

The Sri Lanka Fund

Annual Report

For the year ended 31st December 2013

Objective and Highlights

Performance	Year ended 31st Dec 2013
Net Asset value (NAV)	USD 0.75
Total Fund Value	USD 2.18 mn
Participating shares in issue	2,927,131

Managers' Review

Colombo Stock Exchange

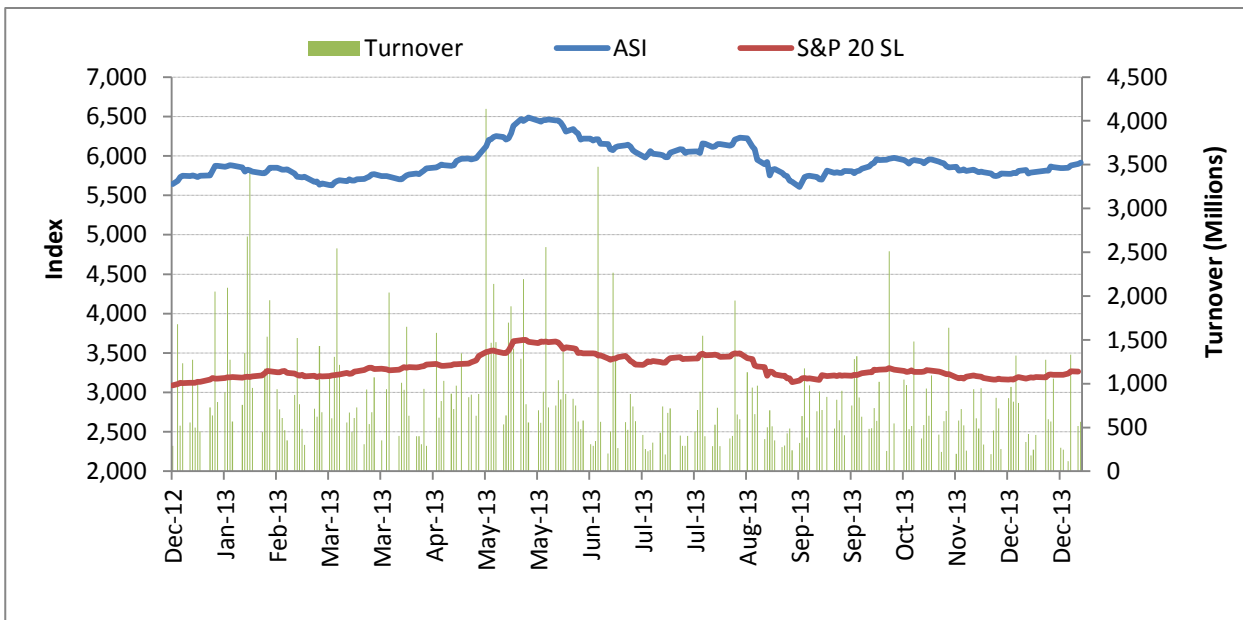
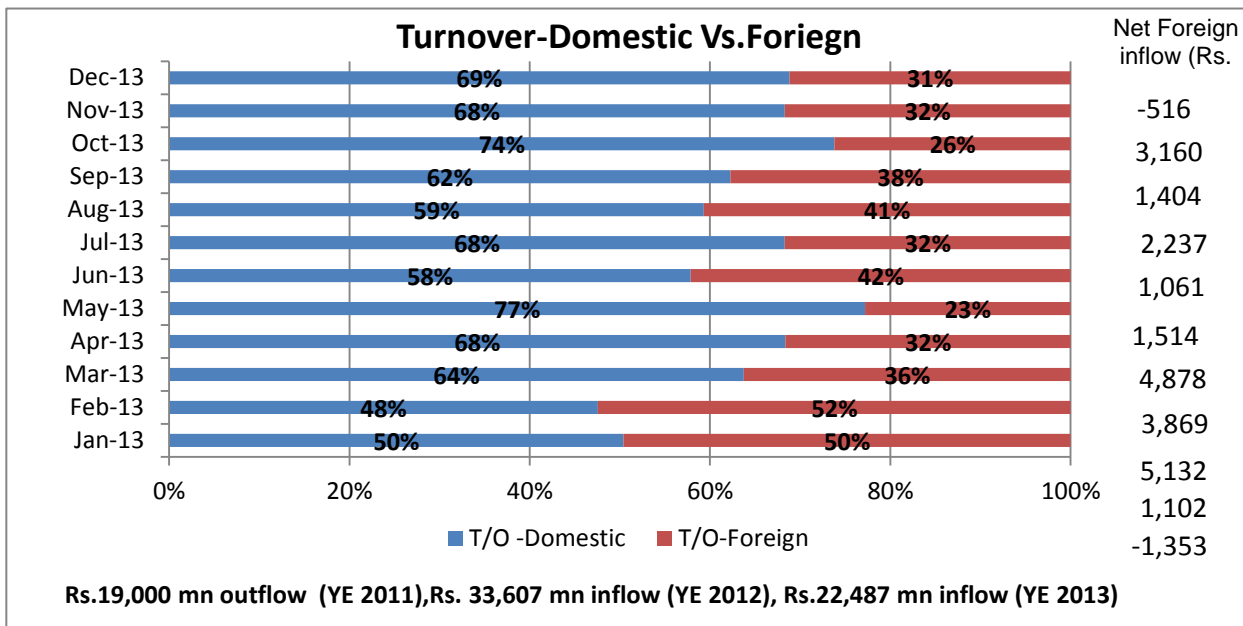
The All Share Price Index increased marginally by 4.78% for 2013 while the S&P SL20 index increased by 5.79%. The market was buoyant in the first half of 2013 where it reached a high of 15% in May-13. However, after August the market weakened on account of volatility in large cap stocks such as John Keells Holdings and Ceylon Tobacco partly due to indications of tapering of the quantitative easing program by the Fed sending ripples in world markets. Net foreign inflows to the Colombo Stock Exchange amounted to Rs. 22.9 billion and were focused mostly on banks, conglomerates and multinationals.

