



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

MULTIDISCIPLINARY CASE STUDY EXAMINATION MARCH 2009

**Multidisciplinary Case Study Examination
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ADVANCE INFORMATION

Hedeniya prophecy: New-fangled strategies for next decade

TecMo: One to Four in three decades

The business, Techno Motors (TecMo), was set up in 1971 as a sole proprietorship. It was created as a traditional vehicle dealership, selling new and used vehicles. Consequent to the open economic policies introduced to Sri Lanka by the Government in 1978, vast changes took place in all sectors, including employment, goods and services. The transportation modes were developed rapidly, more vehicles of different uses and values were imported. The car that had become most popular at that time was the Morris Minor. Taxi services were operated by single owners and institutions owning a number of such vehicles. The Three Wheeler was introduced as a smaller vehicle that fulfilled the transport needs of the people by providing a cheaper service to them. The honour of introducing this vehicle to Sri Lanka should go to Gamini Hedeniya who was the proprietor of TecMo. Hedeniya imported Three Wheelers from an Indian company at that time and was successful in introducing the Three Wheeler as a hiring vehicle service in collaboration with Haris & Company which had earned much goodwill in Sri Lanka. This period was a growing period for TecMo and Hedeniya acquired a large property at Hyde Park, Colombo. After a number of successful years, the proprietor, Gamini Hedeniya converted the business in to a partnership in 1980, with his son Ravi Hedeniya, who shared equally thereafter. Later, they expanded the business operating a fuel station and shop. Gamini, president partner, retired in 1990 handing his share of the partnership to his daughter-in-law Gayani. In 2002 their son Piyal, to whom they gave a 25% share, joined them in partnership. Piyal Hedeniya was in charge of all aspects of marketing. He has always worked in the family business and became a partner following his graduation. In 2007 Kapila Godakanda, who was the head salesman, became a partner and the partnership profit sharing was rearranged with Ravi and Gayani having 60%, Piyal 30% and Kapila 10%.

Unlimited to limited

The business suffered from low profitability in the 1990s because of the increasing concentration, by the business, on the sales of second-hand vehicles. Sales of new vehicles were almost zero. The petrol station closed in 2006, subsequent to a new filling station opened within 100 meters by Lanka IOC who blocked the entry to TecMo fuel station. There had been some losses in the past five years as the business sought to re-focus into new areas of activity, which are now being achieved. The business currently has three main strands: Sales of used vehicles, Hire of vehicles including executive rentals and Techno Motors Vehicle Replacement Service and Repairs and servicing of vehicles. Since 2003 the vehicle sales have been under the responsibility of Kapila Godakanda. Since then there has been significant vehicle sales growth which has been achieved by relocating the vehicle showrooms to Kurunegala, by niche selling, keen pricing and good marketing. Techno Motors vehicle sales have grown six-fold in the last four years to nearly Rs.120 mn but this has created working capital issues. However, Piyal emphasized always that the entity should be careful not to over-provide working capital and cause unnecessary cost. TecMo's bank has concerned about its security in view of the substantial loan and overdraft facilities that have been extended to the business. The overdraft facility has been increased on a temporary basis. Although the bank has existing charges on some properties, no formal security is held in respect of the partners' personal assets. The bank

would be reluctant to rely upon any other fixed asset security in view of the hire purchase and other asset based financing.

Subsequent to the implementation of the Companies Act, No. 07 of 2007, Piyal wanted to grow with a limited liability. His parents were reluctant to convert, as there were enough of benefits derived by operating the business as a partnership in the past. An incorporated body is subject to too many regulatory controls, TecMo has earned goodwill as Hedeniya family. Accordingly, there is no need to be incorporated. They have also advised Piyal that TecMo should not increasingly rely on borrowings rather family properties could be employed. However, after number of discussions, TecMo made the transition from partnership to a Limited Liability Company; the articles were almost equal to the schedule one of the Companies Act, Prior to incorporation it was agreed that Kapila Godakanda would increase his ownership from a 10% to a 20% interest in return for paying a further Rs.500,000 as a goodwill payment to Ravi and Gayani which they introduced into the business.

