

Annual Report 2004

# The Sri Lanka Fund

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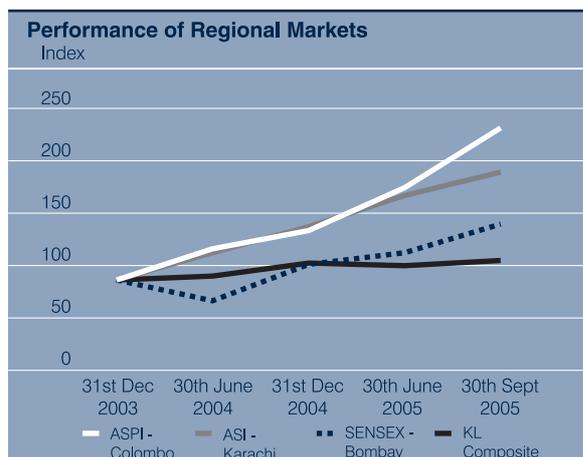
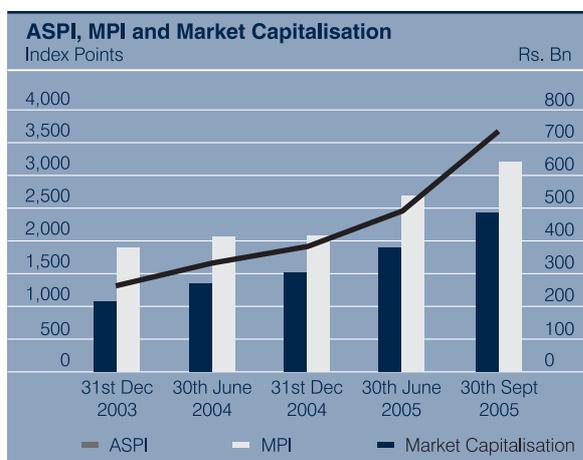
## Fund Manager's Review

We, as the managers to the Fund, have pleasure in reporting to unit holders on the Fund's results for the year ended 31st December 2004.

### Stock Market

#### Performance

The Colombo Bourse continued its bull run in 2004 with the All Share Price Index (ASPI) recording a growth of 42%, closing the year at 1,506.9 points. The Milanka Price Index grew by 9.3% during the year, closing at 2,073.7 points. The performance of ASPI prior to the tsunami devastation was 48%. However, this gain was negated given panic retail selling which resulted in the ASPI closing with a total annual gain of 42%. Even with this decline in performance, the Colombo Stock Exchange (CSE) was still able to outperform most regional stock markets, indicating its resilience and strength.



Since then, the market has continued to perform well and in 2005 the ASPI continued to strengthen further recording a gain of 39% up to September 2005. Some of the key sectors that performed well during this period were the diversified sector and the telecommunications sector. Further, with the conclusion of the Presidential election, despite the initial drop, the volatility of the market is expected to subside over the next few weeks as the policy framework of the new President is spelt out. With several key IPOs in the pipelines in the near future, we are confident that greater local and foreign investor interest will continue to drive the performance of the Colombo Bourse.

#### New Issues

Two landmark initial public offerings that took place during 2004 and 2005, namely Lanka Indian Oil Company Limited and Dialog Telekom gave a new dimension to stock market activity benefiting institutional and retail investors alike. Lanka Indian Oil Company Limited, which came into the market during the latter part of the year was the largest IPO in the history of the Colombo Stock Exchange as at that date and generated unprecedented interest both locally as well as internationally. Following the liberalisation of Sri Lanka's petroleum sector in 2003, Lanka IOC (Pvt) Limited, a unit of the state-owned Indian Oil Corporation, entered Sri Lanka during the early part of 2003 through an acquisition of one-third stake in the state-run Ceylon Petroleum Corporation. It currently owns over 150 filling stations and one-third of the fuel storage and pipeline network in the country. The ASPI went on to register an all time high of 1,580.7 points on 22nd December, the first day of trading of Lanka IOC shares, surpassing its previous record of 1,560.9 recorded in October 2004.

During July 2005, the initial public offering of Dialog Telekom Limited, the country's largest mobile phone operator and a subsidiary of Telekom Malaysia Berhad created history on the Colombo Stock Exchange by becoming the largest ever IPO in Sri Lanka (Rs. 8.5 billion) and the largest capitalised company on the Colombo Stock Exchange.

