

**FROM A
EXCELLENCE
VIBRANT**

DECADE OF TO A FUTURE

Having begun operations in 2002, and celebrating a decade in the business, we at LankaClear Private Ltd., are stepping onto the springboard of growth that will launch us into the many vibrant decades ahead. With technological advancement and unlimited opportunity on our side, we have always strived to create convenience and value for our stakeholders and as we unveil a new look to our dynamic business, we are excited about the infinite potential that we will achieve in the future, bringing our brand of innovation and ease of use to more people than ever before.

VISION

Asia's most Trusted, Secure and Valued Payment
Systems Infrastructure Facilitator by 2015.

MISSION

To be the National Payment Systems Partner; trusted, rated
and admired for the most Reliable, Secure, Value Driven and
Efficient Solutions in Asia by 2015.

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FINANCIAL HIGHLIGHTS

Net Profit Margin

32.35%

Gross Profit Margin

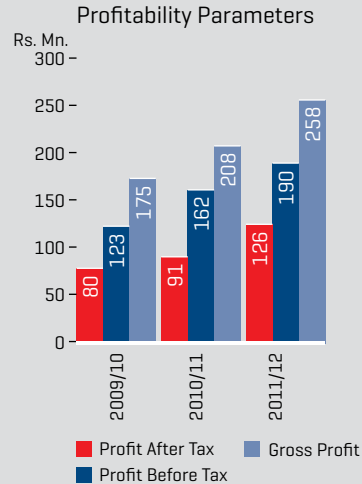
66.01%

Earnings per Share

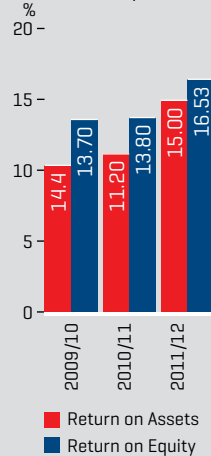
Rs. 8.35

Shareholders' Funds

Rs. 764 million



Efficiency Parameters



| Year Ended 31st March | 2012 [Rs.] | 2011 [Rs.] |
|---------------------------------|-------------|-------------|
| Operating Results | | |
| Revenue | 390,429,865 | 348,813,235 |
| Gross Profit | 257,740,442 | 208,402,478 |
| Profit Before Tax | 189,922,814 | 161,651,815 |
| Income Tax | 63,613,541 | 70,798,015 |
| Profit After Tax | 126,309,273 | 90,853,800 |
| Balance Sheet Highlights | | |
| Stated Capital | 154,750,000 | 152,500,000 |
| Technology Upgrade Reserve | 110,213,819 | 72,005,489 |
| Capital Reserves | 395,000,000 | 300,000,000 |
| Revenue Reserve | 104,202,672 | 133,751,728 |
| Total Shareholders' Funds | 764,166,491 | 658,257,217 |
| Total Assets | 840,235,176 | 814,125,044 |

OPERATIONAL HIGHLIGHTS

Total volume of
cheques cleared:

47.06 million

Total value of
cheques cleared:

Rs. 6,335 billion

Percentage of cheques returned:

4%

Percentage of the value of returned cheques compared
to the total value of all the cheques submitted:

2.4%

Total volume of SLIPS
transactions cleared:

12.93 million

Total value of SLIPS
transactions cleared:

Rs. 453.65 billion



CHAIRPERSON'S REVIEW

"Anywhere-anytime-banking" is becoming the norm in real life due to the convenience it provides. In order to address the requirements of the technically savvy society in the country, a Common Card and Payment Switch is expected to be implemented by LankaClear very soon under the initiation of the National Payments Council.

A handwritten signature in black ink, reading "P Liyanage".

P Liyanage
Chairperson

It is with great pleasure that I present the Annual Report and the Audited Accounts of LankaClear [Private] Limited for the year ended 31st March 2012.

Sri Lanka's economy recorded an impressive growth of 8.3% in 2011, which is the highest growth recorded since independence. During this year, credit to private sector expanded rapidly and performance of the financial sector improved significantly. There was a visible growth in many sectors and most importantly in IT and Tourism industries. Export earnings also have increased. The peaceful environment which prevailed in the country and the increased economic activities have contributed towards this improved performance. The future outlook for the nation is brightened by the strategic approach to national development adopted by the Government of Sri Lanka together with the Central Bank. The Government is driving economic growth in a manner that is inclusive of the rural economy and promoting access to finance in remote areas. It is also envisaged to achieve over 7 per cent economic growth in the country in coming years.

Company Performance

As a company, which provides payment infrastructure services to the Financial Market, we place significant emphasis on making efficiency enhancements to its existing services and introduction

of new services. Benefiting from the higher economic activities and the friendly economic environment, the operations of LankaClear recorded very good results. The Net profit before tax for the year under review was Rs. 190mn with a 17 per cent year on year growth. After tax the profit was Rs. 126mn. A considerable percentage of this profit was added to retained profits increasing the company's net asset per share. The increase in profits in successive years has led to an increase in shareholders' funds year over year and currently stands at Rs. 764 mn.

Completion of 10 Years

In 2012, LankaClear reached an important milestone completing 10 years of operations. During this year several key steps have been taken towards introducing new infrastructure facilities which will be available to the financial community very soon. Although, LankaClear commenced operations as the National Cheque Clearing House initially, it has been now developed as the National Payment Infrastructure Service Provider to the Sri Lankan financial market and has been able to provide new products to the market in par with the international developments in the payments industry.

While expanding its operations successfully, the Company has brought economies of scale to the banking industry and improved the efficiency of the payment systems in Sri Lanka. Due to

the improvements introduced to its systems and services by LankaClear, it has facilitated Commercial Banks in Sri Lanka to provide more efficient financial services to their customers at cost effective prices. Therefore, the general public of this country have benefitted immensely from these efficient financial services.

Developments in Existing Services

The year under review has yielded improvements to the existing services by way of Cheque Imaging and Truncation System [CITS], Sri Lanka Interbank Payment System [SLIPS], Rupee Drafts & US Dollar Drafts Clearing, and provision of digital certificates to the market under the brand name of LankaSign. Providing Digital Certificates is an essential requirement since the transmission of documents through electronic means is fast expanding. In this process, verifying the authenticity of different parties involved in communication is of paramount importance. These certificates of LankaSign will save valuable foreign exchange to the financial sector enterprises as they need not procure these certificates from foreign Certification Authorities at a high cost.

New Projects

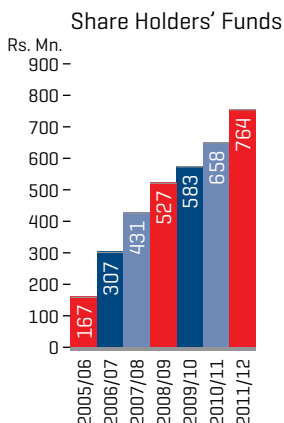
Arrangements are being made to set up a Bank Computer Security Incident Response Team [Bank

CHAIRPERSON'S REVIEW contd...

As a company, which provides payment infrastructure services to the Financial Market, we place significant emphasis on making efficiency enhancements to its existing services and introduction of new services.

CSIRT] for the financial sector, which is another important activity carried out by LankaClear. It is intended to commence the service for banks in the near future with the concurrence of the Central Bank of Sri Lanka. The aim of this project is to minimise the occurrence of data security breaches within banks.

Payment Systems form a critical part of market and economic infrastructure. They are necessary for the settlement of financial transactions of all market participants including the monetary authority and also to effect payments for economic activities of the general public.



Therefore, payment infrastructure is essential for the efficient functioning of the economy. In the circumstances, quality of the services provided is very important. When the economy is growing, the payment activities will also increase. With the development of technology, new payment modes too may evolve. All these changes necessitate further development of payment infrastructure in Sri Lanka. LankaClear has recognized this responsibility and has made every effort to accomplish its objective by ensuring the smooth operations of the payment systems thereby contributing towards the national economy of our country. As a "user owned" and "user governed" infrastructure service provider, we are committed to serve our customer needs with a transactions processing environment that is operationally and systematically sound. We are continuing to reduce administrative and other costs while further improving service levels.

Future Challenges

Payment options are growing; especially an increasing number of non-bank players are offering

alternative payment solutions to customers of banks. As such, banks and Payment Services Providers need to demonstrate their value propositions through increased specialisation. For this purpose, innovation is vital. In this environment it is not yet certain what the payments market will look like in ten years time, but it is clear that, it will be different from today. At the same time, the evolution of the payments landscape is accelerating. Payment Services Providers need to consider this reality and select their future path based on their capabilities.

The Changing Environment in which LankaClear Operates

At present, electronic payment modes are gaining popularity worldwide. Certain regulators are visualising cashless societies and paperless offices. A number of countries have commenced discussions with regard to ending the use of cash altogether indicating that cash is unhygienic, risky and inefficient. It is also being used for money laundering. Further, the handling cost of cash is also very high. In such

While expanding its operations successfully, the Company has brought economies of scale to the banking industry and improved the efficiency of the payment systems in Sri Lanka.

In an environment new payment modes such as Debit Cards, Credit Cards, Electronic Fund Transfers and Mobile Payments are being introduced with the development of technology. Some Governments have already moved to online salary and social benefit payments and many now allow and encourage online tax payments as well. At the same time payments industry is pursuing various innovations to tackle fraud and better secure non-cash transactions. In the last five years cheque usage has declined in certain countries but in some countries it has grown and continues to be used as a payment mode.

These changes in the payment industry are being reflected even in Sri Lanka. "Anywhere-anytime-banking" is becoming the norm in real life due to the convenience it provides. In order to address the requirements of the technically savvy society in the country, a Common Card and Payment Switch is expected to be implemented by LankaClear very soon under the

initiation of the National Payments Council. We have already signed the agreements with the vendors. The policy framework will be issued in this regard very soon under the guidance of the Central Bank. This provides an Online Real Time Payment facility which is an essential feature towards becoming a financial hub in South East Asia and would facilitate the handling of increasing payment volumes arising due to the development of the economy.

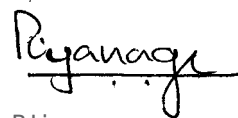
Appreciation

The success behind LankaClear is its committed staff. Their dynamism and commitment are the main factors behind the company's achievements. My thanks and appreciation goes to the staff at all levels who have amply demonstrated their capacity for hard work.

I take this opportunity on behalf of the Board of Directors of the Company and myself to thank and extend our gratitude to the Central Bank of Sri Lanka specially Governor, Mr. Ajith Nivard Cabraal, Deputy Governors, Mrs. Chandra Premaratne and Mr. B D W A Silva who have always provided visionary leadership and guidance to our institution and the Sri Lanka Banks' Association represented by its Secretary General Mr. Upali de Silva who has been a tower of strength to LankaClear.

I also wish to thank my colleagues on the Board of Directors for their unstinted support and cooperation extended to me and for providing LankaClear an appropriate vision and also our stakeholders for placing their trust and confidence in the company.

We look forward towards the continued support of all stakeholders as LankaClear marches ahead as the National Payment Infrastructure Service Provider for the country and I wish to reiterate that LankaClear is fully prepared to serve the nation by providing an accurate, reliable and cost effective payment infrastructure Services.



P Liyanage
Chairperson

12 July 2012
Colombo, Sri Lanka



GM/ CEO'S REVIEW

The financial year 2011/12 could be described as a year in which LankaClear laid solid foundations to face the challenges of the next decade in the eve of celebrating a decade of excellence.

S B Weerasooriya
General Manager / Chief Executive Officer

The financial year 2011/12 could be described as a year in which LankaClear laid solid foundations to face the challenges of the next decade in the eve of celebrating a decade of excellence. With the beginning of an exciting journey back in 2002 as the National Cheque Clearing House, LankaClear has steadily grown to the status of the national payments infrastructure provider. With the rapid changes in the payments arena happening globally, we have now geared ourselves to face the challenges of the future by responding to the new market demands for more efficient payments systems. With the completion of a decade, we also introduced a new corporate logo and an inspiring tag line "Transact the Future" to communicate with our stakeholders better with an enhanced brand identity.

The top line of the company grew by 12% whilst the bottom line of the company grew by a significant 39% on PAT basis resulting in a 38% increase in Earnings Per Share compared to the previous year and Net Assets per Share increasing to Rs. 50.44. The company continued with the efforts of reducing costs wherever possible and keeping cost escalations at the minimum in order to keep the tariffs

charged from Banks for clearing services constant. Due to this effort LankaClear has been able to maintain the same tariff charged for clearing of a cheque from the inception of CITS in 2006 up to 2012. The cost of sales reduced by 5.5%, despite higher activity levels in both CITS and SLIPS. However, the Administration Expenses increased by 25% compared to previous year mainly due to the impairment of some system software procured for the Common Payment Switch project.

Both US Dollar Clearing and Rupee Draft Clearing Systems were upgraded during the year to accommodate online submission of data by Banks to LankaClear. The US Dollar Clearing Data which was earlier submitted in a floppy disk to LankaClear is now submitted through a digitally signed and encrypted e-mail communication. The LankaClear IT Team developed an in-house Bank Communication Module which is now installed in all the Banks where the Rupee Draft Clearing Data Files are now submitted online through the LankaClear VPN. These improvements enhanced the efficiency of the clearing of US Dollar Drafts and Rupee Drafts and made the system much more convenient for the Bank

Representatives who participate in the clearing.

Operational Performance

CITS

The volume of cheques cleared increased by 8% compared to the previous financial year whilst the total value of cheques cleared increased by 12% where the total value of cheques cleared in 2011/12 was Rs. 6,335 Bn. The average cheque returns by volume for the year increased to 4.0% from 3.8% in the previous year. The cheque returns by value increased to 2.38% compared to 2.12% in the previous year. LankaClear is closely coordinating with the Sri Lanka Banks Association (SLBA) and the Central Bank of Sri Lanka in order to reduce the cheque returns.

Sri Lanka Interbank Payment System (SLIPS)

The items cleared through SLIPS increased marginally by 1.6% compared to the previous year whilst the value of SLIPS items cleared grew significantly by 30.9% compared to the previous year where the total value of items cleared through SLIPS was Rs. 454 Bn.

GM/ CEO'S REVIEW contd...

Dollar Clearing & Rupee Draft Clearing

Repeating the past trend, the dollar clearing volumes marginally declined by 3.2% compared to the previous year. However, the value of the items cleared increased by a marginal 4.4% where USD 228 Mn worth of Dollar Cheques/Drafts were cleared during the year. The total value of Rupee Drafts cleared recorded a decline of 14.5% as per the trend experienced in the past couple of years. The value of the Rupee Drafts cleared during the year was Rs. 528 Mn.

LankaSign Certification Service Provider

The revenues from the LankaSign Certification Service Provider (CSP) operated by LankaClear to issue Digital Certificates for the signing of financial transactions sent online, recorded a revenue increase of 42% compared to the previous year. As at 31st March 2012, 89 Clearing Application Certificates and 40 e-mail/document signing certificates were in use by the Banks. CITS, SLIPS and Dollar Clearing systems use the Digital Certificates issued by LankaSign to sign the transaction files as well as

reports submitted from Banks to LankaClear and vice versa.

Financial Performance

The revenue from Clearing Services grew by 11% whilst the revenue from Certificate Authority grew by 42%. The interest income from Fixed Deposits, Treasury Bills and Commercial Paper investments also increased by 8% due to the favourable market interest rates during the latter part of the financial year.

The profit before tax grew by 17% whilst the profit after tax grew by an impressive 39% due to the reduction in income tax attributable to the financial year 2011/12 resulting in a 38% increase in earnings per share. The increase in the top line and the reduction in cost of sales contributed to the significant growth in profits despite a 25% increase in administration costs, which was attributable to an impairment of system software and project expenses written off pertaining to the Common Payment Switch project which was abandoned in 2010. However, it should be noted that the other administration costs have been reduced by 7% compared to the previous financial year.

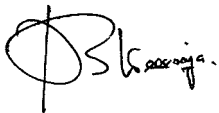
The company was able to maintain an impressive net profit margin of 32%, which was an improvement from the previous year's 26%. The company was able to retire all long term debt during the last financial year and maintained a zero long term debt as at 31st March 2012. Earnings per share increased from Rs. 6.04 to Rs. 8.35 and Net Assets per Share increased from Rs. 43.59 to Rs. 50.44 compared with the previous financial year. The investments in Treasury Bills, Fixed Deposits, Repos and Commercial Papers increased by 11.9% compared to the previous year where the company had investments of Rs. 640.6 Mn as at 31st March 2012.

Future Outlook and Projects Under Implementation

LankaClear would continue to initiate projects and upgrade the current systems to improve the payment infrastructure for electronic transactions in order to cater to the rapidly growing market demand for more efficient payments and financial transactions through electronic modes.

