

NATION LANKA FINANCE PLC

Registration No. PQ 33

No.690, Galle Road, Colombo – 03

Tel: 0114760800 Fax : 0114760867

Web: www.nationlanka.com

“THIS DOCUMENT IS OF VALUE”

“IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCK BROKER OR OTHER PROFESSIONAL ADVISOR IMMEDIATELY”

CIRCULAR TO SHAREHOLDERS

Dear Shareholder/s,

1.0 THE COMPANY

Nation Lanka Finance PLC was incorporated in Sri Lanka on 15th July 1987 and Registered under the Finance Companies Act No.78 of 1988.

2.0 RIGHTS ISSUE OF SHARES

The Board of Directors of your Company propose to, subject to the approval of the Shareholders at an Extraordinary General Meeting, to raise a sum of Rupees Two Billion Nine Million Twenty Eight Thousand Two Hundred & Twenty Seven and Cents Fifty (Rs.2,009,028,227.50) by offering Two Billion Eight Hundred & Seventy Million Forty Thousand Three Hundred & Twenty Five(2,870,040,325) Ordinary Shares by way of a Rights Issue to the existing Shareholders, in the proportion of Two Hundred & Twelve (212) new Ordinary Shares for every One Hundred (100) Ordinary Shares held by the Registered Shareholders of the Company as at the date of entitlement at a consideration of Rupees 0.70 per share, which in the opinion of the Board of Directors is fair and reasonable to the Entity and to all existing Shareholders, as required by the Companies Act No.07 of 2007. The proposed consideration, which is Net Asset Value Per Share, was decided based on an independent valuation carried out by a Professional Firm, M/s. Ernest & Young, Chartered Accountants, as per the Valuation Report dated 20th April 2022. The Central Bank of Sri Lanka has granted approval for the proposed Rights Issue of Shares.

3.0 CURRENT STATUS OF THE COMPANY

The Company was experiencing a deficit in the regulatory Core Capital and Capital Adequacy requirement over the last 3 years. An Audit was performed as at 30th September 2021 to facilitate the valuation to determine the value per share for the Rights Issue and as per the said Audited Financial Statements the deficit amounted to Rs.1.899 Bn and as per the Interim Financial Statements for the quarter ending 31st March 2022 reflected a deficit of Rs.1.997 Bn. This resulted in restrictions being imposed by the Central Bank of Sri Lanka (CBSL) on the business operations of the Company. The continuous restrictions imposed by the CBSL due to non-compliance, had severe adverse impacts on the profitability and viability of the Company. This led the Auditors to make an Emphasis of Matter on Going Concern - status of the Company in the Audit opinion in the Financial Year ended 2019/2020 and 2020/2021. Consequently, the Company was placed in the "Watch List" by the Colombo Stock Exchange (CSE) on 29th September 2020 and 7th September 2021 respectively.

At the request of the Company, SEC granted an extension to resolve the matter (i.e. emphasis of matter on going concern in their audit report for the financial years ended 31st March 2020 and 31st March 2021) accordingly SEC granted an extension up to 30th June 2022, which has been further extended until 30th September 2022.

That the trading of Securities of the Company will be suspended with effect from the 1st market day falling after 30th September 2022, if the Company fails to rectify the said matter by 30th September 2022 or if the Company do not obtain any further extensions from the SEC.

In the event of an unlikely situation as stated above, the Right Securities of the Company will be “suspended” and therefore, will not be available for trading during the period of renunciation, provided that the period of renunciation falling after imposing such “suspension” on the trading of Rights.”

In order for the Company to be compliant with the CBSL requirements, it has become necessary to make a capital infusion, to meet the deficit. The minimum level of subscription required to meet regulatory requirement is Rs.1.899 Bn.

Impact of Present Economic Crisis of the Country

The outbreak of COVID - 19 which spread globally since January 2020 caused massive negative impact on economies leading to uncertainty in the entire world. However, Sri Lanka as a country exposed to this risk in late March 2020 and as precautionary measures, the Government imposed island wide curfew with a Lock-down strategy, resulting in the Group being compelled to limit the operations and resort to "work from home" strategies, facilitating the key management personnel and the key responsible personnel to work with remote access through the IT network.

Although all possible cost reduction measures were initiated to preserve the available liquid assets, constant cash flow monitoring was exercised, while the Group temporarily halted the new lending and focused on recovery of rentals to ensure smooth functioning of cash flows.

