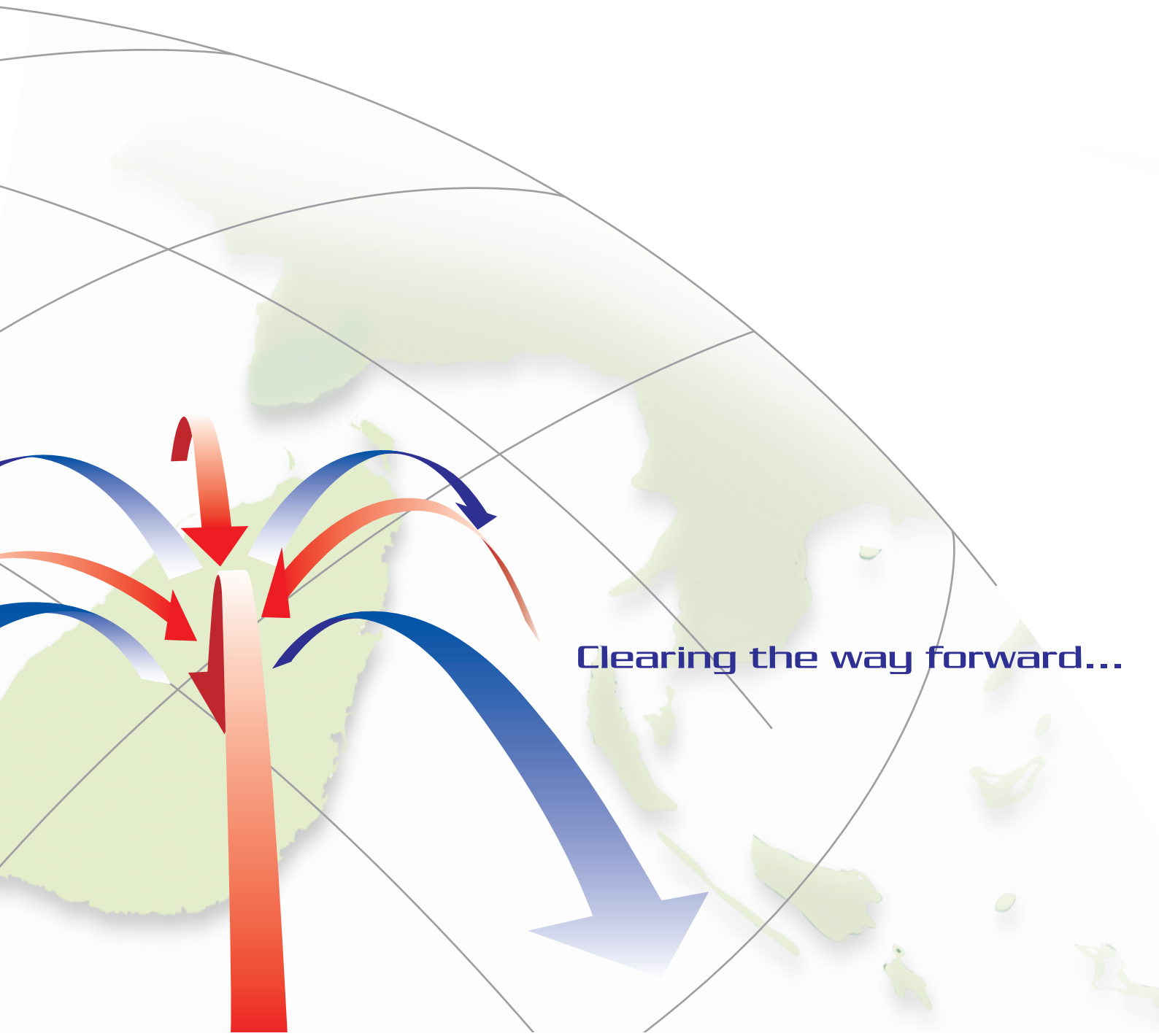


ANNUAL REPORT 2006 / 07



LANKACLEAR

The National Cheque Clearing House



Clearing the way forward...

Vision

Facilitate an efficient National Payment & Settlement System as a matter of public policy to increase financial market liquidity in accordance with the National Monetary policies of Sri Lanka.

Mission

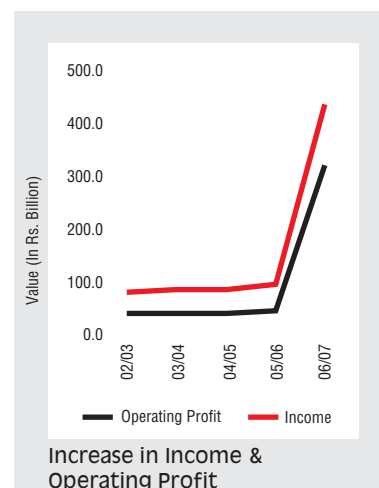
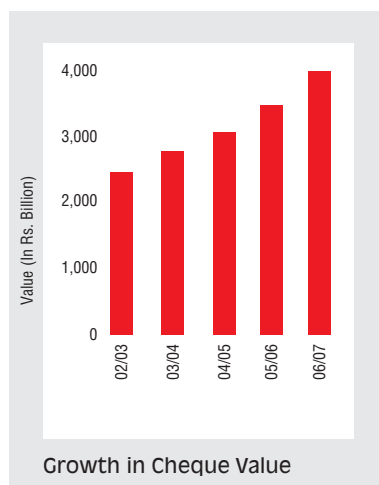
Sustain an efficient, secure and robust Payment & Settlement Systems, ensuring integrity and timeliness strengthened with reliability and security to uphold market confidence to ensure safe and sound functioning of financial markets.

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Financial Highlights

	2002/03	2003/04	2004/05	2005/06	2006/07
Cheque Volume	35,949,894	36,881,701	38,129,850	40,793,832	45,431,277
Cheque Value (in Rs. Bn)	2,475	2,771	3,045	3,485	3,984
Income	79,641,859	82,699,658	85,696,045	96,719,549	433,151,283
Operating Profit	37,653,677	37,004,993	40,504,655	46,916,434	318,673,098
Interest Income	10,928,329	9,288,326	11,234,690	6,949,572	14,802,302
Administrative Expenses	22,234,509	21,869,424	33,157,427	40,628,732	40,628,732
Image Implementation Expenses	–	–	4,805,538	32,392,632	32,392,632
Net Profit/(Loss) before Tax	26,350,676	24,450,309	13,975,621	(19,075,726)	216,575,026
Income Tax on profit	6,500,936	12,214,152	4,651,864	6,189,105	77,236,071
Net Profit/(Loss) after Tax	19,849,740	12,236,157	9,323,757	(12,886,621)	139,338,955
Assets					
Fixed Assets	49,632,161	35,831,548	48,855,396	515,716,185	458,418,554
Investments	112,583,577	134,670,718	155,926,803	49,255,843	261,006,052
Other Current Assets	19,970,488	24,122,367	24,694,097	31,327,141	64,491,303
	182,186,226	194,624,633	229,476,296	596,299,169	783,915,909
Liabilities					
Borrowings	–	–	24,684,177	109,944,770	156,261,235
Current Liabilities	4,022,334	2,976,684	17,315,073	26,572,009	85,875,313
Shareholders' Funds					
Share Capital	150,000,000	150,000,000	150,000,000	150,500,000	150,500,000
Capital Reserves	3,000,000	6,000,000	9,000,000	12,000,000	15,000,000
Revenue Reserves	20,099,863	21,836,020	20,659,777	4,773,156	141,112,111
Capital Employed	173,099,863	177,836,020	179,659,777	167,273,156	306,612,111
Growth in Cheque Volume	–	2.59	3.38	6.99	11.37
Growth in Cheque Value	–	11.96	9.89	14.45	14.32
Gross Profit Ratio	47.28%	44.75%	47.27%	48.51%	73.57%
Net Profit Ratio	24.92%	14.80%	10.88%	-13.32%	32.17%
ROCE	15.22%	13.75%	7.78%	-11.40%	76.61%
Current Ratio	32.95	53.35	10.43	3.03	3.79
Return on Assets	14.46	12.56	6.09	-3.20	27.63
Revenue per Volume (Rs.)	2.16	2.17	2.10	2.37	9.53



Chairman's Message



Although cheque usage continues to decline globally, cheques still remain an integral part of Sri Lanka's payment environment

On behalf of the Board of Directors, I am pleased to present the 5th Annual Report and Audited Accounts of LankaClear (Pvt) Ltd. (LCPL) for the year 2006/07.

LCPL performs the national cheque clearing function as designated by the Central Bank of Sri Lanka (CBSL) under the Monetary Law Act and is regulated by the Payment and Settlement Systems Act. It covers approximately 1,255 bank branches through 24 participating banks and has a network of 11 Regional Centres located islandwide.

TRENDS IN CHEQUE USAGE

Although cheque usage continues to decline globally, cheques still remain an integral part of Sri Lanka's payment environment. There is still on average a volume of 190,000 cheque transactions that pass through LCPL on any given working day. The annual growth rate indicates a significant growth of 12.2% in volume and 14.3% in the value of cheques during the year 2006/07. The total value of cheques transacted during the year under review amounted to Rs. 3,984 billion compared to last year's value of Rs. 3,485 billion. The corresponding volumes are respectively 45.4 million in 2006/07 and 40.8 million cheques during the previous year. This is in fact contrary to the global trend in the usage of cheques. It is also an indication that there is still an opportunity for the expansion of cheque usage especially in the rural areas of this country.

DAWN OF A NEW ERA - PAYMENT IMAGING SYSTEM

This year has been the busiest so far for LCPL with much growth and activity apparent in the Payment and Settlement Systems in Sri Lanka. In the year 2006, May 11th was a historic day when the System migrated from Automated to Electronic successfully with the introduction of Cheque Imaging and Truncation System (CITS).

REGULATORY AND OPERATIONAL FRAMEWORK

In the course of the year under review several measures were taken both by the Regulator and LCPL to strengthen the regulatory and operational framework for Cheque Imaging and Truncation System (CITS). Under the provision of the Payment and Settlement Systems Act, CBSL issued the General Direction in May 2006 to LCPL and to the participating banks for the efficient implementation, administration and enforcement of the provisions of the said Act.

LCPL accordingly developed the CIT System's Rules and revised the Operational Procedure Manual in association with the participating banks and with the concurrence of CBSL. This measure enabled to provide basic understanding and agreement by and among the participants to the

Chairman's Message

clearing operations and defined the objectives of CITS clearing. The introduction of a new instrument, the Cheque Return Notification (CRN) imposed new obligations and liabilities on collecting banks and paying banks. In consideration of the importance of the clearing operation to the nation and in order to conform to CBSL requirements, LCPL issued its Business Continuity Plan (BCP), this year.

