

# Financial Statements

# Auditor's Report

The Chairman,  
Housing Development Finance Corporation of Sri Lanka.

## Report of the Auditor General on the accounts of the Housing Development Finance Corporation of Sri Lanka for the year ended 31 December 2002 in terms of Section 14 (2) (c) of the Finance Act No. 38 of 1971.

The audit of accounts of the Housing Development Finance Corporation of Sri Lanka (HDFC) for the year ended 31 December 2002 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No. 38 of 1971. My observations which I consider should be published with the annual report of the Corporation in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act will be furnished to the Chairman of the Corporation in due course.

### 1.2. Responsibility for Financial Statements and Audit

The Board of Directors are responsible for preparing and presenting the financial statements in accordance with Sri Lanka Accounting Standards. My responsibility is to express an opinion on the financial statements presented to audit.

### 1.3. Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub sections (3) and (4) of Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

## 2. Accounts

### 2.1. Audit Opinion

Except for the effect on the financial statements of the matters referred to in paragraph 2:3 of the report, I am of opinion so far as appears from my examination and to the best of my information and according to the explanation given to me, the financial statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in notes (from Notes No. 11 to 15) to the financial statements and give a true and fair view of the financial position of the Corporation as at 31 December 2002 and the financial results and cash flow for the year then ended .

### 2.2 Financial Results

The following table gives a summary of the financial results at various stages.

	2002	2001
	Rs. M	Rs. M.
(a) Interest on Housing Loans (net)	605.879	428.819
(b) Profit on Interest based	280.357	238.347
(c) Net profit before taxation	174.018	189.143

Depreciation and cost of funds charged in the accounts were as follows :

	2002	2001
	Rs. M.	Rs. M.
Depreciation	7.683	5.076
Cost of Funds	325.522	190.472

## 2.3. Comments on Accounts

### 2.3.1. Accounting Deficiencies

- (a) Although 28 Court cases had been filed against the Corporation to obtain compensation, the contingent liability had not been disclosed in the financial statements in accordance with Sri Lanka Accounting Standard 12.
- (b) According to the Housing Development Finance Corporation of Sri Lanka (amendment) Act No. 5 of 2002 the Corporation is scheduled to be converted to a bank called "Housing Development Finance Corporation Bank of Sri Lanka". However, the proposed changes had not been disclosed in the financial statements in accordance with Sri Lanka Accounting Standard 12.
- (c) Half yearly installments payable in respect of the year under review on account of a loan obtained from the Asian Development Bank had not been brought to account in accordance with Sri Lanka Accounting Standard 15.
- (d) Interest payable on account of investment of Rs. 100 Million made in the HDFC by the National Housing Development Authority had not been brought to account.
- (e) Penalty income amounting to Rs. 7,559,172, other income amounting to Rs. 1,610,216 and profit of Rs. 209,795 on sale of properties had been inappropriately shown in the financial statements under different categories of income.
- (f) The provision made in the accounts in respect of interest recoverable from the customers had been understated by Rs. 6.613 million.
- (g) Transactions aggregating to Rs. 3,418,379 and Rs. 16,638,203 had been shown as suspense receipts and suspense creditors respectively without taking action to identify and bring to account under the appropriate accounts.
- (h) The following balances in the accounts had been carried forward from year to year without identify and accounting for them appropriately.

Name of the Account	Value (Rs.)	Period (Years)
Long Term Loan Interest	2,365,815	More than 5 years
Auction Property Account	817,667	More than 8 years

### 2.3.2. Accounts Receivable and Payable

- (a) Balance in respect of Equated Monthly Installment interest aggregating to Rs. 64.362 million, housing loan capital amounting to Rs. 11.058 million and creditors aggregating to Rs. 152.009 million had been outstanding for over three years.
- (b) Confirmations had not been called for in respect of the housing loan debtors aggregating to Rs. 4,757.709 million.
- (c) It was observed in audit that 1725 loan beneficiaries had not paid even a single loan installment in regard to loans aggregating Rs. 179.538,587. The arrears of capital and interest and penalty as at 31 December 2002 amounted to Rs. 41,307,480 and Rs. 11,645,732 respectively.

### 2.3.3. Unreconciled Control Accounts

The balances in 04 control accounts amounting to Rs. 5,033.937 million had not been reconciled with the balances in the detailed schedules amounting to Rs. 5,032.098 million. The difference had been set off to the Suspense Interest Account.

## Auditor's Report contd.

### 2.3.4. Lack of Evidence for Audit

Two items shown in the accounts valued at Rs. 1,301,144,881 could not be satisfactorily vouched or accepted in audit due to the non availability of loan agreements.

### 2.3.5 Non Compliance with Laws, Rules, and Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

<i>Reference to Laws, Rules and Regulations</i>	<i>Particulars</i>
(a) Section 35 of the Housing Development Finance Corporation of Sri Lanka Act. No. 7 of 1997	The Annual General Meeting of the share holders of the Corporation for the year 2001 had been held on 30 October 2002 after a delay of one month.
(b) <b>Finance Act No. 38 of 1971</b>	
(i) Section 14 (3)	Annual Report of the Corporation for the year 2001 had not been tabled in Parliament.
(ii) Section 16 (2) (b)	Additional Funds and Bank overdraft facilities amounting to Rs. 741.358 million had been obtained without the requisite approval.
(c) <b>Financial Regulations</b>	
(i) FR 188 (2)	Action on 24 cheques valued at Rs. 54,573 remaining unrealized for period ranging from one to four years had not been taken.
(ii) FR 387	Overdraft interest of Rs. 491,952 had been paid due to drawing of cheques without ensuring the adequacy of the Bank balance.
(iii) FR 395 (c)	Seven Bank reconciliation statements for December 2002 had not been prepared.
(iv) FR 396	Timely action had not been taken on time barred cheques valued at Rs. 40,459.
(v) FR 1646	Daily Running Charts and Monthly Performance Summaries of motor vehicles had not been rendered for audit.
(d) Section 2.10 of the Chapter vi of Establishments Code	Returns of changes of staff had not been furnished to the Auditor General.
(e) <b>Public Finance Circular No. PF/PE/1 of 28 February 2001</b>	
(i) Section 4 (b) (i)	Action had not been taken as specified in the Circular for exceeding the limits on monthly telephone call charges.
(ii) Section 4 (b) (iii)	Fuel had been consumed in excess to the limits specified in the Circular.

