

ASSURANCE & ADVISORY
BUSINESS SERVICES

SEWA LANKA COMMUNITY FINANCIAL SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007

 **ERNST & YOUNG**

Quality In Everything We Do

HMAJ/ONS/SAK

**AUDITORS' REPORT TO THE MEMBERS OF
SEWA LANKA COMMUNITY FINANCIAL SERVICES LIMITED**

We have audited the balance sheet of Sewa Lanka Community Financial Services Limited as at 31 March 2007 and the related statements of income, cash flows and changes in equity for the year then ended, together with the accounting policies and notes as set out on pages 2 to 15.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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 has maintained proper books of account for the year ended 31 March 2007, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act, No.17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 March 2007, its loss and cash flows for the year then ended.

Directors' Interest in Contracts with the Company

According to the information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year then ended 31 March 2007 except as stated in Note 19 to these financial statements.



Colombo,
20 September 2007

■ Partners : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S Fernando FCA ACMA
A P A Gunasekera FAC FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA
Ms. L C G Nanayakkara FCA FCMA

Sewa Lanka Community Financial Services Limited

BALANCE SHEET

As at 31 March 2007

	Note	2007 Rs.	2006 (7 Months) Rs.
ASSETS			
Cash and Cash Equivalents	3	6,351,910	-
Loans & Advances	4	100,773,209	-
Other Debtors, Prepayments	5	428,955	1,000
Property, Plant & Equipment	6	8,136,557	-
Intangible Assets	7	3,526,302	-
Total Assets		<u>119,216,933</u>	<u>1,000</u>
LIABILITIES			
Security Funds and Other Payables	8	14,037,270	35,850
Interest Bearing Loans and Borrowings	9	53,341,593	-
Grants and Subsidies	10	7,725,056	-
		<u>75,103,919</u>	<u>35,850</u>
SHARE HOLDERS FUND			
Capital and Reserves			
Issued Share Capital	11	1,000	1,000
Shares Pending Allotment	12	50,646,475	-
Retained Earnings		(6,534,461)	(35,850)
Total Equity		<u>44,113,014</u>	<u>(34,850)</u>
Total Liabilities and Share Holders Fund		<u>119,216,933</u>	<u>1,000</u>

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the board by.

.....
Director

.....
Director

The accounting policies and notes on pages 6 through 15 form an integral part of the financial statements.

Colombo
20 September 2007



Sewa Lanka Community Financial Services Limited

INCOME STATEMENTS

Year ended 31 March 2007

	Note	2007 Rs.	Period ended 31.03.2006 Rs.
Income	13	<u>7,349,700</u>	<u>-</u>
Interest Income	14	6,854,640	-
(Less) Interest Expenses	15	<u>2,471,405</u>	<u>-</u>
Net Interest Income		4,383,235	-
Other Income and Gains	16	495,060	-
Profit from operating Activities		<u>4,878,295</u>	<u>-</u>
(Less) Operating Expenses			
Staff cost		4,633,952	-
General & Administration Expenses		5,732,658	35,850
Allowance for Bad & Doubtful Debt		1,010,296	-
Net Loss Before Tax	17	<u>(6,498,611)</u>	<u>(35,850)</u>
Income Tax Expense	18	-	-
Net Loss for the year		<u><u>(6,498,611)</u></u>	<u><u>35,850</u></u>

The accounting policies and notes on pages 06 through 15 form an integral part of the financial statements.

Colombo
20 September 2007



Sewa Lanka Community Financial Services Limited

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 March 2007

	Note	Share Capital Rs.	Share Allotment Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 September 2005		-	-	-	-
Issue of Share Capital	11	1,000	-	-	1,000
Net Loss for the Period		-	-	(35,850)	(35,850)
Balance As at 31 March 2006		1,000	-	(35,850)	(34,850)
Consideration for Shares Pending Allotment	12	-	50,646,475	-	50,646,475
Net Loss for the Period		-	-	(6,498,611)	(6,498,611)
Balance As at 31 March 2007		1,000	50,646,475	(6,534,461)	44,113,014

The accounting policies and notes on pages 6 through 15 form an integral part of the financial statements.

