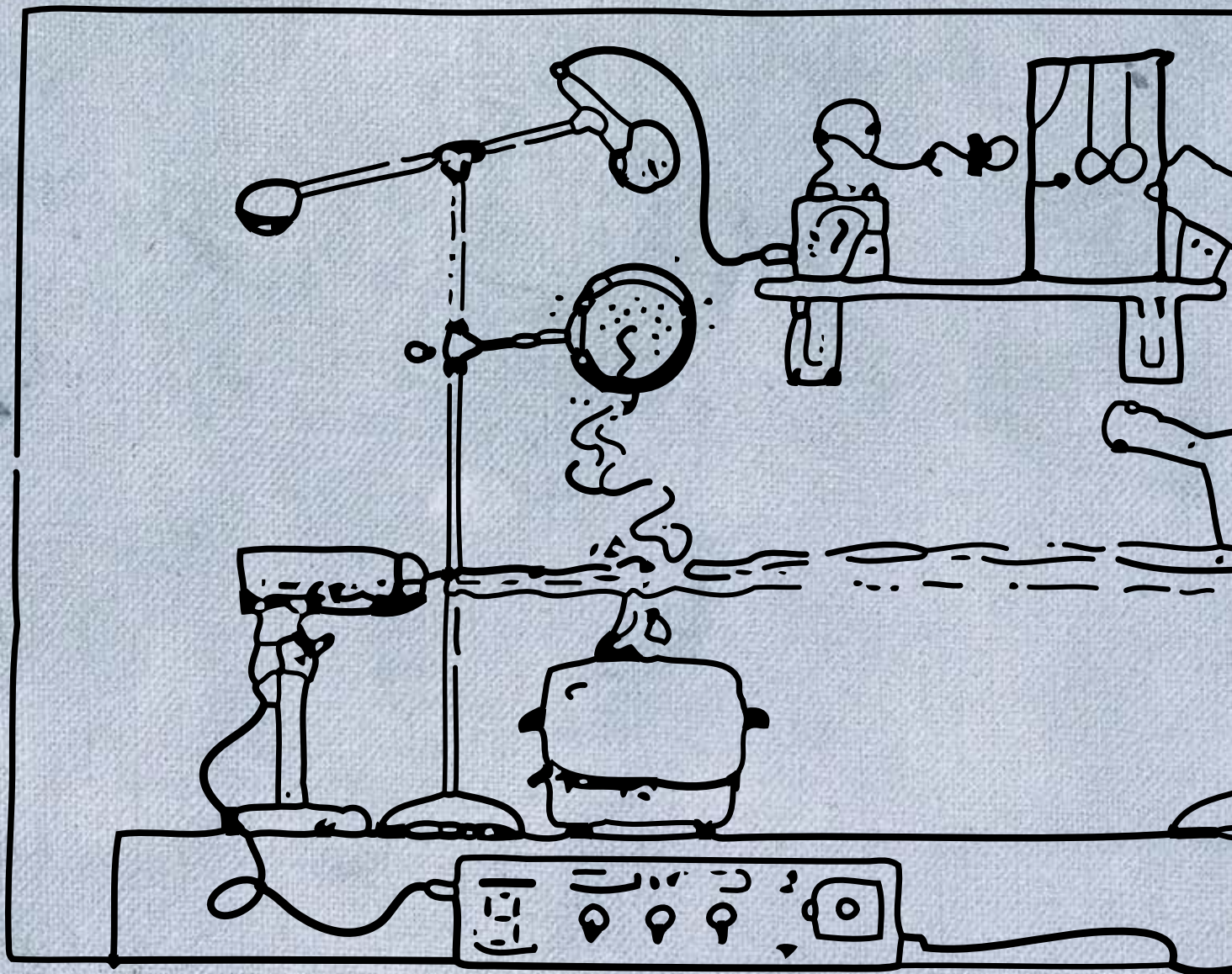


A change reaction



Annual Report 2010/2011



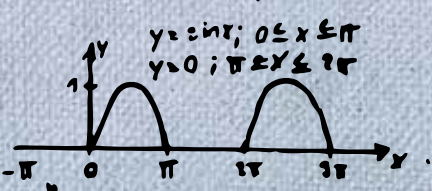
$$\sqrt{t} e^{-at} \rightarrow \frac{1}{\sqrt{2}} (a^2 + \omega^2)$$

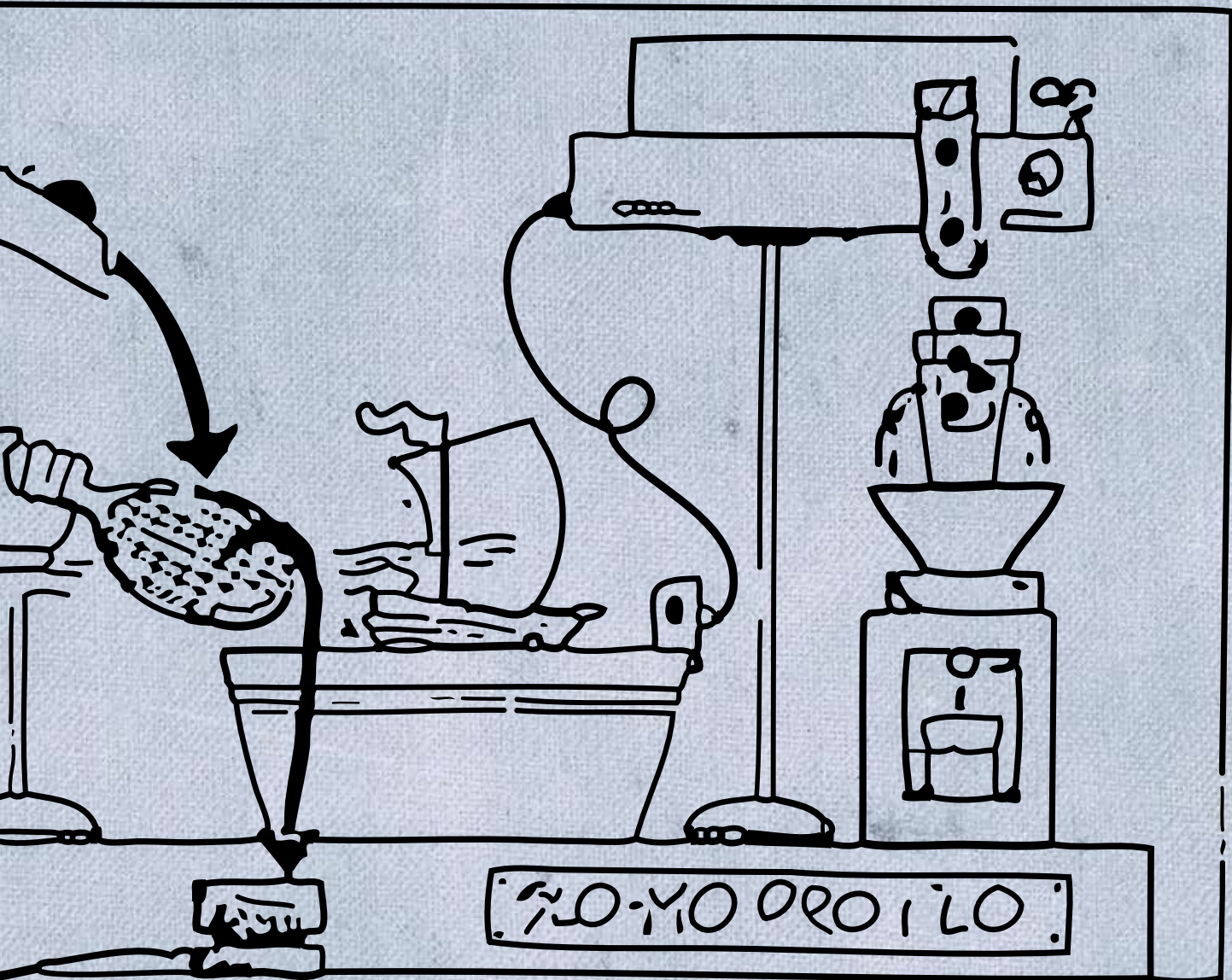
$$t^{n-1} e^{-at} \rightarrow \Gamma(n) (a^2 + \omega^2)$$

$$\int_0^1 (1 + 2x \cos a + x^2)^{-1} dx$$

$$\int_0^1 x^a (1-x)^b dx = 2 \int_0^1 x^{2a+1} (1-x^2)^b dx =$$

$$G(x, y) = \frac{P(x) P(y)}{P(x+y)} \quad \left| \quad \int \frac{dx}{y \sqrt{x}} \right.$$





A change reaction

Here at LankaClear we believe in setting off the actions that strengthens a cashless world and revolutionizes the way people make payments.

We take on the complexities, triggering action after action that leads us to our goals; to be more efficient and productive not only for ourselves but for our stakeholders. And we are already seeing results. We're facilitating banks to be more efficient, providing new ways of making payments and benefiting the end user in many ways. We're causing a change reaction.

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Vision

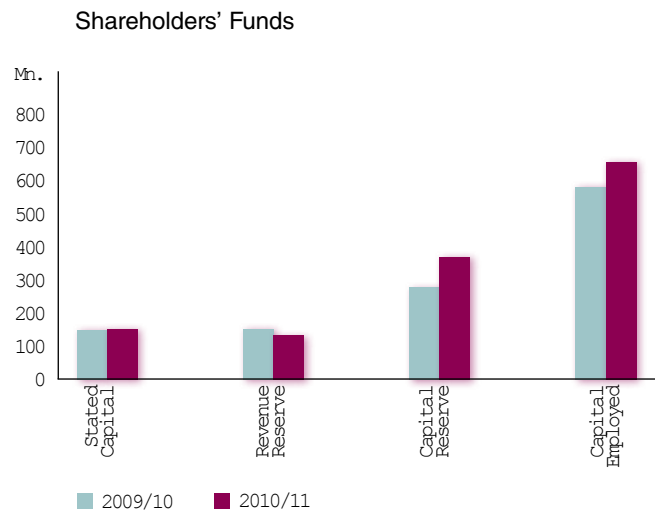
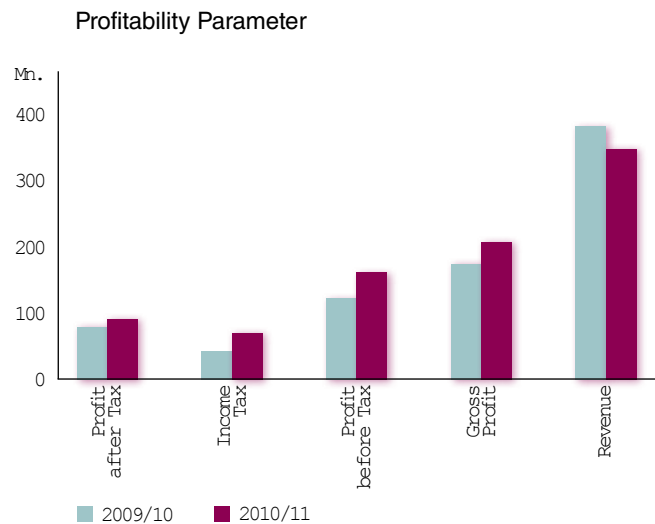
Asia's most Trusted, Secure and Valued Payment Systems Infrastructure Facilitator by 2015.

Mission

To be the National Payment Systems Partner; trusted, rated and admired for the most Reliable, Secure, Value Driven and Efficient solutions in Asia by 2015.

Financial Highlights

- Gross Profit Margin: 59.75%
- Net Profit Margin: 26.05%
- Earnings per Share: Rs. 6.04



	2009/10	2010/11
Revenue	383,358,455	348,813,235
Gross Profit	175,004,297	208,402,478
Profit before Tax	122,774,393	161,651,814
Income Tax	42,948,616	70,798,014
Profit after Tax	79,825,777	90,853,800
Shareholders' Funds	2009/10	2010/11
Stated Capital	150,500,000	152,500,000
Capital Reserve	278,948,333	372,005,489
Revenue Reserve	153,262,583	133,751,728
Capital Employed	582,710,916	658,257,217

Operational Highlights

- Total volume of cheques cleared: 43.56 million
- Total value of cheques cleared: Rs. 5,656 billion
- Percentage of cheques returned: 3.8%
- Percentage of the value of returned cheques compared to the total value of all the cheques submitted: 2.1%
- Total volume of SLIPS transactions cleared: 12.73 million
- Total value of SLIPS transactions cleared: Rs. 346.51 billion

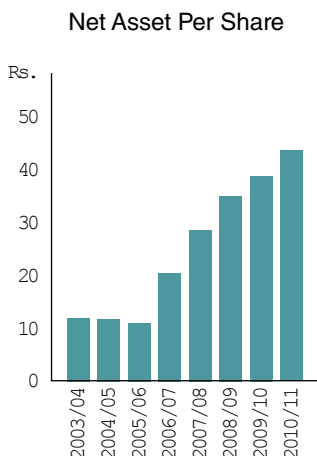
Chairperson's Review

As the Payment Infrastructure provider for the Country, LCPL is prepared to accept the challenge by providing accurate, reliable and cost effective payment systems.

Piyumage

Mrs. P Liyanage
Chairperson





I am pleased to present the Annual Report and the Audited Accounts of LankaClear (Pvt) Ltd [LCPL] for the year ended March 31, 2011.

