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**TOP CA CASE STUDY EXAMINATION
DECEMBER 2011**

ADVANCE INFORMATION

You work for SMS Associate /SMS Transaction Advisory Services (Pvt.) Ltd

SMS Associate was established in 1955 as a three partner firm and over the years has grown into one of the medium scale firms of Chartered Accountants in Sri Lanka. In the year 2004, the firm became an affiliated firm of Kevilton SMS International. At present, the firm has 5 partners and over 150 staff providing professional services to over 500 clients, both local and international, in industries, trade, plantations, banking, finance and services sectors. SMS Transaction Advisory Services (Pvt.) Ltd is an associate company of SMS Associate, headed by Mr.Vijaya Bandara -the partner in charge of the Corporate Finance & Advisory Services section of the firm. The company's consultancy services to its clients include advice on Investments, Business Restructuring, Financial Due Diligences, Business Valuations, Financial Modelling, and many other advisory assignments.

You are Vinod Jeynadhan, a supervisor of SMS Associate. Your work has been across the whole spectrum of audits and investigations, interspersed with time spent in different business units of the firm such as Corporate Finance & Advisory. Your recent services included assisting in Corporate Finance & Advisory assignment handled by Mr.Bandara under SMS Transaction Advisory Services (Pvt.) Ltd. Mr.Bandara highly appreciated your performance in a business valuation assignment conducted recently. Also he is very confident of your competencies and analytical skills especially in respect of Pricing Analysis/Business Valuation. He is planning to get your involvement as a key member of the team in performing similar assignments in future.

Arangala Leasing Company PLC

Arangala Leasing Company PLC (ALC) was incorporated in 1988, under the Companies Act No.17 of 1982 and licensed by the Monetary Board of the Central Bank of Sri Lanka as a non bank financial institution. The Company was initially incorporated as a Private Limited Company within the group of Barsons. Thereafter, it was converted to an unquoted Public Company on 10th February 1991. Mr. K. J.N. Silva, the former Chairman of Netwing Group of Companies, took control of Arangala Leasing Company PLC in 1990 when Netwing acquired a 67% stake in the Company following a sell-down by the shareholders of the Company at that time. Subsequently, in 1995, the Silva family of the Netwing Group undertook the management of the Company and expanded the operations of the business. The Company then was listed on the Colombo Stock Exchange in June 1995. It owns 40% stake in Starnet Insurance Brokers (Private) Ltd. The ALC brand not only strengthened the company's position in the industry but also revolutionized its capability to meet new sets of challenges

The Company's core business is vehicle/equipment leasing & hire purchasing, which is today one of the fastest growing forms of medium term financing in the world's capital market and accounts for approximately 85% percent of its receivables as at the financial year ended 31st December 2010. The Company is also engaged in hiring, factoring and providing loans facilities to individual and corporate customers. In addition the Company accepts fixed deposits from the public. ALC's business model, growth comes from three main areas; I. Spread between the interest earned and the borrowing cost, II. Growth in hire purchase assets, lease assets, loans and factoring income, and III. Cost effectiveness. As with any company involved in the interest spread business, ALC's biggest cost is its financing expenses. Furthermore, due to the Value Added Tax imposed on companies providing financial services, the Company has had to spend nearly to 5% of its overall expenses on this tax over the past few years.

At present, the Company enjoys a market share of around 6% of Sri Lanka's leasing industry. Arangala Factors with the theme of "future cash today" is very popular as a factoring service in the country.

Arangala Leasing Company PLC has dedicated itself to being the most versatile and dependable financial services provider in the country. 2011 - Fitch Ratings Lanka has affirmed Arangala Leasing Company PLC (ALC) National Long-Term rating at 'A-(Ika)' with Stable Outlook. The Company has earned a reputation for their competitive rates, flexibility and superior customer service. The Company operates 40 branches around the Island, namely Ambalangoda, Ampara, Anuradhapura, Avissawella, Badulla, Baduraliya, Bakamoona, Batticaloa, Dambulla, Galle, Gampaha, Gampola, Jaffna, Kaduwela, Kalutara, Kandy, Kalmunai, Kebithigollewa, Kelaniya, Kuliyaipitiya, Kurunegala, Maharagama, Malabe, Matara, Mathale, Medawachchiya, Negombo, Nugegoda, Nuwara Eliya, Pettah, Parakramapura, Pitigala, Polonnarura, Puttalam, Ratnapura, Tissamaharama, Trincomalee, Udugama, Wennappuwa and Vavuniya.

According to the annual report, the vision of the Company is;

- ✓ To soar into the future, giving wings to the dreams, hopes and aspirations of our people and everyone who has a stake in the success of our enterprise.
- ✓ To forge ahead to reach new frontiers, to touch new horizons, seeking new challenges and exploring new opportunities.
- ✓ Together with our people with diverse strengths, committed to achieving personnel excellence and the continuous growth of our enterprise.