### 3. Financial and Operating Review

#### 3.1. Financial Result

According to the accounts presented, the financial results of the Corporation for the year under review was a net profit of Rs. 174,018,278 before taxation as compared with the corresponding net profit of Rs. 189,143,411 for the preceding year. The ratios and percentages for the year under review and previous year are given below.

	2002	2001
Profit on Interest based as a percentage of Net Income	46.27	55.58
Profit before Taxation as a percentage of Net Income	28.72	38.35
Total Expenditure as a percentage of Interest Income	75.39	66.25
Current Assets, Current Liability Ratio	2.75	6.14
Housing Loans as a percentage of Total Assets	95.07	96.84
Shareholder Fund Long Term Loans Rate	4.55	3.45
Cumulative Recovery Ratio	73.53	71.53

#### 3.2 Loan Administration

- (a) The Corporation had processed 10,513 loan applications during the year under review as compared with 9,529 during the preceding year. The number of applications awaiting processing as at the end of the year under review and the preceding year had been 210 and 1528 respectively.
- (b) The loans granted under 13 schemes during the year under review amounted to Rs. 1,398,357,157 as compared with Rs. 1,302,820,126 granted under 14 schemes during the preceding year. The above loans had been categorized under eight purposes.

#### 3.3. Uneconomic Transaction

##### Properties for Sale

248 properties valued at Rs. 46,015,685 as at 31 December 2002 had been shown as assets. Following observations are made in this connection.

- (i) Some of the securities for loans could not cover the loans as their present values are lower than the loans.
- (ii) Out of 20 properties valued at Rs. 16,283,745 sold out during the year, 13 had yielded profits amounting to Rs. 419,140 while the balance 07 had resulted in losses amounting to Rs. 209,345.

#### 3.4. Capital Contribution of the Corporation

According to Section 16 (2) of the Housing Development Finance Corporation Act No. 7 of 1997, issued share capital of the Corporation shall be One Thousand Million Rupees while only 4,122,500 shares valued at Rs. 412,250,000 had been issued as at 31 December 2002.

Following observations are made in this regard.

- (a) A sum of Rs, 100 Million released by the National Housing Development Authority as a long term loan to the HDFC had not been transferred to the Share Capital Account in the books of accounts.
- (b) The following institutions had not contributed towards the capital of the Corporation in terms of Section 17 (1) of the Housing Development Finance Corporation Act No. 7 of 1997.

	Rs. Million
Sevana Fund	500
National Savings Bank	100
	<u>600</u>

## Auditors Report contd.

- (c) No action had been taken to issue shares to the general public in such manner as may be determined by the Corporation
- (d) As a result of the failure to issue shares equivalent to the value of Rs. 587.750 million, additional funds and overdraft facilities to the value of Rs. 741.358 million had to be obtained incurring of Rs. 55,372,757 as interest to meet the financial deficit arising from granting of loans to the general public. During the year under review additional funds and overdraft facility had increased by 789% over the preceding year.
- (e) Further, it was observed that the National Savings Bank has denied to invest in the Corporation.

### 3.5 Identified Losses

Following losses were observed in audit.

- (i) Damages valued at Rs. 492,280 occurred to 2 motor vehicles.
- (ii) Loan capital amounting to Rs. 11,842,370 and interest amounting to Rs. 3,999,514 had been written off.
- (iii) Penalty amounting to Rs. 3,117,897 had been waived without Board approval.
- (iv) PAYE tax penalty amounting to Rs. 85,744 had been written off without Board approval.

### 3.6. Audit and Management Committee

The Audit and Management Committee of the Corporation had met only once during the year under review.

## 4. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Share Capital
- (b) Administration of Loans
- (c) Fixed Assets
- (d) Accounting
- (e) Internal Audit
- (f) Stocks
- (g) Computer Control
- (h) Payments
- (i) Petty Cash
- (j) Purchases
- (k) Vehicle Utilization

**S. C. Mayadunne,**  
*Auditor General.*

# Chairman's Comments on the Auditor's Report

## 2.3.1.

- a) There are no court cases filed against the Corporation claiming compensation.
- b) Proposed conversion to a bank was not disclosed in the financial statement as the banking license has not been issued by the Monetary Board of Central Bank of Sri Lanka, yet.
- c) Investment of Rs.100 mn. indicated in the Auditor's Report is an amount invested towards the share capital of the Corporation. Therefore it does not attract interest.
- d) Penalty Income is not a penalty but an interest chargeable for the period delayed in repayment of loan instalments. Hence this income is shown in the interest on Housing Loan account.
- e) The suspense creditors balance of Rs.16,628,203 is the interest recoverable from debtors and are known to the institution and hence identification does not arise. This entry has been accounted purposely to avoid overestimation of profits.

## 2.3.4. Lack of Evidence for Audit

There are two loan agreements involved in this balance. One with Asian Development Bank and other with USAID. These loan agreements are held with the Apex Organization- Central Bank of Sri Lanka.

## 2.3.5. Non Compliance with Loans, Rules and Regulations

- b) Finance Act no.38 of 1971
  - I) Section 14(3)  
Annual Report has been sent to line ministry on March 6<sup>th</sup> 2003 for submission to Parliament
  - II) Section 16(2)b  
These funds have been obtained with the approval of the Board of Directors which comprises Representatives from General Treasury and the Ministry of Finance.
- c) Financial Regulations
  - ii) F.R.387- The cheques have been drawn overdrawing the account after obtaining prior approval from Board of Directors for short term nature of funds required.
  - iii) F.R.395(c)- Seven bank reconciliations had been delayed for 14 days due to delay in presenting information of collection accounts by Banks, which is beyond the control of HDFC.
  - v) F.R.1646- Daily Running charts and monthly summaries had been submitted for audit.