## Fund Manager's Review (Contd.)

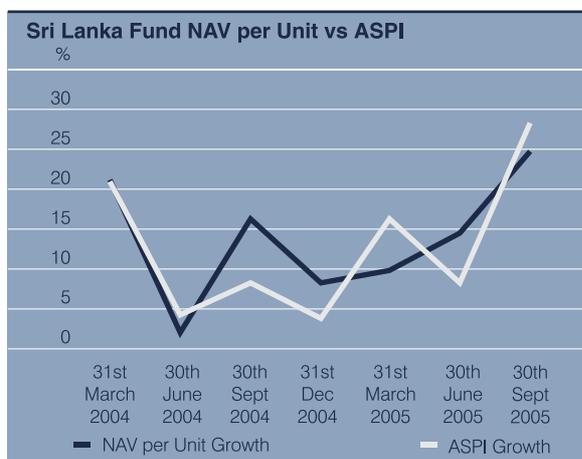
### Investor Interest

During 2004, domestic investors accounted for 81.8% of the annual turnover while foreigners accounted only for 18.2%. Net foreign inflow during the year amounted to Rs. 1,106 million while market capitalisation amounted to Rs. 382.1 billion a growth of 45% over the previous year. Since then the market capitalisation grew by 92% to record Rs. 734.8 billion in September 2005. Foreign interest continued to grow in 2005, with the Dialog IPO being able to secure the highest level of overseas subscription received at an IPO by attracting Rs. 37 billion of foreign investment, which saw the foreign component being oversubscribed by 11 times.

### The Fund

#### Fund Performance

During the 12-month period up to 31st December 2004, the total market value of The Sri Lanka Fund inclusive of cash and cash equivalents amounted to US\$ 720,636, a growth of 33% compared to the corresponding period last year. The net asset value per unit too saw an increase of 32% from US\$ 0.99 in 2003 to US\$ 1.31 at the end of 2004. During the 9 months up to September 2005, the market value of the Fund stood at US\$ 1 million while the net asset value per unit amounted to US\$ 2.07.



### Key Investments

Taking advantage of positive market conditions, the Fund accumulated several key stocks including Distilleries Company of Sri Lanka (DCSL), John Keells Holdings Limited (JKH) and Aitken Spence Hotel Holdings during the period under review. DCSL is exposed to several business segments including the hard liquor market of which it controls a 87% market share and 31% & 26% in general and life insurance markets respectively through its majority ownership of Sri Lanka Insurance Corporation. Further, the Company also has significant interests in the tourism, power, cargo and logistics businesses through its stake in Aitken Spence and a significant presence in the growing telecommunications sector through Lanka Bell, a pioneering company which introduced CDMA technology to the country.

JKH is one of Sri Lanka's premier diversified conglomerates with business interest in leisure, transportation, food & beverage, financial services, real estate and information technology. The recent merger between subsidiaries' Nations Trust Bank and Mercantile Leasing Limited is due to further strengthen the financial services sector while the construction of a 30 storied condominium complex, Monarch Tower will also enhance the Group's earnings from its real estate business. Further, the Group's exposure to the transportation and infrastructure segments through Lanka Marine Services and South Asia Gateway Terminal is also expected to further strengthen cash flows and earnings.

Aitken Spence Hotel Holdings, a Company under Aitken Spence Group is exposed to the leisure sector both in Sri Lanka and Maldives. The expected recovery and positive developments in the tourism industry, coupled with the Company's ongoing refurbishment and expansion plan, is expected to add value to investors in the medium to long-term.

These are considered to be fundamentally sound stocks with business investments in high growth industries. As Managers of the Fund we will ensure that The Sri Lanka Fund is exposed to these and similar high quality stocks in order to derive a better performance.

## Fund Manager's Review (Contd.)

The main disposal during the year was a quantity of Tea Smallholders Factories Limited and CeyBank Century Growth Fund. The dividend income received by the Fund during the year was US\$ 16,567 which is a significant improvement over last year.

