.84
18	R. E. Rambukwelle	984,906	0.94	984,906	0.94
19	The Ceylon Guardian Investment Trust PLC A/c #02	974,084	0.93	1,141,079	1.09
20	C. Kiriella	967,881	0.92	967,881	0.92
		<b>75,499,060</b>	<b>71.98</b>	<b>74,708,807</b>	<b>71.23</b>
	Others	<b>29,384,273</b>	<b>28.02</b>	<b>30,174,526</b>	<b>28.77</b>
	<b>Total</b>	<b>104,883,333</b>	<b>100.00</b>	<b>104,883,333</b>	<b>100.00</b>

\*Comparative shareholdings as at 31st March 2015 held by the twenty largest shareholders as at 31st March 2016.

\*\* Perpetual Equities (Private) limited was known as Perpetual Capital (Private) Limited as at 31st March 2015.

### 4. MARKET VALUE

Movement in market value of the ordinary shares of the company was as follows.

	2015/2016	2014/2015	2013/2014
	Rs.	Rs.	Rs.
Highest	280.00 (on 20.08.2015)	276.00 (on 12.01.2015)	194.90 (on 23.05.2013)
Lowest	201.00 (on 28.03.2016)	183.00 (on 08.04.2014)	171.10 (on 10.12.2013)
Year End	210.00	250.10	181.00

## Information on shares and debentures

### 5. DIVIDEND PAYMENTS

Dividend per share

	2015/2016	2014/2015
	Rs.	Rs.
First Interim paid	1.00	0.85
Second Interim paid	1.00	0.85
Final - paid	-	1.80
- proposed	2.00	-
<b>Total</b>	<b>4.00</b>	<b>3.50</b>

	2015/2016	2014/2015
Dividend pay-out (Rs.'000)	419,533	367,092

### 6 SHARE TRADING

	2015/2016	2014/2015	2013/2014
No. of shares traded	5,885,718	8,590,283	4,786,750
Value of shares traded (Rs. '000)	1,444,957	2,083,738	881,965
Market Capitalisation (Rs. '000)	22,025,500	26,231,322	18,983,883

### 7. STATED CAPITAL IS REPRESENTED BY NUMBER OF SHARES IN ISSUE AS GIVEN BELOW

	31.03.2016	31.03.2015
Ordinary shares	104,883,333	104,883,333

## DEBENTURES

### 1. INFORMATION ON LISTED DEBENTURES

The company issued 25,000,000 rated secured redeemable debentures at the par value of Rs.100/- during the year ended 31st March 2016.

#### Objective of the issue

To reduce the mismatch of maturity periods between assets and liabilities, diversifying the funding mix of the company and financing the growth of the lending portfolio of leases and hire purchase.

The company utilised the entirety of the funds raised through the issue for the above purpose.

Details of this issue and the debentures issued in June 2013 and December 2013 are given below:

Date of issue	Interest payment frequency	No. of debentures issued	Face value Rs.'000	Coupon rate %	Annual effective rate %	Tenor	Date of maturity
<b>Rated unsecured redeemable debentures</b>							
17-Jun-13	Quarterly	300,000	300,000	14.25	15.03	3 years	17-Jun-16
17-Jun-13	Quarterly	300,000	300,000	14.50	15.31	4 years	17-Jun-17
17-Jun-13	Quarterly	1,400,000	1,400,000	14.75	15.59	5 years	17-Jun-18
<b>Rated secured redeemable debentures</b>							
12-Dec-13	Semi annually	2,000,000	200,000	13.00	13.42	3 years	12-Dec-16
12-Dec-13	Semi annually	2,000,000	200,000	13.25	13.69	4 years	12-Dec-17
12-Dec-13	Semi annually	6,000,000	600,000	13.50	13.96	5 years	12-Dec-18
12-Dec-13	Annually	10,000,000	1,000,000	13.95	13.95	5 years	12-Dec-18
<b>Rated secured redeemable debentures</b>							
01-Jun-15	Semi annually	2,500,000	250,000	8.35	8.52	3 years	31-May-18
01-Jun-15	Semi annually	5,000,000	500,000	9.00	9.20	4 years	31-May-19
01-Jun-15	Annually	17,500,000	1,750,000	9.52	9.52	5 years	31-May-20