## 3.1. Financial Results

The recovery ratios shown in the Auditor's Report are the ratios used by the management for performance evaluation of branch staff and do not include the recoveries made from the Head Office recovery department. The correct cumulative recovery ratio for the year ended 31.12.2002 is 87.08%

## 3.3. Uneconomic Transactions

**Properties For sale-** Net effect of sale of properties had been favourable and does not show a loss.

## 3.4. Capital Contribution of the Corporation

- b) HDFC has sent reminders to all prospective contributors to the share capital but has not received a positive response.
- c) Action had been taken to issue shares to the general public.
- d) The need for these additional funds have been budgeted in the Annual budget for 2002 and has been approved by the Board of Directors. Further specific approval for lines of credit have been obtained as and when credit facilities are utilized.

# Income Statement

For the year ended 31st December 2002

INCOME	Notes	2002 Rs.	2001 Rs.
<b>INTEREST BASED</b>			
Interest on housing loans		628,738,177	459,581,301
Less: Defence levy		(22,859,202)	(30,762,121)
		<b>605,878,975</b>	<b>428,819,180</b>
<b>Less: COST OF FUNDS</b>			
Interest on mobilized funds	1	19,795,615	19,204,051
Interest on subordinate loans	2	1,379,457	1,515,546
Interest on special scheme funds	3	99,900,658	67,973,305
Interest on Other long term loans	4	149,073,289	98,982,757
Interest on additional funds	5	54,880,804	–
Interest on Bank over draft		491,953	2,796,522
		<b>325,521,776</b>	<b>190,472,181</b>
<b>PROFIT ON INTEREST BASED</b>		<b>280,357,199</b>	<b>238,346,999</b>
<b>OTHER INCOME</b>			
Interest on short term investment		13,804,763	2,520,111
Processing fees		6,079,745	6,955,295
Legal fees		2,600,685	3,222,030
Profit on sales of property on auctions		209,795	778,026
ADB Grant		610,574	837,908
Other income		1,610,216	5,449,890
		<b>24,915,778</b>	<b>19,763,260</b>
<b>GROSS PROFIT</b>		<b>305,272,977</b>	<b>258,110,259</b>
<b>Less: EXPENDITURE</b>			
Employment expenditure	6	59,979,071	55,865,400
Operational expenditure	7	18,349,978	12,207,901
Office expenditure	8	21,834,372	18,246,059
Professional charges	9	4,063,789	662,362
Losses & Write off		15,841,884	–
Bank charges		3,502,231	1,580,200
Depreciation		7,683,374	5,076,031
<b>TOTAL EXPENDITURE</b>		<b>131,254,699</b>	<b>93,637,953</b>
		174,018,278	164,472,306
Over Provision for Bad debts		–	24,671,105
<b>PROFIT BEFORE TAXATION</b>		<b>174,018,278</b>	<b>189,143,411</b>
Less: Provisions for Taxation		(32,402,539)	(64,072,683)
<b>NET PROFIT AFTER TAXATION</b>		<b>141,615,739</b>	<b>125,070,728</b>
Prior Year Adjustment	10	(61,495,388)	5,265,248
Add: INCOME & EXPENDITURE A/C B/F		207,764,387	95,540,911
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>		<b>287,884,738</b>	<b>225,876,887</b>
<b>APPROPRIATIONS</b>			
<b>Dividend proposed</b>		–	<b>(18,112,500)</b>
<b>RETAINED PROFIT/CARRIED FORWARD</b>		<b>287,884,738</b>	<b>207,764,387</b>
<b>Earning Per Share (Rs.)</b>	<b>11</b>	<b>34.35</b>	<b>34.53</b>

# Balance Sheet

As at 31st December 2002

Descriptions	Notes	2002 Rs.	2001 Rs.
<b>ASSETS</b>			
Bank Balance and Cash		35,302,785	36,516,537
Fixed Deposits & Commercial Paper		68,900,000	0
Stationery Stock		2,537,126	0
Debtors	12	82,670,373	39,426,460
Prepayments & Other Deposits		1,664,950	1,575,130
Amount Receivable From NHDA		903,000	903,000
Housing Loans	13	4,749,861,214	3,590,718,590
Properties For Sale	14	23,007,842	16,283,745
Fixed Assets	15	29,516,496	20,134,457
Deffered Expenditure		1,604,196	2,406,293
<b>Total Assets</b>		<b>4,995,967,982</b>	<b>3,707,964,212</b>
<b>LIABILITIES</b>			
Long Term Loans	16	3,498,678,502	2,256,109,364
Payable to UDA on Lease		10,367,000	0
Long Term Funds	17	41,074,296	40,676,386
Investment Bond & Other Deposits	18	103,104,036	195,264,379
Deffered Liabilities	19	11,768,698	10,700,017
Deffered Income		0	610,574
Creditors & Accruals	20	430,445,044	327,977,251
Taxation		(13,524,892)	52,131,249
Dividend Payable		1,811,250	18,112,500
Bank Overdraft		109,164,052	83,422,847
		<b>4,192,887,986</b>	<b>2,985,004,567</b>
<b>SHAREHOLDER FUND</b>			
Share Capital	21	412,250,000	362,250,000
Contribution Towards Share Capital		101,085,310	151,085,310
Statutory Reserve Fund		1,859,948	1,859,948
Reserves		287,884,738	207,764,387
		<b>803,079,996</b>	<b>722,959,645</b>
<b>Total Liabilities &amp; Shareholder Fund</b>		<b>4,995,967,982</b>	<b>3,707,964,212</b>