The top seven shareholders of Arangala Leasing Company PLC as at 30th October 2011 were as follows;

Share Holder	% of Holdings
Netwing Holdings PLC	47.15%
Winter Sri Lanka PLC	28%
Hitech Industries Pvt. Ltd	7%
Rashmika Gunawardhana	9%
Vayrees Holdings PLC	4.85%
Bimal Perera	1.93%
Dr.J.Jayakhan	.87%
Others	1.2%
Total	100%

Summarized financial data (Actual & Forecast) and other information relating to ALC is given below in Tables 1-6

Arangala Leasing Company PLC				
Financial Data				
(Rs. Millions)				
Income Statement for the Year Ended	FY2007 A	FY2008 A	FY2009 A	FY2010 A
Revenue	655	941	1,348	1,721
Other Operating Income	71	62	81	84
Total Income	726	1,003	1,429	1,805
Personnel Costs	65	88	106	134
Premises Equipment & Est. Exp.	19	28	41	47
Depreciation on PP&E	25	33	44	51
Provision for Bad & Doubtful Debts	45	36	94	54
Other Operating Expenses	14	35	49	66
VAT on Financial Services	20	25	48	58
Finance Costs	309	452	685	993
Operating Profit Before Associate Income & Tax	229	306	362	402
Share of Profit of Equity Accounted Investee	9	8	7	4
Profit Before Tax	238	314	369	406
Income Tax Expenses	71	105	100	78
Profit Attributable to shareholders	167	209	269	328
EPS (Rs.)	9	12	15	19
DPS (Rs.)	3	3	4	4

Table; 1

Arangala Leasing Company PLC					
Financial Data					
(Rs. Millions)					
Income Statement for the Year Ended	FY2011 F	FY2012 F	FY2013 F	FY2014 F	FY2015 F
Revenue	1,933	2,137	2,360	2,559	2,788
Other Operating Income	92	106	122	138	154
Total Income	2,025	2,243	2,482	2,697	2,942
Personnel Costs	161	193	232	267	307
Premises Equipment & Est. Exp.	51	57	62	68	75
Depreciation on PP&E	51	59	66	75	86
Provision for Bad & Doubtful Debts	58	68	80	93	104
Other Operating Expenses	75	87	100	115	132
VAT on Financial Services	80	99	107	117	127
Finance Costs	1,093	1,120	1,229	1,296	1,394
Operating Profit Before Associate Income & Tax	456	560	606	666	717
Share of Profit of Equity Accounted Investee	5	5	5	5	5
Profit Before Tax	461	565	611	671	722
Income Tax Expenses	92	113	122	134	144
Profit Attributable to shareholders	369	452	489	537	578
EPS (Rs.)	21	26	28	30	33
DPS (Rs.)	5	6	7	8	8

Table; 2

Arangala Leasing Company PLC				
Financial Data				
(Rs. Millions)				
Balance Sheet as at 31 Dec	FY2007 A	FY2008 A	FY2009 A	FY2010 A
Assets				
PP&E	157	154	281	315
Capital Work in Progress	-	4	4	-
Investment in Equity Accounted investee	30	34	40	42
Investment Securities	-	-	-	-
Receivable (Non Current)	2,222	2,993	4,436	4,462
ACT Recoverable	75	59	42	-
Total Non Current Assets	2,484	3,244	4,803	4,819
Marketable Securities	2	2	4	4
Receivables (Current)	1,648	2,584	2,847	3,032
Investment in T-Bills	37	22	20	22
Cash & Cash Equivalents	45	75	71	100
Total Current Assets	1,732	2,683	2,942	3,158
Total Assets	4,216	5,927	7,745	7,977
Liabilities & Shareholders' funds				
Stated Capital	261	261	418	418
Revaluation Reserve	-	-	78	78
Statutory Reserve	-	-	88	95
General Reserve	223	324	288	288
Retained Earnings	130	160	165	417
Total Equity	614	745	1,037	1,296
Non Current Liabilities				
Interest bearing Loans & Borrowings	875	1,674	2,307	2,619
Retirement Benefit Obligations	9	9	12	18
Deferred Tax Liability	48	118	320	277
Total Non Current Liabilities	932	1,801	2,639	2,914
Current Liabilities				
Interest Bearing Loans & Borrowings	2,434	3,011	3,537	3,091
Other Payables	236	370	532	628
Income Tax Payables	-	-	-	48
Total Current Liabilities	2,670	3,381	4,069	3,767
Total Equity & Liabilities	4,216	5,927	7,745	7,977

