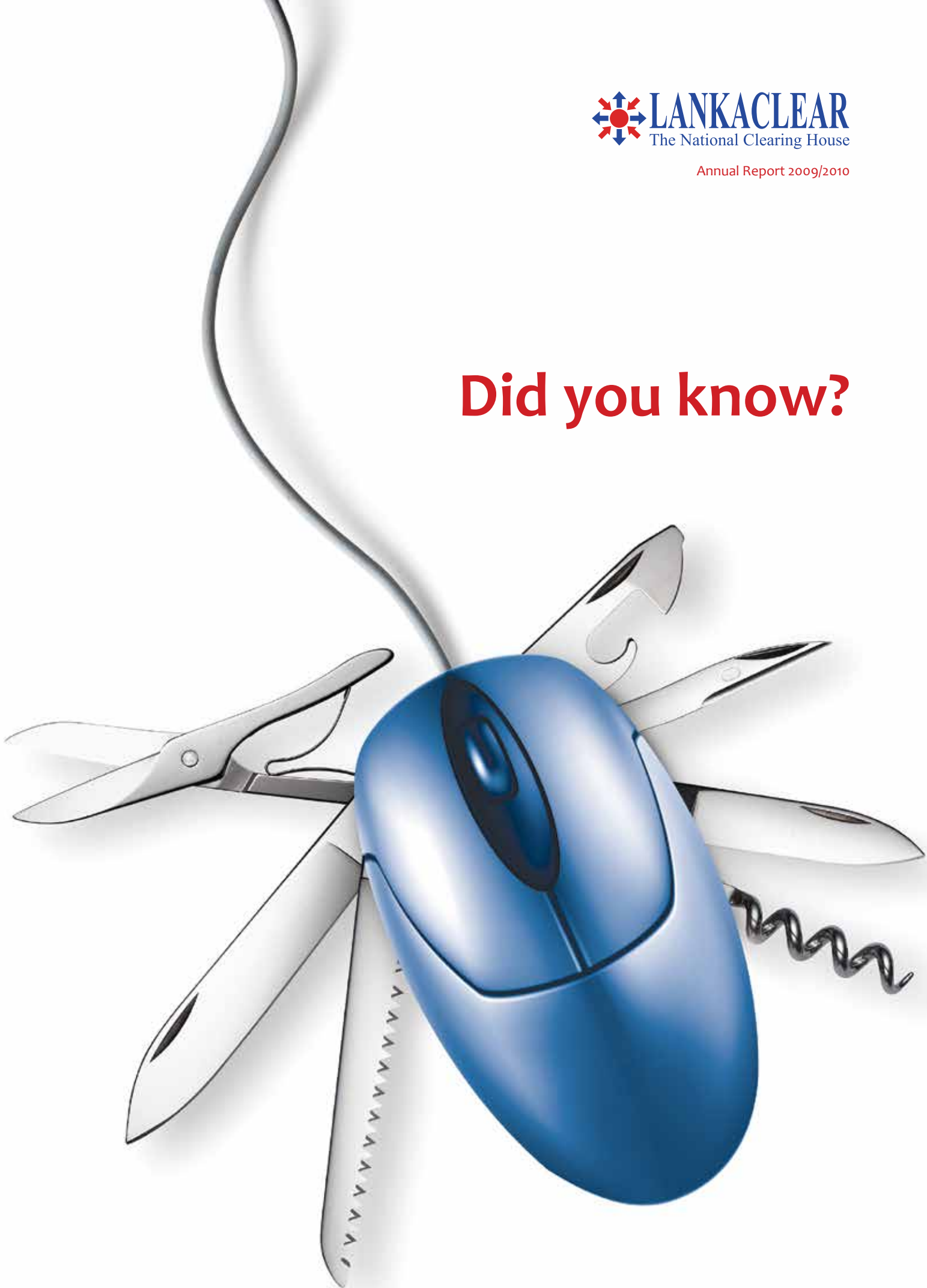


Did you know?





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... that LankaClear is one of the most efficient,

As the main catalyst in the nation's payment industry, LankaClear is dedicated to enhancing the speed, volume and security of monetary transactions.

Since its inception in 2002, the company has continuously improved its systems and processes, which has enabled it to be a leader in the payment industry.

Highlights

Financial Highlights:

Income Statement

Revenue	Rs. 383,358,455
Gross Profit	Rs. 175,004,297
Net Profit before tax	Rs. 122,774,393
Income Tax	Rs. 42,948,616
Net Profit after tax	Rs. 79,825,777

Shareholders' Funds

Share Capital	Rs. 150,500,000
Capital Reserves	Rs. 278,948,333
Revenue Reserves	Rs. 153,262,583
Capital Employed	Rs. 582,710,916

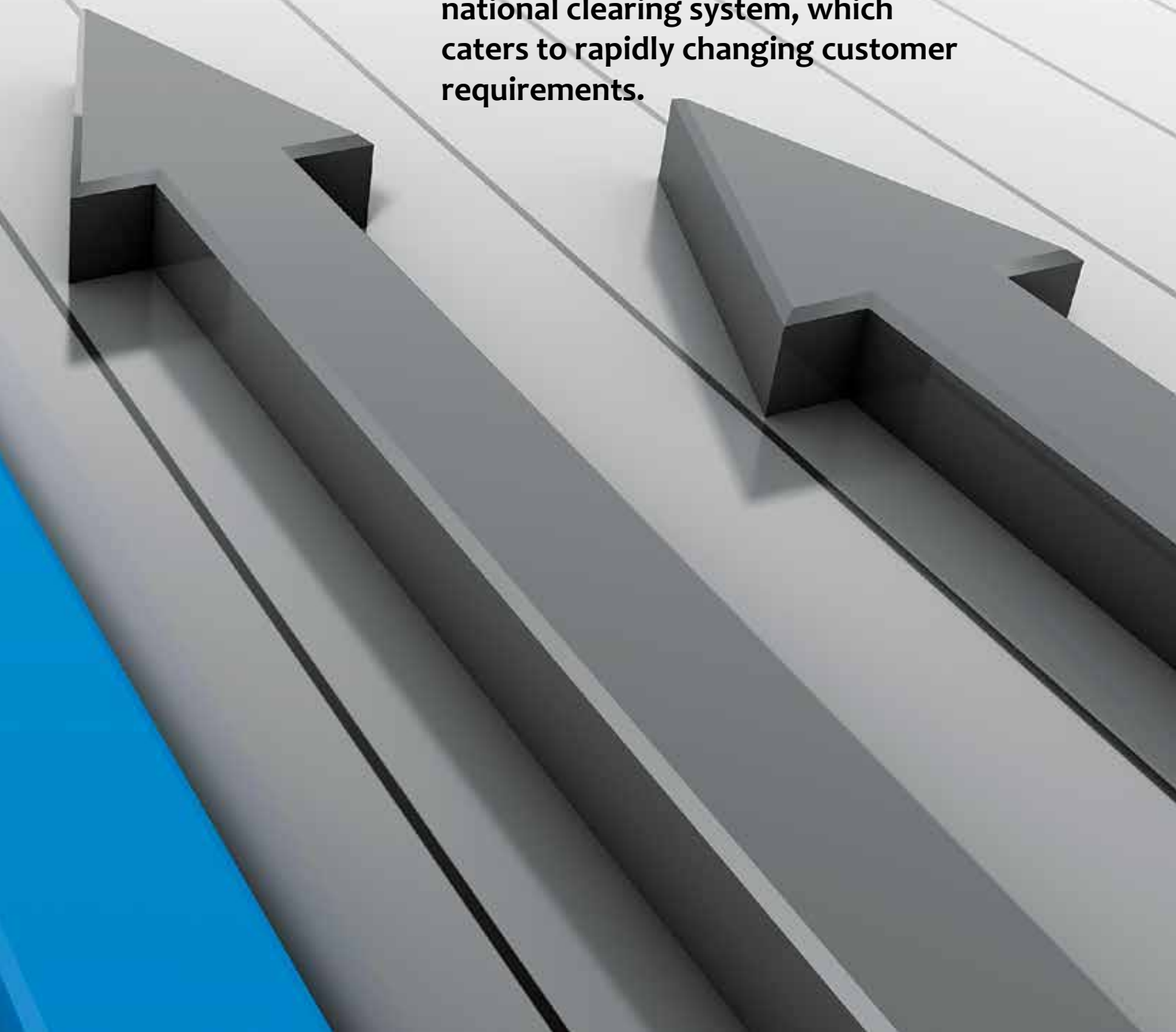
Operational Highlights:

- Total volume of cheques cleared: 40.69 million
- Total value of cheques cleared: Rs. 4,512 billion
- Percentage of the number of cheques returned: 4.5%
- Percentage of the value of the cheques returned: 2.6%
- Total volume of SLIPS transactions cleared: 9.63 million
- Total value of SLIPS transactions cleared: Rs. 290.29 billion



Successful,

‘Success’ is defined in many ways. It could be the acquisition of wealth, position or shareholder value. And yet it’s more than this. For us, it means having the capability to deliver and maintain an efficient, updated national clearing system, which caters to rapidly changing customer requirements.



Chairperson's Review



It is indeed a pleasure to present the annual report and the audited accounts of LankaClear for the year 2009/2010.

LankaClear provides facilities for clearance of financial transactions among commercial banks on behalf of the Central Bank of Sri Lanka, as authorized under the Monetary Law Act and subject to guidelines issued by the Central Bank. LankaClear is one of the unique institutions in this country which acts as the national clearing house for payments and its shareholders form company's customer base also.

The functions of payments and settlements have expanded beyond their boundaries as identified a few decades ago and still continue to expand. With the advent of new technology, during the last few years this expansion and the development took place very fast. Paper based clearing systems are now being replaced by electronic funds transfer systems. Electronic payments increase the efficiency of payments and it is related to velocity of money. An efficient payment system is required to increase the efficiency of economic activities. As the national clearing house for payments, LankaClear is committed to develop an efficient payment system infrastructure.

Company Performance

The Company was able to achieve a net revenue of Rs. 383Mn for the 2009/10 financial year and recorded an after tax profit of Rs. 80Mn. At the same time, it was able to achieve a 21% net profit margin and a debt: equity ratio of 11:89 as at 31st March 2010. The Company has also maintained a current ratio of 6.3 and recorded a return on equity ratio of 13.7 % based on stated capital for the 2009/10 financial year. Net Assets per share is at Rs. 38.72 where the price of an ordinary share at issue was Rs. 10/=. The report of the CEO contains a detailed review of the financial performance of LankaClear for the period 2009/2010.

Performance in the Payments Arena

LankaClear has continuously focused on bringing greater efficiency, process adherence and developing new products to cater to the requirements of our customers – the Banking Community.

Cheque Imaging and Truncation System (CITS)

Enhanced clearing process controls and weekly audits were introduced during the last year which minimized errors in the system and the delivery cut-off times were met.

“Continuously expanding and developing our core functions and ancillary services will lead to an efficient electronic payment system island wide. This in turn, will transfer the benefits of modern payment systems to the general public of this country as well as to the stakeholders of the company.”

Sri Lanka Interbank Payment System (SLIPS)

The SLIPS application was enhanced to cater to more transaction volumes with improvements in the systems software and hardware to ensure the stability of the system in the wake of rapidly growing SLIPS volumes.

Enhancement to Rupee Draft and US Dollar Clearing Applications

The Draft Clearing System was redesigned and developed in-house at LankaClear, thus saving cost of having to procure these applications from vendors. The new application delivers increased stability and user friendly features to the Banks.

Business Continuity

The Business Continuity Plan (BCP) was updated last year to cater to the current needs and a live operation from the DR Site was conducted in May 2010 covering all clearing operations based on the revised BCP.

Value Added Initiatives Launched

Several Green Initiatives were launched during the year which resulted in reduced energy costs and less consumption of paper.

Business Relationship

LankaClear maintained a close and cordial relationship with the clearing community in order to understand their needs and to serve them better.

Vision for the Future

2009 was an eventful year for Sri Lanka. With the end to the three decades of war, we look forward to the

recovery in business and rapid economic growth. A lot of opportunities are now available in the North and the East. When businesses are picking up, to cater to the increased needs, payments system will also have to be developed. At the same time, as the National Clearing House, LankaClear has an obligation to provide a speedy, risk free, error free, uninterrupted and efficient payment system to the nation. Continuously expanding and developing our core functions and ancillary services will lead to an efficient electronic payment system island wide. This in turn, will transfer the benefits of modern payment systems to the general public of this country as well as to the stakeholders of the company.

Electronic Fund Transfer Systems (EFT)

We are in the process of upgrading the current off-line SLIPS to an on-line electronic payments system, which will facilitate T+0 clearing with enhanced security features and capability to handle larger volumes. This system will cater to the retail payments and we envisage to further upgrade this system to an on-line real time system based on the market demand.

We also have taken the initial steps to parallelly implement a common ATM and Card Switch and are in the process of studying the market requirements and technical requirements.

Security of Transactions

LankaClear plans to be a catalyst for Secure Payments by moving towards offering digital certificates in the public domain at a cost effective price and thus creating widespread adoption of digital signing and encryption. This would facilitate secure electronic financial transactions.

Chairperson's Review CONTD

Value Added Services

We will continue to survey the developments in the payments and settlements industry in order to introduce more efficient and value added systems and services.

Our objective is to become the national payment systems infrastructure provider for all payment systems in Sri Lanka and increase our revenue and use the economies of scale to increase the profits. We also envisage to plough back a substantial portion of the profits generated, for continuous development of systems infrastructure and to maintain the stature of the best payment system infrastructure provider in the region.

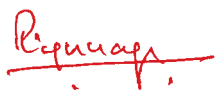
Another of our objectives is to house, all operations in our own premises. This, we hope will lead to an improvement in our balance sheet.

In Appreciation

The success behind LankaClear is its committed staff. Their dynamism and commitment are the main factors behind the company's achievements. My thanks and appreciation goes to the staff at all levels who have amply demonstrated their capacity for hard work.

I take this opportunity on behalf of the Board of Directors of the Company and myself to thank and extend our gratitude to the Central Bank of Sri Lanka including Governor, Mr. Ajith Nivard Cabraal, Deputy Governors, Mr. K G D D Dheerasinghe, Mr. P D J Fernando, Assistant Governors Mrs. C Premaratne and Mrs. J P Mampitiya who provided guidance, Sri Lanka Banks' Association represented by its Secretary General Mr. Upali de Silva, Dr. Mrs. Ranee Jayamaha, presently the Advisor to the President on Banking at her previous capacity as the Deputy Governor of the Central Bank for her contribution to the payments industry in Sri Lanka and the guidance to LankaClear.

I also wish to thank my colleagues on the Board of Directors for their support and the vision and also to our stakeholders for their trust.