COMPANY PERFORMANCE

The Company recorded a net profit after tax of Rs.139.3 million, reflecting a very good financial performance compared to last year's net loss of Rs. 12.9 million. The Return on Investment recorded 52.87% which is the net profit before interest and tax of Rs. 234.9 million compared against the operational assets of Rs. 444.3 million utilized to generate these profits. The gross profit percentage is 73.57% for this financial year compared to 48.51% of the previous year. This was the best ever year in the history of LCPL recording the highest profit level.

The core business of the Company which is the Rupee Cheque Clearing, recorded a substantial increase both in volume and value during the year under review demonstrating a 12.2% increase in volume and a 14.3% increase in value. The Sri Lanka Rupee Draft Clearing reflected a decrease of 34.9% compared with the previous year. The US Dollar Clearing to the contrary reflected an increase of 19.6% in value and in volume a decrease of 12%. The Sri Lanka Inter-Bank Payment System (SLIPS) continued its positive trend this year as well by registering increases in both volume and value growth by 35.5% and 40.83% respectively.

A comprehensive review of the Company's operational performance is presented in other sections of this Report.

CHALLENGES FACING THE PAYMENT INDUSTRY

As a key player in the payment industry LCPL has a greater role to play, particularly in the retail payment system. Indeed, no country can now afford to take its payment system for granted. Safety, security, soundness and efficiency are fundamental to this industry. The National Payment Council (NPC) established at CBSL endeavoured to realize these roles with the reshaping of the payment system policy.

The cheque has not achieved its full transaction potential due to a combination of several factors ranging from misuse to laxity in related enforcement, penalties and legal impediments. This unsatisfactory situation has created an unwarranted risk to the smooth functioning of the cheque clearing system. Statistics reveal that 5.11% of cheques are returned out of the total cheques received for clearing annually; of these 53.10% is dishonoured due to lack of funds. Measures are now under way to contain this trend with the co-operation of the commercial banks and both the Regulator and LCPL.

The combined effort of the participating banks, the CBSL and the NPC will pave the way to realize the (T + 1) across the country as perceived by the general public, since the LCPL is fully geared to take up this challenge. The introduction of the Common Payment Switch envisaged by the CBSL will cast an added national responsibility and a challenge to LCPL in the year 2008.

IN CONCLUSION

I wish to thank the Governor of the CBSL, Mr. Ajith Nivard Cabraal and the two Deputy Governors Dr. (Mrs.) Raneey Jayamaha and Mr. W.A. Wijewardena for the continuous guidance and support extended to LCPL. I also wish to place on record my appreciation of the contribution made by Mr. Upali de Silva, Secretary-General, Sri Lanka Banks' Association with regard to the affairs of our Company and in maintaining cordial relationships with participating banks. I also wish to thank the management and employees at all levels for the loyalty and dedication demonstrated by them which enabled us to achieve outstanding results this year.

I extend my appreciation to my colleagues on the Board for their positive contribution, tremendous co-operation and understanding at all times.



A. Sarath de Silva

Chairman

Board of Directors



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1. SARATH DE SILVA - *Chairman*

Mr. de Silva is the Chairman of LankaClear (Pvt) Ltd. and National Enterprise Development Authority and has been at the helm of a number of government as well as private sector organizations. He is a former General Manager of Bank of Ceylon, Chairman of the Sri Jayawardenapura General Hospital, Ceylease Financial Services (Pvt) Ltd. and Lanka Archives Management Services and Acting Chairman of the State Pharmaceuticals Corporation. He is a Director of the Strategic Enterprises Management Agency (SEMA) and a number of other companies. He was also Commissioner of Local Loans and Development Fund.

Mr. de Silva has been on the Director Board of a variety of financial as well as other organizations and served as an Advisor to the Ministry of Industries and Head of Bureau Services Indian Line of Credit. He was a Consultant to the International Fund for Agricultural Development (IFAD/FAO).

He has also been the Chairman and Vice-Chairman of the Sri Lanka Banks' Association. Mr. de Silva was Chairman of the Chartered Institute of Bankers (London), Colombo Centre (2001-2002) and the Association for Professional Bankers, Sri Lanka (2001-2002). He holds a B.A. in Public Administration and is a Fellow of the Chartered Institute of Bankers, London and a Fellow of the Institute of Bankers, Sri Lanka

2. P.D.J. FERNANDO - *Director*

Mr. Fernando is the Assistant Governor of the Central Bank which post he has held since 2004. He initially commenced his career at the Central Bank of Sri Lanka in 1976 and subsequently held the posts of Additional Director, Statistics Department from 1990-2000 and Director,

Information Technology from 2000-2004. He is currently a member of the Steering Committee of the E-NIC Project of the Ministry of Internal Administration. He is also a Director of the Lanka Financial Services Bureau jointly owned by the Central Bank of Sri Lanka, commercial banks and primary dealers as well as LankaClear Pvt. Ltd. Mr. Fernando has a B.Sc. Honours Degree from the University of Peradeniya and a M.Sc. (Statistics) Degree from the University of Birmingham.

3. ROSE MATILDA SIRIWARDHANE - *Director*

Director of the Payments and Settlements Department of the Central Bank of Sri Lanka (CBSL) since 2002, Ms. Siriwardhane commenced her career with the Bank in 1975. She has worked in a number of different departments of the CBSL including the Economic Research Department, Finance Department, Centre for Banking Studies, Exchange Control Department and the Banking Department. She was actively involved in the implementation of the RGTS system which went live on September 8, 2003.

Ms. Siriwardhane is the Secretary of the Committee for Contingency Events and Disaster Recovery for LankaSettle of CBSL. She also holds membership in several CBSL committees.

She headed the team which drafted the Red Book - 'Payment Systems in Sri Lanka', which was published by the Bank for International Settlements in 2004 and the 'Financial Systems Stability Review' which was published by the CBSL in 2006.

She has a Bachelors' Degree in Economics and a Bachelor of Philosophy Degree from the University of Sri Lanka. She also holds a Masters' Degree in Economics from the Institute of Social Studies in Hague, Netherlands.



4. B.A.C. FERNANDO - Director

The General Manager of Bank of Ceylon, Mr. Fernando is a professional Banker with nearly 36 years of experience in the banking industry. He is a Company Director in several Bank of Ceylon subsidiaries. He holds post-graduate qualifications in management and professional qualifications in banking. He is also a Director of the Institute of Bankers of Sri Lanka.

5. M. WICKREMASINGHE - Director

The Senior Deputy Manager (Branch Operations) of the People's Bank, Mr. Wickramasinghe has 32 years of experience in the banking industry. He holds a B.A. Honours Degree as well as a Bachelor of Philosophy Degree.

6. A.L. GOONERATNE - Director

Managing Director of Commercial Bank since January 1997, Mr. Gooneratne initially joined Commercial Bank in March 1983. He held several senior positions prior to his appointment as General Manager/Chief Executive in March 1996. He represents the Bank's interests on the Boards of all its Associate and Subsidiary Companies. He is Chairman of the Sri Lanka Banks Association (Guarantee) Ltd., Director of the office of the Financial Ombudsman Sri Lanka (Guarantee) Ltd., Council Member of the Employers' Federation of Ceylon. Mr. Gooneratne is a Fellow of the Institute of Chartered Accountants, England and Wales.

7. Z.H. ZAVAHIR - Director

The Director/Chief Executive Officer of Nations Trust Bank Plc., Mr. Zavahir has over 28 years of banking experience. He has served in various senior management positions with ANZ Grindlays Bank, both in

Sri Lanka and overseas. He joined Nations Trust Bank as AGM - Finance and Corporate Planning in early 2001 and assumed the position of Chief Executive Officer in April 2004. He was appointed a Director to the Board of Nations Trust Bank in October 2006. Mr. Zavahir is a Fellow of the Chartered Institute of Management Accountants, London and an Associate Member of the Chartered Institute of Bankers, London.

8. CLIVE HASWELL - Director

The current Chief Executive Officer of Standard Chartered Bank in Sri Lanka, Mr. Haswell has over 16 years experience with the Bank. His previous roles include Group Head of Strategic Sourcing and Vendor Management and Group Head of IT Infrastructure Development. He was also Programme Director for Standard Chartered Bank's Bohai Bank Project. Mr. Haswell was also Standard Chartered Bank's first Head of Governance for Asia in which role he held governance responsibilities and co-ordinated the work of Standard Chartered Bank's Chief Executive Officers across the region.

He has a Degree in Pure Mathematics from the University of Wales, UK and holds a Postgraduate Certificate in Education.

9. UPALI DE SILVA - Observer on the Board

Mr. De Silva is the Secretary General of the Sri Lanka Banks' Association (Guarantee) Ltd. He has over 42 years experience in banking including 15 years at Corporate Management Level. He is a Director of HNB Assurance Ltd., Lanka Financial Services Bureau Ltd. and Sri Lanka Cert (Private) Ltd. He is also a Fellow of the Chartered Institute of Bankers (London) and a Past President of the Association of Professional Bankers and the Colombo Centre of the Chartered Institute of Bankers (London).

Chief Executive Officer's Review



It is with great pleasure that I present this report on the outlook and performance of LankaClear during the year 2006/07, which saw the implementation of the new Cheque Imaging and Truncation System (CITS).

The Year 2006/07 was a very significant year for LankaClear since the Company saw a successful islandwide implementation of one of the world's most advanced cheque clearing systems and Sri Lanka as a country became the first in South Asia and second in the South-East Asian Region to adopt such a system. It is also noteworthy that Sri Lanka as a developing nation has achieved such high technological standards in cheque clearing, compared to other countries in the world.

During the course of the year, LankaClear was able to overcome the initial teething problems of the new system implementation and stabilize the system to minimum downtimes. A single-stage islandwide implementation of this complexity would not have been possible if not for the support extended by all commercial banks with the guidance of the Central Bank of Sri Lanka in enhancing their infrastructure and aligning their systems procedures to facilitate the smooth implementation of the CITS.

To facilitate T+1 clearing islandwide as per the objectives of the CIT System, LankaClear also operates 10 Regional Centres (RC) outside Colombo in the main cities across the country to facilitate cheque imaging and truncation, beating the digital divide between Colombo and the rural areas and also eliminating the physical distance to a bank branch.

The Year 2006/07 was a very significant year for LankaClear since the Company saw a successful islandwide implementation of one of the world's most advanced cheque clearing systems

Chief Executive Officer's Review

PREVIOUS CHEQUE CLEARING SYSTEM

Prior to the implementation of the CIT System, the bank branch at which a cheque was first deposited (Collecting Bank) learnt that a cheque was not honoured only when it received the cheque back from the Paying Bank.