Colombo
20 September 2007



Sewa Lanka Community Financial Services Limited

CASH FLOW STATEMENTS

Year ended 31 March 2007

	Note	2007 Rs.	2006 Rs.
Cash Flows From/ (Used in) Operating Activities			
Net Loss before Income Tax expense		(6,498,611)	(35,850)
Adjustments for			
Depreciation	6.2	850,953	-
Amortization	7.1	153,318	-
Finance Costs	15	2,471,405	-
Provision for Receivables	4.1	1,010,296	-
Operating Profit/(Loss) before Working Capital Changes		(2,012,639)	(35,850)
Increase in Loans and Advances		(101,783,505)	-
Increase in Other Debtors and Prepayments		(427,956)	(1,000)
Increase in Trade and Other Payables		14,001,420	35,850
Cash Generated from Operations		(90,222,680)	(1,000)
Finance Cost paid		(2,471,405)	-
Net Cash Used in Operating Activities		(92,694,085)	(1,000)
Cash Flows Used in Investing Activities			
Acquisition of Property, Plant & Equipment	4	(3,429,604)	-
Acquisition of Intangible Assets	5	(3,679,620)	-
Net Cash Flows Used in Investing Activities		(7,109,224)	-
Cash Flows from Financing Activities			
Proceeds from Issuance of Share Capital		-	1,000
Proceeds From Pending Shares Allotment	12	50,646,475	-
Proceeds From Interest Bearing Loans & Borrowings		48,809,977	-
Capital Repayment of Interest Bearing Loans & Borrowings		(777,778)	-
Principal Payment under Finance Lease Liabilities		(703,173)	-
Grants		8,179,717	-
Net Cash Flows from Financing Activities		106,155,218	1,000
Net Increase in Cash and Cash Equivalents		6,351,910	-
Cash and Cash Equivalents at the beginning of the year	3	-	-
Cash and Cash Equivalents at the end of the year	3	6,351,910	-

The accounting policies and notes on pages 6 through 15 form an integral part of the financial statements.

Colombo
20 September 2007



1. CORPORATE INFORMATION

1.1 General

Sewa Lanka Community Financial Services Limited, trading as "Sewa Finance" is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the company and principal place of business is situated at No.263/A, High Level Road, Colombo 05.

1.2 Principal Activities and Nature of Operations

The company is a financial services provider to the poor of Sri Lanka which includes provision of micro finance, Mobilizing of savings & provides technical assistance to Community Based Organization (CBO's) to strengthen their capacity to retail micro finance to its members that is in the fields of governance, management, accounting & reporting.

1.3 Parent Entity & Ultimate Parent Entity

The Company's parent entity is Sewa Lanka Foundation. In the opinion of the directors, the company's ultimate parent undertaking and controlling party is also Sewa Lanka Foundation, which is incorporated in Sri Lanka.

1.4 Date of Authorisation for Issue

The financial statements of "Sewa Lanka Community Financial Services Limited" for the year ended 31 March 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 20 September 2007.



2.1 BASIS OF PREPARATION

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

2.1.1 Statement of Compliance

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes ("Financial Statements") of the Company as at 31st March 2007 and for the period then ended have been prepared in accordance with the Sri Lanka Accounting Standards.

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the company and except for the changes in accounting policies discussed more fully in 2.2 are consistent with those used in the previous year.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except where the Company has adopted the revised standards mandatory for financial years on 01 April 2006. The Company has resolved to adopt the following revised standards during the year and comparative figures been amended as required:

• SLAS 03 (Revised)	-	Presentation of financial statements.
• SLAS 10 (Revised)	-	Accounting policies, changes in accounting estimates
• SLAS 12 (Revised)	-	Events after the Balance Sheet date.
• SLAS 14 (Revised)	-	Income Taxes
• SLAS 18 (Revised)	-	Property, Plant & Equipment
• SLAS 19 (Revised)	-	Leases
• SLAS 21 (Revised)	-	The effects of changes in Foreign Exchange rates.
• SLAS 30 (Revised)	-	Related Party Disclosures
• SLAS 34 (Revised)	-	Earning per Share
• SLAS 41 (Revised)	-	Impairments of Assets

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

a) 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 is recognised in equity and not in the income statement.

b) 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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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 that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised 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.