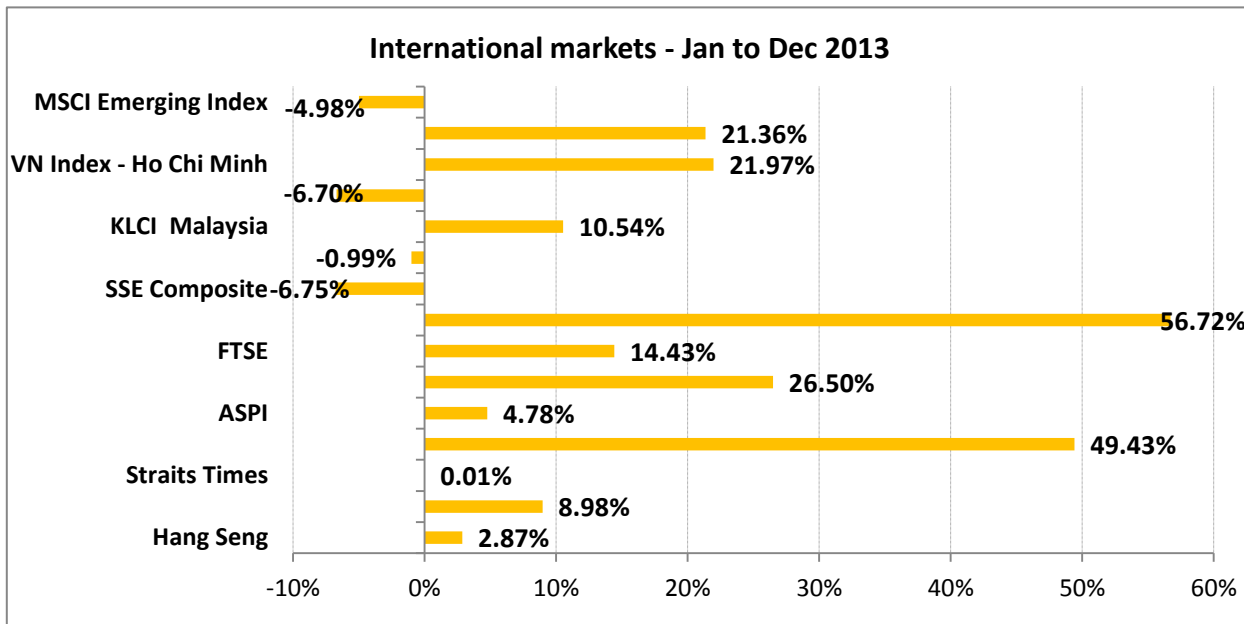
The Sectors that performed well for the period under review were Beverage Food & Tobacco (19.8%), Power & Energy (19.5%) and Healthcare (17.0%). Significant sectors that underperformed were Hotels & Travels (-11.2%), Plantations (-10.8%) and Telecom (-5.3). Daily average turnover levels for the first half of 2013 was a healthy Rs.1.02 billion, however, the second half of the year saw a decline to Rs.646 million indicating lower participation in latter half of the year. The historical P/E ratio of the CSE being 15.92 as at December 2013 was at similar levels to its 5 year average. Going forward the equity market is expected to perform well in the medium to long term as Sri Lanka delivers on its growth potential while also benefiting from the rapid development of Sri Lankan capital markets. Investor concerns with regard to the impact of the US Federal Reserve tapering and its impact on emerging markets may result in significant market and currency volatility depending on how foreign investors react. Other shorter term influences such as elections and UNHCR developments may also result in significant market volatility.

The performance of the Sri Lankan Stock provided a mixed return relative to other international equity indices. Sri Lanka's ASPI outperformed the Straits Times, Hang Seng, JKSE Composite and the MSCI Emerging Market Index. However, it underperformed with respect to BSE Sensex, Karachi and MSCI Frontier

The Equity market outlook shows significant potential in the medium to long term with listed companies benefitting from the accelerated development of the country and its bright economic prospects. The key sectors that will benefit from performance going forward are Banks, Finance & Insurance sector, Diversified sector, Beverage, Food and Tobacco sector and Healthcare. The prevailing low interest rate regime and stable economic climate will help push forward corporate expansion plans. At the same time, rising energy and fuel costs which are inflationary would negatively affect corporate earnings.

Turnover – Domestic vs Foreign

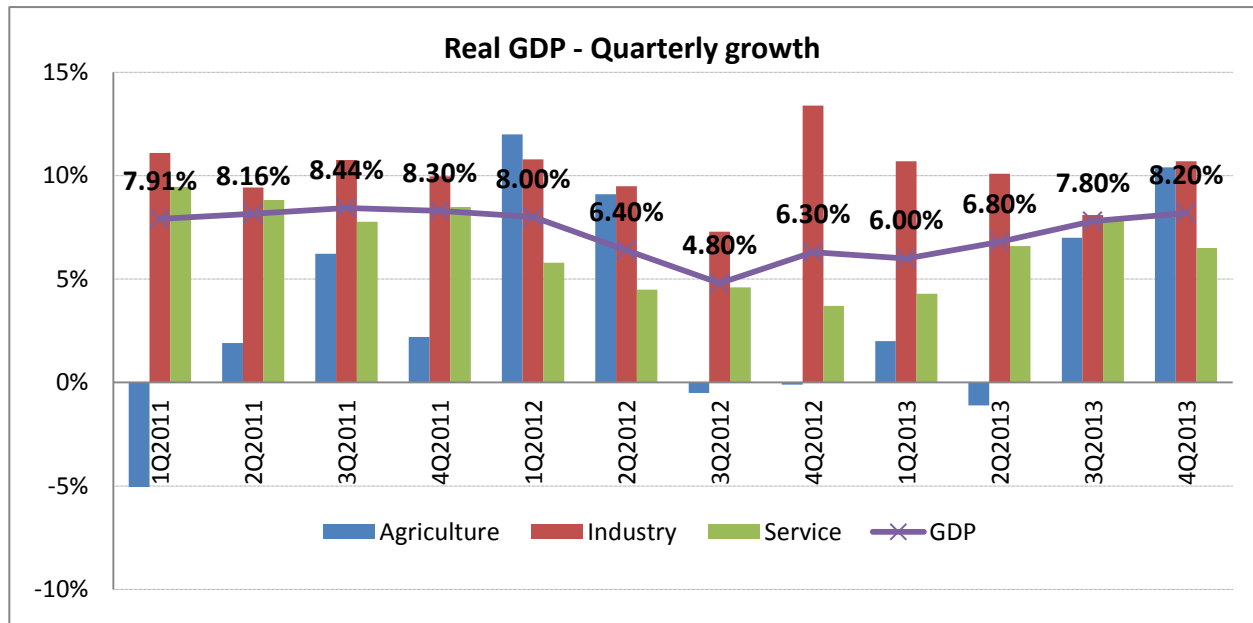




Outlook for Sri Lanka

Real GDP grew 7.3% in 2013 after slowing down to 6.3% in 2012. The key segments of the economy performed well led by paddy, manufacturing, construction, trade, hotels & restaurants and transport & communication. We expect GDP growth for 2014 to reach 7.1% with the key sectors maintaining an improved performance from the third quarter. Agriculture grew by 4.7% on favorable weather conditions in the second half of 2013. The performance was mainly driven by paddy, fishing and livestock. Tea production grew by a marginal 3.6% while rubber and coconut production declined by 9.1% and 16.1% respectively on account of bad weather. Industry for the same period enjoyed 9.9% growth with all sub-segments displaying good performances led by construction and electricity, gas & water. The sector benefitted from favorable macroeconomic conditions, higher economic activity and continued investment into infrastructure. Higher exports should also see the manufacturing sub-sector doing well. The Service sector which accounts for 58% of GDP expanded by 6.4%. Wholesale & Retail trade and Transport & Communication which are the largest contributors to the sector grew by 5.5% and 9.4% respectively. The accommodative monetary policy stance adopted by CBSL had a positive impact on this sector and should continue to do so in 2014.

We expect Real GDP to continue its growth momentum into 2014 supported with accommodative monetary policy by the Central Bank, improved weather conditions and improving global conditions having a direct impact on exports.