The international community welcomed the positive signs of economic recovery in 2010 after the global financial crisis in 2009. Asian economies were in the forefront and heralds a new dawn with the gradual recovery of the economies. Our nation enjoyed their first year of peace in 2010 after three decades of conflict, filled with new hopes for the future. All salient economic indicators improved significantly and it showed that Sri Lanka was heading into an era of growth and prosperity. The Colombo Stock Market rose to record levels. The Government relaxed exchange controls, import duties and taxes in its budgetary proposals, with a view to encouraging economic growth. As a result of the above, the economy grew at 8% in 2010. These positive sentiments contributed to the development of the financial infrastructure. For the economic development of a country, the financial markets and financial infrastructure are of prime importance. In the circumstance, economic development and financial infrastructure complements each other. The payment and settlement system is one of the essential components of financial infrastructure. It plays a critical role in the processing of increasing financial transactions.

Under the above conditions, the LCPL as the National Payment Infrastructure Provider of the country performed its duties considerably well. Financial results published today, shows that LCPL has improved its financial performance when compared with the previous year.

Company Performance

The Company recorded a profit before tax of approximately Rs.162 Mn and after tax profit of approx. Rs. 91 Mn. These profits added up to retained profits and increased the Company's Net Asset per share from Rs.38.72 to Rs.43.59. With the closure of Regional Centers, operating expenses as well as administrative expenses have been reduced. At the same time, it affected

the revenue of the LCPL since front end services fees reduced considerably. 2010 was an eventful year for the LCPL due the improvements made to its major products and also due to steps taken on human resources policy matters.

Cheque Imaging and Truncation System (CITS)

Continuous improvements were implemented to the cheque imaging and truncation system (CITS) during the year 2010 to meet the market growth and to create greater efficiency. Steps were taken to carryout enhancements and replacements of CITS Backend Hardware. Initially, on 30th June 2010, regional centers of LCPL were closed and all the banks were brought in to CD submission mode. Subsequently, LCPL introduced the direct connectivity mode to the banks, where the submission of CDs was eliminated from the CITS settlement cycle. It increased the efficiency of the settlement clearing cycle and it enabled the banks to credit proceeds to customer accounts before 3.00 p.m. Also, necessary steps were taken to improve the efficiency of the main clearing cycle where window cutoff times for submission of outward items were extended till 7.00 p.m., thereby facilitating banks to extend their counter cutoff times for acceptance of cheques for T+1 clearing. As such, we are in par or better than some of the countries which use most developed payment infrastructure.

Sri Lanka Interbank Payment Systems (SLIPS)

Sri Lanka Interbank Payment System, which is the first paperless online retail clearing system that connects all commercial banks via the LCPL VPN, was upgraded under the enhanced SLIPS project with end to end digital signing. This has enhanced the security and reliability of the system. By providing T + 0 same day clearing facility for interbank payments, Sri Lanka has become one of the most efficient countries on retail bank payments. This enhancement in SLIPS was implemented to cater to the higher volumes that are expected due to rapid economic growth and also to facilitate

same day funds to intended recipients, with the highest level of security.

LankaSign

The use of internet and transmission of documents through electronic means is fast expanding in Sri Lanka, facilitating customer convenience. In such an environment verifying the authenticity of different parties involved in communication is of paramount importance. This is where the digital certificate comes in to use. The digital certificate issued by LankaSign, the country's first Financial Sector Certificate Provider operated and managed by LankaClear, launched two new products to the financial sector during the year. They are the Email & Document Signing Certificates and SSL Server Certificates. In the past, digital certificates were provided only for the payment systems operated by LCPL. LCPL believes that the security of the financial transaction messages on online systems would be continuously strengthened by encouraging the use of Digital Signatures. With the introduction of these certificates, the users will save costs by obtaining a local certification for the security for their internal operations and e-commerce activities. At the same time, the country will save valuable foreign exchange which is now spent on obtaining high cost certificates of foreign origin.

The core activities of LCPL are technologically driven and therefore system availability is of critical importance. In this context, the systems monitoring capability was implemented in April 2011. Hence the systems and network teams can monitor the health of the IT systems more effectively, in order to facilitate higher system availability. The above mentioned improvements to the clearing systems contributed to the development of the payment industry in Sri Lanka.

Future Trends

Sri Lanka is an oasis in the world. Unprecedented opportunities are available in the country and development prospects are improving significantly. Development in the capital market and the stock market

enhance the potential to speed up growth in many areas. Government's aim is to double the per-capita income by 2016. In such an environment, payment activities will also increase in volumes and numbers. In order to cater to the expected growth in the payments and settlement systems, LCPL has to enhance its current capacity. At the same time, Sri Lanka has a vision to promote Colombo as a financial hub in the region. For this purpose, LCPL has to develop its payment infrastructure in line with the development in the rest of the world.

In a growing economy, the banking and finance industry is a rapidly growing industry involving the latest technology and new innovations. It is also an industry with stiff competition and enormous challenges. As the Payment Infrastructure provider for the Country, LCPL is prepared to accept the challenge by providing accurate, reliable and cost effective payment systems. It has to be done in two ways. Improving the existing services and introducing new systems in order to cater to the new products in the market. Action has been taken to facilitate the establishment of a Common Card & Payment Switch. Additionally, the LCPL aims to provide value added services depending on the emerging needs of the customers. The idea of establishing a regional payment initiative in the SAARC Region to facilitate an efficient and a stable payment and settlement system is also being discussed at higher levels. Accordingly, the future trends seem to provide ample scope and opportunity to develop the payment infrastructure to greater heights.

Appreciation

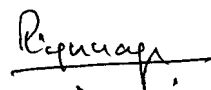
After serving the Company for more than 6 years, Mr. A Sarath de Silva relinquished his duties as the Chairman in mid May 2010. During his tenure, with his experience of over 35 years in the banking sector, he has given leadership to successfully implement many projects and CITS is one among them. I take this opportunity to thank him for his contribution and wish him good health and best wishes in all his future endeavours.

I would also like to take this opportunity to express my heartfelt gratitude to Central Bank of Sri Lanka, Governor - Mr. Ajith Nivard Cabraal, two Deputy Governors – Mr. Dharma Dheerasinghe and Mr. P D J Fernando and all the officials for their support.

I also express my sincere appreciation and thanks to the Board Members for their insight, support and cooperation extended to me at all times.

I wish to commend all levels of LCPL staff for their dedication and commitment, which has enabled LCPL to perform its activities successfully.

Finally, I take this opportunity to convey my appreciation to the shareholders for their trust and confidence and for extending their unstinted support towards all the activities of LCPL.



Mrs. P Liyanage
Chairperson

CEO's Review



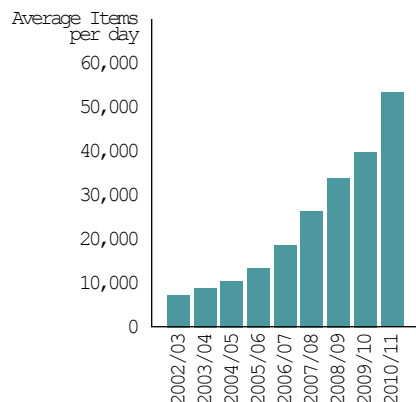
Financially - it was a year of growth, where shareholder value increased.

Operationally - it was a very successful year where efficiencies significantly improved.

Strategically - steps were taken to improve the existing payment infrastructure as well as introduce new payment infrastructure. //

Sunimal B Weerasooriya
General Manager / Chief Executive Officer

SLIPS Statistics



It is with pleasure that I present the report on the achievements and performance of LankaClear during the year 2010/11. The year proved to be an excellent year in all areas. Financially – it was a year of growth, where shareholder value increased. Operationally – it was a very successful year where efficiencies significantly improved. Strategically – steps were taken to improve the existing payment infrastructure as well as introduce new payment infrastructure.

The bottom line of the company grew by 32% on PBT basis resulting in a 14% increase in Earnings Per Share compared to the previous year and Net Assets per Share increasing to Rs. 43.59. The company continued with the efforts of reducing costs in order to keep the tariffs charged from Banks for clearing services constant. Due to this effort LankaClear has been able to maintain the same tariff charged for clearing of a cheque from the inception of CITS in 2006 up to 2011. The cost of sales reduced by 33% where the major contributory factors were the closure of the Regional Centers, reduction in depreciation and reduction in maintenance costs. The maintenance costs reduced by 41% compared to the previous year. Through the improvements done to precision air-conditioning systems and various other cost reduction initiatives the company managed to reduce the electricity costs by a significant 35% from the previous year.

System improvements in both CITS and SLIPS resulted in significant improvements in efficiency, features and security of transactions which benefited the end users. During the year, CITS Settlement Clearing migrated to online mode eliminating the requirement of banks to submit CDs in this leg of clearing. This resulted in LankaClear Inward Return submission time being advanced to 1.30 PM, which facilitated the collecting banks to give good value to their customers before 3 PM. The internal efficiency improvements carried out in the Main Clearing Leg enabled LankaClear to extend the Outward Item submission window till 7.00 PM. With this improvement many banks now accept cheque deposits

for T+1 clearing up to the counter closure time of 3.00 PM. The upgrading of the SLIPS Application in September 2010 resulted in complete online submission of items, T+0 clearing for credit transactions and the facility for banks to submit multiple outward files within a clearing leg. With this improvement, the banks are able to credit the customer accounts by 3 PM the same day on items received by LankaClear before 12 NOON and by 9 AM the following day on items received by LankaClear before 6 PM. The security of all the above transactions were strengthened by digitally signing all online transactions through Digital Certificates issued by LankaSign, the Certification Service Provider arm of LankaClear.

The trend of reducing cheque returns continued through 2010/11 financial year as well and the cheque returns in volume terms reduced to 3.8% from 4.5% in the previous year. In value terms, the cheque returns dropped to 2.1% compared to a 2.6% in the previous year. The reduction in cheque return percentages despite a growth in cheque volumes is quite encouraging and would help to increase the confidence of customers on the cheque as a reliable instrument for payments.

Operational Performance

CITS

The volume of cheques cleared increased by a modest 7% compared to the previous financial year whilst the total value of cheques cleared increased significantly by 25% where the total value of cheques cleared in 2010/11 was Rs. 5,656 Bn.

Sri Lanka Interbank Payment System (SLIPS)

The items cleared through SLIPS increased significantly by 32% compared to the previous year whilst the value of SLIPS items cleared also grew by 19% compared to the previous year where the total value of items cleared through SLIPS was Rs. 346 Bn. LankaClear was able to cater to this significant increase in volumes through SLIPS due to the timely upgrade of the system carried out in September 2010.

Dollar Clearing & Rupee Draft Clearing

Repeating the past trend, the dollar clearing volumes marginally declined by 2.4% compared to the previous year. However, the value of the items cleared increased by 28.4% where USD 218 Mn. worth of Dollar Cheques/Drafts were cleared during the year. The total value of Rupee Drafts cleared recorded a significant decline of 27% as per the trend experienced over the past couple of years. The value of the Rupee Drafts cleared during the year was Rs. 617 Mn.

Financial Performance

The net revenue from CITS declined by 12% compared to the previous financial year, the main contributory factor been the depletion of the front-end services income after migration of all banks to CD submission from July 2010. The net revenue from SLIPS grew by 47%, which marginally offset the decline in CITS revenue. The interest income from Fixed Deposits, Treasury Bills and Commercial Paper investments also declined by a significant 19% due to the reduction in the market interest rates.

Despite the decrease in the top line by 9%, the profit before tax grew by 32% due to the reduction in costs by closing down the Regional Centers from July 2010 and significant cost reductions on maintenance and electricity. The company recorded a profit before tax of Rs. 161,651,814/= and a profit after tax of Rs. 90,853,800/= which was a growth of 14% compared to the previous financial year.

The company was able to maintain an impressive net profit margin of 26%, which was an improvement from the previous year's 21%. The company maintained a very healthy debt : equity ratio of 7 : 93 as at 31st March 2011. Earnings per share increased from Rs. 5.30 to Rs. 6.04 and Net Assets per Share increased from Rs. 38.72 to Rs. 43.59 compared with the previous financial year. The investments in Treasury Bills, Fixed Deposits, Repos and Commercial Papers increased by 8.6% compared to the previous year where the company had investments of Rs. 572.3 Mn. as at 31st March 2011.

Developments in the Pipeline

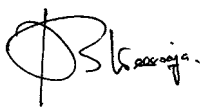
LankaClear would continue to initiate projects to improve the infrastructure for electronic transactions in the coming years in order to cater to the rapidly growing market demand for efficient payments and financial transactions through electronic modes.

SLIPS Enhancement

The upgrade done to the system in September 2010 enabled LankaClear to clear the rapidly increasing volume of transactions through SLIPS at the highest efficiency and the system is now capable of total online transactions and T+0 clearing for credit transactions with digital signing of transactions for the highest level of security of transactions. Further improvements would be done to the SLIP System during the coming year to better prepare the system to accommodate various types of transactions with enhanced features based on the market demand.

Common Card And Payment Switch (CCAPS)

The EOI stage of the project is now completed and the vendors have been short-listed for the RFP Stage. The RFP for this project would be issued shortly to the short-listed vendors. CCAPS will enable bank customers to use any Bank's ATM for their transactions at a nominal cost and would facilitate processing of local Payment Card transactions through a Central Switch thereby saving a considerable amount of foreign exchange.