Common Card and Payment Switch [CCAPS]

The CCAPS implementation started on 30th April 2012 with the signing of the Agreement with the Vendor on 2nd April 2012. As the first Phase of this project, the Common ATM Switch would be installed by end 2012 in order for the Banks to connect from January 2013 onwards. The Common Mobile & EFT Switch and Common POS Switch would be implemented as the 2nd and 3rd Phases of the project respectively during the year 2013. CCAPS will enable bank customers to use any Bank's ATM for their transactions at a nominal cost and would facilitate processing of local Payment Card transactions through a local switch thereby saving a considerable amount of foreign exchange.



S B Weerasooriya
General Manager / CEO

12 July 2012
Colombo, Sri Lanka

BOARD OF DIRECTORS

Left to Right

Ms. P Liyanage - *Chairperson*, Mr. G G C Ariyaratne - *Director*, Mr. S S Ratnayake - *Director*,
Mr. M S A Fernando - *Director*



Left to Right

Mr. R Theagarajah - *Director*, Mr. K Dharmasiri - *Director*, Ms. R A S M Dayarathna - *Director*,
Mr. S G Rajakaruna - *Director*, Mr. M U de Silva - *Observer*



BOARD OF DIRECTORS contd.....

Ms. P Liyanage
Chairperson

Mrs. Liyanage has over 38 years of experience in the areas of Banking and the Government sector including 31 years of experience at the Central Bank of Sri Lanka. Prior to joining the Central Bank she has served Bank of Ceylon and also was an officer attached to the Sri Lanka Administrative Service.

During her Central Bank carrier, she spent more than 25 years at the senior level in the operations and international areas of the Bank where one of her primary responsibilities was the management of foreign exchange reserves of the country. She has had wide experience in the areas of Foreign Exchange Operations, Portfolio Management, Exchange Rate Management, Payments and Settlements, Asian Clearing Union Operations, Back Office Operations of both Rupee and Foreign Exchange Transactions, Public Debt, Central Bank Accounts and Central Bank Balance Sheet. She has served in a number of high level internal Committees of the Central Bank of Sri Lanka.

She held various responsible senior positions such as Accountant, Chief Dealer, Deputy Head of Department, Head of Department and at the time of her retirement she served as one of the Assistant Governors of the Bank.

She holds a B.A. degree with second class upper division pass from the University of Kelaniya and has obtained professional qualifications from Bankers Training Institute, Sri Lanka. She also serves as one of the Directors of RAM Rating Lanka Ltd.

Mr. S S Ratnayake
Director

Assistant Governor, Central Bank of Sri Lanka

Mr. S S Ratnayake, an Assistant Governor of the Central Bank of Sri Lanka, is an Alternate Director of Lanka Financial Services Bureau Ltd., and a member of the National Payments Council.

Mr. Ratnayake commenced his career at the Central Bank in 1983 and held the posts of Director of Supervision of Non-Bank Institutions from 2007 – 2010 and Superintendent & Registrar of Public Debt from 2010 – 2011. He holds a BA [Honours] from the University of Kelaniya, and MA from the University of Colombo and MSc from the Wright State University, USA.

Mr. K Dharmasiri Director

General Manager, Bank of Ceylon

Mr. Dharmasiri has over 37 years of diversified banking experience both within and outside Sri Lanka. He has extensive knowledge in monitoring and re-structuring non performing assets, strategic planning, corporate financial reporting, re-organisation of branches.

Mr. Dharmasiri has made an immense contribution to maintain BoC Non Performing Advance level below the industrial average, after he was promoted as a Deputy General Manager in December 2002.

Mr. Dharmasiri has held a number of key positions in the bank's operations including corporate and offshore banking, finance and planning, inspection & audit and recovery. In terms of overseas assignment he was the Country Manager of Bank of Ceylon branch in the Republic of Maldives from 1997 to 2000. He served as the Managing Director of Nepal Bank of Ceylon [Limited] Nepal in 2002.

He serves as a member of Credit Committee, Assets & Liability Management Committee, Non

Performing Advances Monitoring Committee and Idle Asset Committee. Mr. Dharmasiri is a Non-Executive nominee Director on the Boards of BoC Travels [Private] Limited, BoC Property Development & Management [Pvt] Ltd., BoC Management & Support Services [Pvt] Ltd., Bank of Ceylon [UK] Ltd., Ceybank Holiday Homes [Pvt] Ltd., Ceybank Assets Management [Pvt] Ltd., Hotels Colombo [1963] Ltd., Merchant Bank of Sri Lanka PLC., Credit Information Bureau of Sri Lanka, Lanka Financial Services [Bureau] Limited, LankaClear [Pvt] Ltd., and as a Member in the Governing Board of the Institute of Bankers of Sri Lanka. He has also served as a Non-Executive nominee Director on the Boards of Lanka Securities [Private] Limited, Janashakthi Insurance Company Limited, Mireka Capital [Private] Limited, and Sabaragamuwa Development Bank.

Mr. Dharmasiri graduated from the University of Colombo with a 1st Class Honors in Commerce and holds a Bachelor of Philosophy in Economics. He is also an Associate Member of the Institute of Bankers of Sri Lanka.

Mr. G G C Ariyaratne Director

**Deputy General Manager
[Operations], People's Bank**

Mr. G G C Ariyaratne was appointed to the Board of Directors of LankaClear [Pvt] Ltd. in 2010. He is currently the Deputy General Manager [Operations] of People's Bank. He is a well experienced banker counting 36 years of service at People's Bank. He holds a Degree [B.Sc.] in Public Finance and Taxation from the University of Colombo and also an Associate Member of the Institute of Bankers of Sri Lanka.

During his period of service, he has served in various capacities ranging from Branch Manager to his current position. He has wide experience from working in different levels in different areas of the island. He is specialised in the areas of Branch Banking & Project Financing and also has undergone overseas training on Project Financing.

BOARD OF DIRECTORS contd.....

Ms. R A S M Dayarathna
Director**Director IT, Central Bank of Sri Lanka**

She has been the Director, Information Technology Department of the Central Bank of Sri Lanka (CBSL) since August, 2008 and commenced her career at the CBSL in 1986 as a staff officer. She serves in a number of high level internal committees of the CBSL. She holds a BSc degree from the University of Colombo. She is a Certified Information Systems Auditor (CISA) and a member of the Information Systems Audit and Control Association, Sri Lanka chapter.

Mr. R Theagarajah
Director**Managing Director/ Chief Executive Officer, Hatton National Bank**

Mr. Rajendra Theagarajah is the Managing Director/Chief Executive Officer of Hatton National Bank PLC. He counts over 26 years of experience in banking both in Europe and Sri Lanka. He is the Chairman of Acuity Partners (Pvt) Ltd., Acuity Securities Ltd., and a Director of Acuity Stockbrokers (Pvt) Ltd. He is the Acting Chairman of HNB Assurance Ltd., and a Director of Sithma Development (Pvt) Ltd., Delma Exchange UAE and Majan Exchange LLC., Oman which are group companies within HNB, a Director of Guardian Acuity Asset Management (Pvt) Ltd., a Director of the Colombo Stock Exchange and also a past Chairman of Lanka Financial Services Bureau, Member of the Chartered Institute of Management Accountants Sri Lanka Governing Board, Member of the Ceylon Chamber of Commerce EXCO, Member of the Sri Lanka Auditing Quality Assurance Board, Sri Lanka Accounting and

Auditing Standards Monitoring Board, Academic Council of the IBSL, Member of Council of the Employer's Federation of Ceylon, Trustee of the Colours of Courage [Cancer Trust] and Council Member of the Sri Lanka Institute of Directors. Mr Theagarajah is a past Chairman of the Sri Lanka Banks' Association and Past President of the Association of Professional Bankers. He is the first Sri Lankan to assume Chairmanship of the Asian Bankers' Association from November 1st 2010 for a two-year tenure. He is also a member of the Governing Board of the World University of Canada.

**Mr. S G Rajakaruna
Director**

**Chief Executive Officer/Director,
Nations Trust Bank**

Mr Saliya Rajakaruna joined the Nations Trust Bank as its Chief Executive Officer and Director on 15th September 2009. He is a Member of the Chartered Institute of Management [UK] and holds an MBA from the Cranfield School of Management, Cranfield University, United Kingdom. Mr Rajakaruna brings with him over 30 years of varied international experience covering UK, Europe, USA, Scandinavia, South Africa and Asia with Citibank during which period he performed several roles relating to corporate banking, risk management, finance, marketing product management and treasury activities. Mr Rajakaruna has also functioned as the Chief Financial Officer and Chief Risk Officer of Bank of Ceylon and as a Director of Ceylon Petroleum Corporation and as Chairman of its Audit Committee.

**Mr. M S A Fernando
Director**

**Country Head , Public Bank Berhad,
Colombo Branch**

Mr. M S A Fernando joined Public Bank, Colombo Branch in April 2008. He possesses more than 30 years experience in the Banking Industry and carries vast experience in Corporate Banking and Risk Management, both locally and internationally. He also has experience in Finance, International Trade & Treasury Back Office. Mr. Angelo Fernando is an MBA holder of University of Leicesture, UK and AIB Part I qualified.

**Mr. M U de Silva
Observer**

Secretary General, SLBA

Mr. Upali de Silva presently holds the post of Secretary General, Sri Lanka Banks' Association [Guarantee] Ltd., and is a Director of HNB Assurance Ltd., Lanka Financial Services Bureau Ltd., and of Sri Lanka Cert [Pvt] Ltd. He is a retired Senior Deputy General Manager of Hatton National Bank Ltd., and has over 42 years experience in banking, including 15 years at Corporate Management Level. He is also currently a member of the National Payments Council, Financial Systems Stability Consultative Committee and the Sovereign Rating Committee of the Central Bank of Sri Lanka.

Mr. de Silva is a Fellow of the Chartered Institute of Bankers [London], Past President of the Association of Professional Bankers and of the Colombo Centre of the Chartered Institute of Bankers [London].

MANAGEMENT TEAM

Left to Right

Mr. S B Weerasooriya - *General Manager/CEO*, Mr. H S Wanigatunga - *Head of Operations*,
Mr. A J F Wijewickrema - *Head of Human Resources & Administration*, Mr. R L Galappaththy - *Head of Finance*,
Mr. D Samarasinghe - *Systems Manager*, Mr. A V I G Jayaweera - *Bank Services & Help Desk Manager*



Left to Right

Mr. S R Hettiarachchi - *Operations Manager*, Ms. V P T Jayawardane - *Brand Manager*,
Mr. R W G D C Weerasinghe - *Manager Facilities and Maintenance*, Mr. H M U Kahawatte - *Network Operations Manager*,
Mr. L D Uyanahewage - *Manager CITS*, Mr. H S N De Silva - *Systems Operations Manager*



CORPORATE GOVERNANCE

Corporate governance at LankaClear provides for an effective direction and control by the Management of the Company ensuring transparency and timely financial reporting.

The Company's functions are regulated by several Acts and Regulations promulgated by the Central Bank of Sri Lanka from time to time and these Acts are listed under the heading Compliance with Statutory and Regulatory Requirements.

Conscious of their obligation to comply with applicable laws and regulations, the Board of Directors of LankaClear have committed themselves to ensure that there is effective overseeing of the business affairs of the Company and to ensure that all such business affairs of the Company are conducted adhering to the highest standards of business and best practices.

Two Directors represent the Central Bank of Sri Lanka and two more represent the two state banks. Three additional Directors are nominated by the Sri Lanka Banks' Association, two of whom represent the private local commercial banks and the other represents foreign banks. The Secretary General of the Sri Lanka Banks' Association constitutes the final Board member and participates as an observer and is usually invited to express his views.

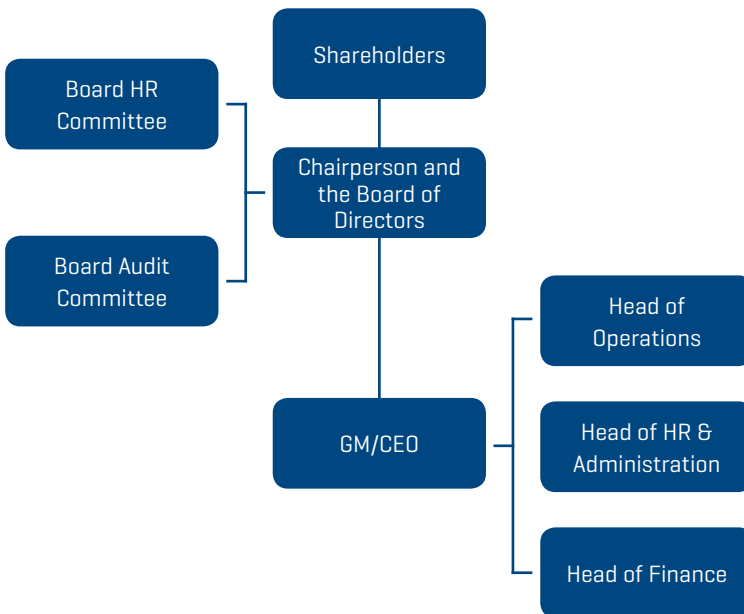
Each Board member is well qualified and experienced and brings a wealth of knowledge that contribute towards the effective control and functioning of the Company.

The Directors are responsible for protecting the rights and interests of shareholders and are accountable to them for the overall management of the Company.

The Board is primarily responsible for:

- Setting strategies, direction and establishing goals for management
- Monitoring performance against goals and objectives as well as ensuring adequate internal control with the highest ethical standards
- Ensuring the financial health of the Company

Governance Chart



The Board of Directors

The Board of Directors at LankaClear [Pvt] Ltd. comprises eight Non-Executive Directors. The Chairperson is appointed by the Governor of the Central Bank of Sri Lanka, in accordance with the Articles of Association.

- Appointing the Chief Executive Officer and determining the remuneration of management and staff
- Reporting to shareholders.

Board Meetings

The Board had 12 meetings during the period under review and the attendance of each Director at Board meetings is given in the table below.

The attendance at Board HR Committee meetings and Board Audit Committee meetings in respect of the relevant members is also included in this table.

| Name | Board Meetings | | | Board HR Committee | | | Board Audit Committee | | |
|--|----------------|---------|------|--------------------|---------|------|-----------------------|---------|------|
| | Held* | Present | % | Held* | Present | % | Held* | Present | % |
| 1. Ms. P Liyanage – Chairperson | 12 | 12 | 100% | 6 | 6 | 100% | | | |
| 2. Ms. R A S M Dayaratne – Director | 12 | 12 | 100% | | | | 4 | 4 | 100% |
| 3. Ms. J P Mampitiya – Director [Up to December '11] | 9 | 8 | 89% | 4 | 4 | 100% | | | |
| 4. Ms. B A C Fernando – Director [Up to July '11] | 4 | 3 | 75% | | | | | | |
| 5. Ms. W A Nalani – Director [From August '11] | 8 | 2 | 25% | 2 | 1 | 50% | | | |
| 6. Mr. G G C Ariyaratne – Director | 12 | 11 | 92% | | | | | | |
| 7. Mr. S S Ratnayake - Director [From January '12] | 3 | 3 | 100% | | | | | | |
| 8. Mr. Nilanth de Silva – Director [Up to August '11] | 5 | 5 | 100% | | | | | | |
| 9. Mr. Aravinda Perera – Director [Up to August '11] | 5 | 1 | 20% | | | | 2 | 2 | 100% |
| 10. Mr. S G Rajakaruna- Director [From August '11] | 7 | 5 | 71% | | | | 2 | 2 | 100% |
| 11. Mr. R Theagarajah - Director [From August '11] | 7 | 4 | 57% | | | | | | |
| 12. Mr. M S A Fernando – Director | 12 | 12 | 100% | | | | | | |
| 13. Mr. M U de Silva – Observer | 12 | 9 | 75% | 6 | 6 | 100% | 4 | 4 | 100% |

*Held – Meetings held during the term of office

In compliance with the Code of Best Practice, Board Papers are circulated 4 - 5 days prior to a meeting giving adequate time to Board members to prepare for the meeting.

CORPORATE GOVERNANCE contd.....

The Board HR Committee

The Board HR Committee consists of the Chairperson [who is also the Chairperson of this Committee] and 2 members of the Board of Directors.

The Terms of Reference of the Board HR Committee include making recommendations to the Board relating to the regulation of the organisation structure, salary increments, bonus distribution, amendments to salary scales, changes to Company policies or major changes to procedures and the final selection of candidates for Senior Management positions.

During the period under review, Ms. J P Mampitiya ceased to be a Director and member of the Board HR Committee and was replaced by Ms. W A Nalani, Director.

The Board HR Committee held 6 meetings during the year under review and the details of matters discussed and recommendations made appear in the Board HR Committee Report elsewhere in this Annual Report.

The Board Audit Committee

The Board Audit Committee comprises of the 3 Directors. Mr. Aravinda Perera – Director who

was the Chairman of the Audit Committee ceased to be a Director during the period under review and was replaced by Mr. Saliya Rajakaruna, Director who was appointed as the Chairman of this Committee by the Board.