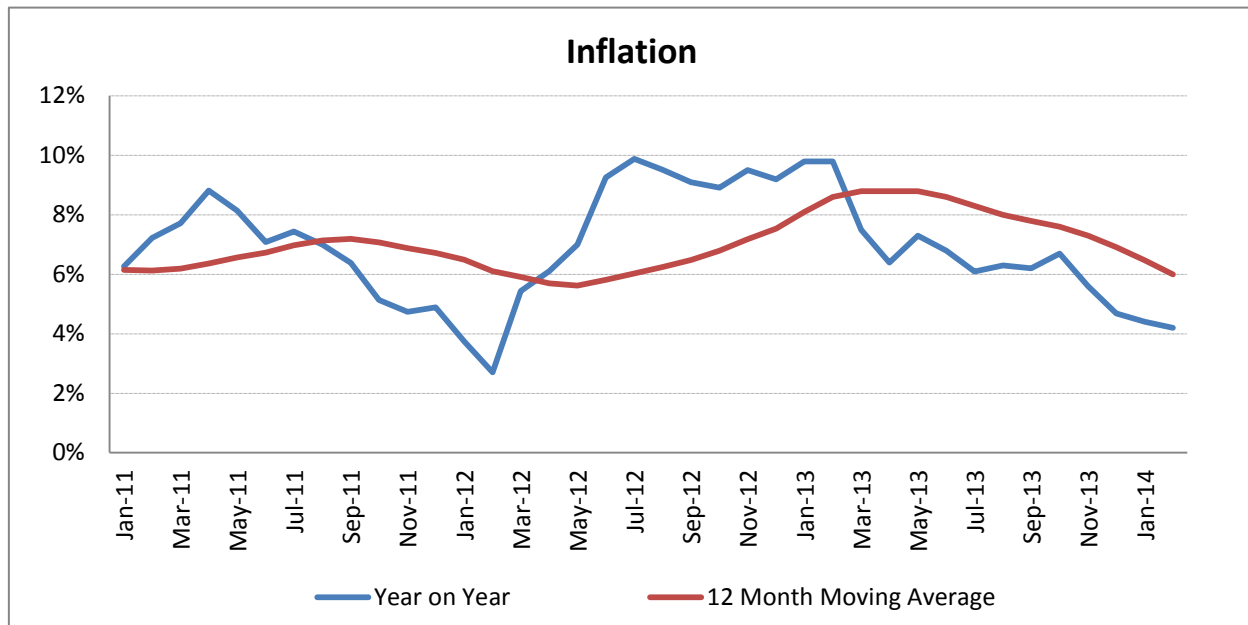


Exports for 2013 grew by 6.3% to reach USD 10.39 billion. Exports started to pick up towards the latter half 2013 due to an increase in industrial and agricultural exports. Industrial exports which account for 75% of exports grew by USD 370 million or 5% in 2013. Rapid growth was experienced towards the end of 2013 in textiles being exported to Sri Lanka's key markets of USA and EU. Imports declined in 2013 by 6% to USD 18.0 billion on account of a decline in intermediate goods and investment goods by 8.9% and 7.3% respectively. The overall trade deficit narrowed by USD 1.8 billion which is a decline of 19.2% compared to the deficit in 2012.

Worker Remittances grew by 13% in 2013 to USD 6.7 billion to help bridge the deficit. Further to this, earnings from tourism and inflows to the government resulted in the balance of payments recording an estimated surplus of USD 991 million.

Inflation, as measured by the CCPI, eased to 4.7% on a year on year basis for December-2013 from a year to date high of 9.9% in February-2013. Inflation annual average as at end of 2013 was 6.5% on a declining trend throughout the year. More favorable weather

patterns in 2013 have helped ease food inflation helping the CCPI achieve mid-single digit levels. The food & beverage component of the CCPI poses the greatest threat due to its dependence on weather conditions. If adverse weather conditions were to prevail in 2014 this component of the index which accounts for 41% will add significant pressure to inflation.



The Central Bank reduced policy rates throughout 2013 resulting in significant declines in the overall interest rate structure. The Standing Deposit Facility Rate and Standing Lending Facility Rate were reduced by 1.0% and 1.5% respectively throughout 2013 to 6.5% and 8.0% with announcements in May-13, Oct-13 and Jan-14. The Statutory Reserve Ratio was reduced by 2.0% in July-13 to increase liquidity in the financial system. The benchmark 364 day T-bill and 91 day T-bill fell by 340 basis points and 246 basis points respectively reacting aggressively to policy rate reductions. Fixed deposit rates which are also anchored to the T-bill rates fell sharply with bank fixed deposit rates providing net returns similar to T-bill after deducting withholding tax towards the start of 2014.

Net credit to private sector has slowed down to single digit levels of 7.3% as at November 2013 compared to 31.6% in July-13. Sluggish lending by banks has also resulted in accentuating liquidity levels in the banking system further depressing deposit

rates. The yield curve which had a flat structure at the start of 2013 saw a decline of approximately 340 basis points in the shorter tenors and 225 basis points on the longer 5 year tenor. This has resulted in a more normalized upward sloping curve as at year end. The tapering announcements of quantitative easing in the USA may bring about upward pressure in government security yields depending on how foreign investors react. Thus far the reaction of foreign government security holders has been mild. However, significant selling of government securities by foreign holders and remitting such proceeds back to their respective countries can cause sharp movements in interest rates and the exchange rate.

	SLRs. Per unit as at 31st Dec 12	SLRs. Per unit as at 30th Jun13	SLRs. Per unit as at 31st Dec 13	SLRs. Per unit as at 30th Jun 14	Appreciation / (Depreciation) for calendar year 2013
US\$	127.19	130.44	130.89	130.30	(2.78%)
STG	205.45	199.08	215.79	221.86	(4.87%)
Euro	168.07	170.33	180.44	177.81	(5.36%)
Yen	1.48	1.32	1.25	1.29	13.99%

As the fund is focused purely on Sri Lankan Equities any exchange rate devaluations will have a negative impact on the dollar denominated Net Asset Value.

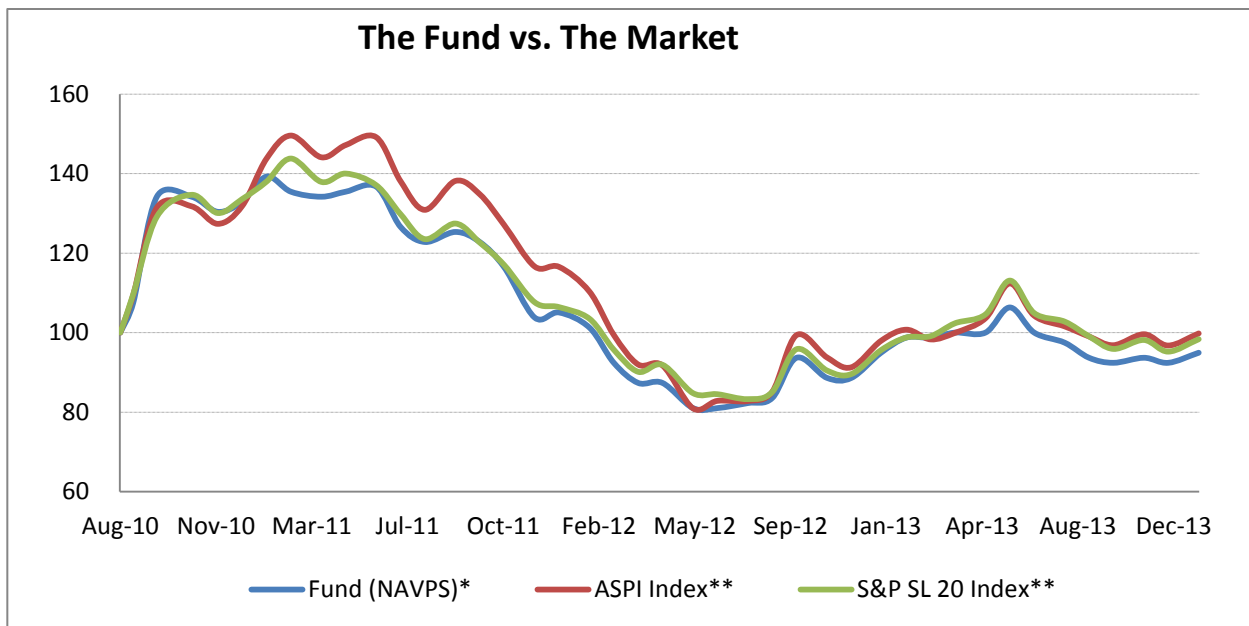
Portfolio Review

The year under review saw the Sri Lanka Fund's NAV per share remain flat in comparison to the All Share Price Index and S&P SL20 Index increase of 1.90%¹ and 2.88%¹ respectively. This resulted in the fund under-performing the All Share Price Index by 1.90% during the period under review. The Sri Lanka Fund from inception has focused on fundamentally strong counters which show significant medium to long term

growth potential and we are confident that the fund will outperform the benchmark over this time horizon.