Priyantha Liyanage
Chairperson

CEO's Review



It is with pleasure that I present the report on the achievements and performance of LankaClear during the year 2009/10. The year was a challenging one where the cheque volumes decreased by 6.3% compared to the previous year, which was higher than the budgeted decrease in volumes, and the company was also required to make investments in new hardware.

The drop in cheque volumes and cheque returns put pressure on the top line and the bottom line of the company. However, the significant drop in cheque returns is a positive trend for the payment industry and we are happy that after several years of high cheque returns in the range of 5.4% to 5.8% by volume, in 2009/10 financial year the cheque returns in volume terms reduced to 4.5%. It is encouraging to note that the cheque returns by volume dropped to an average of 3.8% in the last quarter of the financial year.

To mitigate the pressure on the bottom line, the company embarked on a major cost cutting initiative especially in the areas of maintenance cost and energy cost. The cost

cutting drive was also linked to a green initiative where measures were taken to reduce paper usage and electricity consumption. I'm proud to say that these initiatives were successful and we were able to reduce the cost of sales by 1.8% compared to an increase in cost of sales by 19.7% in the previous year. Maintenance Costs were reduced by 5.6% and the Stationery Costs were reduced by 18.6%. The electricity costs at the Primary Site in Colombo and the Disaster Recovery Site in Maharagama was reduced by 16% during the last quarter of the financial year through the initiatives taken. I believe that the cost reduction initiatives taken in 2009/10 would result in further substantial reductions in the cost of sales in the future years.

The company took steps to replace the CITS back end hardware with new hardware due to problems faced in maintaining the old hardware and to avoid any risks to the payment and settlement system. The CITS migrated to the new hardware in July 2010. Another significant achievement was the migration of all Banks to CD Submission mode which was completed by July 2010 and with this the operations of the LankaClear outstation Regional Centers were terminated on 30th June 2010.

CEO's Review ... CONTD

Although the company suffered a set back due to the Common Payment Switch application software not being up to the required standard to go live, we were able to take quick alternative actions to upgrade the existing SLIPS in two Phases of which the 1st Phase is already complete and the 2nd Phase is under implementation. With this quick enhancement we were able to clear 1,363,765 SLIPS transactions in May 2010 which was almost double the average SLIPS transactions for a month in 2008/09. The Application Software for Rupee Draft Clearing was upgraded through an in-house project with the assistance of a team of students from the University of Moratuwa.

Dollar Clearing & Rupee Draft Clearing

Repeating the trend during the past couple of years the dollar clearing volumes declined by a further 15% compared to the previous year and the value of the cleared items decreased by 26.6%. The total value of items cleared through US Dollar Clearing in 2009/10 was US\$ 169.7 mn. The total value of Rupee Drafts cleared also recorded a significant decline of 34% as per the trend experienced in the past couple of years.

“To mitigate the pressure on the bottom line, the company embarked on a major cost cutting initiative especially in the areas of maintenance cost and energy cost. The cost cutting drive was also linked to a green initiative where measures were taken to reduce paper usage and electricity consumption.”

Operational Performance

CITS

The Rupee Cheque Clearing volumes reduced by 6.3% compared to the previous financial year. The total value of cheques cleared in 2009/10 was Rs. 4,512 Bn, which is a marginal 2.2% decrease compared to the previous year. The average cheque returns by volume for the year decreased to 4.5% from 5.4% in the previous year. The cheque returns by value declined to 2.6% compared to 3.3% in the previous year.

Sri Lanka Interbank Payment System (SLIPS)

The items cleared through SLIPS increased by 17% compared to the previous year. The value of SLIPS items cleared also grew by 17% compared to 2008/09. SLIPS volumes have grown by an average of 29% over the last 3 years demonstrating the increasing usage of electronic payment systems. LankaClear has already taken measures to cater to the growing demand in volumes and also improve the systems to clear electronic payments with greater efficiency.

Financial Performance

The net revenue declined by 9.2% compared to the previous financial year, the main contributory factors being the drop in cheque volumes and cheque returns. The interest income from Fixed Deposits and Treasury Bill investments also declined by 16.8% despite the increase in the quantum of investments due to the significant reduction in the market interest rates. The pressure on the top line was somewhat eased by the increased revenue from SLIPS due to the increase in SLIPS volumes by 17%.

The pressure on the bottom line was eased off by the reduction in the cost of sales and finance costs. However, the full impact of the cost reduction measures are not reflected in the 2009/10 figures since the results of some of the initiatives were only materialized in the last quarter of the year.

Despite the pressure on the top line, the company was able to maintain a net profit margin of 21%. The company

maintained a very healthy debt : equity ratio of 11 : 89 as at 31st March 2010. Earnings per share decreased from Rs. 7.38 to Rs. 5.30 from the previous financial year due to the pressure on the bottom line. The investments in Treasury Bills, Fixed Deposits, TB Repos and Commercial Papers increased by 22% compared to the previous year where the company had investments of Rs. 526.8 mn as at 31st March 2010.

Developments in the Pipeline

LankaClear would be looking at initiating projects to improve the infrastructure for electronic transactions in the coming years in order to cater to the rapidly growing market demand for payments and financial transactions through electronic modes.

SLIPS Enhancement

The project is under implementation to enhance the current SLIPS to accommodate higher volumes, facilitate online transactions and T + 0 clearing for credit transactions along with digital signing of transactions for higher transaction security which is scheduled to go live in September 2010.

CRN Printing with Added Features

A new application for CRN printing is now under development to offer the CITS Participant Banks value added features in CRN Printing including branch wise sorting of CRNs.

Common ATM and Card Switch

Preliminary work is now underway to set-up a Common ATM and Card Switch which will enable bank customers to use any Bank's ATM for their transactions and to facilitate processing of local Debit Card transactions through a Central Switch.

Sunimal B Weerasooriya

General Manager / Chief Executive Officer

Board of Directors



Mrs. P Liyanage
Chairperson



Mrs. J. P. Mampitiya
Director



Mr. B. A. C. Fernando
Director



Mr. H S Dharmasiri
Director



Mrs. R A S M Dayaratne
Director



Mr. Aravinda Perera
Director



Mr. A N de Silva
Director

Mr. Bibekananda Mahapatra
Director

Mr. Upali de Silva
Observer

Mrs. P Liyanage - Chairperson

Mrs. Liyanage has 37 years of experience in the areas of Banking and the Government sector including 31 years of experience at the Central Bank of Sri Lanka. Prior to joining the Central Bank she has served Bank of Ceylon and also was an officer attached to the Sri Lanka Administrative Service.

During her Central Bank career, she spent more than 25 years at the senior level in the operations and international areas of the Bank where one of her primary responsibilities was the management of foreign exchange reserves of the country. She has had wide experience in the areas of Foreign Exchange Operations, Portfolio Management, Exchange Rate Management, Payments and Settlements, Asian Clearing Union Operations, Back Office Operations of both Rupee and Foreign Exchange Transactions, Public Debt, Central Bank Accounts and Central Bank Balance Sheet.

She held various responsible senior positions such as Accountant, Chief Dealer, Deputy Head of Department, Head of Department and at the time of her retirement she served as one of the Assistant Governors of the Bank.

She holds a B.A. degree with second class upper division pass from the University of Kelaniya and has obtained professional qualifications from Bankers Training Institute, Sri Lanka. She also serves as one of the Directors of RAM Rating Lanka Ltd.

Mrs. J. P. Mampitiya - Director Assistant Governor, CBSL

Mrs. Mampitiya has been an Assistant Governor of the Central Bank of Sri Lanka since August 2009. She is currently the Secretary of the SAARC Payments Council, an Alternate Director of Lanka Financial Services Bureau Ltd, Chairperson of the Payments Reform Steering Committee, member of the Cabinet Appointed Committee on 'Acceptance of Payments through Electronic Payment Cards by the Government Institutions' and a member of the National Payments Council.

Mrs. Mampitiya commenced her career at the Central Bank in 1981 and was attached to the Information Technology Department (ITD) where she held the post of Director IT from 2004 – 2008 and Director, Payments and Settlements from 2008 – 2009. She has a B.Sc. (Honours) from the University of Kelaniya and a MSc. in System Science from the University of Ottawa, Canada.

Board of Directors ... CONTD

Mr. B. A. C. Fernando - Director

General Manager/CEO, Bank of Ceylon

Mr. Fernando possesses 39 years of experience in banking. His expertise in branch banking ranges from branch operations level to the management of a large branch network at both area/province level and as an entire division. He is a specialist in credit with experience in consumer credit at branch, provincial and divisional levels, has handled corporate credit at all levels and has been in charge of the Corporate Branch's large portfolio. Mr. Fernando has contributed to improve the credit knowledge and skills of the bank staff through training. He has also provided active leadership in training and restructuring initiatives.

Mr. Fernando has a B.A. in Arts and an MBA in Business Administration. He is a Director and Fellow of the Institute of Bankers of Sri Lanka and has undergone extensive training in banking and management, both locally and overseas, and is a Director in many of the bank's subsidiaries and associate companies.

Mr. H S Dharmasiri - Director

Snr. DGM (Operations & Retail Banking), People's Bank

Mr. Dharmasiri is a Graduate in Economics with First Class Honours and Fellow of the Institute of Bankers of Sri Lanka (FIB). He has also obtained a Diploma in Bank Management from the Institute of Bankers of Sri Lanka.

He joined the Bank as a Management Trainee and his experience in the banking industry spans over 34 years, during which time he has served in various capacities ranging from the Branch Manager to the Senior Deputy General Manager (Operations & Retail Banking), which is his current position.

During this period he has participated in a number of training programmes conducted by leading institutions in Sri Lanka. Further, he has followed study courses relating to Banking and Management by AIM (Philippines), AOTS (Japan), NIBM (Pune) and University of Colombia (New York). He also serves as a member of the governing board at the Institute of Bankers of Sri Lanka.

Mrs. R A S M Dayaratne- Director

Director - IT, Central Bank

She has been the Director, Information Technology Department of the Central Bank of Sri Lanka since August, 2008 and commenced her career at the CBSL in 1986 as a staff officer. She serves in a number of high level internal committees of the CBSL and as a member of the cabinet appointed committee for sending government payments through electronic payment cards. She holds a BSc degree from the University of Colombo. She is a Certified Information Systems Auditor (CISA) and a member of the Information Systems Audit and Control Association, Sri Lanka chapter.

Mr. Aravinda Perera - Director

Executive Director/COO, Sampath Bank

Has been in the management team of Sampath Bank PLC since 1988. Appointed as Chief Operating Officer of Sampath Bank PLC in August 2007 and as Executive Director in November 2008.

A Fellow member of the Institute of Bankers of Sri Lanka, a Chartered Engineer and a Fellow member of Chartered Institute of Management Accountants. Holder of BSC Degree (Hons) in Mechanical Engineering from University of Moratuwa and holds a MBA from the University of Sri Jayewardenepura.

Possess extensive experience in the fields of Industry, Finance and Management Consultancy, spanning the private sector.

A former Senior Project Officer of DFCC Bank and a former Departmental Manager (Engineer) of Ceylon Tobacco Company.

Mr. A N de Silva - Director

Acting CEO/COO, Union Bank

Mr A N de Silva has been in the Banking Industry for 36 years. He was initially attached to Hatton National Bank PLC for 29 years and was Deputy General Manager Corporate Banking at the time he left their services in 2003 to join Union Bank. He is currently the Acting Chief Executive Officer/Chief Operating Officer of Union Bank. Mr de Silva was elected an Associate of The Chartered Institute of Bankers London, in November 1978.

Mr. Bibekananda Mahapatra - Director

Regional Head/CEO, State Bank of India, Colombo

Mr. Mahapatra possesses a post graduate degree in Economics (MA) and is a Certified Associate of Indian Institute of Bankers (CAIIB).

Over a span of 28 years in State Bank of India (SBI) he has served in various capacities in the most difficult part of India as Regional Manager and Deputy General Manager at Zonal Offices. His work experience includes corporate banking, retail banking, agricultural lending, micro financing and priority sector lending etc.

Mr. Mahapatra was judged as the Best Regional Manager in India and was deputed to Wharton School, in USA to undergo Executive Development programme.

He is an Executive Member of the Indo Sri Lanka Society in Sri Lanka

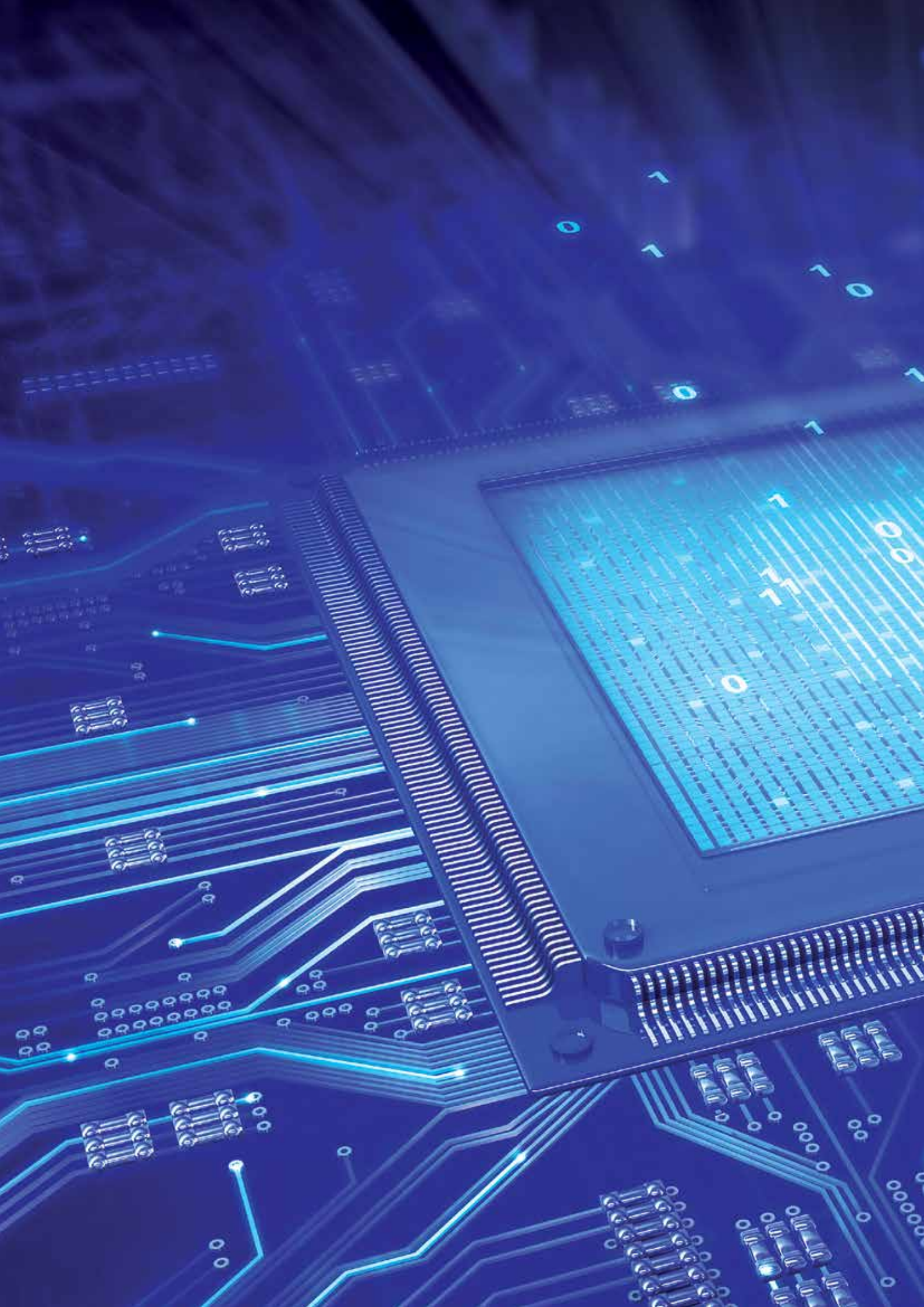
Mr. Upali de Silva - Observer

Secretary General, SLBA

Mr. de Silva presently holds the post of Secretary General, Sri Lanka Banks' Association (Guarantee) Ltd., and is a Director of HNB Assurance Ltd., Lanka Financial Services Bureau Ltd., Sri Lanka Cert (Pvt) Ltd. and of LankaClear Cash Management (Pvt) Ltd.