Sgd. A.Kandappah

Chairman

Sgd. E.D.G.Calyaneratne

Director

Sgd. C.A.Sarathchandra

General Manager

Sgd. S.Dissanayake

DGM (Finance)

# Cash Flow Statement

for the year ended 31st December 2002

	2002 Rs.	2001 Rs.
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Excess of Income Over Expenditure Before Taxation</b>	<b>174,018,278</b>	<b>189,143,411</b>
Adjustment For :		
Depreciations	7,683,374	5,076,031
Provision For Gratuity	1,907,995	3,598,276
Deferred Expenditure	802,097	784,736
Adjustment for Income Statement		(4,513)
Prior year Adjustments	(61,506,173)	-
Net (Decrease) /Increase in Deferred Income	(610,574)	(837,908)
<b>Operating Profit Before Working Capital Changes</b>	<b>122,294,997</b>	197,760,033
Increase / (Decrease) in Creditors & Accruals	102,467,793	(36,573,357)
(Increase) / Decrease in Debtors	(43,243,913)	(12,222,728)
(Increase) / Decrease in Stocks	(2,537,127)	-
(Increase) / Decrease in Prepayments & Other deposits	(89,820)	(697,130)
(Increase) / Decrease in Housing Loan	(1,159,142,625)	(697,213,972)
(Increase) / Decrease in Properties For Sale	(6,724,097)	(605,509)
(Increase) / Decrease in Receivable from NHDA	-	20,000,000
<b>Cash Generated in Operating Activities</b>	<b>(986,974,791)</b>	(529,552,663)
Income Tax Paid	(98,682,018)	(39,905,746)
Gratuity Paid	(215,975)	(313,875)
Dividend Paid	(16,301,250)	-
<b>Net Cash used in Operating Activities</b>	<b>(1,102,174,034)</b>	(569,772,284)
<b>Cash Flows From Financing Activities</b>		
Purchase of Property , Plant & Equipments	(17,054,630)	(13,739,041)
Increase / (Decrease) of Investment Bond & Other deposits	(92,160,343)	59,921,311
<b>Net Cash ( Used in ) / From Investment Activities</b>	<b>(109,214,973)</b>	46,182,270
<b>Cash Flow From Investing Activities</b>		
Contribution towards share capital	(50,000,000)	50,000,000
Increase / (Decrease) In Share Capital	50,000,000	-
Increase / (Decrease) In Long term funds & Deposits	397,910	1,722,165
Increase / (Decrease) in Leasing	10,367,000	
Proceeds from Long term Loans	1,459,496,069	598,346,660
Repayments of Long term Loans	(216,926,929)	(159,199,831)
<b>Net Cash Flow from / (Used in) Investing Activities</b>	<b>1,253,334,049</b>	490,868,994
<b>Net Increase In Cash &amp; Cash Equivalents</b>	<b>41,945,042</b>	(32,721,020)
<b>Cash &amp; Cash Equivalents at the Beginning of the Month</b>	<b>(46,906,310)</b>	<b>(14,185,290)</b>
<b>Cash &amp; Cash Equivalents at the End of the Month</b>	<b>(4,961,268)</b>	<b>(46,906,310)</b>
<b>Cash &amp; Cash Equivalents at the end of the month</b>		
Cash in hand & Bank Balances	35,302,785	36,516,537
Treasury Bills & Other Commercial Papers	68,900,000	-
Bank Over Drafts	(109,164,053)	(83,422,847)
	<b>(4,961,268)</b>	<b>(46,906,310)</b>

## Statement of Changes in Equity

For the year ended 31 December 2002

	Share Capital	Cont./ Towards Share Cptl.	Statutory Reserves	Revenue Reserves	Total Rs.
<b>Balance As At 01.01.2001</b>	<b>362,250,000</b>	<b>101,085,310</b>	<b>1,859,948</b>	<b>95,540,911</b>	<b>560,736,169</b>
Contri. Towards Share Capital		50,000,000			50,000,000
Profit After Taxation				125,070,728	125,070,728
Dividend Proposed				(18,112,500)	(18,112,500)
Prior Year Adjustments				5,265,248	5,265,248
<b>Balance As At 31.12.2001</b>	<b>362,250,000</b>	<b>151,085,310</b>	<b>1,859,948</b>	<b>207,764,387</b>	<b>722,959,645</b>
<b>Balance As At 01.01.2002</b>	<b>362,250,000</b>	<b>151,085,310</b>	<b>1,859,948</b>	<b>207,764,387</b>	<b>722,959,645</b>
Contri. Towards Share Capital	50,000,000	(50,000,000)		—	
Profit After Taxation				141,615,739	141,615,739
Dividend Proposed				—	—
Prior Year Adjustments				(61,495,388)	(61,495,388)
<b>Balance As At 31.12.2002</b>	<b>412,250,000</b>	<b>101,085,310</b>	<b>1,859,948</b>	<b>287,884,738</b>	<b>803,079,996</b>

# Significant Accounting Policies for the Year Ended

31st December 2002

## 1. GENERAL ACCOUNTING POLICIES

- 1.1 The financial statements are prepared under the historical cost convention in accordance with generally accepted accounting principles and the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka. No adjustment is made for inflationary factors affecting these Accounts.
- 1.2 Previous year's figures and phrases have been re-arranged wherever necessary to conform to the current presentation.
- 1.3 Post Balance Sheet Events  
All material events occurring after the Balance Sheet date are considered and where necessary, adjustments made in the accounts.
- 1.4 Taxation  
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 Inland Revenue Act.

### Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognized in financial statements is included in the provision for deferred taxation at current rate of taxation.