The total time it took for the cheque to be returned to the Collecting Bank consisted of the following:

1. The time taken for the cheque to reach the Paying Bank.
2. The processing time taken by the Paying Bank to determine whether the cheque could be honoured.
3. The time taken for an unpaid cheque to reach the Collecting Bank branch.

Depending on the infrastructure and logistics facilities which were available to the bank branches to move a cheque physically from one point to another, the clearing process took up to 7 days at the extreme in some areas.

THE CIT SYSTEM

In May 2006, LankaClear implemented the Cheque Imaging & Truncation System (CITS), totally eliminating the requirement of physically moving the cheque between the Collecting Bank and the Paying Bank. The CIT System's main focus was on converting the physical cheque into a digital image and freeing banks from exchanging close to 200,000 pieces of paper on an average day. The Truncation System facilitates the transferring of the cheque image and data online from RCs to the Colombo Main Processing Centre (CMPC) and through CDs from banks to RCs and vice versa.

FINANCIAL PERFORMANCE

The Company was able to achieve a net revenue of Rs. 433,151,283/- for the 2006/07 financial year and recorded an after tax profit of Rs. 139,338,955/-. Despite the higher administration costs during the initial implementation period and also certain losses absorbed due to initial teething problems, the Company was able to achieve a 32% net profit margin. The Company maintained a debt:equity ratio of 44:56 as at 31st March 2007 and had investments amounting to Rs. 261 million in Fixed Deposits. The Company has maintained a healthy current ratio (current assets to current liabilities) of 3.8 and recorded an impressive return on equity of 93% during the 2006/07 financial year.

IMPROVEMENTS TO CURRENT SYSTEMS

LankaClear is currently in the process of upgrading the back-up and disaster recovery systems in order to offer a more reliable service to customers. LankaClear's Disaster Recovery Centre is situated in Maharagama and is fully equipped to run cheque clearing operations in case of a disaster which prevents the operation of the main site.

Enhancements are currently being considered to enable more reliable data backups which will facilitate a smooth and error free transition to the Disaster Recovery Site and back to the Main Site. As a second phase of the enhancement a point-in-time backup system would be introduced to facilitate a smooth and speedy recovery at the main site due to minor system errors.

The current Sri Lanka Interbank Payment System (SLIPS), which is operated by LankaClear is also to be enhanced to process higher volumes of transactions and also to increase the reliability of the system.

Improvements in Information Systems Security is also currently looked into and the Company is in the process of enhancing in-house resources and capabilities as well as securing external inputs for improvements in these areas.

FUTURE OUTLOOK

The successful implementation of the CIT System has paved the way for LankaClear to further strengthen its human resources and gear itself to elevate its role as the National Automated Clearing House. The Company is looking forward to the introduction of the proposed Common Payment Switch which would facilitate online real time low value transactions. It is envisaged that the Common Payment Switch would be managed by LankaClear. LankaClear is moving towards being a catalyst and a key player in introducing state-of-the-art technology and systems to facilitate efficient payment and settlement systems for the banking community.



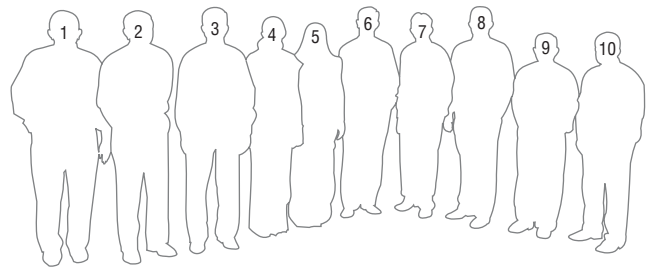
Sunimal B. Weerasooriya

General Manager/Chief Executive Officer

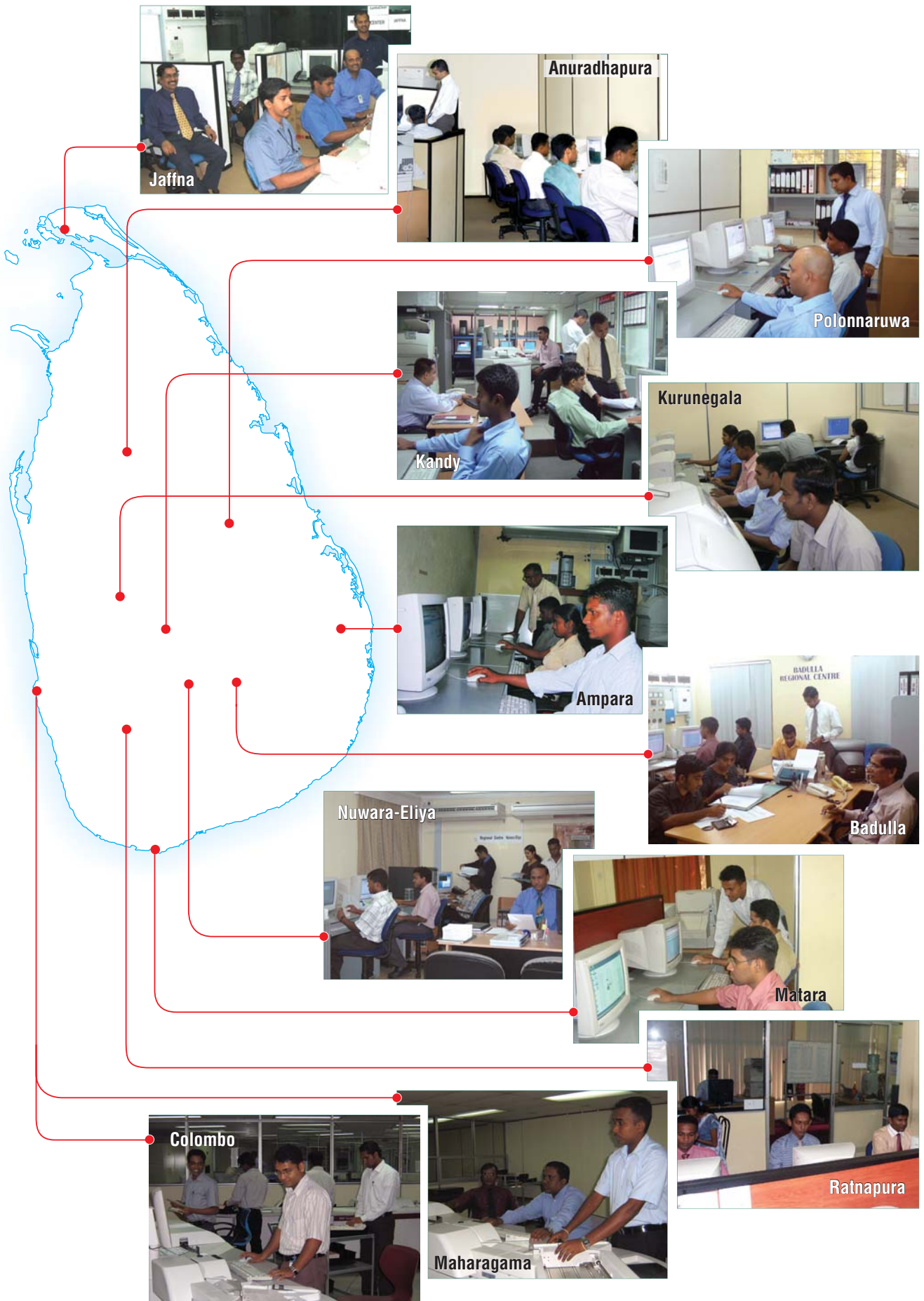
Management Team



1. Mr. Dilantha Samarasinghe - *System Manager*
2. Mr. L.G. Abeysirigunawardena - *Head of Regional Centres*
3. Mr. Sunimal B. Weerasooriya - *General Manager/CEO*
4. Ms. Mirani A. Rodrigo - *Management Accountant*
5. Ms. Samitha Perera - *Finance Manager*
6. Mr. Ranjith Gunawardena - *Manager - HR & Administration*
7. Mr. Isuru Jayaweera - *Manager - Help Desk*
8. Mr. Shermin Pietersz - *Head of Systems & Operations*
9. Mr. W.M. Jayaratne - *Manager - Operations*
10. Mr. S. Roshan Hettiarachchi - *Manager - Computer Operations*



Regional Centres



Current Operations

Payment and settlement systems are vital to the smooth functioning of the economy. Financial institutions use payment systems to settle financial market transactions, for example, they trade in foreign exchange, equities, bonds and money market instruments. Businesses rely on them to receive payment for goods and services and consumers rely on them to make house purchases, receive salaries and benefits, and to pay for goods and services.

A payment is a transfer of value between people or organizations. A payment system can then be defined as any organized arrangement for transferring value between its participants. So defined, it is clear that payment systems are fundamental to the functioning of all economies. If transactions are the lifeblood of market economies, then payment systems are the circulation system for these transactions.

LARGE AND SMALL PAYMENTS

The size of these payment flows reflect the variety of transactions they support, for goods and services as well as financial assets. Some of these transactions involve high-value transfers, typically between financial institutions. These are vital for wholesale financial market activity, as for example, they may reflect transfers of funds between banks in response to lending between them, or their customers. They may also reflect settlement of transactions involving foreign exchange, equities, bonds, money market instruments and other financial assets.

A separate set of transactions, greater in number but typically smaller in value, reflect transfers between individuals and/or companies. These too are vital for the functioning of the economy. For example, they include the payment and receipt of wages, salaries and government benefits, direct debits, cheques and debit & credit card payments. If any of these circulation systems fail, the functioning of large and important parts of the economy would be affected.

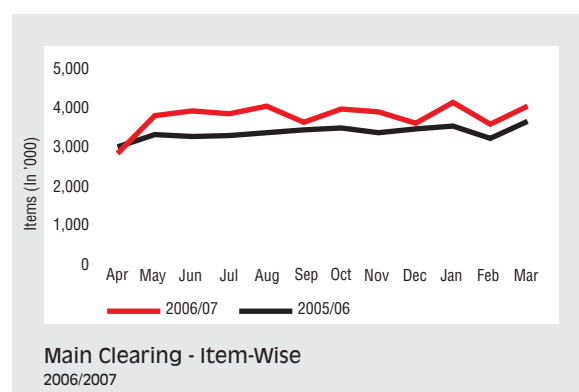
LankaClear offers the following products & services

1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS).
2. Sri Lanka Rupee Draft Clearing.
3. US \$ Clearing.
4. Sri Lanka Interbank Payment Systems (SLIPS).