He is also a retired Senior Deputy General Manager of Hatton National Bank Ltd. and has over 42 years experience in banking, including 15 years at Corporate Management Level.

Mr. de Silva is a Fellow of the Chartered Institute of Bankers (London), Past President of the Association of Professional Bankers and of the Colombo Centre of the Chartered Institute of Bankers (London).





Dynamic,

‘Dynamism’ takes on many forms. It could be characterized by energy that is active or forceful. For us, it signifies effective and timely action. It also speaks of the capacity for continuous improvement, while always adapting to and addressing varying market needs.

Management Team

Mr. Sunimal B Weerasooriya
General Manager/CEO



Mr. Harsha Wanigatunga
Head of Operations



Mr. Algi Wijewickrema
Head of Human Resources & Administration



Mr. Rasika Galappaththy
Head of Finance



Mr. Roshan Hettiarachchi
Operations Manager



Mr. Gamini Abeysirigunawardena
Head of Regional Centres

Mr. Dilantha Samarasinghe
Systems Manager



Mr. Isuru Jayaweera
Bank Services & Help Desk Manager



Mr. Shantha Wijepala
Manager – Facilities & Maintenance



Mr. Thilina Jayawickrema
Network Operations Manager



Mr. W M Jayaratne
CITS Manager

Risk Management

Being the sole entity in the Payment and Settlement industry facilitating the clearing and settlement of cheques, electronic payments, dollar draft & rupee draft for 22 commercial banks, LankaClear (Pvt) Ltd is exposed to a unique set of risks and rewards. In spite of the company's strategic importance in the local economy as a financial infrastructure provider fulfilling a national role, it has to satisfy all the stakeholders of the company including its shareholders by making an acceptable level of profit as a Private Limited Company.

LankaClear, while carrying out its services under the given environmental conditions faces a variety of risks, namely, business risks, operational risks and financial risks. The Company has managed to deal with these types of risks by timely identification of the risk, accurate measurement, implementation of effective control measures and continuous monitoring. Well defined policies, structures, systems and controls have been put in place to manage the risk. Risk management is carried out with the internal audit exercise which is reviewed by an Internal Audit Committee as well as a daily audit on clearing activities on operations, systems and helpdesk by staff from each department.

Business Risk

The main business risk faced by LankaClear as the national infrastructure provider for payments & settlements is the risk of current products going out of the market or significant reduction in the transaction volumes of some products. To mitigate this risk LankaClear continuously evaluates the past trends of the products and forecasts the volumes of the products in order to ascertain the fluctuation of the product volumes over a 5 year horizon.

LankaClear continuously keeps abreast with the technological developments in the payments & settlements area and the market demand for new payment instruments in order to provide the necessary infrastructure to the Banks to introduce new, more efficient and cost effective payment instruments. The required developments are also discussed at the National Payment Council (NPC) convened by the Central Bank of Sri Lanka and included in the NPC Road Map with the agreement of all stakeholders.

With the continuous reduction in the usage of cheques as a payment instrument over the last couple of years, LankaClear is now in the process of making investments in the upgrade of the electronic payments systems infrastructure to cater to the growing demand of electronic payments. It is envisaged that the depletion in the top line experienced due to the reduction in cheque volumes over

the last couple of years would be off-set by the increased revenue generated through products introduced in electronic payments.

Operational Risk

At LankaClear the operational risk management is focused on the ability to efficiently and effectively operate the National Clearing Systems (e.g. CITS, SLIPS, US Dollar Clearing and Rupee Draft Clearing), error free and fraud free on all clearing days. In order to accomplish this, the risks that need to be mitigated are in the areas of inadequate/failed processes, people related issues, technology issues, delays and errors caused by the Participants of the clearing systems and natural disasters.

To mitigate the risks associated with inadequate/failed processes and/or, delays and errors caused by the Participants of the Clearing Systems, LankaClear has formalized Operational Manuals for all the Clearing Systems, Desk Instruction Manuals and Dual-Controls. We ensure that Participating Banks and our staff strictly adhere to these processes and guidelines by means of Interdepartmental Peer Audits, Corporate Internal Audits and continuous Process Training.

Information Security is paramount to a National Clearing House. Therefore LankaClear has a well defined Information Security Policy, which is closely aligned with ISO 27001 Standards in order to mitigate risks associated with Information Security. The strict adherences of these IT Security Policies are ensured by daily IT Systems monitoring, IT housekeeping and through the Internal Audits.

LankaClear has a fully functional and tested Disaster Recovery Site (DRS), where all Clearing Systems are replicated, in order to mitigate the risk associated with natural disasters and/or inability to operate from the Production Site in Colombo. This is above and beyond having a Near-Site system for the CITS and SLIPS Clearing Systems at the Primary Data Center in Colombo, which is activated if the Primary System fails. LankaClear has a formalized Business Continuity Plan (BCP) and multiple DR drills have been conducted in accordance to the BCP to ensure LankaClear's capability to effectively recover from a disaster. The CIT System having an uptime of 99.25% for the year in review is a testimony of the effectiveness of the Near-Site IT systems and the fully functional DR site.

The effectiveness of our clearing systems and the associated processes and technologies is very reliant on the effectiveness and commitment of our staff in ensuring

that the clearing systems are operated with minimized risks. Given that the LCPL team is our most valued asset, in order to minimize the people related risks, LCPL has well defined HR policies and practices from hiring to general conduct and a performance based management system that is linked to a strong HR development program. This ensures that our team members have the right skills and is given the correct guidance to minimize and avoid operational risks associated with the National Clearing Systems and is a highly efficient staff.

Financial Risks

The financial risks faced by the company is not restricted to making the operations profitable, but being cash rich as well, with sufficient reserves to invest in technical upgrades and new projects. So we will be covering the financial risk aspect in terms of fluctuations of profitability and managing cash.

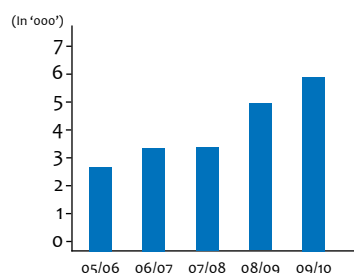
A. Managing the cash reserves

A Company may be profitable. But if it does not have a adequate positive cash flow, it will lead to an eventual strangulation of the operations of the company. The availability of the cash resource is very vital as it allows company to:

1. Meet working capital management to meet short term financial obligations
2. Have adequate cash to use for capital investments
3. Have sufficient cash to pay its dividend
4. Manage gearing at satisfactory level

The overall improvement of the liquidity ratios over the past 5 year can be seen by the following graph.

Current Ratio



1. Working Capital Management

The Company keeps an adequate amount of resources in short term financial instruments to meet its short term financial requirement. As minimum required stocks are maintained, it does not have a material effect on creditors

turnover period. Therefore much emphasis was placed on bringing down the debtors' collection period.

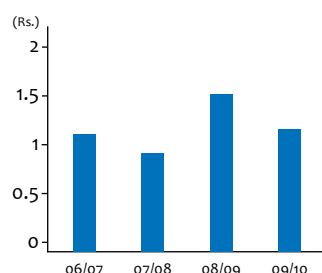
2. Adequate Capital Investment

LankaClear, in its quest to provide enhanced services to its customers has, from time to time incurred large capital expenditure on software and hardware. Some expenses are planned over the long term and some in the short term. In either case, the company has managed to make available the required cash for such capital expenditure.

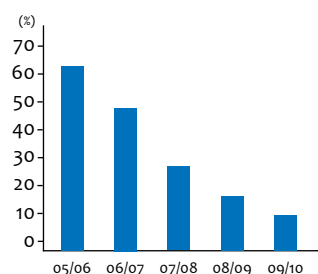
3. Paying an Adequate Dividend

This was always within the comfort limits as per the cash flow management practices of LankaClear (Pvt) Ltd. Analysing the last few years, the depending on the retained profits, dividend has been paid over the years.

Dividend Per Share



Long - Term Gearing



4. Managing the Gearing of LankaClear (Pvt) Ltd

The Company at one time had a debt which was larger than its stated share capital. With time, the reliance on the debt has declined due to growth of retained profits. This has led to a favourable impact on the company gearing and company has managed to fund all the new investments from internally generated funds while consistently paying off its debt.

Risk Management ... CONTD

B. Managing Profitability

The profitability of the Company depends on the ability to increase the income and reduce the cost. Despite having maintained a fixed pricing strategy for the benefit of the customers over the last few years in spite of escalating costs, the Company managed to make a reasonable profit. Strong Cost Control Strategies have been adopted to bring down the controllable costs in the organisation.

1. Risk on Profits Due to Changes in Cheque Volumes

The main driver of our revenue is the cheque volumes and the increase or decrease of the cheque volumes has a corresponding favourable or adverse impact on the revenue. Looking at the global perspective, the industry trend is a decrease in the cheque volumes and that being replaced by the electronic payment methods. The need for payments between individuals and companies will certainly increase and what may change in the future is the payment mode that they opt to use. Considering the advantages of the electronic payment methods, Sri Lanka is likely to eventually move away from cheques to electronic payments. The volumes of electronic payment methods such as SLIPs are steadily increasing and is bound to surpass the cheque volumes over time. This factor is already being considered by LankaClear and the company has started investing in technologies that make the company ready to handle large volumes of electronic payments with higher efficiency levels in the future.

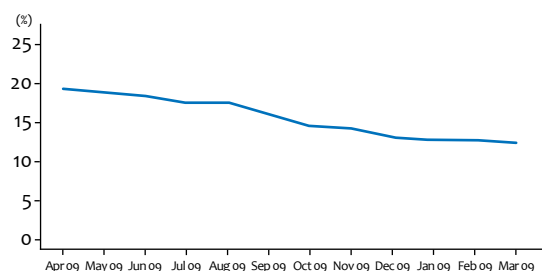
The company used to earn substantial income on the Cheque Returns. The number of cheque returns have come down tremendously from what it was some time ago. Introduction of the amendments to the Credit Information Bureau (CRIB) of Sri Lanka Act in December 2008 giving its authority to collect information relating to cheque returns from commercial banks could have led to the marked decrease in the return volumes. As a responsible national service provider, we are happy about the outcome of this Act. However, the Company continues to lose one of its sources of income.

2. Risk on Profits Due to Interest Rate Risk, Reinvestment Risk, Foreign Exchange Risk, Event Risk and Principal Risk

Interest Rate Risk

The period under consideration derived a significant portion of its income from interest income. During the period under consideration, interest rates showed a marked decrease. This has adversely affected the Company's interest income. Company's response to mitigate its impact is explained under Reinvestment Risk.

Weighted Average Interest Rate on Investment



Principal Risk

Company has increased its cash reserves over time and invests them in profitable investment opportunities after analysing the market return rates. As the reserves are intended to be ploughed back to provide value added services, we have been careful with regard to selecting between different investment opportunities and holding them till opportunity arises for proper investment. Once we have accumulated enough reserves, we will be considering high yielding investment options as well. Until such time, investments will be limited to principal guaranteed instruments.

Reinvestment Risk

This is the risk that future proceeds will have to be reinvested at a lower interest rate. This is especially evident during periods of falling interest rates where maturing investments have to be invested at lower yield investments. Period under review has a significant risk due to falling interest rates. However, we were able to reduce the extreme impacts of reducing interest rates due to our Investment strategy, as shown by the effective interest rate graph.

Event Risk

Physical risks to the property are covered by the Company's extensively reviewed insurance arrangement. Apart from physical risk, certain other types of risks are identified and covered from insurance policies where possible.

Foreign Exchange Risk

A significant proportion of the software and maintenance services are sourced from international parties and payment is made in foreign exchange. All these payments are invoiced in US Dollar terms and since there were no major fluctuations of the Rupee against the Dollar during the year, the company managed to keep the foreign exchange risk at manageable levels.

Operations Review

LankaClear Operations

An efficient payment and settlement system is critical for a growing dynamic economy. Secure and fast realization of payments within a stable infrastructure facilitates efficient payments and settlements. LankaClear (LCPL) contributes immensely towards this end in Sri Lanka with the guidance of the Central Bank of Sri Lanka and the collaboration of all the commercial banks.

LCPL plays a key role as the National Financial Transactions Clearing Hub, as it is the entity in Sri Lanka that does Cheque Clearing, Rupee Draft Clearing, US Dollar Clearing and SLIPS.

Products and Services Offered by LankaClear

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

Currently, around 170,000 cheques are cleared through LankaClear on each business day through CITS. CITS has catered to volumes exceeding 418,000 cheques per day. Though there has been a slight decrease in the cheque volumes, there is a significant increase of around 18% in electronic payments, reflected by the growth in the SLIPS transactions. SLIPS has catered to volumes exceeding 380,000 per day.