## 2. Year ended 31st March 2016

	Market value			Traded yield (%)		
	Highest	Lowest	Last traded	Highest	Lowest	Last traded
	Rs.	Rs.	Rs.			
<b>Debentures issued on 17th June 2013</b>						
3 year fixed rate (14.25 % p.a. payable quarterly)	1,055.92	1,055.92	1,055.92	7.99	7.99	7.99
4 year fixed rate (14.50 % p.a. payable quarterly)	1,091.90	1,091.90	1,091.90	9.03	9.03	9.03
5 year fixed rate (14.75 % p.a. payable quarterly)	N/T	N/T	N/T	-	-	-
<b>Debentures issued on 12th December 2013</b>						
3 year fixed rate (13.00 % p.a. payable semi-annually)	105.00	104.238	104.238	8.98	8.47	8.47
4 year fixed rate (13.25 % p.a. payable semi-annually)	108.293	108.293	108.293	8.63	8.63	8.63
5 year fixed rate (13.50 % p.a. payable semi-annually)	106.75	106.75	106.75	11.03	11.03	11.03
5 year fixed rate (13.95 % p.a. payable annually)	111.143	111.143	111.143	9.50	9.50	9.50
<b>Debentures issued on 01st June 2015</b>						
3 year fixed rate (8.35 % p.a. payable semi-annually)	N/T	N/T	N/T	-	-	-
4 year fixed rate (9.00 % p.a. payable semi-annually)	N/T	N/T	N/T	-	-	-
5 year fixed rate (9.52 % p.a. payable annually)	101.15	101.15	101.15	9.24	9.24	9.24

N/T – Not traded during the year

## 3. Debt related ratios

	As at 31.03.2016
Debt/equity ratio (times)	1.85
Quick assets ratio (%)	85.42
Interest cover (times)	2.38

## 4. Interest rates of comparable government securities (%)

	31.03.2016
03 Year treasury bonds	9.19
04 Year treasury bonds	11.92
05 Year treasury bonds	10.24

## 5. Credit Ratings

There were no changes in credit ratings of the company or of the debentures during the year.

