

SPF/TK

Board of Directors
Siyapatha Finance PLC
No 46/12
"Sayuru Sevana"
Nawam Mawatha,
Colombo 02.

10 June 2020

Accountants' Report Siyapatha Finance PLC

Dear Sirs/Mesdames

Introduction

This report has been prepared for the purpose of prospectus issued in connection with an initial issue of ten million (10,000,000) Senior Unsecured Listed Redeemable Rated Debentures of the par value of LKR 100/- each to raise Sri Lanka rupees one billion (LKR 1,000,000,000/-) with an option to issue further five million (5,000,000) of said Debentures to raise up to Sri Lanka rupees five hundred million (LKR 500,000,000/-) in the event of an oversubscription of the initial issue and with a further option to issue further five million (5,000,000) of said debentures to raise up to Sri Lanka rupees five hundred million (LKR 500,000,000/-), in the event of an oversubscription of initial issue and second tranche at the discretion of the company. A maximum of twenty million (20,000,000) debentures each with a par value of LKR 100/- to raise maximum of Sri Lanka rupees two billion (LKR 2,000,000,000/-).

We have examined the Financial Statements of Siyapatha Finance PLC (the "Company") for the years ended 31 December 2015 to 31 December 2019, and report as follows.

1. Incorporation

Siyapatha Finance PLC (the "Company"), formerly known as Siyapatha Finance Limited is a domiciled, Public Limited Company incorporated in Sri Lanka on 03 March 2005. The Company was re-registered under the Companies Act No.07 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The debentures of the Company were initially listed on the Colombo Stock Exchange on 31 December 2014.

2. Financial Information

2.1 Five-year Summary of Audited Financial Statements

A summary of Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow of the Company for the financial years ended 31 December 2015 to 31 December 2019, based on the audited Financial Statements are out on Annexure 1 of the Accountants' Report.

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Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

2.2 Audited Financial Statements for the Year Ended 31 December 2019

Our audit report on the Financial Statements of the Company for the year ended 31 December 2019 together with such Financial Statements comprising the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow along with the accounting policies and notes thereon is available on the websites of CSE, www.cse.lk, where the management is responsible for the electronic presentation of the financial report and to ensure the electronic version of the audited financial report and the auditor's report on the website is identical to the final signed hard copy version.

2.3 Audit Reports

We have audited the Financial Statements of the Company for the years ended 31 December 2015 to 31 December 2019. Unmodified audit opinions have been issued for the said financial years by our reports dated 15 February 2016, 07 February 2017, 20 February 2018, 26 February 2019 and 12 February 2020 respectively.

2.4 Accounting Policies

The Financial Statements of the Company for the years ended 31 December 2015 to 31 December 2019 comply with Sri Lanka Accounting Standards.

The accounting policies of the Company are stated in detail in the audited Financial Statements of Siyapatha Finance PLC for the year ended 31 December 2019 and changes in the accounting policies of the Company from 31 December 2015 to 31 December 2019 are given below.

The Company has adopted SLFRS 9 - Financial Instruments, SLFRS 7 (Revised) - Financial Instruments Disclosures, SLFRS 15 - Revenue from Contracts with Customers, effective for annual periods beginning on or after 01 January 2018, and SLFRS 16 - Leases, IFRIC 23 - Uncertainty over Income Tax Treatment, effective for annual periods beginning on or after 01 January 2019 for the first time.

2.5 Dividends

The Company has declared dividend during the years ended 31 December 2015 to 31 December 2019 as follows.

Year	Dividend declared (Rs.000)	Dividend per share (Rs.)	Dividend payment method
2015	57,750	1.10	Scrip dividend
2016	65,491	1.21	Scrip dividend
2017	69,721	1.25	Scrip dividend
2018	36,343	0.50	Scrip dividend
2019	142,959	1.95	Scrip dividend

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2.6 Events after Reporting Date

There were no significant events occurred after the last audit report date except COVID-19 pandemic related disclosure mentioned in the section 5.2 of the prospectus.

