Central Finance Company PLC

PUBLICATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH SECTION 29 (5) OF THE FINANCE BUSINESS ACT NO. 42 OF 2011

STATEMENT OF INCOME	GROUP		COMPANY	
For the year ended 31st March	2019 Rs.'000	2018 (Restated) Rs.'000	2019 Rs.'000	2018 (Restated) Rs.'000
Income	**23,566,453**	20,502,024	**20,287,638**	17,797,262
Interest income	**18,571,815**	16,114,759	**18,494,161**	16,040,778
Less: Interest expenses	**5,977,190**	5,203,545	**6,011,808**	5,226,197
Net interest income	**12,594,625**	10,911,214	**12,482,353**	10,814,581
Other revenue	**3,340,097**	2,786,351	-	-
Less: Cost of sales	**2,412,427**	1,970,053	-	-
Gross profit	**927,670**	816,298	-	-
Other operating income	**1,000,957**	807,240	**1,004,701**	809,304
Other income	**653,584**	793,674	**788,776**	947,180
	15,176,836	13,328,426	**14,275,830**	12,571,065
Less: Operating expenses				
Personnel expenses	**2,213,401**	1,890,142	**1,940,425**	1,633,544
Premises, equipment, establishment and other expenses	**2,532,507**	2,712,010	**2,374,563**	2,549,463
Employee retirement benefit expenses	**202,361**	199,061	**181,986**	176,227
	4,948,269	4,801,213	**4,496,974**	4,359,234
Profit before impairment on loans and other credit losses	**10,228,567**	8,527,213	**9,778,856**	8,211,831
Less: Impairment on loans and other credit losses	**2,213,650**	396,051	**2,210,174**	395,032
	8,014,917	8,131,162	**7,568,682**	7,816,799
Share of profit of associates	**1,206,554**	1,245,739	-	-
Profit before VAT on financial services, NBT, debt repayment levy and income tax	**9,221,471**	9,376,901	**7,568,682**	7,816,799
Less: VAT on financial services and NBT	**1,173,645**	1,116,079	**1,173,645**	1,116,079
Debt repayment levy	**258,240**	-	**258,240**	-
Profit before income tax	**7,789,586**	8,260,822	**6,136,797**	6,700,720
Less: Income tax expense	**2,660,832**	2,754,795	**2,054,273**	2,184,880
Profit after income tax	**5,128,754**	5,506,027	**4,082,524**	4,515,840
Attributable to equity holders of the parent	**5,041,398**	5,439,837	**4,082,524**	4,515,840
Attributable to non-controlling interest	**87,356**	66,190	-	-
Net profit for the year	**5,128,754**	5,506,027	**4,082,524**	4,515,840
Basic and diluted earnings per share - Rs.	**23.06**	24.88		
Dividend per share - Rs.				
Paid	**2.00**	4.00		
Proposed	**1.60**			