The net asset value of the Sri Lanka Fund at USD 0.75 as at end December 2013 with the total value of the Sri Lanka Fund inclusive of cash and cash equivalents amounted to US\$2.18 million at end December 2013. The fund has been structured to represent key growth sectors of the economy in Sri Lanka such as diversified, banking, finance & insurance, hotels, manufacturing & construction. Our investment process is driven by fundamental analysis and in depth research. We believe in an aggressive style of bottom up stock selection of companies with good management, competitive business models and attractive valuations.

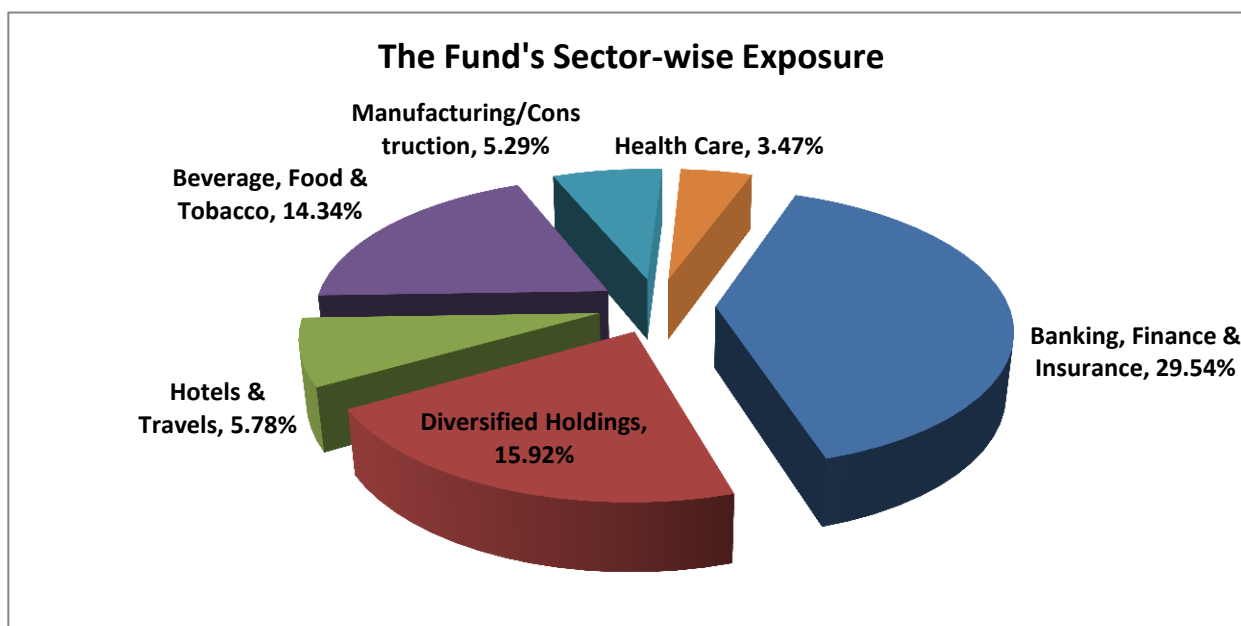
The total participating shares in issue as at end December 2013 was 2,927,131.



Period	Fund	ASPI*	S&P SL 20*
3 Months	2.74%	3.06%	2.56%
2012	-9.64%	-15.97%	-10.18%
2013	0.00%	1.90%	2.88%
Since Re-Launch	-5.06%	-0.21%	-1.66%

* Adjusted for currency depreciation

** The fund was re-launched on August 2010



Five Largest Investments

Our Top 5 Holdings as at 31st December 2012	Value of the holding Rs.mn	Portfolio Weight %	Price movement
John Keells Holdings - A diversified company with interests in ports & related activities, transportation, property development, tourism, financial services and consumer products in Sri Lanka and now moving into the South Asian region	29.7	10.4%	6.7%
Distilleries - The leader in the hard liquor industry with a market share of 65% and diversified business interests in tourism, tea and rubber plantations, telecom and insurance.	25.6	9.0%	16.3%
Commercial Bank - One of the largest commercial banks in Sri Lanka with a wide branch network of over 100 branches spread island wide	20.8	7.3%	16.9%

Peoples Leasing – The largest leasing and finance company in Sri Lanka. The company benefits significantly from its parent company Peoples Bank which is one of the largest state banks in Sri Lanka.	19.2	6.7%	1.5%
Aitken Spence Hotel Holdings –A leisure company in Sri Lanka with hotel properties in Sri Lanka and Maldives. The company has one of the largest hotel portfolios in the country.	16.3	5.7%	81.7%
Top 5 Holdings	111.6	39.1%	
Total Portfolio	285.3	100.0%	

Update for first six months of 2014

The first half of 2014 saw the All Share Price Index increase by 7.88% supported by lower interest rates, expectations of better corporate earnings for FY2015 and continued foreign interest. Foreign investors were net buyers in the market with net inflows of approximately Rs.6.25 billion focused on specific large cap counters. Daily average turnover levels for the first half of 2014 was relatively healthy at Rs.1.05 billion compared to Rs.1.02 billion for the same period in 2013. The Sri Lanka Fund gave investors a return of 9.33% for the first half of 2014 compared to the benchmark of 7.13% for the same time period.

Profile of the Manager

Guardian Fund Management Limited (GFM) and the investment companies it manages (Ceylon Guardian Investment Trust PLC and Ceylon Investment PLC) are subsidiaries of Carson Cumberbatch PLC, a diversified conglomerate listed on the Colombo Stock Exchange with business interest in brewing, oil palm plantations and real estate in addition to its investment holdings. Carson's businesses span across Sri Lanka, South Asia and South East Asia. It is among the top 10 listed companies on the Colombo Bourse by Market Capitalization.

GFM is registered as an Investment Manager with the Securities and Exchange Commission of Sri Lanka since 2006 while the listed investment companies are registered as underwriters.

The track record of performance of GFM is best illustrated by the performance record of the Guardian Fund. CAGR of total portfolio taking a five year horizon from April 2009 to March 2014 is + 31.6% compared to the benchmark All Share Index of + 29.5%. The bulk of the funds under management is invested in long term listed equities which cover an investment horizon of 3-5 years. The investment style adopted is weighted towards "Value Investing" where bottom up approach of stock selection is done where individual company valuations are given precedence over asset and sector allocations of the portfolio.

GFM also manages client funds of Rs.2.63 billion and has a joint venture with a local investment bank to manage and market unit trusts to retail investors. The products are distributed through one of Sri Lanka's leading private sector commercial banks, the HNB, through a branch network comprising 65 outlets.

The Fund Manager also manages a private equity portfolio of approximately Rs.1.3 billion comprising unlisted Sri Lankan companies engaged in key economic sectors of the country, which are expected to go public within the short to medium term.