3. Restriction on Use

This report is made solely for the purpose of the Board of Directors of Siyapatha Finance PLC in usage in the application for the purpose of an initial issue of ten million (10,000,000) Senior Unsecured Listed Redeemable Rated Debentures of the par value of LKR 100/- each to raise Sri Lanka rupees one billion (LKR 1,000,000,000/-) with an option to issue further five million (5,000,000) of said Debentures to raise up to Sri Lanka rupees five hundred million (LKR 500,000,000/-) in the event of an oversubscription of the initial issue and with a further option to issue further five million (5,000,000) of said debentures to raise up to Sri Lanka rupees five hundred million (LKR 500,000,000/-), in the event of an oversubscription of initial issue and second tranche at the discretion of the company. A maximum of twenty million (20,000,000) debentures each with a par value of LKR 100/- to raise maximum of Sri Lanka rupees two billion (LKR 2,000,000,000/-).

Yours faithfully,



SIYAPATHA FINANCE PLC
INCOME STATEMENT


Annexure I

Year ended 31 December

	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000
Interest income	7,229,612	6,395,898	4,599,470	2,838,995	1,973,921
Less: Interest expenses	(4,230,657)	(3,680,060)	(2,764,290)	(1,620,783)	(824,699)
Net interest income	2,998,955	2,715,838	1,835,180	1,218,212	1,149,222
Fee and commission income	311,765	278,637	243,899	139,442	86,385
Less: Fee and commission expenses	-	(21)	(680)	(2,139)	(6,252)
Net fee and commission income	311,765	278,616	243,219	137,303	80,133
Other operating income	378,528	288,844	222,685	175,471	152,182
Total operating income	3,689,248	3,283,298	2,301,084	1,530,986	1,381,537
Less: Credit loss expense on financial assets and other losses	(1,050,938)	(829,751)	(236,744)	(79,189)	(49,275)
Net operating income	2,638,310	2,453,547	2,064,340	1,451,797	1,332,262
Less: Operating expenses					
Personnel expenses	(777,688)	(733,266)	(611,373)	(439,718)	(329,553)
Other operating expenses	(655,723)	(595,233)	(436,917)	(368,393)	(350,251)
Operating profit before taxes on financial services	1,204,899	1,125,048	1,016,050	643,686	652,458
Less: Taxes on financial services	(406,369)	(291,259)	(230,810)	(128,500)	(93,305)
Profit before income tax	798,530	833,789	785,240	515,186	559,153
Less: Income tax expense	(318,336)	(317,268)	(286,378)	(187,904)	(174,629)
Profit for the year	480,194	516,521	498,862	327,282	384,524
Basic/Diluted earnings per share (Rs.)	6.83	8.43	8.70	6.14	7.32
Dividend per share (Rs.)	0.50	1.25	1.21	1.10	0.60

Above summarized financial information and its extraction from the Audited Financial Statements, Signed for and on behalf of the Management by,


.....
Managing Director


.....
Head of Finance



SIYAPATHA FINANCE PLC
STATEMENT OF FINANCIAL POSITION

Annexure I(Contd.)

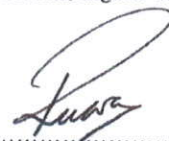
As at 31 December

	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000
Assets			
Cash and bank balances	297,858	169,333	130,070
Placements with banks	65,699	-	-
Securities purchased under repurchase agreements	1,200,981	777,438	601,679
Factoring receivables	1,899,702	1,979,243	1,157,136
Gold loan receivables	2,563,352	1,768,922	770,839
Loan receivables	2,724,776	743,740	286,968
Lease receivables	19,873,470	13,851,890	9,230,730
Hire purchase receivables	252,000	837,560	2,083,571
Other assets	464,986	291,648	234,417
Financial instruments- available for sale	56	56	56
Financial investments held to maturity	4,303	4,288	4,274
Property, plant & equipment	455,140	358,131	124,697
Intangible assets	8,257	8,489	14,889
Total Assets	29,810,580	20,790,738	14,639,326
Liabilities			
Bank overdraft	456,018	460,494	163,583
Due to other customers	9,333,622	3,362,662	1,233,041
Debt issued and other borrowed funds	16,310,778	14,187,266	10,925,421
Other payables	775,445	595,597	508,921
Current tax liabilities	91,800	61,257	75,663
Deferred taxation liability	331,469	170,088	102,306
Retirement benefit obligations	33,163	23,013	19,259
Total Liabilities	27,332,295	18,860,377	13,028,194
Equity			
Stated capital	635,917	576,975	525,000
Statutory reserve fund	113,000	86,422	70,059
Revaluation reserve	56,823	-	-
Retained earnings	1,672,545	1,266,964	1,016,073
Total Equity	2,478,285	1,930,361	1,611,132
Total Liabilities and Equity	29,810,580	20,790,738	14,639,326
 Net asset value per share (Rs.)	 44.43	 35.67	 30.69
Commitments and contingencies	772,657	1,045,384	558,986