### Economy and Future Outlook

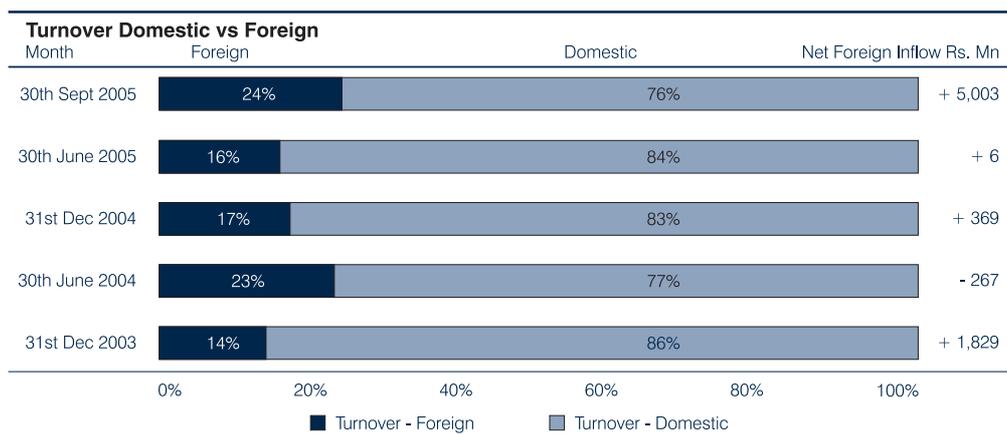
The Sri Lankan economy performed relatively well in 2004, with Gross Domestic Product recording a growth of 5.4%. The service sector which grew 7.6% was the largest contributor while the industrial sector continued its upward trend with an increase of about 5.2%. This growth continued into 2005, with the economy growing by 4.4% during the first quarter and by 6% during the second quarter of the year. During the second quarter, the industry and service sectors grew by 7.8% and 7.7% respectively, benefiting from favourable external demand and sustained domestic demand. The agriculture sector however recorded a decline of 2.7%, mainly due to the poor performance in the fishing industry which was affected by the tsunami in 2004.

Inflation remained at a relatively low figure during the early part of 2004 but saw an increase towards the end of the year and early 2005 with a reversal from end March where it declined from 15.5% to 10.5% in September 2005. The US dollar which traded at Rs. 96.45 in 2003 saw a rise to over Rs. 105 towards the latter part of 2004, a 8.2% depreciation. The US\$ closed at SLRs. 101.24 as at end September 2005 and the rupee is expected to depreciate further against the US\$ given higher import costs of petroleum and other essential consumer items in

line with world market trends. However, the foreign aid inflows for reconstruction of tsunami affected areas may ease the pressure on the rupee in the coming months.

2004 saw Sri Lanka being rated as one of the best performing stock markets in Asia and the World and this growth has continued into 2005 indicating a positive investor sentiment both by local as well as foreign investors. Interest shown by foreign investors during the last few months is an indication of confidence placed on the CSE and this is expected to continue further. Over the next few months the inflow of foreign tsunami aid and the reconstruction efforts is expected to boost the real estate and construction sectors in the country. Tourism is also seen returning to normal with high tourist arrivals expected in the coming months while the hotels and travels sector is undertaking refurbishment programmes in anticipation of this increase in arrivals. The telecommunication, ports and utilities sectors which recorded growth rates of 35%, 17% and 31% respectively, are seen as high growth sectors while the construction, retail and healthcare sectors are also attracting interest with the increase in disposable incomes and changing lifestyles.

The Managers of The Sri Lanka Fund are of the view that the market offers potential for investors to realise further returns. As such, we hope to re-launch The Sri Lanka Fund and embark on new marketing initiatives to promote the Fund internationally, and source investors to enhance the fund base. This will enable us to spread portfolio exposures to diverse growth sectors of the market, thus making The Sri Lanka Fund truly representative of the investment opportunities in Sri Lanka.



## Report of the Directors

The Directors hereby submit their annual report together with the audited financial statements of The Sri Lanka Fund (the Fund) for the year ended 31st December 2004.

### The Company

The Company is an open-ended investment company, incorporated as an exempt company in the Cayman Islands with limited liability. The Sri Lanka Fund was launched via a prospectus and currently the Fund represents the class A shares of the Company. The articles of the Company permits the creation of new classes of shares to accommodate subordinated funds, though no such subordinated funds have been created as at 31st December 2004.