## 2. VALUATION OF ASSETS

- 2.1 Debtors  
Debtors are stated at the amounts they are estimated to realize. Provision is made in the accounts for bad and doubtful debts.
- 2.2 Property, Plant and Equipment
- 2.2.1 The cost of Property, Plant and Equipment is the cost of purchase together with any incidental expenses thereon. The Property, Plant and Equipment are recorded at cost less accumulated depreciation which is provided for on the bases specified below.
- 2.2.2. Depreciation  
The provision for depreciation is calculated on the cost of Property, Plant and Equipment in order to write-off such amounts over the estimated useful lives by equal installments as follows.

Office Equipment	12.5% per annum
Furniture & Fittings	10% per annum
Motor Vehicles & Bicycles	20% per annum
Plant & Machinery	25% per annum
Tools & Equipment	12.5% per annum
Computer Equipment	12.5% per annum

Full provision is made in the year of purchase and none in the year of sale.

- 2.3 Properties for sale  
Properties held by HDFC are auctioned if the customers default, the Corporation in these financial statements recognizes such properties, which are not disposed of at auctions as assets. The value of the transferred assets consist of the loan capital, accrued interest and penalty payable. Provision is made for amounts doubtful of recovery.

## Significant Accounting Policies for the Year Ended contd.

### 3. LIABILITIES AND PROVISIONS

#### Retirement Benefits

##### 3.1.1. Gratuity

Provision is made in these Accounts for retirement gratuities payable under the payment of Gratuity Act No.12 of 1983 to employees from the time of employment by the society. The item is grouped under deferred liabilities in the Balance Sheet.

No separate fund is being maintained for this purpose, nor is an actuarial valuation carried out.

##### 3.1.2. Defined Contribution Plans – EPF & ETF

All employees are eligible and covered by Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective statutes.

### 4. REVENUE RECOGNITION

4.1 Interest income is recognized on an accrual basis only for the loan accounts in which default ratio is less than three months. For others interest income is recognized on cash basis. This policy was adopted from 01.07.2000.

4.2 Provisions for the overdue interest which has been accrued in the accounts are as follows.

4.2.1 100% provision for interest outstanding for more than one year default loan accounts.

4.2.2. 50% provision for interest outstanding between 06 months to one year default loan accounts.

4.3. Penalty Income is recognized on a cash basis.

4.4. All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency is charged to Income and Expenditure Accounts in arriving at the profit or loss for the year.

### 5. HEAD OFFICE PREMISES

The Corporation occupies premises belonging to the National Housing Development Authority for which a rent is paid. In addition, the office maintenance, renovation and modernization costs are borne by the Corporation.

### 6. DEFERRED INCOME

Grants received by the Corporation for capital expenditure purposes are credited to deferred income. Revenue grants are credited to the Income and Expenditure Account.

## Notes to the Profit & Loss Accounts

	2002 Rs.	2001 Rs.
<b>1. INTEREST ON MOBILISED FUNDS</b>		
Initial Deposit Interest	869,724	309,783
Subscription Shares	2,908,238	2,649,183
Investment Bonds	12,960,726	13,631,668
Savings for loans	2,260,284	2,030,527
Int. On Gurusevana	229,150	4,034
PHDA 2 & 3	517,493	528,856
Int. on Sudu Nelum	50,000	50,000
	<u>19,795,615</u>	<u>19,204,051</u>
<b>2. INTEREST ON SUBORDINATE LOANS</b>		
NHDA	395,929	726,246
NHDA(CNH)	34,724	197,485
NHDA(Sevana)	557,067	158,054
NHDA(FTZ)	391,737	433,761
	<u>1,379,457</u>	<u>1,515,546</u>
<b>3. INTEREST ON SPECIAL SCHEME LOANS</b>		
SLIC	97,082,568	65,624,385
NW & DB	2,042,231	1,979,585
SLPA	435,981	369,335
LECO	339,878	123,288
	<u>99,900,658</u>	<u>68,096,593</u>
<b>4. INTEREST ON OTHER LONG TERM LOANS</b>		
USAID	52,456,820	57,604,495
ADB 1	38,469,212	25,097,834
ADB 2	57,694,101	15,703,984
REPPIA	453,155	453,156
	<u>149,073,289</u>	<u>98,859,469</u>
<b>5. INTEREST ON ADDITIONAL FUNDS</b>		
NIC	19,356,057	-
SECURITATION 1	19,368,994	-
SECURITATION 11	16,155,753	-
	<u>54,880,804</u>	<u>-</u>
<b>6. EMPLOYMENT EXPENDITURE</b>		
Salaries	32,779,349	30,956,185
Bonus	5,087,969	4,758,573
Staff Welfare	675,685	731,974
Staff Medical	738,984	635,405
EPF & ETF	4,694,170	4,498,763
Overtime	401,417	482,382
Special Allowance	7,629,978	4,463,555
Encashment of Annual Leave	2,142,263	1,820,509
Gratuity	1,907,995	3,598,276
Incentive Payments	3,871,261	3,919,778
	<u>59,929,071</u>	<u>55,865,400</u>

Notes to the Profit & Loss Accounts contd.