Sunimal B Weerasooriya

General Manager / Chief Executive Officer

Board of Directors



Standing Left to Right
Mrs. J P Mampitiya - Director, Mr. A N de Silva - Director, Mr. M Y A Perera - Director, Mrs. R A S M Dayarathna - Director,
Mr. M S A Fernando - Director



Seated Left to Right

Mr. M U de Silva - Observer, Mrs. P Liyanage - Chairperson, Mr. G G C Ariyaratne - Director, Mr. B A C Fernando - Director

Profiles of Directors

Mrs. P Liyanage - Chairperson

Mrs. Liyanage has 38 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 Services.

During her Central Bank carrier, 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 a Director 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 an Alternate Director of Lanka Financial Services Bureau Ltd and a member of the National Payments Council.

Mrs. Mampitiya commenced her career at the Central Bank in 1981 and held the posts 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 an MSc. in System Science from the University of Ottawa, Canada.

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

Mr. Fernando possesses 40 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 a Masters 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. G G C Ariyaratne - Director *Deputy General Manager (Operations), People's Bank*

Mr. G G C Ariyaratne was appointed to the Board of Directors of LankaClear (Pvt) Ltd. in 2010. He is currently the Deputy General Manager (Operations) of People's Bank. He is a well experienced banker counting 34 years of service at People's Bank. He holds a Degree (B.Sc.) in Public Finance and Taxation from the University of Colombo and also is an Associate Member of the Institute of Bankers of Sri Lanka.

During his period of service, he has served in various capacities ranging from Branch Manager to his current position. He has wide experience from working in different levels in different areas of the island. He is specialized in the areas of Branch Banking & Project Financing and also has undergone overseas training on Project Financing.

Mrs. R A S M Dayarathna - Director *Director IT, Central Bank of Sri Lanka*

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.

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. M Y A Perera - Director*Deputy Managing Director, Sampath Bank PLC*

Mr. Perera is the Deputy Managing Director of Sampath Bank PLC. He has been in the management team of Sampath Bank since 1988. Appointed as Chief Operating Officer 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 a BSc Degree (Hons) in Mechanical Engineering from the University of Moratuwa and holds an MBA from the University of Sri Jayewardenepura.

He possesses 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*Chief Operating Officer, Union Bank of Colombo PLC*

Mr A N de Silva has been in the Banking Industry for 37 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 Chief Operating Officer of Union Bank. Mr de Silva was elected an Associate of The Chartered Institute of Bankers London, in November 1978.

Mr. M S A Fernando - Director*Country Head, Public Bank Berhad, Colombo Branch*

Mr. M S A Fernando joined Public Bank, Colombo Branch in April 2008. He possesses more than 30 years experience in the Banking Industry and carries vast experience in Corporate Banking and Risk Management, both locally and internationally. He also has experience in Finance, International Trade & Treasury Back Office. Mr. Angelo Fernando is an MBA holder of University of Leicester, UK and AIB Part I qualified. He also serves as a Director in the Board of Sri Lanka Banks' Association.

Mr. M U 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).

Senior Management



1. Mr. S B Weerasooriya
General Manager/CEO

2. Mr. H S Wanigatunga
Head of Operations

3. Mr. A J F Wijewickrema
Head of Human Resources & Administration

4. Mr. R L Galappaththy
Head of Finance

5. Mr. S R Hettiarachchi
Operations Manager

6. Mr. D Samarasinghe
Systems Manager

7. Mr. A V I G Jayaweera
Bank Services & Help Desk Manager

8. Mr. P H A J S Wijepala
Manager - Facilities & Maintenance

9. Mr. T P A Jayawickrama
Network Operations Manager

10. Mr. W M Jayaratne
CITS Manager

11. Mr. Sasanka De Silva
Systems Operations Manager

Corporate Governance

As has been the practice 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 overseeing 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.

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.

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:

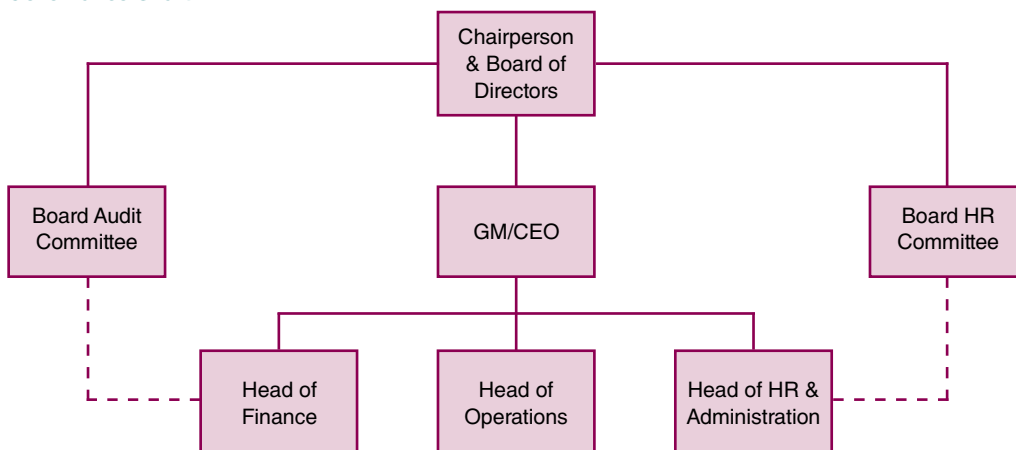
- Setting strategies, direction and establishing goals for management
- Monitoring performance against goals and objectives as well as ensuring adequate internal controls with the highest ethical standards
- Ensuring the financial health of the Company
- Appointing the Chief Executive Officer and determining 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.

Governance Chart



Name		Board Meetings			Board HR Committee			Board Audit Committee		
		Held*	Present	%	Held*	Present	%	Held*	Present	%
1.	Mrs. P Liyanage – Chairperson (from May '10)	12	12	100%	4	4	100%			
2.	Mr. A Sarath de Silva - Chairman (up to April '10)	2	2	100%						
3.	Mrs. R A S M Dayarathna – Director	14	12	86%						
4.	Ms. J P Mampitiya – Director	14	10	71%	4	4	100%			
5.	Mr. B A C Fernando – Director	14	9	64%						
6.	Mr. H S Dharmasiri – Director (up to Feb '11)	13	9	69%						
7.	Mr. G G C Ariyaratne – Director (from Mar '11)	1	1	100%						
8.	Mr. A N de Silva – Director	14	14	100%						
9.	Mr. M Y A Perera – Director	14	6	43%						
10.	Mr. B Mahapathra – Director (up to Jan '11)	11	9	82%						
11.	Mr. M S A Fernando – Director **									
12.	Mr. M U de Silva – Observer	14	14	100%	4	4	100%	4	4	100%

*Held – Meetings held during the term of office

** Though appointment letter was sent on 21.02.2011, acceptance was only from late March

In compliance with the Code of Best Practice, Board Papers are circulated 4 - 5 days prior to a meeting giving adequate time to Board members to prepare for meetings.

The Board HR Committee

The Board HR Committee consists of the Chairperson (who is also 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 four 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. M Y A Perera – Director and this Committee met on 4 occasions during the year under review. At these meetings the quarterly internal audit reports were reviewed and actions to be taken were recommended by the Board Audit Committee which actions were reported to the Board to ensure compliance.

Risk Management

The Business Risk, Operations Risk and Financial Risk are the risks that LankaClear have 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 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

The Directors to the best of their knowledge have confirmed that 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

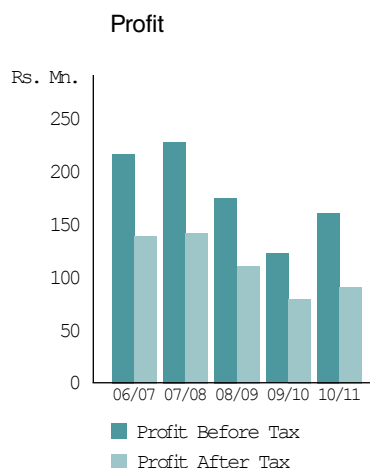
Audits

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.

Overall Company Performance

Profitability

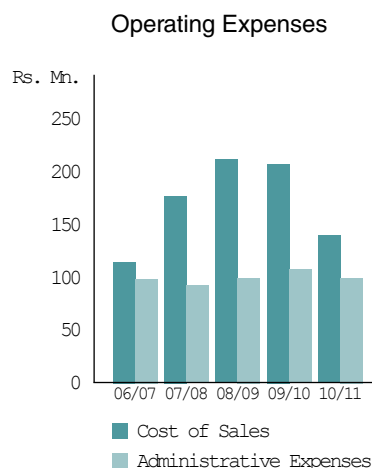
It was a historical year for LankaClear, recording remarkable achievements and milestones in financial performance and stability compared to the previous year. This is a “turnaround year for LankaClear” with respect to profits, which was in a declining trend till the year 2009/10.



During the year under review, the Company achieved a commendable growth in net profit which is 1.14 times more than the profit achieved in the last financial year to record Rs. 90.86 Mn. The turnover declined by 9% to Rs. 348.81 Mn. compared to Rs. 383.36 Mn. in the last financial year. This 34.55 Mn. reduction of income was mainly from reduction of the outward physical cheque clearing charges, caused due to completely moving away from inhouse cheque scanning. Moving away from cheque scanning for the two remaining large volume driven major banks showed a marked reduction in income under inward clearing revenue category by 40%. This reduction in cost benefited to our customers as a cost saving to compensate for any costs incurred to undertake inhouse cheque scanning. Simultaneously, Cost of Sales decreased by a comparatively high percentage of 33% from Rs. 208.35 Mn. to Rs. 140.14

Mn. to offset the effect of loss of income which enabled the Company to make an impressive Gross Profit margin of 59.75% and a Net Profit margin of 26.05% during the period under review. The Company's Finance Cost declined by 46% to Rs. 9.33 Mn. from Rs. 17.31 Mn. of the previous financial year due to the reduction of bank loans from Rs. 101.60 Mn. to Rs. 74.18 Mn. Due to the significant growth in Gross Profit as a result of declined Cost of Sales and Finance costs, the Company's Profit before Tax rose by 32% to Rs. 161.66 Mn. This healthy level of Profit before Tax led to an escalation of Corporate Tax Expenses of Rs. 70.8 Mn.

Overall, the Company witnessed strong and consistent growth throughout the financial year with a series of focused strategies implemented by the Management of LankaClear.



Operating Expenses

The strategy of cost curtailment was evident in the Cost of Sales and Administrative expenses which decreased by 33% and 7% respectively compared to the previous year. Decrease in depreciation/amortization (by Rs. 42.3 Mn.) and maintenance cost (by Rs 20.4 Mn.) were the main reasons for

the decline in Operating Expenses. Limiting the level of outside maintenance support while enhancing in-house maintenance was instrumental in reducing maintenance costs

Capital Structure

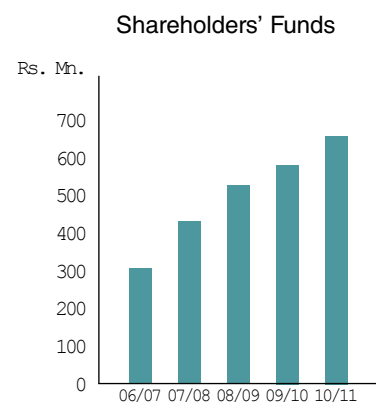
The total shareholders' funds of the company as at 31st March 2011 was Rs.658.28 Mn. This is a 13% increase compared with the previous year's figure of Rs. 582.71Mn., mainly arising from the retention of earnings. Further, stated capital of the company increased by additional Rs.2 Mn. due to Amana Bank investing shares to enroll in CITS Services during the financial year.

Return on Capital Employed

Over the last five years, the Return on Capital Employed by the Company declined due to the high level of investments across the Company. In the current financial year, the Company was able to improve its return on capital employed to 25.98% from 24.04% recorded last year, mainly due to the improvement in profitability coupled with the results of cost rationalization and efficiency improvement initiatives undertaken by the Company.

Net Assets per Share

The Company has recorded the highest ever Net Assets per Share since its inception which stood at Rs. 43.59. This is a 12.57% increase over that of the previous year.

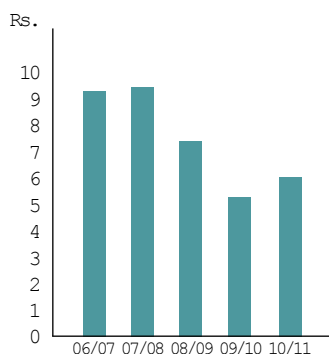


Earnings Per Share

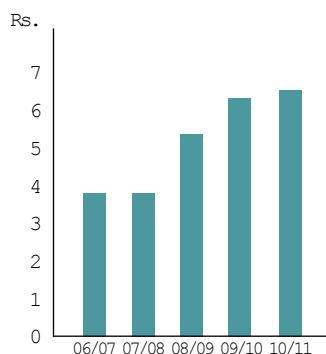
An Earnings Per Share of Rs. 6.04 reported in the period under review was a 14% increase over the previous year's figure of Rs. 5.30. The growth in the EPS is attributed to good operational performance coupled with a significant reduction in finance cost.

end of the financial year. This resulted from the trade and other receivables balance declining by 13% which was reflected in the improvement in the cash cycle.

