

Date: 31st JANUARY 2007



Corporate Overview-CFIN

Strategic View
Positive

Share Price
Rs260

Market Cap
Rs.5,278,000,128

Shares Issued
20,300,000

52 Week High
Rs. 268.25



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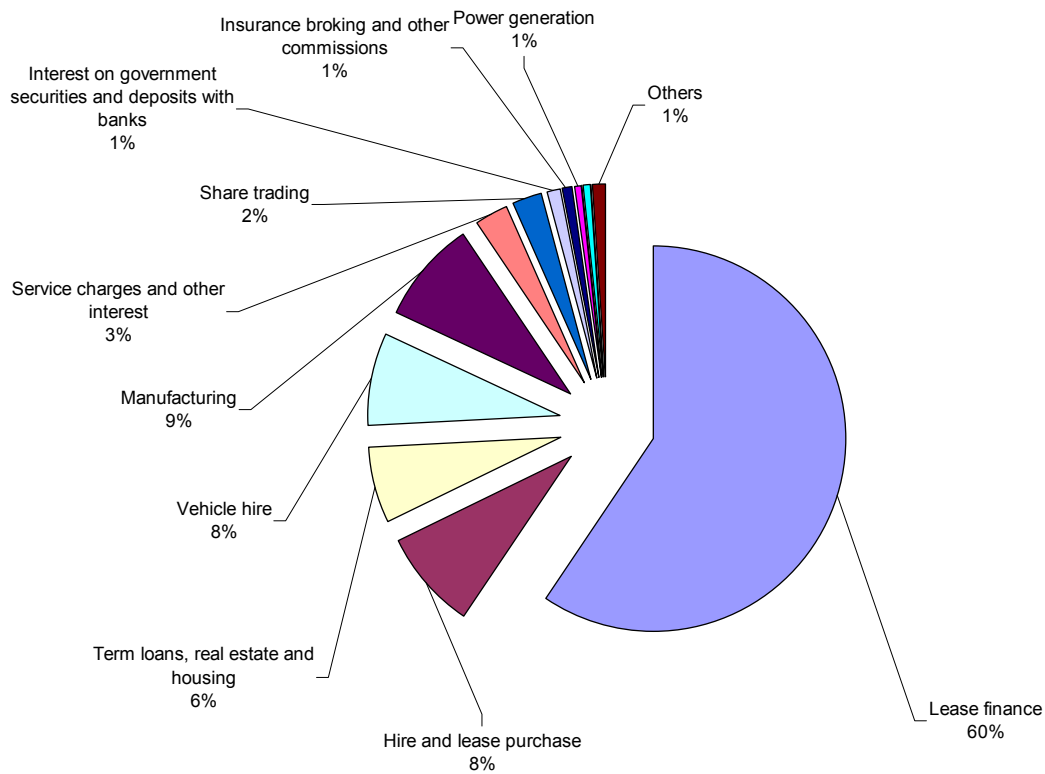
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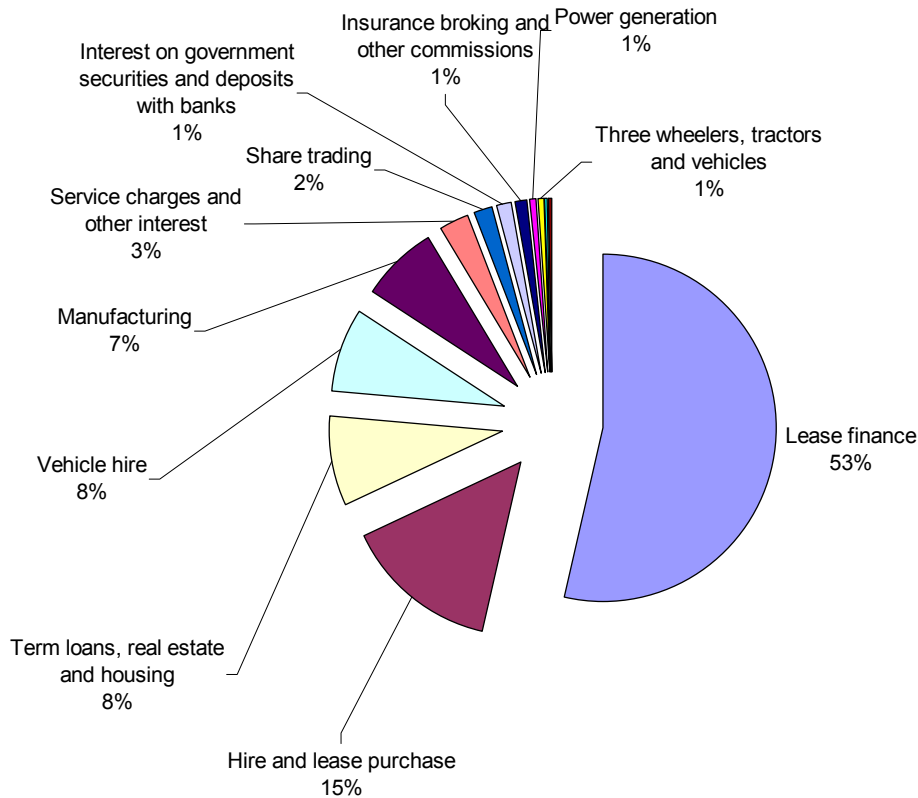
- The company is to get in to the lucrative real estate segment once again with “Hedges Court Residencies” an Rs.1.4 Billion, 80 apartment condominium project. This is expected to be completed in late 2008.
- Group income for the six months ended 30th September 2006 was up 27.96% to Rs.2.275 billion from Rs.1.777 billion in the same period last year. Interest income grew by 33.27% while interest expenses grew by a slightly higher 34.89% for the six month period.
- Operating expenses were up 25.67% to reach Rs.591 million from Rs.470 million during the same period last year.Net profit for the period reached Rs.565 million up 14.17% previous year.
- Central Finance relatively high capital adequacy provided the company the opportunity to grow strongly in future years.
- With the regulatory barrier that prevented Finance companies offering savings accounts being eased, Central Finance has improved deposit raising abilities further improving it's growth potential.
- Rising interest rates could be a risk but the company has moved to match it's exposures to a great extent by moving into interest swap arrangements and securitisation of parts of its existing portfolio.
- Rising Financial Sector Taxation is a further concern going forward, with impacts on possible post tax profitability.