## Decade at a Glance

Year ended 31st March	2007 Rs.'000	2008 Rs.'000	2009 Rs.'000	2010 Rs.'000	2011 Rs.'000	2012 Rs.'000	2013 Rs.'000	2014 Rs.'000	2015 Rs.'000	2016 Rs.'000
<b>Group income</b>	5,332,059	6,453,132	7,405,866	7,536,516	8,094,371	9,148,164	11,318,774	13,410,771	15,963,249	16,284,923
Interest income	3,651,989	4,662,008	5,520,829	5,723,338	6,269,481	7,492,975	9,755,419	11,916,505	12,463,439	12,624,010
Other revenue	-	-	-	-	-	-	-	-	2,524,826	2,660,584
Other operating income	1,477,626	1,615,909	1,638,866	1,470,952	1,413,023	1,074,360	1,022,377	1,034,981	334,506	364,207
Other income	202,444	175,215	246,171	342,226	411,867	580,829	540,978	459,285	640,478	636,122
<b>Interest expenses</b>										
Interest on deposits	(1,315,954)	(1,751,728)	(2,212,756)	(2,561,737)	(2,072,875)	(2,165,955)	(3,010,368)	(3,873,030)	(3,345,777)	(2,744,446)
Interest on bank and other borrowings	(538,298)	(913,129)	(1,001,190)	(497,008)	(282,388)	(497,348)	(1,058,674)	(857,349)	(758,369)	(937,630)
Cost of sales	-	-	-	-	-	-	-	-	(1,761,781)	(1,792,067)
Operating expenses	(1,832,297)	(2,008,313)	(2,234,224)	(2,335,775)	(2,545,141)	(2,602,889)	(2,826,385)	(3,394,155)	(3,694,249)	(4,251,348)
Impairment on loans and other credit losses	(48,357)	(124,399)	(220,189)	(299,479)	(186,822)	87,520	(201,441)	(1,216,365)	(1,834,150)	(658,347)
Share of profit of associates	102,150	168,434	163,953	383,868	507,781	495,122	616,084	699,351	794,608	815,812
Vat on financial services	(115,246)	(107,803)	(159,080)	(200,851)	(273,333)	(173,096)	(218,177)	(182,591)	(240,796)	(444,978)
<b>Profit before income tax</b>	1,584,057	1,716,194	1,742,380	2,025,534	3,241,593	4,291,518	4,619,813	4,586,632	5,122,735	6,271,919
Income tax expense	(419,634)	(456,608)	(561,336)	(900,699)	(1,330,155)	(1,231,724)	(1,335,096)	(1,232,266)	(1,387,715)	(2,169,126)
<b>Net profit for the year</b>	1,164,423	1,259,586	1,181,044	1,124,835	1,911,438	3,059,794	3,284,716	3,354,366	3,735,020	4,102,793
Attributable to equity holders of the parent	1,122,237	1,210,711	1,126,985	1,046,112	1,827,034	2,964,837	3,217,058	3,291,239	3,633,279	3,993,671
Attributable to non-controlling interest	42,186	48,875	54,059	78,723	84,404	94,957	67,658	63,127	101,741	109,122
	2007 Rs.'000	2008 Rs.'000	2009 Rs.'000	2010 Rs.'000	2011 Rs.'000	2012 Rs.'000	2013 Rs.'000	2014 Rs.'000	2015 Rs.'000	2016 Rs.'000
<b>Statement of financial position</b>										
Stated capital	203,020	203,020	203,020	203,020	203,020	568,420	568,420	568,420	568,420	568,420
Capital reserves	1,308,366	1,326,647	1,382,664	1,377,177	1,312,973	1,308,607	1,337,282	2,517,669	2,527,454	2,509,879
Reserve fund	448,500	501,000	553,500	601,000	682,000	800,000	939,000	1,078,000	1,229,000	1,396,000
Unrealised income reserve	53,000	-	-	-	-	-	-	-	-	-
Investment fund	-	-	-	-	-	223,492	478,857	732,716	-	-
Available for sale reserve	-	-	-	-	72,282	(821)	12,887	26,665	102,499	91
Revenue reserves	4,040,699	5,107,037	6,053,306	6,945,757	8,983,262	11,008,108	13,553,801	16,062,203	19,891,223	23,014,096
Funds attributable to equity holders of the parent	6,053,585	7,137,704	8,192,490	9,126,954	11,253,537	13,907,806	16,890,247	20,985,673	24,318,596	27,488,486
Non-controlling interest	320,779	350,818	459,454	506,506	574,060	614,089	630,839	731,711	795,979	855,819
	6,374,364	7,488,522	8,651,944	9,633,460	11,827,597	14,521,895	17,521,086	21,717,384	25,114,575	28,344,305

	2007 Rs.'000	2008 Rs.'000	2009 Rs.'000	2010 Rs.'000	2011 Rs.'000	2012 Rs.'000	2013 Rs.'000	2014 Rs.'000	2015 Rs.'000	2016 Rs.'000
<b>Assets</b>										
Cash and other liquid assets	1,996,020	2,108,534	2,822,987	3,727,366	2,405,834	3,320,187	3,326,317	4,580,351	4,919,919	4,152,976
Financial assets held for trading	7,322	8,168	7,444	2,200	32,173	24,659	33,101	536,737	218,080	39,992
Available for sale securities	8,319	7,949	10,338	121,176	252,583	192,049	195,404	206,981	267,024	234,820
Investments in associates	862,149	1,209,943	1,224,834	1,584,724	1,795,601	2,011,360	2,364,929	2,719,082	3,167,824	3,537,114
Advances to customers	18,704,532	20,768,506	21,353,518	21,733,403	27,570,496	38,153,555	44,318,139	48,341,935	53,464,335	60,446,473
Other assets	2,425,317	2,892,999	3,490,477	3,675,363	2,798,186	2,350,001	2,272,034	3,577,169	3,365,417	3,470,320
Property, plant and equipment	5,490,668	5,453,522	5,137,289	4,633,049	4,084,303	3,745,802	4,047,417	5,467,305	5,801,116	5,925,833
<b>Total assets</b>	<b>29,494,327</b>	<b>32,449,621</b>	<b>34,046,887</b>	<b>35,477,281</b>	<b>38,939,176</b>	<b>49,797,613</b>	<b>56,557,341</b>	<b>65,429,560</b>	<b>71,203,715</b>	<b>77,807,528</b>
<b>Liabilities</b>										
Public deposits	11,765,897	12,172,031	13,354,133	17,233,458	19,887,906	22,795,351	26,984,757	32,673,095	33,448,265	34,299,143
Bank and other borrowings	6,299,135	6,963,437	5,866,646	1,756,655	2,839,926	8,400,512	7,661,345	6,411,628	6,322,225	8,504,386
Other liabilities	5,054,931	5,825,631	6,174,164	6,853,708	4,383,747	4,079,855	4,390,153	4,627,453	6,318,650	6,659,694
<b>Total liabilities</b>	<b>23,119,963</b>	<b>24,961,099</b>	<b>25,394,943</b>	<b>25,843,821</b>	<b>27,111,579</b>	<b>35,275,718</b>	<b>39,036,255</b>	<b>43,712,176</b>	<b>46,089,140</b>	<b>49,463,223</b>
<b>Key indicators</b>										
Earnings per share (Rs.)	55.28	59.64	55.52	51.53	17.42	28.27	30.67	31.38	34.64	38.08
Net asset value per share (Rs.)	298.21	351.61	403.57	449.60	107.30	132.60	161.04	200.09	231.86	262.09
Gross dividends paid (Rs.'000)	91,350	91,350	101,500	121,800	213,150	262,208	304,162	335,627	367,092	419,533
Dividend cover (times covered)	12.28	13.25	11.10	7.72	7.55	9.95	9.12	8.27	8.18	7.95
Market price per share (Rs.)	236.00	200.00	157.00	390.00	1,273.70	171.30	180.00	181.00	250.10	210.00
Normalised market value per share (Rs.) *	236.00	200.00	157.00	390.00	246.84	171.30	180.00	181.00	250.10	210.00
Price earnings ratio	4.27	3.35	2.83	7.57	14.17	6.06	5.87	5.77	7.22	5.52