TecMo's existing accountants have advised that the accounts of Techno Motors Private Limited be started from 01.01.2009, the partners' agreement for capital contributions were as indicated in exhibit 1. The accountants are still involved in the finalization of the partnership accounts to cessation and in respect of preparing the personal tax returns for the former partners. The policy of treating all the vehicles as trading stock, since the intention is to sell within 12 months whether or not they have been used for hire in the interim, was introduced by the accountants themselves. Recently, they have sought the partners' consent to change the policy in order to comply with regulations. Amounts due from finance companies shown under assets represents finance on vehicle sales, net of deposits. Deposits average 20% of selling price. Amounts due for vehicle hire are due from insurance companies, corporate accounts and from other vehicle hire companies. Initially the vehicle hire business developed from using vehicles in stock but the business also has access to a fleet of vehicles on contract hire arrangements with other fleet providers.

TecMoCab and TVRS

The concept behind TecMoCab is to provide hirers with a stylish mode of transport. TecMoCab is a service booked by the hour and is popular with groups of young adults attending formal celebration events and is also popular for shopping and special family occasions. One of the unique offers by TecMoCab is that the availability of air conditioned three wheeler cars at low cost than cars. The three wheeler, imported from China, is comfortable than that of Bajaj. Wildfire and Cherry, the Chinese made cars gets better than 25 km per liter. The price for a 3 wheel car starts at \$3,900 and goes up to \$9,500 fully loaded. The vehicles of TecMoCab did not display any telephone number or promotional icon. In the past six years the vehicle hire has been very much developed by Piyal and now has a turnover of over Rs.50mn. During that time vehicle hire innovations have included the creation in 2000, of the 'TecMoCab' –the chauffeured luxury cab service- and more importantly, in 2002, the TecMo Vehicle Replacement Service (TVRS) Unit. Both of these innovations have demonstrated the ability of the business to identify new streams of business and to exploit them commercially.

The TVRS is a vehicle hire business focused on offering replacement vehicles to no-fault victims of accidents who were driving their own vehicles. The business has always run a successful workshop, dealing mainly with the Techno Motors vehicles sold. Jayathilaka, a mechanic with more than thirty years of experience, who has been with the partnership business since it started, runs the workshop. The workshop, having been totally upgraded, has recently been dealing with more crash repairs, as a result of being accepted by a number of

insurance companies, including those companies who offer “Cashless” and “Full Option” policies, as a recognised bodywork repair centre. Today an accomplished and dedicated team of qualified mechanics and bodywork specialists work on all models of vehicles.

All aspects of the business (vehicle sales, vehicle hire, repairs and servicing) are interrelated. Whilst waiting to be sold, vehicles may be hired out to, rented for special occasions or used as replacements by crash victims. In other instances, vehicles initially taken on for hire may be sold to enthusiastic customers. The three wheel cars have not been attractive for buying customers, but for hirers. The workshop prepares vehicles for sale, services the hire vehicles, and provides after sales support for all vehicles sold.

TecMo vehicles are purchased from a variety of sources. The most important element in the purchasing of used vehicles is a network of personal contacts built up by the Hedeniya family over the past twenty years. These personal contacts are both trade connections and wealthy individuals, some of whom are collectors, who inform Hedeniya about availability and offer potential vehicles for sale. Vehicles may also be traded back in by customers – a significant number of these change their vehicles on an annual basis. A comprehensive database is maintained on all suppliers of vehicles, both corporate and individual. Ravi Hedeniya contacts suppliers on a regular basis for updates on potential vehicles. The number of vehicles held by the business can vary considerably over any given 12 month period. Information concerning vehicles held by the business is maintained on a detailed inventory listing. There is an overlap in the customer base between those who buy vehicles and those who hire vehicles. Overall the business customer base has grown significantly in the past four years. Both the sales and the hire business have shown strong growth during that time, particularly in the year to 2008. Information on customers is kept up to date and they are informed of new inventory by mail. Vehicle sales tend to be on a constant level throughout the year. In the past the vehicle hire business has had a seasonal impact in to it with vehicle hire being more active in the year end and also at weekends than weekdays. However this is changing with the growth in the TVRS. This insurance-based work has grown exponentially since its inception. Positive publicity from press reports, and strong word-of-mouth praise by high profile, fully satisfied customers have been important elements in this growth. The level of turnover in the workshop has also increased as a result of crash repair work generated by the vehicle replacement scheme.