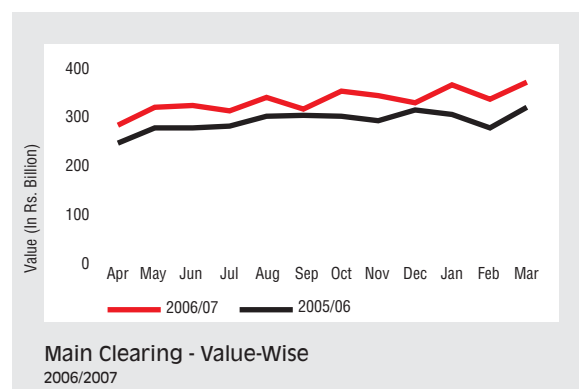
1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS)

On 11th May 2006, the MICR Cheque Clearing System was replaced by the Cheque Imaging & Truncation System (CITS). An average volume of 190,000 cheque transactions pass through this image based Cheque Clearing System each business day.

The number of cheques cleared and volumes processed through CITS during 2006/2007 as compared with 2005/2006 is depicted in the following diagrams:



The total number of items cleared in 2006/2007 through CITS amounts to 45.43 million compared to 40.49 million in 2005/2006. This is an increase of 12.2 %.



The total value of items cleared in 2006/2007 through CITS amounts to Rs. 3,983 billion compared to Rs. 3,485 billion in 2005/2006. This is an increase of 14.3%.

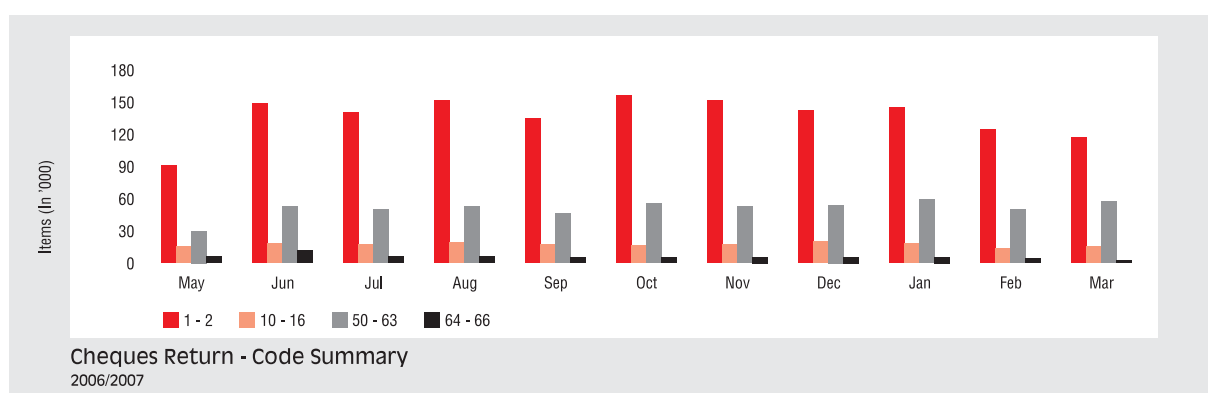
Current Operations

The high number of cheque returns would expose the payment system to **Settlement Risk** (settlement will not take place as expected), leading to **Systemic Risk** (possibility that the failure of one participant to meet his payment obligations on a due date will cause other participants in the payment system to fail to meet their payment obligations when due). Furthermore, increases in return cheque volumes impose a heavy load on LankaClear who have the daunting task of generating and printing Cheque Return Notifications (CRN) within a short span of time.

Reasons for Cheque Returns

A cheque can return for a number of reasons which includes:

- Insufficient funds in the account from which it is being drawn.
- It has been cancelled by the drawer (the person who wrote the cheque).
- A technical reason (unsigned, wrong date, amount, bad image, encoding errors, etc.).
- Fraud (as in the case of a stolen cheque) .
- Legal order.

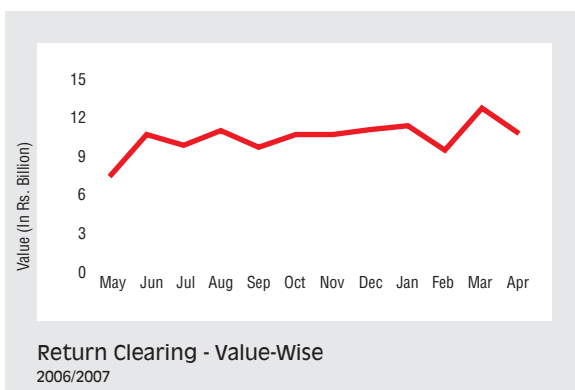
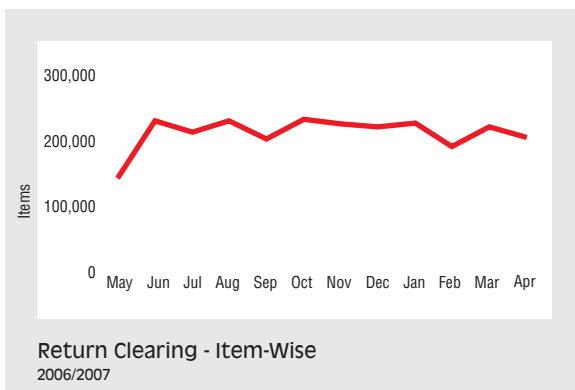


- | | | | |
|---------------------------|---|--|--------------------------|
| 1. "Refer to Drawer" | 10. "Payee's Endorsement Required" | 50. "Stale Cheque" | 64. "Scheduled in Error" |
| 2. "Effects not Realized" | 11. "Payee's Endorsement Irregular" | 51. "Account Closed" | 65. "Encoding Error" |
| | 12. "Payee's Endorsement Illegible" | 52. "Payment Stopped by Drawer" | 66. "Bad Image" |
| | 13. "Post-dated Cheques" | 53. "Drawer Deceased" | |
| | 14. "Payment Postponed Pending Drawer's Confirmation" | 54. "Funds Attached" | |
| | 15. "Credits Not Verified" | 55. "Amount in Words and Figures Differ" | |
| | 16. "Funds in Transition" | 56. "Drawers Mandate Determined" | |
| | | 57. "Drawer's Signature Differs from Specimen in Possession" | |
| | | 58. "Alteration Not Confirmed by Drawer" | |
| | | 59. "Cheque Incomplete" | |
| | | 60. "Cheque Not Drawn in Accordance with Mandate" | |
| | | 61. "Cheque Crossed to more than One Bank" | |
| | | 62. "Cheque Irregularly Drawn" | |
| | | 63. "Validity Expired" | |

Current Operations

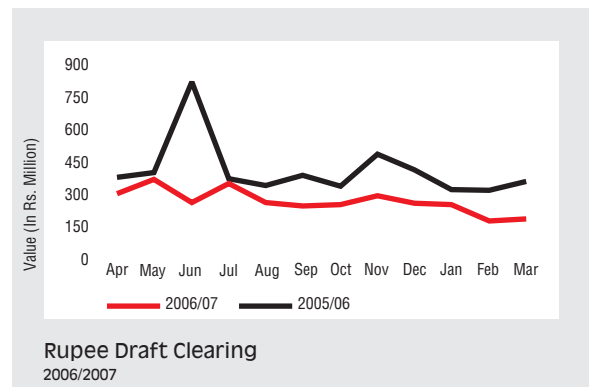
A total number of 2.3 million has been returned from the total number of 45 million items submitted for clearing. This is a 5.1% return ratio which has contributed 64.98 % due to return code 1 & 2, 24.21% for return code 50-63, 8.06% for return code 10-16 and 2.74% for return code 64-66.

The number of cheque returns and the related values processed through CITS during 2006/2007 is depicted in the following diagrams:



2. Sri Lanka Rupee Draft Clearing

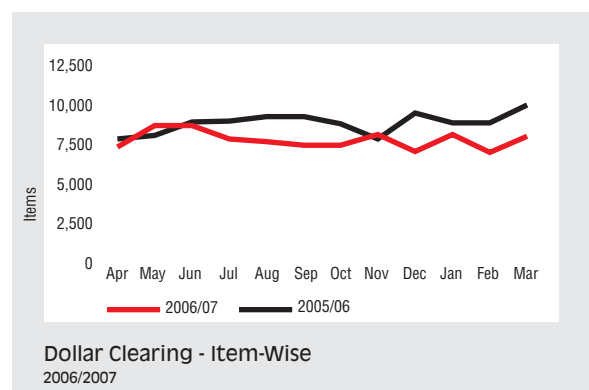
Cheques which do not conform to the CITS standards and specifications are cleared through "Rupee Draft Clearing". The value of Rupee Drafts processed during the year 2005/2006 is shown below:



The total value of Rupee drafts cleared in 2006/2007 through CITS amounts to Rs. 3.2 billion compared to Rs. 4.919 billion in 2005/2006. This is a decrease of 34.9%.

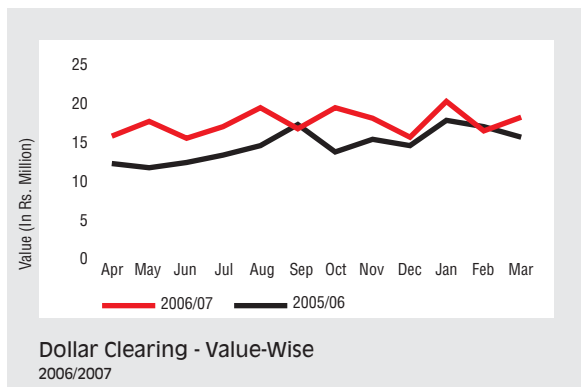
3. US \$ Clearing

The volumes and value of US \$ clearing transactions processed during the year 2005/2006 is shown below:



The total number of items cleared through US \$ clearing in 2006/2007 amounts to 93.8 thousand compared to 2005/2006 of 106.6 thousand. This is a decrease of 12%.

Current Operations

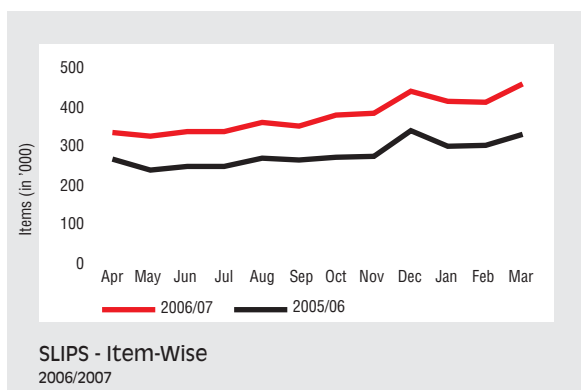


The total value of items cleared through US \$ Clearing in 2006/2007 amounts to US \$ 20.9 mn compared to 2005/2006 of US \$ 17.5 mn. This is an increase of 19.6%.