Central Finance Ltd

Basic Facts	
Establishment	-1957
Quotation	-1969
Major Shareholders	Corporate Services Ltd -22.8%
As at 31.3.2006	Mr.E.H Wijenaike -14.57%
	S.L.I.C Life Fund -10.63%

Segmental Turnover Breakdown 2004/2005


Segmental Turnover Breakdown-2005/2006



PERFORMANCE FOR FY 2005/06

The company is one of the leading leasing companies in the country with over 40,000 active vehicle leases alone. In FY 05/06 Rs.10.3 Billion worth of leases were given out against Rs.6.8 Billion the previous year, reflecting a growth of 51%. The expansion of the branch network served as a bulwark against intense competition in the leasing market particularly from banks that are aggressively entering the market.

The deposits rose to Rs.10.4 Billion as against Rs.9.6 Billion in the previous year, which accounted for a growth of 8.3%. Gross deposits reached Rs.13.1 Billion, with Rs.2.6 Billion coming in as new deposits. CF savings was launched after the Central Bank permitted finance companies to accept savings accounts from the general public. Special features of the "CF savings" such as the lack of restrictions on withdrawals unlike the restriction that are there on some bank's savings accounts is expected to draw in the public to CF Savings.

In a bid to beat interest rate volatility the company entered in to an interest rate swap agreement for a four year period involving a sum of Rs.2.6 billion from 2006-2009. Securitization of the lease portfolio brought in another billion rupees.

Historic Financial Performance

Group income for the 6M ended 30.9.2006 was up 27.96% to Rs.2.275 billion from Rs.1.777 billion in the same period last year. Interest income grew by 33.27% while interest expenses grew by a slightly higher 34.89% for the six month period. Operating expenses were up 25.67% to reach Rs.591 million from Rs.470 million during the same period last year. Net profit for the period reached Rs.565 million up 14.17% on the Rs.495 million recorded during the first six months of the last year. Annualized earnings per share were Rs.55.68.

Historic Valuations

Currently the counter is trading of multiples of 4.56x a steep discount to both sector P/E of 9.36 and the general market P/E of 15.14. The Net Asset Value per Share as at 6M ended 30.9.2006 stood at Rs.243.47. During the past year it has traded in the range of Rs.148.00-Rs.268.25.

Risk factors for Central Finance:-

- Rising rates would cut in to interest rate margins which are down to 5% at present from the 8% witnessed in FY 05.
- Increased duties on vehicles and the security situation with the resultant checking and traffic situation will suppress demand for new private motor vehicles in the coming year.
- Increasing competition from banks in the leasing segment would make it difficult for central finance to pass on rises in rates directly or quickly to customers if it is to remain competitive unless the others do the same. This again would reduce profitability.
- The increases in corporate taxation, VAT on financial services would also hit the company.
- The new deemed dividend tax would also hit internal capital generation.
- The real estate investment “Hedges Court Residencies” could come in to a real estate market which is slowing in late 2008.