Investment in good personnel and improved technical and diagnostic equipment has enabled the business to meet the terms, conditions and quality objectives expected by the insurance companies. As a result the business has been appointed to act as the repairer of choice for a number of these companies. The vehicle replacement service is aimed specifically at providing an appropriate replacement vehicle to drivers of luxury vehicles involved in no-fault accidents. Since its inception, this premier service has proved very successful and the intention is to develop the service across the country. This will enable those involved in such accidents to access information concerning replacement vehicles, and select one which will then be delivered to a location of choice, whilst subsequently allowing the collection and transportation of any damaged vehicle back to TecMo workshop. It is believed that as a result of being one of the first businesses to identify the market for this service and because of holding an extensive inventory of Techno Motors vehicles, the business has established a clear first mover advantage over all competitors. It is also a fact that the positive publicity that is received on a regular basis, as a result of the help provided to high-profile customers such as leading cricketers and artists, has made TecMo market leader in this sector. The core workshop business continues to increase steadily on the back of the increasing volumes of business in vehicle sales and vehicle hire. In addition, the upgraded facilities in the workshop, including state-of-the-art equipment, have enabled the workshop to match the standards required by insurance companies in terms of quality and turnaround time for crash repairs.

As a result, the business is now able to offer a comprehensive one-stop facility for the 'no-fault' TecMo vehicle replacement business. It is anticipated that the workshop activity will increase in the foreseeable future.

Then TecMo, today and tomorrow

Ravi (61) and Gayani (59) Hedeniya have managed the business since 1990. They are experienced in all aspects of the vehicle sales and vehicle hire business and have been responsible for growing the business to its current size. Kapila Godakanda (42), who became the most recent partner in 2007, has brought extensive up-to-date vehicle sales and general vehicle hire experience into the team. He acts as the general manager and takes much of the responsibility for the day to day running of the business. Kapila forwarded a restructuring scheme for TecMo which included a plan to modernize all the existing units and an off shoring plan in order for him to expand the business. However, a proper evaluation was not carried out on his proposal; instead Kapila was asked to think on a new business line. Piyal has suggested attracting technical experts as non executive partners or directors. He visited Chamber of Small and Medium Business Entrepreneurs recently to study on Micro and Venture finance industry in Sri Lanka. Piyal has informed his parents the need of a diversified business portfolio under TecMo name. It was Piyal who initiated the two product lines of 'TecMoCab' and TVRS, both of which have proved successful. Jayathilaka (50) is the chief mechanic and manager of the workshop. He has worked for TecMo since its inception. Jayethilaka has become a specialist; participates in an automobile advisory program broadcast by a radio channel weekly. He has been an inventor, holds eight patents four of which have been sold to a company who manufactures cars in Sri Lanka. Amitha Munasinghe (44) is in charge of accounting and finance. He has been with the organization for some twelve years. Following the incorporation, Piyal sought to appoint corporate finance advisors to undertake tax planning and reviewing the company's financial forecasts. The detailed financial forecasts for the next 9 months and summary profit and loss accounts for the five years 2009 – 2013 are given in Exhibit 2.

Details on operating costs and future investments and on the gross margins are provided for all three segments of this business in the five year summary (see Exhibits 1 & 2). All segments of the business are currently performing well. The policy of the business has been to replace and upgrade its fixed assets on an incremental basis whenever it is required. Future investment in fixed assets is proposed to be Rs.4 mn in the year to 2010 and Rs.2.5 mn in the year to 2011. The major components of this are: Rs.1.75 mn for continued workshop improvements; Rs.1.5 mn for the new depot in Ratnapura; Rs.1.25 mn for upgraded IT and interactive website and Rs.1.15 mn for additional new vehicle-transporters. Piyal has taken the responsibility for managing the information system including preparation of inventory reports on timely basis. All vehicles have been shown as inventories because the intention is to sell within 12 months. Accountants have advised the partners that the vehicles used for hire in the interim to be shown as non current. Initially the car hire business developed from using cars in stock but the business also has access to a fleet of cars on contract hire arrangements with other fleet providers.

Kapila Godakanda was asked to become a partner in 2007. He acquired a 10% share in return for injecting capital of Rs.1,000,000 by mortgaging of his property. He did not make any payment for goodwill at that stage. The other partners introduced more capital by mortgaging their properties in 2002 at the request of the bank. A bank loan was obtained in 2002 to help finance the acquisition of the New Showroom. Kapila is optimistic, analyzing the economic trends going on; he is of the opinion that 2009 would be a booming year for economy. Whatever the economist's forecasts, the industrial growth would positively impact TecMo. Given below are some highlights done by Kapila in a news paper article, titled "**Drop in sales**

hits car market” (Fernandopulle, Sunday observer 23rd November 2008) compiled at TecMo office.

