

PC House Limited PROSPECTUS

Initial Public Offering

Offer for Subscription of
Fifty Seven Million Two Hundred and
Thirty Three Thousand Three Hundred and
Thirty Four (57,233,334) Ordinary Voting Shares
at Rs. 11.00 per share



PCH
Benchmark ICT

The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus

If you are in any doubt regarding the contents of this document you should consult your stockbroker, bank manager, lawyer or any other professional advisor. For further enquiries, please contact the Managers to the Offering



Financial Advisors and Managers to the Offering

This Prospectus is dated July 20, 2010

INVITATION TO THE INVESTOR

This invitation represents an opportunity to participate in the future growth prospects of PC House Limited (PCH), a key player in the information technology sector in Sri Lanka. Since its humble beginnings in 1997, it was registered as a sole proprietorship in 1998 and was subsequently incorporated as a private limited liability company in 2000.

Over the years, the Company has grown into a total ICT solution provider establishing business relationships with major ICT product and service suppliers and catering to key customer segments comprising public, corporate and retail.

The Company services the nation through a wide network comprising 15 Colombo based outlets and 13 regional branches and has earmarked expanding into fast-growing Business Process Outsourcing and Internet Data Centre services.

Through this Prospectus, PCH hereby wishes to make an invitation in respect of Fifty Seven Million Two Hundred and Thirty Three Thousand Three Hundred and Thirty Four (57,233,334) Ordinary Voting Shares at Rs.11.00 per share.

In this document, a prospective investor will find detailed information about PCH and its business in addition to other statutory information relating to the Offering. The Board of Directors of the Company urges the investing public that the Prospectus be read carefully prior to making an investment decision.

The Colombo Stock Exchange (the “CSE”) has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, the CSE assumes no responsibility for accuracy of the statements made, opinions expressed or reports included in this Prospectus. Moreover, the CSE does not regulate the pricing of the shares offered herein. The Share Offer Price is determined in terms of Section 5.4 contained herein.

Registration of the Prospectus

A copy of this Prospectus has been registered with the Registrar General of Companies in Sri Lanka in accordance with the Companies Act No.07 of 2007 (the “Companies Act”). The following documents were attached to the copy of the Prospectus delivered to the Registrar General of Companies in Sri Lanka:

- 1) The written consent by the Managers, Auditors and Reporting Accountants, Lawyers, Bankers and Registrars to the Offering for the inclusion of their respective names in the Prospectus;
- 2) A declaration to the effect that the Managers, Auditors and Reporting Accountants, Lawyers, Bankers and Registrars to the Offering, have not withdrawn their consent referred to above, prior to the delivery of the Prospectus to the Registrar General of Companies in Sri Lanka;
- 3) The written consent by the Auditors and Reporting Accountants, Secretaries and Bankers to the Company for the inclusion of respective names in the Prospectus;
- 4) A declaration to the effect that the Auditors and Reporting Accountants, Secretaries and Bankers to the Company have not withdrawn their consent referred to above, prior to the delivery of the Prospectus to the Registrar General of Companies in Sri Lanka.

Further, a statutory declaration in terms of the Companies Act, to the effect that the Directors of the Company are held individually and collectively responsible for the accuracy of the information herein contained and that the Listing Rules of the CSE and the Companies Act have been complied with, has been filed for the purpose of registration of the Prospectus.

Responsibility for the Content of the Prospectus

This Prospectus has been prepared from information provided by PC House Limited (hereinafter referred to as “PCH” or “the Company”) and from publicly available sources. The Directors of the Company, collectively and individually, having made all reasonable enquiries confirm to the Managers to the Offering, that to the best of their knowledge and belief, that this Prospectus contains all information with respect to the Company which is material in the context of the Offering; that the information contained herein is true and correct in all material respects and is not misleading; that there are no other material facts, the omission of which would, make any statement contained herein misleading; that the opinions and intensions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions. PC House Limited accepts responsibility for the information contained in this Prospectus. While PC House Limited has taken reasonable care to ensure full and fair disclosure of information, it does not assume any responsibility for any investment decisions made by investors based on information contained herein. In making an investment decision, prospective investors must rely on their own examination and assessments of the Company including the risks involved.

Representation

No person is authorised to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorised by the Company.

Registration of the Prospectus in Jurisdictions Outside of Sri Lanka

This Prospectus has not been registered with any authority outside of Sri Lanka. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy, nor there be any sale of any shares offered herein, to any person in any circumstance or in any jurisdiction in which it is unlawful to make such an offer, solicitation or sale.

Forward Looking Statements

Any statements included in this Prospectus that are not statements of historical fact constitute “Forward Looking Statements”. These can be identified by the use of forward looking terms such as “expect”, “anticipate”, “intend”, “may”, “plan to”, “believe”, “could” and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Company operates and its ability to respond to them, the Company’s ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Company.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future.

Given the risks and uncertainties that may cause the Company’s actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking Statements in this Prospectus, investors are advised not to place sole reliance on such statements.

Investment Considerations

It is important that this Prospectus is read carefully prior to making an investment decision. For information concerning certain risk factors, which should be considered by prospective investors, see “Investment Considerations and Associated Risks” in Section 11.0 of this Prospectus.

Presentation of Currency Information and Other Numerical Data

The financial statements of the Company and currency values of economic data or industry data in a local context will be expressed in Sri Lankan Rupees. References in the Prospectus to “LKR”, “Rupees” or “Rs.” are to the lawful currency of Sri Lanka. References to “USD” are to United States Dollars, the official currency of the United States of America.

Certain numerical figures in the Prospectus have been subject to rounding adjustments; accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Presentation of Macroeconomic and Industry Data

Economic and Industry data used throughout this Prospectus are derived from the Central Bank of Sri Lanka, the Department of Census and Statistics and various other industry data sources, which the Company believes to be reliable, but the accuracy and completeness of that information is not guaranteed. Similarly, industry surveys and other publications, while believed to be reliable, have not been independently verified and neither the Company nor the Managers to the Offering make any representation as to the accuracy of that information.

OFFERING AT A GLANCE

NUMBER OF SHARES TO BE ISSUED	57,233,334
SHARE OFFER PRICE	Rs. 11.00
AMOUNT TO BE RAISED	Rs. 629,566,674/-
MINIMUM SUBSCRIPTION	100 shares (Rs. 1,100/-) Applications in excess of the minimum subscription should be in multiples of 100 shares
ISSUE OPENING DATE	August 5, 2010
ISSUE CLOSING DATE	August 25, 2010 or the day on which the Issue becomes oversubscribed, whichever is earlier
EARLIEST ISSUE CLOSING DATE	August 5, 2010
CSE LISTING	To be listed on the Main Board subject to compliance with the CSE Listing Rules

CONTENTS

1.0	CORPORATE INFORMATION	1
2.0	RELEVANT PARTIES TO THE OFFERING	3
3.0	ABBREVIATIONS USED IN THE PROSPECTUS	4
4.0	GLOSSARY OF TERMS RELATED TO THE OFFERING	6
5.0	DETAILS OF THE OFFERING	7
6.0	THE ICT INDUSTRY IN SRI LANKA	16
6.1	INFORMATION TECHNOLOGY INDUSTRY	16
6.2	THE OUTSOURCING INDUSTRY IN SRI LANKA	22
6.3	INTERNET DATA CENTRES	27
6.4	SOURCES USED IN COMPILING THE INDUSTRY STUDIES	31
7.0	BUSINESS OPERATIONS OF PCH GROUP	32
7.1	PCH GROUP.....	32
7.2	PC HOUSE LIMITED	32
7.2.1	OVERVIEW.....	32
7.2.2	KEY MILESTONES	33
7.2.3	PRODUCT AND SERVICE PORTFOLIO OFFERED BY PCH	34
7.2.4	PCH STRATEGIC PARTNERSHIPS AND ALLIANCES	35
7.2.5	AWARDS OF EXCELLENCE.....	37
7.2.6	BUSINESS CHANNELS OF PCH	38
7.2.7	CUSTOMER ORIENTATION	39
7.2.8	QUALITY POLICY OF PCH	40
7.2.9	COMPETITIVE LANDSCAPE OF PCH	40
7.3	GREENWICH LANKA (PRIVATE) LIMITED.....	41
7.3.1	OVERVIEW.....	41
7.3.2	GLPL STRATEGIC PARTNERSHIPS AND ALLIANCES	42
7.3.3	CUSTOMER ORIENTATION	42
7.3.4	COMPETITIVE STRENGTHS OF GLPL	42
7.3.5	QUALITY POLICY	43
7.4	PROCIFINITY LIMITED	43
7.5	FUTURE DIRECTION, PROSPECTS AND PLANS OF PCH GROUP	43
7.5.1	FUTURE BUSINESS PLANS OF PCH.....	43
7.5.2	FUTURE BUSINESS PLANS OF GLPL	44
7.5.3	BUSINESS PLANS OF PROCIFINITY	44
7.6	DEGREE OF DEPENDENCE ON KEY CUSTOMERS AND SUPPLIERS OF PCH AND GLPL	46
7.7	GROUP INVESTMENT STRUCTURE	47
7.8	DIVIDEND POLICY	47
7.9	DETAILS OF MATERIAL INDEBTEDNESS	47
7.10	WORKING CAPITAL	50
7.11	LITIGATION, DISPUTES AND CONTINGENT LIABILITIES	50
7.12	MATERIAL CONTRACTS	50
7.13	DETAILS OF COMMISSIONS PAID	50
7.14	DETAILS OF BENEFITS PAID TO PROMOTERS	50
8.0	CORPORATE STRUCTURE	51
9.0	MANAGEMENT DISCUSSION AND ANALYSIS	57
9.1	PC HOUSE LIMITED	57
9.2	GREENWICH LANKA (PRIVATE) LIMITED.....	59

CONTENTS

10.0	CAPITAL STRUCTURE	62
11.0	INVESTMENT CONSIDERATIONS AND ASSOCIATED RISKS.....	64
11.1	RISKS RELATING TO MACRO-ENVIRONMENTAL FACTORS.....	64
11.2	RISKS RELATING TO THE BUSINESS OF PCH.....	65
11.3	RISKS RELATING TO THE BUSINESS OF GLPL	66
11.4	RISKS RELATING TO THE BUSINESS OF PROCIFINITY.....	67
11.5	CAPITAL MARKET RELATED RISKS	68
12.0	STATUTORY AND OTHER GENERAL INFORMATION	69
13.0	THE COLOMBO STOCK EXCHANGE.....	70
14.0	TAXATION AND EXCHANGE CONTROLS	73
15.0	STATUTORY DECLARATIONS	75
16.0	FINANCIAL STATEMENTS AND AUDITORS' REPORT.....	76
16.1	ACCOUNTANTS REPORT FOR INCLUSION IN THE PROSPECTUS	76
16.2	FIVE YEAR SUMMARY OF FINANCIAL STATEMENTS	80
16.3	AUDIT REPORT AND FINANCIAL STATEMENTS AS AT MARCH 31, 2010.....	84
16.4	INTERIM FINANCIAL STATEMENTS AS AT MAY 31, 2010	110
	ANNEX A – INDEX ON TABLES AND FIGURES ILLUSTRATED IN THE PROSPECTUS	115
	ANNEX B – COLLECTION POINTS.....	116
	ANNEX C – PCH BRANCH NETWORK.....	120

1.0 CORPORATE INFORMATION

The Company	PC House Limited
Legal Form of the Company	A private limited liability company incorporated in Sri Lanka on February 2, 2000 under the Companies Act No. 17 of 1982, Re-registered under the Companies Act No. 07 of 2007 on January 4, 2008 and subsequently converted to a public limited liability company on May 31, 2010
Company Registration No. (under the Companies Act No. 17 of 1982)	N(PVS) 25454
Re-Registration No. (as a private company) (under the Companies Act No. 07 of 2007)	PV 1827
New Registration No. (as a public limited company) (under the Companies Act No. 07 of 2007)	PV 1827 PB
Place of Incorporation	Colombo, Sri Lanka
Registered Office	PC House Limited 451, Galle Road, Colombo 03 Tel: 4724242 Fax: 4724343 Subsidiaries: Greenwich Lanka (Pvt) Ltd Procifinity Limited 2 nd Floor, 1 st & 4 th Floor, 451, Galle Road, Colombo 03 451, Galle Road, Colombo 03
Secretaries to the Company	Seccom (Private) Limited 1E-2/1, De Fonseka Place, Colombo 05 Tel: 2590176 Fax: 2551386
Auditors to the Company	SJMS Associates (Chartered Accountants) 2, Castle Lane, Colombo 04
Bankers to the Company	Seylan Bank PLC 96, Main Street, Colombo 11 Commercial Bank of Ceylon PLC Foreign Branch 21, Bristol Street, Colombo 01 National Development Bank PLC 103A, Dharmapala Mawatha, Colombo 02 People's Bank 102, Stanley Thilakarathna Mawatha, Nugegoda Union Bank P.O. Box 348, 15A, Alfred Place, Colombo 03 DFCC Vardhana Bank 73, W A D Ramanayake Mawatha, Colombo 02

Board of Directors (as at June 15, 2010)

Name	Designation
Mr. Saheedul Hijiry Mohamed Rishan	Chairman/Chief Executive Officer
Mrs. Sithy Sharmila Rishan	Non-Executive Director
Mr. Ekanayake Mudiyanseelage Mangala Boyagoda	Non-Executive Director
Mr. Drayton Sarath Palitha Wikramanayake	Non-Executive Director
Mr. Modarage Thilakasiri	Non-Executive Director
Mr. Shanti Kumar Nadarajah	Non-Executive Independent Director
Mr. Edinadura Kuvera Isuru de Zoysa	Non-Executive Independent Director

2.0 RELEVANT PARTIES TO THE OFFERING

Financial Advisors and Managers to the Offering	NDB Investment Bank Limited 40, Navam Mawatha Colombo 02 Tel: 2300385 Fax: 2300393
Legal Advisors/Lawyers to the Offering	F J & G de Saram Attorneys – at – Law 216, De Saram Place Colombo 10 Tel: 4605100 Fax: 4718220
Auditors and Reporting Accountants to the Offering	SJMS Associates (Chartered Accountants) 2, Castle Lane Colombo 04 Tel: 2580409 Fax: 2582452
Registrars to the Offering	S S P Corporate Services (Private) Limited 101, Inner Flower Road Colombo 03 Tel: 2573894 Fax: 2573609
Bankers to the Offering	National Development Bank PLC 40, Navam Mawatha Colombo 02 Tel: 2448448 Fax: 2440262

3.0 ABBREVIATIONS USED IN THE PROSPECTUS

3G	3 rd Generation
APIIT	Asia Pacific Institute of Information Technology
ASPI	All Share Price Index
ASTRI	Total Returns Index on the ASPI
ATS	Automated Trading System
AWPLR	Average Weighted Prime Lending Rate
BMI	Business Monitor International
BOI	Board of Investment of Sri Lanka
BPO	Business Process Outsourcing
BTT	Business Turnover Tax
CAGR	Compound Annual Growth Rate
CBSL	Central Bank of Sri Lanka
CCTV	Closed Circuit Television
CDS	Central Depository Systems (Private) Limited
CIMA	Chartered Institute of Management Accountants
CINTEC	Computer and Information Technology Council
CMMI	Capability Maturity Model Integration
COEM	Commercial Original Equipment Manufacturer
COMPOL	National Computer Policy
CRM	Customer Relationship Management
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
EDB	Export Development Board
ERP	Enterprise Resource Planning
ESC	Economic Service Charge
FCBU	Foreign Currency Banking Unit
FDI	Foreign Direct Investment
GLPL	Greenwich Lanka (Private) Limited
GoSL	Government of Sri Lanka
HSBC	Hong Kong Shanghai Banking Corporation
HVAC	Heating, Ventilation and Air Conditioning
ICT	Information and Communication Technology
ICTA	Information and Communication Technology Agency
IDC	Internet Data Centres
IFS	Industrial and Financial Systems
IMF	International Monetary Fund
IPO	Initial Public Offering
IPR	Intellectual Property Rights
ISMM	Institute of Sales and Marketing Management
ISO	International Organisation for Standardisation
IT	Information Technology
ITES	Information Technology Enabled Services
KPO	Knowledge Process Outsourcing
LCD	Liquid Crystal Display

ABBREVIATIONS USED IN THE PROSPECTUS

LEARN	Lanka Education and Research Network
LGN	Lanka Government Network
LIX	Lanka Interoperability Exchange
MNC	Multinational Corporation
MOU	Memorandum of Understanding
MPI	Milanka Price Index
MTRI	Total Returns Index on the MPI
NARESA	Natural Resources, Energy and Science Authority of Sri Lanka
NIBM	National Institute of Business Management
NIC	National Identity Card
NIIT	National Institute of Information Technology
NRFC	Non-Resident Foreign Currency Account
OEM	Original Equipment Manufacturer
PCH	PC House Limited
PER	Price Earnings Ratio
PI	Physical Infrastructure
RAM	Random Access Memory
RANSI	Rupee Account for Non-Resident Sri Lankan Investment
RGFCA	Resident Guest Foreign Currency Account
SEC	Securities and Exchange Commission of Sri Lanka
SI & BA	Systems Integration and Business Applications
SIA	Securities Investment Account
SLA	Service Level Agreement
SLCVA	Sri Lanka Computer Vendors Association
SLICTA	Sri Lanka Information and Communication Technology Association
SLIDA	Sri Lanka Institute of Development Administration
SLIIT	Sri Lanka Institute of Information Technology
TRCSL	Telecommunication Regulatory Commission of Sri Lanka
TUV	Technischer Überwachungsverein of America
UK	United Kingdom
UNCITRAL	United Nations Commission on International Trade Law
UPS	Uninterrupted Power Supply
USA	United States of America
USD	United States Dollar
VOIP	Voice Over Internet Protocol
WHT	Withholding Tax
Wi-Fi	Wireless Fidelity
WIMAX	Worldwide Interoperability for Microwave Access

4.0 GLOSSARY OF TERMS RELATED TO THE OFFERING

Application Form/Application	The Application Form that constitutes a part of this Prospectus through which the investors may apply for Offered Shares. Exact size photocopies of the original Application Form will also be permissible
Closure Date	The date of closure of the subscription list as set out in Section 5.8 of this Prospectus
Foreign Investor	Citizen of Sri Lanka resident outside Sri Lanka who is above 18 years of age; Citizen of a foreign state, whether resident in Sri Lanka or resident outside Sri Lanka who is above 18 years of age; A corporate body incorporated outside Sri Lanka; Country funds and regional funds approved by the Securities and Exchange Commission
Local Time	Sri Lanka Time
Market Day	Any day on which the Colombo Stock Exchange is open for trading
New Shares/Offered Shares	Fifty Seven Million Two Hundred and Thirty Three Thousand Three Hundred and Thirty Four (57,233,334) new Ordinary Shares each issued by the Company, to the general public at the Share Offer Price
Offer for Subscription/Offering	An invitation to the public by the Company to subscribe to the Offered Shares
Ordinary Shares/Issued and Paid up Ordinary Shares/Ordinary Voting Shares	Ordinary Voting Shares of the Company, as per the Articles of Association of the Company
Prospectus	This Prospectus dated July 20, 2010 issued by PC House Limited
Share Offer Price	Rs. 11.00 per Offered Share
Stated Capital	The Stated Capital of PC House Limited
The Board/Board of Directors	The Board of Directors of PC House Limited
PCH Group/ Group	PC House Limited and its subsidiaries, Greenwich Lanka (Private) Limited and Procifinity Limited
The Managers/Financial Advisors and Managers to the Offering/Managers to the Offering	NDB Investment Bank Limited

5.0 DETAILS OF THE OFFERING

5.1 The Offering

The Offering contemplated herein shall constitute an invitation made to the general public to purchase Fifty Seven Million Two Hundred and Thirty Three Thousand Three Hundred and Thirty Four (57,233,334) new Ordinary Shares of the Company at the Share Offer Price.

5.2 Nature of the Offered Shares

The Offered Shares shall rank equal and *pari passu* in all respects with the existing Ordinary Shares of the Company with the right to vote, the right to an equal share in any dividend that may be paid by the Company after the allotment of the Offered Shares and the right to an equal share in the distribution of the surplus assets of the Company in a liquidation.

5.3 Size of the Issue

If fully subscribed, the Offering would raise Rupees Six Hundred and Twenty Nine Million Five Hundred and Sixty Six Thousand Six Hundred and Seventy Four (Rs. 629,566,674.00).

5.4 Share Offer Price

The Share Offer Price will be Rs.11.00. The Board of Directors of PCH are of the opinion that the Share Offer Price is fair and reasonable to the Company and to all existing shareholders of the Company.

5.5 Objectives of the Offering

The Company intends to raise funds through this Offering to finance the following, in the order of priority;

- i. Increase the Company's investment in Procifinity Limited, presently a 90% owned subsidiary incorporated on June 2, 2010 by Rs. 300 million to carry out Business Process Outsourcing/Knowledge Process Outsourcing services and to establish an Internet Data Centre. The presently estimated investment required to enhance the BPO/KPO operation by setting up a state-of-the-art facility is approximately Rs. 100 million. The estimated investment to set up a fully-fledged 2,000 sq. ft. Internet Data Centre at the existing premises of PCH is expected to be approximately Rs. 200 million. These facilities are expected to be operational during the Financial Year 2010/11. A comprehensive analysis of the BPO/KPO and IDC industries, assumptions regarding the future plans and associated risks regarding the operations of Procifinity Limited are discussed in Sections 6.2 and 6.3; 7.5.3; and 11.4 respectively of this Prospectus.

With the anticipated investment of Rs. 300 million (300 million shares at Rs. 1.00 each) in Procifinity Limited which would be financed through the proceeds of the IPO (approximately 48% of the IPO proceeds), the Company would increase its stake in Procifinity Limited to 99.99%.

- ii. The remaining funds raised from the Offering, subsequent to meeting all expenses in relation to the same, would be utilised as follows:

PCH

- To retire expensive short term borrowings obtained to finance working capital amounting to approximately Rs. 160 million;
- To finance branch expansions of PCH amounting to approximately Rs. 32 million;
- To improve service quality, to establish new product affiliations and for the incremental working capital requirements amounting to approximately Rs. 70 million.

Greenwich Lanka (Private) Limited (a 100% owned subsidiary of PCH)

- To finance the incremental working capital requirements amounting to approximately Rs. 20 million.

Procifinity Limited

- To finance the incremental working capital requirements amounting to approximately Rs. 15 million.

The Company expects to utilise the IPO proceeds by March 2011.

In addition to raising funds through this Offering for investments, the Company intends to strengthen its brand image and identity by enabling a broader scale of public ownership in the Ordinary Shares of the Company.

Further, the Offering is expected to facilitate the listing of the Company's Ordinary Shares on the Main Board of the CSE, subject to compliance with Rule 2.1.2 of the CSE Listing Rules. The Company has already complied with Rule 2.1.2(a) and Rule 2.1.2(b) of the CSE Listing Rules. As per the Rule 2.1.2(c), the Company must have a minimum public holding of 25% of the total number of shares for which listing is sought and such shares should be in the hands of a minimum number of 1,000 public shareholders holding not less than 100 shares each.

PCH believes that implementation of activities mentioned herein is imperative for the growth of the business of the Company.

This Offering is not underwritten and the Company proposes to utilise internally generated funds and borrowings in the event of a shortfall in IPO proceeds as further described in Section 12.5.

5.6 Cost of the Offering

The total costs associated with the Offering are estimated to be approximately Rs. 32 million. Such costs will be recovered from the proceeds of the Offering. Refer Section 12.4 for details.

5.7 Listing

The Offering herein contemplated comprises of Fifty Seven Million Two Hundred and Thirty Three Thousand Three Hundred and Thirty Four (57,233,334) Ordinary Shares. If fully subscribed, the Offered Shares will amount to 25% of the Issued and Paid up Ordinary Shares of the Company subsequent to the Offering.

An Application has been made to the CSE for permission to deal in and for a listing of Two Hundred and Twenty Eight Million Nine Hundred and Thirty Three Thousand Three Hundred and Thirty Four (228,933,334) Ordinary Shares being the entirety of the Issued and Paid up Ordinary Shares of the Company subsequent to the Offering.

Upon the successful completion of the Offering, the Company will be listed on the Main Board of the CSE, subject to compliance with Rule 2.1.2 of the CSE Listing Rules (as disclosed in Section 5.5).

5.8 Subscription List and Closure Date

The subscription list for the Offered Shares will open at 9.00 a.m. on August 05, 2010 and shall remain open for fourteen (14) Market Days until closure at 4.30 p.m. on August 25, 2010. The Board reserves the discretion to close the subscription list on any Market Day within the period of fourteen (14) Market Days irrespective of the number of shares subscribed by providing one (01) Market Day's prior notice to the CSE.

In the event of an over subscription of the Offered Shares prior to the date scheduled as the closing date of the period for subscription, the Company shall inform the CSE in writing immediately of such fact and the subscription list will be closed at 4.30 p.m. on the same day on which it is fully subscribed with the notification to the CSE.

5.9 Eligible Applicants

Applications are invited from the following categories of applicants:

- Citizens of Sri Lanka who are resident in or outside Sri Lanka and above 18 years of age;
- Companies, corporations or institutions incorporated or established within Sri Lanka;
- Corporate bodies incorporated or established outside Sri Lanka;
- Approved provident funds and contributory pension schemes registered/incorporated/established in Sri Lanka (in this case applications should be in the name of the Trustee/Board of Management in order to facilitate the opening of the CDS account);
- Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas);
- Global, regional and country funds approved by the SEC.

Please note that Applications made by **individuals under 18 years** of age or those in the names of **sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies** will be rejected at the outset.

5.10 Procedure for Applications

Applications must be made in the manner set out below. Applications duly completed should be submitted in the manner set out in Section 5.10.11 hereunder.

5.10.1 The Prospectus and Application Form

The Prospectus and Application Form will be available free of charge from the collection points listed in Annex B. Investors must apply for shares on the Application Form, which constitutes part of this Prospectus. The Application Form should be legibly completed and be received by the Registrars to the Offering (please refer Section 5.10.11 for further details on submission of Applications and Registrars to the Offering). The Application Form and the Prospectus will also be available at the branch outlets of PCH listed in Annex C and can also be downloaded from www.pch.lk, www.cse.lk and www.ndbib.com. Exact size photocopies of the original Application Form will also be permissible.

Care must be taken to follow the instructions on the reverse of the Application Form. Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.

5.10.2 Number of Shares Applied

Application should be made for a minimum of one hundred (100) shares or in multiples of hundred (100) shares thereof.

Applications made for less than one hundred (100) shares or for a number which is not in multiples of hundred (100) shares will be rejected and accompanying cheques or bank drafts or bank guarantees will not be sent for clearing and be returned via ordinary post at the risk of the applicant, or in the case of joint applicants, the first named applicant. The cheque or bank draft or bank guarantee should be issued to the exact value of the number of shares applied for multiplied by the Share Offer Price. Cheques or bank drafts or bank guarantees not conforming to the above requirement will be rejected at the outset.

Please refer Section 5.11.1 for details with respect to the mode of remittance.

5.10.3 Identification Information

All applicants should disclose their identification/registration information by filling in the space provided in the Application Form for this purpose.

Applicants are requested to state their residency and nationality in the appropriate cages provided in the Application Form.

The NIC, passport or company registration number as the case may be, must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be strictly rejected.

Tabulated below is the relevant identification information that a prospective investor should provide depending on the legal status:

Citizenship/Legal Form	Identification Information				
	NIC Number	Passport Number	Company Registration Number	CDS Number	Common Seal or Rubber Stamp
Sri Lankan Citizens	✓				
Sri Lankan Citizens with no NIC – Note I		✓		✓	
Foreign Citizens – Note II		✓			
Corporate Entities – Note III			✓		✓

Note I: In the case of Sri Lankan citizens the passport number will be accepted only when the NIC number is not available and provided such applicants directly lodge their shares with the CDS. The CDS account must be for the same passport number.

Note II: Foreign citizens must state the passport number in the space provided.

Note III: The company registration number must be provided. The common seal or rubber stamp should be affixed and the Application Form duly signed as stipulated in the constitutional documents of such applicants.

5.10.4 Responsibility of a Non-Resident Investor

Non-resident investors may be affected by the laws of the jurisdiction of their residence. If the non-resident investors wish to apply for the shares at the IPO, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

5.10.5 Direct Lodgement in the CDS

Applicants wishing to lodge the shares directly to their CDS account should state their own CDS account number in the space provided in the Application Form. **Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts, will be rejected.**

5.10.6 Margin Trading

Applicants who wish to apply through their margin trading account, should submit the Application in the name of the “margin provider/applicant’s name” signed by the margin provider. The applicants should state the relevant CDS account number relating to the margin trading account in the space provided for the CDS account number in the Application Form.

The NIC, passport or company registration number of the Applicant as the case may be, must be stated in the Application Form.

A photocopy of the margin trading agreement must be submitted along with the Application.

Please note that the margin provider can apply under its own name and such Applications will not be construed as multiple Applications (details of multiple Applications are available under Section 5.10.9).

5.10.7 Applications made under Power of Attorney

In the case of Applications made under Power of Attorney (POA), a copy of the said POA, **certified by a Notary Public** to be a true copy of the original, should be lodged with the Registrars to the Offering along with the Application Form. **The original POA should not be attached.**

5.10.8 Joint Applications

Joint Application Forms are permitted only for natural persons not exceeding three applicants. Joint applicants should note that all parties should either be residents of Sri Lanka or non-residents. An applicant of a joint Application shall not apply through a separate Application Form either individually or jointly. **Only one Application will be accepted on behalf of a natural person.**

5.10.9 Multiple Applications

An applicant can apply under only one Application Form. If an applicant has applied under more than one Application Form it will be construed as multiple Applications. An applicant of a joint Application, applying through another Application Form is also deemed to have made multiple Applications.

An applicant who has made an Application under a margin trading account should not apply individually or jointly on a separate Application Form. Such Applications will also be construed as multiple Applications.

The Company/Managers/Registrars to the Offering reserve the right to reject all multiple Applications and suspected multiple Applications or to accept only one Application Form at their discretion.

5.10.10 Rejection of Applications

- Application Forms which are incomplete in any way and/or are not in accordance with the terms and conditions set out in Section 5.0 of this Prospectus will be rejected at the absolute discretion of the Company/Managers/Registrars to the Offering.
- **Any Application Form which does not provide the NIC, passport or company registration number as the case may be, will be strictly rejected.**
- Applications delivered by hand after 4.30 p.m. Local Time on the Closure Date of the Offering will be rejected. Applications **received** by courier/post after 4.30 p.m. Local Time on the succeeding Market Day immediately following the Closure Date of the Offering, will also be rejected even if they carry a courier acceptance date/postmark date earlier than the Closure Date.
- Applications made for less than one hundred (100) shares or for a number which is not in multiples of hundred (100) shares will be rejected.
- In the case of multiple Applications and suspected multiple Applications, the Company/Managers/Registrars to the Offering reserve the right to reject all or to accept one Application Form at their discretion.
- An Application Form accompanied by two or more cheques or bank drafts or bank guarantees will be rejected at the outset.
- Applications made by individuals below 18 years of age or those in the names of sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected.

Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to refuse any Application or to accept any Application in full or part.

5.10.11 Submission of Applications

Application Form properly filled in accordance with the instructions thereof, along with the applicable remittance (cheque or bank draft or bank guarantee only) for full amount payable on application should be enclosed in a sealed envelope marked **“PC House Limited – Initial Public Offering”** on the top left-hand corner and be addressed and **dispatched** by post or courier or delivered by hand to the Registrars to the Offering at the following address prior to 4.30 p.m. Local Time on the Closure Date.

S S P Corporate Services (Private) Limited
Registrars to the Offering
101, Inner Flower Road
Colombo 03
Sri Lanka

Applications may also be handed over to the Managers to the Offering, the Bankers to the Offering and its designated branches, members and trading members of the CSE as set out in Annex B prior to 4.30 p.m. Local Time on the Closure Date.

In the case of Applications dispatched by courier or post, such Applications should **reach** the Registrars to the Offering no later than 4.30 p.m. Local Time on the Market Day immediately following the Closure Date. Any Applications received after the above deadline shall be rejected even though the courier or post mark is dated prior to the Closure Date.

5.11 Payment of Application Monies

5.11.1 Mode of Remittance

Payment should be made separately in respect of each Application by way of a cheque or bank draft or bank guarantee. Remittances on Applications will be deposited in a separate bank account in the name of “**PC House Limited – Initial Public Offering**”.

Payment for Applications for values up to Rupees One Hundred Million (Rs. 100,000,000/-) could be supported by a cheque or bank draft or bank guarantee. Payment for Applications above and inclusive of Rupees One Hundred Million (Rs. 100,000,000/-) should only be accompanied by a bank guarantee.

Each Application Form should be accompanied by only **one** cheque or bank draft or bank guarantee and should be issued for the **full amount** indicated in the Application Form. **An Application Form accompanied by two or more cheques or bank drafts or bank guarantees will be rejected at the outset.**

Cash will not be accepted. Anyone wishing to pay cash should obtain a bank draft from any commercial bank in Sri Lanka.

5.11.2 Cheques or Bank Drafts – Resident Sri Lankan Investors

Cheques or bank drafts should be drawn on any commercial bank in Sri Lanka and crossed “**Account Payee Only**” and made payable to “**PC House Limited – Initial Public Offering**”.

Cheques or bank drafts accompanying Application Forms made for less than one hundred (100) shares or for a number which is not in multiples of hundred (100) shares (as mentioned in Section 5.10.2) will not be sent for clearing and shall be returned via ordinary post at the risk of the applicant, or in the case of joint applicants, to the first named applicant.

In the event that cheques are not realised within three (03) Market Days from the day of presenting the same to the bank for clearing, the cheques will be returned and no allocation of shares will be made to the investors.

Investors residing in outstation areas from which cheque clearance may take over two (02) Market Days are advised to make payment via bank drafts to avoid any delays.

Cheques must be honoured on first presentation to the bank for the Application to be valid. Applications supported by cheques which are not honoured on the first presentation will be rejected.

5.11.3 Bank Guarantees – Resident Sri Lankan Investors

Applications made by resident Sri Lankan investors backed by bank guarantees presented in line with the requirements set out in Section 5.11.1 will be accepted. Bank guarantees will be presented to the respective banks only after the shares have been allotted/allocated. Bank guarantees should be issued in favour of “**PC House Limited – Initial Public Offering**” in a manner acceptable to the Company and be payable on demand.

Investors are advised to ensure that sufficient funds are made available in order to honour the bank guarantee, inclusive of charges, when called upon to do so by the Registrars to the Offering. Investors are encouraged to discuss with their relevant bankers with regard to the issuance of bank guarantees and all related charges that would be incurred by the investors.

Foreign investors and non-resident Sri Lankan investors should refer Section 5.11.4 for information regarding procedures for bank guarantees.

5.11.4 Foreign Currency Remittance

This section is applicable to citizens of Sri Lanka who are above 18 years of age and resident overseas, corporate bodies incorporated or established outside Sri Lanka, global, regional or country funds approved by the SEC and foreign citizens (irrespective of whether they are resident in Sri Lanka or overseas) who are above 18 years of age.

The above mentioned applicants should make their payments using one of the following methods as the case may be.

- A foreign investor may invest through a Securities Investment Account (SIA) maintained with any commercial bank in Sri Lanka. The procedure for arranging payments through a SIA is presented below:
 - A foreign investor may use the services of a custodian bank as an intermediary when investing in the Sri Lankan securities market.
 - The intermediary may open a SIA, on the investor's behalf. In conjunction with the SIA, an account with the CDS must be opened.
 - In respect of global, regional or country funds investing for the first time in Sri Lanka, the intermediary will facilitate the approval process regulated by the SEC.
 - Payment for shares should be made through a cheque or bank draft or bank guarantee against the funds in the SIA and made payable to **"PC House Limited – Initial Public Offering"**.
- A foreign investor may invest through inward remittances of foreign currency held in a Foreign Currency Banking Unit (FCBU) account of the applicant maintained with any commercial bank in Sri Lanka. The applicant should forward the Application Form supported by a bank guarantee drawn on the applicant's FCBU account pending allotment of shares.
 - Upon allotment of shares, foreign currency to the extent of the Sri Lankan Rupee equivalent value of shares allotted would be called on the bank guarantee drawn on the applicant's FCBU account. The requisite funds would then be credited to a SIA opened in favour of the applicant via the aforementioned FCBU account.
 - This procedure would protect a prospective investor from any losses accruing due to fluctuating exchange rates.
- In addition to the payments made through SIA and FCBU mentioned above, a foreign citizen resident in Sri Lanka under the Resident Guest Scheme may invest through the Resident Guest Foreign Currency Account (RGFCA) maintained with any commercial bank in Sri Lanka. An investor who wishes to avail him/herself of this facility should make the payment for shares through a bank draft or a bank guarantee against the funds in the RGFCA and made payable to **"PC House Limited - Initial Public Offering"**.
- Non-resident Sri Lankans can remit money for investment purposes in Sri Lankan companies through Rupee Accounts for Non-Resident Sri Lankan Investment (RANSI) maintained with authorised dealers.
 - Sri Lankan citizens who have left the country to take up employment, business or a profession and continue to reside abroad and those citizens of Sri Lanka who have made their permanent place of abode outside Sri Lanka are eligible to operate a RANSI with authorised dealers.
 - Remittances by non-resident Sri Lankans in connection with this share Application Form must be made via bank drafts purchased out of funds in the RANSI. There are no exchange control restrictions on remittance of funds that may be available in a RANSI.
 - Where a RANSI holder is also the holder of a Non-Resident Foreign Currency (NRFC) account, movement of funds between a RANSI and a NRFC account of the account holder is freely permitted, so long as the account holder continues to reside abroad and does not cease to be a citizen of Sri Lanka. Therefore, funds in the NRFC account could be transferred to a RANSI through which investment in shares could be made.