Above summarized financial information and its extraction from the Audited Financial Statements, Signed for and on behalf of the Management by,



Managing Director



Head of Finance



SIYAPATHA FINANCE PLC
STATEMENT OF FINANCIAL POSITION

Annexure I (Contd.)

As at 31 December

	2019	2018
	Rs. '000	Rs. '000
Assets		
Cash and bank balances	273,429	191,556
Securities purchased under repurchase agreements	2,304,392	1,768,461
Factoring receivables	655,141	1,332,310
Gold loan receivables	5,011,268	3,548,666
Loan receivables	1,533,713	2,481,575
Lease receivables	29,023,194	25,601,932
Hire purchase receivables	3,437	48,525
Other assets	653,710	489,556
Equity instruments at fair value through other comprehensive income	56	56
Debt instruments at amortised cost	15,301	4,319
Property, plant & equipment	1,013,625	615,402
Right-of-use assets	403,653	-
Intangible assets	56,426	83,972
Total Assets	40,947,345	36,166,330
Liabilities		
Bank overdraft	361,586	321,821
Due to other customers	13,221,026	9,672,008
Debt issued and other borrowed funds	21,342,227	21,391,367
Other payables	1,301,543	600,736
Current tax liabilities	407,066	149,015
Deferred tax liabilities	230,107	449,603
Retirement benefit obligations	67,965	40,789
Total Liabilities	36,931,520	32,625,339
Equity		
Stated capital	1,379,922	948,666
Share application money pending allotment	-	400,000
Statutory reserve fund	164,000	139,000
Revaluation reserve	117,951	107,763
Retained earnings	2,353,952	1,945,562
Total Equity	4,015,825	3,540,991
Total Liabilities and Equity	40,947,345	36,166,330
Net asset value per share (Rs.)	54.78	55.68
Commitments and contingencies	728,983	697,121

Above summarized financial information and its extraction from the Audited Financial Statements, Signed for and on behalf of the Management by,


 Managing Director


 Head of Finance




	Stated Capital	Share Application Money Pending Allotment	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Balance as at 31 December 2014	525,000	-	50,832	-	735,813	1,311,645
Super Gain Tax	-	-	-	-	(51,558)	(51,558)
Net profit for the year	-	-	-	-	384,524	384,524
Other comprehensive income	-	-	-	-	(1,979)	(1,979)
Transfer to Statutory Reserve Fund	-	-	19,227	-	(19,227)	-
Dividend paid	-	-	-	-	(31,500)	(31,500)
Balance as at 31 December 2015	525,000	-	70,059	-	1,016,073	1,611,132
Net profit for the year	-	-	-	-	327,282	327,282
Other comprehensive income	-	-	-	-	(2,279)	(2,279)
Transfer to Statutory Reserve Fund	-	-	16,363	-	(16,363)	-
Dividend paid	51,975	-	-	-	(57,750)	(5,775)
Balance as at 31 December 2016	576,975	-	86,422	-	1,266,963	1,930,360
Profit for the year	-	-	-	-	498,862	498,862
Other comprehensive income, net of tax	-	-	-	56,823	(1,212)	55,611
Transfer to Statutory Reserve Fund	-	-	26,578	-	(26,578)	-
Scrip Dividend paid	58,942	-	-	-	(65,491)	(6,549)
Balance as at 31 December 2017	635,917	-	113,000	56,823	1,672,544	2,478,284
Impact of adopting SLFRS 9 as at 1 January 2018	-	-	-	-	(149,435)	(149,435)
Restated balance under SLFRS 9 as at 1 January 2018	635,917	-	113,000	56,823	1,523,109	2,328,849
Profit for the year	-	-	-	-	516,521	516,521
Other comprehensive income, net of tax	-	-	-	50,940	1,652	52,592
Transfer to Statutory Reserve Fund	-	-	26,000	-	(26,000)	-
Scrip Dividend paid	62,749	-	-	-	(69,721)	(6,972)
Rights issue of shares	250,000	-	-	-	-	250,000
Share application money pending allotment	-	400,000	-	-	-	400,000
Balance as at 31 December 2018	948,666	400,000	139,000	107,763	1,945,561	3,540,990
Profit for the year	-	-	-	-	480,194	480,194
Other comprehensive income, net of tax	-	-	-	10,188	(10,460)	(272)
Transfer to Statutory Reserve Fund	-	-	25,000	-	(25,000)	-
Scrip Dividend paid	31,256	-	-	-	(36,344)	(5,088)
Rights issue of shares	400,000	(400,000)	-	-	-	-
Balance as at 31 December 2019	1,379,922	-	164,000	117,951	2,353,951	4,015,824