The Audit Committee met on 4 occasions during the year under review and at these meetings the quarterly internal audit reports and actions taken were reviewed whilst actions to be taken were recommended by the Board Audit Committee. These actions were reported to the Board to ensure compliance.

Risk Management

The Business Risk, Operations Risk and Financial Risk are the risks that LankaClear have to take cognizance of when considering Risk Management and action taken in managing these risks are highlighted in the Reports on Risk Management and Operational Risk.

Relationships with Shareholders and Disclosures

In its desire to maintain good relationships with Shareholders, the LankaClear Board follows a policy of disclosing all relevant information, both financial and non financial, to Shareholders. The Financial

Statements are in accordance with the Sri Lankan Accounting Standards and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.

Compliance Report

The Directors, to the best of their knowledge have confirmed that all taxes and duties payable by the Company as well as contributions, levies and taxes payable on behalf of and in respect of the employees of the company and all other statutory dues, as were due as at the Balance Sheet date, have been paid or provided for in the Accounts.

Secretaries to the Board

Managers and Secretaries [Pvt] Ltd., functions as the Secretaries to the Company. The Secretaries are duly registered under the regulations and provide the necessary expertise and advice to the Board.

Senior Management

All members of the senior management team are well qualified and experienced to perform the authorities delegated through the General Manager/CEO.

Compliance with Statutory and Regulatory Requirements

The Company is in compliance with the following Acts:

- The Payment and Settlement Act No. 28 of 2005
- Electronic Transaction Act No. 19 of 2006
- Payment Devices Frauds Act No. 30 of 2006
- Monetary Law Act [Chapter 422]
- Companies Act No. 7 of 2007
- In addition, LankaClear complies with the circulars issued by the Central Bank of Sri Lanka [CBSL] from time to time

Audits

In addition to the annual financial audit, in our desire to ensure compliance with the relevant Acts and Circulars by the CBSL, internal audits are conducted on a quarterly basis and audit reports are discussed and required corrective action to be taken by the management is agreed at the Board Audit Committee meetings.

Further, an IT audit was carried out during the year under review and the report by the auditor has been submitted to the Audit Committee for their evaluation.

OPERATIONS REVIEW

LankaClear Operations

An efficient payment and settlement system is critical for a growing and dynamic economy. Secure and fast realisation of payments within a stable infrastructure facilitates efficient payments and settlements. LankaClear [LCPL] contributes immensely towards this end in Sri Lanka with the guidance of the Central Bank of Sri Lanka and the collaboration of all the commercial banks.

LCPL plays a key role as the National Financial Transactions Clearing Hub, as it is the entity in Sri Lanka that does Cheque Clearing, Rupee Draft Clearing, US Dollar Clearing and SLIPS.

Products and Services Offered by LankaClear

1. Rupee Cheque Clearing - Cheque Imaging & Truncation System [CITS]
2. Sri Lanka Rupee Draft Clearing
3. US Dollar Clearing
4. Sri Lanka Interbank Payment System [SLIPS]
5. Digital Certificates - LankaSign

Currently, on average around 195,269 cheques are cleared through LankaClear on each business day through CITS. CITS has

even catered to volumes exceeding 395,885 cheques on some days during this financial year. There has been an increase of around 8% in the cheque clearing during the year 2011/2012 compared to the previous year. There is around 1% growth in electronic payments, reflected by the growth in the SLIPS transactions. SLIPS have catered to volumes exceeding 207,185 transactions per day.

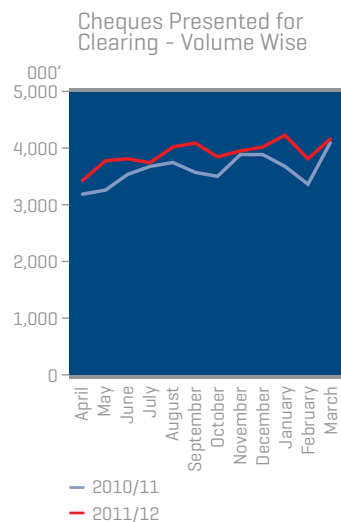
1. Rupee Cheque Clearing - Cheque Imaging & Truncation System [CITS]

Automated cheque clearing and cheque truncation was facilitated by the introduction of the Cheque Imaging & Truncation System [CITS], which utilises digital technology to expedite the clearing and settlement processes. As a result, on depositing a cheque, the public will be able to get credit for their funds on the following business day [T+1].

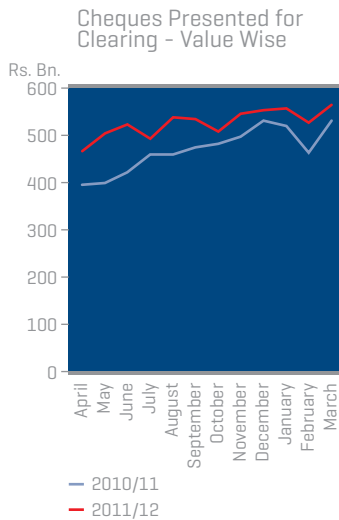
We are pleased to inform that due to Process and Technological improvements CITS has achieved a 99.9% System Up-Time and achieved 99.8% of the Delivery Cutoff times. We have further improved the Disaster Recovery Processes and the Business Continuity Plan [BCP]. We have a fully functional DR Site, and

during this financial year we have conducted the clearing operations for all of the above clearing systems from the DR Site during DR Operation Drills.

The total number of cheques cleared and the total value of cheques processed through CITS during 2011/2012 as compared with 2010/2011 are depicted in the following diagrams:



The total number of cheques cleared in 2011/2012 through CITS amounts to 47.06 million compared to 43.56 million in 2010/2011. This is an increase of 8.04%.



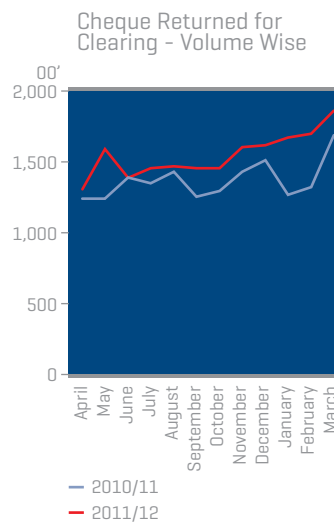
The total value of cheques cleared in 2011/2012 through CITS amounts to Rs. 6,335 billion compared to Rs. 5,656 billion in 2010/2011. This is an increase of 12.00%.

1.1 Settlement Clearing (Cheque Returns)

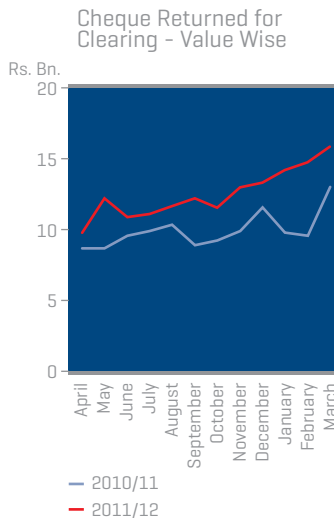
Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. 3.97% of the cheques presented for clearing were returned unpaid due to various reasons. Of the total cheques returned, around 46.17% were due to lack of funds.

The total volume of cheques returned and the total value of cheques returned during 2011/2012 as compared with

2010/2011 is depicted in the following diagrams:



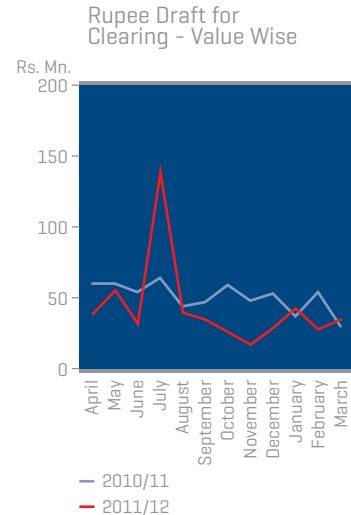
The total number of cheque returns in 2011/2012 through CITS amounts to 1.87 million compared to 1.65 million in 2010/2011. This is an increase of 13.04%.



The total value of cheque returns in 2011/2012 through CITS amounts to Rs. 151.12 billion compared to Rs. 119.70 billion in 2010/2011. This is an increase of 26.24%.

2. Sri Lanka Rupee Draft Clearing

The value of Rupee Drafts processed during the year 2010/2011 and 2011/2012 is shown below:

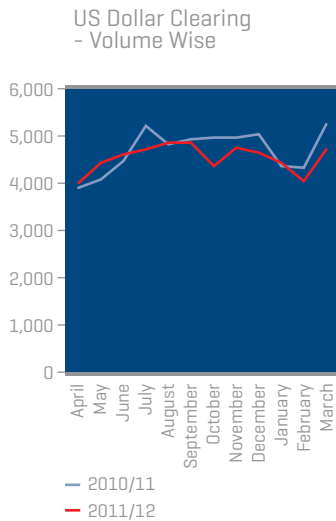


The total value of Rupee Drafts cleared in 2011/2012 through Draft Clearing amounts to Rs. 528.06 million compared to Rs. 617.5 million in 2010/2011. This is a decrease of 14.48%.

OPERATIONS REVIEW contd.....

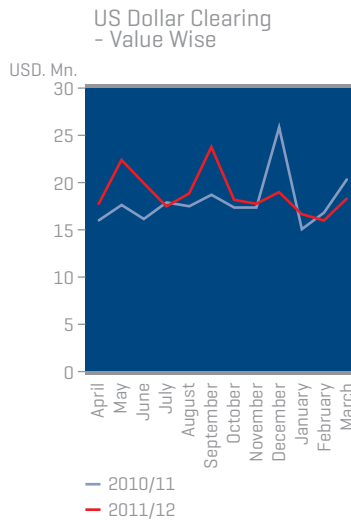
3. US Dollar Clearing

The total number of items cleared through US Dollar Clearing in 2011/2012 amounts to 54,633



thousand compared to 2010/2011 of 56,433 thousand. This is a decrease of 3.20%.

The total value of items cleared through US Dollar Clearing in 2011/2012 amounts to US\$ 227.6 million compared to 2010/2011 of US\$ 218 million. This is an increase of 4.38%.

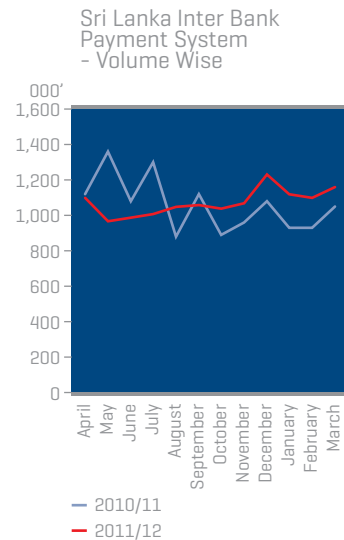


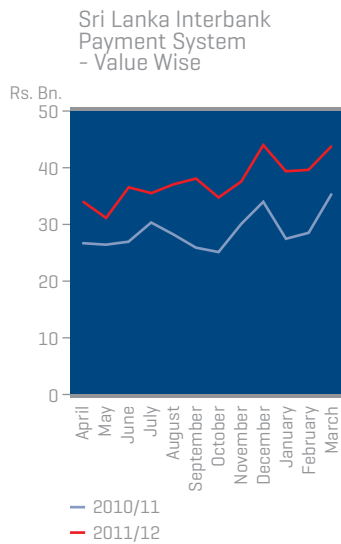
An average volume of 53,641 transactions pass through SLIPS during a business day and on a high volume day, the transaction volumes have reached 207,185.

The increase in number of SLIPS transactions and its total value are depicted below:

4. Sri Lanka Interbank Payment System (SLIPS)

Electronic Funds Transfer (EFT) is a movement of funds from one account to another without a corresponding document to authorise or prove that the transfer has been completed. LankaClear provides an Online Electronic Data Transferring Service via SLIPS to all commercial banks. This system was enhanced in September 2010 to cater for a greater volume of transactions, and facilitates same day clearing and provides for greater security by means of digital signing.





The total volume of items cleared through SLIPS in 2011/2012 amounts to 12.93 million, compared to 12.73 million in 2010/2011. This is an increase of 1.55%. The total value of items cleared through SLIPS in 2011/2012 amounts to Rs. 453.65 billion compared to Rs. 346.51 billion in 2010/2011. This is an increase of 30.92%. This is a trend we expect to see increasing with more individuals and institutions moving towards electronic transactions.

H S Wanigatunga
Head of Operations

12 July 2012
Colombo, Sri Lanka

FINANCIAL REVIEW

“A year with the highest ever Net Profit Margin of 32.35%”

The economic factors leading to the higher usage of cheques, internal efficiencies, value added services, cost management activities in place and reduction of the corporate tax rate coupled with the strength of the existing strategies have contributed overall for yet another successful financial year with exceptional results. As a company that started off with the seed equity capital from the licensed commercial banks, a grant from Central Bank and bank borrowed debt capital, after 10 years since LankaClear’s inception it stands today on its own, showcasing the financial stability as a debt free venture. This has enabled LankaClear to move to the next phase of its developments to meet the future demands with its own financing. LankaClear is expected to set a regional benchmark in the payment industry once the envisaged developments take place.

Revenue

Rs. 390 Mn revenue made in the financial year 2011/12 is significantly higher than Rs. 349 Mn achieved a year ago. Revenue growth was mainly driven by SLIPS income and cheque return charges. During the year under review, SLIPS revenue grew by 60% over the preceding year. Increased cheque volumes always have an effect on the cheque return percentage. In 2011/2012 cheque volume increased by 8% over 2010/2011 volumes. Overall the annual average cheque return percentage was 4%, which was higher than expected.

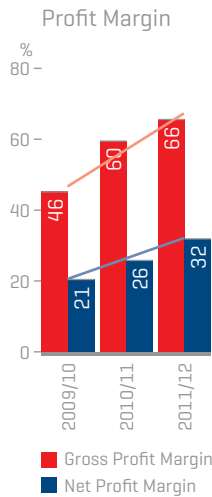
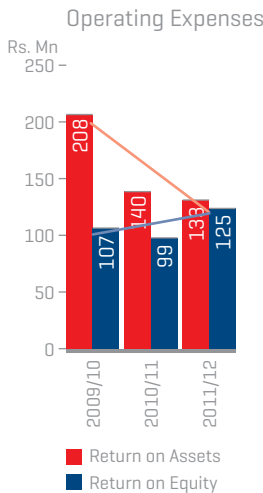
Revenue Mix [Net of NBT]

| Product Line | 2011/2012 [Rs.] | % of Total Revenue | 2010/2011 [Rs.] | % of Total Revenue |
|--------------|-----------------|--------------------|-----------------|--------------------|
| CITS | 342,809,424 | 87.8% | 318,908,068 | 91.4% |
| SLIPS | 45,273,029 | 11.6% | 28,252,385 | 8.1% |
| CA | 2,347,411 | 0.6% | 1,652,783 | 0.5% |
| Total | 390,429,864 | 100% | 348,813,236 | 100% |

Looking at the revenue mix between the two years, even though the absolute values of each product category has increased, it is evident that the aggregated CITS and SLIPS revenue proportions have remained relatively constant at 99.5% while the SLIPS proportion has increased against the CITS revenue proportion.

Operating Expenditure

Our focus during the preceding year was to effectively manage our expenditure, an initiative that gained wider acceptance and participation across the organisation, which was managed through the current year as well. A higher percentage of the cost pool being fixed in nature certainly posed a challenge to achieve this end. Amidst the challenges, the success of this effort was clearly evident in direct expenses reducing by 5.5% over the previous year. On the contrary, administrative expenses increased to Rs. 124.7 Mn in 2011/12 from Rs. 99.4 Mn expended a year ago. This was mainly due to recognition of write off of CPS project expenses of Rs. 4.3 Mn and impairment loss of Rs. 27.7 Mn for CPS assets to the income statement, which was not however operationally related to the



current year. If we adjust for the combined effect of the write off of Rs. 32 Mn to Rs. 124.7 Mn, the adjusted administrative expenses would be Rs. 92.7 Mn, which is lower than Rs. 99.4 Mn for the corresponding expense in the previous year.

Profitability

The resulted higher income coupled with the reduction of costs have led to higher profits for the period and reflected in higher profitability ratios. Additionally, as the major proportion of the costs are driven mainly by a fixed cost pool, income made beyond a certain level surpassing the fixed cost pool would essentially add to the profits.

In 2011/2012, the Net Profit Margin recorded a remarkable 32.35%, highest from its year

of incorporation and a growth of 24.21% compared to the previous year. Gross Profit Margin was 66.01% in 2012 which was an increase of 10.49% over the previous year. The Profit before Tax stood at Rs. 190 Mn against the previous year's Rs. 162 Mn.

The Return on Assets, measuring efficiency of the company's profitability against the asset base, increased to 15.03% from 11.16% in 2011. Return on Equity, the measure of profitability of shareholders' wealth, improved significantly to 16.53% in 2012 from 13.80% in 2011.