The car market in Sri Lanka has been adversely affected due to the sharp drop in sales following the global economic turmoil and the increase in import levies. Surviving in the motor trade is the biggest challenge for those in the industry. car sales declined by over 50 per cent due to high interest rates, inflation and oil prices. The financial crisis in the world aggravated the situation and today the companies are facing the worst times. Motor traders are not importing vehicles due to the low demand. Ports and Airport Levy (PAL) was increased from 3 to 5 per cent, VAT to 20 per cent and the input tax reduced from 15 per cent to 10 per cent. The purpose of introducing taxes is to restrict imports and develop the domestic industries. There is no properly developed local manufacturing industry in the country. Sri Lanka is known for having the highest number of taxes. The motor trade is a highly capital intensive industry with a large workforce. Low sales will restrict recruitment and initiatives. The car industry does not benefit from the Indo-Lanka Free Trade Agreement since motor vehicles are in the negative list of the agreement. Importers of spare parts benefit since such items are not in the negative list. The Central Bank’s Annual Report 2007 states that the registration of motor vehicles from 2006 to 2007 has declined. Registration of buses declined by 21 per cent, private cars by 18 per cent, three wheelers 33 per cent and dual purpose vehicles declined by 33 per cent. Importers of vehicles said that while no one would undermine the importance of promoting local industries there should be an equal level playing field for all in the industry. An analyst and Senior Chartered Accountant said that import restrictions through taxes will help support domestic industries and help the country to save foreign exchange.

Salient features of transport sector

Item	2006	2007 (a)	Growth Rate (%)	
			2006	2007 (a)
New registration of motor vehicles (Nos.)	300,522	297,892	30.9	- 0.9
Buses	3,346	2,637	61.7	-21.2
Private cars	27,578	22,603	59.6	-18.0
Three Wheelers	64,466	43,068	56.9	-33.2
Dual purpose vehicles	7,245	5,193	5.8	-28.3
Motor cycles	156,626	182,508	19.8	16.5
Goods transport vehicles	20,436	18,408	43.3	- 9.9
Land vehicles	20,825	23,475	19.5	12.7
(a) Provisional				

Nature of the business

Many of the costs associated with owning a vehicle are fixed and unavoidable (e.g. insurance). However, the main fixed cost is depreciation, which arises in part because of wear and tear through use, but more especially because of the passage of time. These latter costs include deterioration as a vehicle gets older (e.g. rusting and obsolescence), but also the opportunity cost of the capital tied up. given the high proportion of fixed costs associated with ownership of vehicles, demand for hiring them arises because of uneven or intermittent usage by drivers and/or because there are tax and/or financing advantages. In the 1990s it also became common place for companies to source vehicles for the use of their employees using leasing or contract hiring schemes.

This can provide a degree of flexibility for the lessee company, but only if the contract terms give it the option to terminate the arrangement at fairly short notice.

The number of individuals renting vehicles is relatively small, only around 1% of the population hiring for short-term business purposes and 5% for personal use. More significantly, though, the vehicle rental market is segmented between national and regional/local operators. The former are able to negotiate substantial discounts when purchasing fleets of vehicles, and they also tend to concentrate on the needs of inbound and domestic business travelers. Short-term commercial vehicle rental, predominantly of light vans, is handled by few operators in main cities, as well as by a number of regional and local hirers. Other local operators are able to compete with their national rivals on short-term vehicle hire by establishing a good reputation and by offering cheaper tariffs, reflecting their smaller overheads, enabling them to tolerate lower usage rates. They can also benefit by servicing and repairing vehicles themselves and by selling on their hire vehicles when they are replaced. Regional businesses can also establish a competitive advantage by minimizing exposure to seasonal fluctuations in demand and by becoming niche operators. Indeed, hiring of cabs for weddings, funerals and other special occasions is very much a localized activity.