	2002 Rs.	2001 Rs.
<b>7. OPERATIONAL EXPENDITURE</b>		
Advertising & Promotion	2,339,244	2,135,327
Telephone Charges	3,453,460	3,016,659
Travelling (Local)	1,569,766	1,550,211
Travelling (Overseas)	244,952	–
Motor vehicle expenses	1,451,845	836,502
Directors' expenses	72,000	56,000
Subsistence	1,210,260	1,200,663
Electricity & Water	1,651,151	1,122,195
Training & Scholarships	1,015,384	192,532
Auction Expenses	133,629	66,499
Entertainment	306,693	2,050
Admin. Expenses A.D.B	2,738,076	2,029,263
Debit Tax	224,326	–
Value Added Tax	1,723,128	–
Trustee Fees	216,064	–
	<u>18,349,978</u>	<u>12,207,901</u>
<b>8. OFFICE EXPENDITURE</b>		
AGM Expenses	37,080	–
Printing & Stationery	4,799,390	3,786,682
Postage & Stamps	1,598,073	1,384,900
General Office Expenses	1,060,198	1,224,870
Rent	7,290,230	6,557,919
Repairs & Maintenance	987,761	1,512,260
Insurance	715,297	470,369
Others	700,777	743,646
Computer maintenance	4,349,377	2,458,641
Security Expenses	296,188	106,772
	<u>21,834,372</u>	<u>18,246,059</u>
<b>9. PROFESSIONAL CHARGES</b>		
Audit fees	120,000	116,103
Legal fees	175,242	234,790
Management services	3,768,547	311,469
	<u>4,063,789</u>	<u>662,362</u>
<b>10. PRIOR YEAR ADJUSTMENTS</b>		
ICSL Interest & Penalties (1994-2001)	49,956,839	–
ADB 1 Intererst under Prov. (1992 -2001 )	96,596,471	–
Payee Tax penalties (2000-2001 )	85,744	–
Defence Levy Over Prov.	(7,171,647)	–
Stationery Stock as at 31/12/02	(2,537,126)	–
Over Prov. For Bad Debts	(75,424,110)	–
Adj. For Depreciation - Plant & Mechnery	(10,784)	–
	<u>61,495,388</u>	<u>–</u>
<b>11. EARNING PER SHARE</b>		

\* Earning per share has been calculated by dividing "Profit after Taxation" by Ordinary Shares

## Notes to the Balance Sheet

			2002 Rs.	2001 Rs.
<b>12. Debtors</b>				
Interest Receivable	251,039,049			
Less: Suspence Interest	(181,550,754)		69,488,295	79,124,203
Less: Provision for doubtful debts			(34,822,894)	(50,677,921)
Other Debtors			4,742,679	423,372
Advance & Other Receivables			27,387,266	3,768,254
Less: Provision for doubtful debts			(300,000)	(300,000)
Loans To Employees			16,175,027	7,088,552
			<u>82,670,373</u>	<u>39,426,460</u>
<b>13. Housing Loans</b>				
Total Outstanding			4,756,878,612	3,664,029,168
Less : Provision for Bad Debts			(7,017,398)	(73,310,578)
			<u>4,749,861,214</u>	<u>3,590,718,590</u>
<b>14. Properties For Sale</b>				
Properties for Sale			46,015,684	32,567,490
Less : Provision for Bad Debts			23,007,842)	(16,283,745)
			<u>23,007,842</u>	<u>16,283,745</u>
<b>15. Fixed Assets</b>				
Descriptions at Cost	<b>Balance as at</b>	<b>Addings for</b>	<b>Balance as at</b>	<b>Balance as at</b>
	<b>01.01.2002</b>	<b>Year 2002</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
Land & Building	4,158,289	14,078,802	18,237,091	4,158,289
Motor Vehicles	15,038,813	165,300	15,204,113	15,038,813
Furniture & Fittings	4,256,865	637,595	4,894,460	4,256,865
Office Equipment	10,037,509	649,923	10,687,432	10,037,509
Plant & Machinery	1,195,220	0	1,195,220	1,195,220
Tools	30,521	2,925	33,446	30,521
Computers	20,983,889	1,520,085	22,503,974	20,983,889
<b>Total</b>	<u><b>55,701,106</b></u>	<u><b>17,054,630</b></u>	<u><b>72,755,736</b></u>	<u><b>55,701,106</b></u>
<b>Depreciations</b>	<b>Balance as at</b>	<b>Charge for</b>	<b>Balance as at</b>	<b>Balance as at</b>
	<b>01.01.2002</b>	<b>Year 2002</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
Land & Building	-	-	-	-
Motor Vehicles	11,734,884	3,040,823	14,775,707	11,734,884
Furniture & Fittings	2,453,596	489,446	2,943,042	2,453,596
Office Equipment	7,518,410	1,335,929	8,854,339	7,518,410
Plant & Machinery	1,206,004	-10,784	1,195,220	1,206,004
Tools	22,911	4,181	27,092	22,911
Computers	12,630,844	2,812,996	15,443,840	12,630,844
<b>Total</b>	<u><b>35,566,649</b></u>	<u><b>7,672,591</b></u>	<u><b>43,239,240</b></u>	<u><b>35,566,649</b></u>
<b>Net book Value</b>			<u><b>29,516,496</b></u>	<u><b>20,134,457</b></u>

Notes to the Balance Sheet contd.

	2002 Rs.	2001 Rs.
<b>16. Long-Term Loans</b>		
<b>Subordinate Loans</b>		
NHDA	4,000,000	10,000,000
CNH	(411,109)	347,225
Sevana	13,410,368	15,618,050
FTZ	6,195,830	7,553,120
	<b>23,195,089</b>	<b>33,518,395</b>
<b>Special Scheme Loans</b>		
SLIC	857,643,740	702,508,428
NWS & DB	64,853,284	71,530,424
SLPA	13,759,382	16,949,900
LECO	25,905,851	5,000,000
	<b>962,162,257</b>	<b>795,988,752</b>
<b>Other Long Term Loans</b>		
USIDA	399,251,353	440,403,421
ADB 1	549,771,746	544,771,746
ADB 2	901,893,528	411,216,837
REPPIA	30,210,213	30,210,213
	<b>1,881,126,840</b>	<b>1,426,602,217</b>
<b>Additional Funds</b>		
NIC	142,717,472	-
Securitation I	239,323,246	-
Securitation II	250,153,598	-
<b>Total</b>	<b>632,194,316</b>	<b>-</b>
<b>17. Long Term Funds</b>		
LLPS	20,983,735	21,392,035
TPF	6,602,492	6,055,029
PHDA Fund	13,488,069	13,229,322
	<b>41,074,296</b>	<b>40,676,386</b>
<b>18. Investments Bonds &amp; Others</b>		
Initial Deposits	11,071,008	6,774,959
Sub Shares	36,293,232	37,611,173
Investment Bond	19,237,100	120,433,100
Sudu Nelum Deposits	500,000	500,000
PHDA II	5,201,941	5,652,741
Savings For Loans	26,197,410	23,746,296
Gurusevana Savings	5,509,196	546,110
Leco Deposits	(905,851)	-
	<b>103,104,036</b>	<b>195,264,379</b>
<b>19. Deferred Liabilities</b>		
Gratuity	11,857,713	10,165,693
Deferred Tax	(89,015)	534,324
	<b>11,768,698</b>	<b>10,700,017</b>
<b>20. Creditors &amp; Accruals</b>		
Advance Received From	26,396,758	7,509,542
Accrued Interst & Charges	349,992,578	257,057,354
Defence Levy	7,520,054	19,769,477
Other Creditors	46,535,655	43,640,878
	<b>430,445,044</b>	<b>327,977,251</b>
<b>21. Share Capital</b>		
<b>Authorised</b>		
(20,000,000 ordinary shares of Rs. 100/- each )	<b>2,000,000,000</b>	<b>2,000,000,000</b>
<b>Issued &amp; fully paid</b>		
( 4,122,500 ordinary shares of Rs. 100/- each )	<b>412,250,000</b>	<b>362,250,000</b>