2.3.4 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.



Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated based on a straight line basis over the useful life of the assets.

- Computer Software 10%

2.3.5 Other Debtors & Prepayments

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

2.3.6 Cash and Cash Equivalents

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

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

2.3.7 Loans & Advances

Loans & Advances are stated in the Balance Sheet net of provisions for doubtful recoveries.

2.3.8 Leases -Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. the depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in 2.4.10.

2.3.9 Investments in Government Securities

Investments in Repurchase Agreements held to maturity are carried at the value of the Bills purchased and the discount / premium accrued thereon. Discount received / premium paid is amortized and recognized in the Income Statement based on a pattern reflecting a constant periodic rate of return.

2.3.10 Property and Equipment

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



Depreciation is calculated on a straight line basis over the useful life of the assets.

Office Equipment	20%
Motor Vehicles	20%
Furniture & Fittings	15%
Other Equipment	15%
Computer Hardware	10%

2.3.11 Preliminary and Pre-Operational Expenses

Preliminary and pre-operational expenditure are charged to the Income Statement in the period in which they are incurred.

2.3.12 Provisions

Provisions are recognised 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. 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 recognised as an interest expense.

2.3.12.1 Loan loss provisioning

Sewa Lanka Community Financial Services Limited is follow the stated classification category below for its loan losses provisioning policy.

<u>Overdue</u>	<u>Provisioning</u>
1-30 Days	10%
31-60 Days	25%
61-90 Days	50%
More than 90 Days	100%

In addition to that, further 1% general provision is provided from outstanding loan balance as at the year end.

2.3.13 Defined Contribution Plans-Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contribution and Employees' Trust Fund contribution in line with respective statues and regulations. The company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.3.14 Revenue Recognition

a) Accounting for Interest Income from Loans

Interest income from Loans is recognised on an accrual basis.

b) Accounting for Service Charges

Service Charges from loans are recognized on an accrual basis.

2.3.15 Expenses

- a) All expenditure incurred in the running of business and maintaining Property & Equipment in a state of efficiency has been charged to revenue in arriving at the Profit for the year.
- b) Interest expenses are accounted for on an accrual basis.
- c) For the purpose of presentation of the Income Statement the directors are of the opinion that the nature of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

2.3.16 Grants & Subsidies

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



Sewa Lanka Community Financial Services Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

3. CASH AND CASH EQUIVALENTS		2007	2006
		Rs.	Rs.
Cash in Hand		25,000	-
Cash with Banks		6,326,910	-
		<u>6,351,910</u>	<u>-</u>

4. LOANS & ADVANCES		2007		2006	
4.1 Summary		Current	Non-Current	Total	Total
		2007	2007	2007	2006
		Rs.	Rs.	Rs.	Rs.
Loans		100,044,653	984,930	101,029,583	-
Interest Receivable on loans		753,921	-	753,921	-
		<u>100,798,574</u>	<u>984,930</u>	<u>101,783,504</u>	<u>-</u>
Less: Loan Loss Provision				(1,010,295)	-
				<u>100,773,209</u>	<u>-</u>

5. OTHER DEBTORS, PREPAYMENTS		2007		2006	
		Current	Non-Current	Total	Total
		2007	2007	2007	2006
		Rs.	Rs.	Rs.	Rs.
Other Debtors		175,090	-	175,090	1,000
Advances and Prepayments		253,865	-	253,865	-
		<u>428,955</u>	<u>-</u>	<u>428,955</u>	<u>1,000</u>