The circulars No.04 and 05 of 2020 on granting of debt moratoria to the customers, which were issued by the Central Bank of Sri Lanka caused a direct negative impact to rental collection of the Group. The Group established procedures to ensure all moratorium requests are properly collected and attended individually to ensure the Covid – 19 impacted customers are given the required relief. A separate communication channel via mail was established and a team was set up to support the customers to send the requests. Although these debt moratoria may have prolonged negative consequences on the Group’s performance and the liquidity position, the Group has re-engineered and restructured the entire recovery process to improve the effectiveness of recovery operations of the Head-Office and Branches, as a counter strategy.

In addition to the above adverse impact on operations, the Group has further experienced that the economic and market situation which was prevalent when it had planned for the proposed Rights Issue of shares has materially changed within the ensuing period to date, mainly due to the following developments.

- The increase of the policy rates by 700 basis points by the Monetary Policy Review No.03 of 2022 of CBSL dated 08.04.2022, and the resultant changes in market dynamics in interest rates has a direct impact on financial services industry.
- The present economic crisis prevalent in the country, has compelled the Government to announce a default in the International Sovereign Bonds by its interim policy regarding servicing of external debt dated 12th April 2022.

- Civil unrest and related disturbances on 09th May 2022 onwards followed by imposition of island wide curfew.
- The price levels of the basket of commodities as used for the computation of National Consumer Price Index (NCPI) have increased sharply, with inflation (measured by NCPI) being shot up from 21.5% in April to 45.3%
- In May 2022 and estimated to be increased to 70%.
- The supply chain disruptions in fuel, essential goods and services have driven up the customer base of financial institutions into disarray, resulting in disruptions to finance business operations.
- The Government has declared holidays on 13.06.2022 and announced measures to curtail public activities on Fridays from 17.06.2022, which has an adverse effect on the productive market activities as well.
- The transportation and retail economic activities of the country has come into a complete breakdown due to the curtailment of issuing fuel for non-essential services and customers by the Ceylon Petroleum Corporation, resulting in the curtailment of business activities of the customers of the Group, thereby escalate into a situation where their loan commitments to the Group may not be met on a punctual manner.

Due to the above developments, the actual economic conditions are likely to be different from the anticipated events, as the Group is completely reliant upon the free operation of retail economic environment, in which its retail customer base operates. The increase of policy interest rates has driven up the cost of funding. Therefore, the lending rates also need to be increased commensurate with the funding cost. The customers who are mostly dependent upon their retail economic activities to generate adequate cash flows to meet the commitments of the credit facilities granted to them may experience defaults in servicing their loans. There may be drawbacks in their disposable income due to increase of food, other services and commodity prices, which may again curtail their ability to meet the loan obligations on a timely manner.

In the practical operational environment, the Group is experiencing difficulties in sustaining its recoveries and credit mobilization functions, due to a significant part of the retail customer base being pushed beyond their capacity to meet the debt obligations. The facility arrears positions may increase, resulting in higher impairment charges, requiring the group to secure more capital funds to sustain the regulatory core capital requirements.

By evaluating the above actions and strategies, after due consideration of the range and likelihood of outcomes, the Management is satisfied that the Group have ability and adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis.

Set out below is the status of the Regulatory Core Capital requirements, the timeline to achieve such requirements and the compliance Pre and Post Rights Issue of shares, on the assumption that the Rights Issue will be fully subscribed.

Core Capital requirements as per Direction No.1 of 2011 – Finance Companies (Minimum Core Capital)	The timeline to achieve such requirements	The level of compliance by the Company as at 30 th April 2022	The level of compliance by the company, after the capital infusion
Minimum Core Capital should be Rs.2.5Bn w.e.f. 01.01.2022	30-Jun-2022	Rs.511,211,166/- Unaudited	Rs.2,511,211,166/- Unaudited

The Capital Adequacy requirements as per Direction No 03 of 2018 – Finance Companies (Risk Weighted Capital Adequacy Ratio)	The timeline to achieve such requirements	The level of compliance by the Company at 30 th April 2022	The expected level of compliance by the Company, after the capital infusion
Tier 1 Capital Ratio – 7% (w.e.f. 01.07.2021)	30-Jun-2022	-0.60%	30.6%
Total Capital Ratio – 11% (w.e.f. 01.07.2021)	30-Jun-2022	0.71%	31.9%