Economy today

Sri Lanka's economic growth over the past twenty five years has had much to do with its ability to tap into emerging opportunities in global markets. At the start of the 21st century, with the increasing reach of the internet and digital communication technologies, the world has witnessed a tremendous acceleration in the creation and dissemination of knowledge. Growth based on knowledge and innovation has become an important driver behind rising living standards and poverty reduction the world over. The knowledge revolution manifests itself in a variety of ways including shifting investment towards intangibles (research and development, software, and education) rather than fixed capital. One of the most important features of the twenty-first century is that the service sector has increasingly become tradable. In the past, goods and capital could be exported relatively easily while services and labour could not. However, recent technological advances including cheap mobile connectivity and high-speed internet access mean that is no longer true. These have helped to create a truly global marketplace for services; especially those that are labour intensive and can be commoditized and digitized. Such services include legal advice, accounting and management consulting services, information communication technology services, software development, IT training and call centers. Offshoring, the process whereby a company contracts out a function or series of tasks to another company abroad, now represents a US\$ 100 billion market. World trade has been expanding at a rate of 7 percent annually over the last twenty years. Initially firms moved parts of their operations to offshore locations to reduce operating costs, reduce their capital requirements and to increase productivity. Increasingly firms are also moving offshore to gain access to skills that are in short supply domestically, reducing their time to market, and deepen their local knowledge. Tax incentives in Sri Lanka have also been successful in attracting business process outsourcing (BPO) investments, particularly foreign investments. A study by the Information and Communications Technology Agency (ICTA) has found that the country's geographical situation and resulting time/distance considerations to be an advantage. The government has an attractive policy in the development of infrastructure, highway projects and flyovers are being constructed. According to Road Development Authority, the total length of roads in Sri Lanka is 91,900 km which consists 27,200 km of main roads and about 64,700 km

of classified rural roads. The second hand vehicle market was good for TecMo following the duty free vehicle permits issued to government officials.

A large number of these permit holders sold their old vehicles through TecMo. Some of the economic indicators and industry data obtained from the office of Piyal Hedeniya are given in exhibit 3.

According to an economic analyst's media statement, Provincial disparities will remain one of the most salient features of the economy, which is overwhelmingly dominated by the Western province and the adjacent provinces (see exhibit 3). He further said

“Meanwhile, we believe that the Sri Lankan rupee's de facto peg with the US dollar will ultimately prove unsustainable, given the country's rising oil import bill and widening current account deficit. Beyond 2008, we believe real GDP growth can remain within the 6.0-7.0% range, but that acceleration to the 7.0-8.0% range will be unlikely unless the civil war is brought to an end, or at least reduced to a minimal level of violence. Sri Lanka's business environment will continue to suffer from the civil war, which remained intense in 2008. More broadly, while Sri Lanka stands to benefit from a favourable geographic location and a well-educated workforce, corruption, particularly in the contract-bidding process, remains a concern. Meanwhile, the physical infrastructure is inadequate to cope with the economy's needs.”

Exhibit 1: five year summary

Profit and Loss Accounts

	31.12.08	31.12.07	31.12.06	31.12.05	31.12.04
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Revenue					
Car hire	50,340	22,570	5,840	2,900	1160
Car sales	115,960	87,640	21,910	19,820	17,810
Repairs	8,050	6,710	6,100	5,980	4,830
Petrol	-	-	-	9,650	19,310
	174,350	116,920	33,850	38,350	43,110
Cost of Sales					
Car hire	45,280	20,120	5,290	2,410	840
Car sales	111,720	85,690	21,450	19,700	17,830
Repairs	6,950	5,790	5,350	5,180	4,340
Petrol	-	-	-	10,580	18,490
	163,950	111,600	32,090	37,870	41,500
Gross Profit	10,400	5,320	1,760	480	1,610
Overheads	4,080	3,300	2,580	2,200	1,660
Net Profit Before Interest	6,320	2,020	(820)	(1,720)	(50)
Interest	(1,120)	(820)	(700)	(630)	(420)
Loss on sale of Passage Road	-	-	(40)	-	-
Closure costs on petrol station	-	-	-	(550)	-

Net Profit	5,200	1,200	(1,560)	(2,900)	(470)
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Gross Profit Analysis