Liquidity Position

In the absence of major capital expenditure, the operations of LCPL led to a year end cash surplus. With the intention of reinvesting

these funds for the construction of a Disaster Recover Site and implementation of the Common Card And Payment Switch (CCAPS) project, the funds were held in short term interest bearing instruments to enable such cash surplus to be invested at short notice. The liquid cash and short term investments increased to Rs. 140.21 Mn with a growth of 987% compared to the previous year. This gave the company a comfort buffer for temporary liquidity shortfalls for planned new investments without resorting to premature upliftment existing investments. The interest rates prevailing especially after September 2011 was conducive of this strategy as there has been a sharp increase in short term deposit rates during this period enabling LCPL to place funds in short term investments and still obtain attractive rates.

Capital Structure

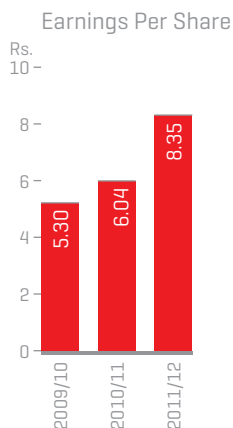
As of 31 March 2012, the total shareholders' funds of the Company stood at Rs 764 Mn, a 16% growth over the previous year. With the repayment of long-term debt in full, the Company's long-term debt to equity ratio dropped to zero as at 31st March 2012, compared to 11% recorded for the previous year. Consequently the cost of debt drastically decreased to Rs. 6.4 Mn from Rs. 9.3 Mn recorded in the previous year. The un gearing encourages for implementation of

FINANCIAL REVIEW contd.....

growth strategies which will help to generate long-term economic-profits to our shareholders.

Earnings per Share

Reported Earnings per Share in 2012, was Rs. 8.35. It is a 38% growth over the preceding year reflecting the healthy performance generated by the Company during the year under review.

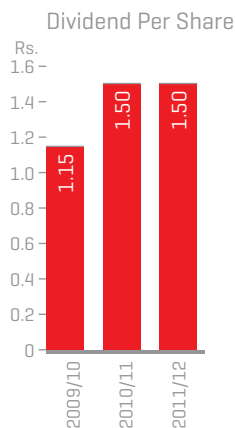


Taxation

The Company's Effective Tax Rate decreased to 33% from 44% in 2011. This was primarily due to the reduction in income tax rates from 35% to 28% effectively from the year of assessment 2011/2012. The Company recorded a net deferred tax liability of Rs. 1.2 Mn due to decreased tax effects of temporary differences as at 31st March 2012, as against Rs. 3.6 Mn at the end of 2011.

Dividend per Share

LankaClear was mandated to facilitate infrastructure pertaining to the nation's payment systems aligned with the country's vision. As the National Payment Systems Partner, LankaClear was required to think beyond paper based payments and enhance the efficiency of the national payment systems to meet future demands.



LankaClear earmarked and initiated an ambitious project to lay the foundation to cater for the future payment requirements of the country at a cost of approximately Rs. 300 Mn. The proposed project is expected to achieve revenue growth and profitability in the future. As the project is funded entirely through equity capital, and as equity holders are going to be the beneficiaries in the long term, we are declaring a dividend equivalent to Rs. 1.50 per

share, the same amount paid in the previous year.

Free Cash Flow

Management believes that free cash flow, which measures the company's ability to generate cash from its business operations, is an important financial measure for use in evaluating the Company's financial performance. Free cash flow is defined as net cash provided by operating activities in a period minus payments for property, plant and equipment made in that period. LCPL generated positive free cash flow of Rs. 127.8 Mn and Rs. 45.4 Mn for the years ended March 31, 2012 and March 31, 2011 respectively. The increase in free cash flow during year 2012 as compared to year 2011 was principally due to improved operating results. In addition to the cash generated from operations, excess cash was held in short term deposits expecting immediate deployment of funds for the envisaged high worth purchases of property, plant and equipment

R L Galappaththy
Head of Finance

12 July 2012
Colombo, Sri Lanka

RISK MANAGEMENT

Business Risk

The main business risk faced by LankaClear as the national infrastructure provider for payment systems is the risk of some of the current payment systems going out of the market or significant reduction in the transaction volumes of some payment products. To mitigate this risk LankaClear continuously evaluates the past trends of the products and forecasts the volumes of the products in order to ascertain the fluctuation of the product volumes over a 5 year horizon.

LankaClear also continuously keeps abreast with the technological developments in the payments systems globally and the market demand for new payment instruments in order to provide the necessary infrastructure to the Banks to introduce new, more efficient and cost effective payment instruments. The required developments are also discussed at the National Payment Council (NPC) convened by the Central Bank of Sri Lanka and included in the NPC Road Map with the agreement of all stakeholders. Since the introduction of new payment systems to the country are planned well ahead, the risk of a current payments system

becoming obliterated over a shorter period of time is very less.

It is envisaged that that the usage of paper based payment instruments such as cash and cheques would decline in the coming years with customers embracing more and more electronic payment instruments. Accordingly, LankaClear is now in the process of making investments in the upgrade of the electronic payments systems infrastructure to cater to the growing demand of electronic payments. It is envisaged that the possible depletion in the top line due to the envisaged reduction in cheque volumes would be off-set by the increased revenue generated through new electronic payment products and the growth of existing electronic payment products such as SLIPS.

Operational Risk

At LankaClear the operational risk management is focused on the ability to efficiently and effectively operate the National Clearing Systems [i.e. CITS, SLIPS, US Dollar Clearing and Rupee Draft Clearing], error free and fraud free on all clearing days. In order to accomplish this, the risks that need to be mitigated are in the areas

of inadequate/failed processes, people related issues, technology issues, delays and errors caused by the Participants of the clearing systems and natural disasters.

To mitigate the risks associated with inadequate/failed processes and/or, delays and errors caused by the Participants of the Clearing Systems, LankaClear has formalised Operational Manuals for all the Clearing Systems, Desk Instruction Manuals and Dual-Controls. We ensure that Participating Banks and our staff strictly adhere to these processes and guidelines by means of Interdepartmental Peer Audits, Corporate Internal Audits and, continuous Process improvements and training.

Information Security is paramount to a National Clearing House. Therefore LankaClear has a well defined Information Security Policy, which is closely aligned with ISO 27001 in order to mitigate risks associated with Information Security. The strict adherences to these IT Security Policies are ensured by daily IT Systems monitoring, IT housekeeping and through the IT Audits.

LankaClear has a fully functional and tested Disaster Recovery Site

RISK MANAGEMENT contd.....

[DRS] where all Clearing Systems are replicated in order to mitigate the risks associated with natural disasters and/or inability to operate from the Primary Site in Colombo. This is above and beyond having a Near-Site system for all the Clearing Systems operated by LankaClear, which is activated if the Primary System fails. LankaClear has a formalised Business Continuity Plan [BCP] and multiple DR drills have been conducted in accordance with the BCP to ensure LankaClear's capability to effectively recover from a disaster. The CIT System having an uptime of 99.9% for the year in review is a testimony of the effectiveness of the Near-Site IT systems and the fully functional DR site.

The effectiveness of our clearing systems and the associated processes and technologies are very reliant on the effectiveness and the commitment of our staff in ensuring that the clearing systems are operated with minimised risks. Given that the LCPL team is our most valued asset, in order to minimise the people related risks, LCPL has well defined HR policies and practices from hiring to general conduct and a performance based management system that is linked to a strong HR development

program. This ensures that our team members have the right skills and are given correct guidance to minimise and avoid operational risks associated with the National Clearing Systems and is a highly efficient staff.

Financial Risks

Financial exposure of a corporate entity depends on its ability to make profits and ability to generate cash from its operations. The company will be at a financial risk whenever it is making losses or when it is not making sufficient cash flow to manage the operations. The situation will be much worse if cash flow and profitability simultaneously become negative. Each positive parameter in combination enables a Company to build sufficient reserves to invest in technical upgrades and new projects, so that profitable avenues of investing funds within the Company are exploited to make more profits and cash flow and build stability as a going concern business. Manageability of financial risk within LankaClear in the context of profitability and cash generation capability is discussed below in greater detail.

1. Managing the cash reserves

Mere profitability will not be a comfortable factor as long as a company does not generate adequate positive cash flow, as it would lead to an eventual strangulation of the operations of the company. Cash flow without profitability is also a combination that would not sustain in the long term. Managing cash reserves or liquidity would be known as managing the liquidity risk. Liquidity risk is the risk of not having sufficient resources to meet financial obligations in time of need in full at a reasonable cost. A Company may seek to strike a balance between certainty of funding and availability of flexible, cost effective borrowing facilities at its disposal. Strong profitability coupled with a healthy level of cash surpluses generated during the previous financial years and current year will mitigate such liquidity risk.

The liquidity risk management process includes regular analysis and monitoring of the Balance Sheet liquidity position and market accessibility for short term loans and investment avenues for existing cash. Regular cash flow forecasts, monitoring of disbursements and collections,

making improvements to maintain a healthy gearing ratio are used as analytical tools by the LankaClear to mitigate the liquidity risk.

Availability of cash resources is of paramount importance, as it allows the company to:

1. Meet working capital requirements.
2. Have adequate cash to use for capital investments.
3. Have sufficient cash to pay its dividends, taxes and etc.
4. Manage gearing at satisfactory level.

1.1. Working Capital Management

The Company keeps an adequate amount of resources in short term financial instruments to purchase consumables and pay short term liabilities. As the value of stocks maintained as stationary is minimum, creditor's turnover period cannot be better managed. Therefore emphasis was placed on bringing down the debtors' collection period. This period is already at a satisfactory level as a majority of payments are collected on time as payment through direct debit with the remaining few on payment through SLIPS. Moving on

to direct debit has benefited our customers as they are no longer required create a cheque and pass it on to us taking time and effort. LankaClear has benefited as well, as we do not need to deposit and wait until the cheque is realised. For those products not on direct debit and have issues on collection, product based credit policies have been introduced.

1.2. Adequate Cash to Use for Capital Investments

LankaClear, in its quest to provide enhanced services to its customers has, from time to time incurred large capital expenditure on software and hardware. Some expenses are planned over the long term and some in the short term. In either case, the Company has managed to make available the required cash for such capital expenditure.

1.3. Paying an Adequate Dividend and payment of taxes

LankaClear has managed to pay the dividend and the tax payments out of its retained profit and cash flow generated without relying on outside funding.

1.4. Managing the Gearing of LankaClear

In the beginning of operations, the Company had a debt which was larger than its stated capital. Due to regular servicing of the debt and increased profitability with comfortable cash inflows, the reliance on the debt has declined and shareholder equity has increased. Additionally, as the Company has completely settled the bank borrowed debt in the financial year 2011/12, the funding base now consists entirely of the equity capital. With this latest move, the Company is capable of funding all new investments from internally generated funds.

2. Managing the Profitability

The profitability of the Company depends on the ability to increase income and reduce costs. Despite having maintained a fixed pricing strategy for the benefit of the customers over the last few years, in spite of escalating costs, the Company managed to make a reasonable profit. Strong Cost Control Strategies have been adopted to bring down the controllable costs in the organisation.

RISK MANAGEMENT contd.....

2.1. Risk on Profits Due to Changes in Cheque Volumes

The main driver of our revenue is the cheque volumes and the increase or decrease of the cheque volumes has a corresponding favourable or adverse impact on the revenue. Looking at the global experience, western economies have shown a decrease in the cheque volumes which has been replaced by the electronic payment methods. There will be greater need for payments in future by individuals and companies in modes different to the popular paper based methods we use today. Considering the advantages of the electronic payment methods, Sri Lanka is likely to move out from cheques to electronic payments eventually. The volumes of electronic payment methods such as SLIPS are increasing steadily and are expected to surpass the cheque volumes over time. This factor is already being considered by LankaClear and the Company has started investing in technologies that make the Company ready to handle large volumes of electronic payments with higher efficiency levels in the future.

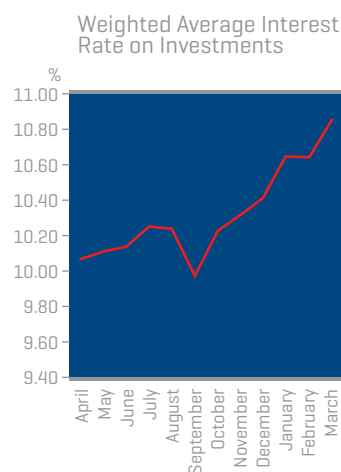
2.2. Risk on Profits Due to Changes in Cheque Returns

The Company earns substantial income on the Cheque Returns. The introduction of amendments

to the Credit Information Bureau (CRIB) of Sri Lanka Act in December 2008 giving it authority to collect information relating to cheque returns from commercial banks is a welcome move which may result in reduced return volumes due to the regular monitoring that takes place. As a responsible national service provider we are happy about the outcome of this Act. However, even though this should have brought down our revenues considerably during the period under consideration, there were higher return volumes than anticipated which reflected positively in our profits.

2.3. Risk on profits due to Interest Rate Risk, Principal Risk, Reinvestment Risk, Event Risk and Foreign Exchange Risk

2.3.1. Interest Rate Risk



The period under review derived a significant portion of its income from interest. Since LankaClear is a debt free venture, interest rates can be termed as the risk of loss of interest income due to adverse movement of the market interest rates. Interest rates showed marked increase from September 2011 onwards and this has positively affected the Company's interest Income.

2.3.2. Principal Risk

The Company has increased its cash reserves over time and invests them in profitable investment opportunities after analysing the market rate of return. As the money is intended to plough back to provide value added services, we have been careful with regard to selecting between different investment opportunities, their maturity time lines so that they are available when the opportunity arises for proper investment. Until such time, investments will be limited to principal guaranteed instruments.

2.3.3. Reinvestment Risk

This is the risk that future proceeds will have to be reinvested at a lower interest rate. This is especially evident during periods of falling interest rates where maturing investments have to be invested at

lower yield investments. The period under review has a low risk due to increasing interest rates as shown in the effective interest rate graph. Therefore, there is no reinvestment risk during the period.

2.3.4. Event Risk

Physical risks to the property are covered by the Company's extensively reviewed insurance arrangement. Apart from physical risk, certain other types of risks are identified and covered from insurance policies where possible.

2.3.5. Foreign Exchange Risk

Foreign exchange risk is not a major concern to us unless high valued software and maintenance services are sourced from international parties and payment is made in foreign exchange. During the latter part of the financial year, there was a marked increase of the dollar rate against the rupee due to free float and most of the foreign currency obligations have been met before the price increase. Therefore the exposure of foreign exchange risk was minimum.

BRANDING TO FACE THE CHALLENGES OF THE NEXT DECADE

In the corporate plan developed by LankaClear in the latter part of 2010 and approved by the Board of Directors in December 2011, one of the key goals was to develop a comprehensive marketing and corporate branding strategy. Accordingly initiatives were taken to enhance the corporate brand image and product branding.

With a lot of initial work done on the strategy over many months, a MarCom agency was hired to develop the corporate and product brand logos. The new corporate logo was novel to many which was inspired by the “Mobius Strip” invented by Ferdinand Mobius (1790 – 1886). It is cited as an infinity symbol and represents eternity, ongoing renewal, seamless linkage and is a metaphor for continuous improvement.

The new bold red and blue logo reflects our core ethos of strength, reliability and commitment to our stakeholders and our nation. We employed a common expression throughout the products with a simple promotional strategy based on the slogan “Transact the Future.” We believe that with this new corporate brand logo and tag line, we would be able to strongly communicate our presence as the national payment infrastructure provider to our stakeholders.

At LankaClear we are certain that our brand creates a special relationship with our customers, based on intangible qualities that evoke strong emotional responses. This is not simply a logo, but also a general look and feel, a tone of voice and it is the way our company interacts with our customers. While every company has a brand, very few like LankaClear actually have brand strategies.

Branding or having a brand strategy is about using all the tools at your disposal to influence people’s perceptions, opinions and attitudes. It is not something centered around marketing. A true brand strategy should drive decisions in all departments, all divisions — all staff, front and back office.

As part of the brand building strategy, Lanka Clear’s marketing department introduced the concept of ‘Brand Ambassador’. A Brand Ambassador is an official representative of a brand, a product or a company. Someone who embodies the brand he/she is endorsing, providing the brand with credible promotion and visibility.

At a very special gathering of the LankaClear employees, we assigned the Brand Ambassadors of LankaClear whose responsibility will be to contribute to building brand-

awareness by taking the brand to the public. The newly identified Brand Ambassadors of LankaClear are non-other than the employees themselves!

Of course this came as a surprise to all of them but without a second thought ‘Team LankaClear’ accepted the delegated duty and proudly wore the new lanyards with their identity cards. They were made aware that every employee in LankaClear should understand, believe, and know that servicing customers and building positive perception is the most important factor gaining new or retaining existing customers. They pledged to build a positive image; an image for LankaClear which intends to create a new Era in Payments.