Cheques or bank drafts or bank guarantees should be endorsed by the issuing custodian bank, to the effect that, such payment has been made against funds available in the individual's SIA/FCBU/RGFCFA account. The endorsement must be clearly indicated on the cheque or bank draft or the bank guarantee. Alternatively, a document detailing the endorsement could be submitted along with the payment and Application.

Bank drafts drawn on a RANSI account should also be endorsed in line with the above.

Applications supported by foreign currency remittances should be made in conformity with requisite declarations accompanied by the documentation stipulated by the Controller of Exchange.

5.11.5 Restrictions Applicable to Foreign Citizens Resident in Sri Lanka

Foreign citizens resident in Sri Lanka may make payments through Sri Lanka Rupee accounts only if they possess dual citizenship where one such citizenship is Sri Lankan. Foreign citizens having Sri Lankan citizenship should attach a certified copy of the citizenship certificate with the Application Form.

Foreign citizens residing in Sri Lanka having valid residency visas should note that they cannot make remittances via cheques or bank drafts or bank guarantees drawn on Sri Lanka Rupee accounts held in Sri Lanka but may do so via SIA/FCBU/RGFCFA account as detailed in Section 5.11.4 above. Applications made by foreign citizens not in accordance to the foregoing shall be rejected.

5.12 Banking of Payments

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Market Day after the Closure Date of the subscription list, in terms of the CSE Listing Rules.

5.13 Returning of Monies of Rejected Applications

Where an Application Form is rejected, the cheque or bank draft or bank guarantee received in respect of the Application will be returned via ordinary post at the risk of the applicant. In the case of joint applicants, Application monies will be returned to the first named applicant.

Where the Application Form is accepted and the cheque or bank draft or bank guarantee is not honoured at the first presentation, the Application will also be rejected and the cheque or bank draft or bank guarantee will be returned via ordinary post at the risk of the applicant. In the case of joint applicants, Application monies will be returned to the first named applicant.

5.14 The Basis of Allotment

The Board of Directors of the Company will endeavour to publicise the basis of allotment within seven (07) Market Days from the Closure Date. These allotments will be made in a fair manner. **The Company does not intend to make any preferential allotments.**

5.15 Refunds on Applications

Where an Application is accepted only in part, the balance of the monies received on Application will be refunded. Refunds on shares that have not been allotted will be refunded on or before the expiry of ten (10) Market Days from the Closure Date (excluding the Closure Date) as required by the CSE Listing Rules. Applicants would be entitled to receive interest at the last quoted AWPLR published by the Central Bank of Sri Lanka plus 5%, on any refunds not made before the expiry of the abovementioned period.

Refunds via Sri Lanka Inter-bank Payment Systems:

- The refund payment will be made to the bank account specified by the applicant through the Sri Lanka Inter-bank Payment System (SLIPS) on or before the expiry of ten (10) Market Days from the Closure Date (excluding the Closure Date) as required by the CSE Listing Rules and a payment advice shall be issued to the applicant provided that the applicant has submitted accurate and complete details of his bank account in the Application Form.

In the event the refund payment is effected via SLIPS based on the bank account details provided by the applicant in the Application Form, but is rejected by the applicant's bank due to inaccurate or incomplete information, such refund payments would be made via a crossed cheque in favour of the applicant and sent by ordinary post at the risk of the applicant. In such instances, the Company together with the Registrars to the Offering will send the refund cheques to such applicants at the earliest possible and the applicant should not hold the Company or the Registrars to the Offering accountable for such delays.

Refunds via crossed cheque:

- If the applicant has not provided details of the bank account in the Application Form or has provided inaccurate or incomplete details of the bank account, the refund payment will be made by a crossed cheque in favour of the applicant and sent by ordinary post at the risk of the applicant. In the case of a joint Application, a crossed cheque will be drawn in favour of the applicant whose name appears first in the Application Form.

A request for cancellation of crossing on the refund cheque, in instances where the applicant does not maintain a current account, should be addressed to the Registrars to the Offering in writing, stating the cheque number and the fact that the applicant does not maintain a current account. The refund cheque and a clear photocopy of the applicant's NIC should accompany the letter.

In the event of a cheque being delivered by hand by a third party to the Registrars to the Offering for cancellation of crossing, a letter of authorisation signed by the applicant stating the NIC number of such third party should also be presented with the cheque.

Cheques on which the crossings have been cancelled by the Registrars to the Offering should preferably be collected in person or by a third party authorised by the applicant. Where an applicant has requested the delivery of a cheque on which the crossing has been cancelled via post, the cheque will be sent at the risk of the applicant.

5.16 Successful Applicants, CDS Lodgement and Share Certificates

For successful applicants share certificates will be dispatched before the expiry of twenty five (25) Market Days from the Closure Date of the Offering as required by the CSE Listing Rules, via registered post to the address provided by each shareholder in their respective Applications. In the case of a joint Application, the share certificate will be dispatched to the address of the applicant whose name appears first in the Application Form. Where requested by a shareholder, the Offered Shares allotted will be directly uploaded to the respective CDS account given in the Application Form before the expiry of eighteen (18) Market Days from the Closure Date of the Offering as required by the CSE Listing Rules. Investors wishing to trade the Offered Shares on the CSE without delay are advised to state the CDS account number in the Application Form to facilitate direct lodgement.

A written confirmation of the allocation will be sent to the shareholder within two (02) Market Days of crediting the CDS accounts by ordinary post to the address provided by each shareholder in their respective Applications.

In terms of the CSE Listing Rules the Ordinary Shares of the Company may be listed upon the completion of the CDS uploads and prior to dispatch of share certificates. Therefore, investors who wish to trade Offered Shares in the secondary market from the first day of commencement of trading are advised to request for a direct upload of shares to their CDS account by stating the CDS account number when applying for shares. In the event that the CDS account number is not stated in the Application Form, the share certificate dispatched by post may not be received by the investor before the Ordinary Shares of the Company commence trading on the CSE.

5.17 Transferability of Offered Shares

Offered Shares shall not be transferable by the shareholders during the period between the date of allotment of the Offered Shares and up to the date of listing (excluding the date of listing) of the Ordinary Shares of the Company on the CSE.

5.18 Declaration to the Colombo Stock Exchange and Secondary Market Trading

The Company will submit to the CSE a declaration on the Market Day immediately following the day on which investors' CDS accounts are credited with securities. Trading of Ordinary Shares of the Company on the secondary market will commence on or before the third (3rd) Market Day from the receipt of the declaration by the CSE.

6.0 THE ICT INDUSTRY IN SRI LANKA

An overview of the ICT industry in Sri Lanka which includes the Information Technology, IT outsourcing (BPO/KPO) and Internet Data Centre industries are discussed in the sections below as the Company intends to be a major player in these sectors in the foreseeable future.

6.1 Information Technology Industry

Information technology or IT can be explained as “the study, design, development, implementation, support or management of computer based information systems, particularly software applications and computer hardware”. In the broadest sense, it refers to the hardware and software that store and modify information. IT plays an important role in the global economy with ever-growing prominence each year characterised by the emergence of the “knowledge economy”.

This industry can be broadly categorised in to hardware, software and services. Most governments view the IT sector as an important engine of economic growth, and many are taking measures to stimulate sector output as a means of accelerating economic growth. More important to long-term IT sector competitiveness, however, is sustained attention to the factors in the industry environment which enable IT firms to compete effectively. These include the quality of the local technology infrastructure, the availability and quality of IT talent, the innovation environment, the legal regime, and the overall business environment, as well as the government’s technology policy and initiatives.

6.1.1 Global IT Market

The global IT industry has matured over the years and has emerged to be a key contributor to global economic growth. The global IT sector has been on a gradual growth trajectory with a steady rise in spending over the past few years, bar the years of recent economic crisis. Global spending on IT is estimated to be USD 3.4 trillion in 2010, a 4.6% increase from 2009 where worldwide spending in comparison to 2008 was low due to the global economic crisis. While all sectors of the IT market are expected to expand this year, the IT services segment is expected to show the highest growth. IT spending growth in the Asia-Pacific region is expected to be higher than the global average at around 7%.

The US remains the world’s largest market in terms of IT spending and Canada and West European countries such as Finland, Sweden and the Netherlands are also prominent in the top tier, due to their robust IT infrastructure and strong support for technology research and development. In emerging markets, large pools of skilled IT employees remain a significant advantage for countries such as China, India and Russia, but uneven progress in other areas, such as IT infrastructure, remains as a challenge to sector competitiveness.

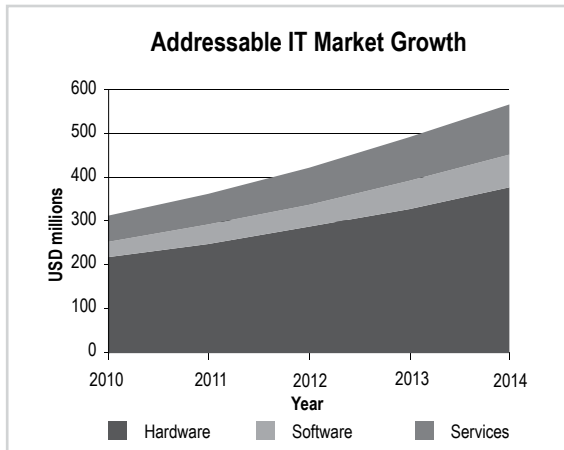
6.1.2 Sri Lankan IT Market

The addressable Sri Lankan IT market is estimated at USD 308 million in 2010 (research by Business Monitor International (BMI)), with the bulk comprising the hardware segment. While the market as a whole has been growing at a double-digit CAGR over the past few years, IT penetration still remains below 5% – showcasing considerable untapped potential. Computerisation has just begun in the Government service and major public and private sector organisations remain largely un-penetrated in terms of enterprise systems such as ERP (Enterprise Resource Planning) software.

The BMI report further states that Sri Lanka’s IT market has considerable latent potential but has been handicapped over the years by instability, due largely to the long-running civil war. This has affected the market in multiple ways, from disruption of regional and distribution channels to the negative effect on the economic and income growth and the underdevelopment of the country’s infrastructure. With the end of the civil strife, the market should reap the peace dividends and is expected to become attractive as amongst the best potential growth prospects in the region.

The report projects a CAGR of 16% for the addressable IT market, which would make Sri Lanka one of the fastest-growing markets in the region, particularly at a time when growth has deteriorated in the more established markets. This would see the country's addressable market grow to nearly USD 600 million – double today's size – in five years. See Figure 6-1 below.

Figure 6-1 : Sri Lanka Addressable IT Market Growth



Source: BMI Sri Lanka Information Technology Report

6.1.3 History of IT in Sri Lanka

IT use in Sri Lanka has had a long history. The Computer Society of Sri Lanka was inaugurated in 1976, showcasing Sri Lanka's early adoption of significant future technology. Sri Lanka has had internet connectivity since 1995, which has had a significant impact on the local IT industry.

The first internet e-mail service, LEARNmail, was inaugurated by the University of Moratuwa in April 1990. The connectivity to the internet was provided by Sri Lankan volunteers at the University of California, Purdue and Stanford.

The first internet service provider who actively offered services in the country was Lanka Internet Services Ltd, which commenced an online internet service on June 1995. Sri Lanka Telecom, Lanka Communication Services and Electrotec Network Services started their internet services in late 1995. Lanka Education and Research Network (LEARN) provided dedicated as well as dial-up services from early 1996.

The Sri Lankan national website was inaugurated in July 1996. This provides a central point of entry for information on the country – www.srilanka.lk

6.1.4 Regulation for IT

The Government of Sri Lanka first recognized the need for the development of IT through the National Computer Policy (COMPOL) of 1983. This first attempt was formulated by a committee appointed by the Natural Resources, Energy and Science Authority of Sri Lanka (NARESA). The acceptance of COMPOL by the Government gave rise to the establishment of the Computer and Information Technology Council of Sri Lanka (CINTEC and later termed the Council for Information Technology) which was established by Act of Parliament No. 10 of 1984. Appointments to the Council are made by the President.

The Information and Communication Technology Agency of Sri Lanka (ICTA) was established in July 2003 and pursuant to the Information and Communication Technology Act No. 27 of 2003, (ICT Act), ICTA was identified as the legal successor to CINTEC and became the apex information and communication technology institution of the Government, presently functioning under the purview of the Presidential Secretariat. Under the ICT Act, ICTA was empowered to formulate and implement strategies and programmes in both the Government and the private sector and subsequently prepare programs which are presently embodied in the "e-Sri Lanka Development Project".

The most relevant legislation for use of IT in Government and establishment of e-Government services is the Electronic Transactions Act No. 19 of 2006. The legislation was prepared with legal and policy inputs from ICTA and presented to Parliament on 7th March 2006 and brought into operation with effect from 1st October 2007.

The Electronic Transactions Act No.19 of 2006 is based on the standards established by United Nations Commission on International Trade Law (UNCITRAL), Model Law on Electronic Commerce (1996) and Model Law on Electronic Signatures (2001). The objectives of the Act are to facilitate domestic and international electronic commerce by eliminating legal barriers and establishing legal certainty and to encourage the use of reliable forms of electronic commerce.

As a follow-up to the enactment of the Electronic Transactions Act, Sri Lanka became one of the first three countries in the Asian Region (and first country in South Asia) to sign the United Nations Convention on the “Use of Electronic Communications in International Contracts (commonly known as the e-Contracting convention)”. The convention aims to enhance legal certainty and commercial predictability where electronic communications are used in relation to international contracts.

As regards the protection of intellectual property rights (IPR), the Intellectual Property Act No. 36 of 2003 replaced the Code of Intellectual Property Act No. 52 of 1979. The Intellectual Property Act of 2003 contains several new features in relation to the protection of software, trade secrets and integrated circuits.

6.1.5 Hardware

As per research conducted by BMI, Sri Lanka’s addressable computer hardware market is estimated at USD 214 million in 2010 and is projected to reach USD 371 million in 2014. At least 350,000 computers were sold in Sri Lanka in 2009, despite the economic slowdown. This annual sales figure could increase to over 650,000 by the end of 2014 with the growing demand for affordable computers and notebooks.

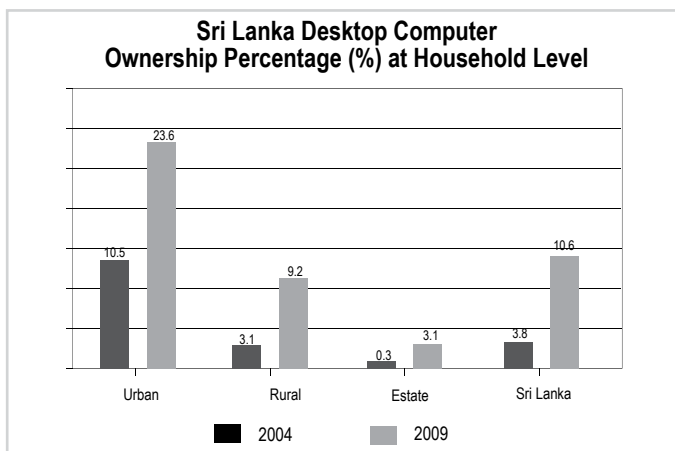
Sri Lanka’s IT market is expected to remain hardware dominated, with spending on hardware currently accounting for an estimated 71% of Sri Lanka’s IT spending last year. Also there is significant growth potential in hardware as the current computer penetration is below 5%.

The market however is quite competitive and is dominated by few players led by PCH. Additionally, the market for personal computers (inclusive of desktop and portable computers) which mainly consisted of unbranded units has seen a shift towards branded computers which are gaining increased prominence. The growth of branded units should encourage the market to grow due to increased reliability and better performance. The use of branded units should also bring with it the growth of ancillary technical support services which is a key component to the overall success of the industry.

The Computer Literacy Survey conducted by the Department of Census and Statistics in 2009 reports that Sri Lanka’s computer literacy stood at 20.3%, increasing from 16.1% reported in 2006/07. For the above analysis, a person is considered to be in “computer awareness” if that person has heard at least one use or application of a computer, whilst a person is considered as “computer literate” if he can use a computer on his own.

Similarly, ownership of desktop computers at the household level has increased from just 3.8% in 2004 to 10.6% in 2009 at a CAGR of 22.8%.

Figure 6-2 : Sri Lanka Desktop Computer Ownership Percentage (%) at Household Level



Source: Sri Lanka Computer Literacy Survey 2009

Sri Lanka suffers from a very low level of internet penetration – a key driver of demand for hardware globally. Internet penetration was estimated at just 5.8% at the end of 2008 with broadband penetration at 0.9% according to BMI estimates. This situation has been identified by the Government as a major barrier to future social and economic development. With the limitations expected to be addressed positively, the progress is anticipated in the future, with internet penetration reaching 26%, and broadband penetration to 13% by 2014. In recent years the Government has announced broadband infrastructure rollout plans and also encouraged the deployment of technologies such as WiMAX and Wi-Fi. However, adoption remains limited.

6.1.6 Software

Sri Lankan spending on software remains rather low, with the addressable market estimated at USD 37 million in 2010. The estimated 11% share of the total IT spend, accounted for by software, reflects the relative immaturity of Sri Lanka’s IT market. However, the domestic software market is expected to grow at a CAGR of around 18% until 2014 according to the BMI research report.

The core business software demand is for basic applications such as e-mail, word processing and other office suite applications (e.g. Microsoft Office) and ERP solutions mainly for the corporates. One significant market constraint is the high level of software piracy, with nine out of ten software packages in use thought to be unlicensed. However, this is now being addressed by making use of the provisions of the Intellectual Property Act following the entry of first party software vendors to the Sri Lankan market to support their local agents and partners. Microsoft Sri Lanka was one such entrant in 2004, following the signing of an MOU with the Government of Sri Lanka (GoSL).

Most software in Sri Lanka is currently sold through local companies with support services provided by the original software developer. The local market has similar characteristics to that of the hardware market indicated above.

6.1.7 IT Services

According to the BMI research, the addressable market for IT services is estimated at around USD 57 million in 2010; accounting for about 17% of Sri Lanka’s total spending on IT. A CAGR of 19% is projected through to 2014. Currently, the market is dominated by the demand from Government, finance and telecom sectors, which account for at least half of the total spending on IT related services.

The provision of IT services is still typically built around hardware sales, with a growing base of installed hardware and software systems being the foundation for an expansion of services provision. The consulting element is expected to become more significant over the short to medium term. A healthy economy reaping the peace dividends will have a positive impact in certain verticals tied to infrastructure development.

6.1.8 Government Policy/Initiatives for IT

“To adopt ICT in all its aspects to make government more efficient and effective, improve access to government services, and create a more citizen centric government”

ICTA e-Government Policy

The Sri Lankan Government's e-Sri Lanka strategy outlines the country's vision for information society development and forms the basis for initiatives related to ICT development. A key measure was the establishment of ICTA (Sri Lanka's Information and Communication Technology Association) as mentioned earlier, which has led ICT projects on various fronts.

The “e-Sri Lanka Development Project”, formulated during the period 2002-2005, is aimed at taking the dividends of information and communication technology to all segments of the country to aid its socio-economic development. Through the implementation of this multi-donor funded project an enabling environment is being created, where the Government works in partnership with stakeholders to create the necessary infrastructure, and establish e-Government services.

The Government under its e-Sri Lanka ICT policy initiative has published a set of policies and procedures for the Government sector in using ICT to achieve overall development within organizations and in delivery of Government services. These include policies to improve the efficiency and effectiveness of Government organisations and to improve the ease and accessibility of information and services to citizens.

With year 2009 declared the ‘Year of English and Information Technology’ the Government has already executed a series of activities aimed at improving the country's standards of English and IT literacy amongst the general public, with the long-term objective of providing necessary skills to meet future demands. The key focus of this initiative which actually began in 2008 and will run till 2011 is to make the general public aware of the opportunities and the capabilities of the ICT sector, increasing their IT literacy rate and ultimately put in place a plan to ensure Sri Lanka has sufficient ICT resources to take the country to the next level on ICT led development. ICTA in pursuit of these objectives hopes to achieve 60%-70% of IT literacy within the next few years.

ICTA has been looking to launch several e-Government projects and will join hands with the Telecommunication Regulatory Commission of Sri Lanka (TRCSL) in implementing a nationwide broadband backbone. This will boost the accessibility to public networks like internet and will hopefully reduce the cost involved in establishing and maintaining the broadband connections for the general public.

The “Nena Sala” Project is one of the projects implemented under the e-Sri Lanka Initiative. Formally known as the “Vishva Gnana Kendra Project”, ICTA has incorporated it under the “Nena Sala” label to introduce several models of the telecentres or knowledge centres to be established in all parts of Sri Lanka to spread ICT services to the rural and semi-urban population.

The Project will aim to meet the infrastructure requirements in order to address the information and communication needs of rural areas in all parts of the country through the establishment of “Nena Salas”, and the provision of ICT based services. The key objective of this programme is to establish multi-service community information centres which provide access to internet, e-mail, telephones, fax, photocopy, computer training classes and other ICT services as well as act as a hub of information resources. There will be an initiative to start implementing four hundred more “Nena Salas” in the country this year in addition to the six hundred already established.

Government infrastructure projects like Lanka Government Network (LGN) which connects the Government institutions like Ministries, Departments, Provincial Councils, District and Divisional Secretariats will also see phase 2 of the project being implemented. This will allow these organizations to interchange information and provide a platform to offer citizen services accurately, efficiently and quickly. This network will enable services like Voice over IP (VoIP) between Government bodies which will significantly minimize the cost of communication between them. LGN will also be the infrastructure backbone that all automated e-Government services will use. The first phase of this project is already completed and there are 325 institutions successfully connected using LGN. There will be another 150 to 200 connected during the second phase of the project. Apart from that, LGN also has the capacity to increase the bandwidth to facilitate video conferencing between Government institutions if the need arises.

The other major infrastructure related project is the Lanka Gate. This will act as the country portal which will allow the citizens of the country to gain access to e-Services using a single sign-on feature, and will also allow them to make payments to Governments and use any other services of the Government which are automated. Another part of Lanka Gate is the Lanka Interoperability Exchange (LIX) which follows open standards and open protocols, and will allow the plugging in of e-Government as well as non Government e-Services in order to access them seamlessly.

If the evidence from other Asian nations is reliable, the proactive involvement undertaken by the Government in this sector will be the main driver of growth which would then attract the investments of both the private sector as well as foreign investors.

6.1.9 Future Prospects in IT

Most of the key economically effective environments are increasingly IT dominant and therefore, investing on IT developments in the 21st century has become a compulsory requirement for a country to survive.

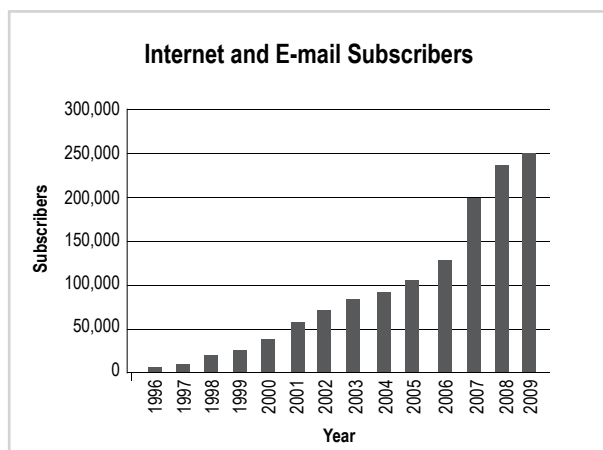
Research and development facilities and “troubleshooting” expertise for the IT industry are available locally at places like the Arthur C. Clarke Centre for Modern Technologies. Moreover, apart from the national universities, the Sri Lanka Institute of Information Technology (SLIIT) located at Malabe, the Asia Pacific Institute of Information Technology (APIIT), National Institute of Information Technology (NIIT), National Institute of Business Management (NIBM), IDM and other private institutions produce a wealth of professionals every year. The Government has actively encouraged the spread of computer literacy by providing duty concessions on all hardware imports. Therefore, it is quite apparent that investments in IT oriented local companies may be fertile in the future.

With the prolonged civil disturbance brought to a halt, this year is meant to be the year for expansion and development and towards this end there is sufficient backing by Government agencies like ICTA, which wish to see the IT industry grow strongly going ahead.

Post war era has presented a new business environment for the industry with declining interest rates, lower inflation and an expansion of the country’s middle income group. Given that the Government expects per capita GDP to double to over USD 4,000 by 2014, the prospects for consumer spending on white goods including electronics/computers are significant. These factors that point toward significant upside and also, as computers begin to change the perception that they are luxury goods and are taken seriously as tools of education, the demand for computers should grow strongly coupled with the rise in income levels.

Further the acceleration in rural IT penetration, growing preference among consumers for branded PCs and strong demand for internet and broadband connectivity as depicted in Figure 6-3 have also lead to a surge in demand for notebooks and other network connected IT devices.

Figure 6-3 : Internet and E-mail Subscribers



Source: Telecommunications Regulatory Commission of Sri Lanka

Based on the factors discussed above, it is believed that these would enable corporates as well as Small and Medium Enterprises (SME) and individuals to invest and expand into IT related activities thus creating an opportunity for business enterprises offering IT related services to capitalise on.

6.2 The Outsourcing Industry in Sri Lanka

6.2.1 Overview of BPO/KPO

Outsourcing is the contracting out of an organisation's operations and responsibilities to a third party through an agreement for the exchange of services for payments. Given the extensive need to utilise components of information and communication technology in providing outsourced services, this sector is also at times described as Information Technology Enabled Services or ITES. As opposed to the manufacturing industry where products are physically visible, the raw materials in the ITES industry are data, information and knowledge. This industry is often referred to as a knowledge-based industry; as such, the products and services provided are less tangible.

BPO or Business Process Outsourcing is a form of outsourcing that involves the outsourcing of specific business functions or processes to a third party service provider. Functions that are considered "non-core" to the primary business strategy of a business entity, such as information technology, finance and accounting, human resources, call centre, customer relationship management and procurement services are commonly outsourced.

Business process outsourcing is undertaken with the hope of providing cost savings and greater efficiencies via the use of shared resources. The outsourcing of ancillary services also enables a company to focus on its core business functions and improve their levels of service. Certain industries such as financial services also consider outsourcing their functions due to their vertical-specific requirements such as mortgage and investment research services which require a highly specialised set of skills.

Touted as the next frontier in the outsourcing industry, Knowledge Process Outsourcing or KPO could outpace business process outsourcing. While BPOs draw upon the process expertise of the vendor, KPOs utilise specialised knowledge skills. KPO firms carry out high value knowledge or information related work through skilled staff.

Often, outsourcing enables a company to transform a fixed cost into a variable cost that can be very valuable during times of economic uncertainty. Many service providers have sizable operations within the regions of their larger clients.

Many outsourced functions are delivered via "offshore" delivery models. Offshoring utilises staff located in lower-cost regions of the world. Advances in telecommunications and computing technologies, coupled with the availability of skilled workers and favourable tax considerations, often lead companies to globalise the performance of back-office functions that lend themselves to remote delivery. This tendency increased over recent years as the difference in wages for like-skilled staff, called labour arbitrage, was considerable.

Many companies combine outsourcing and offshoring but many others use offshore resources without going through an outsourcing path. In these cases, companies built their own offshore operations, often called captives, to expand the universe of employees that perform functions more cost effectively. In a similar way, many companies contract with service providers to augment existing staff by offshoring via a staff augmentation contract with service providers to gain access to a lower-cost supply of skilled labour.

The industry has been substantially enabled by advancements in global ICT, and corporations' eagerness to find service providers at lower costs. Opportunities for outsourced services exist throughout a company's business operations, also known as the "value chain" as follows;

Table 6-1 : Opportunities for Outsourced Services

Process	Potential Outsourced Service
Product Development	Market research, data gathering Data mining and analysis Engineering design
Production, Service Delivery	Pre-production; layout and graphic design Data conversion Publishing Records and transcriptions
Distribution, Sales and Marketing	Logistics, inventory tracking Sales support Content, web development Outbound marketing, e.g. telemarketing
Customer Service	Customer care, e.g. call centers Insurance claims Technical support E-mail help
Finance, Accounting and Legal Administration	Data capture, conversion, processing Billing, payables, general ledger Record keeping Transcriptions
Human Resources Administration	Data, forms handling and capture Training, including remote education Payroll processing Employee benefits services

Depending on the requirements/resources, companies may decide to outsource all or a portion of its operations within the value chain.

6.2.2 Global BPO/KPO Market

There are varying estimates to the size of the global outsourcing industry. However, recent research by XMG Global, an international research company estimates the global market to be worth USD 373 billion and was expected to grow at 14.4% by the end of 2009.

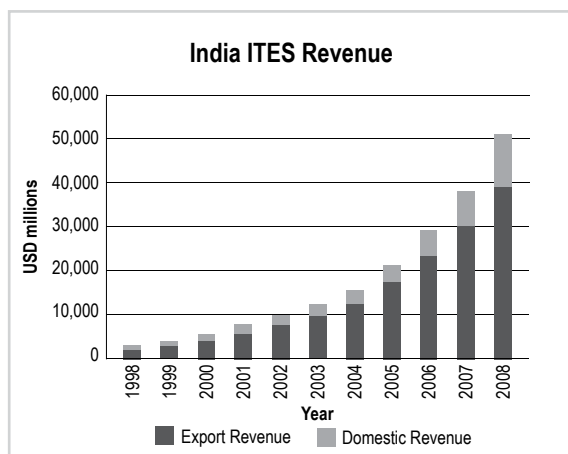
India is the largest provider of offshore services without much competition and is expected to account for nearly half of the total revenue. Varying reports estimate either the Philippines or China to be a distant second. On the other side of the equation, North American companies account for around 70% of offshore outsourcing spending.

Most of the leading business companies of the world are adopting BPO/KPO as a strategic business solution. A major global trend as of late has been the move away from captive centres (which are owned and run by the parent company) toward more outsourcing providers as many captive centres failed to contain costs effectively. While cost remains a major factor in decisions about where to outsource, the quality of the labour pool is gaining importance. With this in mind most of the Governments around the world are investing in the human capital demanded by the off-shoring industry.

Like all other sectors, the global outsourcing industry has been hit by the economic crisis with the value of new off-shoring deals declining worldwide. Compensation amongst outsourcing providers has been frozen with attrition rates dropping – signs that the industry is slowing down. A major factor driving this decline is the prominence of the financial services industry in off-shoring. However, industry research has indicated that this is not the long term trend as offshore operations have become an integral part of the supply chains for most companies globally.

India has become synonymous with the global BPO/KPO industry with its companies Tata Consultancy Services, Wipro and Infosys dominating the market. The growth and composition of revenue is indicated below (Figure 6 4).

Figure 6-4 : India ITES Revenue



Source: National Association of Software and Services Companies – India

Recent research by KPMG has forecasted that Indian ITES revenue will experience double digit growth up to 2020 and would reach above USD 250 billion. However, while the outsourcing industry is expected to continue to grow in India, its market share of the offshore piece is expected to decline. The contribution from Sri Lanka and other regional countries such as Pakistan and Bangladesh is expected to grow significantly in the next few years.

Globally, the total demand for outsourcing services is expected to grow at 4.9% while demand from the Asia-Oceania region is expected to grow faster at 7%. On the supply side as well, Asia-Oceania is expected to control 74% of the market by 2020.

6.2.3 Sri Lankan BPO/KPO Market

Sri Lanka has been increasingly recognised as an attractive outsourcing destination since 2005 when HSBC established its captive call centre. In 2007, AT Kearney’s Global Services Location Index highlighted Sri Lanka amongst the top 50 outsourcing destination. Sri Lanka has since moved up 13 places to 16th. Colombo is also ranked amongst the Top 20 Emerging Cities by Global Services Magazine.

At last count (EDB Export Value Survey 2008) there were around 41 BPO/KPO companies that were operating in Sri Lanka, mostly small and medium companies and few large global players. Among the several leading global BPO/KPO companies operating in Sri Lanka were HSBC UK banking centre, WNS UK legal services centre, Aviva Finance & Accounting Centre, Microsoft, Motorola, Industrial & Financial Systems (IFS), Amba Research, RR Donnelley, Quattro Accounting Process Outsourcing Centre, Virtusa PEGA & Testing Competency Centres, eCollege, Valista, Millennium Information Technology and Innodata Isogen.

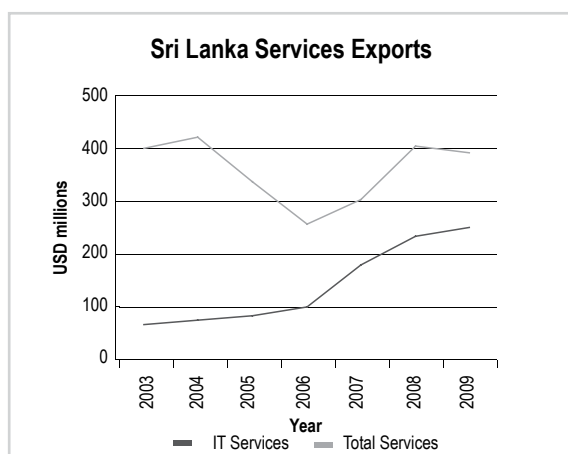
Most service providers in Sri Lanka began exporting services within six months of beginning operations. The industry is still at its initial stage with the above mentioned large companies driving the sector in terms of investment, employment and export revenue.

As of the EDB Export Value Survey 2008 report, around 72% of services provided consisted of the non-voice services rather than the basic high volume, low-margin voice services. Majority of the companies are incorporated with BOI approval and hence enjoy Government incentives including tax holidays, concessionary tax rates and duty free import facilities.

The total workforce was around 5,450 employees in 2007, with recent estimates suggesting that it has grown to 11,200. It is estimated to be growing at over 20% year-on-year and the workforce is stable with very low attrition rates ranging from 10-15%. The workforce is considered to be highly efficient due to revenue being directly linked to the number of billable seats or employees working. The average floor space per company is around 18,000 sq. ft. – the larger the space more the billable seats a company would be able to accommodate. Average revenue per company was around USD 1.7 million in 2008 and revenue per billable employee around USD 10,600 per annum – higher than the Indian average.

Main services currently provided in Sri Lanka include back office data processing and administrative work, voice related outsourcing, medical data transcription, insurance claims processing, business integration, accounting and tax services, legal data base processing and e-commerce services. Legal services outsourcing is gaining increased prominence. A recent PricewaterhouseCoopers survey has highlighted the fact that Sri Lanka and the Philippines together provide up to 20% of the total outsourced legal services worldwide.

Figure 6-5 : Sri Lanka Services Exports



Source: Central Bank of Sri Lanka Annual Reports

Total IT services exports have been growing at a CAGR of 31% over the past 5 years and currently comprise a significant proportion of the country’s service exports (see Figure 6-5 above). In 2006 and 2007 outsourcing services comprised approximately 27-29% of total IT services exports. Accordingly, it can be estimated that outsourcing service exports currently account for over USD 65 million.

6.2.4 Future Outlook for BPO/KPO Business

The GoSL has identified the ITES sector as a priority growth sector for economic development and provides many incentives to promote investments. The support from the Government has intensified following the President’s support in the Mahinda Chintana Idiri Dekma to promote the country as a knowledge hub. Concurrently, the country is emerging as a favourite offshore outsourcing destination for specialised outsourced services. The combined IT and ITES sector has grown remarkably by around 31% to USD 245 million in 2009 from USD 175 million in 2007.

Along with the support from the Government, Sri Lanka is well poised within the top 50 global outsourcing destinations with tremendous market potential. The 30-year-old civil war has ended, and there are many locations for IT and ITES investment here. There are successful partnerships emerging between the public and private sectors which present a united message. The emerging ITES business has already been defining itself in Sri Lanka. Sri Lankan ITES are expanding as employees work with insurance claims, desktop publishing, remote management of IT networks; compiling audits, completing tax returns and medical transcriptions.