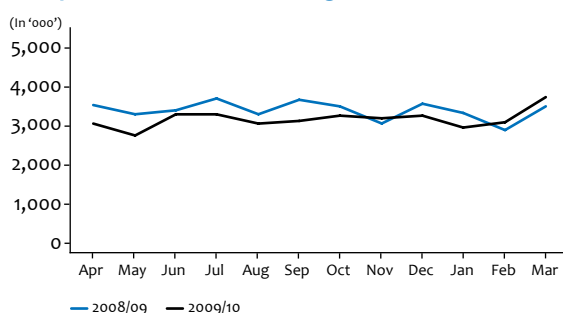
1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS)

Automated cheque clearing and cheque truncation was facilitated by the introduction of the Cheque Imaging & Truncation System (CITS), which utilizes digital technology to expedite the clearing and settlement processes. As a result, on depositing a cheque the public will be able to get credit for their funds on the following business day (T+1).

We are pleased to inform that due to Process and Technological improvements CITS has achieved a 99.25% System Up-Time and achieved 96% of the Delivery Cutoff times. We have also improved the Disaster Recovery Processes, formalized the Business Continuity Plan (BCP), have a fully functional DR Site, and have operated from the DR Site during DR Operation Drills.

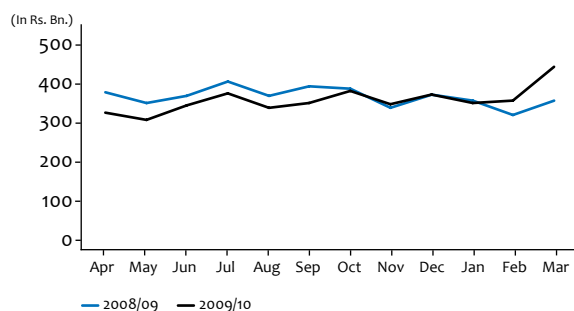
The total number of cheques cleared and total value of cheques processed through CITS during 2009/2010 as compared with 2008/2009 is depicted in the following diagrams:

Cheques Presented for Clearing - Volume Wise



The total number of cheques cleared in 2009/2010 through CITS amounts to 40.69 million compared to 43.42 million in 2008/2009. This is a decrease of 6.28%.

Cheques Presented for Clearing - Value Wise



The total value of cheques cleared in 2009/2010 through CITS amounts to Rs. 4,512 billion compared to Rs. 4,615 billion in 2008/2009. This is a decrease of 2.24%.

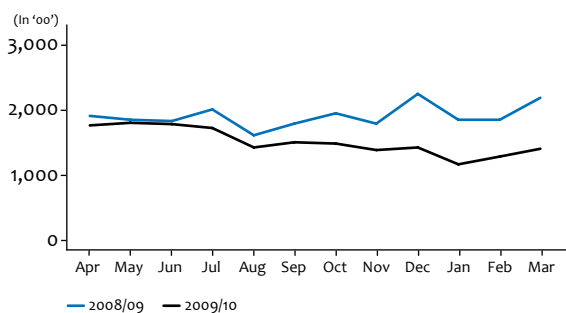
Operations Review ... CONTD

1.1 Settlement Clearing (Cheque Returns)

Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. 4.5% of the cheques presented for clearing were returned unpaid due to various reasons. Of the total cheques returned, around 48% were due to lack of funds.

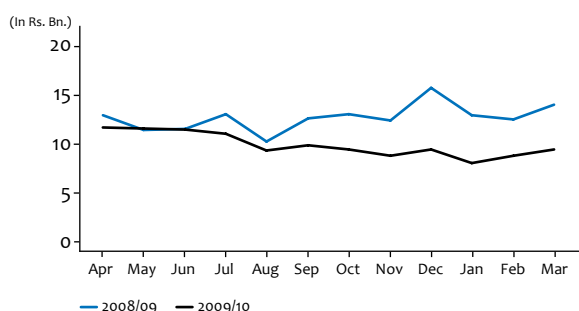
The total volume of cheques returned and the total value of cheques returned during 2009/2010 as compared with 2008/2009 is depicted in the following diagrams:

Cheque Returned for Clearing - Volume Wise



The total number of cheque returns in 2009/2010 through CITS amounts to 1.85 million compared to 2.31 million in 2008/2009. This is a decrease of 20.24%.

Cheque Returned for Clearing - Value Wise

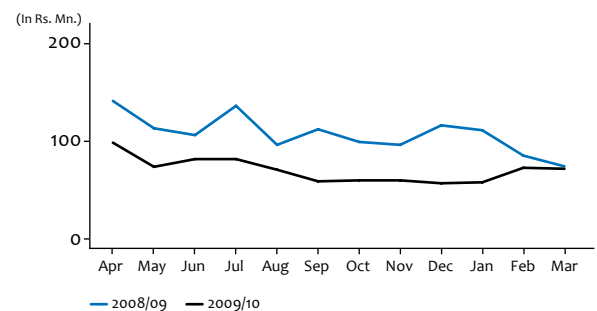


The total value of cheque returns in 2009/2010 through CITS amounts to Rs. 118.50 billion compared to Rs. 152.15 billion in 2008/2009. This is a decrease of 22.12%.

2. Sri Lanka Rupee Draft Clearing

The value of Rupee Drafts processed during the year 2008/2009 and 2009/2010 is shown below:

Rupee Draft Clearing - Value Wise

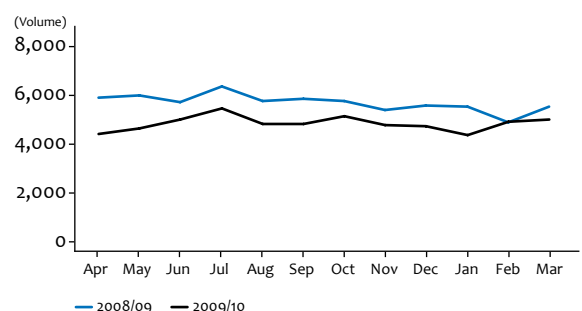


The total value of Rupee drafts cleared in 2009/2010 through Draft Clearing amounts to Rs. 0.85 billion compared to Rs. 1.29 billion in 2008/2009. This is a decrease of 34.17%.

3. US Dollar Clearing

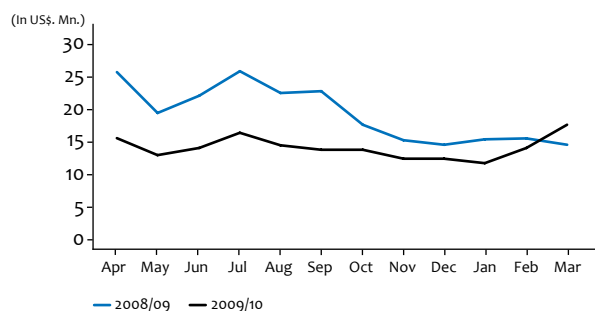
The total number of items cleared through US Dollar Clearing in 2009/2010 amounts to 57.82 thousand compared to 2008/2009 of 68.02 thousand. This is a decrease of 14.99%.

US Dollar Clearing - Volume Wise



The total value of items cleared through US Dollar Clearing in 2009/2010 amounts to US\$ 169.7 million compared to 2008/2009 of US\$ 231.2 million. This is a decrease of 26.59%.

US Dollar Clearing - Value Wise



The total volume of items cleared through SLIPS in 2009/2010 amounts to 9.63 million, compared to 8.22 million in 2008/2009. This is an increase of 17.14%. The total value of items cleared through SLIPS in 2009/2010 amounts to Rs. 290.29 billion compared to Rs. 248.19 billion in 2008/2009. This is an increase of 16.96%. This is a trend we expect to see increasing with more individuals and institutions moving towards electronic transactions.

Mr. Harsha Wanigatunga
Head of Operations

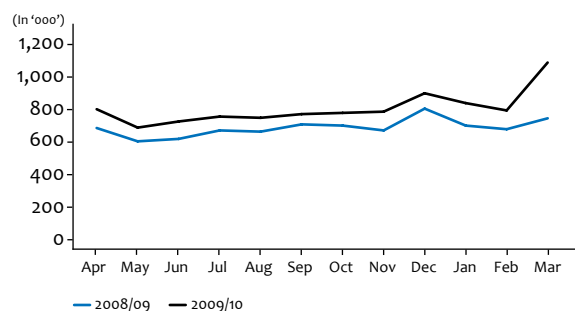
4. Sri Lanka Interbank Payment System (SLIPS)

Electronic Funds Transfer (EFT) is a movement of funds from one account to another without a corresponding document to authorize or prove that the transfer has been completed. LankaClear provides an Offline Electronic Data Transferring Service via SLIPS to all commercial banks.

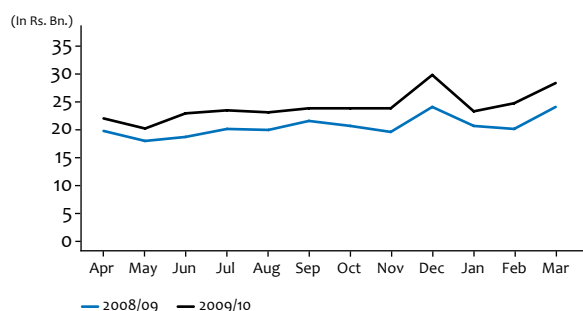
An average volume of 40,000 transactions pass through SLIPS during a business day and on a high volume day, the transaction volumes have exceeded 380,000.

The increase in number of SLIPS transactions are depicted below:

Sri Lanka Inter Bank Payment Systems - Volume Wise



Sri Lanka Interbank Payment Systems - Value Wise



Our Human Resource

“Our most valuable asset is our human resource”, a statement heard from many employers but too often tangible actions taken by only a few to prove that they believe in it.

Moving away from words to action can sum up the review of HR at LankaClear for the period 2009/10.

Reward for Performance

The journey of reward for performance began in the previous year when a new Performance Appraisal System was introduced. This year our employees enjoyed the benefits of bringing to fruition of this Performance Appraisal System. The rewards meant that those who raised their performance to a higher level received better rewards not only in terms of better annual increments but also a higher bonus.

Advice & Guidance for the Needy

Those who needed to show improvements received advice and guidance so that they too can aspire to reach higher levels of performance.

Core, Critical Resources

Another phase of the HR improvements launched was to identify employees critical to drive the core business areas of the Company. Having done this, their performance was assessed and salaries of such employees adjusted so that the right employee is paid the right salary on par with the industry standards. We believe that this initiative would minimise the employee turnover or even zero it.

Code of Conduct

With a view to helping employees to better understand the conditions of employment, administration guidelines, use of facilities available in the Company, etc, the Company issued a formal Staff Manual and Code of Conduct to all employees of the Company in August 2009.

Induction

A formal process for the induction of new employees was introduced during the year under review. A smoother integration into the Company and an employee ready to give of his best from the beginning are the benefits the Company gained from this.

Training & Development

Based on Company needs and the requirements identified as essential for employee performance improvement, the Company provided training in-house as well as through sponsoring participation in seminars, workshops and other programmes.



All work and no play

R & R need not mean only Remuneration and Rewards but can also be Rest & Relaxation. Instead of all work and no play, a part of our action plan was a 2 day outing for all employees. This year's outing could be considered special, because for the first time since the inception of the Company, all employees, including our staff from Jaffna, were able to spend 2 days at a luxury hotel with a variety of events organized to cater to everyone's taste. All employees thoroughly enjoyed the 2 days building relationships in an atmosphere of camaraderie and bon-hommie.



In Touch with Our People

For the first time a team of Managers also visited the Jaffna Regional Centre along with visits to other Regional Centres with improved HR relationships being the benefit.



A J F Wijewickrema
Head of HR & Administration



Corporate Social Responsibility

LankaClear's Corporate Social Responsibility activities took a step towards programmed activity from the ad-hoc.

Career Guidance Programme

In their planned approach to CSR, the management decided on a Career Guidance Programme for Advance Level students who wished to choose IT as a career. To roll this out, a school from a remote area (Nochchiyagama Maha Vidyalaya in the Anuradhapura District) which had the required facilities for students to choose IT as a career i.e. an IT Laboratory, Teachers, specified periods, was chosen.

The first, in a series of four steps planned for the year 2010 was launched, aimed at giving the students a view of what paths are available for them as they go out into the world seeking careers in IT. In addition valuable books on IT were donated to the school which the Principal acknowledged was invaluable for the students and teachers alike.

The next steps will include detailed discussions to identify the real needs, not only of the students but obtaining the input from the Principal and teachers and providing the necessary guidance/assistance within the parameters set by LankaClear for this programme. This will lead to the completion of a proper career guidance and assistance programme being the Company's Corporate Social Responsibility project about which the Company can take justifiable pride. We also plan to provide onsite training for a few selected students at the Clearing House in Colombo after completing their A/Ls.



Partners in Education

- a) Apart from the above special project undertaken, LankaClear continued its support towards the growth and sustainable development of our society by accommodating 25 educational visits for well over 1000 high school students to our Clearing House to learn and experience the operational processes in the Cheque Imaging & Truncation System which enables the T+1 clearing of cheques. This knowledge being an essential component of the syllabus for A/L Commerce Students, visits such as these are valuable sources of knowledge for these students.



- b) Not only did we accommodate students who visited LankaClear but we also went out to them when invited. In July 2009 our Head of HR together with the Head of Regional Centres and Bank Services Manager visited St. Aloysius College in Ratnapura to brief the A/L students there on the cheque clearing operation. The members of the team of managers were also able to help the students improve their general knowledge in the Q & A session that followed the briefing.



Relationship Building with a Difference

In an attempt to improve relationships with banks who are our clients as well as our shareholders, LankaClear sponsored and joined the Clearing House Participating Banks' Recreation Society (CHPBRs) in an outing that was organized in October 2009. On behalf of LankaClear the Bank Services Departments took the lead in the organising of this event.



- c) Another facet of our CSR programme was the "Industrial Placement scheme" for undergraduates to provide hands on work experience in a high tech environment. Our Systems Department took the lead in assisting the implementation of this special scheme.

One such trainee, while still an undergraduate is currently on a part time assignment with LankaClear enabling him to use his knowledge and hone his coding skills.

- d) We went a step further and got a team of undergraduates from the University of Moratuwa involved in an in-house, real life application development project for the Rupee Draft Clearing operation. We are happy to note that this application is currently running live and the experience gained by the undergraduates from this project would no doubt be invaluable to them.



A J F Wijewickrema
Head of HR & Administration

Corporate Governance

Corporate governance at LankaClear provides for an effective direction and control by the Management of the Company ensuring transparency and timely financial reporting.

The Company functions are regulated by the Electronic Transactions Act, Monetary Law Act, Payment & Settlement Act, Banking Act, Payment Devices Frauds Act, Companies Act and Regulations promulgated by the Central Bank of Sri Lanka from time to time. Conscious of their obligation to comply with applicable laws and regulations, the Board of Directors of LankaClear have committed themselves to ensure that there is effective oversight of the business affairs of the Company and to ensure that all such business affairs of the Company are conducted adhering to the highest standards of business and best practices.