Above summarized financial information and its extraction from the Audited Financial Statements, Signed for and on behalf of the Management by,


Managing Director




Head of Finance

	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000
Cash flows from operating activities			
Profit before taxation from operations	798,530	833,789	785,240
Interest expenses	4,230,657	3,680,060	2,764,290
Fee & commission expenses	-	21	680
Credit loss expense on financial assets	1,050,938	829,751	236,744
Provision for staff gratuity	16,084	11,921	9,175
Provision for depreciation	58,116	52,426	49,839
Amortisation of software	23,273	14,023	6,224
(Profit)/Loss on sale of motor vehicles	-	(765)	(1,723)
Write off of provisions	(921,362)	(175)	-
	4,457,706	4,587,262	3,065,229
Operating profit before working capital changes	5,256,236	5,421,051	3,850,469
(Increase)/Decrease in lease receivables	(3,497,636)	(6,071,416)	(6,143,152)
(Increase)/Decrease in hire purchase receivables	77,011	209,723	586,489
(Increase)/Decrease in factoring receivables	904,744	99,765	10,685
(Increase)/Decrease in gold loan receivables	(1,461,614)	(976,106)	(801,728)
(Increase)/Decrease in loan receivables	590,036	31,681	(2,014,570)
Increase/(Decrease) in due to other customers	3,212,525	291,101	5,751,243
(Increase)/Decrease in other assets	(587,089)	(55,049)	(179,752)
Increase/(Decrease) in other payables	834,067	(239,202)	122,516
	72,044	(6,709,503)	(2,668,269)
Cash generated from operating activities	5,328,280	(1,288,452)	1,182,200
Interest expense paid	(3,915,904)	(3,605,669)	(2,514,237)
Gratuity paid	(3,434)	(2,000)	(708)
Income tax paid	(238,240)	(39,761)	(58,749)
Dividend tax paid	(5,088)	(6,972)	(6,549)
Net cash outflow from operating activities	1,165,614	(4,942,854)	(1,398,043)
Cash flow from investing activities			
Net investments in government bonds & government securities	(1,754,282)	639,873	(1,192,896)
Purchase of property, plant and equipment and intangible assets	(415,926)	(231,693)	(74,444)
Proceeds from sale of property, plant and equipment	-	781	2,248
Net cash inflow/(outflow) from investing activities	(2,170,208)	408,961	(1,265,092)
Net cash outflow before financing activities	(1,004,594)	(4,533,893)	(2,663,135)
Cash flow from financing activities			
Proceeds from long term loans	6,000,000	8,350,000	5,075,000
Repayments of long long term loans	(5,455,411)	(5,821,539)	(3,757,504)
Proceeds from debentures	1,500,000	-	1,000,000
Debentures redeemed	(2,421,990)	-	-
Proceeds from rights issue	-	250,000	-
Share application money pending allotment	-	400,000	-
Net proceeds from short term borrowings	350,000	2,525,000	(225,000)
Repayment of principal portion of lease liabilities	(133,258)	-	-
Net cash inflow from financing activities	(160,659)	5,703,461	2,092,496
Net increase/(decrease) in cash and cash equivalents	(1,165,253)	1,169,568	(570,639)
Cash & cash equivalents as at the beginning of the year	1,077,107	(92,461)	478,178
Cash and cash equivalents as at end of the year	(88,146)	1,077,107	(92,461)
Analysis of the cash and cash equivalents at the end of the year			
Cash and bank balances	273,440	191,559	297,858
Placements with banks less than three months	-	-	65,699
Securities purchased under repurchase agreements less than three months	-	1,207,369	-
Bank overdraft	(361,586)	(321,821)	(456,018)
	(88,146)	1,077,107	(92,461)