Sri Lanka boasts high levels of education with one of the highest literacy rates in South Asia (91%). English is widely spoken in the country and is the main language used by the business community. In addition, Sri Lanka also has low labour cost per worker. The growing ITES industry in Sri Lanka offers a unique advantage for small and medium enterprises to enjoy premium access to a high quality talent pool, which is becoming increasingly challenging in large established destinations such as India

and China. Thus the country is comparatively cost competitive and has lower upward wage pressure than these established outsourcing destinations. Given the declining telecommunication costs globally, the environment is also highly conducive for establishing high-in-demand niche competency centres out of competition for even larger global services companies.

Further the location of Sri Lanka in terms of time-differences allows it to cater to the European, Australian and the American markets. All these factors place Sri Lanka in a prime position to establish itself as one of the top outsourcing destinations.

Although, the top markets for Sri Lanka's software and ITES exports are Europe and North America, the potential exists to expand the market share in the African and Middle Eastern regions. Overall, the Competitive operational costs, enhanced IT infrastructure facilities, availability of skilled workforce, price competitiveness, fiscal incentives and the delivery of quality services are required to facilitate the sustenance of the industry growth trend amidst the global financial turmoil.

Companies being established locally are interested in introducing high-end financial research, analysis and development work into ITES industry, moving up the value chain in terms of outsourced services and thus enabling the country to remain competitive globally. Among the focused verticals, the financial & accounting services sector has shown notable growth. Sri Lanka now has the world's largest pool of UK qualified English speaking accounting professionals outside the UK itself through CIMA. Many global companies have chosen to set up their services in Sri Lanka in order to have access to a high skilled workforce at competitive operational costs. Other verticals being focused upon are telecommunications, banking financial services and insurance, investment research, engineering services and UK based legal services.

Further, the nation is in an ideal geographical position to act as a backup or secondary option to Indian outsourcing services. Mphasis – India's fastest growing BPO company setting up its operations recently in Sri Lanka, highlights the island nation's potential as a BPO/KPO destination. BOI support has been crucial as they have identified the knowledge based outsourcing sector as a prime growth area for Sri Lanka and are promoting it as such hoping to complement and benefit from the explosive growth of this sector in India.

Sri Lanka's competitiveness and potential in the outsourcing services market can be summarised as follows;

Table 6-2 : Sri Lanka's Competitiveness in the Outsourcing Services Market

Basic Requirements	Positive Factors
<ul style="list-style-type: none"> • Established ICT infrastructure <ul style="list-style-type: none"> - Specifically, enabled connectivity with the international customer 	<ul style="list-style-type: none"> • Low or declining ICT infrastructure costs, e.g. telecommunications costs, consistent with the regional or world market • Reliability, e.g. high to 100% uptime of telecommunications, power supply • Varied choices for connectivity • Fast service delivery from providers • Supporting infrastructure, e.g. transportation, housing complexes, tourist facilities
<ul style="list-style-type: none"> • Supply of workers <ul style="list-style-type: none"> - Low labour costs - Relevant skills - Training aptitude 	<ul style="list-style-type: none"> • Availability and continuity of supply • Subject matter expertise already in place, to reduce training time and costs • Language proficiency in host company's language • Similarity or familiarity with host company's business practices and/or customer expectations • Visible educational support, to ensure supply of workers • Benchmarked competency or proficiency levels, e.g. certifications or international exams and competitions

-
- Business environment conducive to international customers
 - Stable country risk conditions (peace and order, political environment)
 - For higher end IT and ITES – intellectual property rights protection
 - Reasonable or competitive costs and ease of doing business
 - Tax incentives for local suppliers of ITES
 - Foreign investment privileges
 - Intellectual property rights protection; anti-piracy laws and enforcement
 - Presence of successful foreign enterprises and business partnerships
 - Transparency; low level of corruption
 - Minimal “red tape” and bureaucracy
 - Open market policies by the Government, visibly being practiced
 - Favourable living conditions for expatriate staff; hospitality for visiting business partners
 - Legal and regulatory framework with processes that do not pose undue risk for foreign investors
-

All in all, it is believed that Sri Lanka as a country would be able to force ahead and demonstrate its superior skills and quality to attract and retain BPO/KPO operations on a long term basis.

6.3 Internet Data Centres

6.3.1 Overview of IDC

A data centre is a centralized repository, for the storage and management of data and information relating to a particular business. It is a computer system's most important and vulnerable component. At its most basic, a data centre is a physical place that houses a computer network's most critical systems, including backup power supplies, air conditioning, and security applications. A private data centre may exist within an organisation's facilities or be maintained as a specialised external facility called an Internet Data Centre (IDC). A third party provider could simply offer up this space and power, or run high margin services utilising their own hardware and software in their own centre. A user could use the data centre to run their own servers, IT applications, online services and disaster recovery (emergency backup).

Data centres contain information critical to the continued operation of a particular business. Hence, data centres have strong security measures and systems of climate control that keep the data centre's computer systems from malfunctioning. They generally also contain backup computers or mirror drives that protect against data loss which are powered not only through the mains but also by battery power. This ensures that they function despite any disruption to the grid connected electricity supply. An IDC provides enhanced security and protection by maintaining the requisite data and information at an off-site location.

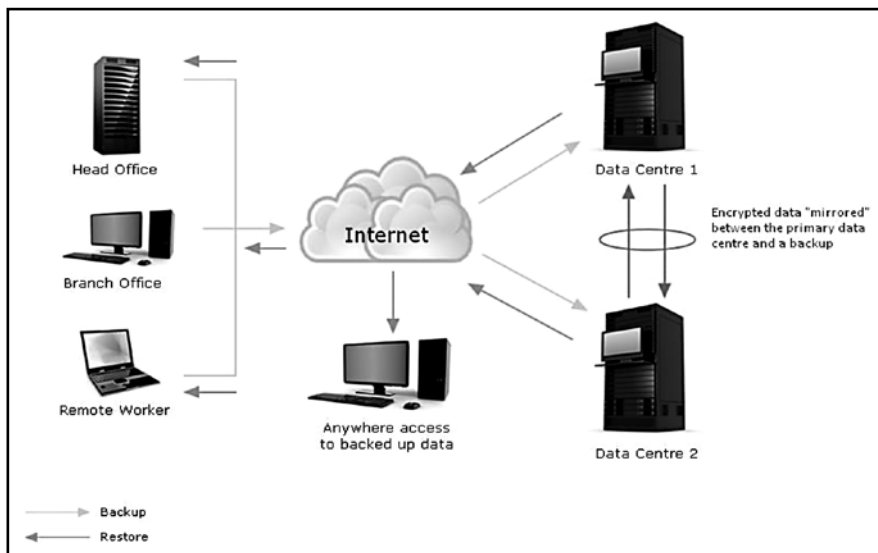
Data centres can commonly be found in Government institutions, companies with multiple offices, providers of electronic services such as television, mobile phones, etc. and increasingly regular business entities carrying out day-to-day activities. A data centre can also be a single computer, storing and accessing one company's or individuals critical data. Smaller data centres usually have less complicated forms of data protection. No matter the size, all data centres serve the same function: to compile and protect the data of a person or corporate.

Depending on the organisation's business requirement, it can be in the simplest form – a tier 1 data centre, which is basically a computer room following basic guidelines for the installation of computer systems or it can be a tier 4 data centre which is designed to host mission critical computer systems with fully redundant subsystems and compartmentalised security zones controlled by biometric access control methods.

IDCs are implemented to enable corporates to improve efficiency and increase IT budget flexibility, while mitigating risks and maximising return on investment from existing IT skills and assets.

A typical diagram of an IDC operation is depicted in the chart below.

Figure 6-6 : Internet Data Centre Diagram



6.3.2 Data Centre Classification

Data centres are broadly classified into four tiers based on the infrastructure utilised and the level of accessibility of data.

Tier 1

Single non-redundant distribution path serving the IT equipment
 Non-redundant capacity components
 Basic site infrastructure guaranteeing 99.671% availability

Tier 2

Fulfills all Tier 1 requirements
 Redundant site infrastructure capacity components guaranteeing 99.741% availability

Tier 3

Fulfills all Tier 2 requirements
 Multiple independent distribution paths serving the IT equipment
 All IT equipment must be dual-powered and fully compatible with the topology of a site's architecture
 Concurrently maintainable site infrastructure guaranteeing 99.982% availability

Tier 4

Fulfills all Tier 3 requirements
 All cooling equipment is independently dual-powered, including chillers and heating, ventilating and air conditioning (HVAC) systems
 Fault tolerant site infrastructure with electrical power storage and distribution facilities guaranteeing 99.995% availability

6.3.3 International IDC Market

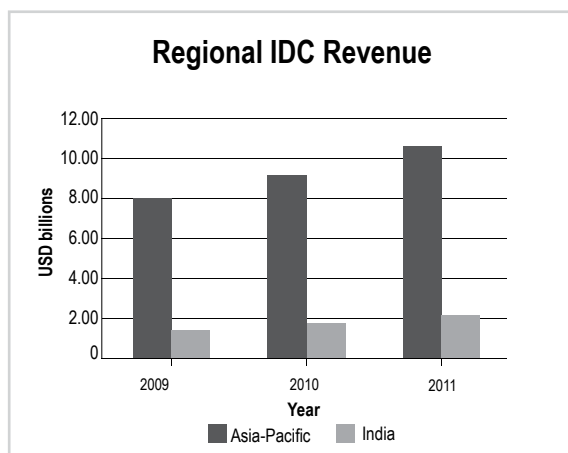
The boom of data centres occurred during the rapid expansion of technology companies globally, mainly around the late nineties. Companies needed fast internet connectivity and nonstop operation to deploy systems and establish a presence on the internet. Installing such equipment was not viable for many smaller companies. Many companies started building very large IDC facilities which provide numerous businesses with a range of solutions for systems deployment and operation. New technologies and practices were developed to handle the scale and the operational requirements of such large-scale operations. These practices eventually migrated toward third-party IDCs, which have gained mainstream acceptance due to their practicality.

Revenues for IDCs in the larger Asia-Pacific market are currently estimated at around USD 8 billion which is expected to reach USD 10.7 billion by 2011 – growing at a CAGR of 14.6%. The leading Asia-Pacific data centre hubs are Japan, Australia, Singapore and Hong Kong with Japan alone accounting for 71% of the region's revenues. Growth in this region has been fuelled by strong domestic demand led by each respective government's e-governance and e-readiness initiatives. The major sources of revenues have been internet, media, telecom and IT companies. Most of the major data centres in the Asia-Pacific region are estimated to be running at close to 90% of their total capacity with supply sluggish to catch up due to high real-estate costs.

The Indian data centre market is currently estimated to be USD 1.4 billion and is forecast to grow at 22.7% over two years to reach revenues of USD 2.1 billion in 2011. Currently, third-party data centres account for 18% of total revenues from data centres in India and this is expected to increase to 22% of total revenues. Hence, third-party data centre growth is expected to outpace captive or in-house data centre growth in India, reflecting the overall global trend. Key industries which contribute to data centre revenues in India are manufacturing, banking, financial services, insurance and IT and ITES.

The comparison of revenue between Asia-Pacific market and the Indian market can be seen below in Figure 6-7.

Figure 6-7 : Regional IDC Revenue



Source: Frost & Sullivan Data Centre Report

6.3.4 Sri Lankan IDC Market

IDCs have not gained mainstream usage in Sri Lanka as of yet and are still at the initial stage. The first entrant to the local market was Sri Lanka Telecom PLC in 2003, and the other current significant market participants are Suntel Limited and Dialog Telekom PLC.

With the increased investment in information technology as discussed earlier, it is estimated that there is significant potential for the provision of IDC services locally and later to neighbouring countries. As with other regional markets, domestic demand growth is expected to be initially sparked by Government spending through the computerisation of Government departments and national IT policy initiatives adopted by the Government. Subsequently, the demand for IDC services is expected to be fuelled by demand from telecommunications, banking, financial services, insurance, manufacturing, diversified holdings and small and medium enterprises looking to outsource their growing data centre requirements.

If the global IDC market can be taken to be a reliable indicator, local demand for IDC services should enter a rapid growth stage soon. Given the limited number of facilities available and the large potential customer base, the IDC market in Sri Lanka may witness a high growth stage and may extend an opportunity for potential new entrants sensitive to the needs of the local market to thrive.

6.3.5 Future Outlook for IDC Operations

The future outlook for the IDC space in Sri Lanka looks quite promising. Discussed below are some of the factors that may have an impact on the IDC market as a whole.

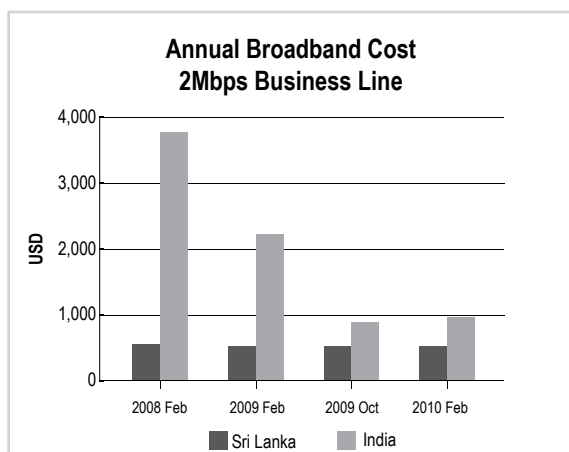
- It is estimated that as much as two-fifths of a company's total energy consumption is spent on powering data centres. Also, data centres require substantial capital expenditure due to the rapidly evolving nature of technology and the constant need to stay up-to-date. Further, renting or acquisition of real estate or property could be another aspect of other significant costs involved in setting up the company's own data centres. Due to the requirement of a high level of resources, maintaining captive data centres may be quite expensive and not viable for most of the business establishments. These costs however, may be avoided or minimized by hosting in a third party data centre or IDC. An industry rule of thumb would suggest that it makes financial and economic sense for companies to outsource their data centre operations for requirements below 500 "racks" (a rack is the standard size for a frame to mount an equipment module required for IDC services).
- Companies in the past were concerned about outsourcing their data centres because of perceived issues of security, availability, accountability and intellectual property rights. The advent of focused Tier IV and Tier III data centres, which aim to address the key concerns of end-users, has helped shift these misconceptions regarding IDCs and has contributed to the outsourcing of data centres by companies in various different industries.
- Third-party IDC services have also become more attractive due to the unfavourable economic conditions caused by the global credit crunch. Outsourcing their IDC requirements would enable companies to adopt the latest technologies at an affordable price. Further, in tough economic times, third party IDC services enabled corporates to push capital expenditures to operating expenditures and upfront costs to annual rental costs. Large enterprises are also driving the demand for third-party IDC services due to the need for disaster recovery services.
- One of the main concerns in having its own data centres within companies is the potential environmental and technical obsolescence. A company may have to keep on investing in new technology to maintain a high level of quality and to avoid any obsolescence in its data centres. In the case of third party data centres there may be increased flexibility in the usage of technology and have the economies of scale to mitigate any changes.

In addition to the above, the following factors could be considered as positive towards the establishment and sustainability of the IDC market in Sri Lanka.

- As Sri Lankan companies begin to grow, they will require third party IDC services. Also services provided will move up the value chain from simple co-hosting to managed services to advanced outsourced solutions. Given the growing primacy of the internet as a vehicle for service delivery and the lowering of internet bandwidth costs, hosting in Sri Lanka is expected to become more competitive. And with talks of technologies like "cloud computing" and "grid computing" gaining prominence, it is believed that the growth of IDCs is a phenomenon that would be established in Sri Lanka in the long term. Furthermore, the growth and emergence of e-commerce transactions will also help drive demand for IDCs.
- Sri Lanka has eight telecom operators and is connected to the outside world with three international submarine cables providing ample redundancy. Broadband, leased-line and satellite connectivity are widely available. Sri Lanka is amongst the first South Asian countries to establish a 3G network. The Telecom Regulatory Commission also provides special access facilities to IT and BPO/KPO companies enabling easy import of equipment and commissioning of international connectivity.
- As mentioned earlier, Sri Lanka has been successful in attracting BPO/KPO and outsourcing investment into the country. Many of the benefits and advantages that Sri Lanka offers to the outsourcing industry are also available to the data centre marketplace. The improving telecommunication infrastructure, active government support, fiscal incentives through BOI and the ability to offer specific sites with excellent credentials and service delivery add to the lure of Sri Lanka.

- Research firm Frost & Sullivan predict that the Sri Lankan market for third-party IDCs will grow at a CAGR of 18%. Also, they foresee the entry into the market of a number of Indian companies lured by the demand from the local market and comparative cost-savings (see Figure 6-8 below which highlights the annual internet costs of a fixed bandwidth line between India and Sri Lanka).

Figure 6-8 : Annual Broadband Cost



Source: LIRNEasia

- Sri Lanka also has the potential to tap the regional IDC market given the space constraints and rising real estate costs experienced in the Asia-Pacific region. Sri Lanka is also highlighted as a potential disaster recovery site for South Asian markets. Disaster recovery is the process, policies and procedures related to preparing for recovery or continuation of technology infrastructure critical to an organisation after a natural or human-induced disaster. Historically, large corporations have had an unused site on hand ready to fulfill such a requirement, but particularly cost has required them to look at other solutions. This has ranged from mirrored sites which as well as being used as a mainstream data centre, can replicate the work of the first site. This has encouraged the growth of specialist IDCs for disaster recovery services. Sri Lanka has the potential to tap into this.
- The research further highlights Sri Lanka's key strengths in managed network services, with a strong interest in application services like messaging, collaboration and customer relationship management in the data centre management and desktop management space. Disaster recovery and managed hosting services are highlighted as two key growth sectors in third-party IDC services.

6.4 Sources used in compiling the industry studies

- BMI Sri Lanka Information Technology Report 2010
- Sri Lanka Computer Literacy Survey 2009
- Information and Communication Technology Agency
- International Telecommunication Union Statistics
- Board of Investment of Sri Lanka – Outsource Destination Sri Lanka
- Telecommunication and Regulatory Commission of Sri Lanka Statistics
- AT Kearney Global Services Location Index 2009
- KPMG Research
- Export Development Board Export Value Survey of the Sri Lankan IT/ITES Industry
- Central Bank of Sri Lanka Annual Reports
- Frost & Sullivan Data Centre Research
- IDC India Research
- LIRNEasia Broadband Cost Survey
- National Association of Software and Services Companies (India) Statistics

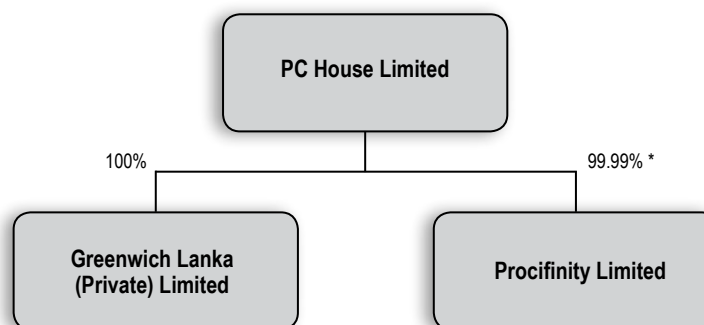
7.0 BUSINESS OPERATIONS OF PCH GROUP

7.1 PCH Group

PCH Group is a renowned player in the ICT industry of Sri Lanka. The holding company, PCH, is in the business of providing computer hardware and software solutions while its wholly owned subsidiary Greenwich Lanka (Private) Limited (GLPL) is engaged in system integration and providing IT solutions. The other subsidiary, Procifinity Limited, was incorporated recently to carry out Business Process Outsourcing, Knowledge Process Outsourcing and Internet Data Centre activities. As per the Section 5.5 of this Prospectus, the required investments for the abovementioned operations of Procifinity Limited would be financed through the proceeds of the IPO.

The structure of PCH Group is depicted in Figure 7-1 below.

Figure 7-1 : PCH Group Structure



* PCH will hold 99.99% of the shares of Procifinity Limited subsequent to the infusion of capital through the proceeds of the IPO as disclosed in Section 5.5. At present, PCH holds nine (09) Ordinary Shares out of the ten (10) Ordinary Shares issued by Procifinity Limited with one nominal share being held by Mr. S.H.M. Rishan

7.2 PC House Limited

7.2.1 Overview

PCH is one of the leading ICT providers in Sri Lanka. The Company traces its roots back to 1997, when its visionary founder Mr. S.H.M Rishan established the Company with the objective of bringing IT closer to homes and more affordable to the Sri Lankan community. Since then it has grown to a significant level with innovative business perspective providing services to a broader ICT market.

At present, the Company has nearly thirteen years of experience in the ICT industry, possessing a portfolio of products and services including computers and accessories, office automation equipment, audio visual equipment, printing solutions, network and communication devices and software solutions. PCH in its pursuit of excellence in delivering best quality products and services to local consumers has entered into various strategic partnerships and alliances with globally renowned ICT companies. PCH has been functioning as the business partner for delivering ICT products of reputed international brands such as Dell, Samsung, Microsoft, Intel, BitDefender, Gigabyte, Power Tree, G&D, Optoma, Kyocera, etc. to the Sri Lankan IT market. Moreover, extensive product portfolio with a strong local presence has enabled the Company to be rewarded with a growing customer base. PCH is one of the very few ICT providers, that has established fully fledged sales outlets throughout the country, which has made the Company a preferred ICT product and service provider for most of the retail and regional customers across Sri Lanka. Going beyond its existing business, PCH has entered into IT infrastructure, system integration and business application solutions via its subsidiary GLPL. Further, the PCH Group has ventured into the more lucrative ICT services segments of BPO and KPO.

In addition to the outsourcing business, the Company intends to make a foray into the IDC market, with a whole range of IDC services for corporates in industries such as banking, financial services, insurance and telecommunications. PCH has already incorporated a separate company, Procifinity Limited, to explore the opportunities in BPO/KPO and IDC Services.

BUSINESS OPERATIONS OF PCH GROUP

PCH Group's vision and mission statements are as follows;

Vision Statement

"To be the leader of high growth diversified business with a global presence"

Mission Statement

"We will passionately engage in providing customers with quality solutions through innovative technology, provide our people with excellent growth opportunities and become the corporate inspiration to stakeholders"

7.2.2 Key Milestones

Some of the key milestones of PCH since its humble beginning in 1997 are given below;

1997	Founded single showroom with two employees
1998	Entered into distributor agreements with Power Tree and Phillips
2000	Registered as a limited liability company Entered corporate & public sector markets
2001	Established its Head Office at No.464, Galle Road, Colombo 03
2002	Launching of Panorama – Sri Lanka's first locally innovated brand of computers Achieved Intel Premium Partner status, Microsoft, IBM and Gigabyte Partner status
2003	Launched IT on Wheels - CSR Initiative for regional IT diffusion
2004	Opened Jaffna branch as the 4 th branch Awarded ISO 9001:2000 Management Quality Process Certification Awarded Microsoft Gold System Builder status
2005	Authorised partner for Optoma
2006	Achieved Rs. 1 billion turnover Acquired Head Office premises at No. 451, Galle Road, Colombo 03 Appointed Sri Lanka's first Microsoft named OEM partner Appointed authorised distributor for Kyocera Diamond Sponsors – Infotel ICT week 2006
2007	Acquiring of Greenwich Lanka (Private) Limited Implementation of Customer Relationship Management (CRM) system GLPL appointed as authorised distributor for BitDefender PCH appointed as authorised distributor for Samsung, MSI and SLT ADSL Launching of Sri Lanka's first PC manufacturing facility ISO 9001:2000 Management Quality Process for Panorama ISO 14001:2001 Environment Quality Standards Process for manufacturing
2008	Implementation of 5S Quality Management System throughout the organisation GLPL appointed "Sri Lanka's Partner" by Reliance Communication GLPL appointed as authorised distributor for Red Hat and JBoss PCH appointed as authorised distributor for Dell Inc. GLPL appointed as Microsoft Gold Partner across three competencies GLPL appointed as CISCO Certified Partner in Sri Lanka Microsoft Gold Certified Partner status received by PCH and GLPL
2009	Showroom network increased to 13 PCH appointed as Intel Premium Channel Partner by Intel Corporation PCH appointed as distributor for Creative Labs
2010	Dell Certified Partner for Enterprise Architecture 2010 Appointed authorised distributor for Belkin products from Belkin USA

7.2.3 Product and Service Portfolio Offered by PCH

PCH in partnering with leading brands offers a multitude of diverse hardware and software solutions which cater to various customer needs.

Branded Personal Computers (PCs), Notebooks and Servers

Branded PCs, Notebooks and Servers offered by PCH mainly comprise of Dell brand. Dell PCs are characterised by more secure and durable designs, which include higher memory and storage capacity. Dell Vostro, Dell OptiPlex and Dell Precision are the main range of Dell PCs currently being marketed by PCH catering to various business needs. The Dell notebook range offered by PCH is highly expandable and is designed to simplify IT management and reduce costs. Dell "Power Edge" servers include Tower Servers, Rack Servers and Blade Servers which are offered to suit the requirements of small businesses and enterprise class data centres.

Printers and Multifunction Devices

PCH in collaboration with one of the world's best brands Samsung, offers high quality network printers and multifunction devices which enable its clientele to manage printing more effectively. PCH's extensive range of printers include monochrome laser, colour laser, multi function printers (print/copy/scan/fax) and dot matrix printers.

Office Automation Products

PCH offers a durable and easily maintainable office automation product portfolio ranging from basic copiers to high-tech, heavy duty multifunction devices for the enterprise environment. Kyocera is amongst the leading brands of copiers marketed by PCH. Heavy duty multifunction copiers (print/copy/scan/fax) and colour multifunctional devices (print/copy/scan/fax in colour format), cash counters, laminating machines and binders etc. are amongst the new products marketed by PCH.

Audio Visual Products

PCH offers a range of audio visual products including multipurpose projectors and video conferencing devices. Projectors include the Optoma brand which produces high quality images with high resolutions and user friendly features that suits the requirements of businesses as well as for educational purposes.

Assembled PCs, PC Components, Accessories and Network and Communication Devices

PCH is actively involved in assembling PCs and trading of various types of PC components such as hard disk drives, processors, RAM (Random Access Memory), keyboards, motherboards, speaker systems, mouse, LCD (Liquid Crystal Display) monitors, optical drives, etc. catering to the requirements of varying customer segments. PCH is also into marketing of accessories such as web cams, adapters, cables, portable storage devices, gaming equipment, portable music players, etc. Network and communication devices that are supplied by PCH include wired and wireless network and communication devices such as modems, routers, hubs, switches and bridges.

Power Protection Systems

PCH provides power protection solutions to both households and corporate clients. The power protection solutions include a wide range of line interactive and online UPS (Uninterrupted Power Supply) systems ranging from 650VA up to more sophisticated power systems such as 100kVA that are suitable for a gamut of various power needs.

Operating Systems, Productivity Software and Antivirus Software

In addition to the abovementioned hardware solutions, PCH offers an array of software including Microsoft applications ranging from basic operating systems to complex server operating systems with modern technology to facilitate better deployment of corporate resources. Microsoft Windows Vista, Microsoft Office 2007 and Microsoft Servers (Microsoft Server 2003/2008, Microsoft Exchange 2007, Microsoft Internet Security and Acceleration Server 2006, etc.) are some of the operating systems software currently offered by PCH. PCH also supplies BitDefender, one of the most effective lines of internationally certified security software to cater for servers, desktops and mobile computing which confer reliability and fast response time to new electronic threats. This antivirus software could be configured to integrate perfectly with software applications.

Services

In addition to hardware and software, engineering services are also offered to its retail and corporate clientele through the engineering division of PCH. The service portfolio of the division consists of annual maintenance contracts, networking solutions, security and antivirus solutions, ICT equipment upgrade, ICT solutions, internet related services, data backup, storage backup and data recovery. The division is operated by a well trained staff, who are geared to serve the growing clientele. Through this division customers enjoy after sales services such as repairs, advising on upgrades and matching specifications to requirements. PCH is planning to extend services through a Research and Development (R&D) team in order to meet customer requirements more comprehensively in the future.

7.2.4 PCH Strategic Partnerships and Alliances

PCH has partnered with world renowned hardware and software providers and is accredited as one of the authorised local partners in distributing hardware and software solutions under the trade name of the product/principal. These alliances assist PCH in extending its product and service offerings thereby delivering new technologies to its customer base. Current partnership agreements/arrangements that PCH has entered into are as follows.

Dell Global B.V.	<p>PCH has been appointed as the tier 1 distributor to market the globally renowned Dell brand of PCs, laptops, servers and storage solutions catering to the needs of corporate, state and individual customers in Sri Lanka.</p> <p>Dell Inc. was founded in 1984 in Round Rock, Texas. Recent revenue of Dell was over USD 61 billion with over 76,500 employees worldwide. Dell, which is PCH's flagship brand, has been marketed for over 2 years in the desktop, notebook and Enterprise Solutions Group (ESG) categories.</p>
AMD India Engineering Centre (Pvt) Ltd	<p>PCH is an authorised dealer for AMD in Sri Lanka.</p> <p>AMD is a semiconductor company that develops computer processors and related technologies for consumer and commercial markets. AMD is the second largest global supplier of microprocessors based on the x86 architecture, and the third largest supplier of graphics processing units.</p>
GIGA-BYTE Technology Co., Ltd.	<p>PCH is an authorised distributor for Gigabyte Technology products in Sri Lanka.</p> <p>GIGA-BYTE Technology Co., Ltd. is a Taiwan-based manufacturer of computer hardware products best known for its motherboards. The company is publicly held and traded on the Taiwan Stock Exchange.</p>
BitDefender	<p>PCH is an authorised distributor for BitDefender in Sri Lanka.</p> <p>BitDefender is an antivirus software suite developed by Romania based software company SOFTWIN. It was launched in November 2001 and current products, feature antivirus and antispyware, personal firewall, privacy control, user control and backup for corporate and home users.</p>
Power Tree	<p>PCH is an authorised distributor for Power Tree in Sri Lanka.</p> <p>Power Tree, incorporated in 1997, has gained favorable support from users as a reliable manufacturer of UPSs.</p>

Samsung India Electronics (Pvt) Ltd.	<p>Samsung Electronics is the world's largest electronics company with revenue of USD 170 billion in 2009. Headquartered in Samsung Town, Seoul, South Korea, Samsung has employees over 164,000 worldwide. PCH markets Samsung computer peripherals such as LCD monitors, printers, multifunctional devices, optical devices, storage devices and optical drives locally. Partnership remains strong with the relationship now being over 3 years with many awards received along the way.</p>
Microsoft Sri Lanka	<p>PCH has been awarded the Gold Certified Partner status by Microsoft Inc., along with competencies in "Network Infrastructure Solutions" and "Information Worker Solutions".</p> <p>Microsoft Gold Certified Partner status is awarded to elite business strategic units who practice the highest level of requirements under the guidelines of Microsoft Inc., and have demonstrated their capabilities to implement the most robust, efficient and scalable implementation of Microsoft technologies.</p> <p>Founded in 1975, Microsoft is arguably the most famous company in the world. With revenue over USD 58 billion and over 93,000 employees, Microsoft leads operating systems and productivity software platforms worldwide. PCH has a strong relationship with Microsoft Sri Lanka holding Gold Partner status for over 4 years to date.</p>
Kyocera Mita Singapore Pte. Ltd.	<p>PCH holds distributorship for office document imaging equipment and solutions and enjoys a close relationship with Kyocera, marketing digital copiers locally for over 5 years.</p> <p>Established in Japan in 1959 and renamed in 1982 as Kyocera Corporation, the company manufactures industrial ceramics, solar power generating systems, telecommunication equipment, office document imaging equipment, electronic components, semiconductor packages, cutting tools, and components for medical and dental implant systems. The company employs over 67,000 employees and reported a total revenue of over USD 12.8 billion in 2007.</p>
Optoma Corporation	<p>PCH represents the world renowned multimedia projector brand Optoma in Sri Lanka.</p> <p>Optoma Technology Inc., is a leading manufacturer of award-winning digital display products and home entertainment projectors for consumers, businesses, education sector, professional audio/video and custom installation channels. PCH has been successfully marketing a wide range of Optoma projectors for over 6 years in Sri Lanka.</p>
"Genius" KYE Systems Corp.	<p>PCH is an authorised distributor for Genius in Sri Lanka.</p> <p>Genius is the world's leading brand in IT peripherals and consumer products and was selected as one of Taiwan's top 20 global brands in 2005.</p>
Creative Technology	<p>PCH is an authorised distributor for Creative in Sri Lanka.</p> <p>Creative is a leading provider of digital entertainment products for computers and the internet. Made famous by its Sound Blaster sound cards, it has now expanded its product portfolio to include other personal digital entertainment devices including its highly acclaimed ZEN line of digital audio players.</p>
Finest Security Systems Co., Ltd.	<p>PCH is an authorised distributor for Finest in Sri Lanka.</p> <p>Founded in the year of 1976, Finest is a reputable company producing Closed Circuit Television (CCTV) devices.</p>

Belkin India Private Limited	<p>PCH is an authorised distributor for Belkin in Sri Lanka.</p> <p>Belkin, a privately held company founded in California in 1983, is a recognised global leader in connectivity solutions. Belkin International offers products to give consumer electronics users seamless integration in their homes, cars, and on the go.</p>
“MSI” Micro-Star Inetrnational Co., Ltd.	<p>PCH is an authorised distributor for MSI in Sri Lanka.</p> <p>MSI's product portfolio includes designing and manufacturing a diverse range of main boards, graphics cards, notebooks, all-in-one PCs, server/workstations, industrial computing, barebones systems, communication devices, consumer electronics, car infotainment products and others.</p>
“Poshing” Guangzhou Huiying Electronic Products Co., Ltd.	<p>PCH is an authorised distributor for Poshing in Sri Lanka.</p> <p>A Hong Kong based provider of professional audiophile solutions.</p>
Sri Lanka Telekom PLC	<p>PCH is a business partner of Sri Lanka Telecom.</p> <p>Sri Lanka's number one telecommunications provider, this is one of the country's most valuable blue chip companies with an annual turnover in excess of Rs 40 billion.</p>

7.2.5 Awards of Excellence

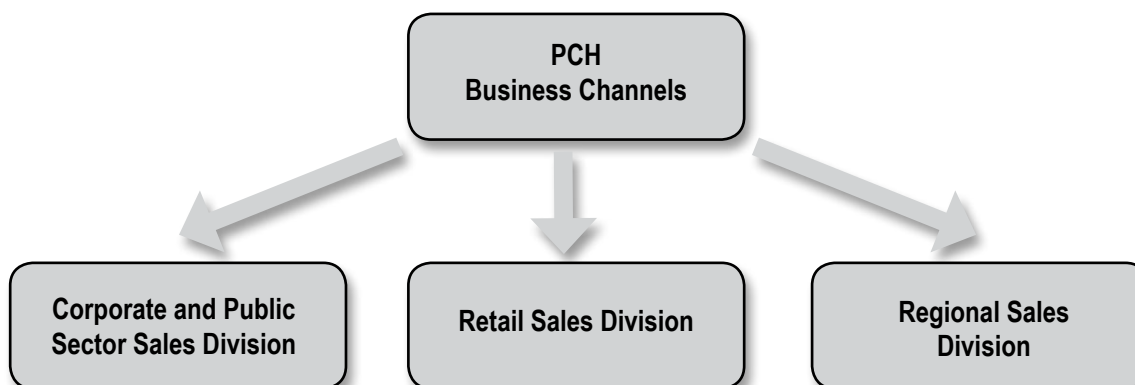
For its relentless pursuit towards excellence, and provision of a quality service, PCH Group has been recognised and honoured by its principals as well as the IT industry. Given below is a list of some of the awards received by the Company in chronological order.

2004	Intel Outstanding Performance Award
2005	Top Business Partner Reseller Award by IBM Corporate Intel Premier Partner 2005 Award
2006	Microsoft Sri Lanka Partner Excellence Award
2007	Microsoft Partner of the Year Award Microsoft Best Partner for Windows Desktop Sales Microsoft Best Partner Breadth Reseller Category Most Proactive Business Partner Award by Samsung Gold Partner for Year 2006/ 07 by WeP Peripherals
2008	Microsoft Competency Award for Network Infrastructure Solutions Microsoft Competency Award for Information Worker Solutions Best Partner 2008 by Gigabyte Technology Co., Ltd. Most Outstanding Partner of the Year Award by Micro Star International Best “Attached at Source” COEM Partner Award by Microsoft Incorporation
2009	Best in Country Partner KYE International (Genius) Gold Award for Information & Technology Category by Sri Lanka-Malaysia Business Council Most Valuable Partner of the Year by Gigabyte Technology Co., Ltd. Most Valuable Partner of the Year by Topview LCD Co., Ltd.