Directors' Profiles

Ruvini Fernando

Ruvini Fernando is the Director and CEO of Guardian Fund Management Limited, the investment management company of the Carsons Group and a Director of Guardian Acuity Asset Management Limited, a joint venture company of the Guardian Group, responsible for operating and managing licensed unit trusts. Director of the Sri Lanka Fund – a foreign incorporated country fund managed by Guardian Fund Management Limited.

Counts over 24 years work experience in the fields of Management Accounting, Finance, Research Analysis, Strategic Planning and Investments, within the Hayleys Group and Carson Cumberbatch Group. Member of the Finance, Banking and Capital Markets Committee of the Ceylon Chamber of Commerce.

Was a former visiting faculty member of the Postgraduate Institute of Management in the MBA programme. Member of the Regaining Sri Lanka Tourism Steering Committee, a key policy making forum of the government from January 2002 to January 2004. Fellow of the Chartered Institute of Management Accountants, UK and the Association of Chartered Certified Accountants, UK. Has a Masters Degree in Business Administration from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, Sri Lanka.

Adrian Collins

Adrian Collins has worked in the fund management business for over 35 years, a large part of which was at Gartmore Investment Management where, latterly, he was the Managing Director. He has had a number of positions in the Fund Management industry over the years and is currently the Chairman of Liontrust Asset Management PLC and Bahamas Petroleum plc. He is also on the boards of City Natural Resources High Yield Trust plc, New City High Yield Fund and a number of other companies both in the UK and overseas.

Chandima Gunawardena

Chandima Gunawardena serves as a Non- Independent, Non-Executive Director of Carson Cumberbatch PLC and in most of the Carsons Group Companies in Sri Lanka and overseas. He is also a Director of Bukit Darah PLC. Since assuming Non-Executive status in the Group, he serves as an advisor to the Group's Strategic Planning and Management forums in Sri Lanka and serves on Board Committees including the Audit Committees of the Group in Sri Lanka and overseas covering all operating sectors of the Group.

Mr.Gunawardena has over four decades of experience in varied fields of business and commercial activities and has held senior positions in Corporate, Mercantile and State Institutions. He was appointed to the Carsons Group Directorate in 1990.

He has served on the Management Committee of The Ceylon Chamber of Commerce for over 10 years and was a Founder Council Member of the Sri Lanka Institute of Directors (SLID) and continued to serve in the council for over 10 years.

He is a Fellow of the Chartered Institute of Management Accountants, UK.

Our Team

Ruvini Fernando

Please refer Directors' Profile

Krishna Selvanathan

Krishna Selvanathan is a Director of Carsons Management Services (Private) Limited, Lion Brewery (Ceylon) PLC and the Investment Sector Companies of the Carsons Group. He is also a Director of Carlsberg India (Pvt) Ltd.

He holds a BA Degree in Accounting & Finance and Business Administration from the University of Kent, U.K.

Niloo Jayatilake

Niloo Jayatilake is a Director of Guardian Fund Management Limited and heads the portfolio management division of the management company. Alternate Director of Guardian Acuity Asset Management Limited and represents the company on the Unit Trust Association of Sri Lanka. Counts 20 years of experience in the investments and portfolio management field. Prior to joining the Carsons Group worked as Fund Manager at The Unit Trust Management Company Limited, managers of Ceybank Unit Trust Funds in Sri Lanka. Fellow Member of the Chartered Institute of Management Accountants, UK and Associate Member of the Institute of Chartered Secretaries and Administrators, UK.

Sumith Perera

Fund Manager, Guardian Fund Management Ltd. Has over 7 years of experience in the field of Asset Management working as a Fund Manager for CAAM Saudi Fransi LLC (Kingdom of Saudi Arabia), Investment Analyst for Eagle NDB Fund Management (Sri Lanka) and as a Financial Analyst for John Keells Stockbrokers (Sri Lanka). He holds a Bsc (Hons) in Economics and Business Finance from Brunel University, UK and is an Associate Member of the Chartered Institute of Management Accountants.

Vibath Wijesinghe

Financial Controller of Carsons Management Services (Private) Limited the management support service provider to the Carson Cumberbatch Group. He began his career at M/s. KPMG, Sri Lanka and has over ten years of experience in the fields of finance, corporate finance and auditing. He joined Carson Cumberbatch Group in 2004. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants (UK) and of the Society of Certified Management Accountants of Sri Lanka. He also holds a Masters degree in Business Administration from Postgraduate Institute of Management – University of Sri Jayewardenepura.

Tharinda Jayawardana

Head of Research of Guardian Fund Management Ltd. He has over 6 years experience in investment research. Prior to joining the Carson Cumberbatch Group he worked as a financial analyst at JB Securities Ltd. He is a CFA Charter Holder and an Associate Member of the Chartered Institute of Management Accountants (UK). He also has a first class B.Sc (Hons) in Finance from the University of Sri Jayewardenepura.

Asanka Jayasekera

Manager Research, Guardian Fund Management Ltd. He has over 6 years of experience in investment research. Prior to joining the Carson Cumberbatch Group, he worked as a financial analyst at JB Securities Ltd. He is an associate member of the Chartered Institute of Management Accountants (UK) and holds a B.Sc degree from the University of Sri Jayewardenepura specializing in Finance.

Lakmal Wickramaarachchi

Accountant, Guardian Fund Management Limited. Commenced career at KPMG, Chartered Accountants, prior to joining the Carsons Group. Counts over six years of experience in auditing and accounting. Associate Member of the Institute of Chartered Accountants of Sri Lanka. Holds a B.Sc. Finance (Special) Degree from the University of Sri Jayewardenepura, 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 2013.

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 represented by class “A” shares of the Company. The Articles of the Company permit the creation of new classes of shares to accommodate subordinated funds, though no such subordinated funds have been created as at 31st December 2013.

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 2013 are set out in the Annual Report. The Directors do not recommend the payment of a dividend for the year ended 31st December 2013.

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 Net Assets Attributable to Holders of Participating Shares and Note 4 to the financial statements.

Directors

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

- Don Chandima Rajakaruna Gunawardena
- Adrian John Reginald Collins
- Mrs. Wedage Yasanthi Ruvini Fernando

Directors' and their interests

Mrs. W.Y.R. Fernando is a Director of Guardian Fund Management Limited, the Investment Manager of the Fund.

Apart from the above, as at 31st December 2013, 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, Mr. D.C.R. Gunawardena and Mrs. W.Y.R. Fernando have waived their Directors' fee for the year.

Auditors

The Company's Auditors during the year under the review were Messrs. KPMG, Chartered Accountants. The retiring auditors being eligible offer themselves for reappointment. A resolution for the reappointment of Messrs. KPMG as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

(Sgd.)