Table: 3

Arangala Leasing Company PLC					
Financial Data					
(Rs. Millions)					
Balance Sheet as at 31 Dec	FY2011 F	FY2012 F	FY2013 F	FY2014 F	FY2015 F
Assets					
PP&E	343	353	370	392	417
Capital Work in Progress	-	-	-	-	-
Investment in Equity Accounted investee	45	48	52	55	58
Investment Securities	-	-	-	-	-
Receivable (Non Current)	4,639	5,595	6,574	7,516	8,401
ACT Recoverable	-	-	-	-	-
Total Non Current Assets	5,027	5,996	6,996	7,963	8,876
Marketable Securities	4	4	4	4	4
Receivables (Current)	3,776	4,542	5,416	6,361	7,366
Investment in T-Bills	16	24	26	30	35
Cash & Cash Equivalents	57	66	58	232	302
Total Current Assets	3,853	4,636	5,504	6,627	7,707
Total Assets	8,880	10,632	12,500	14,590	16,583
Liabilities & Shareholders' funds					
Stated Capital	418	418	418	418	418
Revaluation Reserve	78	78	78	78	78
Statutory Reserve	102	111	121	132	143
General Reserve	288	288	288	288	288
Retained Earnings	685	1,015	1,371	1,763	2,185
Total Equity	1,571	1,910	2,276	2,679	3,112
Non Current Liabilities					
Interest bearing Loans & Borrowings	2,867	3,825	4,507	5,314	6,045
Retirement Benefit Obligations	24	30	39	49	60
Deferred Tax Liability	292	336	396	461	525
Total Non Current Liabilities	3,183	4,191	4,942	5,824	6,630
Current Liabilities					
Interest Bearing Loans & Borrowings	3,453	3,816	4,435	5,103	5,716
Other Payables	673	715	847	984	1,125
Income Tax Payables	-	-	-	-	-
Total Current Liabilities	4,126	4,531	5,282	6,087	6,841
Total Equity & Liabilities	8,880	10,632	12,500	14,590	16,583

Table; 4

Arangala Leasing Company PLC			
Average Interest rate earned on interest Earning Assets			
For the year ended 31st December	2008	2009	2010
Lease/Hire Purchase Receivables	22.35%	17.12%	16.43%
Factoring Receivables	25.68%	21.25%	20.14%
Table 5			

Arangala Leasing Company PLC			
Average Interest rate paid on interest Earning Liabilities			
For the year ended 31st December	2008	2009	2010
Short Term Borrowings, Commercial Paper & OD	18.17%	12.12%	7.30%
Long Term Borrowings	16.44%	11.03%	8.10%
Securitizations	16.77%	9.12%	7.36%
Debentures	14.74%	13.13%	13.13%
Table 6			

Corporate Governance Practice of Arangala Leasing Company PLC

The information related to the corporate governance practices of ALC has been given in Appendix 1

Industry Outlook -Non Bank Financial Institutions -(Source: Central Bank of Sri Lanka)

The financial sector of Sri Lanka comprises of the major financial institutions; Licensed Commercial Banks, Licensed Specialized Banks, Specialized Leasing Companies, Registered Finance Companies, Insurance Companies and Pension and Provident Funds. The total asset base of the country's major financial institutions amounted to Rs. 6,690.4 billion for the year 2010. The core activities of Registered Finance Companies (RFCs) revolve around providing financing to customers that do not have easy access to bank finance, through leasing and hire purchase facilities. RFCs are regulated under the Finance Companies Act No.78 of 1988. The total number of RFCs in operation as at end December 2010 was recorded at 37, carrying out operations through a network of 376 branches spread island wide. Out of the total asset base of Rs.6,690.4 billion, the total asset base of RFCs for the year 2010 was recorded at Rs. 233.6 billion, accounting for 3.5% of the total assets of the country's major financial institutions. The sector gradually recovered in 2010, after being adversely affected by liquidity problems since 2009. Despite deterioration of capital and a shortage of liquidity which was evident in a few RFCs, the sector indicated a growth of accommodations and deposits, improved credit quality and increased profits. The key contributory factor to the increase in asset base, which recorded a growth of 26% from Rs. 185.4 bn in 2009 to Rs. 233.6 bn in 2010, was the increase in accommodations. Hire purchase, finance lease and pawning were the major sources of accommodations accounting for 35%, 30% and 10% respectively. However, there was a 15% decline in loans against real estate. Deposits also recorded a growth of 22% in 2010, compared to a 15.8% growth in 2009, reflecting the improved depositor trust in the RFC sector. Deposits were the major source of funding representing 72% of the fund base and 62.6% of the total liabilities. Borrowings also increased significantly by 78.2% in 2010, in comparison to a 26.8% decline in 2009. Capital funds reflected a marginal increase of 4.8% reversing the negative growth in 2009. Further, CBSL issued new regulations by setting maximum rates of interest to be offered by RFCs in order to prevent unhealthy competition for deposit-taking business and to ensure public confidence and sustainability.

In addition, efforts were made to rehabilitate six RFCs affected by the liquidity crisis, of which three were able to restore normal business operations. All distressed RFCs are expected to revive their businesses fully during 2011.