7.2.6 Business Channels of PCH

PCH presently carries out its business operations under three major channels/ divisions as detailed below.

Figure 7-2 : PCH Business Channels



Corporate and Public Sales Division

The corporate and public sector sales divisions started out as separate business units in 2003/04 and were later amalgamated as a single division to streamline operations in 2007. This division is now one of the main revenue generators and has consistently accounted for more than 50% of the total sales of PCH over the past few years. The high quality standard of service of this division has seen its revenue grow over 30% during the last year. The division is structured with a well trained sales team focusing on providing solutions to clients such as large conglomerates, medium sized corporates, government ministries, local authorities, etc. The division handles transactions/tenders for corporate and public sector clients exceeding Sri Lanka Rupees five million. The products offered by the division include PCs, servers, storage devices, related peripherals and accessories.

Retail Sales Division

Retail sales division is located within the “Unity Plaza” premises, Colombo 04, generally known as the “IT Hub” in Sri Lanka which attracts a highly price sensitive customer base. 14 outlets of PCH are located in this IT hub enjoying approximately 40% of the market share at this centre by establishing a strong competitive advantage over other players in the industry. Apart from this main sales outlet, one other outlet is located within the city limits of Colombo. The division is primarily engaged in distributing and assembling computer systems such as PCs, workstations, notebooks, computer servers, storage systems and networking equipment mainly targeting the retail customers. In addition, computer components such as processors, memory, hard drives, graphic cards, sound cards and computer peripheral equipment such as storage devices, printers, monitors, input/output devices and terminals are also being marketed by the retail division of PCH. The retail customer base of PCH includes small to medium enterprises (SME), retail software developers, graphic designers, hardware addicts and home users who are highly price sensitive and demand products on a smaller scale. Continuous focus towards customer requirements through a dedicated service has been the cornerstone behind the success of the division. Business operations of this division is further strengthened through after sales services such as IT related advice, technical assistance, desktop and laptop repairs, and troubleshooting.

Regional Division

The regional division of PCH consists of 13 branches strategically located islandwide covering the major cities including Jaffna and the whole of the Eastern Province. The outlets in the North and East of the country would enable PCH to penetrate into the untapped markets in these regions and provide PCH with business opportunities from the anticipated development in the post war era.

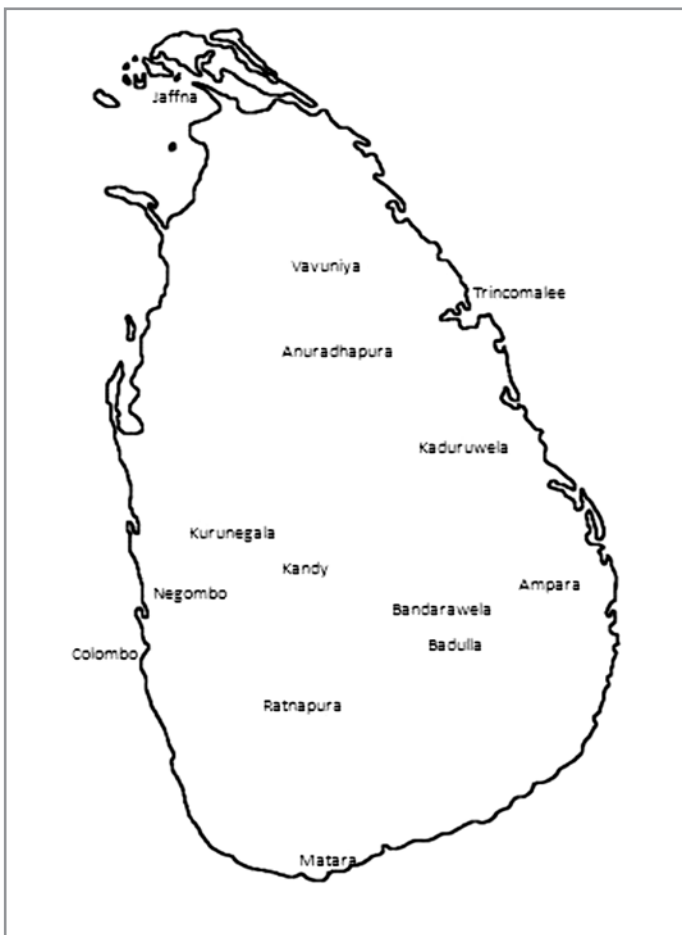
BUSINESS OPERATIONS OF PCH GROUP

This division addresses the IT requirements of the corporate as well as the public sector, SME and home user segments regionally. However, as mentioned earlier, projects exceeding the value of Sri Lankan Rupees five million are directly handled by the corporate and public sector sales division at the head office with the assistance of the regional branch. The products that are marketed by this division comprise of branded PCs and accessories, assembled computer systems and products such as workstations, notebooks, computer servers, storage systems and networking equipment. It also engages in selling computer components such as processors, memory, hard drives, graphic cards, sound cards and computer peripherals such as storage devices, printers, monitors, input/output devices and terminals.

Each outlet comprises of a sales force, technical division and stores to cater to its regional customer segments ensuring a minimum response time on service/ technical calls. This has been further strengthened by its islandwide delivery service which has enabled PCH to reduce its lead times and improve delivery efficiencies.

The distribution network of PCH is depicted below.

Figure 7-3 : PCH Distribution Network



In addition to the sales outlet at the Head Office located in Colombo and 13 islandwide branches, PCH operates 14 retail showrooms and 2 service centres in Colombo.

7.2.7 Customer Orientation

PCH has implemented stringent service standards to provide its customers with the best in terms of quality products and pre and post sales services. Customers have the opportunity to fulfill all their ICT requirements through the broad spectrum of products, from branded products to locally assembled products offered under one roof. Service standard of PCH is assured by ISO 9001: 2000 certification awarded in recognition of pursuit of excellence in quality of its service.

PCH offers services to its customers in delivery, installation and technical assistance with minimum lead times. All products sold by PCH are covered by warranties against manufacturing defects. The Company invests in maintaining adequate stock levels for most of the commonly required spares to carry out repairs or replacements within the shortest possible time.

7.2.8 Quality Policy of PCH

Being a well established service provider in the ICT industry, PCH is dedicated to satisfying and delighting its customers by enhancing the level of reliability of its products and services and gain the confidence of customers in all areas of the business that it serves. In line with its quality policy, PCH is committed to enhance the skills of its employees by continuously offering training and career guidance which would elevate the level of service to its customers. Further, the Company follows 5S Management Systems in its day to day operations in addition to ISO 9001: 2000 compliant processes.

7.2.9 Competitive Landscape of PCH

Over the years, PCH has built its competitive position as a leading ICT provider in Sri Lanka on the backdrop of the following competitive strengths.

Strong and Long Standing Partnerships with World Renowned IT Suppliers/Brands

PCH is associated with world renowned IT brands enabling it to bring the latest technological developments to the doorsteps of local customers. Its wide distribution network and the product portfolio enable it to satisfy the diverse ICT needs of its customers.

Deep Domain Knowledge of Products and Services

PCH has developed a deep understanding and specialisation in products and services that it provides to customers as a result of its long existence in the market. This deep domain knowledge has enabled the Company to reduce the time taken for each activity, costs involved in implementation of its solutions and offer a greater value addition to its customers.

Strong and Effective Islandwide Branch Network

The extensive distribution network of PCH spread across the country, covering every district in Sri Lanka facilitates the Company to reach its customers with minimum lead times whilst building an islandwide client base.

Staff Expertise

PCH is equipped with a well experienced, qualified and dedicated team of professionals, possessing business acumen in their respective fields. It is expected that their experience will enable them to continue to take advantage of both current and future market opportunities in the ICT Industry and add value to the Company and its stakeholders.

Financial Stability

Robust financial results of PCH has continuously proven its aptitude of strong performance and quest to capitalise on new investment opportunities. Over the years, it has maintained consistent margins together with strong and stable cash flows.

Warehousing Facility

Adequate warehousing facility is a pre-requisite for a company such as PCH to operate without resorting to business interruptions. PCH's main warehouse which exceeds 30,000 sq.ft. is located in Mattakuliya, Colombo, whereas the sub storage area located at the "Unity Plaza" premises in Colombo is approximately 2,000 sq.ft. PCH also possesses a storage facility in Kandy exceeding 3,000 sq.ft. to cater to the area and other outlets closer to Kandy. In addition, all the showrooms have a minimum of 100 sq.ft. for storage purposes. All warehouse storage facilities utilise latest bar-coding technology and web based inventory management software developed in-house by GLPL for efficient management of stocks.

7.3 Greenwich Lanka (Private) Limited

7.3.1 Overview

Greenwich Lanka (Private) Limited was established in 1996 as an IT solutions provider. After the acquisition by PCH in 2007, GLPL has been able to establish itself as a leading entity that provides consulting, designing, developing and implementing IT solutions/systems for medium to large enterprises as a fully owned subsidiary of PCH.

GLPL operates under three main business units namely; Physical Infrastructure (PI), System Integration & Business Applications (SI&BA) and Other Services (OS).

Physical Infrastructure

Corporate business entities generally seek to utilise high security and access control techniques which facilitate managing, monitoring and securing the assets and processes of companies while responding quickly to any security breaches. GLPL is geared to provide such facilities through expertise evolved through years of business experience. GLPL maintains an inventory portfolio of physical access control devices such as door access controls, CCTV cameras and turnstiles, information security solutions and high performance servers which are designed to cater to customer segments including both public and private sector organisations.

System Integration and Business Applications

GLPL has identified the automation needs of corporate customers and has ventured into all areas pertaining to structured implementation of mission critical system infrastructure. The components of the infrastructure are identified and are addressed using best practices complemented with world renowned product brands. The most important aspect of the whole approach is to address the requirements of the customer keeping in mind scalability, manageability, inter-operability and value for money.

GLPL provides system integration and business application services in the areas of accounting, human resource management, payroll, time attendance management, software development and information security which assist the companies to streamline various processes and improve the operational efficiency of their business processes. Especially when the companies are growing, need arises to integrate different departments together, and GLPL is capable and successful in designing, developing and implementing bespoke solutions to its clientele.

Other Services

With the intention of focusing on their core businesses, most private and public companies are evaluating the trend of outsourcing their IT function to specialised, secure and reliable third parties. Capitalising on this opportunity, GLPL's service division undertakes to maintain and develop such IT facilities. The best infrastructure with an appropriate service level is the ultimate need of the customer. The service portfolio offered by GLPL is wide enough that its customers could choose from phone support to resident engineers' services. Other peripheral services provided by GLPL include ID card printing, software maintenance, etc.

Furthermore, GLPL provides disaster recovery and business continuity solutions to organisations. The scope of work would be from the planning of the above to assessing a deployed disaster recovery system in an organisation. The uniqueness of these solutions provided by GLPL is that it can provide both customer-owned and out-partnered solutions to the clients.

7.3.2 GLPL Strategic Partnerships and Alliances

GLPL has formed strategic partnerships with reputed hardware and software vendors. Some of its affiliations are detailed below:

- Gold certified tier 1 partner for Microsoft
- Cisco SME select partner
- BlueCoat premium partner
- Symantec authorised partner
- Zke software distributor
- Fortinet premier partner
- Dell SI partner through PCH
- Accpac certified partner
- Orex authorised reseller
- Eset software advanced partner
- Axigen Gecad Technologies authorised partner
- Sophos authorised partner
- IBM Software Group Cognos authorised partner
- Fargo authorised partner

7.3.3 Customer Orientation

Customer orientation has been a major success factor of GLPL over the past few years of business. GLPL's professional staff is continuously enhancing long term customer satisfaction as opposed to an immediate sale.

Every service provided by GLPL would be based on a Service Level Agreement (SLA) which would clearly set out the service levels and responsibilities of both parties to avoid any conflicts. Each and every responsibility agreed as per the SLA would be treated as an obligation to the customer by GLPL and necessary actions will be taken to keep up to the SLA.

GLPL continuously obtains and respects the client views and suggestions, when developing its solutions. Well-experienced project teams work closely with its clients to develop the appropriate solution that best fit the business requirements of its valued customers.

7.3.4 Competitive Strengths of GLPL

Staff Expertise

GLPL possesses a highly competent team of IT professionals who are specialised in their respective fields and value the essence of team work. For example, GLPL has Microsoft, CISCO and various other certified IT engineers who can provide tailor made IT solutions to its diverse clientele. Further, GLPL also possesses a marketing team comprising of IT consultants who are continuously in touch with medium to large enterprises to advise as to how IT solutions could be implemented in their respective organisations to achieve their business/corporate objectives which in turn would generate potential business to GLPL.

After Sales Service

GLPL has been able to develop a responsive after sales service team who could offer troubleshooting support via phone to site-visits/resident service support. The quality of after sale service is invariably assessed by large corporates as a prequalification criterion before committing to a transaction. As a result of its superior after sales capabilities, GLPL has been successful in the past in securing significant number of transactions from both private and public sector clients.

Product and Service Portfolio

Customers can obtain and rely on GLPL for total ICT related solutions from the simplest to the most sophisticated specifications due to the availability of a wide range of products and services. This has enabled GLPL to offer its customers an affordable one-stop-shop concept for all ICT related solutions.

7.3.5 Quality Policy

“We achieve world class quality through operational excellence, continual improvements and satisfying customer needs in everything we do”

Adhering to the Group’s emphasis to quality, GLPL obtained ISO 9001: 2000 Quality Management System Standard Certification by Technischer Überwachungsverein of America (TUV). In addition, GLPL also obtained CMMI Level 3 and ISO 27001: 2005 Certification for Information Security Management in its endeavour to improve the quality of its products and services.

7.4 Procifinity Limited

PCH’s new subsidiary, Procifinity Limited (Procifinity), incorporated on June 2, 2010, intends to launch itself to cater to the outsourcing requirements of the local and foreign markets. Procifinity is also planning to move into IDC operations with the expectation of providing hosted and managed data services to corporate and public sectors. The opportunities available to Procifinity and its future business plans are detailed out in Section 7.5.3 below. In line with the operational policies of the PCH Group discussed in Sections 7.2 and 7.3 above, Procifinity too intends to operate the outsourcing business as well as the IDC operations with a capable team of professionals and maintain a high level of quality to the satisfaction of the client base. Special emphasis will be made with regard to customer orientation and maintenance of confidentiality of the information processed.

The Group has identified specialists to fill in the required positions of Chief Executive Officer and Chief Operating Officer of Procifinity. These key personnel will be hired subsequent to setting up of the operations. Some functions such as local marketing and IT of the BPO/KPO and IDC operations would be handled by the staff of PCH and GLPL. This is to achieve economies of scale within the Group. Over time, other key positions will be gradually filled with the expansion of business locally as well as globally.

Based on an investment appraisal exercise carried out by the Company using conservative assumptions, the equity Internal Rate of Return for the investment in Procifinity is approximately 28% with a payback period of just over four years. The Return on Equity (ROE) of Procifinity over the next five financial years is as follows:

For the year ending March 31,	2011	2012	2013	2014	2015
Return on Equity	2%	4%	10%	17%	24%

Note I: ROE = Net Profit After Tax/Average Equity.

Note II: Net Profit After Tax has been computed after charging depreciation which amounts to approximately Rs. 40 million in a full operational year.

Note III: FY 2010/11 includes only four months of full operations.

Related risks with regard to the investment in Procifinity and its operations are highlighted in Section 11.0.

7.5 Future Direction, Prospects and Plans of PCH Group

7.5.1 Future Business Plans of PCH

As discussed earlier under Section 6.1.9, Sri Lanka is on the verge of entering a phase of rapid economic development subsequent to the end of war and restoration of normalcy. The GoSL has spelt out its vision to broad base economic development which has hitherto been confined to few provinces whilst identifying ICT as a key driver of economic growth. The ICTA has carried out numerous initiatives to create awareness on the uses of ICT amongst the rural community and also to infuse ICT to re-engineer government services to improve their efficiency, effectiveness and economy. The inclusion of ICT in school curricula has created significant interest and demand for ICT products from rural areas of Sri Lanka. This would be further supported by the expected increase in purchasing power resulting from broad based economic development. Furthermore, the corporate sector buoyed by the renewal of confidence in the economy and its potential has drawn up aggressive expansion plans which require significant investments in procuring/revamping ICT infrastructure.

PCH is believed to be well positioned and anticipates to capture a significant portion of the demand for ICT products emanating from the above factors. Furthermore, PCH expects to harness its competitive advantage with respect to its regional presence and capture the growth opportunities from rural sectors of the economy. In order to capture the corporate sector growth, PCH intends to build upon its array of associated brands by acquiring dealerships with other global brands for which it believes have a growth potential in the local market. Moreover, PCH expects its credentials to be further enhanced as a result of it being a public listed entity subsequent to the Offering contemplated herein, enabling it to exploit the growth opportunities available.

Major Assumptions on Future Plans of PCH

- PCH expects the macroeconomic environment to be conducive due to the cessation of the three decade long war and the evidence of initial recovery of the global recessionary conditions, hence upholding the strategic investment opportunities within the country.
- Demand for ICT products and services are expected to increase in the future through higher disposable income of individuals, GoSL's intention and the initiatives taken to introduce IT to public institutions and expected improvements in profitability of corporate entities resulting from economic growth, reduced interest rates and inflation.
- It is anticipated that the GoSL would continue to stimulate IT awareness/usage through its policy decisions and thereby increasing the computer literacy rate and computer penetration to significant levels in the future.

For the risks relating to the future business plans of PCH, refer Sections 11.1 and 11.2 of the Prospectus.

7.5.2 Future Business Plans of GLPL

As mentioned above, the expected resurgence in the Sri Lankan economy would attract aggressive expansion plans for medium to large corporates and public sector to capture potential business opportunities in their respective industries. Such aggressive plans would necessitate entities to look at IT as a significant driver of their future growth potential. In this regard, it is believed that physical infrastructure, systems integration, process automation and software development opportunities would be abundant in the market.

GLPL has developed the skills and resources required to excel in the above business lines and is geared to capture a significant portion of the same.

Major Assumptions on Future Plans of GLPL

- GLPL expects the macroeconomic environment to be conducive and strategic investment opportunities within the country mainly driven by the corporate sector to continue in the foreseeable future.
- The supply of skilled IT professionals in the Sri Lankan market is expected to continue mainly emanating from the GoSL initiatives to support IT related educational programs.

For the risks relating to the future business plans of GLPL, refer Sections 11.1 and 11.3 of the Prospectus.

7.5.3 Business Plans of Proximity

BPO/KPO Services

As mentioned earlier under Section 6.2.4, the BPO/KPO industry in Sri Lanka is witnessing tremendous growth due to the expansion of the global BPO/KPO industry. This is further supplemented with the availability of a highly skilled talent pool at a competitive cost to cater to the needs of the industry. Domestic IT adoption is also increasing significantly, driven by the awareness created by the e-Sri Lanka program and the initiatives taken by ICTA to re-engineer government processes and build IT capacity and competence in rural areas of Sri Lanka. The growth of telecom penetration, increase in use of IT in SMEs and strong focus on ICT education in schools by the GoSL have also further spurred this growth. Although the global recession brought about a temporary slowdown in the demand for BPO/KPO services from all sectors, the use of technology and outsourcing as a means to reduce cost will continue to drive the growth of IT/BPO/KPO sector in Sri Lanka.

PCH, having identified the potential for BPO/KPO services in Sri Lanka has already begun its operations by providing data conversion and digitising services to some of the public sector institutions. **PCH has successfully secured Rs. 37 million worth contracts in this regard and is confident of the potential for acquisition of further assignments.** PCH intends to invest in setting up a fully fledged 200 seat BPO/KPO operation in order to provide the following identified services amongst others under Procifinity:

- Data Entry Services/Processing/Conversion Services
- Scanning, OCR with Editing and Indexing Services
- Book Keeping and Accounting Services
- Form Processing Services

For BPO/KPO operations, Procifinity will initially position itself to serve the demand for outsourced services such as accounts processing, document imaging, form processing, data conversion, etc. targeting domestic corporates. Due to the fragmented nature of the needs and the non-homogenous nature of the services, it is not practical to provide a market share for BPO/KPO services to be offered by Procifinity. It would subsequently approach overseas clients from the USA, Europe and Asian markets to offer the same services.

Procifinity envisages acquiring new accounts by leveraging the existing clientele of PCH operating in areas such as finance, education, healthcare and leisure. A separate sales team would pursue foreign accounts for BPO/KPO services. Procifinity would focus on effective pricing, reliable service levels, skilled staffing to achieve a competitive advantage in its proposed venture into the BPO/KPO market. In addition to the above, Procifinity would explore possibilities of acquiring skilled personnel, systems and clients through the acquisition of companies operating in the same business domain.

Internet Data Centre

Many organisations are burdened with the need to manage large volumes of data. Maintaining an in-house data centre can be costly and thus it may be prudent from a financial aspect to outsource to a dedicated centre where data security can be guaranteed. PCH aims to exploit this opportunity by investing in a state-of-the-art 2000 sq. ft. IDC through Procifinity, to provide secure hosting and managed services to corporate customers. Procifinity intends to procure superior infrastructure in order to provide a high quality of service while ensuring the highest levels of data security. PCH's established client base and strong reputation would enable acquiring new clients for the IDC business.

Procifinity would position itself in the IDC markets as a fair-priced and reliable player. An effective advertising strategy would be carried out to promote new service offerings for IDC and improve Procifinity's visibility in these new business segments. The IDC services to be offered by Procifinity include:

- Hosting Solutions
- Storage and High Availability Services
- Security Services
- Professional Support Services
- Application Service Provider Services

For IDC operations, Procifinity will mainly focus on large corporates and SME sector who would have a need for IDC services. Products offered would start from the simple hosting of a website to value added managed services and disaster recovery to larger companies. Similar to the BPO/KPO operations, due to the dynamic nature of the IDC market it is not feasible to estimate a market share for the IDC related operations to be carried out by Procifinity.

Major Assumptions on Future Plans of Procinfinity

- Increase in requirement to manage large volumes and confidential data and the data security threats would necessitate companies to outsource its in-house data centres to specialised dedicated facilities where confidentiality and security can be ensured.
- The expectation of Sri Lanka's emergence as a key BPO/KPO destination, the improvement in infrastructure and supply of IT professionals to sustain the sector's anticipated growth would afford an opportunity for outsourcing with high standards.
- Supply of skilled labour would continue in the Sri Lankan market, especially in the areas of accounting, IT, legal – the proposed services offered under BPO/KPO services by Procinfinity.
- Sri Lanka is expected to remain as an attractive BPO/KPO destination including the availability of sufficient infrastructure, political and economic stability.
- The Group would take the necessary steps to upgrade the infrastructure mainly in relation to the BPO/KPO and IDC business to meet the challenges of technological innovation and trends in the industry.

For the risks relating to the future business plans of Procinfinity, refer Sections 11.1 and 11.4 of the Prospectus.

7.6 Degree of Dependence on Key Customers and Suppliers of PCH and GLPL

Customers

The entire sales of PCH and GLPL are generated through the sales of ICT related products and services to a broad based clientele. The public sector collectively contributes a significant portion (approximately 15%) to the top line of both PCH and GLPL and the rest of the contribution comes from a diversified customer base which consists of individuals, SMEs and corporates. Given the GoSL's prominence and intention on the development of the ICT sector in the future, PCH and GLPL expect to capture a sizable portion of the GoSL spending on ICT each year especially during the short to medium term, as in the past. However, it should be noted that the public sector sales are attributable to multiple customers such as ministries, departments, local governments, ICTA, etc. As a result of the diversified client base, PCH and GLPL are not reliant on any dominant customer.

Suppliers

As stated in the Section 7.2.4 and Section 7.3.2, PCH and GLPL respectively have been in partnership with OEMs/principal partners for the supply of equipment and support services. However, PCH and GLPL have not relied exclusively upon on any particular brand or OEMs/principals. Thus, both PCH and GLPL are in a position to switch their OEMs/principal suppliers to different brands for the supply of such products and services depending on the demand for products or services by the end user. Hence, PCH nor GLPL is dependent upon any OEMs/principal partners in particular. However, in the case of operating system software, both PCH and GLPL are dependent on Microsoft Inc. to a significant extent particularly for the supply of operating system software for PCs and some of the servers. However, Microsoft currently being the dominant provider of operating systems for PCs, this risk of being dependant on Microsoft is common to all retailers in the IT industry worldwide.

BUSINESS OPERATIONS OF PCH GROUP

7.7 Group Investment Structure

A graphical representation of Group shareholding structure is depicted in Section 7.1 (Figure 7-1).

PCH ownership in ordinary voting shares of subsidiaries as at the date of this Prospectus is depicted below:

Company	Total No. of Ordinary Voting Shares	Total Investment Value (Rs.)	Holding by PCH (%)
Greenwich Lanka (Private) Limited	540,900	5,409,000.00	100%
Procifinity Limited (Note)	10	10.00	90%

Note: PCH currently holds nine (09) Ordinary Shares out of the ten (10) Ordinary Shares issued by Procifinity Limited at the time of incorporation on June 2, 2010. As mentioned in Figure 7-1, PCH will hold 99.99% of the shares of Procifinity Limited subsequent to the infusion of capital through the proceeds of the IPO as disclosed in Section 5.5.

7.8 Dividend Policy

Subject to the provisions of the Companies Act No. 7 of 2007 and the Articles of Association of PCH, the declaration and payment of dividends on Ordinary Shares will be recommended and approved by the Board of Directors of the Company. The dividend policy will be based on a number of factors, including but not limited to the Company's earnings, investment requirements and overall financial conditions.

The Company has not paid any dividend on the Ordinary Shares during the Financial Years 2007/08 and 2008/09. A dividend of Rs. 38,000,000/- has been paid during the Financial Year 2009/10, which resulted in a dividend per share of Rs. 0.22.

7.9 Details of Material Indebtedness

The details of Term Loans of PCH Group as at March 31, 2010 are as follows.

Bank	Facility Name	Balance as at April 1, 2009 (Rs. '000)	Loan Obtained (Rs. '000)	Repayments (Rs. '000)	Balance as at March 31, 2010 (Rs. '000)	Amount Repayable Within 1 Year (Rs. '000)	Amount Repayable After 1 Year (Rs. '000)
Seylan Bank	Term Loan-I	32,409	-	4,159	28,250	5,045	23,205
Seylan Bank	Term Loan-II	131,852	-	9,192	122,660	10,836	111,824
Seylan Bank	Term Loan	-	43,400	-	43,400	43,400	-
NDB Bank	Term Loan	-	75,000	14,062	60,938	20,313	40,625
People's Bank	Term Loan	-	15,000	-	15,000	7,500	7,500
Commercial Bank	Term Loan	-	30,000	3,150	26,850	6,650	20,200
DFCC Bank	Term Loan	-	30,000	12,000	18,000	15,300	2,700
		164,261	193,400	42,563	315,098	109,044	206,054

Note: The above figures are in respect of PCH. There are no outstanding borrowings in respect of GLPL or Procifinity Limited.

BUSINESS OPERATIONS OF PCH GROUP

The details of Short Term Borrowings and Import Loans for PCH Group as at March 31, 2010 are depicted below.

Table 7-3 : Short Term Borrowings and Import Loans for PCH Group as at March 31, 2010		
Bank	Short Term Borrowings (Rs.)	Import Loans (Rs.)
Commercial Bank	69,981,838	4,862,848
DFCC Bank	25,332,784	-
NDB Bank	51,770,366	129,130,429
People's Bank	105,779,136	8,482,813
Seylan Bank	94,100,000	820,800
Union Bank	9,989,920	-
	356,954,044	143,296,889

Note: The above figures are in respect of PCH. There are no outstanding borrowings in respect of GLPL or Proximity Limited

The Finance Lease Liabilities and Bank Overdrafts of PCH Group and the Company as at March 31, 2010 are as follows.

Table 7-4 : Finance Lease Liabilities and Bank Overdrafts as at March 31, 2010			
	Amount Repayable Within 1 Year (Rs.)	Amount Repayable After 1 Year (Rs.)	Total (Rs.)
Group			
Finance Lease Liabilities	778,394	-	778,394
Bank Overdraft	177,689,738	-	177,689,738
Company			
Finance Lease Liabilities	778,394	-	778,394
Bank Overdraft	167,326,475	-	167,326,475

Details of facility limits and bank securities with regard to the above liabilities are disclosed in Note 19.1 of the Audited Financial Statements for the year ended March 31, 2010.

BUSINESS OPERATIONS OF PCH GROUP

Particulars of Term Loans and Borrowings outstanding as at June 30, 2010 are given below.

Table 7-5 : Borrowings of PCH Group as at June 30, 2010				
Bank	Facility	Facility Limit (Rs.)	Outstanding Amount as at June 30, 2010 (Rs.)	Unutilised Amount as at June 30, 2010 (Rs.)
Seylan Bank <i>Pettah</i>	Overdraft	34,284,000.00	45,121,883.18	
	Letter of Credit Revolving Import Loan (Sub Limit within which LC Facility of Rs. 94.1 million)	117,500,000.00	110,853,000.00	6,647,000.00
	Term Loan	20,000,000.00	16,666,666.66	
	Post Date Cheques (Discounting Facility)	15,000,000.00	14,739,503.21	
	Letter of Guarantee	10,000,000.00	10,000,000.00	
	Building Loan-I	43,700,942.80	27,051,199.36	
	Building Loan-II	160,000,000.00	120,140,837.09	
	NDB Bank <i>Dharmapala Mawatha</i>	Overdraft	10,000,000.00	14,219,818.01
Letter of Credit Revolving Import Loan (Sub Limit within which LC Facility of Rs. 40 million)		40,000,000.00	50,577,055.26	
Letter of Guarantee		5,000,000.00	5,000,000.00	
Term Loan I		62,500,000.00	56,250,000.00	
DFCC Vardhana Bank <i>Head Office</i>	Letter of Credit/ Import Loan	24,000,000.00	26,379,944.70	
	Term Loan	30,000,000.00	14,400,000.00	
People's Bank <i>Nugegoda</i>	Letter of Credit Revolving Import Loan (Sub Limit within which LC facility of Rs. 30 million)	106,000,000.00	105,730,936.00	
	Term Loan	15,000,000.00	13,749,999.48	
Union Bank <i>Head Office</i>	Revolving Import Loan	18,500,000.00	9,931,962.51	8,568,037.49
Commercial Bank	Overdraft	12,000,000.00	15,007,975.95	
	PD	10,000,000.00	9,859,485.74	
	Letter of Credit Revolving Import Loan (Sub Limit within which LC Facility of Rs. 70 million)	70,000,000.00	69,981,746.46	
	Term Loan	30,000,000.00	25,050,000.00	

There has been no change in the terms and particulars of borrowings disclosed in Note 19 of the Audited Financial Statements for the year ended March 31, 2010.

There are no liabilities under acceptance other than of trading nature and no acceptance credit outstanding as at the period ended June 30, 2010.

As at the period ended June 30, 2010 apart from those details given under Note 23 of the Audited Financial Statements for the year ended March 31, 2010 there has been no change in leasing, lease purchase and hire purchase commitments of the Company.

There are no material contingent liabilities and guarantees outstanding as at June 30, 2010.

As at the period ended June 30, 2010 apart from those details given under Note 19.1 of the Audited Financial Statements for the year ended March 31, 2010 there has been no change in mortgages and charges on the assets of the Company.

7.10 Working Capital

The Board is of the opinion that the working capital is sufficient for the purpose of carrying out day to day operations of the Company. However, for future business expansions, the Company intends to utilise a part of the proceeds of the Offering contemplated herein as set out in Section 5.5.

7.11 Litigation, Disputes and Contingent Liabilities

As at June 30, 2010, there are no material legal, arbitration or mediation proceedings which may have or have had in the recent past affected the financial position or profitability of the Company.

As at June 30, 2010, there are no contingent liabilities that would affect current and future profits of the Company.

As at June 30, 2010, there are no penalties imposed by any regulatory or state authority against the Company.

7.12 Material Contracts

The Company has not entered into any material contracts other than those contracts entered into as part of the ordinary course of business.

7.13 Details of Commissions Paid

No commission has been paid in the two years preceding the Offering for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares of the Company.

7.14 Details of Benefits Paid to Promoters

No benefit has been paid or given within the two years preceding the Offering and there are no benefit intended to be paid or given to any promoter.

8.0 CORPORATE STRUCTURE

8.1 The Board of Directors

The Board of Directors guides and supervises the business and operations of PCH. The Board comprises seven (07) Directors, consisting two (02) Non-Executive Independent Directors, four (04) Non-Executive Directors and the Chief Executive Officer. As at the date of this Prospectus, the Board comprises the following seven (07) Directors:

Table 8-1 : Details of PCH Board of Directors

Name	Age	Address
Mr. Saheedul Hijiry Mohamed Rishan	38	No. 1, Charles Circus, Colombo 03
Mrs. Sithy Sharmila Rishan	30	No. 1, Charles Circus, Colombo 03
Mr. Ekanayake Mudiyanseelage Mangala Boyagoda	59	No. 31, Frances Road, Colombo 06
Mr. Drayton Sarath Palitha Wikramanayake	55	No. 8, Swarna Place, Nawala
Mr. Modarage Thilakasiri	53	No. 7/4, Biyagama Road, Thalwatte, Gonawala
Mr. Shanti Kumar Nadarajah	54	No. 7/2D, Jayanthi Mawatha, Jayanthipura, Battaramulla
Mr. Edinadura Kuvera Isuru de Zoysa	41	No. 8/4, Quarry Road, Mirihana, Nugegoda

8.2 Profiles of the Board of Directors

Mr. S.H.M. Rishan – Chairman/ Chief Executive Officer

Mr. Rishan is the Founder/Chairman and Chief Executive Officer of PCH. His visionary leadership has enabled PCH to grow from its humble beginnings to be one of the largest ICT companies in Sri Lanka. He completed his secondary education at Kingswood College, Kandy and commenced his career as a sailor after graduating from the Moratuwa Marine Academy. Mr. Rishan counts over 13 years of experience in the ICT industry.

Mrs. Sharmila Rishan – Non-Executive Director

Mrs. Rishan has been serving on the Board of PCH since 30th November 2006.

Mr. Mangala Boyagoda – Non-Executive Director

Mr. Boyagoda was appointed to the Board of PCH as a Non-Executive Director in 2010. He is a senior banker and holds a Masters Degree in Business Administration from the Irish International University (European Union, UK). Mr. Boyagoda is a former Chief Executive Officer of Standard Chartered Bank and Managing Director/CEO of National Wealth Corporation Limited. He has also served as a Consultant to the Asian Development Bank (ADB), World Bank, Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka and in Bangladesh and as a member of the Financial Reforms Task Force. He is also a former President of the FOREX Association of Sri Lanka. Mr. Boyagoda currently serves as the Chairman of Wealth Lanka Management (Pvt) Limited, a company specialising in treasury and risk management.

Mr. Sarath Wikramanayake – Non-Executive Director

Mr. Wikramanayake was appointed to the Board of PCH as a Non-Executive Director in 2010 and serves as the Chairman of GLPL. He is a Chartered Accountant by profession and brings with him a wealth of experience having worked with the Bank of Butterfield, an international bank based in Bermuda for 19 years, where he reached the position of Executive Vice-President. Since returning to Sri Lanka, he has served as Chief Executive Officer of Union Assurance PLC and President of the Insurance Board of Sri Lanka in 2002. He is currently engaged in providing consultancy services to the financial services industry. He also serves on several boards including National Development Bank PLC and Aviva NDB Insurance PLC.

Mr. Modarage Thilakasiri – Non-Executive Director

Mr. Thilakasiri was appointed to the Board of PCH as a Non-Executive Director in 2010. He is currently serving as the Head of the School of Postgraduate Studies, Sri Lanka Institute of Development Administration (SLIDA). Mr. Thilakasiri has 25 years of experience as a Management Consultant and a Corporate Trainer to many local and multinational organisations in the private sector and institutions in the public sector. He also serves as a Senior Visiting Lecturer in Strategic Management for the Masters Degree programs in Business Administration of University of Colombo, University of Moratuwa, University of Kelaniya and University of Sri Jaywardenepura.

Mr. Shanti Kumar Nadarajah – Non-Executive Independent Director

Mr. Nadarajah was appointed to the Board of PCH as an Independent Director in 2010. He is currently working as a Brand and Marketing Strategy Consultant and has been responsible for branding and identity development of several organisations in the banking, insurance and FMCG sectors in Sri Lanka. Prior to this, Mr. Nadarajah was employed as Director-Client Services at Phoenix Ogilvy, servicing some of Sri Lanka's leading local and multinational brands. He has also served as the President of the Sri Lanka Institute of Marketing for the period 1998-1999. He holds a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing (CIM), UK and an Executive Diploma in Business Administration from the University of Colombo, Sri Lanka.