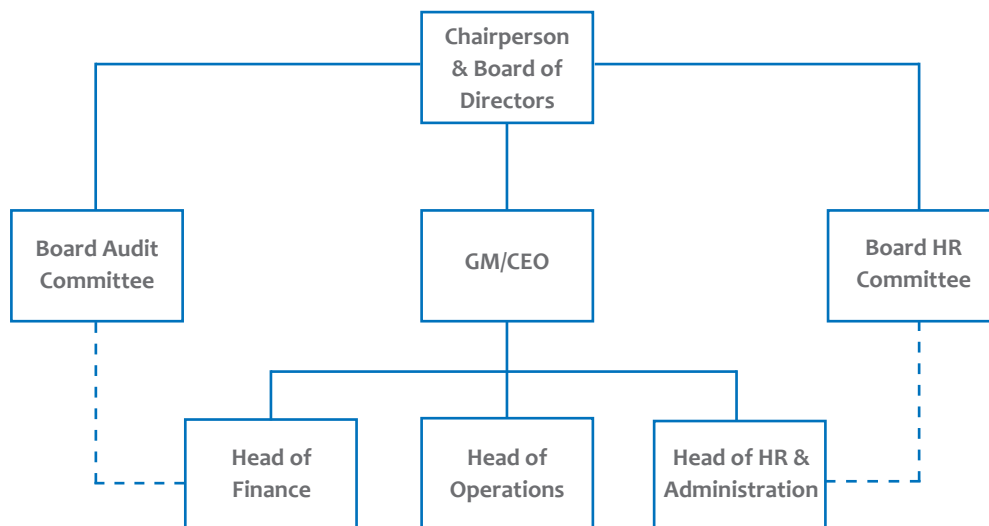
Each Board member is well qualified and experienced and brings a wealth of knowledge that contribute towards the effective control and function of the Company.

The Directors are responsible for protecting the rights and interests of shareholders and are accountable to them for the overall management of the Company.

The Board is primarily responsible for:

- Setting strategies, direction and establishing goals for management
- Monitoring performance against goals and objectives as well as ensuring adequate internal control with the highest ethical standards
- Ensuring the financial health of the Company

Governance Chart



The Board of Directors

The Board of Directors at LankaClear (Pvt) Ltd. comprises eight Non-executive Directors. The Chairperson is appointed by the Governor of the Central Bank of Sri Lanka, in accordance with the Articles of Association. Two Directors represent the Central Bank of Sri Lanka. While two more represent two state banks each. Three additional Directors are nominated by the Sri Lanka Bank's Association of whom two represent the private local commercial banks and the other represents foreign banks. The Secretary General of the Sri Lanka Bank's Association constitutes the final Board member and participates as an observer and is usually invited to express his views.

- Appointing the Chief Executive Officer and determining the remuneration of management and staff
- Reporting to shareholders.

Board Meetings

The Board had 14 meetings during the period under review and the attendance of each Director at Board meetings is given in the table below.

Included in the table is also attendance at Board HR Committee Meetings and Board Audit Committee meetings in respect of the relevant members.

Name	Board Meetings			Board HR Committee			Board Audit Committee		
	Held*	Present	%	Held*	Present	%	Held*	Present	%
Mr. A Sarath de Silva (Chairman)	14	14	100%	2	2	100%			
Mr. P D J Fernando – Director (up to Feb '10)	12	10	83%	2	2	100%			
Ms. R A S M Dayaratne – Director (from Mar '10)	2	2	100%				1	1	100%
Ms. J P Mampitiya – Director	14	14	100%						
Mr. B A C Fernando – Director	14	11	79%						
Mr. P Rajapakse – Director (up to Sep '09)	6	6	100%						
Mr. H S Dharmasiri – Director (from Oct '09)	8	8	100%						
Mr. L G Perera – Director	5	4	80%						
Ms. Kimarli Fernando – Director (up to Aug '09)	5	2	40%						
Mr. P K Thampi – Director (up to Aug '09)	3	3	100%						
Mr. B Mahapatra – Director (from Sep '09)	9	8	89%						
Mr. Nilantha de Silva – Director (from Sep '09)	9	5	56%						
Mr. Aravinda Perera – Director (from Sep '09)	9	7	78%				2	2	100%
Upali de Silva – Observer	14	14	100%	2	2	100%	5	5	100%

*Held – Meetings held during the term of service

In compliance with the Code of Best Practice, Board Papers are circulated 5 days prior to a meeting giving adequate time to Board members to prepare for the meeting.

The Board HR Committee

The Board HR Committee consists of the Chairperson (who is the Chairperson of this Committee) and 2 members of the Board of Directors.

The Terms of Reference of the Board HR Committee include the regulation of the organisation structure, salary increments, bonus distribution, salary scales and the final selection of candidates for Senior Management positions.

The Board HR Committee held 2 meetings during the year under review and the details of matters discussed and recommendations made appear in the Board HR Committee Report elsewhere in this Annual Report.

The Board Audit Committee

The Board Audit Committee comprises of 3 Directors. The Committee Chairman is Mr. Aravinda Perera – Director and

this Committee met on 5 occasions. At these meetings the quarterly internal audit reports were reviewed and actions to be taken were recommended by the Board Audit Committee which were reported to the Board of Director to ensure compliance.

Risk Management

The Business Risk, Operations Risk and Financial Risk are the risks that LankaClear has to take cognizance of when considering Risk Management, and action taken in managing these risks are highlighted in the Report on Risk Management.

Relationships with Shareholders and Disclosures

In its desire to maintain good relationships with shareholders, the LankaClear Board follows a policy of disclosing all relevant information, both financial and non

Corporate Governance ... CONTD

financial, to Shareholders. The Financial Statements are in accordance with the Sri Lankan Accounting Standards and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.

Compliance Report

Each of the Directors has submitted a declaration confirming his/her independence and confirm that to the best of his/her knowledge, all taxes and duties payable by the Company as well as contributions, levies and taxes payable on behalf of and in respect of the employees of the company and all other statutory dues, as were due as at the Balance Sheet date, have been paid or provided for in the Accounts.

Secretaries to the Board

Managers and Secretaries (Pvt) Ltd., functions as the Secretaries to the Company. The Secretaries are duly registered under the regulations and provide the necessary expertise and advice to the Board.

Senior Management

All members of the senior management team are well qualified and experienced to perform the authorities delegated through the General Manager/CEO.

Compliance with Statutory and Regulatory Requirements

The Company is in compliance with the following Acts:

- The Payment and Settlement Act No. 28 of 2005
- Electronic Transaction Act No. 19 of 2006
- Payment Devices Frauds Act No. 30 of 2006
- Monetary Law Act (Chapter 422)
- Companies Act No. 7 of 2007
- In addition we comply with the circulars issued by the Central Bank of Sri Lanka (CBSL) from time to time

Procurement Guidelines and Manual

In addition to complying with the relevant Acts mentioned above, as the Company wished to adhere to the highest standards of ethics and best practices it formally adopted a Procurement Guidelines and Manual from August 2009. This covered Ethics in Procurement, Roles and Responsibilities of the Procurement Committees, Technical Evaluation Committees and Procurement Methods to be adopted.

The main objective of these guidelines is to ensure that goods, works and services are procured in a timely, efficient, transparent and effective manner, obtaining maximum value and maintaining the highest standards of compliance and integrity throughout the procurement process.

In terms of the Procurement Guidelines and Manual, procurements of above Rs. 1,500,000/- for consumables, Rs. 500,000/- for capital equipment and Rs. 1,000,000/- for services can only be approved by the Board of Directors.

Audits

In our desire to ensure compliance with the relevant Acts and Circulars by the CBSL, internal audits are done on a quarterly basis and audit reports are discussed and required corrective action agreed at the Board Audit Committee meetings.

Environmental Responsibilities

Taking a responsible attitude towards our environment, LankaClear took initiatives to improve energy efficiency, move towards a paperless office and disseminate knowledge on improving environmental consciousness among our staff.

While some cast doubts as to whether initiatives of this nature can be successfully implemented in office environments, we at LankaClear can be proud of our achievements and more on what we have done and achieved is found in the Green Initiatives Report on page 36.

Board HR Committee

As Chairperson of the Board HR Committee it gives me great pleasure to report on the active involvement of the Board HR Committee in the decision making process of the HR Management at LankaClear.

Since a formally agreed Terms of Reference (TOR) for the Board HR Committee did not exist, this need was addressed during the year under review, where a comprehensive TOR was approved by the Board for the Board HR Committee.

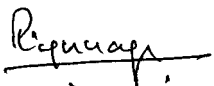
Based on the recommendations of the management, 11 employees were considered for adjustment of salaries with a view to ensuring that the core, critical employees of LankaClear are paid the correct salaries for the positions they hold and jobs they perform.

As per its Terms of Reference, the Board HR Committee reviewed the annual increments for 2010 and the bonuses for the financial 2009/10, recommended by the management for its employees and approved the recommendations to be ratified by the Board of Directors.

The salary scales for the different levels of employees applicable at LankaClear were also reviewed by the Board HR Committee and the management recommendations were approved for ratification by the Board of Directors.

I am happy to record that all recommendations made by the Board HR Committee were ratified by the Board after giving due consideration to all relevant factors.

As the Chairperson of the Board HR Committee, I would like to thank the former Chairman, Mr. A Sarath de Silva and members of the Board HR Committee, M/s. P D J Fernando and Upali De Silva and also Mr. Sunimal Weerasooriya, GM/CEO and Mr. Algi Wijewickrema, Head of HR & Administration of the management for the roles played by them.



Ms. Priyantha Liyanage
Chairperson – Board HR Committee

Audit Committee Report

Composition of the Audit Committee

The Audit Committee comprised of two Board members and it was increased to three before the end of the financial year. The last meeting was held with three members. The Chairman of the Audit Committee is a Senior Chartered Management Accountant.

The members of the Audit Committee are:

Mr. Aravinda Perera (Chairman)

Mr. M.U. De Silva

Mrs. R.A.S. M. Dayaratne

Head of Operations, Head of HR and Administration, Systems Manager, Operations Manager and Head of Finance and representatives of the Internal Auditors were present at the meetings held by invitation. The Head of Finance functions as the Secretary of the Committee.

Meetings

The committee held 05 meetings during the year under review. The attendance of the members of these meetings is given on page 31 of the Annual Report. All the meetings were held with full quorum. The proceedings of the Audit committee are regularly reported to the Board of Directors.

Terms of Reference

The functions of the committee are regulated by the scope of the Audit Charter, a Board approved terms of reference incorporating the provisions of the many regulatory bodies, standards and Acts. Accordingly, the following areas do come under their purview:

Compliance:

- (a) Review the effectiveness of the Company's systems for monitoring compliance with any applicable laws and regulations of the country and the results of management's investigations and follow – up of any instances of non compliance.
- (b) Review the findings of any examinations by regulatory agencies and any auditor observations on compliance of such laws and regulations.

External Audit:

- (c) Review the External Auditor's proposed audit scope and plan including coordination of audit effort with internal audit and its audit quality control/assurance processes
- (d) Review the performance of External Auditors and make recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.

- (e) Review with management and External Auditors the results of the audit, including any difficulties encountered.
- (f) Review the External Auditors report on the financial statements and any supplementary report (e.g Management Letter) outlining the findings, observations and recommendations and management responses and the status of any action plans
- (g) As part of the routine Committee meeting agenda meet separately with the External Auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Internal Audit:

- (h) Review with management and the Internal Auditor the charter, plans, activities, scope and report requirements etc of the internal audit function of the company and approve the same.
- (i) Review findings and recommendations by the Internal Auditors together with the management's comments and assess the effectiveness of such findings and responses are also considered.

Summary of Activities

During the year under review the Committee discharged its duties as follows;

External Audit

- (a) Reviewed the External Auditors' report on the financial statements and supplementary reports outlining the findings, observations, recommendations, management responses and the status of any action plans

Internal Controls

- (b) Reviewed the effectiveness of the internal control procedures, accounting systems and operations procedures of the organisation.

Internal Audits

- (c) Reviewed the Internal Audit programmes to ensure that implementation of internal control is monitored and their adequacy is assessed on a continuous basis
- (d) Reviewed the Internal Audit reports and monitored the implementation of recommendations made therein

Conclusion

The Committee reports to the Board, identifying any matters in respect of which it considers that action or improvement is needed and makes recommendations as to the steps to be taken.

The Committee has recommended to the Board of Directors that Messrs Ernst & Young be reappointed as Auditors for the year ending 31st March 2011 subject to the approval of the shareholders at the Annual General Meeting. The Committee will recommend the fees payable to the Auditors for approval by the Board.



Aravinda Perera
Chairman

Audit Committee
6th July 2010
Colombo, Sri Lanka

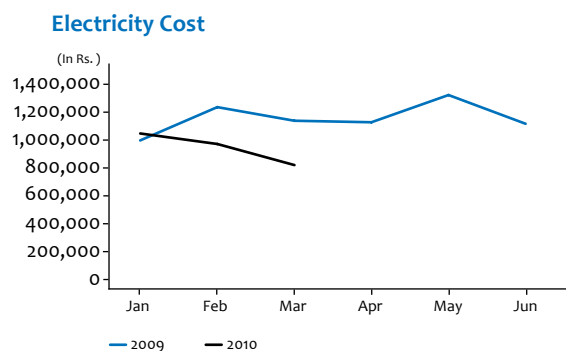
Approach to Green Initiatives

As a citizen of the globe, we have a responsibility to start making changes in our lives to protect the environment. Such action will not only save the environment but also give the Company savings as well.

Given below are some of the initiatives LankaClear has taken and benefits derived in going green:

- Conducted green initiatives awareness programs for our Staff to implement efficient and effective practices, particularly in the use of electricity
- Discussed and agreed with banks to send softcopies of reports instead of hard copies. This resulted in a remarkable reduction in the use of paper and photocopiers
- Return of empty toners to vendors for reuse
- Re-designed the Data Center cooling system to reduce electricity consumption
- Committed to buying “ENERGY EFFICIENT” products
- Moved to double sided printing and photo copying
- Improved the efficiency of our lighting system by replacing reactive ballasts with electronic ballasts. As a result the LankaClear electricity usage and costs have reduced dramatically.

Proof of the savings on electricity costs can be seen in the graph appended below.



Approach to Green Initiatives ... CONTD

Green Awareness at LankaClear





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The background of the slide features a close-up, high-contrast image of several interlocking metal gears. The gears are rendered in shades of grey and blue, with strong highlights and shadows that emphasize their three-dimensional texture and mechanical nature. The largest gear is in the foreground, partially obscured by the text, while smaller gears are visible behind it, creating a sense of depth and complexity.

and process driven Companies in Sri Lanka

‘Process-driven’ is a multifaceted approach. It may describe how overall operations are carried out, while searching for enhanced ways to deliver. For us, it’s about having the passion to drive our business operations through consistent innovation, in order to benefit the community, as a whole.