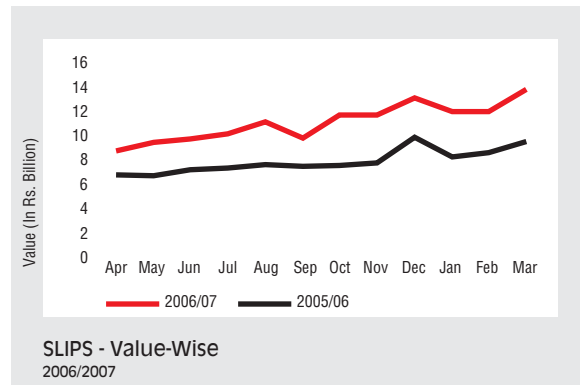
4. Sri Lanka Interbank Payment Systems (SLIPS)

A separate set of transactions, greater in number but typically smaller in value, reflect transfers between individuals and/or companies. These too are vital for the functioning of the economy. For example, they include the payment and receipt of wages, salaries and Government benefits, direct debits, cheques and debit & credit card payments. If any of these circulation systems failed, the functioning of large and important parts of the economy would be affected.

The increase in number of SLIPS transactions are depicted below:



The total number of items cleared through SLIPS in 2006/2007 amounts to 4.519 million, compared to 3.333 million in 2005/2006. This is an increase of 35.5%.



The total value of items cleared through SLIPS in 2006/2007 amounts to Rs. 132.645 billion compared to Rs. 94.188 billion in 2005/2006. This is an increase of 40.83%.

Shermin Pietersz

Head of Systems & Operations

Corporate Governance

At LankaClear (Pvt) Ltd. we are committed to ensuring the best interests of our customers, employees and shareholders. Maintaining transparency and accountability in respect of shareholders is an important function. This is why the Company is conscious of complying with applicable laws and regulations and adheres to the code of best practice on corporate governance published by the Institute of Chartered Accountants of Sri Lanka.

THE BOARD OF DIRECTORS

The Board of Directors at LankaClear comprises eight Non-Executive Directors. The Chairman is appointed by the Governor of the Central Bank of Sri Lanka, in accordance with the Articles of Association. Two Directors represent the Central Bank of Sri Lanka while two more represent two state banks. Three additional Directors are nominated by the Sri Lanka Banks' Association of whom two represent 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 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 function 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.

RESPONSIBILITIES

The main responsibilities of the Board are as follows:

- Setting strategies, direction and establishing goals for management.
- Monitoring performances against goals and objectives as well as ensuring adequate internal controls with the highest ethical standards.
- Appointing the Chief Executive Officer and determining the remuneration of senior executives.
- Reporting to shareholders.

BOARD MEETINGS

Board Meetings are held monthly to consider among other matters, the performance and financial statements for the period and to approve routine capital expenditure.

DISCLOSURES TO STAKEHOLDERS

The Board follows a policy of disclosing all relevant information to stakeholders within the bounds of prudent commercial judgement. It prepares the financial statements in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 17 of 1982 and the Generally Accepted Accounting Principles.

GOING CONCERN

Upon reviewing the financial position and cash flow of the Company, the Board of Directors is confident that the Company has adequate resources to continue operations in the foreseeable future and prepare financial statements on 'going concern basis'.

COMPLIANCE REPORTS

The Directors confirm that to the best of their knowledge, 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. function 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

Members of the senior management are adequately experienced to perform the delegated authority through the General Manager/CEO.

RELATIONSHIP WITH SHAREHOLDERS

The Company believes in maintaining a good relationship with its shareholders and takes all responsible and necessary steps to disclose both financial and non-financial information.

Directors' Report

The Directors of LankaClear (Pvt) Ltd. have pleasure in presenting to members their Report together with the audited financial statements of the Company for the year ended 31st March 2007 which was approved by the Directors on 5th September 2007.

PRINCIPAL ACTIVITY

The principal activity of the Company was to provide cheque clearing facilities to commercial banks on behalf of the Central Bank of Sri Lanka, which was advanced to image based clearing during the year.

REVIEW OF OPERATIONS

The Net Revenue from the Company's principal activity during the year amounted to Rs. 433,151,283/- after deducting Rs. 64,972,692/- for Value Added Tax.

SHARE CAPITAL

The issued share capital of the Company is Rs. 150.5 mn as at 31st March 2007.

DIVIDEND

The Directors have recommended the payment of a First & Final Dividend of Rs. 1.20 per share for the year ended 31st March 2007.

FIXED ASSETS

Details of fixed assets are given in Note 4 to the accounts.

DIRECTORS

The Board of Directors of LankaClear (Pvt) Ltd. as at 31st March 2007 were:

Mr. A. Sarath de Silva - *Chairman*

Mr. P.D.J. Fernando

Ms. K.R.M. Siriwardhana

Mr. Z.H. Zavahir

Mr. B.A.C. Fernando

Mr. M. Wickremasinghe

Mr. A.L. Gooneratne

Mr. C. Haswell

DIRECTORS' INTEREST

The Directors have no direct or indirect interest in any contract or proposed contract with the Company other than as stated in Note 22 to the accounts.

DIRECTORS' INTEREST IN SHARES

The Directors together with their spouses and dependent children have no interest in the shares of the Company.

THE AUDITORS

The retiring Auditors Ms. Ernst & Young have signified their willingness to continue in office. In accordance with the Companies Act No. 7 of 2007, a resolution relating to their reappointment and authorizing the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

POST BALANCE SHEET EVENTS

There have been no material events occurring after the Balance Sheet date that require adjustments or disclosure in the financial statements.

By order of the Board



Managers & Secretaries (Pvt) Ltd.

Company Secretaries

Colombo

5th September 2007

Directors' Responsibility for Financial Reporting

The financial statements for the year ended 31st March 2007 are prepared and presented in conformity with the Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995 and the Companies Act No. 7 of 2007. The financial statements reflect a true and fair view of the Company's state of affairs as at the end of the financial year and of the Profit and Loss of the Company for the year then ended.

The Board of Directors oversees and ensures that the Management is responsible for proper financial reporting and effective and comprehensive system of internal controls.

The Internal Control System ensures that the Company's business is carried in an acceptable and efficient manner so as to safeguard the Company's assets.

The Board of Directors is confident that the Company will continue as a 'going concern' into the foreseeable future.

By order of the Board



Managers & Secretaries (Pvt) Ltd.

Company Secretaries

Colombo

8th October 2007

Auditors' Report



■ Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

■ Telephone : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
E-Mail : eyssl@lk.ey.com

TO THE MEMBERS OF LANKACLEAR (PVT) LTD.

We have audited the Balance Sheet of LankaClear (Pvt) Ltd. as at 31st March 2007, and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 18 to 34.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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 has maintained proper books of account for the year ended 31st March 2007, and to the best of our information and according to the explanations given to us, the said Balance Sheet and related Statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act, No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March 2007 and its profit and cash flows for the year then ended.

Directors' Interest in Contracts with the Company

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st March 2007, except as stated in Note 22 to these financial statements.

Colombo

5th September 2007

■ Partners : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S Fernando FCA ACMA
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA
Ms. L C G Nanayakkara FCA FCMA

Balance Sheet

As at 31st March

	Note	2007 Rs.	2006 Rs. (Restated)
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	4	458,418,554	515,716,185
Deferred Tax Assets	17.2	–	2,452,411
		<u>458,418,554</u>	<u>518,168,597</u>
Current Assets			
Inventories	5	3,976,620	2,939,771
Trade and Other Receivables	6	52,791,147	25,627,074
Investments	7	261,006,052	49,255,843
Income Tax Recoverable		–	8,069,521
Cash and Bank Balances		7,723,536	2,760,296
		<u>325,497,355</u>	<u>88,652,505</u>
Total Assets		<u>783,915,909</u>	<u>606,821,102</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Issued Share Capital	8	150,500,000	150,500,000
Reserves	9	15,000,000	12,000,000
Retained Earnings		141,112,111	4,773,156
Total Equity		<u>306,612,111</u>	<u>167,273,156</u>
Non-Current Liabilities			
Interest Bearing Loans & Borrowings	10	156,261,235	109,944,770
Deferred Tax Liabilities	17.2	1,549,694	–
CITS Related Government Grant	11	233,226,930	302,564,666
Defined Benefit Liability	12	390,626	466,501
		<u>391,428,485</u>	<u>412,975,937</u>
Current Liabilities			
Trade and Other Payables	13	17,127,752	14,759,771
Income Tax Liabilities		41,756,788	–
Interest Bearing Loans and Borrowings	10	22,104,832	11,812,238
Bank Overdrafts		4,885,941	–
		<u>85,875,313</u>	<u>26,572,009</u>
Total Equity and Liabilities		<u>783,915,909</u>	<u>606,821,102</u>

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board by



A. Sarath de Silva
Chairman



P.D.J. Fernando
Director

The Accounting Policies and Notes on pages 22 through 34 form an integral part of the financial statements.

Income Statement

<i>Year ended 31st March</i>	Note	2007 Rs.	2006 Rs. (Restated)
Revenue	3	433,151,283	96,719,549
Cost of Sales		(114,478,185)	(49,803,115)
Gross Profit		318,673,098	46,916,434
Other Income and Gains	14	12,664	79,632
Administrative Expenses		(98,584,010)	(73,021,363)
Finance Cost	16.1	(18,329,028)	–
Finance Income	16.2	14,802,302	6,949,572
Profit/(Loss) before Tax	15	216,575,026	(19,075,726)
Income Tax Expense	17	(77,236,071)	6,189,105
Profit/(Loss) for the year		139,338,955	(12,886,621)

The Accounting Policies and Notes on pages 22 through 34 form an integral part of the financial statements.

Statement of Changes in Equity

Year ended 31st March 2007

	Note	Share Capital Rs.	Technology Reserve Rs.	Accumulated Profit Rs. (Restated)	Total Rs.
Balance as at 31st March 2005		150,000,000	9,000,000	20,659,777	179,659,777
Ordinary Share Issue		500,000	–	–	500,000
Restated Net Loss for the year		–	–	(12,886,621)	(12,886,621)
Transfer of Technology Reserve	9	–	3,000,000	(3,000,000)	–
Restated Balance as at 31st March 2006		<u>150,500,000</u>	<u>12,000,000</u>	<u>4,773,156</u>	<u>167,273,156</u>
Net Profit for the year		–	–	139,338,955	139,338,955
Transfer of Technology Reserve	9	–	3,000,000	(3,000,000)	–
Balance as at 31st March 2007		<u>150,500,000</u>	<u>15,000,000</u>	<u>141,112,111</u>	<u>306,612,111</u>

The Accounting Policies and Notes on pages 22 through 34 form an integral part of the financial statements.