6. PROPERTY, PLANT & EQUIPMENT		2007		2006	
6.1 Gross Carrying Amounts		Balance	Balance	Balance	Balance
		As at	As at	As at	As at
		01.04.2006	31.03.2007	01.04.2006	31.03.2007
		Rs.	Rs.	Rs.	Rs.
At Cost or Valuation					
Computer Hardware		-	1,300,813	-	1,300,813
Furniture and Fittings		-	629,357	-	629,357
Office Equipment		-	1,499,434	-	1,499,434
		<u>-</u>	<u>3,429,604</u>	<u>-</u>	<u>3,429,604</u>
Assets on Finance Leases					
Motor Vehicles		-	5,557,906	-	5,557,906
Total Value of Depreciable Assets		<u>-</u>	<u>8,987,510</u>	<u>-</u>	<u>8,987,510</u>

6.2 Depreciation		2007		2006	
		Balance	Charge for	Balance	Balance
		As At	the year/	As at	As at
		01.04.2007	Transfers	01.04.2007	31.03.2007
		Rs.	Rs.	Rs.	Rs.
At Cost or Valuation					
Computer Hardware		-	53,803	-	53,803
Furniture and Fittings		-	41,631	-	41,631
Office Equipment		-	107,098	-	107,098
		<u>-</u>	<u>202,532</u>	<u>-</u>	<u>202,532</u>
Assets On Finance Leases					
Motor Vehicles		-	648,421	-	648,421
Total Depreciation		<u>-</u>	<u>850,953</u>	<u>-</u>	<u>850,953</u>



Sewa Lanka Community Financial Services Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

6.3 Net Book Values			2007	2006
At Cost			Rs.	Rs.
Computer Hardware			1,247,010	-
Furniture and Fittings			587,726	-
Office Equipment			1,392,336	-
Total Carrying Amount of Property, Plant & Equipment			3,227,072	-
Assets On Finance Leases				
Motor Vehicles			4,909,485	-
Total Carrying Amount of Property, Plant & Equipment			8,136,557	-
7. INTANGIBLE ASSETS			Computer Software	Total
7.1 Summary			Rs.	Rs.
Cost				
As at 1 April 2006			-	-
Acquired during the period			3,679,620	3,679,620
Disposed during the period			-	-
As at 31 March 2007			3,679,620	3,679,620
Amortisation				
As at 1 April 2006			-	-
Amortisation for the year			153,318	153,318
As at 31 March 2007			153,318	153,318
Net Book Value				
As at 31 March 2007			3,526,302	3,526,302
8. SECURITY FUNDS AND OTHER PAYABLES				
	Current	Total	Current	Total
	2007	2007	2006	2006
	Rs.	Rs.	Rs.	Rs.
Refundable Deposits	12,328,000	12,328,000	-	-
Interest Payable	899,400	899,400	-	-
Other Payables	306,328	306,328	35,850	35,850
Accrued Liabilities	503,542	503,542	-	-
	14,037,270	14,037,270	35,850	35,850
9. INTEREST BEARING LOANS AND BORROWINGS			2007	2006
			Rs.	Rs.
9.1 Borrowings				
Finance Leases			48,486,901	-
Total			48,486,901	-
	Current	Non Current	Total	Total
	2007	2007	2007	2006
	Rs.	Rs.	Rs.	Rs.
9.2 Borrowings				
Payable - Sewa Lanka Foundation Loan	-	27,200,000	27,200,000	-
Payable - Stromme Loan	5,000,004	1,722,218	6,722,222	-
Payable-RaboBank	-	14,564,679	14,564,679	-
	5,000,004	43,486,897	48,486,901	-
9.3 Finance Leases			Current	Non Current
	New Leases	Repayment	As At	As At
	Obtained		31.03.2007	31.03.2007
	Rs.	Rs.	Rs.	Rs.
Motor Vehicle	9,048,237	1,186,653	7,861,584	1,779,934
Gross Liability	9,048,237	1,186,653	7,861,584	1,779,934
Finance Charges allocated to future periods	-	-	3,006,892	962,348
Net liability	9,048,237	1,186,653	4,854,692	4,037,106



Sewa Lanka Community Financial Services Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