The Fund's investment objective is to achieve long-term capital growth by investing in a diversified portfolio of equity securities including convertible bonds and warrants listed on the Colombo Stock Exchange and those issued outside Sri Lanka by any Corporation organised in and under the laws of Sri Lanka and which has its shares listed on the Colombo Stock Exchange and equity securities issued by listed investment companies and funds, wherever established, which invest primarily in equity issued by Sri Lankan companies listed on the Colombo Stock Exchange.

### Results and Dividends

The results of the Fund for the year ended 31st December 2004 are set out on pages 6 to 15 of the Annual Report. The Directors do not recommend the payment of a dividend for the year ended 31st December 2004.

### Share Capital

The details of changes in the issued share capital including subscriptions and redemptions of shares for cash during the year are set out in the statement of changes in ownership equity and Note 6 to the financial statements.

### Directors

The Directors during the year and up to the date of this report were:

Don Chandima Rajakaruna Gunawardena  
Palehenalage Chandana Priyankara Tissera  
Adrian John Reginald Collins  
Gordon Haig Brough

### Directors' and other Interests

Don Chandima Rajakaruna Gunawardena and Palehenalage Chandana Priyankara Tissera are Directors of Guardian Fund Management Limited, the Investment Manager of the Fund and Carsons Management Services (Pvt) Limited the Fund's Administrator.

Apart from the above, as at 31st December 2004, none of the Directors had any interest in the share capital of the Company or any interest in any material contracts or contracts for the provision of services during the year significant to the business of the Company.

All Directors are entitled to an annual fee. However, Don Chandima Rajakaruna Gunawardena and Palehenalage Chandana Priyankara Tissera have waived their Directors' fee for the year.

### Auditors

KPMG, retire and being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

*Director*  
25th August 2005

## Report of the Independent Auditors



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### AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying balance sheet of The Sri Lanka Fund as at 31 December 2004 and the related statements of operations, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards in Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2004, and the result of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature of the KPMG firm, appearing as 'KPMG' in a stylized, cursive script.

**Chartered Accountants**  
25 August 2005

## Statement of Operations

For the year ended 31st December

	Note	2004 US\$	2003 US\$
<b>Income</b>			
Dividend income		16,567	9,146
Bank interest income		136	1,043
		<u>16,703</u>	<u>10,189</u>
<b>Expenses</b>			
Audit fees		7,250	6,500
Legal and professional fees		7,601	15,573
Directors' emoluments		10,027	10,000
Investment manager's fees	4	8,526	6,693
Administrator's fees	4	1,137	892
Custodian's fees	4	20,055	20,200
Sundry expenses		17,879	13,547
		<u>72,475</u>	<u>73,405</u>
<b>Net operating loss</b>		<u>(55,772)</u>	<u>(63,216)</u>
<b>Gains/(Losses) on Investments</b>			
- Realised gain/(loss) on sale of investments		(19,815)	14,292
- Movement in unrealised diminution in value of investments		348,829	33,432
- Foreign exchange losses on investments		(108,759)	(201)
		<u>220,255</u>	<u>47,523</u>
<b>Net gains on investments</b>		<u>220,255</u>	<u>47,523</u>
<b>Net profit/(loss) for the year</b>		<u>164,483</u>	<u>(15,693)</u>

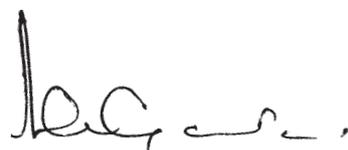
See accompanying notes to the financial statements.

## Balance Sheet

<i>As at 31st December</i>	Note	2004 US\$	2003 US\$
<b>Assets</b>			
Investments	5	698,734	490,535
Sundry receivables		–	27
Prepayments		3,583	1,500
Cash and cash equivalents		21,902	49,508
<b>Total assets</b>		<u>724,219</u>	<u>541,570</u>
Accruals and other payables		(52,823)	(34,303)
<b>Total liabilities</b>		<u>(52,823)</u>	<u>(34,303)</u>
<b>Net assets</b>		<u>671,396</u>	<u>507,267</u>
Financed by:			
<b>Capital and Reserves</b>			
Called up share capital	6	5,225	5,229
Share premium account		16,133,479	16,133,829
Capital reserve		(14,347,462)	(14,567,717)
Accumulated deficit		(1,119,846)	(1,064,074)
		<u>671,396</u>	<u>507,267</u>
<b>Net asset value per participating share</b>	7	1.31	0.99

See accompanying notes to the financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 25th August 2005 and are signed on their behalf.