Cash Flow Statement

Year ended 31st March

	Note	2007 Rs.	2006 Rs.
Cash Flows from/(used in) Operating Activities			
Net Profit before Income Tax Expenses		216,575,026	(19,075,726)
Adjustments for			
Depreciation	4	132,947,121	18,871,868
Amortization of Deferred Income	11	(69,337,736)	-
Finance Income	16	(14,802,302)	(6,949,572)
Provision/Reversal for Defined Benefit Plans	12	(75,875)	94,396
Loss on Disposal of Property, Plant & Equipment		298,540	-
Finance Costs	16	18,329,028	-
Operating Profit/(Loss) before Working Capital Changes		283,933,803	(7,059,034)
Decrease in Inventories		(1,036,848)	780,197
Increase in Trade and Other Receivables		(27,164,076)	(7,336,815)
Increase in Trade and Other Payables		2,367,982	49,251
Cash Generated from Operations		258,100,861	(13,566,401)
Interest Paid		(18,329,028)	-
Income Tax Paid		(23,407,656)	(11,777,991)
Net Cash from/(used in) Operating Activities		216,364,176	(25,344,392)
Cash Flows from/(used in) Investing Activities			
Acquisition of Property, Plant & Equipment	4	(77,344,727)	(183,167,993)
Proceeds from Disposal of Property, Plant & Equipment		1,396,698	-
Finance Income Received		14,802,302	6,296,262
Net Proceeds from Investments in Fixed Income Securities		-	101,926,803
Net Cash Flows used in Investing Activities		(61,145,727)	(74,944,928)
Cash Flows from Financing Activities			
Proceeds from Issuance of Share Capital	8	-	500,000
Proceeds from Interest Bearing Loans & Borrowings	10.1	68,421,300	93,303,850
Repayment of Interest Bearing Loans & Borrowings	10.1	(10,672,587)	(323,054)
Net Cash Flows from Financing Activities		57,748,713	93,980,796
Net Increase/(Decrease) in Cash & Cash Equivalents		212,967,162	(6,308,524)
Cash & Cash Equivalents at the beginning of the year		50,876,485	57,185,009
Cash & Cash Equivalents at the end of the year	18	263,843,647	50,876,485

The Accounting Policies and Notes on pages 22 through 34 form an integral part of the financial statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

LankaClear (Pvt) Ltd. is a limited liability company incorporated and domiciled in Sri Lanka. The Registered Office of the Company is located at 18th Floor, Bank of Ceylon NHQ Building, Bank of Ceylon Mawatha, Colombo and the principal place of business is situated at the above-mentioned address.

1.2 Principal Activities and Nature of Operations

During the year, the principal activity of the Company was to provide clearance facilities to commercial banks on behalf of the Central Bank.

1.3 Date of Authorization of Issue

The financial statements of LankaClear (Pvt) Ltd., for the year ended 31st March 2007, were authorized for issue in accordance with a resolution of the Board of Directors on 5th September 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Sri Lankan Rupees and all values are rounded to the nearest integer except when otherwise indicated.

2.1.1 Statement of Compliance

The financial statements of LankaClear (Pvt) Ltd. have been prepared in accordance with Sri Lanka Accounting Standard (SLAS).

2.1.2 Comparative Information

The accounting policies have been consistently applied by the Company and, except for the changes in accounting policy discussed more fully in 2.2; are consistent with those used in the previous year.

2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except where the Company has adopted revised/new standards mandatory for financial years beginning on 1st April 2006. The principal effects of the discussion are disclosed below and in Note 19.

SLAS 14 - Income Taxes (Revised 2005)

The Company adopted SLAS 14 - Income Taxes during the year. Under the Revised SLAS 14 the Company uses Balance Sheet liability method, focusing on temporary differences. The original SLAS 14 permitted an entity not to recognize deferred tax assets and liabilities where there was reasonable evidence that timing differences would not reverse for some considerable period ahead. SLAS 14 (Revised) requires an entity to recognize a deferred tax liability or (subject to certain conditions) assets for all temporary differences, with certain exceptions. Accordingly, Company now recognize deferred tax assets when it is probable that taxable profits will be available against which the deferred tax assets can be utilized.

The Company determined its transitional liability for deferred tax as the difference between the deferred tax liability based on revised standard and the deferred tax liability as accounted and disclosed in the financial statements on the first adoption of SLAS 14 (Revised 2005) and recognize the increase as an expense on a straight-line basis over two years from the date of adoption of this standard.

In addition to the standards referred to above, the Company has resolved to adopt the following revised standards during the year and comparative figures have been amended as required:

- SLAS 03 - Presentation of Financial Statements (Revised 2005)
- SLAS 05 - Inventories (Revised 2005)
- SLAS 10 - Accounting Policies, Changes in Accounting Estimates and Errors (Revised 2005)
- SLAS 12 - Events after the Balance Sheet Date (Revised 2005)
- SLAS 19 - Leases (Revised 2005)
- SLAS 21 - The Effects of Changes in Foreign Exchange Rates (Revised 2005)
- SLAS 30 - Related Party Disclosures (Revised 2005)
- SLAS 41 - Impairment of Assets

2.3 Summary of Significant Accounting Policies

2.3.1 Foreign Currency Translation

The financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities

Notes to the Financial Statements

denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.3.2 Taxation

Current Taxes

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 taxation authorities. 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 relevant tax legislations.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the Income Statement.

Deferred Taxation

Deferred income tax is provided, using the liability method, on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized except where

the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the Income Statement.

2.3.3 Borrowing Costs

Borrowing costs are recognized 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 capitalized as part of that asset.

2.3.4 Inventories

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable 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 using the following cost formulae:

Consumables & Stationery - At actual cost on first-in-first-out basis.

2.3.5 Trade and Other Receivables

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

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

Notes to the Financial Statements

2.3.6 Cash & Cash Equivalents

Cash & 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 & 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.

2.3.7 Property, Plant & Equipment

Property, plant & equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant & equipment when that cost is incurred, if the recognition criteria are met.

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.

Principal annual rates used are:

Computer Equipment	25%
Furniture & Fittings	10%
Electricity Equipment	20%
Other Equipment	20%

2.3.8 Investments

(a) Current Investments

Investments in Fixed Deposits are stated at cost.

(b) Securities Purchased under Resale Agreements

These are advances collateralized by purchase of Treasury bills and Treasury bonds subject to a commitment to resale 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.

2.3.9 Provisions

Provisions are recognized 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 recognized 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 recognized as an interest expense.

2.3.10 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the Balance Sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year net of any payments made, and the carried forward provision at the end of a year is dealt with in the Income Statement.

(b) 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.

2.3.11 Grants and Subsidies

Grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is set up as deferred income. Where the Company receives non-monetary grants, the asset and that grant are recorded at nominal amounts and, is released to the Income Statement over the expected useful life of the relevant asset on a systematic basis.

Notes to the Financial Statements

2.3.12 Revenue Recognition

Revenue is recognized 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.

(a) Rendering of Services

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

(b) Interest

Interest Income is recognized as the interest accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

(c) Others

Other income is recognized on an accrual basis.

Notes to the Financial Statements

Year ended 31st March 2007

3. REVENUE

	2007 Rs.	2006 Rs.
3.1 Revenue		
Sales	433,151,283	96,719,549
	433,151,283	96,719,549
3.2 Goods and Services Analysis		
Rendering of Clearing Services	433,151,283	96,719,549
	433,151,283	96,719,549

4. PROPERTY, PLANT & EQUIPMENT

4.1 Gross Carrying Amounts	Balance as at 01.04.2006 Rs.	Transfer from Capital Work-in-Progress Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2007 Rs.
At Cost					
Computer Equipment	65,630,050	539,162,551	1,865,778	56,669,895	549,988,484
Furniture & Fittings	15,845,980	-	2,553,924	497,600	17,902,304
Electronic Equipment	2,907,603	28,339,173	2,406,898	1,000,000	32,653,673
Other Equipment	1,491,182	61,041	276,584	74,000	1,754,807
	<u>85,874,815</u>	<u>567,562,765</u>	<u>7,103,184</u>	<u>58,241,495</u>	<u>602,299,268</u>

4.2	Balance as at 01.04.2006 Rs.	Incurred during the year Rs.	Transferred Rs.	Written Off Rs.	Balance as at 31.03.2007 Rs.
Capital Work-in-Progress	498,309,871	70,241,544	567,562,765	988,650	-
Total Gross Carrying Amount	<u>498,309,871</u>	<u>70,241,544</u>	<u>567,562,765</u>	<u>988,650</u>	<u>-</u>

4.3 Depreciation

At Cost	Balance as at 01.04.2006 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2007 Rs.
Computer Equipment	62,936,203	124,784,987	56,444,787	131,276,403
Furniture & Fittings	2,253,737	1,802,096	230,920	3,824,913
Electronic Equipment	2,106,099	6,035,738	800,000	7,341,836
Other Equipment	1,172,462	324,300	59,200	1,437,562
	<u>68,468,501</u>	<u>132,947,121</u>	<u>57,534,907</u>	<u>143,880,714</u>

Notes to the Financial Statements

4.4 Net Book Values

	2007	2006
At Cost	Rs.	Rs.
Computer Equipment	418,712,081	2,693,847
Furniture & Fittings	14,077,391	13,592,244
Electronic Equipment	25,311,837	801,504
Other Equipment	317,245	318,720
	<u>458,418,554</u>	<u>17,406,314</u>
Capital Work-in-Progress	-	498,309,871
	<u>458,418,554</u>	<u>515,716,185</u>

4.5 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 77,344,727/- (2006 - Rs. 485,732,658/-). Cash payments amounting to Rs. 77,344,727/- (2006 - Rs. 183,167,993/-) were made during the year for purchase of Property, Plant & Equipment.

4.6 Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 3,546,158/- (2006 - Rs. 59,872,608/-).

4.7 During the year, borrowing costs amounting to Rs. 1,770,090/- (2006 - Rs. 8,427,905/-) was capitalized at the rate used was the GrossTB+1.5% (2006 - GrossTB+1.5%).