Mr. Kuvera de Zoysa – Non-Executive Independent Director

Mr. de Zoysa was appointed to the Board of PCH as an Independent Director in 2010. He is an Attorney-at-Law of the Supreme Court of Sri Lanka. He has served as Chairman/Director of People's Merchant Bank PLC and as a Director on the boards of People's Bank, Export Development Board and Sanasa Development Bank. Mr. de Zoysa has also served as Acting Chairman of People's Bank and as Chairman of the Audit, Legal and Risk Management Committees of People's Bank. He is currently engaged in providing legal consultancy to many other private and public sector organisations and holds a Masters Degree (LLM) in International Trade Law from the University of Wales.

8.3 The Board of Directors of Subsidiaries of PCH

Board of Directors of Greenwich Lanka (Private) Limited are tabulated below.

Table 8-2 : GLPL Board of Directors

Name	Designation
Mr. Sarath Wikramanayake	Chairman
Mr. S. H. M. Rishan	Director

Board of Directors of Procifinity Limited are tabulated below.

Table 8-3 : Procifinity Board of Directors

Name	Designation
Mr. Modarage Thilakasiri	Chairman
Mr. S. H. M. Rishan	Director

8.4 Directors' Interest in Shares**8.4.1 Directors' Direct and Indirect Shareholdings in PCH**

The Directors' direct shareholdings in the Company as at June 15, 2010 are tabulated below.

Table 8-4 : Directors' Shareholdings in PCH as at June 15, 2010

Name of Director	Number of Shares Held
Mr. S. H. M. Rishan	154,530,000
Mrs. S. Rishan	17,170,000

8.4.2 Directors' Shareholdings in Subsidiaries

Mr. S. H. M. Rishan holds one (01) share of Procifinity Limited. No Director of the Company has any shareholding in any subsidiary of PCH other than the aforementioned holding.

8.4.3 Sale or Purchase of Shares by Directors

No Director of the Company has been engaged in sale or purchase of shares of PCH during the year immediately preceding the date of the issue of this Prospectus.

8.5 Directors' Emoluments

Emoluments paid in the form of salaries, bonuses and/or profit sharing payments to the Directors during Financial Year 2009/10 amounted to Rs. 1.2 million. The Directors are expected to be remunerated in the form of salaries, bonuses and/or profit sharing payments during the Financial Year 2010/11 to an approximate extent of Rs. 15.6 million.

8.6 Other Directorships Held by the Board

Enumerated below are the directorships held by the Board in other institutions.

Table 8-5 : Other Directorships

Name of Director	Other Directorships Held
Mr. S. H. M. Rishan	Director PC Pharma (Private) Limited Greenwich Lanka (Private) Limited Sansiyo Corporation (Private) Limited Procifinity Limited
Mrs. S. Rishan	Director PC Pharma (Private) Limited Sansiyo Corporation (Private) Limited
Mr. Mangala Boyagoda	Chairman Wealth Lanka Management (Private) Limited Director Wealth Trust Corporation (Private) Limited South Asia Financial Excel Investments (Private) Limited Sierra Construction Limited
Mr. Sarath Wikramanayake	Chairman Greenwich Lanka (Private) Limited Director National Development Bank PLC Aviva NDB Insurance PLC NDB Aviva Wealth Management Limited Rainbow Trust Management Limited
Mr. Modarage Thilakasiri	Chairman Procifinity Limited
Mr. Shanti Nadaraja	Director Vera (Private) Limited
Mr. Kuvera de Zoysa	Director Curlew (Private) Limited

8.7 Directors' Interest in Assets and Contracts

The Company had paid a consideration amounting to Rs. 34.5 million for the land and building acquired by the Chairman (the deeds were registered in the name of the Chairman and not the Company at that time). These land and building were utilised by the Company as collateral for its banking facilities. During the Financial Year 2009/10, the Company transferred the above land and buildings out of the books of the Company at cost. Please refer to "Transaction Details" under Note 22 of the Audited Financial Statements for the year ended March 31, 2010.

As part of the PCH Group restructuring exercise, PCH acquired 100% shareholding of Greenwich Lanka (Private) Limited on April 1, 2009 from Mr. S.H.M Rishan for a consideration of Rs. 368,000 and from Mrs. S. Rishan for a consideration of Rs. 41,000.

On April 1, 2009, PCH disposed its investment in PC Pharma (Private) Limited as part of the PCH Group restructuring process for a consideration of Rs.21 million to Mr. S.H.M. Rishan.

Other Directors of PCH hold no interests in any assets acquired, disposed, or leased by the Company during the past two years preceding the Offering. Furthermore, it is not proposed that the Directors will hold any interest in assets to be acquired, disposed, or leased by the Company in the two years subsequent to the Offering.

There are no contracts or arrangements in force as at May 31, 2010 in which the Directors of PCH are materially interested in relation to the business of the Company.

8.8 Statement – Board of Directors

No Director or a person nominated to become a Director of the Company has been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

8.9 Corporate Governance Practices

The Company believes in adopting the best Corporate Governance practices, in order to maintain an utmost level of transparency, accountability and ethics in the Company. In line with this, PCH has appointed two Non-Executive Independent Directors facilitating independent judgement in Board discussions and decisions. The Board also consists of four Non-Executive Directors and the Chief Executive Officer. The Directors place a high degree of importance on sound corporate governance practices and are committed to maintain the highest standards of practices within the organisation. The Chief Executive Officer Mr. S.H.M. Rishan, who provides specific industry and business intellect to decision making will also act as the Chairman of the Board. The Board of Directors has evaluated the appropriateness of combining the role of the Chairman and Chief Executive Officer and has deemed it to be in the best interest of all stakeholders.

In compliance with the provisions set out in the CSE Listing Rules, the Company has formed an Audit Committee and a Remuneration Committee, the details of which are set out below in Section 8.9.1 and Section 8.9.2 respectively.

8.9.1 Remuneration Committee

The Remuneration Committee consists of one Non-Executive Director and two Non-Executive Independent Directors. Mr. M. Thilakasiri, the Chairman of the Remuneration Committee is a Non-Executive Director of PCH. The other members of the Remuneration Committee are Mr. Shanti Kumar Nadarajah and Mr. E. Kuvera de Zoysa who are Non-Executive Independent Directors of the Company. The committee is responsible for setting up the remuneration policy and making recommendations to the Board on;

- Remuneration framework and levels of the Senior Management
- Senior Management performance and equity based remuneration plans including performance incentives and hurdles
- Remuneration of Executive Directors
- Formation and implementation of human resource policies

The main objective of the remuneration policy of the Company is to attract and retain the required human resource talent to sustain its operations. Aggregate remuneration paid to Executive and Non-Executive Directors during the last year and the amount expected to be paid in the current year are given under Section 8.4 of this Prospectus.

8.9.2 Audit Committee

The Audit Committee comprises of one Non-Executive Director and two Independent Directors. Mr. Sarath Wikramanayake, who is a Non-Executive Director of the Board acts as the Chairman of the Committee. The other members of the Audit Committee are Mr. Shanti Kumar Nadarajah and Mr. Kuvera de Zoysa who are Non-Executive Independent Directors of the Company. The Chief Executive Officer and the Chief Financial Officer attend the meetings of the Audit Committee by invitation. The Audit Committee is responsible for the following;

- Evaluating and monitoring the Company’s control environment and risk management function
- Overseeing and reviewing the quality, cost and scope of internal and external audits
- Review the reports presented to the Committee by both auditors and management
- Recommending to the Board the appointment of internal and external auditors
- Reviewing the Company’s management and statutory reporting
- Reviewing and approving of finance and accounting policies and the ongoing monitoring of their implementation and effectiveness
- Ongoing financial monitoring of the Company’s various disclosure obligations
- The review and pre-approval of any non audit services provided by the internal or external auditors to ensure their independence is maintained at all times

The Audit Committee may seek independent professional advice as and when necessary.

8.10 Senior Management

Senior Management of PCH is set out below.

Table 8-6 : Senior Management of PCH

Name	Designation
Mr. Saheedul Hijiry Mohamed Rishan	Chairman/ Chief Executive Officer
Mr. Mushtaq Ikram	Chief Financial Officer
Mr. Thariq Sanoon	Chief Executive Officer – GLPL
Mr. Jude Fernando	Head of Group Human Resources
Mr. Ravindra Jayasinghe	Chief Operating Officer – PCH
Mr. Rizwan Anise	Head of Group Marketing
Mr. Nim Farzaan	Chief Accountant

Mr. S.H.M. Rishan

Please refer Sections 8.1 and 8.2 above.

Mr. Mushtaq Ikram

Mr. M. Ikram has worked in many leading local and overseas banks including Indian Bank, ABN Amro, Nations Trust Bank PLC and Dubai Bank holding many senior positions and counts over 18 years of experience in the banking sector. He also served as the financial controller in several other reputed companies. Mr. Ikram holds a Postgraduate Executive Diploma in Bank Management from the Finance Institute of Bankers of Sri Lanka.

Mr. Thariq Sanoon

Mr. Thariq Sanoon leads the Enterprise Solutions and Business Applications Division and is the Chief Executive Officer of PCH subsidiary, Greenwich Lanka (Pvt) Ltd. He accounts for over 17 years of experience in local and foreign sales operations with more than 10 years of specialised experience in Software Management at leading institutions. He was President of the Sri Lanka Computer Vendors Association (SLCVA) and Director of the Sri Lanka Information & Communication Technology Association (SLICTA) and INFOTEL Sri Lanka. He has obtained a MBA from Sikkim Manipal University, India in 2008.

Mr. Ravindra Jayasinghe

Mr. Ravindra Jayasinghe, the Chief Operating Officer of PCH, with 11 years experience in the industry has completed his higher studies at NIBM and Westminster College (UK). Prior to assuming his duties with PCH, he has served at J. Sainsbury’s PLC in London, United Kingdom and a leading IT company in Sri Lanka.

Mr. Jude Fernando

Mr. Jude Fernando holds more than 12 years of experience in Human Resources Management. He has HRM experience at the senior level in the banking, construction, IT and apparel sectors. He holds a Bachelors Degree from the University of Peradeniya and a Masters Degree in Management from the University of Sri Jayawardanapura. He is a Professional Member of the Association of HR Professionals - Sri Lanka.

Mr. Rizwan Anise

Mr. Anise began his career as a marketing executive and has extensive experience of over 15 years in marketing in the sectors of shipping, consumer electronics and information technology. He has worked as the principal agent for MNCs such as Malaysian Shipping and Philips Electronics BV in Sri Lanka and abroad. He has a Diploma in Business Administration, Part II Diploma in Business Administration of ABE UK and was awarded an Advance Certificate in CIM UK.

Mr. M. Nim Farzaan

Mr. Nim Farzaan is the Chief Accountant of PCH. He has been a part of the PCH Group for the past 3 years and counts over 15 years of experience in the field of accountancy. He has held senior accountancy positions in several reputed companies.

8.11 Senior Managements' Emoluments

Emoluments paid to the Chief Executive Officer and the Senior Management in the form of salaries and bonuses during Financial Year 2009/10 amounted to Rs. 7.68 million. The Chief Executive Officer and the Senior Management are expected to be remunerated in the form of salaries and bonuses during the Financial Year 2010/11 to an approximate extent of Rs. 19.76 million. No post employment benefits were made to the key management personnel during the Financial Year 2009/10.

8.12 Statement – Chief Executive Officer

The Chief Executive Officer of the Company has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

8.13 Details of Management Agreements

There are no management agreements presently in force or currently being considered by PCH.

8.14 Human Resources

The current staff strength of PCH Group consists of four hundred and seventy one (471) employees of which three hundred and eighty seven (387) are employed under PCH whilst the remaining eighty four (84) are employed by GLPL.

Following the signing of an agreement between Procifinity and the Board of Investment of Sri Lanka, Procifinty expects to employ ninety two (92) employees by the end of the Financial Year 2010/11 and this is estimated to become two hundred and fifty six (256) employees by the end of the Financial Year 2014/15.

The employees of the Company are not members of any Trade Union. Therefore, the Company has not entered into any collective agreement with the employees.

9.0 MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis covers PCH and GLPL, the PCH Group companies that are in operation currently. As disclosed in Note 1.1 and 4.2 of the Audited Financial Statements for the year ended March 31, 2010, the Group has included assets, liabilities, income and expenses of 13 sole proprietorships into the financial statements according to the SIC 12 "Consolidation - Special Purpose Entities" issued by Standard Interpretation Committee of the International Federation of Accountants. These 13 sole proprietorships have been dissolved and steps have been taken by the Company to register the trade names and logos used by these sole proprietorships under PCH as Intangible Assets (also refer Note 5.13 (a) of the Audited Financial Statements for the year ended March 31, 2010).

9.1 PC House Limited

PCH was incorporated over twelve years ago and since then has grown from a company with one outlet to an organisation with 15 retail outlets in Colombo and 13 regional branches island wide. This section discusses the performance of PCH during the last five financial years.

9.1.1 Operating Results

Salient extracts from the Income Statement and the Balance Sheet of PCH and the historical performance of the Company during the five year period ended March 31, 2010 are given below.

Table 9-1 : PC House Limited - Summarised Income Statements

<i>All figures in Rupees</i>					
For the year ended March 31,	2006	2007	2008	2009	2010
Revenue	1,666,073,890	3,031,316,690	2,546,423,313	2,526,804,528	2,810,245,335
Gross Profit	339,071,196	413,503,475	460,532,208	487,142,202	552,425,267
Operating Profit	115,638,143	170,306,559	213,445,035	244,608,020	352,895,994
PBT	20,633,273	29,315,241	28,454,701	27,103,008	159,489,366
Net Profit	6,928,319	76,674,014	12,845,010	19,275,244	98,273,652

Table 9-2 : PC House Limited - Summarised Balance Sheets

<i>All figures in Rupees</i>					
As at March 31,	2006	2007	2008	2009	2010
Total Non Current Assets	414,379,723	498,648,219	469,993,173	468,740,389	637,300,847
Total Current Assets	721,306,725	851,077,465	957,854,662	910,665,445	1,014,958,212
TOTAL ASSETS	1,135,686,448	1,349,725,684	1,427,847,835	1,379,405,834	1,652,259,059
Total Capital & Reserves	210,825,020	287,499,034	300,344,044	319,619,288	615,898,392
Total Non Current Liabilities	142,195,233	209,039,158	150,876,416	130,351,557	210,768,922
Total Current Liabilities	782,666,195	853,187,492	976,627,375	929,434,989	825,591,744
TOTAL EQUITY & LIABILITIES	1,135,686,448	1,349,725,684	1,427,847,835	1,379,405,834	1,652,259,059

A revaluation of land and building of PCH was carried out as at March 31, 2010. Please refer Note 2.5 of the Accountants' Report on page 77

The gratuity provision made for Key Management Personnel as at March 31, 2010 was Rs. 263,939.

Qualifications for the Audited Financial Statements are provided in page 79.

9.1.2 Performance of Operations for the Five Years Ended March 31, 2010

Revenue

The movement in revenue of PCH during the last five financial years are depicted below.

Figure 9-1 : PCH Revenue

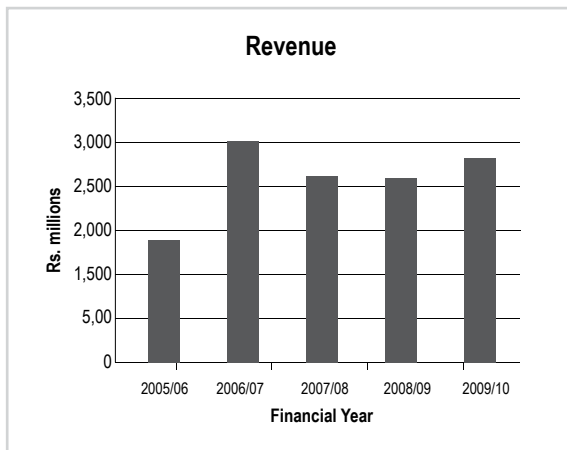
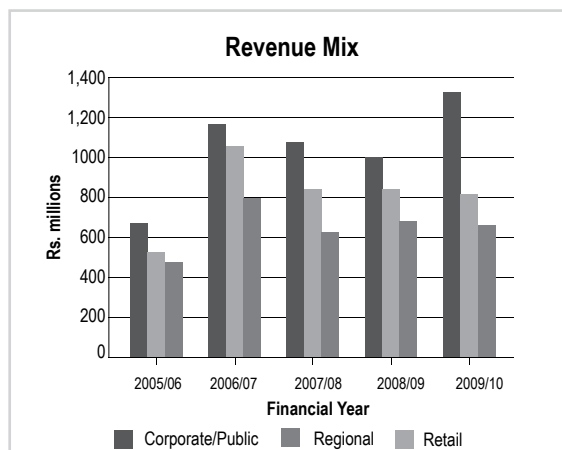


Figure 9-2 : PCH Revenue Mix



During the Financial Year 2006/07, PCH reported exceptionally high revenue mainly due to the country’s economic environment being conducive to the ICT sector. Revenue dipped in the subsequent years due to the reduction in disposable income of consumers resulting from the high levels of inflation, rising interest rates, rising commodity prices and global recessionary environment. In addition, the public sector investment in ICT was drastically reduced due to the intensified war situation from Financial Year 2007/08 onwards up to the last financial year. The latter half of the Financial Year 2009/10 was favourable to PCH with the 30 year old war coming to an end. The corporate/public sector sales picked up showing signs of recovery following a dull period of investment in ICT.

Gross and Operating Profit

The following figures illustrate the gross and operating profits of PCH along with the gross and operating profit margins.

Figure 9-3 : PCH Gross Profit

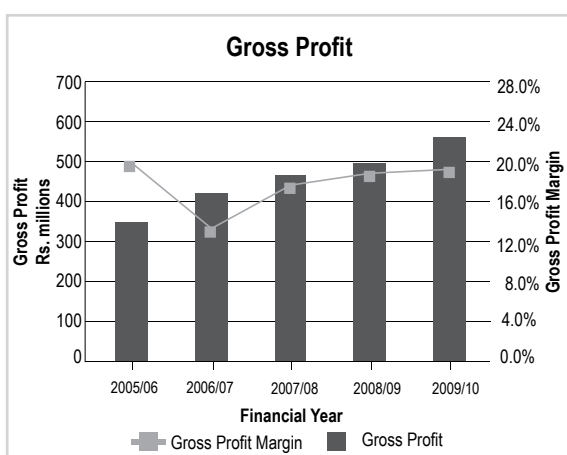
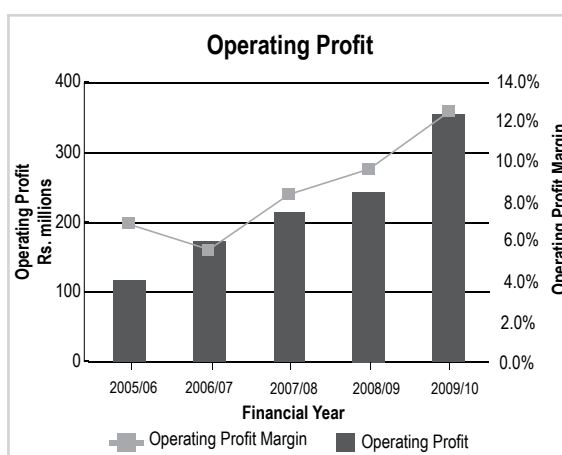


Figure 9-4 : PCH Operating Profit

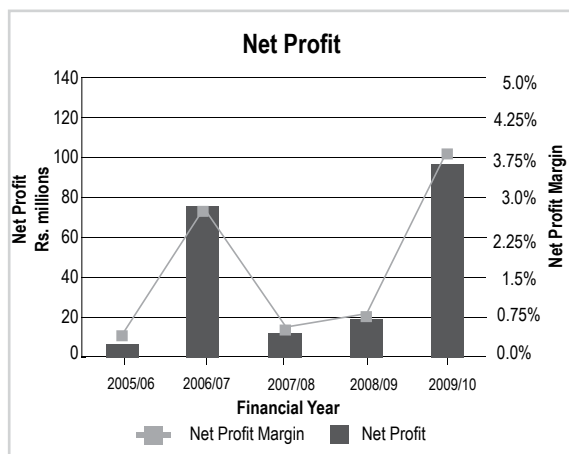


The gross and operating profit margins of PCH have seen a steady increase from the Financial Year 2006/07 onwards. The Company has achieved gross profit margins in line with the industry norms of approximately 20% in recent years. Administrative and Staff Costs have been reduced during the Financial Year 2009/10 as a result of the Company restructuring its regional branch network and streamlining its workforce through a series of cost-cutting procedures. Coupled with this, the operating profit margin has shown growth from 5.6% in the Financial Year 2006/07 to 12.3% in the Financial Year 2009/10 thus demonstrating the Company’s improvement in operations and internal efficiencies.

Net Profit

The movement in net profit of PCH during the last five financial years is depicted below.

Figure 9-5 : PCH Net Profit



The increase of net profit for the Financial Year 2006/07 is due to a deferred tax reversal. During the most recent financial year, the Company recorded a significant increase in net profit as well as the net profit margin mainly due to the falling interest rates resulting in a substantial reduction of finance cost, in addition to the abovementioned efficiency improvements.

9.1.3 Recent Performances of PCH

The performance of PCH during the last 5 months compared to the same period in the year 2009 is depicted below.

Figure 9-6 : Monthly Revenue of PCH

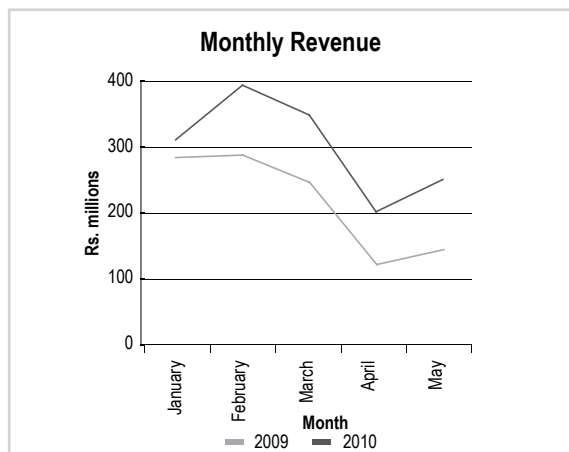
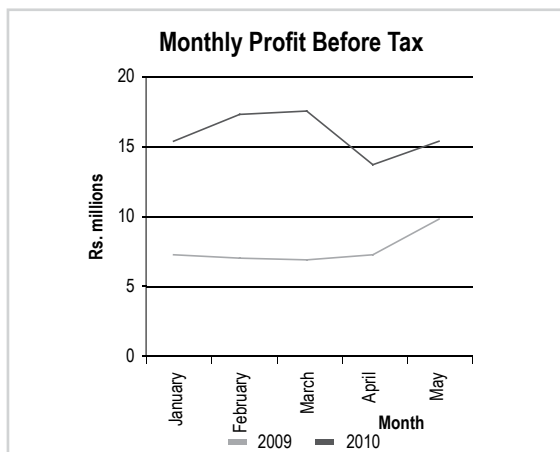


Figure 9-7 : Monthly Profit of PCH



The monthly revenues of PCH in 2010 have grown by approximately 30% on average compared to the same in 2009. This was mainly fuelled by the conducive environment for the ICT industry in Sri Lanka. Monthly profits of PCH have also gained an average growth of over 400% in 2010, compared to 2009. The substantial profit growth is attributable to the increased efficiencies and reduction in interest rates as mentioned in the above section.

9.2 Greenwich Lanka (Private) Limited

GLPL was acquired by PCH on April 1, 2009 as part of the group restructuring process. Prior to this transaction, GLPL was a sister company of PCH owned 100% by the two shareholders of PCH. This section outlines the performance of GLPL from the Financial Year 2007/08 to the latest Financial Year 2009/10.

9.2.1 Operating Results

Salient extracts from the Income Statement and Balance Sheet of GLPL and the historical performance of GLPL during the three year period ended March 31, 2010 are given below.

Table 9-3 : Greenwich Lanka (Private) Limited - Summarised Income Statements

<i>All figures in Rupees</i>			
For the year ended March 31,	2008	2009	2010
Revenue	63,309,766	58,096,961	224,042,192
Gross Profit	26,100,704	27,021,528	78,838,554
Operating Profit	3,794,969	4,330,734	33,624,161
Profit Before Tax	3,309,971	2,960,964	32,156,870
Net Profit	2,744,251	2,408,547	20,404,972

Table 9-4 : Greenwich Lanka (Private) Limited - Summarised Balance Sheets

<i>All figures in Rupees</i>			
As at March 31,	2008	2009	2010
Total Non Current Assets	2,118,531	1,595,041	1,033,391
Total Current Assets	14,947,584	20,938,572	54,000,312
TOTAL ASSETS	17,066,115	22,533,613	55,033,703
Total Capital & Reserves	3,790,648	5,627,195	31,032,167
Total Non Current Liabilities	-	-	-
Total Current Liabilities	13,275,467	16,906,418	24,001,536
TOTAL EQUITY & LIABILITIES	17,066,115	22,533,613	55,033,703

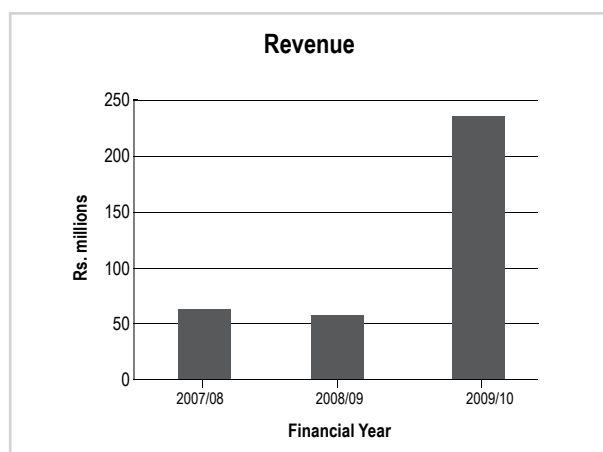
GLPL has identified the present Retirement Benefit Obligation to be a nominal amount and hence had not provided for up to Financial Year 2009/10. Subsequently, a provision of Rs. 1,895,600 has been made for Retirement Benefit Obligation with regard to GLPL in the Financial Statements of PCH Group up to the two months ended May 31, 2010.

9.2.2 Performance of Operations for the Three Years Ended March 31, 2010

Revenue

The movement in revenue of GLPL during the last three financial years are depicted below.

Figure 9-8 : GLPL Revenue



Considering the industry segment in which GLPL operates, it is observed that it generally takes a few years for a new player to establish itself in the market. This is mainly due to the fact that the clientele would require the suppliers to have good historical credentials. The management of GLPL had established these credentials during the Financial Years 2007/08 and 2008/09. In addition, the intensifying of the war during these years along with other unfavourable economic conditions as mentioned earlier has led to low levels of revenue during these two years. Having performed for two years and adequate credentials being established, together with the favourable economic conditions during the latter half of the Financial Year 2009/10, GLPL was able to record a substantial level of revenue growth during this year.

Profitability

The following figures depict the profitability of GLPL during the last three financial years.

Figure 9-9 : GLPL Operating Profit

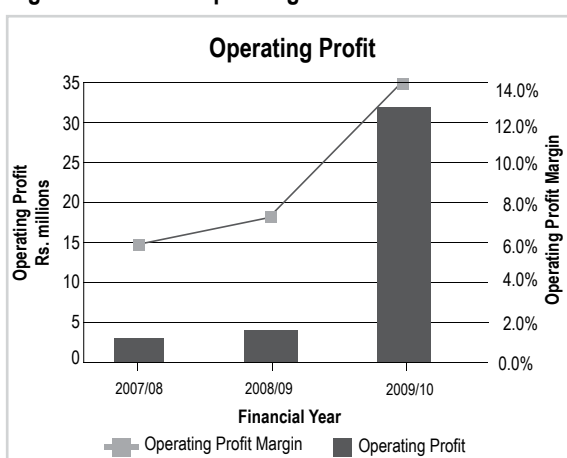
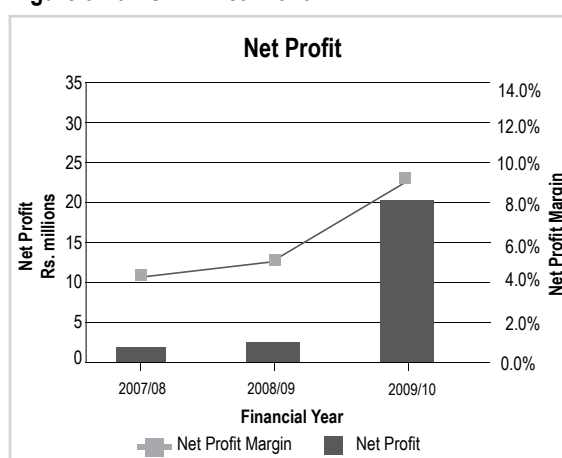


Figure 9-10 : GLPL Net Profit



The operating profit and net profit of GLPL have increased substantially during the last financial year demonstrating the fact that GLPL has been able to establish itself in the market in which it operates. The Company is expected to benefit from economies of scale resulting in a further improvement in margins during the forthcoming years.

9.2.3 Recent Performances of GLPL

The performance of GLPL during the last 5 months compared to the same in the year 2009 is depicted below.

Figure 9-11 : Monthly Revenue of GLPL

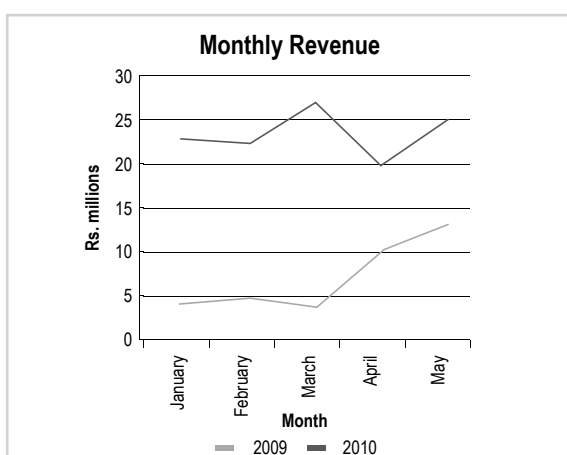
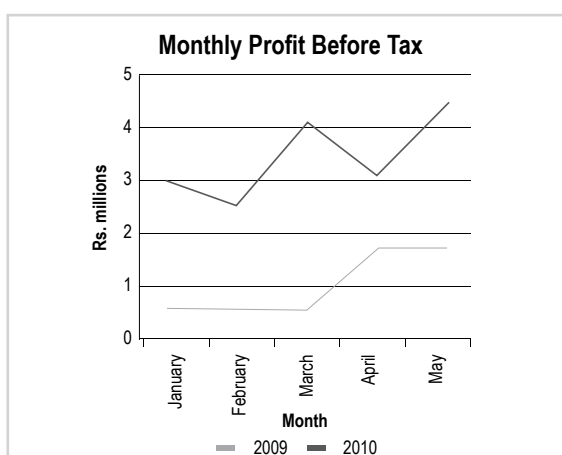


Figure 9-12 : Monthly Profit of GLPL



The monthly revenues of GLPL in 2010 have grown by over 250% on average compared to the same in 2009. As mentioned in the above section, the substantial increase in revenue is attributable to the establishment of GLPL in the industry as an ICT solutions provider and to the favourable economic conditions post war. Monthly profits of GLPL have increased substantially (by an average of over 8 times) in 2010, compared to 2009, mainly fuelled by the factors mentioned in the previous section.

10.0 CAPITAL STRUCTURE

As at the date of this Prospectus, the Stated Capital of the Company is Sri Lanka Rupees One Hundred and Seventy One Million Seven Hundred Thousand (Rs. 171,700,000) divided into One Hundred and Seventy One Million Seven Hundred Thousand (171,700,000) fully paid Ordinary Shares.

10.1 An Overview of the Stated Capital

An overview of the Capital Structure of the Company during the last three financial years is set forth below.

	FY2009/10	FY2008/09	FY2007/08
Stated Capital (Rs.)	171,700,000	171,700,000	171,700,000
Number of Ordinary Shares in issue	171,700,000*	17,170,000	17,170,000

* The Company sub-divided each Ordinary Share into ten (10) Ordinary Shares on March 31, 2010.

The Company has not issued any new Ordinary Shares during the preceding three financial years.

The Company has no other classes of shares other than the abovementioned Ordinary Shares.

There are no restrictions on the purchase of shares by non-residents in the Company.

10.2 Free Transferability of Securities

There are no statutory restrictions on the free transferability of the Issued Shares.

10.3 Shareholders of the Company Prior to the Offering

Tabulated below are the shareholders of the Company as at June 15, 2010.

Name of the Shareholder	Number of Shares	Percentage of Shareholding
Mr. Saheedul Hijiry Mohamed Rishan	154,530,000	90%
Mrs. Sithy Sharmila Rishan	17,170,000	10%
Total	171,700,000	100%

10.4 Principal Shareholders Subsequent to the Offering

Tabulated below are the shareholders of the Company succeeding the Offering, assuming full subscription.

Name of the Shareholder	Number of Shares	Percentage of Shareholding
Mr. Saheedul Hijiry Mohamed Rishan	154,530,000	67.5%
Mrs. Sithy Sharmila Rishan	17,170,000	7.5%
Public Holding	57,233,334	25.0%
Total	228,933,334	100.0%

10.5 Details of Other Changes to Stated Capital

The Company has not engaged in any share redemption, repurchase or reduction in Stated Capital in the two years preceding the date of this Prospectus.

CAPITAL STRUCTURE

10.6 Details of Convertible Debt Securities

The Company has no outstanding convertible debt securities as at the date of this Prospectus.

10.7 Details of Shares Sold Privately in Conjunction with the Offering

No shares are being issued privately in conjunction with the Offering.

10.8 Take-over Offers

There have been no take-over offers by third parties in respect of the Company's shares during the past two years.

As mentioned in Section 8.7 above, the Company acquired 100% of the shareholding of Greenwich Lanka (Private) Limited on April 1, 2009 for a consideration of Rs. 409,000.00. The Company has not made any takeover offers in respect of shares of a third party other than the abovementioned company.

11.0 INVESTMENT CONSIDERATIONS AND ASSOCIATED RISKS

Prior to investing in the Offered Shares, prospective investors should pay particular attention to the fact that the Company and to a large extent its business activities are subject to a number of risk factors which may be within or outside the control of the Company.

The risk factors that follow may be considered material to investors in making an informed judgment on the Company. Since PCH Group's presence is in the ICT sector, the business related risks are focused on the ICT sector. If any of the considerations and uncertainties given below develop into actual events, the Company's business, financial conditions or results of operations and prospects could be materially and adversely affected and this may impact the market price of the Offered Shares. However, given the necessity of the ICT sector for the economy, demand for the Group's business is expected to be sustainable in the foreseeable future.

11.1 Risks Relating to Macro-environmental Factors

11.1.1 Political and economic changes in Sri Lanka could adversely affect the operations of the PCH Group

The GoSL exercises a significant influence over many aspects of the economy. The Company's business and financial performance could be affected by political instability of the country and the region. An unstable political environment could reduce the economic growth of the country and consequently, the demand for ICT related products/services and infrastructure. Disposable income of individuals and earnings of corporates would affect the businesses of PCH Group, since affordability of ICT products/services largely depend upon the income levels of individuals and corporates. However, the future outlook of political stability seems to be more conducive to the economic growth of the country. In addition, as a result of the country's three decade long civil war coming to an end, it can reasonably be expected that investments would flow in to support the upliftment of infrastructure facilities in the Northern, Eastern and other regions of the country including ICT infrastructure investments. Availing such opportunities to the private sector would enable companies such as PCH, GLPL and Profinity to pursue new opportunities emerging in this region.

Since import costs of PCH and GLPL are denominated in USD, exchange rate fluctuations may have an impact on its pricing of products/services and thereby on the financial results. However, as exchange rate fluctuations would affect the entire industry, this impact is expected to be a pass-through cost to the ultimate customer. Considering the current economic conditions such as the improved reserve position of the Central Bank of Sri Lanka (CBSL), International Monetary Fund (IMF) loans and expected Foreign Direct Investments (FDIs), the Rupee may strengthen in the future resulting in a possible reduction in import costs.

PCH Group currently has a significant amount of both short term debt and long term debt to finance its working capital requirement. An increase in interest rates in the future would increase the interest payable by the PCH Group affecting its profitability adversely. Any additional borrowings by the Company to finance its existing business operations and potential new business would further expose the Company to the risk of increased interest rates in the future. However, this would be mitigated to a certain extent as the Company intends to utilise part of the funds raised through the IPO for its incremental working capital financing, reducing its reliance on debt.