Earnings Per Share



Current Ratio



Capital Expenditure

The environment in which commercial transactions take place keeps on changing which requires constant upgrading of the national payment system infrastructure to meet the market demand. The Company invested a total of Rs. 64.15 Mn. on Property, Plant and Equipment during the financial year under review which is an 11 folds growth over the previous financial year. The Company intends to carry out significantly higher capital investments in the coming financial years.

R L Galappaththy
Head of Finance

Liquidity

The working capital of the Company increased to Rs. 552 Mn. at the end of the financial year under review from previous year's figure of Rs. 515 Mn. The increase was 7% and was also reflected in the Company's current ratio which increased to 6.54 times from 6.33 times in the previous financial year. The main reason for the improvement in liquidity ratio was the increase in short term investments of the Company by 9% to Rs. 561 Mn. at the

Risk Management

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 also 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.

It is envisaged that the usage of paper based payment instruments such as cheques would decline in the coming years with customers embracing more and more electronic payment instruments. Accordingly, 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 possible depletion in the top line due to the envisaged reduction in cheque volumes would be off-set by the increased revenue generated through new electronic payment products and the growth of existing electronic payment products such as SLIPS.

Operational Risk

At LankaClear the operational risk management is focused on the ability to efficiently and effectively operate the National Clearing Systems (i.e. 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 improvements and 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 in order to mitigate risks associated with Information Security. The strict adherences to these IT Security Policies are ensured by daily IT Systems monitoring, IT housekeeping and through the Corporate Internal Audits.

LankaClear has a fully functional and tested Disaster Recovery Site (DRS) where all Clearing Systems are replicated in order to mitigate the risks associated with natural disasters and/or inability to operate from the Primary 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 with the BCP to ensure LankaClear's capability to effectively recover from a disaster. The CIT System having an uptime of 99.06% 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 are very reliant on the effectiveness and the 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 are given correct guidance to minimize and avoid operational risks associated with the National Clearing Systems and is a highly efficient staff.

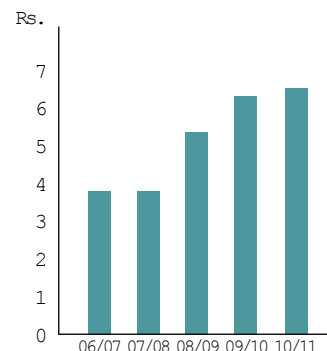
Financial Risks

In Financial terms a Company will be at a risky position if the bottom line is a loss instead of profit and negative cash flows instead of positive cash flows each positive parameter in combination enables a Company to build 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

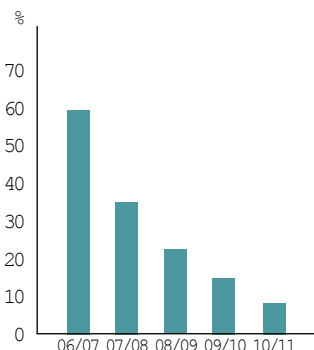
A Company may be profitable. But if it does not have an adequate positive cash flow, it will lead to an eventual strangulation of the operations of the company. Managing cash reserves is also termed as liquidity. Liquidity risk is the risk of not having sufficient resources to meet financial obligations in time of need in full at a reasonable cost. The Company seeks to achieve a balance between certainty of funding and a flexible cost effective borrowing structure. Strong profitability coupled with a healthy level of cash surpluses generated during the previous financial years and current year will mitigate such liquidity risk.

Current Ratio



The liquidity risk management process includes regular analysis and monitoring of the Balance Sheet liquidity position and maintenance of market accessibility for short term loans and investments. Regular cash flow forecasts, monitoring of disbursements and collections, making improvements to maintain healthy gearing ratio are used as analytical tools by the LankaClear (Pvt) Ltd.

Long - Term Gearing



Availability of cash resources is very vital as it allows company to:

1. Meet working capital requirements 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.

1. Working Capital Management

The Company keeps an adequate amount of resources in short term financial instruments to meet its short term financial requirements. As minimum required stocks are maintained, it does not have a material effect on creditor's turnover period. Therefore much emphasis was placed on bringing down the debtors' collection period.

2. Adequate Capital Investment

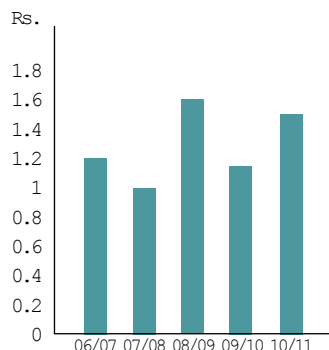
LankaClear, in its quest to provide enhanced services to its customers has, from time to time incurred large capital expenditure on software and hardware. Some expenses are planned over the long term and some in the

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. Analyzing the last few years, depending on retained profits, dividend has been paid over the years.

Dividend Per Share



4. Managing the Gearing of LankaClear (Pvt) Ltd

The Company at some time in the past had a debt which was larger than its stated capital. Due to regular servicing of the debt and increased profitability and cash inflows with time, the reliance on the debt has declined and shareholder equity has increased. This has led to a favourable impact on the company's gearing. Due to growth of retained profits and the cash reserves, the company has managed to fund all new investments from internally generated funds.

B. Managing the Profitability

The profitability of the company depends on the ability to increase income and reduce costs. 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 experience, western economies shows a decrease in the cheque volumes which has been 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 increasing steadily and are 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.

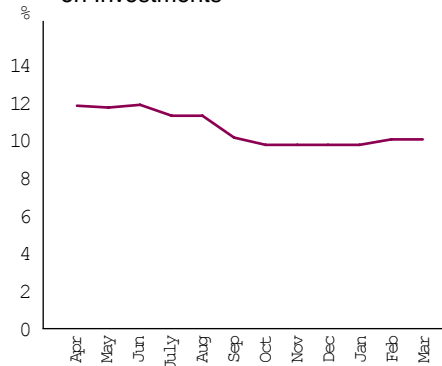
The company earns substantial income on the Cheque Returns. The number of cheque returns has come down tremendously from what it was some time ago. The introduction of amendments to the Credit Information Bureau (CRIB) of Sri Lanka Act in December 2008 giving it authority to collect information relating 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 main 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.

Weighted Average Interest Rate on Investments



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 to us in Dollar terms and since there is no major fluctuations of the Rupee against the Dollar, the company managed to keep the foreign exchange risk at manageable levels.

Principal Risk

The Company has increased its cash reserves over time and invests them in profitable investment opportunities after analyzing the market return rates. As the money is intended to plough back to provide value added services, we have been careful with regard to selecting between different investment opportunities and holding them till the 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. The 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.

Operations Review

LankaClear Operations

An efficient payment and settlement system is critical for a growing and 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)
5. Digital Certificates - LankaSign

Currently, on average around 182,000 cheques are cleared through LankaClear on each business day through CITS. CITS has even catered to volumes exceeding 367,900 cheques on some days during this financial year. There has been an increase of around 7% in the cheque clearing during the year 2010/2011 compared to the previous year and there is a significant increase (around 32%) in electronic payments, reflected by the growth in the SLIPS transactions. SLIPS have catered to volumes exceeding 382,000 transactions per day.

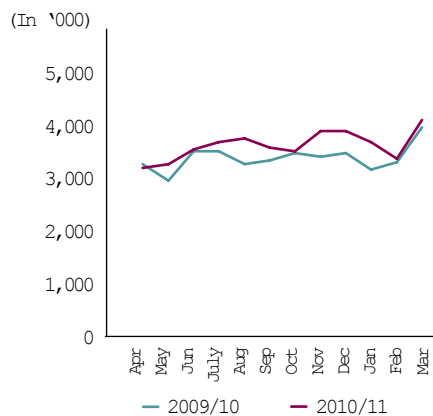
1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS)

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 99.06% System Up-Time and achieved 94.09% of the Delivery Cutoff times. We have further improved the Disaster Recovery Processes and the Business Continuity Plan (BCP). We have a fully functional DR Site, and during this financial year we have conducted the clearing operations for all of the above clearing systems from the DR Site during DR Operation Drills.

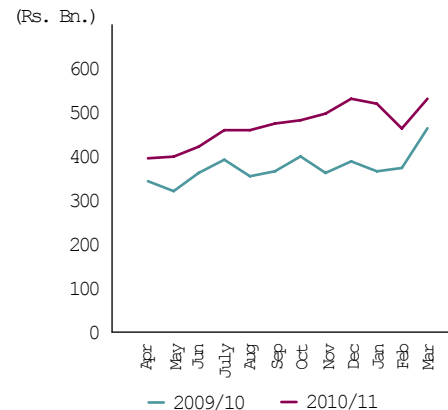
The total number of cheques cleared and the total value of cheques processed through CITS during 2010/2011 as compared with 2009/2010 are depicted in the following diagrams:

Cheques Presented for Clearing - Volume Wise



The total number of cheques cleared in 2010/2011 through CITS amounts to 43.56 million compared to 40.69 million in 2009/2010. This is an increase of 7.05%.

Cheques Presented for Clearing - Value Wise



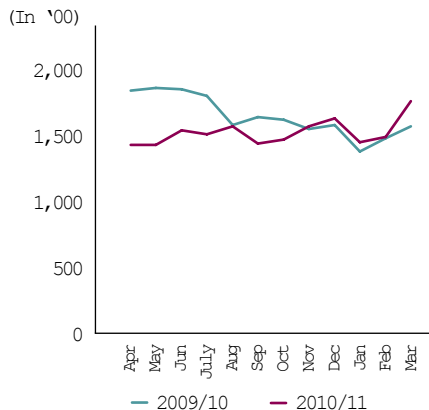
The total value of cheques cleared in 2010/2011 through CITS amounts to Rs. 5,656 billion compared to Rs. 4,512 billion in 2009/2010. This is an increase of 25.35%.

1.1 Settlement Clearing (Cheque Returns)

Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. 3.8% of the cheques presented for clearing were returned unpaid due to various reasons. Of the total cheques returned, around 47% were due to lack of funds.

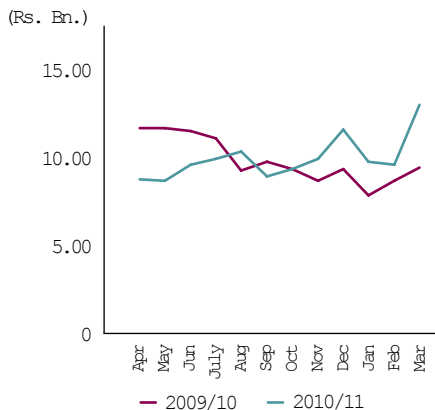
The total volume of cheques returned and the total value of cheques returned during 2010/2011 as compared with 2009/2010 is depicted in the following diagrams:

Cheque Returned for Clearing - Volume Wise



The total number of cheque returns in 2010/2011 through CITS amounts to 1.65 million compared to 1.85 million in 2009/2010. This is a decrease of 10.46%.

Cheque Returned for Clearing - Value Wise

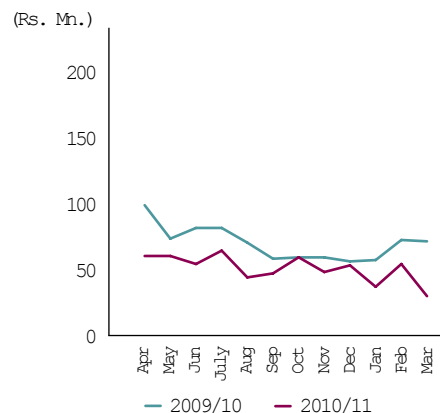


The total value of cheque returns in 2010/2011 through CITS amounts to Rs. 119.70 billion compared to Rs. 118.50 billion in 2009/2010. This is an increase of 1.01%.

2. Sri Lanka Rupee Draft Clearing

The value of Rupee Drafts processed during the year 2009/2010 and 2010/2011 is shown below:

Rupee Draft Clearing - Value Wise

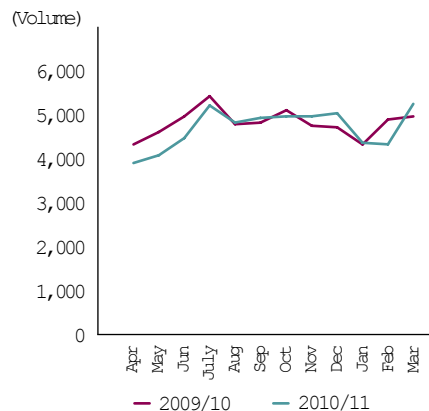


The total value of Rupee drafts cleared in 2010/2011 through Draft Clearing amounts to Rs. 617.5 million compared to Rs. 846.6 million in 2009/2010. This is a decrease of 27.06%.

3. US Dollar Clearing

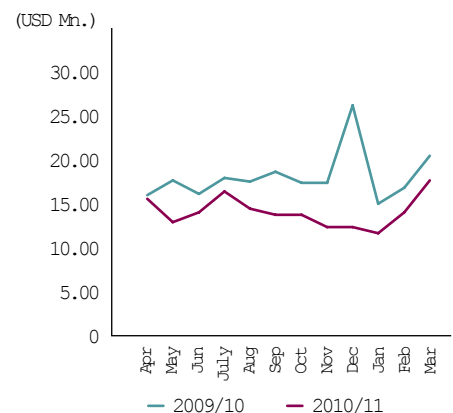
The total number of items cleared through US Dollar Clearing in 2010/2011 amounts to 56.43 thousand compared to 2009/2010 of 57.82 thousand. This is a decrease of 2.41%.