D.C.R. Gunawardena

Director

30th June 2014

THE SRI LANKA FUND
FINANCIAL STATEMENTS
31 DECEMBER 2013

THE SRI LANKA FUND

Contents

Auditor's Report	3
Statement of Comprehensive Income	4
Statement of Changes in Net Assets Attributable to Holders of Participating Shares.....	5
Statement of Financial Position	6
Cash Flow Statement	7
Notes to the Financial Statements.....	8-23



KPMG
P.O. Box 493
Century Yard, Cricket Square
Grand Cayman KY1-1106
CAYMAN ISLANDS

Telephone +1 345 949 4800
Fax +1 345 949 7164
Internet www.kpmg.ky

Independent Auditors' Report to the Directors

We have audited the accompanying financial statements of The Sri Lanka Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in net assets attributable to holders of participating shares and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

30 June 2014

THE SRI LANKA FUND

Statement of Comprehensive Income

For the Year Ended 31 December		2013	2012
	Note	US\$	US\$
Income			
Dividend income		66,975	53,821
Realized gain/(loss) on sale of investments	3	39,618	(80,274)
Net change in unrealized loss on investments	3	(38,545)	(113,962)
Interest on fixed deposits		7,452	7,115
Foreign exchange gain/(loss)		5,334	(11,514)
Other income		575	-
Net investment income		<u>81,409</u>	<u>(144,814)</u>
Expenses			
Investment manager's fee	7	(33,796)	(30,939)
Legal and professional fees		(16,893)	(4,279)
Custodian's fee	8	(16,204)	(15,945)
Brokerage expenses		(14,332)	(14,753)
Auditors' remuneration		(11,928)	(12,972)
Directors' remuneration	7	(5,000)	(5,000)
Sundry expenses		(1,248)	(2,713)
Operating expenses		<u>(99,401)</u>	<u>(86,601)</u>
Change in net assets attributable to holders of participating shares resulting from operations		<u>(17,992)</u>	<u>(231,415)</u>

The accompanying notes form an integral part of these financial statements.

THE SRI LANKA FUND

Statement of Changes in Net Assets Attributable to Holders of Participating Shares

For the Year Ended 31 December	2013 US\$	2012 US\$
Balance as at 1 January	2,199,874	2,431,289
Change in net assets attributable to holders of participating shares resulting from operations for the year	(17,992)	(231,415)
Balance as at 31 December	<u>2,181,882</u>	<u>2,199,874</u>

The accompanying notes form an integral part of these financial statements.

THE SRI LANKA FUND

Statement of Financial Position

As at 31 December	Note	2013 US\$	2012 US\$
Assets			
Cash and cash equivalents		109,206	339,534
Fixed deposits		186,166	178,787
Non pledged financial assets at fair value through profit or loss	3,6,9	1,889,729	1,724,093
Dividends receivable		11,537	1,031
Other receivables		17,104	59
Total Assets		2,213,742	2,243,504
Liabilities			
Redemption payable		(1,498)	(1,498)
Accruals and other payables		(30,362)	(42,132)
Total liabilities (excluding net assets attributable to holders of participating shares)		(31,860)	(43,630)
Net assets attributable to holders of participating shares	4,5	2,181,882	2,199,874
Net asset value per share, based on 2,927,131 shares outstanding (2012: 2,927,131)	4,5	0.75	0.75

The accompanying notes form an integral part of these financial statements.

The financial statements were approved and authorized for issue by the Board of Directors and are signed on their behalf.

D.C.R. Gunawardena
D.C.R. Gunawardena
Director

W.Y.R. Fernando
W.Y.R. Fernando
Director

30 June 2014

THE SRI LANKA FUND

Cash Flow Statement

For the Year Ended 31 December	2013 US\$	2012 US\$
Operating activities		
Dividends received	56,452	58,323
Other income received	575	-
Operating expenses paid	(111,170)	(101,891)
Proceeds on sale of investments	792,153	815,842
Purchase of investments	(973,672)	(482,957)
Foreign exchange gain/(loss)	5,334	(11,514)
Cash flows (used in)/from operating activities	(230,328)	277,803
Financing activities		
Payment for redemption of participating shares	-	-
Proceeds from issue of participating shares	-	-
Cash flows from financing activities	-	-
Net (decrease)/increase in cash and cash equivalents	(230,328)	277,803
Cash and cash equivalents as at 1 January	339,534	61,731
Cash and cash equivalents as at 31 December	109,206	339,534

The accompanying notes form an integral part of these financial statements.

THE SRI LANKA FUND

Notes to the Financial Statements

For the Year Ended 31 December 2013

1. Organization

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

The objective of the Fund is to provide shareholders with above average returns over the medium to long term through both capital growth and income. The Fund aims to deliver this objective mainly by investing in highly diversified portfolios of equity securities including convertible bonds and warrants listed on the Colombo Stock Exchange and those issued outside Sri Lanka by any corporation organized 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 of Sri Lankan companies listed on the Colombo Stock Exchange. In doing so, it applies techniques more fully defined in the Fund’s Offering Memorandum.

The investment activities of the Fund are managed by Guardian Fund Management Limited (“the Investment Manager”) and the administration of the Fund is delegated to Carsons Management Services (Private) Limited (“the Administrator”). The registered office of the Fund is located at P.O. Box 309, Uglan House, Grand Cayman KY1-1104, Cayman Islands.

2. Significant Accounting Policies

(a) Statement of Compliance

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

(b) Basis of preparation

The financial statements are presented in United States Dollars and not the local currency of the Cayman Islands reflecting the fact the shares of the Fund are issued and redeemed in United States Dollars. They are prepared on a fair value basis for the financial assets and financial liabilities at fair value through profit or loss. Other financial assets and liabilities are stated at amortized cost or for the participating shares at the redemption amount.

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the applications of policies and the reported amounts of the assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

2. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates were revised if the revision affect only that period, or in the period of the revision and the future period if the revision affect both current and future periods.

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

(c) Foreign currencies translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to United State Dollars at the closing exchange rate ruling as at the statement of financial position date. Foreign currency exchange differences arising on translation of monetary assets and liabilities are recognized in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to United States Dollars at the foreign currency exchange rates ruling at the dates that the fair values were determined. Foreign currency exchange differences relating to investments at fair value through profit or loss are presented within realized gain/(loss) on sale of investments and net change in unrealized loss on investments.

(d) Financial Instruments

(i) Classification

The Fund designates all of its equity and unit trust investments into the financial assets at fair value through profit or loss category.

Financial assets are designated at fair value through profit or loss upon initial recognition. These include equity securities listed on the Colombo Stock Exchange, securities issued outside Sri Lanka by any corporation organized 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 Exchanges.

Financial assets not at fair value through profit or loss include cash and cash equivalents, fixed deposits, dividends receivable and other receivables.

Financial liabilities that are not at fair value through profit or loss include accruals and other payables, redemption payable and participating shares.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

2. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

(ii) Recognition

The Fund recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

A regular way purchase of financial assets is recognized using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs on financial assets and financial liabilities at the fair value through profit or loss are expensed immediately, while on other financial instruments they are amortized.

Subsequent to the initial recognition, all instruments classified at the fair value through profit or loss, are measured at the fair value with changes in their fair value recognized in the statement of comprehensive income.

Financial assets and financial liabilities, other than those at fair value through profit or loss, are measured at amortized cost using the effective interest rate. Financial liabilities arising from the participating shares issued by the Fund are carried at the redemption amount representing the investor's right to a residual interest in the Fund's assets.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling cost. Financial assets are priced at the current bid prices.

If quoted market prices are not available on a recognized stock exchange or from a broker/ dealer for non-exchange traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument which is substantially the same, and discounted cash flow techniques that provides a reliable estimate of prices obtained in actual market transactions.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

2. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

(iv) Fair value measurement principles (continued)

The Fund has adopted IFRS 13, with a date of initial application of 1 January 2013.

In accordance with the transitional provisions of IFRS 13, the Fund has applied the new definition of fair value, as set out below, prospectively.

As a result, the Fund has not changed the valuation approach for financial assets and financial liabilities measured at fair value for which a quoted price in an active market is available. Management concluded that the bid price for financial assets is representative of fair value. In 2012, such financial assets were also measured at the bid price.