10. GRANTS & SUBSIDIES	2007 Rs.	2006 Rs.
As at 1 April	-	-
Cash Received during the year	8,179,717	-
Capacity Building	(301,343)	-
Software Amortization	(153,318)	-
As at 31 March	<u>7,725,056</u>	<u>-</u>

11. SHARE CAPITAL	Par Value Rs.	2007 Number	2006 Number		
11.1 Authorised					
Number of Shares	10/-	10,000,000	10,000,000		
		<u>10,000,000</u>	<u>10,000,000</u>		
		2007 Rs.	2006 Rs.		
Nominal Value	10/-	100,000,000	100,000,000		
		<u>100,000,000</u>	<u>100,000,000</u>		
11.2 Issued and Fully Paid	Par Value Rs.	At the beginning of the Year 01.04.2006 Number	Issued for Cash During the Year Number	Issued for Non cash Consideration Number	At the End of the Year 31.03.2007 Number
Number of Shares	Rs.10/-	100	-	-	100
		<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
Nominal Value	Rs.10/-	Rs. 1,000	Rs. -	Rs. -	Rs. 1,000
		<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>

12. PENDING SHARE ALLOTMENT	2007 Rs.	2006 Rs.
Sewa Lanka Foundation	<u>50,646,475</u>	<u>-</u>

12.1 The parent company has invested the above amount in the company by way of cash and non cash consideration. The company intends to issue and allotted ordinary shares in this respect.

13. INCOME	2007 Rs.	2006 Rs.
13.1 Summary		
Gross Income	<u>7,349,700</u>	<u>-</u>
13.2 Analysis of Gross Income		
Interest	6,854,640	-
Others	495,060	-
	<u>7,349,700</u>	<u>-</u>



Sewa Lanka Community Financial Services Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

14. INCOME FROM INTEREST	2007 Rs.	2006 Rs.
Interest Income From Loans	6,206,144	-
Income from Investments	648,496	-
	<u>6,854,640</u>	<u>-</u>
15. INTEREST EXPENSES		
Int Expense on Refundable Deposit	197,730	-
Int Expense for SLF Loan	2,094,464	-
Int Exp for STROMME Loan	179,211	-
	<u>2,471,405</u>	<u>-</u>
16. OTHER INCOME & GAINS		
Service Charges	40,399	-
Grant Income	454,661	-
	<u>495,060</u>	<u>-</u>
17. OPERATING PROFIT		
Stated after charging		
Depreciation/ Amotization	1,004,271	-
Staff cost- EPF & ETF	457,273	-
Audit fee	100,000	-
	<u>1,561,544</u>	<u>-</u>

18. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

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

19. DIRECTORS INTEREST IN CONTRACTS WITH THE COMPANY

During the period, Mr. Harsha Kumara Nawaratne Weraduwa, Mr. Verupillai Revathan, Mr. Karuna Arachchilage Wijesekera, Mr. Ganeshmoorthy, Krishnamurthy, Mr. Mahinda De Silva, Ms. Kaushalya Nawaratne & Mr. Subramaniam Sivapakyam were the Directors of the Company are also Directors of Sewa Lanka Foundation.(Guarantee) Limited.

There is no directors interest in contracts with the company other than those mentioned in Note 20.

Declaration of above interests is made by respective Directors at a meeting of Directors.

20. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

20.1 Transaction with the parent

	2007 Rs.	2006 Rs.
Loan obtained	(27,200,000)	-
Salaries payable	(338,077)	-
Interest expenses	(2,094,464)	-
Interest paid	1,381,434	-
Expenses incurred	(110,906)	(35,850)
Fixed Assets purchased	(961,796)	-
	<u>(27,823,709)</u>	<u>(35,850)</u>

20.2 Transactiuons with Key Management Personnel of the Company or Parent

The key management personnel of the Company are the members of the Board of Directors, that of its parent, and Chief Executive Officer.

Key Management Personnel Compensation

	2007 Rs.	2006 Rs.
Short-term employee benefits	880,000	-
Post-employment benefits	132,000	-
	<u>1,012,000</u>	<u>-</u>