Market value of previous periods have been adjusted in line with changes in stated capital subsequent to the subdivision & issue of bonus shares in September 2011.

## Income Statement in US Dollars

For the year ended 31st March	Group		Company	
	2016 USD. '000	2015 USD. '000	2016 USD. '000	2015 USD. '000
Income	110,948	118,483	93,352	100,259
Interest income	86,006	92,507	85,898	92,590
Less: Interest expenses	25,087	30,462	25,211	30,698
Net interest income	60,921	62,045	60,687	61,892
Other revenue	18,126	18,740	-	-
Less: cost of sales	12,209	13,076	-	-
Gross profit	5,917	5,664	-	-
Other operating income	2,481	2,483	2,482	2,483
Other income	4,334	4,754	4,972	5,187
	<b>73,653</b>	<b>74,946</b>	<b>68,141</b>	<b>69,562</b>
Less: Operating expenses				
Personnel expenses	10,988	10,397	9,432	8,949
Premises, equipment and establishment expenses	10,709	10,879	10,156	10,273
Employee retirement benefit expenses	1,117	1,111	978	967
Impairment of goodwill	108	-	-	-
Other expenses	6,042	5,033	5,392	4,292
	<b>28,964</b>	<b>27,420</b>	<b>25,958</b>	<b>24,481</b>
Profit before impairment on loans and other credit losses	44,689	47,525	42,183	45,081
Less : Impairment on loans and other credit losses	4,485	13,614	4,482	13,558
	<b>40,204</b>	<b>33,911</b>	<b>37,701</b>	<b>31,523</b>
Share of profit of associates	5,558	5,898	-	-
Profit before VAT on financial services, NBT and income tax	45,762	39,809	37,701	31,523
Less: VAT on financial services and NBT	3,032	1,787	3,027	1,787
Profit before income tax	42,730	38,022	34,674	29,735
Less: Income tax expense	14,778	10,300	11,958	7,447
Profit after income tax	27,952	27,722	22,716	22,288
Attributable to equity holders of the parent	27,209	26,967	22,716	22,288
Attributable to non-controlling interest	743	755	-	-
Net profit for the year	<b>27,952</b>	<b>27,722</b>	<b>22,716</b>	<b>22,288</b>
Basic and diluted earnings per share - USD	0.26	0.26		
Dividend per share - USD				
Paid	0.01	0.03		
Proposed	0.01			

The Income Statement given on this page is solely for the convenience of the shareholders, bankers, investors, customers and other users of financial statements and do not form part of the audited financial statements.