Branding in the financial sector is not very different from that of other industries; the reasons for branding, the advantages of branding and the process of creating brands is quite similar. In order to take the corporate brand logo public, the Marketing department organised a Media Conference, not just to inform the media about what LankaClear does, but to enlighten the general public on the future role of LankaClear and how we propose to create a revolution in the financial industry of Sri Lanka.

LankaClear has been quite successful in categorising its businesses and focusing on the strengths of each product. With individual ownership of its various products, we have created an internal architecture that allows for proper branding. In addition, LankaClear is one institution that has recognised the impact of branding within its entire organisation, as well as branding's strategic importance.

As we celebrate a decade of excellence and embark on a new journey to face the next decade, we believe the objectives of having a good brand includes, delivering our message clearly, confirming our credibility, connecting our target prospects emotionally, motivating our customers and concreting their user loyalty. We hope our brand and products will reside within the hearts and minds of our customers, clients, and prospects as a sum total of their experiences and perceptions.

We are only as strong as our relationships with our stakeholders; we feel the new logo represents the solid partnerships we currently share and sets the foundation for future relationships. We believe that now is the time to develop our brand and promote our new image and look forward to the

challenges ahead. This will in return facilitate our goal of becoming a truly national organisation which will revolutionise the financial industry while serving all customer segments and delivering premium value.



V P T Jayawardane
Brand Manager

12 July 2012
Colombo, Sri Lanka

LANKACLEAR CELEBRATES A DECADE OF EXCELLENCE

10 years in the life of an organisation is worth celebrating when there are achievements to boast about. And on this basis LankaClear can indeed celebrate its 10th anniversary in grand style.

LankaClear as a payment infrastructure provider has done Sri Lanka proud by being ahead of even most western nations, when it comes to providing infrastructure to Sri Lanka's payment industry.

Having commenced operations in 2002 as a private Company formed by the Central Bank, tasked with carrying out the responsibility of the cheque clearing function on behalf of Central Bank of Sri Lanka, in 2006 LankaClear launched the Cheque Imaging and Truncation System, more commonly known in the banking circles as CITS, which enable Sri Lankans to encash cheques on a T+ 1 basis irrespective of the geographical location of the origin of the cheque. At that time Sri Lanka was the 1st South Asian country and only the 2nd in the world to introduce this system country wide and continues to be ahead of many a western country on this score.

Along with the cheque clearing function, Central Bank also entrusted LankaClear with the Sri Lanka Inter-bank Payment System which is an electronic payment system that enables customers to transfer funds electronically on a

T+ 0 basis. Since taking over this function several improvements have been introduced and this system is widely used as a fast, reliable and secure mode for transfer of funds.

While clearing of US Dollar cheques/drafts issued by commercial banks in Sri Lanka and payable to Sri Lankans or US Dollar drafts issued abroad drawn on commercial banks in Sri Lanka and clearing of Rupee Drafts are 2 other services provided by LankaClear, they also launched "LankaSign" to ensure that bank data for all transactions can be transferred on line in a secure environment.

The developments and improvements introduced by LankaClear have enabled banks in Sri Lanka to provide a more efficient service to their customers and the Sri Lankan public has benefitted from a more efficient financial service at cost effective rates.

While taking pride in their achievements during the past 10 years LankaClear did not forget their customers or employees. At a cocktail reception held recently to celebrate the 10th anniversary, several banks received awards based on their performance.

The employees too were hosted to dinner in a celebration that saw the talents of employees rewarded.

While celebrating the past achievements, in a futuristic move LankaClear is now gearing to launch a Common Card and Payment Switch that will see Sri Lankans having a card switch that enables them to carryout card based transactions within a truly Sri Lankan switch and at a lesser cost.

LankaClear takes this opportunity to thank all its stakeholders whose support has been invaluable in the decade that has gone by and look forward to their continued support and cooperation in the future.

While achieving many a milestone during the past 10 years, which is pleasing, LankaClear is ready to help transact your future.



A J F Wijewickrema
Head of HR & Administration

12 July 2012
Colombo, Sri Lanka

A PEOPLE'S PERSPECTIVE

Of the People

Satisfying customer needs is not only for the Marketing Department of an organisation but a Company's internal customers being its employees, the HR Department's task is to ensure that this internal customers' needs are satisfied, which in turn helps drive organisational success.

Employee Satisfaction Survey

To satisfy customer needs, one must know the customers' wants and needs. In order that we identify our employee needs, one of the key goals for the HR Department was to conduct an Employee Satisfaction Survey.

A survey that was initiated by the HR Department was conducted with the help of an independent party and to ensure that employees' confidence in the process was at its highest, the responses required was to be anonymous and the results tabulated by a team from among staff members.

The survey conducted resulted in 3 areas being identified as of major concern for our staff. Not surprisingly salary was one and career progression and training and development were the other two.

Salary Survey

Since a salary revision had to have a basis, KPMG, a professional organisation well recognised in this sphere of activity, was tasked with carrying out a Salary and Compensation Benefits survey.

Based on the results of the survey conducted and with the concurrence of the Board HR Committee and the Board, action was taken to adjust salaries of staff with effect from 1st January 2012. Needless to say the salary adjustments were independent of the annual increments granted for the year 2012.

Career Progression

In providing promotions to internal candidates at all possible opportunities where their suitability was tested and proven, LankaClear ensured that those with potential were recognised and this showcased that performance is given due recognition at LankaClear.

Training & Development

Training and development is also a key activity that is within HR's brief and focused training was provided to over 60% of its employees and the Company's investment in this

regard was over Rs.4.5 million including overseas training in some cases.

Appraisals

The appraisal system that was in place had been introduced in 2008 and was in need of improvement and recognising this need the HR Department took steps to ensure that necessary amendments were made to the system so that our appraisal system is more performance focused.

By the People

CITS, introduced in May 2006, being our main income generator and our flagship product so to say, changed forever the way Sri Lankans cleared cheques, enabling T + 1 service. The 5th anniversary of this revolutionary product was celebrated in May 2011, first with the Banking fraternity and then it was the turn of our staff.

Thus at a fitting function held in an informal atmosphere, the contribution by our staff to the achievement of the success of CITS was recognised. Awards and certificates were handed over by the Chairperson and the GM/CEO to those employees who had been involved in the CITS system over the years.

A PEOPLE'S PERSPECTIVE contd.....



For the People

The welfare of employees is never far from the minds of LankaClear's management.

In what has become an eagerly looked forward to event in the employees' calendar of events, yet another successful outing was held on 18th, 19th and 20th February. This, for the first time was a 3 day event and the trip was to the "Chaya Blu" in Trincomalee. Despite the long hours of travelling that was involved, having been in an area many had never visited due to the war, employees took the opportunity to explore the historic and other important sites in and around Trincomalee, not to mention the beautiful beaches. Needless to say enjoyment was the order of the time spent there.

With the outing to Trincomalee limited to employees, the "Year End" Party aka the Christmas Party held on 11th December 2011 was the opportunity the families had for meeting and getting to know family members.



Magic shows, Santa Claus, farewell speeches and parting gifts (for some who were retiring) were part of the proceedings which was enjoyed by all who participated. The Magician and Santa being from the family of an employee was a special feature of the evening.





For those keen on sports an inter-departmental cricket tournament was conducted at which Operations '1' Team emerged winners.



The Welfare Association which was formed last year was keenly involved in assisting in organising all these events that were for the enjoyment and entertainment of our staff.

Handwritten signature of A J F Wijewickrema.

A J F Wijewickrema
Head of HR & Administration

12 July 2012
Colombo, Sri Lanka

LANKACLEAR'S CSR ACTIVITY

In its desire to go beyond the conventional attitude of corporate bodies towards CSR, not only did LankaClear finically contribute to its CSR activity, but its employees dedicated time and effort, going a step further to enhance the effort of the Company's CSR activity.

While LankaClear has successfully completed numerous CSR projects over the past few years, being a company driven by up to date, high tech IT Infrastructure and systems, it was decided that the Company should use this strength when initiating CSR action.

Accordingly, initial discussions were held with the inspirational principal of Mahabodhi Vidyalaya which is located in Foster Lane in the Colombo Town Hall area. This school which had been founded by the great Anagarika Dharmapala at his ancestral house, presently provides education to over 700 students and conducts classes from grade 1 to grade 13 [Commerce stream].

Based on several discussions with the principal and the teacher in charge of IT education at the school, it was determined that the school requires assistance towards developing the IT laboratory and its facilities to higher standards to provide better IT education to the students.

At the initial phase of this CSR project, 2 brand new computers



and a state of the art Printer were donated to upgrade the facilities available in the IT laboratory of the school. Yet, LankaClear's involvement did not stop there as the LankaClear Employees Welfare Association colour washed the walls of the IT laboratory to provide children with a clean, healthy and pleasant environment for them to study IT. This was completely driven by the members of the welfare association who volunteered to devote their time and effort for the successful completion of the final phase of the project.

Being a good corporate citizen means giving back to the communities in which we work and LankaClear is an inspiration and a true example of Corporate Social Responsibility [CSR] in action.

A J F Wijewickrema
Head of HR & Administration

12 July 2012
Colombo, Sri Lanka

BOARD COMMITTEES

The Board HR Committee

As Chairperson of the Board HR Committee I am pleased to report on the active involvement of the Board HR Committee in the decision making process of HR Management at LankaClear.

Six meetings were held during the period under review on the following dates:

11th August 2011
21st November 2011
13th December 2011
10th January 2012
23rd February 2012
13th March 2012

Matters that the Management referred to the Board HR Committee and where their approval was granted or recommendations made to the Board, included the following:

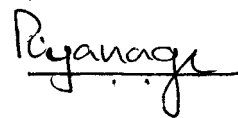
- Addition of positions to the organisation and the consequent amendment to the Management Structure
- Promotions to selected staff members, increments and adjustments of salaries
- Increments for 2012 and amendments to salary scales
- Bonus payable in 2012 based on the Company's performance in 2011

The suggestions and recommendations made and the advice given by members of the Board HR Committee were valuable in all these areas and was extremely helpful in obtaining Board approval and in the final implementation. This was particularly evident when, in addition to the above matters, advice and assistance of the Board HR Committee was sought and readily given for the management to carry out amendments to the Appraisal System applicable to the Managerial grades and revision of salaries based on a salary survey done.

I am happy to record that all recommendations made by the Board HR Committee were approved by the Board after giving due consideration to all relevant factors. These decisions enabled the Company to achieve its goals, though the improved management of its HR.

During the period under review Ms. Jananki Mampitiya ceased to be a member of the Board HR Committee in January 2012 and from February 2012 onwards Ms. W A Nalani functioned as a member of this Committee.

As the Chairperson of the Board HR Committee, I wish to thank the other members of this Committee, namely Ms. Janaki Mampitiya [who ceased to be a member as mentioned above], Ms. W A Nalani [who was a member of the Board HR Committee from February 2012] and Mr. Upali De Silva. I also thank Mr. Sunimal Weerasooriya, General Manager/CEO of LankaClear and Mr. Algi Wijewickrema, Head of HR & Administration of the management for the roles played by them.



P Liyanage

Chairperson – Board HR Committee

12 July 2012
Colombo, Sri Lanka

BOARD COMMITTEES contd.....

The Board Audit Committee

Composition of the Audit Committee

The Audit Committee comprised of two Non-Executive Directors with the third member being the Representative from Sri Lanka Banks' Association to the LCPL Board. Mr. Saliya Rajakaruna, Director/CEO of Nations Trust Bank Plc, is the Chairman of the Audit Committee. Mr. Aravinda Perera, the current Managing Director of Sampath Bank Plc Chaired the Audit Committee in the first two quarters of the financial year.

The members of the Audit Committee as at 31st March 2012 were:

Mr. S G Rajakaruna (Chairman),
Director/CEO of Nations Trust Bank PLC

Mrs. R A S M Dayaratne, Director,
Information Technology, Central Bank of Sri Lanka

Mr. M U De Silva, Secretary General,
Sri Lanka Banks' Association

The Head of Operations, Head of HR & Administration, Head of Finance, Systems Manager, Operations Manager, Manager Facilities & Maintenance, Helpdesk & Bank Services Manger and Network Operations Manager, all from LCPL and representatives of the Internal

Auditors were present by invitation at the meetings held. The Head of Finance at LCPL functioned as the Secretary of the Committee.

Meetings

The Committee held 04 meetings during the year under review. The attendance of the members at these meetings is shown in the Annual Report under Corporate Governance. All the meetings were held with full quorum in attendance. The proceedings of the Audit Committee are reported regularly to the Board of Directors.

Terms of Reference

The functioning of the Committee is regulated by the scope of the Audit Charter and Board approved Terms of Reference incorporating the provisions of the many regulatory bodies, standards and Acts.

The following areas come under the purview of the Audit Committee:

Compliance:

a) Review the effectiveness of the Company's systems for monitoring compliance with any applicable laws and regulation of the country and the results of management's investigations and follow-up of any instances of non compliance.

b) Review the findings of any examination by regulatory agencies and/or any auditor on compliance with such laws and regulations.

External Audit:

a) Review the External Auditor's proposed Audit Scope and Plan including coordination of audit effort with Internal Audit and its audit quality control/assurance processes.

b) Review the performance of External Auditors and make recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.

c) Review with Management and External Auditors the results of the audit, including any difficulties encountered.

d) Review the External Audit Report on the financial statements and any supplementary report [e.g Management Letter] outlining the findings, observations and recommendations and management responses and the status of any corrective action plans.

- e) As part of the routine Committee meeting agenda, meet separately with the External Auditors to discuss any matters that the Committee or Auditors believe should be discussed privately.

Internal Audit

- a) Review with Management and the Internal Auditor, the charter, plans, activities, scope, report requirements, etc. of the internal audit function of the company and approve same.
- b) Review findings and recommendations by the Internal Auditors, together with comments made by Management and assess the effectiveness of such findings and responses.

Summary of Activities

During the year under review the Committee discharged its duties as follows:

External Audit

Reviewed the External Auditors' report on the financial statements and supplementary reports outlining the findings, observations, recommendations, management responses and the status of any action plans.

Internal Controls

Mandated the Internal Auditors at regular intervals to review effectiveness of the internal control procedures, accounting systems and operations procedures of the organisation.

Internal Audits

- a) Reviewed the Internal Audit programmes to ensure that implementation of internal control is monitored and their adequacy is assessed on a continuous basis.
- b) Reviewed the Internal Audit reports and monitored the implementation of recommendations made therein.

Conclusion

The Committee reports to the Board, identifying matters in respect of which it considers action or improvement is needed and makes recommendations as to the steps to be undertaken. The Committee has recommended to the Board of Directors that Messrs Ernst & Young be reappointed as External Auditors for the year ending 31st March 2013 subject to the approval of the shareholders at the Annual General Meeting. The Committee will recommend the fees payable to the Auditors for approval by the Board.



S G Rajakaruna
Chairman
Audit Committee

2nd July 2012
Colombo, Sri Lanka

FINANCIAL

INFORMA

TIDON

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STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Companies Act No.07 of 2007 requires Directors to ensure that the Company keeps proper books of accounts of all the transactions and prepare Financial Statements that give a true and fair view of the state of the Company's affairs and of the profit and loss for the year.

The Directors are also required to ensure that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No. 07 of 2007. They are also responsible for taking reasonable measures to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

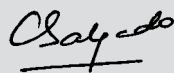
The Directors are of the view that, these Financial Statements have been prepared under the generally accepted accounting principles and in accordance with the Sri Lanka Accounting Standards as laid down by the Institute of Chartered Accountants of Sri Lanka.

The Directors endeavour to ensure that the Company maintains sufficient records to be able to disclose with reasonable accuracy, the financial position of the Company and to be able to ensure that the Financial Statements of the Company meet with the requirements of the Companies Act and Sri Lanka Accounting Standards.

The Directors have reasonable expectation, after making enquiries and following a review of the Company's budget for the ensuing year including cash flows and borrowing facilities, that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore have continued to adopt the going concern basis in preparing the Accounts.

Messrs. Ernst & Young the Auditors of the Company have examined the Financial Statements made available by the Board of Directors together with all relevant financial records, related data, minutes of Shareholders and Directors meeting and express their opinion in their report on page 53 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

Colombo
12 July 2012

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

The Directors are pleased to submit their report together with the Auditor's Report and Financial Statements for the year ended 31st March 2012, to be presented at the 10th Annual General Meeting of the Company.

Review of the Year

Chairperson's review on page 6 - 9 describes the Company's affairs and mentions important events that occurred during the year, and up to the date of this report. The Financial Highlights on page 4 elaborates the financial results of the Company. These reports together with the audited financial statements reflect the state of the affairs of the Company.

Principal Activities

The Principal Activities of the Company were providing cheque clearing facilities to commercial banks on behalf of the Central Bank of Sri Lanka and facilitating inter bank electronic fund transfers through SLIPS.