11.1.2 Low IT literacy of population

The Sri Lankan computer literacy rate stands at just above 20% as per the survey conducted by the Department of Census and Statistics in 2009. The envisaged risk is that the current level of computer literacy remaining stagnant at these levels without any progress. However, the present level of computer literacy in Sri Lanka is relatively low signifying an enormous potential for improvement. GoSL has identified this potential as one of its top priorities and has already initiated programmes to improve awareness and thereby increase the computer literacy rate, especially through programmes such as "Nena Sala" under ICTA. Further, ICTA is in the process of establishing telecentres/knowledge centres with the intention of inculcating IT usage amongst the Sri Lankan population. As per the projections of ICTA, the current level of computer literacy is expected to increase significantly. This would directly help the computer penetration levels to improve in the future from the prevailing low penetration level of 5% benefiting companies such as PCH, GLPL and Profinity in the long run.

11.1.3 Changes in the ICT sector regulations

The operations of PCH Group may be sensitive to any changes in the ICT sector regulations imposed by GoSL. The Company does not envisage any changes in the near future which may have any adverse material effect on its business prospects and results of operations. Further, the landscape of the ICT sector has changed in the recent past with the establishment of ICTA together with the enactment of the Information and Communication Technology Act No. 27 of 2003 where the GoSL expressed its intention to formulate a national ICT policy and expedite its implementation through ICTA.

11.1.4 Natural perils

Despite all the precautionary measures undertaken by the Company to safeguard and protect its systems and business operations, vulnerability to the risks of natural and manmade disasters always exist. The Group has obtained the required insurance covers to mitigate the risks of damages to property and any business interruptions caused by such disasters and thereby ensuring business continuity.

11.2 Risks Relating to the Business of PCH

11.2.1 Technological obsolescence affecting stocks and their selling prices

Technological obsolescence could adversely affect companies operating in the ICT sector due to the rapid technological advancements rendering existing inventories obsolete. However, PCH having been in the industry for more than a decade, has mastered the inventory management in order to carry out uninterrupted operations while coping with the technological changes of products and services that the Company offers, hence mitigating any potential adverse impact due to technological obsolescence. Also, any major changes in technology would be known in the market world over for some time especially during the testing period. This period is believed to afford PCH adequate time to adjust its inventory levels and reduce the risk of obsolescence.

11.2.2 Duty structures on imported computer hardware and software

GoSL could always alter/introduce duties on imported computer hardware and software that may affect the operations of PCH adversely. However, given the emphasis on the sector by the GoSL and lack of local supplies, the Company does not foresee any change in existing duty structure or any new duties being introduced in the immediate future that may have an adverse impact on the operations of the business. It should be noted that such a change will not only affect PCH but the IT industry as a whole.

11.2.3 Dependence on third party vendors

In the normal course of business, PCH enters in to contracts with its clientele who may require or depend on supplies of products and/or services from third party vendors. Delivery of defective supplies and delays by such third party vendors could adversely affect the business and the reputation of PCH and its operations. However, the Company who has been in the business for a substantial period of time is confident and has been careful enough to source its supplies from reputed global players who are capable of providing the required quality standards in a timely manner. In the event of any potential monetary loss arising out of such delivery of defective supplies and delays could be indemnified through the warranties granted by the global suppliers, thus minimising the risk to PCH.

11.2.4 Risks related to competition in the ICT sector

The retail and regional segments in the IT infrastructure business, which caters to the price sensitive retail clientele, is highly competitive mainly as a result of a large number of small players operating in the market due to the low barriers to entry. However, due to its stability and consistent delivery, the Company has been successful in this business for more than 13 years making PCH one of the most sought out suppliers in this segment. With its current level of operations and a strong Balance Sheet to support a business of this nature, PCH is confident in facing any competition that may emerge in the future, successfully. In addition, the Company is of the view that the economies of scale currently enjoyed by PCH (through 15 retail outlets), geographical diversification (through 13 regional branches) and the streamlined after sales service capabilities are major strengths compared to some of the other smaller players in the market and this would enable PCH to overcome any competition effectively. Furthermore, considering the level of IT penetration in the country, the Company is of the view that there would be adequate space for more players to establish themselves in the market. Hence, it is believed that the risk of competition in the retail and regional segments is reduced to a greater extent.

The corporate and public segments of the ICT market is more concerned about the credentials, quality of service and after sales support offered by the suppliers. Large projects are generally offered based on a tender process for public sector and a bidding process for corporates. A considerable level of competition is imposed by the established large players possessing superior financial, technological and marketing strength. PCH as an established player in this segment has confronted the competition successfully in recent years and is confident of doing the same in the future as well. In addition, subsequent to PCH becoming a listed entity via this Offering, it is believed that the Company will enjoy better brand visibility and acceptance compared to the competitors which can be leveraged successfully in these segments.

11.2.5 Risk related to Intellectual Property Rights (IPR) violations

PCH's operations include sale of software catering to particular requirements of customers. PCH is not involved in any form of illegal copying of software and has implemented strict control procedures to prevent its employees from carrying out such activities. All the off-the-shelf software sold by PCH is original software obtained from global vendors and hence the risk of any IPR violations are minimised.

11.2.6 Risk relating to accounting policy changes

The Company and its subsidiaries may from time to time consider changes to accounting policies and methods as and when it may be appropriate. This in turn may have an impact on the recognition of income, expenses, assets and liabilities in the respective financial statements. As a result, the earnings and net asset value of the Company could be affected especially in the year of such change coming into effect.

11.3 Risks Relating to the Business of GLPL

11.3.1 Supply of IT personnel

At present, there is a high level of demand for qualified and skilled IT professionals in the industry. Supply of skilled IT professionals to GLPL is critical to the smooth functioning of the business. GLPL is continuously looking for talented young professionals to become part of its skilled work force. Generally, GLPL is sourcing its professionals through IT faculties in state run and other universities. As a positive factor, it is noteworthy that the GoSL has been increasing the student intake to state universities for IT related programmes year-on-year with the expectation of catering to the expected demand of the ICT sector in Sri Lanka in the future. Hence, it is believed that it would not be a difficult task for GLPL to source the level of professionals with required skills in order to facilitate a smooth operation of its business activities.

11.3.2 Staff retention

GLPL presently possesses a skilled and well experienced team. There is a risk of GLPL losing its key personnel in the medium to long term. However, GLPL has taken adequate HR initiatives towards empowering and retaining its key personnel by offering relevant training, attractive remuneration and other fringe benefits. In addition, a second layer of skilled personnel are being developed in order to reduce the risk of losing the existing key personnel.

11.3.3 Security risks related to computer systems

Breach of security in computer systems implemented by GLPL for its clients would result in tarnishing the brand image, payment of damages and lack of confidence which would be detrimental to future business activities of GLPL. In most instances, GLPL would enter into an agreement with its clients highlighting the clients' responsibility and the obligation to protect the systems as well as information in a bid to minimise the undue risks to the company. However, not relying on any comfort from these agreements, GLPL is aware of its obligations and is well experienced in designing systems and implementing appropriate control mechanisms through a dedicated team of professionals to avoid/mitigate potential risk of breach of security.

11.3.4 Risk related to Intellectual Property Rights (IPR) violations

GLPL's operations include sale of software and customising of off-the-shelf open source software catering to particular requirements of customers. GLPL is not involved in any form of illegal copying of software and has implemented strict control procedures to prevent its employees from carrying out such activities. All the off-the-shelf software sold by GLPL are original software obtained from global vendors and hence the risk of any IPR violations are minimised. In addition, the software

developments carried out by GLPL are on open source software which provides GLPL with greater flexibility in creating derivative software products. Since open source software does not require any licensing, there is no risk of IPR violations.

11.4 Risks Relating to the Business of Procifinity

11.4.1 Cost escalation of expanding the BPO/KPO operations and setting up the IDC operations

Procifinity estimates to utilise Rs. 300 million of the IPO proceeds in setting up a BPO/KPO and IDC facility. The actual cost of equipment required in expanding the BPO/KPO operations and setting up the IDC operations would depend upon the prices at the time of development and supply of such equipment and may differ from those previously estimated. However, Procifinity has already carried out its initial feasibility and has taken due care together with a well experienced team of personnel in estimating the relevant capital cost associated with the proposed new operation and to minimise the risk of cost overruns and implementation delays.

11.4.2 Supply of Skilled Staff

Supply of skilled IT professionals to Procifinity, especially for the BPO/KPO operation is critical to the smooth functioning of the business. Procifinity would seek talented young professionals to become part of its skilled work force. It is believed that the professional personnel required to carryout the BPO/KPO operations at the initial stage with a seating capacity of 200 would not be a significant number.

11.4.3 Staff retention

BPO/KPO operations are traditionally associated with high employee turnover due to monotonous nature of work and lack of career progression. Procifinity would utilise best HR practices in the industry with a view to retain and motivate its staff.

11.4.4 Competition from incumbent players

For the BPO/KPO and IDC segments, Procifinity would be a new entrant. The incumbent players may aggressively market their service offerings to preserve and to improve the level of business. However, Procifinity wishes to target different market segments /clientele compared to the incumbent operators for BPO/KPO services. As the IDC market is expected to be in a growth stage, the market expansion would benefit all the players without significant competition.

11.4.5 Competition from other low-cost BPO/KPO destinations

The emergence of low-cost acceptable quality BPO/KPO destinations would hinder Sri Lanka's attractiveness for potential foreign clients. Such destinations may reduce the viability of transferring the BPO/KPO businesses to Sri Lanka as perceived by foreign clients. However, Sri Lanka has the potential to compete on quality with these other destinations and the GoSL has given significant incentives for the industry to sustain its competitiveness, such as tax holidays depending on the size of the investment, duty free importation of equipment and the creation of IT facilities with the necessary infrastructure.

11.4.6 Security risks related to computer systems

Breach of security in the internal computer systems would result in a loss/modification of confidential information adversely impacting the operations of Procifinity. However, Procifinity would implement the necessary firewalls and up-to-date antivirus software for all its internal computer systems and applications in order to protect the same from any unforeseen eventualities. Also, Procifinity would adopt adequate systems and take steps to educate all its employees and will implement certain restrictions on them with regard to the use of the Company's IT infrastructure. In addition to the above, Procifinity intends to implement special security policies including physical and logical access controls for the businesses of BPO/KPO and IDC where security is of vital importance.

11.4.7 ICT Infrastructure – Availability of connectivity, speeds affecting BPO/KPO and IDC operations

Reliable connectivity and consistent high data speeds are critical to the BPO/KPO operations and envisaged IDC operations of Procifinity. Interruptions to those would negatively affect customer satisfaction and thereby the business in terms of loss of potential clientele. However, PCH Group as an ICT company moving towards achieving the benchmark company status, is expected to equip Procifinity with state-of-the-art technologies/concepts such as backup time and disaster recovery in order to provide continual and reliable services to its valued customers.

11.5 Capital Market Related Risks

11.5.1 No prior market exists for the Offered Shares

Prior to the Offering there has been no public market for the Company's shares. There can be no assurance that an active trading market for Offered Shares will develop or if developed, will be sustained, or that the market price of Offered Shares shall not decline below the Share Offer Price. The Share Offer Price may not be indicative of the market price for the Company's Shares after completion of the Offering.

11.5.2 Price volatility in the secondary market

The price of the Offered Shares may fluctuate due to and not limited to the following: variations in operating results, changes in operating environment, transitions in the regulatory front, technological advancements/obsolescence, macroeconomic factors and external events. Price of Offered Shares may follow general investor sentiment prevalent in the market at a given time. In addition, the price of Offered Shares in the market will fluctuate as a result of share trading volumes.

12.0 STATUTORY AND OTHER GENERAL INFORMATION

12.1 Hosting of Prospectus, Application Form and Articles of Association on the Web

The Prospectus, Application Form and Articles of Association of the Company will be available on the website of the CSE, www.cse.lk, the website of the Company, www.pch.lk and the website of the Managers to the Offering, www.ndbib.com from the date hereof, until the subscription list closes or up to fourteen (14) Market Days, whichever is earlier.

12.2 Inspection of Documents

The Articles of Association, the Auditors' Report, the Audited Financial Statements for the five financial years immediately preceding the date of this Prospectus, Financial Year 2005/06 to Financial Year 2009/10 (both periods inclusive) and other project documents to which references are made in this Prospectus are open for inspection by the public during normal working hours at the registered office of the Company from the date hereof, until the subscription list closes or up to fourteen (14) Market Days, whichever is earlier.

12.3 Brokerage

Brokerage at the rate of zero decimal seven per centum (0.7%) of the Share Offer Price will be paid in respect of the number of shares allotted/allocated on Applications bearing the seal of any bank operating in Sri Lanka or a member/trading member of the CSE or other intermediary appointed by the Company involved in the placement/marketing of the Offering.

12.4 Cost of the Issue

All direct costs and expenses associated with the Offering, inclusive of but not limited to the initial listing fees to CSE, management/advisory fees to the Managers to the Offering, fees for the registrar function, other advisory fees, certain legal, consultancy and accountancy fees, advertising and promotional costs, printing costs, brokerage commissions and stamp duty are estimated to be approximately Rs. 32 million. Such costs will be recovered from the proceeds of the Offering.

12.5 Underwriting

PCH has not entered into any underwriting arrangements for the Offering. The Company shall seek a listing irrespective of whether the Offering is fully subscribed or not (subject to the Company satisfying the requirements of CSE Listing Rules) for the reasons set out in paragraph below and the Offering is not conditional upon any minimum subscription being met.

The proceeds raised by the Offering are to be utilised by the Company for the activities elaborated under Section 5.5. In the opinion of the Directors of the Company, it is estimated that out of the proceeds raised, a sum of Rs. 300 million would be required in order to finance the development of BPO/KPO facility and the IDC with the balance being utilised to finance the working capital requirements of business expansions.

In the event of an under subscription, the Company is confident that the shortfall can be financed through internally generated funds and borrowings.

13.0 THE COLOMBO STOCK EXCHANGE

The information presented in this section has been extracted from or based on publicly available documents, which have not been prepared or independently verified in connection with the Offering. The information is included for the convenience of investors and is not intended to be a complete description of the Sri Lankan capital market which may be material to investors.

13.1 Governance

The CSE is a duly incorporated legal entity in the form of a company limited by guarantee and is licensed by SEC to operate as a Stock Exchange. The board of directors of the exchange is the main policymaking body of the exchange and consists of eight (08) directors out of which four (04) directors are elected by broker firms of the CSE and the other four (04) directors appointed by the Minister of Finance.

The CSE is structured as a self-regulatory organisation and is a member of the World Federation of Exchanges and the South Asian Federation of Exchanges. The CSE provides the infrastructure and the regulatory framework required for the trading of listed securities.

A mutualised exchange, the CSE has fifteen (15) members and six (06) trading members as at the date of this Prospectus. Each member is licensed by the SEC to perform the duties of a stockbroker. All members are corporate entities and in some cases, subsidiaries of large financial conglomerates such as merchant, commercial and investment banks.

13.2 The Branches of the CSE

The CSE at present operates with a network of five branches in Matara, Kandy, Kurunegala, Negombo and Jaffna.

13.3 Stock Market Indices

The CSE currently maintains two price indices, two total returns indices and 20 sector indices. The All Share Price Index (ASPI) tracks the movement of all listed securities with a base index of 100 set in 1985. The Milanka Price Index (MPI) tracks price changes of 25 listed securities, selected based on market capitalisation and liquidity.

In January 2004, the CSE also launched two total return indices designed to reflect both price changes and dividend income, in respect of both price indices. The ASPI calculated on a total returns basis results in the Total Returns Index on the ASPI (ASTRI). The MPI calculated on a total returns basis results in the Total Returns Index on the MPI (MTRI).

13.4 Trading on the CSE

The CSE operates an order driven market using a fully automated screen based trading system and a fully automated clearing and settlement system. Facilities for clearing and settlement of securities are provided by the Central Depository Systems (Private) Limited (CDS) which is a wholly owned subsidiary of the CSE.

13.4.1 Trading Sessions

Trading takes place from 9.30 a.m. to 2.30 p.m. from Monday to Friday, except for public and bank holidays. The trading session is divided into the following sessions.

Pre-Open

During pre-open (9.00 a.m. to 9.30 a.m.), the system accepts orders. These orders can be amended and cancelled during pre-open. However, no trades take place during this stage. Orders during this period are held in the Automated Trading System (ATS) and will be forwarded to the execution engine at open auction time.

Open Auction

During open auction (9.30 a.m.), the system temporarily closes the order book and starts matching orders. It establishes the opening price and determines the orders to be executed according to the ATS rules applicable for the open auction period.

Regular Trading

During regular trading (9.30 a.m. to 2.30 p.m.), new orders are continually matched to existing orders in the order book. If an order cannot be executed, it may be stored in the order book, depending on the type of the order.

13.4.2 Size of Trades

The number of shares traded must be in multiples of one hundred and any number less than this will be traded on the odd lot board.

13.4.3 Settlement Procedures

Equity transactions must be settled within three days from the trade date (T+3) for both the buyers and sellers. All parties wishing to trade on the CSE must have CDS accounts.

13.4.4 Transaction Costs

Transaction cost break up with effect from August 01, 2010 is depicted below.

	On Transactions Upto Rs. 50 million	On Transactions Over Rs. 50 million
Brokerage Fees	0.6400%	Negotiable subject to a minimum of 0.1500%
SEC Cess	0.0720%	0.0450%
CSE Fees	0.0840%	0.0525%
CDS Fees	0.0240%	0.0150%
GoSL Levy	0.2000%	0.2000%
Total	1.0200%	0.4625%*

*Based on the minimum Brokerage Fees

Note that the transaction fee due to the broker, CSE, CDS and SEC on intraday trades, where a client buys and sells or sells and buys the same security on the same day through the same broker will not be charged on one side of the transaction involving lower of the quantity.

13.4.5 Recent Performance

Subsequent to the cessation of the war that plagued the country for three decades, the equity market bounced back strongly following a lull period in the previous couple of years. CSE experienced some volatility during the first four months of the year 2009 as the war was at its height. However, the indices began to surge upwards from May 2009 marking positive sentiments following the end of hostilities in the North and East of the country. ASPI rose by 125% in 2009 in comparison to a decline of 41% and 7% in 2008 and 2007 respectively. This outshone the previous record of 118% growth recorded in 1991. The MPI closed the year at 3,849.38 points, recording a 136% rise in 2009 compared to its previous record of 51% in 2006. Further, the market capitalisation has more than doubled and crossed the Rs. 1 trillion mark, closing the year 2009 at Rs. 1,092 billion in comparison with Rs. 489 billion reported at the end of 2008, highlighting positive investor sentiment.

Further, the CSE achieved the highest turnover for a given year by recording Rs. 142 billion in year 2009, compared to its previously recorded highest of Rs. 114.6 billion in 2005 marking aggressive investor appetite in the Colombo bourse. The market price earnings ratio (PER) which was 5.4 at the end of 2008 moved up to 16.5 at the end of year 2009 indicating the constructive outlook of the equity market. The above robust performance of the equity market was mainly attributable to the containment of domestic inflationary pressures, a lower interest rate environment, and renewed investor confidence about the prospects of the business sector in a regaining economy. Subsequent to these commendable performances cited in year 2009, the CSE was acknowledged as the "second best performing stock market in the world" by Bloomberg News.

The CSE has been able to sustain its improved performance to reach new heights in 2010. During the first five months of 2010, the ASPI index of the CSE surpassed the 4,000 notch closing out the index at 4,237 while MPI closed at 4,757. Market capitalisation has increased gradually to Rs. 1,380 billion during this period.

During the first five months of 2010, four IPOs were recorded through which a total of Rs. 612.4 million was raised indicating the willingness of new companies to establish their presence in the CSE. It can be anticipated that several IPOs currently in the pipeline are to be executed during year 2010.

Given the present inspiring market momentum along with the prospective development of the economy, a sustainable growth in the CSE performance can be perceived in the long term. Improved market performance coupled with positive sentiments amongst investors and likely improvements in the economy following the end of the war in 2009 would provide a solid platform for new issues.

The table below provides market related statistics for the years 2005 to 2009 and the five months period ended May 2010.

Table 13-2 : Stock Market Statistics 2005 – May 2010						
Period (Year)	2005	2006	2007	2008	2009	Jan - May 2010
Cumulative Turnover, Rs. Mn	114,599	105,154	104,985	110,454	142,463	150,000
Average Daily Turnover, Rs. Mn	482	436	436	464	594	1,596
Cumulative Trades, No.	1,100,451	952,382	876,928	776,244	1,266,299	1,016,423
Listed Companies, No.	239	237	235	235	231	234
Foreign Turnover/Total Turnover as %	22	33	39	54	31	25
Net Foreign Flow, Rs.Mn	6,144	5,377	11,254	13,950	(789)	(17,580)
Cumulative Foreign Purchases, Rs. Mn	27,712	37,167	46,797	66,632	43,057	28,612
Cumulative Foreign Sales, Rs. Mn	21,568	31,790	35,543	52,682	43,846	46,192
CSE All Share Price Index	1,922	2,722	2,541	1,503	3,386	4,237
CSE Milanka Price Index	2,451	3,712	3,292	1,631	3,849	4,757
Market Capitalisation, Rs. Bn	584	835	821	489	1,092	1,380
Market Price Earning Ratio (PER)	12.4	14.0	11.6	5.4	16.6	20.9
Market Dividend Yield, %	2.7	2.2	2.5	5.6	3.0	2.4
Number of IPOs	3	2	0	2	4	3

Source: Based on Colombo Stock Exchange Fact Book 2008, Central Bank Annual Reports and CSE Monthly Market Reports

13.5 Foreign Investment in the Sri Lankan Capital Market

Foreign investment in local equity is open to the following parties:

- Global, Regional and Country funds approved by the SEC
- Corporate bodies incorporated outside Sri Lanka
- Individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka)

Foreign investors should refer Section 5.11.4 for details pertaining to foreign currency remittances.

13.6 Foreign Investment Restrictions

Foreign investors may invest in up to 100% of ordinary share capital of a public limited liability company in Sri Lanka subject to certain limitations and restrictions. Please refer Section 14.10 for more details with regard to exchange controls/regulations.

14.0 TAXATION AND EXCHANGE CONTROLS

The following information is an overview of selected taxation and other regulations that may be relevant to the Company and potential investors with regard to share transactions in the Democratic Socialist Republic of Sri Lanka. The discussion does not claim to be a comprehensive explanation of regulations and considerations that pertain to the purchase, ownership and disposition of the Offered Shares. The explanations are based on provisions effective in Sri Lanka at the time of printing of this Prospectus. Investors are advised to consult their own advisors prior to engaging in transactions related to the Offering.

14.1 Corporate Taxation

In accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and its subsequent amendments, PC House Limited and its subsidiary, Greenwich Lanka (Private) Limited, are liable to corporate income tax at the rate of thirty five per centum (35%).

As per the agreement signed with the Board of Investment of Sri Lanka (BOI) dated July 01, 2010, Procifinity Limited would be entitled for the following benefits under section 17 of the BOI Law No. 4 of 1978.

- A tax holiday of five (05) years reckoned from the year of assessment as may be determined by the BOI, in which the company commences to make profits or any year of assessment not later than two (02) years from the date of commencement of commercial operations of the company, whichever is earlier.
- A concessionary tax rate of ten per centum (10%) for the two (02) years following the end of the tax exempt period.
- After the expiration of the period, the aforesaid concessionary tax rate applicable for the profits of the entity shall be charged at a corporate tax rate of twenty per centum (20%).

PCH and its subsidiaries, GLPL and Procifinity, would be liable for Social Responsibility Levy (SRL) at the rate of one decimal five per centum (1.5%) on corporate income tax.

14.2 Withholding Tax (WHT) for Dividends

In general, dividends distributed by resident companies out of taxable income to resident or non-resident shareholders are subject to WHT at the rate of ten per centum (10%). The Company is required to deduct dividend tax at source and remit the same to the Department of Inland Revenue.

Other than the WHT referred to above, dividends paid on shares to shareholders of the Company will not be subject to any other Sri Lankan tax. Dividend income received by the company resident in Sri Lanka from another company resident in Sri Lanka does not form part of statutory income and is therefore not taxable in the hands of the recipient company.

14.3 Economic Service Charge (ESC)

Companies are able to claim ESC against income tax liability. Unclaimed ESC can be carried forward only for 5 years.

PCH and its subsidiaries, GLPL and Procifinity, are liable to pay ESC at the rate of zero decimal twenty five per centum (0.25%), under the Schedule to the Economic Service Charge Act No. 13 of 2006, as amended.

14.4 Business Turnover Tax (BTT)

PCH and its subsidiaries, GLPL and Procifinity, are liable to pay Business Turnover Tax (BTT) at the rate of one per centum (1%) on its trading turnover, under the Financial Statute No. 6 of 1990 of the Western Province, as amended by the Western Provincial Financial (Amendment) Statute No. 2 of 2006 and the Western Provincial Financial (Amendment) Statute No. 2 of 2010.

14.5 Taxation of Share Transactions

A transaction tax at the rate of zero decimal two per centum (0.2%) on the sales and purchase of all share transactions is being charged from both the buyer and the seller since January 1, 2005. This tax is part of the transaction cost charged when trading shares on the CSE. Further details of transaction costs related to trading on the CSE are given under Section 13.4.4 of this Prospectus.

14.6 Stamp Duty

The Company is liable to pay stamp duty at the rate of zero decimal five per centum (0.5%) for the Offering and on any new shares that may be issued in the future in line with current stamp duty regulations.

14.7 Remittance Tax

Every non-resident company is liable to pay tax on remittances amounting ten per centum (10%) of its remittances abroad. Remittances do not include any dividends paid by a resident company to such non-resident company.

14.8 Value Added Tax

Computers and computer accessories, which form the major portion of PCH's turnover, are exempt from VAT, under the first schedule of the Value Added Tax Act No. 14 of 2002, as amended by the VAT Amendment Act No. 8 of 2006.

However, a minority percentage of PCH's sales does not fall under the criteria of computers and computer accessories and hence is liable to VAT at the rate of twelve per centum (12%).

PCH's subsidiaries, GLPL and Procifinity, are liable to VAT at the rate of twelve per centum (12%), under the Value Added Tax Act No. 14 of 2002.

14.9 Nation Building Tax

In line with the Nation Building Tax Act No. 9 of 2009, PCH and its subsidiaries, GLPL and Procifinity are liable to pay NBT at the rate of three per centum (3%).

14.10 Exchange Controls

The operations of SIA, RANSI and RGFCFA are governed by the rules and regulations formulated under the Exchange Control Act. In addition, RGFCFA is subject to the regulations of Central Bank of Sri Lanka and Department of Immigration and Emigration.

Dividends and proceeds from the sale of shares can be remitted without exchange control permission if the funds for purchase of the said shares have been affected through a SIA or a RANSI. However, if the funds for purchase of the shares have been affected through a RGFCFA, an approval from the Controller of Exchange is required to remit the dividends and proceeds from the sale of shares.

All funds for purchase cost, brokering and bank charges including inward remittances and repatriation of dividends and all credits, sale proceeds and dividend proceeds should be channelled through the SIA/RANSI. Remittances to SIA/RANSI should be backed by documentary evidence of the transaction, giving rise to the said remittance (i.e. dividend warrant, contract note). Such documentation should be produced to the commercial bank at which the respective SIA/RANSI is held. A tax clearance certificate from the Department of Inland Revenue is not required for remittances in respect of remittance of dividends and sale proceeds of shares held in listed companies.

15.0 STATUTORY DECLARATIONS

15.1 Statutory Declaration by the Directors

July 15, 2010

We the undersigned, who are named in the Prospectus as Directors of PC House Limited, hereby declare and confirm that we have read the provisions of the CSE Listing Rules and of the Companies Act No. 07 of 2007 and any amendments to it relating to the issue of this Prospectus and those provisions have been complied with.

This Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquires and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of PC House Limited have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to PC House Limited and making assumptions that are considered to be reasonable at the present point in time in our best judgement.

Name	Designation	Signature
Mr. Saheedul Hijiry Mohamed Rishan	Chairman/Chief Executive Officer	Sgd.
Mrs. Sithy Sharmila Rishan	Non-Executive Director	Sgd.
Mr. Ekanayake Mudiyansele Mangala Boyagoda	Non-Executive Director	Sgd.
Mr. Drayton Sarath Palitha Wikramanayake	Non-Executive Director	Sgd.
Mr. Modarage Thilakasiri	Non-Executive Director	Sgd.
Mr. Shanti Kumar Nadarajah	Non-Executive Independent Director	Sgd.
Mr. Edinadura Kuvera Isuru de Zoysa	Non-Executive Independent Director	Sgd.

15.2 Statutory Declaration by the Managers to the Offering

July 15, 2010

We, NDB Investment Bank Limited, of No. 40, Navam Mawatha, Colombo 02 being the Managers to the Initial Public Offering of PC House Limited, hereby declare and confirm to the best of our knowledge and belief the Prospectus constitutes full and true disclosure of all material facts about the Offering and PC House Limited, whose Ordinary Shares are being issued.

The Common Seal of NDB Investment Bank Limited of Sri Lanka affixed on this 15th Day of July 2010 at Colombo in the presence of two Directors.

Sgd.
Director

Sgd.
Director

15.3 Statutory Declaration by the Company

July 15, 2010

An application has been made to the Colombo Stock Exchange for permission to deal in and for a listing for all of the Ordinary Shares issued by the Company and those Ordinary Shares which are the subject of this Offering. Such permission will be granted when shares are listed on the Colombo Stock Exchange. The Colombo Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the Colombo Stock Exchange is not to be taken as an indication of the merits of the Company or of the securities issued.

The Common Seal of PC House Limited of Sri Lanka affixed on this 15th Day of July 2010 at Colombo in the presence of two Directors.

Sgd.
Director

Sgd.
Director

16.0 FINANCIAL STATEMENTS AND AUDITORS' REPORT

16.1 Accountants Report for Inclusion in the Prospectus

.SJMS.

A S S O C I A T E S
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates
Chartered Accountants
No. 02, Castle Lane,
Colombo 04, Sri Lanka.

Tel: +94(11) 2580409, 2503262
Fax: +94(11) 2582452

Restructure & Corporate Recovery
Tel: 5364293, 5444420 Fax: 5364295

E-mail: sjmsa@sjmsassociates.com
Website: www.sjmsassociates.lk

7 June 2010

The Board of Directors
PC House Limited
451, Galle Road
Colombo 3

Dear Sirs

ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF PC HOUSE LIMITED (FORMERLY KNOWN AS PC HOUSE (PVT) LIMITED)

INTRODUCTION

This report has been prepared for the inclusion in the prospectus issued in connection with the initial public offering of **57,233,334** Ordinary Shares each at the Share Offer Price of **Rs.11**.

We have examined the financial statements of PC House Limited (the 'Company') and the consolidated financial statements of the Company and its subsidiary acquired on April 01, 2009 (the 'Group'), and report as follows:

1. INCORPORATION

The Company was incorporated in Sri Lanka on February 02, 2000 as a limited liability company under the Companies Act No. 17 of 1982, with the objective of import, assembling and distribution of all types of computers and electronic equipment.

The Company was given approval on its application to the Registrar of Companies to change its status to a public limited liability company on February 22, 2010 under section 11(1) of the Companies Act No. 7 of 2007. In accordance with the certificate dated 31 May 2010 issued by the Registrar of Companies, PC House (Pvt) Limited changed its name to PC House Limited.

2. FINANCIAL STATEMENTS

2.1 Five-Year Summary of Audited Financial Statements

A summary of the Company's audited Income Statements, Balance Sheets, Statements of Changes in Equity, and Cash Flow Statements for the financial years ended 31st March 2006 to 31st March 2010, based on the audited financial statements, are set out on pages 80 to 83 of the Prospectus.

One year's summary of the Group's audited consolidated Income Statements, Balance Sheets, Statements of Changes in Equity and Cash Flow Statements of the Group for the financial year ended 31st March 2010, based on the audited financial statements are set out on pages 80 to 83 of the Prospectus.

2.2 Audited Financial Statements for the year ended 31 March 2010

Our audit report on Financial Statements for the year ended 31st March 2010 together with such Financial Statements comprising the Balance Sheet and Income Statement, Statement of Changes in Equity and Cash Flow Statement along with the accounting policies and notes thereon is given on page 84 to 109 of the Prospectus.

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, T. Krishnakumar, Ms. S. L. Jayasuriya, D. S. W. Andradi,
G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, Ms. A. U. M. Keppetipola

2.3 Audit Reports

We have audited the Financial Statements of the Company for the year ended 31st March 2006 to 31st March 2010, and of the Group for the year ended 31 March 2010. Qualified opinions have been issued for the financial years 2005/06 to 2008/09 as described on page 79 of the Prospectus, and an unqualified audit opinion has been issued for the financial year ended 31 March 2010.

2.4 Accounting Policies

The Financial Statements of the Company for the year ended 31st March 2006 to 31st March 2010 and of the Group for the year ended 31st March 2010 complied with the Sri Lanka Accounting Standards, except for the qualification made on non-compliance with standards for the financial years 2005/2006 to 2008/2009 as described on page 79 of the Prospectus.

The accounting policies of the Company and the Group are stated in detail in the audited financial statements for the year ended 31st March 2010. During the period 1st April 2005 to 31st March 2010, there were no material changes in the accounting policies of the Group except for the changes made to the accounting policies for measurement of Defined Benefit Plans (2009/2010) and Deferred Tax computation (2007/2008) to be complied with Sri Lanka Accounting Standards, as detailed on page 78 of the Prospectus.

2.5 Revaluation of Property

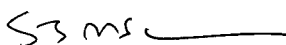
The revaluation of the Company's freehold land as at 31st March 2010 has been arrived at on the basis of a valuation carried out on 20th February 2010 and 03rd March 2010 by Mr. G.J.Sumanasena GMIV, Incorporated Valuer, who possesses appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to valuation standards, was arrived at by reference to market evidence of transaction processes for similar properties. The surplus arising from the revaluation was transferred to the Company's equity reserve.

2.6 Dividends

The Company declared dividends in respect of Ordinary Shares in the Company in the following financial year.