US Dollar Clearing - Volume Wise



The total value of items cleared through US Dollar Clearing in 2010/2011 amounts to US\$ 218 million compared to 2009/2010 of US\$ 169.7 million. This is an increase of 28.45%.

US Dollar Clearing - Value Wise



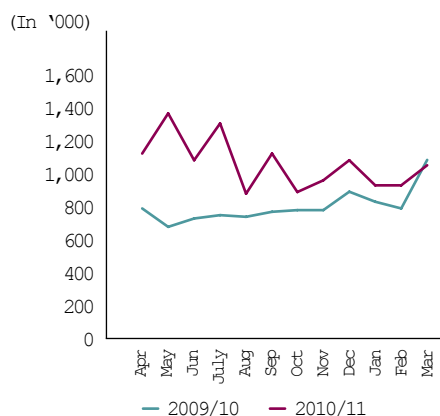
4. Sri Lanka Interbank Payment System (SLIPS)

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 Online Electronic Data Transferring Service via SLIPS to all commercial banks. This system was enhanced in September 2010 to cater for a greater volume of transactions, and facilitates same day clearing and provides for greater security by means of digital signing.

An average volume of 53,043 transactions pass through SLIPS during a business day and on a high volume day, the transaction volumes have exceeded 382,000.

The increase in number of SLIPS transactions and its total value are depicted below:

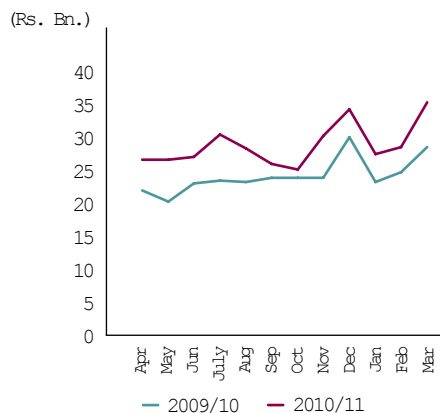
Sri Lanka Inter Bank Payment Systems - Volume Wise



The total volume of items cleared through SLIPS in 2010/2011 amounts to 12.73 million, compared to 9.63 million in 2009/2010. This is an increase of 32.21%. The total value of items cleared through SLIPS in 2010/2011 amounts to Rs. 346.51 billion compared to Rs. 290.29 billion in 2009/2010. This is an increase of 19.37%. This is a trend we expect to see increasing with more individuals and institutions moving towards electronic transactions.

Harsha Wanigatunga
Head of Operations

Sri Lanka Interbank Payment Systems - Value Wise



LANKASIGN Offers Higher Level Of Security For Electronic Data

"LANKASIGN will in the future facilitate the elimination of paper based payment instruments and help Sri Lankans to engage in e-commerce in a secure environment."

Cyber security, information piracy, data theft, etc., are words we hear often these days in a world going High Tech at an ever increasing speed. Eliminating information piracy, data theft, etc. and ensuring security of information transmitted online is even more necessary as e-payments are fast becoming the norm than the exception. Apart from increasing the speed of payments, the use of the electronic payment systems for transactions mean less paper and this contributes to saving trees and creating an eco friendly environment.

The use of the internet and electronic transactions have evolved rapidly in Sri Lanka facilitating greater customer convenience and attracting newer customers irrespective of demographics. This is very evident by the high usage and growth of Internet Banking and Electronic Payment Systems.

Whilst advanced technology brings about many advantages to financial institutions and to their customers, it also brings in great risks of information security and electronic fraud. Therefore as the use of electronic payments increases an advanced IT security infrastructure becomes critical in order to prevent the risks associated with information security and unauthorised access.

Authentication and data integrity are critical issues for those involved in e-commerce. Both payees and payers must have confidence in the authenticity and integrity

of electronic documentation sent by one party and received by the other. Just as paper based transactions have signatures for the authentication of documents, digital signatures is the way forward for electronic transactions and all types of documents exchanged electronically.

In fact, Digital Signatures can achieve a much higher degree of trust than is possible with documents authenticated by hand. Digital signing allows the recipient of the e-transaction to know with certainty that it originated from a specific party (termed non-repudiation) and that no changes have been made after the transaction has been digitally signed (data integrity).

Recognising this need the Central Bank of Sri Lanka (CBSL) invited LankaClear (Pvt) Ltd. (LCPL) to be the Financial Sector's Certification Service Provider and LCPL launched LANKASIGN on 22nd May 2009, in accordance with the Electronic Transactions Act No. 19 of 2006.

A Certification Service Provider (CSP) is a trusted authority which issues and manages security credentials and public keys for digital signing and encryption of electronic transactions and data. As part of a Public Key Infrastructure (PKI), a CSP checks with a Registration Authority to verify information provided by a requestor of a Digital Certificate. Once the Registration Authority (RA) has verified the requestor's information, the CSP can issue a Digital Certificate which can be used for the

purpose of signing and encrypting electronic transactions or for any purpose which requires authentication of a document.

As the first phase, LankaClear began providing Application Specific Digital Certificates to participant banks of clearing applications such as CITS and SLIPS. In the second phase LANKASIGN started providing Email/Document Signing Certificates and SSL Server Certificates for any financial sector institution and their customers at a much lesser cost than Digital Certificates purchased from foreign CAs. These two types of Digital Certificates were launched in February 2011.

Email/Document Signing Certificates provided by LANKASIGN will provide the general public with greater security for their documents and e-mails and Corporates will benefit in enhancing the security of their internal operations and e-commerce activities. The SSL Server Certificates will provide a secure method of authenticating the legitimate Web Server.

LANKASIGN is a major achievement in the payment and settlement sphere in Sri Lanka and will surely encourage more institutions in the financial sector to adopt cost effective digital certificate based technology for enhanced information security of financial transactions.

Just as the Cheque Imaging and Truncation System (CITS) eliminated the cumbersome process of physically carrying cheques in bulk to a central clearing house, LANKASIGN will in the future facilitate the elimination of paper based payment instruments and help Sri Lankans to engage in e-commerce in a secure environment.



Harsha Wanigatunga
Head of Operations

Improvements Made To The National Clearing Systems

“The improvements to the CITS and SLIPS clearing systems will enhance the efficiency of the payments industry in Sri Lanka by serving all sectors of the economy to support the higher growth path of post-war Sri Lanka.”

The above improvements to the clearing systems were made to enhance the efficiency of payments industry in Sri Lanka to serve all sectors of the economy to support the higher growth path of post-war Sri Lanka.



Harsha Wanigatunga
Head of Operations

The Cheque Clearing System (Cheque Image and Truncation System (CITS)) and SLIPS (Sri Lanka Interbank Payment System) are two major Payment Systems in Sri Lanka. As the owner and operator of these two Payment Systems, LankaClear is committed to their continuous efficiency improvements in order to better serve the public.

As such, LankaClear has continuously enhanced the Cheque Clearing System to meet the market growth and to create greater efficiency in order to better serve the public. In order to achieve this, the IT Infrastructure was upgraded to cutting edge technology and enhancements were made to the software systems. As a result, LankaClear was able to extend the cheque submission time to 7:00 p.m. and thus facilitating the Banks to extend their cheque deposit cutoff times. This was effective from 1st April 2011. Also the Settlement Clearing cycle has been enhanced, and thus cheque return data is provided to the Banks by 1:30 p.m., enabling them to release funds to their customers within the Banking hours on T+1. This efficiency improvement was made possible by the data transmission for the Settlement Clearing cycle being online and with digital signatures for greater security and this went live on 14th Mar 2011. Further to these benefits to the end customer, the Disaster Recovery (DR) capabilities have

been greatly improved creating a more reliable cheque clearing system.

Another notable achievement was the launch of the Enhanced SLIPS System in September 2010. This is the first paperless, online and highly secure retail clearing system that connects all Commercial Banks via the LankaClear VPN (Virtual Private Network) with end to end digital signing. The enhanced SLIPS system was primarily implemented to cater for higher volumes that are expected due to rapid economic growth and to facilitate same day clearing (T+0) and thus enabling customers to get good value for fund transfers on the same day. There has been good growth in SLIPS transaction volumes and around 32% annual growth was seen in 2010. Also, with the introduction of same day clearing (T+0), we have observed that the third party customer transfer volumes have increased.

One of the key enablers that contributed to the above enhancements was the PKI infrastructure managed by LankaClear under the brand name LankaSign. LankaSign provided the digital certificates and the PKI infrastructure required for the digital signing of the electronic data transmitted via the LankaClear VPN to achieve the highest level of security.

Our Human Resource

“Successful and unsuccessful people do not vary greatly in their abilities. They vary in their desires to reach their potential.”

--John Maxwell

Recognising and identifying staff who desire to reach their potential at LankaClear, we at HR can take pride in having helped point them in that direction by aligning our HR activities towards achieving this goal.

Corporate Plan, Vision & Mission and Goals and Objectives

Appreciating the need for action to make LankaClear even more efficient and progressive and even better geared to face the future challenges, action was taken to formulate a Corporate Plan – which, in fact was the first time LankaClear embarked on such action – and the HR Department shouldered its share of responsibility to support the CEO in this endeavour.

Apart from agreeing on the Corporate Plan, this event saw the Management team agreeing on Corporate Goals and Objectives and the reformulation of the Company's Vision and Mission

After the blessing of the Board was obtained for this reformulated Vision and Mission of the Company, it was launched at an

event organised for this purpose so that all employees are aware of the Company's Vision and Mission.

A Policy for HR Activities

The HR Department's activities were hitherto conducted without the benefit of a written down policy nor was there in existence, procedures and guidelines in regard to HR activities, which shortfall too was addressed by the HR Department this year.

It is no coincidence that Training & Development, Career Progression and Succession Planning are all part of the HR policy published and those who believe in their potential to grow are given every opportunity to progress within the Company.

Several employees with high potential received their promotions during this year and are now undertaking responsibilities that were unfamiliar to them and would not have backed themselves to take on, previously.

Obviously the training and development of this most valued resource is given high priority and many are the employees who were fortunate to be sent overseas on training, all essential for their growth and the efficient functioning of LankaClear.

The Deserved Progress and are Rewarded

Where improvement to efficiencies and productivity were found to be necessary, once the necessary changes to the organisation structure were agreed and approved, the first choice for higher positions were the internal candidates whose performance was proven and showed promise. Needless to say this was how LankaClear helped them to reach their potential.

While obviously those promoted received their due increases in salaries, the Company also ensured that where there were salary anomalies, such anomalies were eradicated and minimum salaries adjusted.

Stability of Employment

When the Cheque Imaging and Truncation System was in its infancy and in an era when LankaClear had to operate Regional Centres in certain outstation cities to assist those banks which could not handle the cheque imaging for outstation branches on their own, LankaClear engaged several staff as outsourced employees. During this era, some of the work even at the primary site in Colombo was performed by outsourced staff. These employees always had a nagging fear wondering if they would ever become permanent in their positions.

However, in an enlightened decision taken last year, all those who were required for essential duties in the Company were given direct employment at LankaClear and now these employees have only to worry about performing well in their jobs.

While most staff benefited by this decision, with the closure of the outstation Regional Centres (RCs), the staff engaged on contract basis or assigned work as outsourced staff at these RCs had to be released. Here the HR Department took



upon itself the responsibility of finding alternative employment for these members of staff and arranged with one of our stake holder Banks to accommodate them on contract basis as they needed staff to continue the cheque imaging system on a similar basis to ours.

Welfare Association

More new things happened at LankaClear during this period. When employees inquired about the formation of a Welfare Association, the HR Department naturally took the lead in helping them draft a constitution and obtaining assistance from the Company in the form of an initial contribution. This enabled the newly formed LankaClear Employees' Welfare Association to establish a stable fund for their welfare related activities.

As one of their major activities, the newly formed Welfare Association organised a "Pirith" chanting ceremony coinciding with the 5th anniversary of the launching of the Cheque Imaging and Truncation System (CITS).



In addition to organising the "Pirith" ceremony, when many of our countrymen in several areas of Sri Lanka were affected by floods, the newly formed Welfare Association rallied quickly and organised a donation of dry rations to assist these flood victims.



Non managerial staff who have undertaken honorary positions in the Welfare Association or take the lead in organising activities are no doubt receiving hands on skills training in leadership, planning and organisational skills, etc., which will no doubt help in building their confidence and a boost to their long term personality development.

Work Enduring but Play Alluring

The staff outing which the HR promised to be an annual feature in the calendar of HR activities at LankaClear, was organised and another successful outing was held on 19th and 20th February at the Cinnamon Lodge, Habarana. Needless to say enjoyment was the order of the two days spent there.

There is in fact a story behind this. The original plan was to go on a 3 day outing to Trincomalee in early February. However inclement weather and resultant floods prevented us from travelling to Trincomalee much to the disappointment of the staff. However the "never say die" attitude prevailed and within two weeks a trip to Habarana was arranged and the rest, as they say, is history.



Since the staff outing is limited to employees of LankaClear, an "Year End" Party aka. Christmas Party was arranged on 18th December 2010 for employees and their families. This was successfully organised by the HR Department and enjoyed by the kids from 6 to 60.