4.0 PURPOSE OF THE ISSUE

The Purpose of the issue is to infuse capital to enable the Company to comply with the minimum Core Capital requirements of the regulatory authority (CBSL) which in turn would facilitate the Company to address the following critical regulatory concerns;

- (i) To overcome the circumstances that has resulted in the Emphasis of Matter on Going Concern expressed by the External Auditors
- (ii) Upon fulfilling (i) above, and complying with prerequisite regulatory requirements, it would qualify the Company, to be transferred out from the “Watch List” at the CSE.
- (iii) The CBSL would consider removing restrictions imposed, caps on the lending and borrowing, with the compliance of the capital requirements, thereby enabling the Company to achieve profitability, stability and growth.

In the event the Company cannot meet the regulatory requirements for which the funds are raised, the Central Bank of Sri Lanka could continue to impose restrictions to curtail its business operation, which would have a negative impact on the viability, stability and sustainability of the Company and further the CSE would initiate further enforcement action if the emphasis matter continues without rectification, which action may result in the Company being subject to delisting. Apart from that, the Company does not foresee any risk of not being able to use the funds during the given time frame of Six months.

Consequent to the successful capital infusion, it would enable the Company to comply with the regulatory requirements; therefore the Company intends to revert back to full scale operations, which would generate the anticipated profitability, thus the net asset value per share would improve to the expected level.

5.0 UTILIZATION OF PROCEEDS

The proceeds generated would be utilized in the normal course of regular lending business, within a period of 6 months from the date of allotment. The monthly average disbursement of funds for the previous quarter amounted to Rs.307,000,000/- During the interim period the funds will be invested in Government Securities, Banks and eligible Financial Institutions which would give a yield of 20-24%.

In the event the Company does not utilize the funds for the Objective for which it was raised and proposes to use same for another Objective/s, such change would be effected only after a market announcement followed by obtaining the approval of the Shareholders. Further, the Company does not intend to lend any part of the proceeds to Related Parties. However, in the event if decided otherwise due to any unforeseen reasons, the Company would adhere to the rules and regulation laid down by the CBSL and in compliance with Section 9 of the CSE Listing Rules

6.0 CONTINUOUS DISCLOSURE

The Company would also make arrangements to disclose the status and the progress of utilization of funds, as per the template set out below, in the Annual Reports and Interim Financial Statements, from the date of raising funds, until the Rights issue funds are fully utilized. In the event the proceeds are fully utilized by the Company between two financial periods, then the Entity will make arrangements to disclose such fact in the immediate succeeding Annual Report or the Interim Financial Statement, whichever is published first.

Rights issue proceeds utilization as at [Date] [Month] [Year]

Objectives	Objective as per Circular in Rs.	Amount allocated as per Circular in Rs.	Proposed Date of Utilization as per Circular	Amount allocated From proceeds in Rs. [A]	% of Total Proceeds	Amount Utilizes in Rs.[B]	% of Utilize against allocation [B/A]	Clarification if not fully Utilized including where the funds are invested (e.g. whether lent to related party/s etc)

7.0 MARKET PRICE OF SHARES DURING THE LAST THREE MONTHS

The high, low, last traded price of the Ordinary Shares during the preceding three months is as follows;

Month	Price High (Rs)	Price Low (Rs)	Last Traded Price (Rs)	Volume of Shares Traded	No of Trades
April 2022	0.80	0.50	0.60	4,060,209	224
May 2022	0.80	0.50	0.70	196,731,232	405
June 2022	0.70	0.50	0.60	89,107,021	230

8.0 SUBSCRIPTION BY MAJOR SHAREHOLDERS

The Major Shareholder of the Company Mr. V R Ramanan, the Chairman, has agreed to invest from his entitlement only up to Rs.150,000,000/- representing 9% out of his total entitlement, and he will not subscribe for any additional shares facilitating the Minority Shareholders to take up the unsubscribed Shares thereby maintaining the required Public holding percentage at 20%.