STATEMENT OF COMPREHENSIVE INCOME	GROUP		COMPANY	
For the year ended 31st March	2019 Rs.'000	2018 (Restated) Rs.'000	2019 Rs.'000	2018 (Restated) Rs.'000
Profit for the year	**5,128,754**	5,506,027	**4,082,524**	4,515,840
Other Comprehensive income to be reclassified to income statement				
Fair value changes in available for sale investments	-	-	-	-
Share from associates	-	78,695		
Tax effect thereon	-	(22,035)		
	-	56,660	-	-
Fair value changes in debt securities at fair value through other comprehensive income				
Share from associates	(2,284)	-		
Tax effect thereon	640	-		
	(1,644)	-		
Total other comprehensive income to be reclassified to income statement	**(1,644)**	56,660	-	-
Other Comprehensive income not to be reclassified to income statement				
Actuarial gains / (losses) on defined benefit plans	(78,756)	(74,693)	(84,706)	(70,912)
Tax effect thereon	2,263	36,264	3,862	35,326
	(76,493)	(38,429)	(80,844)	(35,586)
Share from associates	6,878	(9,896)		
Tax effect thereon	(1,931)	2,770		
	4,947	(7,126)		
Revaluation gain on land reclassified as investment properties	-	179,816	-	179,816
Tax effect on revaluation surplus of land	-	(617,197)	-	(508,275)
Revaluation of land & buildings				
Gain on revaluation of land and buildings	3,758,345	-	2,784,268	-
Tax effect thereon	(1,091,016)	-	(779,595)	-
	2,667,329	-	2,004,673	-
Share from associates	8,928	273,953		
Tax effect thereon	(2,489)	(72,824)		
	6,439	201,129		
Total other comprehensive income not to be reclassified to income statement	**2,602,222**	(281,807)	**1,923,829**	(364,045)
Other comprehensive income for the year (net of tax)	**2,600,578**	(225,147)	**1,923,829**	(364,045)
Total comprehensive income for the year	**7,729,332**	5,280,880	**6,006,353**	4,151,795
Attributable to equity holders of the parent	**7,425,559**	5,253,725	**6,006,353**	4,151,795
Attributable to non-controlling interest	**303,773**	27,155	-	-
Total comprehensive income for the year	**7,729,332**	5,280,880	**6,006,353**	4,151,795

Selected Performance Indicators Item	As at 31/03/2019	As at 31/03/2018
Regulatory Capital Adequacy		
Core capital (Tier 1 Capital), Rs. '000	**29,180,716**	25,727,326
Total Capital Base, Rs. '000	**29,025,534**	25,101,137
Core Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum requirement - 6% as at 31.03.2019 and 5% as at 31.03.2018)	**26.00%**	32.89%
Total Capital Adequacy Ratio as % of Risk Weighted Assets (Minimum requirement, 10%)	**25.87%**	32.09%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	**65.92%**	63.02%
Asset Quality (Quality of Loan Portfolio)		
Gross Non-Performing Accommodations, Rs.'000	**4,910,236**	2,724,754
Gross Non-Performing Accommodations Ratio, %	**5.61%**	3.65%
Net Non-Performing Accommodations Ratio,%	**1.93%**	0.42%
Profitability (%)		
Interest Margin (net interest income as a % of interest earning assets)	**15.63%**	17.58%
Return on Assets (before Tax)	**6.60%**	8.33%
Return on Equity (after Tax)	**13.34%**	17.25%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	**4,632,517**	4,282,465
Available amount of Liquid Assets	**5,377,395**	4,898,966
Required minimum amount of Government Securities	**3,019,183**	2,778,641
Available amount of Government Securities	**3,289,551**	3,099,174
Memorandum information		
Number of employees	**1,896**	1,790
Number of branches	**98**	97
Number of service centres	**12**	12
Number of pawning centres	**Nil**	Nil
Number of other centres	**5**	5