Specialised Leasing Companies (SLCs) continued to grow in terms of business in 2010 with improvements in credit quality and favourable provisioning for bad and doubtful accommodations. As at the end of 2010, the number of institutions registered under the Finance Leasing Act was 70 of which 15 were licensed banks, 34 were RFCs and 21 were SLCs. The SLC sector's branch network further expanded to 224 with the opening of 44 branches, compared to 180 in 2009. Of the new branches, 15 were opened in the Northern and Eastern provinces. The profit after tax increased to Rs. 4 billion during the nine-month period ending December 2010, recording a 167 per cent growth compared to a negative growth in the previous year. The significant growth of profitability was reflected in the ROA (pre-tax) and ROE of 5 per cent and 20 per cent, respectively, in 2010. The ROA and ROE were 3 per cent and 10 per cent, respectively, in 2009

Table 7

Key Financial Soundness Indicators of Specialised Leasing Companies

	(Per cent)			
Ratio	2007	2008	2009	2010 Sep.
Capital Funds to Total Assets	16.7	16.9	18.4	17.0
Gearing Ratio	4.2	4.2	3.6	4.0
Non-Performing Accommodation to Total Accommodation	4.3	4.8	7.6	5.3
Return on Assets (Before Tax)	3.5	2.7	3.1	2.8
Return on Equity (After Tax)	15.2	10.5	9.3	11.6
Liquid Assets to Total Short-Term Liabilities	8.6	10.6	17.4	14.4
Liquid Assets to Total Assets	6.0	7.5	11.5	9.7

Source : Central Bank of Sri Lanka

Table 8

Profit of RFCs

Item	Amount (Rs.bn)		Growth			
	2009	2010 (a)	2009		2010	
			Amount (Rs.bn)	% Change	Amount (Rs.bn)	% Change
Interest Income	22.4	26.0	0.5	2.3	3.6	16.0
Interest Expenses	17.8	15.4	1.5	9.3	(2.5)	(13.8)
Net Interest Income	4.6	10.6	(1.0)	(18.0)	6.1	132.4
Non-Interest Income	3.8	5.1	(1.3)	(25.4)	1.2	32.3
Non-Interest Expenses	7.8	10.4	0.3	3.5	2.6	33.2
Loan Loss Provisions (net)	1.7	3.0	0.9	110.4	1.3	75.2
Profit before Tax	(1.2)	2.2	(3.5)	(150.2)	3.4	291.5
Tax	0.8	2.6	0.1	10.1	1.8	228.2
Profit after Tax	(2.0)	(0.4)	(3.6)	(223.5)	1.6	79.8

(a) Provisional

Source: Central Bank of Sri Lanka

Table 9

Profit of SLCs

Item	Amount (Rs.bn)		Growth			
	2009	2010 (a)	2009		2010	
			Amount (Rs.bn)	%	Amount (Rs.bn)	%
Interest Income	13.4	15.3	(1.5)	(9.8)	1.9	14.4
Interest Expenses	8.8	7.4	(1.8)	(17.0)	(1.4)	(16.2)
Net interest Income	4.6	7.9	0.3	8.0	3.3	72.6
Non-Interest Income	3.2	4.0	0.6	21.8	0.8	26.0
Profit before Tax	2.6	5.8	0.3	12.6	3.2	123.1
Profit after Tax	1.5	4.0	0.0	(2.5)	2.5	158.1

(a) Provisional

Source: Central Bank of Sri Lanka

Economic Outlook Sri Lanka (Source -Central Bank Annual Report)

- The Sri Lankan economy has pulled out of the slowdown on the back of the improving global economic environment, exhibiting continuous robust expansion in the first 2 quarters of 2010. Overall GDP growth for 2010 is 8%. Further, Per Capita GDP has increased by 15% despite the inflation rate of 7%.
- The economy is projected to expand at 6.5% in 2011, followed by 6.3% in 2012.
- The official price index of the country, CCPI, recorded an increase of 7% on a year on year basis. Price increase in domestically produced goods is the main contributory factor for this.
- The services sector will benefit from the healthy domestic demand; it is expected to be able to sustain a growth of 7% in 2011 and 2012. Tourism sector is expected to play a key role in future.
- Average annual GDP growth forecast for the 2011-2015 period has been revised upwards from 5.5% to 6.2%; the projection for 2016-2020 has been raised a notch, from 6.0% to 6.1%.
- On the demand side, the surge in both public and private investment activities has been witnessed and it has grown by 32% compared to previous year.
- Interest rates have remained accommodative for economic growth in 2010, as inflationary pressures have been minimized and downside risks to growth have become more prevalent. This has led to a cut in repo rates in the second half of 2010.

Vayrees Group

Vayrees is a group of companies established in 1940. It started as a general trading company and major focus was on importation of commodities such as onions, sugar, wheat flour, naturally flavored fruit juices, tea, and cooking oils. The Group is also engaged in importation of all kinds building materials. Vayrees is now a diversified conglomerate that has provided effective and eco-efficient solutions to the world over the years. Its business portfolio ranges to various sectors such as, Construction Materials, Education, Textiles, Agriculture, Plantation & Tea Exports, Transportation & Logistic, Leisure & Aviation, Power & Energy, Consumer Products, BPO & Shared Services, Pharmaceuticals etc. This wide spread business portfolio is born out of innovation and with a vision to provide sustainable products and services. Vayrees is widely spread in strategic global expansion with partnerships in nine countries such as UK, USA, the Netherlands, Australia, Japan, Bangladesh, etc.