	2007	2006
	Rs.	Rs.
5. INVENTORIES		
5.1 Consumables and Stationery	3,976,620	2,939,771
	<u>3,976,620</u>	<u>2,939,771</u>
6. TRADE AND OTHER RECEIVABLES		
6.1 Trade Debtors	51,875,632	-
Less: Allowances for Doubtful Debts	6,038,718	10,847,826
	<u>45,836,914</u>	<u>10,847,826</u>
Refundable Deposit	40,887	24,000
Interest Receivable on Fixed Deposits	3,395,624	653,310
VAT Recoverable	-	11,858,164
Advance & Prepayments	3,517,722	2,243,774
	<u>52,791,147</u>	<u>25,627,074</u>
7. INVESTMENTS		
Investments in Treasury Bills	53,200,000	18,506,870
Fixed Deposit	207,806,052	30,748,973
	<u>261,006,052</u>	<u>49,255,843</u>

Notes to the Financial Statements

8. SHARE CAPITAL

8.1 Authorized

		Par Value Rs.	2007 Number	2006 Number
Number of Shares	Ordinary Shares	10/-	100,000,000	100,000,000
			100,000,000	100,000,000
			2007 Rs.	2006 Rs.
Nominal Value	Ordinary Shares	10/-	1,000,000,000	1,000,000,000
			1,000,000,000	1,000,000,000

8.2 Issued and Fully Paid

		Par Value Rs.	At the beginning 01.04.2006 Number	Issued for Cash during the year Number	Issued for Non-Cash Consideration Number	At the end 31.03.2007 Number
Number of Shares	Ordinary Shares	10/-	15,050,000	–	–	15,050,000
			15,050,000	–	–	15,050,000
			Rs.	Rs.	Rs.	Rs.
Nominal Value	Ordinary Shares	10/-	150,500,000	–	–	150,500,000
			150,500,000	–	–	150,500,000

9. TECHNOLOGY RESERVE

	2007 Rs.	2006 Rs.
At the beginning of the year	12,000,000	9,000,000
Transferred from Retained Profits	3,000,000	3,000,000
At the end of the year	15,000,000	12,000,000

10. INTEREST BEARING LOANS & BORROWINGS

	2007 Amount Repayable within 1 year Rs.	2007 Amount Repayable after 1 year Rs.	2007 Total Rs.	2006 Amount Repayable within 1 year Rs.	2006 Amount Repayable after 1 year Rs.	2006 Total Rs.
Bank Loans (10.1)	22,104,832	156,261,235	178,366,067	10,672,584	109,944,770	120,617,354
Bank Overdrafts	–	–	–	1,139,654	–	1,139,654
	22,104,832	156,261,235	178,366,067	11,812,238	109,944,770	121,757,008

10.1 Bank Loans

	As at 01.04.2006 Rs.	Loan Obtained Rs.	Repayment Rs.	As at 31.03.2007 Rs.
Seylan Bank Ltd.	120,617,354	68,421,300	10,672,587	178,366,067
	120,617,354	68,421,300	10,672,587	178,366,067

Notes to the Financial Statements

	2007 Rs.	2006 Rs.
11. CITS RELATED GOVERNMENT GRANT		
As of the beginning of the year	302,564,666	-
Grants Received during the year	-	302,564,666
Amortized during the year	(69,337,736)	-
As of the end of the year	<u>233,226,930</u>	<u>302,564,666</u>

11.1 During the last year, the Company received a grant from the Central Bank of Sri Lanka in respect of the new Cheque Image Truncation System (CITS). Total grant amounted to 85% of the cost of the hardware and local taxes. The grant is amortized over the useful life of the CITS equipment.

	2007 Rs.	2006 Rs.
12. OTHER DEFERRED LIABILITIES		
Retirement Benefits Obligations - Gratuity		
Balance as at beginning of the year	466,501	372,105
Charge/Reversal for the year	(75,875)	94,396
Payments during the year	-	-
Balance as at the end of the year	<u>390,626</u>	<u>466,501</u>

13. TRADE AND OTHER PAYABLES		
VAT Payable	3,529,976	-
Sundry Creditors including Accrued Expenses	7,982,881	8,908,414
Provisions	5,614,895	5,851,357
	<u>17,127,752</u>	<u>14,759,771</u>

14. OTHER INCOME AND GAINS		
Other Income	12,664	79,632
	<u>12,664</u>	<u>79,632</u>

15. PROFIT/(LOSS) FROM OPERATING ACTIVITIES		
Stated after Charging/(Crediting)		
Directors' Emoluments	1,307,500	1,615,500
Auditors' Fee - External	150,000	100,000
Internal	225,000	180,000
Depreciation	132,947,121	18,871,868
Personnel Cost Includes		
- Defined Benefit Plan Cost - Gratuity	(75,875)	94,396
- Defined Contribution Plan Cost - EPF & ETF	2,743,401	2,137,877
- Other Staff Costs	39,228,754	21,848,613

Notes to the Financial Statements

	2007 Rs.	2006 Rs.
16. FINANCE COST AND INCOME		
16.1 FINANCE COST		
Interest Expense on Interest Bearing Loans & Borrowings	18,329,028	-
	<u>18,329,028</u>	<u>-</u>
16.2 FINANCE INCOME		
Interest on Fixed Deposits	12,537,623	4,691,681
Interest on Treasury Bill Repo	2,264,679	2,257,891
	<u>14,802,302</u>	<u>6,949,572</u>

17. INCOME TAX EXPENSE

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

Income Statement

Current Income Tax

Current Income Tax Charge	72,508,878	2,258,612
Social Responsibility Levy 1% (2006 - 0.25%)	725,088	5,646

Deferred Income Tax

Deferred Taxation Charge/(Reversal) (17.2)	4,002,105	(8,453,363)
Income Tax Expense Reported in the Income Statement	<u>77,236,071</u>	<u>(6,189,105)</u>

17.1 A Reconciliation between Tax Expense and the product of

Accounting Profit multiplied by the Statutory Tax Rate is as follows:

Accounting Profit before Income Tax	<u>216,575,026</u>	<u>(19,075,726)</u>
At the Statutory Income Tax Rate of 35% (2006 - 32.5%)	75,801,260	(6,199,611)
Non-Deductible Expenses	771,032	4,859
Effect of Change in Tax Rate	(61,310)	-
Other	-	-
Social Responsibility Levy 1% (2006 - 0.25%)	725,089	5,647
At the Effective Income Tax Rate of 36% (2006 - 34%)	<u>77,236,071</u>	<u>(6,189,105)</u>

17.2 Deferred Tax Assets, Liabilities and Income Tax relates to the following:

	Balance Sheet		Income Statement	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Deferred Tax Liability				
Capital Allowances for Tax Purposes	<u>3,799,964</u>	1,325,085	2,474,879	(4,796,801)
Deferred Tax Assets				
General Provisions on Trade Receivables	(2,113,551)	-	(2,113,551)	-
Defined Benefit Plans	(136,719)	(151,613)	14,894	(30,679)
Carried Forward Losses	-	(3,625,884)	3,625,884	(3,625,884)
	<u>(2,250,270)</u>	<u>(3,777,496)</u>		
Deferred Income Tax (Income)/Expense			<u>4,002,105</u>	<u>(8,453,363)</u>
	<u>1,549,694</u>	<u>(2,452,411)</u>		

Notes to the Financial Statements

18. CASH & CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash & Cash Equivalents

18.1 Favourable Cash & Cash Equivalents Balance

	2007 Rs.	2006 Rs.
Cash & Bank Balances	7,723,536	2,760,296
Fixed Deposits	207,806,052	30,748,973
Treasury Bills	53,200,000	18,506,870
	<u>268,729,588</u>	<u>52,016,139</u>

18.2 Unfavourable Cash & Cash Equivalents Balance

Bank Overdraft	(4,885,941)	(1,139,654)
Total Cash & Cash Equivalents for the Purpose of Cash Flow Statement	<u>263,843,647</u>	<u>50,876,485</u>

18.3 Current year Bank overdraft is only a book overdraft, therefore not considered to be an Interest Bearing Borrowing during the current year under Note No. 10 to these financial statements.

19. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND OTHERS

As stated in 2.2, the Company adopted certain changes to accounting policies as a result of the revised Sri Lanka Accounting Standards. The accounting policies set out in 2.3 have been applied in preparing these financial statements for the year ended 31st March 2007 and the comparative information presented in these financial statements for the year ended 31st March 2006. In preparing these financial statements, the Company has adjusted amounts reported previously in financial statements prepared in accordance with the previous Sri Lanka Accounting Standards. The changes in accounting policies are made in accordance with transitional provisions of revised standards, wherever applicable.

An explanation of effect of changes in accounting policies are set out in following table:

	As Stated Previously Rs.	31st March 2006 Effect of Change in Accounting Policy Rs.	Restated Balance Rs.	31st March 2007 Effect of Change in Accounting Policy Rs.
Balance Sheet				
Deferred Tax Liabilities/(Assets)	1,590,291	(4,042,703)	(2,452,412)	-
Income Statement				
Income Tax Expense/(Reversal)	(4,410,661)	(4,042,703)	(8,453,364)	3,625,884

19.1 Effect of Accounting Policy Change in respect of Deferred Tax

As described in 2.2, the Company adopted SLAS 14 - Income Tax (Revised 2005). Under previous SLAS 14, the Company did not recognize deferred tax asset for the carry forward of unused tax losses. In accordance with SLAS 14 - Income Tax (Revised 2005) such losses are recognized as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the assets can be utilized. The effect of this change amounted to Rs. 2,836,308/- of deferred tax assets recognized at 1st April 2006. No deferred tax asset is recorded as at 1st April 2005 as there were no tax losses carried forward as at that date. On the first adoption of SLAS 14 - Income Tax (Revised 2005).

Notes to the Financial Statements

20. COMMITMENTS AND CONTINGENCIES

20.1 Capital Expenditure Commitments

	2007 Rs.	2006 Rs.
Authorized by the Board but not provided for	-	66,033,349

Capital Commitments that were disclosed during the last year relates to the commitment that was made relating to the CITS project. This was fully utilized and the project was completed during the year. There were no other significant commitments outstanding as of the current year end.

21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the financial statements.