(v) Impairment

Financial assets that are stated at cost or amortized cost are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognized in the statement of comprehensive income as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate.

If in a subsequent period the amount of impairment loss recognized on a financial asset carried at amortized cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

(vi) De-recognition

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for de-recognition in accordance with IAS 39.

The Fund uses the weighted average method to determine realized gains and losses on de-recognition. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

2. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

(vii) Specific Instruments

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amount of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments or other purposes.

Fixed Deposits

Fixed deposits include investments held in US Dollars and which have a maturity period of less than three months.

(e) Interest Income

Interest income and expenses are recognized in the statement of comprehensive income as they accrue, using the original effective interest rate of the instruments calculated at the acquisition or origination date.

(f) Dividend Income

Dividend income relating to exchange-traded equity investments is recognized in the statement of comprehensive income on the ex-dividend date.

In some cases, the Fund may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Fund recognizes the dividend income and a corresponding additional investment for the amount of the cash dividend alternative.

(g) Expenses

All expenses, including management fee and custodian fees, are recognized in the statement of comprehensive income on an accrual basis.

Included in sundry expenses are registrar's fees paid by the Fund, secretarial fees, and bank charges.

(h) Foreign Exchange Gains and Losses

Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognized together with other changes in the fair value.

(i) Taxation

Under the current system of taxation in Cayman Islands the Fund is exempt from paying taxes on income, profits or capital gains. The Fund has received an undertaking from Governor in Cabinet of the Cayman Islands authorities exempting it from income tax for a period of 20 years. Accordingly, no tax provision is recorded in these financial statements.

Dividend and interest income received by the Fund may be subject to withholding tax imposed in the country of origin.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

2. Significant Accounting Policies (continued)

(j) Founder and Participating Shares

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has two classes of shares in issue: founder shares and participating shares. The founder shares are non-redeemable, have no entitlements to dividends and are the most subordinate class in issue. Consequently, founder shares are classified as equity in accordance with IAS 32. The participating shares issued by the Fund provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at the redemption date and also in the event of the Fund's liquidation. Because the founder shares are subordinate to the participating shares, the participating shares are classified as financial liabilities and are measured at the present value of the redemption amounts.

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. Those that may be relevant to the Fund are set out below. The Fund does not plan to adopt these standards early.

a.) IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value, with changes in fair value recognised in profit or loss.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

(k) New standards and interpretations not yet adopted (continued)

a.) IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9) (continued)

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, early application of IFRS 9 is permitted.

Based on the initial assessment, the standard is not expected to have a material impact on the Fund.

b.) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is considered to be equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

Based on the initial assessment, the standard is not expected to have a material impact on the Fund.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

	2013 US\$	2012 US\$
3. Non pledged financial assets at fair value through profit or loss		
Balance at the beginning of the year	1,724,093	2,251,214
Additions during the year	973,672	482,957
Disposals during the year	(809,109)	(815,842)
Realized gain/(loss) on disposal	39,618	(80,274)
Net change in unrealized loss on investments	(38,545)	(113,962)
Fair value at end of year (note 9)	<u>1,889,729</u>	<u>1,724,093</u>
4. Share Capital		
	2013	2012
	Number of Shares	Number of Shares
Authorized		
Founder shares of US\$1 each	100	100
Participating shares of US\$ 0.01 each	<u>89,990,000</u>	<u>89,990,000</u>
	<u>89,990,100</u>	<u>89,990,100</u>
Issued and Fully Paid		
Founder shares of US\$1 each	<u>100</u>	<u>100</u>
Participating Shares of US\$ 0.01 each		
Balance at the beginning of the year	2,927,131	2,927,131
Issued during the year	-	-
Redeemed during the year	-	-
Balance at the end of the year	<u>2,927,131</u>	<u>2,927,131</u>

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

4. Share capital (continued)

Founder Shares

Founder shares confer upon the holders thereof rights in a winding up or repayment of capital in accordance with the Articles of Association of the Fund but confer no other rights to participate in the profits or assets of the Fund. The holder of a founder share has no right to receive notice of or to attend and vote as a shareholder of the Fund at any General Meeting of the Fund. The issued founder shares are held by the Investment Manager. The founder shares are classified as equity.

Participating Shares

Participating shares may be redeemed on every Tuesday of the month or such other dates as the Board of Directors shall from time to time determine (Dealing Day) at the net asset value per share based on mid-market prices.

Participating shares have the right to receive notice of or to attend and vote as a shareholder of the Fund at any General Meeting of the Fund. Participating shares confer upon the holders of their right of a winding up or repayment of capital in accordance with the Articles of Association of the Fund. They also have the right to share in all profits or assets of the Fund in excess of the value of the issued share capital of the founder shares. The Fund does not have any externally imposed capital requirements.

5. Net Asset Value per Participating Share

The calculation of Net Asset Value per participating share is based on the net asset value attributable to participating shareholders of US\$2,181,882 (2012: US\$2,199,874) and on the total number of 2,927,131 (2012: 2,927,131) participating shares in issue at the statement of financial position date.

6. Financial Instruments and Associated Risks

Financial assets of the Fund include cash, fixed deposits, interest receivable, dividend receivable, other receivables and Non pledged financial assets at fair value through profit & loss. Financial liabilities include accruals, other payables and participating shares.

(a) *Market Risk*

The Fund's investment activities expose it to various types of market risks, which are associated with the markets in which it invests, to the extent of the amount invested in equity. The Fund invests in equity securities listed on the Colombo Stock Exchange, securities issued outside Sri Lanka by any corporation organized 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

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

6. Financial Instruments and Associated Risks (continued)

(a.) Market Risk (continued)

Lankan companies listed on the Colombo Stock Exchange and unit trusts which may experience greater volatility than those companies in Western economies.

(b) Foreign Exchange Risk

The Fund is exposed to foreign exchange risk from its investments, receivables and payables denominated in currencies other than US Dollars, to the extent of the amount invested, receivable and payable.

The Fund's total net exposure to fluctuations in foreign currency exchange rates at the statement of financial position date was as follows.

All amounts are stated in US \$

<u>Assets</u>	Fair Value 2013	Fair Value 2012
<u>Non pledged financial assets at fair value through profit or loss</u>		
Sri Lankan Rupee	1,889,729	1,724,093
	<hr/> 1,889,729 <hr/>	<hr/> 1,724,093 <hr/>
<u>Cash and cash equivalents</u>		
Sri Lankan Rupee	68,037	254,726
	<hr/> 68,037 <hr/>	<hr/> 254,726 <hr/>

Sensitivity Analysis

Since the Fund's investments were not made in US Dollars the returns on the investments depend on the fluctuation of the exchange rate at the time they are traded in the market. As at 31 December 2013, if the US Dollar appreciated by 5%, in relation to the LKR, then the fair value of the investments would decline by US \$94,486 (2012: US \$86,205). An equal change in the opposite direction would have increased the fair value of the investments by the same amount.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

6. Financial Instruments and Associated Risks (continued)

(c) *Interest Rate Risk*

Interest bearing financial assets consist mainly of fixed deposits that mature in the short-term, no longer than three months. As a result, the Fund is not subject to significant interest rate fluctuations and accordingly no interest rate sensitivity is presented.

(d) *Credit Risk*

Financial assets which potentially expose the Fund to credit risk consist principally of investments, fixed deposits and cash balances. Investments in Sri Lanka expose the Fund to risk of illiquidity and volatility. The extent of the Fund's exposure to risk in respect of these financial assets approximates their carrying value as recorded in the Fund's statement of financial position. None of the financial assets and financial liabilities are offset in the statement of financial position. Therefore, amendments to IFRS 7 relating to Disclosures on Offsetting Financial Assets and Financial Liabilities have no material impact on the Fund.