A J F Wijewickrema

A J F Wijewickrema
Head of HR & Administration

Corporate Social Responsibility

LankaClear's Corporate Social Responsibility programme for the year started inauspiciously, but undaunted by setbacks, we soldiered on.

With the change of principal at the school at Anuradhapura, where a Career Guidance programme was launched last year as our CSR action, there was lack of enthusiasm seen and we decided to bring it to a halt.

Undeterred by this set back we picked a school in Badulla where the principal was very enthusiastic about the career guidance programme we offered to conduct. Having visited this school to discuss matters with the Principal and the relevant staff all necessary arrangements were made to commence this programme in January this year. But very much to our disappointment, incessant rain, earth slips, flooding and the resultant closure of schools in Badulla and some surrounding areas rendered the plans unworkable.

However, we were not ready to give up on our Corporate Social Responsibility and instead of allowing this to be a stumbling block we had discussions with the Principal of the Mahabodhi Vidyalaya, closer home in Foster Lane in the Colombo Town Hall area. This school which had been commenced by the great Anagarika Dharmapala in the premises of his ancestral home, provides education to over 700 students from grade 1 to grade 13 (Commerce stream).

From discussions held with a very forward looking Principal it was determined that their need was not a career guidance programme but assistance towards developing and improving their computer laboratory and facilities for computer studies.

LankaClear commenced the assistance programme with the donation of 2 brand new computers and as part of the development programme the next steps to happen in the coming months is providing internet facility and upgrading the knowledge of the IT teaching staff using our own IT and Systems staff.



Our staff who will be involved in improving the IT knowledge of the teaching staff at this school are very enthusiastic about this opportunity as they are aware that the knowledge they share will ultimately benefit the students of this school.

Partners in Education

LankaClear continued its support towards the growth and sustainable development of our society by accommodating 11 educational visits for well over 450 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.



Relationship Building with a Difference

Continuing our attempts 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 on 16th October 2010. On behalf of LankaClear the Bank Services Department took the lead in the organising of this event.



A J F Wijewickrema
Head of HR & Administration

Board HR Committee

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

Four meetings were held during the period under review on the following dates:

16th September 2010
12th November 2010
21st January 2011
10th February 2011

Some of the matters that the Management referred to the Board HR Committee and where their approval was granted or recommendations made to the Board, are given below.

- Regularising the employment of outsourced (REMS) employees
- Overseas training
- Changes to the Organisation Structure and promotions to selected staff members
- Special increments and adjustments of salaries for some
- Increments for 2011 and amendments to salary scales
- Bonus payable in 2011 based on the Company's performance in 2010

In addition to the above, the Board HR Committee was involved in approving Policies and Procedures in relation to vital areas of the HR function which had not been available to the HR Management in the past and key among these was an HR Policy for the Company as well as a Training Policy.

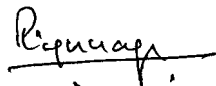
Other important policies submitted to the Board HR Committee where their approval and recommendations were given were in HR Procedures and Guidelines, Per-diem rates for overseas training and a Constitution for a Welfare Association to be formed.

The suggestions and recommendations made by members of the Board HR

Committee were valuable in all these areas and helped in no small measure in obtaining Board approval and in the final implementation, which ultimately will support the Company in achieving its goals, through the improved management of its HR.

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 Mrs. J P Mampitiya and Mr. M U de Silva of the Board HR Committee and also Mr. S B Weerasooriya, General Manager/CEO and Mr. A J F Wijewickrema, Head of HR & Administration of the management for the roles played by them.



Mrs. P Liyanage
Chairperson – Board HR Committee

Audit Committee Report

Composition of the Audit Committee

The Audit Committee comprised of two Non Executive Directors and the third member is the representative from Sri Lanka Banks' Association to the LCPL Board. The Chairman of the Audit Committee is a Senior Chartered Management Accountant.

The members of the Audit Committee are:
Mr. M Y A Perera (Chairman)
Mrs. R A S M Dayarathna
Mr. M U de Silva

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

Meetings

The committee held 04 meetings during the year under review. The attendance of the members of these meetings is given in the Corporate Governance Article 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.

With reference to the observations made by Internal Auditors on the inconsistencies of the composition of the Board Audit Committee and as per the request of the Board, the Audit Committee Charter had been revised to eliminate the inconsistencies.

The following areas come under the purview of the Audit Committee:

Compliance

- a) Review the effectiveness of the Company's systems for monitoring compliance with any applicable laws

and regulation 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.

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) Mandated the Internal Auditors at regular intervals to review 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 2012 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.



M Y A Perera
Chairman
Audit Committee
28th June 2011
Colombo, Sri Lanka.

Financial Information

Financial Information

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Annual Report of the Board of Directors on the Affairs of the Company

The Directors are pleased to submit their report together with the Auditor's Report and Financial Statements for the year ended 31st March 2011, to be presented at the 9th Annual General Meeting of the Company.

Review of the Year

Chairperson's 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 Highlights on page 4 elaborate 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 secure interbank 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 pages 40 - 56 in this Annual Report.

Independent Auditor's Report

The Auditor's Report on the financial statements is given on page 39 in this report.

Accounting Policies

The Accounting Policies adopted in preparation of the financial statements are given on pages 44 - 47. There were no material changes in Accounting Policies adopted by the Company during the year under review.

Fixed Assets

Details of fixed assets are given in note 3 to the accounts.

Directors' Responsibilities

The Statement of the Directors' Responsibilities is given on page 38 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 17 - 19.

Reserves

The Reserves and Accumulated Profits as at 31st March 2011 amount to Rs. 505,757,217/- vs Rs. 432,210,916/- as at 31st March 2010. 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. 152,500,000/- as at 31st March 2011. The details are given in Note 10 to the financial statement on page 50.

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 24 to the financial statements on page 56, 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. M Y A Perera (Chairman)
2. Mr. M U de Silva
3. Mrs. R A S M Dayarathna

Board HR Committee

Following are the names of the Directors comprising the Board HR Committee

1. Mrs. P Liyanage - Chairperson
2. Mrs. J P Mampitiya
3. Mr. M U de Silva

Directors

The Board of Directors of LankaClear (Private) Limited as at 31st March 2011 were:

Mrs. P Liyanage – Chairperson
Mrs. J P Mampitiya
Mr. B A C Fernando
Mr. G G C Ariyaratne
Mrs. R A S M Dayarathna
Mr. M Y A Perera
Mr. A H D A N De Silva
Mr. M S A Fernando

During the year the following changes took place in the directorate.

- Mr. A Sarath de Silva - Chairman relinquished his position on 2nd May 2010 and Mrs. P Liyanage was appointed in his place by the Governor of the Central Bank of Sri Lanka.
- Mr. B Mahapatra resigned w.e.f. 18th January 2011 and Mr. M S A Fernando was appointed in his place.
- Mr. H S Dharmasiri resigned w.e.f. 15th March 2011 and Mr. G G C Ariyaratne was appointed in his place.

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 Accountants, 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 are disclosed in the Note 20 on page 54 in this Annual Report.

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

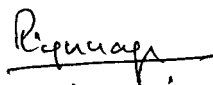
The Audit Committee reviews the appointment of the Auditor, its effectiveness and its relationship with the Company including the level of audit and non-audit fees paid to the Auditor. Details of the work of the Audit Committee are set out in the Audit Committee Report.

Notice of Meeting

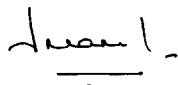
The Annual General Meeting will be held at the "Garnet Room", Ceylon Continental Hotel, Janadhipathi Mawatha, Colombo 01. on 30th August 2011 at 11.30 am.

The Notice of the Annual General Meeting appears on page 60.

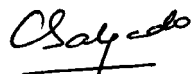
For and on behalf of the Board.



Mrs. P Liyanage
Director



Mrs. J P Mampitiya
Director



Managers & Secretaries (Pvt) Ltd
Secretaries

LankaClear (Private) Limited
19th July 2011
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 meetings and express their opinion in their report on page 39 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

Colombo
19th July 2011

**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, which comprise the balance sheet as at 31 March 2011 and the income statement, statement of changes in equity and cash flow statement 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 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

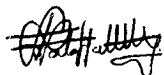
21st June 2011
Colombo.

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 FCMA 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

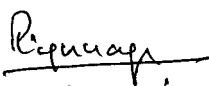
Balance Sheet

As at 31 March	Note	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
ASSETS				
Non-Current Assets				
Property, Plant & Equipment	3	132,988,805	113,644,977	113,644,977
Intangible Assets	4	29,189,041	30,120,142	30,120,142
Deferred Tax Assets		-	1,198,225	1,198,225
Investment in Subsidiary		-	9,180,000	-
		162,177,846	154,143,344	144,963,344
Current Assets				
Receivable from Subsidiary	5	7,818,094	-	-
Inventories	6	1,342,111	3,484,391	3,484,391
Trade and Other Receivables	7	68,972,366	79,312,574	80,499,875
Short-term Investments	8	560,918,562	514,470,283	514,470,283
Cash and Cash Equivalents	9	12,896,064	14,827,095	31,636,821
		651,947,197	612,094,343	630,091,370
Total Assets		814,125,044	766,237,687	775,054,714
EQUITY AND LIABILITIES				
Capital and Reserves				
Stated Capital	10	152,500,000	150,500,000	150,500,000
Building Fund	11.1	72,005,489	83,948,333	83,948,333
Capital Reserves	11.2	300,000,000	195,000,000	195,000,000
Retained Earnings		133,751,728	153,262,584	153,233,087
		658,257,217	582,710,918	582,681,420
Minority Interest		-	-	8,791,660
Total Equity		658,257,217	582,710,918	591,473,080
Non-Current Liabilities				
Interest Bearing Loans and Borrowings	12	46,902,477	74,312,984	74,312,984
Government Grants	13	-	6,303,431	6,303,431
Retirement Benefit Obligation	14	5,705,569	6,231,260	6,231,260
Deferred Tax Liability	15	3,616,135	-	-
		56,224,181	86,847,675	86,847,675
Current Liabilities				
Trade and Other Payables	16	44,729,004	63,204,363	63,259,228
Income Tax Liability		27,636,330	6,196,420	6,196,420
Interest Bearing Loans and Borrowings	12	27,278,312	27,278,312	27,278,312
		99,643,646	96,679,094	96,733,959
Total Equity and Liabilities		814,125,044	766,237,687	775,054,714
Net Assets Per Share				
		43.59	38.72	38.72

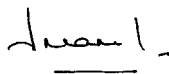
These Financial Statements are in compliance with the requirements of the Companies Act No :07 of 2007.



Head of Finance



Director



Director

The accounting policies and notes on pages 44 to 56 form an integral part of the financial statements.

21st June 2011
Colombo

Income Statement

Year ended 31 March	Note	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
Revenue	17	348,813,235	383,358,455	383,358,455
Cost of Sales		(140,410,757)	(208,354,158)	(208,354,158)
Gross Profit		208,402,478	175,004,297	175,004,297
Other Income and Gains	18	61,982,401	72,425,572	72,468,968
Administrative Expenses		(99,396,089)	(107,349,288)	(107,450,522)
Finance Cost	19	(9,336,976)	(17,306,188)	(17,306,188)
Profit Before Tax	20	161,651,814	122,774,394	122,716,556
Income Tax Expense	21	(70,798,014)	(42,948,616)	(42,948,616)
Profit After Tax		90,853,800	79,825,777	79,767,939
Attributable to Minority Interest		-	-	28,340
Profit for the Year		90,853,800	79,825,777	79,796,280
Earnings Per Share	22	6.04	5.30	5.30

The accounting policies and notes on pages 44 to 56 form an integral part of the financial statements.

Statement of Changes in Equity

Year ended 31 March	Note	Stated Capital Rs.	Building Fund Rs.	Capital Reserves Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31 March 2009		150,500,000	53,254,734	195,000,000	128,210,406	526,965,140
Profit for the Year		-	-	-	79,825,777	79,825,777
Transfer to Building Fund		-	30,693,599	-	(30,693,599)	-
Dividend paid		-	-	-	(24,080,000)	(24,080,000)
Balance as at 31 March 2010		150,500,000	83,948,333	195,000,000	153,262,584	582,710,917
Proceeds from New Share Issue	10	2,000,000	-	-	-	2,000,000
Profit for the Year		-	-	-	90,853,800	90,853,800
Utilisation of Building Fund	11.1	-	(52,355,797)	-	52,355,797	-
Transferred to Building Fund	11.1	-	40,412,953	-	(40,412,953)	-
Transferred to Retained Earnings		-	-	(15,000,000)	15,000,000	-
Transferred to Retained Earnings		-	-	(150,000,000)	150,000,000	-
Transferred to Capital Reserve	11.2	-	-	270,000,000	(270,000,000)	-
Dividend paid		-	-	-	(17,307,500)	(17,307,500)
Balance as at 31 March 2011		152,500,000	72,005,489	300,000,000	133,751,728	658,257,217

The accounting policies and notes on pages 44 to 56 form an integral part of the financial statements.