Year	Net Dividends Declared (Rs.)	Dividend Per Share (Rs.)
2010	38,000,000	0.22

Yours faithfully,



SJMS ASSOCIATES

Chartered Accountants

Colombo

7 June 2010

Accounting Policy Changes

Year	Accounting Policy Changes
2005/06	There were no material changes
2006/07	There were no material changes
2007/08	<p>Except for the following there were no material accounting policy changes to the financial statements:</p> <p>Deferred Taxes</p> <p>Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.</p> <p>The carrying amount of deferred 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 tax asset to be utilised. Income tax relating to items recognised directly in equity is recognised in equity.</p> <p>Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.</p> <p>Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to income taxes levied by the same taxation authority and intends to settle them on a net basis.</p>
2008/09	There were no material changes
2009/10	<p>Except for the following there were no material accounting policy changes to the financial statements:</p> <p>The accounting policies adopted are consistent with those of the previous financial year except where the Group has made changes to be in compliance with Sri Lanka Accounting Standard No. 16 Employee Benefits (Revised 2006, which is discussed below).</p> <p>Measurement of Defined Benefit Plans</p> <p>During the year ended 31st March 2010, the Group changed its accounting policy for the measurement of Retirement Gratuity (Defined Benefit Plan). The Group now performs the computation based on Actuarial Valuation Method of SLAS 16 (Revised 2006).</p> <p>The principal assumptions used in determining the post employment benefit liability for the company are shown below:</p> <p>Staff turnover rate 2% Salary increase rate 7.5% Discount rate 11% Retirement age 55 years</p>

Qualifications made in Auditor's Reports

Year	Qualifications Made in the Audit Report
2005/06	<p>No other qualification reported except for the following:</p> <ul style="list-style-type: none"> a) Land and Building amounting to Rs.34.5 Mn are in the name of directors. b) We did not observe the counting of physical inventories as of 31st March 2006, and owing to the nature of the Company's records, we were unable to satisfy ourselves as to the inventory quantity by other audit procedures. c) No deferred tax and gratuity has been provided in the financial statements; this is not in accordance with Sri Lanka Accounting Standards. d) Owing to the nature of the records and documents maintained, we were unable to satisfy ourselves as to the purchases and sales accounted.
2006/07	<p>No other qualification reported except for the following:</p> <ul style="list-style-type: none"> e) Land and Building Property, plant and equipment include land and building in the value of Rs.34.5 Mn belonging to the Chairman. The deeds are not transferred in the name of the Company by the Chairman. f) No deferred tax and gratuity has been provided in the financial statements; this is not in accordance with Sri Lanka Accounting Standards. g) Sales of six sole proprietorship firms held by the Chairman were included with the sales of the company and turnover taxes were paid accordingly.
2007/08	<p>No other qualification reported except for the following:</p> <ul style="list-style-type: none"> h) Land and Building Property, plant and equipment include land and building in the value of Rs.34.5 Mn belonging to the Chairman. The deeds are not transferred in the name of the Company by the Chairman. i) Provision for Gratuity The Company has not provided for retirement benefit expenses – Gratuity. This is not in line with Sri Lanka Accounting Standard – SLAS 16 "Retirement benefits", which requires recognizing the cost of the gratuity in exchange for service rendered by employees.
2008/09	<p>No other qualification reported except for the following:</p> <ul style="list-style-type: none"> j) Land and Building Property, plant and equipment include land and building in the value of Rs.34.5 Mn belonging to the Chairman. The deeds are not transferred in the name of the Company by the Chairman. k) Provision for Gratuity The Company has not provided for retirement benefit expenses – Gratuity. This is not in line with Sri Lanka Accounting Standard – SLAS 16 "Retirement benefits", which requires recognizing the cost of the gratuity in exchange for service rendered by employees.
2009/10	Unqualified opinion

16.2 Five Year Summary of Financial Statements

16.2.1 Summary Income Statements and Balance Sheets

	2009/10	2008/09	Company 2007/08	2006/07	2005/06
	Rs.	Rs.	Rs.	Rs.	Rs.
A) Summary of the Operations					
Turnover	3,034,287,527	2,526,804,528	2,546,423,313	3,031,316,690	1,666,073,890
Gross Profit	631,263,821	487,142,202	460,532,208	413,503,475	339,071,196
Net Profit before Finance Cost	391,738,351	244,608,020	213,445,035	170,306,559	115,638,143
Profit before Taxation	196,864,431	27,103,008	28,454,701	29,315,241	20,633,273
Taxation	(72,967,613)	(7,827,764)	(15,609,691)	47,368,773	(13,704,954)
Profit Attributable to Shareholders	123,896,819	19,275,244	12,845,010	76,674,014	6,928,319
B) Summary of Financial Position					
Capital and Reserves					
Stated Capital	171,700,000	171,700,000	171,700,000	171,700,000	171,700,000
Reserves	239,787,111	-	-	-	-
Retained Earnings	230,034,448	147,919,288	128,644,044	115,799,034	39,125,020
Total Equity	641,521,559	319,619,288	300,344,044	287,499,034	210,825,020
Assets and Liabilities					
Current Assets	1,068,958,523	910,665,445	957,854,662	851,077,465	721,306,725
Current Liabilities	849,593,280	929,434,989	976,627,375	853,187,492	782,666,195
Net Current Assets	219,365,243	(18,769,544)	(18,772,713)	(2,110,027)	(61,359,470)
Property, Plant and Equipment	581,554,207	396,346,178	419,844,702	439,894,445	414,379,723
Other Non Current Assets	51,371,032	72,394,210	50,148,471	58,763,774	-
Non Current Liabilities	(210,768,922)	(130,351,557)	(150,876,416)	(209,039,158)	(142,195,233)
Net Assets	641,521,559	319,619,288	300,344,044	287,499,034	210,825,020
Financial Ratios					
Earnings per Share (LKR)	0.72	1.12	0.75	4.47	0.40
Net Assets per Share (LKR)	3.74	18.61	17.49	16.74	12.28
Dividend per Share - Ordinary (LKR)	0.22				
Current Ratio (Times)	1.26	0.98	0.98	1.00	0.92


Finance Officer

The above summarised financial information and its extraction from audited financial statements, is the responsibility of the Board of Directors.


Director


Director

Colombo,
7 June 2010.

16.2.2 Summary Statement of Changes in Equity (Group)

PC HOUSE LIMITED
STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 April 2008	171,700,000	-	128,644,044	300,344,044
Profit for the Year	-	-	19,275,244	19,275,244
Balance as at 31 March 2009	171,700,000	-	147,919,288	319,619,288
Balance as at 1 April 2009	171,700,000	-	147,919,288	319,619,288
Assets Revaluation Surplus	-	239,787,111	-	239,787,111
Gratuity Provision	-	-	(3,781,659)	(3,781,659)
Profit for the Year	-	-	123,896,819	123,896,819
Dividend Paid	-	-	(38,000,000)	(38,000,000)
Balance as at 31 March 2010	171,700,000	239,787,111	230,034,448	641,521,559

16.2.3 Summary Statement of Changes in Equity (Company)

PC HOUSE LIMITED
STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 April 2005	171,700,000	-	32,196,701	203,896,701
Profit for the Year	-	-	6,928,319	6,928,319
Balance as at 31 March 2006	171,700,000	-	39,125,020	210,825,020
Balance as at 1 April 2006	171,700,000	-	39,125,020	210,825,020
Profit for the Year	-	-	76,674,014	76,674,014
Balance as at 31 March 2007	171,700,000	-	115,799,034	287,499,034
Balance as at 1 April 2007	171,700,000	-	115,799,034	287,499,034
Profit for the Year	-	-	12,845,010	12,845,010
Balance as at 31 March 2008	171,700,000	-	128,644,044	300,344,044
Balance as at 1 April 2008	171,700,000	-	128,644,044	300,344,044
Profit for the Year	-	-	19,275,244	19,275,244
Balance as at 31 March 2009	171,700,000	-	147,919,288	319,619,288
Balance as at 1 April 2009	171,700,000	-	147,919,288	319,619,288
Assets Revaluation Surplus	-	239,787,111	-	239,787,111
Gratuity Provision	-	-	(3,781,659)	(3,781,659)
Profit for the Year	-	-	98,273,652	98,273,652
Dividend Paid - Interim	-	-	(38,000,000)	(38,000,000)
Balance as at 31 March 2010	171,700,000	239,787,111	204,411,281	615,898,392

16.2.4 Summary of Cash Flow Statements

	Group	Company				
	2010	2009	2008	2007	2006	
	Rs.	Rs.	Rs.	Rs.	Rs.	
PC HOUSE LIMITED						
CASH FLOW STATEMENT						
	2010	2009	2008	2007	2006	
	Rs.	Rs.	Rs.	Rs.	Rs.	
Cash Generated from Operations	345,927,061	219,836,737	133,266,776	2,569,816	37,566,453	
Interest Paid	(193,406,628)	(215,756,674)	(181,897,565)	(125,283,943)	(83,654,430)	
Net Cash from/(Used in) Operating Activities	152,520,433	4,080,063	(48,630,789)	(122,714,127)	(46,087,977)	
Cash Flows from/(Used in) Investing Activities						
Acquisition of Property, Plant and Equipment	(221,250)	(2,258,315)	(3,682,904)	(35,031,927)	(289,029,139)	
Proceeds from Sale of Property, Plant and Equipment	39,510,000	10,656,250	5,200,000	-	4,912,066	
Acquisition of Investments	(5,409,000)	(21,000,000)	-	(5,304,308)	-	
Lease Rentals Paid	(1,634,646)	(11,056,790)	(19,376,577)	-	-	
Proceeds from Sale of Current Investments	25,036,141	8,329,824	4,782,763	-	47,465,983	
Interest Received	-	-	-	-	-	
Net Cash Flows/(Used in) Investing Activities	57,281,245	(15,329,031)	(13,076,718)	(40,336,235)	(236,651,090)	
Cash Flows from/(Used in) Financing Activities						
Dividend Paid	(38,000,000)	-	-	-	-	
Net of Borrowings	(105,495,122)	(24,549,230)	90,503,039	165,194,292	341,785,043	
Net Cash Flows/(Used in) Financing Activities	(143,495,122)	(24,549,230)	90,503,039	165,194,292	341,785,043	
Net Increase/(Decrease) in Cash and Cash Equivalents	66,306,556	(35,798,198)	28,795,532	2,143,930	59,045,976	
Cash and Cash Equivalents at the Beginning of the Year	(69,105,058)	(33,306,861)	(62,102,393)	(64,246,322)	(123,292,299)	
Cash and Cash Equivalents at the End of the Year	(2,798,502)	(69,105,059)	(33,306,861)	(62,102,392)	(64,246,323)	

16.3 Audit Report and Financial Statements as at March 31, 2010

.SJMS.

A S S O C I A T E S
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates
Chartered Accountants
Level 1, Mannapperuma Building,
No: 228, Galle Road,
Colombo 4, Sri Lanka
Tel: +94(11) 5360151-4, 4516624, 5365072
Fax: +94(11) 2586060

E-mail: sjmsa@sjmsassociates.com
Website: www.sjmsassociates.lk

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PC HOUSE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of PC House Limited, the consolidated financial statements of the Company and its subsidiary which comprise the balance sheet as at 31 March 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

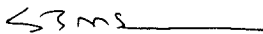
Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 March 2010 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 153(2) to 153(7) of the Companies Act No. 07 of 2007.



SJMS ASSOCIATES
Chartered Accountants
Colombo,
4 June 2010

PC HOUSE LIMITED
INCOME STATEMENT

For the Year Ended 31 March 2010

	Notes	Group 2009/10 Rs.	Company 2009/10 Rs.	Company 2008/09 Rs.
Revenue	6	3,034,287,527	2,810,245,335	2,526,804,528
Cost of Sales		(2,403,023,706)	(2,257,820,069)	(2,039,662,327)
Gross Profit		631,263,821	552,425,267	487,142,202
Other Income	7	6,128,822	6,128,822	8,106,139
Negative Goodwill		5,218,195	-	-
Selling and Distribution Expenses		(42,516,233)	(41,273,516)	(49,928,244)
Administrative Expenses		(208,356,254)	(164,384,578)	(200,712,077)
Profit from Operating Activities	8	391,738,350	352,895,994	244,608,020
Finance Costs	9	(194,873,919)	(193,406,628)	(217,505,012)
Net Profit Before Tax		196,864,431	159,489,366	27,103,008
Income Tax Expense	10	(72,967,613)	(61,215,715)	(7,827,764)
Net Profit for the Year		123,896,818	98,273,652	19,275,244
Attributable to:				
Equity Holders of the Parent		123,896,818		
Minority Interests		-		
		123,896,818		
Earnings Per Share	11			
Basic		0.72	0.57	1.12

The significant Accounting Policies and notes to the accounts which appear on pages 8 to 27 form an integral part of these Financial Statements.

PC HOUSE LIMITED
BALANCE SHEET AS AT 31 MARCH 2010

	Note	Group	Company	
		31.03.2010 Rs.	31.03.2010 Rs.	31.03.2009 Rs.
ASSETS				
Non-Current Assets				
Property, Plant & Equipment	12	581,554,207	580,520,815	396,346,178
Deferred Tax Asset	10	51,371,032	51,371,032	51,394,210
Investment in Subsidiary	16	-	5,409,000	21,000,000
		<u>632,925,238</u>	<u>637,300,847</u>	<u>468,740,389</u>
Current Assets				
Inventories	13	390,782,642	382,111,988	477,803,954
Trade and Other Receivables	14	427,315,708	388,751,985	266,143,415
Deposits & Prepayments	15	81,878,961	75,631,691	79,460,520
Commissioner General of Inland Revenue	10	-	-	21,168,861
Current Investments		3,934,576	3,934,576	7,970,717
Cash in Hand and at Bank	17	165,046,636	164,527,972	58,117,977
		<u>1,068,958,523</u>	<u>1,014,958,212</u>	<u>910,665,445</u>
Total Assets		<u>1,701,883,761</u>	<u>1,652,259,059</u>	<u>1,379,405,834</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Stated Capital	18	171,700,000	171,700,000	171,700,000
Revaluation Reserve		239,787,111	239,787,111	-
Retained Earnings		230,034,448	204,411,281	147,919,288
		<u>641,521,559</u>	<u>615,898,392</u>	<u>319,619,288</u>
Non-Current Liabilities				
Borrowings	19	206,054,529	206,054,529	130,351,557
Retirement Benefits Obligation	20	4,714,393	4,714,393	-
		<u>210,768,922</u>	<u>210,768,922</u>	<u>130,351,557</u>
Current Liabilities				
Borrowings	19	610,072,181	610,072,181	792,904,922
Commissioner General of Inland Revenue	10	46,866,242	36,881,354	-
Trade and Other Payables	21	14,965,119	11,311,734	9,307,031
Bank Overdraft		177,689,738	167,326,475	127,223,036
		<u>849,593,281</u>	<u>825,591,744</u>	<u>929,434,989</u>
Total Equity and Liabilities		<u>1,701,883,761</u>	<u>1,652,259,059</u>	<u>1,379,405,834</u>

The significant Accounting Policies and notes to the accounts which appear on pages 8 to 27 form an integral part of these Financial Statements.

I certify that the Financial Statements comply with the requirements of Companies Act No. 07 of 2007.



Accountant

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

The Financial Statements have been approved by the Board on 21st May 2010.

Signed for and on behalf of the Board by:



Director



Director

PC HOUSE LIMITED
STATEMENT OF CHANGES IN EQUITY
 For the Year Ended 31 March 2010

Group

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Profit Rs.	Total Equity Rs.
Balance as at 01.04.2008	171,700,000	-	128,644,044	300,344,044
Profit for the Year	-	-	19,275,244	19,275,244
Balance as at 01.04.2009	<u>171,700,000</u>	<u>-</u>	<u>147,919,288</u>	<u>319,619,288</u>
Assets Revaluation Surplus	-	239,787,111	-	239,787,111
Gratuity Provision (Note 25)	-	-	(3,781,659)	(3,781,659)
Profit for the Year	-	-	123,896,818	123,896,818
Dividend Paid - Interim	-	-	(38,000,000)	(38,000,000)
Balance as at 31.3.2010	<u>171,700,000</u>	<u>239,787,111</u>	<u>230,034,448</u>	<u>641,521,559</u>

Company

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Profit Rs.	Total Equity Rs.
Balance as at 01.04.2008	171,700,000	-	128,644,044	300,344,044
Profit for the Year	-	-	19,275,244	19,275,244
Balance as at 01.04.2009	<u>171,700,000</u>	<u>-</u>	<u>147,919,288</u>	<u>319,619,288</u>
Assets Revaluation Surplus	-	239,787,111	-	239,787,111
Gratuity Provision (Note 25)	-	-	(3,781,659)	(3,781,659)
Profit for the Year	-	-	98,273,652	98,273,652
Dividend Paid - Interim	-	-	(38,000,000)	(38,000,000)
Balance as at 31.3.2010	<u>171,700,000</u>	<u>239,787,111</u>	<u>204,411,281</u>	<u>615,898,392</u>

The significant Accounting Policies and notes to the accounts which appear on pages 8 to 27 form an integral part of these Financial Statements.

PC HOUSE LIMITED

CASH FLOW STATEMENT

For the Year Ended 31 March 2010

	Group	Company	
	2009/2010	2009/2010	2008/2009
	Rs.	Rs.	Rs.
Cash Flow from Operating Activities			
Net Profit Before Taxation	196,864,431	159,489,366	27,103,008
Adjustments for -			
Depreciation	19,751,128	19,125,318	17,286,839
Profit on Disposal of Property and Equipment	(2,801,594)	(2,801,594)	(2,186,250)
Gratuity Provision	1,070,334	1,070,334	-
Negative Goodwill	(5,218,195)	-	-
Interest on Finance Leases	3,315,629	3,315,629	1,748,338
Interest Income	(3,327,228)	(3,327,228)	(5,919,889)
Interest Expense	194,873,919	193,406,628	215,756,674
	<u>404,528,425</u>	<u>370,278,454</u>	<u>253,788,720</u>
Changes in Operating Assets and Liabilities			
Decrease in Inventories	90,061,962	95,691,966	2,446,727
Increase in Trade and Other Receivables	(151,752,240)	(118,779,740)	(27,676,403)
Increase in Trade and Other Payables	1,488,129	2,004,702	2,019,624
Cash Generated from Operations	<u>344,326,276</u>	<u>349,195,383</u>	<u>230,578,668</u>
Income Taxes Paid	(5,942,154)	(3,142,321)	(14,913,482)
Interest Paid	(194,873,919)	(193,406,628)	(215,756,674)
Gratuity Paid	(137,600)	(137,600)	-
Interest Received	3,327,228	3,327,228	5,919,889
Lease Interest Paid	(3,315,629)	(3,315,629)	(1,748,338)
Net Cash Flow from Operating Activities	<u>143,384,201</u>	<u>152,520,433</u>	<u>4,080,063</u>
Cash Flows from Investing Activities			
Investment of Shares	-	(5,409,000)	(21,000,000)
Proceeds from Disposal of Investments	21,000,000	21,000,000	1,200,000
Lease Rentals Paid	(1,634,646)	(1,634,646)	(11,056,790)
Proceeds from Maturity of Deposits	4,036,141	4,036,141	7,129,825
Proceeds from Disposal of Property and Equipment	39,510,000	39,510,000	10,656,250
Purchase of Property and Equipment	(285,410)	(221,250)	(2,258,315)
Dividends Paid	(38,000,000)	(38,000,000)	-
Net Cash used in Investing Activities	<u>24,626,085</u>	<u>19,281,245</u>	<u>(15,329,030)</u>
Cash Flows from Financing Activities			
Net Borrowings	(105,596,574)	(105,495,122)	(24,549,230)
Net Cash Flows from Financing Activities	<u>(105,596,574)</u>	<u>(105,495,122)</u>	<u>(24,549,230)</u>
Net Increase in Cash and Cash Equivalents	62,413,712	66,306,556	(35,798,197)
Cash and Cash Equivalents at the Beginning of the Year	(75,056,815)	(69,105,060)	(33,306,861)
Cash and Cash Equivalents at the End of the Year	<u>(12,643,102)</u>	<u>(2,798,503)</u>	<u>(69,105,059)</u>
Cash and Cash Equivalents at the End of the Year Comprise of:			
Bank and Cash Balances	165,046,636	164,527,972	58,117,977
Bank Overdraft	(177,689,738)	(167,326,475)	(127,223,036)
	<u>(12,643,102)</u>	<u>(2,798,503)</u>	<u>(69,105,059)</u>

The significant Accounting Policies and notes to the accounts which appear on pages 8 to 27 form an integral part of these Financial Statements.

Audited Financial Statements | Page 7

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2010

1. CORPORATE INFORMATION

1.1 General

PC House Limited is a public limited liability company, incorporated and domiciled in Sri Lanka. The registered office of the company and the principal place of business are located at #451, Galle Road, Colombo 3.

In the financial statements, 'the Company' refers to PC House Limited as the Holding Company, and in the consolidated financial statements, 'the Group' refers to PC House Limited and its subsidiary, Greenwich Lanka (Private) Limited.

Companies in the Group

Greenwich Lanka (Private) Limited, a fully owned subsidiary, was incorporated on 28 October 1996 under the Companies Act No. 17 of 1982, and was reregistered on 03 March 2010 under the Companies Act No. 07 of 2007.

Sole Proprietorships

The Group has included the following proprietorships' assets, liabilities, income and expenses into the financial statements according to the SIC 12 "Consolidation-Special purpose entities" issued by Standard Interpretation Committee of the International Federation of Accountants.

- | | |
|-----------------------------|-----------------------------|
| 1. MAC Office | 7. PC Electronic |
| 2. Sri Computers | 8. PC Tel |
| 3. Note Book Arcade | 9. PC Partner |
| 4. Leader | 10. PC Master |
| 5. Data Master Technologies | 11. Unity systems |
| 6. PC Technologies | 12. IT Land |
| | 13. PC Engineering Services |

1.2 Principal activities and nature of operations

Company

The principal activities of the Company are import, assembling and distribution of all types of Computers and electronic equipment.

Subsidiary

The principal activity of the Company is developing software.

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2010

2. ADOPTION OF NEW AND REVISED SRI LANKA ACCOUNTING STANDARDS

In the current year, the Group adopted SLAS 16 – Employee Benefits (Revised 2006), which became effective for financial periods beginning on or after 1 July 2007. The impact of this adoption has been the necessity to obtain the services of an actuary in estimating the retirement benefit obligations.

The actuarial valuation involves making estimates on demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries) that will influence the cost of the benefit.

2.1 Standards in issue but not yet effective:

At the date of authorization of these financial statements, the following Standards were in issue but not yet effective:

SLAS 44 Financial Instruments: Disclosures – Effective 1 January 2011

SLAS 45 Financial Instruments: Recognition and Measurement – Effective 1 January 2011

The directors anticipate that both these standards will be adopted in the Group's financial statements for the period commencing 1 January 2011 and the adoption will require using fair values in measuring financial investments and providing additional disclosures in respect of these investments as well as borrowings. As a result, the Group financial statements in future periods would show significantly different financial information in respect of financial assets and liabilities.

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the selection and application of the Group's accounting policies, which are described in note 5, the directors are required to make judgments and assumptions, and use assumptions in measuring items reported in the financial statements. These estimates are based on management's knowledge of current facts and circumstances, and assumptions based on such knowledge and expectations of future events. Actual results may always differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods, only if the revision affects both current and future periods.

3.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The following are those items that the directors consider particularly susceptible to changes in estimates and assumptions.

Item	Note
Depreciation	5.1
Defined Benefit Plans	5.8.2

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2010

4. PREPARATION OF FINANCIAL STATEMENTS

4.1 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and special purpose entities. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The Company has included the sales made through thirteen sole proprietorships, which are directly controlled by the Company for financial and operational decisions. Risks and rewards of these proprietorships are borne by the Company. According to the SIC 12 "Consolidation-Special purpose entities" issued by Standard Interpretation Committee of the International Federation of Accountants, the Company has amalgamated the operating results of these thirteen sole proprietorships.

Name of subsidiary

Greenwich Lanka (Pvt) Ltd.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that the loss exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended 31 March 2010

5.1 Property, plant and equipment – (Continued)

Upon disposal or retirement of a revalued property, any corresponding revaluation surplus remaining is transferred to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to profit or loss so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in such estimates accounted for prospectively.

The estimated useful lives of depreciable assets are as follows:

Assets	Years
Buildings	40
Motor Vehicles	08
Electrical Equipment	06-07
Office Equipment	04
Computer Software	04
Fixtures & Fittings	20

5.2 Trade and Other Receivables

Trade and other receivables are stated at the amounts they are estimated to realize net of provisions for bad & doubtful debts.

5.3 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

5.4 Leasing

Leases are classified as finance leases whenever terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

5.4.1 Finance leases

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2010

5.4.2 Operating Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

5.5 Cash and Cash Equivalents

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

5.6 Foreign Currency Transactions

The financial statements of the Group are presented in Sri Lanka rupees, which is also the Group's functional currency.

All transactions in currencies other than the functional currency are recorded in Sri Lanka rupees, using the exchange rates prevailing at the time the transactions were effected. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are re-translated to Sri Lanka rupee equivalents at the exchange rate prevailing on the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are not re-translated. Exchange differences arising on settlement of monetary items and re-translation of monetary items, are recognised in profit or loss in the year in which they arise.

5.7 Income Taxes

Income tax expense represents the sum of taxes currently payable and deferred.

5.7.1 Current Taxes

Current tax is based on the elements of income and expenditure as reported in the financial statements but is computed in accordance with provisions of Inland Revenue Act No. 10 of 2006 and its subsequent amendments.

5.7.2 Deferred Taxes

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred 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 tax asset to be utilised. Income tax relating to items recognised directly in equity is recognised in equity.

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2010

5.7.2 Deferred Taxes - (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to income taxes levied by the same taxation authority and intends to settle them on a net basis.

However, the subsidiary, Greenwich Lanka (Pvt) Ltd, has not computed deferred tax liability or deferred tax assets since there were no material temporary differences between tax base and balance sheet base.

5.8 Employee Retirement Benefits

5.8.1 Defined Benefit Plan – Gratuity Group

The Group is liable to pay gratuity in terms of the payment of Gratuity Act No. 12 of 1983, according to which an obligation to pay gratuity arises only on completion of 5 years of continued service. A provision for the Group's obligations under this act is determined based on an actuarial valuation, using the Projected Unit Credit Method, carried out by a professional actuary in every three years. Actuarial gains and losses that exceed 10 per cent of the present value of defined benefit obligations are amortised over the expected average remaining working lives of the employees. This liability is not externally funded.

Subsidiary

The subsidiary is liable to pay gratuity in terms of the payment of Gratuity Act No. 12 of 1983, according to which a liability to pay gratuity arises only on completion of 5 years of continued service. However, the subsidiary has not made provision for this liability.

5.8.2 Defined Contribution Plan - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Company contributes the defined percentages of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

5.9 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales related taxes. The following criteria are used in recognising revenue:

Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- a) The Company has transferred significant risks and rewards of ownership of the goods to the buyer.
- b) The Company retaining, neither a continuing managerial involvement to the degree usually associated with ownership, nor an effective control over the goods sold.
- c) The amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity; and
- d) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2010

Other Income

Other income is recognised on an accrual basis.

5.10 Expenditure Recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in running the business and in maintaining property, plant and equipment in a state of efficiency has been charged to the income statement.

For the purpose of presentation of the income statement, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company performance.

5.11 Gains and Losses

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets, including investments, are accounted for in the income statement, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Gains and losses, arising from activities incidental to the main revenue generating activities or those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

5.12 Warranty Provision

Expenses incurred for the settlement of defective products are reimbursed from the original supplier. As a result a provision for warranty costs is not recognized at the date of sale of the relevant product. Excess costs incurred for the settlement of defected products are directly charged to the income statement in the period which they incurred.

5.13 Events after the Balance Sheet Date

(a) The thirteen Sole Proprietorships which are mentioned in the Note 1.1 to the accounts have been dissolved with effect from 1 April 2010 and all the papers have been filed with the Provincial Registrar of Companies on 3 June 2010. The Company has taken steps to register the trade names and logos, used by the thirteen sole proprietorships, at the National Intellectual Property Office.

(b) The Company has taken strides to go for public listing during the year 2010/ 2011.

5.14 Comparative Information

Previous years figures and phrases have been rearranged, wherever necessary, to conform to the current year.

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2010

	Group 2009/10 Rs.	Company	
		2009/10 Rs.	2008/09 Rs.
6. Revenue			
Revenue	3,074,088,155	2,850,045,964	2,576,939,890
Less: Sales Return	(39,800,628)	(39,800,628)	(50,135,361)
	<u>3,034,287,527</u>	<u>2,810,245,335</u>	<u>2,526,804,528</u>
7. Other Income			
Interest Income from Fixed Deposits with Banks	920,457	920,457	1,847,081
Interest Income from Savings Deposits	2,406,771	2,406,771	4,072,808
Profit on Sale of Property & Equipment	2,801,594	2,801,594	2,186,250
	<u>6,128,822</u>	<u>6,128,822</u>	<u>8,106,139</u>
8. Profit from Operating Activities is Stated after Charging the Following Expenses:			
Directors' Emoluments	1,200,000	1,200,000	1,200,000
Staff Cost	101,014,691	65,568,135	80,229,862
Depreciation	19,751,128	19,125,318	20,783,089
Auditors' Remuneration	1,140,849	1,088,849	965,549
	<u>121,106,668</u>	<u>106,982,302</u>	<u>103,178,500</u>
8.1 Staff Cost			
Salaries	88,640,879	57,015,770	69,704,017
Contribution to Defined Contribution Plan	12,373,811	8,552,365	10,525,845
	<u>101,014,691</u>	<u>65,568,135</u>	<u>80,229,862</u>
9. Finance Costs			
Interest on Bank Overdrafts	19,741,673	18,581,296	21,932,282
Interest on Loans and Leases	168,962,757	168,962,757	189,478,337
Other Interest Expenses	6,169,490	5,862,575	6,094,393
	<u>194,873,919</u>	<u>193,406,628</u>	<u>217,505,012</u>
10. Taxation			
10.1 Income Tax Recognised in Profit or Loss			
<i>Tax Expense Comprises:</i>			
Current Tax	71,866,438	60,288,213	8,939,412
Social Responsibility Levy	1,077,996	904,323	134,091
Deferred Tax	23,179	23,179	(1,245,739)
	<u>72,967,613</u>	<u>61,215,715</u>	<u>7,827,764</u>

Current income tax charge for the year can be reconciled to the accounting profit as follows:

	Group 2009/10 Rs.	Company	
		2009/10 Rs.	2008/09 Rs.
Profit from Operations	191,646,236	159,489,366	27,103,008
Income Tax Expense Calculated at 35%	67,076,183	55,821,278	9,486,053
Allowances and Deductions in Determining the Taxable Profits	(11,644,370)	(11,623,535)	(14,204,625)
Effect of Expenses that are not Deductible in Determining Taxable Profit	15,270,095	14,925,940	11,586,022
Other Adjustments	2,265,706	2,092,033	960,314
Current Income Tax Expense	<u>72,967,613</u>	<u>61,215,715</u>	<u>7,827,764</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended 31 March 2010

	Group 2009/10 Rs.	Company	
		2009/10 Rs.	2008/09 Rs.
10.2 Current Tax Assets/Liabilities			
Balance at the Beginning of the Year	(21,168,861)	(21,168,861)	(15,328,882)
Current Income Tax Expense	72,944,434	61,192,536	9,073,503
Income Tax Paid-Prior Year Underprovisions	-	-	(542,029)
Withholding Tax Receivables	(2,802,297)	(1,595,392)	(5,254,233)
Economic Service Charge Receivables	(2,107,034)	(1,546,929)	(9,117,220)
Balance at the End of the Year	<u>46,866,242</u>	<u>36,881,354</u>	<u>(21,168,861)</u>
Deferred Tax Liabilities/Assets			
<i>The gross movement on the deferred income tax account is as follows:</i>			
Balance at the Beginning of the Year	51,394,210	51,394,210	50,148,471
Origination / Reversal of Temporary Differences	(23,179)	(23,179)	1,245,739
Balance at the End of the Year	<u>51,371,032</u>	<u>51,371,032</u>	<u>51,394,210</u>
Deferred Tax Asset Comprises of :			
Property and Equipment	58,505,821	58,505,821	64,392,218
Gratuity	1,650,038	1,650,038	-
Finance Leases	(8,784,827)	(8,784,827)	(12,998,007)
	<u>51,371,032</u>	<u>51,371,032</u>	<u>51,394,210</u>

11. Earnings Per Share

Basic Earnings Per Share

The earning and weighted average number of ordinary shares used in the calculation of basic earning per share are as follows.

	Group 2009/10 Rs.	Company	
		2009/10 Rs.	2008/09 Rs.
Profit for the Year Attributable to Equity Holders of the Parent	123,896,818	98,273,652	19,275,244
Weighted Average Number of Ordinary Shares for the Purposes of Basic Earning Per Share (all measured)	171,700,000	171,700,000	17,170,000
	<u>0.72</u>	<u>0.57</u>	<u>1.12</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

		Group 31.03.2010 Rs.	Company	
			31.03.2010 Rs.	31.03.2009 Rs.
12. Property, Plant and Equipment				
Freehold Property	Note 12.1 & 12.3.1	553,728,841	552,695,449	354,242,424
Leasehold Property	Note 12.2 & 12.3.2	27,825,366	27,825,366	42,103,754
		<u>581,554,207</u>	<u>580,520,815</u>	<u>396,346,178</u>

12.1 Property, Plant & Equipment - Freehold Group

Assets	Cost or Valuation				
	Balance at the Beginning	Additions	Revaluation	Disposals	Balance at the End
	of the Year				of the Year
Rs.	Rs.	Rs.	Rs.	Rs.	
Land	47,480,557	-	244,712,743	(2,500,000)	289,693,300
Buildings	269,232,332	-	(4,925,632)	(32,000,000)	232,306,700
Furniture and Fittings	19,843,666	-	-	-	19,843,666
Electrical Equipment	5,597,394	-	-	-	5,597,394
Office Equipment	8,423,751	64,160	-	-	8,487,911
Computer Equipment	4,105,197	-	-	-	4,105,197
Motor Vehicles	5,918,347	-	-	-	5,918,347
Fixture and Fittings	22,286,276	-	-	-	22,286,276
Other Assets	2,694,491	-	-	-	2,694,491
Software	973,913	141,250	-	-	1,115,163
Name Board	1,737,110	80,000	-	-	1,817,110
	<u>388,293,035</u>	<u>285,410</u>	<u>239,787,111</u>	<u>(34,500,000)</u>	<u>593,865,556</u>

Assets	Accumulated Depreciation			
	Balance at the Beginning	Charge	Disposals	Balance at the End
	of the Year	for the Year		of the Year
Rs.	Rs.	Rs.	Rs.	
Buildings	-	707,060	-	707,060
Furniture and Fittings	8,194,145	1,984,367	-	10,178,512
Electrical Equipment	2,492,689	837,135	-	3,329,824
Office Equipment	7,504,965	816,565	-	8,321,530
Computer Equipment	3,762,477	342,721	-	4,105,197
Motor Vehicles	4,130,361	985,083	-	5,115,445
Fixture and Fittings	4,154,460	1,114,314	-	5,268,774
Other Assets	1,756,315	404,174	-	2,160,488
Software	329,141	229,163	-	558,304
Name Board	131,016	260,567	-	391,583
	<u>32,455,570</u>	<u>7,681,146</u>	<u>-</u>	<u>40,136,715</u>
Carrying Amount	<u>355,837,465</u>			<u>553,728,841</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

12.2 Property, Plant and Equipment - Leasehold Group

Assets	Cost or Valuation			Balance at the End of the Year Rs.
	Balance at the Beginning of the Year Rs.	Additions Rs.	Disposals Rs.	
Motor Vehicles	83,416,916	-	(4,991,777)	78,425,139
Electrical Equipment	10,952,451	-	-	10,952,451
	<u>94,369,367</u>	<u>-</u>	<u>(4,991,777)</u>	<u>89,377,590</u>

Assets	Accumulated Depreciation			Balance at the End of the Year Rs.
	Balance at the Beginning of the Year Rs.	Charge for the Year Rs.	Disposals Rs.	
Motor Vehicles	46,983,448	10,427,115	(2,783,371)	54,627,192
Electrical Equipment	5,282,165	1,642,868	-	6,925,033
	<u>52,265,613</u>	<u>12,069,982</u>	<u>(2,783,371)</u>	<u>61,552,225</u>
Carrying Amount	<u>42,103,754</u>			<u>27,825,366</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

Company	
31.03.2010	31.03.2009
Rs.	Rs.
552,695,449	354,242,424
27,825,366	42,103,754
<u>580,520,815</u>	<u>396,346,178</u>

12.3 Property, Plant and Equipment

Freehold Property	Note 12.3.1
Leasehold Property	Note 12.3.2

12.3.1 Property, Plant & Equipment - Freehold Company

Assets	Cost or Valuation				Balance at the End of the Year Rs.
	Balance at the Beginning of the Year Rs.	Additions Rs.	Revaluation	Disposals Rs.	
Land	47,480,557	-	244,712,743	(2,500,000)	289,693,300
Buildings	269,232,332	-	(4,925,632)	(32,000,000)	232,306,700
Furniture and Fittings	19,456,795	-	-	-	19,456,795
Electrical Equipment	5,580,899	-	-	-	5,580,899
Office Equipment	7,752,886	-	-	-	7,752,886
Computer Equipment	3,374,397	-	-	-	3,374,397
Motor Vehicles	3,956,029	-	-	-	3,956,029
Fixtures and Fittings	22,286,276	-	-	-	22,286,276
Other Assets	2,694,491	-	-	-	2,694,491
Software	769,250	141,250	-	-	910,500
Name Board	1,737,110	80,000	-	-	1,817,110
	<u>384,321,022</u>	<u>221,250</u>	<u>239,787,111</u>	<u>(34,500,000)</u>	<u>589,829,383</u>

Assets	Accumulated Depreciation			
	Balance at the Beginning of the Year Rs.	Charge for the Year Rs.	Disposals Rs.	Balance at the End of the Year Rs.
Buildings	-	707,060	-	707,060
Furniture and Fittings	7,961,938	1,945,679	-	9,907,618
Electrical Equipment	2,476,194	837,135	-	3,313,329
Office Equipment	6,964,015	788,871	-	7,752,886
Computer Equipment	3,063,677	310,721	-	3,374,397
Motor Vehicles	3,404,005	494,504	-	3,898,508
Fixtures and Fittings	4,154,460	1,114,314	-	5,268,774
Other Assets	1,756,315	404,174	-	2,160,488
Software	166,978	192,313	-	359,290
Name Board	131,016	260,567	-	391,583
	<u>30,078,598</u>	<u>7,055,336</u>	<u>-</u>	<u>37,133,934</u>
Carrying Amount	<u>354,242,424</u>			<u>552,695,449</u>

PC HOUSE LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

12.3.2 Property, Plant and Equipment - Leasehold

Assets	Cost or Valuation			Balance at the End of the Year Rs.
	Balance at the Beginning of the Year Rs.	Additions Rs.	Disposals Rs.	
Motor Vehicles	83,416,916	-	(4,991,777)	78,425,139
Electrical Equipment	10,952,451	-	-	10,952,451
	<u>94,369,367</u>	<u>-</u>	<u>(4,991,777)</u>	<u>89,377,590</u>