Report of the Directors

The Directors are pleased to submit their report together with the Auditor's Report and Financial Statements for the year ended 31st March 2010, to be presented at the 08th Annual General Meeting of the Company.

Review of the Year

Chairperson review on pages 6 - 8 describes the Company's affairs and mentions important events that occurred during the year, and up to the date of this report. The Financial Highlight on page 2 elaborates the financial results of the Company. These reports together with the audited financial statements reflect the state of the affairs of the Company.

Principal Activities

The Principal Activities of the Company were providing cheque clearing facilities to commercial banks on behalf of the Central Bank of Sri Lanka and facilitating inter bank electronic fund transfers through SLIPS.

Financial Statements

The financial statements prepared in compliance with the requirements of Section 151 of the Companies Act No 7 of 2007 are given on page 44 in this Annual Report.

Independent Auditor's Report

The Auditor's Report on the financial statements is given on page 43 in this report.

Accounting Policies

The Accounting Policies adopted in preparation of the financial statements are given on pages 48 - 51. There were no changes in Accounting Policies adopted by the Company during the year under review.

Fixed Assets

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

Directors' Responsibilities

The Statement of the Directors' Responsibilities is given on page 42 of this report.

Corporate Governance

The Company has complied with the corporate governance rules published by the Institute of Chartered Accountants of Sri Lanka and details appear in the Corporate Governance Report on pages 30 - 32.

Reserves

The Reserves and Accumulated Profits as at 31st March 2010 amount to Rs. 432,210,916/- vs Rs. 376,465,141/- as at 31st March 2009. The breakup and the movement are shown in the Statement of Changes in Equity in the financial statements.

Stated Capital

As per the terms of the Companies Act No. 7 of 2007, the stated capital of the Company was Rs. 150,500,000/- as at 31st March 2010 and was unchanged during the year. The details are given in Note 9 to the financial statement on page 54.

Post Balance Sheet Events

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

Interests Register

Details of the transactions with Director-related entities are disclosed in Note 20.2 to the financial statements on page 58, and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

BOARD COMMITTEES Audit Committee

Following are the names of the Directors comprising the Audit Committee of the Board.

1. Mr. Aravinda Perera (Chairman)
2. Mr. M U De Silva
3. Mrs. Mala Dayarathna

Board HR Committee

Following with the names of the directors comprising the Board HR Committee

1. Mr. A Sarath De Silva (Chairman)
2. Mr. P D J Fernando
3. Mr. M U De Silva

Directors

The Board of Directors of LankaClear (Private) Limited as at 31st March 2010 were:

1. Mr. A S de Silva (Chairman)
2. Mr. B A C Fernando
3. Ms. J P Mampitiya
4. Mr. B Mahapatra
5. Mr. A H D A N De Silva
6. Mr. M Y A Perera
7. Mr. H S Dharmasiri
8. Mrs. R A S M Dayarathna

* Mr. A S de Silva ceased to be Chairman w.e.f. 2nd May 2010 and Mrs. Priyantha Liyanage was appointed as Chairperson.

Donations

There were no donations made during the year to Government approved charities.

Auditors

The resolutions to appoint the present Auditors, Messrs. Ernst & Young Chartered Accountant, who have expressed their willingness to continue in office, will be proposed at the Annual General Meeting.

The Audit and non-audit fees paid to the auditors is disclosed in the Note 16 on page 56 in this Annual Report.

As far as the Directors are aware, the Auditors do not have any relationship on interest in the Company.

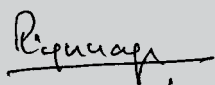
The Audit committee reviews the appointment of the Auditor, its effectiveness and its relationship with the Company including the level of audit and non-audit fees paid to the Auditor. Details on the work on the Audit Committee are set out in the Audit Committee Report.

Notice of Meeting

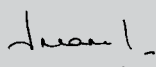
The Annual General Meeting will be held at the Roof Top California Grill - Galadari Hotel, 64, Lotus Road, Colombo 1 on 31st August 2010 at 11.30 am.

The Notice of the Annual General Meeting appears on page 62.

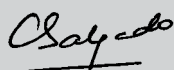
For and on behalf of the Board.



Mrs. Priyantha Liyanage
Director



Mrs. J. P. Mampitiya
Director



Managers & Secretaries (Pvt) Ltd
Secretaries

LankaClear (Private) Limited
27th July 2010
Colombo

Statement of Directors' Responsibilities for Financial Statements

The Companies Act No.07 of 2007 requires Directors to ensure that the Company keeps proper books of accounts of all the transactions and prepare Financial Statements that give a true and fair view of the state of the Company's affairs and of the profit and loss for the year.

The Directors are also required to ensure that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No. 07 of 2007. They are also responsible for taking reasonable measures to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

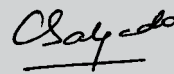
The Directors are of the view that, these Financial Statements have been prepared under the generally accepted accounting principles and in accordance with the Sri Lanka Accounting Standards as laid down by the Institute of Chartered Accountants of Sri Lanka.

The Directors endeavour to ensure that the Company maintains sufficient records to be able to disclose with reasonable accuracy, the financial position of the Company and to be able to ensure that the Financial Statements of the Company meet with the requirements of the Companies Act and Sri Lanka Accounting Standards.

The Directors have reasonable expectation, after making enquiries and following a review of the Company's budget for the ensuing year including cash flows and borrowing facilities, that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore have continued to adopt the going concern basis in preparing the Accounts.

Messrs. Ernst & Young the Auditors of the Company have examined the Financial Statements made available by the Board of Directors together with all relevant financial records, related data, minutes of Shareholders and Directors meeting and express their opinion in their report on page 43 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

Colombo
27th July 2010

Independent Auditor's Report



WRHF/PATR/DM

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LANKACLEAR PRIVATE LIMITED

Report on the Financial Statements

Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

WRHF/PATR/DM

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LANKACLEAR PRIVATE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of LankaClear Private Limited ("Company"), the consolidated financial statements of the Company and its subsidiary, which comprise the balance sheets as at 31 March 2010 and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 March 2010 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) and Sections 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

14th July 2010
Colombo.

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

Balance Sheet

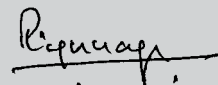
As at 31 March 2010	Note	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
ASSETS				
Non-Current Assets				
Property, Plant & Equipment	4	113,644,976	113,644,976	220,902,660
Intangible Assets	5	30,120,142	30,120,142	85,475,592
Deferred Tax Assets	18.2	1,198,225	1,198,225	-
Investments in Subsidiary		9,180,000	-	-
		<u>154,143,343</u>	<u>144,963,343</u>	<u>306,378,252</u>
Current Assets				
Inventories	6	3,484,391	3,484,391	3,093,404
Trade and Other Receivables	7	79,312,575	80,499,875	64,566,736
Investments	8	26,687,993	26,687,993	10,503,507
Cash and Cash Equivalents	19.1	502,609,385	520,222,730	423,499,992
		<u>612,094,343</u>	<u>630,894,989</u>	<u>501,663,639</u>
Total Assets		<u>766,237,686</u>	<u>775,858,333</u>	<u>808,041,891</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Issued Share Capital	9	150,500,000	150,500,000	150,500,000
Building Fund	10.1	83,948,333	83,948,333	53,254,734
Capital Reserves	10.2	195,000,000	195,000,000	195,000,000
Retained Earnings		153,262,583	153,233,086	128,210,405
		<u>582,710,916</u>	<u>582,681,419</u>	<u>526,965,139</u>
Minority Interest		-	8,791,660	-
Total Equity		<u>582,710,916</u>	<u>591,473,079</u>	<u>526,965,139</u>
Non-Current Liabilities				
Interest Bearing Loans and Borrowings	11	74,312,984	74,312,984	101,591,296
CITS Related Government Grant	12	6,303,431	6,303,431	81,944,597
Defined Benefit Liability	13	6,231,260	6,231,260	2,488,870
Deferred Tax Liability	18.2	-	-	2,054,319
		<u>86,847,675</u>	<u>86,847,675</u>	<u>188,079,082</u>
Current Liabilities				
Trade and Other Payables	14	63,204,363	63,259,228	56,737,169
Income Tax Liability		6,196,420	6,196,420	6,236,787
Interest Bearing Loans and Borrowings	11	27,278,312	27,278,312	27,278,312
Bank Overdrafts	19.2	-	803,619	2,745,400
		<u>96,679,095</u>	<u>97,537,579</u>	<u>92,997,668</u>
Total Equity and Liabilities		<u>766,237,686</u>	<u>775,858,333</u>	<u>808,041,890</u>

These Financial Statements are in compliance with the requirements of the Companies Act No :07 of 2007.



Head of Finance

The board of directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the board by:



Director



Director

The accounting policies and notes on pages 06 through 18 form an integral part of the Financial Statements.

14th July 2010
Colombo

Income Statement

Year ended 31 March 2010	Note	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
Revenue	3	383,358,455	383,358,455	422,234,920
Cost of Sales		<u>(208,354,158)</u>	<u>(208,354,158)</u>	<u>(212,168,456)</u>
Gross Profit		175,004,297	175,004,297	210,066,464
Other Income and Gains	15	72,425,572	72,468,967	86,820,146
Other Administrative Expenses		<u>(107,349,288)</u>	<u>(107,450,522)</u>	<u>(99,583,991)</u>
Finance Cost	17	<u>(17,306,188)</u>	<u>(17,306,188)</u>	<u>(21,530,323)</u>
Profit/ (Loss) Before tax		122,774,393	122,716,555	175,772,297
Income Tax Expense	18	<u>(42,948,616)</u>	<u>(42,948,616)</u>	<u>(64,757,350)</u>
Profit/ (Loss) After Tax		79,825,777	79,767,939	111,014,947
Attributable to Minority Interest		-	28,340	-
Net Profit Attributable to Share Holders		<u>79,825,777</u>	<u>79,796,279</u>	<u>111,014,947</u>
Earnings Per Share		5.30	5.30	7.38

The accounting policies and notes on pages 06 through 18 form an integral part of the Financial Statements.

Statement of Changes in Equity

Group Year ended 31 March 2010	Note	Stated Capital Rs.	Building Fund Rs.	Capital Reserves Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31 March 2008		150,500,000	18,000,000	-	262,500,193	431,000,193
Net Profit for the Year		-	-	-	111,014,947	111,014,947
Transfer to Building Fund	10.1	-	35,254,734	-	(35,254,734)	-
Transfer to Capital Reserve		-	-	195,000,000	(195,000,000)	-
Dividend paid		-	-	-	(15,050,000)	(15,050,000)
Balance as at 31 March 2009		<u>150,500,000</u>	<u>53,254,734</u>	<u>195,000,000</u>	<u>128,210,406</u>	<u>526,965,140</u>
Net Profit for the Year		-	-	-	79,796,279	79,796,279
Transfer to Building Fund	10.1	-	30,693,599	-	(30,693,599)	-
Dividend paid		-	-	-	(24,080,000)	(24,080,000)
Balance as at 31 March 2010		<u>150,500,000</u>	<u>83,948,333</u>	<u>195,000,000</u>	<u>153,233,086</u>	<u>582,681,419</u>

Company	Note	Stated Capital Rs.	Building Fund Rs.	Capital Reserves Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31 March 2008		150,500,000	18,000,000	-	262,500,193	431,000,193
Net Profit for the Year		-	-	-	111,014,947	111,014,947
Transfer to Building Fund	10.1	-	35,254,734	-	(35,254,734)	-
Transfer to Capital Reserve		-	-	195,000,000	(195,000,000)	-
Dividend paid		-	-	-	(15,050,000)	(15,050,000)
Balance as at 31 March 2009		<u>150,500,000</u>	<u>53,254,734</u>	<u>195,000,000</u>	<u>128,210,406</u>	<u>526,965,140</u>
Net Profit for the Year		-	-	-	79,825,777	79,825,777
Transfer to Building Fund	10.1	-	30,693,599	-	(30,693,599)	-
Dividend paid		-	-	-	(24,080,000)	(24,080,000)
Balance as at 31 March 2010		<u>150,500,000</u>	<u>83,948,333</u>	<u>195,000,000</u>	<u>153,262,583</u>	<u>582,710,916</u>

The accounting policies and notes on pages 06 through 18 form an integral part of the Financial Statements.

Cash Flow Statement

Year ended 31 March 2010	Note	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
Cash Flows From / (Used in) Operating Activities				
Net profit before Income Tax Expense		122,774,394	122,716,556	175,772,297
Adjustments for				
Depreciation	4	158,886,975	158,886,975	156,833,666
Amortization of Deferred Income	12	(75,641,166)	(75,641,166)	(75,641,166)
Finance Income	15	(72,075,680)	(72,119,076)	(86,820,146)
Provision/(Reversal) for Define Benefit Plans	13	3,742,390	3,742,390	890,619
Provision for Bank Claims		-	-	9,999,996
(Profit)/Loss on Disposal of Property, Plant & equipments		(29,008)	(29,008)	75,582
Finance Cost	17	17,306,188	17,306,188	21,530,323
Operating Profit/(Loss) before Working Capital Changes		154,964,093	154,862,859	202,641,171
(Increase)/Decrease in Inventory		(390,987)	(390,987)	631,785
(Increase)/Decrease in Trade and Other Receivables		4,123,711	2,936,411	(4,147,549)
Increase/(Decrease) in Trade and Other Payables		6,467,194	6,522,059	(29,051,931)
Cash Generated from Operations		165,164,011	163,930,342	170,073,476
Interest Paid		(17,306,188)	(17,306,188)	(21,530,323)
Income Tax Paid		(46,025,432)	(46,025,432)	(66,937,262)
Bank Claims Paid		-	-	(8,915,541)
Gratuity Paid	13	-	-	(75,000)
Net Cash From/(Used in) Operating Activities		101,832,390	100,598,721	72,615,350
Cash Flows From/(used in) Investing Activities				
Acquisition of Property, Plant & Equipment	4	(9,742,919)	(9,742,919)	(17,553,938)
Cash received from CPS		15,500,000	15,500,000	-
Investment in CPS Project		(2,107,921)	(2,107,921)	(86,884,031)
Investment in Subsidiary Company Shares		(9,180,000)		
Proceeds from disposal of Property, Plant & Equipments		106,007	106,007	35,000
Finance Income Received		52,990,035	53,033,431	97,742,003
Net Proceeds from Investments in Fixed income Securities		(16,184,486)	(16,184,486)	248,348,355
Net Cash Flows from/(used in) Investing Activities		31,380,716	40,604,113	241,687,389
Cash Flows from/(used in) Financing Activities				
Investment Made in Shares by Minority		-	8,820,000	-
Dividend Paid		(24,080,000)	(24,080,000)	(15,050,000)
Repayment of Interest Bearing Loans & Borrowings	11.1	(27,278,312)	(27,278,312)	(27,278,312)
Net Cash Flows from/(used in) Financing Activities		(51,358,312)	(42,538,312)	42,328,312
Net Increase/(Decrease) in Cash and Cash Equivalents		81,854,794	98,664,520	271,974,427
Cash and Cash Equivalents at the beginning of the year		420,754,591	420,754,591	148,780,164
Cash and Cash Equivalents at the end of the year	19	502,609,385	519,419,111	420,754,591

The accounting policies and notes on pages 06 through 18 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

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

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were to provide clearance transactions to commercial banks on behalf of the Central Bank and facilitate inter bank electronic fund transfers through SLIPS

1.3 Date of Authorization of Issue

The Financial Statements of LankaClear (Pvt) Ltd., for the year ended 31 March 2010, were authorized for issue in accordance with a resolution of the Board of Directors on 14th July 2010.