**D. C. R. Gunawardena**

Director



**P. C. P. Tissera**

Director

Figures in brackets indicate deductions.

## Cash Flow Statement

<i>For the year ended 31st December</i>	2004	2003
	US\$	US\$
<b>Cash Flows from Operating Activities</b>		
Net operating loss	(55,772)	(63,216)
Dividend income	(16,567)	(9,146)
Interest income	(136)	(1,043)
Increase in prepayments	(2,083)	(1,500)
Decrease in sundry receivables	27	-
Increase in accruals and other payables	18,520	1,027
<b>Net cash outflow from operating activities</b>	<b>(56,011)</b>	<b>(73,878)</b>
<b>Cash Flows from Investing Activities</b>		
Payments for purchases of investments	(197,516)	(64,815)
Proceeds on disposal of investments	209,572	14,091
Dividend received	16,567	9,146
Interest received	136	1,168
<b>Net cash inflow/(outflow) from investing activities</b>	<b>28,759</b>	<b>(40,410)</b>
<b>Net cash outflow before financing activities</b>	<b>(27,252)</b>	<b>(114,288)</b>
<b>Financing Activities</b>		
Payment for redemption of shares	(354)	-
<b>Net cash outflow from financing activities</b>	<b>(354)</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(27,606)</b>	<b>(114,288)</b>
<b>Cash and cash equivalents at 1st January</b>	<b>49,508</b>	<b>163,796</b>
<b>Cash and cash equivalents at 31st December</b>	<b>21,902</b>	<b>49,508</b>

*See accompanying notes to the financial statements.*

## Statement of Changes in Shareholders' Equity

For the year ended 31st December 2004

	Called Up Share Capital US\$	Share Premium Account US\$	Capital Reserve US\$	Accumulated Deficit US\$	Total US\$
Balance as at 1st January 2003	5,229	16,133,829	(14,615,240)	(1,000,858)	522,960
Net loss for the the year	-	-	-	(15,693)	(15,693)
Transfer from accumulated deficit to capital reserve (Note 2(i))	-	-	47,523	(47,523)	-
Balance as at 31st December 2003	<u>5,229</u>	<u>16,133,829</u>	<u>(14,567,717)</u>	<u>(1,064,074)</u>	<u>507,267</u>
Balance as at 1st January 2004	5,229	16,133,829	(14,567,717)	(1,064,074)	507,267
Redemption of share capital	(4)	(350)	-	-	(354)
Net profit for the year	-	-	-	164,483	164,483
Transfer from accumulated deficit to capital reserve (Note 2(i))	-	-	220,255	(220,255)	-
Balance as at 31st December 2004	<u>5,225</u>	<u>16,133,479</u>	<u>(14,347,462)</u>	<u>(1,119,846)</u>	<u>671,396</u>

See accompanying notes to the financial statements.

## Notes to the Financial Statements

For the year ended 31st December 2004

### 1. General

The Sri Lanka Fund (“the Company”) is an open-ended investment company incorporated as an exempt company with limited liability on 21st October 1993 under the Companies Law (Revised) of the Cayman Islands and registered under the Mutual Funds Law on 26th July 1994.

The Company’s investment objective is to achieve long-term capital growth by investing in a diversified portfolio of equity securities including convertible bonds and warrants listed on the Colombo Stock Exchange and those issued outside Sri Lanka by any corporation organised in and under the laws of Sri Lanka and which has its shares listed on the Colombo Stock Exchange, and equity securities issued by listed investment companies and funds, wherever established, which invest primarily in equity issued by Sri Lankan companies listed on the Colombo Stock Exchange.

As at 31st December 2004, the Company had no employees. The investment activities of the Company are managed by Guardian Fund Management Limited (“the investment manager”) and the administration of the Company is delegated to Carsons Management Services (Pvt) Limited. The registered office of the Company is located at P.O. Box 309GT, Uglad House, Grand Cayman Islands, B.W.I.