	31.12.08	31.12.07	31.12.06	31.12.05	31.12.04
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Car Hire					
Sales	50,340	22,570	5,840	2,900	1,160
Wages	10,070	3,780	940	710	290
Car repairs	2,200	360	90	120	-
Vehicle insurance	1,530	570	190	170	110
Fuel	4,500	1,780	450	190	50
Sub-contract hire charges	9,060	7,170	1,890	150	-
Contract car hire charges	17,110	6,200	1,360	40	-
Other costs	810	260	370	1,030	390
Cost of sales	45,280	20,120	5,290	2,410	840
Gross Profit	5,060	2,450	550	490	320
Car Sales					
Sales	115,960	87,640	21,910	19,820	17,810
Cost of cars sold	107,950	82,240	20,390	18,740	16,890
salaries and bonus	1,960	1,700	460	380	370
Preparation costs	1,810	1,750	600	580	570
Cost of sales	111,720	85,690	21,450	19,700	17,830
Gross Profit	4,240	1,950	460	120	(20)
Repairs and Servicing					
Sales	8,050	6,710	6,100	5,980	4,830
Parts etc	4,610	3,840	3,500	3,400	2,720
Wages	2,340	1,950	1,850	1,780	1,620
Cost of sales	6,950	5,790	5,350	5,180	4,340
Gross Profit	1,100	920	750	800	490

Five Year Summary – Balance Sheets

	31.12.08	31.12.07	31.12.06	31.12.05	31.12.04
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Non Current					
Plant & equipment	4,000	4,000	4,000	4,000	2,580
Rattwatte Road freehold property	-	-	-	8,000	5,010
Vimukti Place freehold property	10,000	8,020	7,530	-	0-
New Showroom	2,500	2,020	980	680	1,050
	<u>16,500</u>	<u>14,040</u>	<u>12,510</u>	<u>12,680</u>	<u>8,640</u>
Stock and work in progress	15,280	11,810	3,640	4,330	4,300
Debtors					
Finance companies	3,530	2,460	870	330	300
Car hire	4,390	2,750	1,340	990	20
Other debtors and prepayments	530	320	190	180	230
	<u>8,450</u>	<u>5,530</u>	<u>2,400</u>	<u>1,500</u>	<u>550</u>
Creditors					
Trade creditors	12,310	9,540	3,690	2,720	2,210
Hire purchase	1,310	930	30	340	670
	<u>13,620</u>	<u>10,470</u>	<u>3,720</u>	<u>3,060</u>	<u>2,880</u>
Net Current Assets	<u>10,110</u>	<u>6,870</u>	<u>2,320</u>	<u>2,770</u>	<u>1,970</u>
	<u>26,610</u>	<u>20,910</u>	<u>14,830</u>	<u>15,450</u>	<u>10,610</u>
Represented by:					
Bank loan	4,080	4,490	4,860	-	-
Bank overdraft	8,590	7,650	1,470	6,070	1,210
Partnership accounts	10,540	7,350	7,080	4,970	9,400
Revaluation reserve	3,400	1,420	1,420	4,410	-
	<u>26,610</u>	<u>20,910</u>	<u>14,830</u>	<u>15,450</u>	<u>10,610</u>

Five Year Summary – Partnership Accounts

	Total	Ravi & Gayani	Piyal	Kapila
	Rs.00	Rs.000	Rs.000	Rs.000
	0			
B/fwd @ 31.12.04	9,400	8,160	1,240	-
Loss for the year	(2,900	(2,170)	(730)	-
)			
Drawings	(1,530	(850)	(680)	
)			
At 31.12.05	<u>4,970</u>	<u>5,140</u>	<u>(170)</u>	
Loss for the year	(1,560	(1,170)	(390)	-
)			
Drawings	(1,320	(770)	(550)	
)			
Revaluation	2,990	2,240	750	
Capital introduced	2,000	1,000	1,000	-
At 31.12.06	<u>7,080</u>	<u>6,440</u>	<u>640</u>	
Profit for the year	1,200	720	360	120
Drawings	(1,930	(1,040)	(650)	(240)
)			
Capital introduced	1,000	-	-	1,000
At 31.12.07	<u>7,350</u>	<u>6,120</u>	<u>350</u>	<u>880</u>
Profit for the year	5,200	3,120	1,560	520
Drawings	(2,510	(1,440)	(710)	(360)
)			
Capital introduced	500	500	-	-
At 31.12.08	<u>10,540</u>	<u>8,300</u>	<u>1,200</u>	<u>1,040</u>
Ownership at the date of incorporation, 03.07.2008	100%	50%	30%	20%

Partners' agreement on Opening Directors' Loan Accounts

Total	Ravi & Gayani	Piyal	Kapila
Rs.000	Rs.000	Rs.00	Rs.000
		0	

Balance on Current Accounts	10,540	8,300	1,200	1,040
Revaluation of properties	3,400	2,040	1,020	340
	13,940	10,340	2,220	1,380
To be capitalised as share capital	5,000	2,500	1,500	1,000
Balance on directors' loan accounts	8,940	7,840	720	380