2.1 BASIS OF PREPARATION

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

Consolidated Financial Statements are prepared using unaudited financial statements of its subsidiary LankaClear Cash Management Private Limited as it is incorporated on February 2010 and there are no significant operations in the Company as of 31 March 2010.

2.1.1 Statement of Compliance

The Financial Statements of LankaClear (Private) Limited have been prepared in accordance with Sri Lanka Accounting Standards (SLAS)

The Preparation and Presentation of these Financial Statements are in compliance with the Companies Act No.07 of 2007.

2.1.2 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year.

2.2 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The financial statements are sensitive to assumptions and estimates made in measuring certain carrying amounts represented in the Balance Sheet and amounts charged to the Income Statement. These could result in significant

risk causing material adjustments to the carrying amounts of assets and liabilities which are disclosed in the relevant Notes to the Financial Statements.

Defined Benefit Plans

The Defined Benefit Obligation and the related charge for the year is determined using assumptions required under actuarial valuation techniques. The valuation involves making assumptions about discount rates, future salary increases, staff turnover rates etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainty.

Further details are given in Note 13 to these financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.3.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.3.2 Taxation

Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

Current income tax relating to items recognised directly in equity and not in the income statement.

Deferred Taxation

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

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

Deferred income tax relating to items recognised directly in equity and not in the income statement

2.3.3 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of that asset.

2.3.4 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition, are accounted using the following cost formulae:-

Consumables & Stationery - Weighted average cost basis

2.3.5 Trade and Other Receivables

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

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

2.3.6 Cash and Cash Equivalents

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.3.7 Property, Plant and Equipment

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

Depreciation is calculated on a straight line basis over the useful life of the assets commencing from the month of purchase or from the month on which the asset was made available to use.

Principal annual rates used are:

Computer Equipment	25%
Furniture and Fittings	10%
Electronic Equipment	20%
Other Equipment	20%
Motor Vehicles	20%

2.3.8 Intangible Assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably.

Amortized is calculated on a straight line basis over the useful life of the asset commencing from the month of purchase or from the month on which the asset was made available to use.

Principal annual rate used is:

Computer Software 25%

Notes to the Financial Statements ... CONTD

2.3.9 Investments

a) Current Investments

Investments in Fixed Deposits are stated at cost

b) Securities purchased under Re-sale Agreements

These are advances collateralized by purchase of treasury bills and treasury bonds subject to a commitment to re-sale them at a predetermined price. Such securities remain on the Balance Sheet of the company and the asset is recorded in respect of the consideration paid and interest accrued thereon.

2.3.10 Provisions

a) Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

b) Provision for Bank Claims

Provision for payable bank claims is made for any financial year on 0.05% of the average value of a day's clearing on previous year and will be reversed the same at the end of second financial year if claims are not made within two consecutive financial years.

2.3.11 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

The Company annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the Gratuity Formula in Appendix E of Sri Lanka Accounting Standard No.16, Employee Benefits (Revised 2006) which is based on the Projected Unit Credit method as discussed in the said Standard. Although actuarial assumptions are used therein, it should not be treated as a substitute to an Actuarial Valuation.

This item is grouped under Other Defined Benefit Liability in the Balance Sheet.

b) Defined Contribution Plans – Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.3.12 Grants & Subsidies

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

2.3.13 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

a) Rendering of Services

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

b) Interest

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

c) Others

Other income is recognised on an accrual basis.

2.4 Effect of Sri Lanka Accounting Standards Issued but not yet Effective

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)

SLAS 44 and 45 becomes effective for financial years beginning on or after 01 January 2011. Accordingly, the financial Statements for the year ending 31 March 2012 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Company is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effect of these standards the impact of adoption cannot be estimated as at the date of publication of these financial statements.

b) Sri Lanka Accounting Standard 39- Share Based Payments (SLAS 39)

SLAS 39- Share based payments, effective for periods beginning on or after 01 January 2010 will be first adopted in the year ending 31 March 2011. This standards requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares (equity-settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash- settled transactions).

For equity-settled share-based payment transactions, the Company is required to apply SLAS 39 to grants of shares, share options or other equity instruments that were granted after 01 January 2010.

Currently company has no such share based payments arrangements.

Notes to the Financial Statements ... CONTD

3. REVENUE

Year ended 31 March 2010	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
3.1 Revenue			
Sales	393,932,819	393,932,819	422,970,832
Sales-CA	252,004	252,004	
Less: NBT	(10,826,369)	(10,826,369)	(735,912)
Net Sales	<u>383,358,455</u>	<u>383,358,455</u>	<u>422,234,920</u>
3.2 Goods and Services Analysis			
Rendering of Clearing Services	383,358,455	383,358,455	422,234,920
	<u>383,358,455</u>	<u>383,358,455</u>	<u>422,234,920</u>

4. PROPERTY, PLANT & EQUIPMENT

Group / Company

	Balance As at 01.04.2009 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2010 Rs.
At Cost				
4.1 Gross Carrying Amounts				
Computer Equipment	358,354,821	1,741,430	(120,840)	359,975,411
Furniture and Fittings	20,478,963	272,874	(74,405)	20,677,432
Electronic Equipment	41,456,130	3,396,493	-	44,852,622
Other Equipment	2,276,578	165,671	-	2,442,250
Motor Vehicle	6,650,000	-	-	6,650,000
	<u>429,216,492</u>	<u>5,576,468</u>	<u>(195,245)</u>	<u>434,597,714</u>
In the course of construction	Balance As at 01.04.2009 Rs.	Acquired during the year Rs.	Transferred during the year Rs.	Balance As at 31.03.2010 Rs.
Computer Equipment- Work in Progress	86,884,031	2,107,920	15,500,000	73,491,951
	<u>86,884,031</u>	<u>2,107,920</u>	<u>15,500,000</u>	<u>73,491,951</u>
Total Gross Carrying Amount	<u>516,100,523</u>	<u>7,684,388</u>	<u>15,304,755</u>	<u>508,089,665</u>
	Balance As At 01.04.2009 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2010 Rs.

4.2 Depreciation

At Cost				
Computer Equipment	261,920,365	87,818,365	(82,367)	349,656,363
Furniture and Fittings	7,606,504	2,052,094	(35,879)	9,622,719
Electronic Equipment	22,093,879	7,974,687	-	30,068,565
Other Equipment	1,692,948	189,928	-	1,882,876
Motor Vehicle	1,884,167	1,330,000	-	3,214,166
	<u>295,197,863</u>	<u>99,365,074</u>	<u>(118,246)</u>	<u>394,444,690</u>

4.3 Net Book Values

At Cost

	2010 Rs.	2009 Rs.
Computer Equipment	10,319,048	96,434,455
Furniture and Fittings	11,054,712	12,872,458
Electronic Equipment	14,784,057	19,362,251
Other Equipment	559,374	583,631
Motor Vehicle	3,435,834	4,765,833
	<u>40,153,025</u>	<u>134,018,629</u>

4.4 Capital Work in Progress

Computer Equipment-Work in Progress

	73,491,951	86,884,031
	<u>73,491,951</u>	<u>86,884,031</u>
	<u>113,644,976</u>	<u>220,902,660</u>

4.5 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.5,576,468/- (2009- Rs.3,084,966/-). Cash Payments amounting to Rs. 5,576,468/- (2009- Rs.3,084,966/-) were made during the year for purchasing property, plant and equipment Rs. 2,107,920/- were made during the year as working progress for computer equipments.

4.6 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amounts of Rs.9,976,235/- (2009- Rs.7,299,097 /-).

5. INTANGIBLE ASSETS

Group / Company	Balance As at 01.04.2009 Rs.	Acquired during the period	Amortisation during the period	Balance As at 31.03.2010 Rs.
Computer Software	237,643,257	4,166,452	-	241,809,708
	<u>237,643,257</u>	<u>4,166,452</u>	<u>-</u>	<u>241,809,708</u>
Amortisation				
Computer Software	152,167,665	-	59,521,902	211,689,566
	<u>152,167,665</u>	<u>-</u>	<u>59,521,902</u>	<u>211,689,566</u>
NBV	<u>85,475,592</u>			<u>30,120,142</u>

6. INVENTORIES

	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
6.1 Consumable and Stationery	3,484,391	3,484,391	3,093,404
	<u>3,484,391</u>	<u>3,484,391</u>	<u>3,093,404</u>

Notes to the Financial Statements ... CONTD

	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
7. TRADE AND OTHER RECEIVABLES			
7.1 Trade Debtors	48,355,409	48,355,409	53,352,535
Less: Allowances for Doubtful Debts	-	-	(260,260)
	<u>48,355,409</u>	<u>48,355,409</u>	<u>53,092,275</u>
Refundable Deposit	172,980	172,980	129,500
Interest Receivable on Fixed Deposits	25,614,484	25,614,484	6,744,935
Others	785,771	-	-
Advance & Prepayments	<u>4,383,930</u>	<u>6,357,002</u>	<u>4,600,026</u>
	<u>79,312,575</u>	<u>80,499,875</u>	<u>64,566,736</u>
8. INVESTMENTS			
Investments in Treasury Bills	26,687,993	26,687,993	10,503,507
	<u>26,687,993</u>	<u>26,687,993</u>	<u>10,503,507</u>

9. STATED CAPITAL

Company	Number	2010 Rs.	2009 Number	Rs.
Fully paid Ordinary Shares	15,050,000	150,500,000	15,050,000	150,500,000
	<u>15,050,000</u>	<u>150,500,000</u>	<u>15,050,000</u>	<u>150,500,000</u>

10. RESERVE

	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
10.1 BUILDING FUND			
At the beginning of the year	53,254,734	53,254,734	18,000,000
Transfers from Retained Profits	<u>30,693,599</u>	<u>30,693,599</u>	<u>35,254,734</u>
At the end of the year	<u>83,948,333</u>	<u>83,948,333</u>	<u>53,254,734</u>
10.2 CAPITAL RESERVES			
Reserve for Common Payment Switch Project	150,000,000	150,000,000	150,000,000
Reserve for Direct Connectivity Project	25,000,000	25,000,000	25,000,000
Reserve for Cash Management Project	15,000,000	15,000,000	15,000,000
Reserve for Establishment of a Certificate of authority	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Total	<u>195,000,000</u>	<u>195,000,000</u>	<u>195,000,000</u>

11. INTEREST BEARING LOANS & BORROWINGS

Group / Company

	2010 Amount Repayable Within 1 Year Rs.	2010 Amount Repayable After 1 Year Rs.	2010 Total Rs.	2009 Amount Repayable Within 1 Year Rs.	2009 Amount Repayable After 1 Year Rs.	2009 Total Rs.
Bank Loans (11.1)	27,278,312	74,312,984	101,591,296	27,278,312	101,591,296	128,869,608
	<u>27,278,312</u>	<u>74,312,984</u>	<u>101,591,296</u>	<u>27,278,312</u>	<u>101,591,296</u>	<u>128,869,608</u>

11.1 Bank Loans

	As At 01.04.2009 Rs.	Loan Obtained Rs.	Repayment Rs.	As At 31.03.2010 Rs.
Seylan Bank Ltd	128,869,608	-	27,278,312	101,591,296
	<u>128,869,608</u>	<u>-</u>	<u>27,278,312</u>	<u>101,591,296</u>

12. CITS RELATED GOVERNMENT GRANT

	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
As of the beginning of the year	81,944,598	81,944,598	157,585,764
Amortized during the year	(75,641,166)	(75,641,166)	(75,641,166)
As of the end of the year	<u>6,303,431</u>	<u>6,303,431</u>	<u>81,944,598</u>

During the year 2005/06, the company received a grant from the Central Bank of Sri Lanka in respect of new Cheque Imagine & Truncation System (CITS). Total grant amounted to 85% of the cost of the hardware and local taxes. The grant is amortized over the useful life of the CITS equipments.