The group is led by three levels of management; by CEO/Chairman, Board of Directors and Group Management Committee called Vayrees Group Management Committee (VGMC). A brief profile of each key member of the management team is outlined in Appendix 2

Group's strategic investment arm invests in high growth business areas, and currently holds investments in tertiary education via 43.80% stake in CIPiIT Lanka (Pvt) Ltd together with the 51% stake in Dello Porp (Pvt) Ltd, first ever BOI approved Business Process Outsourcing (BPO) company, specializes in outsourcing services such as finance & accounting, data processing, IT technical support, back office processing etc. This sector records as the highest profitable sector registering a net profit margin of 20% while contributing 3% to the overall group profit.

At a recent Board Meeting, the Board discussed about prevailing growth opportunities in certain industries. Further they discussed whether to continue operations in certain loss making entities within the group or to invest in companies which have potential to grow in the future adding value to the Group.

One director who is also an independent member of the Group Audit Committee, stressed upon the internal control issues relevant to a particular company of the group, reported by outsourced internal auditor H.N.Hettiarachchi & Company. The board decided to have a separate meeting to address this matter for the purpose of appointing an independent consultant to review the existing internal control structure of the relevant company.

CORPORATE GOVERNANCE

Our Philosophy

“As a publicly listed company and as a member of the Netwing group, Arangala Leasing Company PLC (ALC) believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the market place. To achieve that, it is necessary that we set high standards of ethical values, transparency, accountability and fairness in all our business transactions. We adhere to corporate governance because the interests of our shareholders, customers, employees, government and the public at large are on top of our priorities.”

BOARD OF DIRECTORS

The Board of Directors and its advisers are professionals from various fields of expertise, such as banking, financial leasing, legal, accounting, merchandise marketing and regulatory agencies. ALC has two directors who are independent of management and free from any business or other relationship which could reasonably be perceived to materially interfere with their exercise of independent judgment in carrying out their responsibilities as directors in the company.

BOARD COMMITTEES

The Board has established four committees to assist it in shaping the Company's corporate policies and practices, and help ensure adherence to corporate governance principles.

1. Executive Committee

Chairman: Silva K.J.N

Members: Silvar K.J.R., Rodrig E., Antonio N., Cooray L., Villanuwa ., Walter C., Wakista L., and George A.

The Executive Committee acts on behalf of the Board of Directors on matters affecting the operations of the Company subject to such authorities that may be imposed by the Board of Directors. The committee, which meets at least once a week, also assesses the viability of credit and investment proposals giving due consideration to the credit risk involved and impact on the Company's financials. Likewise, it has the authority to approve within set limits projects or such other initiatives for enhancing the Company's operating and service delivery capabilities.

2. Board Audit Committee

Chairman: Cooray L

Members: Wakista L, George A, and Adikaram D

Adviser: Shirley, K

The Board Audit Committee provides oversight of the Company's financial reporting and control as well as its internal and external audit and compliance functions. It reviews and assesses the Company's annual audit plan, its system of internal controls and regular financial and audit reports. It evaluates strategic issues relating to plans and policies, financial and system controls, and methods of operation, seeing to their adequacy and pinpointing possible improvements. As a continuing practice, the following were extensively discussed and consistently reviewed:

- ✓ the scope and plan of internal and external audit;
- ✓ significant audit findings including risk assessment and evaluation of internal controls;
- ✓ internal audit progress report and monitoring of resolution findings;
- ✓ report on compliance with regulatory bodies and management's corresponding action;
- ✓ internal audit's manpower resources as well as its staff proficiency improvement programs;
- ✓ annual audited financial statements and the analysis of quarterly results of operations;
- ✓ new legal and regulatory initiatives affecting the financial service industry and its impact on the Company's operations

3. Corporate Governance, Nomination and Compensation and Remuneration Committee

The committee, which meets at least once a month, held 12 meetings in 2010. The Committee reviews and assesses the Company's corporate governance practices, and recommends the applicable guidelines, monitors compliance, and suggests improvements to ensure effectiveness. It provides oversight on the annual performance self-evaluation of the Board, its committees, and executive management.

In 2010, the Committee accomplished the following:

- ✓ updated and enhanced ALC's Corporate Governance Manual, a guide for the Company's business and operations to be conducted in accordance with the principles and best practices of good corporate governance.
- ✓ improved the disclosures of the Company's Corporate Governance policies and practices using the best practices of corporate governance issued by the Securities and Exchange Commission (SEC) and Institute of Institute of Chartered Accountants of Sri Lanka.

The Committee provides oversight on directors' compensation and remuneration of senior management and other key personnel, ensuring consistency of the compensation policies and practices with the corporate culture and strategy of the Company as well as industry practices.

The Committee also provides oversight on the qualifications of all nominees to the Board of Directors as well as appointments to other Company positions requiring Board approval. It recommends the nominees for election to the Board of Directors of the Company during the annual stockholders' meeting.