### 2. Significant Accounting Policies

A summary of the significant accounting policies adopted by the Company is set out below:

#### (a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

#### (b) Basis of Preparation

The measurement and presentation currency of the financial statements is the United States dollar and not the local currency of the Cayman Islands reflecting the fact that the participating shares of the Company are issued in United States dollars. The financial statements are prepared on the historical cost basis except for the revaluation of investments as set out in Note (d) below.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

#### (c) Use of Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

## Notes to the Financial Statements (Contd.)

### (d) *Financial Instruments*

#### (i) *Classification*

The Company classifies its equity investments as available-for-sale.

Available-for-sale assets are financial assets that are not held for trading purposes and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

#### (ii) *Recognition*

Investments are recognised by the Company on the date it commits to purchase or sell the investments. From this date, any gains and losses arising from changes in fair value are recognised in the Statement of Operations.

#### (iii) *Measurement*

Investments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all investments are measured at their fair values as at the date of the balance sheet.

#### (iv) *Fair Value Measurement Principles*

The fair value of listed investments is based on the latest available quoted market price.

Unlisted investments and listed investments which are not freely transferable or which are not regularly traded, or which for any other reason are subject to limited marketability, are stated at the fair value estimated by the Directors.

#### (v) *Unrealised Gains and Losses on subsequent Measurement*

Unrealised gains and losses arising from a change in the fair value of available-for-sale assets are recognised in the Statement of Operations.

#### (vi) *Specific Instruments*

##### **Equity Investments**

Investment transactions are accounted for on a trade date basis. Realised gains and losses on investments are calculated on the average cost basis and are dealt with in the Statement of Operations.

##### **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

### (e) *Derecognition*

A financial asset is derecognised when the Company no longer has control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire, or are surrendered. Investments that are sold are derecognised by the Company on the date it commits to sell the investments. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled, or expired.

### (f) *Income*

Income in respect of dividends arising on equities is recognised on the date the equities are quoted as ex-dividend. Interest income is accrued on a time-apportioned basis on the principal outstanding and at the applicable rate. Dividend and interest income are stated net of any non-recoverable withholding tax. All other income and expenses are accounted for on an accruals basis.

## Notes to the Financial Statements (Contd.)

### (g) *Translation of Foreign Currencies*

Foreign currency transactions during the year are translated into United States dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into United States dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the Statement of Operations.

### (h) *Share Premium*

On the issue of participating shares, the difference between the issue price and the nominal value is credited to the share premium account. On redemption, the premium repayable is debited to the share premium account.

### (i) *Capital Reserve*

Realised and unrealised gains and losses on investments and realised and unrealised foreign exchange gains and losses arising on investments are transferred from the accumulated deficit to the capital reserve.

### (j) *Related Parties*

For the purposes of these financial statements, parties are considered to be related to the Company if they have the ability, directly or indirectly, to control or exercise significant influence over the Company in making financial and operating decisions. Related parties may be individuals or other entities.

## 3. Taxation

The Company has obtained an undertaking from the Cayman Islands authorities that for a period of 20 years from 9th November 1993, no law which is enacted in the Cayman Islands imposing any tax or duty to be levied on income, profits, gains or appreciation shall apply to the Company. Accordingly, in the opinion of the Directors, under the system of taxation presently in force in the Cayman Islands, no taxes will be chargeable on any income, profits or capital gains of the Company or on any dividends payable by the Company and accordingly no provision for taxes has been included in these financial statements.

## 4. Transactions with Related Parties

The Company is managed by Guardian Fund Management Limited ("GFML") which received a management fee equivalent to 1.5% per annum of the net asset value of the Company, a fee of 0.5% of the redemption price of each share redeemed, and a performance fee of 20% of any increase in net asset value per share of the Company in excess of the increase in the US dollar value performance of the Colombo Stock Exchange's All Share Price Index during the year. No performance fee was payable for the year ended 31st December 2004 (2003 - US\$ Nil).

Carsons Management Services (Pvt) Limited ("CMSL"), the present administrator, and a fellow affiliate of GFML, receives an administrative fee of 0.2% of the average weekly net asset value of the Company until the termination of its administration agreement with the Company with effect from 1st June 2001. The total administrator's fees paid to CMSL during the year was US\$ 1,137 (2003 - US\$ 892).