Growth opportunities for Central Finance:-

- We believe the company has enough capital to open a significantly higher number of branches as per Central Bank regulations. The company now has only 33 branches. This together with the regulatory changes permitting the opening of Savings accounts, provide Central Finance the potential to be a much larger player in the financial sector.
- The lucrative apartment sector while slowing is not expected to slowdown drastically and could even do well if rates drop in late 2007 or 2008 which should help “Hedges Court Residencies”.
- The Central Bank has made changes to regulations governing finance companies which may benefit Central Finance. These include -
 1. A 40 percent limit on the acquisition of other companies has been relaxed(after individual approval from the Monetary Board of the Central Bank is obtained)

2. The single borrower limit has been raised to 15 percent of capital funds from 10 percent, which for a group of companies has been raised to 20 percent of capital funds
 3. Directors and their relatives have been permitted to deposit funds in finance companies provided the terms offered are similar to other depositors
 4. The maximum value of transactions that could be conducted with a director and a relative of a director have been increased from 5,000 rupees per month to 50,000 and the annual value has been increased from 30,000 rupees to 500,000
- Declining oil prices if it persists should help new vehicle sales rise and help the Central Finance leasing business grow in the coming years.

Financial Highlights

Trading Results Year ended 31st March	2002 Rs.'000	2003 Rs.'000	2004 Rs.'000	2005 Rs.'000	2006 Rs.'000
Group Turnover	7,020,775	7,511,877	9,646,033	9,493,831	11,282,553
Group income	2,007,641	2,299,382	2,844,435	3,092,281	3,717,240
Group profit before provision of interest	1,438,692	1,567,562	1,920,177	2,053,781	2,670,299
	-	-	-	-	-
Interest on deposits	1,078,306	1,026,175	1,045,773	-966,721	-1,063,482
Interest on bank and other borrowings	-126,804	-102,335	-81,153	-101,024	-279,937
Group profit before diminution in value of investments	233,582	439,052	793,251	986,036	1,326,880
Receipt of dues from the General Treasury of the Government of Sri Lanka	10,000	275,000	191,000	-	50,000
Share of associate companies' profits before tax	6,859	29,103	70,489	69,865	75,511
Profit before income tax	250,441	743,155	1,054,740	1,055,901	1,452,391
Provision for taxation	-24,403	-22,141	-42,854	-284,149	-380,301
Profit after income tax	226,038	721,014	1,011,886	771,752	1,072,090
Minority interest	-20,828	-28,401	-40,586	-49,116	-46,690
Profit before diminution in value of long term investments	205,210	692,613	971,300	722,636	1,025,400
Diminution in value of long term investments	-9,483	-126,318	-149,034	-	-
Net profit for the year	195,727	566,295	822,266	722,636	1,025,400

As at 31st March	2002	2003	2004	2005	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance Sheet Highlights					
Share capital	121,800	121,800	121,800	203,000	203,000
Share premium	88,393	88,393	88,393	88,393	88,393
Capital reserves	761,491	757,511	732,895	728,514	725,677
Reserve fund	223,500	274,500	313,500	349,500	395,500
Special reserve	-	-	-	-	-
Unrealised income reserve	569,000	294,000	103,000	103,000	53,000
Revenue reserves	840,219	1,352,965	2,134,243	2,089,795	2,993,116
Preliminary and deferred expenditure	-	-	-	-	-
Shareholders' funds	2,604,403	2,889,169	3,493,831	3,562,202	4,458,686
Minority interest	127,264	213,787	192,321	246,076	240,569
	2,731,667	3,102,956	3,686,152	3,808,278	4,699,255
Assets					
Cash and other liquid assets	1,287,214	1,448,803	1,715,819	1,660,394	1,803,290
Dealing securities	28,121	19,830	21	61,296	8,208
Investment securities	324,942	199,156	61,901	72,746	8,219
Investments in subsidiaries and associates	557,356	601,433	524,020	519,130	760,132
Other investments	-	-	-	-	-
Advances to customers	5,859,843	7,223,095	9,406,020	12,859,872	17,389,389
Other assets	2,537,698	2,394,390	2,242,096	715,832	1,075,702
Property, plant and equipment	1,365,466	1,646,372	1,678,866	1,733,342	1,919,423
Total Assets	11,960,640	13,533,079	15,636,494	17,622,612	22,964,363
Liabilities					
Deposits	7,241,743	8,112,617	9,433,518	9,614,073	10,406,456
Bank and other borrowings	504,699	794,679	715,316	1,227,910	3,854,109
Other liabilities	1,482,531	1,522,827	1,801,508	2,972,351	4,004,543
Total Liabilities	9,228,973	10,430,123	11,950,342	13,814,334	18,265,108
Key Indicators					
Earnings per share (Rs.)	9.64	27.9	40.51	35.6	50.51
Net assets per share (Rs.)	128.3	142.32	172.11	175.48	219.64
Adjusted market value per share (Rs.)	30	60	134.7	143.75	205
Price earnings ratio	3.11	2.15	3.33	4.04	4.06
Gross dividends paid (Rs.'000)	21,315	36,540	48,720	57,855	71,050
Dividend cover (times covered)	9.18	15.5	16.88	12.49	14.43
Market price per share (Rs.)	50	100	224.5	143.75	205

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