The Fund 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 Fund 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 for securities that does not have an open market value. The Fund'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 realized or settled within a short period of time. The carrying values of these other assets and liabilities approximate their fair values.

(f) *Price Risk*

The Fund's investment portfolio exposes it to the price risk, which is associated with the relevant markets in which the Fund has made its investments. The Fund is in possession of investments in securities which are listed in the Colombo Stock exchange, from which, based on the market value available for each security, the respective investments are being reflected at fair value. Thus the fluctuation in the fair value of securities reflected in the Fund's Investment portfolio are caused by factors affecting similar securities traded in each market, such as interest rates, exchange rates, taxation, inflation etc.

Sensitivity Analysis

As at 31 December 2013, if the price of Sri Lankan debt and equity securities increased by 5%, resulting from the above mentioned general economic factors (except for the impact from the exchange rate fluctuations mentioned under Foreign Exchange Risk), it would increase the net assets attributable to holders of participating shares by US \$94,486 (2012: US \$86,205). An equal change in the opposite direction would have decreased the net asset value of the Fund by the same amount.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

6. Financial Instruments and Associated Risks (continued)

(g) *Liquidity Risk*

The financial position of the Fund reflects its ability to meet its accrued expenses and accounts payable due to the availability of the investments made by the Fund in listed securities which are readily realizable since they are being traded in active markets. The financial liabilities of the Fund consist of the accruals and other payables and redemptions payable as at 31 December 2013. Accruals and other payables have a maturity date of 1 to 3 months except Directors' fees, which have maturity date of more than one year. The redemption payable has a maturity date of more than one year and liability on participating shares fall due as and when a share holder requests to redeem.

7. Related Parties

Investment Manager

The Fund appointed Guardian Fund Management Limited ("GFML"), an investment management company incorporated in Sri Lanka, to implement the investment strategy. Under the Investment Management Agreement, the Investment Manager receives a management fee equivalent to 1.5% per annum of the net asset value of the Fund. Total Investment Manager's Fee for the year ended 31 December 2013 was US\$ 33,796 (2012: US\$ 30,939).

Administrator

Carsons Management Services (Private) Limited ("CMSL"), the present administrator, and a fellow affiliate of GFML, receives an administrative fee of 0.2% per annum of the average weekly net asset value of the Fund until the termination of its administration agreement with the Fund. The Company has ceased the payment of Administrator fees since 1 January 2012. Therefore the total Administrator's Fee paid to CMSL during the year was US\$ Nil (2012: US\$ Nil).

Directors' fee

The directors' fee is disclosed in the statement of comprehensive income.

Ms. Wedage Yasanthi Ruvini Fernando a Director of the Fund is also a Director of GFML.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

8. Custodian

Deutsche Bank AG, as Custodian with effect from 1 April 2009, was paid a fee of 0.15% per annum of the net asset value of the Fund, subject to a minimum annual fee of US\$6,000 (2012: US\$6,000). In addition, the custodian was entitled to an annual administration fee of US\$10,000 (2012: US\$10,000). Total Custodian Fees for the year ended 31 December 2013 was US\$16,204 (2012: US\$15,945).

9. Fair Value Information

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2013	Level 1	Level 2	Total
Financial assets at fair value through profit or loss			
Equity Securities			
Listed Securities	1,697,187	192,542	1,889,729
	<u>1,697,187</u>	<u>192,542</u>	<u>1,889,729</u>
31 December 2012	Level 1	Level 2	Total
Financial assets at fair value through profit or loss			
Equity Securities			
Listed Securities	1,724,093	-	1,724,093
	<u>1,724,093</u>	<u>-</u>	<u>1,724,093</u>

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

9. Fair Value Information (continued)

Financial instruments not measured at fair value

31 December 2013	Level 1	Level 2	Total
Financial Assets			
Cash and cash equivalents	-	109,206	109,206
Fixed deposits	-	186,166	186,166
Dividend receivable	-	11,537	11,537
Other receivables	-	17,104	17,104
	<u>-</u>	<u>324,013</u>	<u>324,013</u>
Financial Liabilities			
Accruals and other payables	-	1,498	1,498
Redemption Payable	-	30,362	30,362
	<u>-</u>	<u>31,860</u>	<u>31,860</u>

31 December 2012	Level 1	Level 2	Total
Financial Assets			
Cash and cash equivalents	-	339,534	339,534
Fixed deposits	-	178,787	178,787
Dividend receivable	-	1,031	1,031
Other receivables	-	59	59
	<u>-</u>	<u>519,411</u>	<u>519,411</u>
Financial Liabilities			
Accruals and other payables	-	1,498	1,498
Redemption Payable	-	42,132	42,132
	<u>-</u>	<u>43,630</u>	<u>43,630</u>

During the year, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy. As at 31 December 2013, and during the year then ended, the Fund did not hold any Level 3 investments.

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

9. Fair Value Information (continued)

9.1 Equity securities - listed securities

	2013		2012	
	No. of shares	Market value US \$	No. of shares	Market value US \$
Banks, Finance and Insurance				
Commercial Bank of Ceylon PLC	172,918	159,226	234,000	189,540
Central Finance PLC	86,000	115,760	86,000	109,765
Hatton National Bank PLC	98,000	110,177	-	-
Nations Trust Bank PLC	25,000	11,893	-	-
Peoples Leasing Company PLC	1,431,000	146,654	1,031,000	107,024
Sampath Bank PLC	76,627	100,741	64,675	101,976
		644,451		508,305
Beverage, Food and Tobacco				
Cargills (Ceylon) PLC	103,800	116,698	163,800	187,423
Distilleries Company of Sri Lanka PLC	132,900	196,169	152,900	199,601
Nestle Lanka PLC	-	-	14,000	175,439
		312,867		562,463
Construction and Engineering				
Colombo Dockyard PLC	38,628	56,013	-	-
		56,013		
Diversified				
CT Holdings PLC	-	-	79,825	77,841
Expolanka Holdings PLC	1,133,600	65,023	1,133,600	62,403
John Keells Holdings PLC	130,732	227,264	181,215	313,376
Hemas Holdings PLC	211,590	55,020	-	-
		347,307		453,620
Hotels and Travels				
Aitken Spence Hotel Holding PLC	233,600	124,883	233,600	134,288
Serendib Hotels PLC – Non Voting	10,000	1,185	-	-
		126,068		134,288
Healthcare				
Ceylon Hospitals PLC	90,000	75,715	90,000	65,114
		75,715		65,114
Manufacturing				
Tokyo Cement Company (Lanka) PLC – Non voti	-	-	1,996	303
Piramal Glass Ceylon PLC	1,725,370	59,380	-	-
		59,380		303
Motor				
Diesel & Motor Engineering PLC	9,266	34,087	-	-
		34,087		
Telecommunication				
Dialog Telecom PLC	600,000	41,299	-	-
		41,299		
		1,697,187		1,724,093
9.2 Investments in Unit Trusts				
Guardian Acuity Fixed Income Fund	2,157,274	192,542	-	-
		192,542		
Total		1,889,729		1,724,093

THE SRI LANKA FUND

Notes to the Financial Statements For the Year Ended 31 December 2013

10. Events Occurring after the Statement of Financial Position Date

There have been no material events occurring subsequent to 31 December 2013 that require adjustments to or disclosure in the financial statements.