# Statement of Financial Position in US Dollars

As at	Group		Company	
	31.03.2016 USD. '000	31.03.2015 USD. '000	31.03.2016 USD. '000	31.03.2015 USD. '000
<b>ASSETS</b>				
Cash in hand and at banks	3,547	3,289	3,157	3,043
Fair value through profit or loss financial assets	272	1,619	230	368
Tax receivables	12	5	-	-
Trade and other receivables	7,571	8,471	2,462	2,144
Equity investments classified as AFS investments	1,600	1,982	1,556	1,934
Inventories and other stocks	8,121	11,961	4,814	9,267
Securities bought under repurchase agreements	18,994	20,580	18,994	20,580
Loans and receivables from banks	5,753	12,647	5,718	12,611
Loans and receivables from others	6,600	2,457	3,174	2,457
Loans and receivables from customers	29,982	24,415	31,085	25,566
Net investment in leases and hire purchase	381,835	372,411	381,741	372,093
Investments in real estate	256	305	210	255
Investment property	281	306	-	-
Investments in associates	24,098	23,512	3,566	3,885
Investments in subsidiaries	-	-	4,231	4,757
Deferred tax asset	80	96	-	-
Property, plant and equipment	40,371	43,059	31,478	32,789
Intangible assets	723	1,259	718	1,249
Goodwill	-	118	-	-
<b>Total assets</b>	<b>530,096</b>	<b>528,492</b>	<b>493,134</b>	<b>492,998</b>
<b>LIABILITIES</b>				
Bank overdrafts	4,571	2,485	4,538	2,363
Tax payables	6,146	2,511	5,571	2,125
Trade and other payables	10,586	17,845	8,146	15,522
Amounts due to subsidiaries	-	-	1,178	1,086
Derivative financial instruments	-	51	-	51
Short term borrowings	8,137	4,961	8,137	3,714
Public deposits	233,677	248,261	234,935	250,446
Long term borrowings	-	3,361	-	3,361
Debentures	45,231	36,066	45,231	36,066
Employee benefit obligations	6,318	6,809	5,577	6,033
Deferred tax liability	22,322	19,735	21,875	19,226
<b>Total liabilities</b>	<b>336,988</b>	<b>342,085</b>	<b>335,188</b>	<b>339,993</b>
<b>SHAREHOLDERS' FUNDS</b>				
Stated capital	3,873	4,219	3,873	4,219
Capital reserves	17,100	18,759	13,153	14,359
Reserve fund	9,511	9,122	9,511	9,122
Available for sale reserve	1	761	370	642
Revenue reserves	156,792	147,638	131,039	124,663
Funds attributable to equity holders of the parent	187,277	180,499	157,946	153,005
Non-controlling interest	5,831	5,908	-	-
	193,108	186,407	157,946	153,005
<b>Total liabilities, shareholders' funds and non-controlling interest</b>	<b>530,096</b>	<b>528,492</b>	<b>493,134</b>	<b>492,998</b>
Net asset value per share - USD	1.79	1.72	1.51	1.46

USD Exchange rate was Rs. 146.78 as at 31st March 2016 (Rs. 134.73 as at 31st March 2015)

The statement of financial position given on this page is solely for the convenience of the shareholders, bankers, investors, customers and other users of financial statements and do not form part of the audited financial statements.