9.0 UNDERWRITING AGREEMENT

The Company has not entered into any Underwriting Agreement in connection with the proposed Rights Issue. However, Lanka Credit and Business Limited and Sinha Capital Investment Limited, have given an undertaking to the Board that they would take up by way of additional shares the unsubscribed shares, after fully allotting to all Applicants who applies for additional rights, to facilitate the Company to reach the minimum regulatory Core Capital as per the Directions issued by the Central Bank of Sri Lanka. In the light of this, the Board is confident that the proposed issue would fulfill the objectives of this issue.

10.0 RELATED PARTY TRANSACTIONS

The Related Party Transaction Review Committee at a meeting held reviewed and evaluated the proposed investment for additional shares to be made by the aforesaid Shareholders and they were of the view the said transaction could be considered as a normal course of business and accordingly they recommended to the Board.

11.0 MAJOR TRANSACTION

The proposed Rights Issue of Shares does not amount to a Major Transaction as stipulated in Section 185 of the Companies Act No.07 of 2007.

12.0 TAKE OVERS & MERGERS CODE

In the event of any Shareholder triggering the Take-Overs & Mergers Code, arrangements would be made to comply with the relevant statutory requirements.

13.0 CONTINGENT LIABILITIES

There has not been any material change in the nature of contingent liabilities as disclosed in the Company's interim financial statements as at 30th September 2021 (Audited) and Quarterly Financial Statements as at 31st March 2022, (Un Audited) and as at the date of this circular.

14.0 DIRECT DEPOSIT TO CDS

In terms of the Directive Issued by the Securities & Exchange Commission of Sri Lanka pertaining to the de-materialization of listed securities made under Circular No.08/2010 dated 22nd November 2010 and Circular No.13/2010 issued by the Central Depository System (Pvt) Ltd dated 30th November 2010, all new securities arising from the proposed Rights Issue would be directly deposited to the respective Shareholders' CDS Account, within Ten (10) Market Days from the last date of acceptance and payment. No Share Certificates will be issued to any Shareholder. Therefore, all Shareholders are requested to fill in correctly the registered CDS Account number, to avoid any delay in the shares being uploaded to the CDS. In the event of the non-availability of CDS Account number, the new shares to be allotted will only be registered in the Share Ledger maintained by the Company and will not be entitled to a Share Certificate and thereby would not be possible to trade with the new securities, until such time the same has being deposited with the CDS. Therefore, those Shareholders who have not opened CDS Accounts are kindly requested to do so before the Extraordinary General Meeting to be entitled to deposit the Rights to the CDS Account. Therefore please ensure strict adherence to the Directive issued by the SEC.

Those Shareholders who open CDS Accounts subsequent to allotment of shares are kindly requested to communicate the CDS Account number in writing to Corporate Arcade Ltd, to facilitate to deposit the rights into the respective CDS Accounts. Such requests will be processed once in 2 weeks basis.

15.0 STATUS OF NEW SHARES

The new Ordinary Voting Shares allotted to you upon due payment and finalization of allotment will rank equal and pari pasu in all respects with the existing issued Ordinary Voting Shares of the Company and will qualify for all dividends declared thereafter by the Company on Voting Ordinary Shares, only after the final allotment which shall be after the last date of acceptance and payment.

16.0 MAJOR SHAREHOLDERS OF THE COMPANY

The 20 Major Shareholders of the Company as at 30th June 2022 were as follows;

NO	NAME OF SHAREHOLDER	NO OF SHARES	PERCENTAGE
1.	Mr. V R Ramanan	751,556,976	55.52
2.	Ceyoka (Pvt) Ltd	193,527,496	14.30
3.	Mr. H K J Dharmadasa	87,536,211	6.47
4.	Mr. U H Dharmadasa	44,274,100	3.27
5.	Mr. J Rudra Mr. J Rudra & Mrs. Rudra (Joint)	38,899,235 6,187	2.87 -
6.	Mr. R N R Kurukulasuriya	10,391,376	0.77
7.	Hatton National Bank PLC/Mr. R E Rambukwella Mr. R E Rambukwella	10,200,000 332,001	0.75 0.02
8.	Mr. T C B Maranthota	8,114,111	0.60
9.	Richard Pieris Financial Services (Pvt) Ltd/ Mr. H J C Perera Mr. H J C Perera	6,000,000 2,725,000	0.44 0.20
10.	Hatton National Bank PLC/ Mr. A P L Fernando	4,423,400	0.33
11.	Mr. S P R Karunarathne	3,954,376	0.29
12.	Mr. M Jayaweera	3,828,998	0.28
13.	Seylan Bank Limited/ Mr. R P Sugathadasa	3,470,930	0.26
14.	Seylan Bank PLC / Mr. K L G Udayananda Mr. K L G Udayananda	3,040,061 900,000	0.22 0.07
15.	Mr. R Udagama	2,953,450	0.22
16.	Mr. V Sivasudhan	2,888,888	0.21
17.	DFCC Bank PLC/Just In Time Technologies (Pvt) Ltd	2,500,000	0.18
18.	Ceylinco Securities Share Ownership Trust (Pvt) Ltd	2,475,600	0.18
19.	People's Leasing & Finance PLC/ Mr. R Kannan	2,423,919	0.18
20.	Merchant Bank of Sri Lanka & Finance PLC/Mr. N P Gunarathna	2,365,513	0.17
		1,188,787,828	87.80