Above summarized financial information and its extraction from the Audited Financial Statements, Signed for and on behalf of the Management by,


Managing Director




Head of Finance

	2016 Rs. '000	2015 Rs. '000
Cash flows from operating activities		
Profit before taxation from operations	515,186	559,153
Interest expenses	1,620,783	824,699
Fee & commission expenses	2,139	6,252
Provision for impairment	79,189	49,275
Provision for staff gratuity	6,784	4,309
Provision for depreciation	42,173	25,355
Amortisation of software	7,753	7,087
(Profit)/Loss on sale of motor vehicles	39	-
Write off of provisions	(14,775)	-
	<u>1,744,085</u>	<u>916,976</u>
Operating profit before working capital changes	<u>2,259,271</u>	<u>1,476,129</u>
(Increase)/Decrease in Lease receivables	(4,675,805)	(5,832,238)
(Increase)/Decrease in Hire purchase receivables	1,255,436	2,312,656
(Increase)/Decrease in Factoring receivables	(840,364)	(199,542)
(Increase)/Decrease in Pawning receivables	14,775	456,193
(Increase)/Decrease in Gold loan receivables	(1,006,021)	(773,198)
(Increase)/Decrease in Loan receivables	(456,797)	218,433
(Increase)/Decrease in Other assets	(64,978)	(274,858)
Increase/(Decrease) in Other payables	133,763	153,359
	<u>(5,639,992)</u>	<u>(3,939,195)</u>
Cash generated from operations	<u>(3,380,721)</u>	<u>(2,463,067)</u>
Interest paid	(1,502,565)	(779,294)
Gratuity paid	(6,195)	(334)
Income tax paid	(105,409)	(169,503)
Dividend tax paid	(5,775)	(3,150)
Net cash outflow from operating activities	<u>(5,000,665)</u>	<u>(3,415,348)</u>
Cash flow from investing activities		
Investments in government bonds & government securities	(8,114)	(76)
Purchase of property, plant and equipment and intangible assets	(279,002)	(57,213)
Proceeds from sale of property, plant and equipment	2,003	-
Net cash outflow from investing activities	<u>(285,113)</u>	<u>(57,289)</u>
Net cash outflow before financing activities	<u>(5,285,778)</u>	<u>(3,472,638)</u>
Cash flow from financing activities		
Proceeds from long term loans/ Securitizations	3,346,350	5,482,037
Repayments of long long term loans/ Securitizations	(3,204,655)	(2,463,666)
Net proceeds from term deposits	2,054,301	1,206,628
Proceeds from debentures	2,500,000	-
Debentures redeemed	-	(259,000)
Net proceeds from short term borrowings	499,794	(388,116)
Cash dividend paid	-	(31,500)
Net cash inflow from financing activities	<u>5,195,790</u>	<u>3,546,383</u>
Net increase/(decrease) in cash and cash equivalents	<u>(89,988)</u>	<u>73,747</u>
Cash & cash equivalents at the beginning of the year	<u>568,166</u>	<u>494,419</u>
Cash and cash equivalents at end of the period	<u>478,178</u>	<u>568,166</u>
 Analysis of the cash and cash equivalents at the end of the period		
Cash and bank balances	169,333	130,070
Securities purchased under repurchase agreements	769,339	601,679
Bank overdraft	(460,494)	(163,583)
	<u>478,178</u>	<u>568,166</u>

Above summarized financial information and its extraction from the Audited Financial Statements, Signed for and on behalf of the Management by,


Managing Director




Head of Finance