In case of vacancy/ies in the Board, the Committee seeks qualified nominees and recommends them to the Board for appointment. The Committee held four meetings in 2010.

4. Risk Management Committee

Chairman: Wakista L.

Members: Antonio N.; Cooray L, Geerge A, Adikaram D

The Risk Management Committee is responsible for policy development and oversight of the Company's credit, market and operating risk exposures. It oversees the system of limits of discretionary authority delegated by the Board to management, ensuring that the limits are observed, and breaches, if any, are immediately corrected. It establishes the framework for reporting risk to the Board including the assessment of the probability and potential impact of each identified risk exposure to the Company. Considering the importance of credit risk, the Executive Committee approves counter-party credit risk under the guidance of established policies, procedures, and guidelines set by the Risk Management Committee.

The Committee meets at least once every quarter and held four meetings in 2010.

CODE OF BUSINESS CONDUCT & ETHICS

The Company's officers and staff adhere to the appropriate standards of behavior in the workplace, dealings with clients and other stakeholders, the proper handling and dissemination of corporate information, as well as the proper observance of regulatory policies as embodied in company's Employee Code of Conduct.

Related Party Transactions

The Company, in compliance with legal and regulatory requirements, maintains transparency of related party transactions between and among the Company, its parent company and its affiliated companies, directors, officers, stockholders, related interests (DOSRI), and joint ventures.

Dealings with Suppliers, Clients and Business Partners

ALC employs high ethical standards in its business dealings rate Governance to ensure the integrity of its employees and the organization. As part of Netwing group, the Company does not allow the acceptance, directly or indirectly, of any gift, gratuity, favor, loan or any item having monetary value or any other form of compensation from business partners, clients, suppliers and other third party service providers in connection with a service that may, in any way, influence employees' decision making.

RISK MANAGEMENT

ALC constantly seeks to improve the maturity, robustness and relevance of its risk management framework and to promote enhanced risk management discipline across all its businesses and supporting functions.

ALC ensures that potential risks are monitored, assessed and managed at the appropriate level. It has adopted the Social and Environmental Management Systems (SEMS) Policy that will ensure environmental and social consciousness. This entailed the assessment and categorization of the environmental impact of the Company operations, and the proper monitoring and compliance to local and international environmental standards.

ACCOUNTABILITY & COMPLIANCE

The Board and Management adhere to the corporate governance principles of accountability and compliance in performing their legal obligations and managing of financial reporting, operational, and regulatory risks.

Internal Audit

ALC's Internal Audit Division (IAD), under the direct supervision of the Board Audit Committee, provides independent, objective assurance and consulting services designed to add value and help improve the Company's Internal Control Processes, such as Financial Reporting, Information Technology and Security, Operational Controls, and to highlight the areas for enhancing Operational Efficiency.

External Audit

On May 31, 2011, the stockholders approved the re-appointment of Jayarathne & Company, as external auditor of ALC for the year 2011.

Compliance

The Compliance Unit reporting directly to the Board Audit Committee oversees and coordinates the implementation of the Company's compliance program. This includes the identification, monitoring and controlling of compliance risk for the whole Company. The Compliance Unit also handles the administration of the Company's compliance with the Anti-Money Laundering (AML) regulations and adherence to Know Your Client (KYC) policies, monitoring and reporting of transactions and the conduct of AML training.

REPORTING AND TRANSPARENCY

Financial Reporting

The financial statements of ALC are prepared in accordance with the Sri Lanka Accounting Standards. The financial statements are presented in accordance with Sri Lanka Accounting Standards (SLAS) 1 (Revised 2006).

Public Disclosures

The Company is committed at all times to fully disclose all material information and other information required to be presented by regulatory requirements through its annual report and website www.arangalaleasing.com.(under "About/Investor Relations").

Appendix 2. - Key management Profiles- Vayrees Group.

CEO/Chairman.

L.N Ariyasinghe is the Chairman and CEO of the group since 2005. He has served on the Board since 1995. He is also the Chairman of many of the listed and un-listed companies within the Group. He is the Vice Chairman of the Ceylon Chamber of Commerce as well as the Chairman of the Sri Lanka Tea Board. He has over 30 years of management experience, all of which is within the Vayrees Group.

G.M.Rashmika Gunawardhana

Appointed to the Board in 2005 and as Deputy Chairman in May 2010.

J.C. Wijemanna

Appointed to the Board in 2007, Fellow, Institute of Chartered Accountants of Sri Lanka and Member, Institute of Certified Management Accountants of Sri Lanka . Holds an MBA from the University of Sri Colombo. Held several senior management positions in large private sector entities in Sri Lanka and overseas. Holds responsibility for Group Corporate Finance and Strategic Business Development.