Don Chandima Rajakaruna Gunawardena and Palehenalage Chandana Tissera, Directors of the Company are Directors of the GFML, the current investment manager of the Company and CMSL, current administrator of the Company.

The custodian is HSBC International Trustee Limited, which received a fee of 0.15% per annum of the net asset value of the Company, subject to a minimum annual fee of US\$ 6,000 (2003 - US\$ 6,000). In addition, the custodian was entitled to an annual administration fee of US\$ 14,055 (2003 - US\$ 14,000).

## Notes to the Financial Statements (Contd.)

### 5. Investments

<i>As at 31st December</i>	<b>2004</b>	2003
	<b>US\$</b>	US\$
<b>Cost</b>		
At the beginning of the year	<b>1,889,245</b>	1,824,430
Additions	<b>197,516</b>	64,815
Disposals	<b>(338,146)</b>	–
At the end of the year	<b>1,748,615</b>	1,889,245
Unrealised diminution in value	<b>(1,049,881)</b>	(1,398,710)
Fair value	<b>698,734</b>	490,535

### 6. Called Up Share Capital

	2004		2003	
	Number of Shares	Amount US\$	Number of Shares	Amount US\$
<b>Authorised</b>				
Founders shares of US\$ 1 each	100	100	100	100
Participating Shares of US\$ 0.01 each	89,990,000	899,900	89,990,000	899,900
	<u>89,990,100</u>	<u>900,000</u>	<u>89,990,100</u>	<u>900,000</u>
<b>Issued and Fully Paid</b>				
Founders shares of US\$ 1 each	100	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<b>Participating Shares of US\$ 0.01 each</b>				
At the beginning of the year	512,904	5,129	512,904	5,129
Redeemed during the year	(350)	(4)	–	–
At the balance sheet date	<u>512,554</u>	<u>5,125</u>	<u>512,904</u>	<u>5,129</u>
Total		<u>5,225</u>		<u>5,229</u>

#### *Founder Shares*

Founder shares confer upon the holders thereof rights in a winding up or repayment of capital in accordance with Article 129 (2) (b) of the Articles of Association of the Company but confer no other rights to participate in the profits or assets of the Company. The holder of a founder share has no right to receive notice of or to attend and vote as a shareholder of the Company at any general meeting of the Company. The issued founder shares are held by Guardian Fund Management Limited, the investment manager.

#### *Participating Shares*

Participating shares have the right to receive notice of or to attend and vote as a shareholder of the Company at any general meeting of the Company. Participating shares confer upon the holders of their right of a winding up or repayment of capital in accordance with Articles 129(2)(a),(c),(e),(d) of the Articles of Association of the Company. They also have the right to share in all profits or assets of the Company in excess of the value of the issued share capital of the founder shares.

## Notes to the Financial Statements (Contd.)

### 7. Net Asset Value per Ordinary Share

The calculation of net asset value per participating share is based on the net asset value attributable to participating shareholders of US\$ 671,396 (2003 - US\$ 507,267) and on the total number of 512,554 (2003 - 512,904) participating shares in issue at the balance sheet date.

### 8. Financial Instruments

Financial assets of the Company include cash, marketable securities and sundry receivables. Financial liabilities include accruals and other payables.

#### (a) Market Risk

The Company's investment activities expose it to various types of market risk, which are associated with the markets in which it invests, to the extent of the amount invested in equity securities. The Company invests in securities listed on the Colombo Stock Exchange and those issued outside Sri Lanka by any corporation organised in and under the laws of Sri Lanka, and equity securities issued by listed investment companies and funds, wherever established, which invest primarily in equity issued by Sri Lankan companies listed on the Colombo Stock Exchange, which may experience greater volatility than those of Western companies.

#### (b) Foreign Exchange Risk

The Company is exposed to foreign exchange risk from its investments and receivables and payables denominated in currencies other than United States dollars, to the extent of the amount invested in investments, receivables and payables.

#### (c) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that changes in interest rates will affect the borrowing costs payable on bank overdrafts and interest income on bank deposits.