Cash Flow Statement

Year ended 31 March	Note	Company 2011 Rs.	Company 2010 Rs. (Restated)	Group 2010 Rs. (Restated)
Cash Flows From / (Used in) Operating Activities				
Profit Before Tax		161,651,814	122,774,394	122,716,556
Adjustments for				
Depreciation	20	47,191,608	158,886,975	158,886,975
Amortization of Deferred Income	13	(6,303,432)	(75,641,166)	(75,641,166)
Finance Income	18	(58,319,502)	(72,075,680)	(72,119,076)
Provision for Retirement Benefit Obligation	14	416,544	3,742,390	3,742,390
Provision for Bank Claims		9,360,683	-	-
Profit on Disposal of Property, Plant & Equipment	18	(3,186,715)	(29,008)	(29,008)
Inventory write-off		1,319,855	-	-
Provision for share of loss of investment in Subsidiary	5	1,361,906	-	-
Finance Cost	19	9,336,976	17,306,188	17,306,188
Operating Profit before Working Capital Changes		162,829,738	154,964,093	154,862,859
(Increase)/Decrease in Inventory		822,425	(390,987)	(390,987)
Decrease in Trade and Other Receivables		37,189,563	4,123,711	2,936,411
Increase/(Decrease) in Trade and Other Payables		(27,836,042)	6,467,194	6,522,059
Cash Generated from Operations		173,005,683	165,164,011	163,930,342
Interest Paid	19	(9,336,976)	(17,306,188)	(17,306,188)
Income Tax Paid		(44,543,745)	(46,025,432)	(46,025,432)
Gratuity Paid	14	(942,235)	-	-
Net Cash From/(Used in) Operating Activities		118,182,728	101,832,391	100,598,721
Cash Flows From/(Used in) Investing Activities				
Acquisition of Property, Plant & Equipment	3	(72,792,200)	(9,742,919)	(9,742,919)
Cash Received from CPS		-	15,500,000	15,500,000
Investment in CPS Project	3	(278,321)	(2,107,921)	(2,107,921)
Investment in Subsidiary Company Shares		-	(9,180,000)	-
Proceeds from disposal of Property, Plant & Equipment		10,652,901	106,007	106,007
Investment in short-term deposits	8	(46,448,279)	(115,265,549)	(115,265,549)
Finance Income Received	18	31,470,147	52,990,035	53,033,431
Net Cash Flows From/(Used in) Investing Activities		(77,395,752)	(67,700,347)	(58,476,951)
Cash Flows From/(Used in) Financing Activities				
Investment made in Shares by Minority		-	-	8,820,000
Proceeds from issue of Ordinary Shares	10	2,000,000	-	-
Dividend Paid		(17,307,500)	(24,080,000)	(24,080,000)
Repayment of Interest Bearing Loans & Borrowings	12	(27,410,507)	(27,278,312)	(27,278,312)
Net Cash Flows From/(Used in) Financing Activities		(42,718,007)	(51,358,312)	(42,538,312)
Net decrease in Cash and Cash Equivalents		(1,931,031)	(17,226,268)	(416,542)
Cash and Cash Equivalents at the beginning of the year		14,827,095	32,053,363	32,053,363
Cash and Cash Equivalents at the end of the year (Note A)	9	12,896,064	14,827,095	31,636,821
Note A				
Analysis of Cash and Cash Equivalents at the end of the year				
Investments in REPOs		11,400,000	12,300,000	28,600,000
Cash and Bank Balances		1,496,064	2,527,095	3,036,821
Total Cash & Cash Equivalents		12,896,064	14,827,095	31,636,821

The accounting policies and notes on pages 44 to 56 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 01 and the principal place of business is situated at the above mentioned address.

1.2 Principal Activities and Nature of Operations

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

1.3 Date of Authorization of Issue

The Financial Statements of LankaClear (Pvt) Ltd., for the year ended 31 March 2011, were authorized for issue in accordance with a resolution of the Board of Directors 21 June 2011.

2. 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 have not been prepared as at 31st March 2011 in accordance with the Section 153(6A) of the Companies Act No. 07 of 2007 as its Subsidiary has not commenced its operations so far due to non clearance of its activities by Central Bank of Sri Lanka and as a winding up of the entity is planned in consultation with Central Bank.

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 are determined using assumptions required under actuarial valuation techniques or gratuity formula method. 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 14 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 recognized as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of that asset.

2.3.4 Inventories

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

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

Consumables & Stationery - Weighted average cost basis

2.3.5 Trade and Other Receivables

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

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

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.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the entity and the cost of the item can be measured reliably.

Items of plant and equipment are derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the income statement in the year the asset is derecognized.

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%
Electricity 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.

Subsequent expenditure on intangible asset is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

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%
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2.3.9 Impairment

The company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the income statement, except that, impairment losses in respect of property, plant and equipment are recognised against the revaluation reserve to the extent that it reverses a previous revaluation surplus. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. Previously recognised impairment losses other than in respect of goodwill, are reversed only if there has been an increase in the recoverable amount of the asset. Such increase is recognised to the extent of the carrying amount had no impairment losses been recognised previously.

2.3.10 Investments

a) Short term Investments

Investments in Fixed Deposits, Investments in Commercial Papers 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.

2.3.11 Provisions

a) General

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

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.

2.3.12 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.

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.

2.3.13 Grants & Subsidies

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

2.3.14 Revenue Recognition

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

a) Rendering of Services

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

b) Interest

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

c) Others

Other income is recognized on an accrual basis.

2.4 Effect of Sri Lanka Accounting Standards issued but not yet effective:

a) The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.

- Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)
- Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)
- Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These three standards have been amended and forms a part of the new set of financial reporting standards mentioned under note (b) below.

b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01 January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

2.5. General**2.5.1 Events occurring after the balance sheet date**

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

2.5.2. Earnings per share

The entity presents basic and diluted Earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shares and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.5.3 Comparative figures

Where necessary comparative figures have been reclassified to conform to the current year's presentation.

3. PROPERTY, PLANT & EQUIPMENT

	Balance as at 01.04.2010 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2011 Rs.
3.1 Gross Carrying Amounts				
At Cost				
Computer Equipment	359,975,411	62,980,080	(27,347,449)	395,608,043
Furniture and Fittings	20,677,432	802,362	(8,672,073)	12,807,721
Electronic Equipment	44,852,622	355,903	(18,928,264)	26,280,261
Other Equipment	2,442,250	13,905	(714,859)	1,741,296
Motor Vehicle	6,650,000	-	-	6,650,000
	434,597,715	64,152,250	(55,662,645)	443,087,320

3.2 Capital Work in Progress				
Capital Work in Progress - CPS Project	73,491,951	278,321	(8,571,942)	65,198,331
	73,491,951	278,321	(8,571,942)	65,198,331

Total Gross Carrying Amount	508,089,666	64,430,572	(64,234,586)	508,285,651
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	Balance as at 01.04.2010 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2011 Rs.
3.3 Depreciation				
Computer Equipment	349,656,363	19,785,021	(26,658,191)	342,783,193
Furniture and Fittings	9,622,719	1,439,945	(4,564,923)	6,497,741
Electronic Equipment	30,068,565	5,744,461	(15,738,505)	20,074,521
Other Equipment	1,882,876	161,855	(647,507)	1,397,224
Motor Vehicle	3,214,166	1,330,000	-	4,544,166
Total Depreciation	394,444,689	28,461,281	(47,609,125)	375,296,846

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
3.4 Net Book Values			
Computer Equipment	52,824,850	10,319,048	10,319,048
Furniture and Fittings	6,309,979	11,054,713	11,054,713
Electronic Equipment	6,205,740	14,784,057	14,784,057
Other Equipment	344,071	559,374	559,374
Motor Vehicle	2,105,834	3,435,834	3,435,834
	67,790,474	40,153,026	40,153,026
3.5 Capital Work in Progress			
Capital Work in Progress - CPS Project	65,198,331	73,491,951	73,491,951
	65,198,331	73,491,951	73,491,951
Total Carrying Amount of Property, Plant and Equipment	132,988,805	113,644,977	113,644,977

3.6 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.64,152,250/- (2010 - Rs.5,576,468/-). Cash Payments amounting to Rs. 53,700,838/- (2010 - Rs. 5,576,468/-) were made during the year for acquisition of Property, Plant and Equipment.

- 3.7** The initial cost of fully depreciated Property, Plant and Equipment as at 31st March 2011 which are still in use as at the Balance Sheet date having a gross carrying amounts of Rs.330,826,582/- (2010-Rs.8,291,798/-).
- 3.8** Capital Work-in-progress (WIP) amounting to Rs.65,198,331/- relating to Common Payment Switch (CPS) project was not subject to impairment during the year as the said WIP will generate future economic benefits to the entity by transferring the same to Common Card And Payment Switch (CCAPS) project which will be implemented in the next financial year. As a result no provision was required to be made in the financial statements as at the Balance Sheet date.
- 3.9** There were no items of Property, Plant and Equipments pledged as securities for liabilities.

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
4. INTANGIBLE ASSETS			
4.1 Cost			
Balance at the beginning of the year	241,809,709	237,643,257	237,643,257
Additions and improvements during the year	19,091,361	4,166,452	4,166,452
Transferred to Property, Plant and Equipment during the year	(1,879,470)	-	-
Balance at the end of the year	259,021,600	241,809,709	241,809,709
4.2 Accumulated Amortisation			
Balance as at beginning of the year	211,689,567	152,167,665	152,167,665
Amortisation for the year	18,730,326	59,521,902	59,521,902
Transferred during the year	(587,334)	-	-
Accumulated Amortisation at the end of the year	229,832,559	211,689,567	211,689,567
Net Book Value	29,189,041	30,120,142	30,120,142

- 4.3** During the financial year company has paid Rs. 19,091,361/- for acquisition of intangible assets. (2010 - Rs. 4,166,452/-)
- 4.4** Intangibles includes fully amortised assets having a gross carrying amounts of Rs.194,670,262/- (2010 - Rs.1,684,437/-).

5. RECEIVABLE FROM SUBSIDIARY

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
LankaClear Cash Management (Pvt) Ltd.	9,180,000	-	-
Less: Provision for share of loss of investment	(1,361,906)	-	-
	7,818,094	-	-

LankaClear Cash Management (Pvt) Ltd has not been consolidated as at the Balance Sheet date in accordance with the section 153 (6A) of the Companies Act No.07 of 2007. The Company has not commenced its operations so far due to non clearance of its activity by Central Bank of Sri Lanka and the assets of the said entity is to be acquired by the Central Bank. As a winding up of the entity is planned in consultation with Central Bank, the investment is treated as receivable and a provision for share of loss of investment amounting to Rs.1,361,906/- has been recognised against the investment.

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
6. INVENTORIES			
Consumable and Stationery	1,342,111	3,484,391	3,484,391
	1,342,111	3,484,391	3,484,391
7. TRADE AND OTHER RECEIVABLES			
Trade Receivables	38,373,409	48,355,409	48,355,409
Advances & Prepayments	3,569,980	4,383,930	6,357,002
Refundable Deposit	170,700	172,980	172,980
Interest Receivable (Note 7.1)	26,849,355	25,614,484	25,614,484
Other Receivables	8,922	785,771	-
	68,972,366	79,312,574	80,499,875
7.1 Interest Receivable			
Interest on Fixed Deposits	17,932,878	24,534,598	24,534,598
Interest on Commercial Papers	8,910,599	1,079,886	1,079,886
Interest on REPOs	5,878	-	-
	26,849,355	25,614,484	25,614,484
8. SHORT-TERM INVESTMENTS			
Investments in Treasury Bills	-	26,687,993	26,687,993
Investments in Fixed Deposits	372,566,522	422,675,061	422,675,061
Investments in Commercial Papers	188,352,040	65,107,229	65,107,229
	560,918,562	514,470,283	514,470,283
9. CASH AND CASH EQUIVALENTS			
Investments in REPOs	11,400,000	12,300,000	28,600,000
Cash and Bank Balances	1,496,064	2,527,095	3,036,821
	12,896,064	14,827,095	31,636,821

	2011		2010	
	Number	Rs.	Number	Rs.
10. STATED CAPITAL				
Fully paid Ordinary Shares	15,100,000	152,500,000	15,050,000	150,500,000
10.1 Balance at the beginning of the year	15,050,000	150,500,000	15,050,000	150,500,000
Issue of Shares for Cash	50,000	2,000,000	-	-
Balance at the end of the year	15,100,000	152,500,000	15,050,000	150,500,000

The Authorized Capital and Par Value concept in relation to share capital were abolished in accordance with the Section 58 of the Companies Act No. 07 of 2007 which became effective from 3rd May 2007. The total amount received by the Company or due and payable to Company in respect of the issue and calls of the shares are referred to as stated capital.

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
11. RESERVES			
11.1 BUILDING FUND			
At the beginning of the year	83,948,333	53,254,734	53,254,734
Transferred from Retained Earnings	40,412,953	30,693,599	30,693,599
Utilisation of Building Fund	(52,355,797)	-	-
At the end of the year	72,005,489	83,948,333	83,948,333
11.2 CAPITAL RESERVES			
Reserve for Common Payment Switch Project	-	150,000,000	150,000,000
Reserve for Common Card And Payment Switch Project	270,000,000	-	-
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
Reserve for Certificate Authority Project	5,000,000	5,000,000	5,000,000
	300,000,000	195,000,000	195,000,000

Building fund represents profits reserved by the company for the replacement of capital assets that have either completed their useful economic life or with outdated technology necessitating replacements.

Reserve for Common Card And Payment Switch project comprises amounts set aside by the entity for the purpose of meeting the capital infrastructure requirements for the implementation of the project.