# Employees of the Year

## City Office 2015/16



April  
Mr. A. Jayawardena



May  
Mrs. M. D. N. S. Peiris



June  
Mr. T. T. S. Kottage



July  
Mr. M. W. U. I. Pushpakumara



August  
Mr. W. A. R. Kumara



September  
Mr. B. S. U. K. Perera



October  
Mrs. K. K. A. A. Gunasekera



November  
Mr. B. W. N. Suranga



December  
Ms. K. L. A. Sarathkumara



January  
Ms. V. N. Senanayake



February  
Mr. W. M. P. Mduranjeewa



March  
Mr. D. P. S. Samarathunga

## Head Office 2015/16



April  
Mrs. K. Basnayake



May  
Mr. H. Sriwardana



June  
Mrs. N. Samarakoon



July  
Mrs. B. Nanayakkara



August  
Mrs. P. Ranathunge



September  
Mrs. S. Samarasinghe



October  
Mr. A. Sanjeewana



November  
Mr. N. Weerasuriya



December  
Mrs. S. Jayawardana



January  
Mrs. N. Wijesinghe



February  
Mrs. T. GamasooriyaArachchi



March  
Mr. U. Wijesinghe

## Employees of the Year

### Branches 2015/16



April  
Mr. M. M. N P. Kumara  
Hingurakgoda



May  
Mr. P. M. I. M. Bandara  
Kuliyapitiya



June  
Ms. H. J. Abeywickrama  
Horana



July  
Mr. H. P. De Soyza  
Avisawella



August  
Mr. H. A. L. D. Jayathilake  
Ampara



September  
Ms. K. L. D. N Roopasinghe  
Wattala



October  
Ms. N. W. M. N. D. Senevirathne  
Maharagama



November  
Mr. D. M. K. D. Dissanayake  
Badulla



December  
Ms. K. A. N. L. Ketipearachchi  
Polonnaruwa



January  
Ms. M. I. Nikath  
Chilaw



February  
Ms. P. G. A. De Silva  
Hanwella



March  
Ms. P. S. Ponnampereuma  
Balangoda

# Glossary of Financial Terms

**Accounting policies** - The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

**Accrual basis** - The system of accounting wherein revenue is recognised at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

**Amortisation** - The systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Associate company** - An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

**Available for sale (AFS)** - AFS are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivable, held-to-maturity investment or financial assets at fair value through profit or loss.

**Cash equivalents** - Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Collective impairment provisions** - Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant.

**Consolidated financial statements** - Financial statement of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

**Contingencies** - A condition or situation existing at the balance sheet date where the outcome will be confirmed only by the occurrence or non-occurrence of one or more future events.

**Corporate governance** - Process by which corporate entities are governed to promote stakeholder interest. Shareholders exert collective pressure on management to ensure equitable decision making on matters that may affect the value of their holdings and base their response on statutory requirements or on so called "Best Practice".

**Credit risk** - The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Deferred taxation** - Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

**Dividend cover** - Profit attributable to ordinary shareholders divided by gross dividends to ordinary shares; this indicates number of times dividend is covered by current year's distributable profits.

**Dividend per share** - Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; this indicates the proportion of current year's dividend attributable to an ordinary share in issue.

**Earnings per share (EPS)** - Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue; this indicates the proportion of current year's earnings attributable to an ordinary share in issue.

**Effective interest method** - Is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

**Equity method** - A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the

investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

**Fair value** - Is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Financial asset** - Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

**Financial instrument** - Is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial liability** - A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

**Finance lease** - A lease that transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee. Title may or may not eventually be transferred.

**Gross dividend** - The proportion of profit distributed to shareholders including the tax withheld.

**Group** - A group is a parent and all its subsidiaries and associates.

**Held-for-trading** - Debt and equity investments that are purchased with the intent of selling them within a short period of time.

**Held to maturity investment** - Are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

## Glossary of Financial Terms

**Hire purchase** - A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

**Impairment** - This occurs when recoverable amount of an asset is less than its carrying amount.

**Individual impairment** - Impairment is measured on an individual basis for Nonhomogeneous groups of lending facilities that are considered as individually significant.

**Intangible asset** - An intangible asset is an identifiable non-monetary asset without physical substance

**Interest cover** - Earnings before interest and tax divided by interest expenses; this indicates the ability to cover or service interest charges of the debt holders.

**Interest rate SWAP** - An interest rate SWAP is a contract, whereby two parties agree to exchange a set of interest cash flows based on a notional principle on pre-arranged dates. Normally fixed rate is exchanged for a floating rate.

**Lease** - An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

**Liquid asset** - Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks and treasury bills

**Liquidity risk** - The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

**Market capitalisation** - Number of ordinary shares in issue multiplied by market value of a share and indicates total market value of all ordinary shares in issue.

**Market risk** - The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises three types of risks: currency risk, interest rate risk, and other price risk.

**Non-controlling interest** - Portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

**Net asset value per ordinary share** - Ordinary shareholders' funds divided by the number of ordinary shares in issue.

**Non-performing advances** - Loans and advances of which rentals are in arrears for six months or more.

**Operating lease** - An operating lease is a lease other than a finance lease.

**Parent** - A parent is an entity that has one or more subsidiaries.

**Past due** - A financial asset is past due when a counterparty has failed to make a payment when contractually due.

**Related parties** - Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

**Related party transactions** - Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

**Reverse repurchase agreement** - Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

**Return on average assets (ROA)** - Profit after tax expressed as a percentage of average total assets.

**Return on average equity (ROE)**

- Profit after tax less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

**Segmental analysis** - Analysis of financial information by segments of an enterprise specifically the different industries and the different geographical areas in which it operates.