#### (d) Credit Risk

Financial assets, which potentially expose the Company to credit risk, consist principally of marketable securities and cash balances. Investments in Sri Lanka expose the Company to risk of illiquidity and volatility. The extent of the Company's exposure to risk in respect of these financial assets approximates their carrying value as recorded in the Company's balance sheet.

The Company limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activity with broker-dealers, banks and regulated exchanges with high credit ratings that the Company considers to be well established.

#### (e) Fair Values of Financial Instruments

Investment securities are carried at market values unless the Directors have determined that a discount is required to arrive at fair value. The Company's other assets and liabilities include cash and cash equivalents and amounts due on open transactions which normally settle within a few days and other receivables which are realised or settled within a short period of time. The carrying values of these other assets and liabilities approximate their fair values.

## Investment Portfolio

As at 31st December

	2004			2003		
	Holding	Fair Value US\$	% of Net Assets	Holding	Fair Value US\$	% of Net Assets
<b>Listed Investments</b>						
Blue Diamonds Jewellery						
Worldwide Limited	90	4	0.00	90	3	0.00
Tea Smallholders Factories Limited	900	477	0.07	390,900	98,405	19.40
Distilleries Company of Sri Lanka	131,000	35,695	5.32	-	-	-
Aitken Spence Hotel Holdings Limited	8,100	7,100	1.06	-	-	-
Eden Hotels Limited	5,000	836	0.12	-	-	-
John Keells Holdings Limited	150,700	158,366	23.59	-	-	-
Tea Plantations Investment Trust Plc	603,569	496,256	73.91	603,569	335,160	66.07
		<u>698,734</u>	<u>104.07</u>		<u>433,568</u>	<u>85.47</u>
<b>Unlisted Investments</b>						
Ceyexxe Limited	1,000,000	-	-	1,000,000	-	-
Ceyexxe Plantations Limited	263,500	-	-	263,500	-	-
		<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>
<b>Investments in Unit Funds</b>						
CeyBank Century Growth Fund		-	-	344,054	56,967	11.23
		<u>-</u>	<u>-</u>		<u>56,967</u>	<u>11.23</u>
Total investments		<u>698,734</u>	<u>104.07</u>		<u>490,535</u>	<u>96.70</u>
Other net assets		<u>(27,338)</u>	<u>(4.07)</u>		<u>16,732</u>	<u>3.30</u>
Total net assets		<u>671,396</u>	<u>100.00</u>		<u>507,267</u>	<u>100.00</u>



# MANAGEMENT AND ADMINISTRATION

## Registered Office

P.O. Box 309  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## Investment Manager

**Guardian Fund Management Limited**  
No. 61, Janadhipathi Mawatha  
Colombo 1  
Sri Lanka  
Corporate Website :  
[www.carsoncumberbatch.com](http://www.carsoncumberbatch.com)

## Administrator

**Carsons Management Services (Pvt) Limited**  
61, Janadhipathi Mawatha  
Colombo 1  
Sri Lanka  
Corporate Website :  
[www.carsoncumberbatch.com](http://www.carsoncumberbatch.com)

## Directors

**Don Chandima Rajakaruna Gunawardena**  
595/12, Wasana Mawatha  
Nawala Road  
Rajagiriya  
Sri Lanka

**Adrian John Reginald Collins**  
4 Campden Hill Square  
London  
W8 7LB  
England

**Palehenalage Chandana Priyankara Tissera**  
191/6B, Maladolawatta Road  
Kadawata  
Sri Lanka

**Gordon Haig Brough**  
19, Victoria Square, London  
SW1W 0RB  
England

## Auditors

**KPMG**  
P.O. Box 493 GT  
Century Yard  
Grand Cayman  
Cayman Islands

## Custodian

**HSBC International Trustee Limited**  
P.O. Box 71  
Craigmuir Chambers  
Road Town  
Tortola  
British Virgin Islands

**Hong Kong Transfer Agent Bermuda Trust (Far East) Limited**  
39th Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road  
Central  
Hong Kong

## Share Registrar

**Bank of Bermuda (Cayman) Limited**  
36C Bermuda House  
3rd Floor, Dr. Roy's Drive  
George's Town  
Grand Cayman  
Cayman Islands  
British West Indies

**European Transfer Agent**  
J.P. Morgan Chase Bank  
1 Chaseside  
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