22. DIRECTORS' INTEREST IN CONTRACTS AND/OR PROPOSED CONTRACTS WITH THE COMPANY

a) DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Name of the Director	Other Directorship/ Senior Managership	Nature of Transaction	2007 Amount Rs.	2006 Amount Rs.
Mr. P. D. J. Fernando	Assistant Governor Central Bank	Service Rendered Fees (Received by LankaClear)	200,487	101,735
		Rent Expenses	755,340	755,340
Mr. M. Wickremasinghe	Deputy General Manager Head of O/I & I - People's Bank	Service Rendered Fees (Received by LankaClear)	146,925,689	27,310,991
Mr. B. A. C. Fernando	General Manager Bank of Ceylon	Service Rendered Fees (Received by LankaClear)	98,099,585	23,800,262
		Rent Expenses	14,171,196	12,385,718
		Repo Investment	5,300,725,618	8,000,000
		Repo Interest	2,264,679	1,483,791
Mr. A. A. M. Thassim	Deputy Director Bank Supervision Central Bank	Service Rendered Fees (Received by LankaClear)	93,614	101,735
		Rent Expenses	377,670	755,340
Mr. A. S. Amarasuriya	Managing Director Sampath Bank	Service Rendered Fees (Received by LankaClear)	20,887,910	7,287,794
		Fixed Deposit Investment	40,000,000	-
		Fixed Deposit Interest	1,461,918	-
Mr. A. Ramaswamy	Country Head Indian Overseas Bank	Service Rendered Fees (Received by LankaClear)	211,510	64,831
Mr. A. Theagarajah	Chief Executive Officer Hatton National Bank	Service Rendered Fees (Received by LankaClear)	42,562,949	13,949,862
Mr. K. Ragawan	Chief Executive Officer Indian Bank	Service Rendered Fees (Received by LankaClear)	53,448	-

Notes to the Financial Statements

Name of the Director	Other Directorship/ Senior Managership	Nature of Transaction	2007 Amount Rs.	2006 Amount Rs.
Ms. K. R. M. Siriwardhana	Director - Payment & Settlement Central Bank	Service Rendered Fees (Received by LankaClear)	53,240	–
		Rent Expenses	188,835	–
Mr. Zulfiqar Zavahir	Chief Executive Officer Nations Trust Bank	Service Rendered Fees (Received by LankaClear)	3,744,010	–
		Fixed Deposit Investment	82,529,053	–
		Fixed Deposit Interest	1,295,333	–
Mr. Clive Haswell	Chief Executive Officer Standard Chartered Bank	Service Rendered Fees (Received by LankaClear)	1,783,667	–
Mr. Amitha Gooneratne	Managing Director Commercial Bank	Service Rendered Fees (Received by LankaClear)	11,184,159	–

23. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

23.1 Transaction with Related Entities

a) Transactions with Significant Shareholders

	2007 Rs.	2006 Rs.
Nature of Transaction		
As at 1st April	10,839,208	8,988,643
Clearing Services Provided	497,627,847	112,588,947
Incentives given	(158,451)	(1,984,268)
Cash Received during the year	(456,461,296)	(108,754,115)
Gross Balance as of 31st March	51,847,308	10,839,208
Provisions for Doubtful Receivables	(6,038,718)	–
Net Balance as of 31st March	45,808,590	10,839,208

Included in Trade and Other Receivables

b) Bank Loans

As at the year end the Company has interest bearing loans & borrowings amounting to Rs. 178,366,067/- (2006 - Rs. 120,617,354/-) which were obtained from a related party of the Company. Further, interest payments on loans amounted to Rs. 14,307,713/- during the year (2006 - Rs. 7,308,931/-) and are included in Note No. 10 to the financial statements. No assets have been pledged in this regard.

Notes to the Financial Statements

c) *Current Accounts*

As at the year end the Company has maintained its current accounts amounting to Rs. 8,459,952/- (2006 - Rs. 6,101,756/-) with banks which are related parties of the Company and are included in Note No. 18 to the financial statements.

d) *Fixed Deposits and Repo Investments*

As at the year end the Company has invested in Fixed Deposits and Repo Investments amounting to Rs. 261,006,052/- (2006 - Rs. 49,255,843/-) with banks which are related parties of the Company. Further, the Company has received interest income amounted to Rs. 14,802,302/- during the year (2006 - Rs. 6,949,572/-) and are included in Note No. 7 to the financial statements.

23.2 Transactions with Key Management Personnel of the Company or Parent

The key management personnel of the Company are the members of its Board of Directors. Following are the summary of significant transactions that were made with the Company during the year:

a) *Key Management Personnel Compensation*

	2007 Rs.	2006 Rs.
Short-Term Benefits	<u>1,307,500</u>	<u>1,615,500</u>

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

The Sri Lanka Automated Clearing House was formerly owned by the Central Bank of Sri Lanka. It was subsequently divested to LankaClear (Pvt) Ltd. and commenced operations on 1st April 2002.

PRINCIPAL ACTIVITY

Provide cheque clearing facilities to commercial banks on behalf of the Central Bank.

PRODUCT RANGE

Sri Lanka Rupee Cheque Clearing
US Dollar Cheque Clearing
Sri Lanka Rupee Draft Clearing
Sri Lanka Interbank Payment System (SLIPS)

BOARD OF DIRECTORS

Mr. A. Sarath de Silva
Chairman - Ex-GM, Bank of Ceylon

Mr. P.D.J. Fernando
Director - Assistant Governor, CBSL

Mr. M. Wickremasinghe
Director - DGM, People's Bank

Mr. B.A.C. Fernando
Director - General Manager, Bank of Ceylon

Ms. K.R.M. Siriwardhana
Director - Director, Payments & Settlements, CBSL

Mr. Clive Haswell
Director - CEO, Standard Chartered Bank

Mr. Zulfiqar Zavahir
Director - CEO, Nations Trust Bank

Mr. Amitha Gooneratne
Director - Managing Director, Commercial Bank

Mr. M.U. De Silva
Invitee (Secretary-General - SLBA)

MANAGEMENT TEAM

Mr. Sunimal Weerasooriya
General Manager/CEO

Mr. Shermin D.E. Pietersz
Head of Systems & Operations

Ms. Samitha Perera
Manager - Finance

Mr. Ranjith Gunawardena
Manager - Human Resources & Administration

Mr. L.G. Abeysirigunawardena
Head - Regional Centres/ Manager - Administration

Mr. W.M. Jayaratne
Manager - Operations

Mr. S.R. Hettiarachchi
Manager - Computer Operations

Mr. Dilantha Samarasinghe
Manager - Systems

Mr. V.I.G. Jayaweera
Manager - Help Desk

REGIONAL CENTRE MANAGEMENT

Mr. D.M. Thilakarathne
Regional Centre Manager - Badulla

Mr. R. Sevugan
Regional Centre Manager - Nuwara-Eliya

Mr. J.B. Senanayake
Regional Centre Manager - Kandy

Mr. S. Sirinivasan
Regional Centre Manager - Jaffna

Mr. S.A. Amarasinghe
Regional Centre Manager - Anuradhapura

Mr. A. Sajan Assan
Regional Centre Manager - Ampara

Mr. M.P. Mendis
Regional Centre Manager - Ratnapura

Mr. T.M.P. Munasinghe
Regional Centre Manager - Polonnaruwa

Mr. C. Pahalagama
Regional Centre Manager - Matara

Mr. B.M. Basnayake
Regional Centre Manager - Kurunegala

Corporate Profile

SHARE CAPITAL

Authorized Share Capital	100 Mn x Rs. 10/- shares	Rs. 1,000.00 Mn
Issued Share Capital	15.05 Mn x Rs. 10/- shares	Rs. 150.50 Mn

SHAREHOLDERS

Shareholder	No. of Shares	Value
	Mn	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	2.00	20.00
Commercial Bank of Ceylon	1.00	10.00
Hatton National Bank	2.20	22.00
Seylan Bank	1.00	10.00
Union Bank of Sri Lanka	0.05	0.50
DFCC Vardhana	0.10	1.00
Pan Asia Banking Corporation	0.10	1.00
Nations Trust Bank	0.15	1.50
NDB Bank	0.15	1.50
Habib Bank	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
Muslim Commercial Bank	0.10	1.00
Hongkong and Shanghai Banking Corporation	0.20	2.00
Deutsche Bank	0.15	1.50
Citibank NA	0.10	1.00
Standard Chartered Bank	0.15	1.50
Public Bank Berhad	0.10	1.00
ICIC Bank	0.05	0.50
	<u>15.05</u>	<u>150.50</u>

REGISTERED OFFICE & MAIN PLACE OF BUSINESS

Level 18, Bank of Ceylon National Headquarters Building,
Bank of Ceylon Mawatha, Colombo 1.

COMPANY SECRETARIES

Managers & Secretaries (Pvt) Ltd.
212, De Saram Place, Colombo 10.
Tel: 5579900
Fax: 5579950

BANKERS

Bank of Ceylon - Corporate Branch
Seylan Bank - Millennium Branch

EXTERNAL AUDITORS

Ms. Ernst & Young - Chartered Accountants
201, De Saram Place, Colombo 10.
Tel: 2463500
Fax: 2697369

INTERNAL AUDITORS

BDO Burah Hathy
Chartered Accountants
65/2, Sir Chittampalam A Gardiner Mawatha, Colombo 2.
Tel: 2421878
Fax: 2336064

CONTACT

Voice: 2544347 (Hunt 5), 2544349, 2446828
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.

'CBSL' shall mean Central Bank of Sri Lanka.

'CITS Clearing' shall mean the process of receiving, bank-wise sorting and exchanging of CITS Image Items among CITS participants, balancing of the amounts expressed in Articles thus exchanged and consequently deriving the net balances.

'CITS' shall mean '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 System' shall mean systems operated and maintained by LCPL for CITS including without any limitation, receiving, processing, clearing and archival of CITS Items, and receipt, and for access by CITS participants through Regional Centres and/or through direct connectivity with CITS.

'CITS Participant' 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 CITS 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 whom is a financial institution.

'Clearing House' means a corporation, association, partnership, agency or organization 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.

'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. 17 of 1982 and its network of Regional Centres.

'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 from time to time amended by LCPL.

'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.

'Regional Service Centre' shall mean one or more Regional Centres set up and maintained by LCPL for imaging of Articles in the CITS System at identified regional locations and electronically connected to the main processing centre of LCPL.

'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.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifth Annual General Meeting of LankaClear (Pvt) Ltd. will be held on 28th November 2007 at 11.30 a.m. at Garnet Room, Continental Hotel, Janadhipathi Mawatha, Colombo 1 for the following purposes:

1. To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31st March 2007 together with the Report of the Auditors thereon.
2. To declare a payment of First & Final Dividend of Rs. 1.20 per share as recommended by the Directors.
3. To reappoint Ms. Ernst & Young, Chartered Accountants as Auditors of the Company and to authorize the Directors to determine their remuneration.

To transact any other business of which due notice has been given.

By order of the Board

LANKACLEAR (PVT) LTD.

Managers & Secretaries (Pvt) Ltd.



Secretaries

Colombo

5th September 2007

Form of Proxy

We

of

being a member of LankaClear (Pvt) Ltd., hereby appoint

.....

of as our proxy to represent us and vote for us and on our behalf at the Fifth Annual General Meeting of the Company to be held on 2007 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2007.

Signature

NOTE

To be valid the completed form of proxy should be deposited at the Registered Office of the Company at 18th Floor, Bank of Ceylon NHQ Building, Bank of Ceylon Mawatha, Colombo 1, not less than 48 hours before the appointed time for holding of the meeting.

www.lankaclear.com