**Shareholders' funds (Equity)** - Total of issued and fully paid ordinary share capital and capital and revenue reserves attributable to ordinary shareholders.

**Subsidiary company** - An entity, including an unincorporated entity such as a partnership, which is controlled by another entity, known as the parent.

**Substance over form** - The consideration that the accounting treatment and the presentation in financial statements of transactions and the events are governed by their financial reality and not merely by its legal form.

**Tier I capital** - Core capital representing permanent share holders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

**Tier II capital** - Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debts, such as, hybrid capital instruments and unsecured subordinate term debts.

**Transaction costs** - Are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

# Notice of Meeting

Notice is hereby given that the Fifty Eighth Annual General Meeting of Central Finance Company PLC will be held at The Grand Kandyan Hotel, No. 89/10, Lady Gordon's Drive, Kandy on the 15th day of July 2016 at 11.30 a.m. for the following purposes.

1. To receive and consider the Annual Report of the board together with the Financial Statements of the company for the year ended 31st March 2016 and report of the auditor thereon.
2. To approve a final dividend of Rs. 2.00 per share as authorised by the directors.
3. To re-elect as a director J. D. Bandaranayake who retires by rotation in terms of Article 105 of the Articles of Association of the company.
4. To re-elect as a director A.D.B. Talwatte who (a) will be appointed as a director of the company on 30th June 2016 pursuant to the retirement of A. N. Fernando and (b) ceases to hold office at this Annual General Meeting in terms of Article 111 of the Articles of Association of the company, and being eligible has offered himself for re-election.
5. To re-appoint Ms/ SJMS Associates, Chartered Accountants, as auditor of the company, to hold office until the conclusion of the next Annual General Meeting of the company at a remuneration to be agreed with by the board of directors and to audit the financial statements of the company for the accounting period ending 31st March 2017.
6. To authorise the directors to determine contributions to charities for the ensuing year.

By order of the board,

## **Corporate Services (Private) Limited**

*Secretaries*

Central Finance Company PLC

Colombo on this 13th day of June 2016

### **Note:**

- (1) Any member entitled to attend and vote is entitled to appoint a proxy instead.

A proxy need not be a member, instruments appointing proxies must be lodged with the company not less than 48 hours before the meeting.

- (2) It is proposed to dispatch the dividend warrants on 20th July 2016 in accordance with the rules of the Colombo Stock Exchange, the shares of the company will be quoted ex-dividend with effect from 18th July 2016.



# Form of Proxy

I/We .....  
 of .....  
 being \*a member/members of CENTRAL FINANCE COMPANY PLC do hereby appoint

- |                                            |                 |
|--------------------------------------------|-----------------|
| 1. Jayampathi Divale Bandaranayake         | or failing him, |
| 2. Eranjith Harendra Wijenaik              | or failing him, |
| 3. Gerard Shamil Niranjan Peiris           | or failing him, |
| 4. Ravindra Erle Rambukwelle               | or failing him, |
| 5. Arjuna Kapila Gunaratne                 | or failing him, |
| 6. Chandima Lalith Kumar Perera Jayasuriya | or failing him, |
| 7. Sunil Chandra Sillapana Wickramasinghe  | or failing him, |
| 8. Dhammika Prasanna de Silva              | or failing him, |
| 9. Faiz Mohideen                           | or failing him, |

..... of  
 .....

as \*my/our Proxy to vote/speak for me/us on \*my/our behalf at the 58th Annual General Meeting of the Company to be held at The Grand Kandyan Hotel, No. 89/10, Lady Gordon's Drive, Kandy on the 15th day of July 2016 at 11.30 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive and consider the Annual Report of the Board together with the Financial Statements of the Company	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of Rs. 2.00 per share as authorised by the Directors	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director J.D. Bandaranayake in terms of Article 105 of the Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as a Director A.D.B. Talwatte who (a) will be appointed as a Director of the Company on 30th June 2016 pursuant to the retirement of A.N. Fernando and (b) ceases to hold office at this Annual General Meeting in terms of Article 111 of the Articles of Association of the Company, and being eligible has offered himself for re-election	<input type="checkbox"/>	<input type="checkbox"/>
5. To appoint Ms/SJMS Associates as Auditor of the Company to audit the financial statements and authorise the Directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise the Directors to determine contributions to charities	<input type="checkbox"/>	<input type="checkbox"/>

Signed this..... day of.....Two Thousand and Sixteen

.....  
 \*Signature/s

## Note:

Please delete the inappropriate words  
 Instructions as to completion are noted on the reverse hereof.