13. OTHER DEFERRED LIABILITIES

	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
Retirement Benefits Obligations - Gratuity			
Balance as at Beginning of the year	2,488,870	2,488,870	1,673,252
Charge/(Reversal) for the year	3,742,390	3,742,390	890,618
Payments during the year	-	-	(75,000)
Balance as at the end of the year	<u>6,231,260</u>	<u>6,231,260</u>	<u>2,488,870</u>

Notes to the Financial Statements ... CONTD

14. TRADE AND OTHER PAYABLES

	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
VAT Payable	1,704,177	1,704,177	(2,061,261)
NBT Payable	1,055,486	1,055,486	397,219
ESC Payable	951,653	951,653	902,924
WHT Payable	257,260	312,125	-
Sundry Creditors Including Accrued Expenses	2,958,326	2,958,326	2,365,257
Provisions	56,248,469	56,248,469	55,104,037
Advance received for Batch Tickets sales	28,992	28,992	28,992
	<u>63,204,363</u>	<u>63,259,228</u>	<u>56,737,169</u>

15. OTHER INCOME AND GAINS

-Interest on Fixed Deposits	59,851,840	59,851,840	39,741,782
-Interest on Treasury Bill Repo	2,160,951	2,204,347	38,354,237
-Interest on Commercial Paper	10,062,888	10,062,888	8,355,212
-Other Income	349,892	349,892	368,915
	<u>72,425,572</u>	<u>72,468,967</u>	<u>86,820,146</u>

16. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

Stated after Charging/(Crediting)

Directors' Emoluments	1,870,500	1,955,500	1,619,873
Auditors' Fee - External	299,004	299,004	215,200
- Internal	421,225	421,225	218,000
Depreciation	158,236,861	158,236,861	156,833,666
Personnel Costs includes			
- Defined Benefits Plan Cost - Gratuity	3,742,390	3,742,390	890,618
- Defined Contribution Plan Cost - EPF & ETF	5,461,661	5,461,661	4,422,256
- Other Staff Costs	62,633,396	62,633,396	54,816,745

17. FINANCE COST AND INCOME

Interest Expense on Interest Bearing Loans & Borrowings

	17,306,188	17,306,188	21,530,323
	<u>17,306,188</u>	<u>17,306,188</u>	<u>21,530,323</u>

18. INCOME TAX EXPENSE

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

Income Statement

Current Income Tax

Current Income Tax charge	47,113,684	47,113,684	65,373,283
Social Responsibility Levy 1% (2007 - 1%)	742,825	742,825	1,003,174
Under/(Over) Provision of current taxes in respect of prior years	(1,655,349)	(1,655,349)	(6,874,579)

Deferred Income Tax

Deferred Taxation Charge/(Reversal) (18.2)	(3,252,544)	(3,252,544)	5,255,472
Income tax expense reported in the Income Statement	<u>42,948,616</u>	<u>42,948,616</u>	<u>64,757,350</u>

18. INCOME TAX EXPENSE *Contd.*

18.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :

	Company 2010 Rs.	Company 2009 Rs.
Accounting Profit before Income Tax	122,774,393	175,772,297
At the statutory income tax rate of 35% (2009 : 35%)	42,971,037	61,520,304
Aggregate Allowable Items	(59,021,969)	(26,488,786)
Over provision of current tax in respect of prior years	(1,655,349)	(6,874,579)
Aggregate Disallowable Items	59,912,071	35,597,238
Social Responsibility Levy 1.5%	742,825	1,003,174
At the effective income tax rate of 35 % (2009 : 38 %)	42,948,616	64,757,351

18.2 Deferred Tax Assets, Liabilities and Income Tax relates to the followings

Group / Company

	Balance Sheet		Income Statement	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Deferred Tax Liability				
Capital allowances for tax purposes	982,716	6,425,423	(5,442,707)	(1,292,377)
Deferred Tax Assets				
General Provisions on Trade Receivables	-	-	-	54,076
Defined Benefit Plans	(2,180,941)	(871,105)	(1,309,837)	(285,467)
General provision for probable rent	-	-	-	1,738,800
Claim from Banks	-	(3,500,000)	3,500,000	5,040,438
	(2,180,941)	(4,371,105)	2,190,163	6,547,847
Deferred Tax (Asset)/ Liabilities	(1,198,225)	2,054,318		
Deferred Tax charge/(Reversal)			(3,252,544)	5,255,470

19. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	Company 2010 Rs.	Group 2010 Rs.	Company 2009 Rs.
Components of Cash and Cash Equivalents			
19.1 Favourable Cash & Cash Equivalents balance			
Cash & Bank Balances	2,527,095	3,840,441	3,218,763
Fixed Deposits	422,675,061	422,675,061	333,612,980
TB Repo	12,300,000	28,600,000	31,580,000
Commercial Papers	65,107,229	65,107,229	55,088,249
	502,609,385	520,222,730	423,499,992
19.2 Unfavourable Cash & Cash Equivalent Balances			
Bank Overdraft	-	(803,619)	(2,745,400)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	502,609,385	519,419,111	420,754,591

Notes to the Financial Statements ... CONTD

20. RELATED PARTY DISCLOSURES

Company

Details of significant related party disclosures are as follows:

20.1 Transaction with Related Entities

a) Transaction with Significant Shareholders

	2010 Rs.	2009 Rs.
As as 1st April	53,048,549	51,539,214
Clearing services provided	438,753,468	483,137,507
Incentives given	-	-
Cash Received during the year	(443,446,608)	(481,367,911)
Gross Balance as at 31st March	48,355,409	53,308,809
Provisions for Doubtful Receivables	-	260,260
Net Balance as at 31st March	48,355,409	53,048,549

b) Bank Loans

As at the year end the balance outstanding interest bearing loans & borrowings amounting to Rs.101,591,296/- (2009 - Rs.128,869,608/-) which were obtained from a related party of the Company. Further interest payments on loans amounting to Rs.17,306,188/- has been made during the year (2009- Rs.21,530,323/-) and are included in Note No.11 to the financial statements. No assets have been pledged in this regard.

c) Treasury Bills

As at the year end the Company has invested in Treasury Bills amounting to Rs.26,687,993/- (2009- Rs.10,503,507/-) with banks which are related parties of the Company. Further, the Company has received interest income amounting to Rs.125,662/- during the year (2009- Rs.23,782,219/-) and are included in Note No.8 to the financial statements.

d) Commercial Papers

During the year Company has invested in Commercial Papers amounting to Rs. 65,107,229/- with financial institutions. Further the Company has received interest amounting to Rs. 10,062,888/-

20.2 Transactions with Key Management Personnel of the Company or Parent

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

a) Key Management personnel Compensation

	2010 Rs.	2009 Rs.
Short Term Benefits	1,870,500	1,619,873

21. COMMITMENTS AND CONTINGENCIES

There are no significant commitments or contingencies as at the balance sheet date, which requires disclosure in the financial statements.

22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

Corporate Profile

- **Name of the Company**

LankaClear (Pvt) Ltd

- **Statutory Status**

A Private Company with Limited liability incorporated in Sri Lanka on 8th February 2002.

- **History**

Former Sri Lanka Automated Clearing House (SLACH), owned by the Central Bank of Sri Lanka.
Divested to LankaClear (Pvt) Ltd.
Commenced operations on the 1st April 2002.

- **Principal Activities**

Provide cheque clearing facilities to commercial banks on behalf of the Central Bank and facilitate interbank electronic funds transfers through SLIPS.

- **Product Range**

Sri Lanka Rupee Cheque Clearing
US Dollar Clearing
Sri Lanka Rupee Draft Clearing
Sri Lanka Inter Bank Payment System (SLIPS)
Certificate Authority (CA)

- **Board of Directors**

Mrs. P Liyanage

Chairperson, Ex-Assistant Governor,
Central Bank of Sri Lanka

Mrs. J P Mampitiya

Director – Assistant Governor,
Central Bank of Sri Lanka

Mr. B A C Fernando

Director – General Manager, Bank of Ceylon

Mr. H S Dharmasiri

Director – Snr. Deputy General Manager, People's Bank

Mrs. R A S M Dayaratne

Director – Director IT, Central Bank

Mr. Aravinda Perera

Director – Executive Director/COO, Sampath Bank

Mr. Nilanth de Silva

Director – Acting CEO/COO, Union Bank

Mr. B Mahapatra

Director – Regional Head & CEO, State Bank of India

Mr. M. U. De Silva

Observer (Secretary General, SLBA)

- **Management Team**

Mr. S B Weerasooriya

General Manager/CEO

Mr. H S Wanigatunga

Head of Operations

Mr. A J F Wijewickrema

Head of Human Resources & Administration

Mr. R L Galappaththy

Head of Finance

Mr. L G Abeysirigunawardena

Head of Regional Centres

Mr. S R Hettiarachchi

Operations Manager

Mr. D Samarasinghe

Systems Manager

Mr. A V I G Jayaweera

Bank Services & Help Desk Manager

Mr. T P A Jayawickrama

Network Operations Manager

Mr. P H A J A S Wijepala

Manager – Facilities & Maintenance

Mr. W M Jayaratne

CITS Manager

- **Regional Centre Management**

Mr. D M Thilakarathne

Regional Centre Manager - Badulla

Mr. R Sevugan

Regional Centre Manager – Nuwara-Elya

Mr. J B Senanayake

Regional Centre Manager – Kandy

Mr. J Muthukumarasamy

Regional Centre Manager – Jaffna

Mr. S A Amarasinghe

Regional Centre Manager – Anuradhapura

Mr. A Sajan Assan

Regional Centre Manager – Ampara

Mr. M P Mendis

Regional Centre Manager - Ratnapura

Corporate Profile ... CONTD

Mr. T M P Munasinghe

Regional Centre Manager – Polonnaruwa

Mr. C Pahalagama

Regional Centre Manager – Matara

Mr. B M T Basnayake

Regional Centre Manager - Kurunegala

• Stated Capital/ Share Capital

	Number	Rs.
Fully paid Ordinary Shares	15,050,000	150,500,000

• Shareholders

Shareholder	Number of Shares 'Mn'	Value 'Rs. Mn'
Central Bank of Sri Lanka	2.95	29.50
Bank of Ceylon	2.10	21.00
People's Bank	2.10	21.00
Sampath Bank Limited	2.00	20.00
Commercial Bank of Ceylon Limited	1.00	10.00
Hatton National Bank Limited	2.20	22.00
Seylan Bank PLC	1.00	10.00
Union Bank of Colombo	0.05	0.50
DFCC Vardhana Bank	0.10	1.00
Pan Asia Banking Corporation PLC	0.10	1.00
Nations Trust Bank	0.15	1.50
National Development Bank PLC	0.15	1.50
Habib Bank Ltd	0.05	0.50
Indian Bank	0.10	1.00
Indian Overseas Bank	0.10	1.00
State Bank of India	0.05	0.50
Muslim Commercial Bank	0.10	1.00
Hongkong and Shanghai Banking Corporation	0.20	2.00
Deutsche Bank	0.15	1.50
Citibank NA	0.10	1.00
Standard Chartered Bank	0.15	1.50
Public Bank Berhad	0.10	1.00
ICIC Bank	0.05	0.50
	15.05	150.50

• Registered Office & Main Place of Business:

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

• Company Secretaries

Managers & Secretaries (Pvt) Ltd.
8, Tickell Road, Colombo 08.
Tel: 5579900
Fax: 5579950

• Bankers

Bank of Ceylon – Corporate Branch
Seylan Bank – Millennium Branch
Union Bank – Head Office Branch

• External Auditors

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

• Internal Auditors

Ms.B.R. De Silva & Company
Chartered Accountants
No.22/4, Vijaya Kumaranatunga Mawatha,
Colombo 05
Tel: 4510368
Fax: 4512404

• Contact

Voice – 2356900 to 2356999
Fax - 2544346
E-mail – info@lankaclear.com

Glossary & Interpretation

‘Bank’ shall mean a company or body corporate licensed under the Banking Act No. 30 of 1988 to carry on banking business in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a CITS participant.

‘Business Day’ shall mean a day on which banks are open for business in Sri Lanka.

‘CA: Certificate Authority’ A CA is an entity, which is core to many PKI (Public Key Infrastructure) schemes, whose purpose is to issue digital certificates to other parties. It exemplifies a trusted third party.

‘CBSL’ shall mean Central Bank of Sri Lanka.

‘CITS’ shall mean ‘Cheque Imaging and Truncation System’ which includes LCPL systems, processes and procedures for the electronic clearing and archiving of CITS items and non-clearing items, if any.

‘CITS Image Items’ shall mean CITS items in image format, including electronic images of Articles, and complying with such format, content and image quality requirements, specifications and other requirements specified by LCPL from time to time.

‘CITS Clearing’ shall mean the process of receiving, sorting and exchanging of CITS image items among CITS participants, balancing of the amounts expresses in Articles thus exchanged and consequently deriving the net balances.

‘CITS System’ shall mean systems operated and maintained by LCPL for, clearing of cheques including without any limitation, receiving, processing, clearing and archival of cheque images and data which could be access by participants through Regional Centres and/or through direct connectivity mode.

‘CITS Participants’ shall mean all licensed commercial banks operating in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a participating Bank in the CIT System.

‘Clearing and settlement System’ means a system or arrangement for the clearing or settlement of payment obligations in the financial system, in any currency, and in which there is a minimum of three participants, at least one of which is a financial institution.

‘Clearing House’ means a corporation, association, partnership, agency or organization or other entity or person that provides clearing or settlement services for a clearing and settlement system, but does not include the central Bank.

‘CMPC’ shall mean ‘Colombo Main Processing Centre’ which is located at the head office of LCPL.

‘Cut-off Times’ shall mean times specified with respect to action to be undertaken or effected in relation to CITS

as may be notified by CBSL to LCPL; and by LCPL to CITS participants from time to time.

‘Cheque Return Notification’ shall mean the Image Return Document defined in Section 34 (1) and (2) of the part III of the Payment and Settlement Systems Act No. 28 of 2005.

CRIB – Credit Information Bureau of Sri Lanka

‘Inward CITS Items’ shall mean CITS Items which have been generated by LCPL through the CITS in respect of a Paying Bank based on the Outward CITS Files.

‘Inward Return CITS Items’ shall mean Return CITS items which have been generated by LCPL through the CITS in respect of a Presenting Bank based on the Outward Return CITS files.

‘LCPL’ shall mean LankaClear (Pvt) Ltd. Incorporated under Companies Act No. 07 of 2007 and its network of Regional Centres.

‘MICR’ shall mean the data known as ‘Magnetic Ink Character Recognition’ data, encoded on Articles in accordance with the specifications and standers as laid down by LCPL and as from time to time amended by LCPL.

‘Outward CITS Items’ shall mean CITS items of an outward CITS File generated by a presenting Bank and provided or transmitted to LCPL.

‘Outward Return CITS Items’ shall mean Return CITS Items of an Outward Return CITS File generated by a Paying Bank.

‘Paying Bank’ in respect of a CITS Item shall mean a CITS participant to whom an Article is drawn.

‘Presenting Bank’ or **‘Collecting Bank’** in respect of a CITS Item shall mean a CITS participant which presents or represents the Articles for clearing through the CITS System.

PKI: Public Key Infrastructure A PKI enables users of a basically unsecure public, private network such as the Internet or virtual private network to securely and privately exchange data through the use of a public and a private cryptographic key pair that is obtained and shared through a trusted authority.

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

‘Return CITS Items’ shall mean CITS Items that are submitted to LCPL as returned CITS Items by Paying Banks due to any of the return reasons as specified by LCPL from time to time.

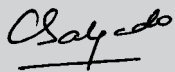
SLIPS – shall mean Sri Lanka Inter Bank Payment System

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 8th Annual General Meeting of LankaClear (Private) Limited will be held on 31st August 2010 at 11.30 a.m. at the Roof Top California Grill - Galadari Hotel, 64, Lotus Road, Colombo 1, for the following purposes:

- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2010 together with the Report of the Auditors thereon.
- 2) To re-appoint M/s Ernst & Young, Chartered Accountants as Auditors of the Company and to authorise the Directors to determine their remuneration.
- 3) To transact any other business of which due notice has been given.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

Colombo,
27th July 2010

Form of Proxy

We
of
being a member of Lankaclear (Private) Limited, hereby appoint
.....
of as our proxy
to represent us and vote for us and on our behalf at the 8th Annual General Meeting of the Company to be held on
..... 2010 at and at any adjournment thereof and at every poll which may be taken in consequence
thereof.

Signed this day of 2010.

Signature

NOTE:

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