Dr.J.Jayakhan -Independent Non Executive Director

Appointed to the Board of Vayrees PLC as an Independent Non-executive Director in September 2010. Holds a Doctorate in Corporate Law from the University of Cambridge, UK. He is one of the architects of the new Companies Act of Sri Lanka. He serves on several Audit Committees, Nomination Committees and Remuneration Committees, chairing some of them,

Appendix 3

Extract from an article that appeared in a Week- end News Paper

It has already been much talked about Rashmika Gunawardhana, Dr.Jayakhan and Bimal Perera.

The 20 Billionaires Of Sri Lanka's Stock Market

A group of 20 investors, led by businessman Rashmika Gunawardhana, drive the Colombo Stock Exchange's top 40 quoted companies and have holdings collectively worth Rs. 122 Billion. The group of 20 investors, led by the Secretary to the Ministry of Transport and former Chairman of the Board of Investment, Rashmika Gunawardhana, has been identified as driving and riding the fortunes of the Colombo Stock Exchange. The Exchange's top quoted companies have produced phenomenal results with rising stock prices after the war and the group now have capital gains collectively worth over Rs 122 Billion. Our examination of the data from the Colombo Stock Exchange revealed that businessman Rashmika Gunawardhana easily led the way with the value of shares owned by him at over Rs. 36 Billion. Second to Gunawardhana is Dr.Jayakhan whose investment in Jardine Matheson Holdings alone is valued at around Rs. 30 Billion. The top 20 Billionaires also have huge wealth in terms of ownership of property here and abroad as well as investments in privately owned companies in Sri Lanka and abroad. The list does not include hundreds of others who have their wealth in privately owned companies and in fixed assets. Some well known mega rich are not on the list as their wealth is either privately held or because their share ownership is through front or related companies. Malin Perera and his warehouseman from Stallions, Winston Perera spring to mind. Others include Shriyantha Silva, the two Satharasinghe brothers Jagath and Gajath and Selverage Kumaran to just name a few. Rashmika Gunawardhana has had a meteoric rise within this country's financial establishment. His investments are in some of the top listed blue chip companies: Shanya Leisure Hotels, BL Finance, CBD Bank, ARP Bank, Summerset Leisure, Castle Hotels, Credible Power, Credible Finance, LK Ceramic and Credible One. When we contacted Mr. Gunawardhana to ask if he agreed with our estimate Mr. Gunawardhana laughed it off saying he would call us later. For our calculation we took into consideration shareholdings made in companies listed on the main board of the Colombo Stock Exchange, held in the investor's own name, valued as of 30th September 2010 based on the last traded price. All values relate to capital gains whether realised or not. We used as a benchmark a minimum entry level requirement of Rs. 1 Billion or approximately US\$ 10 Million. Number two on the list Lakpriya Mendis, is the largest Sri Lankan shareholder in Jardine Matheson and KPL Chemicals. His daughter Ashrinie Mendis who is at number 10 on the list has her shareholding valued at close to 2.5 Billion rupees. Mustafa Mohammad who is a major garment exporter is number three on the list with his wife Sherine at number six. The total value of their shares is a mammoth 11 Billion. At number four is the owner of Indiana traders - Indika Silva - who started as reconditioned car importers. Indika Silva has a diversified portfolio with capital gains recorded at Rs 7.2 Billion, principally invested in the banking sector with holdings in Derana, MBC, Sesath Bank, HMB and Commercial Bank. At number five is AB Jayasinghe owner of Shipping Lanka, a shipping company. There are three Pages, on the list. They own among many others, Haldiram, Food City chain of super markets, cinemas, and shopping malls. Three of the family members are worth a huge nine billion rupees. The declared share holdings of the three come close to 10 billion rupees. Pubudu Dahanayaka the Deputy Chairman of New World Group and the eldest son of Dahanayaka Mudalali is valued at 3.7 billion while the value of the declared shareholding of the Chairman of Boden and former Chairman of Jardine Matheson - Wijesri Ramanathan - is valued at close to Rs 2.5 billion. London based Dr. Bandu Weragama who controls Pearl City is at number 13. Number 13 cannot be an unlucky number for him - with his declared shares valued at nearly two billion rupees. Following Weragama is N.S. Wijeratna formerly of Spring Field who is also valued at close to two billion. He is followed by Krishan Weerasinghe of the Lanka Leasing Company at 1.7 billion. Mrs. H.T Muralidaran represents "old money" and her shareholding at The Theatres records a capital gains figure of Rs 2.3 Billion. The founder of LK Ceramics who sold his majority holding to Rashmika Gunawardhana, P.M. Ariyasinghe has capital gains of Rs 1.5 Billion - and continues as Chairman of LK Ceramics. Damitha Ranasinghe - has diversified holdings including West-Star and Rubi Hotels showing capital gains of Rs 1.03 Billion and is listed at number 20.

Appendix 4

Extract -An Interview with Mr.Rashmika Gunawardhana

From SL Rs 1000 to a billionaire - Rashmika Gunawardhana story

Businessman Gunawardhana Mudiyansele Rashmika Gunawardhana's story is somewhat similar to the success stories of great entrepreneurs of the recent past.