# Statement of Value Added

For the year ended 31 December 2002

VALUE ADDED	2002 Rs.	2001 Rs.		
Gross Income	653,043,381	478,506,653		
Cost of Service	389,114,029	(227,088,481)		
Provision for Bad Debts	–	24,671,105		
Other Income	610,574	837,908		
	<u>264,539,925</u>	<u>276,927,185</u>		
VALUE DISTRIBUTED	%	2002 Rs.	%	2001 Rs.
To employees (remuneration & Benefits)	22.67	59,979,071	18.76	51,945,622
<b>To Government</b>				
Income Tax	12.25	32,402,539	23.14	64,072,683
Defence Levy	8.64	22,859,202	11.11	30,762,121
<b>To Share Holders (Dividend)</b>			6.54	18,112,500
<b>Retained in the Business</b>				
Retained Profit	53.53	141,615,739	38.62	106,958,228
Depreciation	2.9	7,683,374	1.83	5,076,031
	<u>100</u>	<u>264,539,925</u>	<u>100</u>	<u>276,927,185</u>

# Operations Review

## Distribution of Approved Loans by HDFC by Districtwise

DISTRICT	Loans	2002 Value	Loans	2001 Value	Loans	2000 Value
Kandy	697	65,667,480	706	77,615,354	141	26,012,850
Matale	219	27,480,500	259	28,793,250	55	9,802,000
Kurunegala	467	56,252,750	383	50,469,800	137	20,423,000
Badulla	611	53,397,600	351	34,992,070	81	11,059,000
Ratnapura	890	91,440,000	517	53,334,000	84	14,809,000
Kegalle	499	59,418,550	614	75,007,000	142	25,512,000
Colombo	1,768	368,990,854	1,860	366,677,090	965	271,288,577
Gampaha	719	102,191,351	823	111,532,262	482	77,678,700
Batticaloa	82	9,195,200	18	1,794,000		
Puttalam	429	52,530,600	542	71,356,290	198	30,953,166
Anuradhapura	437	44,336,750	466	48,444,830	93	15,115,450
Galle	435	53,653,393	385	43,891,900	151	23,209,900
Kalutara	704	83,146,913	541	63,724,296	243	38,355,984
Moneragala	348	30,958,000	312	27,082,500	26	3,996,500
Matara	450	54,232,000	460	56,184,750	100	20,248,000
Hambantota	604	63,314,500	493	58,541,400	90	13,873,000
Homagama	478	78,201,300	318	44,110,750		
Ampara	173	15,041,500	8	1,000		
Ja-Ela	503	88,907,916	473	87,746,750	209	46,786,000
	<b>10,513</b>	<b>1,398,357,157</b>	<b>9,529</b>	<b>1,301,299,292</b>	<b>3,197</b>	<b>649,123,127</b>

## Purpose Wise Analysis

Loans Approved purpose wise	2002		2001		2000	
	No.	Amount Rs.	No.	Amount Rs.	No.	Amount Rs.
Construction	8,018	1,008,420,299	7,158	903,004,096	1,707	
Purchase of House	179	59,841,400	211	72,545,659	231	71,331,535
Purchase of House & Construction	11	2,453,000	6	2,927,000	35	32,266,000
Redemption	70	13,052,410	37	8,357,245	34	7,081,827
Redemption and Construction	41	19,956,524	26	14,903,000	28	14,250,350
Extention	325	29,479,450	324	34,611,800	39	6,332,900
Renovation & Repairs	476	31,762,100	231	17,251,770	66	7,548,100
Purchase of Building Blocks	1,392	232,441,974	1,533	248,958,946	1051	170,181,672
Others	1	950,000	3	260,610	1	92,000
<b>Total</b>	<b>10,513</b>	<b>1,398,357,157</b>	<b>9,529</b>	<b>1,302,820,126</b>	<b>3,192</b>	<b>309,084,384</b>

## Schemewise Analysis

Loans Approved Scheme Wise	2002		2001		2000	
	No.	Amount Rs.	No.	Amount Rs.	No.	Amount Rs.
General Scheme	1,624	307,863,578	2,244	367,146,000	2,471	485,835,450
Staff Loans	81	27,302,559	26	7,614,000	25	8,113,000
Samurdhi	58	10,157,500	39	6,365,000	-	-
Gurusevana	2,341	222,442,100	2,615	243,961,900	-	-
Staff under EPF	16	2,210,900	11	887,500	-	-
Reschedule Loans	3	309,296	1	14,290	-	-
Nat. Water Supply & Drainage Board	17	6,173,000	16	4,988,000	2	650,000
SLIC	487	171,561,800	733	269,545,524	111	38,355,134
Water Board under EPF	12	3,650,000	6	1,942,000	-	-
LECO - General	53	26,136,700	-	-	-	-
LECO - EPF	61	14,951,160	-	-	-	-
Cash Deposits	1	50,000	1	50,000	1	850,000
EPF - New	5,759	605,548,564	3,830	397,128,912	498	57,091,543
<b>Total</b>	<b>10,513</b>	<b>1,398,357,157</b>	<b>9,522</b>	<b>1,299,643,126</b>	<b>3,108</b>	<b>590,895,127</b>