STATEMENT OF FINANCIAL POSITON	GROUP			COMPANY		
As at	31/03/2019 Rs.'000	31/03/2018 (Restated) Rs.'000	01/04/2017 (Restated) Rs.'000	31/03/2019 Rs.'000	31/03/2018 (Restated) Rs.'000	01/04/2017 (Restated) Rs.'000
ASSETS						
Cash in hand and at banks	**740,055**	580,000	516,257	**697,390**	533,765	459,931
Fair value through profit or loss financial assets	**564,843**	654,954	447,991	**558,482**	619,420	423,832
Trade and other receivables	**1,272,695**	1,140,508	982,218	**456,153**	442,168	309,749
Tax receivables	**391**	950	1,775	-	-	-
Inventories and other stocks	**978,258**	1,452,708	1,275,049	**381,363**	881,873	679,714
Securities bought under repurchase agreements	**3,289,551**	3,099,174	2,949,728	**3,289,551**	3,099,174	2,949,728
Loans and receivables from banks	**1,447,867**	1,232,799	911,204	**1,441,839**	1,226,741	905,628
Loans and receivables from others	**593,140**	692,817	1,061,730	**38,715**	63,606	398,038
Loans and receivables from customers	**5,996,253**	7,579,560	6,889,348	**5,986,999**	7,570,249	6,987,597
Net investment in leases and hire purchase	**75,751,083**	61,301,013	55,892,821	**75,751,083**	61,301,013	55,892,821
Investments in real estate	**23,053**	44,834	65,051	**23,053**	44,834	65,051
Investment properties	**303,800**	313,663	-	**303,800**	313,663	-
Investments in associates	**6,503,658**	5,769,300	4,075,059	**1,391,054**	1,330,862	523,458
Investments in subsidiaries	-	-	-	**289,063**	306,456	306,456
Deferred tax asset	**14,871**	14,574	11,920	-	-	-
Property, plant and equipment	**12,659,775**	8,395,647	7,134,854	**10,405,707**	7,100,198	5,921,176
Intangible assets	**118,787**	103,276	100,366	**117,937**	102,245	99,963
Total assets	**110,258,080**	92,375,777	82,315,371	**101,132,189**	84,936,267	75,923,142
LIABILITIES						
Bank overdrafts	**1,461,012**	765,037	1,059,332	**1,444,731**	750,569	1,047,908
Tax payables	**1,991,734**	905,751	889,101	**1,914,796**	864,753	834,693
Trade and other payables	**1,674,727**	1,852,206	1,642,932	**1,175,837**	1,457,585	1,292,203
Amounts due to subsidiaries	-	-	-	**216,021**	204,333	187,987
Short term borrowings	**2,329,590**	1,753,653	1,845,352	**2,236,061**	1,557,586	1,699,196
Deposits	**45,149,518**	40,570,199	35,527,936	**45,669,738**	40,766,497	35,707,147
Long term borrowings	**7,050,557**	4,875	5,425	**7,046,982**	-	-
Debentures	**2,296,284**	5,643,712	6,140,818	**2,296,284**	5,643,712	6,140,818
Employee benefit obligations	**1,398,235**	1,188,609	995,545	**1,277,780**	1,069,518	875,120
Deferred tax liability	**5,046,493**	4,912,249	3,755,583	**4,546,182**	4,726,368	3,690,053
Total liabilities	**68,398,150**	57,596,291	51,862,024	**67,824,412**	57,040,921	51,475,125
SHAREHOLDERS' FUNDS						
Stated capital	**1,527,778**	1,337,564	1,337,564	**1,527,778**	1,337,564	1,337,564
Revaluation reserve	**4,739,425**	2,291,952	2,510,631	**3,573,069**	1,571,945	1,919,787
Reserve fund	**2,037,000**	1,824,000	1,599,000	**2,037,000**	1,824,000	1,599,000
Other comprehensive income reserve	**17,993**	19,637	(37,023)	-	-	-
Loan loss reserve	**920,000**	920,000	-	**920,000**	920,000	-
Revenue reserves	**31,498,444**	27,521,078	24,158,943	**25,249,930**	22,241,837	19,591,666
Funds attributable to equity holders of the parent	**40,740,640**	33,914,231	29,569,115	**33,307,777**	27,895,346	24,448,017
Non-controlling interest	**1,119,290**	865,255	884,232	-	-	-
	41,859,930	34,779,486	30,453,347	**33,307,777**	27,895,346	24,448,017
Total liabilities, shareholders' funds and non-controlling interest	**110,258,080**	92,375,777	82,315,371	**101,132,189**	84,936,267	75,923,142
Net asset value per share - Rs.	**186.32**	155.10	135.23	**152.33**	127.57	111.81

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

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

U. B. Elangasinha
Chief Financial Officer

E. H. Wijenaike
Managing Director

G. S. N. Peiris
Director (Finance)

27th May 2019

Independent Auditor's Report

Deloitte.