Assets	Accumulated Depreciation			Balance at the End of the Year Rs.
	Balance at the Beginning of the Year Rs.	Charge for the Year Rs.	Disposals Rs.	
Motor Vehicles	46,983,448	10,427,115	(2,783,371)	54,627,192
Electrical Equipment	5,282,165	1,642,868	-	6,925,033
	<u>52,265,613</u>	<u>12,069,982</u>	<u>(2,783,371)</u>	<u>61,552,225</u>
Carrying Amount	<u>42,103,754</u>			<u>27,825,366</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
As at 31 March 2010

	Group	Company	
	31.03.2010	31.03.2010	31.03.2009
	Rs.	Rs.	Rs.
13. Inventories			
Finished Goods & Accessories	<u>390,782,642</u>	<u>382,111,988</u>	<u>477,803,954</u>
14. Trade and Other Receivables			
Trade Receivables	424,522,926	385,959,203	238,111,923
Due from Directors	-	-	3,352,935
Due from Related Parties	Note 22 <u>2,792,782</u>	<u>2,792,782</u>	<u>24,678,557</u>
	<u>427,315,708</u>	<u>388,751,985</u>	<u>266,143,415</u>
15. Deposits & Prepayments			
Lease Prepayments	2,742,167	2,742,167	915,390
Security Deposits	11,225,960	11,225,960	18,708,230
Rent Deposits	18,851,561	18,851,561	18,117,561
Bank Guarantee Margin	10,622,760	5,624,549	8,800,623
Other Advances	1,121,075	529,340	529,340
Building Advances	19,850,000	19,850,000	16,800,000
Interest Income Receivable	118,904	118,904	187,290
VAT Receivable	17,091,535	16,434,210	15,147,087
Refundable Deposits	255,000	255,000	255,000
	<u>81,878,961</u>	<u>75,631,691</u>	<u>79,460,520</u>
16. Long Term Investments			
Investment in Shares	<u>-</u>	<u>5,409,000</u>	<u>21,000,000</u>
17. Cash and Bank Balances			
Cash in Hand	85,927,480	85,424,720	34,244,677
Cash at Bank	79,119,156	79,103,252	23,873,300
	<u>165,046,636</u>	<u>164,527,972</u>	<u>58,117,977</u>
18. Stated Capital			
Issued and Fully Paid Ordinary Shares	<u>171,700,000</u>	<u>171,700,000</u>	<u>171,700,000</u>
19. Borrowings			
Non-Current Liabilities			
Long Term Loans (i)	<u>206,054,529</u>	<u>206,054,529</u>	<u>130,351,557</u>
Current Liabilities			
Long Term Loans (i)	109,042,854	109,042,854	33,909,360
Short Term Borrowings (iii)	356,954,044	356,954,044	655,000,752
Import Loans-DA (iii)	143,296,889	143,296,889	101,581,770
Finance Lease Liabilities	Note 23 <u>778,394</u>	<u>778,394</u>	<u>2,413,040</u>
	<u>610,072,181</u>	<u>610,072,181</u>	<u>792,904,922</u>
Total Borrowings	<u>816,126,710</u>	<u>816,126,710</u>	<u>923,256,478</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

19.1 Details of Bank Securities

Bank Name	Facility Name	Limit of Facility	Securities
			The following assets and guarantees have been pledged as security for liabilities
Seylan Bank	Overdraft	30,000,000.00	No. 30 1/3, Glen Arbour Place, Colombo 3- Personal asset of Managing Director, Mr. Rishan
	Letter of Credit	117,500,000.00	No. 635, Maradana Road, Colombo 10 - Personal asset of Managing Director, Mr. Rishan
	Revolving Import Loan (Sub Limit)	94,100,000.00	Personal asset of Managing Director, Mr. Rishan
	Term Loan	20,000,000.00	No. 26/1 & 26/1 A Rupasinghe Mawatha, Dehiwala - Personal asset of Managing Director, Mr. Rishan
	Post-dated Cheques (Discounting Facility)	15,000,000.00	No. 134 & 136, Trincomalee Street, Kandy- PC House Property Personal Guarantee of Directors, Mr. Rishan & Mrs. Rishan
	Letter of Guarantee	10,000,000.00	No. 451, Galle Road, Colombo 3 - PC House property
	Term Loan-I	43,700,942.80	No. 176,178,180,182,184 & 186 Church Road, Mattakkuliya, Colombo 15 - PC House property
	Term Loan-II	160,000,000.00	House property
DFCC Vardhana Bank	Letter of Credit / Import Loan	24,000,000.00	a) Mortgage over stock and below (b)
	Term Loan	30,000,000.00	b) Personal Guarantee of Directors, Mr.Rishan & Mrs.Rishan and above (a)
Union Bank	Revolving Import Loan (Sub Limit)	18,500,000.00	a) Stock Mortgage
			b) Joint & several guarantee for Rs.18.5mn signed by Mr.S.H.M.Rishan & Mrs.S.S.Rishan, Directors of the Company

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

19.1 Details of Bank Securities - (Continued)

Bank Name	Facility Name	Limit of Facility	Securities
National Development Bank	Overdraft	10,000,000.00	<p>The following assets & guarantees have been pledged as security for NDB liabilities.</p> <p>a) Mortgage over Stock - Mattakkuliya</p> <p>b) 347/1 Main Street, Negombo - PC House Property</p> <p>c) No. 58, Sri Sivanandan Road, Kotahena, Colombo 13 - Personal asset of Managing Director, Mr.S.H.M. Rishan.</p> <p>d) Joint & several guarantee for Rs.130mn signed by Mr.S.H.M.Rishan & Mrs.S.S.Rishan, Directors of the company</p> <p>e) "Samsung" Stock and Book Debts Rs.75mn</p>
	Letter of Credit	40,000,000.00	
	Revolving Import Loan (Sub Limit)	40,000,000.00	
	Letter of Guarantee	5,000,000.00	
	Term Loan	62,500,000.00	
Commercial Bank	Overdraft	12,000,000.00	<p>a) Charles Circus, Colombo 3-Personal asset of Managing Director, Mr.S.H.M. Rishan and (b) below</p> <p>b) Joint & several guarantee for Rs.137mn signed by Mr.S.H.M.Rishan & Mrs.S.S.Rishan, Directors of the company and (a) above</p>
	PD	10,000,000.00	
	Letter of Credit	70,000,000.00	
	Revolving Import Loan (Sub Limit)		
	Letter of Guarantee		
Term Loan	30,000,000.00	Above (a) & (b)	

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

19.1 Details of Bank Securities - (Continued)

Bank Name	Facility Name	Limit of Facility	Securities
People's Bank	Letter of Credit	30,000,000.00	a) Stock Mortgage b) Indemnity c) Personal Guarantee of Directors, Mr.Rishan. & Mrs.Rishan. d) 110% cash margin
	Revolving Import Loan (Sub Limit)	106,000,000.00	TR Documents, Rs.2.25mn per month and Joint & Several Guarantee of Directors, Mortgage Bond for Rs.106m over stocks at warehouse in Mattakkuliya, Unity Plaza & Majestic City at the rate of 19%.
	Term Loan	15,000,000.00	No. 13/5, Bodiraja Mawatha, Nadimala, Dehiwala - Personal asset of Managing Director, Mr.S.H.M Rishan. No. 98/3, Sri Kotagama Vachissara Mawatha, Kalubowila, Dehiwala -Personal asset of Managing Director, Mr.S.H.M Rishan.

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

20. Defined Benefit Plans

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on 31 March 2010 by Mr. M. Poopalanthan of Actuarial and Management Consultants (Pvt) Limited. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	2009/10
Discount Rate	11%
Staff Turnover Rate	2%
Expected Rate(s) of Salary Increase	7.50%
Retirement Age	55

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	2009/10
Current Service Cost	1,070,334

Other relevant details such as interest cost, actuarial gain, etc. could not be recognised since this is the first time actuarial valuation has been adopted.

	Group	Company	
	31.03.2010	31.03.2010	31.03.2009
	Rs.	Rs.	Rs.
Prior Service Cost	3,781,659	3,781,659	-
Current Service Cost	1,070,334	1,070,334	-
Benefit Paid	(137,600)	(137,600)	-
Balance as at the End of the Year	<u>4,714,393</u>	<u>4,714,393</u>	<u>-</u>

	Group	Company	
	31.03.2010	31.03.2010	31.03.2009
	Rs.	Rs.	Rs.
21. Trade and Other Payables			
Sundry Creditors	1,297,090	-	97,974
Accruals	13,668,029	11,311,734	9,209,058
	<u>14,965,119</u>	<u>11,311,734</u>	<u>9,307,031</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

22. Related Party Transactions

Due from Related Companies

The directors of the Company are also directors of the following companies. The following amounts were outstanding at the year end.

	Group 31.03.2010 Rs.	Company	
		31.03.2010 Rs.	31.03.2009 Rs.
Panora Corporation (Pvt) Ltd	-	-	6,603,077
PC Partner (Pvt) Ltd	-	-	7,242,466
Greenwich Lanka (Pvt) Ltd	-	-	9,536,560
PC Pharma (Pvt) Ltd	Note 01 2,792,782	2,792,782	1,296,454
	<u>2,792,782</u>	<u>2,792,782</u>	<u>24,678,557</u>

Note 01

During the year, PC House has paid lease rental amount of Rs.1,496,328 on behalf of PC Pharma (Pvt) Ltd.

Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group 2009/10 Rs.	Company	
		2009/10 Rs.	2008/09 Rs.
Short-term Benefits	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>

Transactions Details

Nature		RS.
Assets Transfer	Note 01	34,500,000
Dividend Paid		(38,000,000)

Note 01

During the year the Company received Rs.34.5mn from Managing Director as sales proceeds for the disposal of land and building. Details are as follows:

Deed No.	Location	Value
3279	No. 98/3, Hospital Road, Kalubowila, Dehiwala.	4,000,000
2125	No. 30 1/3, Glen Aber Place, Colombo 04.	2,800,000
3330	No. 1, Charles Circus, Colombo 03.	22,000,000
5556	No. 635, Maradana Road, Colombo 10.	2,200,000
5232	No. 13/3, Rupasinghe Mawatha, Dehiwela.	1,000,000
5769	No. 26/1, Rupasinghe Avenue, Dehiwela.	2,500,000
		<u>34,500,000</u>

PC HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 March 2010

23. Obligations under Finance Leases

Leasing Agreements

Finance leases relate to motor vehicles and equipment leases with a maximum lease term of 5 years. The Company has the option to purchase the motor vehicle for a nominal amount at the conclusion of the lease agreements. The Company's obligation under finance lease is secured by the lessor's title to the leased assets.

Finance Lease Liabilities

	Minimum Lease Payments			Present Value of Minimum Lease Payments		
	Group	Company		Group	Company	
	31.03.2010	31.03.2010	31.03.2009	31.03.2010	31.03.2010	31.03.2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
No Later than 1 Year	864,196	864,196	8,750,624	778,394	778,394	2,413,040
Later than 1 Year and not Later than 5 Years	-	-	-	-	-	-
	<u>864,196</u>	<u>864,196</u>	<u>8,750,624</u>	<u>778,394</u>	<u>778,394</u>	<u>2,413,040</u>
Less: Future Finance Charges	(85,802)	(85,802)	(6,337,583)			
Present Value of Minimum Lease Payments	<u>778,394</u>	<u>778,394</u>	<u>2,413,041</u>			
Included in the Financial Statements as:						
Current Borrowings				778,394	778,394	2,413,040
Non Current Borrowings				-	-	-
				<u>778,394</u>	<u>778,394</u>	<u>2,413,040</u>

24. Events after the Balance Sheet Date

All the material events after the balance sheet date have been considered and appropriate adjustments / disclosure have been made where necessary.

25. Contingencies and Commitments

There were no material commitments outstanding as at the balance sheet date. No provision is recognized in the balance sheet for possible claims on warranties provided, as these expenses are borne by the suppliers.

26. First Time Adoption of SLAS 16

During the year, the Company has made gratuity provision as per SLAS 16, Actuarial Valuation. As a result, retained earning decreased by Rs.3,781,659 and during the year profit decreased by Rs.1,070,334. The Company is not in a position to identify the actuarial value for last year. Therefore, it has been adjusted from opening retained earnings.

16.4 Interim Financial Statements as at May 31, 2010

PC HOUSE LTD

Provisional and Unaudited Financial Statements

INCOME STATEMENT

For the two months ended 31 May	Group			Company		
	2010 Rs.	2009 Rs.	Change %	2010 Rs.	2009 Rs.	Change %
Revenue	514,587,747	329,449,871	56%	469,452,755	305,557,850	54%
Cost of Sales	(412,926,490)	(246,606,109)	67%	(383,793,162)	(231,249,553)	66%
Gross Profit	101,661,257	82,843,762	23%	85,659,593	74,308,297	15%
Other Income	454,779	238,778	90%	454,779	238,778	90%
Negative Goodwill	-	5,218,195		-	-	
Selling and Distribution Expenses	(6,933,588)	(5,289,407)	31%	(6,706,603)	(5,138,797)	31%
Administrative Expenses	(34,297,057)	(28,515,522)	20%	(26,627,117)	(23,516,916)	13%
Profit from Operating Activities	60,885,391	54,495,806		52,780,652	45,891,362	
Finance Costs	(19,613,401)	(34,949,060)	(44%)	(19,354,063)	(34,736,528)	(44%)
Net Profit Before Taxation	41,271,990	19,546,745	111%	33,426,589	11,154,834	200%
Taxation	(14,445,197)	(5,014,993)		(11,699,306)	(3,904,192)	
Net Profit for the Year	26,826,794	14,531,753	85%	21,727,283	7,250,642	200%
Earnings Per Share	0.16	0.85		0.13	0.42	

FINANCIAL STATEMENTS AND AUDITORS' REPORT


PC HOUSE LTD

Provisional and Unaudited Financial Statements

BALANCE SHEET

As at	Group			Company		
	31.05.2010 Rs.	31.05.2009 Rs.	31.03.2010 Rs. (Audited)	31.05.2010 Rs.	31.05.2009 Rs.	31.03.2010 Rs. (Audited)
ASSETS						
Non Current Assets						
Property, Plant & Equipment	577,693,405	394,971,027	581,554,207	576,787,436	393,441,244	580,520,815
Deferred Income Tax Asset	51,371,032	51,394,210	51,371,032	51,371,032	51,394,210	51,371,032
Investment in Subsidiary	-	-	-	5,409,000	409,000	5,409,000
	<u>629,064,437</u>	<u>446,365,237</u>	<u>632,925,238</u>	<u>633,567,468</u>	<u>445,244,455</u>	<u>637,300,847</u>
Current Assets						
Inventories	364,590,179	506,381,271	390,782,642	356,766,310	503,791,518	382,111,988
Trade and Other Receivables	476,094,358	276,410,236	427,315,708	431,223,114	261,686,520	388,751,985
Deposits & Prepayments	81,786,832	81,310,619	81,878,961	75,196,213	80,763,885	75,631,691
Commissioner General of Inland Revenue	-	17,286,782	-	-	17,286,782	-
Fixed Deposits	3,934,576	8,520,716	3,934,576	3,934,576	8,520,716	3,934,576
Cash in Hand and at Bank	120,999,949	67,962,395	165,046,636	120,608,032	67,790,149	164,527,972
	<u>1,047,405,894</u>	<u>957,872,020</u>	<u>1,068,958,523</u>	<u>987,728,245</u>	<u>939,839,570</u>	<u>1,014,958,212</u>
Total Assets	<u>1,676,470,334</u>	<u>1,404,237,258</u>	<u>1,701,883,761</u>	<u>1,621,295,715</u>	<u>1,385,084,025</u>	<u>1,652,259,059</u>
EQUITY AND LIABILITIES						
Capital and Reserves						
Stated Capital	171,700,000	171,700,000	171,700,000	171,700,000	171,700,000	171,700,000
Revaluation Reserve	239,787,111	-	239,787,111	239,787,111	-	239,787,111
Retained Earnings	255,057,241	162,451,041	230,034,448	226,138,563	155,169,930	204,411,281
	<u>666,544,352</u>	<u>334,151,041</u>	<u>641,521,559</u>	<u>637,625,674</u>	<u>326,869,930</u>	<u>615,898,393</u>
Non-Current Liabilities						
Borrowings	195,566,891	160,532,142	206,054,529	195,566,891	160,532,142	206,054,529
Other Deferred Liabilities	6,788,382	-	4,714,393	4,892,782	-	4,714,393
	<u>202,355,273</u>	<u>160,532,142</u>	<u>210,768,922</u>	<u>200,459,673</u>	<u>160,532,142</u>	<u>210,768,922</u>
Current Liabilities						
Borrowings	576,419,178	780,948,586	610,072,181	576,419,178	780,948,586	610,072,181
Commissioner General of Inland Revenue	60,940,112	2,011,424	46,866,242	48,209,333	-	36,881,354
Trade and Other Payables	14,364,018	10,144,947	14,965,119	10,988,333	5,773,792	11,311,733
Bank Overdraft	155,847,405	116,449,118	177,689,738	147,593,523	110,959,575	167,326,476
	<u>807,570,713</u>	<u>909,554,075</u>	<u>849,593,280</u>	<u>783,210,368</u>	<u>897,681,953</u>	<u>825,591,744</u>
Total Equity and Liabilities	<u>1,676,470,334</u>	<u>1,404,237,258</u>	<u>1,701,883,761</u>	<u>1,621,295,715</u>	<u>1,385,084,025</u>	<u>1,652,259,059</u>

I certify that the Financial Statements comply with the requirements of Companies Act No. 07 of 2007.



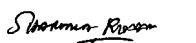
Accountant

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
Colombo
07 June 2010



Director

PC HOUSE LIMITED
STATEMENT OF CHANGES IN EQUITY
 Two Month Period Ended 31 May 2010

Group

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Profit Rs.	Total Equity Rs.
Balance as at 01.04.2009	171,700,000	-	147,919,288	319,619,288
Assets Revaluation Surplus	-	239,787,111	-	239,787,111
Gratuity Provision	-	-	(3,781,659)	(3,781,659)
Profit for the Year	-	-	123,896,818	123,896,818
Dividend Paid - Interim	-	-	(38,000,000)	(38,000,000)
Balance as at 31.03.2010	171,700,000	239,787,111	230,034,448	641,521,559
Gratuity Provision	-	-	(1,804,000)	(1,804,000)
Profit for the Period	-	-	26,826,794	26,826,794
Balance as at 31.05.2010	171,700,000	239,787,111	255,057,241	666,544,353
Balance as at 01.04.2009	171,700,000	-	147,919,288	319,619,288
Profit for the Year	-	-	14,531,753	14,531,753
Balance as at 31.05.2009	171,700,000	-	162,451,041	334,151,041

Company

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Profit Rs.	Total Equity Rs.
Balance as at 01.04.2009	171,700,000	-	147,919,288	319,619,288
Assets Revaluation Surplus	-	239,787,111	-	239,787,111
Gratuity Provision	-	-	(3,781,659)	(3,781,659)
Profit for the Year	-	-	98,273,651	98,273,651
Dividend Paid - Interim	-	-	(38,000,000)	(38,000,000)
Balance as at 31.03.2010	171,700,000	239,787,111	204,411,280	615,898,392
Profit for the Period	-	-	21,727,283	21,727,283
Balance as at 31.05.2010	171,700,000	239,787,111	226,138,563	637,625,674
Balance as at 01.04.2009	171,700,000	-	147,919,288	319,619,288
Profit for the Year	-	-	7,250,642	7,250,642
Balance as at 31.05.2009	171,700,000	-	155,169,930	326,869,930

PC HOUSE LTD

Provisional and Unaudited Financial Statements

CASH FLOW STATEMENT

For the two months ended 31 May	Group 2010 Rs.	Company 2010 Rs.	2009 Rs.
Cash Flow from Operating Activities			
Net Profit Before Taxation	41,271,990	33,426,589	11,154,834
Adjustments for:			
Depreciation	3,860,800	3,733,377	3,046,184
Profit on Disposal of Property and Equipment	-	-	-
Gratuity Provision	269,989	178,389	-
Interest on Finance Leases	-	-	-
Interest Income	(454,779)	(454,779)	(238,778)
Interest Expenses	19,613,401	19,354,063	34,736,528
	<u>64,561,401</u>	<u>56,237,639</u>	<u>48,698,768</u>
Changes in Operating Assets and Liabilities			
(Increase)/Decrease in Inventories	26,192,463	25,345,678	(25,987,564)
(Increase)/Decrease in Trade and Other Receivables	(48,686,528)	(42,035,651)	3,153,531
Increase/(Decrease) in Trade and Other Payables	(601,101)	(323,401)	(3,533,240)
Cash Generated from Operations	<u>41,466,235</u>	<u>39,224,265</u>	<u>22,331,495</u>
Income Taxes Paid	(371,327)	(371,327)	(22,112)
Interest Paid	(19,613,401)	(19,354,063)	(34,736,528)
Gratuity Paid	-	-	-
Interest Received	454,779	454,779	238,778
Lease Interest Paid	-	-	-
Net Cash Flows from Operating Activities	<u>21,936,286</u>	<u>19,953,654</u>	<u>(12,188,367)</u>
Cash Flows from Investing Activities			
Investment of Shares	-	-	(409,000)
Proceeds from Disposal of Investments	-	-	21,000,000
Lease Rentals Paid	(230,084)	(230,084)	(915,636)
Proceeds from Maturity of Deposits	-	-	(550,000)
Proceeds from Disposal of Property and Equipment	-	-	-
Purchase of Property and Equipment	-	-	(141,250)
Dividends Paid	-	-	-
Net Cash used in Investing Activities	<u>(230,084)</u>	<u>(230,084)</u>	<u>18,984,114</u>
Cash Flows from Financing Activities			
Net Borrowings	(43,910,557)	(43,910,557)	19,139,886
Net Cash Flows from Financing Activities	<u>(43,910,557)</u>	<u>(43,910,557)</u>	<u>19,139,886</u>
Net Increase in Cash and Cash Equivalents	<u>(22,204,355)</u>	<u>(24,186,987)</u>	<u>25,935,633</u>
Cash and Cash Equivalents at the Beginning of the Year	(12,643,102)	(2,798,503)	(69,105,059)
Cash and Cash Equivalents at the End of the Year	<u>(34,847,457)</u>	<u>(26,985,490)</u>	<u>(43,169,426)</u>
Cash and Cash Equivalents at the End of the Year Comprises of:			
Bank and Cash Balances	120,999,949	120,608,032	67,790,149
Bank Overdraft	(155,847,405)	(147,593,523)	(110,959,575)
	<u>(34,847,457)</u>	<u>(26,985,490)</u>	<u>(43,169,426)</u>

PC HOUSE LIMITED

Provisional and Unaudited Financial Statements

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

Two Month Period Ended 31 May 2010

1. The Company was incorporated in Sri Lanka on 2nd February 2000 as a limited liability company under the Companies Act No.17 of 1982, with the objective of import, assembling and distribution of all types of Computers and Electronic Equipment.

In accordance to the certificate issued by the Registrar of Companies dated 31st May 2010 PC House (Pvt) Ltd has thereon, changed its name to PC House Limited changing its status to Public Limited Liability Company.

2. Interim Financial Statements of the Company and Group have been prepared on the basis of the same accounting policies and methods applied for the year ended 31st March 2010 and are in compliance with Sri Lanka Accounting Standard 35 – Interim Financial Reporting.
3. The presentation and the classification of the Financial Statements of the previous year have been amended, where relevant, for better presentation and to be comparable with those of the current year.
4. There has been no significant change in the nature of the contingent liabilities, which were disclosed in the Audited Financial Statements for the year ended 31st March 2010.
5. The thirteen Sole Proprietorship which are mentioned in the note 1.1 to the Audited Financial Statements have been dissolved with effect from 1st April 2010 and company has taken steps to register the trade marks and logos, used by the thirteen Sole Proprietorships, at the National Intellectual Property Office.
6. The subsidiary has provided the gratuity in terms of the payment of Gratuity Act No. 12 of 1983, according to which an obligation to pay gratuity arises only on completion of 5 years continued service.

ANNEX A – INDEX ON TABLES AND FIGURES ILLUSTRATED IN THE PROSPECTUS

List of Tables

Table 6-1 : Opportunities for Outsourced Services.....	23
Table 6-2 : Sri Lanka's Competitiveness in the Outsourcing Services Market	26
Table 7-1 : PCH's Shareholding in Subsidiaries	47
Table 7-2 : Term Loans of PCH Group as at March 31, 2010.....	47
Table 7-3 : Short Term Borrowings and Import Loans for PCH Group as at March 31, 2010.....	48
Table 7-4 : Finance Lease Liabilities and Bank Overdrafts as at March 31, 2010.....	48
Table 7-5 : Borrowings of PCH Group as at June 30, 2010.....	49
Table 8-1 : Details of PCH Board of Directors	51
Table 8-2 : GLPL Board of Directors.....	52
Table 8-3 : Procifinity Board of Directors	52
Table 8-4 : Directors' Shareholdings in PCH as at June 15, 2010.....	52
Table 8-5 : Other Directorships.....	53
Table 8-6 : Senior Management of PCH.....	55
Table 9-1 : PC House Limited - Summarised Income Statements	57
Table 9-2 : PC House Limited - Summarised Balance Sheets	57
Table 9-3 : Greenwich Lanka (Private) Limited - Summarised Income Statements	60
Table 9-4 : Greenwich Lanka (Private) Limited - Summarised Balance Sheets	60
Table 10-1 : Stated Capital of PCH.....	62
Table 10-2 : Shareholders of PCH.....	62
Table 10-3 : Shareholders of PCH subsequent to the Offering	62
Table 13-1 : Transaction Costs	71
Table 13-2 : Stock Market Statistics 2005 – May 2010.....	72

List of Figures

Figure 6-1 : Sri Lanka Addressable IT Market Growth	17
Figure 6-2 : Sri Lanka Desktop Computer Ownership Percentage at Household Level.....	19
Figure 6-3 : Internet and E-mail Subscribers.....	21
Figure 6-4 : India ITES Revenue	24
Figure 6-5 : Sri Lanka Services Exports.....	25
Figure 6-6 : Internet Data Centre Diagram.....	28
Figure 6-7 : Regional IDC Revenue	29
Figure 6-8 : Annual Broadband Cost	31
Figure 7-1 : PCH Group Structure	32
Figure 7-2 : PCH Business Channels.....	38
Figure 7-3 : PCH Distribution Network	39
Figure 9-1 : PCH Revenue	58
Figure 9-2 : PCH Revenue Mix.....	58
Figure 9-3 : PCH Gross Profit.....	58
Figure 9-4 : PCH Operating Profit	58
Figure 9-5 : PCH Net Profit.....	59
Figure 9-6 : Monthly Revenue of PCH.....	59
Figure 9-7 : Monthly Profit of PCH.....	59
Figure 9-8 : GLPL Revenue.....	60
Figure 9-9 : GLPL Operating Profit.....	61
Figure 9-10 : GLPL Net Profit	61
Figure 9-11 : Monthly Revenue of GLPL	61
Figure 9-12 : Monthly Profit of GLPL	61

ANNEX B – COLLECTION POINTS

Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

Registrar to the Offering

S S P Corporate Services (Private) Limited
101, Inner Flower Road
Colombo 03
Tel: 011 2573894

Managers to the Offering

NDB Investment Bank Limited
40, Navam Mawatha
Colombo 02.
Tel: 011 2300385-90

Members of the CSE

Asia Securities (Private) Limited

Level 21, West Tower
World Trade Centre
Echelon Square
Colombo 01

Tel: 011 2423905, 011 5320000
Fax: 011 2336018
E-mail: enquiry@asiacapital.lk

Assetline Securities (Private) Limited

282, Kaduwela Road
Battaramulla

Tel: 011 4700111, 011 2307366
Fax: 011 4700112, 011 2307365
E-mail: dpgsl@sltnet.lk

Bartleet Mallory Stockbrokers (Private) Limited

Level "G",
"Bartleet House"
65, Braybrooke Place
Colombo 02

Tel: 011 5220200
Fax: 011 2434985
E-mail: info@bartleetstock.com

J B Securities (Private) Limited

150, St. Joseph's Street
Colombo 14

Tel: 011 2490900, 077 2490900, 077 2490901
Fax: 011 2430070, 011 2446085, 011 2447875
E-mail: jbs@jb.lk

Ceylinco Stockbrokers (Private) Limited

"Ceylinco House"
Level 9
69, Janadhipathi Mawatha
Colombo 01

Tel: 011 4714300, 011 4714388-9, 077 7891871,
077 7896064
Fax: 011 2387228
E-mail: info@ecsbl.com

John Keells Stockbrokers (Private) Limited

130, Glennie Street
Colombo 02

Tel: 011 2326003, 011 2338066-7, 011 2342066-7, 011
2446694-5, 011 2439047-8, 011 4710721-4
Fax: 011 2342068, 011 2326863
E-mail: jkstock@keells.com

ANNEX B – COLLECTION POINTS

SC Securities (Private) Limited

2nd Floor,
55, D.R. Wijewardena Mawatha
Colombo 10

Tel: 011 4711000
Fax: 011 2394405
E-mail: cscres@sltnet.lk

CT Smith Stockbrokers (Private) Limited

4-14, Majestic City
10, Station Road
Colombo 04

Tel: 011 2552290-4
Fax: 011 2552289
E-mail: ctssales@sltnet.lk

Capital TRUST Securities (Private) Limited

42, Sir Mohamed Macan Marker Mawatha
Colombo 03

Tel: 011 5335225
Fax: 011 5365725
E-mail: inquiries@capitaltrust.lk

Acuity Stockbrokers (Private) Limited

Level 6, Acuity House
53, Dharmapala Mawatha
Colombo 03

Tel: 011 2206206
Fax: 011 2206298-9
E-mail: sales@acuitystockbrokers.com

NDB Stockbrokers (Private) Limited

5th Floor, NDB Building
40, Navam Mawatha
Colombo 02

Tel: 011 2314170-8
Fax: 011 2314180
E-mail: mail@ndbs.lk

Lanka Securities (Private) Limited

228/2, Galle Road
Colombo 04

Tel: 011 4706757, 011 2554942
Fax: 011 4706767
E-mail: lankasec@sltnet.lk

Asha Phillip Securities Limited

Level 4, "Millennium House"
46/58, Navam Mawatha
Colombo 02

Tel: 011 2429100
Fax: 011 2429199
E-mail: apsl@ashaphillip.net

Somerville Stockbrokers (Private) Limited

137, Vauxhall Street
Colombo 02

Tel: 011 2329201-5, 011 2332827, 011 2338292-3
Fax: 011 2338291
E-mail: ssb@web-lk.com

D N H Financial (Private) Limited

Level 16, West Tower
World Trade Centre
Colombo 01

Tel: 011 5732222
Fax: 011 5736264
E-mail: info@dnhfinancial.com

ANNEX B – COLLECTION POINTS

Trading Members

Capital Alliance Securities (Private) Limited

Level 5, "Millennium House"
46/58, Navam Mawatha
Colombo 02

Tel: 011 2317777
Fax: 011 2317788

First Guardian Equities (Private) Limited

32nd Floor, East Tower
World Trade Centre
Colombo 01

Tel: 011 5884400
Fax: 011 5884401
E-mail: info@firstguardianequities.com

Amana Securities Limited

532/4F, Srikotha Lane
Galle Road
Colombo 03

Tel: 011 2372561-4
Fax: 011 2372565
E-mail: info@asl.lk

SMB Securities (Private) Limited

47, Dharmapala Mawatha
Colombo 03

Tel: 011 5539593
Fax: 011 2339292
E-mail: smbsecurities@gmail.com

Taprobane Securities (Private) Limited

2nd Floor
10, Gothami Road
Colombo 08

Tel: 011 5231000
Fax: 011 5328177
E-mail: info@taprobane.lk, dinal@taprobane.lk

SKM Lanka Holdings (Private) Limited

377/3, Galle Road
Colombo 03

Tel: 011 2372413-4
Fax: 011 2372416
E-mail: info@skmlankaholdings.com

ANNEX B – COLLECTION POINTS

NDB Bank Branches

Branch Name	Branch Address	Telephone
Ampara	103F, D. S. Senanayake Street, Ampara	063-2223201
Anuradhapura	522/C, Maithreepala Senanayake Mawatha, Anuradhapura	025-4581142
Athurugiriya	70/20 C, Main Street, Athurugiriya	011-2563325
Avissawella	93, Ratnapura Road, Avissawella	036-2233610
Badulla	242, Lower Street, Badulla	055-2231419
Batticaloa	42/1, Trinco Road, Batticaloa	065-2227944
Boralasgamuwa	49, Colombo Road, Boralasgamuwa	011-2509701
Chilaw	50-52, Skyline Building, Colombo Road, Chilaw	032-2220107
Dharmapala Mawatha	103A, Dharmapala Mawatha, Colombo 07	011-2448448
Galle	Chamber of Commerce Building, Sri Gnanbasha Mawatha, Oruppuwatte, Galle	091-2224136
Gampaha	153, Colombo Road, Gampaha	033-2225051
Havelock Town	117, Havelock Road, Colombo 05	011-2591140
Homagama	64A, Highlevel Road, Homagama	011-2894880
Horana	135, Panadura Road, Horana	034-2265171
Jaffna	62/6, Stanley Road, Jaffna	021-2221180
Kadawatha	147, Kandy Road, Kadawatha	011-2926453
Kalutara	290, Galle Road, Kalutara South	034-2236576
Kandana	54, Negombo Road, Kandana	011-2228601
Kandy	88 Kotugodalla Veediya, Kandy	081-2202776
Kegalle	261/1, Kandy Road, Kegalle	035-2232535
Kiribathgoda	139/1, Kandy Road, Kiribathgoda	011-2907511
Kohuwala	118, S De S Jayasinghe Mawatha, Kohuwala	011-2814224
Kollupitiya	712, Galle Road, Colombo 03	011-2504961
Kotahena	295, George R De Silva Mw, Colombo 13	011-2436169
Kurunegala	6, Rajapihilla Mawatha, Kurunegala	037-2231952
Maharagama	108 A, Highlevel Road, Maharagama	011-2745091
Malabe	760, New Kandy Road, Malabe	011-2762345
Matara	60, Uyanwatte Road, Matara	041-2231542
Moratuwa	255, Galle Road, Idama, Moratuwa	011-2642021
Mt Lavinia	270, Galle Road, Mt Lavinia	011-2739176
Navam Mawatha	42, DHPL Building, Navam Mawatha, Colombo 02	011-2314640
Negombo	456, Main Street, Negombo	031-2220246
Nugegoda	152, Nawala Road, Nugegoda	011-2820885
Panadura	319, Galle Road, Panadura	038-2241893
Pelawatta	730A, Pannipitya Road, Pelawatte, Battaramulla	011-2786708
Piliyandala	21, Second Cross Street, Piliyandala	011-2604600
Puttalam	104, Kurunegala Road, Puttalam	032-2265529
Rajagiriya	1018, Sri Jayawardenapura Road, Rajagiriya	011-2885794
Ratmalana	143/C, "Mount City", Galle Road, Ratmalana	011-2719361
Ratnapura	32 A, Zavia Mawatha, Ratnapura	045-2230910
Trincomalee	91 & 93, North Coast Road, Trincomalee	026-2226771
Vavuniya	2, 1 st Cross Street, Vavuniya	024-2225780
Wattala	378A, Negombo Road, Wattala	011-2981519
Wellawatta	302, Galle Road, Colombo 06	011-2361903
Wennappuwa	56/C, Main Street, Wennappuwa	031-2245431

ANNEX C – PCH BRANCH NETWORK

Branch Name	Branch Address	Telephone
Ampara	2 nd Floor, TKS Building, D. S. Senanayake Street, Ampara	063-4920942
Anuradhapura	280, Bank Side, Anuradhapura	025-4927239
Badulla	18, Cocowatte Road, Badulla	055-4499443
Bandarawela	339, Main Street, Bandarawela	057-4925807
Jaffna	1, K-Stanely Road, Jaffna	021-4920572
Kaduruwela	399/5, Main Street, Kaduruwela	027-4920598
Kandy	136, D. S. Senanayake Street, Kandy	081-4641000
Kurunegala	151/1, Wickrama Building, Colombo Road, Kurunegala	037-4691462
Matara	2, Kalidasa Road, Matara	041-4390291
Negombo	6-E, Station Road, Negombo	031-4872770
Ratnapura	237/C, Main Street, Ratnapura	045-4928625
Trincomalee	24, Sea View Road, Trincomalee	026-4924743
Vavuniya	210, Kandy Road, Vavuniya	024-4589572

This page is intentionally left blank

This page is intentionally left blank