## Ten Years Summary

<b>OPERATING RESULTS</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
Total Income	654	479	420	456	400	307	226	154	92	53
Profit Before Tax	174	189	142	117	116	92	45	7	5	-4
Income Tax	32	64	40	35	31	21	12	3	2	-
Profit After Tax	142	125	102	82	85	71	33	4	3	-4
<b>BALANCE SHEET</b>										
Assets										
Current Assets	193	81	66	219	298	160	104	105	42	30
Housing Loans	4750	3591	2894	2574	2291	1921	1546	1039	670	439
Property & Equipment	53	36	30	17	12	14	10	11	10	11
	<b>4996</b>	<b>3708</b>	<b>2990</b>	<b>2810</b>	<b>2601</b>	<b>2095</b>	<b>1660</b>	<b>1155</b>	<b>722</b>	<b>480</b>
<b>LIABILITIES</b>										
Long Term Liabilities	3499	2256	1817	1847	1892	1403	1257	819	547	364
Short Term Liabilities	641	677	560	397	346	460	247	217	115	62
Long Term Funds & Deposits	41	41	39	37	22					
Other Liabilities	12	11	13	10	9	11	9	8	7	7
Shareholders' Funds	803	723	561	519	332	221	147	111	53	47
	<b>4996</b>	<b>3708</b>	<b>2990</b>	<b>2810</b>	<b>2601</b>	<b>2095</b>	<b>1660</b>	<b>1155</b>	<b>722</b>	<b>480</b>
<b>INDICATORS OF PERFORMANCE</b>										
Earnings Per Share (Rs.)	34.35	34.53	28.09	135.26	140.55	118.5	54.12	6.6	26.75	0
Net Assets Value Per Share (Rs.)	194.8	199.57	154.79	860.52	551.17	366.18	242.67	184.17	516.43	455.45
Return on Average Assets (%)	3.25	3.7	3.6	3.01	3.61	3.81	2.32	0.77	0.46	0
Return on Equity	17.6	17.3	18.14	15.71	254.5	32.36	22.3	3.61	5.18	0

# Share Information

1. PUBLIC SECTOR	No. of Shares	Amount
National Housing Development Authority	3,318,000	331,800,000
Urban Development Authority	30,000	3,000,000
Common Amenities Board	30,000	3,000,000
Building Materials Corporation	30,000	3,000,000
Associated Newspapers of Ceylon Limited	18,000	1,800,000
State Engineering Corporation	12,000	1,200,000
National Water Supply & Drainage Board	12,000	1,200,000
Road Development Authority	12,000	1,200,000
Lanka Milk Foods (C.W.E.) Ltd.	12,000	1,200,000
Employees' Trust Fund Board	500,000	50,000,000
	<u>3,974,000</u>	<u>397,400,000</u>
2. PRIVATE SECTOR		
The Maharaja Organization Ltd.	100,500	10,050,000
Ceylon Tobacco Company Ltd.	12,000	1,200,000
Mercantile Housing Ltd.	12,000	1,200,000
Lanka Orix Leasing Company Ltd.	12,000	1,200,000
Colombo Commercial Company (Eng.) Ltd.	12,000	1,200,000
	<u>148,500</u>	<u>14,850,000</u>
	<u>4,122,500</u>	<u>412,250,000</u>

## Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Eighteenth Annual General Meeting of the Housing Development Finance Corporation of Sri Lanka will be held on \_\_\_\_\_ at \_\_\_\_\_ a.m. at the \_\_\_\_\_ for the following purposes.

1. Chairman's Address
2. To receive and adopt the Report of the Directors and the Audited Accounts of the Corporation for the year ended 31<sup>st</sup> December 2002 together with the Report of the Auditors thereon.
3. To re-elect two Directors who are retiring by rotation.
4. To appoint Auditors and authorize the Board of Directors to determine their remuneration.
5. To transact any other business of which due notice shall be given.

BY ORDER OF THE BOARD

Accounting Systems and Secretarial Services Limited.

Secretaries.

Colombo  
2003.

# Proxy Form

I/We.....

of.....

Being a member / members of Housing Development Finance Corporation of Sri Lanka hereby appoint:

- 1. Mr..... of ..... Whom failing
- 2. Mr..... of ..... Whom failing
- 3. Mr..... of ..... Whom failing
- 4. Mr..... of ..... Whom failing
- 5. Mr..... of ..... Whom failing

The Chairman

As my/our proxy to vote for me / us on my/our behalf at the Annual General Meeting of the Corporation to be held on 14th Aug 2003 at 10.30 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

Signed this ..... day of .....2003

Signature .....

Note : A proxy need not also be a member

The Form of Proxy should be signed on a 50 cts. Stamp.

The Form of Proxy should be returned to "Accounting Systems Secretarial Services Limited, 49, Abdul Gaffoor Mawatha, Colombo 03 on or before ..... at 9.30 a.m.

**Instructions for Completion**

1. To be valid this Form must be filled, signed and deposited at No.49, Abdul Gaffoor Mawatha, Colombo 03, not less than 48 hours before the time appointed for holding the meeting.
2. The Form of Proxy must be signed by the appointer or by their Attorney duly authorized in writing.
3. In the case of a Corporation, the Form of Proxy must be either under it's common seal or under the hand of an officer or Attorney duly authorized.
4. In the case of joint holders, only one need sign. The votes of the senior holder who tenders a vote will only be counted.
5. If you wish to appoint any person other than the Chairman as your Proxy, please insert the relevant details at 1 and 2.