## Form of Proxy

### INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address and sign in the space provided. Please fill in the date of signature.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend and vote instead of him.
3. In the case of a Corporate Member, the Form must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association.
4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy, in the manner prescribed by Articles of Association.
5. The completed Form of Proxy should be deposited at the Registered Office of the Company, No.84, Raja Veediya, Kandy not less than forty eight (48) hours before the appointed time for the Meeting.

# Investor Feedback Form

To request information or submit a comment/query to the company, please complete the following and return this page to -

General Manager - Finance  
Central Finance Company PLC,  
84, Raja Veediya, Kandy  
Sri Lanka

Email: ube@cf.lk

Name : .....

Permanent mailing address : .....

Contact numbers (Tel) : .....  
Country code Area code Number

(Fax) : .....  
Country code Area code Number

Email : .....

Name of company (If applicable) : .....

Designation (If applicable) : .....

Company address (If applicable) : .....

Queries/ comments

Please tick (✓) the appropriate box

Would you like to receive soft copies of the CF annual and interim reports via e-mail?

Yes

No



Would you like to receive news and press releases of CF via e-mail?



Would you like to receive any information on our products/services?



# Corporate Information

## NAME OF COMPANY

Central Finance Company PLC

## LEGAL FORM

A Quoted Public Company with limited liability incorporated in Sri Lanka on 5th December 1957 and registered under the Companies Act No. 07 of 2007.

Registered under Finance Business Act No. 42 of 2011 and Finance Leasing Act No. 56 of 2000.

Approved Credit Agency under:

- Mortgage Act No. 6 of 1949
- Trust Receipt Ordinance No. 12 of 1947

## COMPANY REGISTRATION NUMBER

PQ 67

## DIRECTORS

### J. D. Bandaranayake

*Independent Non - Executive Director / Chairman*

### E. H. Wijenaik

*Managing Director*

### G. S. N. Peiris

*Director (Finance)*

### R. E. Rambukwelle

*Director (Marketing and Operations)*

### A. K. Gunaratne

*Director (Group Co-ordination)*

### D. P. de Silva

*Director (Credit)*

### C. L. K. P. Jayasuriya

*Non - Executive Director*

### S. C. S. Wickramasinghe

*Independent Non - Executive Director*

### F. Mohideen

*Independent Non - Executive Director*

### A. N. Fernando

*Independent Non - Executive Director*

## STOCK EXCHANGE LISTING

The ordinary shares of the company and the Debentures are listed on the Colombo Stock Exchange

## HEAD/ REGISTERED OFFICE

84, Raja Veediya, Kandy.

Telephone : 081 - 2227000

Facsimile : 081 - 2232047

## CITY OFFICE

270, Vauxhall Street, Colombo 2.

Telephone : 011 - 2300555

Facsimile : 011 - 2300441

E-mail : cenfin@cf.lk

Website : www.centralfinance.lk

## BANKERS

Bank of Ceylon

Citibank N.A.

Commercial Bank of Ceylon PLC

Hatton National Bank PLC

Hongkong & Shanghai Banking Corporation Limited

NDB Bank PLC

Nations Trust Bank PLC

People's Bank

Sampath Bank PLC

Seylan Bank PLC

Standard Chartered Bank

DFCC Bank PLC

## AUDITOR

SJMS Associates,

Chartered Accountants,

2, Castle Lane,

Colombo 04.

## LEGAL ADVISER

F. J. & G. de Saram,

Attorneys-at-Law,

P.O. Box 212,

Colombo.

## COMPANY SECRETARY

Corporate Services (Pvt) Limited,

216, de Saram Place,

Colombo10.

Telephone : 011 - 4605100

Facsimile : 011 - 4718220

[www.centralfinance.lk](http://www.centralfinance.lk)