Exhibit 2

SUMMARY FINANCIAL FORECASTS Forecast Profit & Loss Account Summaries

	2009	2010	2011	2012	2013
Sales	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Car hire	60,250	69,500	75,000	80,000	85,000
Car sales	127,000	137,500	145,000	152,500	160,000
Repairs	8,440	10,650	12,500	14,000	15,000
	195,690	217,650	232,500	246,500	260,000
Gross profit					
Car hire	6,330	7,990	9,000	10,400	11,900
Car sales	4,720	5,100	5,800	6,100	6,400
Repairs	1,160	1,590	1,880	2,100	2,250
	12,210	14,680	16,680	18,600	20,550
Overheads					
Employment costs	3,180	3,600	3,900	4,100	4,250
	1,290	2,040	2,360	2,520	2,640
	600	720	800	850	960
Legal	870	720	600	600	600
Other	480	720	960	1,080	1,080
PBIT	5,790	6,880	8,060	9,450	11,020
Interest	1,130	1,000	1,000	900	850
tax	(1,400)	(1,770)	(2,120)	(2,570)	(3,050)

Net profit	3,260	4,110	4,940	5,980	7,120
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Exhibit 2: Financial forecasts

Cash flow Forecast up to 31 .12. 2009
Rs. '000'

	April 09	May 09	June 09	July 09	Aug 09	Sept 09	Oct 09	Nov 09	Dec 09	Total
Receipts										
Sales receipts	16,050	16,530	15,900	15,250	17,780	18,190	18,440	17,860	18,870	203,640
Share issues	-	5,000	-	-	-	-	-	-	-	5,000
Bank loan finance	-	9,900	-	-	-	-	-	-	-	9,900
	16,050	31,430	15,900	15,250	17,780	18,190	18,440	17,860	18,870	218,540
Payments										
Purchases & wages	15,270	16,020	15,190	14,370	16,360	16,790	16,860	17,380	17,480	190,550
Overheads	460	610	460	490	490	490	490	490	490	5,820
Capital expenditure	-	700	500	500	500	250	250	500	800	4,000
Bank loan payments	-	220	120	120	120	120	120	120	120	1,060
Taxes on revenue	1,410	-	-	1,360	-	-	1,550	-	-	5,310
Bank overdraft interest	70	80	50	-	10	-	-	10	20	470
	17,210	17,630	16,320	16,830	17,480	17,650	19,270	18,500	18,910	207,210
Net Inflow/(Outflow)	(1,160)	13,800	(420)	(1,580)	300	540	(830)	(640)	(40)	11,330
Balance b/fwd	(11,310)	(12,470)	1330	910	(670)	(370)	170	(660)	(1,300)	12,670)
Balance c/fwd	(12,470)	1,330	910	(670)	(370)	170	(660)	(1,300)	(1,340)	(1340)
Max Facility	13,000	13,000	13,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000

Balance Sheets up to 31 .12. 2009
Rs. '000'

	April 09	May 09	June 09	July 09	Aug 09	Sept 09	Oct 09	Nov 09	Dec 09
Fixed Assets	16,300	16,950	17,400	17,850	18,300	18,500	18,700	19,150	19,900
Stock & WIP	16,070	16,280	16,470	16,670	16,860	17,050	17,280	17,480	17,680
Debtors	10,040	10,150	9,250	11,500	11,920	11,920	12,280	13,220	13,340
Creditors	(14,950)	(14,790)	(13,970)	(15,050)	(16,150)	(16,810)	(16,470)	(17,140)	(17,880)
Net Assets	27,460	28,590	29,150	30,970	30,930	30,660	31,790	32,710	33,040
Retained profits	1,050	1,080	1,280	1,570	1,890	2,210	2,570	2,910	3,260
Bank loan	-	9,900	9,840	9,790	9,730	9,680	9,620	9,560	9,500
Directors' loan accounts	13,940	8,940	8,940	8,940	8,940	8,940	8,940	8,940	8,940
Share capital	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Bank overdraft	12,470	(1,330)	(910)	670	370	(170)	660	1,300	1,340
	27,460	28,590	29,150	30,970	30,930	30,660	31,790	32,710	33,040

Profit and Loss Account up to 31. 12. 2009
Rs. '000'