Financial Statements

The financial statements prepared in compliance with the requirements of Section 151 of the Companies Act No 7 of 2007 are given on page 54 -74 in this annual report.

Independent Auditor's Report

The Auditor's Report on the financial statements is given on page 53 in this report.

Accounting Policies

The Accounting Policies adopted in the preparation of the financial statements are given on page 58 - 64 There were no changes in Accounting Policies adopted by the Company during the year under review.

Fixed Assets

Details of fixed assets are given in note 3 to the accounts.

Directors' Responsibilities

The Statement of the Directors' Responsibilities is given on page 50 of this report.

Corporate Governance

The Company has complied with the corporate governance rules published by the Institute of Chartered Accountants of Sri Lanka and details appear in the Corporate Governance Report on pages 22 - 25.

Reserves

The Reserves and Accumulated Profits as at 31st March 2012 amount to Rs. 609,416,491/- vs Rs. 505,757,217/- as at 31st March 2011. The breakup and the movement are shown in the Statement of Changes in Equity in the financial statements.

Stated Capital

As per the terms of the Companies Act No. 7 of 2007, the stated capital of the Company was Rs. 154,750,000/- as at 31st March 2012. The details are given in Note 10 to the financial statement on page 68.

Post Balance Sheet Events

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

Interests Register

Details of the transactions with Director-related entities are disclosed in Note 23 to the financial statements on page 73, and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

BOARD COMMITTEES

Board Audit Committee

Following are the names of the Directors comprising the Audit Committee of the Board.

1. Mr. S G Rajakaruna - Chairman
2. Ms. R A S M Dayarathna
3. Mr. M U de Silva

Board HR Committee

Following are the names of the directors comprising the Board HR Committee

1. Ms. P Liyanage - Chairperson
2. Mr. S S Ratnayake
3. Mr. M U de Silva

Directors

The Board of Directors of LankaClear (Private) Limited as at 31st March 2012 were:

Ms. P Liyanage – Chairperson
Mr. R Theagarajah
Ms. W A Nalani
Ms. R A S M Dayarathna
Mr. S S Ratnayake
Mr. S G Rajakaruna
Mr. G G C Ariyaratne
Mr. M S A Fernando

During the year the following changes took place in the directorate.

- Ms. J P Mampitiya resigned w.e.f. 01st January 2012 and Mr. S S Ratnayake was appointed in her place.
- Mr. B A C Fernando resigned w.e.f. 19th July 2011 and Ms. W A Nalani was appointed w.e.f. 30th August 2011

ANNUAL REPORT OF THE BOARD OF DIRECTORS
ON THE AFFAIRS OF THE COMPANY contd.....

- Mr. R Theagarajah and Mr. S G Rajakaruna were appointed w.e.f. 30th August 2011 as Directors to represent the private local commercial banks of SLBA.
- Mr. A H D A N De Silva and Mr. M Y A Perera resigned w.e.f. 30th August 2011

Donations

There were no donations made during the year to Government approved charities

Auditors

The resolution to appoint the present Auditors, Messrs. Ernst & Young Chartered Accountant, who have expressed their willingness to continue in office, will be proposed at the Annual General Meeting.

The Audit and non-audit fees paid to the auditors is disclosed in the Note 19 on page 72 in this Annual Report.

As far as the Directors are aware, the Auditors do not have any relationship on interest in the Company.

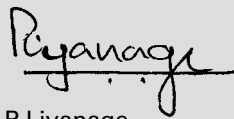
The Audit committee reviews the appointment of the Auditor, its effectiveness and its relationship with the Company including the level of audit and non-audit fees paid to the Auditor. Details on the work on the Audit Committee are set out in the Audit Committee Report.

Notice of Meeting


The Annual General Meeting will be held at Galadari Hotel, 64, Lotus Road, Colombo 01 on 30th August 2012 at 11.30 a.m.

The Notice of the Annual General Meeting appears on page 79.

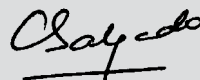
For and on behalf of the Board.



P Liyanage
Chairperson



S S Ratnayake
Director



Managers & Secretaries (Pvt) Ltd
Secretaries

LankaClear (Private) Limited
12 July 2012
Colombo

INDEPENDENT AUDITOR'S REPORT



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

WRHF/DAN/AD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LANKACLEAR PRIVATE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of LankaClear Private Limited ("Company"), which comprise the balance sheet as at 31 March 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

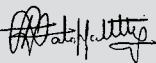
In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

19 June 2012
Colombo

BALANCE SHEET

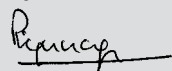
| As at 31 March | Note | 2012 Rs. | 2011 Rs. |
|---------------------------------------|------|-------------|-------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, Plant & Equipment | 3 | 91,573,343 | 132,988,805 |
| Intangible Assets | 4 | 15,277,972 | 29,189,041 |
| | | 106,851,315 | 162,177,846 |
| Current Assets | | | |
| Receivable from Subsidiary | 5 | 3,438,690 | 7,818,094 |
| Inventories | 6 | 1,956,510 | 1,342,111 |
| Trade and Other Receivables | 7 | 82,409,567 | 68,972,366 |
| Short-term Investments | 8 | 505,370,919 | 560,918,562 |
| Cash and Cash Equivalents | 9 | 140,208,175 | 12,896,064 |
| | | 733,383,861 | 651,947,197 |
| Total Assets | | 840,235,176 | 814,125,044 |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Stated Capital | 10 | 154,750,000 | 152,500,000 |
| Technology Upgrade Reserve | 11.1 | 110,213,819 | 72,005,489 |
| Capital Reserves | 11.2 | 395,000,000 | 300,000,000 |
| Retained Earnings | | 104,202,672 | 133,751,728 |
| Total Equity | | 764,166,491 | 658,257,217 |
| Non-Current Liabilities | | | |
| Interest Bearing Loans and Borrowings | 12 | - | 46,902,477 |
| Retirement Benefit Obligation | 13 | 7,994,731 | 5,705,569 |
| Deferred Tax Liability | 14 | 1,197,867 | 3,616,135 |
| | | 9,192,598 | 56,224,181 |
| Current Liabilities | | | |
| Trade and Other Payables | 15 | 49,787,596 | 44,729,004 |
| Income Tax Liability | | 17,088,491 | 27,636,330 |
| Interest Bearing Loans and Borrowings | 12 | - | 27,278,312 |
| | | 66,876,087 | 99,643,646 |
| Total Equity and Liabilities | | 840,235,176 | 814,125,044 |
| Net Assets Per Share | | 50.44 | 43.59 |

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



R L Galappaththy
Head of Finance

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



P Liyanage
Chairperson



S S Ratnayake
Director

The accounting policies and notes on pages 58 to 74 form an integral part of the financial statements.

INCOME STATEMENT

| Year ended 31 March | Note | 2012 Rs. | 2011 Rs. |
|----------------------------|------|---------------|---------------|
| Revenue | 16 | 390,429,865 | 348,813,235 |
| Cost of Sales | | (132,689,423) | (140,410,757) |
| Gross Profit | | 257,740,442 | 208,402,478 |
| Other Income and Gains | 17 | 63,300,728 | 61,982,401 |
| Administrative Expenses | | (124,727,784) | (99,396,089) |
| Finance Cost | 18 | (6,390,572) | (9,336,976) |
| Profit Before Tax | 19 | 189,922,814 | 161,651,815 |
| Income Tax Expense | 20 | (63,613,541) | (70,798,015) |
| Profit for the Year | | 126,309,273 | 90,853,800 |
| Earnings Per Share | 21 | 8.35 | 6.04 |

The accounting policies and notes on pages 58 to 74 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

| Year ended 31 March | Note | Stated Capital Rs. | Technology Upgrade Reserve Rs. | Capital Reserves Rs. | Retained Earnings Rs. | Total Rs. |
|---|------|--------------------------|---|----------------------------|-----------------------------|--------------|
| Balance as at 31 March 2010 | | 150,500,000 | 83,948,333 | 195,000,000 | 153,262,584 | 582,710,917 |
| Proceeds from New Share Issue | | 2,000,000 | - | - | - | 2,000,000 |
| Profit for the Year | | - | - | - | 90,853,800 | 90,853,800 |
| Utilisation of Technology Upgrade Reserve | | - | (52,355,797) | - | 52,355,797 | - |
| Transferred to Technology Upgrade Reserve | | - | 40,412,954 | - | (40,412,954) | - |
| Transferred to Retained Earnings | | - | - | (15,000,000) | 15,000,000 | - |
| Transferred to Retained Earnings | | - | - | (150,000,000) | 150,000,000 | - |
| Transferred to Capital Reserve | | - | - | 270,000,000 | (270,000,000) | - |
| Dividend paid | | - | - | - | (17,307,500) | (17,307,500) |
| Balance as at 31 March 2011 | | 152,500,000 | 72,005,490 | 300,000,000 | 133,751,728 | 658,257,217 |
| Proceeds from New Share Issue | 10 | 2,250,000 | - | - | - | 2,250,000 |
| Profit for the Year | | - | - | - | 126,309,273 | 126,309,273 |
| Transferred to Technology Upgrade Reserve | 11.1 | - | 47,480,703 | - | (47,480,703) | - |
| Utilisation of Technology Upgrade Reserve | 11.1 | - | (9,272,374) | - | 9,272,374 | - |
| Transferred to Capital Reserve | 11.2 | - | - | 95,000,000 | (95,000,000) | - |
| Dividend paid | | - | - | - | (22,650,000) | (22,650,000) |
| Balance as at 31 March 2012 | | 154,750,000 | 110,213,819 | 395,000,000 | 104,202,672 | 764,166,491 |

The accounting policies and notes on pages 58 to 74 form an integral part of the financial statements.

CASH FLOW STATEMENT

| Year ended 31 March | Note | 2012 Rs. | 2011 Rs. |
|--|------|--------------|--------------|
| Cash Flows From / (Used in) Operating Activities | | | |
| Profit Before Tax | | 189,922,814 | 161,651,815 |
| Adjustments for | | | |
| Depreciation | 3 | 22,834,601 | 28,461,281 |
| Amortisation of Intangible Assets | 4 | 15,361,814 | 18,730,326 |
| Amortisation of Deferred Income | | - | (6,303,432) |
| Finance Income | 17 | (62,962,455) | (58,319,502) |
| Provision for Retirement Benefit Obligation | 13 | 2,672,797 | 416,544 |
| Provision for Bank Claims | | 2,373,940 | 9,360,683 |
| Profit on Disposal of Property, Plant & Equipments | 17 | (152,166) | (3,186,715) |
| Inventory write-off | | - | 1,319,855 |
| Impairment Losses | | 27,734,792 | - |
| Project Expenses Written Off | | 4,345,493 | - |
| Provision for share of loss of investment in Subsidiary | | - | 1,361,906 |
| Finance Cost | 18 | 6,390,572 | 9,336,976 |
| Operating Profit before Working Capital Changes | | 208,522,202 | 162,829,737 |
| (Increase)/Decrease in Inventory | | (614,399) | 822,425 |
| Decrease in Trade and Other Receivables | | 13,137,896 | 37,189,563 |
| Increase/(Decrease) in Trade and Other Payables | | 778,404 | (27,836,042) |
| Cash Generated from Operations | | 221,824,102 | 173,005,683 |
| Interest Paid | 18 | (6,390,572) | (9,336,976) |
| Income Tax Paid | | (76,579,647) | (44,543,745) |
| Gratuity Paid | 13 | (383,635) | (942,235) |
| Net Cash From/(Used in) Operating Activities | | 138,470,248 | 118,182,728 |
| Cash Flows From/(Used in) Investing Activities | | | |
| Acquisition of Property, Plant & Equipment | | (9,272,374) | (53,700,838) |
| Acquisition of Intangible Assets | 4 | (1,450,745) | (19,091,361) |
| Investment in CCAPS Project | | (2,448,638) | - |
| Investment in CPS Project | | - | (278,321) |
| Proceeds from Subsidiary | 5 | 4,379,404 | - |
| Proceeds from disposal of Property, Plant & Equipments | | 280,002 | 10,652,901 |
| Investment in short-term deposits | | 55,547,643 | (46,448,279) |
| Finance Income Received | | 36,387,359 | 31,470,147 |
| Net Cash Flows From/(Used in) Investing Activities | | 83,422,651 | (77,395,751) |
| Cash Flows From/(Used in) Financing Activities | | | |
| Proceeds from issue of Ordinary Shares | 10 | 2,250,000 | 2,000,000 |
| Dividend Paid | | (22,650,000) | (17,307,500) |
| Repayment of Interest Bearing Loans & Borrowings | 12 | (74,180,789) | (27,410,507) |
| Net Cash Flows From/(Used in) Financing Activities | | (94,580,789) | (42,718,007) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | | 127,312,111 | (1,931,031) |
| Cash and Cash Equivalents at the beginning of the year | | 12,896,064 | 14,827,095 |
| Cash and Cash Equivalents at the end of the year (Note A) | | 140,208,175 | 12,896,064 |
| Note A | | | |
| Analysis of Cash and Cash Equivalents at the end of the year | | | |
| Short - Term Investments in Fixed Deposits | | 41,005,645 | - |
| Short - Term Investments in Commercial Papers | | 13,747,200 | - |
| Investments in REPOs | | 80,500,000 | 11,400,000 |
| Cash in hand and at Bank | | 4,955,329 | 1,496,064 |
| Total Cash & Cash Equivalents | | 140,208,175 | 12,896,064 |

The accounting policies and notes on pages 58 to 74 form an integral part of the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 GENERAL

LankaClear (Private) Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office and the principal place of business is situated at Level 18, Bank of Ceylon Head Office, "BOC Square", No.1, Bank of Ceylon Mawatha, Colombo 01.

1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

During the year, the principal activities of the Company were to provide cheque clearance transactions to commercial banks on behalf of the Central Bank of Sri Lanka and facilitating online interbank electronic fund transfers through Sri Lanka Interbank Payment System (SLIPS).

1.3 DATE OF AUTHORISATION FOR ISSUE

The Financial Statements of LankaClear (Private) Limited for the year ended 31 March 2012 were authorised for issue, in accordance with a resolution of the Board of Directors on 19 June 2012.

2. GENERAL POLICIES

2.1 BASIS OF PREPARATION

The Financial Statements of the Company have been prepared on an accrual basis and under the historical cost convention basis unless stated otherwise. The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

2.1.1 Statement of Compliance

The Financial Statements of LankaClear (Private) Limited have been prepared in compliance with Sri Lanka Accounting Standards (SLAS) issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No.7 of 2007.

2.1.2 Going Concern

The management is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore we continue to adopt going concern assumption in preparing these financial statements.

2.1.3 Comparative Information

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

2.2 CHANGES IN ACCOUNTING POLICIES

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

2.3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Assessment of Impairment

The Company assesses at each Balance Sheet date whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessments of the time value of money and risks specific to the asset.

Defined Benefit Plans

The cost of defined benefit plan – gratuity is determined using gratuity formula method. The gratuity formula method involves making assumptions about discount rates, future salary increases, staff turnover rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 Foreign Currency Translation

All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are affected.

Monetary assets and liabilities denominated in foreign currency are translated to functional currency equivalents at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the income statement.

2.4.2 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes and are expected to be used during more than one year.

Basis of Recognition

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

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

Cost Model

All items of property, plant and equipment are initially recorded at cost less accumulated depreciation and accumulated impairment in value.

Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are charged to the income statement as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

NOTES TO THE FINANCIAL STATEMENTS contd.....

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or losses arising from de-recognition of an item of property, plant and equipment is included in income statement when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

Depreciation

Depreciation is calculated on a straight line basis over the useful life of the assets commencing from the month of purchase or from the month on which the asset was made available to use.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Principal annual rates used are:

| | |
|------------------------|-----|
| Computer Equipment | 25% |
| Furniture and Fittings | 10% |
| Electronic Equipment | 20% |
| Other Equipment | 20% |
| Motor Vehicles | 20% |

Capital Work-in-Progress

Capital work-in-progress is stated at cost less any accumulated impairment losses. These are expenses which directly incurred in the construction of system development, awaiting capitalisation. Capital work-in progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

2.4.3 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of that asset.

2.4.4 Impairment of Assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets. Impairment losses are recognised in the income statement.

Calculation of Recoverable Amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Reversal of Impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are recognised in the income statement.

2.4.5 Intangible Assets

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

Software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the balance sheet under the category intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

Amortisation

Intangible assets are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. The estimated useful life of software is four years.

Retirement and Disposal

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

2.4.6 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition, are accounted for as follows;
Consumables & Stationery - On a weighted average basis

NOTES TO THE FINANCIAL STATEMENTS contd.....

2.4.7 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

2.4.8 Short Term Investments

Investments with maturities more than three months and less than one year from the date of acquisition are considered as short term investments and are stated at cost.