As at 30th June 2022, the Public Holding amount to 30% representing 13,574 Shareholders

17.0 APPLICATION FOR RIGHTS

The Shareholders of the Company are Provisionally Allotted Two Hundred & Twelve (212) new Ordinary Shares for every One Hundred (100) Ordinary Shares held at a consideration of Rupees 0.70 per share based on their shareholding as at end of trading on 30th day of August 2022 (i.e. record date). The shares so provisionally allotted are renounceable only to CDS.

At the time the provisional allotment of shares is calculated, both CDS statement of shares and the Register of the Shareholders which is maintained by the Company would be amalgamated as far as possible with the National Identity Card Number.

The Rights Shares may be renounced to the Central Depository Systems (Pvt) Limited (CDS) only and such period shall not exceed 09 Market Days from and excluding the date of making available of Provisional Letter of Allotment.

The Shareholders must strictly follow and adhere to the instructions provided in the Provisional Letter of Allotment in respect of acceptance, renunciation and applying for additional Rights. Where a Shareholder maintains his/her shareholding of the Entity in the CDS, such Shareholder's Rights entitlement will be directly deposited to the respective CDS account. If you are in any doubt as to the action you should take, you should consult your stockbroker or other professional adviser immediately.

For Applications received for additional shares, the Board of Directors propose to allocate such shares from and out of the shares not subscribed, as additional shares

Any fractional shares arising from the Provisional Allotment, such fractions arising after applying the following formula will be ignored and would be made available at the same price along with any other unexercised rights entitlements to the Shareholders applying for additional shares.

Number of shares held by a Shareholder as at end of trading on the entitlement date /record date x 212

100

Trading of the "Rights" (Allotment Letters) shall commence on the Fourth (04) Market Day from and excluding the date of making available of the Provisional Letters of Allotment. Such trading shall continue throughout the period of renunciation to the CDS.

The instructions given in the Provisional Letter of Allotment should be strictly complied with. Failure to do so may result in your application being rejected.

18.0 NON RESIDENT SHAREHOLDERS

Non Residential Shareholders are required to make payments for Rights through their Inward Investment Account (IIA). If the payment is not made out of IIA, but out of an inward remittance or remittable funds, the approval of the Director, Department of Foreign Exchange, Central Bank of Sri Lanka, to make such payments must accompany the Letter of Acceptance and Registration and the Application for Additional Shares (as applicable).

19.0 COLOMBO STOCK EXCHANGE APPROVAL

An approval, in principle, has been obtained from the CSE for the issue and to list the new Securities arising from Rights Issue of Shares.

The listing of the securities by the Colombo Stock Exchange will in no way be reflective of the merits of the issue. The Colombo Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports included.

The Directors of the Entity collectively and individually accept full responsibility for the accuracy of the information given and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief that there are no other facts, the omission of which would render any statement in the circular misleading.

20.0 EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting has been scheduled to be held on 25th August 2022, as set out in the Notice of meeting enclosed herewith for the Shareholders to consider and if thought fit to pass the Ordinary Resolutions to give effect to the proposed Rights Issue of Shares. Subsequent to obtaining the approval of the Shareholders the Directors propose to make available Provisional Letters of Allotment within 05 Market Days from and excluding the date of Provisional Allotment.

BY ORDER OF THE BOARD



**CORPORATE ARCADE LTD
COMPANY SECRETARIES & REGISTRARS FOR
NATION LANKA FINANCE PLC**

8th August 2022