Venturing out into business at the tender age of 19 with no entrepreneurial background and not having the right connections nor the right social background as it were, and starting-out with only Rs 1000 in his pocket, now, 15 years later, and in his prime of life at 36, his investments include banks, power projects, hotels and ships, worth several hundred millions, if not billions of rupees.

Gunawardhana's achievements are many. He owns two cargo ships, is the single biggest shareholder of Derana Bank with a 9% stake, has a 10% stake in CBD , a 29% stake in LK Ceramics, a 20% stake in BL Finance, a 51% stake in Shanya Leisure and 10% in Vayrees. In addition to serving on the main boards of those companies, owns two power projects, and the list goes on.

"My investments in the stock market (his investments in Derana, LK Ceramics, BL Finance and Shanya Leisure were all made last year and this year) were possible in part, if not wholly, due to the support I received from SLB Bank and Crompton Consolidated chairman Sujit De Silva and Roshan Fernando chairman ARP Bank and its Managing Director Sunil Weerasinghe" says Gunawardhana.

"When I wanted Rs 60 million from SLB Bank to invest in Derana and LK Ceramic shares last year, Mr. De Silva offered me Rs 180 million-a threefold increase," he said. And this year, when I wanted Rs 50 million from ARP Bank, they offered me Rs 150 million instead" added Gunawardhana.

He invested in Derana by buying those shares at prices ranging from Rs 20-60 a share. At present those shares command a price of Rs 90 a share.

He further said that virtually all of his investments were providing him with a return higher than the interest charged by the banks on his loans. *"I have no foreign partners. All of these monies required for my investments have been generated locally,"* he says. Gunawardhana attributes his success to hard work.

His life story is something like reading a story from one of those fairy tale books.

"When I was 19, this was in 1987, my mother gave me Rs 1000 to buy me a suit. At that time I had qualified to follow a Diploma course in Electrical Engineering & Electronic at the Open University of Sri Lanka. I'm from Nugawela, Kandy, at that time I was living with my elder brother who was running a cafe at Pettah. There was a pavement hawker operating in front of my brother's restaurant. Instead of buying a suit, I lent him that Rs.1000 on the understanding that he conducts his business on a profit sharing basis with me. So, this tie-up with this hawker brought me a return of Rs 400 on a daily basis, while my capital investment of Rs 1000 remained intact. This operation went on for three months, during which period I made a clear profit of Rs 144,000. Then, I turned my hand to slot machines"

"I borrowed five such machines from Wilbert Wijeratne of Ceylon Group. I had them installed at my brother's café. It was called Wijayagiri Hotel. My arrangement with Wijeratne was that I would keep 30% of the takings, while the balance 70% was for him. This was a successful business partnership. But I was restless. I wanted to learn the technology of these slot machines. Therefore I took wing to Hong Kong to follow a six month technical course. This was in 1988 and I was 20 years old at that time. By then I had dropped out from the university. But I returned from Hong Kong in three months. Because it took me only that much of time to assimilate that technology. Then I started making my own slot machines and had them installed in my brother's cafe. As a result, all of the takings made from these machines were for me. There was no question of giving 70% of the share to the landlord, because I was now the landlord"

By then I had made enough money, enough to buy over my brother's cafe. And at 23, that was in 1991, I had millions and millions in my kitty, with 285 machines in operation. But disaster struck in the early 1990's. Governing Party imposed a ban on slot machines.

Then what did you do?" *"I opened a car sales centre at my home in Nugawela,"* said Gunawardhana. *"I called it Asanka Traders. Currently we have four showrooms-at Nugegoda, Negombo, Peradeniya and Kiribathgoda. I also ventured out into property development". Gunawardhana said that in 1998 he started his shipping business, investing \$ 1.8 million in two cargo ships".*

With regard to his investment in Shanya Leisure , which owns the Royale and the Silver Club hotels, Gunawardhana feels a restructuring is necessary to make them viable concerns.

'We also have plans to open up hotels down South and at Trincomalee (capitalising on the peace dividend). But our scouting around down South to find a property for our hotel project has so far been disappointing.

On his investments in the stock market? "I don't believe in holding onto my investments. If they don't provide me with an adequate return I shall exit from such investments", he says. "Like I said earlier, my investment cost in investing in shares in Derana were in the region of Rs 30-Rs 60 a share.

And now those shares command a price of Rs 90. As an example, not that I'm saying that I will do it, but if I do wish to, I can always exit from such a company at a profit if I feel that I'm not getting an adequate return, and invest the proceeds in a company which has a potential to excel in the industry in which it operates' said Gunawardhana.

Failures? Having to close an electronics company in 1995 and the poor performance of another company located at Chilaw which manufactures computer forms.

Regrets? Of not studying enough. Plans? Period of consolidation.

On the current economic situation? The government is on track and the economy will kick-off with the peace process seemingly working. Drawbacks? Too many holidays. People don't work hard. What is needed is for people to think positively. Government can't go on giving hand-outs.

We have to work. *"I don't think most of those employed in the public sector in particular work eight hours a day,"* he says. And from the government's side? Greater transparency is required.