2.4.9 Cash and Cash Equivalents

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

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

Securities Purchased Under Re-Sale Agreements

These are advances collateralised by purchase of treasury bills and treasury bonds subject to a commitment to re-sale them at a predetermined price. Such securities remain on the Balance Sheet of the company and the asset is recorded in respect of the consideration paid and interest accrued thereon.

2.4.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provision for Bank Claims

Provision for bank claims is made for any financial year on 0.05% of the average value of a day's clearing on previous year and will be reversed the same at the end of second financial year if claims are not made within two consecutive financial years.

2.4.11 Retirement Benefit Liability

Defined Benefit Plan - Gratuity

The Company annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the Gratuity Formula in Appendix E of Sri Lanka Accounting Standard No.16, Employee Benefits (Revised 2006) which is based on the Projected Unit Credit method. Actuarial gains and losses are recognised as income or expenses over the expected average remaining working lives of the participants of the plan. Although actuarial assumptions are used therein, it should not be treated as a substitute to an Actuarial Valuation.

However, as per the payment of Gratuity Act No.12 of 1983 this liability only arises upon completion of 5 years of continued service.

Defined Contribution Plans – Employees’ Provident Fund and Employees’ Trust Fund

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

2.4.12 Income Statement

Revenue Recognition

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

Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

Interest Income

Interest income is recognised as the interest accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

Others

Other income is recognised on an accrual basis.

2.4.13 Income Tax Expenses

Current Tax

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

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

Deferred Tax

Deferred taxation is provided using the balance sheet 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.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax liabilities are not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects both accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward are recognised 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.



NOTES TO THE FINANCIAL STATEMENTS contd.....

2.5 GENERAL

2.5.1 Earnings Per Share

The Company presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2.5.2 Cash Flow Statement

The cash flow statement has been prepared using the "indirect method". Cash and cash equivalents are defined as cash in hand and demand deposits, readily converted to known amounts of cash and subject to insignificant risk of changes in value. Interest paid is classified under operating cash flows for the purpose of presentation of cash flow statement and reported based on the indirect method.

2.6 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM 01 JANUARY 2012:

The Company will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 01 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Company has commenced reviewing its accounting policies and financial reporting in readiness for the transition and is in the process of quantifying the impact on the financial statements.

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

3. PROPERTY, PLANT & EQUIPMENT

| | Balance as at 01.04.2011 Rs. | Additions/ Transfers Rs. | Impairment Rs. | Disposals/ Transfers Rs. | Balance as at 31.03.2012 Rs. |
|--|------------------------------------|--------------------------------|---------------------|--------------------------------|------------------------------------|
| 3.1 Gross Carrying Amount | | | | | |
| At Cost | | | | | |
| Computer Equipment | 395,608,043 | 9,288,565 | - | (123,693,514) | 281,203,094 |
| Furniture and Fittings | 12,807,721 | 520,609 | - | (154,298) | 13,174,032 |
| Electronic Equipment | 26,280,261 | 82,500 | - | (1,775,201) | 24,587,560 |
| Other Equipment | 1,741,296 | 197,500 | - | (224,200) | 1,714,596 |
| Motor Vehicle | 6,650,000 | - | - | - | 6,650,000 |
| | 443,087,320 | 10,089,175 | - | (125,847,213) | 327,329,282 |
| Capital Work in Progress | | | | | |
| Capital Work in Progress - CPS Project | 65,198,331 | - | (27,734,792) | (37,463,539) | - |
| Capital Work in Progress - CCAPS Project | - | 36,656,131 | - | - | 36,656,131 |
| | 65,198,331 | 36,656,131 | (27,734,792) | (37,463,539) | 36,656,131 |
| Total Gross Carrying Amount | 508,285,651 | 46,745,306 | (27,734,792) | (163,310,752) | 363,985,413 |

3.2 Depreciation

| | Balance as at 01.04.2011 Rs. | Charge for the Year Rs. | Impairment Rs. | Disposals/ Transfers Rs. | Balance as at 31.03.2012 Rs. |
|---------------------------|------------------------------------|----------------------------------|-------------------|--------------------------------|------------------------------------|
| Computer Equipment | 342,783,193 | 17,230,632 | - | (123,656,472) | 236,357,354 |
| Furniture and Fittings | 6,497,741 | 1,306,149 | - | (90,982) | 7,712,908 |
| Electronic Equipment | 20,074,521 | 2,808,357 | - | (1,747,722) | 21,135,156 |
| Other Equipment | 1,397,224 | 159,462 | - | (224,200) | 1,332,487 |
| Motor Vehicle | 4,544,166 | 1,330,000 | - | - | 5,874,166 |
| Total Depreciation | 375,296,846 | 22,834,601 | - | (125,719,376) | 272,412,070 |

NOTES TO THE FINANCIAL STATEMENTS contd.....

3.3 Net Book Values

| | 2012 Rs. | 2011 Rs. |
|--|-------------|-------------|
| Computer Equipment | 44,845,741 | 52,824,850 |
| Furniture and Fittings | 5,461,124 | 6,309,979 |
| Electronic Equipment | 3,452,405 | 6,205,740 |
| Other Equipment | 382,109 | 344,071 |
| Motor Vehicle | 775,834 | 2,105,834 |
| | 54,917,212 | 67,790,474 |
| Capital Work in Progress | | |
| Capital Work in Progress - CPS Project | - | 65,198,331 |
| Capital Work in Progress - CCAPS Project | 36,656,131 | - |
| | 36,656,131 | 65,198,331 |
| Total Carrying Amount of Property, Plant and Equipment | 91,573,343 | 132,988,805 |

3.4 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 10,089,175/- (2011 - Rs. 64,152,250/-) of which Rs. 9,272,374/- (2011 - Rs. 53,700,838/-) were paid in cash.

3.5 The initial cost of fully depreciated Property, Plant & Equipment as at 31st March 2012 which are still in use as at the Balance Sheet date having a gross carrying amounts of Rs. 222,988,831/- (2011 - Rs.330,826,582/-).

3.6 Capital Work in Progress

3.6.1 Based on the internal assessment, it was determined that the commercial viability of the software licenses and few hardware components relating to capital work-in-progress CPS project have decreased significantly. As a result, an impairment loss of Rs. 27,734,792/- was recognised to the income statement during the financial year to reduce their carrying amounts in full.

3.6.2 It was assessed that capital work-in-progress of CPS project amounting to Rs. 32,301,245/- will generate future economic benefits to the entity in the foreseeable future through committed Common Card And Payment Switch (CCAPS) project and transferred the same accordingly during the year.

3.7 Based on the assessment of potential impairment carried out internally as at 31st March 2012, no provision was required to be made in the Financial Statements as at the Balance Sheet date other than those disclosed above.

3.8 There were no items of Property, Plant and Equipment pledged as securities for liabilities.

4. INTANGIBLE ASSETS

| | 2012 Rs. | 2011 Rs. |
|--|-------------|-------------|
| 4.1 Cost | | |
| Balance at the beginning of the year | 259,021,600 | 241,809,709 |
| Additions and improvements during the year | 1,450,745 | 19,091,361 |
| Transferred to Property, Plant and Equipment during the year | - | (1,879,470) |
| Balance at the end of the year | 260,472,345 | 259,021,600 |
| 4.2 Accumulated Amortisation | | |
| Balance as at beginning of the year | 229,832,559 | 211,689,567 |
| Amortisation for the year | 15,361,814 | 18,730,326 |
| Transferred during the year | - | (587,334) |
| Accumulated Amortisation at the end of the year | 245,194,373 | 229,832,559 |
| 4.3 Net Book Value | 15,277,972 | 29,189,041 |

4.4 During the financial year company has paid Rs. 1,450,745/- for acquisition and improvement of intangible assets. (2011 - Rs.19,091,361/-)

4.5 Intangible Assets includes fully amortised assets having a gross carrying amounts of Rs. 223,006,287/- (2011 - Rs.194,670,262/-).

4.6 Based on the assessment of potential impairment carried out internally as at 31st March 2012, no provision was required to be made in the Financial Statements as at the Balance Sheet date.

5. RECEIVABLE FROM SUBSIDIARY

| | 2012 Rs. | 2011 Rs. |
|---|-------------|-------------|
| LankaClear Cash Management (Pvt) Ltd. | 7,818,094 | 9,180,000 |
| Less: Proceeds from 1st interim distribution of the liquidation | (4,379,404) | - |
| Less: Provision for share of loss of investment | - | (1,361,906) |
| | 3,438,690 | 7,818,094 |

The Management of LankaClear Cash Management (Pvt) Ltd had passed a resolution to liquidate the Company on 16th December 2011 and transferred all the tangible assets of the Company to the Liquidator for distribution. Accordingly 1st interim distribution was made in respect of the 51% of the holding amounting to Rs.4,379,404/-. It was concluded that no provision was required to be made against the investment as at the Balance Sheet date until the end of the liquidating process.

NOTES TO THE FINANCIAL STATEMENTS contd.....

6. INVENTORIES

| | 2012 Rs. | 2011 Rs. |
|---------------------------|-------------|-------------|
| Consumable and Stationery | 1,956,510 | 1,342,111 |
| | 1,956,510 | 1,342,111 |

7. TRADE AND OTHER RECEIVABLES

| | | |
|--------------------------------|------------|------------|
| Trade Receivables | 42,699,254 | 38,373,409 |
| Advances & Prepayments | 12,956,516 | 3,569,980 |
| Refundable Deposit | 178,700 | 170,700 |
| Interest Receivable (Note 7.1) | 26,575,096 | 26,849,355 |
| Other Receivables | - | 8,922 |
| | 82,409,567 | 68,972,366 |

7.1 Interest Receivable

| | | |
|-------------------------------|------------|------------|
| Interest on Fixed Deposits | 17,678,920 | 17,932,878 |
| Interest on Commercial Papers | 8,846,569 | 8,910,599 |
| Interest on REPOs | 49,607 | 5,878 |
| | 26,575,096 | 26,849,355 |

8. SHORT-TERM INVESTMENTS

| | | |
|----------------------------------|-------------|-------------|
| Investments in Fixed Deposits | 335,094,150 | 372,566,522 |
| Investments in Commercial Papers | 170,276,768 | 188,352,040 |
| | 505,370,919 | 560,918,562 |

9. CASH AND CASH EQUIVALENTS

Components of Cash and Cash Equivalents

| | | |
|--|-------------|------------|
| Short - Term Investments in Fixed Deposits | 41,005,645 | - |
| Short - Term Investments in Commercial Papers | 13,747,200 | - |
| Investments in REPOs | 80,500,000 | 11,400,000 |
| Cash in hand and at Bank | 4,955,329 | 1,496,064 |
| Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement | 140,208,175 | 12,896,064 |

10. STATED CAPITAL

| | 2012 | | 2011 | |
|--------------------------------------|------------|-------------|------------|-------------|
| | Number | Rs. | Number | Rs. |
| Fully paid Ordinary Shares | 15,150,000 | 154,750,000 | 15,100,000 | 152,500,000 |
| Balance at the beginning of the year | 15,100,000 | 152,500,000 | 15,050,000 | 150,500,000 |
| Issue of Shares for Cash | 50,000 | 2,250,000 | 50,000 | 2,000,000 |
| Balance at the end of the year | 15,150,000 | 154,750,000 | 15,100,000 | 152,500,000 |

11. RESERVES

| | 2012 Rs. | 2011 Rs. |
|---|-------------|--------------|
| 11.1 Technology Upgrade Reserve | | |
| At the beginning of the year | 72,005,489 | 83,948,333 |
| Transferred from Retained Earnings | 47,480,703 | 40,412,954 |
| Utilisation of Technology Upgrade Reserve | (9,272,374) | (52,355,797) |
| At the end of the year | 110,213,819 | 72,005,489 |

Technology Upgrade Reserve represents profits reserved by the company for the replacement of capital assets that have either completed their useful economic life or with outdated technology necessitating replacements.

11.2 Capital Reserves

| | | |
|--|-------------|-------------|
| Reserve for Common Card And Payment Switch Project | 360,000,000 | 270,000,000 |
| Reserve for Direct Connectivity Project | 25,000,000 | 25,000,000 |
| Reserve for Certificate Authority Project | 5,000,000 | 5,000,000 |
| Reserve for Bank CSIRT | 5,000,000 | - |
| | 395,000,000 | 300,000,000 |

Reserve for Common Card And Payment Switch project comprises amounts set aside by the entity for the purpose of meeting the capital infrastructure requirements for the implementation of the project.

Reserve for Certificate Authority and Direct Connectivity Projects represents profits that have been held in reserve to fund for further developments and improvements which can be taken place in the future.

Reserve for Bank CSIRT for the financial sector reflects the amounts the Company has reserved to implement a system to reduce internet related frauds in the future.

12. INTEREST BEARING LOANS & BORROWINGS

| | 2012 | | | 2011 | | |
|------------------|-----------------------------------|----------------------------------|--------------|-----------------------------------|----------------------------------|--------------|
| | Repayable within 1 Year Rs. | Repayable after 1 Year Rs. | Total Rs. | Repayable within 1 Year Rs. | Repayable after 1 Year Rs. | Total Rs. |
| Bank Loan (12.1) | - | - | - | 27,278,312 | 46,902,477 | 74,180,789 |
| | - | - | - | 27,278,312 | 46,902,477 | 74,180,789 |

12.1 Bank Loan

| | As at 01.04.2011 Rs. | Loan Obtained Rs. | Repayment Rs. | As at 31.03.2012 Rs. |
|-----------------|----------------------------|-------------------------|------------------|----------------------------|
| Seylan Bank PLC | 74,180,789 | - | (74,180,789) | - |
| | 74,180,789 | - | (74,180,789) | - |

No assets have been pledged as securities to obtain the above loan

NOTES TO THE FINANCIAL STATEMENTS contd.....

13. RETIREMENT BENEFIT OBLIGATION

| | 2012 Rs. | 2011 Rs. |
|---------------------------------------|-------------|-------------|
| Provision for Retiring Gratuity | | |
| Balance at the beginning of the year | 5,705,569 | 6,231,260 |
| Interest for the year | 353,358 | 350,839 |
| Charge for the year | 1,915,410 | 1,541,504 |
| Deficit/(Surplus) Charge for the year | 404,030 | (1,475,799) |
| Payments made during the year | (383,635) | (942,235) |
| Balance at the end of the year | 7,994,731 | 5,705,569 |

The Company has adopted SLAS 16 Employee benefits (Revised 2006) in determining the liability in respect of Retiring Gratuity. The present value of the said liability is estimated using either actuarial valuation or gratuity formula method as recommended by SLAS 16. The entity has estimated its gratuity liability as at 31st March 2012 using the gratuity formula in Appendix E of the said standard which is based on the Projected Unit Credit method.

The principal assumptions used in determining this obligation were,

| | 2012 | 2011 |
|-----------------------|--------|-------|
| Discount Rate | 11.00% | 9.00% |
| Salary Increment Rate | 11.00% | 9.00% |
| Staff Turnover Factor | 6.00% | 5.70% |

14. DEFERRED TAXATION

| | 2012 Rs. | 2011 Rs. |
|--------------------------------|-------------|-------------|
| Deferred Tax Liability/(Asset) | 1,197,867 | 3,616,135 |
| | 1,197,867 | 3,616,135 |

| | 2012 | | 2011 | |
|--|--------------------------------|-------------------|--------------------------------|-------------------|
| | Temporary Difference Rs. | Tax Effect Rs. | Temporary Difference Rs. | Tax Effect Rs. |
| Balance at the beginning of the year | 12,914,767 | 3,616,135 | (3,423,500) | (1,198,225) |
| Impact on rate change charged to income statement | - | - | - | 239,645 |
| Transferred to/(from) income statement | (8,636,669) | (2,418,267) | 16,338,267 | 4,574,715 |
| Balance at the end of the year | 4,278,099 | 1,197,867 | 12,914,767 | 3,616,135 |
| Deferred Tax Liability/ (Asset) consisted of followings | | | | |
| Plant and Equipment | 12,272,830 | 3,436,392 | 18,620,336 | 5,213,694 |
| Retirement Benefit Obligation | (7,994,731) | (2,238,525) | (5,705,569) | (1,597,559) |
| | 4,278,099 | 1,197,867 | 12,914,767 | 3,616,135 |

15. TRADE AND OTHER PAYABLES

| | 2012 Rs. | 2011 Rs. |
|---|-------------|-------------|
| Value Added Tax | 2,869,722 | 2,886,337 |
| Nation Building Tax | 756,816 | 686,915 |
| Economic Service Charges | 1,079,041 | 915,856 |
| Withholding Tax | - | 473,925 |
| Sundry Creditors including Accrued Expenses | 45,055,452 | 39,735,479 |
| Advance Received | 26,566 | 30,492 |
| | 49,787,596 | 44,729,004 |

16. REVENUE

| | | |
|---|-------------|-------------|
| Revenue from Rendering of Clearing Services | 395,844,103 | 356,884,896 |
| Revenue from Certificate Authority | 2,394,359 | 1,691,108 |
| Less: Nation Building Tax | (7,808,597) | (9,762,769) |
| Net Revenue | 390,429,865 | 348,813,235 |

17. OTHER INCOME AND GAINS

| | | |
|---|------------|------------|
| Interest on Fixed Deposits | 36,177,842 | 40,902,500 |
| Interest on REPO Investments | 2,626,024 | 5,980,944 |
| Interest on Commercial Papers | 24,158,590 | 11,436,059 |
| Other Income | 186,106 | 476,184 |
| Profit on Disposal of Property, Plant and Equipment | 152,166 | 3,186,715 |
| | 63,300,728 | 61,982,401 |

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a company which derives interest income from the secondary market transaction with Government securities be entitled to a notional tax credit provided such interest income forms part of a statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in Government securities for the year by the entity has been grossed up in the financial statements and the resulting notional tax credit amounted to Rs. 262,602/- (2011 - Rs. 598,094/-).

| | 2012 Rs. | 2011 Rs. |
|---|-------------|-------------|
| 18. FINANCE COST | | |
| Interest Expense on Interest Bearing Loans & Borrowings | 6,390,572 | 9,336,976 |
| | 6,390,572 | 9,336,976 |

NOTES TO THE FINANCIAL STATEMENTS contd.....