	April 09	May 09	June 09	July 09	Aug 09	Sept 09	Oct 09	Nov 09	Dec 09	Total
Sales										
Car hire	4,500	5,000	5,000	5,250	5,250	5,250	5,500	5,500	5,500	60,250
Car sales	10,500	9,750	8,500	10,500	11,000	11,000	11,500	11,500	11,500	127,000
	490	810	650	490	650	810	810	650	650	8,440
	15,490	15,560	13,990	16,400	17,060	17,060	17,060	17,650	17,810	195,690
Gross Profit	0				0					
Car hire	470	530	530	550	550	550	580	580	580	6330
Car sales	390	360	310	390	410	410	430	430	430	4720
Repairs	70	110	70	90	110	110	90	90	110	1160
	930	1,000	910	1,030	1,070	1,070	1,100	1,100	1,120	12,210
Overheads										
Employment costs	250	250	250	280	280	280	280	280	280	3,180
Establishment	110	110	110	110	110	110	110	110	110	1,290
Promotional	50	50	50	50	50	50	50	50	50	600
Legal	60	210	60	60	60	60	60	60	60	870
Other	40	40	40	40	40	40	40	40	40	480
PBIT	420	340	400	490	530	530	560	560	580	5,790
Interest	70	300	110	70	70	70	60	70	80	1,130
Tax	100	10	90	130	140	140	140	150	150	1,400
Net profit	250	30	200	290	320	320	360	340	350	3,260

Exhibit 3

3.1 Provincial GDP (at Current Factor Cost Prices) Shares High contributors (H) and Medium contributors (M)

Province/year	2004 %	2005 %	2006 %	2007 %	Per Capita GDP 2007 Rs.
Western (H)	51.4	50.8	50.1	48.4	303,536
Central (M)	9.2	8.5	8.8	8.9	122,776
Southern (M)	8.9	8.9	9.3	10.5	154,781
North Western (M)	8.5	8.9	9.3	9.6	150,551
Sabaragamuwa (M)	6.4	6.4	6.2	6.3	119,950

Source: Central Bank of Sri Lanka

3.2. Socio Economic Indicators

	2004	2005	2006	2007
Market Price Earnings Ratio	10.8	12.4	13.9	11.6
SLIBOR	9.66	10.93	14.73	21.75
Treasury Bill Yield 12 months	7.65	10.37	12.96	19.96
Commercial banks deposit rates AWDR	5.31	6.25	7.6	10.31
LIBOR on US Dollar Deposits 12 months	2.12	4.84	5.37	5.12
Private Sector Industry Output Index (1997=100)	134.2	142.3	150.4	160.3

Source: Central Bank of Sri Lanka

Exhibit 3.3: Vehicle Population of Sri Lanka (Number of vehicles)

Vehicle Class	2001	2002	2003	2004	2005	2006	2007
Motor cars	241,444	253,447	274,631	293,747	311,030	338,608	361,211
Buses	66,273	67,702	69,651	71,818	73,887	77,233	79,870
Dual purpose vehicles	141,496	150,087	163,355	174,091	180,942	188,187	193,380
Lorries	179,451	187,617	198,775	209,478	223,740	244,176	262,584

Source: Department of Registrar of Motor Vehicles

3.4 Motor vehicles by provinces 2007

Vehicle \ Province	Western	Central	Southern	NorthWest	Sabara	Eastern	Uva
Omnibuses	7,124	1,953	2,864	611	1,134	619	553
Private Coaches	12,096	2,557	2,631	3,447	1,776	334	553
Private Cars	182,421	18,597	18,567	14,779	7,888	1,286	3,830
Dual Purpose Vehicles	106,571	17,744	19,091	15,971	8,343	2,216	4,952

Lorries 83,891 19,244 23,619 22,965 11,972 3,867 7,873

Source: Central Bank of Sri Lanka

3.5 Road Access Data

Total number of vehicles	3 mn
Road density in terms of	
Population (road km/ 1,000 people)	4.7
Land (road km/1,000 sq km total land)	1,422
Goods transported annually by road (million tons/km-year)	5.3 billion
Private (passenger/ km – year)	17.8 billion
Public (passenger/ km- year)	49.1 billion

3.6 Imports

	2002	2003	2004	2005	2006	2007
Motor Vehicles, No.	16,949	19,229	19,166	75,450	111,272	104,938
Motor Cycles, No.	29,605	24,368	30,032	193,411	209,635	177,193
Tractors, No.	12,471	18,578	15,437	26,106	23,120	23,629

Source: Sri Lanka Customs