Reserve for Certificate Authority and Direct Connectivity Projects represents profits that have been held in reserve to fund for further developments and improvements which can be taken place in the future.

12. INTEREST BEARING LOANS & BORROWINGS

	2011 Repayable within 1 Year Rs.	2011 Repayable after 1 Year Rs.	2011 Total Rs.	2010 Repayable within 1 Year Rs.	2010 Repayable after 1 Year Rs.	2010 Total Rs.
Bank Loans (12.1)	27,278,312	46,902,477	74,180,789	27,278,312	74,312,984	101,591,296
	27,278,312	46,902,477	74,180,789	27,278,312	74,312,984	101,591,296
	As at 01.04.2010 Rs.	Loan Obtained Rs.	Repayment Rs.	As at 31.03.2011 Rs.		
12.1 Bank Loans						
Seylan Bank PLC	101,591,296	-	27,410,507	74,180,789		
	101,591,296	-	27,410,507	74,180,789		

No assets have been pledged as securities to obtain the above loan

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
13. GOVERNMENT GRANTS			
CITS Related Government Grant			
As of the beginning of the year	6,303,431	81,944,598	81,944,598
Amortized during the year	(6,303,431)	(75,641,166)	(75,641,166)
As of the end of the year	-	6,303,431	6,303,431

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

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
14. RETIREMENT BENEFIT OBLIGATION			
Provision for Retiring Gratuity			
Balance at the beginning of the year	6,231,260	2,488,870	2,488,870
Interest for the year	350,839	173,650	173,650
Charge for the year	1,541,504	1,319,487	1,319,487
Deficit/(Surplus) Charge for the year	(1,475,799)	2,249,253	2,249,253
Payments made during the year	(942,235)	-	-
Balance at the end of the year	5,705,569	6,231,260	6,231,260

The Company has adopted SLAS 16 Employee benefits (Revised 2006) in determining the liability in respect of Retiring Gratuity. The present value of the said liability is estimated using either actuarial valuation or gratuity formula method as recommended by SLAS 16. The entity has estimated its gratuity liability as at 31st March 2011 using the gratuity formula in Appendix E of the said standard which is based on the Projected Unit Credit method.

The principal assumptions used in determining this obligation were,

	Company 2011	Company 2010	Group 2010
Discount Rate	9.00%	9.00%	9.00%
Salary Increment Rate	9.00%	9.84%	9.84%
Staff Turnover Factor	5.70%	2.60%	2.60%

15. DEFERRED TAXATION

15.1 Deferred Tax Asset / (Liability)	(3,616,135)	1,198,225	1,198,225
	(3,616,135)	1,198,225	1,198,225

	2011 Company		2010 Company/Group	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Balance at the beginning of the year	3,423,500	1,198,225	(5,869,480)	(2,054,318)
Impact on rate change charged to income statement (Note 15.2)	-	(239,645)	-	-
Transferred from/(to) income statement	(16,338,267)	(4,574,715)	9,292,980	3,252,543
Balance at the end of the year	(12,914,767)	(3,616,135)	3,423,500	1,198,225
Deferred Tax Asset / (Liability) consisted of followings				
Plant and Equipment	(18,620,336)	(5,213,694)	(2,807,760)	(982,716)
Retirement Benefit Obligation	5,705,569	1,597,559	6,231,260	2,180,941
	(12,914,767)	(3,616,135)	3,423,500	1,198,225

15.2 Impact due to Corporate Income Tax Rate Change

The corporate income tax rate would be reduced to 28% commencing from year of assessment 2011/12 as per the budget proposal for 2011 announced by the Finance Minister. Accordingly, deferred tax liability has been computed based on 28%.

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
16. TRADE AND OTHER PAYABLES			
Value Added Tax	2,886,337	1,704,177	1,704,177
Nation Building Tax	686,915	1,055,486	1,055,486
Economic Service Charges	915,856	951,653	951,653
Withholding Tax	473,925	257,260	312,125
Sundry Creditors including Accrued Expenses	39,735,479	59,206,795	59,206,795
Advance received for batch tickets sales	30,492	28,992	28,992
	44,729,004	63,204,363	63,259,228
17. REVENUE			
Sales from Clearing Services	356,884,896	393,932,819	393,932,819
Sales from Certificate Authority	1,691,108	252,004	252,004
Less: Nation Building Tax	(9,762,769)	(10,826,369)	(10,826,369)
	348,813,235	383,358,455	383,358,455
18. OTHER INCOME AND GAINS			
Interest on Fixed Deposits	40,902,500	59,851,840	59,851,840
Interest on Treasury Bills & REPO Investments	5,980,944	2,160,951	2,204,347
Interest on Commercial Papers	11,436,059	10,062,888	10,062,888
Other Income	476,184	349,892	349,892
Profit on Disposal of Property, Plant and Equipment	3,186,715	-	-
	61,982,401	72,425,572	72,468,968

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a company which derives interest income from the secondary market transaction with Government securities be entitled to a notional tax credit provided such interest income forms part of a statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in Government securities for the year by the entity has been grossed up in the financial statements and the resulting notional tax credit amounted to Rs.598,094/- (2010 - Rs.216,095/-).

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
19. FINANCE COST			
Interest Expense on Interest Bearing Loans & Borrowings	9,336,976	17,306,188	17,306,188
	9,336,976	17,306,188	17,306,188
20. PROFIT BEFORE TAX			
Profit before tax is stated after charging all expenses including the following:			
Directors' Emoluments	2,345,500	1,870,500	1,955,500
Auditors' Fee - External	443,528	299,004	299,004
- Internal	438,514	421,225	421,225
Provision for share of loss of investment in subsidiary	1,361,906	-	-
Depreciation	47,191,608	158,886,976	158,886,976
Personnel Costs includes			
- Defined Benefits Plan Cost - Gratuity	416,544	3,742,390	3,742,390
- Defined Contribution Plan Cost - EPF & ETF	5,080,786	5,461,661	5,461,661
- Other Staff Costs	52,882,235	62,633,396	62,633,396
	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
21. INCOME TAX EXPENSE			
The major components of income tax expense for the year ended 31 March are as follows :			
Current Income Tax Expense			
Current Income Tax charge (Note 21.1)	63,664,893	47,113,684	47,113,684
Social Responsibility Levy 1.5% (Note 21.1)	980,935	742,825	742,825
Under/(Over) Provision of current taxes in respect of prior years	1,337,827	(1,655,349)	(1,655,349)
Deferred Income Tax Expense			
Adjustment to opening deferred tax asset resulting from Changing in tax rate (Note 15.1)	239,645	-	-
Deferred tax originating/(reversing) during the year (Note 15.1)	4,574,715	(3,252,544)	(3,252,544)
Charge to the Income Statement	70,798,014	42,948,616	42,948,616
21.1 Reconciliation of Accounting Profit to Income Tax Expense			
At the statutory income tax rate of 35%			
Profit Before Tax	161,651,814	122,774,394	122,716,556
Aggregate Allowable Items	(46,191,111)	(59,021,969)	(59,021,969)
Aggregate Disallowable Items	66,438,991	70,858,100	70,915,938
Taxable Income	181,899,694	134,610,525	134,610,525
Income Tax @ 35%	63,664,893	47,113,684	47,113,684
Social Responsibility Levy @ 1.5% on current years income tax	954,973	706,705	706,705
Social Responsibility Levy on dividend paid during the year	25,961	36,120	36,120
	980,935	742,825	742,825

22. EARNINGS PER SHARE

22.1 Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
Amount used as the Numerator			
Net profit attributable to ordinary shareholders	90,853,800	79,825,777	79,796,280
Number of ordinary shares used as the Denominator			
Weighted average number of ordinary shares in issue	15,052,740	15,050,000	15,050,000
Basic Earnings per Share	6.04	5.30	5.30

22.2 Diluted Earnings per Share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares. There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

	Company 2011 Rs.	Company 2010 Rs.
23. DIVIDEND PER SHARE		
Final Dividend Paid in respect of 2008/09	-	24,080,000
Final Dividend Paid in respect of 2009/10	17,307,500	-
Dividend per Share	1.15	1.60

24. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

24.1 Transactions with Related Parties

a) Transactions with Significant Shareholders	Company 2011 Rs.	Company 2010 Rs.	Group 2010 Rs.
As at 1st April	48,355,409	53,048,549	53,048,549
Clearing services provided	399,132,586	438,753,468	438,753,468
Cash Received during the year	(409,114,586)	(443,446,608)	(443,446,608)
As at 31st March	38,373,409	48,355,409	48,355,409

b) Bank Loans

As at the Balance Sheet date outstanding interest bearing loans & borrowings amounting to Rs.74,180,789/- (2010 - Rs.101,591,296/-) which were obtained from a related party of the Company. Further interest payments on loans amounting to Rs.9,336,976/- has been made during the year (2010 - Rs.17,306,188/-) and are included in Note No.12 to the financial statements. No assets have been pledged in this regard.

c) Short-Term Investments

Company has invested in fixed deposits and REPOs amounting to Rs.372,566,522/- (2010 - Rs.422,675,061/-) and Rs.11,400,000/- (2010 - Rs.12,300,000/-) respectively as at the Balance Sheet date with banks which are related parties of the Company. Further, the Company has entitled for interest income for the said investments amounting to Rs.46,883,443/- during the year (2010 - Rs.62,012,791/-).

24. RELATED PARTY DISCLOSURES**24.2 Transactions with key Management Personnel of the Company**

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:

Key Management personnel Compensation	Company 2011 Rs.	Company/Group 2010 Rs.
Short Term Benefits	2,345,500	1,870,500

25. COMMITMENTS AND CONTINGENCIES**25.1 Capital Expenditure Commitments**

There were no material capital commitments approved by the Board of Directors as at the Balance Sheet date.

25.2 Litigation against the Company

There were no material litigation outstanding against the Company as at the Balance Sheet date.

25.3 Tax Assessments against the Company

The following tax assessment is outstanding, against which the Company has duly appealed.
VAT for the year 2006 taxes amounting to Rs. 39Mn, on Assessment No. 6059691

26. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There were no material events occurring after the Balance Sheet date that requires adjustments to or disclosure in the financial statements.

27. COMPARATIVE FIGURES

To facilitate comparison balances pertaining to the previous year have been re-classified to conform to current year classifications and presentation.

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 secure interbank electronic fund 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. G G C Ariyaratne - Director

Deputy General Manager (Operations), People's Bank

Mrs. R A S M Dayarathna - Director

Director IT, Central Bank of Sri Lanka

Mr. M Y A Perera - Director

Deputy Managing Director, Sampath Bank PLC

Mr. A N de Silva - Director

Chief Operating Officer, Union Bank of Colombo PLC

Mr. M S A Fernando - Director

Country Head, Public Bank Berhad, Colombo Branch

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. S R Hettiarachchi

Operations Manager

Mr. D Samarasinghe

Systems Manager

Mr. A V I G Jayaweera

Bank Services & Help Desk Manager

Mr. P H A J A S Wijepala

Manager – Facilities & Maintenance

Mr. T P A Jayawickrama

Network Operations Manager

Mr. W M Jayaratne

CITS Manager

Mr. Sasanka De Silva

Systems Operations Manager

Stated Capital/ Share Capital

	Number	Rs.
Fully paid Ordinary Shares	15,100,000	152,500,000

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 PLC	2.00	20.00
Commercial Bank of Ceylon PLC	1.00	10.00
Hatton National Bank PLC	2.20	22.00
Seylan Bank PLC	1.00	10.00
Union Bank of Colombo PLC	0.05	0.50
DFCC Vardhana Bank Ltd	0.10	1.00
Pan Asia Banking Corporation PLC	0.10	1.00
Nations Trust Bank PLC	0.15	1.50
National Development Bank PLC	0.15	1.50
Habib Bank Ltd Colombo	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 Ltd	0.10	1.00
Hongkong and Shanghai Banking Corporation Ltd	0.20	2.00
Deutsche Bank AG	0.15	1.50
Citibank NA	0.10	1.00
Standard Chartered Bank	0.15	1.50
Public Bank Berhad	0.10	1.00
ICICI Bank Ltd	0.05	0.50
Amana Bank Ltd	0.05	2.00
	15.10	152.50

Bankers

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

External Auditors

M/s. Ernst and Young - Chartered Accountants
201, De Saram Place,
Colombo 10.
Tel: 2463500
Fax: 2697369

Internal Auditors

M/s. 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

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

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 the Central Bank of Sri Lanka.

'CITS' shall mean the '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

DR Site – Disaster Recovery site of LCPL located at 1st Floor, Bank of Ceylon Training Center, Highlevel Road, Maharagama.

'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.

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

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

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

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

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

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.

'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 Interbank Payment System

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 9th Annual General Meeting of LankaClear (Private) Limited will be held on 30th August 2011 at 11.30 am. at the "Garnet Room", Ceylon Continental Hotel, Janadhipathi Mawatha, Colombo 01 for the following purposes:

- 1) To receive and consider the Annual Report of the Directors and the Statement of Accounts for the year ended 31st March 2011 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.
19th July 2011

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

LankaClear Annual Report 2010/2011

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 9th Annual General Meeting of the Company to be held on 30th August 2011 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2011.

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.

LankaClear (Pvt) Ltd

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

Voice - 2356900

Fax - 2544346

E-mail - info@lankaclear.com

Web - www.lankaclear.com