19. PROFIT BEFORE TAX

Profit before tax is stated after charging all expenses including the following:

| | 2012 Rs. | 2011 Rs. |
|---|-------------|-------------|
| Directors' Emoluments | 2,663,250 | 2,345,500 |
| Auditors' Fee - External | 331,100 | 443,528 |
| - Internal | 370,719 | 438,514 |
| Provision for share of loss of investment in subsidiary | - | 1,361,906 |
| Impairment Losses | 27,734,792 | - |
| Project Expenses Written Off | 4,345,493 | - |
| Depreciation | 22,834,601 | 28,461,281 |
| Amortisation of Intangible Assets | 15,361,814 | 18,730,326 |
| Personnel Costs includes | | |
| - Defined Benefits Plan Cost - Gratuity | 2,672,797 | 416,544 |
| - Defined Contribution Plan Cost - EPF & ETF | 5,969,759 | 5,080,786 |
| - Other Staff Costs | 58,494,980 | 52,882,235 |

20. INCOMETAX EXPENSE

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

| | 2012 Rs. | 2011 Rs. |
|---|--------------|--------------|
| Current Income Tax Expense | | |
| Current Income Tax charge (Note 20.1) | 66,031,808 | 63,664,893 |
| Social Responsibility Levy 1.5% (Note 20.1) | - | 980,935 |
| Under/(Over) Provision of current taxes in respect of prior years | - | 1,337,827 |
| Deferred Income Tax Expense | | |
| Adjustment to opening deferred tax asset resulting from Changing in tax rate (Note 14) | - | 239,645 |
| Deferred tax originating/(reversing) during the year (Note 14) | (2,418,267) | 4,574,715 |
| Charge to the Income Statement | 63,613,541 | 70,798,015 |
| 20.1 Reconciliation of Accounting Profit to Income Tax Expense At the statutory income tax rate of 28% | | |
| Profit Before Tax | 189,922,814 | 161,651,815 |
| Aggregate Allowable Items | (31,144,165) | (46,191,111) |
| Aggregate Disallowable Items | 77,049,237 | 66,438,991 |
| Taxable Income | 235,827,886 | 181,899,695 |
| Income Tax @ 28% | 66,031,808 | 63,664,893 |
| Social Responsibility Levy @ 1.5% on current years income tax | - | 954,973 |
| Social Responsibility Levy on dividend paid during the year | - | 25,961 |
| | - | 980,935 |

21. EARNINGS PER SHARE

21.1 Basic Earnings Per Share

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

| | 2012 Rs. | 2011 Rs. |
|--|-------------|-------------|
| Amount used as the Numerator | | |
| Net profit attributable to ordinary shareholders | 126,309,273 | 90,853,800 |
| Number of ordinary shares used as the Denominator | | |
| Weighted average number of ordinary shares in issue | 15,120,355 | 15,052,740 |
| Basic Earnings Per Share | 8.35 | 6.04 |

21.2 Diluted Earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares. There were no potentially dilutive ordinary shares outstanding at any time during the year/previous years.

22. DIVIDEND PER SHARE

| | 2012 Rs. | 2011 Rs. |
|---|-------------|-------------|
| Final Dividend paid in respect of 2009/10 | - | 17,307,500 |
| Final Dividend paid in respect of 2010/11 | 22,650,000 | - |
| Dividend Per Share | 1.50 | 1.15 |

23. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

23.1 Transactions with Related Parties

a) Transactions with Shareholding Entities where Key Managerial Personnel have either Significant Influence or Control

| | 2012 Rs. | 2011 Rs. |
|-----------------------------------|-------------|-------------|
| Rendering of Clearing Services | 215,291,672 | 226,403,056 |
| Certificate Authority Charges | 560,045 | 478,701 |
| Investments held in REPOs | 80,500,000 | 11,400,000 |
| Investments in Fixed Deposits | 161,439,483 | 122,000,000 |
| Interest Income Received on REPOs | 2,313,814 | 5,376,972 |
| Interest Income on Fixed Deposits | 16,887,061 | 11,321,422 |
| Balance held in Current Accounts | 4,887,987 | 1,256,556 |
| Rent Paid | 19,284,636 | 20,240,054 |

NOTES TO THE FINANCIAL STATEMENTS contd.....

23.2 Transactions with key Management Personnel of the Company (KMP)

According to Sri Lanka Accounting Standard 30 (Revised 2006) "Related Party Disclosures", Key Management Personnel are those having authority and responsibility for planning and controlling the activities of the entity. Accordingly, the Directors of the Company (including Executive and Non-Executive Directors) and their immediate family members have been classified as Key Management Personnel of the Company.

Following are the summary of significant transactions that were made with the Company during the year.

| | 2012 Rs. | 2011 Rs. |
|---------------------|-------------|-------------|
| Short Term benefits | 2,663,250 | 2,345,500 |

24. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations. No material losses are anticipated as a result of these transactions.

24.1 Capital Expenditure Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in the financial statements amounts to approximately Rs. 300 Mn

24.2 Litigation against the Company

There were no litigation outstanding against the Company as at the Balance Sheet date.

25. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There were no material events occurring after the Balance Sheet date that requires adjustments to or disclosure in the Financial Statements.

26. COMPARATIVE FIGURES

To facilitate comparison balances pertaining to the previous year have been re-classified to conform to current year classifications and presentation.

CORPORATE PROFILE

Name of the Company

LankaClear (Pvt) Ltd

Statutory Status

A Private Company with Limited liability incorporated in Sri Lanka on 8th February 2002.

History

Former Sri Lanka Automated Clearing House (SLACH), owned by the Central Bank of Sri Lanka.

Divested to LankaClear (Pvt) Ltd. Commenced operations on the 1st April 2002.

Principal Activities

Provide cheque clearing facilities to commercial banks on behalf of the Central Bank and facilitate secure interbank electronic fund transfers through SLIPS.

Product Range

Sri Lanka Rupee Cheque Clearing
US Dollar Clearing
Sri Lanka Rupee Draft Clearing
Sri Lanka Inter Bank Payment System (SLIPS)
Certificate Authority (CA)

Board of Directors

Ms. P Liyanage

Chairperson
Ex-Assistant Governor, Central Bank of Sri Lanka

Mr. S S Ratnayake

Director
Assistant Governor, Central Bank of Sri Lanka

Mr. K. Dharmasiri

Director
General Manager, Bank of Ceylon

Mr. G G C Ariyaratne

Director
Deputy General Manager (Operations), People's Bank

Ms. R A S M Dayaratne

Director
Director IT, Central Bank of Sri Lanka

Mr. R Theagarajah

Director
Managing Director/CEO, Hatton National Bank PLC

Mr. S G Rajakaruna

Director
CEO/Director, Nations Trust Bank PLC

Mr. M S A Fernando

Director
Country Head, Public Bank Berhad

Mr. M U de Silva

Observer
Secretary General, SLBA

Management Team

Mr. S B Weerasooriya

General Manager/CEO

Mr. H S Wanigatunga

Head of Operations

Mr. A J F Wijewickrema

Head of Human Resources & Administration

Mr. R L Galappaththy

Head of Finance

Mr. S R Hettiarachchi

Operations Manager

Mr. D Samarasinghe

Systems Manager

Mr. A V I G Jayaweera

Bank Services & Help Desk Manager

Mr. H M U Kahawatte

Network Operations Manager

Mr. H S N De Silva

Systems Operations Manager

Mr. L D Uyanahewage

Manager CITS

Ms. V P T Jayawardane

Brand Manager

Mr. R W G D C Weerasinghe

Manager Facilities and Maintenance

CORPORATE PROFILE contd.....

Stated Capital

| | Number | Rs. |
|----------------------------|------------|-------------|
| Fully paid Ordinary Shares | 15,150,000 | 154,750,000 |

Shareholders

| Shareholder | Number of Shares 'Mn' | Value 'Rs. Mn' |
|---|-----------------------|----------------|
| Central Bank of Sri Lanka | 2.95 | 29.50 |
| Bank of Ceylon | 2.10 | 21.00 |
| People's Bank | 2.10 | 21.00 |
| Sampath Bank PLC | 2.00 | 20.00 |
| Commercial Bank of Ceylon PLC | 1.00 | 10.00 |
| Hatton National Bank PLC | 2.20 | 22.00 |
| Seylan Bank PLC | 1.00 | 10.00 |
| Union Bank of Colombo PLC | 0.05 | 0.50 |
| DFCC Vardhana Bank Ltd | 0.10 | 1.00 |
| Pan Asia Banking Corporation PLC | 0.10 | 1.00 |
| Nations Trust Bank PLC | 0.15 | 1.50 |
| National Development Bank PLC | 0.15 | 1.50 |
| Habib Bank Ltd | 0.05 | 0.50 |
| Indian Bank | 0.10 | 1.00 |
| Indian Overseas Bank | 0.10 | 1.00 |
| State Bank of India | 0.05 | 0.50 |
| MCB Bank Ltd | 0.10 | 1.00 |
| The Hongkong and Shanghai Banking Corporation Ltd | 0.20 | 2.00 |
| Deutsche Bank AG | 0.15 | 1.50 |
| Citibank NA | 0.10 | 1.00 |
| Standard Chartered Bank | 0.15 | 1.50 |
| Public Bank Berhad | 0.10 | 1.00 |
| ICICI Bank Ltd | 0.05 | 0.50 |
| Amana Bank Ltd | 0.05 | 2.00 |
| Axis Bank | 0.05 | 2.25 |
| | 15.15 | 154.75 |

Registered Office & Main Place of Business:

Level 18, Bank of Ceylon Head Office,
"BOC Square",
Bank of Ceylon Mawatha, Colombo 1.

Company Secretaries

Managers & Secretaries (Pvt) Ltd.
8, Tickell Road, Colombo 08.
Tel: 5579900
Fax: 5579950

Bankers

Bank of Ceylon – Corporate Branch
Seylan Bank – Millennium Branch
Union Bank – Head Office Branch

External Auditors

M/s. Ernst and Young – Chartered
Accountants
201, De Saram Place,
Colombo 10.
Tel: 2463500
Fax: 2697369

Internal Auditors

M/s. B.R. De Silva & Company
Chartered Accountants
No.22/4, Vijaya Kumaranatunga
Mawatha,
Colombo 05
Tel: 4510368
Fax: 4512404

Contact

Voice - 2356900 to 2356999
Fax - 2544346
E-mail - info@lankaclear.com

GLOSSARY & INTERPRETATION

‘Bank’ shall mean a company or body corporate licensed under the Banking Act No. 30 of 1988 to carry on banking business in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a CITS participant.

‘Business Day’ shall mean a day on which banks are open for business in Sri Lanka.

‘CA: Certificate Authority’

A CA is an entity, which is core to many PKI (Public Key Infrastructure) schemes, whose purpose is to issue digital certificates to other parties. It exemplifies a trusted third party.

‘CBSL’ shall mean the Central Bank of Sri Lanka.

‘CCAPS’ shall mean Common Card And Payment Switch.

‘CITS’ shall mean the ‘Cheque Imaging and Truncation System’ which includes LCPL systems, processes and procedures for the electronic clearing and archiving of CITS items and non-clearing items, if any.

‘CITS Image Items’ shall mean CITS items in image format, including electronic images of Articles, and complying with such format, content and image quality requirements, specifications and other requirements specified by LCPL from time to time.

‘CITS Clearing’ shall mean the process of receiving, sorting and exchanging of CITS image items among

CITS participants, balancing of the amounts expresses in Articles thus exchanged and consequently deriving the net balances.

‘CIT System’ shall mean systems operated and maintained by LCPL for, clearing of cheques including without any limitation, receiving, processing, clearing and archival of cheque images and data which could be accessed by participants through direct connectivity mode.

‘CITS Participants’ shall mean all licensed commercial banks operating in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a participating Bank in the CIT System.

‘Clearing and settlement

System’ means a system or arrangement for the clearing or settlement of payment obligations in the financial system, in any currency, and in which there is a minimum of three participants, at least one of which is a financial institution.

‘Clearing House’ means a corporation, association, partnership, agency or organisation or other entity or person that provides clearing or settlement services for a clearing and settlement system, but does not include the Central Bank.

‘CMPC’ shall mean ‘Colombo Main Processing Centre’ which is located at the head office of LCPL.

‘Cut-off Times’ shall mean times specified with respect to action to be undertaken or effected in relation to CITS as may be notified by CBSL to LCPL; and by LCPL to CITS participants from time to time.

‘Cheque Return Notification’

shall mean the Image Return Document defined in Section 34 (1) and (2) of the part III of the Payment and Settlement Systems Act No. 28 of 2005.

CRIB – Credit Information Bureau of Sri Lanka

DR Site – Disaster Recovery site of LCPL located at 1st Floor, Bank of Ceylon Training Center, Highlevel Road, Maharagama.

‘Inward CITS Items’ shall mean CITS Items which have been generated by LCPL through the CITS in respect of a Paying Bank based on the Outward CITS Files.

‘Inward Return CITS Items’ shall mean Return CITS items which have been generated by LCPL through the CITS in respect of a Presenting Bank based on the Outward Return CITS files.

‘LCPL’ shall mean LankaClear (Pvt) Ltd, incorporated under Companies Act No. 07 of 2007.

‘MICR’ shall mean the data known as ‘Magnetic Ink Character Recognition’ data, encoded on Articles in accordance with the specifications and standards as laid down by LCPL and as amended by LCPL from time to time.

GLOSSARY & INTERPRETATION contd.....

'Outward CITS Items' shall mean CITS items of an outward CITS File generated by a presenting Bank and provided or transmitted to LCPL.

'Outward Return CITS Items' shall mean Return CITS Items of an Outward Return CITS File generated by a Paying Bank.

'Paying Bank' in respect of a CITS Item shall mean a CITS participant to whom an Article is drawn.

'Presenting Bank' or **'Collecting Bank'** in respect of a CITS Item shall mean a CITS participant which presents or represents the Articles for clearing through the CITS System.

PKI: Public Key Infrastructure A PKI enables users of a basically unsecure public, private network such as the Internet or Virtual Private Network to securely and privately exchange data through the use of a public and a private cryptographic key pair that is obtained and shared through a trusted authority.

'Return CITS Items' shall mean CITS Items that are submitted to LCPL as returned CITS Items by Paying Banks due to any of the return reasons as specified by LCPL from time to time.


SLIPS – shall mean Sri Lanka Interbank Payment System

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 10th Annual General Meeting of LankaClear (Private) Limited will be held on Thursday, 30th August 2012 at 11.30 a.m. at Galadari Hotel, 64, Lotus Road, Colombo 01 for the following purposes:

- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2012 together with the Report of the Auditors thereon.
- 2) To re-appoint M/s Ernst & Young, Chartered Accountants as Auditors of the Company and to authorise the Directors to determine their remuneration.
- 3) To transact any other business of which due notice has been given.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

Colombo,
12 July 2012

FORM OF PROXY

We

of.....

being a member of Lankaclear (Private) Limited, hereby appoint

.....

of..... as our proxy

to represent us and vote for us and on our behalf at the 10th Annual General Meeting of the Company to be held on 30st August 2012 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2012.

Signature.....

NOTE:

To be valid the completed form of proxy should be deposited at the Registered Office of the Company at Level 18, Bank of Ceylon Head Office, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01, not less than 48 hours before the appointed time for holding of the meeting.



LankaClear [Pvt] Ltd
Level 18, Bank of Ceylon Head Office,
"BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01
Voice - 2356900 Fax - 2544346 E-mail - info@lankaclear.com
Web - www.lankaclear.com