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TO THE SHAREHOLDERS OF CENTRAL FINANCE COMPANY PLC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Central Finance Company PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of consolidated financial position as at 31st March 2019, and the statement of income and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Company and the Group give a true and fair view of the consolidated financial position of the Company and the Group as at 31st March 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTER IN THE AUDIT OF THE GROUP

ALLOWANCE FOR IMPAIRMENT OF LOANS AND RECEIVABLES TO OTHER CUSTOMERS AND GROUP'S TRANSITION TO SLFRS 9:	OUR RESPONSE
As at 31 March 2019, 74% of its total assets of the Group consisted of Net investment in leases and hire purchase and Loans and receivables from customers amounting to LKR 81.7bn (Note 33 and 34), net of impairment allowance of LKR 2.6bn (Note 22). The impact on transition to SLFRS 9 on the Group's and subsidiaries presented in Note 56 and 57 of the consolidated financial statements. Recognition of expected credit loss (ECL) under SLFRS 9, is a new and complex accounting policy which requires considerable judgement in its implementation. ECL is dependent on management judgement in assessing the level of credit risk and classification of credit facilities in to various stages, determine when a default has occurred, development of models for assessing the probability of default (PD) of customers and estimating cash flows from recovery procedures or realisation of collateral. Due to the significance of Financing facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter.	Our audit procedures to assess impairment of leases and hire purchase and Loans and receivables from customers included the following: Assessment of the methodology inherent within the models against the requirements of SLFRS 9; Challenging and reviewing the key assumptions used in the ECL models, including staging, PD and Loss given in default (LGD) and evaluating the reasonableness of Management's key judgements and estimates. Testing the computation of ECL on a sample basis using the key assumptions used in the models, such as PD and LGD; Testing the accuracy, completeness and reasonableness of the data inputs by testing reconciliations between source systems and the ECL models. Reviewing the reasonableness of the economic information used within, and weightings applied to, forward looking scenarios; Verifying the economic factor inputs, used in the models to compute the forward looking scenarios, against the market information and economic statistics to assess whether they were aligned with the current data." In addition to above , the following focused procedures were performed ; For contracts individually assessed for impairment; - We assessed the main criteria used by the management for determining whether an impairment event had occurred. - Where impairment indicator's existed, we assessed the reasonableness of management's estimated future cash flows, discount rates and the valuation of collateral held. Assessing the disclosures in the Consolidated financial statements in relation to impairment of loans and advances to customers with reference to the requirements of SLFRS 9 and SLFRS 7. Our audit procedures for transition to the SLFRS 9 included the following: Assessing the design, implementation and operating effectiveness of key internal controls over the transition adjustments and new processes, data and controls that have not been subject to testing previously; Evaluating management's process for identifying contracts to be assessed based on the selected transition approach and any practical expedients applied; Evaluating the appropriateness of the accounting policies based on the requirements of the new accounting standards, our business understanding and industry practice; Challenging the key assumptions and evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments; Assessing the completeness, accuracy and relevance of data used in preparing the transition adjustments; Assessing the adequacy of the disclosures made in the consolidated financial statements.
REVALUATION OF PROPERTIES	**OUR RESPONSE**
As at 31st March 2019, the Group's and company's property, plant and equipment were revalued and the surplus was credited to equity which amounted to Rs 3.7bn and 2.7bn respectively. The valuation of the properties is an important matter as it requires exercising significant estimates and judgment since the existence of differences in the valuation of each property would result in material misstatements also by considering the significance of the values hence this requires audit focus. The Group has hired an independent valuer who has the relevant license, and who has the qualifications and experience required to perform valuations in the market. For the purpose of estimating the fair value of property, plant and equipment, the valuer used different valuation methods and techniques which included Market Comparable method.	◈ Our audit procedures included the following; ◈ We evaluated the competency and independency of the valuer and assessed the appropriateness of the valuation methods, approaches and the inputs used for this purpose. ◈ Deployed an expert to review the reasonableness of the valuations. With the assistance of the expert, we challenged the valuer's assumptions and evaluated the extent to which the movement in valuation were consistent with our industry knowledge and the comparable market transactions. ◈ Have verified that the values have been correctly recorded in the consolidated financial statements and appropriate disclosures have been made

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2347.

SJMS ASSOCIATES
27th May 2019